Program on African Protected Areas & Conservation (PAPACO)

PAPACO study 21

Exploring options for pooling the administrative, investment management and training functions of Conservation Trust Funds

John Winter

Social Responsibility Solutions, LLC

Exploring Options for Pooling the Administrative, Investment Management, and Training Functions of Conservation Trust Funds

Author:

John Winter
Social Responsibility Solutions, LLC

Prepared for:

In Partnership with:

With Generous Support from:

June 2015

Exploring Options for Pooling the Administrative, Investment Management, and Training Functions of Conservation Trust Funds

Table of Contents

Acknowledgements

We wish to express our appreciation to the French Agency for International Development, the Gordon and Betty Moore Foundation, the Linden Trust for Conservation, and Acacia Partners for their generous financial support of this study.

For developing the idea for the pooling study, guiding its preparation, and reviewing the draft, we thank Ray Victurine and Katy Mathias, Wildlife Conservation Society; Geoffroy Mauvais, International Union for Conservation of Nature; and Sylvie Goyet, FIBA. We also thank Karine Gomes Barcelos, Conservation Finance Alliance; Ravaka Ranaivoson, CAFÉ Secretariat; and Laura Nägele, RedLAC Secretariat for their communications and translation assistance.

The following CTF leaders generously gave their time to be interviewed for the study: Farid Uddin Ahmed, Arannayk Foundation; Yabanex Batista, Caribbean Biodiversity Fund; Emilio Acosta, Costa Rica Por Siempre; Francis B.N. Sabuni, Eastern Arc Mountains Conservation Endowment Fund; Barijaona Ramaholimihaso and Ary Fenitra Rabeso, Fondation pour les Aires Protégées et la Biodiversité de Madagascar; Fanny N'golo, Fondation pour les Parcs et Réserves de Côte d'Ivoire; Tovondriaka Rakotobe and Njiva Ratsitoarimanga, Fondation Tany Meva; Timotée Fomete, Fondation Tri-National de la Sangha; Raul Grados Carazzas, Fondo de Las Américas; Sergio Martín Eguino Bustillos, Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas; María José González, Mesoamerican Reef Fund; Willy Kostka, Micronesia Conservation Trust; M.S. Sembiring, Yayasan Keanekaragaman Hayati Indonesia

We also thank the following for their comments, wisdom, and advice: John S. Adams, UBS-Arbor Group; Arnauld Apffel, Perennium SA; Nancy Bard and Mike Guido, Commonfund; Martin Bostroem, KfW Bankengruppe; Carl Bruessow, Mulanje Mountain Conservation Trust; Brigitte Carr-Dirick, World Wildlife Fund; Juan Etinger, JP Morgan Endowments and Foundations Group; Romas Garbaliauskas, Conservation International; Sylvie Goyet, Fondation Internationale du Banc d'Arguin; Matthew Hatchwell, Wildlife Conservation Society; John Howard, Wilkins Kennedy; Courtney Lowrance, Linda Guella, and Maureen Perry, CitiGroup; Jorge Marmolejo, Franklin Templeton Investments; David Morrison, Caucasus Nature Fund; Jason Puracal, Wildlife Conservation Society; Richard Rice, Conservation Agreement Fund; Patrick Rickefor, White & Case LLP; Lorenzo Rosenweig and Ximena Yañez Soto, Fondo Mexicano para la Conservación de la Naturaleza A.C.; Sandra Sabo, Business Officer Magazine; Barry Spergel, Attorney; James Tolisano, Wildlife Conservation Society; Greg Winters, Burke, Warren, MacKay & Serritella, P.C.

Exploring Options for Pooling the Administrative, Investment Management, and Training Functions of Conservation Trust Funds

Executive Summary

This study report explores Conservation Trust Fund ("CTF") pooling approaches for administrative services, investment services, and training, and identifies models for implementation. It was prepared using information gathered from four principal sources: interviews with CTF leaders; consultations with CTF experts and stakeholders; a review of selected CTF operational and performance information; and a review of public information on non-profit organization pooling arrangements.

The audience for the report includes CTF leaders and staff, grantees, financial supporters, government leaders, local community members, and other stakeholders. The report was funded by the French Agency for International Development (AfD) through the Program for African Protected Areas & Conservation of the International Union for the Conservation of Nature (IUCN), and the Gordon and Betty Moore Foundation, Acacia Partners, and the Linden Trust for Conservation through the Wildlife Conservation Society (WCS). The report was prepared using a framework developed by the Conservation Finance Alliance (CFA).

CTFs are private, legally independent institutions that provide financing for biodiversity conservation. They may finance part of the long-term management cost of a country's protected area (PA) system as well as conservation activities and sustainable development initiatives outside PAs. Their core business has been to mobilize resources from diverse sources and to direct them in the form of grants to multiple programs and projects on the ground conducted by local NGOs and others. There are close to 80 CTFs operating or in formative stages worldwide.

For purposes of this study, pooling is defined as a grouping of personnel, assets, equipment, and other resources designed to maximize organizational benefits or minimize risk. CTFs are candidates for pooling because they have similar missions to protect biodiversity and often have similar needs and a similar administrative set up.

The reasons CTFs have for exploring pooling options are varied but generally reflect objectives such as increasing organizational impact, reducing operating and investing costs, focusing more on core needs, and accessing skills, insight, and technology not otherwise available or affordable, among others.

Pooling can offer advantages to participants both directly from the pooled function and indirectly as a result of cooperation. Direct advantages of pooling may include cost savings from avoiding redundancies and creating economies of scale and from information sharing. Indirect advantages may include additional perspective and experience and safer experimentation. Pooling can have

unfavorable aspects as well. A pooled arrangement can be time-consuming and potentially expensive to create and maintain. It may also add complexity. Consequently, CTFs should evaluate the advantages and disadvantages of any pooled approach.

The report identifies models for designing and operationalizing pooled arrangements for CTF administrative services, investment management, and training. Using examples and case studies from the conservation trust fund world and the broader non-profit sector, the report identifies approaches that could be used to create pools for various CTF functions. It also explores the unique situation of the African CTFs registered in the United Kingdom.

Small CTFs, defined as under $US3M in budget and less than ten staff, which is most CTFs, perform many organizational functions internally and most reported that they are satisfied with performance. Consequently, they would need to perceive financial and performance gains to consider outsourcing. Cost savings from a switch to outsourcing should be calculated for each function and will depend largely on the outcomes derived.

CTFs that currently outsource were generally satisfied with the performance of their current vendors. These vendors could be solicited about their interest in servicing a pooled arrangement.

CTF interest in exploring pooling is specific to each function. Based on interviews with selected CTF leaders, experts in organizational management, and a review of pooling information from websites, articles, and research studies, in general the following functions appear to be strong candidates for pooling: board member training, fundraising, staff member training, investment management, information technology, and risk management. In some situations, pooling of legal or auditing services may also be viable.

While some pooling approaches are straightforward and can be implemented readily, others are complex due to legal, political, and practical constraints. All will require additional research and guidance by legal counsel, accountants, and investment management vendors. This report identifies the advantages and disadvantages of the models based on the limited information and experience in CTF pooling currently available. Future implementation and subsequent analysis will deepen understanding of effective models for each function.

A cost effective model for pooling CTF administrative services is to negotiate with existing vendors to provide services to multiple CTFs for a discounted rate. This model takes advantage of CTF experience with their vendors, many of which are now familiar and trusted. It also does not distract them from their conservation missions. In addition, it is likely cost effective. CTFs should carefully evaluate any models where new costs could negate anticipated savings.

It is along these lines that the UK-registered African CTFs could address their common administrative service needs. They could jointly engage their current vendors in requesting more tailored services at preferable rates. For example, African CTFs need French and English-speaking attorneys and auditors with expertise in UK corporate and charity law. Vendors could also provide training on UK requirements to board members and staff. Discussions with their existing legal and auditing vendors and others suggest that they may be open to these inquiries and that they have the interest and capacity to serve CTFs throughout the region.

Investment management services include two major outsourced roles: an investment management consultant and an investment manager. The key concerns of investment management pooling include the quality of the services received, the legal responsibility of the CTF board and senior leadership, and cost efficiencies. CTFs are seeking enhanced performance of their investments and lower management costs and are exploring pooling as a way to achieve these goals.

There are a number of significant legal concerns to be addressed in investment management pooling that will influence both the creation and long-term operation of the pool including: jurisdiction, legal acceptability, governing document acceptability, maintaining fiduciary responsibility, and tax and securities law implications.

The report describes several models for pooling CTF assets and investment management to enhance investment performance and reduce fees. In addition, new models are currently being developed and implemented by CTFs and their vendors. Their advantages and disadvantages and lessons learned should be shared among the CTF community and in particular with CTF investment committee members.

As was the case with administrative services, any investment management pooling model that requires additional resources to create and maintain its operations should be closely evaluated to determine its appropriateness to each situation. Each additional administrative layer will likely consume some portion of anticipated savings.

CTFs would need to compare expected performance gains plus the present value of expected annual compliance and the cost of start-up with their current investment management situation. While no investing is free, CTF leaders need to determine the amount they would like to pay and compare it with their actual experience. The most appropriate places to find savings are in reducing the investment management consultant fee, the investment manager fee, and increasing the portfolio return percentage. The pooling approach selected should favorably affect these figures.

Regarding cost savings, the study estimates that a group of CTFs with an average of less than $US10M under management before creating a $US25M or greater pool might expect to see its fee decrease by 15 to 45 basis points under a pooled arrangement, a significant reduction. For cost comparison purposes it is important to take into account all costs such as transaction fees and fees within mutual funds. The total cost should then be judged alongside performance. The lowest fees are not a guarantee of good value and high fees may be justifiable if they come with outstanding performance. In any case, CTFs should consider engaging investment professionals with experience in pooled or similar collaborative arrangements among investors.

Investment professionals suggest that CTFs with less than $US25M asset bases are better candidates for pooling since they cannot access better asset classes and higher performing fund managers and negotiate fees like investors with higher asset bases. Pooling CTFs with more than US$25M is less beneficial because these features are often already available to them.

Photo by Palê Zuppani

The considerations involved in pooling CTF training opportunities are similar to those involving pooling administrative services and in fact are likely less complicated. Essentially what is needed is to design a training platform that meets the needs of the participants. CTFs identified board member training on investments as the most pressing training need. CTF boards typically have only a few members with investment experience and consequently need to strengthen the skills of their existing board members and provide for the periodic turnover of the membership. The report describes options for providing this training and identifies essential investment training topics as described by investment professionals.

Ongoing board member governance training should also be part of every CTF's annual training regimen, especially where there is board member turnover. CTFs also commented on the need for leadership development, strategic planning, and similar organizational development training. Training should be affordable to CTFs and convenient to board members to maximize attendance.

The global distribution of CTFs, the varied places they protect, and the different languages they speak suggest organizing CTFs into regional subsets: Asia, Africa (further demarcated into UK-registered Africa and the remainder of the continent), the Americas, and Europe, rather than exploring pooling opportunities among all or even large numbers of widely-dispersed CTFs. New CTF pools should consider utilizing existing organizations like CAFÉ, RedLAC, and CFA to provide logistical, communications, and other support. Newly pooled CTFs should also consider establishing an advisory board to provide guidance, especially initially.

While there is significant interest and enthusiasm for pooling among CTFs, the process of actually implementing a pooled arrangement remains in a formative stage and will require investment of time, energy, and funding to operationalize. Development finance institutions, governments, and foundations have provided financial capital to create CTFs and have significant interest in their success in conserving biodiversity and achieving long-term sustainability. Donors have expressed enthusiasm for collaboration among CTFs and view pooling arrangements very favorably. They look forward to progress in CTF collaboration and welcome inquiries to support pooling initiatives. Jump-starting a pooling arrangement with short to medium term funding, such as one that would provide services for UK-registered African funds, would be helpful. Donor funding provided for three years or so to get the system running would allow the system to become established and prepare each CTF to subsequently cover the costs from its operational accounts. CTFs also suggested that a preliminary role for donors would be to fund a liaison to prepare requests for proposals, communicate with vendors, and negotiate terms and rates on their behalf.

While this study has focused on approaches for CTFs to pool their resources to increase performance and reduce costs, experts suggested that CTFs would need to close funding gaps by diversifying their fundraising away from government, development finance institution, and conservation NGO provision of endowment assets. CTFs will need to broaden their fundraising to include some or all of the following: payments for ecosystem services, corporate compensation and offsets, individual, corporate, and foundation donations, major events, online gifting tools, and engagement with the growing impact investing world. Should savings materialize from pooling, CTFs could advance their organizational sustainability by reinvesting those savings in these types of long-term fundraising development tools rather than spend it on new programming.

Looking ahead, CTF experts suggested that future CTFs address transnational and regional biodiversity conservation realities rather than national or sub-national needs. Developing ways for CTFs to collaborate under their existing designs and the political histories in which they were established is challenging, time-consuming, and expensive. New initiatives, like those in the Caribbean, Eastern Europe, and the Caucasus Mountains may offer models of this new regional approach.

I. Introduction

Conservation Trust Funds ("CTFs") are private, independent grant-making organizations that provide financing for biodiversity protection around the world. Numbering close to 80, CTFs operate regionally, nationally, and internationally and often provide financial support to protected areas ("PAs"). Like many civil society organizations, CTFs seek ways to reduce costs amidst the less than fully funded mandates for which they have chosen to be responsible. One way to do this is to learn from other CTFs and share experiences. Another is to work together.

Over the last half-decade CTFs have been exploring ways to cooperate in providing service to their grantees and the larger biodiversity conservation community. They have looked to models of cooperative approaches, known as "pooling," created by their civil society brethren and in a few early cases, by their CTF peers.

The study builds on exploration of CTF collaboration over the past decade. Beginning informally among CTFs and their stakeholders, and at various CAFÉ, RedLAC, and CFA events, CTF representatives from UK-registered African CTFs, NGOs, donors, and others met in London in 2011 to explore their needs and interests. Then as now, legal, accounting and auditing, and investment management were popular themes. The African CTFs met again as a group in Madagascar in 2013 and in Cameroon in 2014 within the framework of the CAFÉ General Assemblies. At the same time, CTFs in the Americas and elsewhere were holding discussions on opportunities for pooling in administrative services, investment management, and training among others. These discussions led to various pilot projects on pooling, a number of which are highlighted here. New pilots are being currently developed by CTFs worldwide and should be analyzed and shared as models for widespread use in the coming years.

The reasons CTFs have for exploring pooling options are as varied as the CTFs themselves but generally reflect the following objectives:

- Increasing organizational impact;
- Reducing operating and investing costs;
- Freeing board members and staff to focus more on core needs;
- Accessing skills, insight, and technology not otherwise available or affordable; and
- Increasing organizational flexibility and responsiveness.

This study report was funded by the French Agency for International Development (AfD) through the Program for African Protected Areas & Conservation of International Union for the Conservation of Nature (IUCN) and Acacia Partners, the Gordon and Betty Moore Foundation, and the Linden Trust for Conservation through the Wildlife Conservation Society (WCS). It was prepared using a framework developed by the Conservation Finance Alliance (CFA). The study report explores CTF pooling options for administrative services, investment services, and training, and provides guidance for advancing cooperative approaches among CTFs and their non-profit colleagues. The report seeks to answer the following questions:

- What are the options for using pooling to increase the effectiveness of CTFs in achieving their missions?
- Which approaches might be relevant for CTFs, and based on their capacity to deliver the results sought by the participants, which approaches should be considered in more detail?
- What might be the design of a CTF pooling arrangement, and how will this design help achieve a participating Fund's mission, its capitalization, and funding levels, as well as best serve the organizations who receive funding from the CTF?
- What processes or tasks remain for a CTF to resolve before pursuing the development of a pooling arrangement?
- What lessons can be learned from the experiences of organizations with pooling approaches, and specifically from examples of CTFs worldwide that have implemented some form of pooling arrangement?

The audience for the report includes CTF leaders and staff, grantees, financial supporters, government leaders, local community members, and other stakeholders.

While there is much collective knowledge about the organizational effectiveness of CTFs, there is little published on the subject. We hope to provide a lens though which CTFs can look at opportunities and sort their way through the many possible ways to work together. CTF pooling is a nascent approach and definitive solutions are not yet in hand. Instead, this report will provide a way to think structurally about CTF cooperation. We hope to set the stage for more informed and productive conversations about the administrative, investment management, and training needs of CTFs and to help CTF leaders and staff, funders, and service providers explore innovative solutions.

Study Methodology

This study report was prepared using information gathered from four principal sources: interviews with CTF leaders; consultations with CTF experts and stakeholders; a review of selected CTF operational and performance information; and a review of public information on non-profit organization pooling arrangements.

CTF Interviews: To learn about CTF operations and their interest in pooling, the consultant conducted telephone interviews with a set of thirteen selected CTF leaders worldwide.[1] In selecting the CTFs for interviews, the consultant sought a wide distribution in geography, total assets, and number of employees, as well as a terrestrial/maritime mix, to achieve a representative

[1] The author wishes to thank Ravaka Ranaivoson of the CAFÉ secretariat and Laura Nägele of the RedLAC secretariat for their generous assistance in conducting the interviews.

sample. The interviews were designed to create a dialogue with CTF leaders in order to solicit their ideas on the purpose, design, and potential implementation of pooled arrangements with other CTFs; to provide an opportunity for respondents to articulate their understanding of pooling; to engage the key actors in planning for their CTFs' futures; and to ensure that CTF leaders felt their ideas, intentions, and desires were being heard.

CTFs were asked about their current administrative, investment management, and training situations, their anticipated near-term needs in these areas, and their interests in pooling. In considering near-term needs we asked CTF leaders to use a two-year timeline, recognizing that strategic and budgetary operational estimates may not extend beyond two years and that specific circumstances, and perhaps the results of this study, may result in shorter or longer-term implementation.

Consultations with CTF Experts and Stakeholders: The consultant contacted CTF representatives and others with expertise in organizational pooling approaches. Consultations were conducted via telephone interviews, email, and face-to-face meetings. The Wildlife Conservation Society representatives supervising the work of the consultant facilitated introductions with CTF representatives and outside experts.

Particular importance was placed on soliciting input on the following topics:

- Identification of the institutional, financial, and legal concerns related to CTF pooling;
- Identification of CTF needs and expectations from pooling;
- Assessment of various approaches to pooling administrative, investment management, and training functions;
- Lessons learned from CTFs that have explored or implemented pooling approaches; and
- Lessons learned from other types of organizations that have explored or implemented pooling approaches in similar contexts worldwide.

Review of CTF Operational and Performance Information: The consultant reviewed selected CTF reports, communications, and other documents deemed relevant to the analysis of pooling opportunities, including recent CTIS reports. Confidential information has been reported anonymously.

Information Review: The consultant reviewed publications, internet websites, and other communications relevant to pooling the administrative, investment management, and training functions of CTFs. Topics explored in the review include the following:

- Intentions, expectations, and experiences from pooling;
- Sectors where pooling has been considered; and
- Characteristics of effective pooling approaches and lessons learned from pooling approaches implemented by non-profit organizations in related contexts worldwide.

A list of relevant reference documents is included as an annex to this report. Because CTF pooling is a relatively new concept, the published record is limited. As such, CTFs would benefit from additional research and publication in the coming years.

There are limitations to this methodology because it does not derive from the CTF industry alone. Budget and time constraints limited deep case research into all the experiences and information cited by CTF leaders and experts. Consequently, this study is not a how-to manual for CTFs considering collaborating on administration, investment management, and training. The options identified here should be considered provisional and subject to further study and thoughtful use and application by CTFs and anyone looking to advance CTF performance.

Defining Conservation Trust Funds

CTFs are private, legally independent institutions that provide sustainable financing for biodiversity conservation. They may finance part of the long-term management cost of a country's PA system as well as conservation activities and sustainable development initiatives outside PAs. The core business of CTFs has been to mobilize resources from diverse sources – including international donors, national governments and the private sector – and to direct them in the form of grants to multiple programs and projects on the ground through nongovernmental organizations (NGOs), community-based organizations (CBOs), and government agencies (such as national parks agencies)[2].

Various legal forms have been used to establish CTFs, including as "foundations" in civil law jurisdictions and "trusts" in common law countries. Most CTFs have been established in the countries in which they operate. However, some are based in foreign jurisdictions in order to minimize risks to capital and to obtain advantageous legal and tax treatment.

CTFs can start as endowment funds, sinking funds, or revolving funds and often grow to utilize several of these fund types to take advantage of emerging opportunities. Some CTFs also manage loan or revolving funds that require some or full repayment by obligor organizations, including interest payments.

There are close to 80 CTFs operating or in development worldwide, most having been established over the past two decades. While they operate independently and have their own processes and procedures, in 2014 the Conservation Finance Alliance developed guidelines − *Practice Standards for Conservation Trust Funds* − to codify knowledge around evidence-based norms for CTF management. It is likely that the new practice standards will inform future CTF pooling arrangements.

---

[2] Practice Standards for Conservation Trust Funds, 2014

Photo by Palê Zuppani

CTFs are good candidates for pooling because they do not typically compete, serve distinct geographies and PAs, have similar missions to protect biodiversity, have similar administrative and governance structures, and can have similar needs. For example, the African CTFs registered in the United Kingdom have comparable UK Charity Commission compliance requirements.

They can have functional similarities as well. For some tasks they need highly skilled expertise but they do not have enough work to occupy an expert full-time or pay their salary or fee. They also experience periodic spikes in the need for specialized staff. Designed properly then, pooling approaches that combine the availability of an expert with a steadier workload could be attractive to CTFs.

Defining Pooling

For purposes of this study, pooling is defined as a grouping of resources (i.e., personnel, assets, equipment, effort, etc.) designed to maximize benefits or minimize risk. It is typically characterized by the tension of maintaining or surrendering control of those resources in order to serve the mission of the organization.[3]

Pooling arrangements will typically vary in a continuum that includes:

- Cooperation − sharing information, personnel, space, and other resources;
- Coordination − deeper relationships built on joint planning and division of roles; and
- Collaboration – the deepest relationships, usually long-term, that are designed to achieve goals that are larger than any participant could achieve individually.

It is important to note that the various terms used for pooled arrangements including “partnership,” “joint venture,” and “cooperative,” among others, can have specific legal meanings and should be reviewed by legal counsel before being used in any jurisdiction.

Similarly, the need for written documentation of the arrangement will vary with the nature of the pooled initiative and the needs of the participants. For example, a memorandum of understanding is typically used to substantiate many pooled arrangements. A contract, which is a stronger and more formal document in most jurisdictions, may be appropriate for other arrangements.

Advantages and Disadvantages of Pooling

Advantages: Pooling can offer many advantages to participants, both directly from the pooled function or endeavor and indirectly as a result of cooperation. Direct advantages of pooling may include:

- Mutual benefit toward manifesting mission;
- Cost savings from avoiding redundancies and creating economies of scale;
- Information sharing; and
- Favorable response from donors who see their support yielding better efficiency, visibility, and leverage.

Indirect advantages include:

- Additional perspective and experience;
- Safer experimentation;
- Mentoring opportunities; and
- A joint early warning system for avoiding mistakes.

[3] The most extreme version of pooling would be the merger of two CTFs that operate in a similar geography and have similar missions or goals. Because such mergers are unique to the specific circumstances surrounding them, their practicalities are outside the scope of this study. Nevertheless, the concept is important to note.

Disadvantages: Pooling can have unfavorable aspects as well, including:

- A pooled arrangement can be time-consuming and potentially expensive to create and maintain;
- Turf issues can arise, especially in nearby geographies or with common donors;
- Added complexity: more collaborators = more views to bring together;
- Maintaining equality amidst differences in financial situation, organizational structure, time commitments, and board and leadership commitment of members, among others;
- Free-rider challenges; and
- Self-interest can potentially usurp shared interest.

CTFs would be wise to seriously evaluate these advantages and disadvantages before participating in a pooled arrangement because collaborators often expect that their partners are well-informed about the pros and cons before they commit to what is usually a long-term arrangement.

Good Pooling Practices

Pooling participants should clearly communicate their needs and expectations when considering a pooled arrangement and throughout the duration of the relationship. The participants should keep the following good pooling practices in mind:

- Participant needs will vary with time and with the progress of the project;
- Participants should understand each other's unique culture, experience, and expertise and design and implement the pooled arrangement accordingly;
- Focus on common interests – cede individual control in favor of the common good;
- Pooling is highly relational and is improved by being patient and by building connections with the other participants;
- Participants will have different tolerances for risk;
- Seek equal say, representation, and commitment over the duration of the arrangement (i.e., pay the same or proportional amounts or donate technical support or other in-kind) but recognize that at any given time contributions are unlikely to be equal;
- Spend time, effort, and money as needed to ensure success;
- Use, management, and timing of resources should be transparent and implemented in a coordinated and unified process;
- Recognize that internal organizational changes from pooling are likely and provide training and awareness building to board members and staff; at the same time, avoid creating new layers of administration to manage a pooling arrangement;
- Consider ownership of ideas to be collective;
- Document the arrangement; typically a memorandum of understanding is used but documentation may be less or more comprehensive as participants require;
- Budget for evaluation and mid-course corrections;

- Create a procedure to opt out of the pooling arrangement; and
- Where donors are funding pooling arrangements, request their patience should results be slow or adjustments needed.

Practical Concerns of Pooling

Limited Board and Staff Experience with Outsourcing and Pooling: Discussions with CTFs suggest they have almost no experience with pooling and in many cases only limited experience with outsourcing beyond common functions like investment management, auditing, and legal counsel. CTFs should ensure they provide training to board and staff members when functions are outsourced and pooled so they will be informed and equipped to evaluate vendor performance. A pooling could in fact improve vendor evaluation because fellow CTFs can share their experiences with vendors.

Training will be especially relevant for pooling models with CTF member representative bodies. To effectively represent their CTF on these bodies, CTF leaders working collaboratively will now need to effectively understand, monitor, and evaluate vendors on two levels − on behalf of their own CTF and on behalf of all the participants involved. They will also need to communicate vendor performance and the work of these bodies back to their own CTFs.

Diluting Autonomy: CTF board member and staff must be comfortable with relinquishing exclusive control of some organizational functions. Board and staff work hard to operate the CTF effectively and over time have established a strategy and created processes that have contributed to their success. It can sometimes be difficult to hand over tasks to someone else.

Ensuring Access to Vendors: In a pooled arrangement, vendors may be less accessible to each CTF and, in fact, the pool may be designed so that a vendor reports to a pool representative rather than to each CTF. The participants should determine the nature and frequency of access to vendors as well as the communications process for the pool. Regarding communications and reporting, determining a common language among the vendors and participants is imperative.

Affordability and Budgeting: CTFs report that they operate very leanly. Demand for grants always outstrips supply despite operating expenses being kept to a minimum. A pooled arrangement will most likely be maintained by staff of one or several CTFs or perhaps by secretariats of regional associations like CAFÉ and RedLAC. Regardless of the structure, CTFs must allocate adequate resources for the pooled entity to conduct its business. This may require donor support.

Donor Interest

Development finance institutions, governments, and foundations have provided financial capital to create CTFs and have significant interest in their success in conserving biodiversity and achieving long-term sustainability. Donors have expressed enthusiasm for collaboration among CTFs and view pooling arrangements very favorably. They look forward to progress in CTF collaboration and welcome inquiries to support pooling initiatives.

II. Summary of CTF Interviews

This section summarizes telephone interviews with thirteen selected CTF leaders worldwide. CTF leaders were asked about their current administrative, investment management, and training situations, their anticipated near-term needs in these areas, their perspectives on outsourcing – the precursor to pooling, and their interest in developing a pooled arrangement with other CTFs.

The interviews were designed to create a dialogue with CTF leaders in order to solicit their ideas on the purpose, design, and potential implementation of pooled arrangements with other CTFs; to provide an opportunity for respondents to articulate their understanding of pooling; to engage the key actors in planning for their CTFs' futures; and to ensure that CTF leaders felt their ideas, intentions, and desires were being heard.

It is important to note that the findings from the interviews reflect opinions and attitudes gathered at the outset of "pooling" being explored formally as a topic of interest. The process of conducting the interviews and publishing the study will, naturally, introduce new ideas. It will be interesting to see if interest and attitudes towards outsourcing and pooling change over time as the topic is more widely explored in the CTF community.

The interview questions focused on key CTF functions including:

- Financial management and auditing;
- Investment management;
- Legal concerns;
- Fundraising;
- Marketing and communications;
- Risk management;
- Human resources;
- Purchasing;
- Information technology;
- Board member training; and
- Staff member training.

Financial Management and Auditing

Close to 70 percent of the CTFs interviewed said they perform their financial management tasks internally. Those that outsource typically use a local bookkeeper or accountant to prepare monthly financial statements and to gather the documentation for the annual audit. They also secure the services of a certified accountant in the country of registration to prepare annual financial statements as per legal requirements. Their costs ranged from a low of $US10,000 to a high of $US22,000 annually. None of the CTFs that currently perform this work internally plan to outsource it within the next two years.

The audit function, by its nature, is always outsourced. Most CTFs hire mid-size or smaller firms although several use Big 4 accounting firms. A few CTFs use the same auditors suggesting that a pooled arrangement to gain economies of scale might make sense. The average fee for the annual audit was about $US15,800. However, fees ranged widely from a low of $US7,800 to a high of $US40,000.

Investment Management

All the CTFs interviewed that invest in stocks and bonds contract with an investment manager. Several also use an investment management consultant – note that the terms seem to be used interchangeably by CTFs[4]. Investment managers tended to come from large international firms but a few were local. CTF ratings on their investment manager's performance were favorable; two-thirds of those interviewed were either satisfied or very satisfied. Fees averaged $US81,400 in 2014 with a median of $US57,500. Those few with investment management consultants were satisfied or very satisfied with their performance. Custodian fees were almost always included in the investment manager's fee.

Legal Concerns

Close to 70 percent of the CTFs interviewed do not hire an attorney regularly. Instead they receive pro bono legal assistance, get help from their accountants, or have board members with legal expertise. The CTFs that do hire attorneys typically use them to review contracts and agreements and for regulatory compliance and tax issues, among others. They also use attorneys during their formative periods for government registration and similar tasks. New CTFs planned for a similar geographic area could benefit from pooling their legal assistance.

Except for the UK-registered African CTFs who use UK-based attorneys (typically the same firm − which suggests a pooling opportunity) CTFs tend to hire local legal counsel. In 2014, legal fees ranged from $US3,000 to $US10,000. None of the CTFs that do not have attorneys plan to hire legal counsel within the next two years.

---

[4] Within this document, definitions of "investment management consultant" and "investment manager" rely on the Conservation Trust Investment Survey ("CTIS") glossary.

Fundraising

Only two of the CTFs interviewed outsourced fundraising tasks in 2014. However, of the CTFs that did not outsource, close to half plan to hire external fundraising expertise within two years. CTF leaders need to diversify their fundraising to fill budget gaps and to expand their grant making amidst new opportunities and challenges. A pooled arrangement could be advantageous here.

Marketing and Communications

Less than 30% of CTFs interviewed outsource their marketing and communications function. However, as was the case with fundraising, a majority of CTFs interviewed who do not currently outsource this function said it was possible they would do so within two years. This again reflects a need to strengthen relationships with stakeholders for both fundraising and awareness-building.

Risk Management

Except for procuring insurance policies, risk management is performed internally and none of the CTFs interviewed plan to outsource risk management within two years.

Human Resources

All the CTFs interviewed perform the human resource function internally and none plan to outsource it within the next two years.

Group Purchasing

No CTFs were members of joint purchasing groups. Most CTFs interviewed were unfamiliar with purchasing groups or were not aware of any operating in their communities.

Information Technology

About 46% of CTFs interviewed outsource some portion of their information technology function. Typical tasks include hardware maintenance and upgrades, software installations, and website maintenance. Local vendors almost exclusively perform this work and fees are generally low. While information technology was a popular candidate for pooling, the local nature of technology service makes its applicability questionable.

Board Member Training

Among the CTFs interviewed, board member training was surprisingly limited. Of nine training topics discussed, only five were offered by one or more CTFs. The leading topics were investment management with six responses, financial management with four, and fundraising with three. The fact that only three CTFs provided training to board members in fundraising despite widespread anecdotal agreement among CTFs about the need to diversify future income sources is likely because many CTF boards do not typically focus on individual fundraising and other common themes found in fundraising training curricula and because fundraising is a function that is often carried out by the Executive Director and staff.

In addition, board member training could involve organizational governance. Donors have suggested a need for ongoing governance training for both existing and new CTF board members.

Photo by Valeria Dorado

Staff Member Training

Staff member training was much more widespread than board member training. Of the nine training topics discussed, six had at least four responses and every topic had at least one response. The leading topics were marketing/communications with eight responses, financial management with seven responses, and investment management, fundraising, and information technology with six responses each. Human resources and purchasing were close behind with four responses each. Staff fundraising training may reflect CTF interest in diversifying sources of support to include individual and corporate donors and other revenue sources that staff help engage. While fundraising is usually a shared responsibility between board and staff, it seems more a staff member role for the CTFs interviewed if training is any indication of focus.

CTF leaders in the Americas mentioned previous RedLAC training as valuable resources for their staff members, especially the multi-day workshops supported by the Gordon and Betty Moore Foundation and the French Fund for the Global Environment that focused on governance and fundraising. There is CTF demand for more staff member training and in fact, a Phase II of the RedLAC training program is underway and is expected to offer training opportunities for board and staff members.

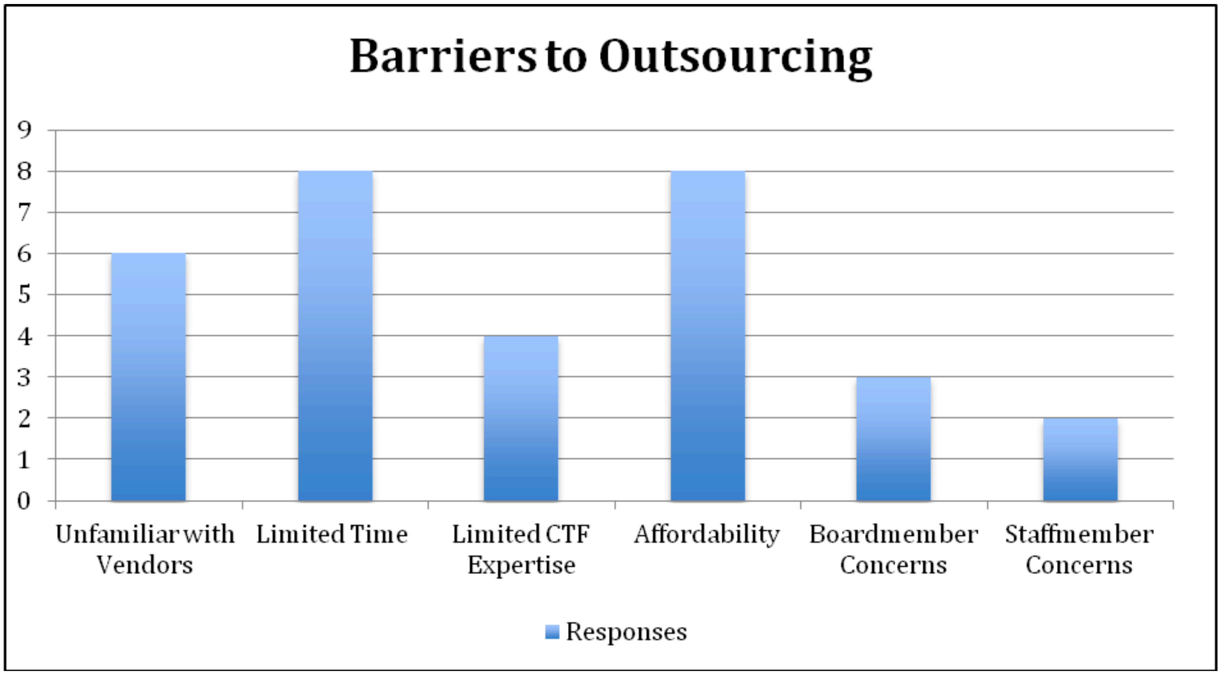
Barriers to Outsourcing

Before pooling can be considered, a CTF needs to determine which of its functions are candidates for outsourcing. Outsourcing is generally explored for one of two reasons – efficiency or expansion. Either the CTF is currently engaging in the activity and believes an outside vendor can provide the function more efficiently or cost effectively, therefore freeing up staff to focus on core organizational functions, or the CTF is not currently engaging in the activity and sees outsourcing as a means to expand capacity.

Barriers to outsourcing CTF functions include:

- Unfamiliarity with vendors;
- Limited time to find and contract with vendors;
- Limited internal expertise to engage with a vendor on a technical issue;
- Inability to find desired skills at an affordable price;
- Board member concerns, such as losing control over a function; and
- Staff member concerns such as job security from reduced workload.

As the chart below illustrates, limited time to work with vendors and affordability were the two barriers most often identified by the CTF leaders interviewed. This is not surprising given the resource constraints under which many CTFs operate. It is possible these barriers will be exacerbated in a pooled arrangement because the vendor can be a step removed from the CTFs and control may be unclear and access more limited in the case when a pooling representative is established.

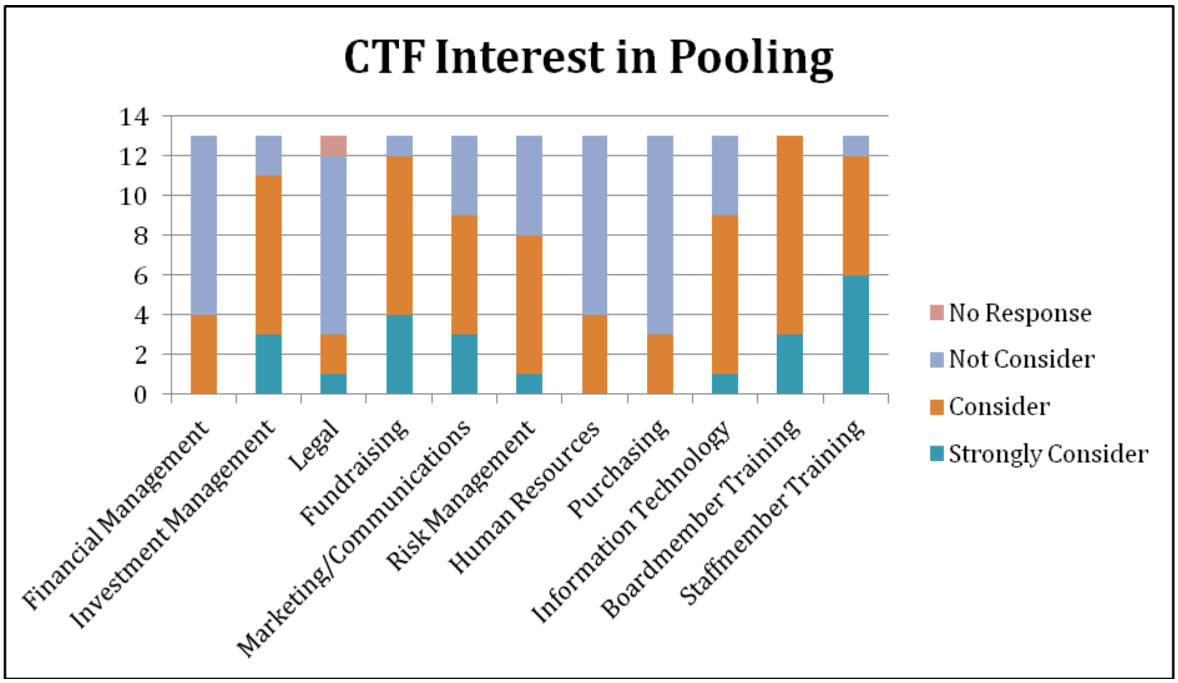


CTF Interest in Pooling

The chart below illustrates CTF interest in pooling various key functions. Those functions that generated a majority of combined "strongly consider" and "consider" responses among the thirteen CTFs interviewed are candidates for further exploration by CTFs and are shaded below. They include, in order of the most combined "strongly consider" and "consider" responses:

- Board member training: 13
- Fundraising: 12
- Staff member training: 12
- Investment management: 11
- Information technology: 9
- Marketing/communications: 9
- Risk management: 8

	Strongly Consider	Consider	Not Consider	No Response
Financial Management	0	4	9	0
Investment Management	3	8	2	0
Legal	1	2	9	1
Fundraising	4	8	1	0
Marketing/Communications	3	6	4	0
Risk Management	1	7	5	0
Human Resources	0	4	9	0
Purchasing	0	3	10	0
Information Technology	1	8	4	0
Board member Training	3	10	0	0
Staff member Training	6	6	1	0



III. Pooling of Administrative Services

The list of administrative functions that are candidates for pooling is broad and includes typical outsourced tasks like legal services and auditing along with many others such as marketing, stakeholder communications, financial management, secretariat functions, and strategic planning support.

The key concerns of deciding whether to pool with other CTFs or non-profit organizations for the provision of administrative services are the quality of the services, legal responsibility for their completion, and cost efficiencies. These concerns are further delimited when considering geography, language, and the charity rules of the country both where the CTF is established and where it operates, should these be different.

Discussions with CTF leaders and experts suggest that the global distribution of CTFs, the varied places they protect, and the different languages they speak hint at organizing CTFs into regional subsets: Asia, Africa (further demarcated into UK-established Africa and the remainder of the continent), the Americas, and Europe, rather than exploring pooling opportunities among all or even large numbers of CTFs. We have used this subset model in this study, while at the same time leaving open the possibility of pooling constructs that reflect specific programmatic needs such as pools among marine CTFs and creating further subsets of these still decidedly broad geographies.

For example, the subset of UK-established CTFs has particular needs due to that country's compliance-heavy charity rules. The CTFs established there have generally hired UK-based attorneys and auditors who perform both compliance services and advise them on policies and procedures. These might include maintaining UK domicile by having UK-resident board members, having UK bank accounts, and ensuring that conflict of interest policies and implementation meet UK standards. Consequently, these firms must be well-versed in UK corporate and charity law and UK accounting systems, employ professionals who speak English and French, and are interested in working with a pooled set of CTFs for competitive fees. The experience gained from serving these CTFs makes them good candidates for serving additional CTFs.

Outsourcing Before Pooling

Before a CTF evaluates a pooled arrangement it must explore the more basic question of whether to outsource the performance of its functions. For this study, outsourcing is defined as the delegation of a function to people outside of the organization usually on a relatively long-term basis.

The potential benefits of outsourcing are well-known and include enhancing organizational impact – the ultimate goal, freeing staff to focus more on mission, increasing revenues, reducing operating and capital costs, improving management effectiveness and flexibility, increasing access to technology, skills, and insights not available internally, and increasing the scope of operations.

The key to successful outsourcing is to decide the attributes most important to optimize and those for which compromise is acceptable. Decision-making dimensions include quality, price, timeliness, the size of the vendor market, the range of services offered by vendors, scalability (i.e., should the outsourcing or pool be expanded some day), and vendor acquisition costs, among others.

Outsourcing caveats include:

- It is frequently, but not always, less expensive to outsource a function than it is to hire a full-time or part-time staff person. Savings will vary based on the function, amount of work, and expertise of the vendor;
- Vendors must perform services at least as well as internal staff and within legal and regulatory requirements;
- Vendors do not necessarily share the CTF's mission, values, culture, and long-term commitment so buy-in may not always be present;
- CTF leaders must retain legal, fiduciary, and program responsibilities;
- Due diligence is required to monitor vendor performance on at least a quarterly basis;
- CTF management should obtain both board and staff support prior to outsourcing; CTF leadership must be sensitive to employee reactions and possible misconceptions from a shift to outsourcing. Employees may fear for their job security, thereby making the transition more challenging;
- Management should maintain the confidentiality of any information deemed so by stakeholders and common practice; and
- CTFs should set clear expectations with vendors; goals, measures, schedules, and deliverables should be in writing.

Outsourcing is particularly relevant for smaller or younger CTFs who may lack the infrastructure and resources to fully develop operations in the wide range of areas that require expertise, such as legal services, auditing, information technology, financial management, fundraising, risk management, and human resources. Many CTFs already have outsourcing experience such as using an attorney to review a contract or a payroll service to process staff compensation. Discussions with CTFs suggest that CTFs with annual budgets of about $US1M are the likeliest candidates to outsource. Larger ones will often hire new staff members.

CTFs can outsource a portion or all of a function. For example, they may hire a grant writer but continue to perform the remaining fundraising tasks internally. Vendors are usually very flexible and are willing to work with a CTF to determine which functions are to be performed by staff and which are to be outsourced.

Discussions with CTFs indicated that CTFs generally perform administrative tasks internally. Consequently, more CTFs would need to become comfortable and experienced with outsourcing before considering pooling vendors.

Models of Pooled Administrative Services (in order of complexity)

Information Sharing

While not truly a pooling model, CTFs can share information and experiences informally using existing communication tools. Most CTFs do this already, informally or through the CFA, CAFÉ, RedLAC, and similar venues. For example, FSOA, FTNS, and BACoMaB in Africa currently share insurance provider information. Information sharing is an easy and effective tool and should be utilized regularly, especially by CTFs with common concerns.

Pros:

- Easy to implement;
- Familiar;
- Cost-effective; and
- Can set the stage for more comprehensive pooling later. Communication leads to relationship-building; relationships lead to trust; and trust leads to pooling opportunities such as joint grant applications, joint purchasing, and shared learning for staff.

Cons:

- Can be time-consuming initially.

Vendors Provide Services to Multiple CTFs for a Discounted Rate

In this model, CTFs approach existing vendors and use their collective bargaining power to negotiate reduced rates. CTFs pay separately but receive a lower joint rate. The vendors get an expanded, and in some cases, a captive clientele, and often get increased visibility through their preferred vendor status.

Pros:

- Likely cost savings;
- Opportunity for tailored services because vendors may be willing to consent to unique features in exchange for new business;
- Opportunity for vendor expertise and efficiency to grow with multiple clients in the same industry or location; and
- Shared vendors provide opportunities to compare and contrast vendor performance.

Cons:

- Could get less individual attention from the vendor when they add clients;
- Resources may be needed to plan and implement the model with other CTFs and organizations and negotiate with vendors; may need donor support for a vendor liaison; and
- Risk that vendor discounts may expire over time or once new business is secured.

Access Existing Joint Purchasing Programs

Some countries and larger cities have purchasing groups for products and services that negotiate for volume-based fee reductions. These arrangements can be brokered by regional membership associations or web-based purchasing co-operatives. Their broad scope and familiarity with the vendor community gives them access to both high level expertise when needed as well as to providers of more routine functions. They also serve as intermediaries to vet vendors.

Pros:

- Easy to join and participate;
- Likely cost savings; and
- Broad variety of products and services.

Cons:

- Typically operate only in high-population areas so may not exist in many CTF locations;
- Unless supported by donors, the program will likely have membership fees; and
- Participation will only be cost effective if the CTF uses the program with some frequency.

Access Existing Organizations that Serve Multiple Non-Profit Organizations

This model involves CTFs working with organizations that offer administrative services to non-profit organizations for a fee or *pro bono* because they are funded by donors to perform this service. These types of service organizations, often non-profit organizations themselves, exist in the US and the UK and may be especially attractive to the African CTFs registered in the UK.

Pros:

- Opportunity to reduce fees without added costs of a new administrative layer;
- Broad variety of services offered;
- Opportunity to add functions not currently performed such as contact management, database design, and advanced website design, among many others;
- Links to multiple experts, and;
- Links to peers.

Cons:

- May be time-consuming to research providers and vet their services; and
- Correct fit not always achieved.

Shared Services

In the shared services model two or more CTFs or other non-profit organizations share their people, technology, or other organizational resources. These resources are owned by one of the CTFs or other organizations. The owner is compensated for their use. An agreement is typically prepared defining how the shared resource will be allocated among the participants and the compensation structure to be used for accessing the resource. Examples of shared services include bookkeeping, website maintenance, and database management, among many others. The model works particularly well for virtual functions.

Pros:

- CTFs with overcapacity can increase the efficiency of their hires; those with undercapacity can fill gaps with people with specific CTF expertise;
- The expertise is already vetted by the owner, leading to confidence and avoided acquisition costs for the user; and
- It is usually affordable.

Cons:

- Creating an equitable allocation of the shared resource's time and attention could be challenging;
- Ownership of results may be unclear;
- Accessibility over wide distances could be impractical and costly if significant travel is needed; and
- Need clear agreements and practical expectations over time. This could be challenging to sustain.

CTFs are familiar with the shared services model from their participation in networks like RedLAC and CAFÉ. Member CTFs pay dues to maintain a secretariat, which in turn, provides communications and training back to the CTFs. The Conservation Finance Alliance ("CFA"), a professional organization, fills a similar role yet does not currently have a dues model. The CFA, RedLAC, and CAFÉ could expand this role by organizing and managing administrative and other functions among member CTFs.

CTF Regional Service Center

In this model, CTFs create a new non-profit organization to offer both their own expertise to other CTFs and to negotiate for discounted products and services on behalf of CTFs and other non-profit organizations in their region. The purpose of the new center would be to spread the costs of centralized staff and technology among the participants, especially for routine administrative functions. Member CTFs could then repurpose their internal staff to serve higher functions. The new centers could use existing regional alliances as a starting point (i.e., CAFÉ, RedLAC). The service centers could be developed by donors and then funded by a combination of grants and CTF user fees. Various centers could be created to reflect regional common interests and relationships.

Pros:

- Products and services can be specifically tailored to CTF needs;
- Spread administrative costs among multiple CTFs; and
- Repurpose internal staff to higher value tasks.

Cons:

- Start-up costs and maintenance fees paid to the service center could negate savings from having fewer or repurposed internal staff;
- Mission dilution: it is questionable whether CTFs want to be in the business of being service providers;
- The CTF market is small. Consequently, the model would likely require broad participation by other non-profits in a region; and
- Competition with similar initiatives.

Photo by Lorenzo Rosenzweig

Suggested Administrative Services Pooling Model

The most appropriate model for CTF pooling in administrative services is to negotiate with existing vendors to provide similar services to multiple CTFs for a discounted rate. This model takes advantage of CTF experience with their vendors, many of which are now familiar and trusted. It also does not distract CTFs from their conservation missions by having to learn about and join new initiatives or by creating new organizations as is needed in the more complex models.

Essentially, CTFs are frugal stewards of their resources. They do not spend heavily on services, equipment, and other needs relative to other portions of their expenses. Consequently, it is difficult to rationalize spending perhaps significant amounts to generate questionable cost-savings. Even by combining their purchasing power, CTFs may not represent a large enough market to cover a shared-service infrastructure.

In addition, there are start-up costs associated with creating new structures. And creating these new designs can take months or years and because of limited CTF demand the new structures would likely need many years of donor support before they became self-sufficient.

The cost-sharing model may also make sense in regional settings and for functions that can be performed virtually.

Again, CTFs should avoid models where costs could negate savings from sharing services with each other. And of course, CTFs should continue to share information and ideas both informally and through industry events.

It is along these lines that the African CTFs should address their common administrative service needs. We suggest that they jointly engage their current vendors in requesting more tailored services at more preferable rates in exchange for bringing them new business in Africa and potentially elsewhere. For example, African CTFs need English-speaking and French-speaking attorneys and auditors with expertise in UK corporate and charity law that are willing to travel in the region to service them. One attorney and one auditor with a lower fee assistant could effectively service all the CTFs in the region. Vendors could also provide training on UK requirements to board members and staff. Discussions with current legal and auditing vendors suggest that their existing vendors and others may be open to these inquiries and that they have the interest and capacity to serve CTFs throughout Africa and beyond. Appendix A summarizes potential administrative pooling considerations for UK-registered African CTFs.

Scenarios for a Pooling Arrangement for UK-Registered African CTFs

African CTFs that are registered in the UK have shown special interest in a pooled arrangement due to their common interests and experiences, especially regarding charity compliance requirements. The following collection of potential designs, in order of complexity, could be used to develop a pooled arrangement. The advantages and disadvantages of these models have been are discussed above.

- Informal arrangement with limited pool management;
- Engage an existing UK-based NGO to manage a pool and obtain UK representation;
- A donor manages the pool on behalf of grantee CTFs;
- An African CTF establishes a UK office and charges back shared pooling management costs to other CTFs;
- The CFA or CAFÉ manages the pool;
- A new non-profit entity is created to manage the pool.

With Fund registration in the UK and the potential need to have UK representation either on the board or in an advisory capacity, pooling for the African funds may be a cost effective necessity. For example, assuming annual costs of about $US25,000, sharing costs among four UK-registered funds could result in costs of less than $US7,000 per CTF. A more detailed description of this option appears in Appendix A.

Administrative Pooling Models		
	Pros	**Cons**
Information Sharing	• Easy to implement • Familiar • Cost-effective • Foundation for more comprehensive pooling later	• Can be time consuming initially
Vendors Provide Services to Multiple CTFs for a Discounted Rate	• Likely cost savings • Opportunity for tailored services • Opportunity for enhanced vendor expertise and efficiency • Compare and contrast vendor performance	• Less individual attention from vendors • Resources needed to plan, negotiate, and implement • Risk that vendor discounts expire over time
Access Existing Joint Purchasing Programs	• Easy to join and participate • Likely cost savings • Broad variety of products and services	• May not operate in CTF locations • Possible membership fees • Cost effective only with frequent use
Access Existing Organizations that Serve Multiple Non-Profit Organizations	• Reduce fees without new administrative layer • Broad variety of services offered • Can add new functions • Links to multiple experts • Links to peers	• May be time-consuming to research providers and vet their services • Correct fit not always achieved
Shared Services	• CTFs with overcapacity can increase the efficiency of staff; those with undercapacity can fill gaps • Expertise already vetted • Affordable	• Potential inequitable allocation of shared resource • Unclear ownership of results • Impractical and costly if significant travel is needed • Challenging to sustain
CTF Regional Service Center	• Products and services reflect CTF needs • Spread costs among CTFs • Repurpose staff to higher value tasks	• Start-up costs and maintenance fees could negate savings • Potential mission dilution or distraction • Small CTF market would likely require broad participation by other NGOs • Competition with similar initiatives

IV. Pooling of Investment Management Services

As defined by the *Practice Standards for Conservation Trust Funds*, investment management services include two major outsourced roles:

- An "investment management consultant" who is a fee-based advisor operating under a non-discretionary arrangement who can provide guidance on portfolio theory, asset allocation, manager search and selection, and investment policy and performance measurement; and
- An "investment manager" who is a specialist in managing a portfolio of investments in a specific type of asset, such as medium quality corporate bonds, large-cap value equities, or emerging market governments' debt. Investment managers act with their own discretion to buy and sell investments and hire other asset managers within the parameters specified by the investment guidelines.

CTFs are seeking enhanced performance of their investments and lower management costs and are exploring pooling as a way to achieve these goals.

Like the pooling of administrative services, the key concerns of investment management pooling include the quality of the services received, the legal responsibility of the CTF board and senior leadership, and cost efficiencies.

Legal Implications of Pooling

The need for legal counsel in designing an investment management pooling arrangement cannot be overstated. There are a number of significant legal concerns to be addressed in pooling that will influence both the creation and long-term operation of the pool including:

Jurisdiction

CTFs typically operate in the countries where they are registered and would look there for legal guidance when exploring pooling. Other CTFs, like the UK-registered African organizations we visited earlier, would need to look to the legal system in the UK, their country of registration, as well as the one in which they operate. In addition, CTFs can have investment accounts – or could have them in a pooled arrangement − in locations outside of the countries in which they operate or are registered, such as the US. Note that this type of exploration would be conducted for any investment in a different jurisdiction and is often conducted by the investment manager or legal counsel.

Legal Acceptability

Once the jurisdiction question is sorted out, CTFs would look to corporate and charity law in each jurisdiction for guidance on pooling. Legal considerations would include the "nexus" or the degree of connection of the pooled entity in the jurisdiction (i.e., residency requirements of board members, holding assets such as bank accounts), board and leadership composition and responsibilities including avoiding conflict of interest, and reporting compliance, among others.

Governing Document Acceptability

CTFs will need to refer to their governing documents, such as incorporation filings and by-laws, and investment policy, among others, for internal guidance on pooling issues. While such documents tend to be silent on the specific question of CTF pooling, language related to pooling like the transfer of fiduciary responsibilities and collaboration with other organizations might be present.

Maintaining Fiduciary Responsibility

One of the main responsibilities of CTF board members is financial accountability for the organization. Board members serve as trustees for the assets of the organization and must exercise due diligence in ensuring its finances are sound and its investments are well-managed. In a pooled arrangement this accountability can become unclear or diluted under corporate law if the design calls for shared responsibility with other CTF boards, or the transfer of some or all of the responsibility to another board of directors. While remedies are likely available, legal counsel should be sought to ensure pooling designs maintain fiduciary responsibility under applicable corporate and charity law.

Tax and Securities Law Implications

CTFs, as non-profit organizations, enjoy tax advantages such as tax-free or reduced taxes on the revenues they earn. A pooled arrangement would seek to obtain these advantages as well as ensure that gifts they receive are tax deductible for individual donors should they choose to pursue them.

To obtain tax advantages, an existing or new pooling would need to maintain non-profit status by ensuring its work creates a public good. Biodiversity protection would be deemed a public good. A pooled arrangement that would seek non-profit treatment in most any jurisdiction would need to ensure it provides a public benefit beyond its role in serving as a mechanism to increase the financial performance of CTF investments. In other words, more than a fundraising objective is needed for a non-profit pool.

Relatedly, a pooled arrangement without non-profit status or what is known as "equivalent" status would be subject to back-up tax withholding on investment income in many countries, including the US where many CTFs have investments. US withholding rates can reach 30 percent, effectively reducing some of the benefits of creating the pooled entity in the first place. As mentioned, remedies are available through achieving non-profit or equivalent status, but not without the attendant legal costs of creating or registering a non-profit or equivalent pooled entity as well as the costs of annual compliance and auditing in the jurisdiction where established. The estimated costs of establishing the new entity range from $US20,000 to $US25,000. Annual auditing and compliance costs range from $US5,000 to $US10,000. In any case, legal counsel should be sought to determine the appropriate design of any entity created to enhance CTF investment performance most anywhere in the world.

The US is a popular jurisdiction for establishing non-profit status and such status would be valuable for an existing pooled approach or new pooled entity with US-based investments. To be recognized as a non-profit organization in the US, a CTF can apply to the US Internal Revenue Service to form a US charitable organization. A few CTFs currently have US non-profit status. In addition, a group of CTFs can apply for non-profit status as a new entity. All members of a proposed pool should be tax-exempt in the US prior to creating a pooled investment arrangement and should agree in writing to withdraw from the pool should any non-profit or equivalent status disqualifying event occur. Failure to do so could subject all the members of the pool to withholding tax.

An alternative to obtaining non-profit status is to gain non-profit equivalent status by having a US lawyer prepare an opinion letter stating that a CTF is a non-profit in another country and should be deemed as such in the US. However, the CTF would remain a non-US entity. The cost of an opinion letter is $US5,000 to $US10,000. Legal counsel should renew equivalency status every three to five years.

It should be noted that CTFs should confer with legal counsel to determine whether their home country or the country where registered, or both, would abide US non-profit status for the income earned from the US structure. For CTFs that would prefer not to create US presence it should be noted that a similar exercise would be needed to avoid withholding tax rules in other countries and that any new CTF structure would need local legal opinion on tax treatment in each country where a CTF would like to invest. For example, this would apply to UK-registered CTFs, profiled in Appendix A.

Discussions of pooling have generally focused on US domicile but CTFs could look to places with fewer compliance requirements and hence generally fewer costs. Also, some CTFs might not want assets to be in the US or even in US dollars. Essentially, the choice of domicile is a compromise between performance, costs, convenience, and confidence in legal structures. Investment management vendors are a good source of information on these tradeoffs as well.

Finally, a pooled approach where people external to a CTF's board or investment committee make investment decisions on behalf of a CTF or many of them could trigger regulated investment advisor status should the decisions involve US securities. The US Securities and Exchange Commission has created guidelines for determining how the status is met and the requirements of regulated advisors, among them fiduciary duties, such as avoiding conflicts of interest; the need for recordkeeping; and SEC oversight, among others, once it is met. Making a legal determination on whether a pooled design triggers regulated advisor status is beyond the scope of this study; CTFs would be advised to seek legal counsel to address this issue for US assets and to determine if similar rules apply in other jurisdictions.

Other Investment Management Pooling Considerations

Local Investment Objectives

Some CTFs have assets that are from government sources and, as such, the government can seek to leverage its support by having the CTF invest in local businesses, providing it complies with the principles and objectives of the investment policy. Investment advisors and fund managers would need to develop investment strategies with these objectives in mind and the board and CTF stakeholders must be cognizant of its impact on financial performance, risk profile, and parameters of socially responsible investment.

Limitations on Foreign Investment

The 2013 CTIS showed that roughly half of CTFs had some type of limitation on foreign investment. These limitations could impact the design and location of a new pooled entity, where it would invest assets and the tax implications thereunder, and the resulting performance of its investments.

Maintaining the Independence of Government and Donors Representative on CTF Boards

Corporate and charity law requirements often include measures to ensure the independence of board members. Some CTFs have government and donor representatives on their boards. To help ensure and document their independence, pooled entities should enact conflict of interest policies and procedures to implement and maintain them. Failure to do so can jeopardize non-profit status and the ability to receive non-profit donations.

Recruiting New Board Members

Any newly pooled entity would require board members and, potentially, staff. Regarding recruiting board members, designers should recognize that finding candidates with the combination of interest, time, enthusiasm, investment acumen, and conservation organization experience may be challenging. Typical CTF boards have one or two members with investment expertise but it is always helpful to have as many as possible.

Fee Structure

Investment management consultants charge a fixed fee or a fee based on the percentage of assets under management. A sample fee range for this service, provided by a consultant, was 0.25 to 0.50 percent for a $US20M to $US60M endowment.

Most common fee structures for investment managers are based on a percentage of assets under management, but firms may have other arrangements with clients. Known as "basis points" they are inversely proportional to the asset amount. An investment manager sample fee structure for a CTF, provided by an investment manager, follows:

Asset Base under Management ($US million)	Basis Points
10 or less	70 to 100
25	55
50	45
100	40

Typically the fees charged by the larger investment companies are all-inclusive (i.e., client visits, communications, reporting, others; as the client relationship grows the communications often become more virtual). The level of attention given to a CTF is typically not part of a fee structure initially. However, level of attention could trigger an increase in subsequent fees if significantly higher communication costs are encountered over the term of the arrangement. Investment management consultants typically spend more than 200 hours per year, mostly on performance reporting.

Fees vary for US versus non-US non-profit entities because there are additional due diligence tasks and compliance requirements for non-US entities.

Using the sample above, a group of CTFs with an average of less than $US10M under management before creating a $US25M pool might expect to see its investment manager fee decrease by 15 to 45 basis points under a pooled arrangement, a significant savings.

Investment experts noted that smaller, boutique firms typically have separate fees for services like asset custody (since they are not financial institutions), client visits and communications with fund managers, and to secure credit structures, among others.

For comparison purposes, it is important to take into account all possible fees paid to an investment manager, for example transaction fees and fees within mutual funds. A CTF's fee should be judged alongside performance. The lowest fees are not a guarantee of good value and high fees may be justifiable if they come with outstanding performance. Should pooling arrangements be established in the future, it would be helpful to compare fee levels for various structures with investment performance.

It is important to note that these are annual investment management fees to be paid once the pooled arrangement is created. There are also the initial legal and compliance costs of creating the pooled entity. Attorneys and accountants estimated these costs to be between $US20,000 and $US25,000. Estimated annual auditing and compliance costs would range from $US5,000 to $US10,000. CTFs would need to compare expected performance gains plus the cost of start-up and the present value of expected annual compliance with their current investment management situation when contemplating a pooled arrangement.

The Pooling Sweet Spot

Discussions with investment professionals suggest that CTFs with less than $US25M asset bases are better candidates for pooling since they cannot otherwise access better asset classes and higher performing investment managers or negotiate fees like investors with higher asset bases. Pooling CTFs with more than US$25M may be less beneficial because these features are often already available to them.

Features of a Successful Investment Management Pooling

Discussions with investment experts and CTF leaders suggested that a successful pooled arrangement would have the following features:

- Consistent organizational purposes;
- Consistent investment objectives;
- The currency should be the same. If this is not possible, the currency allocations must be. They could be dollars, euros, or local currency but they must be proportional. Most investment policies do not state which countries to invest in. In practice many funds seek to diversify investments globally but generally seek US dollars since it is the global reserve currency. CTIS results indicate US dollars and local currencies are preferred;
- Consistent levels of risk aversion;
- Distribution percentages should be generally aligned; where they are different CTFs could create a mechanism to sell units of the pooled arrangement or reinvest distributions according to their needs;
- Negative screens, donor exclusions, and government expectations must be consistent;
- Government support for biodiversity protection is strong and corruption is minimal;
- There is transparency among collaborating CTFs; and
- The investment management consultant and investment manager would be familiar with CTFs and preferably have experience with a pooled arrangement; CTFs could hire an expert to identify an investment manager for a pooled arrangement of CTFs.

It is important to note that these features would more likely be found, if at all, in groups of small CTFs just getting started who hold most of their assets in fixed investments and cash. Older, more established CTFs tend to have more diversified portfolios and investment goals and policies that might be harder for an investment manager to integrate among multiple organizations.

Investment Vendor Interest in Serving a CTF Pooled Arrangement

Investment experts suggested that most investment vendors would be interested in serving a pooled CTF arrangement. This is because they perceive that existing CTFs are growing, there will likely be more funds in the future, and there is room for growth in the CTF space. They reported that the business case for serving a CTF pool is always needed but that many vendors will likely be interested if appropriate emphasis is made on this potential growth. They also said that among investment vendors it is likely that the larger firms would show the most interest. This is because a global reach may be needed to service pools.

They noted, too, that the vendors would perform due diligence for all new clients and are especially careful about non-US non-profit funds and their sources of revenue. Because of reputation risk (some CTFs hail from countries on post-September 11, 2001 government high-risk lists) and the cost of internal due diligence, experts suggested that contemplated CTF pools have three to five participants with a combined asset base of perhaps $US25M or more.

Models of Pooled Investment Management (in order of complexity)

There are several models for pooling CTF assets and investment management to enhance investment performance and reduce fees. These are highlighted below. In addition, new models are being developed and implemented by CTFs and their vendors. Their advantages and disadvantages and lessons learned should be shared among the CTF community and, in particular, with CTF investment committees.

CTF-led Investment Advising and Training Mechanism

This model would involve creating a voluntary, CTF-led mechanism to educate CTF board members and staff on investment management principles. It could be designed as an informal clearinghouse of information and guidance on investing issues, vendor performance, or CTF issues generally, or as a more formal venue for sharing among members. CTFs could share costs equally or pay a fee based on a pre-agreed use formula. Donors could be solicited for support in creating the facility. The design could also contain information and guidance on administrative functions and training services as described above for administrative services.

The CTIS, one of the organizers of this study, is a valuable resource for training on investment management. They help CTFs understand the investment process and support capacity-building in this essential component of CTF operations but notably do not provide investment advice. They are currently partnering with CTFs to design and deliver an enhanced investment management training program.

Pros:

- Access to peers; and
- Likely low cost.

Cons:

- Potential cost-adding layer;
- Potentially challenging to maintain if use turns out to be limited; and
- Can improve the board's ability to fulfill its fiduciary role in making investment decisions and evaluating investment performance but is not a substitute for professional investment management.

Vendors Provide Services to Multiple CTFs for a Discounted Rate

In this model, CTFs would jointly engage existing or new vendors that are interested in providing services to a group of CTFs for a reduced fee. The CTFs would pay separately but receive a lower rate than they would on their own because additional business is brought to the vendor. This model is well-suited for investment management consultants who are paid a fixed fee.

The assets of the participant CTFs would be kept separate and the investment managers would be contracted separately by the CTFs, presumably with the consultant's assistance. The arrangement would likely be instigated by CTFs but could also be suggested by the vendor, as was the situation in the UBS-Arbor Group case study profiled here.

Grouping CTFs with common attributes such as organizational purposes, investment objectives and policies, and levels of risk aversion would likely be helpful although the level of diversity among these would be up to the discretion of the vendor. A common language would probably be helpful to facilitate meetings and decision-making. Being located nearby would also be helpful because vendors have said that minimizing travel costs is key to a cost efficient arrangement, especially in the early years. As processes and relationships become more familiar, more communication will be done virtually.

CTFs would be better served by having a vendor that is familiar with CTFs and preferably with a pooled arrangement. The model could be replicated regionally across geographies, using existing groupings like CAFÉ and RedLAC as starting points and sub-groups of three to five members with common attributes participating.

This model could be used for the African CTFs established in the UK, for example. They could contract an investment management consultant or investment manager who speaks French and English along with a similarly bilingual assistant who could service the participants at a lower rate than the lead professional, thereby reducing costs further. The investment management consultant or investment manager should also be familiar with US securities rules since they have US assets too. For their part, the CTFs should have at least one bilingual French-English board member or investment committee member.

Pros:

- Reduced fees without added costs of a new administrative layer;
- Avoids legal concerns;
- Institutionally and administratively easy to implement; and
- No additional risk.

Cons:

- Investment performance may not change because assets are not truly pooled into a more diversified, higher quality asset arrangement. Under this model the asset bases are treated as being aggregated to reach asset value thresholds that generate lower fees but may not actually be pooled and hence generate access to higher performing assets and investment managers;
- No change in risk avoidance; and
- Requires flexible and creative vendor

Case Study: Reducing Fees by Treating Separate CTFs like a Pool: UBS-Arbor Group Service to Three African CTFs

This case study involves three World Bank funded endowments that the UBS-Arbor Group advises separately but are part of a structure where individual country assets are treated as a single asset base for fee purposes and are charged lower fees. The arrangement was developed by the investment management consultant, working closely with the three CTFs. The pool includes BMCT (Uganda), EAMCEF (Tanzania), and MMCT (Malawi).

Each fund is established as a CTF under its own country's legal structure; each has its own board of directors; and maintains its own spending plan. However, each has a similar investment policy and most of the investment managers engaged by the Arbor Group are common to the three CTFs. The CTFs achieve significant economies of scale because each is treated by UBS as part of a $US25M account instead of three separate, smaller accounts. The CTFs were seeking better cost structures and administrative efficiencies and were considering creating a new trust. UBS-Arbor Group suggested the fee pooling approach as more cost effective and efficient approach. This is significant because it illustrates how CTFs and vendors can collaborate in developing a cost-saving investment management approach.

Investment Management Organizations that Serve Multiple Non-Profit Organizations

This model involves CTFs working with existing vendors, typically non-profit organizations themselves, that offer investment management services to non-profit organizations that do not have scale or access to the top performing investment managers. They also offer education programs to their clients. Commingling the endowment money of multiple organizations allows non-profits to invest their money in a diverse portfolio of quality investments while simultaneously reducing risk. This model is popular with non-profit organizations in the US and would be applicable to the substantial number of CTFs that have US assets. Vendors include the Investment Fund for Foundations (TIFF), and CommonFund, which has worked with a South American CTF in the past. Because of increasingly strict post-September 11, 2001 non-US non-profit investing requirements, these vendors tend to have few non-US clients. Consequently, the model would require that CTFs have US non-profit organization status. A few CTFs already do. Those that do not could apply for non-profit status or equivalency as described in the legal section above.

Pros:

- Opportunity to reduce fees without added costs of a new administrative layer;
- Opportunity to improve investment performance and limit risk;
- Training is often included; and
- Links to peers.

Cons:

- CTF likely needs US non-profit status to participate;
- Costs to establish a non-profit and annual non-profit compliance could offset reduced fees; and
- Access to investment managers may be more limited with so many clients.

Photo by Fernanda Barbosa

Shared CTF Investment Committee

In this model, CTFs would establish an investment committee to advise the member CTF boards on investment issues. The committee would comprise a combination of competent volunteer board members from member CTFs and external investment experts and would function as the investment committee for the member CTFs.

Member CTF accounts would be separate and CTFs would contract separate fund managers under a reduced group rate. CTF participation would be voluntary and a CTF could join with less than 100 percent of its investment assets. A small secretariat could be established to manage the committee or staff from a member CTF could assist for a fee.

The purpose of the model is to shift the board's investment role and the multiple investment committees that each CTF usually set up as per practice or encouragement from donors onto a common entity that could perform more effectively. Recruiting board members and investment committee members with financial expertise is often challenging; organizing investment committee meetings is often challenging as well, as they come from various countries. This model would allow CTF boards to focus on biodiversity conservation while investment experts focus on the investments, advise the respective boards and monitor investment manager performance.

Pros:

- Could attract often hard-to-find investment experts to CTF service;
- Increases board attention on investment management
- Could enable more effective investment management oversight; and
- Potentially lower each CTF's investment management fees from receiving a group rate.

Cons:

- Could lessen individual member CTF board attention on investments;
- Resources needed to administer shared investment committee could negate cost savings from lower fees; and
- Must address potentially challenging legal concerns in countries of operation and registration:
  - Potential dilution of fiduciary responsibility if investment decisions are made externally;
  - CTF governing documents could prohibit it; and
  - May trigger regulated investment advisor status.

New Non-Profit Organization to Service Multiple CTFs.

This model involves pooling CTF assets into a new entity to house and manage the group's assets. CTF participation would be voluntary and would likely comprise members from nearby geographies, or those with similar goals, strategies, policies, and languages. CTF assets would be comingled to attract larger returns and reduce fees by meeting higher asset base thresholds for lower fees. CTFs could have sub-accounts in the pool.

Participation could be consistent among CTFs. For example, each CTF could be a 25% member with each contributing $US5M. Other participation models could be created as well. All of a CTF's assets would not have to be put into the pool. A new board would govern the organization and would likely have representation from each member with a rotating chair. Staff could be hired to manage the organization or staff from a member CTF could support the organization for a shared fee.

The purpose of the model is to access higher performing asset classes and more effective investment managers, negotiate more favorable fees, and otherwise receive benefits typically gained from having larger amounts under management. As identified previously, the highest all-inclusive fees are paid when the asset base under management is below $US10M, perhaps 70 to 100 basis points, although a few vendors may offer more competitive rates at $US10M. At the $US25M threshold the rate drops to around 55 points and decreases to 45 and 40 points at the $US50M and $US100M thresholds, respectively. Hence, a $US25M pool of three to five CTFs could expect to reduce their fees by 15 to 45 percent and may be able to access higher performing asset classes.

As discussed previously, a key concern is that the host countries of the CTFs must recognize the new entity as tax-exempt.

Pros:

- Opportunity to improve investment performance and limit risk;
- Potentially lower investment costs;
- Links to peers; and
- A grouped board/investment committee could generate economies of scale because separate investment committees for each CTF might not be needed (if fiduciary concerns could be remedied).

Cons:

- Resources needed to operate the new organization could negate some savings from lower group fee;
- Start-up and compliance costs could be relatively high: could be $US20,000 to $US25,000 to create the non-profit and $US5,000 to $US10,000 annually for auditing and compliance;
- Must address numerous legal questions in countries of operation and registration:
    - Potential dilution of fiduciary responsibility if investment decisions are made externally;
    - CTF governing documents could prohibit it;
    - Potential fees to custodian banks; and
    - May trigger regulated investment advisor status.

Case Study: Creating a Pooled Arrangement − Caribbean Biodiversity Fund

The Caribbean Biodiversity Fund has designed a non-profit pool for eight proposed national conservation trust funds in the Caribbean region to support marine and terrestrial protected areas. Its purpose is to ensure the commitments made by countries to the Convention on Biodiversity. The eight proposed national level CTFs include: Antigua and Barbuda Trust; Bahamas Trust: St. Vincent and the Grenadines Trust; Grenada Trust; St. Kitts & Nevis Trust; Jamaica Trust; Dominican Republic Trust; and St. Lucia Trust.

The CBF is currently exploring the legal, operational, and practical concerns of serving as a custodian for the endowments of eight national conservation funds. As contemplated, each national fund would have a sub-account under CBF and any excess sub-account revenue will remain with the national fund that generated the excess. Members can withdraw their funds with one month's notice.

CBF was established by the World Bank, The Nature Conservancy, and KfW in 2012 and is registered in the UK. These entities have provided matching funds to the CBF in return for the following actions by the member national funds:

- Create targets for protected areas;
- National legislatures must gazette protected areas;
- Plans for protected area monitoring and enforcement must be developed; and
- Protected areas must have business plans with clear revenue streams.

The design was created to take advantage of the economies of scale of investing donor capital in a single endowment rather than eight separate endowments. Also, future donors could see opportunities to support various types of marine and terrestrial PAs through a single endowment.

The board will comprise the representatives from the donor organizations and the eight national funds. The board must have a non-government majority.

While the CBF is still in a formative stage, it is important because it is the first regional endowment designed to support multiple CTFs for both marine and terrestrial biodiversity protection. It also shows how donors can help CTFs reduce administrative costs − TNC hosts the CBF secretariat in its offices. At the same time, the CBF illustrates the challenges of creating a large initiative involving multiple countries and their political processes in a region with limited experience in biodiversity protection at a large scale.

Case Study: Managing Multiple Sub-Accounts − Fondo Accion (Colombia) and Malpelo Pelagic Marine Reserve

Fondo Accion invests for over 85 protected areas in Columbia, including the Malpelo Pelagic Marine Reserve in the eastern tropical Pacific Ocean. Created in 2000, Fondo Accion has $US5M in investments and has US non-profit equivalent status. Its importance lies in its management system for multiple sub-accounts as a model for managing pooled arrangements.

Suggested Investment Management Pooling Model

Limiting the overall cost of investing should be part of the decision in selecting an investment management pooling model. To help make this decision, CTF leaders need to determine the amount they would like to pay and compare it with their actual experience. To do so, we will calculate investment cost *(Rick Ferri, Forbes Personal Finance Blog, 5-27-13)*. Take the fee percentage paid to the investment manager and add it to fee percentage paid to the investment management consultant, if the CTF has one. Then divide this sum by the portfolio return percentage before fees. The result is the CTF's investment cost. Here is an example: a CTF pays a .60% annual fee to its investment manager and a 0.35% fee to its investment management consultant for a total fee of .95%. Its portfolio return before fees in that year was 5%. Its investment cost, or in other words, the portion of investment return it gave up to pay for investing was 19% (.60% + .35% ÷ 5% = 19%). Giving up 19% to access the market seems high and while investing is not free, the CTF can probably do better. A reasonable goal might be less than 15%. Using the sample figures the most appropriate places to find savings are in reducing the investment manager fee and increasing the portfolio return percentage. The pooling approach to be selected should seek to favorably affect these percentages.

As mentioned previously, any model that requires resources to create and maintain should be closely evaluated. While no investing is free, each additional administrative layer will consume some portion of anticipated savings. Also, any new administrative layer can distract the CTF from its mission and hence should be examined carefully. Simpler is usually better and any model that can build on existing capacity and relationships tends to be easier to implement. For investment management that may be engaging investment managers and investment management consultants to provide more affordable rates to a group of CTFs, consider options like the UBS - East Africa CTF model.

Investment Management Services Pooling Models		
	Pros	**Cons**
CTF-led Investment Advising and Training Mechanism	• Access to peers • Low cost	• Potential new cost-adding layer • Challenge to sustain if use is limited • Can obscure need for professional investment management
Vendors Provide Services to Multiple CTFs for a Discounted Rate	• Reduced fees without added costs of a new administrative layer • Avoids legal concerns • Easy to implement • No additional risk	• Investment performance may not change • No change in risk avoidance • Requires flexible and creative vendor
Existing Investment Management Organization that Serves Multiple Non-Profit Organizations	• Can reduce fees without new administrative layer • Can improve investment performance and limit risk • Training is often included • Links to peers	• Likely needs US non-profit status to participate • Creating US non-profit may offset lower fees • Limited access to investment managers
Shared CTF Investment Committee	• Attract investment experts to CTF service • More attention on investments • Enhanced oversight • Potentially lower fees	• Reduced member board attention on investments • Resources needed could negate cost savings • Potentially challenging legal questions
New Non-Profit Organization to Service Multiple CTFs	• Opportunity to improve investment performance • Limit risk • Likely lower fees • Links to peers • Economies of scale from pooled investment committee	• Costs of new organization could negate savings from lower group fee • Start-up and compliance costs could be high • Numerous legal questions

V. Pooling of Technical Assistance and Training Services

The considerations involved in pooling training opportunities are similar to those involving pooling administrative services and, in fact, are likely less complicated. Essentially what is needed is to design a training platform that meets the needs of the participant CTFs.

CTFs identified board member training on investment management as the most pressing training need. CTF boards typically have only a few members with investment experience and consequently need to strengthen the skills of their existing board members and provide for the periodic turnover of the members. We will describe options for providing this training and identify essential investment training curricula as described by investment professionals. Note too, that WCS, a partner in this study, conducted a separate study in 2014 on options for investment training for CTFs within the framework of the CTIS initiative. Consequently, we will not delve as deeply into pooling options for training as was done for administrative functions and investment management. We refer you to that study for more information.

As mentioned previously, ongoing board member governance training should be part of every CTF's annual training regimen, especially where there is board member turnover.

Multiple CTFs have also commented on the need for leadership development, strategic planning, and similar organizational development training in addition to investment management training.

Relatedly, several recently established CTFs, particularly in Africa, use the services of an external technical advisor. In most cases, these technical advisors are being funded through donor support within the framework of an institutional support project to the CTF. Though it has not been studied in detail, investigations are recommended into the feasibility of sharing the services of a technical advisor for a pooled group of CTFs.

Models for Pooled Training **(in order of complexity)**

Access Investment Training Provided by Investment Management Consultants and Investment Managers

Some investment management firms offer board training services and materials to their clients. These tools are designed for ongoing use by boards to maintain institutional memory and address inevitable turnover. Investment managers of bigger funds could bring their experience to pools of smaller CTFs as part of their business development efforts. Investment firms could also share their CTF experiences with trainers to help them tailor the design of the educational components to CTFs. At the same time, CTF pools may want to seek investment management education to augment that of their vendors as well as to avoid any appearance of conflict of interest from having their investment professional also be their educator.

Access the Investment Expertise of Donors

Donor organizations sometimes offer training and guidance to their grantees in order to build organizational capacity and support mission success. CTF pools can seek training as part of grant proposals for the new pooled arrangement or request that donors provide access to their internal expertise.

Access Educational Resources at Colleges and Universities

Board members can attend classes and workshops at local educational institutions or can invite educators to speak at a board meeting or similar venue. CTF pools can also contract with colleges and universities more formally.

Access Training Offered by Non-Profit Organizations

Some non-profit organizations offer investment training to their non-profit peers. They are often funded to perform this service or they charge an affordable fee.

Use CAFÉ, RedLAC and the CFA as Platforms for Training

CAFÉ and RedLAC assemblies offer excellent venues for training members and are popular with CTFs. They could be engaged in creating pooling training on numerous topics. The CFA already serves as a knowledge-sharing platform and facilitator of training and could expand this role, in particular in cooperation with the CTIS initiative.

Create Mentoring and Training Programs Among CTFs

Pools of smaller, perhaps newer CTFs, can learn from larger, more established ones in a mentoring arrangement. CTFs leaders interviewed for this study suggested that CTFs could engage their peers on organizational development concerns.

Investment Training Topics

Investment professionals suggested the following training topics:

- How stocks, bonds, bank deposits, and other investments work (examples, historical risks and returns);
- Understanding correlation, diversification, and asset allocation;
- Implementation of the investment policy;
- Fiduciary standards for board members;
- Portfolio rebalancing;
- Environmental, social, and governance (ESG) screening;
- Implementing risk control standards;
- Understanding the relationship between investment cycles and economic cycles; and

- Understanding the types and roles of investment professionals, their fee structures, and evaluating their performance.

A more thorough analysis of board education needs with respect to investment management is covered in “An Analysis of Investment Management Education for Conservation Trust Funds” by Jason Puracal, for CFA & WCS, Summer 2014.

VI. Conclusions and Suggestions for Further Action

- While there is significant interest and enthusiasm for pooling among CTFs, the process of actually implementing a pooled arrangement is complex and has multiple challenges. Several different methods for pooling have been described in this study, and it is important for CTFs contemplating engaging in a pooling arrangement to study their options to make sure they are fully informed of costs, disadvantages, and advantages before they operationalize.

  There is complementary interest among donors for CTF pooling and they have indicated a willingness to explore options with them. Jump-starting a pooling arrangement through short to medium term funding, such as one that would provide services for UK-registered African funds, is recommended. Donor funding provided for three years or so to get the system running would allow the system to become established and prepare each CTF to cover the costs from its operational accounts.

- CTF interest in pooling appears specific to each function. Discussions with CTFs leaders indicate that board member training, staff member training, fundraising, and investment management were the leading candidates for a pooled arrangement. Information technology and marketing/communications were also popular choices. Fortunately, these needs are among the easiest and most cost effective to provide. This said, regarding training, pooling is not necessary to obtain effective training, and that if this is the greatest need, CTFs can look to RedLAC, CAFÉ or available consultants to provide it. Pooling should provide operational advantages or cost economy to warrant the expenditure of time, energy, and money required to operationalize a pooling arrangement.

- CTFs seldom reported they were strongly dissatisfied with the performance of their vendors. If they were changing vendors it was likely due to governance policies that limited vendor terms. If dissatisfaction is moderate or low then a compelling case for increased efficiency, cost-savings, and ease of implementation would need to be made. Significant dissatisfaction with vendors rather than just interest in alternatives drives change.

- Discussions with CTF leaders and experts suggest that the global distribution of CTFs, the varied places they protect, and the different languages they speak hint at organizing CTFs into regional subsets: Asia, Africa (further demarcated into UK-established Africa and the remainder of the continent), the Americas, and Europe, rather than exploring pooling opportunities among all or even large numbers of CTFs.

- Small CTFs are performing many functions internally and most reported that they are satisfied with performance. They may say this because − for various reasons − they do not have comparisons with other CTFs or local non-profit organizations against which to judge their effectiveness. It is possible that all is well. However, it is also possible that a CTF leader may not be aware that their CTF is underperforming and of the long-term impact of limited financial planning, inadequate marketing and communications, and outdated office technology.

- Cost savings from outsourcing is questionable for many functions and will depend largely on the outcomes derived. While it is often the case that an internal hire will cost more overall, outsourcing can require additional expenditure, over and above what the CTF already spends on that function. This is because functions done completely and properly by a specialist (e.g. in marketing or fundraising) will cost more in the short run than if the same tasks were done not as well by an in-house generalist or not done at all.

- Discussions with investment professionals suggest that CTFs with less than $US25M asset bases are better candidates for investment management pooling since they cannot access better asset classes and higher performing investment managers and negotiate fees like investors with higher asset bases. Pooling CTFs with more than $US25M may be less beneficial because these features are often already available to them.

- Creating a $US25M pool from several CTFs with $US10M or less asset bases could result in investment management fee reductions of 15 to 45 basis points, a significant savings.

- CTFs should consider engaging an investment manager with experience in pooled or similar collaborative arrangements among investors.

- While a some vendors will offer competitive fees for asset bases as low as $US10M, greater cost efficiencies for asset management are derived by CTFs with larger asset bases, generally at least $US25M. This allows them to benefit from access to higher performing assets and investment managers. Future CTFs might be designed to take advantage of these benefits.

- Should savings materialize from pooling, CTFs could advance their organizational sustainability by reinvesting those savings in long-term fundraising development rather than programming.

- CTF pools should consider utilizing existing regional organizations like CAFÉ and RedLAC to provide logistical, communications, and other support.

- Pooled CTFs should consider establishing an advisory board to provide guidance, especially initially.

- CTFs should work with donors to develop a pilot pooled arrangement to explore the opportunities and constraints of pooling and to share lessons learned with other CTFs.

- CTFs leaders report that varying donor application and reporting requirements can result in inefficiencies for CTFs. These may have to be reconciled for pooled arrangements to be successful.

- CTFs reported that they would need financial support to create a pool. They suggested that donors fund a liaison to prepare requests for proposals, communicate with vendors, and negotiate terms and rates on their behalf.

- To ensure compliance with charitable organization rules in the countries where CTFs are established, boards should maintain conflict of interest policies and procedures for implementing them. They should also ensure adequate nexus by having resident board members and bank accounts there.

- CTFs have commented on the need for leadership development, strategic planning, and similar organizational development training in addition to investment management training. At the same time, training must be affordable to the CTF and convenient to board members to ensure attendance.

- While this study has focused on approaches for CTFs to pool their resources to increase performance and reduce costs, experts suggested that CTFs would need to close funding gaps by diversifying their fundraising away from government, development finance institution, and conservation NGO provision of endowment assets. CTFs will need to broaden their fundraising to include payments for ecosystem services, corporate compensation and offsets, individual, corporate, and foundation donations, major events, online gifting tools, and engagement with the growing impact investing world.

- CTF experts suggested that future CTFs address transnational and regional biodiversity conservation realities rather than national or sub-national needs. Developing ways for CTFs to collaborate under their existing designs and the political histories in which they were established is challenging, time-consuming, and expensive. New initiatives, like those in the Caribbean, Eastern Europe, and the Caucasus may offer models of this new approach.

*****

Sources

Adams, John S. and Victurine, Ray. 2011. Permanent Conservation Endowments: A Study of Long-Term Benefits.

Bonham, C., Steininger, M.K., McGreevey, M., Stone, C., Wright, T., Cano, C. 2014. Conservation Trust Funds, Protected Area Effectiveness and Conservation Outcomes: Lessons from the Global Conservation Fund. *Parks*, 20:2.

Buechel, Kathleen W. and Handy, Esther. 2007. The Road Less Traveled: Funder's Advice on the Path of Nonprofit Sustainability.

Ferri, Rick. May 27, 2013. The Heavy Toll of Investment Fees, Forbes Personal Finance Blog. Retrieved February 20, 2015, http://forbes.com/sites/rickferri/2013/05/27/the-heavy-toll-of-investment-fees/

Follow-up of the UK-Registered African Funds for Environment Meeting, December 2011, London, UK.

Karson, A. and Brown, M. 2012. A Nonprofit Guide to Outsourcing. Nonprofit Coordinating Committee of New York.

Koteen, S. 2004. Financing Species Conservation: A Menu of Options. Center for Conservation Finance, World Wildlife Fund.

Management Assistance Group and Eugene and Agnes E. Meyer Foundation. 2009. Outsourcing Back-Office Services in Small Nonprofits: Pitfalls and Possibilities.

Mikitin, K. and Spergel, B. 2014. Practice Standards for Conservation Trust Funds. Conservation Finance Alliance.

Morrison, D. 2013. Concept Paper: Conservation Investment Services Foundation, unpublished.

Nonprofit Finance Fund. 2014. State of the Nonprofit Sector Survey, 2014.

Puracal, J. 2014. An Analysis of Investment Management Education for Conservation Trust Funds, Wildlife Conservation Society, 2014.

Sabo, S. 2010. All for One, One for All: National Association of College and University Business Officers. Retrieved December 11, 2014 http://www.nacubo.org/Business_Officer_Magazine/Magazine_Archives/February_2010/All_for_One_One_for_All.html#article1

Spergel, B. and Taïeb, P. 2008. Rapid Review of Conservation Trust Funds. Conservation Finance Alliance Working Group on Environmental Funds.

Summary of UK-registered African Funds for Environment. Follow the Approach of Consolidating Services for Foundations. September 2014. Doula, Cameroon.

Summary of UK-registered African Funds for Environment. Suivi de la démarche de regroupement des Services pour les Fondations. September 2013. Antsiranana, Madagascar.

Tides Foundation, 2011. Shared Services that Work: Surprise Findings from Charlotte-Mecklenberg Nonprofits.

Victurine, R and Mathias, K. 2014. Conservation Trust Investment Survey for Calendar Year 2013, Wildlife Conservation Society.

Victurine, R and Mathias, K. 2013. Conservation Trust Investment Survey for Calendar Year 2012, Wildlife Conservation Society.

Appendix A

Administrative Pooling Considerations for UK-Registered African CTFs

UK-established CTFs have unique needs due to that country's significant charity compliance requirements. CTFs have generally hired UK-based attorneys and auditors who perform both compliance services and advise them on policies and procedures. As reported by CTFs, fees for these services are generally high. As such, legal counsel and auditing are two major candidates for pooling administrative functions by UK-registered African CTFs. CTFs could explore opportunities with UK legal and auditing firms to pool their services and reduce their fees. There may also be an opportunity for an NGO to perform those services. That NGO should most likely be registered in the UK to facilitate the desired requirements for compliance with UK charity law.

Any NGO offering such a service would need to look at liability and legal issues. However, there is the potential for creation of a new entity related to an NGO who could provide those services and others, including helping to represent the funds to donors. For example, if the CFA, currently an association, were to become a legal entity registered in the UK one of its key roles could be to provide such services to UK-registered CTFs. If such an entity could be created with donor funds, the ultimate costs to the CTFs over time would be quite reasonable and would give these CTFs a connection to an entity that is more familiar with their needs. Given the interest, and arguably the need to support these Funds, this pooling opportunity is one that should receive immediate attention.

Considerations for pooling UK-based vendors include:

- Vendors must be well-versed in UK corporate and charity law;
- Vendors must employ professionals who are bilingual in English and French;
- Vendors must be willing and able to travel to CTF facilities in Africa;
- Vendors should help CTFs maintain UK domicile by having UK-resident board members, UK bank accounts, and by ensuring that CTF conflict of interest policies and their implementation meet UK standards;
- Mid-sized and smaller firms that serve NGOs in the UK, or NGOs themselves are the most appropriate vendors for a pooled CTF arrangement. At the same time, few vendors will likely have experience with a pooled arrangement of NGOs since these designs are rare. This could argue for establishment of these services within an existing or newly established NGO to provide services;

- In negotiating the engagement, CTFs should request that the vendor provide a seasoned partner-level employee to supervise the engagement but more junior employees to perform the actual work. This should minimize fees and provide better access to the vendor;

- Request that vendors provide similar engagement orientation and training to all the CTFs in the pool at the beginning and throughout the engagement so all will be equally informed and equipped to evaluate vendor performance;

- Current UK-based CTF service providers are interested in continuing to serve African CTFs and would welcome conversations about a pooled arrangement. While group discounts are difficult to determine at this preliminary stage, discussions with vendors suggested that a pooled arrangement might yield a discount of perhaps a 20 percent or more; and

- CTFs should seek donor support for hiring an English-French bilingual negotiator to work with vendors. Donors have indicated interest in supporting this role.

Appendix B

Pooling Request for Proposal (RFP) Components

The following list contains the components of a request for proposal to be provided to vendors interested in serving pooled arrangements of conservation trust funds:

General Components for All RFPs

- Services Sought by the Conservation Trust Fund
- Term: Duration and Start/End Date
- Status of Vendor – independent contractor
- Identification of Deliverables
- Obligations of Vendor
- Use of Confidential Information
- Use and Return of CTF Materials
- Ownership of Work Product
- Subcontracting
- Location of Work Performance
- Frequency of Communications with Advisors and Managers
- Communications with Pooling Partners
- External Information Sharing
- Languages Needed
- Compliance Responsibilities and Liabilities
- Reporting
- Timeline
- Oversight Mechanism
- Monitoring and Assessment Mechanism
- Estimated Fees and Expenses (Identify Currency)
- Payment Schedule

Components for Auditing and Legal RFPs (All of the General Components Above Plus)

- Comply with UK Non-Profit Organization requirements (UK Companies House, UK Charity Commission)
- Annual Audit
- Annual Donor Audit
- Annual UK/US Reporting
- US IRS/SEC Reporting
- Board Reporting
- Special Projects

- US State Reporting
- UK Local Reporting
- Other Jurisdiction Reporting Expertise Sought
- Include Board Member/Investment Committee/Staff Training as Component of RFP

Components for Investment Management Services (All of the General Components Above Plus)

- Familiarity with CTFs
- Experience with a Pooled Arrangement
- Integration of
    - Investment Strategies
    - Risk Aversion Profiles
    - Distribution Strategies
    - Negative Screens
    - Donor Exclusions
- Tax Law (UK, USA, local jurisdiction)
- References

Components for Training (All of the General Components Above Plus)

- Audience
- Estimated Number of Participants
- Duration (Start/End Date)
- Description of Venue Desired
- Experience
- Trainer Biographies
- References/Testimonials
- Investment Training Topics
    - Understanding how investment professionals make money
    - Understanding economic cycles
    - Investing – the long-term view
    - Equity, fixed income, and alternative investments (definitions, examples, historical risks and returns)
    - Understanding investment policy statements (definition of endowment, experiences from educational/health endowments and other CTFs)
    - Understanding the relationship between investment cycles and economic cycles
    - Behavioral finance (common biases)
    - Portfolio construction and revisions (trading, risk management)

Appendix C

Interview Participants

The consultant thanks the following CTF leaders for sharing their time and experiences for this study.

Country	Name of CTF	Name of Interview Participant	Title of Interview Participant	CTF Website
Bahamas	Caribbean Biodiversity Fund	Yabanex Batista	Executive Director	
Bangladesh	Arannayk Foundation	Farid Uddin Ahmed	Executive Director	http://www.arannayk.org
Bolivia	Fundación para el Desarrollo del Sistema Nacional de Áreas Protegidas (FUNDESNAP)	Sergio Martín Eguino Bustillos	Executive Director	http://www.fundesnap.org
Cameroon, Central African Republic, Congo	Fondation Tri-National de la Sangha	Timotée Fomete	Executive Director	http://www.fondationtns.org
Costa Rica	Costa Rica Por Siempre	Emilio Acosta	Manager – Finance and Administration	http://www.costaricaporsiempre.org/
Côte d'Ivoire	Fondation pour les Parcs et Réserves de Côte d'Ivoire (FPRCI)	Fanny N'golo	Executive Director	http://fondationparc.ci/
Federated States of Micronesia	Micronesia Conservation Trust	Willy Kostka	Executive Director	http://www.ourmicronesia.org
Indonesia	Yayasan Keanekaragaman Hayati Indonesia	M.S. Sembiring	Executive Director	http://www.kehati.or.id
Madagascar	Fondation pour les Aires Protégées et la Biodiversité de Madagascar	Barijaona Ramaholimihas; Ary Fenitra Rabeso	Investment Committee President; Finance Officer	http://www.madagascarbiodiversityfund.org/fr

Country	Name of CTF	Name of Interview Participant	Title of Interview Participant	CTF Website
Madagascar	Fondation Tany Meva	Tovondriaka Rakotobe/Njiva Ratsitoarimanga	Executive Director/ Financial and Administration Manager	http://www.tanymeva.org.mg
Mexico, Belize, Guatemala, Honduras, and El Salvador	Mesoamerican Reef Fund (MAR Fund)	María José González	Executive Director	http://www.marfund.org
Peru	Fondo de Las Américas (FONDAM)	Raul Grados Carazzas	Director of Administration and Finance	http://www.fondoamericas.org.pe
Tanzania	Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)	Francis B. N. Sabuni	Executive Director	http://www.easternarc.or.tz/

Appendix D

Service Providers

The following service providers have experience in serving CTFs. While endorsements are not given in this study, these vendors have expressed interest in exploring pooled arrangements.

Auditors with Experience Serving CTFs

Williams Kennedy (UK) http://www.wilkinskennedy.com

Chantrey-Vellacott (UK) http://www.cvdfk.com

Sayer Vincent (UK) http://www.sayervincent.co.uk

Haysmacintyre (UK) http://www.haysmacintyre.com

Attorneys with Experience Serving CTFs

Bates, Wells and Braithwaite (UK) http://www.bwbllp.com

Burke, Warren, MacKay & Serritella, PC (USA) http://www.burkelaw.com

Ropes and Grey (USA/UK) https://www.ropesgray.com

Investment Services Companies with Experience Serving CTFs

Barclays (UK) http://www.barclays.com

Citigroup (USA) http://www.citigroup.com/citi

Deutsche Bank (Germany) https://www.db.com

Franklin Templeton (Mexico) http://www.franklintempleton.com.mx

Morgan Stanley (USA) http://www.morganstanley.com

JP Morgan Chase (USA) http://www.jpmorganchase.com

Perennium (Switzerland) http://www.perennium.ch

Schroders (UK) http://www.schroders.com/en/uk

UBS – Arbor Group (USA) http://financialservicesinc.ubs.com/team/thearborgroup