Establishing Foundations to Deliver Community Investment 2015

A Quick Guide

IFC International Finance Corporation
WORLD BANK GROUP

Cover photo credits:
1st row (l-r): Man waters saplings in tree nursery in Moribadou, Guinea. Photograph courtesy of Rio Tinto Simandou. Women in Woukpokpoe village in Benin have benefited from accessing clean water. Photograph by Arne Hoel. World Bank photo collection.
2nd row (l-r): Students from the Bislig Elementary School, the Philippines. World Bank photo collection. Community members walk along a pipeline, India. Photograph by Ted Pollett.

©2015 INTERNATIONAL FINANCE CORPORATION
2121 Pennsylvania Avenue, N.W.
Washington, D.C. 20433 U.S.A.
Telephone: 202 473-1000
Facsimile: 202 974-4384
www.ifc.org

All rights reserved

The findings, interpretations, views, and conclusions expressed herein are those of the authors and do not necessarily reflect the views of the Executive Directors of the International Finance Corporation or of the International Bank for Reconstruction and Development (the World Bank) or the governments they represent.

Rights and Permissions
The material in this publication is copyrighted. IFC encourages use and distribution of its publications. Content from this document may be used without prior permission provided that clear attribution is given to the original source and that content is not used for commercial purposes.

Establishing Foundations to Deliver Community Investment 2015

A Quick Guide

IFC International Finance Corporation
WORLD BANK GROUP

CONTENTS

1. INTRODUCTION 1
- 1.1 Setting the context 1
- 1.2 Purpose and target audience 3
- 1.3 Foundation types and attributes 4

2. FOUNDATION LIFECYCLE 8

3. BUILDING THE RATIONALE 14
- 3.1 Building the rationale for a foundation 14
- 3.2 Articulation of vision and mission 25

4. PLANNING AND DESIGNING THE FOUNDATION 27
- 4.1 Determining geographic coverage and sectoral focus 27
  - *Geographic coverage* 27
  - *Sectoral focus* 28
- 4.2 Proposing overall governance arrangements 30
- 4.3 Building a funding model 36
  - *Funding formulas and sources* 36
  - *Fundraising strategy* 39
- 4.4 Implementation arrangements 40
  - *Implementation model* 40
  - *Guiding principles and selection criteria* 41
  - *Staffing plan* 42
- 4.5 Building a monitoring and evaluation framework 43
  - *Goals and objectives* 43
  - *Internal and external performance metrics* 45
  - *Mechanisms for accountability and learning* 48
- 4.6 Developing a branding and communications approach 49
- 4.7 Exit planning 52
- 4.8 Managing risks 55

5. FIVE KEY OPERATIONAL CHALLENGES 56

6. TOOLS AND GUIDANCE TO ASSIST EARLY DECISION MAKING 60
- Tool 1: Comparative analysis of various implementation models 60
- Tool 2: Self-assessment checklist 62
- Tool 3: Options for stakeholder participation 63
- Tool 4: Developing a communications plan 64
- Tool 5: Getting the right mix on the board 65
- Tool 6: Sample functions of a board of directors 68
- Tool 7: Sample job requirements for executive director 70
- Tool 8: Developing indicators 73

7. USEFUL REFERENCES 75

8. BIBLIOGRAPHY 79

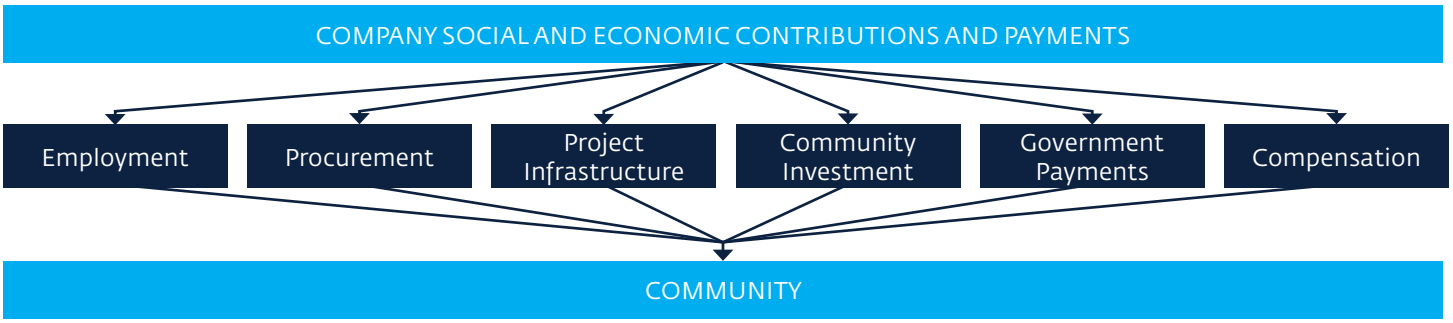
9. ACKNOWLEDGEMENTS 81

1. INTRODUCTION

1.1 Setting the Context

Providing benefits to communities affected by a project can help a company to obtain and maintain a "social license to operate," and manage project risks and stakeholder expectations. There are many different channels that companies can use to deliver these benefits (see Figure 1).

FIGURE 1: BENEFIT-SHARING CHANNELS[1]



Depending on the channel, determining the appropriate implementation vehicle can be a key strategic decision. For a company that has selected community investment as a way to deliver benefits, this decision is particularly important. Four main implementation vehicles are generally considered: direct delivery by the company; delivery through partners and third parties; delivery via a foundation, trust, or fund; or a hybrid approach. Each of these models has advantages and disadvantages that need to be carefully assessed.

This Guide specifically explores the use of foundations, trusts, and funds (collectively referred to as "foundations" throughout this document[2]) to deliver community investment (CI). The Guide does not intend to encourage or discourage companies from establishing foundations; rather, it lays out a process for deciding whether a foundation can be a viable implementation model and helps companies understand related risks and opportunities.

While the use of foundations to deliver benefits is not new, their rate of growth has been significant in recent years. Of the more than 60 foundations in the mining sector alone, 27 have been established since 2000, with the vast majority located in the developing world.[3] The dynamics of foundations also continue to evolve; one of the more significant changes affecting the private sector in recent

1. World Bank (2010)
2. World Bank (2010) referred to foundations, trusts, and funds as FTFs. FTFs and "foundations" as referenced in this document can be used interchangeably.
3. BSR (2010)

years is the need for multilateral collaboration and partnerships. Companies and sectors cannot address complex development challenges on their own, and will need to work with partners across sectors in new and more effective ways. Such collaboration and partnerships offer new opportunities for foundations to play a bigger role in moving the development agenda forward and ensuring the sustainability of programs on the ground.

The experience with foundations has not always been straightforward. While some, such as the Rössing Foundation and the Ok Tedi Development Foundation, have successfully become long-term development partners in the communities they serve, others have faced challenges in achieving sustainability and managing internal and external relationships. Of the 14 mining foundations studied by the World Bank in 2010, three have subsequently ceased operating due to changing legal requirements and external relationship management challenges.

This Guide looks at the experiences of companies that have established foundations across different countries and sectors, to present lessons that can be used to improve decision making today. The Guide also builds upon conclusions drawn by a World Bank Group study,[4] which broadly observed that:

- The choice between a foundation, trust, or fund depends in large part on the legal context in the host country. Comparison by name alone provides little insight into these institutions.

- While it is possible to compare foundations through the use of several criteria, such as the financing structure of the foundation, or the degree of community participation within the governance structure, the performance and success of the foundation are highly dependent on a range of site-specific conditions. This dependency on context makes it difficult to draw any meaningful conclusions as to why and in what circumstances foundations succeed.

- Foundations are established in a dynamic environment, and to remain relevant, they need to adapt to changes in their operational context.

- Based on the research conducted, highly participative, financially sustainable, and well-managed foundations, trusts, and funds defined leading practices in their field.

4. Wall, E. and R. Pelon (2011)

This Guide has been further informed by case studies developed in the past, six new cases (across four continents), and a consultation process that involved multiple practitioners working in this field. Combined, the experience to date underscores the following:

- Before deciding whether a foundation is the proper implementation vehicle, a company must first determine what its overall CI strategy is going to be. Without a clear strategy, backed by a business case and thorough analysis of local risks and opportunities, the decision on how to implement may be premature.

- Justification for adopting a foundation in addition to, or instead of, a company's own CI function is critical. Companies need to assess the risks and opportunities of developing a foundation for both the company and the beneficiaries before committing to this course of action.

- Foundation development should be supported by the same level of planning that would normally go into the development of a new business venture.

- Getting a foundation up and running takes time and resources. Company and community expectations need to be managed to allow the time and space for a foundation to develop.

Ultimately, the development of this Guide also demonstrated that a foundation is a versatile model that, when well-planned and designed, can be highly effective at sustainably delivering CI. The examples in this Guide highlight the variety of roles that foundations have played. These included successful mobilization of resources and multiple partners to address development causes, creation of meaningful ways for local stakeholders to contribute to and participate in the decision-making process, and promotion of sustainable development through the establishment of financially robust, community-owned institutions.

1.2 Purpose and Target Audience

This Guide has been developed to meet demand from IFC clients and the broader private sector for guidance related to establishing foundations. Building on the wisdom of those who have established foundations in the past, it aims to help companies determine whether a foundation is the right choice in their particular situation.

This Guide is targeted toward CI decision makers in companies, from on-the-ground implementation staff through to senior executives. Selected tools to support the decision makers in assessing the appropriateness of a foundation are also provided.

The Guide was prepared by IFC's Advisory Services and Shared Resources Pty Ltd and builds upon work from IFC and the World Bank's Oil, Gas, and Mining Policy Group; the professional experience of the authors; and the knowledge base of companies that have established foundations across various sectors and continents. Specifically, it has been developed through:

- desk-based review of publicly available information related to design and implementation of site-specific foundations (Some case studies and examples referenced in this Guide are based on this review and have not been verified for accuracy.)
- interviews with foundation managers, company decision makers, and consultants working in this field; and
- a comprehensive peer review process drawing on the knowledge and experience of practitioners from around the world.

Throughout the Guide, examples of company foundations are provided to illustrate possibilities and highlight challenges. Website references for these foundations, where they exist, have been included in the References section of this Guide.

This Guide would not have been possible without the generous, candid, and thoughtful sharing of experiences from numerous contributors. They are further acknowledged at the end of the Guide.

1.3 Foundation Types and Attributes

There is no universally accepted definition of a foundation, and the terms foundation, trust, and fund are often used interchangeably.

Legal definitions vary significantly between countries, and in many cases the name of an institution may have little correlation to its legal structure (for example, the Rössing Foundation in Namibia is actually structured as a trust). The choice of a foundation, trust, or fund is heavily influenced by host country law: in general, trusts are applied in countries using common law, and foundations are preferred in countries adhering to civil law.[5] The term fund does not confer a separate legal designation and is most commonly used as a general term to describe a foundation or trust. While differences exist between trusts and foundations, both represent legal entities with some form of governance structure. Within this Guide, foundations, trusts, and funds are collectively referred to as "foundations."

5. Wall, E. and R. Pelon, R (2011)

For the purposes of this Guide, a generalized definition of a foundation has been used. The World Bank study on foundations, trusts, and funds[6] defined a foundation as "a legally distinct organization designed to receive, administer, and disburse financial contributions from companies and other contributing organizations to communities." To better reflect the characteristics associated with foundations covered in this Guide, this document uses a modified definition of foundations (or trusts, depending on the context):

A legally distinct organization designed to advance specific objectives in a participative manner by receiving, administering, and disbursing financial contributions from companies and other contributing organizations to communities.

As is evident in the definition above, foundations are typified by the following characteristics:

- **Legally distinct –** A foundation is a separate legal entity, independent from the company using it as an implementation vehicle.

- **Participative –** The structure of a foundation provides the opportunity for external participation in governance, implementation, and monitoring of CI activities.

- **Multiple financiers –** Foundations are capable of receiving and disbursing funds from any number of entities.

These characteristics also illustrate why companies might choose a foundation model to deliver their CI (for more information on business drivers for establishing foundations, see Section 3 and the Tools section). Research conducted for this Guide identified several situations where foundations can be well-positioned to help companies address the following business drivers:

- **Compliance with requirements/access to finance:** meeting legislation or project financing requirements through establishment of a foundation;

- **Social license to operate/sustainability/reputation:** visibly and transparently involving experts or opinion leaders in CI decisions, through formal governance roles;

- **Social license to operate/sustainability/exit:** meeting expectations to provide greater community ownership of community programs or promoting community participation and building capacity in the absence of other institutional capacity in the area;

6. World Bank (2010)

- **Legacy/sustainability/exit:** creating opportunities for community investment or benefit sharing to extend beyond the life of the project or the company's involvement;

- **Leveraging funds and skills/risk sharing/social license to operate:** meeting a need to leverage donor funding or attract partners for implementation of various programs;

- **Reputation/social license to operate/access to finance:** fulfilling a need for separation between the company and the CI delivery, to overcome legacy issues or build credibility of decision-making. This can also increase the likelihood of support from external financiers;

- **Tax benefits:** leveraging tax benefits; and

- **Legacy/reputation/compliance with requirements/competitive advantage:** seeking a dedicated vehicle to help meet formal responsibilities for a national or regional development agenda, or similar stakeholder expectations.

There are a range of foundation types, from those created and operated by a parent company to community-generated institutions. Although definitions vary from one jurisdiction to another, they all share the same broad principles (see Table 1).

TABLE 1: FOUNDATION TYPES

Foundation Type	Attributes	Examples
Corporate Foundations	Established as entities separate from the parent company, where funds are derived primarily from the contributions of a profit-making business organization. A number of sub-types exist: • *Site-level foundations.* These foundations focus on delivering CI for a single site/project. While limited to a single site/project, they may have beneficiary groups in a variety of locations, or different objectives for each community they work with. • *Multi-site foundations.* These can be relevant where a number of sites are in relative proximity or are supporting similar CI activities. • *Global foundations.* Typically seen in large global corporations, these foundations operate at a global scale and are commonly philanthropic in nature. Global foundations can also focus their resources on countries and/or communities where their corporate founders have operations.	The **Cobre Panama Foundation** is a site-level foundation currently in development by First Quantum Minerals. It will focus on 20 communities around the copper project in Panama. The **Rio Tinto Coal and Allied Community Development Fund**, established in 1999 to support communities around three mines in the Hunter Valley (Australia), is an example of a multi-site foundation. The Fund is designed to build the capacity of communities to address development challenges and take advantage of emerging opportunities. The **Shell Foundation** is a global foundation with a USD 250 million endowment from the Shell group. The Shell Foundation works globally with a small number of entrepreneurial partners to identify market failures and co-create new social enterprises to address these failures. The **Alcoa Foundation** is another example of a global foundation that specifically focuses its investments on the communities where Alcoa has operating plants or offices.
Community Foundations	Community development foundations are evolving. The past two decades have seen the growth of community foundations in developing and emerging economies. An important feature of this growth has been a move to a more expansive concept of global "community philanthropy." This concept includes a broader set of institutions – community development foundations, public foundations, women's funds, and environmental funds, as well as community foundations – that have been shaped by local contexts. What unites this set of institutions – and what distinguishes them from other parts of civil society – is a set of features that includes a multi-stakeholder governance structure; an emphasis on harnessing, building, and stewarding assets (local and external); and the use of small grants as a transparent and effective mechanism for strengthening the capacities of communities.[7]	The **Kenyan Community Development Foundation (KCDF)** was formed in 1997. It uses a community foundation model to engage communities in "working together toward improving their own communities, so that they are able to take charge and lead their own development agenda, mobilize existing local resources and invest the resources to meet both present and future development needs."[8]
Industry Foundations	Established to support the CI interests of an industry group. Companies typically support these foundations financially and also participate in the delivery of foundation programs.	Examples of industry foundations include **Fundazucar**, the social investment arm of Guatemala's sugar industry, and the **World Cocoa Foundation (WCF)**, a non-profit with approximately 60 member companies that addresses the development needs of cocoa growing communities. In the **Mineral Foundation of Goa**, 15 mining companies joined together to support social programs in the Goa region of India.

7. Global Alliance for Community Philanthropy (2013)
8. Kenyan Community Development Foundation. www.kcdf.or.ke, accessed April 27, 2015

2. FOUNDATION LIFECYCLE

Foundations are dynamic entities. During the development of this Guide, the authors came across a number of foundations that had to reconsider and sometimes significantly change their structure, objectives, and/or programmatic focus. Some of these changes occurred while the foundations were still in development, while others happened to fully operational foundations. Some changes were a natural response to the evolution of the business environment, and others reflected insufficient engagement with stakeholders before and during the development of a foundation. Still other modifications were in response to changes in government policies or stakeholder expectations, which, in some cases, required the companies to abandon the idea of developing a foundation altogether.

To manage this dynamic, companies need to account not just for the time required to set up a foundation structure and roll out programs, but also for the time that will be required to undergo regular reviews of foundation performance and manage transitions.

Critically, companies need to understand and plan for their own exit strategy from the foundation. In the extractive sector, this exit may be linked to the cessation of operations, but in non-finite industries (such as agriculture, sustainable forestry, and renewable energy) a company also needs to determine how long it plans to stay involved in the operation of its foundation. Planning for exit is discussed in greater detail in Section 4.7.

While this Guide focuses on the early phases of a foundation's lifecycle, it is nevertheless important to understand the full lifecycle of a foundation, in order to manage company and beneficiary expectations and to develop a realistic plan for foundation building. Although, ultimately, the time taken to progress through each phase of a foundation lifestyle depends on the specific context, the experience of other foundations suggests approximate timeframes (see Figure 2).

SPOTLIGHT: CHANGES IN GOVERNMENT REGULATIONS

Established in 2002 to maximize the sustainable development of the Antamina mine in Peru, **Asociación Ancash** underwent a major change in 2007 with the introduction of Aporte Voluntario legislation, which triggered the development of the Fondo Minera Antamina (FMA). Dwarfing the size of the Asociación Ancash, development of the FMA forced the Asociación to identify niche areas (tourism, cultural heritage, and natural resource protection) in which it could operate, and where its impact would be visible and effective.

World Bank (2010)

FIGURE 2: FOUNDATION LIFECYCLE

Approval Phase	Set-up Phase	Roll-out Phase	Review Phase	Operational Phase	Transition Phase
Build the rationale Plan and design a foundation Secure internal and external stakeholder approval	Build stakeholders' capacity and trusted relationships Legal registration Set-up governance structure Recruit staff Develop process for identifying and awarding grants / implementing projects	Build "back office" structures Fine tune governance structure Ongoing monitoring and learning from experiences Learn how to work with stakeholders	Re-assess focus and strategic objectives Re-assess company requirements Review effectiveness of governance structure Assess results of programs and partnerships Assess effectiveness of fundraising efforts	Replication at other sites Amplification of success Ongoing monitoring and learning from experiences Periodic review	Changes in strategy or regulatory framework Changes in company ownership Changes in governance Changes to funding structure Changes in implementation model
Decision taken to assess feasibility of a foundation	Formalized decision to proceed with establishment of the foundation is taken	Grant-making or project delivery begins	Strategic review	Renewed purpose and direction, continued operations	Continued operations / transition / exit
Approx 6 months	Approx 1 year	Approx 1-2 years	Approx 1-2 years	5, 10, 20 years +	Approx 1-2 years

Each phase presents its own set of challenges and decisions. A brief overview of each phase is provided below:

Approval Phase

This phase captures almost all of the key decisions that need to be made, and is arguably the most critical phase for foundation building. It can be broken down into two parts: building the rationale for the foundation and planning and designing the foundation (addressed in Sections 3 and 4 respectively). These are likely to be highly iterative processes. Once the rationale for a foundation is developed, the company needs to make decisions in the following areas, to build the initial design of the foundation:

- geographic scope and sectoral coverage;
- governance structure;
- financing/funding structure;
- implementation arrangements;

- brand development and preparation of a communications plan;
- monitoring and evaluation (M&E) framework;
- exit plan; and
- risk management.

BOX 1: THE PITFALLS OF RUSHING

Rushing through the early phases of foundation building can lead to a number of challenges later on, including:

- **Lack of stakeholder buy-in and engagement:** It takes time to identify stakeholders and engage with them in a meaningful two-way dialogue. Without sufficient engagement, high stakeholder expectations are likely to remain unchanged, decisions of the foundation may be questioned and opposed by the stakeholders, and supported projects may lack local ownership.
- **Unrepresentative and poorly functioning governance structures:** For a foundation to be sustainable, time is needed to identify all relevant stakeholders, decide to what extent each of these groups will participate in the foundation governance, and develop a good idea of how to build capacity within the foundation's governance bodies. Rushing this process often results in various stakeholder groups being overlooked, people being placed in incorrect positions, and/or a company taking on more of the management and executive powers – all of which can weaken the representativeness and legitimacy of the foundation.
- **Unrealistic fundraising expectations:** Lack of upfront planning may lead to unrealistic expectations being placed on a foundation with regard to how soon and how much it will fundraise. This, in turn, can lead to the foundation being seen as a "failing institution" before it has had time to prove itself. Or, it can result in a foundation operating with a limited budget that may be insufficient to respond to identified local development issues.
- **Duplication of development contribution:** Before starting a foundation, it is important to do research to understand the development context. When rushed, a foundation may duplicate the efforts of other development actors, or target areas of limited relevance to stakeholders.
- **Poor hiring decisions:** Rushing the design of a foundation often means that the overall staffing needs are poorly defined. Without a comprehensive plan, the hiring process is likely to be piecemeal, and the ultimate skills composition of the board and/or executive management team may not be complementary. Furthermore, a poor decision in the hiring of an executive director can cost a foundation time, reputation, money, and additional resources down the line.

Set-up Phase

The distinction between the approval and set-up phases can be blurry, and it is likely that the two phases may occur in parallel. In principle, the set-up phase provides the time and resources to establish the foundation. This can involve extensive stakeholder engagement to build capacity, trust, and relationships; staff recruitment; legal registration; and the development of the principles and processes required to award grants or implement projects. This phase can be time-consuming.

BOX 2: INVESTING IN THE DEVELOPMENT OF A FOUNDATION

Newmont Ghana spent two years planning, at a cost of US$200-300K, before **Newmont Ahafo Development Foundation (NADeF)** was established and began making grants. The company invested significant time and money in the engagement process and capacity building to ensure community acceptance and "ownership" in the foundation once launched.

Anglogold Ashanti's Sadiola Gold Mine in Mali spent two years developing an agreed **Integrated Development Action Plan (IDAP)**. This stakeholder engagement process, while slow, was successful in building and aligning the various interest groups.

Roll-out Phase

Even with up-front planning in the approval phase, roll-out will likely reveal new challenges. These can include the establishment of "back office" structures, such as accounting and IT systems; fine tuning of governance structures and monitoring systems; and learning how to work effectively with the foundation's stakeholders.

Review Phase

There is no set timing for the review phase, and ideally reviews will be conducted regularly. The need for review may be triggered by internal or external factors, such as changes to legislation, entry of a new development actor in the region, the need to develop strategic partnerships or leverage financing from other organizations, company changes (expansion, retraction, closure etc.), redefinition of beneficiaries, or changes to CI budgets and focus.

During the review phase, the foundation's focus and strategic objectives are re-assessed to ensure they are still appropriate. The review should also consider: the relevance of the governance structure and any changes that need to be made to reflect changes in community representation, ownership or level of control; the extent to which the foundation is meeting the company's requirements; and outcomes achieved by programs or grants made by the foundation.

CASE STUDY: NEW BRITAIN PALM OIL LIMITED (NBPOL) FOUNDATION, PAPUA NEW GUINEA

New Britain Palm Oil Limited has been operating in Papua New Guinea (PNG) since the 1960s. After responding to *ad hoc* requests for support from communities for over 30 years, a foundation was established in 1997 as a registered charity in PNG. The foundation was established to support health and education programs in West New Britain Province and was endowed with 450,000 company shares. With a strong share price at the time, it was intended that the dividends from these shares would be sufficient to finance the foundation's activities.

In 2011, a strategic review of the foundation considered several key issues, including a sustainable financial model (due to falling share prices, dividends had proved insufficient, and the foundation was totally reliant upon top-up financing from the company), expansion of the geographic scope of the foundation (company activities had expanded beyond West New Britain Province), and alignment with development goals and priorities as set out in the Millennium Development Goals and Papua New Guinea Vision 2050. The review was informed by a major Community Baseline Assessment conducted by Voluntary Service Overseas (VSO) on behalf of NBPOL. VSO has been working on development issues in PNG for many years and conducted an extensive field-based study to inform this assessment. The study included consultations with more than 650 community members, representing a population of over 70,000 people across three different provinces (West New Britain, New Ireland, and Madang/Morobe).

Based upon the findings from the Community Baseline Assessment (available at http://www.nbpol.com.pg/?page_id=1156), coupled with NBPOL's own research, the One Hour Principle was developed. This principle, which guides future investment from the Foundation, seeks to ensure that communities have access to 20 liters of tap-fed potable water within one hour's walk, access to a medical health post within one hour's walk, and access to a primary school within one hour's walk. VSO has been selected as the primary partner organization to assist the NBPOL Foundation in implementing their revised strategy, and the Foundation is actively seeking alternate financing options to better secure its sustainability.

Operational Phase

The operational phase can be thought of as the "steady state" condition. Sound financial and operational management should be in place, and risks associated with governance and prevention of fraud should be well-managed. An effective monitoring and evaluation system will provide critical insight to inform how well the foundation is being managed. The operational phase is also an opportunity to scale-up or replicate successful programs.

Transition Phase

The purpose of this phase is to adjust the structure and operational management of the foundation, based on the experience to date and reflective of changes in the environment.

A foundation may need to transition for a number of reasons, including:

- changes in strategy, such as planning for the closure of the company activity that supports the foundation;
- changes in company ownership;
- changes in the governance structure and/or composition, either due to a planned transition to a more participative approach, or in response to governance failures (e.g. fraud, failure to meet fiduciary duty, partisan behaviors);
- changes in the regulatory or legal framework supporting or requiring the foundation to exist;
- changes to funding arrangements for the foundation; and
- changes in the choice of implementation model for the foundation (grant-making, implementing, or a hybrid).

The transition of a foundation should be a managed process and should not be rushed. Effective stakeholder engagement will be critical to managing the transition, including engagement with implementing partners, NGOs, and beneficiaries. In the case of exit, engagement with partners should be considered as much as 18-24 months prior to the actual exit. Transition does not imply a specific outcome, but rather a change from one format to another.

As can be seen from the description of these phases, the most critical decisions need to be made early. Rushing the early stages often means that a foundation is established without full consideration of all the risks and opportunities involved. This Guide recommends taking the time to develop a clear rationale and an initial foundation design before deciding whether or not a foundation is a viable implementation model. The next section describes the steps involved in building this rationale and initial design for a foundation.

3. BUILDING THE RATIONALE

Companies generally consider four main implementation models to deliver community investment: direct delivery by the company, delivery through partners and third parties, delivery via a foundation, or a hybrid approach. The decision of which implementation model to choose assumes the existence of an overall CI strategy. If a formal strategy doesn't exist, a company should at least be clear on the main parameters of its approach to CI, such as the business case for various investments in communities, main focus areas, links with stakeholder and government priorities, and overall objectives of proposed community programs. Developing these parameters may require a separate process of engagement with internal and external stakeholders.

Once the strategy exists, building justification for establishing a foundation is critical. The following section describes how to build such rationale. Because a foundation is just one of the four potential implementation models, a company should also consider how well other implementation models might respond to operating context constraints and opportunities. This may be done by developing a comparative analysis of different implementation models (see the Tools section for an example).

SPOTLIGHT: THINKING OF A FOUNDATION AS A SMALL BUSINESS

A foundation can be seen as a small business, with different administrative, reporting, and governance requirements. Be prepared to deal with a myriad of internal and external issues common to a start-up organization, such as dealing with legal and tax filings, establishing a vision and mission, setting up a board and identifying members, hiring staff, establishing policies and procedures, managing community participation and expectations, implementing communication processes, overseeing investments, monitoring and evaluation, and a host of other responsibilities.

3.1 Building the rationale for a foundation

Establishment of a foundation is typically a multi-year commitment that can require significant up-front human and financial resources. Neither communities nor companies should expect a foundation to serve their needs immediately, and the effort invested in the establishment of a foundation is only likely to be realized in the medium-term.

Building the rationale for a foundation is ultimately about having a clear justification for why a company should adopt a foundation model in addition to, or instead of, the company's own CI function. Numerous approaches have been used in different contexts (see Box 3). Regardless of how a company implements its CI, certain functions, such as stakeholder engagement, should remain with the company, to ensure business risks are well-managed.

BOX 3: HOW COMPANIES USE FOUNDATIONS TO DELIVER CI

The **Kupol Foundation of Social Development** was established in 2009 by Chukotka Mining and Geological Company in Russia. The company, which is 100-percent owned by Kinross Gold Corporation, channels all of its socio-economic development contributions[9] through the Foundation.

In 2014, Sharrcem Titan launched a **"Laboratory for Business Activity" (LAB)** in Kosovo, as a way to provide alternative income and opportunities for economic development and employment to residents of Hani I Elezit, the community within which Sharrcem operates. LAB has been set up as an independent non-profit organization and is the primary vehicle for community investment for the company in Kosovo.

In contrast, **BPZ's "Step by Step" Foundation** operates in parallel with the company's CSR activities, with both supporting programs to improve the living conditions of children and adults in Tumbes, in northern Peru. Any programs that serve children less than 18 years of age are supported by the Foundation, and those serving adults over 18 years of age are supported by the Company's CSR program.

At the very least, the following elements should be considered when developing the rationale for a foundation:

- project cycle/time horizon;
- tax and legal context;
- stakeholders and beneficiaries;
- alignment with business drivers, risks, and opportunities; and
- internal commitment, including senior management buy-in, presence of a champion, and financial resources.

Project cycle/time horizon

One of the key elements that a company should consider when deciding whether a foundation can be an appropriate implementation model is the project cycle or time horizon (for the purposes of this Guide, the term "project" refers to a business, independent of its stage of development). Extractive sector projects typically have a pre-defined operational length that will influence the length of their interest in a foundation. Non-finite resource projects, such as agriculture and renewable resources, have no such time limitations, but it is equally important that the rationale for a foundation considers the timeframe for its operation and the exit strategy of the company.

9. Exceptions arise when the company finances support for natural disasters or other emergencies directly.

The role ascribed to a foundation will vary considerably, depending on the phase of the project lifecycle. A foundation developed early in a project may be used to help build the social license to operate, while one developed near the end of a project's life might focus on providing an exit strategy for a company. Short duration projects are unlikely to suit a foundation model. For a company that is unsure of its future, for example an extractive sector exploration project, it may be advisable to design an interim solution that addresses the current business needs, but can also be built upon once the business future solidifies.

Photograph courtesy of Candente Copper Corporation.

CASE STUDY: CANDENTE COPPER CORPORATION, PERU

Candente Copper Corporation is a junior mineral exploration company operating in Peru. The company's priority activities focus on the Cañariaco Copper Project, where it commenced exploration in 2004. The project is currently in the feasibility study stage of development.

In 2012, Candente and the local community of Cañaris established a Committee of Administration (CoA) to manage the use of Candente funds provided for the community as part of a land-access agreement. The CoA is comprised of three members of the community, one local university representative, and two company employees. The community members of the Committee were selected at a general assembly that was organized by the community's Judges of Peace and an association of land title-holders potentially affected by the project development activities.

The decision to establish a CoA was made jointly between the company and community members, and is initially valid for a term of three years. The budget for investment was previously defined in a Surface Rights Access Agreement between the community of Cañaris and Candente. It took approximately nine months for the CoA to be incorporated and become functional, which is considerably faster than many comparable foundations in Peru, and is a reasonable timeframe given the anticipated life of the agreement.

CASE STUDY: CANDENTE COPPER CORPORATION, PERU *continued*

The idea of the CoA was strongly supported by community members, partly due to previous experience. As part of an earlier Land Access Agreement, funds were provided by Candente to the "Junta Directiva" of the community; however, these funds were never utilized due to a lack of internal cooperation among community members. Currently the Junta Directiva of the Community of Cañaris is not legally recognized, due to the lack of legal process in the latest internal election for the community's local leadership positions. In an area characterized by politically motivated decision-making and a lack of transparency, the CoA is a politically neutral way to manage funds in favor of the sustainable development of the communities it was meant to benefit.

The CoA does not replace the CSR activities of the company, which maintains a separate community relations function within the company structure. The CoA is a legally registered entity in Peru, but does not have the legal basis of a foundation nor the ability to hold funds.

In addition, with the assistance of public investment management consultants and engineers, the CoA has had considerable success in facilitating stronger ties between the local municipality of Cañaris and various central government ministries. These efforts have led to increased levels of investment from the central government directed specifically toward projects in sanitation, potable water, and agricultural irrigation systems for the Cañaris area, although implementation of these projects has been slow. The future for the CoA beyond the initial three-year term is yet to be defined. Depending on the advancement of the exploration project, the CoA is expected to be a good launching pad for a foundation under similar community-led decision-making processes in future years. Importantly, the CoA provided an alternative to a foundation that could feasibly deliver on the objectives of the company while still in the exploration phase.

Tax and legal issues

When determining whether a foundation is an appropriate implementation vehicle, a company should undertake a review of the tax and legal issues in the country of operation.

Existing legislation can provide tax incentives when a foundation is developed. For example, funds committed through the **BPZ Step by Step Foundation** are likely to provide tax relief for the company once it is in operation and making a profit. Legislation can also constrain companies in the range of implementation models available to them. In some cases, the legislation may require the use of a specific vehicle (e.g. a foundation) or may stipulate certain conditions for CI (e.g. independent management of funds). In other cases, the necessary legislation enabling establishment of different fund structures may not exist, limiting the options available. Thus, it is critical to review the tax and legal situation within the country of operation prior to determination of a preferred implementation model.

SPOTLIGHT: INFLUENCE OF LEGAL FRAMEWORKS

The Philippines Mineral Law of 1995 requires that companies obtain consent from indigenous communities for use of their ancestral land and that royalties be paid into a trust fund. In South Africa, the Broad-Based Black Economic Empowerment Code of Good Practice has been a key driver behind the establishment of a number of trust funds as part of the conversion of "old order" mining rights.

Wall, E and Pelon, R (2011)

Youth forum breakfast in Nigeria. Photograph by Bamidele Emmanuel Oladokun. World Bank photo collection.

Stakeholders and beneficiaries

Stakeholder expectations can be a key driver or major deterrent for the establishment of a foundation. Where development needs are significant and expectations are high, a foundation can be more participatory and accountable to its stakeholders than a company's own CI program. At the same time, when high levels of corruption or partisan behavior exist, or there are risks of local conflict, finding appropriate leadership for a foundation and guaranteeing a stable operating environment may not be possible.

Effective stakeholder analysis and engagement needs to start early and continue through the life of the foundation, to provide answers to or guidance on the following questions:

- Who are the stakeholders? Are there specific groups that need to be informed and engaged with during the foundation development process? Who should be engaged with on a regular basis once the foundation is up and running (e.g. beneficiaries, regional and local government, potential donors, etc.)?

- Do stakeholders want a foundation and do they understand how the foundation will function? Are there indications of in-principle support for a foundation among key stakeholders?

- What are the expectations of stakeholders from a foundation? Are there clear expectations that the foundation's activities should cover certain groups and/or focus areas? How do stakeholders expect to participate in the governance of a foundation as well as in the selection and implementation of community investment programs?

- What are the expectations of stakeholders in terms of the timing for delivery of CI? How will the company manage the time delay until the foundation is operational?

- What is the stakeholder environment? Is there pre-existing tension among stakeholders? Can stakeholders be convened as a group?

- What is the stakeholder capacity to enable a foundation to meet its objectives? Do collective organizations exist for stakeholders?

Engagement with stakeholders to understand appropriateness of a foundation as a mechanism for delivering benefits should ideally be linked with a company's CI strategy. If a company does not have a CI strategy or its CI strategy is out of date, a separate stakeholder engagement process may be needed to develop such a strategy.

Community at a discussion of water supply and sanitation in Nepal. Photograph by Simone D. McCourtie. World Bank photo collection.

CASE STUDY: KIPETO ENERGY LIMITED (KEL), KENYA

The Kipeto project involves the construction and operation of a greenfield 100MW wind farm approximately 70 km southwest of Nairobi in Kajiado County, an area predominantly inhabited by the Maasai, an indigenous community. The project is currently at the development stage. When constructed, it will be the second largest wind farm in Kenya.

The project company, KEL, has committed to provide direct benefits to affected communities through sustainable and appropriately targeted community investments. To meet this commitment, shareholders decided to allocate five percent of cash distributions to the community, through a community trust or other legal entity. This means that whenever any cash is distributed to KEL shareholders, the established entity will receive its five-percent share at the same time. This income is expected to start flowing into the entity a year after operations begin.

As a first step, a legal and financial assessment was undertaken to determine the most appropriate legal entity in Kenya. On this basis, a trust was selected, as it will benefit from tax incentives available under Kenyan tax law and will not be responsible for any liabilities in relation to the project. The project will soon commission a legal advisor to establish the trust.

One of the project's primary objectives is to ensure that the communities receive maximum benefits from the amount committed, and that trust expenditures are transparent and strategically planned to meet the communities' current and future development priorities. To achieve this objective, the next steps (currently underway) are a secondary research and stakeholder engagement process to:

- create awareness around the trust;
- determine the impact boundaries and beneficiary communities;
- develop the overall trust principles; and
- create a baseline understanding of the affected communities and their priorities.

Consultations with multiple stakeholders (including landowners, women, youth, elders, NGOs, etc.) are being carried out over an initial period of three months. During these meetings, the project company is making it clear that decisions on how the benefits will be channeled to, and managed by, the community through the trust are community decisions. These decisions will be made through the elected trustees once the trust is operational.

In order to ensure that the trust's expenditure is well-planned and corresponds to the needs and aspirations of the affected communities, the project is leading a consultative process to develop a Community Development Plan (CDP). The purpose of the CDP is to establish broad objectives and areas of interventions for the trust, and to also select specific projects that could be funded. The development of the CDP includes participation of representatives from the community, local NGOs, and CBOs, as well as stakeholders at the county level. The project company will set up a consultative committee composed of community and company representatives to oversee the process.

CASE STUDY: KIPETO ENERGY LIMITED (KEL), KENYA *continued*

Meeting community stakeholders in Kenya. Photograph courtesy of KEL.

The project also committed to providing interim funds for selected priority and 'quick win' projects that can be implemented in the short term, until the community trust is operational. These interim funds will be repaid from the trust once revenue (in the form of cash distributions) starts flowing into the trust.

Upon finalization of the CDP, the trust will be legally registered. As part of the registration process, trustees will be nominated and elected, and capacity building will be provided to enable trustees to assume their roles and responsibilities.

Alignment with business drivers, risks, opportunities

A foundation is not always the most effective vehicle to implement a company's CI activities. It is therefore critical to establish a clear link between business objectives and how a foundation can help meet these objectives. The following questions should be considered:

- What is the value a foundation will add to the company's business?
- What existing risks and opportunities will the foundation help manage? Could these risks and opportunities be addressed equally by the company's direct efforts or through an alternative model?
- What new risks and opportunities will emerge for the business with the development of a foundation?
- How will a foundation enhance or detract from the company's overall approach to understanding and reducing social and political risks?

Table 2 presents a series of examples of how foundations can help meet key business objectives. Further examples of common business drivers can be found in Section 1.3.

"While today gold is a highly important exported resource for Burkina Faso and Niger, we should be mindful that it is a finite resource and that the SEMAFO Foundation takes a sustainable development perspective when providing guidance to communities."

– Fondation SEMAFO, Annual Report 2012-2013[10]

TABLE 2: USING FOUNDATIONS TO DELIVER BUSINESS OBJECTIVES

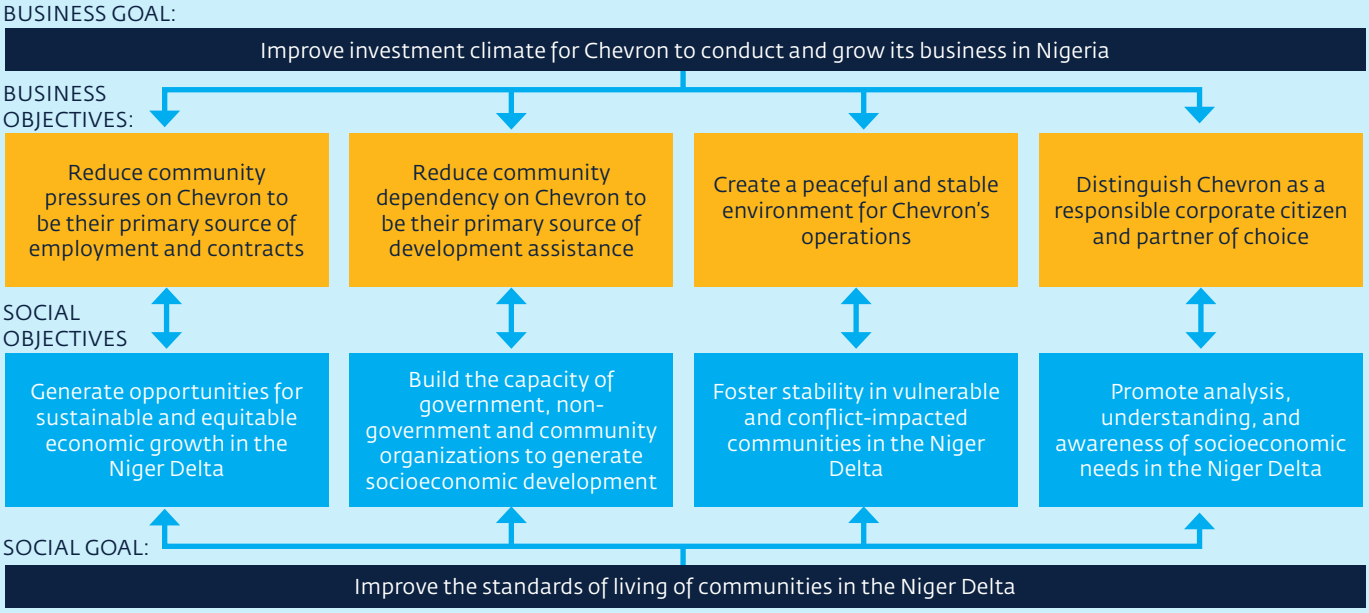
Strategic/business objectives of the company	Why a foundation might be a good idea	Example
To meet government and financier requirements for project development and financing	Depending on the host country, setting up a legally incorporated entity can be required by law or can be included within the scope of project development agreements. Similarly, project financing requirements may stipulate that a foundation be established.	As part of the Stability Agreement with the Ghanaian government, AngloGold Ashanti in Ghana agreed to establish and/or maintain a community trust in Ghana, to which AngloGold Ashanti will contribute a total amount of 1 percent of its profits generated in Ghana, in addition to various other social investments and projects.
To implement community investment that can be sustained/ create a positive legacy	As an independent entity that can continue to exist even after the company physically leaves the community or ceases its funding contributions, a foundation can help a company leave a legacy, promote sustainability, or provide an exit strategy.	The **Yayasan Anum Lio Foundation** was established in Indonesia as a community foundation during the closure phase of the Kelian Equatorial mine (operated by Rio Tinto), to help support communities and deliver on commitments during this period.
To gain the transparency and credibility necessary to attract partners and external funding	Depending on the local context, a foundation can serve as a mechanism to convene a diverse group of actors with overlapping or competing agendas around development issues. Although these issues may be of strategic interest to the company, it may have limited legitimacy or networks to act on these issues directly.	Community relationships had been challenging in the early years of development of the Antamina mine in Peru. **Asociación Ancash** was intentionally separated from the company in order to better secure external financing and to provide a distinction between community investment (foundation) and compensation (company) (World Bank, 2010).

10. Fondation SEMAFO, Annual Report 2012-2013

Strategic/business objectives of the company	Why a foundation might be a good idea	Example
To promote greater community participation and build institutional capacity in the area	Foundations can allow for more community participation in governance, management, and decision making than would normally be feasible for a company-managed program, thereby enhancing local ownership of CI initiatives.	The funds within the **Newmont Ahafo Development Foundation** are allocated to and accessed by communities through Sustainable Development Committees, which are responsible for assembling project proposals aligned with community needs. The Committees were established under the Foundation Agreement.
To advocate on development issues of relevance for communities or the company	A foundation can play a role as an advocate for communities that it supports and operates within. Foundations can promote various programs and forums that allow external experts to be brought in and allow stakeholders to exchange experiences and ideas, and learn from each other. Foundations can also become "incubators" for new projects, learning about development and best practice.	**BPZ "Step by Step" Foundation** in Peru has been in operation since 2011 and focuses on projects that support children and adolescents in Tumbes. Their approach is to establish examples that can be replicated by the government with public funds.
To deliver wider impacts and benefits at a broader (regional, national, or global) level	Foundations can be used to build partnerships and to bring multiple, geographically dispersed CI initiatives together under a common mandate.	The **Rössing Foundation** became so successful at project implementation that it gained a reputation within Namibia for being among the country's most effective development actors and successfully sought funding from a number of major donors.
To have flexibility in the timing of contributions for CI	With a foundation, funds can be dedicated at one time and rolled over from year to year. For example, a company can allocate a large sum upfront, or contribute when profits are high. This can protect a foundation's CI programs from fluctuations in earnings and/or budget cuts and avoid the pressure to spend funds at the end of the fiscal year. It can also allow funds to be donated without allocation to a specific project.	**The Freeport Partnership Fund for Community Development** (LPMAK) receives 1 percent of mine revenues, although 10 percent of all future receipts are required to be invested in a long-term fund.
To implement a defined mandate	Foundations can be designed to achieve a very specific purpose. This is primarily achieved through the drafting of a charter or equivalent. In some cases, the establishment of a foundation is an additional requirement to gain international financing for a project.	In Papua New Guinea (PNG) the **PNG Sustainable Development Program Ltd (PNGSDP)** was established through the exit of BHP from the OK Tedi mine. The fund's objective was to promote development in Western Province and in the country more broadly. This fund was nationalized in 2014, and its future is now uncertain.

CASE STUDY: NIGER DELTA PARTNERSHIP INITIATIVE (NDPI) FOUNDATION, NIGERIA[11]

The NDPI was established by Chevron Corporation in 2010 to invest in socio-economic development programs in the Niger Delta Region. NDPI was designed to represent a strategic intersection between business and social objectives. The root causes of Chevron's social risks were identified and considered in the context of the business risk management. The result of this assessment, shown below, clearly linked Chevron's business goals to the overarching social goals of the Niger Delta Partnership Initiative.



Internal commitment

Foundation-building is a challenging long-term process that requires corporate commitment and resources. Foundations are not intended to solve short-term or immediate needs (as a general rule, a period of 12-24 months should be anticipated for foundation development before it can effectively deliver CI). They are generally intended to be long-term institutions for the communities' benefit, with the capacity to raise and manage financing and promote sustained action over time, even beyond cessation of a company's operations.

Internal commitment comprises both security of financing and support from key personnel. When assessing the level of internal commitment, the following questions are important:

- What is the source of financing for the foundation? Will it be vulnerable to business shocks (e.g. exchange rate changes, share price movement, business profitability, etc.)? Will the foundation have security of financing for a number of years, or will it be subject to annual review?

11. The Niger Delta Partnership Initiative in Review, 2010–2013

- Is there senior-level buy-in to the purpose and strategic objectives of the foundation?

- Is there a champion for the foundation within the company? What will happen when the champion leaves?

- Is there a commitment to the long-term, complex nature of the undertaking? Does the project have time to develop a foundation?

3.2 Articulation of vision and mission

By working through the rationale of developing a foundation, a company will have identified what it hopes the foundation will achieve and how it will be set up. These aspects form the crux of the vision and mission statements for the foundation. There are endless definitions for these statements; however the important aspect is that each is intended to convey specific information:

- **Vision –** a brief statement that identifies the optimal desired future state, i.e., a statement indicating "what you ultimately hope to achieve as a result of your efforts."[12]

- **Mission –** defines the purpose of a foundation, including a description of what it does, who does it, and how it does what it does. It can also be thought of as the means by which the vision will be achieved.

The vision and mission statements should be sufficiently encompassing to accommodate a range of activities and outcomes, while at the same time being sufficiently restrictive to provide direction and allow the foundation to measure its progress against these statements. On the one hand, the vision and mission should reflect stakeholder concerns. Ideally they will be generated collectively, working with beneficiary communities and civil society, although timing may not always allow for this. On the other hand, it is important to link the foundation's mission and vision to the company's objectives. In almost all cases, corporate sponsors have some expectations as to the reputational and social license to operate benefits that foundations are expected to generate.

Box 4 provides examples of vision and mission statements from four different foundations, operating in South America and Africa, across agricultural, energy, and extractive sectors.

12. Foundation Centre (2012)

BOX 4: EXAMPLES OF VISION AND MISSION STATEMENTS

Wong Foundation – Established in 1993 to channel and support Favorita Fruit Company's social investment programs in Ecuador.
Vision: A new generation of healthier, well-educated, responsible, and productive Ecuadorians.
Mission: To responsibly protect, study, and put to good use the tropical biodiversity of Ecuador; and to promote the physical, intellectual, and spiritual growth of Ecuadorian children through rural school facilities and related programs.

Pehuen Foundation – Established in 1992 by Central Hydroelectric Pangue, a subsidiary of Endesa Chile. Pangue was the first hydroelectric dam on the Bio Bio River, which is home to the indigenous Pehuenche communities.
Mission: To contribute to social and economic development in Pehuenche communities through the implementation of programs in education, training, capacity building, and infrastructure, in accordance with the traditions and cultural identity of these communities, with a view to increasing their sustainability.

Newmont Ahafo Development Foundation (NADeF) – Established in 2008 by Newmont and the Ahafo Mine Community as the main vehicle to support sustainable development of the Ahafo mine host communities in Ghana.
Vision: Our communities achieve prosperity and self-reliance.
Mission: To empower communities through grants, knowledge sharing, partnerships, and capacity building to achieve sustainable development.

Palabora Foundation – Established in 1986 by Palabora Mining Company to assist communities within a 50-kilometer radius of Phalaborwa, South Africa, to be self-reliant.
Vision: To be a leading and sustainable socio-economic development foundation for the benefit of Ba-Phalaborwa
Mission: Empowering the community through development
Goals and Objectives: Unlock and sustain winning partnerships; enhance the financial stability of the Palabora Foundation; deliver vibrant, visible, and sustainable programs; nurture, grow, and protect the Palabora Foundation brand; and create passionate, performance-driven, winning teams.

Local stakeholders around Simandou Iron Ore mine in Guinea engaged in a participatory planning exercise. Photograph by Ted Pollett.

4. Planning and Designing the Foundation

Having a strong rationale for establishing a foundation provides an excellent starting point, but is not, by itself, a sufficient basis for rushing into setting one up. A variety of considerations related to the foundation design need to be addressed as early as possible, although the answers will evolve as the planning occurs. It is best to ensure that the level of planning that goes into building a foundation is similar to the level of planning which would normally go into the development of any new business venture.

This chapter discusses key design elements and associated questions that a company should address during the approval phase, to make sure the resultant foundation is well-planned and capable of meeting the needs of the business and stakeholders.

4.1 Determining geographic coverage and sectoral focus

As is true for all CI activities, a company needs to clearly define who the foundation will benefit and the nature of the programs it will support.

Geographic coverage

A key aspect of foundation design is geographic coverage, or the area within which community members may be eligible for support from the foundation. The appropriate geographic coverage will vary depending on the purpose or goal of the foundation, and may change over time. There are four potential levels of geographic intervention:

- **Project impacted area –** the area directly impacted by the activities of the company's project;

- **Local –** no strict definition, but often extends beyond those communities directly impacted to include those within a defined area of the project's activities (e.g. NBPOL Foundation covers all communities located within 10km of its palm oil activities);

- **Region –** a designated administrative "region" within a country, or a zone that covers a defined area with similar characteristics (ethnic, environmental, etc.). For example, the BPZ Foundation covers the Tumbes area, which has a population of 228,000. The Niger Delta Partnership Initiative (NDPI), established by Chevron Corporation, invests in socioeconomic development programs in the Niger Delta region; or

- **National –** Nationwide foundations tend to be philanthropic in nature, e.g., the Anglo American Chairman's Fund in South Africa. Many other companies also have multinational and global corporate foundations, for example the Shell and Alcoa Foundations.

When determining the geographic scope of the foundation, it is useful to consider the following questions:

- Do the vision and/or mission of the foundation necessarily dictate a specific geographic focus or a focus on a specific group of people (e.g. Indigenous Peoples located within a region)?

- Drawing on stakeholder analysis, what are the expectations of stakeholders in relation to the coverage of CI activities?

- Are there other companies or development actors working in the area, which may reduce the need for the company to invest in the area or, conversely, could provide opportunities for partnership?

These questions assume the company's geographic areas of interest are contiguous or in close proximity; however, this is not always the case. Companies using a foundation model to support investment in discontinuous regions within a country can experience higher than anticipated management and logistics costs, and will need to include these considerations in the approval phase assessment.

BOX 5: IDENTIFYING TARGET COMMUNITIES[13]

The **Bumbuna Trust** in Sierra Leone was planned as a component of the 50 MW Bumbuna hydropower project, which became operational in early 2010. During the project design stage in 2004-2006, the Trust was conceived as a multi-purpose fund to support long-term benefit-sharing arrangements with local communities. The Trust was intended to operate different grant-making windows (e.g. benefit sharing, conservation, rural electrification, etc.). While many of these grant-making windows target local communities who live in the immediate catchment area, some, such as the benefit-sharing window, also target communities upstream and downstream of the project, who were not part of the compensation and resettlement programs but live adjacent to the communities who were.

Sectoral focus

Foundations provide a largely blank canvas for making decisions about sectoral priorities for CI. Foundations can provide tight restrictions on activities (for example, by stating which activities will be supported in the foundation's charter) or allow for greater flexibility (for example, by identifying sectoral priorities in the foundation's selection criteria, which can change periodically).

13. Initiative on Sustainable Hydropower (2011)

A foundation's sectoral focus should be driven by both the company's objectives and the priorities of the beneficiary community, based on the stakeholder analysis and existing baseline studies. To the extent possible, the broad categories of focus should be identified during the approval phase. A detailed sectoral diagnostic may be needed to understand the spectrum of issues, stakeholder concerns, existing development activities, and potential focus areas.

CASE STUDY: FONDATION RIO TINTO, GUINEA

In Guinea, Rio Tinto established a dedicated non-profit development organization called the Fondation Rio Tinto. Its main implementation model is based on a grant-making process whereby the Foundation funds prioritized projects selected from among respondents to twice-annual Calls for Proposals (CFP). The Foundation's board has endorsed agriculture and food security as its main programmatic scope for the short-to-medium term. This single-sector focus avoids efforts being spread too thinly across multiple operational fronts. In addition, the focus on agriculture offers specific concrete advantages, including: (i) support from the government, which treats agriculture as a high priority, with aims to reduce the country's reliance on food imports, particularly rice; (ii) close alignment with the South Guinea Growth Corridor concept advanced by Rio Tinto's Simandou project, which will use mining infrastructure as a catalyst for regional non-mining opportunities; (iii) the ability to take advantage of Guinea's abundance of fertile but unexploited land; and (iv) very low agriculture productivity as a starting point, which means that positive results can be produced with relatively modest investments.

President of Association de Défense du Café Ziama Macenta, Mr Sidiki Camara, controlling coffee quality before export to France. Project sponsored by Fondation Rio Tinto (Macenta, Guinea). Photograph by Maison Guinéenne de l'Entrepreneur (MGE).

The Fondation Rio Tinto commissioned a comprehensive diagnosis of the Guinean agriculture and food security sector, which it is using as the basis for developing a longer-term intervention strategy. The study covers the following areas:

1. Baseline characteristics, including basic history; regions, land, ownership structure, crops and production; technology and productivity; value chain analysis; supporting infrastructure; and market structure.
2. Key stakeholders and programs to develop a sound understanding of the main institutional and commercial players in the field.
3. Technical diagnosis of strengths, weaknesses, opportunities, and threats in the agriculture and food security sector in Guinea.
4. Analysis of potential priority areas of involvement, including both macro and micro perspectives.

The final diagnostic report will be posted on the RT Foundation website at www.fondationriotinto.org.

Foundations established to support a specific group of people typically support a wide range of sectors within those communities, whereas foundations developed to cover a larger geographic area may target only one or a few sectors for investment. Limiting the range of sectors that a foundation supports can also increase the visible and tangible differences achieved through the foundation's CI.

4.2 Proposing Overall Governance Arrangements

The governance structure of a foundation, which is generally described within the charter[14] of the foundation, determines how decisions are made, who makes them, and how those people are held accountable. While the specific details of the governance arrangement may only be defined during set-up, the general governance structure should be proposed as part of the approval phase.

Figure 3 provides a high-level overview of the main functions within a governance structure. Those functions on the left of the diagram are considered "core," while those on the right are supplementary and are at the discretion of the specific foundation. While many foundations draw lessons from the governance experience of not-for-profit organizations, there are some key differences which should be kept in mind: unlike not-for-profit organizations, corporate foundations are generally not autonomous, but rather depend on their founding company to some extent for financing or/and strategic direction. In addition, corporate foundations play an interconnecting role between companies, development actors, and their beneficiaries.[15]

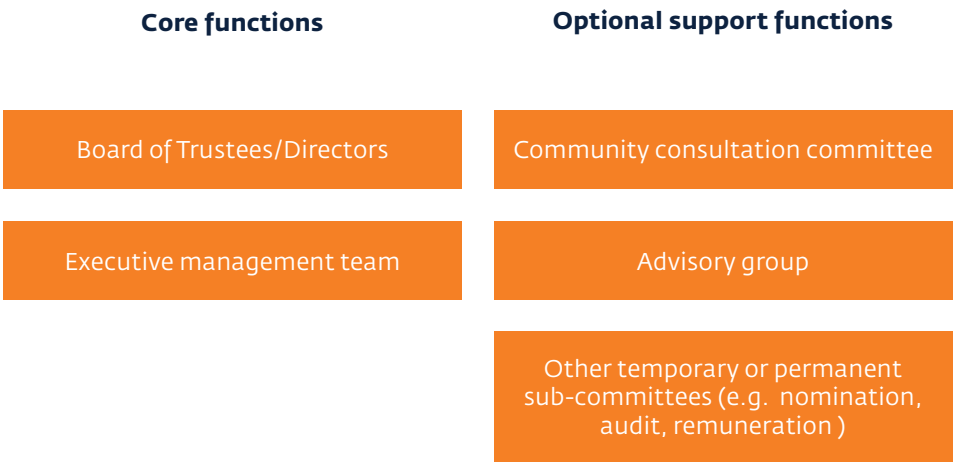
SPOTLIGHT: SELECTING AN EXECUTIVE DIRECTOR

When selecting an executive director, relevant considerations include:

- Level of experience – An executive director with professional experience in development and in the management of other foundations or non-profit organizations can bring a wealth of skills to the foundation. This level of experience, however, may be challenging to find within the host community (or within the company) and can require national-level recruitment.
- Representation – Given the importance of this role, it is important to consider which stakeholder group the executive director might be drawn from and the perceptions that will exist around this selection. For example, a company representative may have the right mix of skills and networks, but this may be seen as the company trying to exert too much influence over the foundation. Whatever recruitment process is undertaken, it should be as transparent as possible.
- Conflict of interest – Finding a candidate with no conflict of interest can be time-consuming; however it is necessary that the candidate is beyond reproach when it comes to corruption and partisan and preferential behavior.
- Ability to inspire – An executive director should be able to inspire participation in and with the foundation.

14. The charter defines or mandates the function of an entity and lays down rules for its conduct or governance.
15. Adapted from Mindlin, S.E. (2012)

FIGURE 3: GOVERNANCE STRUCTURE FRAMEWORK



A brief description of each of the key governance roles is provided below:

Board of Directors (or Trustees) – The board's primary role is to ensure the foundation is fulfilling its charter. Board responsibilities include:

- fulfilling financial and legal responsibilities (fiduciary duties);
- setting the vision and mission of the foundation and providing a stewardship role for the foundation;
- overseeing the operational structures and activities undertaken by the foundation and ensuring its accountability; and
- appointing the executive director of the foundation.

A Board may also provide an advocacy or ambassadorial role, depending on the foundation's mission.

Executive Director – The executive director is responsible for the day-to-day management of the foundation and is often the face and name associated with the foundation.[16] This role provides a link between the board of directors and the management team working for the foundation. The executive director is responsible for oversight of all standard functions of a foundation, including staffing, program management, financial control, communications, stakeholder engagement, fundraising, etc.

While it is essential for a foundation to have a board of directors (or trustees) and an executive director, the following governance structures are optional, and their applicability will need to be determined by each foundation.

16. It is at the discretion of the foundation whether the executive director is primarily responsible for decision making or whether he or she reports to a higher decision-making body. The latter approach can provide an additional level of transparency when working in areas where corruption is significant. (Note: This higher-level body is in addition to the Board of Directors/Trustees.)

Board Committees and Task Forces – Although boards engage in much of their work as a group, in some situations it is appropriate to establish committees and task forces to assist the board. These committees and task forces can be comprised entirely of board members, or may include non-board members with required expertise and knowledge to assist the board.[17] Committees may include:

- **Remuneration Committee –** responsible for monitoring and advising on the remuneration of the board and the executive director; performance and remuneration of senior management; and succession planning and remuneration strategies, practices, and disclosures;

- **Audit Committee –** responsible for planning, monitoring, and overseeing the foundation's use of its financial resources, and the results of internal and external audits; and

- **Nominating Committee –** responsible for monitoring and advising on composition and performance of the board and the appointment of the executive director.

Advisory Group - An advisory group can provide guidance to a board on development topics, local context, or others areas of expertise that board members may lack. Special advisory groups can also be used to expand the level of participation by external stakeholders without losing the "control" held by the board.

Community Consultative Committees - Community consultative committees provide a means of achieving community participation without creating an unwieldy board size and structure.

While there is no best model for board membership and functionality, the following are some general considerations:

- **The size of the board –** If there are too many people, the board may become difficult to manage, too few and the board may not represent key stakeholders or have the right mix of skills. Between three and seven board members is common practice. An odd number can help ensure that majority decisions can be more easily reached, or alternatively the chairman of the board can be given a deciding vote. Attendance policies are often established to ensure board members attend meetings as required.

- **Selection of board members –** This is particularly relevant when selecting community representatives to sit on boards, as consideration needs to be given to how representative each individual is of the broader community,

17. Renz, D.O. (2007)

SPOTLIGHT: OPTIONAL SUPPORT FUNCTIONS

Ok Tedi Development Foundation is the legal entity that manages community development benefits from Ok Tedi mine operations, on behalf of the 100,000 people living in 156 villages throughout Western Province of Papua New Guinea. The foundation has a Board of Directors, Chief Executive Officer, Advisory Committee, and two executive management teams. The CEO reports directly to the Board, and the management teams report to the CEO. The two management teams have distinct roles: one focuses on regional development programs, while the second provides support services for the Foundation. The role of the Advisory Committee (AC) is to provide strategic guidance and feedback to the Board and the CEO on strategy and on larger impact programs. Within the AC, four Associate Director positions have been defined, representing each of the three regions (North, Middle, and South Fly), with the fourth representing the interests of women and children. Associate Directors do not have full voting rights but participate in the Board processes, which builds their capacity for future involvement on the Board.

how they were chosen, and how they will report back to the communities they represent. Where there is significant heterogeneity within the community, more than one community representative may be needed. Board composition also needs to allow for a mixture of skills, so that informed decisions can be made. For example, the board needs to include at least one director (trustee) with financial expertise, another with corporate governance and risk management experience, and another with knowledge of development. Not all board members will necessarily be independent either, with many foundations appointing one or more representatives from the company to the board.

- **Time period for board membership –** It can be useful to set both a lower and upper time limit for board membership. It is likely to take at least a year before board members feel comfortable in their roles. Phased rotation can be useful to avoid losing institutional knowledge or history. Succession planning is also important, to ensure the skills needed on the board are maintained at all times.

- **Payment for services –** Although it is widely agreed that board members should be reimbursed for expenses incurred, starkly divergent views exist around the appropriateness of payment for board members. Paying board members may make the role attractive to a greater range of people but can also distort the reasons a person may want to serve on the board. However, making the board a voluntary commitment can reduce the level of interest of board members, especially over time.

- **Whistle-blower system –** The establishment of a whistle-blowing system can help protect foundations from corrupt practices and provide evidence to stakeholders of the foundation's commitment to transparency.

Appointments to the board and recruitment of key executive staff are likely to begin in the set-up phase (see Figure 2). A well-structured induction program for board members can address many of the challenges highlighted in this section.

Possibly the most frequent questions asked by companies when developing a foundation relate to the appropriate level of stakeholder participation in the governance structure. Key questions to consider include:

- Do stakeholders want to participate? Is there an expectation that external stakeholders will participate in the governance of the foundation (community members and representatives, other development actors, etc.)?

- What is the role for government officials? Is there an expectation that government officials will participate in the governance structure of the foundation? Does this have implications for governance arrangements (e.g. the location and frequency of Board meetings)?

SPOTLIGHT: HOW LONG CAN A DIRECTOR STAY INDEPENDENT?

After serving on a Board of Directors for a number of years, even those directors who were appointed as independent are likely to have lost their sense of independence. This needs to be considered when planning the composition and succession of board members.

- What is the capacity for governance? Do skills exist within the company and community, or among other potential board members, to oversee a foundation? Will capacity building be required for some parties, and will expert advice be necessary for board members? Does the foundation need to invest in building governance skills and understanding?

- Are other development actors present in the area? Who is working in the area (local, regional, or national, depending on the focus of the foundation's activities)? Should they be included in the governance structure?

The stakeholder analysis described earlier should help companies understand how their stakeholders expect to participate in the foundation's governance structure. These expectations need to be balanced against a company's requirements for control, and should inform the proposed governance approach.

Corporate Governance training. Photograph courtesy of IFC Corporate Governance team.

CASE STUDY: KUPOL FOUNDATION FOR SOCIAL DEVELOPMENT, RUSSIA

The Kupol deposit is located in the northwest area of the Anadyr foothills, in the Chukotka Autonomous Okrug (ChAO) of northeastern Russia. The gold mining operation, which is 100-percent owned by Kinross Gold Corporation, started production in 2008, and the Kupol Foundation was launched in 2009. The main objective of the Foundation is to promote and support sustainable socio-economic development of the ChAO, with particular attention to projects that support Indigenous Peoples in this region.

The structure, focus, and governance of the Kupol Foundation was strongly influenced by a stakeholder analysis conducted by the company. The ChAO Okrug has a strong mandate for social programs supporting Indigenous Peoples and a record of delivery in the region. For the Foundation to play a role in this environment, a new consultative structure was required. A forum was developed in which company, government, and community stakeholders could discuss potential projects and channel funding based upon agreed priorities, while ensuring that the Foundation's programs did not conflict with or duplicate programs put in place by the government. The Kupol Foundation has been successful in this regard, because the Okrug administration had very clear priorities and projects that they wanted to pursue, leaving a gap for the Foundation to implement CI programs outside of those priorities.

More than nine months was spent developing the Foundation's charter, which describes the governance arrangements and other details. Recognizing the need to involve different stakeholders at different levels, the Kupol Foundation has established the following governance structure:

Management Committee

- Member of the Presidium of AKMNCH (the Association of Indigenous Peoples of Chukotka - a regional public organization)
- Deputy Governor of Chukotka Autonomous Okrug, Chief of Staff
- General Director of Kinross' "Northern Gold" project in Chukotka

Board of Trustees

- General Director of Chukotka Mining and Geological Company (Kinross)
- First Deputy Chairman of Chukotka Autnonomous Okrug Duma (elective legislative assembly)
- Head of Anadyr Municipal District
- Head of Bilibinskiy Municipal District
- Head of Chaun Municipal District

Executive Director

- Executive Director of the Foundation, an indigenous representative

Tender Committee

- Executive Director of the Foundation
- Member of the Presidium of the AKMNCH
- Deputy Head of the Governor and the Government, Head of Dept for Indigenous Peoples of Chukotka
- Representative of the Anadyr Municipal District
- Representative of the Bilibinskiy Municipal District
- Representative of the Chaun Municipal District
- Reprsentative of the union of entrepreneurs
- Corporate Responsibility Manager, Chukotka Mining and Geological Company
- Representative of the youth organization "Sled"

The Management Committee is the highest governing body, with the Board of Trustees providing oversight to ensure that the Foundation is being managed consistently with its charter. The Foundation is working directly with the representative Association of Indigenous Peoples for the area, but also includes participation from the three municipal districts, to ensure benefits are balanced. Government experts in the relevant fields are involved in project screening and providing recommendations to the Tender Committee.

The Kupol Foundation provides a good example of a highly participative governance structure, which still allows Chukotka Mining and Geological Company sufficient control over their community investments (the Foundation is the primary vehicle for CI for the company). Company influence is maintained through a number of angles, including participation in the Tender Committee and a company seat on the Management Committee.

While strong community participation and ownership (through seats on the board of directors or participation in advisory groups, consultative committees, etc.) is advised, adopting this approach from the outset may not be possible. It may be more appropriate to set a longer-term goal of transitioning the governance structure from one led by the company to one led by the community. Equipping community members with skills necessary for effective governance is a critical part of this transition.

4.3 Building a funding model

The sustainability of a foundation is largely dependent upon its sources of financing. Determining how the foundation will be funded and whether it will become sustainable relies on a number of assumptions. The clearer these assumptions are, the better the ability of a foundation to monitor progress will be.

Planning the financing of a foundation requires the same level of assessment as would be undertaken for any company project, and this assessment needs to start during the approval phase. Accounting and project management skills are required to understand the cost basis for the foundation and to ensure the selected financing model will cover the foundation's needs over its full lifecycle.

Funding formulas and sources

Companies have three main options when considering their own contribution to a foundation:

- **Endowment –** An endowment is a fund from which interest on the invested capital can be used for ongoing operations. Some endowments are constructed to allow for a perpetual flow of funds to the foundation, while others are constructed to allow for sun-setting, which dictates a timeframe during which the corpus is drawn down and ultimately exhausted. Endowments have the advantage of providing long-term stability to the foundation, enabling it to withstand the ups and downs of the business cycle. However, they can also require a potentially significant financial contribution in a single year and are best justified when there are a number of years over which the invested capital can grow.

- **Annual contributions**[18] – There are a number of methods for determining an annual contribution. Companies may use formulas based on their profitability or productivity, or a combination of both, or they can make a financial contribution at the discretion of the executive management team. The greater the level of transparency behind the determination of the allocation, the simpler it will be to manage community expectations on the value of the contribution. Depending on the formula used to calculate the contribution, annual contributions can provide a strong link between the success of the company and the success of the foundation.

- **Allocation of stock options** – Distribution of equity in the company as a source of financing is becoming more widely used. This approach has drawn on the experience of foundations established to support Indigenous Peoples associated with extractive sector projects. Heavily reliant upon the success and stability of the stock prices, this option provides both a financing source and a shared investment in the success of the company.

In many cases, companies use a combination of these options.

BOX 6: EXAMPLES OF HOW COMPANIES FUND THEIR FOUNDATIONS

The **Rössing Foundation** in Namibia is an endowed foundation that also receives an annual contribution of 2 percent of all dividends distributed to shareholders after tax.

The **Mozal Community Development Trust** (Mozambique) receives 1 percent of pre-tax profits contributed annually.

Cobre Panama is in the planning stages of a foundation that will be allocated a non-voting percentage equity stake in the mining operation. When the shares begin to pay dividends, they are intended to sustain the foundation's operations and grant-making and build an endowment sufficient to ensure permanence after mine closure.

New Britain Palm Oil Limited (NBPOL) Foundation was endowed with 450,000 shares in the company upon inception. Additionally, the foundation receives USD 50,000 in annual contributions from the parent company. Nevertheless, this funding has proved insufficient to meet the needs of the expanding scope of the foundation's activities, and NBPOL plans to seek additional financing.

18. More detail on different formulas used by companies can be found in Mining Foundations, Trusts, and Funds (World Bank, 2010).

CASE STUDY: BPZ "STEP BY STEP" FOUNDATION, PERU

BPZ Energy is an independent oil and gas exploration and production company with four licenses in northwest Peru. The company started CSR activities in 2007 and in 2009 began the two-year process of developing a foundation. During this time, BPZ had a strong share price and decided to commit shares to the foundation to secure the future of the company's development activities. Over time, the share price dropped significantly (from more than USD 29/share to approximately USD 3/share). As a consequence, the value of the share portfolio was no longer sufficient to generate the anticipated endowment; the foundation now operates as an annual line item in the company budget instead.

Over and above the annual contribution of approximately USD 300,000-400,000, the company also provides staff (on a part-time basis) and administrative support, including room rental, phone connection, and accounting services, to the foundation free of charge. BPZ does not use a strict formula to determine the annual allocation to the foundation (via the CSR budget); however the value of the overall CSR budget is tied to the success of the company each year.

With a focus on issues related to children in Northern Peru, the foundation develops pilot projects that could be replicated with public funds. While this will not necessarily increase the financing available to the foundation, it may provide opportunities for projects of particular importance to the foundation to be expanded across the Tumbes region or more broadly in Peru via state financing.

While companies may be the primary source of financing when a foundation is established, there are many options for diversification of financing over time. Table 3 provides an overview of the funding sources that may be available to a foundation.

TABLE 3: SOURCES OF FUNDING AVAILABLE TO FOUNDATIONS (OTHER THAN THE COMPANY)

Potential source	Explanation	Example
Co-financing	Projects are co-financed, with the foundation providing only a percentage of the total costs. Foundations typically pay all of the management costs associated with the implementation of the project.	**Fondation Rio Tinto (Guinea)** is seeking co-financing from organizations applying for grants.
Cash or in-kind contributions from beneficiaries	Intended as a means of securing community ownership of programs, beneficiaries are asked to make their own contribution to the program, in kind, cash, or labor.	All projects supported by the **Pehuen Foundation (Chile)** must have a co-financing contribution from the families who benefit, although this co-payment is waived for the poorest families, to ensure it does not exclude them from the Foundation's activities.[19]
Partnering with development actors	International aid agencies or multilateral organizations partner with or contract the foundation to deliver development programs.	**Palabora Foundation (South Africa)** has secured financing from the EU and other donors for a number of its tourism and wildlife conservation projects.
Business partners	Contractors, suppliers, or peer companies donate funding to the foundation.	Newmont's Yanacocha and Ahafo gold mines (Peru and Ghana respectively) have encouraged their large contractors and suppliers to donate to their respective foundations, **Asociación Los Andes de Cajamarca (ALAC)** and **Newmont Ahafo Development Foundation (NADeF)**.

19. Fundación Pehuén, http://www.fundacionpehuen.cl/a_fundacion_03.html

Diversifying the sources of financing is important if the intention is for the foundation to exist beyond the life of the project. Diversification can lead to complications, however, including:

- **Branding –** With multiple sources of financing, it becomes less clear how a foundation should be branded, and opportunities for company branding may diminish. Where foundations retain a company brand, it can be harder for them to seek financing from alternative parties, especially from competitor companies operating in the same geographic area. Branding considerations are addressed further in Section 4.6.

- **Multiple priorities –** With more funders on board, the founding company will have less control over the foundation's activities. The foundation will also need to manage the complexities in governance that multiple funders entail. A single funder can fairly effectively align the foundation with its original strategic objectives, whereas multiple funders may disagree on how to do this (one way to manage this situation is to seek co-financing for projects only).

- **Geographic focus –** Different funders may push a foundation to expand its geographic focus, potentially leading to confusion among beneficiaries over the role of the foundation or extending the foundation's reach beyond the area of strategic importance for the company.

- **Management –** In many cases, foundations use some management and administrative support from the company to minimize costs. Sharing resources between a foundation with multiple donors and a company can become more difficult as the level of scrutiny of the "back office" increases.

- **Monitoring and evaluation** (M&E) **–** Gaining financing from development agencies and NGOs is likely to require compliance with their monitoring and evaluation requirements. Additional time and resources may need to be invested to meet those requirements.

Fundraising strategy

Many companies establish a foundation to attract external financing for their CI activities and priorities. Some caution is advised if this is the primary reason for selecting a foundation model. While there are a number of foundations that have been highly successful in mobilizing funds and attracting partners, many of those foundations have developed specific fundraising strategies and have carved out niche expertise quite independent of the company. It is relevant to note that it takes most foundations several years to grow their level of external financing.

SPOTLIGHT: BRANDING SUBTLETIES

Several years after the **Kupol Foundation** was formed, the project's catering company expressed an interest in joining the foundation. To provide the opportunity for the catering company to enjoy branding benefits, their contributions were earmarked for specific programs within the Foundation's mandate.

BOX 7: EXAMPLES OF FUNDRAISING STRATEGIES

In 2008, **Asociación Los Andes de Cajamarca (ALAC)** received only 15 percent of its funding from its original company sponsor, Newmont's Yanacocha. The remaining 85 percent was sourced from a government fund (the Fondoempleo); Yanacocha's contractors; other members of a collective of mining companies operating in the region "Grupo Norte;" and development banks, including the InterAmerican Development Bank.

The **Asociación Ancash** in Peru has also achieved significant success in gaining external support; 12 percent of financing in 2009 was sourced externally. It was able to achieve this primarily through identifying niche focus areas (tourism development, local culture, and conservation of natural resources in the Ancash region). These areas were identified through a strategic visioning exercise, which not only considered the needs of the area and the objectives of the Foundation, but also targeted the interests of potential funders. The Asociación Ancash was able to focus on this narrow range of development topics due to the existence (at the time) of the company's much larger Fondo Minero Antamina, which was supporting many other projects in the area.

It is therefore recommended to consider the types of projects that the foundation will implement when projecting the level of external financing. For example, if the foundation's primary purpose is to deliver impact mitigation measures associated with a project, it can be difficult to convince others to contribute to these efforts. This can be managed through the establishment of different "funding windows" within a foundation, where external parties can choose windows to contribute to.

4.4 Implementation arrangements

There are two basic options available to a foundation for disbursement of its funds: grant-making or direct project implementation, although some foundations use a combination of both. The selection of implementation model needs to be made early, as it has significant consequences for staffing, funding, and logistical requirements.

Implementation model

Grant-making foundations identify projects and/or partners that they can support via a grant. With typically smaller staffing requirements than direct implementation foundations, they generally have lower establishment costs. A grant-making model assumes that there are development actors and projects in the company's focus region that can be supported by grants. This assumption needs to be tested, as in many cases, the experience and skills of potential partners and grantees may be insufficient.

Implementing projects through grants can help reduce duplication of effort and build capacity of civil society to deliver projects themselves. For these foundations, staff may not require development expertise, but will require good communication, and monitoring and evaluation skills. Care is needed to ensure that communities recognize the company's role in grants that are awarded.

BOX 8: EXAMPLES OF IMPLEMENTING AND GRANT-MAKING FOUNDATIONS

Both **BPZ Foundation** (Peru) and the **NBPOL Foundation** (PNG) have been established as grant-making foundations. Interestingly, no headcount is attributed to either foundation and both rely on the company to cover the costs of staff time to run the foundation.

The **Palabora Foundation** implements projects directly across three sectors: community health, education, and economic development. More than 60 people are employed by the foundation, including technical staff in each of these areas as well as the management, financing, and administrative staff required for a foundation of this size.

When it was operational, the **Papua New Guinea Sustainable Development Program (PNGSDP)** employed both direct implementation and grant-making approaches, with a staff of over 70 people.

In contrast, Titan's Sharrcem non-profit association in Kosovo employs a minimal number of staff (to date, three: a general manager, a finance officer, and an administrative assistant) and implements projects with a strong reliance on co-implementing partners. As the association is tasked with raising entrepreneurship awareness and training beneficiaries to start their own agro businesses, it requires specific technical skills. Since its launch in 2014, the **Laboratory for Business Activity (LAB)** has engaged a local partner, the Initiative for Agricultural Development of Kosovo (IADK) with advanced technical experience in the agro-businesses sector, and the American Farming School and Perrotis College in Thessaloniki (AFS) for advisory and research support.

Foundations that implement projects directly can be preferable in a region with few development actors and where the foundation is expected to have a presence for a number of years. This model can also be applicable when a foundation chooses to focus on development priorities that are outside the scope of existing development actors. Direct implementation requires a larger staff, many of whom will need experience in the foundation's focal sectors. These foundations are, however, likely to have better capacity to attract donor funding and provide opportunities for partnership.

Guiding Principles and Selection Criteria

Regardless of the selected implementation model, the foundation should develop a set of guiding principles for its operation and selection criteria for the projects it supports. To the extent possible, guiding principles and selection criteria should be developed during the approval phase. Although the level of detail in guiding principles varies significantly across foundations, there are some common themes:

- a commitment to participative approaches;
- gender and youth participation;

- engagement with government;
- building the capacity of civil society organization partners;
- promoting concepts of transparency and accountability; and
- encouraging co-contributions from beneficiaries.

When developing selection criteria, it is useful to outline activities that the foundation will not support. For example, company foundations often restrict/negate the allocation of CI to individuals or to political parties.

Staffing Plan

In addition to the staffing requirements needed to support a chosen implementation model, other aspects to consider early include: staff recruitment and remuneration packages, transfers from the company CI team to the foundation, and staff development opportunities within the foundation.

Finding the right staff for key roles is critical and can be a time-consuming process. When seeking to recruit senior positions in a foundation, it is not uncommon to discover that the necessary skills are not immediately available within the country of operation. To address this challenge, a foundation may decide to invest in the training of local staff to prepare them to take on more senior roles.

As noted in the Rio Tinto Guidance on Community Trusts, Funds and Foundations (2011) "staff remuneration should reflect the professional

Local staff are being trained to capture and enter data at Sadiola gold mine in Mali. Photograph by Ted Pollett.

BOX 9: APPROACHING SKILLS BUILDING

Drawing on the experience gained through Newmont's Peruvian foundation (ALAC), a senior program officer was seconded from ALAC to **NADeF** for the first 18 months of operation. Sadiola Gold Mine (Mali) seconded its first community liaison officer to the Institute of Natural Resources, University of Natal (South Africa), to gain experience in rural development projects. This individual later played an instrumental role in the development of the **Sadiola Development Foundation** (Integrated Development Action Plan (IDAP)).

competence and performance the foundation aspires to achieve." Expectations around remuneration are likely to vary considerably between individuals recruited from the development sector and those transferring from the company's own CI team. While staff career prospects need to be attractive, the foundation may not be in a position to offer salaries at the same level as those paid by the company.

4.5 Building a Monitoring and Evaluation Framework

Measuring a foundation's performance is of considerable interest and importance to companies, communities, and donors alike. Companies will be interested to see what is being achieved by their investment, communities will want to see tangible outcomes from the foundation, and donors will want to see evidence of success before investing their own funds or partnering with the foundation. Monitoring and evaluation (M&E) can also provide opportunities for direct community and partner involvement, and thus promote trust and relationship building. While not limited to the approval phase, development of the M&E approach needs to start as early as possible.

> "The M&E function is as important for accountability as the financial audit function."
>
> – Tshikululu Social Investments report, 2010[20]

Goals and objectives

Determining how the foundation will monitor and evaluate its projects is one of the key aspects of foundation design. In order to develop an M&E framework, the foundation first needs to define its goals and objectives.

At the high level, development goals for the foundation should clearly communicate to stakeholders the role that the foundation will play in development of local economies and livelihoods. Equally, the goals and objectives should provide a natural link to the vision and mission of the foundation.

A foundation will preferably develop a set of measurable objectives linked to each of its goal statements.

20. Tshikululu Social Investments (2010).

BOX 10: EXAMPLES OF GOAL STATEMENTS

- **Chevron Niger Delta Partnership Initiative** - Improve the standards of living of communities in the Niger Delta
- **Vale Foundation** - To contribute to integrated economic, environmental, and social development in the regions where Vale operates.

In addition, a foundation may develop specific sector and/or theme goals, depending on its chosen focus.

- **BPZ Foundation** - Promoting and protecting the rights of children and adolescents in Tumbes through specialized programs and projects
- **Shell Foundation** – Works across four program areas:
  - **Access to energy** – improving access to affordable and reliable energy products and services for low-income countries;
  - **Sustainable mobility** – catalyzing more sustainable ways to move people and goods around developing world countries;
  - **Sustainable job creation** – supporting small and medium-sized enterprises to drive job creation and economic growth; and
  - **Sustainable supply chains** – creating more sustainable agricultural supply chains to link retailers to developing world producers.

Photograph courtesy of BPZ Foundation.

SPOTLIGHT: CONSTRUCTING SPECIFIC, MEASURABLE, ATTAINABLE, REALISTIC, AND TIMELY (SMART) OBJECTIVES

To be specific (and therefore measurable) objectives should specify (A) what changes in access, usage, behavior, or performance of users/beneficiaries will take place as a result of the project; (B) the target audience for the project; and (C) where possible, the target/desired result for the changes expected.

Example: Increase by X% (C) the number of local small and medium enterprises (B) who will successfully gain credit for their business development plans (A).

Internal and external performance metrics

Different indicators or metrics are of greater relevance to some audiences than others. Indicators should be selected based on how they can be used to indicate progress toward the foundation's goals and objectives.

When designing a foundation, it is recommended to develop an initial list of performance indicators. Indicators should ideally include both internal metrics related to program management (e.g. money disbursed as grants, projects on budget, cost sharing, proportion of projects going to each geographic region or sector, etc.) and project-specific indicators that reflect development results of projects (e.g. goods and services provided to communities; changes in access, usage, behavior, and performance of beneficiaries; improvements in living standards and perceptions). The challenge is to identify indicators that can be aggregated across all projects (see the Tools section for more guidance on this topic). A good M&E framework should rely on a small set of core indicators that all foundation-funded or -supported projects will be tracking across the board. Additional/supplemental indicators can always be incorporated on an as-needed basis.

Typically, a hierarchy of indicators is required (outputs, outcomes, impacts). The IFC Strategic Community Investment Handbook[22] provides additional detail on the definitions and examples of indicators.

"AngloGold Ashanti has also established monitoring and evaluation systems to assess the outcomes and ramifications of the various projects, and they will be reported on in the annual reports of the funds. The success of the trust funds, by way of positively contributing towards development in our areas of operation, is critical, and we must ensure that the needs of our communities are met in a real and transparent way."

– Fred Attakumah, Vice President: Sustainability, Ghana, AngloGold Ashanti[21]

Construction work in Zimbabwe. World Bank photo collection.

21. IFC (2010).
22. AngloGold Ashanti (2013).

CASE STUDY: FONDATION RIO TINTO, GUINEA

In June 2014, Rio Tinto established the Fondation Rio Tinto, an independent non-profit organization aimed at promoting socio-economic development in Guinea. The creation of the foundation is part of Rio Tinto's ongoing efforts to catalyze broad-based economic development beyond its core Guinean investments in Simandou, Compagnie des Bauxites de Guinee, and the Kabata project. Establishment of the foundation relied on a thorough upfront analysis of key governance and organizational aspects, as well as early investment in defining and adopting a systematic approach to monitoring and evaluation.

The Fondation adopted a grant-making model, meaning that it does not implement projects itself. As such, a critical component of upfront design was to define how outcomes and impacts will be tracked and evaluated. During the early design, the Fondation has focused on: 1) developing overarching goals and objectives and a menu of indicators (core and supplemental) that can be used in various projects the foundation supports – thereby allowing the aggregation of results; and 2) developing a set of internal KPIs and an internal reporting mechanism that will enable active management of overall foundation performance and that of its portfolio of projects.

The following table illustrates the overall framework for the foundation's work, on the basis of which output, outcome, and impact indicators have been developed:

PILLAR 1: Agriculture and Food Security (Sector Objective: Increase sustainable agricultural production in a number of sub-sectors)		
Component	**Key results expected**	**Types of eligible activities**
Component 1: Improved access to the factors and means of production (land, inputs, technology, training, working tools, and information)	• Increased productivity (by commodity), expanded irrigable land and land under cultivation • Improved farmer knowledge and skills • Expanded access to capital/credit by value chain actors • Producer groups and other rural organizations formed or strengthened	• Provision of advice, education, and training to farmers, fishermen, and other key producers • Links between producers/farmers and financial organizations • Provision of agricultural inputs • Dissemination of information • Investments in infrastructure and technologies (e.g. irrigation schemes)
Component 2: Increased processing capacity and better market access	• Increased volume of locally processed commodities • Increased volume of sales • Expanded access to capital/credit by value chain actors • Reduced costs of market access	• Provision of advice and training to producers and producer organizations • Dissemination of information and technologies • Investments in rural agricultural infrastructure • Links between producers and financial organizations • Links to potential customers/buyers Marketing and export promotion activities (e.g. advertising campaigns, market studies, etc.)
Component 3: Institutional strengthening	• Agricultural institutions (governmental and non-governmental) strengthened • Technologies developed, tested and adopted • Policies and programs influenced	• Training and capacity building • Research and dissemination of information • Investments in technologies (e.g. communications)
Component 4: FRT Program management	• Project funds properly managed • Cost-effectiveness of foundation spending • Workplan and program schedules adhered to • Trust, partnerships, resources secured • Brand and reputation of Rio Tinto • Sustainability of the Foundation	• Monitoring and supervision • Performance reviews • Evaluation studies • Communication and engagement with stakeholders

CASE STUDY: FONDATION RIO TINTO, GUINEA *continued*

Through this process, a number of lessons have been learned, including:

- Sector analysis was a critical first step to provide a strong basis for the monitoring and evaluation framework. It helped to develop a good understanding of the "root" causes and effects of low agricultural productivity in Guinea.
- The diversity of proposals likely to be received by a grant-making foundation made it necessary to develop a broad range of indicators to allow incorporation of these various activities into the monitoring and evaluation framework. The foundation selected a small number of core indicators (KPIs) that were sufficiently generic and could be used across various interventions, as well as a longer list of additional/supplemental indicators that can be used as needed.
- The development of clear templates and protocols for both external (by grantees) and internal (by the foundation itself) reporting was key. At the grantee level, the reporting template emphasized aspects related to project objective setting, selection of project indicators, reporting results (against the original targets), and recording lessons learned. At the foundation level, the reporting concerned selection of key internal metrics that would be used to track the overall performance of the portfolio of projects, funding and partnership leverage, efficiency of dollars spent, and other metrics that would be required by the board to make informed decisions.

Youth entrepreneurship training programme. Project sponsored by Fondation Rio Tinto (Mamou, Guinea). Photograph by Association Guinéenne pour le Développement de l'Enterprise Privée (AGUIDEP).

Solar salt farmer pours concentrated sea water into evaporation trays. Project sponsored by Fondation Rio Tinto (Koba, Guinea). Photograph by Association pour le Développement Agricole de la Mangrove (ADAM).

Finally, a separate approach to evaluation should be considered. Evaluation is a study that can assess impact, relevance, and sustainability of the foundation's activities. Evaluating the success of the foundation in achieving its goals and objectives will be an important part of the review phase. While the details of an evaluation approach are likely to evolve over time, it is worth considering early on whether there will be a general need for evaluation studies (e.g. goals of evaluation and what types of projects will be subject to evaluation, such as projects above a certain budget, pilot projects, projects linked to certain thematic areas, etc.) and their timing (e.g. interim evaluation, final evaluation, or both; timing of evaluation studies vis-à-vis foundation reviews; scale-up plans, etc.).

Mechanisms for accountability and learning

Mechanisms for promoting learning, sharing of experiences, and accountability should be included in the design of a foundation. Building M&E responsibilities into grant agreements with clear reporting templates is one way of ensuring data is collected. Appointing an independent monitoring/evaluation function (e.g. independent third-party surveyor) may be another strategy or complement to the existing M&E activities by a foundation.

Stakeholder feedback (both from grantees and stakeholders impacted by foundation activities) will be critical to improving performance and making adjustments. To make sure that stakeholders have multiple means of communication with the foundation, foundations can consider establishing suggestion box and/or grievance mechanisms. Any mechanism should enable two-way communication and feedback. Building stakeholder reviews into the terms of reference of executive directors, organizing semi-annual/annual consultations, and carrying out independent reviews are additional examples of ways foundations can engage stakeholders and address foundations' own learning and accountability needs.

Some of the key mechanisms for learning and accountability that should be considered when designing a foundation include:

- Exploring the use of community-based monitoring and evaluation, which can be a good way to get valuable stakeholder feedback and understand perceptions.

- Using data (qualitative and quantitative) as part of regular portfolio reviews. Given the diversity of potential projects to fund, portfolio management is critical for building a coherent portfolio, having tangible impacts, and developing "core competencies" that a foundation is known for.

Spotlight: Community Audit

After five years of operation, **Kupol Foundation** held a series of community seminars and workshops as a "community audit" of all the projects that had been funded by the Foundation. This helped identify what had been successful and what, in the eyes of the stakeholders, had not generated the expected results.

- Using data to influence project design and related conversations with project partners. The foundation can become a knowledge hub for the communities it works with.

- Using data to review and reward performance of foundation staff, which means that responsibilities for M&E should be integrated into staff TORs. This also offers an opportunity for targeted capacity building, depending on the skills set required, in areas such as communications, M&E, and project management.

4.6 Developing a branding and communications approach

Stakeholder analysis will be a critical input to decisions about the branding choice for a foundation. The analysis may reveal that it would be prudent to keep the company's name out of the foundation, or it may become clear that the foundation needs to distinguish itself from other development actors in the area.

The following considerations will help to inform branding choices for a foundation:

- Are there pre-existing tensions among stakeholders that could influence branding? For example, one of the goals of establishing **Asociación Ancash** was to separate Antamina Mining Company's CI activities from its resettlement and compensation activities, and this influenced the name of the foundation. In Kosovo, the low levels of trust between civil society and development agencies needed to be considered in the naming of the Sharrcem foundation (known as the **"Laboratory for Business Activity" or LAB**). In 2014, LAB was launched as a non-profit association. The name reflected the specific focus on providing alternative income opportunities by supporting sustainable agro-forestry businesses. Its independent nature and name also allowed for the establishment of an inclusive governance structure with representatives from the public, private, and NGO sectors.

Association of beekeepers. Project sponsored by Integrated Development Action Plan (IDAP), Mali. Photograph by Liz Wall.

- Is the foundation hoping to attract financing from other parties? If so, the inclusion of a company name in the foundation name may be disadvantageous. While there are examples of foundations with company names that have succeeded in securing financing (the best example being the **Rössing Foundation** in Namibia), fundraising is often easier for foundations with no company reference (e.g. **ALAC** in Peru).

- Will the brand name be compromised if a change of ownership of the company were to occur? Using the project name rather a company name can help avoid this challenge. For example, although Rio Tinto sold the Palabora Mining Company, the **Palabora Foundation** continues to operate under the same brand.

- Is there a risk that the suggested brand will be confused with development activities or CI of other companies?

- Will the suggested brand translate well? Most, if not all, of the foundations discussed in this document operate in areas where a number of different languages are spoken. It is essential to check that the translation of the brand has the same meaning and connotations in each language.

- Is there business/relationship value in making the naming of the foundation a participative community exercise? While this inevitably requires more time, the result can provide a solid first step toward community ownership of the foundation.

Public communications related to the foundation (e.g. its inception, launch, application processes, operations, successes, results, transitions, etc.) should be undertaken consistently and in as many ways as possible. While the communications approach will evolve over the life of the foundation, in the early stages the following decisions are important:

- How will the foundation communicate with its beneficiaries and which language will it use?

- What are the key messages that need to be communicated when announcing the foundation, and how can these be managed to avoid raising expectations unnecessarily?

- Who are the key stakeholders that need to be engaged during the development of the foundation? These stakeholders may be different from those the company already engages with.

- What are the best ways to receive feedback from beneficiaries of programs and other key partners?

Communication planning will be facilitated by the existence of clearly articulated goals and objectives of the foundation.

"Deliberate mechanisms need to be implemented to communicate Trust decisions and activities to beneficiaries, to obtain and incorporate their feedback on decisions and activities, and to ensure their participation in the decision-making processes of the Trust."

– Tshikululu Social Investments report, 2010[23]

23. Tshikululu Social Investments (2010)

4.7 Exit planning

The long-term future of a foundation must be considered from its inception. Decisions on financing, branding, and implementation model, to name a few, all rely in part on the long-term plan for the foundation and the company's exit plan (which may not be the same).

In the long term, foundations typically fall into one of two categories: closure or a transition to a sustainable future. When a foundation is established, it is often assumed that it will become a sustainable independent entity. However, if plans are not put in place in the early stages to ensure sustainability of a foundation, it is likely to fall into closure by default. This is not to suggest that closure cannot be an intended outcome; in some circumstances, it may even be mandated by law. However, in all cases closure should be planned, not merely a "plan b" solution.

If the long-term plan is for the foundation to be an independent, financially sustainable institution, the following issues should be considered as early as possible:

- **Financing model –** Establishing an endowment fund early on and identifying prudent investment mechanisms to grow the endowment is the best way to help ensure long-term financial sustainability of a foundation. The timing of the endowment is relevant, as it affects the growth of the capital over the life of the project.

- **Branding –** The name chosen for the foundation should consider a future state where the company and project no longer participate in the foundation.

- **Governance transition –** There should be a conscious effort to reduce company involvement in the governance process and build the capacity of community and other relevant stakeholders to take over as the foundation develops. This is important if the goal is to ensure that the foundation will be sustained after the company leaves the area, region, or country.

- **Implementation model –** To position the foundation for a sustainable future, it may be financially prudent to use a direct implementation model. Such an approach may help attract independent funding, as the foundation would be seen to have professional expertise in development fields, which may not be the case for a grant-making foundation.

- **Staffing and administrative support –** Many companies support their foundations by absorbing staff and administrative costs. While such an approach is likely to increase the proportion of funding that can be directed toward development activities, it also allows a foundation to operate under a false understanding of its operating costs. These costs need to be fully covered if a foundation starts operating on its own.

BOX 11: MANAGING EXIT

Rio Tinto acquired the La Granja copper concession in Peru through a privatization process. Under this acquisition, Peruvian law requires that 50 percent of the purchase price paid by Rio Tinto is directed to a social fund, as well as 50 percent of all fees paid to maintain the contract in good standing. This requirement essentially advances benefits from the privatization process to host communities and helps to close the gap between project purchase and the time when mineral production starts to generate benefits. This process resulted in establishment of the **Fondo Social La Granja**, with a budget of USD 33.6 million to be spent between 2007-2016. Once the La Granja copper project starts production, *canon minero* payments (royalties) will be made, effectively replacing the role of the Fondo Social, unless a decision is made by the governing body of Fondo Social to maintain the structure with funds from other sources.

The bylaws of the **Kupol Foundation** state that no more than 25 percent of the foundation's assets can be spent in any one year. The remaining 75 percent of the assets can be invested in long-term instruments, with the objective of building an endowment that can provide a continued source of funding after the mine life is complete and the company's annual contributions cease.

- **Fundraising –** It takes most foundations a number of years to establish a reputation with external financiers, especially donors. Setting a goal of external financing from inception can reduce the shock when a company's financing ceases.

- **Sectoral focus –** Directing CI to economic development within host communities that will be unaffected by the business activities of the company can provide one of the best long-term approaches to managing dependency on the company and the foundation.

A water tap. Photograph by A'Melody Lee. World Bank photo collection.

CASE STUDY: SHARRCEM TITAN, LABORATORY FOR BUSINESS ACTIVITY (LAB), KOSOVO

Sharrcem Titan is a leading raw materials and cement producer in Kosovo. The company's operations are located in the municipality of Hani Elezit, one of the poorest areas in the country. Sharrcem is the largest employer (approximately 500 employees) in the area. Beyond Sharrcem and its contractors, economic activity in the municipality is almost non-existent. Therefore, it was paramount for the company that its business development was accompanied by community development and overall improvement of the economic climate in the municipality.

Sharrcem recognized that the best way to manage dependency on the company would be to support development of alternative income opportunities. In early 2014, Sharrcem Titan established the "Laboratory for Business Activity" as an independent entity. This association has been tasked with promoting entrepreneurship and training beneficiaries to start their own agro-forestry businesses, thus creating new employment and relieving the difficult socio-economic situation.

> "Addressing the challenges of unemployment, poverty, and lack of support to enable enterprise development in our community has been at the core of Titan Group's strategy in Kosovo. We consider our own growth sustainable only when it is accompanied by proportional growth in our broader community."
>
> Emmanuel Mitsou
>
> Managing Director, Sharrcem Titan

From inception, Sharrcem has been careful to separate the foundation from the company, to ensure that LAB is governed in cooperation with the most relevant local and national stakeholders. To achieve this goal, Sharrcem commissioned a corporate governance assessment and developed an inclusive governance plan. In addition to diverse stakeholder representation on the Board of Directors, a Council of Stakeholders was set up to keep a high level of transparency, as well as secure maximum scientific and advisory input. Currently, the 11-member Council of Stakeholders includes representatives from international donors and other reputable national and international institutions working in the field of agricultural training and development.

Financial sustainability is secured for the coming five years through contributions by Sharrcem and other private entities participating in the initiative. Moreover, an action plan to safeguard sustainability of the organization after the five-year period is currently under development, aimed at creating conditions to enable the LAB to continue to operate and become a self-funded organization after 2019-20.

This long-term planning is also evident in the foundation's selection of projects. From the beginning, a comprehensive plan for the selection of focus sectors relied on review of numerous studies of the region, including work by USAID, Booz Allen Hamilton, and other organizations, as well as field assessments of potential agro-forestry sector opportunities. Cash flow and profit calculation for targeted sectors was also completed.

Based on the assessment and capital investment return ratio, the first group of 19 businesses included sectors such as small fruit cultivation, greenhouse cultivation, beekeeping, and mushroom cultivation. In terms of sustainability of projects, LAB intends to provide support to new and existing businesses for agricultural products that can then be sold on the local market.

Finally, beneficiaries were also required to provide 10 percent co-investment/participation of the total cost of investment. This is a prerequisite for participation in the training and business development process that safeguards the commitment of the beneficiaries.

4.8 Managing Risks

Like all business ventures, the establishment of a foundation carries risk. For the purposes of this guide, risk can be defined as "the chance of something happening that will have an impact on objectives."[24] It is important to identify risks that can affect the establishment and operation of a foundation and to prioritize them based on their likelihood and their impact on the ability of the foundation to achieve its objectives. It is important to remember that the establishment of a foundation is often a risk management tool for a company, so risks to the foundation may equally present risks to the company. The types of risks that should be considered include:

- **Financial risk –** This includes both external risks, such as changes in commodity prices for the company, and internal risks, such as cash flow shortages, unmet expectations around co-financing partners, etc. For example, will the company be able to support ongoing administrative costs of a foundation through lean times? Does the company have the necessary financing available to support the establishment costs of the foundation?

- **Operational and environmental risks –** These risks cover a range of environmental, social, political, human, system, and procedural impacts. For example, is the foundation likely to be compromised by a lack of capacity on the board or management team?

- **Legal risks –** These risks include contractual breaches and non-compliance with regulations. For example, if a foundation intends to provide micro-finance services, does it have the necessary permits from the government? For companies planning to register their foundation in a different country, will the host country legislation allow this to occur?

- **Strategic risks –** These risks relate to business strategies. For example, is the company in a position to wait for the foundation to become established, or does it need to implement CI projects immediately in order to gain and secure a social license to operate? Are there reputational risks that the development of a foundation might create?

Once the key risks are identified, they need to be adequately managed. Depending on the types of risks identified and mitigation strategies available, one of the management decisions may be to decide against establishing a foundation.

SPOTLIGHT: CONSEQUENCES OF RISK

Since the World Bank study on foundations, trusts, and funds was completed in 2010, three of the 14 foundations have ceased operating. Two of these foundations closed due to changes in the law in Peru and the third was nationalized by the Government of Papua New Guinea. A fourth foundation is struggling to operate due to a lack of funding, and a fifth has an unclear future following a change of company ownership. Understanding and managing the risk environment is key to continued effective operation of a foundation.

24. Australian Standard (2009)

5. Five Key Operational Challenges

This Guide focuses on important decisions during the approval phase, when the rationale for setting up a foundation and foundation design are established. However, foundations operate in a dynamic environment, and they need to respond to challenges throughout their lifecycles. This section captures operational challenges most commonly faced by various foundations, as identified in the development of this Guide.

Risk of departure of CI from company strategy

While independence is one of the great benefits of a foundation model, it can also lead to a foundation's CI activities becoming divorced from a company's interests and core business strategy. This may require resetting the vision and mission of the foundation, or a strategic review to determine how to meet the business, development, and community objectives. For example, although the **Rössing Foundation** developed an enviable reputation as an effective development partner in Namibia, receiving numerous external contributions, it also lost its connection with the communities in immediate proximity to the mine, and with the company's objectives. A strategic review was required to realign the foundation's activities toward business interests, especially given the cash-constrained environment in which the company was operating.

Refocusing the geographic coverage and focus

As a company's activities change, the coverage and focus of its foundation may also need to evolve. This is seen most clearly when the scale of a project expands, increasing the pool of stakeholders who might expect to benefit from the project. Such was the case with the **New Britain Palm Oil Limited Foundation**, when the company expanded operations into additional provinces in Papua New Guinea and the foundation expanded its geographic coverage accordingly. It should be noted that it is far simpler to expand the geographic focus of a foundation than to start large and attempt to reduce the number of beneficiaries in the future.

The focus of the foundation may also evolve, as seen in the case study of NADeF below. In this case, the drivers for the change were related to stakeholder preferences; however, changes may be prompted by other factors, such as legislative changes, arrival of new development actors in a region, and changes in government priorities.

CASE STUDY: NEWMONT AHAFO DEVELOPMENT FOUNDATION (NADeF), GHANA

NADeF is the main driver of sustainable development within the host communities of Newmont Ghana Gold Limited's Ahafo mine. It was established in 2008 after two years of engagement with the Ahafo Social Responsibility Forum and supports ten host communities around the mine.

The NADEeF mandate included six categories of project investment:

- human resource development;
- provision of infrastructure;
- provision of social amenities;
- economic empowerment;
- protection of natural resources; and
- support for cultural heritage and sports.

During the development process, community stakeholders and the foundation management decided to focus on infrastructure projects over the first few years of the foundation's operations. This focus was chosen because it was important for the foundation to start demonstrating benefits, and there were clear infrastructure needs within the community. It has always been the intention that the balance of projects will move away from infrastructure over time, with the goal of establishing a grant-making culture in the local area.

After five years of operation of NADeF, a significant change could be seen in the projects receiving financing. In its first year of operation, the foundation approved 16 community projects for investment, 11 of which were for infrastructure projects. By 2013, the focus had expanded significantly to cover all six project categories, with infrastructure support representing less than a quarter of the foundation's investment portfolio.

The Evolution of Governance Arrangements

Even with the best planning during the approval phase, it is almost certain that the governance arrangement for a foundation will need to be revised and modified during the course of its life. Foundations are regularly established with the goal of becoming community-owned or community-driven enterprises over time. Shifting the balance of power from the company to external stakeholders within a foundation's board is one way of achieving this goal.

Governance revisions are also regularly prompted by concerns around the business practices of the foundation, its management, or its board. Misappropriation of funds and preferential distribution of foundation benefits to a select group have led to major governance revisions in a number of cases. When such revisions occur, there can be a temptation for a company to tighten its control over foundation management structures and governance: however this solution is often short-lived if the intention is to one day generate an independent institution.

Common reasons for a revision of governance arrangements, include:

- **Transition to community control –** By changing the balance of power in a governance structure, communities can gradually gain control over the foundation, with a view to their eventual ownership and operation.

- **Introduction of new parties –** The new parties may consist of new business partners, new groups representing the interests of the beneficiaries, or new development actors operating in the region.

- **Corruption or mismanagement –** Management of illegal, unethical, or inappropriate activities may require wholesale revision of governance arrangements, or may be mitigated through replacement of a few individuals.

- **Capacity building and technical capacity –** The capacity of a board or management team may need to be bolstered, requiring the establishment of specialist technical advice councils or the introduction of specialists onto a board.

- **Term –** Board members are typically appointed for a set term. Where a governance arrangement is heavily reliant upon an individual champion, the conclusion of this term can require significant revisions to management and governance structures.

Funding Uncertainty

The funding model for a foundation is likely to come under review many times during its life. Early establishment of an endowment is often the best means of protecting the financing in future years. However, as the FEDEC case study below illustrates, establishment of any endowment should be planned carefully. Revision of a funding model may be triggered by a number of events, including:

- changes to the profitability of the funding company (both positive and negative). This effect is most strongly experienced when a foundation is funded through either dividends or profitability payments only. It can be minimized by using a production and profitability formula, providing a minimum floor for funding even in low profitability years;
- changes in the priority afforded to CI by the company;
- investment performance of endowed funds; and
- diversification of funding sources.

SPOTLIGHT: REORIENTING GOVERNANCE ARRANGEMENTS

The Pehuen Foundation was established to support six Pehuenche communities in Chile. After a number of years of operation, the foundation undertook a significant reorientation, focusing on its governance arrangements. From this process, a consultative council was established, comprising six members who each serve a three-year term. The council includes technical experts, university representatives (partners), and government representatives, and has been put in place to help advise the Board members.

http://www.fundacionpehuen.cl/a_fundacion_07.html

CASE STUDY, FONDATION POUR L'ENVIRONNEMENT ET LE DEVELOPPEMENT AU CAMEROUN (FEDEC), CAMEROON

FEDEC (known in English as the Foundation for Environment and Development in Cameroon) was established in 2001 to manage the environmental and social offsets in Cameroon that were required as part of the Chad-Cameroon pipeline project. Development of the Foundation was one of the conditions set by the World Bank for its support of the Cameroon Oil Transportation Company (COTCO)[25] pipeline, and FEDEC is part of the project's broader environmental management plan. FEDEC's mission is to provide assistance, over a 30-year period, for environmental protection and biodiversity conservation activities in the Campo-Ma'an and Mbam-Djerem National Parks, and assistance for the development and self-promotion activities of the Bakola Bagyeli indigenous people living in the area along the pipeline (covering Lolodorf, Bipindi and Kribi).

FEDEC was initially endowed with a USD 3.5 million contribution from COTCO, with the intention that this funding be used as a sinking fund from which the Foundation could be run in the future. However, the revenue generated by the endowment has proven to be insufficient to meet the annual budget requirements of the Foundation, and FEDEC faced difficulties in securing additional financing. In 2012 and 2013, the IFC (which ended its commercial relations with COTCO in December 2012) provided technical advisory services to COTCO to (i) provide guidance on how to restructure FEDEC for better performance in the future; and (ii) help determine an appropriate budget. Three options for sustainable operations were investigated: another one-off endowment, a combination of an endowment with annual contributions, or annual contributions only. COTCO chose to continue making annual contributions of approximately double the contribution that had been made in the past. The contributions were determined based on the operating and project expenditure of FEDEC and were not tied to the profitability or level of production achieved by COTCO.

Diversification of funding is now an important goal for FEDEC. For this purpose, a Foundation administrator with extensive experience sourcing financing from other parties was recently appointed. The current strategy for attracting external financing emphasizes:

- beefing up the Foundation team's financial and technical capacity, including working extensively with university interns to support the team, in order to improve the Foundation's attractiveness to potential funders;
- reviewing the visibility of the Foundation to increase its public profile; and
- maintaining cooperation agreements with three Ministries (Forestry, Social Affairs, and Environment) to contribute to program management.

Branding Confusion

Branding choices made in the approval phase may need to be revised as the foundation matures. Reasons for this can vary, and might include changes in company ownership; a need to put distance between the funding company and the foundation; transfer of ownership of the foundation from the company to the community; a lack of recognition of the role of the company's community investment in the activities of the foundation, etc. Regardless of the reason, any change will need to be well-communicated.

25. COTCO comprises a partnership between ExxonMobil, Petronas, and Chevron.

6. Tools and Guidance to Assist Early Decision Making

If there is a key message within this document, it is the importance of spending time on early decisions. The tools provided in this section focus on specific aspects of foundation development during the approval phase. Tool 1 will help companies to evaluate their options for delivery of CI and determine if a foundation is the right choice. For those companies that decide to use a foundation model, the self-assessment checklist (Tool 2), is the best place to start, to identify where they have gaps. From here, the other tools can be used as required.

TOOL 1: COMPARATIVE ANALYSIS OF VARIOUS IMPLEMENTATION MODELS[26]

	In-house implementation	Third-party implementation	Foundations	Hybrid
Project cycle/time horizon	Short to medium	Short, medium, long	Generally long-term horizon, although in some situations separate legal entities have been established as an intermediate structure	Medium to long
Tax and legal context	Companies can be constrained in the range of implementation models available to them due to existing legislation. In some cases, the legislation may require the use of a specific vehicle (e.g. a foundation) or may stipulate certain conditions for community investment (e.g. independent management of funds).			
Budget	Variable cost depending on size of in-house team	Budget can be any size Involves management costs for third-party implementers	Requires significant funds (endowment or multi-year commitment) Involves set-up costs (legal and administrative) Overhead and operating costs can be significant Can provide tax advantages for social contributions	If foundation is established, same costs will apply as previous column. If multiple partnerships, costs will vary depending on number of programs and their scope.
Local context	Can be appropriate where local capacity and partners are lacking Where quick results are needed	Relies on availability of strong local organizations or existing programs to support community investment. NGOs may have little experience working with the private sector. Different approaches and expectations can be problematic to manage. Third parties may have their own agendas, and may not always adhere to company objectives.	Where CI funds need to be managed for future beneficiaries Where revenues allocated for CI are significant Finding appropriate leadership can be challenging, since board members will need to make a long-term commitment (often on a pro-bono basis).	Where quick results are needed with a longer-term plan for an independent structure

26. This table is sourced from IFC (2010). The table presented here has been modified to suit the purposes of this Guide.

	In-house implementation	Third-party implementation	Foundations	Hybrid
Cons	Requires local capacity building to ensure sustainability of projects after company participation ceases. Overhead costs can be high due to the in-house staff required. It can be difficult to determine which CI activities should be implemented by which implementing vehicle. There is a risk of inconsistency between different implementation vehicles, resulting in confusion within community. CI may be mixed with community relations, social mitigation, resettlement, and other non-CI activities. There is a possibility of significant senior staff turnover (if company rotates staff for professional development), leading to a weakening of relationships with community members.	Building institutional memory and retaining lessons learned can be a challenge. Costs can increase if international expertise is required. The community may associate benefits brought by CI activities with the implementing partner and not the company. Working through existing programs creates a risk that the company may have little influence over the project's design and outcomes.	There are costs involved in establishing and operating a foundation. The time necessary to build institutional capacity and establish credibility can be significant. Separation from the company might lead to CI activities being divorced from the company's core business strategy; less credit going back to the company for achieved results; and/or increased risk resulting from loss of direct engagement.	Operating more than one approach to CI implementation is likely to require considerable human resources and additional cost. It can be difficult to determine which CI activities should be implemented by which implementing vehicle. There is a risk of inconsistency between different implementation vehicles, resulting in confusion within community.
Pros	Helps promote close links across business operations and better coordination with other mitigation efforts Helps develop internal capacity for and expertise in CI Helps increase sense of ownership and accountability over CI activities Helps leverage corporate strengths and capacities Helps create a direct connection to the community Helps to have CI benefits directly associated with the company Helps to increase constancy by not being dependent on consultants and outside partners	Creates flexibility by bringing in specific technical expertise, as needed, on a short- or long-term basis Helps to leverage outside knowledge, skills and networks	Helps to attract other partners and external funding Can promote greater community participation in management and decision making Can operate at a broader level (i.e., regional, national, or global) Can help a company separate legal liability (its own versus the actions of the community's CI program) Allows better separation of mitigation from CI activities Enables implementation of a CI program that can outlive the company's presence and/or participation	Helps to provide flexibility of approach to ensure CI activities progress, regardless of the stage of the project Helps to retain a direct connection between a company and its community, while also gaining potential investment from external partners

TOOL 2: SELF-ASSESSMENT CHECKLIST

The following checklist combines the key elements discussed in Sections 3 and 4 that need to be addressed in the approval phase of foundation development.

Topics		Yes	No	Partial
Clearly defined rationale				
	Assessment of pros and cons for CI delivery vehicle options (foundation, company-led CI, partnering, and hybrid) completed			
	Understanding of how well foundation is aligned with the stage of the business activity and its expected lifespan exists			
	Legal and tax advice on foundation structures in company's jurisdiction sought			
	Clarity on how a foundation responds to business drivers, risks, and opportunities exists			
	Local context and company's current relationships with stakeholders considered conducive to establishment of a foundation, as supported by stakeholder engagement feedback			
	Internal commitment, including financial commitment and presence of an internal champion with sufficient visibility within the corporation to support establishment of a foundation exists			
	Vision and mission for the foundation clearly defined			
Design of a Foundation				
Geography and sectoral definition	Robust assessment of the communities' socio-economic circumstances, needs, existing assets, and expectations completed			
	Beneficiary groups (geography or specific groups) defined			
	Sectoral focus defined and objectives established per sector			
	Institutional mapping of potential partners and grantees completed			
Governance	Level of required company "control" defined			
	Level of stakeholder participation in governance structure defined			
	Clarity on role/involvement of government in foundation governance exists			
	Governance structure defined			
	Required board skill-mix identified and capacity assessment of proposed board members carried out			
	Charter developed			
	Executive Director TOR developed and recruitment process defined			
Financial resources	Assessment of financial requirements to operate the foundation completed			
	Confirmation of financial resources available from company secured			
	Decision made on funding model (endowment, annual contribution, stock/share options)			
Implementation model	Decision made on implementation model (direct implementation or grant-making)			
	Guiding principles and selection criteria developed (or in development)			
	Staffing requirements defined and staffing recruitment plan, including induction developed			
Monitoring and evaluation	Goals and objectives for foundation defined			
	Internal and external performance indicators proposed			
	Mechanisms for accountability and learning proposed			
Branding and communications	Foundation name agreed			
	Communication plan developed to cover foundation launch and planned activities			
Exit planning	Long-term vision for the foundation's future defined, including expected exit (closure or transition to sustainable future)			
Risk management	Risks that can affect the establishment and operation of a foundation identified, and mitigation measures proposed			

TOOL 3: OPTIONS FOR STAKEHOLDER PARTICIPATION

Companies often spend considerable time assessing the appropriate level of participation from different stakeholders in their foundation and then puzzling over how to involve everyone in a meaningful manner that plays to their capacities and interests. This tool has been designed to highlight the fact that board membership is not the only avenue for stakeholders to participate in a foundation; there is a range of options to meet these needs. The table below is filled out based on a hypothetical example.

Form of participation/ stakeholder group	**Company**	**Community representatives**	**Government**	**Civil society**	**NGOs and international donors**	**Technical development/ sector specialists**	**Academics**
Board membership	X	X	X	X			
External advisory committee			X	X	X	X	X
Consultation Committee		X			X		
Foundation employee	X (exchange)	X					
Audit Committee		x			x	x	
Program implementation	X	X	X	X	X	X	X
Monitoring and evaluation		X	X	X	X		
Consultation / communication on foundation programs/ activities		X	X	X			
Other (please specify)							

TOOL 4: DEVELOPING A COMMUNICATIONS PLAN

The following tool provides a series of prompts for consideration when preparing a communications plan for a foundation. These prompts should be used together with the advice provided in the IFC's Strategic Community Investment Handbook (Tool 2: Template for preparing a communications plan).

Type	Purpose	Stakeholder Focus	Main Functions
Beneficiary communications	Explain, inform, and disclose foundation's plans, activities, and results. Engage stakeholders around lessons learned and needed improvements. Receive and address beneficiaries' feedback.	Specifically targets potential beneficiaries.	Convey essential information on eligibility, application processes, application criteria, project implementation, program results, and general updates. Seek feedback from beneficiaries on what works and what doesn't, as well as their perceptions of results due to foundation's funded activities. Best means of communicating with and receiving feedback from this group will need to be identified.
Internal Communications	Facilitate the flow of information within an institution/project.	Aimed internally to ensure that foundation staff all have the same understanding regarding key decisions, issues, and appropriate methods of engaging with stakeholders.	Ensure timely and effective sharing of relevant information within foundation senior management, staff, and implementing partners/agencies.
Corporate Communications	Communicate the mission of the foundation and its achievements to date.	Targets the company behind the foundation, focusing in particular on senior management.	Build sense of shared ownership in foundation and in its success through the company. Guide future foundation-related decisions by the company.
Donor communications	Share the development success of the foundation.	Targets the donor community and other potential investors.	Demonstrate legitimacy and expertise in development field and explore opportunities for external financing.
External communications	Communicate the mission, activities, and results of the foundation	Aimed typically at other organizations and stakeholders who are interested in knowing what the foundation is doing.	Use media outputs and products to promote mission and values of the institution. Inform selected audiences about relevant activities and results achieved.
Grievance mechanism and whistle-blowing system	Provides opportunity for stakeholders to report concerns they may have regarding the foundation's activities and its governance.	Targets beneficiaries (grievance mechanism) and civil society (whistle blowing).	Highlights real and perceived challenges among stakeholders about the operation of the foundation.

TOOL 5: GETTING THE RIGHT MIX ON THE BOARD

The members of the board of directors of a foundation share a legal responsibility to act in the best interests of the foundation. The board as a whole should possess a skill mix that allows it to provide appropriate leadership to the foundation. Individually, the power of each board member is relatively limited; however, taken together, the board members can provide the broad expertise needed to oversee and direct the foundation.

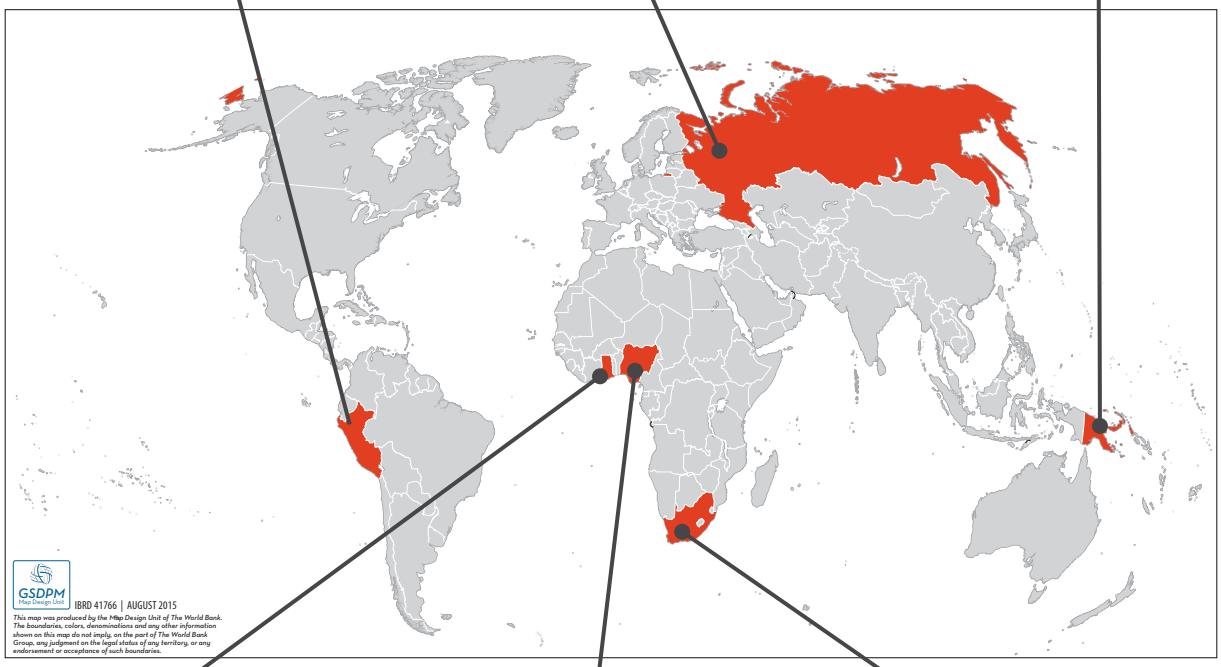
Boards typically require a number of individuals with diverse backgrounds, experience, and organizational and financial skills. The board's need for specific skills and experience is also influenced by the dynamic nature of organizations. A foundation in the start-up phase will likely require different skills and experience than a foundation that is already operational. Figure 4 provides some examples of board composition from around the world.

FIGURE 4: BOARD MEMBERSHIP EXAMPLES

Fondo Social La Granja, Peru
5-member board: 2 from the company, 2 community representatives, and 1 from municipality

Kupol Foundation, Russia
5-member board: 1 from the company, 1 from regional government, and 3 from municipal district government

Ok Tedi Development Foundation, Papua New Guinea
3-member board: 2 company members and 1 non-company stakeholder (Permanent Secretary for the Department of Mineral Policy and Geohazard Management)



Gold Fields Ghana Foundation, Ghana
7-member board: 2 from the company, 1 from the operating mines, and 3 non-company stakeholders (2 parliamentary representatives and 1 representative of the Chamber of Mines)

Foundation for Partnership Initiatives in the Niger Delta (PIND), Nigeria
Chevron established two foundations. The NDPI Foundation in the U.S. focuses on strategy development and raising interest and support for Niger Delta issues. The PIND Foundation in Nigeria focuses on project implementation and partner coordination. The PIND Foundation is governed by 7 trustees—4 independent Nigerian trustees and 3 employees from the company

Palabora Foundation, South Africa
3 executive trustees: Managing Director and General Manager of the company, and a Director of Palabora Foundation; 3 non-executive trustees: Community representatives with experience in education, health, and business development

The following tool was developed by the IFC Corporate Governance team. It provides a checklist of considerations for determining board composition or reviewing the current board composition against future needs. It can also help the board identify training needs and succession plans. The checklist should be updated annually.

A key step in filling out the matrix below is to first identify the skills, knowledge, and experience that are needed.

It is important to recognize and remedy any identified gaps in the board's knowledge and skills by, for example, building the capacity of existing directors, identifying new directors with the requisite skills, or involving outside experts when necessary.

In addition to the checklist, consideration needs to be given to payment for board members. Making board membership voluntary will influence who is interested in and capable of joining the board. Payment of a salary can increase the level of professionalism expected of a board; however it also influences motivations for joining the board in the first place. While, as a general rule, board members are expected to serve without compensation, it is advisable that they are reimbursed for out-of-pocket expenses and potentially given a reasonable per diem appropriate for the local context.

Board Members (and Role)	Sector Expertise/ Knowledge			Skill/Experience/Expertise											Stakeholder Connections and Experience							Diversity	Age	Type		Years on Board	Other Boards (yrs)	Term Exp.	Committee	Comments
	Public	Private	NGO	Advocacy/Communications	Legal/Regulatory	Accounting/Finance	Organizational management, including HR	Risk and controls	Development programming	Development sector expertise/Community relations	Start-up experience	Resource/Project management	Fundraising/ Donor relations	Other related- please specify	Foundations	Business/Corporations	Politics/Government	Development institutions	Grassroots organizations / Indigenous organizations	Media	Other –please specify	Examples: Racial, ethnic, gender, etc.		Executive?	Independent?					Existing commitments, associations and obligations that may raise issues of potential conflict of interest.
Alice Smith (Independent)		X							X													Female	45	Yes	No	1	SafeCo Board (2 yrs)	9/1/13	Corp Governance	HR Mgr of ACME Corp
2.																														
3.																														
4.																														
5.																														
6.																														

TOOL 6: SAMPLE FUNCTIONS OF A BOARD OF DIRECTORS

This tool is intended to help foundations clearly establish the roles and responsibilities of the Board of Directors. The responsibilities and specific duties of boards should be set out in written mandates or charters. These documents define the scope of the tasks expected of directors and are important to the recruitment and evaluation processes. The board mandate describes the board's responsibility for the various aspects of its oversight, and should clearly define how responsibility is allocated between the board and executive director. If this is not understood and recognized, it can lead to missing, overlapping, or conflicting responsibilities (for a sample job description of an executive director, see Tool 7). The board may delegate responsibilities to committees on specific matters; however, the board ultimately retains oversight responsibility for the foundation.

Principal Functions of a Board of Directors:[27,28]

Stewardship:

- Monitor emerging trends, needs, expectations, and problems
- Guide and approve vision, mission, and guiding framework/principles of the foundation
- Guide and approve goals and objectives of the foundation
- Review and approve the foundation's strategic and operational plans
- Regularly review organizational and governing framework/policies
- Ensure identification of principal risks to the organization and the implementation of appropriate systems to manage those risks
- Establish (and disband) standing and *ad hoc* committees to deal with specific matters and/or to prepare recommendations for the board

Oversight:

- Select, monitor, and determine compensation for the executive director and other key executives
- Evaluate and, if necessary, replace the executive director and other key executives
- Oversee the division of responsibilities and allocation of authority between the board and staff

27. Independent Sector's Principles for Good Governance and Ethical Practice (2015)
28. Leblanc, Richard and Hugh Lindsay (2010)

- Oversee key policies and procedures, such as the code of conduct and policies relating to conflict of interest, whistle-blowing, compensation, fiscal and governance practices, etc.
- Ensure ethical conduct and compliance with laws and regulations throughout the foundation
- Review and approve (or reject) the annual budget, expenditures, investments, and management and financial information/statements on foundation performance for external communications
- Oversee the assets, resource allocation, program delivery, and other activities of the organization
- Delegate to relevant committees/functions specific tasks and responsibilities and regulate their behavior (as necessary)
- Provide checks and balances on other areas that require attention by the board, such as fundraising, quality and safety, communications, and community relations

Legitimacy and Credibility:

- Solicit input from a broad base of stakeholders
- Promote communication and accountability to members and stakeholders, such as donors, government, partner organizations, beneficiaries, and communities, etc.
- Ensure interests of a broad network of stakeholders are represented
- Ensure that board members lend their positional, professional, and personal credibility to the organization through their position on the board

Review

- Oversee the organization's overall approach to governance and the expectations and succession of its directors
- Encourage engaged, informed discussion and facilitate collective decision making
- Establish an effective, systematic process for educating and communicating with board members, to ensure they can carry out their oversight functions effectively
- Conduct regular reviews of the functions and effectiveness of the board itself, as well as performance of individuals

TOOL 7: SAMPLE JOB REQUIREMENTS FOR EXECUTIVE DIRECTOR

The executive director is arguably the most critical employee in a foundation, and recruiting the right candidate can require significant time. The following tool provides a sample terms of reference for an executive director and is adapted from the "Competencies for Chief Executive Officers of Private Foundations," developed by the Council on Foundations.[29] The responsibilities outlined below provide only a tentative guide; they will likely require adjustments to fit a foundation's particular context, including the foundation's size, goals, culture, and stage in its organizational life cycle.

Introduction (MODIFY AS NEEDED):

An Executive Director is sought to lead the management of XX Foundation. XX Foundation was established by Company YY to deliver the company's community investment contribution. The Executive Director position reports directly to the Board of Directors and has a voting seat on the Board.

The Executive Director will be responsible for developing and maintaining relationships with all of the key stakeholders for the foundation. This will include, at a minimum: communities, Company YY, government, and other development actors. The position does not report to Company YY, however it is imperative that the Executive Director understands the nature of the company's business activities and maintains a strong relationship with the community development specialists and senior management within the company.

Key Responsibilities (MODIFY AS NEEDED) :

In accordance with the vision, mission, and guiding principles of the foundation, the Executive Director provides direction and motivation necessary to deliver on the foundation's goals and objectives; makes decisions that result in efficient and effective foundation functioning; maintains strong relations with the board; and sustains dialogue with pertinent global, national, and local stakeholders in the fields of the foundation's activities.

Internal Leadership:

- Work with the board and staff to define the foundation's mission, communicate it within the foundation, and ensure that it is executed
- Work with the board to develop necessary policies, procedures, and systems
- Work with the board and staff to ensure adoption of and adherence to appropriate values and ethical standards in all foundation business
- Prevent and manage ethical breaches and conflict of interest problems as they arise
- Perform other duties as assigned by the Board

29. Council on Foundations (2006)

Organizational Management:

- Manage long-term planning and financial management of the foundation, including accounting and audit processes, in compliance with laws, regulations, and reporting requirements
- Based on existing laws and regulations, foundation guidance and bylaws, develop appropriate systems, policies, and procedures; ensure that board and staff know and adhere to all relevant laws and regulations
- Establish an investment model/strategy appropriate to the type and nature of assets and ensure its implementation
- Manage the foundation office and staff, including responsibility for recruitment; induction of new staff members; staff reviews and professional development
- Administer and execute contracts for work performed on behalf of the foundation
- Develop and advocate for the best community investment strategy (based on grant making or direct implementation or both) to meet foundation goals and objectives, consistent with the foundation's mission and values
- Develop transparent processes for project/program management and record management, including due diligence and oversight. This should include performance measurement practices that are most appropriate for the foundation. It is critical that a performance measurement system is used to continuously monitor results and changes in the environment and to improve the foundation's operations.
- Create and recommend an annual budget that supports the foundation's strategy, vision, and mission
- Award, oversee, and document projects/programs that the foundation supports
- Establish effective and transparent internal controls and record keeping
- Prevent, identify, and manage breaches in foundation guidance and bylaws, including conflicts of interest
- Ensure board and staff involvement on all relevant decisions; ensure engagement of relevant external stakeholders (e.g. government, beneficiaries, partners) in contributing to and/or developing the foundation's relevant systems and processes, community investment strategy, reporting, and monitoring and evaluation processes

External Leadership:

- Ensure that the foundation's work contributes to the thought leadership in the field of its work
- Use various networks to connect and explore potential collaborations and lead the partnership development process
- Build relationships with and engage partner organizations, government, donors, and other relevant stakeholders
- Liaise with community members and respond to their questions and queries
- Monitor new technical information, policy developments, issues, and trends relevant to the activities of the foundation and help the board interpret them

- Institute and manage a communication plan and system for building an image of the foundation consistent with its mission, history, and culture
- Position foundation on emerging issues in the field(s) in which the foundation works
- Represent the foundation effectively at various public events
- Work effectively with the media and other stakeholders to establish and promote a clear and consistent image of the foundation, consistent with its mission, history, and culture
- Develop annual reports and other external documents of the foundation

Key Qualifications and Skills (MODIFY AS NEEDED):

- An advanced degree in management, social/applied sciences, or other relevant discipline, such as health, economics, rural development, urban and regional planning, governance
- Experience in leading/managing an organization or operation according to best practices, ethical guidelines, and fiduciary requirements
- Experience with leading multidisciplinary and multicultural team(s), and building a positive and inclusive team environment
- Experience in leading/participating in socioeconomic development programs and multi-stakeholder engagement processes preferred
- Demonstrated ability to work with multiple and diverse stakeholders, and recognize and manage competing requirements and interests
- Skills in modeling proper staff behavior, motivating staff, promoting ongoing learning and professional development
- Experience in building and managing partnerships to advance a particular cause/objective
- Excellent oral and written communication skills with proven ability to detect and resolve communication problems
- Strong facilitation and consensus-building skills
- Coaching and feedback-providing skills
- Bilingual language skills (LIST RELEVANT LANGUAGES)
- [If sectoral experience is needed] Understanding of [SPECIFY SECTOR] landscape of stakeholders, interests, and issues involved
- Experience within region and country preferred

TOOL 8: DEVELOPING INDICATORS

The importance of M&E cannot be overstated. This tool is designed to help with the development of M&E indicators.

To start developing indicators, it is common practice to develop a long list of potential indicators, generated through brainstorming within the foundation or social performance team. Table 4 shows a hypothetical example of such a list.

TABLE 4: BRAINSTORMING INDICATORS, PART 1

Area of focus	What results we would like to see?		What type of activities will we do and/or fund to achieve these results (outputs)
	Long-term (impacts)	Medium-term (outcomes)	
Enterprise development (external)	• Jobs created by enterprises • Income generated for business owners and employees • Better educational status of families of employees and business owners	• Contracts awarded to local enterprises • Enterprises fulfill contracts on time and schedule • Access to finance secured for local enterprises • Strong business development plans developed	• Training on business skills and business development plans • Creating a network of interested financial institutions (convening) • Conducting market analysis • Building networks of buyers

The next step is to start reviewing indicators using a number of filters. As a result of this review, some indicators can be deleted and new indicators can be added. Examples of such criteria include:

- Consider all the users of the data. Different data will be needed by the company, community, and donors (as applicable) and for the management of the foundation itself. Each user can be seeking different information, and this needs to be reflected in the indicators that are selected for monitoring.

- Scale and sophistication should be consistent with the scope of the foundation activities. Foundations boasting large budgets with extensive projects require more extensive M&E systems than those supporting a few small projects.

- Consider how practical/easy it will be to collect and aggregate proposed indicators. For this, brainstorm whether the chosen indicators rely on data that can be collected by foundation staff or partners. If some of the indicators seem too difficult to collect or if baseline conditions are not available or are costly to establish, think of finding proxy indicators that are easier to collect.

- Remember the program officers – The M&E framework that is chosen will likely be implemented by the foundation's program officers. The monitoring and reporting burdens for some development organizations can be significant. If the system is seen to be overly complex or time-consuming, the quality of the data entered will suffer, and, likewise, the morale of the program officers may falter.

- NGOs and donors will likely require their own M&E template to be used, which may influence the choice of indicators.

The use of such filters will reduce the list to a smaller number of proposed indicators for monitoring.

Table 5 shows the same hypothetical example as in Table 4 after, as a result of brainstorming, certain indicators have been eliminated (strikethrough) due to difficulties related to their collection, and new indicators (red) have been added to suit the information needs of various audiences.

TABLE 5: BRAINSTORMING INDICATORS, PART 2

Area of focus	What results we would like to see?		What type of activities will we do and/or fund to achieve these results (outputs)
	Long-term (impacts)	Medium-term (outcomes)	
Enterprise development (external)	• Jobs created by enterprises • ~~Income generated for business owners and employees~~ • ~~Better educational status of families of employees and business owners~~	• Contracts awarded to local enterprises • ~~Enterprises fulfill contracts on time and schedule~~ • Access to finance secured for local enterprises • Strong business development plans developed	• Training on business skills and business development plans • Creating a network of interested financial institutions (convening) • Conducting market analysis • Building networks of buyers
Enterprise development (internal program management)	• Percent of projects rated as "successful" • Number of formalized partnership agreements • Additional donor and partner resources leveraged ($) through projects and partnerships		• Money ($) invested in enterprise projects • Number of projects supported

7. Useful References

Foundations, Trusts, and Funds

ESMAP (2006) Experience with Oil Funds: Institutional and Financial Aspects. World Bank, Washington, DC.

Fischer, C. (2007) International Experience with Benefit Sharing Instruments for Extractive Resources. RFF Report, http://www.rff.org/Publications/Pages/PublicationDetails.aspx?PublicationID=9576

Foundation Centre (2011) Key Facts on Corporate Foundations, www.foundationcentre.org

Rio Tinto (2011) Guidance on Community Trusts, Funds, and Foundations. Internal document.

Synergos Institute (2000) Foundation Building Sourcebook: A practitioner's guide based upon experience from Africa, Asia and Latin America.

Wall, E. and Pelon, R. (2011) Sharing Mining Benefits in Developing Countries: The Experience with Foundations, Trusts and Funds. Extractive Industries for Development Series #21, June 2011, Washington, DC.

Warhurst, A. (2011) Private Sector Development Institutions: A Review of Drivers and Practice. Final Report to the MPRI, www.irdc.ca

World Bank (2010) Mining Foundations, Trusts and Funds, A Sourcebook, www.worldbank.org/mining

Governance Structure

Boardsource: www.boardsource.org

Council on Foundations (2006), Competencies for Chief Executive Officers Private Foundations, Council on Foundations, http://www.cof.org/sites/default/files/documents/files/Competencies%20for%20CEOs%20of%20PFs.pdf

Independent Sector's Principles for Good Governance and Ethical Practice (2015), https://www.independentsector.org/principles

Leblanc, Richard and Hugh Lindsay (2010) 20 questions directors of not-for-profit organizations should ask about board recruitment, development and assessment. Canadian Institute of Chartered Accountants

Mindlin, S.E. (2012), A study of governance practices in corporate foundations, *Revista de Administracion* (Sao Paolo), Vol 47, No. 3, page 461-472, July/Aug/Sept 2012.

Renz, D.O. (2007) Nonprofit Governance and the Work of the Board, Midwest Centre for Nonprofit Leadership, University of Missouri – Kansas City

Monitoring and Evaluation

Developing Vision and Mission statements for non-profit enterprises: http://www.grantspace.org/tools/Knowledge-Base/Nonprofit-Management/Establishment/nonprofit-mission-statements

Monitoring and Evaluation Frameworks for Development Projects http://www.tools4dev.org/resources/me-framework-template/

Community Investment

Centre for Sustainable Energy (2009) Delivering community benefits from wind energy development: A Toolkit. Developed for the Renewables Advisory Board.

IFC (2010) Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets, Washington, DC, www.ifc.org

IFC CommDev (Oil, Gas and Mining Sustainable Community Development Fund), www.commdev.org

IPIECA, (2008) Guide to successful, sustainable social investment for the oil and gas industry, www.ipieca.org

Foundation Typologies

Charitable Foundations

Jenkins, R. (2012) The Governance and Financial Management of Endowed Charitable Foundations, www.acf.org.uk

Community Foundations and Trusts

Community Foundation Atlas, http://communityfoundationatlas.org/

Hodgson, Jenny and Barry Knight (2012) A different kind of wealth: mapping a baseline of African community foundations, Global Fund for Community Foundations, http://www.globalfundcommunityfoundations.org/information/a-different-kind-of-wealth-mapping-a-baseline-of-african-com.html

Hodgson, J., B. Knight, and A. Mathie (2012) The New Generation of Community Foundations, http://coady.stfx.ca/tinroom/assets/file/HodgsonKnightMathieNGCF.pdf

Kenyan Community Development Foundation http://www.kcdf.or.ke

Mahomed, Halima and Brianne Peters (2011) The Story Behind the Well: a case study of successful community development, Global Fund for Community Foundations, http://www.globalfundcommunityfoundations.org/information/the-story-behind-the-well-a-case-study-of-successful-communi.html

Malombe, Joyce (2000) Community Development Foundations: Emerging Partnerships, The World Bank, Washington, DC, http://siteresources.worldbank.orgINTRANETSOCIALDEVELOPMENT/214578-1111660828964/20486367/CDFsEmergingPartnerships.pdf

Tshikululu Social Investments (2010) Analysis of the Risks and Opportunities Inherent in PDI Beneficiary Trusts as Vehicles of Broad Based Black Economic Empowerment, www.tshikululu.org.za

WINGS (2014) Worldwide Initiatives for Grantmaker Support, http://www.wingsweb.org

WINGS (2014) Infrastructure In Focus: A Special Look at Organizations Serving Community Philanthropy, Worldwide Initiatives for Grantmaker Support http://wings.issuelab.org/resource/infrastructure_in_focus_a_global_picture_of_organizations_serving_philanthropy

Industry Association Foundations
Fundazucar
http://www.fundazucar.org/eng/quienes.html

Mineral Foundation of Goa (MFG)
https://www.facebook.com/pages/Mineral-Foundation-of-Goa/168206969887851

World Cocoa Foundation (WCF)
www.worldcocoafoundation.org

Company Foundations
Asociacion Los Andes de Cajamarca (ALAC)
www.losandes.org.pe

Asociación Ancash
https://www.facebook.com/aancash?pnref=lhc
associated company website: http://www.antamina.com

Chevron Niger Delta Partnership
http://ndpifoundation.org/

Cobre Panama Foundation
http://www.first-quantum.com/Our-Business/Development-Projects/Cobre-Panama/

Favorita Fruit Limited - Fundacion Wong (Ecuador)
http://www.favoritafruitcompany.com/en/pag_fundationwong.php
http://www.fundacionwong.org/

FEDEC
http://www.fedec.cm/index.php/en/home-eng

Fondation Rio Tinto
www.fondationriotinto.org.

Freeport Partnership Fund for Community Development (LPMAK)
http://www.lpmak.org/

Kupol Foundation
http://2013corporateresponsibilityreport.kinross.com/empowering communities/community-and-social-development/russia/kupol-foundation/
http://www.kinrossgold.ru/responsibility/fund/

Mozal Community Development Trust
www.mozal.com
associated company website: www.bhpbilliton.com

New Britain Palm Oil Limited Foundation
http://www.nbpol.com.pg/?page_id=1156

Newmont Ahafo Development Foundation (NADeF)
www.nadef.org

Ok Tedi Development Foundation (OTDF)
http://www.otdfpng.org/learn/about

Palabora Foundation
http://www.palabora.com/community_relations.asp
http://www.pafound.co.za

Rio Tinto Coal and Allied Community Development Fund
http://www.riotinto.com/copperandcoal/coal-and-allied-cdf-10415.aspx

Rössing Foundation
www.rossingfoundation.com

Shell Foundation
www.shellfoundation.org

Vale Foundation
http://www.fundacaovale.org/en-us/a-fundacao-vale/Pages/default.aspx

8. Bibliography

AngloGold Ashanti (2013) "Communities in Ghana Benefit from Community Trust Funds," Sustainability Report 2013, http://www.aga-reports.com/13/os

Australian Standard (2009) Risk Management, AS/NZS ISO 31000:2009.

BSR (2010) Experiences with Foundations, Trusts and Funds in the Mining Sector, A Review of Experience, unpublished.

Council on Foundations (2006) Competencies for Chief Executive Officers Private Foundations, http://www.cof.org/sites/default/files/documents/files/Competencies%20for%20CEOs%20of%20PFs.pdf

Devex Impact (2013). *Beyond philanthropy: What happens when a multinational creates its own development agency?,* https://www.devex.com/news/beyond-philanthropy-what-happens-when-a-multinational-creates-its-own-development-agency-82220

Flemming, Dennis and Tam Nguyen. Corporate Social Enterprise: A mechanism for creating shared business and social value

Fondation SEMAFO, Annual Report 2012-2013, http://fondationsemafo.org/wp-content/uploads/2014/10/RapportAnnuel2012-2013ANGprint.pdf

Foundation Centre (2012) Key Facts on Corporate Foundations, http://foundationcenter.org/gainknowledge/research/pdf/keyfacts_corp2012.pdf

Global Alliance for Community Philanthropy (2013) The Case for Community Philanthropy: How the Practice Builds Local Assets, Capacity and Trust – Why It Matters

Hodgson, J., B. Knight, and A. Mathie (2012) The New Generation of Community Foundations, http://coady.stfx.ca/tinroom/assets/file/HodgsonKnightMathieNGCF.pdf

IFC (2010) Strategic Community Investment: A Good Practice Handbook for Companies Doing Business in Emerging Markets, Washington, DC, http://www.ifc.org/wps/wcm/connect/topics_ext_content/ifc_external_corporate_site/ifc+sustainability/learning+and+adapting/knowledge+products/publications/publications_handbook_communityinvestment__wci__1319576907570

Independent Sector's Principles for Good Governance and Ethical Practice (2015), https://www.independentsector.org/principles

Initiative on Sustainable Hydropower (2011) Summary and Guide to the Knowledge Base (KB) Compendium, Volume 1 of 5. May 2011 – Updated in Nov 2011, http://www.mrcmekong.org/assets/Publications/Manuals-and-Toolkits/knowledge-base-benefit-sharing-vol1-of-5-Jan-2012.pdf

Leblanc, Richard and Hugh Lindsay (2010) 20 questions directors of not-for-profit organizations should ask about board recruitment, development and assessment. Canadian Institute of Chartered Accountants.

Lounsbery, Tara Lee Ashworth (2011) Foundations in the mining industry: characteristics, structure, and exit strategies. The University of British Columbia, https://circle.ubc.ca/bitstream/id/148230/ubc_2012_spring_lounsbery_tara.pdf

Mindlin, S.E. (2012) A study of governance practices in corporate foundations, *Revista de Administracion* (Sao Paolo), Vol 47, No. 3, page 461-472, July/Aug/Sept 2012.

Renz, D.O. (2007) Nonprofit Governance and the Work of the Board. Midwest Centre for Nonprofit Leadership, University of Missouri – Kansas City.

The Niger Delta Partnership Initiative in Review, 2010–2013, http://ndpifoundation.org/images/researchreports/NDPI-Year-In-Review-Low-Res.pdf

Tshikululu Social Investments (2010) An Analysis of the Risks and Opportunities Inherent in PDI Beneficiary Trusts as Vehicles of Broad-Based Black Economic Empowerment. Research commissioned from Feedback Research and Analytics, 2010, http://www.tshikululu.org.za/uploads/files/TSI_research_PDI-community-trusts_2010.pdf

Wall, E. and R. Pelon (2011) Sharing Mining Benefits in Developing Countries: The Experience with Foundations, Trusts and Funds. Extractive Industries for Development Series #21, June 2011, Washington, DC.

World Bank (2010) Mining Foundations, Trusts and Funds, A Sourcebook, www.worldbank.org/mining

9. Acknowledgements

The authors (Maria Arsenova, IFC, and Liz Wall, Shared Resources) would like to express their gratitude to the following individuals and companies who kindly shared their experiences with the team, either by phone, email, or interview. Individuals who also participated in a peer review process are marked with a star:

- Rozey Abbott – Rio Tinto
- Maria Alexiou – TITAN Group
- James Armstrong – Candente
- Gustavo Cabrera – Goldcorp
- Elizabeth Calien Schroenn - IFC, speaking about experience at Kipeto Energy Limited
- *Nick Cotts – Newmont
- Rodrigue Djahlin – IFC, speaking about the FEDEC experience
- Nicolas Di Boscio – Rio Tinto
- *Sharon Flynn – Industry Fellow, Centre for Social Responsibility in Mining, Sustainable Mining Institute, University of Queensland, Australia
- *Cesar Fonseca Sarmiento – IFC, speaking about experience at BPZ
- Maximo Gallo – Fondo Social La Granja, Rio Tinto
- *Tracey Henry – Tshikululu Social Investment
- *Jenny Hodgson–- Global Fund for Community Foundations
- *Simon Lord – New Britain Palm Oil Limited
- *Kiril Nejkov – IFC, speaking about experience at Sharrcem Titan/Titan Group
- *Ed Opitz – Kupol
- *Remi Pelon – World Bank's Oil, Gas, and Mining Policy Group
- Evgeniya Saevich – Kupol
- Mark Slade – Rio Tinto
- Violeta Vigo – ALAC, Peru
- Ian Woods – Fondo Social La Granja, Rio Tinto

The authors also benefited from the insightful discussions on this topic held during the IFC Sustainability Exchange in May, 2014, and May, 2015, in Washington, DC.

This Guide has been developed by building on work undertaken by a number of IFC staff, consultants, and subject experts in the past, notably: Jennifer Barsky, Todd Clewett, Nick Cotts, Ted Pollett, and Dave Prescott. Amy Sweeting edited the paper. Studio Grafik provided design and layout services.

IFC | International Finance Corporation
WORLD BANK GROUP