**NOTES FROM MEETINGS WITH EXTERNAL EXPERTS – NEW GTLD AUCTION PROCEEDS CCWG**

For full details, including written input as well as call recordings & transcripts, please see <https://community.icann.org/x/BSW8B>.

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***Exchange of views with experts – Samantha Eisner & Xavier Calvez, ICANN***

* Update provided on the status of outreach to external experts (see[https://community.icann.org/download/attachments/79431895/CCWG%20AP%20-%2011%20March%202018%20updated.pptx?version=1&modificationDate=1520888233000&api=v2[community.icann.org]](https://urldefense.proofpoint.com/v2/url?u=https-3A__community.icann.org_download_attachments_79431895_CCWG-2520AP-2520-2D-252011-2520March-25202018-2520updated.pptx-3Fversion-3D1-26modificationDate-3D1520888233000-26api-3Dv2&d=DwMGaQ&c=FmY1u3PJp6wrcrwll3mSVzgfkbPSS6sJms7xcl4I5cM&r=7_PQAir-9nJQ2uB2cWiTDDDo5Hfy5HL9rSTe65iXLVM&m=XkNfS-zzapNGaYYnh-iI91LcksGb0LvXvEUlAvn-adM&s=47DrCfKKW9FqlcIEeeilxmVwL2euVAFpclv8f-dYfR0&e=))
* See input provided by Sam & Xavier. General reflection: some of the questions may need more specifics in order to provide helpful answers. ICANN will always have an obligation to exercise its oversight and respect its fiduciary duties.

Q & A

* SEVF mentioned as an example for how auction proceeds could be invested and give continued returns. Out of scope for CCWG to consider venture funds, should be moved to bottom of list.
* Coordination should be important feature of any mechanism chosen. Would appreciate further input on that. Agreement and details on division of roles & responsibilities is also key.
* Input provided seems to support favoring model #1. Don’t judge too early - need to make sure that all external input is reviewed and considered.
* Community involvement / ICANN is important, especially when you look at allocation of auction proceeds and the need for those to be in service of the mission. Difficult to see how external evaluations with no relationship to ICANN would be able to make a definite assessment.
* To reduce overhead / staff costs, you may need to look into increasing funds allocated per project.

*Nominet input*

* Nominet trust was set up over 10 years ago to put excess funds to good use. Appropriate funds on a yearly basis, which resulted in to tax benefit. Managed independently by a Board of trustees. Nominet did not sit on the Board of trustees but did provide oversight to ensure good corporate governance. Leading social tech fund in the UK. Are now re-evaluation how to deliver public benefit - trust now ready for attracting external investors. Nominet now takes the public benefit approach in-house - hiring a team to direct the profits accordingly. Part of the reason for bringing it in house is because Nominet purpose, to be able to be more directive how to support Nominet objectives. Key question is what is the purpose? Could result in putting it in different posts, for example. What is the ambition?

Questions: what were the decisions that led to creating the trust and what guided the decision to spin of the trust and bring the public benefit work into Nominet? Initially no expertise in-house so trust was deemed best approach. Now after many years of experience able to carry out this role in-house and make sure that profits are directed in line with Nominet’s objective.

***Exchange with external experts:  Russell Haworth, Nominet***

Why did Nominet originally set up the Nominet Trust?

·         As a ccTLD, Nominet has been very much focused on public benefit. Decision made by the Board that in order to meet the public benefit goals, an independent organization should be created to take surplus and look at how to allocate grants via the trust to individual companies / organizations to do effectively public good with a technology bias. Could have done it at the time in-house or set up a trust - benefit of a trust, at least in the UK, there are some tax advantages. This may be distinct from ICANN situation as it deals with a lump sum, compared to regular fund allocation by Nominet. Trust set up in 2008 - relationship between Nominet and Nominet Trust, Nominet provided 3 million pounds per year. Board of Nominet Trust - board of trustees, a number of which could be from Nominet but independent so that it could develop its own strategy and decide how to allocate grants. Built itself out over the years to be the leading UK social tech investor. Started out providing grants to smaller organizations which had a big impact. Over the years, a number of mechanisms were developed that companies receiving investment need to measure social impact. Also working with larger charitable organizations.

Question (Q): how do the foundation mission relates to the Nominet mission? Area of social tech is very broad, wanted to focus the trust on increasing digital skills, security and getting more people online. The more people online, the more people theoretically would want a .uk name, similarly to keeping secure name space, more vibrant online community. CCWG may have some limitations with regards to focus / mission due to fiduciary / legal requirements. Did Nominet have any similar limitations? Legal independence between Nominet and the Nominet Trust.

·         Nominet wants to evolve as an organization. Has reached a level of maturity - looking at diversifying revenue streams beyond domains. Goal is to positively impact society - connected, inclusive and secure are objectives. Why was decision made to bring the trust inside? Trust has done amazing things, Nominet has given 40 million pounds. Is leading tech investor / grant giver in the UK. Has bigger plans and ideas - Nominet Trust to evolve its strategy to impact the social technology space beyond what Nominet is focused on. They will now look into brining in other partners and growing the trust - likely to change branding / name. Nominet to look for skills in-house to appropriate funds and to impact society in line with its mission. Wanted to have more control how funds are appropriated which is more difficult if there are two separate legal structures place.

Q: Can Nominet also allocate funds outside of the UK or only inside of the UK?

Principally looking at the UK, but obviously Internet is international so they may look at projects outside of the UK.

Q: What are the lessons learned from the external trust that will help brining this in-house and brining it closer to the Nominet mission?

Better insight into what types of projects have the most social impact, as well as type of organizations that were more successful. Experience build up in the team that was codified via a number of different applications and tools. Opportunity to learn from Nominet Trust impact and how to apply these to the three Nominet pillars. Brought in one of the Nominet Trust employees into Nominet to bring some of the knowledge and expertise in-house. Different financial instruments that can be considered - Trust only focused on grants, but Nominet can now also look at other debts instruments (equity, etc.) Mission for grant allocation should be the first step, especially if a separate organization is created. Should have cross-over with ICANN but equally have its own objectives, otherwise you will not be able to fairly allocate funds. Independent evaluators could ensure that no undue pressure is applied?

Q: What have you learned in relation to fund allocation, evaluation?

If core mission is not fund allocation, should outsourcing be an option? At the same time, cost may indicate that in-house is a better option? Two principal reasons for brining in-house: without having a separate board, Nominet can more closely control the dial-up and dial-down for how funds are allocated, also no separate infrastructure needed as it can be managed in-house; also allows Nominet the flexibility to allocate more or less to one of the pillars (quantum and cadence control).

Q: how many grants can a Project Officer manage? How much does this number depend on the size of the individual grants? Nominet did 3 million pounds a year - overall 10 staff, 4-5 evaluating projects and probably looking at 20 grants a year. Around 500 applications a year, around 20 grants given of between 250,000 and below.

Q: what was the main argument for insourcing the trust? 1) cost base of having a separate governance structure (note that Board of trustees was unpaid), 2) wanted to tie fund allocation to Nominet three pillars, 3) people in the Nominet organization felt connected to public benefit.

Q: who makes final decision on fund allocation? In Nominet Trust, each grant was granted by the Trust Board. In new situation, below certain amount it would be CEO, above certain amount, Nominet Board. Working through a framework establishing criteria for fund allocation. In ICANN world this might be considered interference if it would have an ultimate say in fund allocation and ability to change recommendations of independent evaluators. Note that framework should set clear guidance in that regard.

CCWG may need to review whether mechanisms being considered, if there needs to be an evaluation board in case conflict arises?

***Exchange with external experts – Sarah Berg, Ponsonby Partners***

* See input provided [input[community.icann.org]](https://urldefense.proofpoint.com/v2/url?u=https-3A__community.icann.org_download_attachments_79439109_Sarah-2520Berg-2520-2D-2520ICANN-2520CCWG.AP-2520BERG-2520Responses-25203.2018.pdf-3Fversion-3D1-26modificationDate-3D1520436722000-26api-3Dv2&d=DwMGaQ&c=FmY1u3PJp6wrcrwll3mSVzgfkbPSS6sJms7xcl4I5cM&r=7_PQAir-9nJQ2uB2cWiTDDDo5Hfy5HL9rSTe65iXLVM&m=IhkMCjODlvZmN72a2cpp5xkMzgH-96zDmsmwLyR7O2c&s=2Ir12kCCOpkPbmZwctKnSYP6R88xClcF1LlYsCKbDrc&e=) in writing
* Short introduction - see also information shared on the mailing list regarding Sarah's background and current relationship with ICANN
* Advising ICANN staff but hopefully the information that is shared is very much the same that Sarah has shared on other occasions
* Has extensive experience in advising non-profits in their charitable operations. Works currently for the Pew Charitable Trust - over 70 years of grant-making experience and evaluating.
* ICANN has opportunity to create and shape something with lasting impact
* Amount of funds is still in play, regardless it is still important to consider cost, control, objectives, resources and competence
* Most mechanisms are structured to sunset at some point in time
* Need to consider: time, energy input, experience being used, connection and ties of current and potential partners, money.
* Temporary funds, even though that may sound short, is not necessarily a short timeline. Needs to be thought in place how funds are disbursed and prudently distributed.
* Objectives: mission of governing body is key, but also important to defend what within the mission is important to fund. Mission and objective will drive how you are going to structure the rest of your projects. What are your goals, objectives, scope of work and how do you consider success? What is the role that ICANN wants to play in the charitable landscape and how do you want to play out your mission? What are the needs that ICANN as an entity sees in this environment? Are there gap areas that need to be addressed? What are the changes you want to make, and what do you not want to fund? See for example how this is defined at the Gates Foundation.
* What would make the CCWG happy with its progress as it is also investing time/resources? What impact do you intend to make and how you are going to measure it?
* Responses to these questions will also give insight into the level of control you want/need to have? For example, who are decision makers and provide fiduciary oversight? Is it the Board, a new Board that oversees the mechanism? How do you bring in the multi-stakeholder aspect of ICANN in fund allocation / prioritization?
* Who are the leaders managing control?
* Fund risk, reputational risk - you will need experts to advice on those aspects, so engagement with experts is important.
* Competence - type of investment projects, different options to be considered. Different types of fund disbursements - grants, seed investment, donor, etc.
* Cost: direct & indirect costs, will depend on mechanism chosen. How you utilize your resources, projects and where you want to leverage project? Administrative expenses - some use 5% of operational budget, but it can also be higher than that based on the needs, mission of the organization.

Questions:

How to leave enough structure to disburse funds, but then let ICANN get back to its mission?

* A lot of organizations can be in a similar position where they may have one-off disbursement. Structure is still the same even if it includes a sunset provision, still need efficient / effective structure that allows for the impact that you want to make.

Disbursement will be confined by ICANN's mission and does not allow support many charitable projects - how to define scope environment in this context?

* Step back and given the mission you have, what are the gaps that you are seeing, where are the specific needs within the landscape that you are working in that may be underfunded or specific issues that do not have the attention needed. Explore what that looks like and see if you can come up with specific funding areas, which may be completely new with no one else in that space. What are the pressure points, what are the needs and how can you meet those needs.

Should we more specific about the type of awards that can be provided?

* Purpose of CCWG is to advice how disbursement of funds should occur, no decision on who would receive the funds or what that process would look like. It is important to be aware of who is in that landscape and what would that look like, factoring in ICANN's role and place in the environment.

Levels of control - what is your opinion with regards to which mechanism is best suited for appropriate levels of control?

* Fiduciary oversight, whomever is responsible for that, that is where a lot of the control occurs. In ICANN, Board has final say and responsibility. What would it look like within this scenario? What is the Board's engagement, no matter what scenario you use? If you have a foundation, Board would likely still be involved with representation of Foundation Board - that might provide independence and oversight? If you move it to another granting organization, you may not have financial oversight but you have granting oversight. It really depends on what level of control you want, who makes the final decision and what is the role they are expected to play? How is the multistakeholder aspect reflected in the structure? Could be part of the evaluations team, for example.

There are costs involved in any mechanism that is chosen. Costs associated with normal grant cycle, there may be specific ICANN costs. As such, not possible to give a specific number. Budget is going to depend on objectives - if you decide what is concerned success and how to make leveraged impact, that will decide how you utilise the funds and how the oversight of those funds come into play.

Need to be clear about what we are going to accomplish and how we are going to measure success. Challenge is that allocation of funds is limited through operational mission as funds cannot be allocated to topics already addressed through operational mission. How are others able or supposed to address those gaps? Inherent conflict that needs to get resolved.

ICANN's mission is purely operational, if we identify a gap, it needs to be something that requires to be solved. It may be figuring what seed money can go into another aspect that is forming on the horizon that ICANN can invest in but necessarily needs to manage. PEW selects projects that can be done within 5 years from 40 different topics. Is not necessarily scope creep - something that can be done for a certain period of time, if it doesn't succeed or meet criteria of success, you no longer fund it.

Expenses relating to impact - expenses you incur such as administrative expenses (staff costs), type of grants made, travel (related to projects funded - evaluation), reporting structures. Indirect costs - executive oversight, meetings / travels for those that make decisions. All these need to be built into the overall budget. Data exists on the size of foundations and the expense ratio (5-10%). Is there any itemized info available or only in the aggregate?

Are there any examples of other organizations that have a narrow mission but where the granting mission may have gone broader? In some instances where there would be an entire new entity, with a separate board.

Follow up input received:

As a follow up, I would like to share a study conducted by Foundation Center [see <https://community.icann.org/x/BSW8B>] regarding operational costs in foundations. Although the study focused on the economic impact of the 2009 financial crisis on 1,900 of the largest foundations in the United States, the data reflects a diversity of costs depending on level of assets and staff size.

As the CCWG-AP reflects upon costs within their decision making matrix, I want to stress that the costs depend upon the levels of control, use of resources (time, energy, ties) and the unique role ICANN plays within the internet landscape. For example, its important to acknowledge that there will be inherent costs of regulation and scrutiny that are specific to ICANN as well as time/cost used in ICANN’s multi-stakeholder approach.

I hope this study highlights the industry standard, but also the variety of factors that play into costs. I am happy to respond to any further questions as the group proceeds in their deliberations.

**Exchange with external experts – Marc D’Hooge, Managerial Adviser, Innovation Finance Advisory, European Investment Bank**

Erika sent a short introduction to Marc to the mailing list, and the work he has been doing.

The CCWG is searching for a mechanism/funding model. One-off amount, obtained via auctions.

Our aim is to have a recommendation on the funding model by June.

Group is particularly interested on how cooperation/oversight can work between 2 institutions.

Short introduction by Marc D’Hooge. Confirmation that the call is recorded.

Working at EIB since 20 years, EIB is active in innovation finance since late 90ies. Interesting component added: working together with the European Commission on innovative projects. The cooperation with the European institutions. EIB has the financial expertise, support needed by promoters to the market. Combine grants and financial instruments in an efficient way.

If you do not own the expertise on the objective setting side or the financial side, you need to look for partners, that focus on the concrete financial support.  ICANN is not a bank, if you would like to bring the money to the market, in line with investment objectives, and link to connectivity, you need to look for a partner who is able to respond to the business needs that you would like to drive finance.

Marilyn Cade : ICANN  has a responsibility to maintain its tax status and avoid trust issues.

Note in the chat from Nadira: I remember ICANN financial advisor said that having return on the proceed doesn't comply with ICANN status

The commission had the idea to develop alongside the grants, a financial instrument, where the money invested by the EC not only generated returns, but also where the returns and initial investments can be recycled in new projects of the same nature.  EIB now also have projects that combine the grant aspect and the financial aspects, for instance for breakthrough projects in for instance the connectivity range, or energy.

Vanda Scartezini has a question regarding the grants distributed in Europe.

Marc confirmed that the work of EIB encompasses all member states and also countries around Europe (e.g. Ukraine, nordic countries, Turkey …). Work can be for one particular country, or for multiple countries. Innovation/finance can be done all over the world, but either the project or the promoter needs to be European.

Erika mentioned that the main idea is to have a one-off fund, shut down afterwards. Erika invites Marc to explain the tensions, or what he would see as really important in terms of a merger between 2 entities. In case the CCWG would make a recommendation to work with a different entity, what would be the main issues?

Marc: reason to look for a partner, is to do things on your behalf, that you cannot do so yourself. The bank is owned by the member states of the European Commission, so they are closely aligned. You want to keep control on what the other partner is doing. EIB has a delegation agreement with the commission all the operational work, related to finding and financing the projects that comply with the objectives set out by the EC. The steering Committee convenes twice a year, and steers the business development of the common cooperation’s scheme within a given budget period. You  need to build trust between the institutions. This took time, almost 2 years.

In terms of bringing finance to the market, all in line with what the commission is also spending on the grants, for projects that have an economic return. These are complementary, not competitive.

Marc volunteered to share a presentation on how it works, the mechanism behind it, and an evaluation report: the commission has delegated the full operational responsibility of bringing the funds to the market, including negotiation, monitoring, disbursement, evaluation …. Needs to be in line with the policy objectives of the research and development programme.

The bank is existing since 60 years, and we are in business since 30 years.

Samantha Eisner has a question on the mechanism between EIB and the government in disbursing the information. What are the governance tools used? Audits? Regular reporting? To check that the EIB is staying within the boundaries of what you have been entrusted to do?

Marc: what can we finance? That is clearly specified. Includes for instance also the research done in institutions, based on thoughts by the commission that wanted to promote innovation. Not only via grants, but also via bigger amounts. To ensure the strategy is aligned there is a framework legal basis. The 2 documents are aligned from a policy point of view. Throughout the programme, EIB is free to invest in projects that are in compliance with the objectives. There is a big trust basis by the EC.  The commission has a seat on the EIB Board.

Erika asking about administration costs. Some say 5% is the average.

Marc cannot give full details, however there are 2 types of revenues:

* EIB charges client on all transactions a small margin, covering working costs
* The risk revenues on transactions  go to the Commission. What the commission gives back is a kind of fee remuneration which consists of 2 big parts: admin compensation of the whole programme, which also includes audit and evaluation. Second component is based on the performance. They have milestones, and more money is received, the higher the milestone that was reached. (1% per annum based on the money invested by the Commission - 7 year period)

This is something the bank can accept as a sustainable activity on a long term. Commission can perpetuate the scheme based on return on investments from previous schemes.