

**Models for Learning and
Sharing to Advance CSOs
Financial Sustainability**

Endowment Funds





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1 Introduction

The Kenya Community Development Foundation (KCDF) was founded in 1997 as an indigenous southern-based, lead, and community-rooted organization. Since its establishment in, Kenya, the foundation has built a strong basis for community-driven development approaches and is unique in Kenya as a pioneer of community philanthropy and sustainable development. Its **vision** is *Flourishing and Resilient Communities* while its **Mission** is to *Promote Social Justice and the Sustainable Development of Communities*.

As a public foundation, KCDF supports poor, marginalized, and disadvantaged communities to initiate and drive their development agenda by harnessing and growing their resources and securing their basic rights and services from duty bearers. The foundation works with organized communities that are focused on sustainably uplifting themselves through asset building. KCDF capitalizes on right-based approaches in supporting social justice and sustainable development.

KCDF has partnered with other East African Civil Society Organizations to create a financial resilience learning and sharing hub that will be delivered through face-to-face and online interactions. The overall objective of this project is to have a financially viable civil society, able to generate, build and manage its resources, to advance its goals. CSOs that enroll in the hub will benefit from coaching and mentorship opportunities as part of experiential learning.

and sustainable development. KCDF works through strategic and carefully selected partnerships in Kenya, both at the national and community level, and strongly believes in the ability of communities to identify and prioritize their needs and with a little external support, pursue their solutions to these needs. KCDF also recognizes that pro-poor policies are critical to be able to address some of the systemic challenges faced by vulnerable groups, hence the need to push for the development of the necessary policies to support the promotion of a just and fair society, as well as good governance. KCDF is part of the growing #shiftthepower movement that collaboratives seek to support a global shift of power to communities.

2.1.2 Tanzania

The Eastern Arc Mountains Endowment Conservation Fund (EAMCEF) is an autonomous, independent and not-for-profit conservation finance organization that was established by the Government of Tanzania in June 2001 with support from the World Bank (WB) and the Global Environment Facility (GEF). EAMCEF's Vision is that Eastern Arc Mountains and the people who depend on them live in harmony as one sustainable ecosystem. The forests and mountains will provide goods and services – from water to electrical power, from food and cash crops to medicines – for the people of Tanzania. And the world community will benefit from a protected biodiversity hotspot and a major carbon sink reducing global warming. EAMCEF is the largest and only funding institution of its kind in the Eastern Arc Mountains, focusing on the conservation of the core biodiversity richness of the area through supporting targeted and effective field conservation activities.

2 Endowment Fund Case Studies

2.1 Organisations Covered

2.1.1 Kenya

The Kenya Community Development Foundation (KCDF) was founded in 1997 as an indigenous southern-based, lead, and community-rooted organization. Since its establishment in, Kenya, the foundation has built a strong basis for community-driven development approaches and is unique in Kenya as a pioneer of community philanthropy

2.2 Case Study Overviews

Case Study 1: Building Kenya's Best Endowment Fund: Kenya Community Development Foundation (KCDF): KCDF has one of the best endowment funds in Kenya. Over the last 20 years, it has been able to build a fund that provides it with Ksh 25 million to Ksh 30 million per year to support its work with communities. With a Ksh 700 million-endowment fund, it is the envy of many of its peers. The fund is proof that well-planned and governed, endowment funds can be a powerful asset in supporting the sustainability of organisations. There is much that other organisations can learn from KCDF in building an endowment fund.

Case Study 2: Building a Conservation Endowment Fund: Eastern Arc Mountains Endowment Conservation Fund (EAMCEF): EAMCEF, as its name suggests, was set up with a dream, namely to establish an endowment fund that would fund the conservation of the Eastern Arc Mountains. The premise was that with an endowment fund of US\$ 30 million, it would be able to conserve this important global ecosystem into perpetuity. It has achieved 37% of its target, albeit with significant challenges. Despite its inability to attract donor funding for its endowment, it has been able to grow it by 57% from

US\$ 7 million to US\$ 11 million. This however ignores the US\$ 2.5 million that has been withdrawn and used to address funding gaps. As it stands, EAMCEF can survive for 20 years on its existing funds at its current expenditure levels or for 30 years if interest earnings over this period are factored in. The fund has already helped EAMCEF navigate periods in which it did not have any funding. It has already demonstrated its value as a sustainability tool not only to EAMCEF but also to other organisations interested in walking that journey.



Building Kenya's Best Endowment Fund

Kenya Community Development Foundation (KCDF)

Executive Summary

The Kenya Community Development Foundation (KCDF) was founded in 1997 as an indigenous southern-based, lead, and community-rooted organization. Since its establishment in Kenya, the foundation has built a strong basis for community-driven development approaches and is unique in Kenya as a pioneer of community philanthropy and sustainable development. Its vision is Flourishing and Resilient Communities while its Mission is to Promote Social Justice and the Sustainable Development of Communities

An endowment is a fund that retains its capital and uses the earnings to support activities in line with the organisation's mission. In short, it is a pool of money that is invested to create income, usually for a non-profit organization. They offer opportunities for addressing the long-term needs and interests of an organization on a sustainable basis.

KCDF has a community endowment fund that is managed by KCDF Trust and is governed by a Trust Deed. The fund was modeled on retirement benefit schemes largely because it was the first endowment scheme of its kind in Kenya and there were no other models to follow. Launched in 2002, it was catalyzed by a Ford Foundation Challenge Grant with the foundation offering to match any funding raised towards the endowment up to a maximum of US\$ 650,000. The initiative raised US\$ 1.3 million which launched the fund. Following the successful launch of the fund, the Ford Foundation then offered KCDF a challenge fund of USD 3 million. KCDF Foundation raised US\$ 1 million giving a total of US\$ 4 million.

The endowment fund has proved to be a great investment, offering KCDF several benefits. One of these is sustainability. The endowment ensures that KCDF will be able to serve communities in perpetuity since it only uses 40% or so of the earnings. The endowment fund generates Ksh 50 million to Ksh 60 million per year of which KCDF received Ksh 25 million on average annually. This provides KCDF with a steady revenue source of income that has helped it during difficult times. One case is that of Covid-19 where KCDF was able to benefit from Ksh 25 million per year which helped it weather the storm. It provides KCDF with a degree of dependence and sustainability meaning that it can continue to operate, though at lower levels, without donor support.

Since establishing the fund in 2002, KCDF has enjoyed several achievements. The KCDF endowment fund holds Ksh 853 million in assets. Of this, 231 million are owned by 27 communities, which are identified

as fund builders.

KCDF has faced several challenges in building the fund. Selling the endowment fund at inception was a herculean task. The whole idea of an endowment fund was a foreign concept in the Kenyan development landscape. To make matters worse, the foundation was less known. Given that the foundation was new, a decision was made to build its brand name first. It was also very difficult to mobilize funds for the endowment fund while there were other pressing basic needs such as education, health, and food security. Furthermore, there was no model on which to establish the fund at inception, which led KCDF to adopt the pensions fund model.

Future plans include continuing to diversify the fund portfolio to increase earnings while better managing associated risks. KCDF is developing a strategy for diversifying the endowment fund investments. While it has accumulated significant assets under its endowment fund, KCDF Trust intends to continue to build it to the point at which it can fully meet all of the foundation's needs in the future.

KCDF has one of the best endowment funds in Kenya. Over the last 20 years, it has been able to build a fund that provides it with Ksh 25 million to Ksh 30 million per year to support its work with communities. It has not been an easy journey but worth every drop of sweat. The Covid-19 pandemic showed just how important endowment funds can be as it helped KCDF navigate the challenging times.

1 Introduction

As a public foundation, KCDF supports poor, marginalized, and disadvantaged communities to initiate and drive their development agenda by harnessing and growing their resources and securing their basic rights and services from duty bearers. The foundation works with organized communities that are focused on sustainably uplifting themselves through asset building. KCDF capitalizes on right-based approaches in supporting social justice and sustainable development. The foundation recognizes that pro-poor policies are critical to be able to address some of the systemic challenges faced by vulnerable groups, hence the need to push for the development of the necessary policies to support the promotion of a just and fair society, as well as good governance.

KCDF works throughout the country with both national and community-based organizations to shift the power to communities, enable prosperity, strengthen the

culture of working together, and enable communities to hold decision-makers accountable. Its approach to sustainable development is anchored on ensuring communities can identify and act on their most pressing needs by paying attention to the immediate and long-term challenges and crafting innovative and home-grown solutions focused in the areas of livelihoods, education, environmental conservation, and policy influencing.

KCDF's key thematic areas cover education; livelihood; environment and natural resource management; effective governance; and enhancing institutional effectiveness. Headquartered in Nairobi, Kenya, KCDF works across the 47 counties in Kenya and significantly in 32 of them through partnerships with like-minded grassroots organizations/ Civil Society Actors. Currently, KCDF has over 60 active partnerships (grantees) implementing projects in Livelihoods, Environmental conservation, education, governance and social accountability. The foundation's core values are equity, respect, integrity, collaboration, and innovation.

To effectively achieve its mission, KCDF applies the following approaches to its work;

- **Community Engagement and Organizing:** The KCDF model of delivering its mandate is through working with organized community groups, associations, etc., as vehicles to scale up desired changes in targeted communities.
- **Local Philanthropy:** KCDF works to encourage the growth and promotion of organized giving for sustainable development in Kenya. The goal is to move communities and the wider Kenyan public from a mindset of depending on external resources to the effective mobilization of in-country resources towards the implementation of their prioritized projects.
- **Institution Building:** KCDF's concept of sustainable community-driven development is pegged on the premise that well-capacitated groups are key instruments in scaling up and sustaining continuous transformative change at the grassroots levels.
- **Partnerships and Networking:** KCDF believes that the challenges of poverty cannot be achieved by one actor hence there is value in working collaboratively with other like-minded organizations in addressing issues that communities continue to face.
- **Policy Influencing:** Policy influencing refers to the different actions taken by organized groups on

an issue of concern, to influence decision-making or to change a policy that brings about lasting change in the lives of disadvantaged people.

- **Asset Development:** This refers to work by non-profits of building long term assets of different kinds, aimed at generating flexible funds to further their collective goals to obviate their work being affected when funders change their priorities.

Theory of Change

A foundational belief for KCDF, is born from the fact that enduring change is only possible when communities are able to take charge and find their own solutions for development. This begins with the recognition of all resources in their midst, leverage on the resources from different actors and maximize on a community philanthropy approach to promote long-term development results.

2 The Endowment Fund Journey

2.1 Background on Endowment Funds

An endowment is a fund that retains its capital and uses the earnings to support activities in line with the organization's mission. In short, it is a pool of money that is invested to create income, usually for a non-profit organization. They offer opportunities for addressing the long-term needs and interests of an organization on a sustainable basis.

There are several types of endowment funds:

Term endowments: Funds can only be expended after a particular time or event.

Unrestricted endowments: The organization has the freedom to invest, spend and distribute the funds as it sees fit.

Quasi-endowment: The earnings are distributed based on the specifications of the donor. The fund serves a specific purpose.

Restricted endowments: The capital of the endowment cannot be spent. However, the earnings can be expended based on the donor's specifications.

KCDF has an unrestricted endowment fund given that it is not restricted on how it can spend the earnings though it cannot spend the capital.

2.2 KCDF Endowment Fund

KCDF Foundations' endowment fund is managed by KCDF Trust and is governed by a Trust Deed. This supports accountability from the Trust.

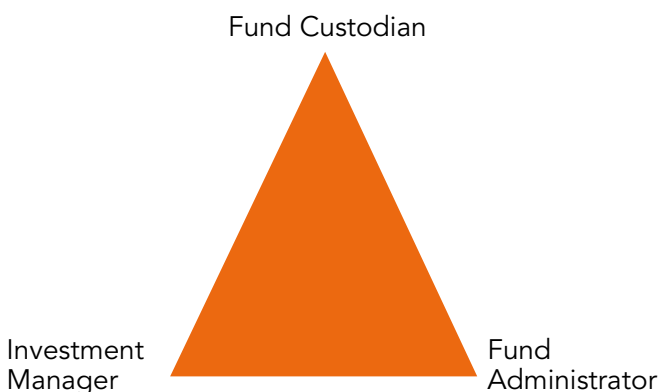
The endowment fund was modeled on the retirement benefits schemes¹. This was because it was the first endowment scheme of its kind in Kenya and there were no other models to follow. Launched in 2002, it was catalyzed by a Ford Foundation Challenge grant with the foundation offering to match any funding raised towards the endowment up to a maximum of US\$ 650,000. The effort raised US\$ 1.3 million that launched the fund. Following the successful launch of the fund, the Ford Foundation then offered KCDF another challenge fund of USD 3 million. KCDF Foundation raised US\$ 1 million giving a total of US\$ 4 million.

2.3 How the KCDF Endowment Fund Works

KCDF's endowment fund is unrestricted though only the earnings from the fund can be used and not the capital. KCDF spends 40% of its earnings annually and invests much of the rest to grow the fund. In addition, gifts from donors and supporters as well as income from other sources are invested in the endowment funds. This is held and managed by KCDF Trust for the benefit of the KCDF Foundation.

The endowment committee determines the distribution policy for grants from the endowment to support the organization's mission. It also has to ensure the fund's strategy is aligned with the KCDF Trust's goals. In addition, the endowment fund has to comply with the conditions established by relevant authorities such as the Capital Markets Authority and the Nairobi Securities Exchange (NSE).

Endowment Fund Management Structure



Under the structure:

KCDF Trust is responsible for the funds. It develops the Investment Policy that ensures the growth of the funds through sound investments.

The role of KCDF Trust includes:

- Holds in trust community funds and other assets.
- Safe custody of the assets in credible financial institutions or properties.
- Have the authority to hold, invest, manage, and disburse endowment fund returns.
- Appoints and monitors the performance of service providers.
- Evaluates prospective members before joining.

KCDF Trustees meet every quarter. As such, they delegate the daily running and management of the fund to the Fund Custodians, Investment Managers, and Fund administrators (these are outsourced services to ensure that KCDF does not lose focus of its core mandate).

The Investment Managers, Old Mutual and Gen Africa make decisions on the fund's investments.

The role of Fund Manager includes:

- Invest endowment fund on behalf of the Management Body
- Manage the investments
- Ensure the fund's strategy is aligned with the management body
- Reporting on Fund performance
- Ensure compliance to set the Country's authority bodies
- Growth and performance of the endowment fund
- Managing risk (e.g. adverse investment market conditions, portfolio diversification)
- Protection of the fund (act with due diligence)
- Give instructions to third parties (e.g. custodian, stockbroker)

The Fund Administrator of Enwealth Financial Services makes investment decisions.

The role of the Fund Administrator includes:

- Maintain proper books of accounts for the management body
- Receive and record quarterly investment reports from the Fund Managers
- Reconciliation of the endowment custody account and fund manager's reports
- Maintain individual community fund records
- Provide consolidated reports
- Support audit of the endowment fund

¹ Retirement Benefits Act (No. 3 of 1997)

The Fund Custodial Manager, Standard Chartered Bank, holds and releases the funds when required. KCDF Trust uses 7% for administration costs.

This structure strengthens accountability and reduces coalition since there is no single player responsible for everything. There is also a legal document that binds all players and clearly states their roles. Though it originally had one Investment Manager, KCDF Trust now has two. These are Old Mutual Ltd and Gen Africa Ltd. The use of two Investment Managers not only enables KCDF to capitalize on its strengths but also supports competition that ensures better returns. The Investment Manager can mislead the charity and therefore the structure helps to mitigate this.

KCDF Trust is legally bound to only give funds to KCDF in line with a well-outlined revenue release policy. To access the funds, KCDF management has to submit a request to KCDF Trustees for approval. The earnings are distributed as follows:

- 50% of earnings: Granted to the non-profit
- 33% of the earnings: Reinvested to the fund
- 10% of the earning: Invested in the Reserve Fund to grow the capital
- 7% of the earnings: Covers administration costs

The fund generates 10% to 12% per year in earnings from the endowment funds.

KCDF also supports communities through their host organizations (Community-based organizations and local NGOs) to establish endowment funds as a sustainability strategy. To encourage them to mobilize funds, subject to the availability of money, KCDF matches the funds raised by communities, shilling for a shilling. Communities use various strategies to raise funds some of which include harambees, dinners and livestock auctions. Through grant matching for endowment fund building, KCF has over the years onboarded 27 of these community funds to support better economies of scale. At KCDF, these are known as Community Fund Builders and can benefit from KCDF's endowment fund infrastructure in investing and managing the funds². Some of them include Othaya Development Association whose funds have grown from Ksh 8 million in 2010 to 59 million in 2021, South Imenti Development Association and Starehe Girls.

Some Board Trustees are recruited from retired members of the KCDF Board with others being

headhunted due to their expertise in financial markets. The Executive Director also sits on the KCDF Trust Board.

2.4 Benefits of KCDF's Endowment Fund

The endowment fund has proved to be a great investment, offering KCDF several benefits. Some of these include:

Sustainability: The endowment ensures that KCDF will be able to serve communities in perpetuity since it only uses 50% of the earnings with the rest being plowed back to grow the fund and cover administrative costs.

Income: The endowment provides KCDF with a steady revenue source of income. It generates Ksh 50 million to Ksh 60 million per year of which KCDF receives Ksh 25 million on average annually.

Adversity: It has helped KCDF during difficult times. One case is that of Covid-19 where KCDF was able to benefit from Ksh 25 million per year which helped it weather the pandemic storm.

Independence: The endowment fund provides KCDF with a degree of dependence and sustainability meaning that it can continue to operate, though at lower levels, without donor support.

Tax Exemption: The earnings from the endowment are exempted from tax, which increases their value. Economies of Scale: By working with 27 community partners, KCDF has been able to benefit from economies of scale. It has been able to pool its resources enabling it to negotiate for better terms.

Funding Diversification: The fund has enabled the foundation to diversify its income in addition to traditional donors. This makes it less vulnerable to funding shocks – which is increasingly important in an unpredictable global environment.

Credibility: The endowment has strengthened the foundation's credibility and appeal to donors as it offers them a sense of sustainability.

Unrestricted Funding: The income is unrestricted thus enabling KCDF to cover expenditures that donors are not interested in.

² The fund builders access the services of the KCDF Trustees for free. They pay a prorated cost for services offered by the fund custodian, Funds Manager, and investment managers. The cost would be very high but for economies of scale. They also benefit from the funds tax exempt status as well as the insurance for the funds.

2.5 Achievements

Cumulative Portfolio: Since establishing the fund in 2002, KCDF has enjoyed several achievements with the total value as of the end of September 2022 standing at Kes 852,859,772. These consist of short and long-term assets invested in bonds, stocks, shares, equity, fixed deposits, cash, and real estate amongst others. The current endowment fund minus its real estate investments was valued at Kes 473,208,637 as of 30th September 2022. The real estate investments were valued at Kes 379,651,135 at the same time. Kes 230,797,310 of the endowment fund is owned by 27 communities, identified as fund builders.

Revenues: The funds generate up to Ksh 50-60 million per year which is a significant sum of money. Funding: KCDF Foundation benefits from Ksh 25 million per year from KCDF Trust meaning that it can operate to some degree even without other funding.

Fund Builders: The fund manages funds from 27 communities which not only enables them to benefit from its expertise but also enables KCDF to negotiate for better terms with its investment managers.

2.6 Challenges

Despite its successes, the KCDF endowment fund has faced its share of challenges. Some of these include:

Selling the endowment fund at inception was difficult: The whole idea of an endowment fund was a foreign concept in the Kenyan development landscape. To make matters worse, the foundation was less known. Given that the foundation was new, a decision was made to build its brand name first. This took four years. It was not until 2002 that the fund was launched.

Mobilizing funds was a challenging task: for the endowment fund while there were other pressing basic needs. Donors were more interested in supporting causes such as education, health and humanitarian assistance that were more urgent than supporting an endowment fund. Some donors perceive endowment funds as idle money. Furthermore, KCDF's philosophy advocated for local resource mobilization. It was therefore more interested in mobilizing resources from local donors.

Lack of a fund model at inception: KCDF's endowment fund was the first of its kind on the Kenyan landscape. There was no other endowment fund that KCDF could take lessons from. It therefore eventually adopted the pensions fund model following consultations with various finance experts.

A few investments made from the endowment have not done well: This has generally undermined the earnings of the fund despite retaining overall profitability margins of between 10 and 12%. The fund has to invest money to earn money. The higher the risk, the higher the potential earnings. However, not all investments have worked as expected and the endowment has lost money or earned less than planned on some investments.

The fund requires a very high level of accountability: Given the sums of money involved, accountability is key. KCDF also has a tax exemption certificate, which demands regular audits from the Kenya Revenue Authority (KRA). Poor accountability can lead to the withdrawal of this certificate.

Requires relationship building between the various entities involved: There are several actors involved in the management of the fund. Apart from KCDF Foundation and KCDF Trust, there are the Investment Managers, Fund Administrators and Fund Custodians. Each of them has to co-exist and appreciate each other's role and value. An amicable relationship between all these entities is critical to the effective and efficient functioning of the endowment fund.

Finding the right people is a challenge: Money and investment matters demand great expertise. The best people are not only highly sought after but also extremely expensive and busy. Getting the right people to serve within the Foundation and Trust governance structures on a pro bono or volunteer basis is an enormous task.

The fund demands investment expertise that is not domiciled in the foundation itself: KCDF Foundation's capacity is largely geared toward its core business, vision and mission which focuses on communities. It therefore does not have, nor can it afford the expertise required to effectively manage an endowment fund. This demands head hunting of experts willing to serve voluntarily at the KCDF Trust board which is not easy.

Getting funds from KCDF Trust is not automatic: KCDF does not automatically get whatever funds it requests. It has to justify its request for funds. The Trust has the responsibility of growing the funds and managing them within the investment policies that have been adopted. The foundation can only receive funds in line with the distribution policy.

Market fluctuations increase risks: This also makes it hard to predict returns from the endowment fund. By diversifying the portfolio, some of these risks can be partly mitigated.

Fund builders do not understand fluctuating returns. KCDF has convinced several community funds to pool their money with its endowment fund. When things are going well, the communities are happy. However, when the earnings are lower than expected, it becomes difficult to explain the reasons why to them. In many cases, they do not always understand making it a challenge.

Developing an Investment policy was challenging: KCDF started its endowment fund from scratch and had no one it could learn from in the country. It, therefore, had to innovate and learn from doing. While its investment policy has done reasonably well, it demands regular reviews, which can be time-consuming.

Establishing a credible fund management system is challenging: The endowment management system developed by KCDF involves many players. This is geared towards making it more accountable and credible. It does however create challenges in working with so many actors such as Fund Managers, Fund administrators and Fund custodians.

The investment environment is exposed to variables: The investment environment is always changing. Some of these changes can affect earnings from various investments in a significant way. These variables include elections, inflations, covid-19 amongst others. As a result, the fund is exposed to volatility, which affects its returns.

The Endowment Matching Challenge for Communities: Though the matching challenge was meant to encourage and inspire communities to mobilize funds, it has had its share of problems. It has not been easy getting communities to mobilize funds to build their community funds.

Insufficient returns to support sustainability: KCDF does not yet generate sufficient returns from its endowment to support its expenditure. It still needs to grow its endowment several folds to support KCDF's annual expenditure.

The Covid-19 pandemic: The pandemic led to financial deficits in the foundation. Funding levels were reduced as donors focused on their populations and interests. Funds from the endowment fund were critical in enabling it to survive without letting staff go or cutting back on salaries.

Donor Funding: Donors, even some who have huge endowment funds, are reluctant to support

others in the global south to set up or strengthen their endowment funds. This is the reason why KCDF decided to onboard and support other smaller organizations. There are currently 27 smaller funds being supported and the number is growing.

Meeting Pressing Needs: Balancing between future needs and the immediate compelling needs is a challenge. However, in reality, KCDF management cannot access the principle no matter the situation.

2.7 Future Plans

KCDF has several plans for the future. These include:

Portfolio Diversification: KCDF Trust plans to continue to diversify the fund portfolio while retaining a balance between risk appetite for greater profits and the security of funds.

Building the Endowment Fund: While it has accumulated significant assets under its endowment fund, KCDF Trust intends to continue to build it to the point at which it can fully meet all of the foundation's needs. It is only when it can be fully sustained by the earnings of the fund that will it achieve its original objectives.

Staffing to support KCDF Trustees: KCDF trustees are 100% voluntary. They currently rely on KCDF's management for secretariat services. KCDF Trust plans to recruit some staff with the expertise to support the endowment fund entity's efficiency. This will enable it to make more real-time decisions about challenges, risks and opportunities. It will also help it increase earnings from its portfolio.

Fund Builders: Some of the community funds that it helped start have grown significantly over time. In doing so, they have outgrown their original governance structures. In others, the founders have moved on or passed away leaving the community funds in the hands of those who may not share the same ideals. KCDF, therefore, intends to support the community funds and develop appropriate structures that support their funds.

Innovation: Managing and growing an endowment fund is not an easy task, especially in a volatile environment that is hard to predict. Furthermore, to increase earnings, the organization has to keep thinking of new opportunities to grow assets. Innovation is key to growing and maintaining good returns over long durations of time.

3 Lessons Learned

KCDF has learned several lessons over the years. These include:

It is important to have well-defined powers: In the beginning, the powers of KCDF Trust were not well-defined. This was later done to enable it better support KCDF Foundations. It made it easier for KCDF Foundation to access funding as long as it was within the parameters of the Investment Policy. As an organization building an endowment fund, retain control but delegate. This avoids a runaway trust. It's important to legally bind the trust to the organization. Ensure minimal representation of the organization in the trust -- for example 30% representation. This could be the Executive Director and two other directors sitting in both the foundation/organization and the trust.

Establish Separate Governance Structures: Originally, all members of the KCDF Foundation served as Trustees of the KCDF Trust. This undermined the proper management of the Trust which required a different skill set from the foundation. A decision was made to reduce representatives from the foundation to two Board members along with the Executive Director. The other Trustees are recruited externally depending on their reputation, credibility, expertise and willingness to serve.

Diversifying the Portfolio: Initially, the investments were limited to stocks and bonds on the stock exchange. This in turn limited the kind of returns that KCDF Trust could generate from the endowment. A decision was taken to widen the investment portfolio allowing for high-risk but profitable returns. It was considered important to have a balanced investment portfolio. This included stocks, bonds, and real estate amongst others. Having alternative assets not only adds diversity to portfolios but also provides a higher return for the risks e.g. real estate (REITs, Commercial building), equities (spread), venture capital, fixed income (Government bonds) and offshore investments. This provides stable cash flows and good potential for long-term growth.

Mitigating Risk: Trustees and Board members were not insured against being sued by various parties. Risk insurance was later provided for Trustees to protect them if they were sued.

Sourcing the Right Expertise: It is important to have investment or money experts managing the funds. The organization needs a competent and experienced team of people who can advise on

investments. KCDF has headhunted and recruited trustees who serve on a pro bono basis. This not only gives it access to top management talent in the money markets but also saves it millions of shillings in fees that it would have had to pay.

Investing for a rainy day: KCDF has learned to allocate as much as possible to long-term investment strategies when donor funding is adequate. This ensures that it can receive much more in the future from the endowment when faced with funding challenges.

Need for due diligence: Not all the investments that KCDF has made over time have done well. This is partly blamed on insufficient research. KCDF Trust has learned to conduct sufficient due diligence before any investment is made to reduce the risks of poor investments.

Allow for Risk: Despite the best efforts, there is also a risk of losing money. KCDF lost about Ksh 12 million in the Chase Bank collapse, which few people had foreseen. This led to the review of its corporate policy for corporate bonds to minimize the potential for this in the future. It also reviewed its banking policy to ensure that it worked with more stable banks.

Seek Economies of Scale: The larger the fund, the lower the relative fees paid to those managing it. To capitalize on the benefits of large funds, it has encouraged other community funds to pool their money with the endowment fund under KCDF Trust. This has created win-win scenarios for everyone.

4 Conclusion

4.1 Conclusion

KCDF has one of the best endowment funds in Kenya. Over the last 20 years, it has been able to build a fund that provides it with Ksh 25 million to Ksh 30 million per year to support its work with communities. It has not been an easy journey. It has made its fair share of mistakes. This is not surprising given that when it began promoting this 'alien' idea in the Kenyan landscape, there were no other organisations from which it could learn. In the end, it had to model its endowment fund on a pension fund structure. The gamble paid off and the results are there to see. With a Ksh 853 million-endowment fund, it is the envy of many of its peers. The fund is proof that well-planned and governed, endowment funds can be a powerful asset in supporting the sustainability of organisations. It guides other organisations interested in embarking on a road less traveled.

4.2 Recommendations: Steps of Setting Up an Endowment Fund

Organisations interested in replicating KCDF's endowment funds should keep the following in mind:

Step 1: Rallying Internal Support: Getting the organisation's board, management, and staff to back the idea of an endowment fund is crucial. This includes creating and working with a steering committee on the vision and fundamentals of the fund.

Step 2: Developing the Case for Support: The next step is to develop the support case. This often involves setting goals for the fund as well as crafting the messaging about the need and long-term benefits of the fund.

Step 3: Developing Endowment Fund Policy: Develop the endowment fund policy that guides the governance and management of the fund. The policy should state the annual fund allocation. Borrowing from KCDF's experience and based on the return on investment, a potential distribution plan can be as follows:

- 50% of earnings: Maximum that can be granted to the non-profit annually
- 33% of the earnings: Reinvested to the fund
- 10% of the earning: Invested in the Reserve Fund to grow the capital
- 7% of the earnings: Covers administration costs

Step 4: Register the entity: Either on its own or as a stand-alone, register the entity either as a company limited by guarantee or as a trust with clear legally binding TORs. Define how they relate with the host Community Organization. It's advisable to seek legal support for this stage from experienced practitioners.

Step 5: Develop Governance, Management and Accountability Structures: Develop the structures that will be responsible for the governance and management of the endowment fund. Formulate an organizational plan based on responsible financial planning and management.

The role of the Management body (Either Trustees or Board of Directors) includes:

- Holds in trust community funds and other assets.
- Safe custody of the assets in credible financial institutions or properties
- Have the authority to hold, invest, manage and disburse endowment fund returns.
- Appoints and monitors the performance of service providers
- Evaluates prospective members joining them

Find the best way to outline how to get the best Trustees. They should be voluntary and sold to the vision of the organization building the endowment fund. This could be a transition pathway from the board of the organization into the trust as is the case of KCDF. KCDF mixes the two. New trustees are recruited with 50-60% being transitioned from the foundation board.

The role of Fund Manager includes:

- Invest endowment fund on behalf of the Management Body
- Manage the investments
- Ensure the fund strategy is aligned with the management body
- Reporting on Fund performance
- Ensure compliance with the set Country's authority bodies
- Growth and performance of the endowment fund
- Managing risk (e.g. adverse investment market conditions, portfolio diversification)
- Protection of the fund (act with due diligence)
- Give instructions to third parties (e.g. custodian, stockbroker).

The role of the Fund Administrator includes:

- Maintain proper books of accounts for the management body
- Receive and record quarterly investment reports from the Fund Managers
- Reconciliation of the endowment custody account and fund manager's reports
- Maintain individual community fund records
- Provide consolidated reports
- Support audit of the endowment fund

Step 6: Recruiting Service Providers: Get investment managers with the right expertise and track record to manage the endowment. You also have to recruit a Fund Administrator as well as a Fund Custodian.

Step 7: Marketing the Endowment Fund: Once your endowment is established, you need to market it to potential donors. Sell the vision as well as the benefits of investing in the fund.

Step 8: Capitalising the Endowment Fund: It is important to invest funds into the endowment fund. This may come from donors, earned activities such as training and consultancy, or savings from existing programs. Each dollar counts and nothing is too small to help you build your fund.

Step 9: Management: The organization needs to have management advisors who are experienced in managing endowment funds. They will be crucial in advising your Board of Trustees on the overall management of the fund.



Building a Conservation Endowment Fund

Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)

Executive Summary

Eastern Arc Mountains Conservation Endowment Fund (EAMCEF) is an autonomous, independent and not-for-profit conservation finance trust that was established by the Government of Tanzania in June 2001 with support from the World Bank (WB) and the Global Environment Facility (GEF). EAMCEF's Vision is that Eastern Arc Mountains and the people who depend on them live in harmony as one sustainable ecosystem. The forests and mountains will provide goods and services – from water to electrical power, from food and cash crops to medicines – for the people of Tanzania. And the world community will benefit from a protected biodiversity hotspot and a major carbon sink reducing global warming.

EAMCEF was set up as an endowment fund. The idea behind the use of an endowment fund meant that conservation activities could continue indefinitely once the targeted level of funds (US\$ 30 million) was achieved. The Trust Fund would be a long term funding mechanism that provides sufficient and reliable financial support for effective conservation of the Eastern Arc Mountains thus providing exit for development partners in addition to complementing the Government of the United Republic of Tanzania's long-term efforts and policies to conserve the mountains. If successful, it will provide an important model as well as best practice for the use of similar funds and approaches to conserving other biodiversity areas of global interest in Tanzania and beyond. To date, US\$ 11 million, representing 37% of the target, has been raised.

There are several benefits from the endowment fund. These include sustainability once it achieves its US\$ 30 million target. It has made steady progress towards this goal. The endowment fund has been valuable in supporting EAMCEF operations and programs in the absence of donor funding. The fund enhances the funding appeal of the organisation given its sustainability prospects.

Despite its inability to attract donor funding for its endowment, it has been able to grow it by 57% from US\$ 7 million to US\$ 11 million. This however ignores the US\$ 4.0 million that has been withdrawn and used to address funding gaps. As it stands, EAMCEF can survive for 10 years on its existing funds at its current expenditure levels or for 20 years if interest earnings over this period of time are factored in. With the Tsh 600 million it earns from its Tsh 9 billion (US\$ 3.5 million) in the local market, EAMCEF can support all its current annual operating expenditure.

There have been several challenges. It is very difficult

securing donors to support endowment funds. EAMCEF has not managed to secure any new donor in the last 15 years despite attempts.

With regard to future plans, EAMCEF seeks to grow its endowment funds to US\$ 30 million over the next decade. This will not be an easy task given the difficulty of mobilising funds for endowments. It will therefore largely be done through re-investment of earnings from the fund. EAMCEF also seeks to raise funds to support its program and operational costs while it grows its endowment funds through re-investment.

EAMCEF has learned several lessons over the years. These include the need to diversify markets: The rates of return will vary from one market to the other. While the main investment has been held in the USA, EAMCEF begun investing funds in Tanzania as well from 2017 once the returns in the US begun to drop. The risks also vary. It is important to diversify the markets in which the funds are invested. Lastly, the performance of investments will vary. One has to be prepared to lose money on some occasions.

The endowment fund has already helped EAMCEF navigate periods in which it did not have any funding. It has already demonstrated its value as a sustainability tool not only to EAMCEF but also to other organisations interested in walking that journey.

1 Introduction

The Eastern Arc Mountains (EAMs) are a long chain of ancient mountains stretching from Southern Tanzania to South Eastern Kenya. It comprises of thirteen mountain blocks that form a broad arc that is 600 kilometres in length and covers an area of 23,000 square kilometres. The mountains include the North and South Pare, West and East Usambara, Nguu, Nguru, Ukaguru, Uluguru, Malundwe, Rubeho, Udzungwa and Mahenge in Tanzania as well as Kenya's Taita Hills. These ancient mountains have existed for at least 30 million years (possibly 100 million years). They are known to biologists and conservationists as one of the world's most important areas for biodiversity conservation. This archipelago of isolated massifs has also been dubbed as the "African Galapagos" for its treasure-trove of endemic plants and animals, the delicate African violet being one of the best known. The EAMs constitute a proposed world heritage site and rank among the world's top five sites for diversity of plants, herpetofauna, birds and mammals when compared with the 21 tropical forest World Heritage sites.

The Eastern Arc Mountains are a global centre of biological diversity, recognized at national and international levels as priorities for nature conservation.

They are:

- Part of one of the **World's 34 Biodiversity Hotspots** by Conservation International (2007).
- Part of an **Endemic Bird Area** by Birdlife International (2003)
- One of the **Global 200 eco-regions** as defined by WWF (2002).
- Proposed **World Heritage Site** -MNRT/UNESCO (2010)

Despite its importance, the Eastern Arc Mountains (EAMs) are listed among the endangered eco-regions of Africa, together with the lowland coastal forests of East Africa, and are predicted to enter the critically threatened list of eco-regions in the next 20 years. The forest area has been reduced from 18,000 square kilometres in ancient times, to 4,750km² in 1955 and 3,450 square kilometres as of 2000. An estimated 0.1% of the forest cover is lost per year, greatly endangering this unique heritage. Since mid-2006, effective conservation and management of the EAMs have been made possible through the technical and financial support by the Eastern Arc Mountains Conservation Endowment Fund (EAMCEF) and its development partners and this may continue to be the case in most of the near future.

EAMCEF is an autonomous, independent and not-for-profit conservation finance trust that was established by the Government of Tanzania in June 2001 with support from the World Bank (WB) and the Global Environment Facility (GEF). EAMCEF's Vision is that Eastern Arc Mountains and the people who depend on them live in harmony as one sustainable ecosystem. The forests and mountains will provide goods and services – from water to electrical power, from food and cash crops to medicines – for the people of Tanzania. And the world community will benefit from a protected biodiversity hotspot and a major carbon sink reducing global warming.

It focuses on three key thematic areas for its field interventions:

- Community Based Conservation and Development, Livelihood Improvement and Climate Change activities for poverty reduction and improvement of social welfare of forest adjacent communities.
- Applied Biodiversity and Climate Change Research activities relevant to the conservation of biodiversity and responsive to climate change effects in the priority Eastern Arc Mountains.

- Conservation of Protected Areas and Climate Change activities to improve the ecological functions of the priority Eastern Arc Mountains and strengthen the management capabilities of the responsible institutions.

EAMCEF has been effective in forging unique cross-sectoral partnerships that have energised the fight to conserve the Eastern Arc Mountains. The cost of the continued loss of this habitat is very high and once lost, can never be restored to its former state.

2

Building a Conservation Endowment Fund

2.1 Eastern Arc Mountains Conservation Endowment Fund (EAMCEF)

The reality is that EAMCEF is the largest and only funding institution of its kind in the Eastern Arc Mountains, focusing on the conservation of the core biodiversity richness of the area through supporting targeted and effective field conservation activities. Increased support to conservation activities by EAMCEF would enable it to more effectively address the multiple challenges this global biodiversity gem is facing, which if left unchecked would otherwise eventually degrade the habitat and lead to the extinction of unique endemic species and with many others being placed on the endangered list. The Government, with its limited resources, is unable to stop EAMs destruction on its own and needs the support of private sector and communities to succeed. Realistic and effective conservation impact to an ecosystem of the size and complexities of the EAMs can only be attained through a long-term investment commitment. The best way of ensuring this is through an endowment fund.

EAMCEF was set up as an endowment fund. An endowment is a fund that retains its capital and uses the earnings to support activities in line with the organisation's mission. In short, it is a pool of money that is invested in order to create incomes, usually for a non-profit organization. They offer opportunities for addressing the long-term needs and interests of an organization on a sustainable basis.

The idea behind the use of an endowment fund meant that conservation activities could continue indefinitely once the targeted level of funds (US\$ 30 million) was achieved. The Trust Fund would be a long term funding mechanism that provides sufficient and reliable financial support for effective

conservation of the Eastern Arc Mountains thus providing exit for development partners in addition to complementing the Government of the United Republic of Tanzania's long-term efforts and policies to conserve the mountains. If successful, it will provide an important model as well as best practice for the use of similar funds and approaches to conserving other biodiversity areas of global interest in Tanzania and beyond.

EAMCEF was set up as a permanent institution and not a project. This was done through two phases; namely the establishment phase and the operational phase. The establishment phase ran from 2001 until 2009. During the establishment phase, the Government of Tanzania, through a World Bank loan, covered operational and program expenses for 7 years. The Global Environmental Facility (GEF) invested US\$ 7 million in 2006 in an offshore account for the endowment fund. It was less than a quarter of the amount needed to ensure the sustainability of EAMCEF. It was however considered a seed grant to start the endowment. Before the money was released, EAMCEF had to meet seven conditions or benchmarks. One of them was that the funds had to be invested offshore. This was partly because the Tanzanian market was considered underdeveloped at the time. Others included the recruitment of two other board members to complete its membership of 9 Trustees, recruitment of a competent secretariat, development of an Investment Policy, commencement of field activities and recruitment of Local Advisory Committees. EAMCEF also had to have a clean audit for two years. EAMCEF met the conditions in March 2006 leading to the release of the endowment funds in November 2006, following the recruitment of the Asset Manager.

The investment policy was developed by an investment expert recommended by the World Bank, who worked for the Wildlife Conservation Society. The Consultant also developed the Grants Making Guidelines, Guidelines for the Local Advisory Committees, Operational Manual amongst other documents. The investment policy is reviewed every three years as stipulated in the document. It also now includes aspects such as environment, social and governance screening of asset managers amongst others. Efforts have been made to ensure that it reflects best practice.

EAMCEF seeks donor support to enable it sustain and maintain its conservation activities in the Eastern Arc Mountains as it slowly builds its endowment fund that will eventually sustain these activities. Given that conventional donors do not fund endowment funds, the process of expanding the capital base through re-investing the proceeds will take much longer

than desired. While it is actively seeking to grow its endowment fund in line with its original sustainability goal, work in the EAMs must continue. Every tree that is cut down, habitat destroyed, species lost, carbon released into the atmosphere and animal killed is another nail in the coffin of this great ecosystem. It has continued to mobilise funds from partners such as the Royal Government of Norway in stemming the destructive tide and threats against the EAMs.

2.2 How it Works

Following a bid in 2006 that was evaluated by international experts, Citi Group won the tender for providing investment management services. They run it for one year before the key management advisor moved to UBS. This led to a second bid between the Citi Group and UBS, which the latter won. UBS continues to manage the endowment to date and is the Fund Custodian. The investment management team is now comprised of a Financial Advisor/Investment Management Consultant as well as 12 Asset Managers. The funds are invested in a diversified portfolio that includes bonds, stocks, shares, equity, fixed deposits, cash, and real estate amongst others. The fund is managed in line with the investment policy. There are minimum and maximum investment percentage thresholds in each asset class that can be invested so as to manage risk and maximize profit.

However, the EAMCEF endowment fund is yet to achieve its US\$ 30 million capital target that will generate sufficient revenues to sustain EAMCEF's current activities. The required US\$ 30 million investment capital can be realized through two strategies namely;

- Mobilising additional capital to the existing endowment.
- Funding of the EAMCEF operations and field activities thus leaving all the incomes earned for re-investment into the capital fund

EAMCEF seeks to build its endowment fund to 30 million that would generate the sustainability target of earnings of US\$ 1.5 million per year. Despite great efforts, however, it has been challenging finding donors who can directly invest in the endowment fund given the unfavourable donor policies. EAMCEF has therefore capitalized on the second strategy that has enabled it increase the initial capital of US\$ 7.0 million to US\$ 11.0 million as of October 2022. EAMCEF requires about US\$ 30 million in capital investment in order to reach the optimal financial sustainability required in the long-run. Additional support for its operations and field activities through project funding from donors will enable it further

build on its endowment fund capital pushing it closer to sustainability.

EAMCEF also manages some money from Unilever PLC under its endowment fund. A total of US\$ 370,000 was invested by the company in 2011 to support conservation activities. It has become part and parcel of the fund. The money initially supported tree planting in Mufindi District.

Following low returns, of less than 5% and fluctuating market conditions, EAMCEF withdrew US\$ 3.5 million (Tsh 9 billion) from the United States and invested it in Tanzania under the management of local Banks. They now generate Tsh 600 million per year in Tanzania, which is a better rate of return than is secured in the United States. In Tanzania EAMCEF only invests the money in fixed deposit accounts. In 2017, it secured an interest rate of 15.5% per annum. It was 14% in 2019, 12% in 2020 (due to Covid-19) and 14% in 2021 and 2022. EAMCEF has currently invested Tsh 4.5 billion for 5 years at 13% interest per annum and another Tsh 4.5 billion at 14% interest per annum for 5 years.

From the average earnings of Tsh 600 million annually from its local investments in Tanzania, EAMCEF can cover the total operating budget that it expends every year. This means that if EAMCEF could zero down on its program expenditure, it can survive on the earnings of the Tanzanian investments alone. Furthermore, it enjoys tax exemption both in the USA and in Tanzania. It therefore does not pay taxes on its earnings.

EAMCEF has withdrawn a total of US\$ 7.5 million with US\$3.5 million being invested locally and US\$ 4 million going towards EAMCEF expenses when there was no donor funding.

Governance

EAMCEF is governed by a Board of Trustees (BOT) that meets twice a year. It has representation from the Government of Tanzania, national and international NGOs, academic and research institutions, legal community, private sector companies and the local community. The Executive Director is the Secretary. The BOT is responsible for overall governance thereby undertaking policy formulation, decision making and operational oversight.

2.3 Benefits

EAMCEF enjoys several benefits from the endowment funds. These include:

Sustainability: The endowment fund offers EAMCEF sustainability once it achieves its US\$ 30 million

target. It has raised 37% of the required amount.

Funding: The endowment fund has been valuable in supporting EAMCEF operations and programs in the absence of donor funding. The Tsh 600 million it receives in earnings from its local investment alone can support all of EAMCEF's current operating annual costs.

Independence: The funds that EAMCEF has invested locally can sustain it for 4 years at the current operating and program costs. If its foreign capital in its endowment fund is included, it can survive without any donor funding at current expenditure levels for 10 years. This is without including any interest the invested funds would generate over that period. If interest is factored in, EAMCEF can survive for more than 20 years without donor funding.

Funding Appeal: It enhances the funding appeal of the organisation given its sustainability prospects. More donors are willing to support programs knowing that the organisation will be able to sustain its activities once they leave.

Unrestricted Funding: The endowment offers EAMCEF unrestricted funding that can be spent on aspects not covered by traditional funding.

Exit Strategy: The fund will eventually offer EAMCEF an exit strategy from traditional funding. Once fully capitalised, EAMCEF will be able to fulfil its mandate without depending on traditional donors.

2.4 Achievements

EAMCEF has enjoyed several achievements during its existence. These achievements include:

Growth: EAMCEF has been able to grow its endowment from US\$ 7 million in 2006 to US\$ 11 million in 2022, representing a 57% growth. This accounts for 37% of its US\$ 30 million target. However, this does not account for the US\$ 4.0 million withdrawn from the fund to support operational expenses during times when it has no donor funding. If this is considered, it has generated an additional US\$ 4.0 million over 15 years.

Revenue: It has been able to benefit from income from the endowment fund during funding gaps. The income has been critical in keeping operations and programs going. EAMCEF has withdrawn and used US\$ 4.0 million to address funding gaps and shortfalls.

Geographical Coverage: This has grown from the 6-district council's supported at EAMCEF's inception

to 12. It has also doubled the number of nature reserves that it works in from four to eight in addition to one National Park.

Accountability: EAMCEF has never had a questionable audit in the more than 20 years of its existence. This has strengthened its credibility amongst partners.

Assets: EAMCEF owns 2.5 acres of land and buildings in Morogoro, Tanzania. These are valued at US\$ 3 million. The ownership of the property means that it does not have to pay rent for office space.

2.5 Challenges

EAMCEF has faced several challenges over the last 15 years. These include:

Lack of funding for endowment funds: It is very difficult securing donors to support endowment funds. EAMCEF has not managed to secure any new donor in the last 15 years despite attempts.

Varied investment performance: The performance of the investment portfolio has varied and even underperformed at times. It has largely been dependent on the status of the stock markets in USA and this has served to undermine the growth and performance of the fund. It has been affected by the war in Iraq, the Covid-19 pandemic and most recently the Ukraine war. This has affected earnings over time.

Lack of In-house Expertise: The EAMCEF Board lacks in-house expertise on investments. It therefore generally relies on the expertise of the investment manager, which is not always the best situation.

Exchange Rate Risks: The fluctuating exchange rate impacts on the returns received by EAMCEF from the fund. This has however largely been positive due to the strengthening dollar against the Tanzanian shilling.

Difficulty in attracting project funding: This forces EAMCEF to dip into the fund. The result has been slower than desired growth of the endowment fund. Volatility: There will be events that affect the endowment fund like wars and pandemics. However, according to EAMCEF, volatility is normal in any investment setting and will eventually come to pass.

2.6 Future Plans

EAMCEF has several plans for the future, which include:

Sustainability: EAMCEF seeks to be totally free

from donors in the next decade. By that time, donors should engage with EAMCEF because its work helps to improve their profile.

Growing the endowment fund: EAMCEF seeks to grow its endowment funds to US\$ 30 million over the next 10 years. This will not be an easy task given the difficulty of mobilising funds for endowments. It will therefore largely be done through re-investment of earnings from the fund.

Raising project funds: EAMCEF seeks to raise funds to support its program and operational costs while it grows its endowment funds through re-investment.

Domestic Investment: More investments will be made locally in order to capitalise on local opportunities. EAMCEF is about to locally generate earnings that are 2.5 to 3 times compared to funds invested in the USA.

3 Lessons Learned

EAMCEF has learned several lessons over the years. These include:

Discipline: This is critical in managing an investment fund. One should never touch the capital.

Diversify markets: The rates of return will vary from one market to the other. While the main investment has been held in the USA, EAMCEF begun investing funds in Tanzania as well from 2017 once the returns in the US begun to drop. The decision has worked better than planned. It has been able to earn between 12% to 15.5% annual interest on its fixed deposits as opposed to the less than 5% returns on its offshore investments. It is important to diversify the markets in which the funds are invested.

Diversify investments: It is important to diversify investments in order to manage risks. EAMCEF has extended its investment from the initial shares, bonds and stocks to 12 different instruments. These have served to reduce the risks it faces especially in volatile global markets.

Policy adjustments: The policy needs to evolve with changing investment conditions. The Board needs to adjust its policies and strategies in order to support the funds growth.

Performance: The performance of investments will vary. One has to be prepared to lose money on some occasions.

Donor investments: Donors do not want to invest their money in endowment funds. Rather, they want to be associated with successes in the field through program funding. It is therefore difficult mobilising funds from donors.

Reinvestment: EAMCEF has been able to grow its investment fund through re-investment. By mobilising donor funds to support its operational and program costs, it has been able to re-invest all its earnings. The result has been a 57% growth of the fund from US\$ 7 million to US\$ 11 million.

4 Conclusion

4.1 Conclusion

EAMCEF, as its name suggests, was set up with a dream, namely to establish an endowment fund that would fund the conservation of the Eastern Arc Mountains. The premise was that with an endowment fund of US\$ 30 million, it would be able to conserve

this important global ecosystem into perpetuity. It has achieved 37% of its target, albeit with significant challenges.

Despite its inability to attract donor funding for its endowment, it has been able to grow it by 57% from US\$ 7 million to US\$ 11 million. This however ignores the US\$ 4.0 million that has been withdrawn and used to address funding gaps. As it stands, EAMCEF can survive for 10 years on its existing funds at its current expenditure levels or for 20 years if interest earnings over this period of time are factored in. With the Tsh 600 million, it earns from its Tsh 9 billion (US\$ 3.5 million) in the local market, EAMCEF can support half its current annual operating and program expenditure. Furthermore, if it cuts off its program funding, it would be able to survive on the local earnings alone. In short, endowments can provide organisations with sustainability options if well planned and used. In fact, the fund has already helped EAMCEF navigate periods in which it did not have any funding. It has already demonstrated its value as a sustainability tool not only to EAMCEF but also to other organisations interested in walking that journey.

A Beautiful Business - Butterfly Farming With EAMCEF

Domiciled in Bwambo Village, Same District, Tanzania and next to Chome Nature Forest Reserve is a unique nature based group owned business. In 2017, EAMCEF trained 396 villagers (180 women and 216 men) in the butterfly farming business. As a result, there are 72 households practicing butterfly farming.

“When butterfly keeping project was first introduced in our village most people were laughing and considered it as a weird undertaking...it is very embarrassing for a grown-up man/woman to walk around catching butterfly,” says William E. Msese. He notes that butterfly farming is an easier and economical way of making alternative income – no hustles!

EAMCEF introduced butterfly farming to help communities adopt an alternative means of earning an income. It was a strategy to reduce heavy-dependence on forests, especially the neighbouring Chome Nature Forest Reserve. Members of the Butterfly Farming Group were first trained and then taken to one of the butterfly keeping sites in Amani ward, Muheza District for practical learning. After the training, the group initiated the new business by planting flowering plants and trees that would attract and provide food to butterflies as well as give them with a place to lay eggs on the plant leaves.

Part of the business involves catching female butterflies and placing them in a breeding cage containing flowering plants. The butterfly then lay their eggs on the flowering plants or tree leaves. The delicate eggs are then carefully harvested and placed in a clean container. 14 days later, the eggs hatch into a larva – called caterpillars. This is the most active feeding stage. The farmers transfer the caterpillars to their particular food plant and cover the branches to avoid any loss. In another 14 days, the larvae attach themselves on leaves or branches and shed off their skin (pupate) to form pupas (singular pupae)



I was so ashamed to see my dad catching insects, but later we saw money coming out of it. I am now helping him to take care of the butterfly cage...and I like the job. Before my dad started keeping butterflies, I used to miss classes since fee was not paid on time. I remember staying home for extra 2-3 weeks while my friends were already in school.

~ **Navone Emmanuel Singo**
(Student, Daughter of Emmanuel Singo)

Once ready, the pupa are harvested and sold overseas through a partner company based in Amani ward, Muheza District. The butterfly are popular in zoos as well as live exhibitions as ornamentals in western countries. In total, all the active farmers raised 1400 pupa in 2017, of which 1200 were sold. This generated TZS 2,700,000 in sales.

The business is growing into a good source of alternative income for Mr. William and his group members. In 2017 for example, they sold 865 pupa earning TZS 1,186,530. The price of pupae differs depending on butterfly species and ranges from TZS 850 to TZS 2,170. In 2021, the group members sold 780 pupa worth TZS 1,441,870.



According to Emmanuel E. Singo, 'my daughter was suspended from school since I could not manage to pay school fees of TZS. 60,000. But, after selling 189 pupas, I earned TZS. 256,840 and cleared the school fee'. My daughter was so happy to get back to school since she almost missed her final exams'. Ridi Eliamani on the other hand also appreciates the impact of the business. He says that 'butterflies have given light to my house, I got TZS. 90,000 from sale of pupas and decided to install solar panel for lighting my house. My children were so happy to finally study under light bulbs, they extended their study hours from one hour in the past to, sometimes, until midnight'.



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