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<tr>
<td>AO</td>
<td>Abgabenordnung</td>
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<tr>
<td>BMZ</td>
<td>German Federal Ministry for Economic Cooperation and Development</td>
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<tr>
<td>D&amp;O</td>
<td>Directors and Officers Liability Insurance</td>
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<tr>
<td>ED</td>
<td>Executive Director</td>
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<tr>
<td>ESMS</td>
<td>Environmental and Social Management System</td>
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<tr>
<td>EUR</td>
<td>Euro</td>
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<td>KfW</td>
<td>KfW Development Bank</td>
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<td>Nature Trust Alliance</td>
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<td>PCGC</td>
<td>Public Corporate Governance Codex</td>
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1 Introduction

This Operations Manual for Blue Action Fund (in this manual also called “Blue Action” or “the foundation”) is intended to serve as a general guide to Blue Action’s governance and processes for the foundation’s internal and external stakeholders, summarizing key provisions of Blue Action’s defining documents (charter, bylaws) and the relevant law, and the foundation’s main internal operating policies and procedures. Reference is also made to certain provisions of donor contracts.¹

Blue Action maintains more detailed procedures in a number of areas. Separate protocols are developed in relation to these that are kept up to date by staff under the responsibility of the Management Board. A partial list is included in Chapter 10. This manual does not summarize procedures relating to grant-making and investing, which are covered by separate documents (a Grant Procedures Manual and an Investment Policy) which are available on the foundation’s website. The manual will be regularly reviewed and amended to reflect new requirements and best practices.

2 Governing Law, Documents and Principles

Blue Action conducts its business based on rules applicable to it as a German foundation (“Stiftung”) founded in the German State of Hessen that receives funding mainly from different public sources.

2.1 Governing Documents

The activities of the foundation and its governing bodies are governed by different bodies of German law and regulations. These include especially:

- Foundation-law-related requirements from §§ 80 - 88 of the Bürgerlichen Gesetzbuchs (the German civil code). In addition, the Hessische Landesstiftungsgesetz (State foundation law of Hessen) is relevant, since foundation law in Germany is a state responsibility. These legal requirements are reflected in the foundation’s charter (as confirmed through the recognition of the foundation by the foundation authorities).
- Regulations from §§ 51- 68 of the Abgabenordnung (the German tax code) regarding the public benefit status of the foundation. Compliance with tax-law-related requirements is a precondition for the confirmation of the public benefit status of the foundation by the tax authorities.
- The foundation’s charter, which includes provisions regulating among other things the purpose, organisation, and assets of the foundation to which the foundation must adhere.
- By-laws and other policies (Investment Policy, Grant Procedures Manual) of the foundation, which can be changed by the responsible governing body.
- The Public Corporate Governance Codex (PCGC) of the German Federal Government. The application of PCGC is not mandatory as Blue Action will not undertake commercial activities and does not meet the definition of a public company. However, the requirements of the codex were taken into account during the creation of the statutes to ensure that Blue Action is ready for compliance if it were to become mandatory in the future.
- Grundsätze Guter Stiftungspraxis des Bundesverbandes Deutscher Stiftungen (“Guiding Principles of Good Practice for Foundations”, issued by the Association of German Foundations)

In addition, the foundation’s agreements with donors provide specific rules and requirements for the funding concerned.

¹ The Operations Manual has been compiled by Blue Action with support from joyn-coop (www.joyn-coop.com) and panta rhei Stiftungsberatung (www.pr-stiftungsberatung.de), whose support is gratefully acknowledged.
2.2 Transparency

While, as noted above, Blue Action is not required by law to comply with the PCGC, it was established with German public resources and thus seeks to act in accordance with its principles. Accordingly, Blue Action communicates as transparently as possible, in particular in relation to:

- **Governance**: The governance structure as well as names and positions of the members of the Board(s), Committees, Juries, etc. will be publicly available. However, the minutes of the Board meetings are confidential;
- **Governing documents**: the Charter, the By-laws and the relevant Policies (Investment Policy, Grant Procedures Manual) will be publicly available;
- **Grants and Activities**: calls for proposals as well as grant programmes will be communicated openly on the website and respective events;
- **Studies**: studies and research financed or undertaken by the foundation will be shared widely;
- **Financial information**: the financial statements as well as the reports of the auditors will be publicly available (PCGC, Part A, §6.3).

3 Governance

The governance structure of Blue Action respects the basic principles of good governance, particularly in regard to the rules laid out in the PCGC and the “Guiding Principles of Good Practice for Foundations”, issued by the Bundesverband Deutscher Stiftungen. In order to comply with these rules, Blue Action is structured in a two-tier board model with a Management Board (MB) conducting day to day business and a Supervisory Board (SB) that oversees the activities and provides strategic guidance.

3.1 Management Board

The Management Board is responsible for day-to-day management of the foundation. The MB can set up Committees in order to prepare and inform its decisions. The following summary is based on the Blue Action Fund’s Charter, §6, §7, §8, and By-laws §3, §4.

**Composition**: The MB is composed of two or three persons. The members of the MB are elected by the SB. Board members must demonstrate specific competence and experience with regard to the foundation’s activities. No person can be member of both the MB and the SB.

**Terms**: The members of the MB are elected for a term of three years. The SB may determine an alternative duration. Reelections are permissible. There is no limit concerning a maximum number of terms. If a member of the MB is an employee of KfW, their term as a Board member ends with the termination of the employment contract. Should a member of the Board wish to resign, they shall inform the MB and SB six months in advance.

**Executive Director and Chairman**: As permitted by the charter, the SB has appointed a member of the MB as Executive Director (ED) to deal with the ongoing business of the foundation. In particular, he/she is responsible for the selection and management of the employees and service providers, public relations and communication, general representation, administration of the foundation and implementation of its grant programme. The Executive Director keeps the other members of the MB informed of important measures and events on an ongoing basis.
As stipulated by the by-laws, the ED also acts as the Chairman of the MB.² The MB has also appointed a Deputy Chairman as required by the by-laws. The Chairman convenes and chairs the meetings of the MB. As necessary, he/she calls for votes. In addition, the Chairman represents the MB vis-à-vis the SB.

**Power of representation:** The MB represents the foundation by at least two of its members, of which one must be the Chairman or, in the event of his/her absence, the Deputy Chairman.³

**Division of responsibilities:** The MB may decide on a division of responsibilities whereby its individual members are assigned certain ongoing tasks to be executed independently. The assignment of individual responsibilities does not affect the joint responsibility of the body’s members.

**The MB is responsible for the fulfillment of the foundation’s purpose, in particular for:**

- **Financial Management**
  - Management of the foundation’s assets;
  - Book-keeping;
  - Decisions regarding the building and liquidation of reserves;
  - Assurance of compliance, safeguarding against corruption, risk management;
  - Preparation of an annual budget for the following business year;
- **Organisation**
  - Development of policies/manuals to ensure proper operations;
  - Employment of personnel;
- **Programmes**
  - Allocation of funds and grants to pursue the foundation’s mission;
  - Selection of concept notes and full proposals for SB’s consideration;
  - Monitoring and Evaluation of grants and programme performance;
  - Communication and PR;
- **Reporting**
  - Preparation of an annual report;
  - Preparation of annual financial statements.

### 3.2 Management Board Meetings

The following summary is based on Charter §7, §9 and By-laws §3.

**Frequency of meetings:** The MB must meet at least four times a year. Additional meetings can be held if deemed appropriate or necessary. The MB must convene a meeting if two members of either the MB or the SB so request. A meeting can be held via telephone or video conference, provided that no member disagrees.

**Invitation:** The meetings are called and led by the Chairman. An invitation and agenda must be sent out at least two weeks before the meeting date.

**Documentation:** Every Board meeting is to be documented by written minutes, signed by the Chairman and the keeper of the minutes. The minutes are to be made available to all members of the MB and the Chairman of the SB.

**Resolutions:** A resolution of the MB is necessary for all matters that fall within its decision-making authority. In particular, all measures and transactions that are of importance to the foundation or involve an economic risk require approval of the entire MB.

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² Were the SB not to have appointed an Executive Director, the MB would have needed to appoint a Chairman.
³ The SB may grant any Executive Director appointed the sole power of representation.
The MB requires the prior authorization of the SB for the following transactions:

- Adoption and amendment of foundation policies such as an Investment Policy, Grant Procedures Manual and Operations Manual;
- Pursuit of any grant project (approval of the concept note and overall concept proposal and maximum Euro amount) and termination of approved projects;
- Conclusion, amendment, or termination of non-grant contracts (employment contract, consulting or other service provider contracts, etc.) which are outside of the ordinary course of business or which, in the individual case, commit the foundation to an amount in excess of Euro 75,000 per year;
- Setting up committees or advisory councils and selecting their members;
- Non-grant spending in any given year in excess of 105% of the approved budget for that year;
- Acceptance of additional contributions to the endowment.

**Quorum:** Resolutions of the MB are passed by a simple majority of valid votes. Abstentions are counted as not cast. In the case of a tie vote, the chairman – in case of his/her absence the Deputy Chairman – has the casting vote.

**Rules on decision-making:** Decisions can only be taken if the meeting has been convened in due form and if at least two members of the Board are present or represented. Errors in the notice of meeting are considered cured if all members are present and no objection is raised. A Board member may authorize another member of the Board to represent him/her. However, no Board member shall represent more than one other member. Authorization shall be granted in writing and attached to the minutes.

**Consent resolutions:** Resolutions of the Board may be passed by written consent. The text of the resolution should be made available in written or electronic form. As a rule, the voting period is two weeks. The resolution has to be documented in due form and will be included in the minutes of the next Board meeting. If a Board member disagrees with the procedure, a regular Board meeting shall be convened.

### 3.3 Supervisory Board

The Supervisory Board oversees the activities of the foundation and provides strategic guidance. The following summary is based on Charter §10, §11.

**Composition:** The SB is composed of two appointed and up to seven elected members. The members shall demonstrate specific competence regarding the management and/or the activities of the foundation. The two appointed members are appointed by KfW and BMZ respectively. They need not be employees of KfW or BMZ. The elected members are named by the two appointed members.

**Terms:** The term of the members of the SB is three years. Re-appointments/re-elections are permissible. There is no limit concerning a maximum number of terms. The appointed members may be recalled at any time by the seconding institution. In this case, the institution must appoint another person. If an elected member resigns, the appointed members are free to elect another person.

According to the KfW Separate Agreement (II 1.2.), the KfW appointment is initially limited to a period of four years.

If KfW or BMZ waive the right to appoint SB members or do not exercise their right within a period of six months after an appointed member has resigned or was recalled, the right to name new members falls to the SB (co-option).
Chairperson: The Board member appointed by BMZ is the Chairman of the Board, the member appointed by KfW the Deputy Chairman. If KfW and/or BMZ waive the right to appoint Board members, the Chairman/Deputy Chairman is elected by the Board members for a duration of three years. In case of the chairman’s absence, the Deputy Chairman represents the SB vis-à-vis the MB.

Responsibilities: The SB’s responsibilities are to provide strategic guidance and to take the fundamental decisions to be executed by the MB. In particular, the SB has the following responsibilities:

- Responsibilities vis-à-vis the MB
  - Election of the members of the MB, appointment of Executive Director;
  - Support and oversight of the MB;
  - Issuance of by-laws for the MB;
  - Authorization of transactions that need prior consent of the SB;
  - Discharge of the MB;
- Financial oversight
  - Approval of the annual budget;
  - Appointment of the auditor;
  - Approval of the annual financial statements;
- Programmes
  - Establishment of the foundation's strategy, including establishing the thematic and/or regional focus;
  - Examination and approval of grant decisions;
- Governance
  - Issuance of by-laws of the SB, if any;
  - Modification/amendment of the foundation’s Charter;
  - Dissolution or merging of the foundation.

3.4 Supervisory Board Meetings
The following summarizes Charter §12.

Frequency of meetings: The SB meets at least once a year. Additional meetings can be held if this is deemed appropriate or necessary. A SB meeting must be convened if two members of the SB or the MB ask for a meeting. Meetings can also be held via telephone or video conference, provided that no member disagrees.

Invitation: The meetings are summoned and led by the Chairman of the Board. The invitation and agenda must be sent out at least two weeks before the convening date.

Documentation: Board meetings are documented by written minutes, signed by the Chairman of the meeting and the keeper of the minutes. The minutes are made available to all members of the SB and the Chairman of the MB.

Quorum: As a rule, resolutions of the SB are passed by a simple majority of the votes. Abstentions are counted as votes not cast. In the case of a tie vote, the chairman – in case of his/her absence the Deputy Chairman – has the casting vote.

Certain resolutions require a special quorum:
- Issuance and amendments of by-laws for the SB require a quorum of 75%;
- Amendments of the foundation’s Charter and objectives as well as requests to dissolve or merge the foundation require the unanimous vote of the SB.

Veto rights: Resolutions cannot be passed against the vote of the member appointed by BMZ.
**Rules on decision-making**: Decisions can only be taken if the meeting has been properly called and if at least 50% of the members are present or represented. Errors in calling a meeting are considered cured if all members are present and no objection is raised. A SB member may authorize another member of the SB to represent him/her.

**Consent resolutions**: Resolutions of the Board may be passed by written consent. The text of the resolution should be made available in written or electronic form. As a rule, the voting period is two weeks. The resolution has to be documented in due form and will be included in the minutes of the next Board meeting. If a Board member disagrees with the procedure, a regular Board meeting shall be called.

### 3.5 Committees

The following summary is based on By-laws §5, §7.1d.

**Establishment of committees**: In order to prepare its decisions, the MB may set up committees. All decisions regarding the establishment of committees or advisory councils as well as the selection of their members require the consent of the SB. The MB will document the terms of reference for experts and committees in writing. At least one member of the MB shall be a member of each committee.

**Investment committee**: The MB has established an investment committee whose role is defined in the Investment Policy. Additional committees, e.g. a scientific advisory committee, may be set up if deemed necessary.

### 3.6 Guiding Principles of Board Procedures

The following summary is based on Charter §5.2, 9.7, By-laws §2, §11.

**Compliance, cooperation and loyalty**: The members of the MB shall conscientiously observe the law, the foundation charter and the by-laws in managing the foundation. Boards and Board members will cooperate in a close and trusting manner for the benefit of the Foundation.

**Duties of confidentiality**: MB members maintain confidentiality with regard to the content of the meetings and resolutions of the Board. All members of the MB ensure that third parties who are engaged by them act in the same way as regards the confidentiality obligation. SB members shall maintain confidentiality with regard to the content of the meetings and resolutions of the Board. This rule does not apply to the two appointed members vis-à-vis their seconding institutions.

**Conflict of interest**: Each member of the MB shall immediately disclose conflicts of interest to the SB and inform the other members of the MB accordingly. No MB member shall vote on, or participate in the decision-making process of any matter in which such MB member has an interest. All transactions between the Foundation on the one hand and the members of the MB and related persons or organizations on the other must comply with industry standards. Insofar as they are not otherwise subject to approval under charter or the by-laws, significant transactions with the aforementioned persons or organizations require the consent of the SB.

**Remuneration**: As a rule, all members of the Supervisory and the MB act on a voluntary or honorary basis. Provided that the financial situation of the foundation permits, the SB may decide to remunerate individual or all members of the MB. All members of the Supervisory and MB are entitled to compensation for costs and expenses actually incurred.

### 3.7 Nature Trust Alliance

Blue Action is one of the three partners that form the Nature Trust Alliance (NTA) GbR, which provides operational support services to Blue Action and two other Conservation Trust Funds. The services provided by NTA include for instance financial management, administration, communications, reporting etc.
4 Financial Resources and their Use

This section is based on a larger number of documents. The relevant ones are listed below in bullet points.

Blue Action has five main types of capital. These capital resources need to be tracked separately as their uses follow distinct rules. Management of each of the different sources is the responsibility of the MB. The financial statements will indicate the balance of each fund source annually.

As described below, the different categories of capital have differing rules governing their uses and allocations. All can be invested to generate investment income and gain. The key documents governing these matters are:

- German Tax Law (Abgabenordnung AO §51ff);
- Charter of Blue Action;
- Funding Agreements with donors.

4.1 Permanent Endowment Fund

Under applicable foundation and tax law principles, Blue Action’s permanent endowment (Grundstockvermögen) is to be preserved in perpetuity (in principle). The Foundation Authority will monitor on an annual basis that the capital remains intact. As a basic principle, only the investment earnings on the permanent endowment can be used for funding. The earnings can be used to finance all types of expenditures:

- Grants;
- Programme-related costs;
- Administrative costs.

Investment earnings, whether from the endowment or another source, in principle are to be spent within the two business years following reception (§55.1.(5) AO). There are two exceptions which are described below in 4.4 and 4.5.

4.2 Spendable Capital

Blue Action also has a so-called “spendable capital” (Verbrauchsstock). Unlike the permanent endowment, the spendable capital can and must be spent down as set forth in the Foundation’s Charter (§3.2.). The Foundation Authority (Stiftungsaufsicht) will ensure that these stipulations are respected. Any deviations from the pay-out rules require approval of the Foundation Authority.

Eligible expenditures: The spendable capital will generate two kinds of income: investment income and annual instalments of the capital pay out. From a foundation/tax law point of view, the instalments can be used to finance all kinds of types of costs, that is grants, program-related costs and overhead. However, a donor may make specific arrangements as to the use of the instalments. KfW, which provided the spendable capital contribution on behalf of the BMZ, has stipulated that the spendable capital shall cover the operational costs of Blue Action, consisting of a) administrative expenses and b) programme development and management expenses (see also Separate Agreement, § I 3.3.).

4.3 Reserve Fund

Blue Action Fund also has so-called reserve funds, referred to as the “funding capacity reserve” in the financial statements. From a foundation/tax law point of view, these funds constitute a non-programme-related reserve as per §62.3.2, AO and are not subject to any pay-out requirement (i.e., they may be used at any time). However, donors may make specific arrangements as to the timing of the use of the funds contributed to this reserve.

Eligible expenditures: From a foundation/tax law perspective, a programme-related reserve can be used to finance all programme-related costs, that is grants and programme management, as
well as overhead costs. However, donors have made specific arrangements as to the use of the funds contributed to this reserve. For example, the Separate Agreement with KfW (Separate Agreement, §1 3.3) contains special requirements limiting its use mainly to grants.

4.4 Programme-Related Reserves (§62.1.1 AO)

Certain funds available to the foundation, including investment earnings and current use donations, may be earmarked for programme-related reserves which become part of the foundation’s capital pending their use. Typically, a specific contractually defined programme use within a contractually defined period (usually thought to be no more than 6-8 years) must exist to which such reserve can be dedicated.

4.5 Non-Programme-Related Reserves (§62.1.3 AO)

Up to one third of investment earnings and 10% of current use donations in any given year may be set aside in non-programme-related reserves. These may be used for any valid foundation purpose, but may also be maintained in the capital of the foundation as part of its effort to maintain its capital on a real (inflation-adjusted) basis. It has not been clearly settled as a matter of German foundation/tax law whether an obligation to maintain capital on a real basis exists; however, it is considered good practice to do so.

4.6 Fundraising/Treatment of New Funds

In order to leverage additional funds to fulfil its mission, Blue Action may raise funds from other donors. Contributions of additional endowment capital (Zustiftungen), spendable capital and funding capacity reserve are all permitted. Such contributions require special designation in the donor agreement to assure that the desired treatment is accorded. The acceptance of additional contributions to the endowment requires the consent of the SB.

The foundation can also accept current use donations (Spenden). According to German tax law (§55.1(5) AO), current use donations must be paid out within the two business years following reception. They are not part of capital unless converted as described in 4.4 and 4.5 above.

As a rule, all new donations are subject to the regulations put forward in the Charter, By-laws and policies of Blue Action. Provided that the funds are used according to the foundation’s charter, the MB may – with advice and consent of the SB – agree on specific provisions with third-party donors, for example regarding regional or thematic priorities, reporting requirements, investment principles and so forth. It is the responsibility of the MB to determine if a given restriction is acceptable and feasible for the foundation.

5 Budgeting and Financial Management

5.1 Budget

The following summary is based on Charter §7.1d and By-laws §6.2b.

The MB of the foundation presents an annual budget forecast that is submitted to the SB and to any donor who requires it. The preparation of the budget is supported by Nature Trust Alliance.

The annual budget includes:

- planned expenses for the year;
- planned sources of income for the year (payouts from reserve fund and sinking fund, investments earning, third-party donations).

A proposed budget for the following year is to be presented to the SB no later than two months before the end of a given financial year. Until the approval by the SB, the foundation can continue to cover both running costs on the basis of the previous year’s budget and existing grant.
commitments but cannot make new grant commitments.

5.2 Banking and Bank Accounts

Blue Action maintains separate bank accounts for its current operations (grant-making and operational expenses) and its investments. Blue Action maintains its bank accounts at reputable banks in Germany as specified in the Investment Policy.

Blue Action uses its current accounts to pay for its operational expenses pursuant to budgets approved by the SB, as well as grant disbursements. Grant disbursements are also budgeted but are governed by the contracts with the grantees rather than the budget. Blue Action’s investment accounts are available to (i) its discretionary managers for trading purposes only; and (ii) its financial advisor for reporting purposes and (on instruction from the investment committee) for trading purposes only. Withdrawals from the investment account (typically for transfers to the current account) require two signatures of the MB.

As a rule, funding for operating/administrative and grant expenses is advanced twice per year, covering six months of budgeted expenses plus a small contingency.

Blue Action maintains the two-approval and the four-eyes principle. This is reflected in its procedures with its external bookkeepers who also provide payment services. Blue Action provides a payment request with the appropriate documentation approved by the ED and another member of the MB or, for amounts less than Euro 5,000, the ED and an employee of NTA. NTA and/or the bookkeeper then effect the payment of the indicated amount(s).

Exceptions to the two-signature requirement exist for corporate credit card transactions. The ED authorizes employees to have a corporate card where necessary. Corporate cards are to be used exclusively for business purposes and a transaction limit is set to the cards (5,000 EUR).

NTA supports Blue Action in managing the operating account and in executing payments. When executing payments for administrative and operational costs, NTA also ensures that payments are in compliance with contracts.

5.3 Accounting System and Functions

The following section is based on Charter §1.4, §3.

Blue Action’s accounting year is the calendar year. It ensures that proper books are maintained as necessary to properly record and account for the following content:

- Assets, including:
  - Endowment capital, spendable capital, reserve funds and other contributions classified appropriately;
  - Donor-advised funds (the financial contributions of its different donors as required by their respective contracts);
  - Current use donations (Spenden); and
  - Any tangible assets (equipment, etc.) owned by Blue Action.

- Liabilities, including a schedule of committed grants showing in reasonable detail the scheduled date of disbursement;

- Revenues, including donations and income from investments and;

- Expenditures for grants; and

- Operational expenditures.

The bookkeeping and accounting systems are adapted so that they enable and support the preparation of annual financial statements meeting the requirements of the foundation law and
the charter and the audit thereof by an independent accounting firm.

NTA supports Blue Action by managing its accounting and controlling functions. The detailed structure of the accounting system and NTA’s processes are described in NTA’s procedures manual.

5.4 Tracking of Administrative and Programme Expenses and Organisational Efficiency

Blue Action tracks administrative and programme expenses in order to:

- support foundation management by categorizing spending so as to make more evident any potential for cost reduction;
- serve as a basis for communication and show the efficiency of the organization;
- comply with tax rules and guarantee that its statutory purposes are fulfilled.

As certain bookkeeping and financial control functions are outsourced to NTA, common coding of cost categories with the other NTA members has been developed which should support consistency and efficiency.

Blue Action accounts for its expenses as shown in the table below:

<table>
<thead>
<tr>
<th>Expense Category/Type</th>
<th>Definition</th>
<th>Examples</th>
<th>Documentation</th>
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</thead>
<tbody>
<tr>
<td>Projects</td>
<td>Grants</td>
<td>Financial contributions to grant projects and preparation of full proposals</td>
<td>SB decision; Grant Agreement; Donation certificate &amp; reports</td>
</tr>
<tr>
<td>Outreach and Research</td>
<td>Expenses and grants related to the statutory purpose “science and research”</td>
<td>-- Preparation/implementation of conferences -- Studies, assessments, position papers -- PR measures for this purpose</td>
<td>Service Provider: Consultant contract and invoices; Grant Agreement</td>
</tr>
<tr>
<td>Operational (with Project Focus)</td>
<td>Programme Development and Management</td>
<td>Expenses that serve the professional implementation of grant activities, outreach and research</td>
<td>Service Provider: Consultant contract and invoices; ED &amp; staff time allocation; annual assessment by ED</td>
</tr>
<tr>
<td>Operational (without project focus)</td>
<td>Administrative</td>
<td>Costs that only indirectly serve the realization of the foundation’s purposes</td>
<td>ED &amp; staff: time allocation; ED NTA: Service contract and documented time by individual NTA employees</td>
</tr>
<tr>
<td>Fundraising and Communication</td>
<td>Costs related to raising additional funds</td>
<td>-- Contact to potential donors -- Creation of information and promotional materials</td>
<td>Service contract and invoices; ED &amp; staff time allocation (annual assessment by ED)</td>
</tr>
</tbody>
</table>

Based on these categories, Blue Action tracks different ratios to manage its efficiency as an organization:

- The administrative expense ratio (ratio of administrative and fundraising and communication expense - i.e. operational expense without a project focus - to total expense). It helps to

4 Note that investment consultant fees are considered income-generating and are therefore deducted from investment earnings and not considered administrative expenses.
understand operating efficiency.

- The programme delivery ratio (ratio of program development and management expense to the sum of project expense and programme management and development expense). Helps to monitor Blue Action’s efficiency in deliver its programme;
- The non-grant expense ratio (ratio of total operational expense to total expense). Tracks the share of Blue Action funds that actually reaches the grantees;
- The fundraising ratio (ratio of total funds raised in a given period to fundraising and communication expense). Helps to understand how efficient Blue Action is in raising funds.

The different ratios are used internally as management tools by the MB and SB; the administrative expenses ratio is also used in donor and public communication.

### 5.5 Equitable Sharing of Operational Costs

Blue Action dedicates funding from donors to finance operational costs based on an equitable sharing mechanism. Operational costs (both project and non-project focussed) are financed first from dedicated sources, namely:

- Up to 12.5% of the first Euro 10 million contributed by a donor during a rolling five-year period;
- Up to 10.25% of the next Euro 10 million contributed by the donor during the five-year period;
- Up to 8% of any amount equal or above Euro 20 million contributed by the donor during the five-year period;
- Special rules apply to KfW/BMZ during the period 2017-22 because of its contribution of the spendable capital, which is the first source of operational costs funding during the 2017-2026 period under the provisions of the charter.

Investment earnings from the endowment fund, sinking fund, and reserve fund are also available for funding both categories of operational costs.

### 5.6 Investment Management

Investments of the foundation’s assets are guided by an Investment Policy that defines the investment strategy, eligible asset classes, and investment processes. The Investment Policy and a description of the roles of the different actors in Blue Action’s investments are available on Blue Action’s website.

### 6 Reporting

Proper reporting is an essential management responsibility in order to comply with legal and contractual obligations and to be accountable to state authorities, donors and the wider public. In view of the diverse group of stakeholders, it is important to harmonize reporting requirements so that reporting efforts remain at a reasonable level. To this end, Blue Action produces multifunctional reports that can be used for different target groups.

Sections 6.1 to 6.4 are based on Charter §7.1f, §7.2, By-laws §6.2.

#### 6.1 Annual Report (Public)

Blue Action produces an annual report on its activities that will be made available to the public on the foundation’s website. More information on this report can be found in Chapter 7.
6.2 Audited Financial Statements (Public)
Blue Action follows standard procedures to report on the financial status of the foundation.

**Statements:** Blue Action will produce annual financial statements under German accounting standards (HGB) including an income statement and balance sheet. The preparation of the financial statements is supported by NTA. The Charter requires that the audited annual accounts must include:

- Balance sheet showing the assets and reserves as at 1 January and the balance as at 31 December;
- Presentation of the spendable assets, including any contributions as well as actual spending;
- Earnings from the Foundation assets;
- Any additional contributions to the endowment capital or the spendable capital;
- Any donations of third-parties in furtherance of the Foundation's purpose.

**Audit:** The financial statements are to be audited by an internationally recognised independent auditor. Pursuant to §11.1 of the Charter, the auditor is appointed by the SB. Donors may have separate audit requirements that must be considered and harmonized, especially as they relate to the Blue Action grant programme. Procurement processes may also be the subject of review for compliance by an auditor.

6.3 Annual Donor Report
The Blue Action Fund submits a harmonized annual report to all its donors, which informs about the foundation’s activities, finances, and all relevant developments. The report will be written in English. Additionally, Blue Action also reports semi-annually to the SB, which is to be done either in written form or at an SB meeting.

In addition, Blue Action must maintain a list of goods and services it has purchased with a value above Euro 5,000 and require its grantees to do the same.

6.4 Annual Report to the Foundation Authority
The foundation is obliged to submit a report of activities to the Foundation Authority (jährlicher **Bericht über die Erfüllung des Stiftungszwecks**). This document must be submitted in German and can be relatively brief.

6.5 Other Reporting Requirements
Foundations are obliged to pro-actively report any changes in Board composition to the relevant authorities. The Foundation Authority must be informed immediately about any changes in the composition or the terms of the MB and SB (Hessian Foundation Law §7).

Since 2017, corporations and trusts are obliged to disclose their beneficial owners in the German Transparency Register ([www.transparenzregister.de](http://www.transparenzregister.de)). As foundations do not have beneficial owners, Blue Action has to report every person who has a direct influence on the investment and/or the allocation of the funds. This applies to:

- Members of the MB (obligatory);
- Members of the SB (applicable in the case of Blue Action), provided that the person has a direct influence. This would mean that
  a) as long as the SB consists of two members, both have to be reported to the Transparenzregister
  b) if the Board has more than two members, the representative of the BMZ has to be reported because of his/her veto right
Members of the Investment Committee who are not Board members may need to be reported if they have a direct influence, which should not be the case as long as the MB member of the Investment Committee and the Executive Director have effective veto rights.

The entries in the Transparency Register are to be updated regularly.

7 Communications

Clear and transparent communication is of great importance for the Blue Action Fund. The foundation makes use of a variety of channels and tools to facilitate its communication with stakeholders and the public. In principle, the Executive Director is responsible for public relations and communication (By-laws, §4.1.b).

7.1 Communication Tools and Channels

Public annual report: The public Annual Report informs all stakeholders about the operations of Blue Action. The report is published on the website and made available to donors. Unlike the financial statements, there is no established reporting format for the annual report. As a rule, an annual report presents a broad overview as to the governance, the grant-making strategy and portfolio as well as the financial situation of the foundation.

Website: Blue Action’s main communication channel is the website. www.blueactionfund.org

Blue Action has procedures in place to keep the website complete and updated. In accordance with German data privacy law, the website is equipped with a security certificate (https://), imprint (Impressum), and disclaimer, including a privacy policy (Datenschutzerklärung).

Social media: The foundation uses social media (e.g. the twitter account @BlueActionFund) as a communication channel to share news and information about foundation activities and marine protection. Access to the account is restricted to foundation staff only.

PR material: Blue Action has a number of public relations products, both print and digital. This includes a brochure, fact sheets, e.g. ‘fact and figures’ as well as individual project fact sheets, and a poster.

Conferences, events, and workshops: As per the Charter, part of Blue Action’s mission is also to foster the exchange of knowledge and to share learning and best practices in the field of marine protection and marine biodiversity. Conferences, events and workshops (“Ocean Expert Talks”) are thus an important element of the foundation’s communication strategy.

Language: Blue Action targets an international audience. This applies to grantees and NGOs, donors, policy and decision makers as well as to the global scientific community. To this end, the main working and communication language of Blue Action is English.

Photographs other Copyrighted Material. Blue Action publishes photographic and other copyrighted material only with the written permission of the owner. Blue Action generally consents to the use by Grantees of the Blue Action Fund logo. Rights to us any copyrighted material owned by Blue Action may be granted on a case by case basis.

7.2 Branding

Donor branding: Blue Action fulfills the requirements and specifications made by third party donors concerning branding in all materials published by it, including its website, brochures and the like.

Blue Action branding: Blue Action’s support to projects should be made visible. Blue Action requires the grantees to set up sign boards, and partners should make use of the Blue Action logo for that purpose.
8 Environmental and Social Management and Complaints Management

8.1 Environmental and Social Management System (ESMS)
The currently applied ESMS procedures are defined in the Grant Procedures Manual.

8.2 Complaints Management
Blue Action’s grant agreements contain provisions requiring grantees to address complaints of local stakeholders in their project areas. In the event of serious complaints or those that cannot be resolved promptly, the grantees are obligated to inform Blue Action of the details.

In addition to the above, Blue Action maintains a separate channel of communication open to local stakeholders in the event they feel their issues are not being addressed by the grantees.

9 Procurement
Procurement of goods, works and related services, and other consulting services shall be based on strict ethical principles and shall conform to Blue Action’s internal procurement policy as described in this section. The procurement of goods, works, and related services as well as other consulting services shall also take account international best practices including KfW’s “Guidelines for the Assignment of Consultants in Financial Cooperation with Partner Countries” and the "Guidelines for the Procurement of Goods, Works and associated Services in Financial Cooperation with Partner Countries" (for details see the KfW Separate Agreement §II 2).

The following general principles apply to the procurement process:

- The bidding period will be fixed in a way that allows the bidders sufficient time to prepare their bids;
- The procurement process will comply with the four-eyes-principle. At each step of the procurement process and specifically before a procurement decision is made, the procurement needs to be verified by two persons;
- Selection processes must be confidential. While a tender procedure is ongoing Blue Action will not release any information on the assessment of the bids or the recommendations on the award of contracts to bidders or to any other persons who are not officially involved in the selection procedure.

The following thresholds apply to procurement with Public Funds, i.e. funds directly contributed to Blue Action by a government or governmental agency, such as BMZ, KfW, Swedish International Development Cooperation Agency, Agence Française de Développement etc.:

<table>
<thead>
<tr>
<th>Item</th>
<th>Contract value</th>
<th>Procurement method</th>
</tr>
</thead>
<tbody>
<tr>
<td>Goods and related services</td>
<td>&lt; EUR 5,000</td>
<td>Discretionary Award (= Direct Award)</td>
</tr>
<tr>
<td>Goods and related services</td>
<td>EUR 5,000 to EUR 99,999*</td>
<td>Limited Competitive Bidding / Price Quotation (at least 3 qualified bidders)</td>
</tr>
<tr>
<td>Consulting Services</td>
<td>&lt; EUR 20,000</td>
<td>Discretionary Award (= Direct Award)</td>
</tr>
<tr>
<td>Consulting Services</td>
<td>EUR 20,000 to EUR 99,999*</td>
<td>Limited Competitive Bidding / Price Quotation (at least 3 qualified bidders)</td>
</tr>
<tr>
<td>Goods and related services or Consulting Services with Public Funds*</td>
<td>EUR 100,000-EUR 221,000</td>
<td>Open competitive bidding</td>
</tr>
<tr>
<td></td>
<td>&gt; EUR 221,000</td>
<td>EU Public Procurement laws apply</td>
</tr>
</tbody>
</table>
For Discretionary Awards, Blue Action documents suitability of the contractor for supplying the required goods and other services as well as the technical and financial appropriateness of the bid.

For Limited Competitive Bidding, Blue Action has developed standard tender procedures and standard contracts. The suitability of the short-listed bidders must be documented by Blue Action.

For any Open Competitive Bidding, Blue Action maintains updated documentation or obtains outside advice on specific rules that apply to it.

- Blue Action has a checklist for subcontracts in place which will ensure that subcontracts concluded by grantees comply with the above requirements.

For all procurement methods, relevant documentation to demonstrate compliance must be stored for 10 years.

10 Additional Procedures

This Operations Manual provides guidance on the foundation's main internal operating policies and procedures. In a number of administrative areas, Blue Action maintains additional procedures, the details of which exceed the scope of the manual. For these matters, separate protocols are or will be developed and regularly updated by staff. Matters covered include, without limitation, the following:

- Human Resources, Hiring Practices and Payroll: The relevant protocols ensure that Blue Action implements its operations in conformity with sound financial and human resources practices in compliance with environmental and social standards (occupational health and safety standards, ILO Labour Standards) and German employment law.

- Privacy: Blue Action is attentive to its obligations under privacy laws, including the EU General Data Protection Regulation, and holds any personal or private data in its possession in strict confidence.

- Information technology: Blue Action provides computers and related IT equipment to its employees and the relevant protocols are designed so that Blue Action maintains data and information storage management in line with relevant security and accessibility standards and general policies on computer use. NTA supports Blue Action in ensuring security and accessibility standards for its IT systems.

- Insurance: NTA supports Blue Action in concluding and administering its insurance. Relevant protocols ensure that insurance is contracted and maintained in accordance with sound industry practice, including D&O insurance and general liability insurance.

- Travel Policy: Within Blue Action, travel takes place in economy class. Travel of Blue Action staff and NTA staff is approved in advance by the ED. When traveling by airplane, Blue Action offsets carbon emissions from these flights through the organisation “atmosfair”.

In addition, this manual does not summarize procedures relating to grant-making and investing, which are covered by separate documents (a Grant Procedures Manual and an Investment Policy) which are available on the foundation’s website.