

Critical Ecosystem Partnership Fund

**Nineteenth Meeting of the Donor Council
Arlington, Virginia, USA
18 March 2011
8 a.m. – 11 a.m.**

Financial Decision Making for New Regions

Recommended Action Item

The Donor Council is asked to endorse expanding financial decision making on new regions to include pledged¹ and secured² funding versus solely secured funding.

Summary

The Eighteenth Meeting of the Donor Council was held in Nagoya, Japan on 26 October 2010. During the meeting, the Donor Council noted concern regarding CEPF financial reporting, which has been based solely on signed donor agreements. Members of the Council said this resulted in an incomplete financial picture. The Council requested that the Secretariat review its financial reporting to ensure that available funds and donor commitments were reported in a way that would provide a complete picture of the financial status of the Fund, and more specifically, provide clarity on all funds available for programming.

In November, the Secretariat electronically shared an expanded financial report with the members of the Donor Council as part of the Quarterly Report for the period ending 30 September. This report illustrated the additional funds available through pledged funding.

The Secretariat is now proposing that CEPF base its decisions regarding when to invest in a new region on a fund balance that includes pledged funding. An analysis of the impact of the approach follows.

Background

During the transition between CEPF Phase I and II, the Secretariat profiled three regions based on pledged funding. The formal process to secure the new funding took longer than anticipated and, as a result, the profiles for Indo-Burma, Polynesia-Micronesia and Western Ghats were four years old by the time CEPF had secured funding to operate in those regions. The delays had some negative implications in the regions particularly related to the credibility of the fund after expectations unavoidably were raised with the crafting of the Ecosystem Profiles. Also, such delays raise the risk of invalidating some of the data and strategy

As a result, CEPF moved to a system based solely on secured funding.

The Fund has reached a point in our financial planning where we have earmarked all secured resources for approved profiles and associated management costs. This means that unless the approach is changed,

¹ *Pledged Funding:* This is the full value of the intended contribution of a donor. This is typically pledged verbally or in informal communications, and is used by donors that have an annual approval allocation process that they must follow.

² *Secured Funding (Revenue):* This is the amount of funding that is memorialized in a formal signed grant agreement. This funding can be booked as revenue and a corresponding receivable in CI's financial system. This allows CEPF and CI to present complete financial statements and CEPF is presented as a fully funded endeavor.

the Secretariat cannot profile new regions until we have formally secured the funding, which presents challenges for CEPF’s planning and for donors that operate with formal annual contribution on a verbal multiyear pledge. However, given that this is the second phase of CEPF and we have long-standing partners, and responding to the suggestions made by the Donor Council during the meeting in Nagoya, the Secretariat proposes to expand financial decision making to include pledged funding.

Current and Proposed Scenarios

Issues/Criteria	Current	Proposed
Profile Decisions (when to profile)	CEPF profiles a new region when the funding for the full five-year investment is formally secured in a written grant agreement.	CEPF profiles based on full value of the pledged funding under two conditions: 1) We have a formal agreement in place for at least the first disbursement. 2) The donor is comfortable with planning based on their full intended contribution (e.g. verbal expressions during the Donor Council meetings).
Granting Decisions (how much to grant)	All regional investment strategies are fully secured. There is no need to decide on stopping the granting process due to lack of resources.	CEPF profiles a region based on an intended pledge, but cannot grant past the value of secured funding. This helps the Secretariat comply with the requirements of both CI Finance and CEPF auditors. However it also means that if CEPF profiles and launches investment in a region and a donor decides to change its contribution level, we may have to <u>stop granting in the region and reduce the available pool of funding.</u> This will result in the loss of local support and political capital for CEPF and the supporting donors.
Funding Situation	\$4 million available to contribute to the next region, East Melanesia (projected to cost \$8 million), which means CEPF would hold off profiling until additional resources are secured.	We count the additional pledge of \$19 million from the World Bank (\$6 million secured). When we have the agreement for the Phase II funding with the government of Japan, we count their pledged contribution of \$25 million. This would bring the additional available resources to \$48 million (\$44 million pledged, \$4 million secured) for the regions and associated management costs. This would allow us to begin the profiling process of East Melanesia and other hotspots to be selected by the Donor Council.

Pros and cons of the proposed financial decision making

CEPF’s current financial decision making is the most conservative approach. While it prevents CEPF from raising expectations that may not be fulfilled if the funding is not secured, due to the significant lead time required with profiling, it can delay overall CEPF progress.

The proposed financial decision making approach allows for CEPF to continue to make progress on developing ecosystem profiles and investing in the approved portfolios. However, in the event that pledged funds are not secured, CEPF will have to stop granting in the approved region(s) potentially jeopardizing CEPF’s credibility and decreasing the local support and political capital for CEPF and its donors.

With this analysis, CEPF's Secretariat proposes that the Fund base its decisions regarding when to invest in a new region on a fund balance that includes pledged funding.

Financial reporting to the Donor Council

Based on the discussion during the Donor Council meeting in Nagoya, the Secretariat will include the financial information that shows pledged funds in addition to the information on secured funds. All future reports will thus reflect the additional graphs as presented in Quarterly Report for the period ending 30 September 2010 and reflected on the following page.

The fund balance charts as of September 30th, 2010.

