CEPF/DC32/7

Critical Ecosystem Partnership Fund
32nd Meeting of the CEPF Donor Council
2011 Crystal Drive, Suite 500
Arlington, USA
6 February 2018
8:00 a.m. – 11:00 a.m.

Balance of Risk and Accessibility of Funding When Working with High Risk Grantees

Recommended Action Item:

The Donor Council is asked to provide strategic guidance to the Secretariat on the appropriate balance between managing risk in its grant portfolio and making grants accessible to civil society organizations designated as high financial risk, and to recommend strategies for achieving this.

Background

It is CEPF's experience that investing in local and national civil society organizations (hereafter "local organizations") that are designated as high financial risk can be an effective strategy for achieving sustainable conservation impacts. While there will always be a need, within the overall mix, for organizations with experience of and capability in delivering large, complex programs (in many hotspots, these roles are played predominantly by international NGOs and universities), CEPF finds that empowering local organizations, which may have little initial experience in managing international funding, is a critical strategy for achieving sustainable conservation results and reducing dependence on external financial support in the long run. CEPF investments in local organizations have a successful track record of bolstering their financial and project management capacity, yielding long-term benefits for beneficiary groups and conservation alike.

This fact is recognized in the Strategic Framework for Phase II, which states that CEPF "will directly benefit national and local groups that many donors have found difficult to reach", and sets a target for allocating at least 50% of global grant funds to local civil society groups. Similarly, the CEPF Strategic Framework for Phase III, which places an increased emphasis on achieving long-term sustainability for hotspot investments, recognizes that one of the essential conditions for sustainability is for "local and national civil society groups [… to] collectively possess sufficient organizational and technical capacity to be effective advocates for, and agents of, conservation and sustainable development, while being equal partners of private sector and government agencies influencing decision making in favor of sustainable societies and economies".

In line with these strategic priorities, local organizations make up the majority of CEPF grantees in all hotspots where the fund currently invests. Indeed, of the CEPF grants that are currently active, grants to local organizations outnumber grants to international organizations by a ratio of 2:1 (248 versus 123)[1]. With its accessible systems, its ability to work in multiple languages, and the on-the-ground presence provided by its Regional Implementation Teams (RITs), CEPF has been able to reach a broad range of groups, including NGOs, community-based organizations, Indigenous Peoples organizations, women's groups, farmers' cooperatives, universities and private companies.

In addition, CEPF has a long track record of actively strengthening the financial management and governance of local organizations that are initially designated as high financial risk: through funding of financial management strategies and sustainability plans, training, and audits. The results of such investments have yielded important benefits, including: (i) reduction of financial risk in investing in these groups, by enabling grantees to comply with the terms of their grant agreements; (ii) creation of opportunities for other donors that have lower financial risk tolerance to fund organizations that previously lacked the ability to access these funding sources; and (iii) improvements in efficiency and effectiveness of use of resources by CEPF grantees, thereby ensuring that scarce conservation funding is used well.

Examples

Arulagam, a local NGO in India, is typical of the local organizations that CEPF works with. When Arulagam first applied to CEPF in 2009, it had eight staff, its financial accounts were being kept manually in hand-written ledgers, and it had limited experience of managing grants from international donors: its funding request to CEPF represented half of the organization's annual budget. CEPF's due diligence process ranked it "high" for financial risk. Over the next six years, Arulagam implemented three successive CEPF grants, totaling over $100,000. It coordinated efforts to reverse the decline of the largest remaining populations of critically endangered vultures in South India, and spearheaded a successful campaign to stop a big pharmaceutical company selling drugs harmful to vultures in contravention of national policy. As a result of its work, Arulagam was unanimously selected as the nodal agency for South India vulture conservation, by a panel of government officials and experts.

The Environmental Awareness Group (EAG) is a local environmental NGO in Antigua and Barbuda. In 2012, EAG received a two-year, $117,000 grant from CEPF. This grant had profound impacts that directly benefitted conservation in this Small Island Developing State. CEPF funding of EAG's long-term strategic plan, financial strengthening and business planning, in combination with technical training, elevated the group's expertise, financial management capacity and credibility. As a result, it was able to attract several new donors, including a private land owner who contracted EAG to develop and implement an invasive species control project on his island. Such initiatives represent a source of sustainable and locally sourced financing for EAG, which would not have been possible without CEPF.

To take another example from the Caribbean Islands portfolio, in 2012, CEPF awarded the first of two grants to Fondation pour la Protection de la Biodiversité Marine (FoProBiM), a Haitian NGO working on the protection of coastal and marine ecosystems. FoProBiM had not been audited in the last three years, did not have an automated double-entry accounting system, and had few other sources of funding. Indeed, the first CEPF grant accounted for more than half of the organization's income. For these reasons, FoProBiM was designated as high financial risk. Nevertheless, with close support and oversight from CEPF, the grantee's work led to the creation of Haiti's second Marine Protected Area, the Parc Nationale des Trois Baies, which includes over 90,000 hectares of coastal and marine habitats. The contribution of FoProBiM to the protection of Haiti's environment during the post-earthquake

[1] The total value of active grants to local organizations is $24.1 million. Due to the greater mean grant size, the total value of active grants to international organizations is similar: $26.1 million.

reconstruction period was recognized globally when its Director, Jean Wiener, was awarded the Goldman Environmental Prize in 2015.

These three cases are illustrative of hundreds of other local and national civil society organizations in 92 countries that CEPF has supported and strengthened over the past 17 years. They show how CEPF empowers local organizations that are initially designated as high financial risk to play critical and long-term roles in biodiversity conservation and sustainable development.

Discussion

With increased emphasis on reaching local organizations comes increased financial risk, because (notable exceptions notwithstanding) they tend to have fewer staff, with less robust financial management systems and less experience of managing international donor funding. Mitigating these risks is a double-edged sword: the more stringent the measures to ensure compliance with the terms of the grant agreement, the greater the administrative burden on applicants/grantees. Going too far in the direction of risk mitigation can limit the ability of local organizations to apply for CEPF grants, by creating "barriers to entry". Hence, mitigation of financial risk requires a balanced and integrated approach, involving a thorough review of applicants' financial management systems, orientation and training for new grantees, investment in building indigenous project management capacity, and regular monitoring and site visits. As CEPF reaches out to more local organizations, many of which are designated as high financial risk, the workload for the Secretariat and RITs increases disproportionately.

A key question for the Fund as it goes forward is how to manage risk without losing the ability to grant to high-risk local and national civil society organizations? In other words, what should be the core constituency of CEPF grantees, and how should CEPF go about engaging and supporting them while maintain an acceptable risk tolerance for its donors?

Suggested discussion points:

1. **Strive for a low risk profile.** CEPF could award more and larger grants to larger, longer-established organizations, resulting, presumably, in a larger proportion of funding going to international organizations. This would be a major departure from the mission of strengthening local civil society, which constitutes an important element of CEPF's DNA. Would CEPF still be reaching grantees that its donors would not be able to support through other mechanisms?

2. **Strive for a low risk profile while working with local and national organizations.** CEPF could focus on hotspots where a higher proportion of local organizations have robust financial management systems, such as the Cerrado or the Mediterranean Basin, and exclude hotspots where working with local organizations carries elevated financial risk, such as the Guinean Forest of West Africa or Madagascar and the Indian Ocean Islands. Would this be acceptable to and correspond with the geographic priorities of CEPF's donors?

3. **Allow for a higher-risk profile, by increasing the proportion of the CEPF budget that is spent on financial capacity building and oversight by the Secretariat and RITs.** CEPF could retain (or increase) its current emphasis on supporting local organizations, accepting that this entails making grants to high-financial-risk organizations, but increase emphasis on strengthening financial management capacity and providing close oversight of groups designed as high financial risk. Would increasing the proportion of the overall CEPF budget allocated to the Secretariat and RITs by acceptable to CEPF's donors?