

Critical Ecosystem Partnership Fund

**Twenty-first Meeting of the Donor Council
Conservation International, Arlington, VA**

11 June 2012

8 a.m. – 11 a.m. EST

Discussion regarding the proposed FY13 spending plan

Recommended Action Item:

The Donor Council is asked to discuss the questions received by the Secretariat regarding the proposed spending plan for fiscal year 2013.

Background:

On 2 May 2012, the Secretariat circulated the proposed spending plan to the Donor Council for no-objection as required in the Operational Manual. The Secretariat received questions from the Government of Japan and the World Bank, and responded to those questions via email. The World Bank has requested a discussion of the issues during the Donor Council meeting. Below are the questions raised by the donor members and answers provided by the Secretariat.

1. The spending plan for FY13, at just over \$17.7M, is more than \$2M larger than the budget for FY12 (= 13% increase from FY12). If all the planned work can be carried out, the request for an increase may be justified. However, we need more assurances with regard to the realism of the FY13 plan: As of end of Q3 (March 31, 2012), disbursements and award of ecosystem grants (about 80% of the total program budget) were at 65% and 57%, respectively, of FY12 budget estimates. Understanding what the larger budget will mean in terms of existing staff capacity to prepare, implement, manage and monitor a high-quality portfolio, will help us assess the proposed spending plan. In other words, does the Secretariat have sufficient head-room to absorb all the extra work required to deliver this much larger portfolio?

As you have noted, spending on ecosystem grants is slightly lower than planned if you anticipate even spending throughout the year. We have spent over 60% of the current budget at 75% through the fiscal year. There are a couple of factors that have contributed to the delay in the spending of this fiscal year. The first and greatest is the contracting of the Regional Implementation Team of the Mediterranean that was scheduled for January 2012. As you may remember, the lack of GEF focal point endorsement in Turkey drove the Donor Council to reconsider the selection of Doğa Derneği in February and we are just ready after the no-objection approval of BirdLife as the RIT for the Mediterranean Basin Hotspot to move forward with contracts that account for 13% of the budget of FY12.

In addition to this, we have suffered minor delays in Polynesia-Micronesia and the Caribbean due to the new requirements resulting from triggering the Pest Management Safeguard of the Bank for projects that propose the eradication of invasive species. We have been working hard to make up for delays and you will see this in the next quarter. All this considered, we are on track for spending in excess of 90% of the budget presented and approved for FY12.

While donor concerns about the budget for next fiscal year are well taken, the Secretariat's projections were done considering the number of active regions for next fiscal year, in particular keeping in mind that both the Mediterranean and the Eastern Afrotropical regions will be active, and that by mid-year we expect that the East Melanesia Islands will be approved. Additionally, you may also have seen that, based

on the discussions we had during the last Working Group meeting, we will likely have at least two new hotspots to profile and hopefully approval for new grant making in no less than two hotspots where CEPF has previously invested.

It is understandable from the donor perspective the concerns of our projected budget, however, we have considered all these factors in our budget plan as well as in assessing our capacity as the Secretariat to manage this much more active portfolio. The Secretariat is very confident that we can continue to deliver high-quality conservation grants with our very efficient team.

2. CI's audited indirect cost rate has increased from 18.9% to 23.8% (to about \$500K). The indirect cost rate represents an "extra" management fee on top of budgeted operating costs, which include the actual cost of managing the partnership. In addition, 10% of the ecosystem investment envelope is used to cover operating/management costs at the local levels. As such we cannot support an increase in indirect costs.

There are several important points we wish to strongly emphasize here.

First, the indirect cost rate that CI is to apply is stipulated in the GEF Financing Agreement that CI signed with the Bank in 2008. Section 6.02 (d) states the “management fee for the categories referred to in (c) above [the operating budget] calculated on the basis of CI’s audited annual rates (indirect costs) for the previous year”. This clause is also contained in the AFD Financing Agreement. The Bank as well as the rest of the donor partners contractually accepted CI's audited IDC rate as the basis for covering these costs that are supporting CEPF's operations.

Further, while the rate did increase in FY12, it is still well within the rates in effect during both CEPF I and CEPF II. Please see actual audited rates applied below:

Up to FY2005	24.00%
FY2006	22.10%
FY2007	20.53%
FY2008	23.62%
FY2009	19.77%
FY2010	18.90%
FY2011	18.90%
FY2012	23.80%

CI’s audited FY11 rate (which per the Financing Agreement CEPF applies in FY12) is higher, not because indirect costs increased – in fact they decreased, but because of the winding down of some large programs in CI, programmatic costs decreased significantly. We expect that CI’s FY12 audited rate will decrease as CI has further reduced operational costs while program costs will increase substantially. CEPF will benefit from this reduction in FY13.

It is also important to note that the direct monitoring and support costs included in the CEPF Secretariat budget are completely different in nature from the indirect costs charged to the program, and that the agreed methodology of charging CI’s 23.8% indirect cost rate only to the Secretariat costs, is inconsistent with the base of this rate, resulting in CEPF receiving a significantly subsidized rate.

To this first point, the Secretariat costs support those activities and functions that the donor partnership requires of us to manage CEPF and include CEPF-specific due diligence, monitoring, reporting, and record keeping. These are not additional layers of management support. They are incremental, direct programmatic costs that are required for the successful implementation of the program.

CI's indirect cost rate, by comparison, includes pooled organizational support costs that are not attributable to any one specific activity but are necessary to the functioning of the organization as a whole. This includes all our information technology, human resources, general accounting and finance, etc. CI's rate of 23.8% is based on the ratio of these support costs to total programmatic costs, including external grants and contracts. By applying this rate to only the Secretariat costs, CI recovers an effective rate of 2.9% on CEPF expenses, which means that CEPF donors are funding far below the actual indirect costs associated with the CEPF program. Based on the current budget, the full indirect cost recovery on CEPF would total approximately \$4 million. This represents the pro rata share of CEPF's indirect costs, and as the budgeted indirect costs are \$504k, about \$3.5m of indirect costs are currently being funded by CI's unrestricted funds.

It was agreed by the partnership when CEPF was created that it would be far more efficient to have CEPF be hosted by CI so we could take advantage of the granting and institutional tools and systems that the organization has. It has proven to be a smart decision by the Donor Council, instead of creating a new operational system and organization that would have been far more expensive.

In summary, the Secretariat's and the RIT's role of managing the grants, monitoring them and ensuring good quality results as well as fiscal responsibility, are complementary and necessary for ensuring that a small grants program like CEPF achieves the results we have been able to prove. The fact that we have been able to grant over \$140M reaching over 1,650 partners in 53 countries protecting and improving the management of over 30 million hectares while leveraging \$321M is a great demonstration of how the operational systems of CEPF are well articulated. Keep in mind that CEPF has been responsible for creating over 7% of the terrestrial new protected areas with a tiny fraction of the ODA dedicated to this.

3. Currently there are 10 full time and 7 part time staff charging actuals against the program, in addition to the RIT staff who provide additional administrative, operational and financial support at the local level. As such, we would also like to discuss the request for a new staff member to join the Secretariat to take charge of M&E, as proposed in the spending plan. Could this be absorbed under the existing staff?

Allow me to clarify the staffing status of the Secretariat. In FY12, we had 6 full-time and 11 part-time staff. We are also benefitting from a secondee (working as a grant director) thanks to the generosity of the French Government. We have taken into account our existing portfolios and our future work program including the new monitoring framework, and believe that the request for \$50,000 for a half-time staff member is a realistic request that will allow us to achieve our monitoring targets.

Critical Ecosystem Partnership Fund

Thirteenth CEPF Spending Plan for the Period July 1, 2012 - June 30, 2013

Spending Category: Ecosystem Grants	Expected Disbursement	New Grant Awards
Active Regions		
Caribbean	925,000	2,000,000
Caucasus	327,000	0
Eastern Arc Mountains & Coastal Forests	561,747	0
Eastern Afromontane	500,000	2,000,000
Guinean Forests of West Africa	14,250	0
Indo-Burma	1,692,946	0
Madagascar & Indian Ocean Islands	4,722	0
Maputaland-Pondoland-Albany	1,076,587	1,500,000
Mediterranean	1,355,000	3,500,000
Mountains of Southwest China	250,000	0
Polynesia-Micronesia	1,424,201	100,000
Southern Mesoamerica	117,309	0
Succulent Karoo	258,009	0
Tropical Andes	234,172	0
Tumbes-Chocó-Magdalena	384,510	0
Western Ghats & Sri Lanka	897,671	60,000
Total Active Regions	10,023,124	9,160,000
Pending Regions		
East Melanesian Islands	120,000	600,000
Pending Regions*	922,500	3,750,000
Total Pending Regions	1,042,500	4,350,000
* Awaiting Donor Council discussion and approval of new regions, expected June 2012.		
Total All Regions	\$ 11,065,624	\$ 13,510,000
FY12 Spending Plan for Comparison	13,788,043	12,340,000

Authority to Grant & Commit Funding	Phase I	Phase II	Total Authority
Atlantic Forest	8,000,000	2,395,847	10,395,847
Cape Floristic Region	6,000,000	1,629,247	7,629,247
Caribbean Islands		6,900,000	6,900,000
Caucasus	8,500,000	1,000,000	9,500,000
Eastern Afromontane		9,800,000	9,800,000
Eastern Arc Mountains & Coastal Forests	7,000,000	1,735,852	8,735,852
Eastern Himalayas	5,000,000		5,000,000
Guinean Forests of West Africa	6,200,000	1,942,210	8,142,210
Indo-Burma		9,500,000	9,500,000
Madagascar & Indian Ocean Islands	4,250,000	1,402,955	5,652,955
Maputaland-Pondoland-Albany		6,650,000	6,650,000
Mediterranean		10,000,000	10,000,000
Mountains of Southwest China	6,500,000	1,348,406	7,848,406
Northern Mesoamerica	7,300,000		7,300,000
The Philippines	7,000,000		7,000,000
Polynesia-Micronesia		7,000,000	7,000,000
Southern Mesoamerica	5,500,000	1,644,382	7,144,382
Succulent Karoo	8,000,000	1,409,000	9,409,000
Sundaland	10,000,000		10,000,000
Tropical Andes	6,150,000	2,185,000	8,335,000
Tumbes-Chocó-Magdalena	5,000,000	1,813,864	6,813,864
Western Ghats & Sri Lanka		4,500,000	4,500,000
Consolidation (balance of \$20mm authority)		1,493,237	1,493,237
Total Authority	100,400,000	74,350,000	174,750,000

Spending Category: Operations (Secretariat)**FY13 Budget**

Business Development, Management & Communications	
Personnel	456,966
Travel, Meetings & Events	43,921
Professional Services	101,200
Other Direct Costs	123,726
Subtotal	725,813
Grant Making & Monitoring	
Personnel*	813,309
Travel, Meetings & Events	114,485
Professional Services	187,510
Other Direct Costs	111,035
Subtotal	1,226,339
Finance & Information Management	
Personnel	130,702
Travel, Meetings & Events	13,580
Other Direct Costs	24,302
Subtotal	168,584
Operations Total	2,120,736

**Grant Making & Monitoring Personnel includes \$50k for additional monitoring staff that requires Donor Council discussion and approval, expected June 2012.*

Spending Category: Management Fee (CI's audited indirect cost rate)

504,735

Total Operations & Management Fee	\$ 2,625,471
FY12 Spending Plan for Comparison	2,455,359

Spending Category: Preparation (Pending Profiling*)

1,400,000

FY12 Spending Plan for Comparison

544,284

** Awaiting Donor Council discussion and approval of new regions, expected June 2012.*

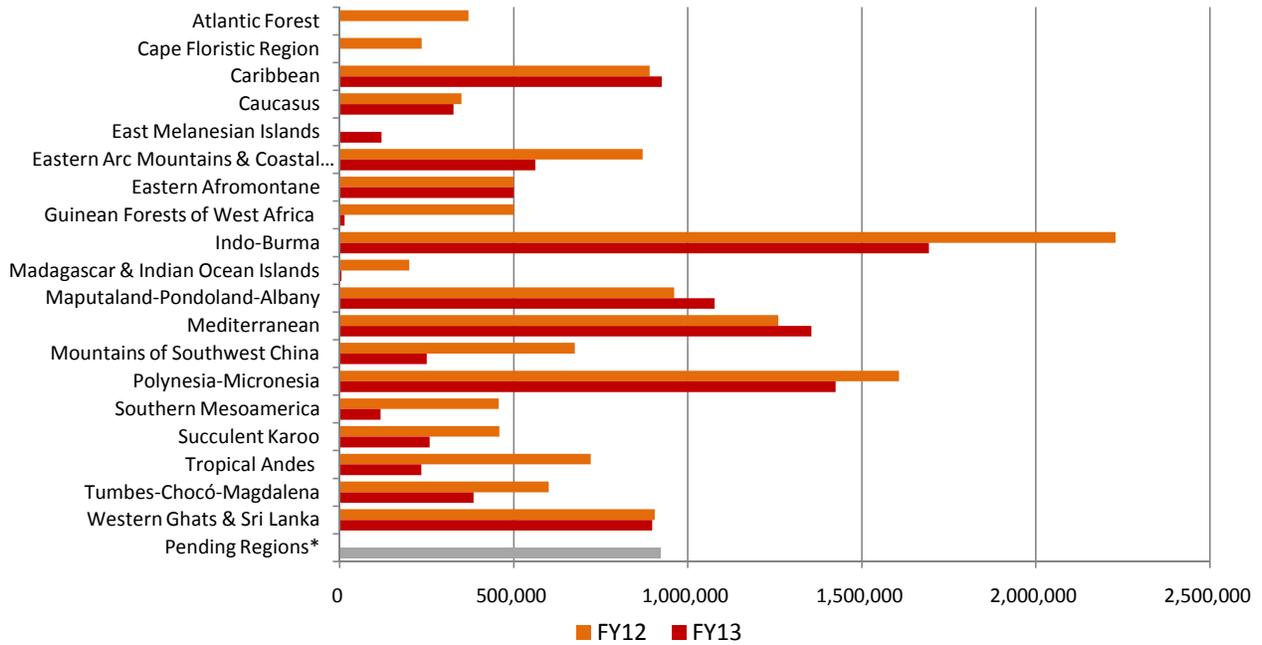
Spending Category: Special Projects (from interest)

Auditing Fee	55,000
Fundraising	112,627
Total Special Projects	167,627
FY12 Spending Plan for Comparison	174,946

Total FY13 Spending Plan	\$ 17,703,098
FY12 Spending Plan for Comparison	15,514,589

Expected Disbursements

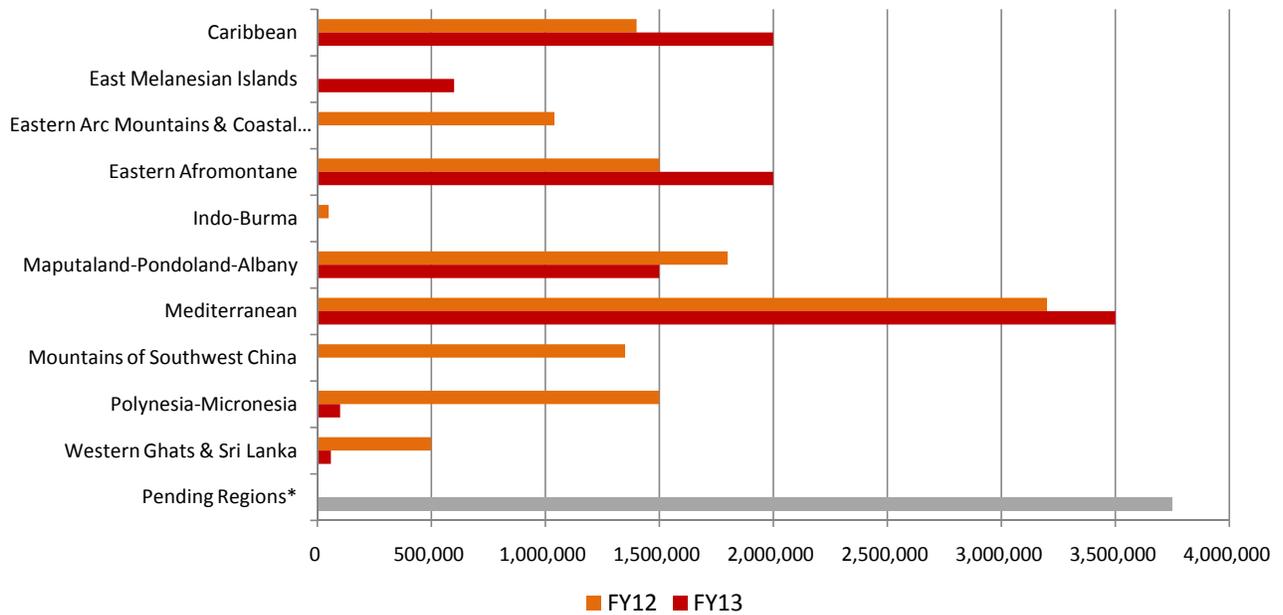
(FY12 Total = \$13.8mm, FY13 Total = \$11.1mm)



* Awaiting Donor Council approval, expected June 2012

Planned Awards

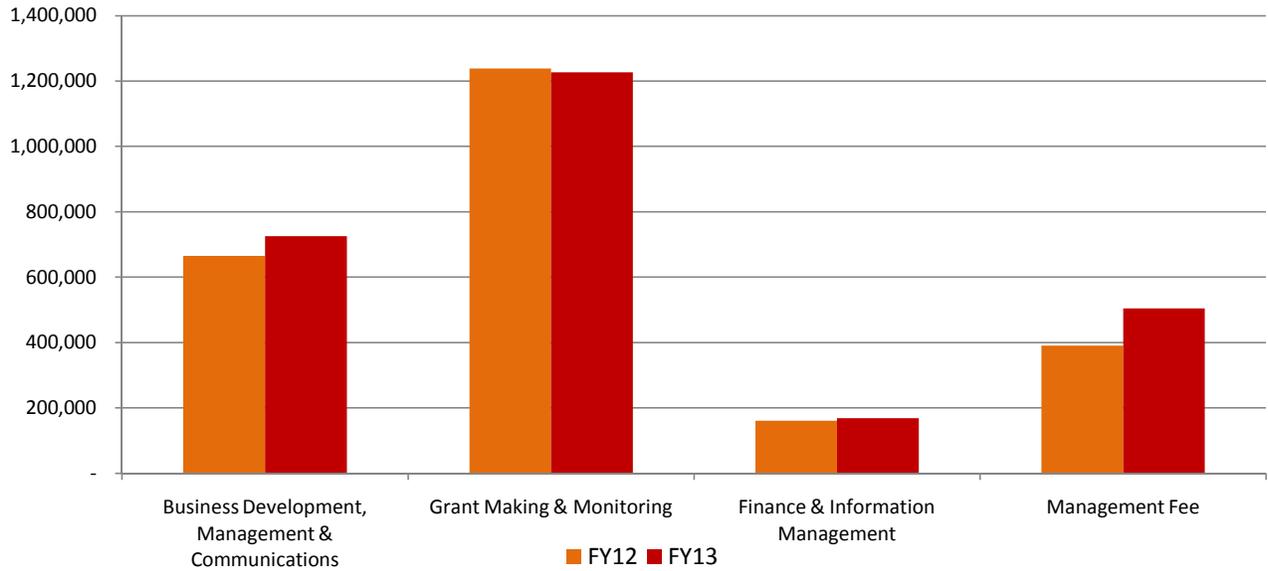
(FY12 Total = \$12.3mm, FY13 Total = \$13.5mm)



* Awaiting Donor Council approval, expected June 2012

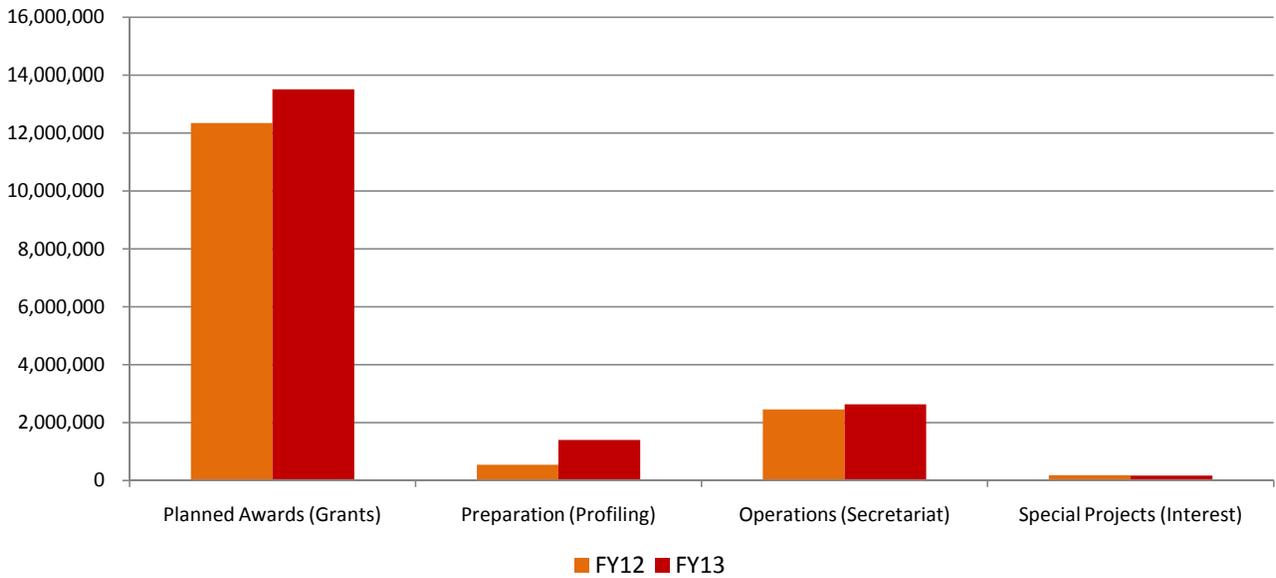
Operational Costs

(FY12 Total = \$2.5mm, FY13 Total = \$2.6mm)



Overall CEPF Spending Plan

(FY12 Total = \$15.5mm, FY13 Total = \$17.7mm)



Critical Ecosystem Partnership Fund
Twelfth CEPF Spending Plan vs. Actual through March 31, 2012

Spending Category: Ecosystem Grants	Expected	New Grant	Actual FY12	Actual FY12	%	%
Projected Disbursements & Grant Awards	Disbursements	Awards	Disbursements	Grant Awards	Disbursed	Awarded
Atlantic Forest	\$ 370,032	\$ -	\$ 337,088	\$ (4,741)		
Cape Floristic Region	235,259	-	118,393	(21,733)		
Caribbean	890,000	1,400,000	445,512	754,181		
Caucasus	350,000	-	223,457	440,000		
Eastern Arc Mountains & Coastal Forests	870,000	1,040,000	502,646	1,735,852		
Eastern Afromontane	500,000	1,500,000	-	-		
Eastern Himalayas	-	-	-	-		
Guinean Forests of West Africa	500,000	-	353,310	(184,620)		
Indo-Burma	2,229,000	50,000	1,968,865	86,000		
Madagascar & Indian Ocean Islands	200,000	-	178,920	(664)		
Maputoland-Pondoland-Albany	960,460	1,800,000	665,864	1,454,550		
Mediterranean ¹	1,260,000	3,200,000	-	-		
Mountains of Southwest China	675,000	1,350,000	299,979	1,348,406		
Northern Mesoamerica	-	-	-	-		
The Philippines	-	-	-	-		
Polynesia-Micronesia	1,607,000	1,500,000	1,454,092	953,288		
Southern Mesoamerica	456,600	-	388,358	16,001		
Succulent Karoo	458,800	-	353,230	-		
Sundaland	-	-	-	-		
Tropical Andes	721,142	-	507,337	-		
Tumbes-Chocó-Magdalena	600,000	-	463,341	-		
Western Ghats & Sri Lanka	904,750	500,000	719,777	451,184		
Total Disbursements & Grant Awards	\$ 13,788,043	\$ 12,340,000	\$ 8,980,170	\$ 7,027,705	65%	57%

¹ Delays in appointment of RIT

Spending Category: Operations (Secretariat)**Business Development, Management & Communications**

Salaries & Fringe	\$ 430,329
Travel, Meetings & Events	41,320
Professional Services	97,000
Other Direct Costs	96,582
Subtotal	<u>665,231</u>

FY12 Actual	%
\$ 303,539	
14,158	
14,327	
59,948	
<u>391,972</u>	<u>59%</u>

Grant Making & Monitoring

Salaries & Fringe	929,691
Travel, Meetings & Events	168,495
Professional Services	17,300
Other Direct Costs	123,273
Subtotal	<u>1,238,759</u>

619,117	
52,821	
5,114	
78,833	
<u>755,886</u>	<u>61%</u>

Finance & Information Management

Salaries & Fringe	122,519
Travel, Meetings & Events	19,945
Professional Services	-
Other Direct Costs	18,609
Subtotal	<u>161,073</u>

103,877	
5,160	
253	
13,140	
<u>122,430</u>	<u>76%</u>

Operations Total**\$ 2,065,063****\$ 1,270,288 62%****Spending Category: Management Fee**

390,296

302,329 77%

Total: Operations & Management Fee**2,455,359****1,572,617 64%****Spending Category: Preparation**

Eastern Afromontane ¹	\$ 182,284
East Melanesia Islands	362,000
Caribbean Islands & Mapping	-
Subtotal	<u>544,284</u>

\$ 262,284	
335,913	
(24,987)	
<u>573,209</u>	<u>105%</u>

¹ Includes funds rolled forward from FY11**Spending Category: Special Projects Fund (Interest)**

Auditing Fee	\$ 55,000
Fundraising	119,946
Subtotal	<u>174,946</u>

\$ 40,000	
52,114	
<u>92,114</u>	<u>53%</u>

Total FY12 Spending Plan**\$ 15,514,589****\$ 9,265,645 60%**