

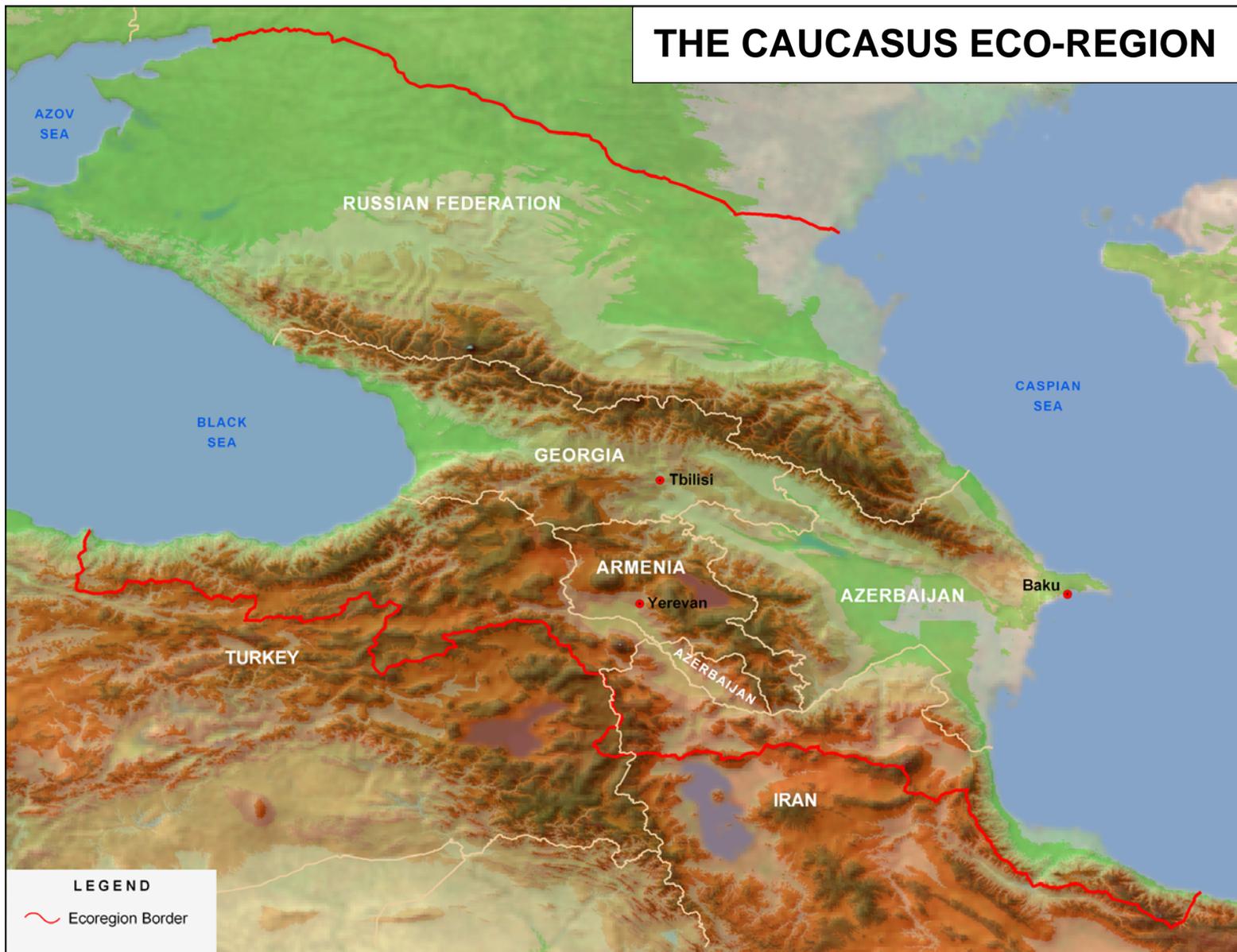
Saving Europe's Last Wilderness



CAUCASUS PROTECTED AREAS FUND



THE CAUCASUS ECO-REGION



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Endangered Caucasian Leopard

Caucasus Protected Areas Fund

Saving Europe's Last Wilderness

The German government, through the German development bank KfW, has joined forces with WWF and Conservation International to sponsor nature conservation in the Caucasus, one of the most biologically and geographically diverse regions in the world. The Caucasus Protected Areas Fund will help finance the operating costs of national parks, nature reserves and other types of “protected areas” (PAs).

Formed by the isthmus between the Black and Caspian Seas, the Caucasus is the geographic border between Europe and Asia (Baku, its easternmost major city, is closer to London than Los Angeles is to New York). The Caucasus “eco-region” extends into six countries and covers an area a little larger than France. While it spreads into parts of Russia, Turkey and Iran, the eco-region’s core lies in the territories of Armenia, Azerbaijan and Georgia, 100% of which are in the Caucasus. For a variety of reasons, the CPAF has focussed its mission on these three countries.

Background

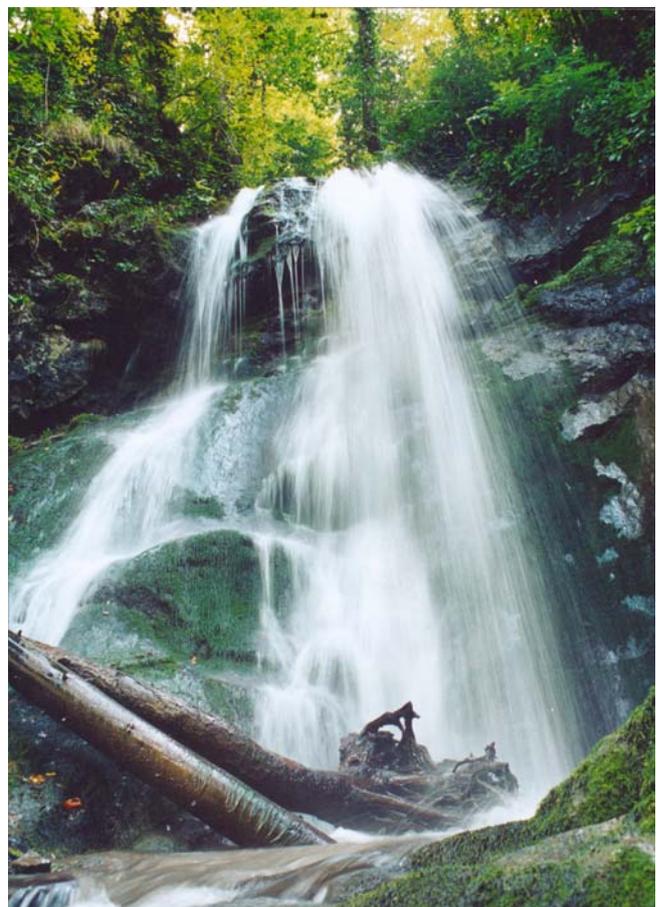
The Caucasus is also a biological crossroads, where species from Central and Northern Europe, Central Asia, the Middle East and North Africa mingle with endemics (local species found nowhere else). Extremes in altitude, including Europe's five highest mountains and its lowest point, contribute to broad variations in climate. The region contains nine of the world's eleven climate types, from arctic to sub-tropical. Precipitation varies from more than four meters per year (as much as a tropical rain forest) along portions of the Black Sea coast to less than 200 mm per year in desert regions.

The resulting variety of microclimates, soil and vegetative conditions has led to a broad range of landscapes and unusually high levels of species diversity for the temperate zone, including more than 50 species of globally threatened animals.

The area furthermore contains one of the world's largest old growth forests in a temperate zone, providing a valuable carbon-sink in the world's battle against climate change as well as a refuge for much of the region's fauna. Conservation International has designated the Caucasus as one of its 34 "biodiversity hotspots" around the world.

Unfortunately this rich and diverse global treasure is seriously threatened. Critical problems include unsustainable development, destruction of forests for fuel and poaching.

In response to these threats, a group of more than 100 regional and international scientists and policy makers have been collaborating since 2000 to produce a single eco-regional conservation plan (the ECP). Published in 2006, the ECP proposes the integration of the existing collection of individual protected areas in the region into an expanded trans-boundary network of PAs and connecting corridors. In the three core countries, various steps towards that goal have already been



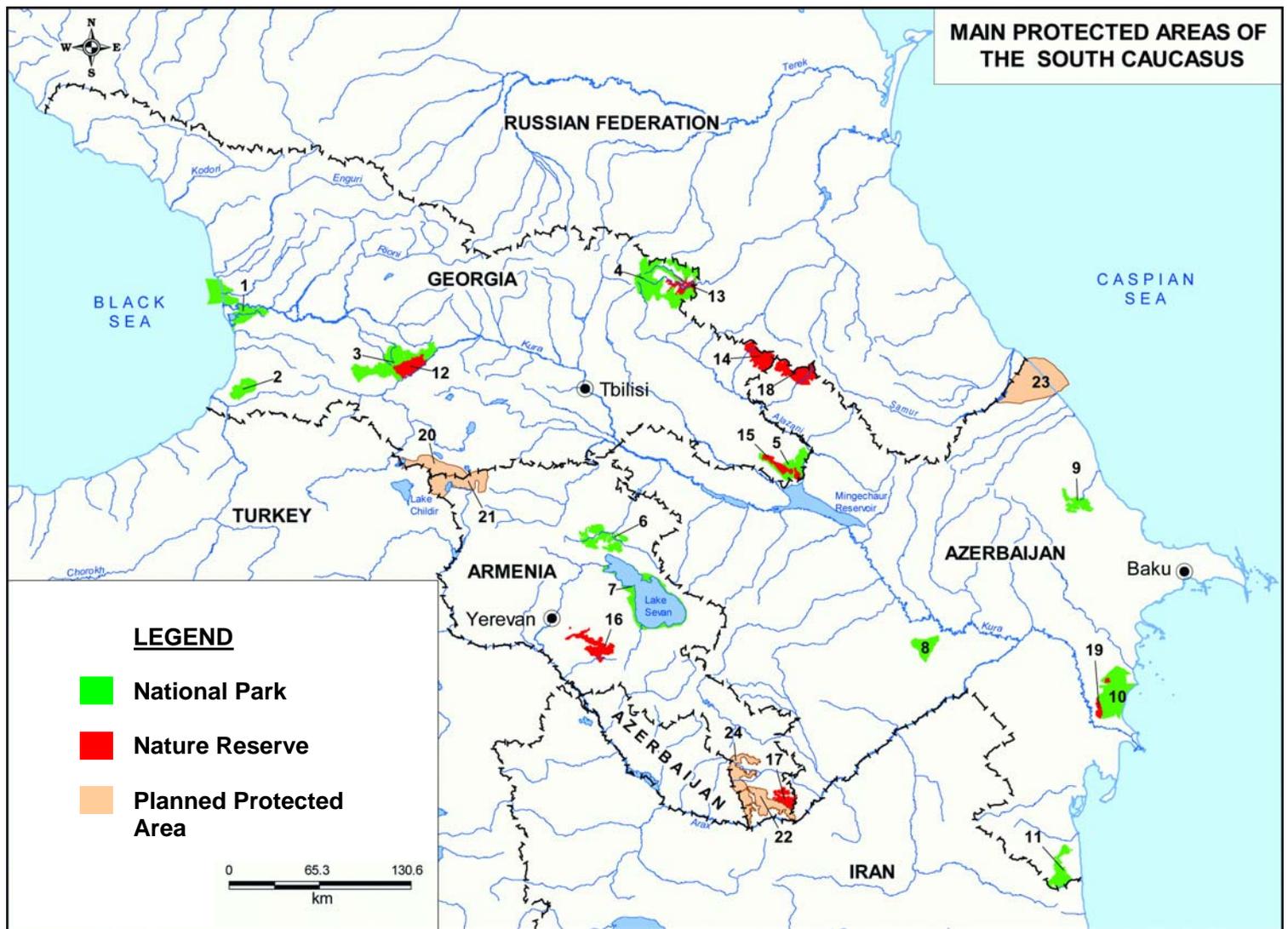


taken, and important forthcoming measures include the creation of at least five new major protected areas over the next four to five years.

The ECP's trans-national approach is essential given the number and size of the countries and territories that form the eco-region. Many of the areas to be protected lie on borders, and animals require the eco-regional—and not the political—space for their migration, breeding and feeding.

The governments of the Caucasus countries have agreed in principle to back this cooperative effort. This cooperation has particular significance in the region. Since the early 1990s and independence of the three core countries from the USSR, political conflict has persisted. Azerbaijan and Armenia, for example, continue to dispute the Nagorno Karabach area that Armenia effectively annexed in a post-independence war. Meanwhile Georgia and Russia dispute the territories of Abkhazia and South Ossetia.

Democratic institutions are also in various stages of development in the three core countries. Corruption is a problem, as is poverty: 2006 per capita GDP was \$2,130 in Armenia, \$1,750 in Georgia, and \$2,360 in Azerbaijan, which unlike its neighbors has the benefit of oil and gas reserves in the Caspian. These are about 5% of Western per capita GDP levels.



National Parks

1. Kolkheti
2. Mtirala
3. Borjomi-Kharagauli
4. Tusheti
5. Vashlovani
6. Dilijan
7. Sevan
8. Aggol
9. Altiagaj
10. Shirvan
11. Hirkan

Nature Reserves

12. Borjomi
13. Tusheti
14. Lagodekhi
15. Vashlovani
16. Khosrov Forest
17. Shikahogh
18. Zagatala
19. Shirvan

Planned Protected Areas

20. Javakheti NP
21. Arpi Lake NP
22. Arevik NP
23. Samur-Yalama NP
24. Zangezur NR



The CPAF

Mission. In the Caucasus today, there is an abundance of pristine nature but a severe shortage of funds to do the day-to-day work of the preserving it. It has been estimated that now *only about 10% of what was spent in Soviet times* is devoted to preservation of the priority areas.

The CPAF's mission is therefore to support the ongoing operations and maintenance of the protected areas in Georgia, Azerbaijan and Armenia that are in priority areas under the ECP.

There are about 80 existing PAs within the three countries. Most already existed in one form or another prior to the demise of the USSR. About 20 of the PAs are major national parks and strict nature reserves. Of these larger PAs, a number have benefited from Western donor funds in recent years, including grants from Germany, Norway and the World Bank. These grants, however, typically do not assure long-term funding for ongoing operating and maintenance costs.

The ECP's planned expansion of the system of protected areas will be of limited value if their ongoing operations cannot be funded. As in much of the developing world, there is a serious risk that PAs in the three core Caucasus

countries end up as “paper parks”, i.e., PAs that are demarcated as protected on a map but which in reality are poached and exploited much as unprotected land.

The CPAF’s primary focus will therefore be to tackle this unaddressed but critical need. We will assure the funding of: salaries for rangers and park scientists; information office programs; equipment and facilities maintenance; training; and similar day-to-day costs.

While the Fund will be seeking contributions from traditional donors who help create national parks and nature reserves, we will also focus on dislodging “new money” to address our discrete objective of funding ongoing costs.

Operations. The CPAF estimates that by injecting the relatively modest amount of about € 1.75 million per year into the operating budgets of the existing priority protected areas of the three countries, the basic PA conservation functions can be assured.

The environmental ministries of each country have agreed in principle to design management plans providing for the basic PA operations and maintenance functions and to submit them to the CPAF. The CPAF will be able to match the funds provided by the governments, potentially doubling the current budgets of existing PAs without any increase in government funds, but assuring at least a 50% government budget contribution. This 50% principle will ensure local “ownership” of the PA programs.

Caucasus Protected Areas Primer

The most commonly used classification of protected area is that promulgated by the IUCN (World Conservation Union), which defines six different PA categories, with Category I being the most protected.

Under the different national laws of the three core countries, PAs that will be funded by the CPAF generally fall into one of three broadly similar categories:

- Strict Nature Reserves, managed mainly for scientific study or wilderness protection and conforming generally to IUCN Category I
- National Parks, managed mainly for eco-system protection and recreation and conforming generally to IUCN Category II
- Nature Sanctuaries, a somewhat lower category of protection broadly similar to IUCN Category IV

The CPAF's underlying philosophy is that governments with limited resources will be encouraged to maintain and develop their protected area systems if they know that a portion of the cost of running them can be covered elsewhere.

The CPAF is in the process of discussing with the three governments the contractual framework under which it will disburse monies to the protected areas. Ensuring that the funds we disburse are being spent for the approved programs and purposes will be a key challenge for CPAF. We will seek to address that challenge both by imposing strict disbursement conditions and by implementing rigorous reporting and audit procedures.

Structure and Funding. The CPAF is a German charitable foundation designed as a financing vehicle for nature conservation in the three core Caucasus countries.

In its simplest expression the CPAF is an endowment trust fund. Contributions to its endowment are invested, and only the investment earnings are spent on Caucasus nature conservation. The goal is to ensure perpetual financing for up to 50% of the protected area operating costs. In this way, environmental ministers and environmentalists can plan PA conservation projects with a secure source of funding in place.





Vulnerable Mouflon

Assuming net annual investment returns of 6% or more, and inflation in Euro terms averaging 2%, an endowment fund of € 50 million would generate the necessary income: €50 million times 4% inflation adjusted return = € 2 million.

The German government (through KfW), WWF and CI have provided the CPAF with initial endowment funding of about € 7.5 million, and a representative of each constitutes its current four-member board. The CPAF is actively seeking additional donors to increase its endowment funding.

Knowing that not all donors can or will want to give to its endowment, the CPAF has also envisaged two alternative ways to make contributions.

- Sinking Fund Gifts. With a so-called “sinking fund” gift, the CPAF and the donor can agree that a specified percentage of a gift will be spent on PA operating costs in the region each year, reducing the unspent portion of the gift to zero over an agreed number of years. This option assures that a donor’s funds are current use gifts spent over a planned time horizon of, say, 3-5 years.
- Single Country Gifts. A donor who wishes to direct his gift to a particular country may do so through CPAF sub-funds dedicated to expenditure in only one of the focus countries.

Caucasus Bio-Diversity Basics

Caucasus wildlife includes:

- Over 150 mammals, including the leopard, lynx, brown bear, stripe hyena, Caucasian tur, mouflon and bezoar goat. Eleven of the large herbivores, as well as five of the large carnivores are on the IUCN Red List. One-fifth of the mammals are endemic.
- Over 400 species of birds, with the region's lakes and rivers serving as important stop-over sites for millions of migrating birds flying between northern Europe and Russia and their winter homes. A number of the bird species, including the cinereous vulture pictured opposite, are threatened.
- 77 reptiles and 14 amphibians—22 and 4 of which are endemics.
- More than 200 species of fish, more than a third of which, including numerous threatened sturgeon species, are endemic.
- More than 6,500 species of vascular plants, of which one-fourth are endemic—the highest endemicism level of any of the world's temperate zones.



The Caucasus Protected Areas Fund “triple play”

Donors supporting the Caucasus Protected Areas Fund will contribute directly to:

- Nature and Bio-diversity. Protection of one of the world’s uniquely endowed regions.
- Climate and Carbon. Securing carbon sinks by protecting intact forest areas including remaining old growth forests (reduced emissions from deforestation and degradation (REDD)).
- People and Progress. Promotion of sustainable economic development in a culturally rich but economically impoverished region by supporting:
 - stable jobs in parks and reserves;
 - related employment and economic growth as tourism develops;
 - educational initiatives on conservation in the parks; and
 - civil society (NGO and private sector) actors who will help us design and implement our programs.

