

**Critical Ecosystem Partnership Fund
34th Meeting of the CEPF Donor Council
Conservation International
2011 Crystal Drive, Suite 600
Arlington, VA 22202, USA
18 February 2019
8:00 a.m. – 11:00 a.m. Eastern Standard Time**

Financial Narrative

CEPF Quarterly Report

General

The detailed financial report for the six months to 31 December 2018 is attached.

In summary:

- Total expenses are 29% of the spending plan.
 - Operational costs were 46% of the category budget.
 - Special projects were 14% of the category budget, for work related to the website and fundraising efforts. The budget also plans for costs related to the annual audit.
 - Profile preparation is not planned for FY19.
 - Grant disbursements achieved 46% of the spending plan payments target of US\$15,185,000.
 - Grant awards achieved 24% of the spending plan new awards target. CEPF plans to enter two new hotspots during FY19 (Caribbean re-investment and Mountains of Central Asia), totaling US\$3,000,000 of the total new awards target of US\$12,400,000. Awarding subgrants in those two hotspots is contingent upon additional fundraising eligible for use in those new hotspots.
- The balance available for investment based on secured funds is negative by US\$11,206,356. However, this is the result of spending authority approvals made based on pledged funds, which equal US\$14,813,000. Therefore, considering both secured and pledged funds, and after accounting for projected operating costs, the balance available for investment is positive at US\$1,384,694, and completion of planned activities will depend on successful negotiation of those pledged funds.
- CEPF is still in a cash-positive situation with cash and investments on hand of approximately US\$15,988,389, the sum of advances held in the CEPF Phase 2 bank account plus advances held in the CI Operating account on behalf of CEPF, per donor agreements.
- During the quarter, no-objection approval was secured to increase the spending authorities of Guinean Forests of West Africa and Madagascar and Indian Ocean Islands hotspots, related to

the additional funding provided by l'Agence Française de Développement. These increased authorities have been incorporated into the planning figures.

Revenue

In September, CEPF signed a new funding agreement with l'Agence Française de Développement of €6,000,000 to support Guinean Forests of West Africa and Madagascar and Indian Ocean Islands hotspots.

In January (subsequent to the date of the quarterly reporting period), CEPF signed a new funding agreement with l'Agence Française de Développement for €200,000 to support the development and preparation of the Green Climate Fund project proposal targeting ecosystem-based adaptation applied to Small Island Developing States. That full project proposal requests US\$60,000,000 and targets two biodiversity hotspots: Madagascar and the Indian Ocean islands, and East Melanesian Islands.

In addition, CEPF is working with the following donors to secure additional funding:

- European Union: €13,000,000 to support pending hotspot investments such as the Mountains of Central Asia and/or new investment opportunities to be decided with the Donor Council.
- KfW: €7,000,000 to support investment priorities in Ecuador, within the Tropical Andes Biodiversity Hotspot.

During the current fiscal year, the effect of the exchange rates on the unpaid balance of the contribution from the European Union is a gain of US\$4,775. The cumulative effect of exchange rates on the contribution from the European Union is a loss of US\$2,974,721 compared to the value of the award on its date of execution. This loss has impacted the balance available for investment to CEPF. CEPF proactively manages anticipated gains or losses due to foreign currency rates by adjusting planned activities accordingly.

An unrealized loss of US\$68,620 is reported related to the euro-denominated funding agreement signed during FY19, Q1 with l'Agence Française de Développement, valued at the date of signing on 10 September 2018, as US\$6,931,360.

Grant-Making

CEPF committed 24% of its grant-making budget for the current fiscal year, signing a total of US\$3,037,463 new awards against a budget of US\$12,400,000. Payments on active grants achieved 46% of the annual target, with US\$6,991,517 disbursements against the budget of US\$15,185,000.

Operational Costs

CEPF spent 46%, or US\$1,590,100, of the Total Operations and Management Costs budget of US\$3,487,708 for the year.

Preparation/Ecosystem Profiles

CEPF has no new ecosystem profile preparation grants planned for FY19. The consideration of additional ecosystem profiles will be dependent on new funding commitments.

Special Projects

The special projects budget is supported by interest earned through CEPF's bank accounts and investments. The priorities funded this year through the special projects budget of US\$343,332 are the

annual audit; fundraising efforts; and ongoing upgrades to CEPF's grants management system and website, as well as certain donor-earmarked activities, including the CI-GEF mid-term evaluation and the World Bank's DGF final evaluation. Expenditures on special projects total US\$36,514, representing 14% spent of the approved budget in this category. The majority of costs are anticipated to occur during the second half of the fiscal year.

CEPF Investments

As approved by the Donor Council in June 2014, US\$30,000,000 of cash was transferred into a conservative bond portfolio, managed by the Arbor Group at UBS. As of 31 December 2018, the interest income (net of fees) is US\$817,211. Unrealized gains/losses are excluded from reported income. In FY17, CEPF began discontinuing re-investment in the investment portfolio. This will result in a declining interest income generation until the portfolio has ended, which is planned to occur in calendar year 2019. The balance held in the account on 31 December 2018, is US\$5,693,345. CEPF anticipates a full draw-down from the investment portfolio by the end of FY19 (30 June 2019) to be based upon an analysis of the market value of the remaining portfolio.