

**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**

**CEPF's Approach to Sustainable Financing**

**Recommended Action Item**

The Donor Council is asked to provide strategic guidance to the Secretariat on how CEPF can add the greatest value to the establishment of sustainable financing mechanisms for conservation in the biodiversity hotspots, drawing on Donor Council members' experience and the previous experience of CEPF with supporting such mechanisms.

**Background**

Biodiversity loss is a complex problem that requires sustained engagement over decades to halt and reverse. CEPF's focus on engaging and strengthening civil society in conserving global biodiversity enables it to respond to immediate threats (e.g., averting extinctions of threatened species), while at the same time establishing the enabling conditions for long-term success (e.g., building networked communities of empowered civil society actors).

This approach is reflected in CEPF's Strategic Framework for 2014–2023, which states that CEPF should not be a permanent presence in each hotspot but define and work toward an end point at which local civil society "graduates" from its support with sufficient capacity, access to resources and credibility to respond to future conservation challenges. Specifically, the Strategic Framework identifies adequate and continual financial resources as one of five conditions for CEPF to be able to withdraw from a hotspot with confidence that effective conservation programs will continue indefinitely.

CEPF has made important contributions to sustainable financing mechanisms in several hotspots, many of which continue to support conservation of global biodiversity today. CEPF's global monitoring framework includes the indicator "number of sustainable financing mechanisms that are delivering funds for conservation." Since inception, CEPF has supported the creation or strengthening of 27 such mechanisms, comprising 20 trust funds, five payment for ecosystem services (PES) schemes, one debt-for-nature swap and one credit scheme.

Nevertheless, CEPF's impacts in this area remain scattered and, for the most part, opportunistic, because the Fund has a number of constraints to supporting sustainable financing mechanisms. First, establishing and securing funding for sustainable financing mechanism usually takes more time than a typical CEPF investment phase (five years) allows for. Second, CEPF has generally used open,

competitive calls to solicit proposals, which are not necessarily the most suitable modality for bringing together the different actors needed to establish sustainable financing mechanisms. Third, the modest resources available for each hotspot-scale investment (typically less than US\$10 million) and the stakeholder-led approach to programming funding (using the ecosystem profile) mean that responses to immediate problems tend to be prioritized over longer-term solutions.

Finally, CEPF does not fund the capitalization of trust funds. While it is recognized that there are other forms of sustainable financing that do not require seed capital (e.g., debt-for-nature swaps, crowd funding, PES, etc.), trust funds remain an important mechanism, especially for individual protected areas and national systems. Because of this, CEPF's support to endowments and other types of trust funds has focused on building the institutional structures to manage the fund and disburse resources effectively while also raising funds from other sources.

In spite of these constraints, CEPF has a track record of supporting the establishment and development of sustainable financing mechanisms.

### **Examples**

In the **Caucasus Hotspot**, CEPF supported the operational costs for the creation of the Caucasus Nature Fund (originally called the Caucasus Protected Areas Fund) and provided flexible resources to cover fundraising costs. The idea was to make contributing to the fund more attractive to other donors because they would be able to direct a larger proportion of their contributions to grants. Over the period of CEPF support, from 2008 to 2012, the Caucasus Nature Fund raised €7 million from donors, including the German Ministry for Economic Cooperation and Development (BMZ), the Global Conservation Fund, and WWF – Germany. Today, the fund is up to €35 million in assets, which support an annual program of approximately €1.5 million in grant-making to protected areas in Armenia, Azerbaijan and Georgia. The most significant impact of the fund to date has been the transformation of the context in which protected area management staff are working. This has already translated into reduced levels of illegal hunting and fewer fires.

In the **Caribbean Islands Hotspot**, CEPF supported the development of several innovative financing mechanisms, including the sale of the Caribbean's first forest carbon offsets through a PES scheme. This allowed smallholders and cocoa farmers in the Dominican Republic to improve production while reforesting their plots with native species. An economic valuation of water resources to support a participatory PES system involving Santo Domingo's water authority was also completed, laying the foundation for the establishment of a water fund for the city of Santo Domingo. A foundation was also laid for a PES scheme for a reforested area covering 20 hectares in the Fond Melon River Basin in Haiti's Massif de la Selle mountain range.

In the **Indo-Burma Hotspot**, there has been great progress in developing PES schemes at the sub-national level in Vietnam by channeling revenue streams from hydropower projects. The challenge for many schemes has been making efficient use of PES funds to conserve the ecosystems that deliver the services being paid for. With a CEPF grant, WWF worked with the authorities in Quang Nam and Thua Thien Hue provinces to develop a roadmap for using PES funds to support community forest guards engaged in law enforcement in two nature reserves. The arguments put forth by WWF were well received and provincial authorities agreed to earmark a portion of annual PES receipts to support community forest guards and other law enforcement activities in the reserves. Monitoring data and independent evaluation suggest that this model is reducing threats to biodiversity, leading to increased densities of some wildlife species.

## **Discussion**

The Strategic Framework for Phase III (2014–2023) commits CEPF to making “progress towards financial sustainability at the hotspot level.” However, other than recommending “specific fundraising mechanisms and targets” for each hotspot based on an understanding of locally available donor opportunities, the Strategic Framework is silent on how CEPF can most effectively add value to the establishment of sustainable financing mechanisms in the hotspots. How to do this remains a key question for CEPF, especially as it develops a growing number of long-term visions for the hotspots where it is engaged.

Suggested discussion points:

1. How should CEPF strike a balance between responding to immediate threats and investing in long-term solutions, including sustainable financing for conservation?
2. How can CEPF add the greatest value to the establishment of sustainable financing mechanisms in the hotspots where it invests?
3. Should CEPF consider grant-making modalities—beyond competitive calls—for identifying opportunities to support the creation and strengthening of sustainable financing mechanisms?
4. Should CEPF modify its policy of not financing the capitalization of trust funds?