

# CEPF FINAL PROJECT COMPLETION REPORT

## I. BASIC DATA

**Organization Legal Name:** Caucasus Protected Areas Fund (CPAF)

**Project Title (as stated in the grant agreement):** Supporting the Institutional Development of the Caucasus Protected Areas Fund

**Implementation Partners for this Project:** None

**Project Dates (as stated in the grant agreement):** January 1, 2008 - September 30, 2009

**Date of Report (month/year):** 09/2009

## II. OPENING REMARKS

*Provide any opening remarks that may assist in the review of this report.*

The CPAF is a conservation trust fund dedicated to the three South Caucasus countries of Armenia, Azerbaijan and Georgia. This grant supported the CPAF's administrative costs over the first 21 months of its operations. A co-financing commitment of \$200,000 will cover about a further six months of the CPAF's administrative costs.

The ultimate financial goal of the CPAF is to have adequate financial resources to (i) permit it to make annual grants on the order of \$1.5 million or more annually to support up to 50% of the management costs of PAs in the three countries (with the balance being provided by the partner country ministry of environment) and (ii) cover its administrative costs. The CPAF's initial resources were not adequate for either purpose. As a result, and in accordance with the practice and recommendations of important actors in the area of conservation trust funds, the sponsors of the CPAF sought grants to cover its start-up administrative costs. The goal was to give the CPAF some breathing space to get its fundraising operations started and the resources to complete the work relating to its organization and operation that are inherent in any start-up enterprise.

## III. ACHIEVEMENT OF PROJECT PURPOSE

**Project Purpose:** *Priority protected areas in Armenia, Azerbaijan, and Georgia are adequately financed and effectively managed.*

Planned vs. Actual Performance

Indicator	Actual at Completion
<ul style="list-style-type: none"><li><b>Purpose-level:</b> Priority protected areas in Armenia, Azerbaijan, and Georgia are adequately financed and effectively managed.</li></ul>	Pilot project applications for financing one protected area in each of Georgia and Armenia were approved by the Board in October of 2009. The CPAF will support the operations of Khosrov Forest Reserve in Armenia and Borjomi-Kharagauli National Park in Georgia over the 3-year period 2010-2012.

1.1 Regular financial reporting indicative of spending on target with budgeted amounts	Spending was on target with budgeted amounts and regular financial reporting has been implemented.
1.2 Reports on protected area management effectiveness using tools such as the World Bank Protected Area Management Effectiveness Tracking Tool	Monitoring of and reporting on management effectiveness is being built into the pilot grant agreements.

**Describe the success of the project in terms of achieving its intended impact objective and performance indicators.**

The project helped to successfully establish the CPAF; however, the CPAF’s final capitalization has not yet been assured and it has been unable to sign the Framework Agreement with Azerbaijan. At least in Armenia and Georgia, the CPAF has shown that if properly capitalized, it can significantly reduce the funding gap in projected area financing. Whether it can help improve the effectiveness of PA management will only be known as the first projects are implemented.

**Were there any unexpected impacts (positive or negative)?**

No negative impacts. Unexpectedly, following the Russian/Georgian conflict in 2008 and the fire that broke out in the Borjomi region as a result of the Russian bombing, the CPAF was able to catalyze a series of actions that supported fire-fighting capacity in the national parks, which ultimately included the provision of fire-fighting training by through USAID and GTZ, further training through the OSCE, equipment provided by USAID, and two mobile firefighting trucks provided by CPAF.

**IV. PROJECT OUTPUTS**

**Project Outputs:**

*Output 1: Standard operating procedures for the Foundation established, including meeting reporting requirements to the Board of Directors and relevant government authorities*

*Output 2: A fundraising strategy to fully capitalize the endowment developed and implemented*

*Output 3: CPAF effectively positioned publically to fulfill its mission*

*Output 4: Grant funds disbursed and monitored*

*Output 5: CPAF has installed a financial management system, including an investment strategy, structured banking arrangements and accounts, and budgeting procedures*

**Planned vs. Actual Performance**

Indicator	Actual at Completion
<b>Output 1:</b> Standard operating procedures for the Foundation established, including meeting reporting requirements to the Board of Directors and relevant government authorities	Standard operating procedures for the Foundation have been established. Please see the Operations Manual attached as Annex A which can also be found on the CPAF web-site.
1.1 Bi-monthly reporting to board by ED, including summary of progress on all outputs	The CPAF now reports quarterly to the board, and annually to the foundation authority. Bi-monthly reporting was viewed as cumbersome after the

	start-up months.
<b>Output 2:</b> A fundraising strategy to fully capitalize the endowment developed and implemented	A fundraising strategy to fully capitalize the endowment has been developed. Implementation is on-going. An additional \$2.725 million has so far been paid/committed to the CPAF, including two separate \$ 1 million commitments from GEF; one for a sinking fund for Armenia and one for a sinking fund for Georgia. These GEF commitments have not yet been paid in and remain subject to securing the necessary co-financing.
<i>2.1 Fund raising strategy document</i>	A fundraising strategy document has been developed. It provided useful initial orientation for the CPAF's first fundraising steps. Consideration is now being given to developing a more elaborate strategy.
<i>2.2 Determine usefulness of consultant to evaluate highest priority targets; engage consultant as appropriate</i>	Consultant for fundraising was hired for a limited engagement. Consideration is currently being given to additional consulting input for next phase.
<i>2.3 Meetings with high priority donors requesting support for CPAF</i>	Executive Director has met with many high priority donors and requested support for the CPAF, including public sector donors, foundations, corporate and individual donors. Current focus is obtaining the required co-financing for the GEF grants.
<b>Output 3:</b> CPAF effectively positioned publically to fulfill its mission	The CPAF has effectively positioned itself publically, consistent with its initial start-up profile. As the initial grants are made in 2010, it is planned to improve the CPAF's positioning.
<i>3.1 Web-site operational</i>	The website is operational and updated regularly.
<i>3.2 Mailing list / newsletters and press releases on key events distributed</i>	A mailing list has been created, and several newsletters and press releases have been sent.
<b>Output 4:</b> Grant funds disbursed and monitored	A one-off grant to Georgia to purchase a fire-fighting truck was made and implementation was monitored. An initial pilot project in Armenia (Khosrov Forest Reserve) and Georgia (Borjomi-Kharagauli National Park) has been approved and is scheduled to commence in 2010 as planned.
<i>4.1 Framework agreements with Armenia, Azerbaijan, and Georgia agreed upon</i>	CPAF signed the Framework agreement with Armenia and Georgia. It remains unclear whether and when Azerbaijan will participate.
<i>4.2 Pilot project proposals developed and grant agreements signed</i>	Development of the pilot project proposals are being developed in Armenia and Georgia took a little longer than expected. However, the Khosrov Forest proposal in Armenia and BKNP proposal in Georgia were finally approved by the CPAF Board in October 2009. The grant agreement for BKNP was signed in November and the CPAF expects to sign the Khosrov grant agreement by the end of the year. The CPAF will grant a total of approximately \$375,000 to Khosrov Forest and \$375,000 to BKNP, in each case spread over the 3-year period 2010-2012, to support protected area operations. Disbursements are expected to begin on schedule in early 2010. In Khosrov, the funds will be used for a variety of purposes, principally supplements to staff (particularly protection staff) salaries, equipment purchases, development of tourist facilities and a biodiversity monitoring program. In BKNP, funds will finance mainly renovation and maintenance work on the main visitors'

	center/administrative headquarters and equipment purchases.
<i>4.3 Additional projects supported as available funds allow</i>	On the assumption that it can be successful in completing the GEF process, the CPAF is currently making plans as to how it will spend the GEF sinking fund commitments and related co-financing and would expect to be able to finance one new PA per year in both Armenia and Georgia over the next several years.
<b>Output 5:</b> CPAF has installed a financial management system, including an investment strategy, structured banking arrangements and accounts, and budgeting procedures	CPAF has installed a financial management system, including an investment strategy, structured banking arrangements and accounts, and budgeting procedures.
<i>5.1 Investment policy approved, investment advisor appointed</i>	The investment policy has been approved and an investment advisor has been appointed.
<i>5.2 Bank accounts structured</i>	Bank accounts have been opened and structured.
<i>5.3 Accounting and budget system developed and implemented for assets and grant disbursements</i>	An accounting and budget system has been developed and implemented for assets and grant disbursements.
<i>5.4 Annual audit prepared</i>	The CPAF has completed two annual audit cycles.

***Describe the success of the project in terms of delivering the intended outputs.***

The project has been successful in providing for the institutional development of the CPAF. Most of the outputs above have been fulfilled, except for the signing of the Framework Agreement with Azerbaijan and the consequent delay in commencing a pilot project in Azerbaijan.

The CPAF is effectively launched and on its way both from a front office point of view (grant-making, fundraising and communication), and a back office point of view (investing, day-to-day operations, accounting). Appropriate policies and procedures are in place.

It seems clear that the CPAF can have an impact in Armenia and Georgia if it can be successful in increasing its funding base. Success in Azerbaijan requires cooperation from the government.

***Were any outputs unrealized? If so, how has this affected the overall impact of the project?***

The Framework Agreement with Azerbaijan has not yet been signed. The CPAF continues to be open for business with Azerbaijan, but it is not clear if or when the issues will be resolved and whether the Framework Agreement can be signed in 2010.

On fundraising for the CPAF, while no formal timetable for receiving additional contributions to the fund was established, it is clear that fundraising has not yet succeeded to the extent that had been hoped. This has not yet really impacted the project's rhythm, as it is hard to imagine how more than one pilot could have been pursued in each country. However, if additional funds are not obtained in 2010 to permit expansion of the project, its impact will be seriously diminished.

**V. SAFEGUARD POLICY ASSESSMENTS**

***Provide a summary of the implementation of any required action toward the environmental and social safeguard policies within the project.***

Adverse environmental and social aspects were assessed at minimal to none at project inception; there were no actions necessary.

## VI. LESSONS LEARNED FROM THE PROJECT

***Describe any lessons learned during the various phases of the project. Consider lessons both for future projects, as well as for CEPF's future performance.***

### Lessons relating to Conservation Trust Funds.

Fundraising. Fundraising for the trust fund is proving to be challenging. While the international financial crisis is playing a role, other hurdles include the overall position of biodiversity in the donor hierarchy (and competition from pure climate change initiatives), reluctance of organizations to consider donations to endowments, competition from other regions, and extensive demands on the Executive Director's time from other key CPAF activities (including extensive travel in the region in the start-up phase made necessary by the regional and offshore nature of the CPAF discussed below). Also as discussed below, board composition has also probably played a role. It will likely take five years, not two, to raise the necessary funds, and success is not yet guaranteed.

Board Composition. The CPAF's Board is currently composed of four members—a representative appointed by each of the three founding sponsors to the CPAF's endowment—German Ministry of Economic Cooperation and Development (BMZ), Conservation International and WWF Germany. A fourth member, an officer of the German development bank KfW, was appointed by the other three. Because of the regional political situation, it was not possible to have representatives of the three ministries of environment sit on the same board together, and ultimately the decision was taken that there would be no ministry representatives on the board. This has facilitated certain matters in some respects, since the current four board members have a common understanding of how the organization should be run and work efficiently together. The lack of ministry representation also in the end facilitates the CPAF's work with the respective ministries on the PA projects, since the notion of the equal partnership between the CPAF and the Ministry is clearer when the Ministry is not represented on the board. While the partnership concept was not easy to explain at the outset, over time a certain level of confidence has been achieved and if the pilot projects are successful and additional projects follow with additional funding, the partnership should be successful.

However, the lack of Ministry representation board may also lead to a certain distancing between the Ministry and CPAF on fundraising. Active cooperation from the Ministries on fundraising is required for success. Cooperation might have been more active had the Ministries been represented on the board.

It will also be considered, in the next phase, whether to expand the CPAF board outside the current sponsors. While helpful with contacts and in the outreach to certain donors, the combination of the efforts of the Executive Director and the support provided by the current sponsors has not born as much fruit as had been hoped. An expanded board with a broader base could be a fundraising plus.

Regional Nature of Fund. The regional nature of the fund is proving both a positive and a negative factor in different areas of the CPAF's work.

In the fundraising area, some potential donors welcome the regional flavor while for others it is clearly a negative. On balance the possibilities the CPAF can offer allowing donations to be targeted to one country seem to largely offset the negative. So in the end, we rate the regional nature of the CPAF as slightly positive for fundraising, except in relation to direct government participation in fundraising. As explained above, the regional nature of the fund in the conflictive environment had implications for governmental participation on the board, and seems to be a part of the reason why Azerbaijan has not yet embraced working with the CPAF.

The regional nature of the fund is also proving an administrative challenge—visiting three partner ministries and negotiating so far two sets of agreements has time, staffing and budget implications. Trying to do this from offshore has been a significant drain on the Executive Director’s time.

On the other hand, the actions supported by the CPAF will be less effective if the region as a whole is not addressed, and there are clearly administrative efficiencies in addressing the region through one fund instead of three. The main implication is that the administrative budget will simply have to be larger than it would be for a fund that is addressing a single country of comparable size.

Offshore nature of fund. The offshore nature of the fund is proving an advantage in terms of assuring the participating countries that there is no favoritism as shown by the establishment of a regional headquarters in one of the countries. It is also clearly advantageous in terms of attracting certain personnel and ease of access to certain potential donors. If EU resident high net worth individual donors can be attracted to the donor circle, it could be advantageous in terms of the deductibility of the donation for the CPAF to be domiciled in Europe.

As the CPAF matures, considerations of local presence and staffing are becoming more pressing, and various solutions are being examined. While the outlook is positive that a solution will be found, the cost of the local effort required to manage its activities was perhaps not adequately considered when the CPAF was launched

Lessons for CEPF.

The main lesson for the CPAF from this project is that its grant can be effective in providing breathing room for a trust fund in its start up phase.

***Project Design Process: (aspects of the project design that contributed to its success/failure)***

One important feature was the CEPF position that its funds did not need to be earmarked and could effectively be viewed as the first funds spent (“fiffo (first in first out) principle”). This facilitated project accounting.

***Project Execution: (aspects of the project execution that contributed to its success/failure)***

No particular remarks here. The burden imposed by reporting was bearable from this user’s perspective; the CEPF team is helpful and processes are functional.

**VII. ADDITIONAL FUNDING**

***Provide details of any additional donors who supported this project and any funding secured for the project as a result of the CEPF grant or success of the project.***

<b>Donor</b>	<b>Type of Funding*</b>	<b>Amount</b>	<b>Notes</b>
WWF Germany	Project co-financing	\$200,000	\$134,000 provided to date; balance to be provided January 2010
Conservation International	Grantee and Partner Leveraging	\$500,000	On-grant of a donation to CI from a private donor
GEF	Grantee and Partner Leveraging	\$2,000,000	Committed, subject to securing of additional co-

			financing commitments
Bank of Georgia	Grantee and Partner Leveraging	\$225,000	\$75,000 firm for 2010; \$75,000 per year committed in principle for 2011 and 2012 but subject to annual confirmation

**\*Additional funding should be reported using the following categories:**

- A** *Project co-financing (Other donors contribute to the direct costs of this CEPF project)*
- B** *Complementary funding (Other donors contribute to partner organizations that are working on a project linked with this CEPF project)*
- C** *Grantee and Partner leveraging (Other donors contribute to your organization or a partner organization as a direct result of successes with this CEPF project.)*
- D** *Regional/Portfolio leveraging (Other donors make large investments in a region because of CEPF investment or successes related to this project.)*

**Provide details of whether this project will continue in the future and if so, how any additional funding already secured or fundraising plans will help ensure its sustainability.**

The CPAF is not yet capable of both supporting the burden of its administrative costs and making grants on the scale necessary to be effective. It is currently seeking to complete the phase of closing the GEF grants and the planned GEF co-financing which would provide it with a viable medium term plan. The CPAF is currently developing its 3-year strategy to substantially increase its funding base so as to cover its longer term needs.

## VIII. ADDITIONAL COMMENTS AND RECOMMENDATIONS

None

## VIII. INFORMATION SHARING

CEPF is committed to transparent operations and to helping civil society groups share experiences, lessons learned and results. One way we do this is by making programmatic project documents available on our Web site, [www.cepf.net](http://www.cepf.net), and by marketing these in our newsletter and other communications.

These documents are accessed frequently by other CEPF grantees, potential partners, and the wider conservation community.

**Please include your full contact details below:**

Name: Kristen Hartmann  
 Organization name: Caucasus Protected Areas Fund  
 Mailing address: 100 rue de l'Universite  
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## **Operations Manual of the Caucasus Protected Areas Fund**

### **Explanatory Note**

This Operations Manual attempts to condense various provisions of the CPAF's charter, by-laws, board decisions and operating practices, and the provisions of certain of its grant agreements, into a practical handbook of operations intended to be useful to employees and board members, donors and potential donors, and the CPAF's partner countries and grantees interested in its mode of operations.

It is divided into three parts. Part I covers all matters relating to the CPAF's non-grant making operations, from organization and board matters to financial management. The information on investments and investing should be read in conjunction with the CPAF's Investment Policy.

Part II covers the provisions from the CPAF's charter and by-laws on our grant-making activities. We do not summarize the provisions of our application documentation or the Framework Agreements governing our operations in our partner countries, which are available on our web site.

Part III is an internal document summarizing the CPAF's reporting obligations under certain grant agreements. This document will not be available on the web.

The Operations Manual is subject to modification at any time by the CPAF Board.

# **CPAF OPERATIONS MANUAL**

## **Part I--Non-Grant Making Operations**

### **Table of Contents**

1. CPAF's Purpose
2. Organization
  - 2.1 Board of Directors
  - 2.2 Committees
  - 2.3 Executive Director
  - 2.4 Duty of Confidentiality
  - 2.5 Conflicts of Interest
3. Financial Management
  - 3.1 Administration of CPAF's Assets
  - 3.2 Investment of Capital
  - 3.3 Budgeting
  - 3.4 Administrative Expenses
4. Accounting
  - 4.1 Maintenance and Content of Books
  - 4.2 Accounting Function
5. Banking and Bank Accounts
  - 5.1 Endowment and Investment Accounts
  - 5.2 Operations Account
  - 5.3 Disbursements Account
  - 5.4 Petty Cash
6. Financial Statements and Reporting
  - 6.1 Annual Financial Statements and Board's Annual Report
  - 6.2 Audit
  - 6.3 Reporting

## 1. CPAF'S PURPOSE

- The CPAF provides grants to support essential management costs of Priority Protected Areas (“PPA”) in Armenia, Azerbaijan and Georgia, which are considered the three core countries of the Caucasus Ecoregion (Articles § 2; Bylaws § 15(1)-(2))
- It also provides grants to support PPAs in neighboring countries possible but only under certain conditions (Bylaws § 15(3))
- Grants may not be awarded to support any activities in any PPA located in a territory whose legal ownership or physical control is subject of dispute between any of three core countries, unless Ministries responsible for protected areas in each such country states in writing that it has no objection to such grants (Bylaws § 8(4))
- The CPAF provides financial aid to government and non-governmental organizations for specific types of activities (Bylaws § 16(1) and (2)); it itself does not engage in management activities (Bylaws § 16(1) sent. 1)
- It has a non-profit character (Articles § 3)
- No substantial part of activities of CPAF can be used for propaganda or otherwise attempting to influence legislation. The CPAF will not participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office (Bylaws § 8(7))

## 2. ORGANIZATION

### 2.1 Board of Directors

#### 2.1.1 Composition (Articles § 7)

- The board is comprised of at least three members and no more than nine (Articles § 7(1))
- BMZ, CI and WWF each dispatch one member (Articles § 7(3))
- The board can appoint further members with qualified majority if they meet certain criteria (Articles § 7(4)). No more than half of the board members may consist of representatives of government or semi-governmental organizations (Bylaws § 3(3))
- The Chairman, Vice Chairman and Treasurer shall be elected (Articles § 7(6))
- For their terms, resignation, and dismissal—see Articles § 7(3) and (5); see also dismissal by CPAF's supervisory authority (*Stiftungsaufsichtsbehörde*) pursuant to Hessian Foundations Act § 15(1)
- Changes in the board must immediately be notified to the *Stiftungsaufsichtsbehörde* (Hessian Foundations Act § 7 no. 1)

#### 2.1.2 Core board tasks (Articles § 8(2))

##### (a) Management

The board is responsible for:

- Administration of CPAFs' endowment capital
- Grants of free funds
- The appointment and supervision of the Executive Director (ED)
- Planning and reporting (under Articles § 10)

(b) Representation

- The Chairman, Vice Chairman and Treasurer, acting together, represent the foundation (Articles § 8(3))
- The Chairman represents the CPAF externally and can delegate this power to another Board member in particular cases (Bylaws § 5(4))
- A board member is authorized to act alone on behalf of the CPAF in the area for which he has been allocated individual responsibility (Bylaws § 4(3))
- A power of attorney has been granted to the ED to make all transactions necessary/useful for the regular business operations of CPAF, including representing CPAF in dealings with government officials. This includes entering into grant agreements, acquisitions and disposals of shares in an enterprise or other securities, and entering into rent and lease contracts. Excluded from this power of attorney are: representing the CPAF in courts and before arbitral tribunals; buying, selling or encumbering real property; entering into guarantees or assuming liabilities of third parties; borrowing money.

The power technically gives the ED external authority to sign grants and make investments for the CPAF. It is not intended, however, that the ED engage in these activities outside of the framework contemplated by the by-laws and board decisions. Accordingly, an internal board resolution has been adopted making clear the ED's authority on grant agreements and investments as follows:

*Notwithstanding the power issued to the ED, (i) the ED will enter into grant agreements on behalf of the CPAF only if the Board has previously approved the related grant proposal, and (ii) the ED will only authorize investments for the CPAF together with another board member as contemplated by the CPAF's Investment Policy from time to time, except if the investment action to be taken is urgent and another board member does not respond in time.*

(c) Responsibilities

- Board members are collectively responsible for management. Board members should work together collegially and keep each other informed of all important actions and occurrences relating to the Foundation (Bylaws § 4(1))

- The board may not delegate its decision-making powers with respect to any matters for which Articles or Bylaws require either a decision by a qualified majority or collective action (Bylaws § 4(2)).
- If particular areas are assigned to individual Board members, and the assignment impinges on the boundaries of another member's area, the Board member involved shall mutually resolve this; otherwise the Board decides collectively (Bylaws § 4(3)). If a matter assigned to an individual board member is of special importance (in particular involving unusual risks), it should be presented to the full Board which shall decide (Bylaws § 4(4)). If a Board member has serious concerns about a matter assigned to another Board member, he should inform the Board and discuss with other Board members (Bylaws § 4(5))

### 2.1.3 Board resolutions

#### (a) Convening meetings (Articles § 9(2))

- Meetings shall be convened by the Chairman or the Vice-Chairman (Articles § 9(2); Bylaws § 5(2), (5))
- At least once a year a physical meeting must take place (Articles § 9(2); Bylaws § 7(1))
- Meetings must take place if a member requests a meeting (Articles § 9(2))
- Meetings shall be held at headquarters in Frankfurt/Main or in a country of Causasus Ecoregion, as determined by the Board (Bylaws § 7(1))
- The agenda should be sent at least two weeks prior to the meeting (Articles § 9(2)), if possible also with proposals and requests (Bylaws § 7(3))
- The board may use advisers or experts to prepare resolutions (Articles § 9(8))
- Each board member can demand to expand the agenda (Bylaws § 7(1))
- The Chairman decides upon the order of agenda points (Bylaws § 7(2))
- The ED participates in board meetings in a non-voting capacity as determined appropriate by the board and performs the task of Secretary of the Board (Bylaws § 5(7))
- The Chairman may invite people to advise (Bylaws § 7(2))

#### (b) Quorum for physical board meetings

- 50% of members present (Articles § 9(1))
- Absent Board members must be immediately notified of decisions (Bylaws § 7(4))

#### (c) Specified Majorities

- Simple majority of members present (Articles § 9(1))
- Qualified Majority of three quarters of all existing members is called for (Articles § 9(3))

- (d) Minutes (Articles § 9(5))
- The Chairman keeps minutes (Bylaws § 7(5))
  - The minutes are to be signed by the chairman and the minute taker
  - They are to be sent immediately to board members
  - Board members may object to minutes (Articles § 9(5)) within four weeks after circulation (Bylaws § 7(5)). If necessary, the circulated minutes will be corrected (Bylaws § 7(5)). The final minutes should be approved in writing or at the next meeting by all participating board members (Articles § 9(5)).
- (e) Board members can be represented on the basis of a written power of attorney (Articles § 7(7))
- (f) Adoption of resolutions in mixed proceedings (Articles § 9(6)) occurs by vote at physical board meeting plus vote by absent member electronically or by phone
- (g) Adoption of resolutions outside physical board meeting (Articles § 9(6)) is possible by a round-robin procedure in writing, electronically or by telephone if all board members agree and participate; resolutions so adopted must be laid down in writing and be included in minutes of next physical board meeting

2.1.4 Non-delegable matters (Bylaws § 4(2)) requiring a physical board meeting and resolution with qualified majority include:

- (a) Pursuant to Articles (§ 9(4))
- Applications to amend the Articles, dissolution or merger of CPAF with another foundation (see also Articles § 12(1)). These applications require prior consent of the tax authority (Articles § 12(2)) *Stiftungsaufsichtsbehörde* to decide upon application (see also Hessian Foundations Act § 9(1)).
  - Amendments to Bylaws
  - Spending of up to 10% of endowment capital according to Articles § 4(4)
  - Appointment/dismissal of board member
  - Annual financial statements including overview status of endowment's assets and progress report (required by Articles § 10(2) and German Commercial Code) and annual disposition of funds
  - Other matters requiring qualified majority under Bylaws
- (b) Pursuant to Bylaws
- Change of CPAF's purposes (Bylaws § 6(1))—if the change affects the purpose as stated in the articles, it would require an amendment of the Articles with the consequences described above 2.1.4(a)
  - Grants to neighboring countries of the three core countries (Bylaws § 6(1))

- Change of the definition of “essential PA management costs” (Bylaws § 6(1), § 16)
- Adoption or revision of asset management guidelines for the endowment (Bylaws § 6(1)) capital; hiring and termination of Investment Manager (Bylaws § 6(1))
- Adoption of organizational plan to allocate responsibilities for conducting the CPAF’s business (Bylaws § 3(1))

2.1.5 Non-delegable matters (Bylaws § 4(2)) requiring board resolutions with qualified majority include:

- Hiring of internationally recognized investment manager (Bylaws § 13(1))
- Dismissal of Board members for good cause (Articles § 7(5))

2.1.6 Non-delegable matters (Bylaws § 6(2)) requiring board resolution with simple majority (Bylaws § 6(2)) include:

- Hiring, compensating and supervising ED
- Principles and decisions relating to spending the CPAF’s available financial resources
- Creating/revising Operations Manual
- Establishing/closing CPAF’s offices in countries of Caucasus Ecoregion (Bylaws § 1(2) and 6(2))
- Real estate transactions (buy/sell/lease/encumber) not provided for in budget
- Issuing guarantees/assuming third party liabilities
- Acquiring/selling shares
- Settling disputes and resolving conflicts of interests
- Annual budget, to be adopted by end of March
- Annual audit report
- Matters of fundamental or extraordinary significance or extraordinary risk
- Matters where Bylaws contemplate collective, non-delegable Board decision
- Matters for which responsibility not assigned to a particular Board member

2.1.7 Decisions on matters assigned to particular Board member

- Should only be made in his presence except in exceptional cases (Bylaws § 7(4))

2.1.8 Other tasks/competences

- The board *may*, by qualified majority (and not subject to delegation), adopt an organizational plan to allocate responsibilities for conducting the CPAF’s business (Bylaws § 3(1)).

- The board *may* adopt an Operations Manual for regulating administrative procedures of the CPAF. It *should* be adopted once an ED and supporting staff have been hired (Bylaws § 3(2)).
- The board must hire an internationally recognized investment manager in a transparent and competitive public tender process, subject to the consent of a qualified majority (Bylaws § 13(1)).

#### 2.1.9 Internal organization

- The Chairman coordinates activities (Bylaws § 5(2)); otherwise the duty falls to the Vice-Chairman
- The Treasurer is responsible for reporting to the Board about the management of the endowment (Bylaws § 5(6))

### **2.2 Committees (Bylaws § 7(6))**

- The board may establish Committees
- At least one Board member must be a member of the committee and report to the Chairman
- The board may delegate particular tasks if a committee consists of Board members only
- Advising Committees performing only advisory function may also include outside experts, e.g. Finance Committee; Scientific and Technical Committee
- The board may request that the Finance Committee propose investment guidelines, review and recommend potential outside asset managers to hire, and oversee performance of outside asset managers (Bylaws § 12(5))
- The board may establish a Scientific and Technical Committee that includes Board members and outside experts, and then request that the Committee:
  - Review the technical, scientific and administrative aspects of grant proposals, and recommend whether the Board should adopt or reject such proposals, or require them to be modified; and
  - Advise the Board on other scientific, technical or administrative matters (Bylaws § 18(2))

### **2.3 Executive Director**

(a) The ED is to be appointed by the Board and is subject to directives of the Board

(b) Core responsibilities of ED (Bylaws § 8(1))

- Prime responsibility during the first three years after CPAF is established: to raise additional capital for CPAF
- Efficient and cost effective day-to-day management, including proper maintenance of CPAF's financial books and records

- Coordinating internal and external review of grant proposals, and ensuring that all grant proposals are submitted to Board in proper form
  - Administering and monitoring grants
  - Representing and promoting the CPAF in dealings with government officials and the media
  - Serving as effective team leader of CPAF’s staff
  - Participate in Board meetings in a non-voting capacity and perform the task of a Secretary of Board (Bylaws § 5(7))
  - Otherwise assisting Board
- (c) ED Power of Attorney—see 2.1.2(b) above
- (d) Board to supervise ED

**2.4 Duty of Confidentiality (Bylaws § 9)**

- It is the duty of the CPAF board and employees not to disclose non-public information, even after leaving the CPAF (Bylaws § 9(1))
- It is their duty not to use non-public information for their own benefit or the benefit of a third party (Bylaws § 9(1))
- The CPAF’s documents have to be returned if requested (Bylaws § 9(2))

**2.5 Conflict of Interest (Articles § 9(7); Bylaws § 10)**

2.5.1 Definition (Bylaws § 10(1))

- (a) A “conflict of interest” exists whenever a CPAF board member or officer, directly or indirectly, is in a position to approve or influence decisions or actions of the CPAF from which such board member or officer would derive an individual economic benefit, or is affiliated with someone who would derive an economic benefit. For these purposes only, “Officers“ of the CPAF includes all CPAF employees.
- (b) A Board member or officer is deemed to be “affiliated” with an entity if such Board member or officer:
- Serves as a member of a governing body of the entity
  - Serves as an officer or employee of the entity
  - Has a material economic relationship with the entity or
  - If the person’s spouse, parent, sibling, child, or member of the immediate household, holds such a position or has such a relationship.
- (c) Service on the board of another not-for-profit entity does not constitute a conflict of interest.
- (d) A Board member or officer is deemed to be affiliated with an individual if such individual is a spouse, parent, sibling, child, or member of the immediate

household of such individual or has a material economic relationship with such individual.

### 2.5.2 Proceeding

- (a) If a conflict of interest exists, immediate disclosure is necessary (Bylaws § 10(2))
- (b) The board will decide as to the existence of a conflict of interest or an affiliation; the affected board member will abide by the decision (Bylaws § 10(2))
- (c) If a conflict exists, the affected board member or officer shall not participate in the decision-making or in any voting. The affected board member may participate in any discussion regarding the board member's exclusion.

No individual or entity with which a board member or officer is affiliated shall receive any special consideration by the board, and no board member or officer shall attempt to influence other board members or officers regarding matters before the board in which they are interested, without first disclosing that interest to the full board.

If any contract or grant is presented to the board in which a board member or officer has an interest, or is affiliated with a contract party, a committee composed of the non-interested board members shall be formed to review, and approve or reject such contract or grant (Bylaws § 10(3)).

- (d) The board may adopt additional policies on conflict of interest (Bylaws § 10(4))

## **3. FINANCIAL MANAGEMENT**

### **3.1 Administration of CPAF's Assets (Articles § 4 and Bylaws § 12)**

#### 3.1.1 Duties of a prudent businessman apply (Articles § 4(2))

#### 3.1.2 Endowment capital

- The endowment capital is to be preserved (Civil Code § 80(2); Hessian Foundations Act § 5, 6(1); Articles § 4(3))
- Up to 10% can be used if necessary, and replenishment is possible within six years (Articles § 4(4))
- Apart from this, only income and capital appreciation can be used—*note that under German Law on foundations capital gains are considered to belong to the endowment capital unless the Articles are changed to establish an exemption of this rule.*

#### 3.1.3 Assets in general

- Unless otherwise restricted or specified by a donor, CPAF assets are to be administered as:
  - Endowment Fund
  - Sinking Fund (§ 4(5) sentence 2 Articles)
  - Revolving Fund
  - Pass-Through Fund
- The entire amount of any current use gifts (*Spenden*) must be spent promptly (within the year following the donation) and may not be reinvested
- Any remaining amounts which the CPAF may have available to use for making grants in a particular year (after making grants to all of the eligible PPAs for which qualifying grant proposals have been submitted) must be reinvested in the CPAF's capital until the capital has grown to at least 44 million Euro (Bylaws § 17(2)). This provision may be incompatible with German law and is under review.

## **3.2 Investment of Capital**

### 3.2.1 Generally accepted principles:

- Endowment capital to be preserved (see above)
- Safe investment (diversification and avoidance of speculation)
- Proper and efficient administration
- Investments to yield returns

### 3.2.2 Requirements of organizational documents

- The CPAF's capital must be invested by an internationally recognized investment manager (Bylaws § 13(1)).
- Investment objectives are to preserve capital and to earn a net total annual return of 5% over the long term (Bylaws § 14(1)).
- Investment Guidelines to be adopted by board to follow diversification (asset class [stocks, bonds, real estate etc.], country or geographical region, currency, industry or company) (Bylaws § 14(3))
- The investment manager must ensure risk control (Bylaws § 14(2))
- The calculation of the amount of investment return that can be spent each year is to be based on the average total annual rate of return earned over the last three years, unless otherwise determined by a qualified majority of the board in consultation with the investment manager (Bylaws § 13(2)).

### 3.2.3 Investment policy

The board has adopted an Investment Policy which contains more detailed guidance on investments. Among other things it clarifies that the investment return objective of 5% as stated in the by-laws should be interpreted as 4% after inflation.

### **3.3 Budgeting**

- The ED will prepare an annual budget for submission to the board. The budget will include a grants budget and budget for administrative expenses, as well as a budget for expected income. The grants budget will take account of earmarking and the hierarchy described below under 4.1(d).
- The board, together with the ED and with input from the investment manager, is responsible for ensuring budget sustainability, taking into account the rates of return on the CPAF's assets, global economic conditions, current and predicted rates of inflation, the CPAF's committed and expected grants, and donations committed to the CPAF. Bylaws § 8(2)
- The annual budget (financial plan) is to be adopted by board by the end of March with a simple majority (Articles § 10(1); Bylaws § 6(2)(b)). Until the adoption of the new budget, the ED may authorize spending for administrative expenses on the basis of the amounts approved in the previous year's budget. Grant spending may proceed on the basis of approved grants.

### **3.4 Administrative Expenses**

All Euro amounts in this Section are stated in 2009 Euros and will be adjusted if necessary taking into account inflation or deflation. All provisions governing procedures for acquiring goods and services are subject to any more strict procedures agreed to by the CPAF in any grant agreement with a CPAF donor.

#### 3.4.1 Total administrative costs

- Principles of thrifty management should govern administrative costs (Articles 10(1))
- The CPAF's administrative costs may not exceed 15% of its total annual budget (grants plus administrative expenses), commencing at latest in the fourth year after it has been legally established (Bylaws § 8(5)).
- The ED is entitled to re-allocate cost items among budgeted administrative costs, subject to the specific limitations set forth below. Overall, the ED will not, without prior approval of the board, permit spending for administrative costs in excess of the budget plus a contingency of 5%.

#### 3.4.2 Expenditures for equipment, supplies etc.

- To be contracted for by the ED or his delegate and can be authorized by the ED within the limit of the greater of (i) Euro 5,000 and (ii) the annual budget for equipment and supplies plus a contingency of 15%.
- The ED is to seek two or more offers for all expenditures for equipment and supplies in excess of EUR 2,000, and three or more

offers for all such expenditures in excess of EUR 5,000. If possible, the offers shall be in writing and a record of such offers shall be kept.

#### 3.4.3 Travel by ED

- The ED may engage expenses for his travel in accordance with his contract.
- The ED will seek to schedule his travel efficiently and prudently and will notify and seek approval of the board if his travel expenses exceed budgeted amount by more than 15%.

#### 3.4.4 Travel by staff other than ED

- Travel by other employees is to be approved by the ED
- This will include train and airplane travel in coach (second) class

#### 3.4.5 Consulting services

- The ED is authorized to engage consultants.
- To the practicable, the ED will seek to identify annual consulting needs in advance and include budget for same as part of annual budget.
- The ED will not spend in excess of greater of (i) Euro 20,000 and (ii) 115% of the amount set forth in the annual budget for consultants without prior board approval.
- If the amount to be paid in fees for the services in question in any given year exceeds EUR 5,000, the ED will develop terms of reference for such services and seek to ensure that the consultant operates within those terms of reference.
- For services where a competitive market exists (e.g., homepage development, legal services [other than those offered on a pro bono basis], accounting and similar services), if the amount to be paid in fees for the services exceeds EUR 10,000 in any given year, the ED will seek more than one offer for such services to the extent practicable.
- If consulting fees paid to any single consultant in any given year are expected to exceed EUR 20,000, the terms of reference for such services shall be submitted to the Board prior to engagement of such consultant.
- The ED is authorized to reimburse the reasonable out-of-pocket expenditures of consultants.

#### 3.4.6 Hiring of employees

The ED may hire employees consistent with the budget plus a contingency of 15%. The Board must approve the budget for any proposed new hire. If the total annual remuneration of an individual employee exceeds EUR 35,000, the terms of the agreement and the qualifications of the individual shall be submitted to the Board prior to signing.

## **4. ACCOUNTING**

### **4.1 The fiscal year is the calendar year (Bylaws § 1(3))**

### **4.2 Maintenance and Content of Books**

Proper books shall be maintained as necessary to properly record and account for:

- (a) CPAF assets, including:
  - Endowment capital, sinking funds and other contributions classified appropriately as unrestricted or dedicated to a particular country;
  - Gift commitments; and
  - Any tangible assets (equipment, etc.) owned by the CPAF
- (b) CPAF liabilities, including a schedule of committed grants showing in reasonable detail the scheduled date of disbursement
- (c) CPAF revenues, including income on investments and gift commitments to cover operating expenses; and
- (d) CPAF expenditures for grants under the following earmarking of funds hierarchy:
  - (1) Sinking Funds (Country Specific) (Articles § 4(5))
  - (2) Sinking Fund (Unrestricted) (Articles § 4(5))
  - (3) Endowment Earnings (Country Specific)
  - (4) Endowment Earnings (Unrestricted)
  - (5) Up to 10% of endowment (Articles § 4 (4))

On appropriate occasions (i.e. existence of other upcoming known uses for sinking fund monies), funds from source (3) or (4) can be used ahead of funds from sources (1) or (2).

- (e) CPAF expenditures, including for salaries, travel, rent, consulting fees and other administrative expenses and similar operating items.

### **4.3 Accounting Function**

For as long as the CPAF does not employ an internal accountant for such purposes, it shall outsource its bookkeeping to an external service provider.

## **5. BANKING AND BANK ACCOUNTS**

### **5.1 Endowment/Investment Account(s)**

The CPAF maintains one or more separate accounts for its endowment assets, sinking funds and other assets that are invested on a medium- to long-term basis (Endowment/Investment Account(s)). Assets available for expenditures

for grants and administrative expenses are booked on different accounts (Operating Account and Disbursements Account). The signature of any two of the Chairman, the Vice Chairman, the Treasurer and the ED is required to transfer funds from the Endowment/Investment Account to the Operating Account or the Disbursements Account.

## **5.2. Operating Account**

The CPAF maintains two different kinds of accounts for its operational expenses. One of such accounts is the so-called Operating Account. Grant funds provided to CPAF to cover administrative expenses, income from endowment earnings or sinking funds allocated by the Board to cover such expenses or to be used for grants in the current period, and other funds intended to be available for current expenditure are held in CPAF's Operating Account or sub-operating accounts. The Operating Account(s) hold(s) and invest(s) available funds on a short-term, money market basis pending expenditure.

Funds may be transferred from the Operating Account to the account of a grantee, to a sub-operating account in one of the core countries or to the Disbursements Account (see below) upon the signature of any two of the Chairman, the Vice Chairman, the Treasurer and the ED. Funds may also be transferred from the Operating Account to the Disbursements Account upon the signature of the ED, acting by his signature or telephonic order alone, in the amount of up to Euro 30,000 per month. Funds may be transferred from a sub-operating account in a core country to a grantee upon signature authority of the ED.

## **5.3. Disbursements Account**

The CPAF maintains a second account for its operational expenses intended to be used for payment of its day to day expenditures, its so-called Disbursements Account.

The CPAF's bookkeeper and tax advisor has authority to make transfers from the Disbursements Account to cover payroll and other administrative expenses previously authorized in writing by the ED. The ED has signature authority over the Disbursements Account (acting alone) for the purpose of doing so.

## **5.4. Petty Cash**

The CPAF currently does not advance petty cash to its employees. Employees who advance personal funds for CPAF expenditures are reimbursed against submission of appropriate documentation.

# **6. FINANCIAL STATEMENTS AND REPORTING**

## **6.1 Annual Financial Statements and Board's Annual Report**

- The ED is to assist the board in preparing (i) annual accounts with an overview of CPAF’s assets (*Jahresabrechnung*) with an asset statement and separated depiction of the reserves and (ii) a report on the fulfillment of the CPAF’s purpose (*Bericht über die Erfüllung des Stiftungszwecks*) (Hessian Foundations Act § 7 no. 2; Articles § 10(2)). The accounts shall be drawn up pursuant to the regulations set forth in the third volume of the German Commercial Code (*Handelsgesetzbuch*) for large corporations (§ 267(3) HGB), except that no *Lagebericht* (§ 289 HGB) shall be required (Bylaws § 6(2)(c)). As such the accounts will include a balance sheet and an income statement and related notes.
- The board is to approve the disposition of funds annually by resolution at a meeting following approval of the audit, with qualified majority (Articles § 9(4)).
- Financial Statements should accordingly be approved at a physical meeting of the board by a Qualified Majority (Articles § 9(4)) before end May to permit reporting as described below under “Reporting”, by a resolution along the following lines:  
*Resolved, that the financial statements of the CPAF for the year XXXX and the accompanying Bericht ueber die Erfuellung des Stiftungszwecks are hereby approved and the Executive Director is hereby directed to submit such documents to the foundation authority no later than May 31. The Board hereby approves the disposition of funds for the year XXXX reflected in the financial statements.*

## 6.2 Audit

- (a) An external audit is to be undertaken by internationally recognized independent accountant (Articles § 10(3)). The audit is to cover:
- Audit of the annual accounts;
  - Continuing sustainability of the CPAF’s assets (Hessian Foundations Act § 12(3));
  - Conformity of CPAF expenditures with the Articles (Hessian Foundations Act § 12(3)); and
  - Compliance with the tax requirements applicable to not-for profit foundations
- (b) External audits of the CPAF’s own offices and operations will be paid by the CPAF as an administrative expense. Copies of the external auditors’ report will be sent to appropriate German Government authorities, to donors to the CPAF, and to the governments of the three core countries (Bylaws § 8(6)).

## 6.3 Reporting

- On completion of the audit, the audited annual accounts and the report on the fulfillment of the CPAF’s purpose will be provided to the *Stiftungsaufsichtsbehörde* (Articles § 10(4)) by end May (Articles § 10(4)) (note: Hessian Foundations Act § 7 no. 2: requires submission by end September)

- The audited accounts (but not the auditors' report, unless agreed by the auditor) and the report on the fulfillment of CPAF's purpose will also be made available on the CPAF's homepage
- Tax filings are to be made with tax authority in accordance with the schedule set by the tax authority
- Approved grant applications will be published on the CPAF's homepage

# **CPAF OPERATIONS MANUAL**

## **Part II-- Grant Making Operations**

### **Table of Contents**

- 1. General Principles Governing Grantmaking Activity**
- 2. Grant Proposal/Approval Process**
- 3. Grant Expenditure Authorization**
- 4. Grant Monitoring and Reporting**

## **1. GENERAL PRINCIPLES GOVERNING GRANTSMAKING ACTIVITY**

### **1.1. CPAF Purpose**

- The CPAF provides grants to support essential management costs of Priority Protected Areas (“PPA”) in Armenia, Azerbaijan and Georgia, which are considered the three core countries of the Caucasus Ecoregion (Articles § 2; Bylaws § 15(1)-(2))
- It may also provide grants to neighboring countries possible but only under certain conditions (Bylaws § 15(3))
- Grants may not be awarded to support any activities in any PPA located in territory whose legal ownership or physical control is subject of dispute between any of three core countries, unless Ministries responsible for protected areas in each such country states in writing that it has no objection to such grants (Bylaws § 8(4))
- The CPAF provides financial aid to government and non-governmental organizations for specific types of activities (Bylaws § 16(2)); it itself does not engage in management activities (Bylaws § 16)
- The CPAF has a non-profit character (Articles § 3)
- No substantial part of the CPAF’s activities shall be for propaganda or otherwise attempt to influence legislation. The CPAF shall not participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office (Bylaws § 8(7))

### **1.2. Grant Eligibility Criteria (Bylaws § 17)**

- The grant proposal must meet the general criteria specified by the Board and must be submitted by the Ministry responsible for environment and nature conservation in the country where the PPA is located;
- The PPA must have completed (or must be requesting a grant to complete) a management plan which satisfies all of the criteria established by the Board; and
- The Government of the country where the PPA is located (and/or other funding sources) must agree to provide at least 50% of the Essential Management Costs or PA Management Plan Development Costs of the PPA for which a grant is being requested. However, in cases of “*force majeure*” - unforeseeable events beyond the control of a government (such as a major earthquake or other emergency which severely depletes the government’s financial resources) - the Board may decide to reduce the required level of co-financing to less than 50%, upon approval by a qualified majority of the Board.
- If the CPAF’s capital has grown to at least 44 million Euro, any remaining amounts can also be used to pay for the non-essential PA management costs or infrastructure of eligible PPAs (Bylaws § 17(2)).

### **1.3 Funding Prioritization Criteria (Bylaws § 18(1))**

If the CPAF does not have enough financial resources to support all of the PPAs for which qualifying proposals are submitted in a particular year, the Board will choose which PPAs to support based on the following criteria:

- (a) Irreplaceability - PPAs that contain globally threatened and restricted-range species. The most irreplaceable PPAs are those that contain the single most viable population and/or greatest genetic diversity of a target species (i.e., a species classified by IUCN's Red Book)
- (b) Representativity - PPAs that serve to ensure there is representation of the full spectrum of endemic species and habitats across the protected areas system of the ecoregion;
- (c) Urgency - PPAs that represent an immediate conservation opportunity and/or are experiencing severe threats to endemic and/or threatened species and their habitats;
- (d) Feasibility - PPAs that exist within a supportive local and regional context, i.e. that can demonstrate local community support; and
- (e) Regional importance - PPAs that promote and enhance overall implementation and effectiveness of the Ecoregional Conservation Plan.

## **2. GRANT PROPOSAL/APPROVAL PROCESS**

The Executive Director will:

- Consult with governments and local NGOs and other bodies to identify priority projects, apprising board annually as part of budget process (see below), and more frequently if appropriate, of his recommendations.
- Solicit specific proposals from governments for the recommended projects, working with the governments as necessary to ensure conformity of proposal with Framework Agreement.
- Coordinate internal and external review of grant proposals and ensure submission to Board in proper form (Bylaws § 8(1))
- Include in annual budget submission to board a grant-making budget including (i) a summary of any approved projects and projected grant-making under such projects in current and future years (ii) a summary of any projects likely to be proposed to board in the coming year that are likely to require grant expenditure in the budget year or, to the extent foreseeable, in the following year.
- Present specific grant proposals to board, either as part of the annual or a special meeting, for approval by simple majority. (Bylaws § 6(2))
- On approval the ED will notify the relevant government.

## **3. GRANT EXPENDITURE AUTHORIZATION**

- The ED is to administer grants (Bylaws § 8(1))
- The ED is to certify that:
  - (i) disbursement is pursuant to a grant approved by the board, and
  - (ii) to his best knowledge, the disbursement conditions (included proper use of previously provided funds) contemplated by the relevant grant proposal and Framework Agreement are satisfied or have been waived by the Board.
- If the Board or ED determines this may not be the case, the Board or the ED may suspend further funding until corrective measures have been taken.
- Any grant funds unspent at the end of the grant period must be returned to the CPAF (Bylaws § 8(3)d).
- If the Board or the ED determines that the funds have been misused, the grant recipient will be barred from receiving further funds from the CPAF. The board is obligated to claim any misused funds (Bylaws § 8(3)e)).

#### **4. GRANT MONITORING AND REPORTING**

The ED will report on compliance with the terms of individual grants with the board as part of the regular reporting process.

Grants will be made in principle on the basis of applications containing a management plan, an operational plan and a budget. Under the Framework Agreement (Annex E) and the individual Grant Agreements, the Ministry and/or the PA will provide annually:

- Updated operational plans and budgets,
- A progress report on the achievement operational, conservation and other goal contained in the management plan and the current year's operational plan
- Annual financial accounts

The ED shall be responsible for monitoring the grants for the CPAF (Bylaws §8(1)). The Framework Agreement gives the CPAF the right to monitor the use of funds provided by the grant as well as co-funding by the relevant government. As part of its monitoring process, the individual Grant Agreements will provide that the CPAF may appoint:

- Independent auditor to audit the PA's annual financial accounts, and
- Technical auditors to monitor operational performance.