

Critical Ecosystem Partnership Fund
31st Meeting of the CEPF Donor Council
Rue Montoyer 15
EC ROOM MO15 00/A098
Brussels, Belgium
27 June 2017
2:00 p.m. – 6:00 p.m. CEST

Approved Minutes

1. Welcome by the Chair and introduction of participants (Doc. CEPF/DC31/1)

2. Adoption of agenda (Doc. CEPF/DC31/2)

- Agenda is approved.

3. Adoption of Minutes of the 30th Meeting of the Donor Council (Doc. CEPF/DC31/3)

- Minutes are approved. However, the Donor Council would prefer more concise minutes with less detail

4. Report from the Executive Director (Doc. CEPF/DC31/4)

- Introduction of *Fejervarya cepfi* – newly discovered frog in the Western Ghats Region of India, where it is endemic. It was discovered by one of our grantees.
- Secretariat response to action points from Donor Council's 30th meeting:
 - Revised the minutes of the 29th Donor Council meeting as requested, reflecting that the CEPF secretariat reported 15 percent in operating costs, and listing absent members.
 - Re-opened CEPF's governance arrangements discussion (on today's agenda).
 - Engaged the Working Group on the revision of global impact indicators (on today's agenda).
 - Sent to the Donor Council the terms of reference of the value for money assessment (done right after the 30th meeting).
 - Unable yet to provide the definitions of administrative and technical inputs, for the CEPF secretariat and for the regional implementation teams.
 - Not yet finalized: still under discussion, in the context of the action plan.
 - Provide definitions and an analysis the RIT technical versus administrative inputs (on today's agenda).
 - Added an appendix to the CEPF global impact report focused on the social and economic benefits generated by CEPF-funded projects.

✓ **All action points have been reported on.**

- Roll out of the new grants management system, ConservationGrants, is now in its final phase.
- The new CI Grants and Contracts Unit is now fully operational. This unit will help strengthen the risk-assessment and risk-management practices. It will also help standardize the monitoring protocols and tools. The team supporting CEPF is also complete, with four grants managers. This unit also has a procurement specialist that provides support to CEPF.
- RIT Exchange in May 2017: 28 RIT members (including three former RITs) and a few Secretariat staff attended to share experiences and feedback on their work.
- Partnership highlights:
 - Coca-Cola Africa Foundation/Global Environment and Technology Foundation are supporting CEPF grantee Global Diversity Foundation for its watershed management project and an improved irrigation system in Morocco. They recently received a large grant from MAVA and might be self-sufficient in the future.
 - CEPF/GEF Small Grants Program (SGP) retreat: Yoko Watanabe, who is now at the SGP, and the CEPF Secretariat will participate in a retreat to identify possible synergies on monitoring and evaluation and possibly other joint efforts.
 - Comments/Questions:
 - EU: it would be good to have those stories in a short, friendly format to share (1-pager or 1-minute video) as good stories are essential to explain our work.
- The Mediterranean Basin Hotspot Ecosystem Profile is completed and has been shared with all stakeholders.
- Communications:
 - Website redesign to emphasize learning and improve user experience is underway. The site will have a new content management system, and new features will include being able to search CEPF projects by 68 keywords. Launch is planned for October 2017.
 - Annual Report 2016 is done, posted on CEPF website and a few prints have been made. No translation is planned for now as it depends on costs.
- Fundraising:
 - Talks with l'Agence Française de Development are continuing for grants dedicated to support activities in West Africa and Madagascar.
 - The World Bank noted CEPF should talk with the Bank to ensure there is no duplicate efforts in these regions.
 - Still in discussion with KfW, the German development bank, for a 10 million EURO contribution to the Tropical Andes.
 - In talks with the Swiss Development Corporation in regard to their interest in the Mountains of Central Asia.
 - Working on the European Union replenishment after a first phase of investment.
 - Working with the World Bank to receive the \$15 million in funding from the Government of Japan has kept the Secretariat very busy.
 - Rainforest Trust: There won't be any co-funding because of legal issues, but CEPF will continue to look at possible synergy and collaboration.
- Finance reporting:

- Almost \$290 million in funding for CEPF signed across two phases.
- \$210 million has been committed to grantees, of which \$190 million has been dispersed.
- \$21 million has not yet been committed, but what we planned requires \$35 million. The difference reflects the \$15 million pledge from the Government of Japan.
- Pledged funds are about \$40 million: \$15 million from the Government of Japan and \$25 million from CI.
- Also target for awards to grantees will not be met by the cut off day of June 30th but rather by end of July.
- The FY17 budget of the Secretariat remains in 15 percent or \$3.5 million with a burn rate of 73 percent for FY17.
- For FY17, the Secretariat cost will be about \$3.3 million. The two main reasons for this saving are the centralization of CI's Grants Management Unit that afforded various efficiencies through the teams and the reduction in the number of professional services.
- The cost of the RIT is not included in the 15 percent which is reported under grant awards.
- The UBS investment that was approved in 2014 by the Donor Council: We are actively discontinuing the investment and moving the funds to the operating cash account. So far \$12.5 million has been removed with \$17.5 million more to go. All funds will be withdrawn from the investment account by end of FY18.

5. Approval of the new set of indicators (Doc. CEPF/DC31/5)

The 23 indicators were reduced to 16 to better measure impact.

Comments/Questions:

- Will CEPF be able to use the same methodology for each indicator? CEPF has the means of measurement and the data source. So much of our information will be collected from individual grantee reports. Also, ConservationGrants is going to facilitate that collection. Other information will be collected at the beginning of a grant and at the end of the grant such as the management effectiveness tracking tool and the gender tracking tool.
- **Action Item: CEPF will provide a one-page document with infographics on the CEPF contribution to the U.N. Sustainable Development Goals and the Aichi Targets of the U.N. Convention on Biological Diversity.**
- ✓ **New indicators are approved**

6. Approval of the new version of the Operational Manual (Doc. CEPF/DC31/6)

The last update was in March 2013. A table with changes made was introduced.

- ✓ **The updated Operations Manual is approved.**

** The World Bank asked that the record show that they have not fully reviewed the indicators and that in view of the new financing (\$15 million pledge from Government of Japan), those indicators may be reviewed in the next few months**

7. Final approval of the governance arrangements (Doc. CEPF/DC31/7)

Governance was discussed at the 29th Donor Council meeting. Changes were approved unanimously by those in attendance, but CI was not present at that meeting. CI is today suggesting a few minor changes:

Section A, bullet 2. The word “phase” is unclear, as the actual number of years that are covered is ambiguous. A definitive period should be stated.

- Current wording: Global donors must contribute at least USD \$5 million over a single CEPF phase.
- CI suggested wording: Global donors must contribute at least USD \$5 million over a 5-year period.

Section A, bullet 3. Since future funding is likely to go into segregated accounts, the words “global pool” no longer apply.

- Current wording: Donor Council membership starts with the first financial contribution to the global pool after such time that the minimum membership requirements are met.
- CI suggested wording: Donor Council membership starts with the first financial contribution to CEPF as per a signed financing agreement.

Section A, bullet 4. Membership should be based on the intent of the donor, defined via a financing agreement. In the case of CEPF spending funds prior to expiration of a financing agreement, the donor would still retain membership as per the original intent of their financing agreement.

- Current wording: Donor Council membership ends 3 years after the end of commitment period.
- CI suggested wording: Donor Council membership ends upon expiration of the respective financing agreement.

➤ **Action Item: CEPF will revise the governance arrangements with the new recommended changes for final approval.**

8. Reports on World Bank “In-depth Fiduciary Assessment,” “CEPF Management Response to In-depth Fiduciary Assessment” and “Value-for-Money Assessment”

- Timeline for implementation of the action plan that will come from the World Bank following the In-depth Fiduciary Assessment.
- Discussion about CEPF investment in the current portfolio if Japan’s \$15 million release is delayed or not happening at all.

World Bank Presentation: About 50 percent of all of CEPF expenses are World Bank funds and have been subject to these reviews. The other 50 percent are part of that pool account and were not reviewed. Those funds are for lots of small projects that have different lengths of time and starting/ending dates. It is more difficult to manage and therefore riskier. Another issue is the RIT and their mixed role and their evolving terms of reference. The RIT selection too has evolved and was not all clear to the World Bank before. There is nothing wrong with the design but the CEPF is a project difficult to manage for the World Bank. The assessment focused mainly from January 2014 to August 2016. A desk review and field visits to five

grantees were completed. The objectives of the review are to look at legal compliance of fiduciary aspects; and then, looking at the fiduciary capacity and the fiduciary oversight and procedures, including CI, but also looking at the RITs; identifying remedial measures in cases of noncompliance; and identifying solutions for mitigating the risks.

Findings:

- Problems with traceability due to the pooled account.
- The accounting ledger doesn't look at the various sources of funds and their use.
- Commitments versus payments: Up until 2014, there was a surplus of the money that was committed but not paid. That money was not refunded back to the donors in the proportion in which it was originally allocated – this is one of the main issues. A total of 188 sub-grants were not paid to grantees, which amounted to \$19 million. It was credited to the CEPF donors, but not in proportion to which they were originally allocated. So, the DGF, GEF, Japan and the EU are sort of missing some of the money that should have been credited back to them. As a result, CEPF carried on allocating the money in accordance with the objectives and the terms of reference. They're not doing anything necessarily wrong from that perspective, but some of the money was spent after the closing dates of those grants, which is, therefore, a problem. There's no double dipping. Nobody's getting ripped off, it's just the accounting is unclear, showing double charging. To resolve this, donors should be refunded or agree to retroactively change the closing date to get a credit.

- **Action Item: The World Bank will work with the Government of Japan and the European Union to pursue having their grant agreements retro-actively extended.**

Special projects/interest from UBS investment: Interest generated from UBS Investment were spent on special projects that were not eligible and should be refunded or reclassified.

CEPF: Regarding the UBS investment, the World Bank money was not considered as part of the investment portfolio because the funds were not substantial. Therefore, when selecting an auditing firm, CEPF followed CI's procurement policies. All items for the special project fund were disclosed to the Donor Council through the spending plan each year. CI Procurement policies were followed and not the World Bank procurement policies because the special project fund was funded by the interest from the UBS investment, which did not include World Bank money. At the time of investment, each donor was consulted on whether or not this would comply with their policies. A response was provided by the World Bank that this investment was allowed. It is written in the Donor Council minutes.

There are two possible solutions: Either the funds are recovered, or the World Bank needs to seek written permission from the relevant donors for a write off.

- **Action Item: The World Bank will check with its management whether the World Bank will provide a written note to each donor that will include the following points:**
 - **Explain why the World Bank finds these expenses ineligible.**
 - **Explain why CEPF finds these expenses eligible.**

- **The World Bank and the entire Donor Council had given prior approval, which is included in the minutes of a previous Donor Council meeting.**
 - **For the Government of Japan, the World Bank will also identify the pertinent text in the financing agreement.**
- **Action Item: The World Bank will provide a revised action plan that includes what each donor must do. Will be sent by June 30th.**
- **Management fee: The indirect cost policy of 20 percent of the CEPF secretariat cost, in addition to the CEPF secretariat cost. This is not an eligible expenditure under the World Bank legal agreements, which allow for project management costs only, defined as reasonable expenditures directly related to the CEPF II project that would not have been incurred absent CEPF II. These are ineligible expenditures for the EU and the Government of Japan that may have to be refunded.**
- **Green card costs (\$13,000) are not eligible under World Bank policy. Two possible solutions: Either the funds are recovered, or the World Bank needs to seek written permission from the relevant donors for a write off.**
- **The RIT grantees: Ones with low capacity have a limited role in selecting grants, doing limited supervision, limited capacity building, lacking good supporting documentation. RITs have a mixed role, being both a grantee and an administrator of grants. The World Bank would like to clear up the roles going forward.**
- **Fraud: The assessment found four confirmed cases of fraud that need to be resolved. The integrity due diligence on the RIT and the grantees need to be formalized and written down, and ethics codes for reporting and documentation need to be improved. The investigation found that CEPF wasn't able to supervise the subprojects enough. And in some cases, there was conflict of interest.**
- **Action Item: The World Bank will change the wording of the action plan from “fraud” to “ineligible expenses,” and include amounts and a short text on what happened.**
- **Action Item: The World Bank will adjust the wording in its report to cite:**
 - **Two confirmed instances of ineligible expenses, in which the organizations were defrauded by an employee. Some text would have to be added that the funds for the IUCN case were returned.**
 - **One instance of ineligible expenses under investigation.**
 - **One instance where investigators determined there was no ineligible expense.**
- **Action Item: The World Bank will remove from its record any wording referencing to “Some conflict of interests on CI’s part when selecting CI as a grantee” This is not true as CI is removed from any discussion on CI’s applications as a grantee.**
- **Institutional Assessment:**
 - **Transparency of RIT selection and roles and responsibilities needs improvement.**
 - **Five-year investment is not long enough to find lasting conservation impacts.**
 - **Clarify the roles and responsibilities between the secretariat and the RIT for large grants.**
 - **Support RITs to build capacity of grantees.**

- Possibilities of longer engagements?
- Increase focus on learning and strategies across and within regions and hotspots.
- Due to unsatisfactory rating, an action plan is required.
 - The plan is needed in order to put more money in CEPF and because issues came up.
 - One requirement is ensuring traceability and risk sharing in the pooled account.
 - Additional financing will require segregated bank accounts.
 - Statements of expenditures will be used instead of interim financial reports.
 - Expenses related to the EU's last installment need to be coded and traceable.
 - Need a restatement of financial reports accounting for credits related to the reconciliation from reporting commitments to payments. It will require both Japan and the DGF to retroactively extend the grant closing dates.
 - Additional finance will have to explicitly exclude the management fee, specify the role of RIT in the next project and under which disbursement category the RIT expenses are covered. The ineligible expenses will have to be sorted out, and the fraud would involve repayment to donors, or write offs from the donors.
- Next Steps:
 - The World Bank Senior Management has suggested an in-principal agreement of the processing of the additional financing while in parallel the Action Plan must be finalized. Some actions need to be implemented before the Bank approves the additional financing total.
 - In order to proceed, the action plan must be agreed on.
 - Some of the key remedial measures have to be implemented before possible approval of additional finance.

Questions/Comments:

CI: Note for the record that both the special projects account, and all of the accounting, has been fully disclosed to the Donor Council every single quarter, and has been approved by the Donor Council, including the World Bank. So, it was eligible up until, presumably, now.

CEPF: The secretariat has not violated any grant terms and hasn't failed to meet its obligations under the grant agreement. There has been no misuse of funds. Important to note too that CEPF has received positive and satisfactory evaluation in its 16 years, and nothing has changed in how the funds are managed. This review from the World Bank has been extremely time consuming, for the entire Secretariat, time that was not used fundraising or delivering conservation on the ground. There were four cases of suspected fraud with only one, in Cambodia, confirmed.

EU: The EU was upset that the value-for-money assessment started without informing the others and wonders why does the in-depth assessment, which was necessary, has taken so long. It is really important for the EU to understand the fraud cases, because any mention of fraud requires the involvement of higher authority to figure out if an investigation is necessary and this would lead to the decision on whether to continue its investment. The EU understands the double role of the RITs, or windfall granting.

- Does the Donor Council agree with the new terms of agreement from the World Bank on how the \$15 million from the Government of Japan should be used? Such as, for example, allowing large grants up to \$500,000.

- ✓ **Decision: All Donor Council Members disagree with increasing the threshold of large grant to \$500,000 as this would defeat one purpose of CEPF, to grant to small and local civil society.**
- CEPF will re-purpose CI funding to fund the Cerrado and Guinean Forest of West Africa hotspots that were supposed to be funded by the \$15 million from the Government of Japan. CI has agreed to make its funds available for Cerrado and Guinean Forest of West Africa hotspots, putting investment in the Mountains of Central Asia and the Caribbean hotspots on hold.
- The Donor Council discussed the possibility that CEPF might get a new rating from the World Bank, from B to A, which could affect environmental safeguard practices.
 - **Action Item: The World Bank will provide clarification on the proposed change in safeguard rating for the project.**

9. Any other business

No other business.