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## SUSTAINABLE FUNDING STRATEGY FOR THE EASTERN ARC MOUNTAINS AND COASTAL FORESTS OF TANZANIA AND KENYA

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A Report prepared by

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**The Wildlife Conservation Society of Tanzania**

**The Tanzanian Forest Conservation Group**

## PREFACE

The following document is a sustainable fundraising strategy for the Eastern Arc Mountains and Coastal Forests (EAMCF) Hotspot of Tanzania and Kenya.<sup>1</sup> Sustainable funding is one of the five strategic pillars determined by Conservation International's Critical Ecosystem Partnership Fund's (CEPF) 2003 Ecosystem Profile for effective long-term conservation in the EAMCF Hotspot (CEPF 2003). The strategy is designed to secure reliable long-term support for conservation projects, community development and applied research activities that promote the biological diversity, ecological functions and sustainable use of the Hotspot's natural resources.

The consulting team (the "Team") that developed the strategy is comprised of Team leader Karl Morrison, Greg Love and the Wildlife Conservation Society of Tanzania and was contracted by the International Center for Insect Ecology and Physiology (*icipe*), with funding from CEPF. Development of the strategy took place from April - October 2007. Activities included desktop research, stakeholder consultations with over 60 individuals from Government, bi- and multi-lateral lending institutions, civil society and academia, two field visits to Kenya and Tanzania and one to Cambridge, England. A preliminary progress report was given to CEPF's regional Coordination Unit (CU) in Mombasa, Kenya on June 27, with agreement from CU members to move forward on an initial strategy recommendation of developing a fundraising strategy with Tanzania's Eastern Arc Mountains Conservation Endowment Fund (EAMCEF). Final consultations and development of the strategy and recommendations were completed by October 2007.<sup>2</sup>

The Team wishes to sincerely thank CEPF, the Coordination Unit members and all the stakeholders that provided their thoughts and recommendations for the strategy. Special gratitude is extended to Dr. Ian Gordon (*icipe*), Lota Melamari and Paul Nyiti (WCST), Dr. Neil Burgess (WWF), John Watkin (CEPF), Francis Sabuni (EAMCEF) and Christian Peter (The World Bank) for supporting the Team throughout the strategy development process. This document would not have been possible without their support.

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<sup>1</sup> The Hotspot was reclassified in 2005 by CI into two separate Hotspots: the Eastern Afromontane Hotspot and the Coastal Forests of Eastern Africa. However, the sustainable fundraising strategy will address the funding needs of the original Hotspot to be consistent with the 2003 Ecosystem Profile's strategic objectives.

<sup>2</sup> Unless indicated otherwise, the final recommendations for securing sustainable funding for conservation efforts in the Hotspot are exclusively those of the consulting Team, and do not necessarily represent those of CEPF, the CU or stakeholders interviewed during the consultation process.

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## EXECUTIVE SUMMARY

The following document is a sustainable fundraising strategy for the Eastern Arc Mountains and Coastal Forests Hotspot of Tanzania and Kenya. While one of the smallest original Hotspots defined by Conservation International (CI), it is home to over 330 globally threatened species and ranked first among CI's 25 original Hotspots in endemic plant and vertebrate species per unit area (Myers *et al.* 2000). Geographically, approximately 6,040 km<sup>2</sup> of the Hotspot is located in Tanzania, with approximately 670 km<sup>2</sup> in Kenya. Most of Kenyan portion of the Hotspot is located in the Coastal Forests, with only the relatively small (~6 km<sup>2</sup>) Taita Hills found in the Eastern Arc Mountain chain. Sustainable funding is one of the five strategic pillars determined by CI's Critical Ecosystem Partnership Fund's (CEPF) Ecosystem Profile for effective long-term conservation in the Hotspot (CEPF 2003). The strategy is designed to secure reliable long-term support for conservation projects, community development and applied research activities that promote the biological diversity, ecological functions and sustainable use of the natural resources in the Hotspot.

In developing its sustainable fundraising strategy for the Hotspot, the consulting team (the "Team") considered the following focal points:

- CEPF Priority Areas and Themes, as defined in the 2003 Ecosystem Profile, including Key Biodiversity Areas (KBAs) and mechanisms for channeling direct benefits to communities living in and around priority areas;
- Funding scenarios for achieving effective conservation of the Hotspot;
- Potential funding sources from various sectors, including:
  - Current and future funds from traditional Government agencies and bi- and multilateral donors and NGOs;
  - Potential new sources of support through linking conservation with economic development and poverty alleviation projects;
  - Existing internal mechanisms in both countries;
  - Potential internal funding sources from ongoing economic activities (e.g. payments for ecosystem services, tourism, private sector, etc)
- Feasibility of each potential source/activities over various timeframes;
- Where discrete CEPF investments in sustainable funding are most *strategic*. The Team defines strategic as where short-term investments in certain activities will most likely 1) lead to sustainable conservation funding streams for the Hotspot and 2) have the most positive impact on conservation of key priority areas;
- Best options for a Resource Mobilization Unit (RMU) in the region and what structures would be most effective in securing sustainable funding over the short- to long-term.

## CURRENT FUNDING LEVELS AND FUNDRAISING TARGET FOR THE STRATEGY

Determining current funding levels and gaps was problematic given the difficulty in securing reliable information on what resources both countries' national Governments are

providing for conservation efforts in the Hotspot. As a result, the Team had to rely on past assessments of funding needs and input from key stakeholders. These combined sources suggest that currently the Hotspot's protected areas/forest reserves are on average only getting approximately half of the funding required for effective protection from combined funding from Government, multilateral, NGO and private sector sources.

To determine an appropriate annual funding target for the fundraising strategy, the Team decided to take the total management costs/km<sup>2</sup> of a relatively well-managed protected area and use that figure to determine the total funding needs of the Hotspot. One such protected area cited during the consultation process was the 400 km<sup>2</sup> Arabuko Sokoke Forest Reserve in Kenya's portion of the Coastal Forests. The Reserve is generally regarded as one of the Hotspot's better managed protected areas and receives approximately US\$600,000-\$700,000/year from combined sources, though hard data on exact contribution levels from each of these sectors are lacking (Gordon, pers. comm.). The annual square kilometer cost of conserving Arabuko Sokoke is approximately **US\$1,500-US\$1,750/km<sup>2</sup>/year**.

Using this range, the Team estimated that the total annual funding needed for effective conservation of the Hotspot's remaining habitats is between **US\$10 million – US\$11.7 million**. Given that the Team estimates that only around one-half of the Hotspot's protected area needs are currently being met, the annual *minimum* range of funding (or the estimated funding gap) that the fundraising strategy should seek to raise is approximately half of the optimal level, or **US\$5 million - \$5.85 million**. With the current and anticipated funding environment in the Hotspot, it is unlikely that one or two funding sources will either fully fill the estimated funding gap or provide full funding for all priority areas in the near future, necessitating development of *several potential funding sources* over the next 10+ years.

The traditional funding sector (Government, bi- and multilateral donors and NGOs) has provided the bulk of funds to date for conservation efforts in the Hotspot. Many stakeholders interviewed by the Team felt that traditional funding sources will continue to play a key role in supporting conservation across the Hotspot for the foreseeable future. However, to meet the full conservation funding needs of the Hotspot, a sustainable funding strategy will need to create a suite of new funding sources to assure sustainability. Such sources include internal mechanisms for funding (such as trust funds) and securing conservation funding from broad-based, on-going economic activities (such as tourism) or natural resource uses (such as water services). Through such an approach, the Hotspot can diversify the number of sectors generating on-going, reliable revenues for conservation and increase the total amount of revenues secured. In determining what sectors offered the best sustainable funding opportunities, the Team assessed: 1) key current and potential funding sources of various sector in each country, and where appropriate, at the Hotspot level; 2) the opportunities (ranging from slight to moderate to strong) for developing sustainable funding streams from these sectors over various time-frames, and; 3) recommended short-term (12-18 months) actions and investment the Team recommends for CEPF and the Coordination Unit (CU) to take to catalyze these

sectors into becoming sustainable funding sources for conservation of Hotspot priority areas.

## **RESULTS OF SECTOR ASSESSMENT**

The results of the assessment yielded a number of conclusions on short- to long-term sustainable funding opportunities in the Hotspot and the short-term actions that CEPF and the CU can take to catalyze their development. Overall, the Team believes there are stronger short-term sustainable funding opportunities in Tanzania, as a great deal of work has been done on developing potentially large sustainable funding sources. The strongest opportunities for sustainable funding that CEPF and the CU could support in the next 12-18 months in Tanzania include:

- Develop a fundraising strategy with the Eastern Arc Mountains Conservation Endowment Fund (EAMCEF), with support from CI and possibly WWF. The EAMCEF Board of Trustees has recently endorsed engaging in a joint fundraising strategy with CEPF and the proposal to expand the geographic focus of the Fund to include the Coastal Forests of Tanzania;
- Strengthen the current payment for watershed services (PWS) projects, which include engagement of the private sector, underway in the Uluguru and East Usambara Mountains. Linking these PWS efforts to poverty-alleviation projects, such as the World Bank's Water Sector Project and formalization of the charcoal sector, should also be considered.

These opportunities should be accompanied by engagement with the members of the development partners group involved with the development and implementation of the Joint Assistance Strategy for Tanzania. Specifically, funding opportunities should be explored with: the Danish International Development Agency (DANIDA) in the areas of participatory forest management and the development of its upcoming program; the Norwegian Agency for Development Cooperation (Norad) with the collection of natural resource revenues and the development of the follow on to its natural resource management project, and; the European Commission, with the expected call for proposals under the budget line '*Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy*'.

In the medium to long-term, potential opportunities for sustainable funding in Tanzania include:

- Expansion of current PWS project from the pilot projects initiated in the short-term depending on successes and lessons learned;
- Development of carbon projects, including avoided deforestation, with support from voluntary carbon markets. While there may be great potential in carbon markets to contribute some amount of sustainable funding to conservation efforts, the market is currently still in its infancy. In the medium- to long-term more experience with pilot projects and the difficulties in targeting benefits to communities and other managers may lead to more rapid expansion of projects in



Tanzania. The development of this sector should be monitored carefully to identify potential opportunities;

- Strengthen community-based enterprises that rely on local ecosystems, using the lessons learned from pilot projects across the Hotspot.

The Team regards the short-term opportunities for sustainable funding in Kenya as somewhat more limited, owing to both the relatively smaller area of the Hotspot in Kenya and fewer investments in funding mechanisms like the EAMCEF. Establishing a similar endowment fund, or including Kenya in the EAMCEF's geographic focus, is generally regarded by stakeholders as too difficult and expensive, at least over the short- to medium-term. However, there are still many opportunities in Kenya that CEPF and the CU could help develop into sustainable funding sources over the next 12-18 months. Among the most promising are:

- Develop of carbon/avoided deforestation projects;
- Consolidation of community-based conservation enterprises and replication of similar enterprises in appropriate priority sties;
- Engage the private sector to support conservation projects, particularly near tourist destinations, and;
- Work with the Forest Service to create a Forest Trust Fund.

In addition to CEPF support, potential short-term funding sources to help catalyze these activities include the Community Development Trust Fund (CDTF), the Tourism Trust Fund (TTF), development agencies from Finland, Norway, World Bank, GTZ and other development partners participating in the design and implementation of Kenya's Joint Assistance Strategy. More specifically proposals to the CDTF and TTF linking poverty alleviation and biodiversity conservation (CDTF) and the tourism sector (TTF) should be developed. Both Finland and Norway are investing in the forestry sector and should be engaged to provide funding for the Coastal Forest region. The World Bank and GTZ expressed interest in developing projects related to the charcoal sector and the collection and distribution of revenues in the sector.

Suggested medium and long-term sustainable funding opportunities in Kenya include:

- Expansion of carbon projects. As with Tanzania this will depend on the results of pilot projects and the development of the markets;
- Engagement of the Government on the legalization and structuring of the charcoal sector particularly the revenue distribution system. Initial engagement should start with the Kenya Forest Services (KFS) to identify opportunities for the medium- to long-term;
- Increased corporate engagement efforts, and;
- Support community-based conservation enterprises in priority areas, using the lessons learned from pilot projects across the Hotspot.

## RECOMMENDED SHORT-TERM STRATEGY (12-18 MONTHS) AND POTENTIAL MANAGEMENT STRUCTURE

Given the current funding situation and opportunities, the Team proposes that the following short-term funding strategy (next 12-18 months) and potential management structures be adopted by CEPF and the CU for the Hotspot. This short-term strategy and potential management structures represent what the Team believes is the best overall option for the Resource Mobilization Unit (RMU), with the potential additional tool of a centralized database or list of potential conservation funding sources for the Hotspot. Over the next 12-18 months, the Team proposes that CEPF and the CU oversee a Hotspot-wide portfolio of short-term activities. Recommended potential activities for the short-term include:

- *Approach development partner groups in Kenya and Tanzania to fund the development of a sustainable funding program for the Hotspot:* Using the strategy document and CEPF funding as match, CEPF and/or the CU could propose a “Sustainable Funding Program for the Hotspot” to major bi-lateral and multi-lateral donors. The proposal would encompass securing support for both the short-term activities included in the strategy, as well as support to develop longer-term opportunities, including covering the costs associated with medium- to long-term funding for the management structure proposed below;
- *Identify prominent volunteers in the business and donor communities to engage in fundraising events, campaigns and awareness raising:* Where feasible, the CU should work with CI, WWF and possibly other international conservation NGOs to identify potential prominent volunteers from the business and donor communities to catalyze fundraising events, campaigns and awareness raising. As the Hotspot has become a high conservation priority for many international conservation NGOs with a presence in the region, it could be the focal point of a fundraising event or campaign. Funds raised through the selected activities should be used to support implementing various elements of the fundraising strategy, notably engaging the private sector to contribute to Hotspot conservation, expanding and consolidating community enterprises and building up the endowment of the Eastern Arc Mountains Conservation Endowment Fund (see below);
- *Develop and implement a fundraising strategy for the Eastern Arc Mountains Conservation Endowment Fund:* Given its structure, current endowment and willingness to include the Coastal Forests in its geographic focus, the Team believes that working with the EAMCEF to develop a solid fundraising strategy is perhaps the strongest opportunity for sustainable funding in Tanzania’s portion of the Hotspot. Support for developing and implementing the strategy will be provided by the EAMCEF to directly match CEPF funding, with the combined resources supporting a fundraiser, or team of fundraisers;
- *Strengthen current efforts to develop payments for watershed services in the Uluguru and possibly East Usambara Mountains:* Given the critical importance of secure and safe water supplies to the economic development of the country, the

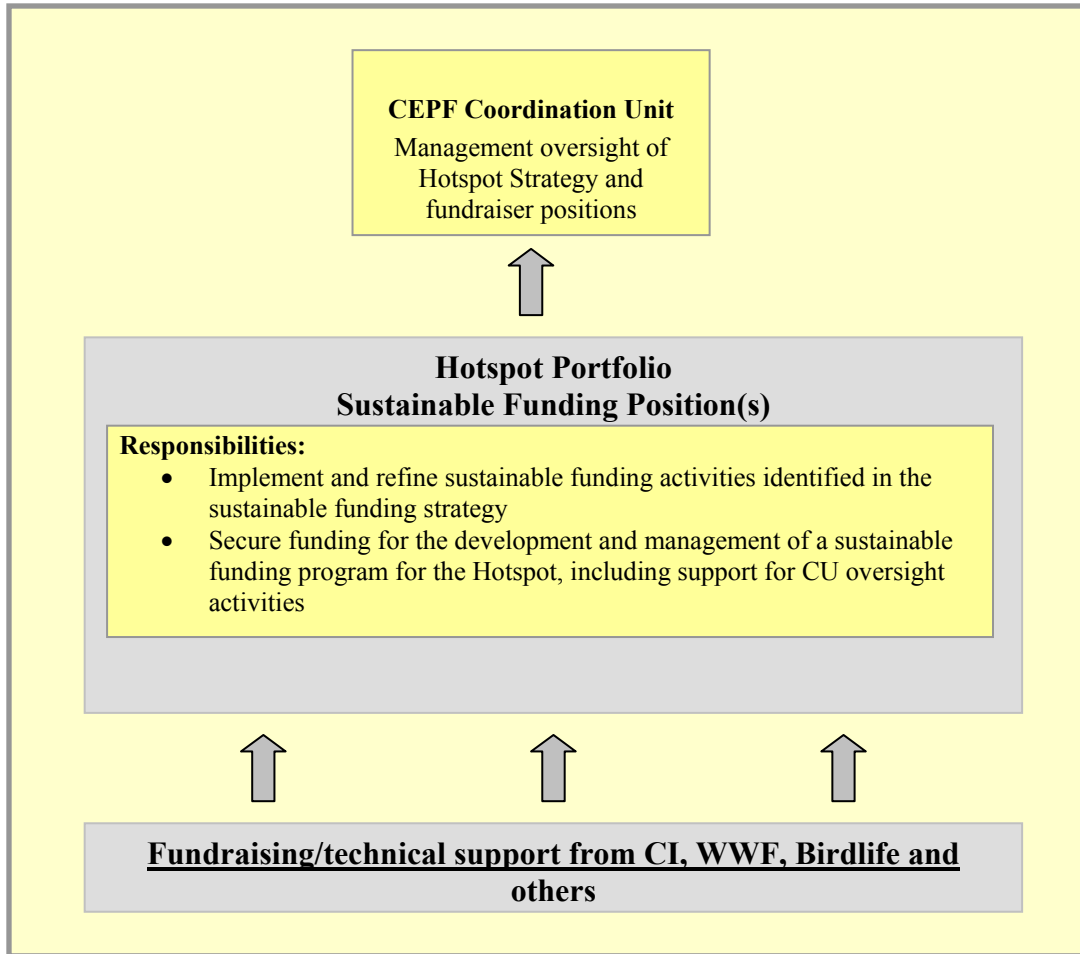
- Team believes there are very strong opportunities for developing PWS projects in key watersheds, particularly the Ruvu basin, which will both promote conservation and alleviate poverty of local communities;
- *Development of a pilot carbon/avoided deforestation projects:* Strong opportunities exist to work with the Government of Kenya to develop a pilot carbon project in the Madunguni Forest Reserve for the voluntary carbon market;
  - *Consolidation and replication of successful community-based conservation enterprises:* The Hotspot has a number of successful community-based conservation enterprises that can be consolidated and replicated throughout the Hotspot. Using successful examples from the Arabuko Sokoke Forest Reserve, the Kaya Kinondo ecotourism project and others, lessons learned can be disseminated and capacity built in priority areas for conservation, notably Taita Hills and possibly the Lower Tana River;
  - *Engage the private sector to support conservation:* Kenya has a number of opportunities to engage “green” European tour operators and national airlines to support conservation of priority areas near popular tourist areas, notably Mombasa and Malindi;
  - *Engagement of the KFS on developing a Forestry Fund:* There is interest on the part of the newly formed KFS to develop a “Forestry Fund”, with a focus on providing technical assistance to identify funding sources, develop the organizational structure and define revenue distribution rules and systems.

#### *Medium to Long-term Management (after 18 months)*

The short-term activities recommended by the Team should ideally catalyze the strongest opportunities for sustainable funding over the next 12-18 months. As these opportunities develop into sustainable funding sources, they can either be replicated in other areas (as in the case of PWS and carbon projects) and/or the recommended medium to long-term funding opportunities can be further developed. To ensure appropriate follow up and oversight of these activities, the Team proposes that the CU be formalized to oversee follow up of CEPF investments, including the proposed sustainable funding activities, after CEPF funding for the Hotspot ends in 2009. To fund post-2009 CU activities, the Team strongly recommends that CI-CEPF fund at least the first three years of necessary activities (and ideally five), with additional funding coming from new proposals and CU members.

### *Potential Management Structure*

Team consultations with the CU on the most appropriate short- and long-term management structure for the RMU produced the following:



Through this structure, CEPF and the CU would oversee a Hotspot portfolio of sustainable funding activities. Because of the scope of work of sustainable funding activities in the Hotspot, over the short-term (12-18 months), the Team suggests that at least two to three fundraiser positions be created to oversee the implementation of the recommendations adopted by CEPF and the CU. The fundraiser(s) should be located in the most auspicious location to carry out key activities, as determined by CEPF and the CU. In the event that CEPF and the CU decide to support development of a fundraising strategy for the EAMCEF, consideration should be given to forming a team of individuals from the international development departments of CI and possibly WWF. As short-term activities develop into sustainable funding sources, additional medium- and long-term opportunities can be developed through the same or similar management structure. The appropriate departments of the international offices of CI, WWF and possibly others,

such as BirdLife International, could provide short- to long-term fundraising and technical support for specific activities, such as accessing international carbon markets or engaging the private sector.

When undertaking activities to develop sustainable funding sources, CEPF and the CU need to ensure that key stakeholders and decision makers in Government ministries, multi- and bi-lateral institutions, communities and NGOs are brought into the earliest phases of the engagement process. While such engagement processes often require substantial investments of time, effort and funding, they are critical to the success of most if not all the proposed sustainable funding opportunities defined in the strategy. Both CEPF and the CU are well poised to engage key stakeholders and secure their support for devising a truly successful sustainable funding strategy for the Hotspot.

## **SUSTAINABLE FUNDRAISING STRATEGY FOR THE EASTERN ARC MOUNTAINS AND COASTAL FOREST HOTSPOT OF TANZANIA AND KENYA**

### **I. HOTSPOT BACKGROUND**

While one of the smallest original Hotspots as defined by Conservation International (CI), the Eastern Arc Mountains and Coastal Forests (EAMCF) of Tanzania and Kenya are exceptionally diverse. The EAMCF are home to over 330 globally threatened species and originally ranked first among CI's 25 Hotspots in endemic plant and vertebrate species per unit area before being re-classified into two new Hotspots in 2005 (Myers *et al.* 2000). Critically Endangered species in the Hotspot include Aders' duiker (*Cephalophus adersi*) and the Endangered Zanzibar red colobus monkey (*Procolobus kirkii*), which is found only in Zanzibar's Jozani Forest (CEPF 2003). Geographically, approximately 6,040 km<sup>2</sup> of the Hotspot is located in Tanzania, with approximately 670 km<sup>2</sup> located in Kenya. Most of Kenyan portion of the Hotspot is located in the Coastal Forests, with only the relatively small (~6 km<sup>2</sup>) Taita Hills found in the Eastern Arc Mountain chain. In addition to housing globally unique and highly threatened biodiversity, the Hotspot's habitats provide many natural resources that a large proportion of rural and urban populations (many living in extreme poverty) in both countries use to sustain their livelihoods.

The 2003 Critical Ecosystem Partnership Fund's Ecosystem Profile identified a number of priority outcomes for the Hotspot, including 333 extinction avoided and the identification of 160 areas to be protected. Of these 160 sites, five were identified as high priorities for conservation:

- Lower Tana River Forests (Kenya)
- Taita Hills (Kenya)
- East Usambaras/Tanga (Tanzania)
- Udzungwas (Tanzania)
- Jozani Forest (Tanzania – Zanzibar)

Restoring and increasing connectivity in sites 1-4 was also identified as landscape-level priority in the Ecosystem Profile. While the Team looked at the entire Hotspot and the broader opportunities for sustainable funding, it did pay particular attention to identifying potential sources of support for these priority areas.

### **II. FOCAL POINTS OF STRATEGY DEVELOPMENT**

In developing its sustainable fundraising strategy for the Hotspot, the Team considered the following focal points:

- CEPF Priority Areas and Themes, as defined in the 2003 Ecosystem Profile, including Key Biodiversity Areas (KBAs) and mechanisms for channeling direct benefits to communities living in and around priority areas;

- Funding scenarios for achieving effective conservation of the Hotspot;
- Potential funding sources from various sectors, including:
  - Current and future funds from traditional Government (national, regional and local) agencies and bi- and multilateral donors (including large-scale poverty alleviation programs and NGOs);
  - New sources of support through linking conservation with economic development and poverty alleviation projects;
  - Existing internal mechanisms in both countries (e.g. Tanzania’s Eastern Arc Mountains Conservation Endowment Fund, Kenya’s Tourism Trust Fund, etc.);
  - New internal funding sources from ongoing economic activities (e.g. payments for ecosystem services, community enterprises, private sector, etc).
- Feasibility of each potential source/activities over various timeframes;
- Where discrete CEPF investments in sustainable funding are most *strategic*. The Team defines “strategic” as where short-term investments in certain activities will most likely: 1) lead to sustainable conservation funding streams for the Hotspot and; 2) have the most positive impact on conservation of key priority areas;
- Best options for a Resource Mobilization Unit (RMU) in the region (i.e. what management structures would be most effective in securing sustainable funding over the short- to long-term).

It should be noted that during the course of stakeholder consultations and background research, the Team was presented with dozens of sustainable funding options for the Hotspot and over 200 supporting documents. The analysis in this document includes those options the Team believes offer the overall best opportunities for sustainable funding in the Hotspot. Changing national and international political and economic dynamics, such as substantially increased support for avoided deforestation projects as a means to control climate change, could alter the opportunities for certain elements of the recommended strategy, as well as bring new, unforeseen sources of support for conservation. It is therefore important that throughout the course of implementation of the recommendations, mechanisms be created to monitor evolving opportunities and make changes where appropriate to ensure the maximum level of conservation resources are secured for the Hotspot.

### **III. TARGET FUNDING LEVELS**

Determining the amount of funding needed to conserve the priority species and conservation sites of the Hotspot is a complicated matter, as comprehensive conservation strategies often include a variety of actions that must be undertaken to achieve certain objectives, including:

- Developing appropriate legal and regulatory policy and legal frameworks;
- Creation of protected areas of varying levels (IUCN Categories I-VI);
- Management of protected/priority areas;
- Community engagement and participation;

- Land use planning;
- Communication, advocacy and environmental education to generate a conservation constituency;
- Economic and environmental analyses to inform land use, resource use and conservation decisions;
- Income generation;
- Scientific research to determine conservation priorities;
- Monitoring and evaluation to feed into adaptive management;
- Developing fundraising and sustainable funding options to ensure sustainability.

Ideally, an overall strategic plan identifying conservation outcomes, objectives and priority actions and costs must first be developed to provide the basis for a sustainable funding plan. The 2003 CEPF Ecosystem Profile provided many of these components, with the exception of the costs required for effective conservation efforts in the Hotspot. Building off of the Ecosystem Profile, the sustainable funding strategy set forth in this document attempts to define the funding levels needed to cover the total (direct and indirect) management costs of the priority areas for conservation identified in the Ecosystem Profile. Moreover, it attempts to estimate the current level of funding dedicated to management of these sites and compare that amount to what would be considered sufficient to achieve effective management. For the purposes of this report, filling any “gap” that exists between the two figures is considered the minimum target level of additional funding for the sustainable fundraising strategy. The optimal level is considered to be the full costs (direct and indirect) needed for effective management of CEPF priority sites in the Hotspot.

#### *Current Conservation Funding Levels*

The Team assessed current funding levels for all conservation activities in the Hotspot to determine to what degree they had changed from the levels determined in the Funding Synopsis included in the CEPF 2003 Ecosystem Profile. Unfortunately, the Team was unable to secure reliable data on current Tanzanian and Kenyan Government funding for the Hotspot in the given time frame, so the analysis lacked key information needed to make an accurate determination of present funding levels. Moreover, during the consultation process, some stakeholders questioned the accuracy of the 2003 synopsis, which noted nearly US\$20 million being invested in conservation in the Hotspot in that year. Specifically, some stakeholders thought the US\$20 million figure was too high and possibly the result of overestimating the contribution of the World Bank/GEF Forest Sector program in Tanzania (estimated to be US\$10 million in 2003). As a result, the following analysis must be viewed as a best estimate of funding needs based on the limited information the Team was able to find through the stakeholder consultation process.

Current funding levels for 2007 appear to have slightly increased since 2003, though, as in 2003, it is not equitably spread over the region, with some areas, such Arabuko Sokoke in Kenya and the Udzungwa Mountains in Tanzania, receiving more assistance than others. This increase is, in part, attributable to the increase in CEPF funding in the region,



which will total over US\$7 million by 2009. There may be an overall funding *decrease* after 2008/09 with end of CEPF funding in both countries and World Bank/GEF Forest Sector program in Tanzania, but that may be offset in part by new funding, such as the US\$3 million GEF grant for Tanzania's Coastal Forests anticipated to start in the next 12 months, and WWF elevating the Coastal Forests as a high institutional priority.

In Tanzania and Kenya, major bi-lateral donors, notably Scandinavian Embassies, are re-directing support to Government budgets, and Kenya is re-organizing its Forest Service, so this may lead to slight increases in Government contributions to conservation-related efforts. Conversely, the re-direction of funding may actually result in *decreased* funding provided to conservation NGOs working in the Hotspot; however, no confirmation of this was possible during the Team's stakeholder consultations. Though overall estimates of future funding from Government and traditional bi- and multi-lateral donors varied, most stakeholders interviewed felt that they will continue to constitute a critical source (40-50%) of total conservation funding for the Hotspot for the foreseeable future. It is worth noting that while most stakeholders felt the current contributions were important for conservation efforts, no stakeholder consulted felt the traditional donor community would be able to provide the total conservation funding needed to protect the Hotspot's most critical habitats over the next five to ten years.

#### *Annual Fundraising Targets for the Strategy*

Stakeholder opinions on funding levels needed for effective management of priority conservation areas varied considerably, though many felt the best effort to date to accurately quantify the actual direct costs was done by Moore *et al.* in 2004. This study estimated that approximately US\$364/km<sup>2</sup>/year is needed for the *direct* costs of effective management of protected areas in the Hotspot. This figure translates to protected areas/reserves in the Hotspot needing approximately **US\$2.5 million/year for effective management**, with ~US\$2 million/year for Eastern Arc (~5,340 km<sup>2</sup>) and ~US\$500K/year for Coastal Forests (~1,360 km<sup>2</sup>).

It is important to note that these figures are only for *direct* management costs, including protected area staff time, running costs, equipment maintenance, etc. required to manage the parks and forest reserves. They do *not* include other costs associated with conservation activities such as monitoring, administration (including overhead costs), policy work, public awareness, scientific research and environmental education which, if included, would increase (perhaps by an order of magnitude) the total cost of effective conservation in the Hotspot. Hard data on total costs needed for effective conservation of the Hotspot were not, however, identified during the consultancy, so further studies on the issue may be needed to more precisely determine total funding needs for effective conservation.

As noted above, determining current funding levels and gaps was problematic given the difficulty in securing reliable information on what resources both countries' Governments are currently providing for conservation efforts in the Hotspot. Given these difficulties, the Team had to rely on past assessments of funding needs and input from key

stakeholders with experience in the Hotspot's conservation needs.<sup>3</sup> These combined sources suggest that currently the Hotspot's protected areas/forest reserves are on average *probably* getting only approximately half of the funding required (US\$1 – US\$1.25 million of a total US\$2.5 million) to cover the *direct* costs of effective protection from combined funding from Government, multilateral, NGO and private sector sources, constituting a total funding gap of approximately **US\$1.3 million**. Many stakeholders also anticipated this gap to persist for the foreseeable future unless increased and/or new funding sources are identified.

Though the consultation process by the Team found general consensus for the Moore *et al.* estimate for direct costs, many stakeholders felt that its exclusion of indirect management costs, such as administrative costs, community-related work and research, makes the true conservation funding levels needed for the Hotspot appear too low. This was noted as particularly so for highly threatened and fragmented areas like Taita Hills in Kenya or select Coastal Forests. An alternative means of determining the total funding needed for effective conservation of the Hotspot provided to the Team during the consultation process was to take the total annual management costs/km<sup>2</sup> of a relatively well-managed protected area and use that figure to determine the total funding needs of the Hotspot.

One such protected area cited during the consultation process was the 400 km<sup>2</sup> Arabuko Sokoke Forest Reserve in Kenya's portion of the Coastal Forests. The Reserve is generally regarded as one of the Hotspot's better managed protected areas. Funding for its management costs includes approximately US\$600,000-\$700,000/year from combined NGO (US\$300,000), Government (the Kenya Wildlife Service and the Kenya Forestry Research Institute - \$300,000) and community enterprise (\$100,000) sources for conservation efforts, though hard data on exact contribution levels from each of these sectors are lacking (Gordon, pers. comm.). The annual square kilometer cost of conserving Arabuko Sokoke is therefore approximately **US\$1,500-US\$1,750/km<sup>2</sup>/year**. Using this estimate, the total annual funding needed for effective conservation of the Hotspot would range between **US\$10 million – US\$11.7 million**.

While the Team regards the Moore *et al.* study as the best effort to date to concretely quantify the direct costs of conservation in the Hotspot, it shares the concern that indirect costs are not included in the estimate and may therefore underestimate the total funding needed for effective conservation. In absence of more concrete data on total costs for effective conservation, the Team proposes that the estimate of **US\$1,500-US\$1,750/km<sup>2</sup>/year** for the total management costs of the Arabuko Sokoke Forest Reserve be used to estimate the total annual funding needs for the Hotspot. Using this estimate, the *optimal* annual funding target (i.e. full funding) for the Hotspot should range between **US\$10 million – US\$11.7 million**. Given that the Team's estimates that only around one-half of the Hotspot's protected area needs are being met, the annual *minimum* range of funding (or the estimated funding gap) that the strategy should seek to raise is approximately half of the optimal level, or **US\$5 million – US\$5.85 million**.

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<sup>3</sup> The estimates of investment in direct priority area management are in the range of US\$900,000 – US\$1 million per year in Tanzania for Eastern Arc sites. This includes approximately US\$450,000/yr from Government sources, with a similar amount from donor sources (Burgess and Kilahama 2005).

During the course of stakeholder consultations, the Team determined that it is unlikely that one or two funding sources will either fully fill the gap or provide full funding for all priority areas for the foreseeable future, necessitating development of *several potential funding sources* for at least the next decade. Moreover, concerted efforts need to be made to ensure additional funds that are raised are channeled towards: 1) improving direct management of key protected areas and other priority sites that fall outside protected area boundaries, and: 2) improving natural resource management capacity and incentives of communities living in or adjacent to priority areas. To help facilitate this process, many stakeholders felt that there was a role for CEPF's CU to play after the end of CEPF funding in 2009, perhaps through formalizing the CU and adopting a fundraising and oversight function.

#### **IV. SECTORS ASSESSED FOR THE STRATEGY**

The Team assessed the following sectors to determine the most viable options for sustainable funding:

- Current and future funds from traditional conservation funding sources, including Government (national, regional and local) and bi- and multilateral donors and NGOs;
- Potential new sources of support through linking conservation with economic development and poverty alleviation projects;
- Existing internal mechanisms in both countries (e.g. Tanzania's Eastern Arc Mountain Conservation Endowment Fund, Kenya's Tourism Trust Fund, etc.);
- Potential internal funding sources from ongoing economic activities and natural resource use (e.g. payments for ecosystem services, increased taxes/levies, tourism, private sector, etc.).

The traditional funding sector (Government, bi- and multilateral donors and NGOs) has provided the bulk of funds to date for conservation efforts in the Hotspot. Indeed, funding from this sector alone currently constitutes approximately 40-50% of the funding needed for effective conservation of the Hotspot's protected areas. Many stakeholders interviewed by the Team felt that traditional funding sources will continue to play a key role in supporting conservation across the Hotspot for the foreseeable future. However, to meet the total conservation funding needs of the Hotspot, a sustainable funding strategy will need to create a more diversified portfolio of sustainable funding sources (See Box 1: A Typology of Funding Sources) that complement traditional sources of support. Potential sources should include internal mechanisms for funding (such as trust funds) and conservation funding from broad-based and on-going economic activities (such as tourism and charcoal production) or natural resource uses (such as water services). Through such an approach, the Hotspot will increase the total number of sectors generating on-going, reliable funding for conservation as well as the total amount of funding. A diversified portfolio of numerous funding sources will also allow conservation

projects greater flexibility in identifying other sources of support in the event of an unexpected downturn from another funding source, such as a decrease in tourism or changing bi-lateral funding priorities. Finally, many potential funding sources, such as payments for environmental services, can be structured to promote poverty alleviation by providing direct benefits to communities living in and around priority areas for conservation.

The following sections address 1) key current and potential funding sources of various sectors in each country, and where appropriate, at the Hotspot level; 2) the opportunities (ranging from slight to moderate to strong) for developing sustainable funding streams from these sectors over various time-frames and; 3) recommended short-term (12-18 months) actions and investment for CEPF and the CU designed to lay the foundation for more sustainable funding sources for the Hotspot.<sup>4</sup> With regards to the categorization of opportunities (slight, moderate, strong), each designation is the result of a qualitative assessment comprised of input from stakeholder consultations, desktop research and internal deliberations by Team members on the strength of each prospect becoming a sustainable funding source.

Moreover, it is important to note that many of the sectors and opportunities assessed have substantial overlap, such as payments for environmental services and engaging the private sector. They should therefore not be seen in isolation, but as having several complimentary links, which, if coordinated well, could ultimately result in more effective, sustained support for conservation in the Hotspot. For example, as noted below, there are several current opportunities to create strong alliances in Tanzania around the issue of payments for watershed services (PWS) as a means to both secure reliable and safe water supplies and conserve areas important for conservation, with NGOs, local communities, the private sector, Government and possibly World Bank participation. Ensuring maximum impacts for conservation will require CEPF and the CU to use both funding resources and their established network of conservation partners to develop effective alliances with these various sectors.

### Box 1: Typology of Funding Sources

<p><b>Public funding sources:</b></p> <ul style="list-style-type: none"> <li>• Government budget allocations to domestic conservation agencies</li> <li>• Earmarking tax revenue for conservation (e.g. taxes on energy, aviation, hotels)</li> <li>• Tax breaks or subsidies for private conservation effort/investment</li> <li>• Earmarking charges or penalties related to natural resource use (e.g. timber stumpage fees, park entry fees, pollution taxes)</li> <li>• International development assistance (e.g. environmental aid, debt-for-nature swaps, contributions to GEF or trust funds)</li> </ul>	<p><b>Private for-profit sources</b></p> <ul style="list-style-type: none"> <li>• Commercial banks and export credit</li> <li>• Direct foreign investment</li> <li>• Venture and/or private capital</li> <li>• Public-private-community partnerships</li> <li>• Portfolio investors (e.g. “green” funds)</li> <li>• Community-enterprise (formal / informal)</li> <li>• Local self-financed business investment</li> </ul> <p><b>Biodiversity-friendly products and services</b></p> <ul style="list-style-type: none"> <li>• Organic agriculture</li> <li>• Sustainable non-timber forest products;</li> <li>• Certified forest and fisheries products</li> <li>• Eco-tourism enterprise</li> </ul>
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<sup>4</sup> These timeframes are defined as: short-term (1-2 years); medium-term (3-5 years) and long-term (5-10+ years).

**Private non-profit sources**

- Private foundations
- Community self-support groups
- Secular and faith-based charities and NGOs
- Dedicated fund-raising campaigns or events
- Merchandising, social marketing, lotteries

**Public policy reforms**

- Reforming environmentally-harmful subsidies (e.g. agric, fish, water, energy)
  - Public investment (e.g. infrastructure)
- (Gutman 2003)

**Markets for ecosystem services**

- Bio-prospecting agreements
- Carbon sequestration in biomass
- Watershed protection incentives
- Tradable development rights (biodiversity offsets and easements)

**V. FUNDING FROM TRADITIONAL SOURCES**

This section attempts to identify current and future opportunities for funding conservation in the Hotspot from traditional Government sources and multilateral and bilateral donors. The Team has paid particular attention to identify current and future projects and program that may offer additional resources to the conservation efforts in the region. One of the major trends by traditional donors in both Kenya and Tanzania seems to be an increasing level of bi- and multi-lateral support to national Government institutions in the form of general budget support. Major bilateral and multilateral donors in Kenya and Tanzania have developed Joint Assistance Strategic Plans (JASP's) to increase aid effectiveness and improve coordination of development assistance to complement national development plans.<sup>5</sup>

This trend reflects increasing confidence of bi- and multi-lateral donors in the ability of both countries Governments to adequately manage their national budgets. In the case of Tanzania the plan was developed by the national Government and 45 multilateral and bilateral donors investing in the country. The JASP for Kenya was developed by 17 of the major donors investing in the country. The scope of investment and the coordinated approach provide potential opportunities at the regional and country level to further incorporate conservation priorities into bi-lateral and multi-lateral aid programs, as well as taking advantage of funding to related sectors (such as poverty reduction, agriculture, water services) to contribute resources towards conservation of the Hotspot.

**A. Regional (Hotspot-Wide) Issues**

In addition to country-level opportunities for increased traditional donor support for conservation, the Team also evaluated potential support from region-wide initiatives. At the present time, investment in regional programs by bi-lateral and multi-lateral donors is largely limited to trade, transport and communication issues.<sup>6</sup> The coordination and harmonization of trade and tariffs across the East Africa Economic Community may

<sup>5</sup> In 2004 the government of Tanzania completed the National Strategy for Growth and Reduction of Poverty (NSGRP), known by its Kiswahili acronym MKUKUTA. The government of Kenya development strategy has been articulated in the Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation 2003–2007 (IP-ERS). It is expected to prepare a poverty reduction strategy paper to follow on from this strategy document.

<sup>6</sup> The World Bank is financing three regional projects with a total investment of US\$260 million for Kenya: the Transparency and Communications Infrastructure Project (US\$114.4 million), the East Africa Trade and Transport Facilitation Project (US\$120.6 million) and the Regional Trade Facilitation Project (US\$25 million). See <http://web.worldbank.org/external/default/main?menuPK=356542&pagePK=141155&piPK=141124&theSitePK=356509>

provide an opportunity to engage the tourism sector in both Kenya and Tanzania in the development of national heritage funds contributing to the conservation of the unique wildlife and biodiversity of the region. Some stakeholders also felt the development of the East Africa Economic Community could present potential opportunities for support to region-wide funding mechanisms for conservation, including expanding the geographic scope of the EAMCEF to both countries. Subsequent analysis by the Team, however, determined that this was at best a long-term possibility.

In addition to these opportunities, as noted above, both Kenya and Tanzania have developed JASPs to coordinate and direct development assistance. Both development partner groups include many of the same bi-lateral and multi-lateral funding institutions. With the bi-national scope of CEPF’s CU, the Hotspot approach to developing a sustainable funding strategy, and the recognition by donors of an increased need for coordination of development assistance, approaching both groups to invest in a coordinated sustainable funding plan for both Kenya and Tanzania could be attractive to many of the development partners. The development of this program and eventual proposal should identify and match donor interests with funding needs identified in the sustainable funding strategy.

#### B. Kenya

Kenya receives more the US\$700 million in development assistance annually (KJAS 2007). The country’s Investment Program for the Economic Recovery Strategy for Wealth and Employment Creation 2003–2007 (IP-ERS) was launched in March 2004. The IP-ERS articulates Kenya’s development strategy and is in its last year of implementation. The Kenyan government is expected to prepare a poverty reduction strategy paper to follow on from this strategy document. The Kenya Joint Assistance Strategy (KJAS) is divided into investment sectors and is organized around three pillars: encouraging economic growth; investing in people and reducing poverty and vulnerability, and; strengthening institutions and improving governance. Donor investment by sector is shown in Annex 1. There are three sectors that could potentially contribute directly to funding conservation action within the Hotspot region of Kenya: Environmental Management; Agriculture and Rural Development, and; Water and Sanitation (see Table 1 below).

**Table 1: Donor Sector Involvement – Kenya**

Sector	Donors Providing Assistance (countries in bold represent the lead government for the sector)
Environmental Management	African Development bank (AfDB), Denmark, the European Commission (EC), Finland, France, Japan, Netherlands, Sweden, UN, <b>United States (US)</b> and the World Bank
Agriculture	AfDB, Denmark, EC, Finland, <b>Germany</b> , IFAD, Italy, Japan, Netherlands, Sweden, The United Kingdom (UK), U.N., US and the World Bank
Water Supply, Sanitation and Water Resources Management	AfDB, UN, Belgium, Denmark, <b>France</b> , <b>Germany</b> , Italy, Japan, <b>Sweden</b> , Netherlands, UK, US, World Bank

As detailed in Table 2 below, there is considerable development assistance being dedicated to the Environment, Agriculture and Water sectors in Kenya, though most projects are geographically limited in scope and do not focus exclusively on Kenya's portion of the EAMCF (See Annex 3). However, there are some projects, such as the World Bank's Arid Lands Resource Management Project, that include districts found in the Hotspot region of Kenya and could offer potential support to conservation projects, such as improvement of watersheds through better forest management. Interest has been expressed by GTZ and the World Bank for improved management and revenue collection from the charcoal sector, which currently has large negative impacts on many of the Hotspot's ecosystems, especially the Coastal Forests (see charcoal sector assessment below). To secure conservation resources from these projects, considerable effort will be needed to influence traditional donor and government priorities. Increasingly donor priorities are aligning with national government priorities, suggesting that efforts must be made to increase the priority given to the Hotspot by the national Government.

**Table 2: Examples of Project Themes and Geographic Focus (World Bank 2007)**

<b>Project</b>	<b>Thematic Focus</b>	<b>Geographic Focus</b>
<b>The Arid Lands Resource Management Project: WB (Aug 2006, and Additional US\$60 million, Credit)</b>	Natural Resource and Drought Management Community Driven Development. Support to Local Development	Arid Areas. Recently expanded to include six additional districts (Taita Taveta, Lamu, Kilifi, Malindi and Kwale)
<b>Natural Resource Management Project: (March 2007 – US\$ 68.5 million, WB)</b>	Management of water and forest resources to improve the livelihoods of surrounding communities. Water Resource User Associations, Community Forest Associations. Improved catchment management and efficient water use. Income generating micro-projects, which encourage the sustainable use of the natural resources.	Upper Tana catchment and key ecosystems in the Nzoia and Yala river basins
<b>Western Kenya Integrated Ecosystem Management Project (GEF, 4.1 million, Mar 2005)</b>	Integrated ecosystem management interventions in order to achieve local and global benefits. These benefits include reduced land degradation, reduced greenhouse gas (GHG) accumulation in the atmosphere, improved on-and-off-farm biodiversity, and decreased erosion in watersheds	Watersheds that feed into the Nyando, Yala, and Nzoia river basins.

<b>Kenya Agricultural productivity project (US\$80 million, IBRD 2004-2008)</b>	Facilitation of Sector policy and Institutional Reforms 2) Support to Extension System Reforms: Sub-component 3) Support to Research System Reforms: 4) Support to Farmer/client empowerment	National policy, capacity and pilot projects in 20 districts
<b>UNDP-GEF Small Grants Program (2006)<sup>7</sup></b>	Small grants to communities for biodiversity conservation, mitigation of Global Climate Change, integrated ecosystem management, persistent organic pollutants, land degradation and protection of international waters.	Investment in the coastal region is focusing on biofuels through projects involving the cultivation of Jatropha for clusters of local farmers in Kwale and Malindi Districts. <sup>8</sup>
<b>European Commission-Community Development for Environmental Management Project (13 million Euros)</b>	Community Environment Facility- promotion of biodiversity conservation as a foundation for addressing poverty alleviation and sustainable economic development. Community Development Program	Nationwide
<b>GEF/UNDP - Improved Conservation and Governance for Kenyan Coastal Forest Protected Area System (WWF US\$990,000)</b>	Focused on landscape level conservation of 18 fragmented forests in Kwale District. Implementing Participatory Forest Management and alleviating poverty through innovative nature-based enterprises.	Kwale District

### C. Tanzania

Tanzania receives over US\$1 billion annually in foreign development assistance (UNDP Tanzania Website), which finances over 40% of budgetary spending, up from 20% a decade earlier.<sup>9</sup> Tanzania's development strategy is articulated by the National Strategy for Growth and Reduction of Poverty (NSGRP) 2005-2010, known by its Kiswahili acronym MKUKUTA. Bi-lateral and multi-lateral donors and the Government of Tanzania have developed a Joint Assistance Strategy for Tanzania (JAST) to provide a common framework for development partners to coordinate their development assistance. As part of these efforts Tanzania's Development Partners Group has prepared a results-based Joint Program Document (JPD) and a table outlining donor involvement in particular development sectors (see Annex 2). Specific sectors and the principle donors supporting them are detailed in Table 3.

<sup>7</sup> The Team was unable to determine the current amount being invested.

<sup>8</sup> There are new clusters under development in the coastal region.

<sup>9</sup> Finance and Development Sept 2005. Tanzania: 'Smart' Partnerships. Basil P. Mramba, Minister of Finance of Tanzania.



**Table 3: Donor Sector Involvement – Tanzania**

Sector	Donors Providing Assistance <sup>10</sup>
Natural Resource, Environment and Tourism	Belgium, Denmark, Finland, France, Norway, USA, EC, WB, UNDP, FAO, UNSECO, UN HABITAT
Agriculture	Belgium, Ireland, Japan, UK/DFID, AfDB EC, WB, WFP, FAO, ILO, UNIDO, IFAD
Water	Belgium, France, Germany, Japan, Switzerland, UK/DFID, AfDB, WB, FAO, WHO, UNESCO

Some projects that have particular relevance to future funding of conservation activities in the Eastern Arc Mountains and Coastal Forests of Tanzania include:

*Participatory Forest Management (Denmark)*

The Danish International Development Agency (DANIDA) recently completed a five year Participatory Forest Management (PFM) program and is developing a follow up program. The original program contributed to a comprehensive reform of Tanzania’s forest administration and management, placing new emphasis on participatory forest management systems. The objectives of the original program were to have a national framework for PFM developed and operational in selected districts (Iringa, Mbeya, Morogoro and Lindi) by the end of 2008. DANIDA’s development of a follow up program could allow for an opportunity to increase institutional focus on and resources for the Coastal Forest region of Tanzania.

*European Commission (EC)*

The European Commission (EC) support related to environment and tourism has come both from national and regional programs and individual budget lines (estimated value of EU18.5million since 1991). The main interventions have been in the areas of community conservation and sustainable management of national parks and game reserves and the institutional strengthening of the tourism sector. The EC also funds environment related projects through individual budget lines. In particular the budget line ‘*Thematic Programme for Environment and Sustainable Management of Natural Resources including Energy*’ replaced the Environment and Tropical Forests Budget Line that expired at the end of 2006. From 2000-2004 the amount of projects disbursed under this budget line globally was EU218 million (European Commission 2007). A call for proposals under the new thematic program is envisaged for later in 2007. Non-governmental organizations are generally eligible to submit proposals.

<sup>10</sup> The Team was unable to identify lead donors at the time of this report. Documentation indicated that roles were still being discussed by the various embassies detailed in Table 3.

### *Management of Natural Resources Project - Norway*

The Ministry of Natural Resources and Tourism in Tanzania, through its Management of Natural Resources Program (MNRP) has been supported by the Norwegian Agency for Development Cooperation (Norad) since 1994 with a total budget of around NOK 300 million (approximately US\$53 million). The MNRP consists of 11 projects within three areas: Forestry and forestry research (six projects); Wildlife and wildlife research (four projects); Marine (one project). The MNRP's main objective is to increase benefits to rural communities based on sustainable natural management in Tanzania. In 2006 the Management of Natural Resources Programme concluded. Currently, Norad is funding the development of a new five-year program expected to begin near the end of 2007. A main focus is expected to be good governance and a new component is expected to focus on revenue collection from natural resources. This could present an opportunity to increase focus on the Coastal Forest region of Tanzania.

### *Global Environment Facility (GEF)*

The GEF has contributed to the conservation of the Eastern Arc Mountains most notably through contributions to the establishment of the Eastern Arc Mountain Conservation Endowment Fund (EAMCEF). When visiting the UNDP focal point the Team was made aware of a new US\$3 million project proposal to GEF that is in development, focusing on the Coastal Forests of Tanzania.

### *The World Bank*

The World Bank has 23 active projects in Tanzania with commitments of US\$1.8 billion (with US\$1.346 million still to be disbursed). Approximately 11% of this investment is directed towards the agriculture and environment sectors, with another 9% directed towards water projects. Of these projects there are several that have components that could contribute to the conservation of the Eastern Arc Mountains and Coastal Forests of Tanzania. World Bank projects that could potentially contribute to conservation efforts in the Tanzanian portion of the EAMCF are listed in Table 4 (additional details on World Bank projects in Tanzania can be found in Annex 4). As in Kenya, there was also interest expressed by World Bank personnel during the stakeholder consultations for increased attention on improving management and revenue collection from the charcoal sector to both alleviate poverty and protect priority conservation areas.

**Table 4: World Bank Projects related to conservation - Tanzania**

<b>Project</b>	<b>Thematic Focus</b>	<b>Geographic Focus</b>
<b>The Water Sector Support Project (development Partners Group US\$700</b>	Strengthen sector institutions for integrated water resources management and	Dar es Salaam, all regional and district capitals, and gazetted small town utilities, priority water resources, 9 basin

<sup>11</sup> The World Bank Board of Executive Directors recently approved an International Development Association (IDA) credit of US\$200 million for Tanzania's Water Sector Support Project. The other development partners who are providing financial support to the water sector include Germany, the Netherlands, France, Japan, the US (through the United States Agency for International Development and the Millennium Challenge Corporation), UNDP, UNICEF, FAO, and the African Development Bank. The Government of Tanzania (GoT) will lead the process with its own contribution of US\$251million.

million, 2007-2012) <sup>11</sup>	improve access to water supply and sanitation services	institutions
<b>Agricultural sector Development Project for Tanzania (WB US\$151 million, 2006-2011)</b>	Better access to and use of agricultural knowledge, technologies, marketing systems and infrastructure; promote agricultural private investment based on an improved regulatory and policy environment	National and local extension services
<b>Forest Conservation and Management Project (WB US\$32 million 2002-2007)</b>	An integrated biodiversity conservation strategy for the Eastern Arc Mountains	National Forestry Service and Eastern Arc Mountains

In contrast with the Kenya donor environment, there are several donors embarking on or designing projects and programs that could bring substantial resources to the conservation of the EAMCF region. The Eastern Arc Mountains have more resources going towards the conservation of priority areas, though efforts are still needed to attract more investment in the Coastal Forest region. An increased focus on water services and watershed management presents strong opportunities for traditional donors to provide more resources to priority conservation areas within the Hotspot that are part of Tanzania's major water catchments (e.g. Ulugurus Usambaras, Udzungwas, etc.)

***Opportunities (Short-Medium-Long Term) and Priority Short Term Actions***

<i>Location</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Hotspot wide	<p><b>Short-term:</b> Moderate opportunities to fund a Hotspot wide sustainable funding program</p> <p><b>Long-term:</b> Slight opportunities for increasing East African Economic Community support to region-wide conservation efforts</p>	<ul style="list-style-type: none"> <li>• Develop a proposal for a Hotspot wide sustainable funding program to be submitted to CEPF and the development partners groups in Kenya and Tanzania</li> <li>• Initiate discussion with government trade officials to determine interest and feasibility of discussing common national heritage entrance or exit fees for Tanzania and Kenya</li> </ul>
Kenya	<p><b>Short-term:</b> Slight opportunities to influence future donor investment</p> <p><b>Medium-term:</b> Moderate opportunities for influencing donor programs</p>	<ul style="list-style-type: none"> <li>• Develop promotional material (e.g. presentation, two page summary document) making the case for investment in the EAMCF region</li> <li>• Engage and meet with the Donor Harmonization and Coordination Committee working to implement the KJAS to present the case to invest in the Hotspot region. Initially target donors currently investing in natural resource management and forestry</li> <li>• Engage World Bank personnel on the opportunities for support in improving the</li> </ul>

		conservation performance in the charcoal sector
Tanzania	<b>Short-term:</b> Moderate opportunities for influencing developing programs and projects	<ul style="list-style-type: none"> <li>• Develop promotional material (e.g. presentation, two page summary document) making the case for investment in the EAMCF region</li> <li>• Engage and meet with the Development Partners Group to present the case to invest in the EAMCF region.</li> <li>• Meet individually with Denmark, Norway and EC representatives to investigate participation in program development and proposal submissions</li> <li>• Engage World Bank personnel on the opportunities for support in improving the conservation performance in the charcoal and water sector</li> </ul>

## VI. POTENTIAL INTERNAL FUNDING MECHANISMS: CONSERVATION FUNDS

### A. *Creation/Capitalization of Trust Funds and Similar Structures*

While often difficult to establish and adequately capitalize, trust funds and similar mechanisms such as sinking funds have become increasingly popular in recent years to secure sustainable funding streams for conservation. Notable funds that have been created in Africa over the last several years include Uganda’s Mgahinga-Bwindi Impenetrable Forest Trust and the Madagascar Foundation for Protected Areas and Biodiversity. In the EAMCF, there are numerous existing funds as well as plans to develop additional funds, though the Team identified one trust fund in Tanzania and two sinking funds (with a possible third trust fund) in Kenya that could be potential sources of sustainable funding for conservation in each country.

#### *Kenya*

While Kenya currently does not have any trust fund mechanisms specifically designed to address conservation of Kenya’s portion of the Hotspot, the Team was able to identify two existing funds that could potentially help catalyze long-term funding sources for conservation projects: the Tourism Trust Fund (TTF) and the Community Development Trust Fund (CDTF). The TTF’s mission is to “alleviate poverty and assist community development and conservation of natural and cultural resources through direct assistance to the tourism industry” (TTF 2007). The CDTF’s mission is “to support communities in Kenya in their efforts to alleviate poverty through effective and accountable processes

that are genuinely demand-driven; build on sustainable development initiatives; and to promote collaboration with other key development players” (CDTF 2007). The third fund, a Forest Trust Fund, has been proposed as part of Kenya’s Forestry Service’s reorganization, though it is still in a nascent stage of development. However, some stakeholders felt that after the elections in late 2007, there may be a potential, albeit slight, opportunity to work with the Forest Service to structure the new trust fund and ensure resources are dedicated to the Kenyan portion of the Hotspot.<sup>12</sup>

Both the TTF and CDTF are joint-initiatives between the Government of Kenya and the European Union. Both are structured as sinking funds that draw down the capital of the fund and look for replenishment sources, so while they would not be long-term sources of sustainable funding, they could help catalyze long-term sources, particularly from community-based enterprises. The TTF was established in 2002, with total resources in both operational funds and capital of EU22 million (approximately US\$29 million) (TTF 2007). Established in 1996, the CDTF is also a joint-initiative between the EU and the Government of Kenya. The CDTF is expecting EU15 million to be invested in environmental projects by 2009, with another and EU15 million for community development. As part of its funding for community development portfolio, the CDTF manages the Community Environment Facility, which plans on investing EU8 million in projects that use biodiversity conservation as a tool to promote poverty alleviation 2006-2010 (CDTF 2007).

While neither fund is exclusively dedicated to biodiversity conservation projects, both have programmatic components that address biodiversity and natural resource management issues, notably at the community level. Moreover, while both funds are national in scope, they have supported a number of conservation-based projects in Kenya’s portion of the Hotspot and should be considered as strong potential future sources of support for new and existing community-based projects. Indeed, for priority conservation sites with relatively limited tourism potential, notably Taita Hills and the Lower Tana River, the CDTF has already supported projects, so future proposals could be developed as appropriate. Lessons learned from the CU members involved with community-based enterprises in the Arabuko Sokoke Forest Reserve and the Kaya Kinondo forest (see below) could also potentially be used to develop proposals to both funds for similar activities in these and other priority sites.

In addition to the possibility of funding sustainable funding activities in the Hotspot from existing funds, the technical advisor to the CDTF indicated during consultations with the Team that there is a solid possibility that its board will be changing the regulations governing the fund to allow for additional funding sources to contribute to the fund’s goals. The potential to earmark funds for specific themes or geographic locations is already incorporated into the funding structure. This could make it a potential candidate

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<sup>12</sup> The Kenya Forestry Service has prepared a Terms of Reference for a consultant to assist with the overall design and operational structure of the fund. It is currently looking for funding to implement the TOR and searching for a qualified consultant to undertake the work. While experts have indicated that KFS has ruled out niche funding for specific geographic areas and that it will most likely be based on the size of the forest, it may be worth investigating opportunities to influence budgetary spending based on a number of other criteria including biodiversity importance.

to house a sinking fund for conservation and development activities in Kenya's portion of the Hotspot, notably CEPF priority areas.

### *Tanzania*

The best developed fund specifically designed to benefit conservation projects in the Hotspot to date is the Eastern Arc Mountains Conservation Endowment Fund (EAMCEF). The EAMCEF is supported by the Tanzanian Government, UNDP- GEF and the World Bank. The UNDP-GEF is funding development of the EAMCEF's strategy and the World Bank is providing the initial US\$7 million capitalization and additional funds for operational expenses (EAMCEF 2007). The EAMCEF currently has an endowment of US\$7.2 million to support conservation-related projects in the Eastern Arc Mountains of Tanzania, with a long-term goal of US\$20 million, which would conservatively generate US\$800,000/year for conservation projects. Its top conservation-related funding priorities and percentages of fund allocation include: 1) community development (50%); 2) forest protection (35%); and 3) scientific research (15%). In 2007 it made its first contributions of around US\$200,000 for supporting conservation projects in the East Usambara, Rubeho and Udzungwa Mountains (EAMCEF 2007; Melamari, pers. comm.).

Both the substantial overlap of the geographic focal areas of the EAMCEF and CEPF and current parallel efforts to secure sustained conservation funding were repeatedly noted during the Team's stakeholder consultations with CEPF, the CU, EAMCEF personnel (including the Board of Trustees Chairman Prof. Iddi Said), and supporting World Bank staff. While it has developed a fundraising framework, the EAMCEF has not developed a strategy for increasing the Fund's capital. All sides felt that the geographic overlap and mutual need for sustainable fundraising strategies provide a unique opportunity for the EAMCEF and CEPF to undertake a coordinated fundraising effort to increase to the total capital the EAMCEF. Moreover, interest was expressed on all sides for incorporating Tanzania's Coastal Forests (including Zanzibar and other coastal islands) into the geographic focus of the Fund. Discussions of including the Coastal Forests of Tanzania into the Fund's geographic focus culminated with the EAMCEF's Board of Trustees approving their inclusion in July 2007. The only caveat to their inclusion was that the initial US\$7 million capitalization could only support projects in the Eastern Arc Mountains.<sup>13</sup>

To develop the opportunity further, the CU and the EAMCEF have agreed to develop a fundraising strategy to increase the Fund's total capital, with support from CI's Development and Africa programs, and possibly international offices of WWF. A Memorandum of Understanding is currently being developed between the EAMCEF and CEPF, including commitments for matching funds from both sides to support the fundraising effort. Development and initial implementation of the strategy will come either from one fundraiser or a team of fundraisers from CI and possibly WWF. The

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<sup>13</sup> Including Kenyan portions of the Hotspot into the geographic focus of the Fund was discussed with stakeholders in both countries, and it was generally regarded as too problematic given the complex negotiations that would be necessary between both countries.

primary objectives of the strategy will include: 1) enabling the EAMCEF to access a wider international network of potential donor sources, including wealthy individuals, foundations and bi- and multi-lateral institutions; 2) raising new funds over the next 12-18 months for both Tanzania’s Coastal Forests and Eastern Arc Mountains, and; 3) ensuring CEPF Hotspot priority areas in Tanzania complement and strengthen EAMCEF regional funding priorities.

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<b>Country</b>	<b>Opportunities (Short-, Medium-,Long-Term)</b>	<b>Priority Short-Term Actions</b>
Kenya	<p><b>Short- to Medium-term:</b></p> <ul style="list-style-type: none"> <li>- Moderate opportunities for identification of funding from the TTF and CDTF for new and existing projects in Hotspot priority areas</li> <li>- Slight opportunities for lobbying of Forest Service on development of Forest Trust Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Identify potential projects for both the TTF and CDTF to support</li> <li>• Hire fundraiser, or develop a team of fundraisers, with potential support from CI and possibly WWF</li> <li>• Develop proposals as appropriate</li> <li>• Determine feasibility of engaging Forest Service on development of Forest Trust Fund and take appropriate action</li> </ul>
Tanzania	<p><b>Short-term:</b> Strong opportunities and support for increasing the EAMCEF capitalization through a fundraising strategy, including Coastal Forests in geographic focus</p> <p><b>Medium- to Long-Term:</b> Strong opportunities for building up capital of the endowment, creating a significant source of sustainable funding for both the Eastern Arc Mountains and Coastal Forests</p>	<ul style="list-style-type: none"> <li>• Develop ToR for fundraiser(s);</li> <li>• Hire fundraiser, or develop a team of fundraisers from CI and possibly WWF</li> <li>• Develop and implement fundraising strategy for Fund, including identification of potential sources of funding over the next 12-18 months</li> </ul>

**VII. POTENTIAL INTERNAL FUNDING SOURCES FROM ONGOING ECONOMIC ACTIVITIES**

As noted above, traditional donors will more than likely continue to play an important role in supporting conservation of the Hotspot for the foreseeable future. However, approximately half of the Hotspot’s priority area conservation needs are not being met. This funding gap could be filled, at least in part, through securing revenues from on-going economic activities and using them to improve management of the natural resources on which the activities’ long-term viability relies. By improving the management of natural resources, economic benefits can increase, degraded habitats can be re-established and intact areas can be better protected from further encroachment.

Once implemented, internal funding from on-going economic activities can offer potentially significant revenues for conservation-related efforts. However, there are a number of challenges in developing these revenue sources, including the need for substantial stakeholder consultation and consensus on how revenues will be secured,

distributed and used. In the case of payments for ecosystem services (PES) projects (see below), the often complicated issue of property or resource use rights of communities and ensuring benefits are in fact received by communities are also often significant challenges. Collectively, these challenges often result in very high barriers to entry for developing internal revenue streams. Given that CEPF resources for investing in sustainable funding options are limited, the Team focused its attention on existing initiatives in the Hotspot and tried to identify opportunities to consolidate existing projects and replicate successful models in other priority areas.

**A. *Payments for Ecosystem Services (PES)***

One of the latest innovations in creating sustainable funding for conservation is the use of payments for ecosystem services (PES). Under PES systems, land users are offered some sort of compensation (often financial) to adopt more conservation-friendly forms of land management. By changing the economic incentive structure to favor conservation, PES systems hold the promise of both promoting more effective conservation as well as providing a new source of revenue for land users. While there are a number of potential PES options, the Team focused on the two that seem to hold the most promise over the next several years in the Hotspot: payments for watershed services (PWS) and carbon projects that support reforestation, afforestation and avoided deforestation.

**B. *Payments for Watershed Service (PWS)***

Under PWS projects, markets are developed where end users of water, either for domestic or industrial purposes (buyers) pay upstream land users (sellers) to manage a watershed in a particular way so that it delivers safe and reliable water supplies. The application of PWS projects to achieve conservation goals has successfully been applied in many areas of the world, with Ecuador's *Fondo para la Protección del Agua* (FONAG) representing how such projects can both protect key ecosystems and help improve the socio-economic well-being of local communities (see Box 1). Water quality and quantity have become increasingly important issues in both Tanzania and Kenya, as both have declined in recent years. Given its larger area and more varied topography (notably most of the Eastern Arc Mountain chain), the Tanzanian portion of the EAMCF region currently has better potential for successful PWS projects than the Kenyan portion, with projects already in development.



## Box 1

### Ecuador's Fondo para la Protección del Agua (FONAG)

Since 1998, the Nature Conservancy (TNC), in collaboration with local civil society partner Fundación Antisana, the United States Agency for International Development (USAID), have implemented a PWS-type system to provide sustainable funding to conserve the Condor Biosphere Reserve in Ecuador. The Reserve includes the Antisana and Cayambe-Coca Ecological Reserves, which are critical watersheds for the national capital of Quito and its nearly 2 million inhabitants. Working in partnership, these organizations proposed the creation of the Water Conservation Fund (*Fondo para la Conservación del Agua-FONAG*) to the Municipality of Quito.

Once the Municipality approved of FONAG's creation, the partners engaged key water users, including the Quito Municipal Water and Sewage Agency (EMAAP-Q), Quito's Electric Company (EEQ) (which uses the watersheds to generate hydropower) and several beverage companies. As a result of the engagement, EMAAP-Q committed 1 percent of its monthly water sales to FONAG (totaling around US\$360,000/year), EEQ pledged US\$45,000/year and a privately owned beer company committed \$6,000/year. Additional support was provided by the Swiss Agency for Development and Cooperation, which gave FONAG \$10,000/year for two years. By the end of 2004, FONAG had accumulated over US\$2 million in capital, resulting in over US\$300,000/year available for to support projects in the watersheds. Over US\$7 million in capital is anticipated by 2011, providing over \$800,000/year for watershed conservation projects. While direct compensation is not given to communities in the watershed and many implementation challenges remain, the projects FONAG supports are structured to provide socio-economic benefits, such as improving livestock grazing practices and promoting job creation through eco-tourism in the Reserves (Krchnak 2007).

## Kenya

Kenya's portion of the Hotspot is much smaller and less geographically varied than Tanzania's, resulting in fewer opportunities for PWS projects. Some stakeholders noted that Shimba Hills is an important watershed for the larger urban area of Mombasa, but others disputed that assertion and no studies or data were located to confirm or refute its watershed values. Likewise, Kenya's one section of the Eastern Arc Mountains, Taita Hills, is not thought to contain high watershed values. As a result, the Team was not able to identify potential areas for PWS projects in Kenya for the short- to medium-term, though subsequent verification of watershed values in Shimba Hills or other areas in the Kenyan portion of the Hotspot could lead to developing a PWS project over the long-term.

## Tanzania

Conservation of the Eastern Arc Mountains and Coastal Forests (notably the former) has particularly high socio-economic importance in Tanzania, as a much of the country's population relies on these watersheds for both drinking water and generation of hydroelectric power. The Ruvu River basin (Tanzania's most populous water basin) originates in the Uluguru Mountains and is the principal source of water for Dar es Salaam, the country's largest urban area and most important industrial center. Hydroelectric facilities in the Eastern Arc Mountains generate over half of the country's electricity, but in recent years the reservoirs have been plagued by drops in water levels

that inhibit their power-generating capacity (Chhatbar 2006). Failure to improve management of these watersheds could severely impact the country's ability to generate the sustainable economic growth needed to alleviate poverty and enable the country to develop. Interest in developing PWS projects in Tanzania is high, with a number of feasibility studies already carried out for the Ruvu, Pangani and Rufiji river basins (Turpie *et al.* 2005; World Wildlife Fund *et al.* 2007; Economic Research Bureau 2006).

In the Ruvu basin a multi-stakeholder PWS project is already in development. In the Uluguru Mountains, WWF, CARE and the International Institute for Environment and Development (IIED) have initiated a three phase PWS project in four villages located in sub-catchments of the Ruvu River in the Uluguru Mountains near Morogoro (WWF *et al.* 2007). In phase one, the NGOs assessed which areas of the Ruvu or Pangani watersheds would be best suited to develop a PWS project, including defining issues such as willingness to pay among potential buyers and the capacity and willingness of potential sellers (in this case local communities) to participate in such projects. The former watershed was deemed to have the highest potential for success, and potential buyers were subsequently cultivated. The parastatal Dar es Salaam Water and Sewerage Company (DAWASCO), which relies on much of its water supply from the Ruvu River, will provide US\$270,000/year for the next four years, with additional support from DANIDA. To solicit additional support, the NGOs are also currently engaging both Coca Cola and Tanzania Brewery Limited (CARE, per. comm.), as current water quality issues are negatively impacting the profitability of these companies' operations. With regards to the Pangani and Rufiji basins, the Team was not able to identify any current efforts to implement PWS projects along the lines of what is currently underway in the Uluguru Mountains, though as noted above, a number of assessments have been done.

Specific activities that CEPF could support in the Ruvu River PWS project should be determined through additional consultations with CARE, WWF and the IIED. Potential PWS activities to assess for CEPF support could include:

- *Government Engagement:* Government buy-in and adoption of appropriate legal frameworks are essential elements of successful PWS projects. Supporting engagement efforts to secure Government buy-in and develop necessary legal framework could therefore help consolidate existing projects and facilitate their replication in other sites;
- *Capacity Building:* Capacity to develop, implement and monitor PWS projects is fairly low among both government agencies (such as the Catchment Forests and Water Basin Authorities) and communities in key watersheds. Supporting key capacity-building components with NGOs developing PWS projects could increase capacity and improve implementation;
- *Ensuring Benefits to Communities:* One of the biggest challenges for PWS projects in Tanzania is ensuring benefits for maintaining water services are directed at communities. Currently all revenues collected by water authorities simply become "revenue" for the Government, with little invested back into the watersheds on which water supplies rely. Various layers of bureaucracy, lack of transparency and capacity and at times corruption complicate PWS systems from

- being able to direct payments to communities in exchange for managing the watershed. The Tanzanian Government's recent adoption of Joint Forest Management (JFM) agreements between communities and district level governments offer one potential mechanism through which funds could be channeled to communities, but additional policy work and creating an appropriate framework would be needed, as would sufficient transparency on how revenues are managed;
- *Determining Property Rights*: As noted above, determining property rights is another challenge for implementing successful PWS projects. In many parts of key watersheds, communities do not have formal title to the lands they manage, or at least the legal right to manage the natural resources on it. Without a legally-supported right to hold or manage natural resources for their own benefit, communities will have little incentive to manage the resource in a more sustainable manner. Support to clarify property and natural resource use rights would give communities the legal framework necessary to make scaling PWS projects across the region more feasible;
  - *Dissemination of "Lessons Learned"*: CEPF support for dissemination of "lessons learned" from the current Uluguru Mountains project and "best practices" for developing PWS projects, including templates for stakeholder engagement and community agreements, could help foment development of similar projects in other key watersheds, such as the Pangani and Rufiji basins. Indeed, if the PWS projects being developed in the Ruvu basin are found to have sufficient funding to carry out all necessary activities over the next 12-18 months, CEPF should strongly consider identifying PWS opportunities in the Pangani basin and developing them with local partners, using the Ruvu basin PWS lessons learned;
  - *Integrating PWS Projects with Large-Scale Economic Development Projects*: As noted above, the World Bank, the Government of Tanzania and other international donors are supporting a nearly US\$700 million water sector support project from 2007 – 2012, with specific plans for improving basin management. Support for capacity-building and creating integrated water basin management plans are key components of this project. Funding from CEPF and use of the CU's network of contacts could potentially leverage resources from the water sector project to scale PWS projects to other key watersheds.

### *Hydroelectric power generation*

As mentioned above, the watersheds of the Eastern Arc Mountains, notably the Udzungwa Mountains, are critical sources of hydroelectric energy for Tanzania. In recent years increased siltation and low water levels (especially in the Mtera Dam) have impeded these hydroelectric facilities' ability to operate at adequate capacity, resulting in widespread power failures (Melamari, pers. comm. 2007). Increased siltation and low water levels have been caused, in part, by increased deforestation and inappropriate land management practices in the upper reaches of the watersheds on which the hydroelectric facilities rely. Given these facilities heavy reliance on well-managed watersheds, the Team initially viewed their operator, the parastatal Tanzania Electric Supply Company

Limited (TANESCO), as a potentially strong partner for devising PWS projects in select basins.

Subsequent stakeholder engagement, however, indicated that TANESCO has been approached many times on the issue of increasing fees, or allocating part of current fees, to conservation efforts in their facilities' watersheds; however, responses to date have not been positive. Specifically, TANESCO viewed conservation of these watersheds as the responsibility of other Government authorities, such as the Forestry and Beekeeping Division or TANAPA, and the revenues they already provide to the central Government should be used to support conservation efforts via these divisions. Despite these obstacles, some stakeholders felt TANESCO's reluctance to support conservation via PWS projects could be ameliorated through better data on the benefits of helping to maintain watersheds and examples of how PWS could be a cost-effective way to improve watershed quality. Such a change of opinion would take substantial data gathering and engagement efforts to convince TANESCO of the merits of such a project, making it at best a medium- to long-term prospect. The Lower Kihansi Environmental Management Project, a World Bank-funded project to manage environmental elements of the Lower Kihansi Dam in the Udzungwa Mountains, could be a potential partner in engaging TANESCO on the issue of PWS to local communities to protect this particular watershed.

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Country</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Kenya	<b>Long-term:</b> Slight opportunities for a PWS project in Shimba Hills (or other area)	<ul style="list-style-type: none"> <li>Investigate claims for watershed functions of Shimba and Taita Hills, identifying potential for watershed services and determine hydrological flows</li> <li>If water supplies for larger urban areas are from local watersheds, determine feasibility of a PWS project</li> </ul>
Tanzania	<p><b>Short-term:</b> Strong opportunities for implementing PWS system in the Ruvu Watershed</p> <p><b>Medium- to Long-term:</b> Moderate opportunities for developing and implementing PWS projects in Pangani basin</p> <p><b>Medium- to Long-Term:</b> Moderate opportunities for linking PWS to large-scale economic projects, such as the World Bank's Water Sector Project</p> <p><b>Medium- to Long-Term:</b> Moderate opportunities for TANESCO to support PWS</p>	<ul style="list-style-type: none"> <li>Work with CARE, WWF and IIED to determine where CEPF support could either 1) consolidate the existing project in the Uluguru Mountains, and/or; 2) help replicate similar PWS projects to other areas such as the Pangani basin in the East Usambara Mountains</li> <li>Engage the World Bank, The Lower Kihansi Environmental Management Project, Government of Tanzania and TANESCO on the possibility of supporting PWS projects as a means to improve quality and quantity of water supplies in key watersheds</li> </ul>

	projects in key hydroelectric dam watersheds	
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### C. Carbon Sequestration/Avoided deforestation

Carbon sequestration through reforestation and afforestation, as well as avoided deforestation, has become an increasingly popular mechanism for addressing the issue of global climate change. The Kyoto Protocol, which both Tanzania and Kenya have ratified, includes the Clean Development Mechanism (CDM). Through the CDM, developing countries are able to generate income by implementing projects that either reduce total greenhouse gas emissions or sequester CO<sub>2</sub> through reforestation or afforestation (but not avoided deforestation) projects (Tipper *et al.* 2007). To avoid creating perverse incentives for deforestation, the Kyoto Protocol requires that only areas deforested before 1990 be eligible for carbon credits. In addition to the Kyoto Protocol, the voluntary market for carbon credits that allows companies to offset their carbon footprint through reforestation, afforestation and avoided deforestation. This market has begun to grow in recent years, with one estimate placing the value of the market at over US\$100 million in 2007, with healthy growth prospects (Tipper *et al.* 2007).

Relative to Latin America and East Asia, Africa is somewhat behind in developing its carbon project potential, though East Africa is farther advanced than other regions on the continent. The World Bank’s BioCarbon Fund is currently the continent’s biggest investor in carbon projects (Jindal 2006). The potential of carbon projects to both conserve priority areas of the Hotspot and contribute to poverty alleviation has attracted a great deal of interest from both civil society and the national Governments, notably in Kenya. Assessing the carbon values of key regions in the Hotspot has been a priority for such initiatives such as the Natural Capital Project’s “Valuing the Arc” and CEPF has supported carbon assessments of Coastal Forest sites in Kenya, specifically in Arabuko, Madunguni and the Lower Tana Forests (Glenday 2005; Glenday 2005).

During the course of its stakeholder consultations, the Team encountered a broad spectrum of positive to negative opinions on the potential of carbon projects to promote conservation of priority Hotspot sites and contribute to poverty alleviation. The Team believes that in some areas of the Hotspot, carbon projects could be *one of many potentially useful funding sources* to achieve conservation goals, but the resources such projects would generate would probably be relatively modest.<sup>14</sup> Given the technical requirements (such as establishing total carbon values, baseline and the potential for leakage) and transaction costs for both the CDM and the voluntary market, there is an opportunity for CEPF to support pilot projects in appropriate areas and build national capacity to generate increasing future revenues from carbon projects.<sup>15</sup> The lessons

<sup>14</sup> Glenday (2005) estimates that the Madunguni forest (adjacent to the Arabuko Sokoke National Park) lost approximately 20,000 Mg C (or 640 ha) from 1992 – 2004. These emissions would be worth around \$80,000 on the voluntary market, assuming (\$3-5/Mg C), or \$1,140/year for the estimated 70 year forest growth period.

<sup>15</sup> Current revisions to the CDM guidelines are intended to decrease transaction costs for small carbon sequestration projects that reduce emissions by less than 8000 tones CO<sub>2</sub>/year, benefiting small communities interested in carbon projects (Jindal 2006).

learned from these projects can then be used to promote broader application of carbon projects in other appropriate sites in the Hotspot.

### *Kenya*

Relative to Tanzania's Government, Kenya's Government has been more receptive to forestry-based carbon projects. The National Environment Management Authority (NEMA), which approves projects to be submitted to the CDM Executive Board, has promoted a number of forestry-based carbon projects. One noteworthy project, supported by the World Bank's Carbon Finance Unit, is being implemented by the Green Belt Movement (GBM) and focuses on delivering carbon project benefits to communities. The GBM project focuses on reforesting 1,876 ha of degraded public and private land in the Aberdare and Mount Kenya basins near densely populated areas, with an anticipated 0.1 megatons (Mt) of CO<sub>2</sub> captured by 2012 and 0.38 Mt CO<sub>2</sub> captured by 2017 (World Bank Carbon Finance Unit 2007).

In Kenya's portion of the Hotspot, there are strong opportunities for developing a carbon project around the Arabuko Sokoke Forest Reserve. A recent Performance Contract signed between Kenyan Government and the newly established Kenyan Forest Service (KFS) Board called for the licensing in the financial year 2007-8 of a group of community associations to run a CDM Bio-Carbon project in the Coast Province, with the Madunguni Forest (which lost 86%, or 670 ha. of its forest cover between 1992 – 2004 – see Glenday 2005) being the focal area (Gordon, per. comm.). The selection of the Madunguni was intended in part to build off the 2005 carbon preliminary carbon assessment of the Arabuko Sokoke Forest Reserve (which included the then recently gazetted Madunguni Forest), which was supported by CEPF (Gordon, per. comm.; Glenday 2005).

Given CEPF's past support for the carbon assessment of this area, working with the KFS to further develop and implement a pilot carbon project in the Madunguni is a strong short-term prospect, although three cautionary notes are worth mentioning. First, the 2005 assessment estimated the total carbon value of the area at a modest US\$80,000, or US\$1,140/year if divided evenly over the estimated 70-year regeneration period (Glenday 2005). Such modest funding levels indicate that area may be more valuable as a pilot project that could be replicated in other areas of the Hotspot rather than in the total conservation funding it would generate. Second, support for a carbon project in the Madunguni Forest would have to come from the voluntary market, as the deforestation occurred after 1990, making it ineligible for CDM funding. Third, there are unresolved issues with squatters in the forest.<sup>16</sup>

Nonetheless, given the KFS's interest in a carbon project in the area, CEPF's past support for a carbon assessment of the area and substantial CU member experience with the Arabuko Sokoke Forest Reserve (principally *icipi*, Nature Kenya and BirdLife), opportunities for developing a pilot community-based carbon project in the Madunguni Forest are strong, though funding may not become available for 2-3 years and will likely

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<sup>16</sup> The KFS anticipates squatter evictions in 2008 after the national elections (Gordon, pers. comm.).

be modest. A potential partnership with the GBM to help develop and promote the project should be considered, as should support from the international divisions of CI and WWF currently promoting carbon projects to voluntary market buyers. Establishment of a successful project and dissemination of lessons learned could then be used to promote similar community-based projects in other priority areas in Kenya’s portion of the Hotspot, such as the Lower Tana River (where CEPF also supported a carbon assessment) and Taita Hills.

*Tanzania*

With a majority of the Hotspot’s land area and a number of deforested and degraded areas, Tanzania should be a priority country for the development of carbon sequestration and avoided deforestation projects. Assessments of the carbon values of Tanzania’s portion of the Hotspot have recently been undertaken by the Natural Capital Project’s “Valuing the Arc”, and the UNDP. A recent draft UNDP report estimated the total carbon stocks in the Eastern Arc Mountains to be over 101 million tons, with over 78 million tons in the Forest Reserves (UNDP 2007). However, moving forward with implementing carbon sequestration or avoided deforestation projects has been somewhat limited. To date, Tanzania’s Government has favored CDM projects that adopt improved technologies that avoid or reduce emissions over forestry-based projects; however, the Team’s stakeholder discussions indicated that there might be a change of opinion emerging within the Government, with stronger support for forestry-based carbon projects.

Selecting potential projects for CEPF to support over the short-term was difficult, as the Team was not able to identify any concrete short-term opportunities for forestry-based carbon projects that benefit both conservation and local communities. As a result, forestry-based carbon projects are probably at best a medium to long-term opportunity for funding in Tanzania’s portion of the Hotspot. The best potential example the Team found was the International Small Group Tree Planting Program (TIST), a sustainable development and community reforestation program that tries to link small-scale community forestry projects with carbon markets. It has two projects in Tanzania, one in the Hotspot (Morogoro). In 2005, TIST submitted a methodology to assess the carbon values of its sites to the CDM Executive Board, but it was not accepted by the Board (Williams, pers. comm.). The lessons learned from TIST’s experience, coupled with the findings of the “Valuing the Arc” project, could help CEPF determine what support is needed to establish pilot carbon projects in Tanzania. Similar collaboration with the Natural Capital Project (whose members include WWF and the University of Cambridge) could also determine feasible areas to develop an avoided deforestation project, with potential buyers coming from the voluntary market and support from CI and WWF’s climate change divisions.

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Country</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Kenya	<b>Short- to Medium- term:</b>	<ul style="list-style-type: none"> <li>Feasibility assessment of carbon project in the</li> </ul>

	<p>Strong opportunities for a carbon project in the Madunguni Forest Reserve</p> <p><b>Long-term:</b> Strong opportunities for additional carbon projects in other Coastal Forest sites and possibly Taita Hills</p>	<p>Madunguni Forest, building off baseline study from Glenday (2005) in collaboration with the KFS, CI, WWF and possibly the GBM</p> <ul style="list-style-type: none"> <li>• If feasible, determine necessary components of a carbon project for the voluntary market and identify potential buyers, working with CI and WWF’s international climate change divisions</li> <li>• Explore possibilities for community benefits from on-farm carbon sequestration, taking pressure off intact forests</li> </ul>
Tanzania	<p><b>Short- to Long-term:</b> Moderate opportunities for developing carbon projects in key areas</p>	<ul style="list-style-type: none"> <li>• Work with the Natural Capital Project, UNDP, CI, WWF and possibly TIST to determine where carbon projects, including avoided deforestation projects, would be appropriate and how they can best be developed over next five years. Particular attention should be given to opportunities in the voluntary carbon market</li> </ul>

*Note on Other Ecosystem Services and “Bundling” of Services*

It is worth noting that in addition to watershed and carbon, there are a number of other ecosystem services that are currently being evaluated in the Hotspot, such as non-timber forest products, pollination services and biodiversity values. However, no concrete projects securing resources for these services were identified, and they at best look like long-term opportunities for funding. Moreover, the idea of “bundling” a number of ecosystem services from a given area (such as reforesting a watershed to get both funding for both watershed services, biodiversity values and carbon sequestration) was noted in a number of conversations with stakeholders as a potential means to increase the total amount of funding a given area could secure. While the Team regards the idea of “bundling” a logical one, it is not clear how long it would take to develop and apply such a concept to concrete projects in the Hotspot. The Team therefore believes it is more strategic to focus on those ecosystem services that have been already proven successful in supporting conservation, namely watershed and carbon services, for the foreseeable future, and possibly “bundle” watershed protection efforts with potential carbon projects. If other services begin to be valued in a concrete manner and bundling become more commonplace, appropriate attention could be given to developing them as funding sources.

**D. Tourism (increased taxes, bed fees, etc.)**

Tourism is a major and growing contributor to the economies of both Tanzania and Kenya, with both countries becoming popular international tourism destinations. In 2003, over 575,000 tourists visited Tanzania, generating over US\$730 million (Ministry of Natural Resources and Tourism 2004). In Kenya, over 1.6 million visitors arrived in 2006, contributing over to over 14% of GDP (second only to agriculture) and over 9% of total formal wage employment (Kagagi 2006). Much of both countries’ tourism is based on natural resources, notably National Parks, wildlife and game reserves and coastal areas. The considerable revenues tourism generates and the reliance the sector has on



conserving natural resources makes it a potentially strong candidate for providing sustainable conservation funding in both countries. The one caveat is that the sector is susceptible to unexpected downturns like those that occurred after the 2000 US Embassy bombings in both countries. In evaluating potential sustainable funding options from the tourism sector, the Team considered a number of different mechanisms, including increased tourism taxes, park/reserve entry fees, licensing fees and visa fees.

### *Kenya*

While Kenya has more tourists per year than Tanzania, the opportunities for increasing taxes or visa fees to benefit its portion of the Hotspot are not particularly strong. Resistance from the private sector for new taxes and lack of an appropriate organization to push for any funding increases, (such as the EAMCEF) make a similar effort in Kenya unlikely to succeed. A program to collect bed night fees in Kenya in the coastal region ran into difficulties in the late 1990's due to a variety of factors. A major constraint was that the Kenya Wildlife Service did not have the skills or human resources to audit the hotels to validate the figures from the hotels, creating a *de facto* "honor" system with no clear penalties and very little enforcement for failure to pay. These problems were exacerbated by the down turn in tourism, following terrorist attacks in 1998 and then again in 2002 (Inamdar, pers. comm.).

Two potentially better sustainable funding options for CEPF to support in Kenya's tourism sector would be 1) direct engagement of European tour operators that market "green" holidays (see private sector assessment below) to destinations in the Hotspot, and 2) support for community-based tourism initiatives similar to the project in the Kaya Kinondo forest. The latter project, supported by the National Museums of Kenya, WWF East Africa, the Ford Foundation and CEPF, worked with local Kaya community to form the Kaya Kinondo Conservation and Development Group in 2001. The group works to manage the area's local forests, which are both highly diverse in plants and animals as well as sacred sites and burial grounds for the Kaya community. A key component of the project was the construction of a visitor center and development of tourism excursions into the local forests, the proceeds from which support community development projects and continued protection efforts (CEPF 2005). There may be potential opportunities to replicate the success of the Kaya Kinondo project with communities around other priority conservation sites, notably Taita Hills and possibly the Lower Tana River, the last of which has its own endemic species of monkey, the Tana river red colobus (*Procolobus rufomitratu*s), located in the Tana Primate National Reserve.

### *Tanzania*

In evaluating potential sustainable funding sources from the tourism sector in Tanzania, the Team had to consider that apart from a few select locations, such as the Udzungwa Mountains and Zanzibar, most areas in Tanzania's portion of the EAMCF are not popular tourist destinations. Funding strategies, such as increased park entrance and licensing fees, would therefore tend to benefit only those national parks and game reserves that manage to attract appreciable numbers of tourists. They also tend to be resisted by the

private sector tour operators and hotel owners who view increased entrance fees and taxes as potentially eroding their ability to compete with other destinations. Given these constraints, the Team wanted to identify mechanisms that would secure funding for Tanzania's entire portion of the Hotspot and would be modest and widespread enough to avoid large-scale resistance from private sector operators. Moreover, the need for an effective and transparent mechanism to collect and distribute any increased revenues would also be critical for success.

Tanzania currently charges a single-entry visa fee of US\$50 to enter the country, and while the Team was not able to precisely identify what these revenues are used for, the stakeholder consultation process indicated that they are used as general revenues by the national Government. With over 575,000 annual visitors, this translates to over US\$28 million dollars in annual revenue. Diverting existing government revenues to conservation projects is often a difficult if not impossible undertaking, as it usually involves some ministries losing revenues. However, an increase in the visa fee (US\$5-US\$10) would be more politically tenable, as it would increase revenues from the already growing international tourism sector (and therefore not burden native Tanzanians) and raise considerable resources for conservation of the country's natural heritage (US\$2.8 - US\$5.75 million/year).

When discussing the potential of an increased visa fee for conservation during the stakeholder consultation process, three primary concerns were raised. First, it was generally viewed as difficult at best to get the Government to agree to increasing visa fees and dedicating new funds for conservation. Second, even if the Government did agree to raise the visa fee, lack of transparency and management capacity would impede proper allocation of the funds collected for conservation projects. Third, there was concern that the Government ministries that manage the nation's popular National Parks and Game Reserves would capture most if not all of the new revenues, leaving little for other areas of the country not frequented by tourists, such as some of the smaller mountains in the Eastern Arcs and many of the Coastal Forests.

One potential strategy for promoting the idea of an increased visa fee to support conservation of Tanzania's natural heritage is for CEPF and Tanzanian members of the CU to partner with an already established conservation organization with strong links to the Government and have that organization undertake a concerted engagement effort of key ministries and Government officials. Many stakeholders interviewed by the Team felt that, while a challenge, it was a potentially auspicious time to promote the idea of an increased tourist visa fee supporting national conservation efforts, as the recent budget debate in Parliament included discussions on how the country can leverage more revenues from its natural resource base (Melamari, pers. comm.). An organization ideally placed to undertake such an effort is the EAMCEF, either separately or as part of the proposed joint-fundraising strategy with CEPF. As a Government-sanctioned and supported fund with prominent Board of Trustee members with links to both the private sector and Government, the EAMCEF would be uniquely placed to advocate for an increase in the visa rate, with the new revenues dedicated to conservation of Tanzania's natural heritage.

Moreover, as the Fund is already structured to transparently receive and disburse funds for conservation projects in the Eastern Arc Mountains and has agreed to include the Coastal Forests in its geographic focus (see above), it would be an ideal entity for receiving and disbursing new conservation funds for those parts of the country. As part of the Government engagement effort, the EAMCEF could form strategic alliances with TANAPA, the Wildlife Division and other key Government agencies to ensure that revenues are allocated to support conservation of *all* the country's ecosystems, not just popular tourist destinations. Even if only US\$1 - US\$2 per tourist were allocated to the Eastern Arc Mountains and Coastal Forests, US\$575,000 - US\$1.15 million/year in additional funding would be generated to support conservation efforts in the Hotspot. As in the case of Belize's Protected Areas Conservation Trust (PACT – see Box 2), the Fund could use most of these revenues to support projects, with a portion being dedicated to growing the endowment. Support from the private sector could be secured by keeping the increase relatively small (no more than US\$10/tourist, a relatively small amount given the whole cost of a trip to Tanzania) and advertising the use of visa fees to support national conservation efforts, thereby helping Tanzania market itself as an environmentally-friendly destination to “green” tour operators.

In addition to the potential increase in the visa fee, Tanzania, like Kenya, offers many sustainable funding opportunities through supporting community-based tourism initiatives that both benefit communities and conserve biodiversity. One example that could potentially be replicated in other priority sites is the Participatory Forest and Wildlife Conservation Project (PAFOWCOP) in the South Jozani-Chwaka Bay National Park (JCBNP) in Zanzibar. The project is a partnership between CARE International in Tanzania, the Department of Commercial Crops, Fruits and Forestry (DCCFF) and the Community-based Credit Development Organization (JOCDO) and was supported by funding from CEPF (Hassan and Said 2006). Through the project, resource management agreements have been developed and implemented by the Government of Zanzibar and eight community groups living around the JCBNP. Central to these agreements is a revenue sharing scheme where part of tourist entry fees to the popular JCBNP (home to the endemic Zanzibar red colobus monkey) are dedicated to community development projects. There may be potential opportunities to replicate similar agreements with communities in both the Coastal Forests and Eastern Arc Mountains in Tanzania. Particular attention should be given to replicating the experience with communities located around priority conservation sites for the Hotspot, such as the East Usambara and Udzungwa Mountains. Potential partners for identification of replication in other sites and other sites include CARE, Tanzania Forest Conservation Group and WWF.

## Box 2

### The Protected Areas Conservation Trust (PACT) – Belize

The use of increased visa fees to support conservation has been used in many countries, notably in Belize. Like Tanzania and Kenya, tourism, much of it nature-based, plays an important role in the national economy of Belize, generating 19% of the country's GDP (Chaves 2007). In an effort to ensure tourism played a positive role in conservation of the nation's natural heritage, in 1996 the Government of Belize, with technical assistance from WWF and the University of Colorado, passed the Protected Areas Conservation Trust (PACT) act. PACT established a national trust for conservation to be funded by a conservation exit tax of US\$3.75/person on all tourists and a 20% commission from the US\$7/passenger cruise ship passenger fee. With close to 248,000 tourists last year alone, the conservation exit tax, which accounts for 80% of PACT's funding, generated around US\$930,000 in 2006 (Chaves 2007). At least five percent of total funds collected are placed in an endowment fund, with the rest dedicated to supporting proposals by government agencies, communities and NGOs for conservation of the country's natural resources and protected areas (PACT 2007; Spergel 1996).

### Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions

Country	Opportunities (Short-Medium-Long-Term)	Priority Short Term Actions
Kenya	<p>See Private Sector Section</p> <p><b>Short- to Medium-term:</b> Strong opportunities for replicating the Kaya Kinondo project in sites in Kenya</p> <p><b>Medium- to Long-term:</b> Slight opportunities for increasing visa fees to support Hotspot conservation efforts</p>	<p>See Private Sector Section</p> <ul style="list-style-type: none"> <li>Determine feasibility of replicating the Kaya Kinondo experience in Kenyan sites, notably Taita Hills and the Lower Tana River. Potential partners include WWF East Africa, the National Museums of Kenya and community groups in Taita Hills and the Lower Tana River</li> <li>If Tanzania visa fee program is successful, determine feasibility of a similar effort in Kenya</li> </ul>
Tanzania	<p><b>Short- to Medium-term:</b> Slight opportunities for increasing tourism visa fees for conservation projects, with EAMCEF managing Hotspot portion of fund</p> <p><b>Short- to Medium-term:</b> Moderate opportunities to replicate success of Zanzibar's PAFOWCOP project in other sites in Tanzania</p>	<ul style="list-style-type: none"> <li>Contract appropriate individuals/organizations to develop and implement a Government engagement strategy to increase visa fees, using the EAMCEF and its Board of Trustees to promote idea in key ministries</li> <li>Determine feasibility of replicating PAFOWCOP experience in other sites, notably the Usambara and Udzungwa Mountains. Potential partners include CARE, WWF and the Tanzania Forest Conservation Group</li> </ul>

### E. Private Sector

The Team found numerous examples throughout the Hotspot of the private sector working with NGOs and local communities to support conservation efforts directly linked to some aspect of their operation, such as watershed protection. No examples were

identified where a private sector company was supporting regional or national conservation efforts, such as making contributions to a national trust fund. A majority of the stakeholders involved in engaging the private sector on conservation issues felt that for the foreseeable future, it would be best to continue engaging companies on site-specific issues and projects, as few opportunities were seen for large contributions to regional or national funds. Some key elements of effective engagement of companies in the Hotspot that many stakeholders noted include:

- Development of relationships with the private sector take time to build trust, understand priorities and find areas where both parties can benefit;
- Identification of benefits from ecosystems on which a company's bottom line directly depends (e.g. watersheds for breweries, landscape values for tourism operators, etc.);
- Where companies have the potential to have direct negative impacts on biodiversity or the natural environment, (e.g. mining, timber /wood companies, charcoal industry), funds for mitigation and management of these impacts may be a practical approach for generating funding for conservation.

### *Kenya*

Kenya has a relatively well-developed private sector that should provide many opportunities to engage with local businesses. This is evidenced by the formation of the Eastern Africa Corporate Club by WWF-EARPO in 2003. The club has expanded to 17 private sector members represented by their Chief Executive Officers. While the group is impressive and includes the CEOs of many prominent businesses, there has been little progress to date in securing large-scale funding for conservation projects in this part of the Hotspot.

One potential area of the Hotspot where the Corporate Club could be a means to increase support for conservation is around the district of Kwale. The Bamburi Cement Company is a member of the Eastern Africa Corporate Club and has supported local conservation projects as well as progressive rehabilitation of areas it uses to secure raw materials. Tiomin Resources Inc., a Canadian mining company, plans to strip mine four areas from the Kwale District to the Malindi District, including concessions near the Arabuko Sokoke Forest Reserve. Implementation of the plan has been delayed due to a court case involving the relocation of local populations located near one of the operation's concessions. While plans are in place to restore any habitat destroyed by the mining, there are potential opportunities to work with Bamburi and engage Tiomin and possibly other companies on the idea of investing in regional conservation planning to ensure economic activities in the region do not compromise its unique biodiversity values (see Box 3 below describing a regional conservation planning exercise carried out in South Africa's Succulent Karoo with support from CEPF). Included in such a plan could be plans to develop biodiversity offsets to promote at least a "net neutral" impact from mining operations in the region and ideally a "net positive" impact through conserving more land than the mining projects will impact.

### Box 3

#### **The Succulent Karoo Ecosystem Program (SKEP)**

The Succulent Karoo is a CI Hotspot that extends from northwestern South Africa and southern Namibia. It has exceptionally high levels of plant diversity and endemism, as well as several commercial mineral deposits and areas used for agriculture. To ensure the region's economic activities did not threaten important ecosystems, CEPF supported the Succulent Karoo Ecosystem Program (SKEP). Included in the Program were WWF, CI, Anglo-American and DeBeers, who engaged in a Hotspot-wide conservation planning process, which sought to:

- Identify a hierarchy of priority areas, using sound biological assessments and systematic conservation planning techniques, and actions through a broad stakeholder process to guide conservation efforts and donor investment in the Hotspot;
- Leverage existing biological and socio-economic initiatives to contribute to the identification of these priorities and engender innovation and consensus in the form of a long-term conservation plan;
- Expand human resource capacity to implement the plan by including training and mentorship opportunities as part of the planning process;
- Secure the institutional and government support required to ensure effective implementation of the plan by linking conservation to regional development needs (SKEP 2007).

The result of the SKEP process is a 20-year conservation plan that covers the entire Hotspot, including capacity-building measures, strategies and funding mechanism to support actions in priority areas.

With the exception of Taita Hills, Kenya's entire portion of the Hotspot is located in the Coastal Forests. Tourism, particularly beach-based tourism, is an exceptionally important economic activity in this part of the country. During the stakeholder process, the Team assessed whether or not it would be possible to engage local tourism operators and hotels to support contributions to priority conservation sites near their operations. The general consensus among stakeholders interviewed was that local tour operators and hotels would resist such a proposal, as they feel that the taxes they pay to the Government should support conservation projects, not additional contributions that could negatively impact their competitiveness. One possible exception of national businesses linked to the tourism sector that could be engaged to support conservation projects are Kenya's major airline carriers, Air Kenya and Kenya Airways, though a feasibility study would be needed to confirm what, if any, opportunities exist. Both airlines have active routes around Mombasa and Malindi, with the latter location having planes landing very close to the Madunguni Forest mentioned above. Engagement of these two airlines, possibly through WWF's Corporate Club contacts, to support conservation projects located near these locations' airports should therefore be considered, with both the potential carbon (in the case of Madunguni) and public relations benefits being the most salient selling points for both companies.

Stronger opportunities were seen by engaging foreign, particularly European, tour operators with strong corporate commitments to "green" or "sustainable" tourism that send tourists to coastal destinations in Kenya (and possibly Tanzania), specifically around Mombasa and Malindi. These companies include Germany's Tui, Britain's Thompson Travel (part of Tui) and First Choice (Inamdar, pers. comm.). Opportunities for support from these companies for conservation projects in the region were seen as much stronger

than engaging local businesses, as both the corporate commitment to environmental issues is greater, and they would use their contributions to market their destinations as “green” and supporting local conservation efforts. One potential negative to this recommendation was the perceived need by some stakeholders for any engagement of these companies to be at a fairly high corporate level, with perhaps the international corporate engagement divisions of CI or WWF leading the effort rather than a local organization working with locally-based divisions of these companies.

### *Tanzania*

Tanzania has a number of examples where private sector companies are supporting site-level conservation projects, such as Unilever’s support for local conservation of areas around a company tea plantation in the Udzungwa Mountains. Broader watershed-level projects have recently started, with the parastatal Dar es Salaam Water and Sewerage Company (DAWASCO) and potentially Coca Cola supporting watershed protection efforts in the Ruvu watershed (see PES section above). Coca Cola, with funds from USAID, is also supporting multi-stakeholder project to promote sustainable management of the Pangani and Wami-Ruvu watersheds (URI CRC 2007). While these companies undoubtedly believe that such projects have strong public relations and corporate social responsibility value, there are very real business-related motivations for supporting improved watershed management. For example, poor watershed management has led to decreasing water quality in the Ruvu watershed (which supplies water to Dar es Salaam). Increased sedimentation and other contaminants is forcing Coca Cola to consider investing several million dollars in water filtration facilities to maintain acceptable water quality levels, or even relocating out of Dar es Salaam. Other beverage companies are also considering re-locating to other cities, such as Tanga and Morogoro, where water quality is better and filtration costs are lower.

In terms of the most viable private sector options for sustainable funding for conservation, the Team believes the most strategic engagement efforts should focus on working with those companies (such as Coca Cola, breweries and water companies) that rely on well-managed watersheds to maintain current and future profitability. At the present time, two watershed projects involving the private sector have in the Team’s opinion the strongest prospect for success. As noted above, in the Uluguru Mountains, WWF, CARE and IIED have initiated a PWS project in several sub-catchments with support from DAWASCO and potentially Coca Cola and Tanzania Breweries, Ltd., In the Pangani River and Wami-Ruvu watersheds Coca Cola and USAID have committed to investing US\$800,000 over the next four years in a multi-stakeholder project, which includes the Government of Tanzania, a local sugar factory, a sisal farm, the University of Rhode Island, World Vision Tanzania, Florida International University, and the Tanzania Health, Environment and Sanitation Association, to promote sustainable management of water and watershed resources.

As CEPF has created a strong regional alliance of NGOs and cooperative links with the Tanzanian Government, there is a potential strategic role to both consolidate these existing watershed management projects and scale similar interventions across the region

to other key watersheds in the Hotspot. A major theme of the National Water Policy is forming collaborative partnerships to address the issue of rural water supplies, so CEPF and CU’s strategic links with NGOs, communities and Government could prove useful in promoting greater collaboration in conserving key watersheds with large corporate sector users of water. Moreover, CEPF and the CU’s links with the World Bank could potentially provide additional support through the US\$700 million Water Sector Support Project currently under development by the Development Partner’s Group and Tanzanian Government. The Project has specific goals set for improved basin management, which could be potential sources of support for PWS projects with key communities.

One additional private sector activity that may result in sustainable funding for priority sites in the Tanzania’s portion of the Hotspot is tourism. Tanzania’s portion of the Hotspot has many popular international tourist sites located in its Coastal Forests, notably Zanzibar, and a few in the Eastern Arc Mountains (e.g. the Udzungwa Mountains). As with Kenya, many stakeholder felt that increases in tourism taxes or contributions from local tour operators would be resisted, making engagement of international operators to support local conservation efforts a more attractive opportunity. As part of a potential engagement effort of major “green” tourism operators in Europe (see above), select Coastal Forest and perhaps Eastern Arc Mountain locations, such as the Jozani Forest in Zanzibar, could be included as potential areas for direct conservation support.

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Country</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Kenya	<p><b>Short- to Medium term:</b> Moderate opportunities for engaging “green” European tour operators on support for conservation projects near major tourism destinations (Mombasa, Malindi), with support from corporate engagement divisions of CI and WWF</p> <p><b>Short- to Medium term:</b> Moderate opportunities to engage Kenya Airways and Air Kenya on supporting conservation projects, notably carbon projects around Madunguni</p> <p><b>Short- to Medium- Term:</b> Slight opportunities for engaging Tiomin and other private sector actors to promote regional conservation planning around key mining concessions</p>	<ul style="list-style-type: none"> <li>• Support assessment of engaging major “green” tour operators to solicit direct contributions to priority areas with CI and WWF corporate engagement divisions, with particular attention on include Germany’s Tui, Britain’s Thompson Travel (part of Tui) and First Choice</li> <li>• Determine feasibility with WWF of engaging Kenya Airways and Air Kenya support for reforestation and/or aforestation at Madunguni and develop proposals as appropriate</li> <li>• Assess feasibility with WWF of developing a regional conservation plan with Tiomin, Bamburi and others (tourism operators) in areas where mining concessions overlap priority areas, using South Africa’s SKEP process as a possible model</li> </ul>
Tanzania	<p><b>Short- to Medium-Term:</b> Strong opportunities for supporting private sector (and Government) engagement efforts in developing payments for watershed services and improved</p>	<ul style="list-style-type: none"> <li>• Work with CARE, WWF and IIED to determine where strategic CEPF support could advance current private sector engagement efforts with water and beverage companies to consolidate and</li> </ul>



	<p>management in key watersheds (Uluguru, E. Usambara and possibly others)</p> <p><b>Short- to Medium term:</b> Moderate opportunities for engaging “green” European tour operators on support for conservation projects near major tourism destinations (Zanzibar), with support from corporate engagement divisions of CI and WWF</p> <p><b>Medium- to Long-Term:</b> Strong opportunities for supporting efforts to scale PWS and improved management projects with the private sector to other key watersheds, linking efforts with similar projects such as the World Bank Water Sector Project</p>	<p>implement functioning PWS projects in the Uluguru Mountains, and possibly to other key watersheds (Pangani); opportunities should also be explored for joint activities with the Coca Cola-supported project in the Pangani River and Wami-Ruvu watersheds</p> <ul style="list-style-type: none"> <li>• Support assessment of engaging major “green” tour operators to solicit direct contributions to priority areas (particularly in Tanzania’s Coastal Forests) with CI and WWF corporate engagement divisions, with particular attention on include Germany’s Tui, Britain’s Thompson Travel (part of Tui) and First Choice</li> </ul>
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**F. Community-based Conservation Enterprises**

Community-based conservation enterprises, where communities engage in income-generating activities dependent on conserving local ecosystems, can play a potentially important role in both preserving critical ecosystems and alleviating poverty. By generating tangible economic benefits from activities that rely on intact ecosystems, communities are provided positive incentives to support conservation. Admittedly, establishing viable community enterprises that promote conservation often requires substantial initial investments of funding and effort to build appropriate capacity. However, once established, well-run enterprises can become less dependent on outside donor support, if not completely independent, thereby allowing existing conservation funds to be allocated to other areas. In assessing the role of community enterprises and where CEPF support could lead to more sustainable conservation funding, the Team focused on: 1) examples where the establishment of community enterprises has successfully supported conservation, and; 2) how their successes could be replicated in other areas of the Hotspot with CEPF support. Such replication would also provide the potential longer-term opportunity to increase product volumes (for example, in honey) to commercially significant and exportable levels, as many community-based conservation enterprises currently do not produce commercially viable product volumes for the national or export markets.

*Kenya*

The most successful and comprehensive example of where community enterprise development has contributed to conservation in Kenya that the Team was able to identify is the 20-year, multi-stakeholder project around the Arabuko Sokoke Forest Reserve. A diversified suite of conservation-based enterprises have been developed over the last two decades, including butterfly cultivation, apiculture, tree plantations, mushroom harvesting, handicrafts and aloe vera production (Thompson *et al.* 2007). Many of these

enterprises have been extremely successful (notably butterfly production, with total revenues to date in excess of US\$800,000) and have led to marked increases in community support for conservation, effectively reversing much of the previous hostility to state-run efforts to close the Reserve off to local resource use. In addition to creating considerable economic incentives for conservation around the Arabuko Sokoke Reserve, the butterfly project (the “Kipepeo Project”) has been used to model similar projects in the Kakamega Forest Reserve (Kenya) and the Amani Forest Reserve (Tanzania – see below), and a CEPF grant recently sent Kipepeo Project participants to Taita Hills to train them in butterfly cultivation practices (Thompson *et al.* 2007).

Despite these early and significant successes, a major constraint to expanding butterfly farming is the low market ceiling, which limits the potential for replication and for expansion at existing sites. One potential strategy to ameliorate this low market ceiling is to create Hotspot–focused exhibits that feature the region’s butterflies together with associated educational, awareness materials and gift shop marketing opportunities for community products. Recently USAID gave a grant of US\$500,000 to the National Museums of Kenya to develop such a butterfly exhibit next to Fort Jesus, a popular tourist destination in Mombasa. The possibility of replicating this exhibit in other places is currently being explored, with current and potentially future butterfly production projects supplying the specimens (Gordon, per. comm.).

Both Taita Hills and the Lower Tana River are priority CEPF sites where communities suffer from widespread poverty and support for conservation needs to be strengthened. Security considerations in the Lower Tana River probably make any short-term opportunities for promoting community enterprises slight at best, so Taita Hills should be considered the preferable focal area for further development of conservation-based enterprises such as butterfly production. Continuing to strengthen conservation-based community enterprises in these two areas, using the lessons learned from Arabuko Sokoke, could potentially increase community support for conservation and help alleviate poverty. Support from CEPF to disseminate the lessons learned summarized in Thompson *et al.* (2007), facilitate additional community exchanges in these areas and to develop proposals for the CDTF (see above) and other potential donors could help community-based enterprises develop as an effective tool for conservation in two of the Hotspot’s high priority conservation areas.

### *Tanzania*

While the Team was not able to identify a project as comprehensive and well documented as the Arabuko Sokoke example cited above in Tanzania, there are similar projects that could, with CEPF support, be strengthened and replicated. In the East Usambara Mountains, the Tanzanian Forest Conservation Group (TFCG) has been working with local communities to develop a number of community-based enterprises that rely on sustainable use of local forests. Among the most successful has been the Amani Butterfly Project (with 2006 pupae sales of US\$50,000), which was modeled in part on the Kipepeo Project in Arabuko Sokoke (Amani Butterfly Project 2007; Thompson *et al.* 2007). As in the case of Arabuko Sokoke, there is a potential role for CEPF to

disseminate the lessons learned from TFCG’s experience in the East Usambaras and catalyze support for other community-based enterprises located in priority areas of the Hotspot in Tanzania.

*Hotspot-wide*

One potential Hotspot-wide opportunity identified for supporting community conservation enterprises was the possibility of replicating and integrating projects producing similar products, such as honey, spices and essential oils. Integration of numerous enterprises producing similar products would generate the volumes needed for commercial viability, particularly for certified, value-added exports. While potentially feasible for several community enterprise products, it is important to note that little documentation or concrete analysis of the viability of producing and marketing Hotspot-wide products was found by the Team during the consultation process, so substantial additional product and market analyses would probably be needed.

A potential model, and partner, for generating sufficient product volumes of community-produced honey is Honey Care, a Kenyan-based company that works with over 2,500 rural, small-scale honey producers in Kenya, with smaller operations in Tanzania and Uganda. The company and its producers work together to gather and locally market several varieties of honey and other apiculture products such as beeswax (see [www.honeycareafrika.com](http://www.honeycareafrika.com)). At the present time, Honey Care’s producers have not generating large enough volumes to export its products, but the company is looking for opportunities to both generate additional volumes as well as achieve certain certifications, such as ISO 9002 and Fair Trade (Honey Care 2007).

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Country</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Hotspot-wide	<b>Medium- to Long-term:</b> Slight (?) opportunities for consolidating conservation enterprise products to achieve commercial viability, particularly for export	<ul style="list-style-type: none"> <li>Determine which products and producers could feasibly aggregate production and market common products to both internal and export markets, using Honey Care as a potential model and partner.</li> </ul>
Kenya	<b>Short- to Medium Term:</b> Strong opportunities for replicating success of Arabuko Sokoke community-based enterprises in other Kenyan priority areas of the Hotspot (notably Taita Hills); slight opportunities for similar projects in the Lower Tana River	<ul style="list-style-type: none"> <li>Assess potential community enterprises for development in Taita Hills and possibly the Lower Tana River</li> <li>Identify opportunities to disseminate lessons learned from Arabuko Sokoke, including community exchanges</li> <li>Identify potential funding sources to initiate development of select community enterprises, including the CDTF and possibly others</li> </ul>
Tanzania	<b>Medium- to Long-Term:</b> Moderate opportunities for replicating success of TFCG East Usambara community-	<ul style="list-style-type: none"> <li>Assess potential community enterprises for development with TFCG and other CU members in Tanzania</li> <li>Identify potential funding sources to initiate</li> </ul>

	based enterprises in other Tanzanian priority areas of the Hotspot	development of select community enterprises
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**G. Charcoal Industry**

The charcoal industries in both Kenya and Tanzania represent significant incomes for rural populations and represent important industries for national economies. In Kenya it is estimated that over 2.5 million people are supported by the charcoal industry, with 200,000 people employed in the production of charcoal and another 300,000 involved in transport. The industry generated between US\$250-457 million annually, representing as much as US\$73 million of forgone tax revenues (WRI 2007). It is estimated that for Dar es Salaam, which represents about half of Tanzania’s total demand for charcoal, the revenue generated by the charcoal industry approaches US\$350 million annually and provides income for over a million people, with each million tons of charcoal generating approximately US\$180 million a year (van Beukering et al 2007).

*Kenya*

The government of Kenya enacted a ban on the production of charcoal in 1986, forcing the sector to go “underground” and since then has received no tax revenues from the industry. Charcoal is still widely used, with more than 80% of urban households and almost 35% of rural households using charcoal on a regular basis. Unlike in Tanzania, most of the production of charcoal occurs on private lands (over 80%); however, sampling in the Coastal Forest region (Kilifi district) showed that more than 30% of charcoal comes from public lands including communal and council lands (WRI 2007). As noted above the charcoal industry has the potential to provide over US\$70 million per year to the Kenya Forest Service and represents a significant opportunity to generate sustainable funding for the Eastern Arc Mountains and Coastal Forests region of Kenya. Indeed, during the consultation process, the acting director of KFS stated his intent and expectation of harnessing revenues from the charcoal industry to raise funds for both KFS operations and the new Forestry Fund (KFS, per. comm.).

If only a small portion of revenues from taxation of the charcoal industry could be directed towards better management of Hotspot forests, this would represent a significant source of sustainable conservation funding. However, this funding depends on the development of a new charcoal policy in Kenya. While it appears that many decision makers agree that there is need for a change, changes in policy will most likely not occur until the medium-term (WRI 2007). Some limited investment in the short-term to shape the development of this policy and the mechanisms for managing and distributing revenues from the industry could lead to large increases in funding available for management of forests in general and specifically for the Hotspot forests in the medium- to long-term.

Interest from traditional donors such as GTZ and the World Bank in supporting improvement management and regulation of the charcoal industry could also lead to potential funding for related projects in the Hotspot, particularly in the Madunguni Forest

region where charcoal production is a significant threat (CEPF 2003). The magnitude of the funds that could be generated and the nascent stages of development of the framework to generate, manage and direct these funds, point to the potential of the charcoal industry to be a positive force for improving management of Kenya's forests. While an in-depth analysis of opportunities in the charcoal sector was not possible, some priority actions were identified<sup>17</sup>:

- Engage with KFS and the appropriate ministries to support and encourage the development of a new charcoal policy that includes mechanisms to capture, manage and direct funds; ensures transparency, accountability, monitoring and participation of local populations, and; creates incentives for sustainable management;
- Identify sustainable charcoal pilot projects in the Madunguni Forest region, for example testing mechanisms that provide incentives for the sustainable management of forest resources by local populations involved in charcoal and firewood use;
- Engage with KFS and support the development of the Forestry Fund. An effective management structure and revenue distribution framework for the Forestry Fund is essential to ensure that funds generated from the charcoal sector are directed to management of forests and in particular the forests in Kenya's portion of the Hotspot;
- Identify opportunities and prepare project proposals for the WB and GTZ for priority actions related to the charcoal sector.

### *Tanzania*

While there was a temporary ban on the transport of charcoal in 2006 (ostensibly to limit production to local use), the ban was lifted with little impact on the industry except for higher prices. The Forest and Beekeeping Division (CFBD) collects taxes on the charcoal industry, based on the number of bags collected at checkpoint on major roads. Transport is usually by truck or bicycle, with bicycles avoiding taxes under the assumption that it is for personal use. It has been estimated that only 10-20% of charcoal entering Dar es Salaam is being officially reported (van Beukering et al 2007). Van Beukering *et al.* also estimated that the CFBD is collecting less than a third of potential tax revenues from the industry in Dar es Salaam (US\$5.6 million of a potential US\$17.6 million). The Forestry and Beekeeping Division is therefore losing substantial revenues that could be going to better management of forests in general, and in particular for the Eastern Arc Mountains and Coastal Forests. While it is illegal to fell trees in protected forests for the purpose of producing charcoal, weak enforcement capacity makes this law largely ineffective. Unlike Kenya, most production of charcoal comes from public lands, including forests

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<sup>17</sup> The National Charcoal Survey (ESDA 2005) recommends some priority actions to better manage the charcoal industry, including:

- Legalizing the charcoal industry
- Specific policy and institutional changes to better manage the industry
- Changing the regulatory framework, incorporating standards and certification
- Establishing pilot zones of sustainable charcoal production
- Using charcoal plantations as buffers to gazetted protected areas

reserves. However, like Kenya the sector provides energy and income for the majority of rural households (many of which are some of the country’s poorest), with much of the demand coming from urban centers.

As with Kenya, Tanzania’s charcoal industry provides an opportunity to generate sustainable funding for the management of the Hotspot’s forests, the Coastal Forests in particular. However, the challenges are similar, including:

- Targeting funds for the conservation of the coastal forest region;
- Improving the current policy, regulatory and revenue distribution framework to provide positive incentives for sustainable forest management;
- Developing mechanisms to ensure that local people that manage their forests well get benefits for sustainable forest management;
- Overcoming vested interests of current recipients of tax revenues.

As noted above, both the World Bank and GTZ have expressed interest in the past in investing in the charcoal sector and could be potential funding sources for activities related to improving its environmental and revenue generating performance.

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Location</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Kenya	<b>Medium-term:</b> Moderate opportunities to influence development of charcoal taxation system and structure of KFS forestry fund	<ul style="list-style-type: none"> <li>• Engage with KFS and the appropriate ministries to support and encourage the development of a new charcoal policy that includes mechanisms to capture, manage and direct these funds ensuring transparency, accountability, monitoring and participation of local populations, and incentives for sustainable management</li> <li>• Identify sustainable charcoal pilot projects in the Madunguni Forest region</li> <li>• Engage with KFS and support the development of the Forestry Fund</li> <li>• Identify opportunities and prepare project proposals for the World Bank and GTZ for priority actions related to the charcoal sector</li> </ul>
Tanzania	<b>Medium-term:</b> Moderate opportunities to influence taxation collection system and revenue distribution	<ul style="list-style-type: none"> <li>• Study and refinement of the current policy, regulatory and revenue distribution framework to improve capture of tax revenues and provide incentives for SFM</li> <li>• Develop replicable mechanisms to assure local managers of forests (community members) benefit economically from SFM practices possibly through conservation incentive agreements linked with JFM and PFM (possible pilot project)</li> <li>• Approach the World Bank and GTZ with a project proposal for addressing the two priority actions above</li> </ul>

***H. Conservation Incentive Agreements***

Conservation concessions and easements, along with other incentive agreements designed to provide owners and managers of either land or natural resources to conserve species and their habitat, can be an essential tool for many conservation strategies. While they do not directly generate sustainable funding, conservation incentive agreements can provide measurable outcomes (area protected, number of species conserved, etc.) that are attractive to potential donors and investors interested in conservation of specific areas. There are several examples that already exist in Kenya, notably the Kitengela Conservation Lease Program and the community-owned Mbirikani Group Ranch predator protection program. Participatory Forest Management (PFM) is being advocated throughout the Hotspot to increase management and sustainability but is being hampered by the fact that communities that are asked to take on some of the management responsibilities of the forests, receive very little, if any, benefit for their efforts. Another challenge to these agreements is the issue of cost effective and objective monitoring, which is essential to ensure conservation of targeted habitat or species.<sup>18</sup> To be successful PFM must provide managers of forests with incentives to manage the forests in a sustainable manner. This will require some form of conservation incentive agreement that includes benefits for communities who manage their forests well.

Nearly 40% of Kenya coastal forests are Local Government or County Council Forests, where protection efforts are often not effective. In Tanzania a large number of coastal forests fall under local authorities owned or managed by villagers. Conservation incentive agreements could prove very useful in the conservation of the Coastal Forests in both countries, particularly in highly fragmented, densely populated areas with high rates of poverty, such as Taita Hills and the Lower Tana River. The development of successful pilot projects with conservation incentive agreements that are replicable across the Hotspot could provide the basis for a mechanism for channeling funding to communities that sustainably manage forest resources. Sources of funding could come from the carbon markets, watershed services payments, multilateral and bilateral donors, trust funds, the private sector or individual landowners.<sup>19</sup>

***Opportunities (Short-Medium-Long Term) and Priority Short-Term Actions***

<i>Location</i>	<i>Opportunities (Short-Medium-Long Term)</i>	<i>Priority Short Term Actions</i>
Kenya	<p><b>Short-term:</b> Moderate opportunities for developing a conservation incentive agreement with local communities in priority areas</p> <p><b>Medium- to Long-term:</b> Strong opportunities to develop conservation incentive agreements with communities in priority sites</p>	<ul style="list-style-type: none"> <li>• Assess suitability of priority sites for a conservation incentive agreement, using CI’s Economic Incentives program draft document for determining the feasibility of an agreement. Specific consideration should be given to assessing the feasibility of agreements with communities in Taita Hills and the Lower Tana River</li> <li>• Explore and institute mechanisms for cost effective monitoring of community conservation performance (consult CI’s Economic Incentives program)</li> <li>• If certain sites are feasible for agreements, identify</li> </ul>

<sup>18</sup> Conservation International’s Economic Incentives program can provide a variety of examples of successful monitoring at the community level.

<sup>19</sup> CI’s Economic Incentives program produced a draft document outlining steps that need to be considered when assessing the feasibility of the development of conservation incentive agreements. These steps could be adapted to the case of PFM in Kenya and Tanzania.

		potential funding sources and initiate engagement with community members
Tanzania	<p><b>Short-term:</b> Moderate opportunities for developing a conservation incentive agreement with local communities in priority areas</p> <p><b>Medium- to Long-term:</b> Strong opportunities to develop conservation incentive agreements with communities in priority sites</p>	<ul style="list-style-type: none"> <li>Assess suitability of priority sites for a conservation incentive agreement, using CI's' Economic Incentives program draft document for determining the feasibility of an agreement. Specific consideration should be given to assessing the feasibility of agreements with communities in Coastal Forest sites such as the Jozani Forest</li> <li>If certain sites are feasible for agreements, identify potential funding sources and initiate engagement with community members</li> </ul>

### VIII. SUMMARY OF SUSTAINABLE FUNDING OPPORTUNITIES AND RECOMMENDED STRATEGY

Over the next 12-18 months, CEPF funding could potentially catalyze the stronger opportunities identified in the sections above into sustainable funding sources for the Hotspot. Overall, the Team believes there are stronger short-term sustainable funding opportunities in Tanzania, as a great deal of work has been done on developing potentially large sustainable funding sources, notably the EAMCEF and PWS projects. By building off these prior investments with strategic funding and support from the CU, CEPF could make a substantial contribution to sustainable funding in Tanzania's portion of the Hotspot. Short-term opportunities are somewhat more limited in Kenya, owing to both its relatively smaller size (about one-tenth that of Tanzania's portion of the Hotspot) and fewer investments in regional funding mechanisms like the EAMCEF. However, there are still many opportunities in Kenya that CEPF and the CU could help develop into sustainable funding sources over the next 12-18 months, such as initiating carbon/avoided deforestation projects, engaging the private sector, supporting community-based conservation enterprises and working with the Kenya Forest Service to create a Forest Trust Fund and formalize the charcoal production industry. In addition to CEPF support, potential short-term funding sources to help catalyze these opportunities include the CDTF and the TTF. Charcoal sector projects could also receive potential funding from the World Bank and GTZ, with the former also a potential source of support for water sector projects.

To capitalize on the stronger short-term opportunities in the most appropriate manner possible and lay the foundation for longer-term opportunities, the Team is recommending that CEPF and the CU adopt both short- and medium- to long-term strategies. The short-term strategy (12-18 months) capitalizes both on the stronger, more immediate opportunities identified in the strategy and on the funding CEPF will make available to implement the recommendations of the strategy. Any investments in short-term opportunities should to the greatest degree possible lay the foundation for longer-term replication and expansion to other areas in the Hotspot. For example, there are many short-term opportunities to consolidate PWS projects in the Uluguru Mountains over the next 12-18 months. Should CEPF and the CU decide to support consolidation of these activities over the next 12-18 months, it should do so in anticipation of using any lessons learned to develop additional PWS projects in other watersheds over the next three to five



years, including assessments of what new partners (such as the World Bank) could potentially support new PWS projects.

**A. *Resource Mobilization Unit (RMU)***

Given the current funding situation and opportunities, the Team proposes that the following short-term funding strategy (next 12-18 months) and potential management structure be adopted by CEPF and the CU for the Hotspot. This short-term strategy and potential management structure represent what the Team believes is the best overall option for the Resource Mobilization Unit (RMU) originally proposed in the TOR for the consultancy. When assessing options for the RMU, the Team looked at whether it would be better to build the fundraising capacity of individual NGOs (via training in proposal writing, for example) or to make strategic investments in existing sustainable fundraising opportunities already in development. The overwhelming number of stakeholders the Team consulted felt that in general fundraising capacity in at least the larger international and national NGOs working in the Hotspot was relatively strong. Given this relative strength and limited CEPF resources, the Team therefore decided that the project portfolio recommended below, along with the proposed management structure, represents a RMU-type model that will enable CEPF funding and CU support to catalyze sustainable funding for the Hotspot.

One additional tool for the RMU that CEPF could consider supporting is the creation of a centralized database or list of potential conservation funding sources for the Hotspot. The Hotspot currently does not have a centralized and publicly accessible database of conservation funding opportunities. With a centralized source of donor information, NGOs, communities and other conservation project managers would be able to more quickly identify funding opportunities in the Hotspot and develop proposals. Donors would also be able to use the database by publicly posting funding opportunities (including opportunities from Joint Assistance Strategic Plans – see section VI) as well as review what other donor community members are currently supporting in the Hotspot. Managing such a database could be potentially expensive, so building it into an existing web site, such as CEPF or the EAMCEF, should be considered as a means to control costs. Management could be overseen by the positions recommended below.

**B. *Short-term Strategy (12-18 months)***

Over the next 12-18 months, the Team proposes that CEPF and the CU oversee an integrated Hotspot portfolio of activities in each country that focus on developing the strongest short-term opportunities defined in the sector analysis above. The one exception is the proposed activity of promoting an increased visa fee in Tanzania for conservation. While the opportunities for this activity were determined to be slight, a successful outcome would generate substantial revenues for conservation and is thus worth serious consideration. Activities the Team does not regard as best options, or where adequate information needed to determine an appropriate opportunity level is lacking, are not included in the short-term strategy. *Furthermore, the Team recognizes that limited funding and personnel resources may prohibit full implementation of all the*

*recommended short-term activities. It may therefore be necessary for CEPF and the CU to have additional discussions to decide which specific activities and organizations should be supported and what appropriate funding levels would be needed to carry out the selected recommendations.* Regardless of which activities are ultimately selected, both CEPF and the CU need to ensure that all short-term investments are *strategic*, defined as activities that lay the foundation for longer-term sustainable funding. Recommended short-term activities include:

#### *Hotspot-Wide*

- *Approach development partner groups in Kenya and Tanzania to fund the development of a sustainable funding program for the Hotspot:* As noted above CEPF funding alone can probably not fully support all the recommended activities of the fundraising strategy. Identifying potential match sources for CEPF funding could therefore increase the total funding available for key activities. Using the strategy document and CEPF funding as match, CEPF and/or the CU could propose a “Sustainable Funding Program for the Hotspot” to major bi-lateral and multi-lateral donors. The proposal would encompass securing support for both the short-term activities included in the strategy, as well as support to develop longer-term opportunities, including covering the costs associated with medium- to long-term funding for the management structure proposed below;
- *Identify prominent volunteers in the business and donor communities to engage in fundraising events, campaigns and awareness raising:* Where feasible, the CU should work with CI, WWF and possibly other international conservation NGOs to identify potential prominent volunteers from the business and donor communities to catalyze fundraising events, campaigns and awareness raising. As the Hotspot has become a high conservation priority for many international conservation NGOs with a presence in the region, it could be the focal point of a fundraising event, or campaign. Funds raised through the event(s) should be used to support implementing various elements of the fundraising strategy, notably engaging the private sector to contribute to Hotspot conservation, expanding and consolidating community enterprises and building up the endowment of the EAMCEF (see below).

#### *Tanzania*

- *Development and implementation of an EAMCEF fundraising strategy with EAMCEF and CEPF matching funds:* Given its structure, current endowment and recent decision to allow for the inclusion of the Coastal Forests in its geographic focus, the Team believes that helping the EAMCEF develop a solid fundraising strategy is perhaps the strongest prospect for sustainable funding in Tanzania’s portion of the Hotspot. By developing a fundraising strategy for the EAMCEF and linking it with a larger network of potential international donors, CEPF will help increase the EAMCEF’s already considerable endowment and generate additional sustainable conservation funding for both Tanzania’s Eastern Arc

Mountains and Coastal Forests. Support for developing and implementing the strategy will be provided by the EAMCEF to directly match CEPF funding, with the combined resources supporting a fundraiser, or team of fundraisers. Additional support for the fundraising effort will come from CI's, and possibly WWF's, global development departments, including creating greater access for the EAMCEF to a wider international donor base. In developing the strategy, all potential funding sources, from multi- and bilateral institutions, foundations, wealthy individuals, and the private sector should be considered. Potential support should also be considered for working in conjunction with the EAMCEF to engage the national Government on increasing the tourist visa fee, with part of the increase going to the EAMCEF to support conservation projects in both the Eastern Arc Mountains and Coastal Forests. Potential candidates for carrying out engagement with the Government on increasing visa fees include the Wildlife Conservation Society of Tanzania and the Board of Trustees of EAMCEF;

- *Strengthen current efforts to develop payments for watershed services in the Uluguru and possibly East Usambara Mountains:* Given the critical importance of secure and safe water supplies to the economic development of the country and the current PWS project already being implemented in the Uluguru Mountains, the Team believes there are very strong opportunities for consolidating and replicating PWS projects in key watersheds that promote conservation and alleviate poverty of local communities, especially the Ruvu and Pangani basins. Potential priority actions for CEPF to support over the next 12-18 months include:
  - Engaging the national and district governments to create an enabling legislative framework for PWS projects;
  - Consolidating private sector support for PWS projects;
  - Developing and disseminating methodologies and templates for similar projects in other regions, with particular attention given to the Pangani basin, and;
  - Identifying potential links to and funding from the World Bank Water Sector Program and other water and poverty alleviation projects supported by traditional donors (notably charcoal production).

Potential partners in the Uluguru Mountains include CARE, WWF, IIED and the Wildlife Conservation Society of Tanzania, with the Tanzania Forest Conservation Group included in any efforts to catalyze PWS projects in the East Usambara Mountains. Possible collaborative links should also be identified with the Coca-Cola and USAID-supported watershed management project in the Wami-Ruvu and Pangani watersheds, specifically with the University of Rhode Island, World Vision Tanzania, Florida International University, and the Tanzania Health, Environment and Sanitation Association. Though this project does not include PWS to communities, it does focus on improving overall watershed management, so there may be opportunities to coordinate efforts and magnify the conservation impact on priority sites, building on previous assessments of developing PWS projects in the Pangani basin.

As potential next steps, CEPF and the CU should consult with CARE, WWF and IIED staff involved in the current PWS project in the Uluguru Mountains to determine: 1) specific short-term (12-18 month) actions, roles and responsibilities needed to consolidate the current project and to turn it into a successful model, and; 2) if there are other sites, such as the East Usambara Mountains, where initial support for a longer-term PWS could be given. The establishment of a successful PWS project in one key watershed that could be used as a model for replication in other sites in the Hotspot should be the overriding goal of any activities that CEPF and the CU decide to support. Selection of appropriate sites for replication, and support for attracting potential funding, could be a longer-term activity for CU members to undertake as PWS projects are scaled across the Hotspot.

### *Kenya*

- *Development of proposals for the CDTF, the TTF and possibly other traditional donors:* Development of proposals to these donors should generate additional support for conservation projects in priority areas that lay the foundation for more sustainable funding streams, especially with the recommended projects below. Opportunities to match donor support with CEPF funding should be identified as well;
- *Development of a pilot carbon/avoided deforestation project:* CEPF and the CU should work with the Government of Kenya and possibly the GBM to develop a pilot carbon project in the Madunguni Forest Reserve for the voluntary carbon market, with support from WWF and CI's international carbon/climate change divisions;
- *Consolidation and replication of successful community-based conservation enterprises:* Using the Kaya Kinondo community tourism project and enterprises around the Arabuko Sokoke Forest Reserve as potential models, CEPF should work with the CU to select appropriate communities to support in developing community-based conservation enterprises, notably in and adjacent to CEPF priority sites such as Taita Hills and the Lower Tana River;
- *Engagement of the private sector:* CEPF and the CU should work with the corporate engagement divisions of CI and WWF (including WWF-EARPO's Eastern Africa Corporate Club) to assess the feasibility of engaging European tour operators (notably Tui, Thompson Travel and First Choice), Kenyan Airways and Air Kenya to support conservation of priority areas near popular tourist areas such as Mombasa and Malindi;
- *Engagement of the KFS on developing a Forestry Fund:* Given the KFS's interest in developing a Forestry Fund that could lead to increased support for Kenya's portion of the Hotspot, CEPF and the CU should assess the potential of working with the KFS to develop such a fund, focusing on providing technical assistance to identify funding sources, developing the organizational structure and defining revenue distribution rules and systems.

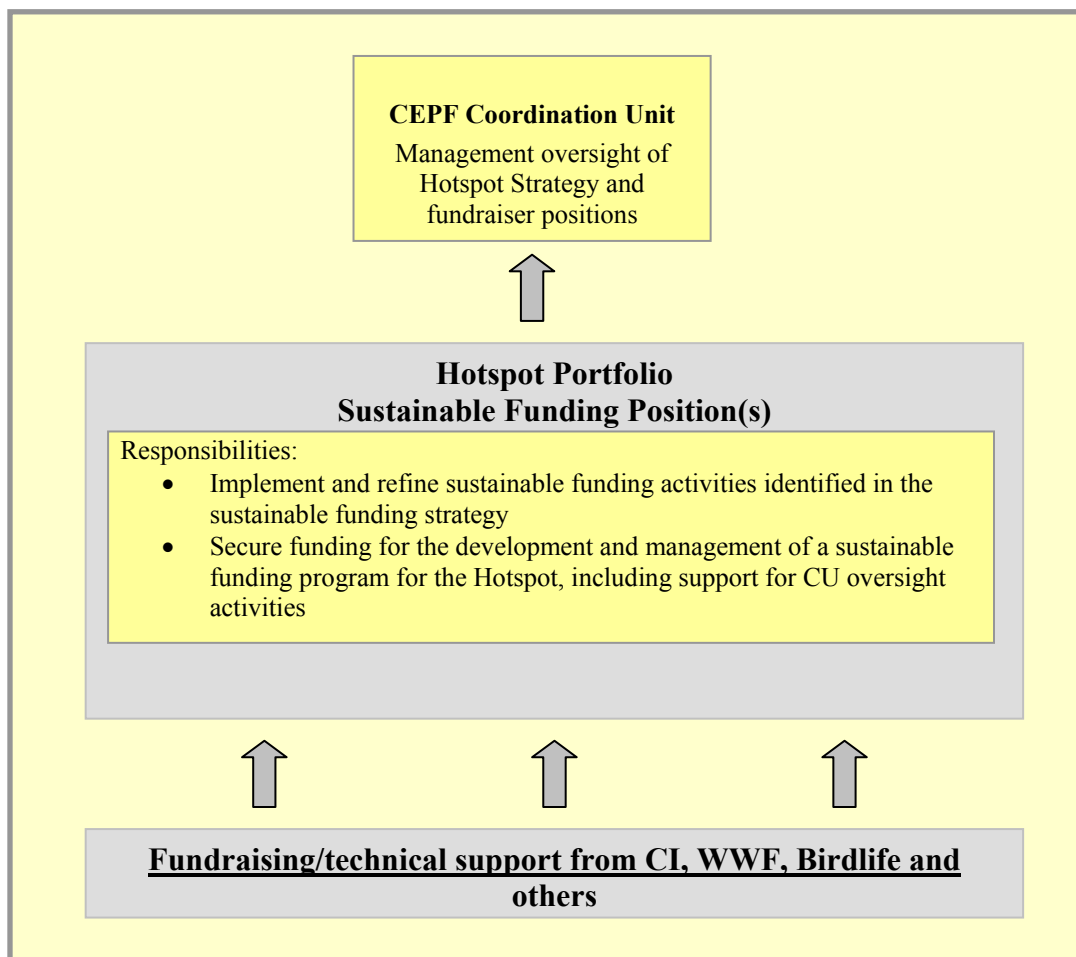
*C. Medium to Long-term Strategy (after 18 months)*

The short-term activities recommended by the Team will ideally catalyze the strongest opportunities for sustainable funding over the next 12-18 months. As these opportunities develop into sustainable funding sources, they can either be replicated in other areas (as in the case of PWS and carbon projects) and/or the recommended medium to long-term funding opportunities can be further developed. To ensure appropriate follow up and oversight of these activities, the Team proposes that a more permanent CU be formalized to oversee follow up of initial CEPF conservation investments, including the proposed sustainable funding activities, after CEPF funding formally ends in 2009.

Since CEPF initiated activities in 2003, the CU has played a critical role in addressing both the conservation needs of individual priority sites, as well as of the Hotspot as a whole, creating an unprecedented degree of cooperation among key conservation organizations. Enabling the CU to continue after 2009 would give the Hotspot an important entity that could build on CEPF's initial investments, promote scaling successful projects across the region and secure additional conservation resources. Given these important roles, the Team strongly recommends that CI-CEPF support a formalized CU after 2009 for a minimum of three years (and ideally five), including providing funding for any travel and staff time needed to continue with CU activities. Other potential sources of support for post-2009 CU activities include: 1) allocating a portion of any funding raised from new sources to the CU; 2) having CU members commit to funding annual CU activities, perhaps through "membership dues", and: 3) submitting proposals to members of the development partner groups in each country to fund a coordinated sustainable funding program for the Hotspot, including funds for the CU's management and coordination of conservation activities.

*D. Potential Management Structure*

Team consultations with the CU on the most appropriate short- and long-term management structure for the RMU produced the following:



Through this structure, CEPF and the CU would oversee an integrated Hotspot portfolio of sustainable funding activities. Because of the scope of work of sustainable funding activities in the Hotspot over the short-term (12-18 months), the Team recommends that two to three fundraiser positions be created to oversee the implementation of the recommendations adopted by CEPF and the CU. The fundraiser(s) should be located in the most auspicious location to carry out key activities, as determined by CEPF and the CU. In the event that CEPF and the CU decide to support development of a fundraising strategy for the EAMCEF, consideration should be given to forming a team of individuals from the international development departments of CI and possibly WWF.

As short-term activities develop into sustainable funding sources, additional medium- and long-term opportunities can be developed as appropriate through the same or similar management structure. However, central to any future management structure should be the continued oversight, advocacy and fundraising role that a formalized CU should play after 2009. Short- to long-term fundraising and technical support for specific activities, such as accessing international carbon markets or engaging the private sector, could be

provided by the appropriate departments of the international offices of CI, WWF and possibly others, such as BirdLife International. To help coordinate longer-term regional fundraising efforts, the CU could also establish and manage a centralized and coordinated database of Hotspot-wide funding opportunities.

## **IX. THE IMPORTANCE OF STAKEHOLDER ENGAGEMENT IN STRATEGY IMPLEMENTATION**

As can be gathered from the analysis in the document and other literature on sustainable funding, there is no “silver bullet” for generating the resources needed to achieve effective long-term conservation. While one key aspect to conservation success is the generation of sustainable funding, strong and effective institutions to manage priority conservation areas are also essential. In both Kenya and Tanzania, government plays a central role in forest management, biodiversity conservation and stewardship of ecosystem services. This is likely to continue into the foreseeable future, so development of their capacity to manage these resources is essential for the conservation of the EAMCF of Kenya and Tanzania.

This report recommends a variety of short- to long-term actions to catalyze sustainable funding for the Hotspot; however, experience has shown that the stakeholder engagement process for developing and implementing a sustainable funding strategy is also critical for long-term success, as the case of sustainable funding of conservation in Madagascar illustrates (see Box 4).<sup>20</sup> In the Madagascar example, early engagement of high level government representatives and donor institutions has been a key element of the continuing success of sustainable funding efforts. It is also clear from the Madagascar experience that sustainable funding of conservation efforts is a long-term effort that needs to involve decision makers from a variety of sectors (Government, multi- and bi-lateral institutions and NGOs) at the highest levels. Decision makers need to be engaged in the earliest stages of development, using where applicable strong economic arguments backed by hard data to “make the case” for sustainable funding sources for conservation.

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<sup>20</sup> The bulk of the information contained in this case study comes from a presentation given at the Sub regional Workshop on the Implementation of the CBD program of work on Protected Areas, Cape Town, 13-16 August 2007 by Leon Rajaobelina, Regional Vice President, Conservation International and Chairman of the Board of the Foundation and Vololona Randriamampianina, Director of Planning and Prospective, Ministry of Environment, Water and Forests, Madagascar. Information was also sourced from a presentation given to the ABCG in Washington DC in June 2005, by Jean Paul Paddock of WWF Madagascar. However, any errors in information or analysis are solely of this consultant.

## Box 4

### Funding Conservation in Madagascar

At the World Parks Congress in September 2003 held in Durban, South Africa, Madagascar committed to creating a new network of protected areas (totaling approximately 6 million hectares) that would meet the Convention on Biological Diversity (CBD) requirement of protecting 10% of the territory, more than tripling its protected area system at the time. To meet this challenge, the Government has worked closely with conservation NGO's, multi-lateral and bi-lateral donors to develop a sustainable funding strategy for the protected area network. This has involved the creation of a Sustainable Financing Committee in 2000, made up of government officials, conservation NGO representatives and World Bank and USAID representatives.

In October 2001, a Steering Committee to develop a foundation/trust fund was created, and in January 2005 the Foundation for Protected Areas and Biodiversity of Madagascar was launched with a capitalization goal of US\$50 million. By 2005 the trust fund had secured over US\$35 million in commitments from the Government of Madagascar (US\$12 million), GEF (US\$10 million), World Bank (US\$7.5 million), BMZ/KfW (US\$6.4 million) and CI and WWF (US\$1 million each).

The Trust Fund is part of an innovative strategy, which includes securing funding from a diverse portfolio of sources, including:

- 8% of the total foreign debt cancellation allocated to protected areas;
- Entrance fees and other park revenues (increasing by 5%/year);
- Ecotourism concession policy (under development);
- Business and Biodiversity Offsets;
- Traditional donors for biodiversity conservation (“Willingness to Pay”);
- Carbon credits (avoided deforestation);
- Green Tax e.g. taxes on airline tickets.

Together these mechanisms are expected to generate approximately US\$17-19 million per year, representing most of the operating costs of the agency charged with management of protected areas (ANGAP). This does not include funds for rural development activities necessary to reduce the long-term threats to biodiversity.

WWF identified some lessons learned that could be useful in guiding efforts in Kenya and Tanzania to develop sustainable funding sources, including:

- Leadership from the highest level (President, Ministry of the Environment, NGO's, bi-lateral and multi-lateral donors);
- Development of partnerships and multi-donor secretariat;
- Formalizing the discussion on sustainable funding with a mandate from the Minister of Environment;
- Collaboration between the Ministry of the Environment and the Ministry of Finance;
- Develop economic justifications to sell/explain the environment and its value to public finance ministries (and other potential sources of sustainable funding);
- Develop accurate costing projections early on in the process;
- Build on successes.

Finally, while many factors lead to the decision of the Madagascar Government to prioritize conservation, some of the most convincing came from studies of the economic value of forests and biodiversity in terms of ecotourism, watershed protection and biodiversity values.

The current context in Kenya and Tanzania present some opportunities for implementing the sustainable fundraising strategy and generating the necessary participation and buy-in from key government departments and officials and the donor community. Some current opportunities include:

- The Kenya Forest Service and Tanzania's Ministry of Natural Resources and Tourism, Forestry and Beekeeping Division are in the middle of restructuring and



are relatively early on in the development of sustainable funding strategies. This offers unique opportunities to shape for their strategies and revenue distribution systems;

- The Joint Assistance Strategies and development donor groups present in both countries are evidence of the recognized need for collaboration and partnership in the provision of foreign aid;
- Sustainable funding is addressed to some degree in the Joint Assistance Strategies of both Kenya and Tanzania developed by Government, multi-lateral and bi-lateral donor agencies. However, the importance of the Eastern Arc Mountains and Coastal forests in Kenya and Tanzania to the national economy, national heritage, local livelihoods and poverty reduction needs to be raised at the highest levels;
- Some studies exist (notably in reference to watershed values and carbon values) regarding the economic value of the Eastern Arc and Coastal Forests to the national economy and local livelihoods, but this information is not comprehensive and is not in a readily usable form for decision makers;
- Current debates in Tanzania's national parliament center around increasing the amount of revenues the country derives from its natural resources, including increases in fees and taxes to improve management of wildlife and protected areas.

In addition to these opportunities, there are also a number of challenges to the success of the strategy, including:

- Issues of good governance in both governments and the relevant departments in charge of management of priority conservation areas in the Hotspot;
- Low management, monitoring and revenue collection capacity in various sectors (including water, hydropower, charcoal, forestry, etc.);
- Difficulties of implementation of sustainable funding mechanisms like PES, which involve lengthy processes of baseline research, negotiation with stakeholders, legislative or regulatory reform, as well as elaborate monitoring, evaluation and enforcement (Emerton et al 2006).

While this document attempts to suggest some initial activities that have promise for generating sustainable funding, (capitalizing on opportunities and minimizing challenges) it is by no means comprehensive or definitive. The document should instead be considered as a first step in a long-term process of engaging key stakeholders (KFS, Tanzania Department of Forestry and Beekeeping, Ministries of Finance, donor institutions, conservation NGOs active in the Hotspot, etc.) to develop sustainable funding sources, with improvements and refinements made as new opportunities emerge. Both CEPF and the CU are well placed to engage these stakeholders and generate the broad support needed for a truly successful sustainable fundraising strategy for the Hotspot.

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## ANNEX 1: PROPOSED SECTOR PRESENCE OF KJAS PARTNERS (KENYA JAS DRAFT JUNE 2007)

The main purposes of this chart and the division of labor exercise is to provide an indication of which agencies are able and willing to lead the donor work and engagement with government in the various sectors over the period of this KJAS. The symbol  represents the current Lead/Chair of each sector. The symbol , for potential Lead/Chair, denotes where donors have assessed that their agencies have comparative advantage in a sector and are prepared to lead the sector at some point during the five years of this KJAS. There are two sectors that have been newly introduced, Social Protection and Urban, Local Government & Decentralization, for which there is no current lead, but for which potential leads have been identified. Additionally, some issues such as gender, environment, and youth are mainstreamed across an agency's entire program; therefore, no indication for presence in a cross-cutting sector does not mean no involvement.

The chart is based on responses to the comparative advantage questionnaire, follow on survey, and subsequent updates. [Update June 13, 2007]

Current List of Sector Groups	Lead Ministry	AfDB	CANADA	DENMARK	EC	FRANCE	FINLAND	GERMANY	ITALY	JAPAN	NETHERLANDS	NORWAY	SPAIN	SWEDEN	UK	UN SYSTEM	US	WORLD BANK	Total current & proposes leads	Total lead/ active in each sector
<b>Agriculture &amp; Rural Development</b>	Agriculture; Livestock & Fisheries Development	●		○/😊	🔴		○	🔵	○	🔴	●			●		🔴	●	●	4	9
<b>Democratic Governance*</b>	Justice & Constitutional Affairs; Local Government; Finance, OP	●	🔴/●	●	🔴		🔴	🔴/●	○		●	●		🔴	🔵	●	🔴	●	7	13
<b>Education</b>	Education, Science & Technology	●	🔴		●			😊	🔴/●	●	○		●	😊	🔵	🔴/●	●	●/😊	4	10
<b>Energy</b>	Energy	🔴			●	🔵	●	😊		🔴			●			●		●/○	3	8
<b>Environment</b>	Environment & Natural Resources; Tourism and Wildlife	●		🔴	●	🔴	●			●	●			○	😊	🔴/●	🔵	●/😊	4	10
<b>Gender</b>	Gender, Sports, Culture, and Social Services	●	🔴		●							●	●	●		🔵			2	7
<b>Health and HIV/Aids</b>	Health	●	😊	●	●	●		🔴	🔴/●	●			●	😊	🔴	●	🔴	🔵/●	5	12
<b>Land</b>	Land & Housing								●	●				●	●	🔵	●	😊	1	6
<b>Private Sector</b>	Trade & Industry	🔴		🔴	●	●				●	●				●	🔵	●	🔵	4	10

Current List of Sector Groups	Lead Ministry	AfDB	CANADA	DENMARK	EC	FRANCE	FINLAND	GERMANY	ITALY	JAPAN	NETHERLANDS	NORWAY	SPAIN	SWEDEN	UK	UN SYSTEM	US	WORLD BANK	Total current & proposes leads	Total lead/ active in each sector
<b>Development</b>																				
<b>Roads and Transportation</b>	Roads & Public Works; Transportation	☐			☐	●		😊		☐				😊		●		☐/●	4	6
<b>Social Protection</b>	Home Affairs, Planning, Special Programmes				●				●	●			☐	○	☐	☐	●	●	3	8
<b>Urban, Local Government, &amp; Decentralization</b>	Local Government	●			☐/●	●			●					☐/●		☐		●	3	7
<b>Water and Sanitation</b>	Water	☐		○/😊	●	☐		☐	●	●	●		●	☐		●	●	●/😊	4	12
<i>Total lead roles for each agency</i>		4	3	2	4	3	1	4	2	3	0	0	1	3	4	8	3	3		
<i>Total active roles for each agency</i>		7	1	2	8	4	2	1	6	7	5	2	5	4	2	7	6	10		

\* Democratic governance sector and program management groups

Current List of Sector Groups	Lead Ministry	AFDB	CANADA	DENMARK	EC	FRANCE	FINLAND	GERMANY	ITALY	JAPAN	NETHERLANDS	NORWAY	SPAIN	SWEDEN	UK	UN SYSTEM	US	WORLD BANK	Total current & proposed leads	Total lead/active in each sector
APRM	Planning	●													●	●				3
Elections/ ECK			●	●/😊								●		●	●	●	🇺🇸		1	6
Governance, Justice, Law and Order Sector (GJLOS)	Justice & Constitutional Affairs		😊	●	🇺🇸		🇺🇸	●	○		●	🇺🇸		🇺🇸		●	●	●	4	10
NCEP			🇺🇸	●/😊								○		○		●			1	2
Parliament			🇺🇸												●		●		1	3
Public Financial Management	Finance	●	●	●	🇺🇸			🇺🇸		●		●		●	●	●	●	●	2	12
Public Service Reform	Office of the President		🇺🇸	●			●							●	🇺🇸	●		🇺🇸	3	7
Statistics and M&E	Planning,	●													●	🇺🇸	●	🇺🇸/●	2	5

- 🇺🇸 Current Lead Donor/Chair
- 🇺🇸 Potential Future Lead Donor/Chair (See note above chart)
- Active Donor
- Silent Partner/Delegated Partnership
- 😊 Phasing out

ECK – Electoral Commission of Kenya  
 NCEP – National Civic Education Program  
 APRM – Africa Peer Review Mechanism



**ANNEX 2: TANZANIA: DIVISION OF LABOUR MATRIX (TANZANIA, JPD DECEMBER 06)**

DPG Division of labour -Tanzania																									
Note: Sector classification is still pending - MoF expressed its proposal to classify sector classification according to MKUKUTA/Budget, but this classification is still pending.																									
	GBS	Cluster 1: Growth and Income Poverty							Cluster 2: Quality of Life and Social Well Being							Cluster 3: Governance and Accountability						Total			
	PRBS	Macroeconomics	Agriculture	Nat. Resource, Environment, Tourism(1)	Food Security	Private Sector-Trade	Transport	Energy	ICT	Education	Water	Health	HIV/AIDS	Gender	Humanitarian/Refugee	Governance thematic	Legal Sector	Local Government Reform	Public Service Reform	Anti-corruption (2)	Public Financial Management	Poverty monitoring	ZANZIBAR	Entering JAS	End of first JAS term
Belgium (3)																								11	11
Canada (4)	X																							10	10
Denmark	X		Exit 06				Exit 10																	12	9
Finland	X																							6	4
France (5)																								6	5
Germany	X		Exit 07												Exit 07	Exit 10								6	5
Ireland	X								Exit Jul06															8	7
Italy																								0	0
Japan	X																							12	12
Netherlands	X																							8	9
Norway	X																							9	9
Poland																								0	0
Spain																								0	0
Sweden (6)	X																							13	6
Switzerland	X							Exit 07																9	9
UK/DfID	X																							10	
USA (7)			Exit 06																					8	8
AfDB	X																							7	7
EC	X																							8	7
WB (8)	X																							19	19
IMF (9)																								6	6
UNICEF (10)																								10	10
UNFPA (11)																								5	5
UNDP (12)																								14	14
WFP (13)																								9	9
FAO (14)																								9	9
WHO (15)																								5	5
ILO (16)																								8	8
UNESCO (17)																								8	8
UNIDO																								5	5
IFAD																								4	4
UNHCR																								6	6
UNAIDS (18)																								8	8
UN-HABITAT																								4	4
Entering JAS		12	13	13	5	16	7	7	5	17	13	17	21	14	11	17	10	11	5	5	12	13	20		
End of First JAS term		12	12	12	5	16	6	7	5	17	13	17	21	14	11	17	8	11	5	5	12	13	20		

**Coding:**

Active donor marked by:



Delegated sector marked by:



Sector/s to withdraw from marked by:



**Note on Definitions:**

*"Active"* DPs in a sector/thematic area will represent others in sector/thematic dialogue with the GOT, whereby communicating with the GoT. They will timely share all relevant information among each other and with "delegating partners" are equally heard and reflected in the position presented to the GoT.

*"Delegating partners"*: DPs outside a particular sector/thematic area will be represented by those Partners that will assume the role of "delegating partners". They can nevertheless provide financial assistance to any sector/thematic area of delegated cooperation, as DoL does not concern the amount of distribution of DP funding.

## Annex 2 cont'd Division of Labour Matrix

DPG working group reflection, review, and negotiation continues. Entries reviewed and proposed by DPG working groups are incorporated only when the entries are negotiated with Agencies in question.

- (1) Tourisms, Natural Resources, Environment: Sector classification identified as mixture of themes, ministries and sectors by DPG-E. Because of its mixture of themes, ministries and sectors, it is difficult to identify active DPs according to the current structure. It does not only belong to Cluster 1 but to all clusters. Planning a retreat in October to deepen the DoL exercise at sector
- (2) Anti-corruption: No existing dialogue architecture in place, and the issue currently is dealt in the Governance thematic
- (3) Belgium: As of 2008 a new multi year bilateral program with Tanzania will be concluded with maximum 2 sectors. The implementation of the ongoing programme (2003-2007) will continue as forseen.
- (4) CIDA: Private Sector (active in FSDT only)
- (5) France: Other Areas: cultural development (Active); Higher education (active).
- (6) Sweden also withdrawing from culture, and urban sector. Considers Gender as a Cross-Cutting Theme
- (7) USA: Active in education and health in Zanzibar. Envisions reducing the number of sectors to six (possibly five) by the end of the JAST period
- (8) WB - other sectors: Minerals and Mining (Active). Rationalization of portfolio is under internal discussion.
- (9) IMF: Includes IMF East AFRITAC and IMF Resident
- (10) UNICEF: Other areas: Social Protection; Youth Development; Social Welfare; HIV/AIDS - PMTCT; Pediatric AIDS; Food Security-Nutrition
- (11) UNFPA: Health - Reproductive Health sub-sector
- (12) UNDP: Other areas: Employment
- (13) WFP: Food Security - Nutrition sub-sector
- (14) FAO: Food Security - Nutrition sub-sector
- (15) WHO: Health Systems (Human Resources, Information Systems, Health promotion, Essential Drugs, competency in Health Financing), technical competency and sectoral lead in Reproductive, Women Child and Adolescent Health, and Disease control)
- (16) ILO: Other Areas: Employment, Social Protection
- (17) UNESCO: Active in culture
- (18) UNAIDS: Health - Nutrition sub-sector (active); Disease Control (active); Health systems (active); youth development (active)

## **ANNEX 3: KENYA DONOR FUNDING RELATED TO THE ENVIRONMENT**

### **Denmark/DANIDA**

The current Danish development assistance to Kenya includes projects in the areas of human rights and good governance, agriculture, including micro enterprise and micro finance, health, water and sanitation and environment. Danish development assistance is mainly implemented in cooperation with relevant Government of Kenya authorities at provincial and district levels. The development assistance will shift from project support to Sector Programme Support from 2005. The geographical focus of Danish development assistance has been in Arid and Semi Arid Lands (ASAL) in Eastern Province and Coastal Province, which are among the poorest in Kenya. The geographical focus facilitates cooperation across sectors and ensures cost-effective supervision of the projects.

Outside the country frame Denmark is also starting up a special Environment Support Programme. The program is expected to run in the years 2005-2007 and have a budget of DKK 80 million approximately 1 billion KES

### **The European Commission (EC)**

One of the potentially most relevant programs of the EC is the Community Development for Environmental Management Project, which has developed sinking funds.

### **FAO Netherlands- Forest Management Program**

Creating the legal and institutional framework for sustainable forest management.

### **Finland**

Finland is currently providing support in the Governance, Energy and Forestry Sectors in Kenya. Most support to the forestry sector is in the form of budgetary support to the ministry. In the next fiscal year their commitment to the government will be ending and they will be evaluating and designing their next phase of investment in the sector.

### **United States of America**

#### *Forestry Management Program*

This program aims at enhancing integrated forest management and conservation.

The program supports the following areas in forest management: i) Institutional strengthening through capacity building, technical assistance and material support to KWS and the Forest Department (FD); ii) support for the implementation of participatory forestry management systems around Arabuko Sokoke, Mt. Kenya and Mukogodo forest through the application of low cost and appropriate technologies and increased diversity of forest-based businesses and iii) Support the implementation of the environmental management and coordination act (EMCA) by assisting with establishing National Environmental Management Authority's (NEMA) infrastructure and operations and capacity building for District Environmental Committees (DECs) to implement the Act. The main implementing agencies include the Forest department (FD), Kenya Forestry Research Institute (KEFRI), NEMA, KWS, National Museums of Kenya, Nature Kenya. They are mostly focusing on the northeast of Kenya, except for the butterfly project.

## **France AFD**

AFD therefore operates in the priority sectors in the framework of the Kenyan government's strategy for poverty eradication. AFD, in accordance to France's commitments to protecting the planet, also attaches great importance to the environment sector (rehabilitation of Meru National Park in association with the French Global Environment Fund).

## **UNDP Poverty and the Environment Initiative (July 2005-)**

The project has four main outputs:

- a) Improved understanding of poverty and environment linkages within government ministries and agencies and other stakeholders.
- b) Strengthened Government capacity and mechanisms to deliver pro-poor environment policy.
- c) Tools developed for the integration of environment into development plans and budget processes.
- d) Increased participation of stakeholders in environmental policymaking and development planning processes.

The project is lead by the Ministry of Planning, with support from and implementation with representatives from the Ministry of Environment, the National Environmental Management Authority, UNDP and UNEP. The UK Department of International Development also financially supports the project. A steering committee with representatives of all these institutions oversees project implementation. The project has a budget of c. US\$2 million over the four years, and a number of other donors have expressed an interest in supporting implementation.

## **IFAD**

Current projects fall outside of the EAM and CF region. The new Country Strategic Opportunities Paper (COSOP) for Kenya is currently under preparation and will be presented to the September Executive Board. Pipeline projects will focus on rural financial services, natural resources management and environmental management.

## **Sweden**

The Swedish assistance for 2006 is SEK 350 million, an increase from SEK 100 million in 2003. A further gradual increase to SEK 450 million in 2008 is planned. All support is based on the priorities identified in Kenya Economic Recovery Strategy (ERS). Swedish assistance focuses on empowerment of people and capacity development of government institutions. The six main areas are democratic governance, agriculture, water, health, urban development and roads. The present Swedish strategy for development co-operation with Kenya for 2004-2008 has identified widespread inequality (income, regional, gender and age-groups) and the lack of promotion of human rights as root causes to poor service delivery by government. Another obstacle to development and foreign investments in Kenya is the widespread corruption. In this respect the culture of patronage and lack of accountability are major challenges in Kenya.

## **World Bank**

As of June 2007, the World Bank's portfolio in Kenya consists of 17 active operations (including a grant from the Global Environment Facility), with a total commitment of USUS\$970 million. In addition, the Bank is financing three regional projects with a total investment of USUS\$260 million for Kenya: the Transparency and Communications Infrastructure Project (USUS\$114.4 million), the East Africa Trade and Transport Facilitation Project (USUS\$120.6 million) and the Regional Trade Facilitation Project (USUS\$25 million). Since January 2006, the Executive Board of Directors has approved nine projects. These projects support initiatives across a number of areas including:

- Governance, transparency and anti-corruption
- Public sector management reform
- National statistics
- Infrastructure, including national and regional transport and communications
- Regional trade
- Community development
- Education
- Natural resource management

## **ANNEX 4: SELECTED TANZANIA WB PROJECTS**

### **The Water Sector Support Project (WB USUS\$200 million, 2007-2012)**

The Water Sector Support Project is designed to strengthen sector institutions for integrated water resources management and improve access to water supply and sanitation services. There are 4 components to the project: a) strengthening institutional capacity for improving the management of water resources. It will provide: (i) logistical and technical assistance for strengthening of the 9 basin institutions and their management systems, (ii) support for the planning and preparation of integrated (river and lake) basin development and management plans, (iii) support for the implementation of selected (single and multi-purpose) investment projects identified by the Government of Tanzania; b) providing support to all local governments in the scaling up of the provision of rural water and sanitation services in pursuit of the MDGs; c) giving support to Dar es Salaam, all regional and district capitals, and gazetted small town utilities in the scaling up of provision of urban water and sanitation services in pursuit of the MDGs; and d) providing: (i) support for putting into operation the new role of the Ministry of Water, (ii) assistance for strengthening sub-sector planning and operational capacities, (iii) support to sector coordination and policy re-alignment, and (iv) support for sector capacity building.

### **Agricultural sector Development Project for Tanzania (WB US 151 million, 2006-2011)**

The Agricultural sector Development Project for Tanzania has two complementary objectives: (1) to enable farmers to have better access to and use of agricultural knowledge, technologies, marketing systems and infrastructure; all of which contribute to higher productivity, profitability, and farm incomes; and (2) to promote agricultural private investment based on an improved regulatory and policy environment. The project has two components: (1) Local Level Support to improve agricultural service delivery; the quality of agricultural investments; and the local policy and regulatory environment for private investment in agriculture; and (2) National Level Support to improve the responsiveness and quality of agricultural research and policy; to carry out preparatory work and investment in national level irrigation through public-private partnerships; to improve food security and sector coordination, and to stimulate agricultural markets and private sector development.

### **Forest Conservation and Management Project (WB 32 million 2002-2007)**

The Forest Conservation and Management Project will initiate an integrated biodiversity conservation strategy for the Eastern Arc Mountains, thus strengthen Tanzania's capacity to coordinate forest biodiversity conservation interventions. Through its components, the project will support forest management institutional change, and improve service delivery, by providing resources to strengthen the capacity for administration, and management of the Tanzania Forest Service, which will be established, and supported (in part) by the Global Environment Facility (GEF), and, by improving as well revenue collection from forests and woodlands, including service delivery mechanisms for a participatory forest management. A framework will be developed, and implemented to involve the private sector in the management of existing industrial plantations by enabling an institutional, and market environment, based on the implementation of a communication strategy, and capacity strengthening within the Ministry of Natural Resources and Tourism. Additionally, the

project will finance aerial photography, mapping, and indicative inventories of state-owned plantations, to improve the plantation resource information base, and management planning capacity. Alternative management of selected industrial plantations will be piloted, emphasizing on the monitoring and evaluation of operational performance indicators. Largely financed by the GEF, institutional reforms of biodiversity conservation will be supported, including development strategies, pilot community-based conservation, and the development of sustainable financing for tropical high forest conservation in the country.