

By-laws of the Caucasus Nature Fund

As adopted by the SB, February 4, 2019

Pursuant to § 7(5) and § 10(10) of the charter, the “Kuratorium” (Supervisory Board or SB) of the Foundation has adopted the following by-laws for the Foundation’s:

- “Vorstand” (Management Board or MB)— § 1-9; § 11; and
- SB itself—§ 5(1) and § 9-11.

The by-laws will come into force with the decision of the SB on the above-mentioned date.

§ 1 Fundamental Operating Principles

- (1) The members of the Management Board shall conscientiously observe the law, the Foundation charter and these by-laws in managing the Foundation.
- (2) In addition, the Foundation shall take into account the governance code of the Federal Association of German Foundations (“Grundsätze Guter Stiftungspraxis”) as amended from time to time.

§2 Principles of MB work (further to Charter § 6 & 7)

- (1) All members of the MB shall contribute to the success of the Foundation and undertake to carry out their duties with integrity and in an informed and responsible manner. Even if they have other obligations, they will devote the time and care necessary to carry out the Foundation's work.
- (2) The MB shall maintain confidentiality with regard to the non-public content of the meetings and resolutions of the MB and Supervisory Board. All members of the MB shall ensure that third parties who are engaged by them act in the same way as regards the confidentiality obligation.¹
- (3) The members of the MB shall be remunerated as determined by the SB. Remuneration can be through a non-German branch, office or subsidiary of the Foundation if determined by the SB. All members of the MB are entitled to compensation for costs and expenses actually incurred.²
- (4) If the MB consists of one member, s/he represents the Foundation in and out of court and vis-a-vis the SB and bears all responsibility individually. The sole MB member shall be the MB Chairman and Executive Director of the Foundation.
- (5) If the MB consists of more than one member, the SB may entrust a single member of the Management Board with the day-to-day business of the Foundation's administration (so-called Executive Director or ED). The Supervisory Board may grant the ED individual representation power. The Executive Director shall act as Chairman of the MB.
 - a) The Chairman shall convene and chair the meetings of the MB. If necessary, s/he shall ask for written, electronic or electronic voting by circulation.
 - b) The Chairman represents the MB vis-a-vis the SB.

¹ Applies the obligation in Charter § 12 (10)) to MB proceedings.

² Further to Charter § 6 (2)

- c) Each member shall jointly bear the responsibility.
 - d) Unless the SB has granted individual representation power to the Executive Director, the MB represents the Foundation in and out of court by at least two of its members, of which one must be the Chairman of the MB or, in the event of his/her absence, the Deputy Chairman.
 - e) If the SB has granted individual representation power to the Executive Director, the Foundation is represented in and out of court by the Executive Director or, in the event of his/her absence, jointly by the remaining two members of the MB if there are three MB members or by the Deputy Chairman if there are only two MB members.
 - f) The MB may decide on a division of responsibilities whereby its individual members are assigned certain ongoing tasks to be dealt with independently.
- (6) A resolution is necessary for all important matters which fall within the MB's decision-making authority. In particular, all measures and transactions which are of special importance to the Foundation or involve an economic risk require such a resolution and, if the MB consists of more than one member, the prior vote of the entire MB.

§ 3 MB Conduct of Business (further to Charter § 8)

The MB shall be responsible for the proper administration of the Foundation. In particular, the MB shall be responsible for:

- (1) the efficient and cost effective day-to-day management and administration of the Foundation, including proper maintenance of the Foundation's financial books and records;
- (2) development the Foundation's grant program, ensuring proper submission to an approval of the program by the SB, implementing and monitoring the program and reporting to the SB, the Foundation's donors and the public thereon;
- (3) public relations and communication (including representing and promoting the Foundation in dealings with government officials and the media);
- (4) fundraising for the Foundation;
- (5) general representation of the Foundation.

§ 4 Executive Director (further to Charter § 8)

- (1) Tasks. The Executive Director shall deal with and be responsible for the ongoing business of the Foundation, delegating responsibilities to any other members of the MB in concertation with them and to other staff as appropriate. S/he shall be responsible for the selection and management of the Foundation's employees (serving as their effective team leader) and important service providers.
- (2) Special rights and obligations. The SB may waive for the ED the application of the restrictions on the multiple representation pursuant to Art. § 181 of the German Civil Code (BGB).
- (3) Cooperation with the MB (if more than one member)
 - a) The Executive Director shall keep the other members of the MB informed of important measures and events on an ongoing basis.

- b) Each MB member is obliged to call for a resolution of the entire Board if s/he is concerned about the actions of the other members of the Board and the concerns cannot be solved by a discussion with the other members of the MB.

§ 5 Cooperation of the MB with the SB (further to Charter § 8 & 11)

(1) Basic Principles.

- a) The MB and the SB cooperate in a close and trusting manner for the benefit of the Foundation.
- b) The resolutions/minutes of the MB meetings shall be reported to the Chairman of the SB.
- c) The SB is responsible for setting the Foundation's strategy including establishing the programmatic and regional focus of the Foundation's work. The MB supports the SB in preparing the strategy.

(2) Reporting Obligations

a) Annual accounts

Within six months after the end of each financial year, the MB shall submit to the SB annual financial statements audited by an independent auditor as well as an annual report which, following approval by the SB, shall within nine months after the end of the financial year be submitted to the foundation authority. The financial statements shall be prepared pursuant to the regulations set forth in Volume 3 of the German Commercial Code for corporations with large capital, including explanatory notes (*Anhang*) except that the Foundation shall not be required to prepare and publish a management report (*Lagebericht*);

b) Budget

No later than January 15 of a given year (and preferably by December 15 of the prior year), the MB shall submit to the SB, a budget for that year that sets forth the planned expenditures and income. Until the approval of the new budget, the Foundation can continue to cover both running costs on the basis of the previous year's budget and existing planned grant commitments, but cannot make new grant commitments. The budget shall take into account any required earmarking for separate accounts that may have been agreed between the Foundation and a donor.

c) Regular reports

The MB shall inform the SB on a regular basis regarding the state of business and the situation of the Foundation. To this end, the MB shall present, either in written form or at SB meetings, semi-annual reports to the SB outlining the Foundation's activities (grants, partnering and networking, communication, fundraising, etc) as well as the economic situation (investment performance, contributions received and budget performance). As a rule such reports shall be made within two months after the end of each semi-annual period (by August 31 for the period ending June 30 and by February 28 for the period ending December 31) unless a scheduled SB meeting date makes another reporting period and schedule more sensible.

d) Reporting of Important Events

The MB shall report to the SB without delay if there are important reasons for doing so or if there are business issues that may have a material impact on the situation of the Foundation.

§ 6 Operating Principles (further to Charter § 8)

- (1) The MB shall develop an Operations Manual regulating the detailed administrative procedures of the Foundation, including such matters as sources of the Foundation's budget, financial management (including budgeting and administrative expenses) accounting, banking and bank accounts, financial statements and reporting, auditing, human resources, procurement policies, information technology, social and environmental safeguards and the like.
- (2) Following its initial approval, fundamental operational principles regulated by the Operations Manual (regarding procurement, financial statements and the like) require approval of the SB. Subject to compliance with the directives of the SB on such principles and any other operational matters deemed important by the SB, the issuance and amendment of the "Operations Manual" shall be within the authority of the MB. The current version of the Operations Manual as amended from time to time shall be reported to the SB and published on the Foundation's website.
- (3) The Foundation will target that administrative costs will be less than 15% of its total annual budget.
- (4) The MB shall document the terms of reference for any expert or advisory committees in writing.

§ 7 Grant Making (further to Charter § 5 & 8)

- (1) The MB is responsible for the implementation of the Foundation's grant program, in particular for the award of the Foundation's funds.
- (2) As part of the annual budgeting process, the MB will submit an overall program budget covering the grant program and related consulting costs and a reasonably detailed breakdown of proposed grants by protected area, consultant or other recipient. The overall grants budget in total may not be exceeded by more than 5%, and no individual grant budget may be exceeded by more than 10%, without approval of the SB. Following SB approval, the MB shall negotiate and sign the respective grant agreements for approved concepts. Provided the overall budget in a given year remains within the approved limit plus 5% as described above, unforeseen grants can be made in amounts not exceeding Euro 25,000 may be made within the authority of the MB. Grants in excess of that amount, or other deviations outside the above limits, require the approval of the SB.
- (3) With support from the SB, the MB will develop a set of guidelines setting forth information on procedures relating to the grant-making activity of the Foundation ("Grant Guidelines"). Such guidelines will include requirements and/or information on eligibility of grantees, grant application procedures, co-financing, grant reporting and audits, evaluation and monitoring procedures, and the like. The issuance and any amendment of the Grant Guidelines requires the approval of the SB. Additional principles governing the Foundation's grants that are intended to be reflected in the Grant Guidelines are reflected in Annex A. Upon completion of the Grant Guidelines, Annex A will be deleted from these by-laws.

§ 8 Investment Objectives and Investment Policy (further to Charter § 4)

- (1) The version of the “Investment Policy” in force at the date of adoption of these by-laws is re-adopted as the Investment Policy of the Foundation. It and any subsequent amendment provide or will provide for reasonable measures to control risk. The Investment Policy uses an investment strategy based on diversification of investments and include limitations on the percentage of the Foundation's assets that can be invested in particular asset classes (such as stocks, bonds, real estate, etc.), countries or geographical regions, currencies or industries or companies. The investment policy also contains information on the organization of the investment activity and on investment controlling.
- (2) The Foundation has established an Investment Committee composed of SB members and advisors and the Executive Director as an observer that is responsible for the management of the Foundation's financial assets in accordance with the Investment Policy.
- (3) The investment strategy will be evaluated regularly by the Investment Committee to ensure that the risks assumed are prudent and are designed to maximize consistent long-term returns on investment.

Under the Investment Policy, the MB shall from time to time, with the approval of the SB, engage an experienced investment manager or an advisor who will assist with advising the Investment Committee, appointing a custodian, mandating further asset managers or investments in investment funds or similar vehicles.

§ 9 Transactions subject to Prior Authorization

- (1) The MB requires the consent of the SB for the following transactions:
 - a) Adoption and amendment of the Investment Policy and Grants Manual and the original adoption of the Operational Manual (subsequent change of the Operations Manual is regulated by § 6(2) above) and any actions proposed to be taken that are covered by such documents but not in accordance with the procedures described in such documents.
 - b) Non-grant (operating costs) spending in any given year in excess of 105% of the approved budget for that year.
 - c) Grant spending outside the budget parameters defined in § 7(2) above.
 - d) Conclusion, amendment or termination of non-grant contracts (employment contract, consulting or other service provider contracts, etc.) which are outside of the ordinary course of business or which, in the individual case, commit the Foundation to an amount in excess of Euro 20,000 per year. For the avoidance of doubt, the consent requirement does not apply to grant agreements including consulting agreements (such as planning exercises) that are part of the Foundation’s grant program and approved as part of the annual budget process.
 - e) Setting up committees or advisory councils and selecting their members.
 - f) Settlement of disputes and resolution of conflicts of interest.
 - g) Establishment and closing down of offices of the Foundation.
 - h) Acquisitions or sales of real estate (or interests in real estate or entities owning real estate) and transactions or acquisitions or sales of shares in an enterprise, other than in either case as investments in accordance with the Investment Policy.

- i) Encumbering, mortgaging or leasing of real property or real property rights (other than operating leases reflected in the annual budget.
- j) Providing guarantees of credit, suretyship, guarantyship or assuming similar liabilities on behalf of a third party.
- k) Measures, undertakings and decisions that have an extraordinary or fundamental significance for Foundation or are associated with extraordinary risk.

(2) The SB may also grant the MB revocable consent for individually specified matters in advance.

§ 10 Qualified Majority Decisions and other Matters Affecting the Supervisory Board (further to Charter § 10 and 12)

(1) No more than half of the SB Members may consist at any time of representatives of government or semi-governmental organizations.

(2) In addition to those matters listed in Section 12(6) of the Articles, decisions on the following matters can only be made by a qualified majority of the members of the SB:

- (a) Broadening or narrowing the Foundation's Purpose, or changing the areas which are the main focus of its activity;
- (b) Making any of the three neighboring countries to the three core countries eligible to receive grants from the Foundation in addition to the three core countries;
- (c) Changing the definition of "essential PA management costs" (Annex A IV))
- (d) Adoption or revision of the investment policy for the endowment, and the hiring or termination of an investment advisor or investment manager.
- (e) Establishment and closing down of offices of the Foundation.

(3) The SB, in consultation with the Foundation's investment committee and the ED, will be responsible for ensuring that the Foundation's budget is sustainable, based on: the size of the Foundation's capital, the rates of return currently being earned on investment of the Foundation's capital, global economic conditions, current and predicted rates of inflation, etc.

§ 11 Conflicts of Interest

(1) A potential "conflict of interest" shall be deemed to exist whenever an SB or MB member or an officer of the Foundation (Subject Person), directly or indirectly, is in a position to approve or influence decisions or actions of the Foundation from which such Subject Person would derive an individual economic benefit, or is affiliated with someone who would derive an economic benefit. For purposes of this section only, "Officers" of the Foundation shall be considered to include all employees of the Foundation.

A Subject Person shall be deemed to be "affiliated" with an entity if such Subject Person:

- a) serves as a member of a governing body of the entity,
- b) serves as an officer or employee of the entity;
- c) has a material economic relationship with the entity; or
- d) if the person's spouse, parent, sibling, child, or member of the immediate household, holds such a position or has such a relationship.

Service on the board of another not-for-profit entity does not constitute a conflict of interest.

A Subject Person shall be deemed to be affiliated with an individual if such individual is a spouse, parent, sibling, child, or member of the immediate household of such individual or has a material economic relationship with such individual.

- (2) Each Subject Person shall disclose to the SB and MB any relevant interest which may pose conflict of interest concerns. Disclosure shall include the existence of any economic, financial or other interest in, or affiliation with, any corporation, organization or partnership that provides professional or other services to the Foundation. When any matter comes before the SB or MB or any committee of the SB or MB in which a Subject Person has such an interest, such interest shall be disclosed to the relevant board immediately.

Whenever a Subject Person is unsure as to whether a conflict of interest or any affiliation exists, such Subject Person shall disclose the relevant facts to the relevant board, and shall abide by the decision of the relevant board as to the existence of a conflict of interest or an affiliation.

- (3) No Subject Person shall vote on, or participate in the decision-making process of, any matter in which such Subject Person has an interest (as defined above). The SB or MB may, by majority vote of the non-interested members, ask any interested Subject Person in any matter before the Board, not to participate in the Board's deliberations on such matters and to leave the meeting when such matters are discussed and voted on; provided, that, if the Subject Person is an MB or SB member, s/he participate in any discussion regarding such Board member's exclusion.

No individual or entity with which a Subject Person is affiliated shall receive any special consideration by the SB or MB, and no Subject Person shall attempt to influence other Subject Persons regarding matters before the SB or MB in which they are interested, without first disclosing that interest to the full SB or MB.

If any contract or grant is presented to the SB or MB in which a Subject Person has an interest, or is affiliated with a contract party, a committee composed of the non-interested SB or MB members shall be formed to review, and approve or reject such contract or grant.

- (4) All Subject Persons shall be subject to such additional policies on conflict of interest, as the Board from time to time may adopt.

Annex A—Principles for Grant Guidelines (the “Grant Principles”)

I. General Principles

1. The Foundation’s Executive Director will negotiate a Framework Agreement with the governments of each of the three core countries, subject to the approval by the SB, that will specify transparent disbursement procedures based on the following general principles:
 - a) The Foundation may make direct payments to an individual “PPA”, as defined in Section II (2) of these Grant Principles in cases where the PPA has independent legal status. In all other cases, payments will be made to a separate account of the Ministry responsible for protected areas in the country where the individual PPA is located. This separate account must be used exclusively for receiving and disbursing grants from the Foundation, and be governed by detailed rules that must be agreed upon by the Foundation and the Ministry.
 - b) Grants by the Foundation will be disbursed in tranches, over a period of between one and five years. The Foundation’s Executive Director or individuals appointed by him must endorse the effective use of funds of the current tranche and sign-off prior to disbursement of the next tranche.
 - c) Representatives of the Foundation will be given reasonable access to all relevant financial records of the grantee in order to evaluate the effective use of funds.
 - d) Any grant funds that are unspent at the end of the grant period must then be transferred back to the Foundation.
 - e) Grant recipients that misuse funds will be debarred from receiving further support from the Foundation. The Board is obliged to claim any misused funds.
 - f) Grant recipients agree to provide detailed written reports to the Foundation on the use of the grant funds.
 - g) The Government of the country of a PPA that is to receive a grant from the Foundation must agree to provide the co-financing as stipulated in Section IV of these Grant Principles.
2. The Foundation may not award grants to support any activities in any PPA located in territory whose legal ownership or physical control is the subject of dispute between any of the three core countries, unless the Ministries responsible for protected areas in each such country has stated in writing that it has no objection to such grants.
3. The Foundation’s donors and the national governments of the three core countries may also, at their own expense, at reasonable times during normal business hours, conduct audits of any particular grants awarded by the Foundation and will be given reasonable access to all relevant records and sites. Detailed procedures for auditing of the use of funds within the countries will be fixed in the “framework agreements” that must be signed between Foundation and the governments of each of the countries that are eligible to receive grants from Foundation
4. No substantial part of the activities of the Foundation shall be the carrying on of propaganda, or otherwise attempting to influence legislation. The Foundation shall not participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office.

II. Protected Areas Eligible for Grants

1. The Foundation's Purpose is primarily to make grants to support the essential management costs of PPAs in the three core countries in accordance with Sections III, IV and V of these Grant Principles.
2. Priority Protected Areas ("PPAs") are defined as those protected areas in the Caucasus Ecoregion that
 - are part of a wider "PCA" (Priority Conservation Area as defined in the Caucasus Ecoregional Plan/Profile). All activities within a PPA shall be integrated into the overall land use patterns of the PCA."
 - are legally protected in perpetuity primarily for the purpose of conserving biodiversity (including national parks, nature reserves, strict nature reserves and sanctuaries);
 - have their own separate administrative structures and separate management plans; and
 - have been determined by Board to be PPAs, based on the biological priorities established in the Caucasus Ecoregional Conservation Plan.
3. The Foundation may also make grants in accordance with Sections III, IV and V of these Grant Principles to support PPAs in parts of Caucasus Ecoregion that are located in the territory of one or more of the neighboring three countries, but only if all of the following five conditions are met:
 - Foundation has raised a target endowment capital of 44 million Euro;
 - A new feasibility study has been prepared which analyzes the current funding needs of the PPAs of the three core countries and of the neighboring country for which support is proposed;
 - Supporting the PPAs in the Caucasus regions of a neighboring country will not reduce the amount of funding that the Foundation would otherwise have available (i.e. as a result of investing the first 44 million Euro of Foundation's capital) to support the essential management costs of PPAs in the 3 core countries;
 - Providing grants to support PPAs in such neighboring country or countries will not contravene the laws or regulations of any of the countries in which the organizations that have contributed to the Foundation's initial capital are legally registered;
 - A qualified majority of the Board approves of any such grant.

III. Protected Area Management Activities supported by the Foundation

1. The Foundation itself will not implement any protected area ("PA") management activities. Its role will be to support and facilitate the eligible PA management activities of relevant government and non-governmental organizations.
2. The Foundation can support the following types of activities:
 - a. "Essential PA Management Costs", which means the recurrent costs of activities within PPAs to ensure that natural habitats remain intact and wildlife populations remain stable, and to ensure that the purposes of a particular PA category are fulfilled. (For example, the cost of maintaining visitor infrastructure is included in calculating the "essential management costs" of national parks, but is not included in calculating the "essential management costs" of state nature reserves.)

Essential PA management costs generally include:

- i. Staff salaries and training costs
- ii. Fuel and vehicle costs for patrolling and monitoring on a regular basis

- iii. The costs of maintaining existing infrastructure and equipment
- iv. Purchase and replacement of necessary equipment and supplies
- v. Office running costs
- vi. Research relating to PA management activities
- vii. Costs for public information dissemination and awareness raising.

Grants for Essential PA Management Costs may be awarded for the period covered by a PA management plan, up to a maximum of three years.

b. "PA Management Plan Development Costs", which refers to the costs of developing (over a period of up to one year) a new management plan that satisfies all of the criteria established by the Board for a new PPA or for an existing PPA, in order to enable the particular PPA to subsequently become eligible to receive grants from the Foundation; and

c. "PA Establishment Costs", which refers to the costs of establishing essential PA infrastructure over a period of up to two years after the start of implementation of a PA management plan that has been approved by the Board. However, the Board can only make grants to fund PA Establishment costs if all eligible proposals to fund the Essential PA Management Costs or PA Management Plan Development Costs of PPAs in the 3 core countries have first been fully funded.

IV. Grant Eligibility Criteria

In order to be considered by the Foundation for possible funding:

- The grant proposal must meet the general criteria specified by the Board and must be submitted by the Ministry responsible for environment and nature conservation in the country where the PPA is located;
- The PPA must have completed (or must be requesting a grant to complete) a management plan which satisfies all of the criteria established by the Board; and

The Government of the country where the PPA is located (and/or other funding sources) must agree to provide at least 50% of the Essential Management Costs or PA Management Plan Development Costs of the PPA for which a grant is being requested. However, in cases of "*force majeure*" - unforeseeable events beyond the control of a government (such as a major earthquake or other emergency which severely depletes the government's financial resources) - the Board may decide to reduce the required level of co-financing to less than 50%, upon approval by a qualified majority of the Board.

V. Funding Prioritization Criteria

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

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

- e) Regional importance - PPAs that promote and enhance overall implementation and effectiveness of the Ecoregional Conservation Plan.

VI. Other Grant-Related Principles

(1) The Board may establish a Scientific and Technical Committee that includes Board members and outside experts, and then request such Committee to:

- review the technical, scientific and administrative aspects of grant proposals, and recommend whether the Board should adopt or reject such proposals, or require them to be modified; and
- advise the Board on other scientific, technical or administrative matters.

(2) The Foundation may not award grants to support any activities in any PPA located in territory whose legal ownership or physical control is the subject of dispute between any of the three core countries, unless the Ministries responsible for protected areas in each such country has stated in writing that it has no objection to such grants.

(3) The Foundation's donors and the national governments of the three core countries may also, at their own expense, at reasonable times during normal business hours, conduct audits of any particular grants awarded by the Foundation and will be given reasonable access to all relevant records and sites. Detailed procedures for auditing of the use of funds within the countries will be fixed in the "framework agreements" that must be signed between Foundation and the governments of each of the countries that are eligible to receive grants from Foundation.

(4) No substantial part of the activities of the Foundation shall be the carrying on of propaganda, or otherwise attempting to influence legislation. The Foundation shall not participate in, or intervene in, any political campaign on behalf of or in opposition to any candidate for public office.