CAUCASUS NATURE FUND

Caucasus Nature Fund

2020

ANNUAL REPORT

Machakhela National Park
Photo: Agency of Protected Areas, Georgia

Letter from the Chair

February 2021

Dear Friends and Supporters of the Caucasus Nature Fund,

The Caucasus faced two crises in 2020, both of which will have lasting effects on CNF's work. The continuing Covid pandemic stretched government budgets and – at least temporarily – has destroyed a nascent tourism sector that brought much needed foreign exchange receipts to the economies and some funding to our parks. The tragic war between Armenia and Azerbaijan over the territory of Nagorno-Karabagh makes our original aspiration to bring more regional cooperation to nature protection ever more challenging.

Despite being hobbled by distance working and limited direct contact with both governments and the protected areas, CNF responded admirably to these twin crises. Both Armenia and Georgia requested emergency support from us to keep operations in the protected areas afloat. We increased our protected area program budgets by more than 70% in Armenia and 100% in Georgia, which thankfully prevented their collapse.

We continue to believe that our ongoing engagement with Armenia and Georgia – and we hope one day with Azerbaijan – will lead to more modern and harmonized approaches to nature protection in the three countries, even with continuing geopolitical tensions. The plants and animals with which this region--the most bio-diverse in the European neighborhood--is uniquely endowed will continue to be oblivious to our man-made borders. They are dependent on the conservation of the entire eco-region that we will continue to support, not just in 2021, but long beyond.

In a 2020 full of change and crisis, CNF also managed internal transformation. After five years of leadership, Geof Giacomini stepped down as Executive Director at the end of December and has been succeeded by Tobias Muenchmeyer. We thank Geof for his loyal service and many accomplishments—to which this report is testimony. We also look forward to fresh ideas and renewed inspiration from Tobias. The hard work and continued enthusiasm of our staff who support Geof and Tobias also deserves special mention in these especially challenging times. That we are now a pillar of the institutional landscape supporting conservation in the Caucasus is in large part due to them.

Finally, I am also most grateful to all of our donors and external partners who contribute to the vital cause of preserving nature in the Caucasus. This year, we are particularly indebted to our partners at UNDP for their work with us on the GEF-6 grant--aid that has given our program in Georgia particular momentum. You can find out much more about this and the rest of our program in Geof's and Tobias' report in the pages that follow.

Yours gratefully,

David Morrison
Chair of the Supervisory Board

Javakheti Protected Areas, Georgia
Photo: Elizabeth Streeter/Rangers Without Borders

To orient...

...our supporters and readers, we want to take this opportunity to summarize our updated strategy which is intended to sharpen our focus on improving in the way that protected areas (PAs) are managed. Briefly, CNF identified biodiversity monitoring as the top priority to fund within our regular PAs grants program as well as our technical assistance/consulting program.
CNF's updated strategy focuses on:

1. Increasing PA staff capacity and resources

(through capacity building programs, new technology and increased revenue/ diversified revenue sources)

2. Establishing biodiversity monitoring systems

(in which the biodiversity monitoring activities at a PA level would be coordinated and anchored)

2020 was a year which many people wanted to pass more quickly than it did, or even forget, there are some important lessons for nature conservation that we should pause to recognize and remember. For example, while the Covid-crisis exposed the fragility of tourism-related and government funding for conservation at PAs in the South Caucasus, it also demonstrated what an important long-term funding source the Caucasus Nature Fund is for nature protection.

Our "emergency grants" were able to ensure not only that the €13.4 million in investments (which CNF has made since we began supporting PAs in the South Caucasus) were maintained, but also, as you will read below, that an impressive level of progress was made, even in this "forgettable" year.

Javakheti Protected Areas, Georgia
Photo: Elizabeth Streeter/Rangers Without Borders

Tusheti, Bezoar Monitoring;
Photo NACRES

Plans for 2021

In 2021 CNF will place biodiversity monitoring at the center of our attention and activities, and we are increasing our conservation capacity by adding biodiversity expert Tanya Rosen to our team. Tanya will work as our senior biodiversity advisor and her expertise will enrich us and our partners as we seek answers to the challenging questions regarding the establishment and design of a Biodiversity Monitoring Unit (BMU) in Georgia.

At the same time, we want to see the financial sustainability of Protected Areas in Armenia and Georgia strengthened and we will support the governments' efforts for the introduction of entrance fees and other revenue generation innovations for Protected Areas. In Armenia, we are excited to see a pilot project for 24-hour patrolling begun, and we are hopeful to implement a mouflon monitoring project in the sensitive cross border region between Armenia and Azerbaijan (Nakhchivan).

But of course, 2021 is also a year to cope with external challenges like the Covid-19 pandemic (with its grave economic consequences for the region) and the consequences of the armed conflict between Armenia and Azerbaijan. Crises like these might lead to more attempts of illegal logging and poaching as well as to lower readiness on the side of the governments to prioritize biodiversity protection. Therefore, our main challenge for 2021 is to continue the development of the Protected Areas' system while at the same time maintaining its resilience and sustainability. We will need to make careful choices to allocate adequate resources while maintaining our capacity to fund conservation in the Caucasus over the long-term.

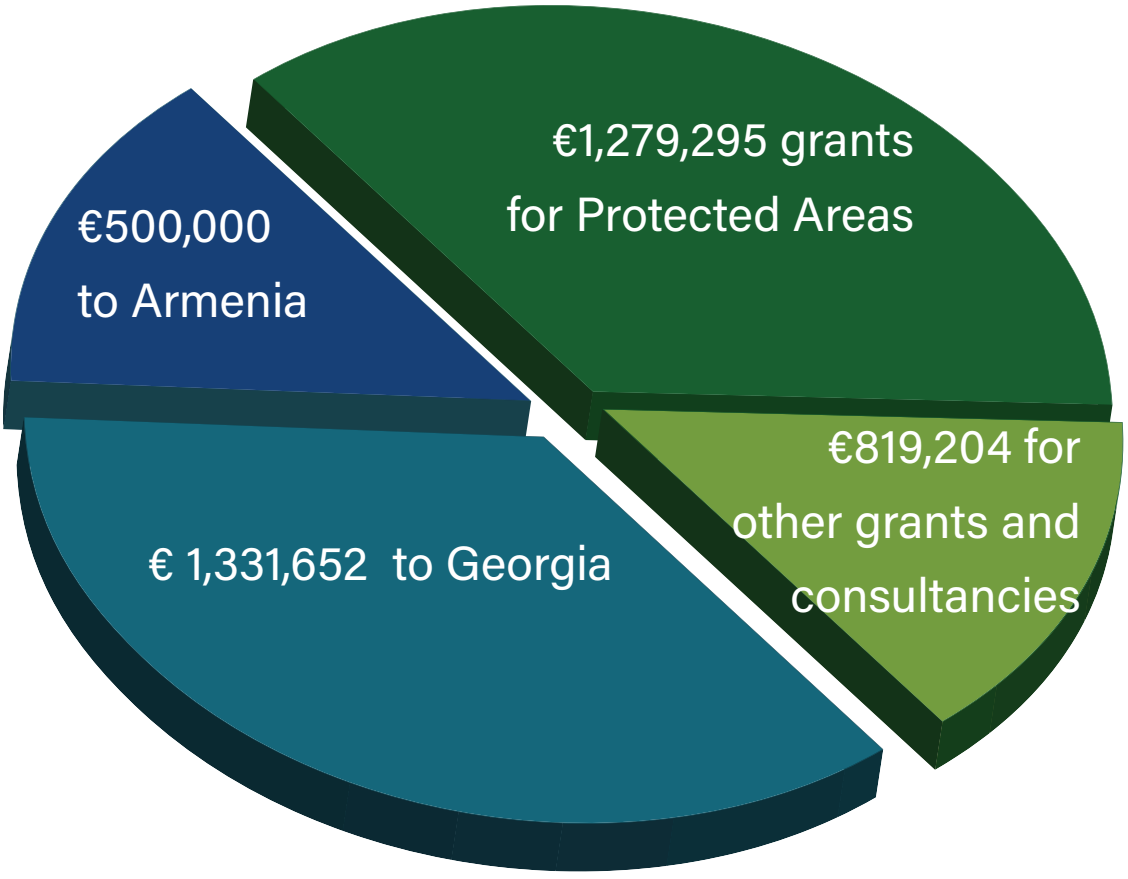
Highlights 2020

CNF contributed €735,000 to salaries and €40,000 to cover the insurance of 512 protected areas' staff in Georgia and 311 in Armenia. This meant that a total of 823 persons and their families were provided with living wages and important health and life insurance in 2020.

Luso Dostibegiani, Ranger at Algeti National Park
Photo: Joseph Alexander

CNF provided emergency grants to both Georgia and Armenia and increased the protected areas' program budgets.

Program Spendings



Emergency Grants

CNF supported 16 parks which meant a combined 629,978 hectares under protection in Georgia and Armenia in 2020.

KINTRISHI PROTECTED AREAS

469,684ha

NEW

MACHAKHELA NATIONAL PARK

LAKE ARPI NATIONAL PARK

ARPA PROT

PSHAV-KHEVSURETI NATIONAL PARK

LAGODEKHI PROTECTED AREAS

VASHLOVANI PROTECTED AREAS

KHOSROV FOREST STATE RESERVE

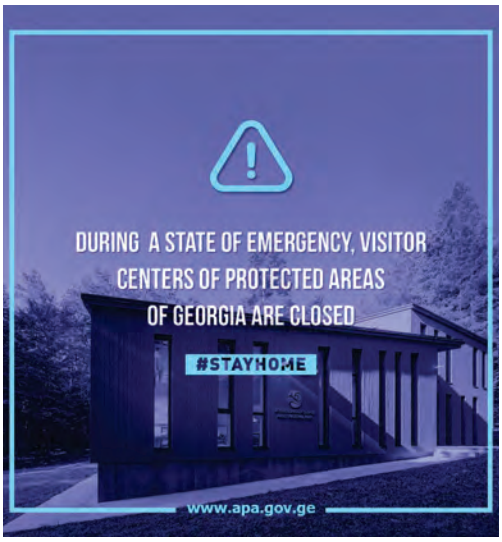
ZANGEZUR BIOSPHERE COMPLEX

160,294ha

TECTED LANDSCAPE

Emergency Grants

As a sustainable and long-term funding instrument for nature conservation, CNF is designed to be responsive to the needs of our partners. This traumatic year, in addition to our regular grant support for the operational costs of Protected Areas, our Supervisory Board approved an extra €500,000 for 4 PAs in Armenia and €1.3 million for 20 PAs in Georgia to ensure their continued functioning – especially important as the pressures of illegal logging and poaching increased. This provided important funding for salaries for hundreds of rangers and other staff, ensuring they continued working – enabling discernable progress to be made in the efforts to improve management and address systemic challenges such as biodiversity monitoring, capacity, and resource mobilization.



Online information of closed protected areas from Armenia and Georgia

GEF-6 program

With funding from the Global Environment Facility (through UNDP) CNF began a five-year project in April 2019 to enhance the financial sustainability of Georgia's Protected Areas' system. Introducing sustainable financing mechanisms at PAs, building the capacity of both PAs and central level staff through trainings and working closely with communities, this project is designed to improve both PAs management and biodiversity outcomes. While there were some delays in 2020, the project is now well underway and we expect significant progress in 2021.

Borjomi-Kharagauli National Park; Trail Maintenance, The project is carried out within the framework of the GEF-VI/ UNDP project „Enhancing the Financial Sustainability of the Protected Areas' System in Georgia"; The work on site is conducted by the „Adventure Tourism Development Association". Photo: Adventure Tourism Development Association

Patrolling, Protection, and Protected Areas' Management

CNF's strategy has identified improving protection as one of the most important areas where our funding can have significant impact. Due to systemic barriers, outdated approaches, and low capacity, progress is slower than we would like but there is nonetheless measurable and objective improvement.

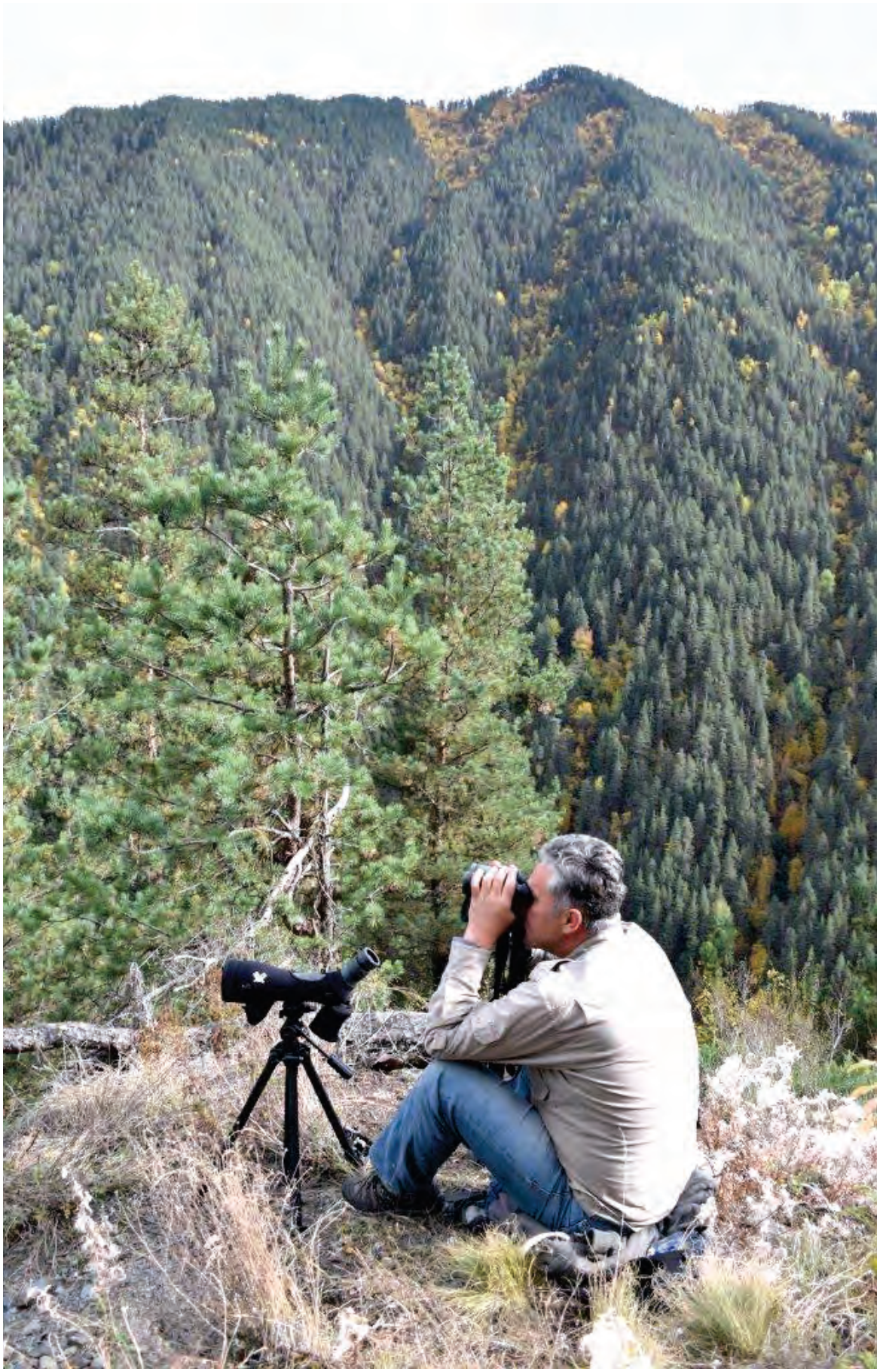
In Armenia, we continued (for the third year) to support the Public Monitoring Group, an NGO-led initiative which provides outside "rangering support" to Dilijan National Park. Utilizing motorcycles, drones and an innovative patrolling approach, illegal logging – a particular pressure on the park for decades – was nearly halted, although the Covid-crisis again put more pressure on the PAs in terms of both illegal logging and hunting. We have indication from the new Minister of Environment in Armenia that he is considering/planning to utilize the learnings from this pilot to re-orient patrolling and make it more efficient – employing more appropriate staff and technology. To better track illegal activities, CNF this year also introduced an online camera monitoring system which allows PA staff as well as staff from the Ministry to observe in real time all movements in the various PAs which CNF supports. This included hiring dedicated IT staff at each PA to monitor and report activities, which helps identify threats and means they can be responded to immediately.

In Georgia, CNF's funding continued to support the rollout, training, and establishment of SMART[1] patrolling in five of Georgia's National Parks (Borjomi-Kharagauli, Lagodekhi and three PAs in the western Georgian Adjara region – Kintrishi, Machakhela, and Mtirala). In 2020, more equipment (including smart phones and walkie-talkies) was purchased, and training provided. Giorgi Sulamanidze, Director of Lagodekhi Protected Areas, has welcomed this innovation: „Introduction of SMART will allow an advanced level of data collection, its analysis, making informed planning and management decisions when it comes to patrolling, biodiversity monitoring and human resources management in Georgian PAs. I am sure, if SMART is successful within PA systems of Georgia, it can be replicated by other institutions, such as the Border Police as it happened before in case of using video traps". Importantly, our main governmental partner (the Agency of Protected Areas) has committed to rolling the system out through more PAs in 2021. Toma Dekanoidze, Deputy Head of the Agency, stated: „SMART will give us the possibility to collect data in the field, to access collected data and then to use it for future planning in a much more cost-effective and efficient manner". This will be aided by the introduction of a performance-based bonus system to incentivize rangers to utilize the equipment, an approach which increases accountability. While there are still details to be finalized, the main criteria are in place and we expect it to be utilized to improve rangers' performance in 2021 and beyond.

In Georgia, CNF also supported the updating of 4 Protected Areas' Management and Operational Plans: Borjomi-Kharagauli National Park, Javakheti Protected Areas, Tusheti Protected Areas, and Vashlovani Protected Areas. This participatory process – with rangers, PAs' leadership, local businesses, community members, local NGOs and PAs Friends Associations– identifies the situation for protection, biodiversity, community relations, etc., while considering the main challenges and resources each administration has. It then establishes goals and objectives for each PA, and because CNF has found that Management Plans often read more like a wish list than an implementable program, we have insisted that each MP be accompanied by a detailed 3-year Operational Plan with budget support tied to specifically achievable goals. Part of our strategy over the coming years will be to ensure that the PAs and central administrations have the capacity to achieve these goals and we will support them through a dedicated capacity building program.

[1] Spatial Monitoring and Reporting Tool is an application which allows one to collect and communicate information in real-time about ranger-collected data (on patrols), patrol results, protection-related threats, and wildlife detected.

Drone footage, illegal logging in Armenia, Photo:
Public Monitoring Group, Dilijan, Armenia



Bezoar Monitoring, Tusheti National Park; The work on site is conducted by NACRES Photo: Giorgi Arabuli

Biodiversity Monitoring

As a major pillar of CNF's new strategic direction, biodiversity monitoring was a focus this year, as it will be in the future, and despite the challenges of time, capacity, and travel restrictions, we achieved some impressive results. For example, a major missing piece in Georgia is a comprehensive and agreed upon list of indicator species for monitoring at a PA level. So CNF funded a project which identifies species and habitat indicators for 12 PAs, and which includes a 10-year plan with indicative budgets and timelines for this monitoring. Based on this plan, developed in a consultative process by our partner Nacres, targeted monitoring was carried out.

In 2020, this included the monitoring of:

1) Chestnut and blight in Mtirala National Park,
2) Tur in Lagodekhi,
3) Red Deer in Lagodekhi and Tusheti,
4) Bezoar goats in Tusheti and Pshav-Khevsureti, and
5) Preparation for ungulate monitoring in Adjaran PAs (installation of cameras and equipment)

The analysis of all monitoring projects is ongoing, and we look forward to reporting on the results, which will be important raw data. But the underlying issue is that there is no central body coordinating the monitoring, sharing and communication of the information gathered, so CNF has funded a study for (what we are calling) a Biodiversity Monitoring Unit. Stage 1, which will produce a few potential models for consideration will be completed in early 2021, after which consultations will be held to determine the best way to structure this crucial function (whether in a governmental department, NGO, university, or other modality). CNF will provide part of the funding for this unit with other partners.
Irakli Shavgulidze, Chairman of the Nature Conservation NGO "Nacres", stated: „CNF's commitment to improving biodiversity monitoring on Georgian protected areas not only involves actual monitoring on the ground but also intends to design and launch a cost-effective, sustainable institutional model of system-level biodiversity monitoring. Considering the highly participatory approach, with which the whole process has been dealt with, this initiative is viewed as a prerequisite of a much-anticipated real change in how biodiversity monitoring is conducted and, more importantly, how its findings are interpreted and used in order to ensure better management of Georgian protected areas."

In Armenia, CNF continued our support for the Red Deer Re-introduction Center in Dilijan National Park. As six more deer were brought in 2020 by our partner WWF and the population is growing (currently 7 males and 11 females), it was necessary to expand fencing to start having the offspring of "3rd generation" deer being born more in the wild – and away from human eyes. However, due to the coronavirus and conflict, works were delayed — they are now planned for 2021.
Also, due to the armed conflict in the region, the monitoring of mouflon (a wild endemic sheep thought to be the ancestor of all modern domestic sheep breeds) was postponed and is planned for 2021.

Resource Mobilization

To better understand the complex funding needs for PAs' management, CNF conducted a "Financial Needs Assessment (FNA) for Georgian PAs' System" which looked at what funding is necessary for basic versus optimal management. The results are being used by our partner at the Agency for Protected Areas to lobby the government for more funding and helps us allocate our funding resources in the way which makes the most long-term impact.

While Covid exposed the reliance of PAs throughout the world on tourism-related revenue, it still is an important source of potential long-term funding and, as the GEF-6 program is focused on improving the financial sustainability of Georgia's Protected Areas system, we supported another study which analyzed and proposed numerous possible revenue-generating projects/opportunities which APA then prioritized and selected. As a result of this study, concrete projects such as a design and construction of trails, shelters, and campgrounds in Nedzvi Sanctuary in Borjomi-Kharagauli National Park will result in more income generating opportunities for local communities which means a lessening of pressures on the forests. Additionally, a proposal for an innovative study and design has been funded by CNF for a tourism levy/bed tax and campsite for the Tusheti Protected Landscape, which has the potential to generate long-term funding both for protection as well as the maintenance of local roads and improved waste management. Concrete recommendations and construction will be implemented in 2021.

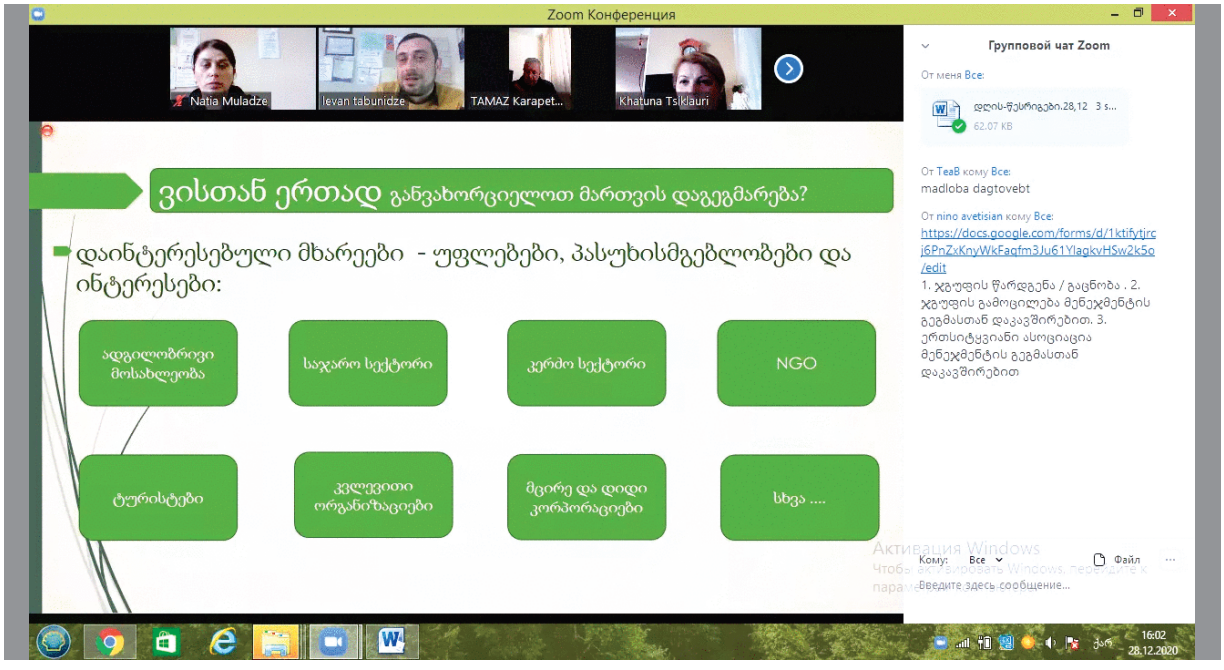
In Armenia, CNF supported the completion of a design and feasibility study for an eco-friendly walking bridge from Khosrov Forest State Reserve to the Garni community (over the "Symphony of Stones" canyon). Private investors have been identified and we have the support of the Ministry of Environment for this innovative project. 2021 will be crucial to build more local support for this idea to ensure its implementation benefits the local population as well as Khosrov, as CNF continues to support the diversification of income generation sources in our PAs.

Symphony of Stones, Armenia
Photo: CNF

Capacity Building

Besides the focus on diversifying revenue generating sources and biodiversity monitoring, the GEF-6 program has a major component on capacity building and in 2020 a comprehensive capacity analysis of both Georgian PAs and the Agency of Protected Areas was conducted. Areas such as leadership, financial management, human resources and first aid were identified, and CNF has agreed with APA priorities for 2020 and beyond. Due to the Covid-crisis and the inability to hold in-person trainings, CNF and APA decided to "go digital" and create an online platform for trainings. This library will be able to support induction of new staff as well as provide refresher trainings in the future. In 2020, the online training theme identified was illegal logging and law enforcement.

CNF will utilize lessons learned in Georgia in biodiversity monitoring, resource mobilization and capacity building to inform our program in Armenia in 2021 and beyond.

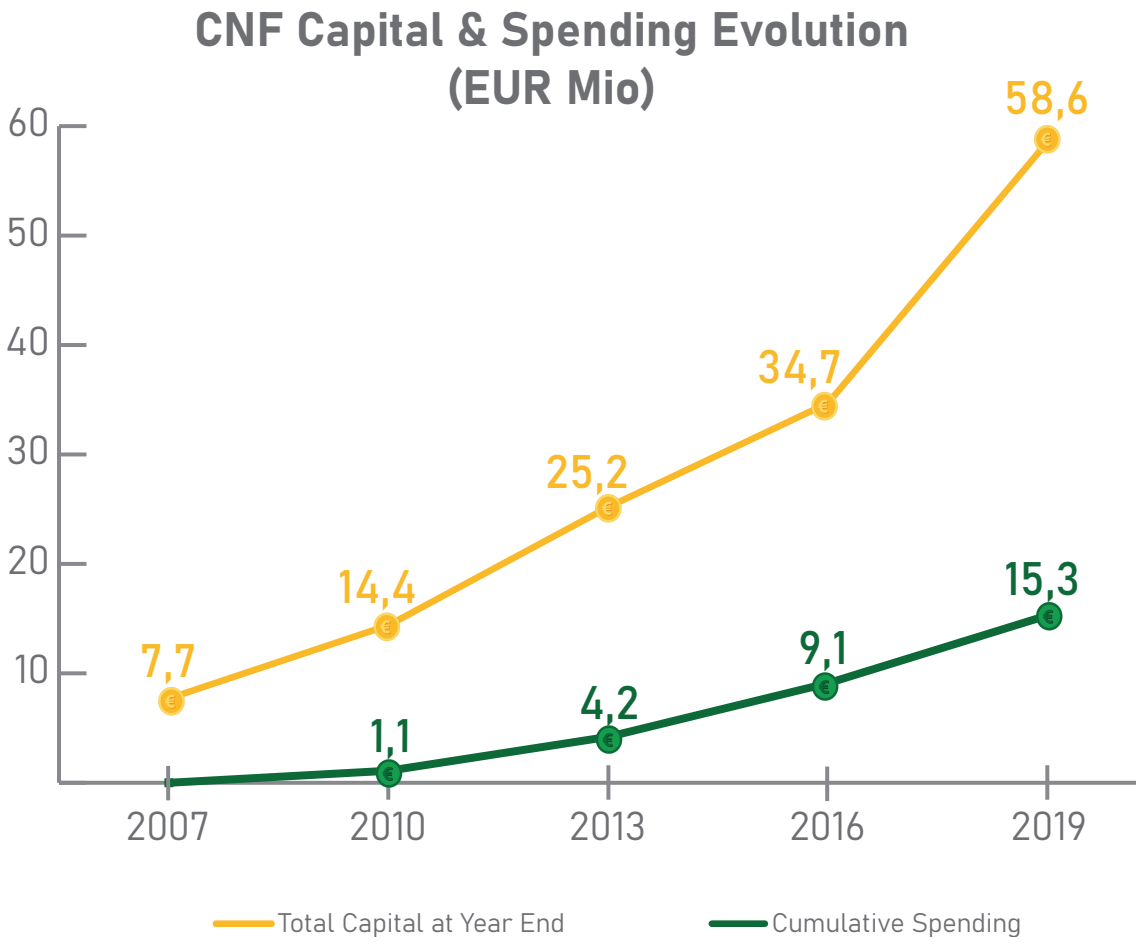


Online Training conducted by NGO Green Borjomi: Introduction of management plans, monitoring and evaluation methodology

Photo: CNF

CNF Funding Situation

Due to the generous contributions of all our donors, but especially the contributions of BMZ through KfW over the last five years, CNF's funding base has allowed annual program growth and will lead to the achievement of impressive impact in the coming years.



Challenges on the Ground (non-Covid related)

Priorities: Both governments have rightly prioritized rural economic development to improve the lives of citizens living in poverty. However, the lack of comprehensive and coordinated planning means that there are undue pressures on protected areas – both from local populations, the private sector, and governments. CNF is working with the governments and communities to increase awareness of the multiple benefits of PAs – including as a source of "environmental services" (clean air, clean water, etc.) and economic benefits from sustainable tourism. We are also working with PA administrations and Ministries, so they begin to diversify revenue generating resources away from tourism – which proved so fragile in 2020.

Capacity: Low human capacity, due to the lack of properly qualified staff and few training opportunities has been a long-term challenge for protection in the South Caucasus. CNF therefore is working to establish sustainable training programs - especially for rangers - to address this challenge. Additionally, low salaries effect morale, and this in turn has a negative impact on motivation – especially for rangers and senior park management, so a performance-based bonus criteria is being developed.

Community awareness: The recent conflict and economic situation due to Covid have put PAs under even more stress. But even before this year of crises, poverty and a lack of awareness of the long-term benefits which PAs provide has been a challenge. CNF will work more with PAs to ensure that their outreach into communities in and around PAs takes account of a sustainable use approach, ensuring people and nature benefit today and long into the future.

Tourists on winter tour, Algeti National Park
Photo: Agency of Protected Areas, Georgia

Photo: Aurel Heidelberg, WWF

FINANCIAL REPORT

The following should be read in conjunction with the 2020 audited financial statements and notes thereto, which we expect to publish in June 2021. All figures in this section are derived from the unaudited accounts. In the tables, the letters NM mean "not meaningful".

Balance Sheet

The following table shows a summary of our balance sheet.

Summary of Balance Sheet					
€ 000s / December 31, 2020					
Assets			***Equity & Liabilities***		
	2020	**2019**		**2020**	**2019**
Fixed Assets:			*Equity:*		
Property, Plant & Equipment	3	4	Foundation Capital	31,025	31,025
Financial Assets (Investment Securities)	44,188	27,349	Reserves	20,428	23,941
			Of Which:		
			Funding Capacity Reserve	17,770	21,279
			Free and Project Reserve	2,659	2,662
			Funds Carried Forward	258	844
Current Assets:			***Provisions:***		
Accounts receivable & other assets[1]	936	77	Miscellaneous Provisions	111	101
Cash & Cash Equivalents	6,776	28,511	*Liabilities:*		
Prepaid Expenses & Deferred Charges			Trade Accounts Payable & Other Liabilities	80	30
Total Assets	**51,903**	**55,941**	**Total Equity & Liabilities**	**51,903**	**55,941**

Assets

Total assets at year-end amounted to €51.9 million, a decrease of 7% compared to December 31, 2019, as the funding capacity reserve (sinking fund) was used to finance expenses. There were no new contributions to capital or reserves, and as discussed below, income was insufficient to finance the significantly expanded 2020 program.

Financial Assets amounted to €44.1 million on December 31, 2020. The significant increase during 2020 is due to the investment during the 1st quarter of 2020 of most of the €16.4 million BMZ/KfW contribution received at the end of the year 2019. This also explains the reduction in cash, which at the end of the year amounted to €6.7 million.

The cash reflects interest bearing term deposits with banks in the Caucasus which amounted to €2 million at year-end, and funds intentionally maintained in cash, partly as its own asset class in a low interest rate environment and partly to allow us to take advantage of new investment opportunities on an ongoing basis.

Equity & Liabilities

In 2020, CNF's capital (permanent endowment) was maintained to €31 million. However, the reserves altogether decreased by 6% reflecting the usage of the funding capacity reserve to cover the expenses of the CNF's grant program.

Income Statement

As background for the discussion of CNF's Income Statement it is important to keep in mind the different sources of our funds. CNF's spending sources include current use income in the form of (i) the interest and dividend income and realized gain or loss on our investments and (ii) current use donations. However, as it was recognized that these two sources would not be sufficient to finance CNF's operations for some time, a reserve classified as a "funding capacity reserve" was created to support CNF's expenditures as its other financing sources developed. The first funding capacity reserve was donated by BMZ/KfW and is reflected as part in two separate contributions in 2010 and 2012, created a total "sinking fund" of €12 million. Spending of these funds began in 2012 and they must be fully spent by 2030. In 2019, there was a new addition to the funding capacity reserve of €16.4 million that must also be fully spent by 2030, which left a total of €21.3 million remaining in the reserve at December 31, 2019. Of this amount, €3.5 million was utilized in 2020. Because utilization of this reserve is reflected "below the line", CNF shows a loss from its operations and will continue to do so as the reserve is utilized, and CNF's other financing sources are further developed.

Revenues

CNF's net revenue is composed of our Net Investment Income/Loss and our Revenue from Donations and Grants.
In 2020, CNF booked a total investment loss of €146,592 due to losses on the portfolio during its re-positioning in response to the Covid-19 pandemic. As discussed under the investment section below, unrealized gains (not shown in our financial statements) more than offset this loss.

Income and Expenses		
(amounts in Euro)		
	2020	2019
Income		
Net Investment Income	-146,592	1,213,951
Donations	535,045	286,432
Net Revenue	**388,453**	**1,500,384**
Grant and Other Expenses		
Projects & Other Expenses	-4,167,558	-1,940,419
Administrative & Fundraising Expenses	-319,354	-273,058
Total Grant and Other Expenses	**-4,486,912**	**-2,213,478**
Net Income (Loss)	**-4,098,459**	**-713,094**
Transfer from Reserves	3,512,928	1,602,103
Transfer to Reserves	0	-433,468
Funds Carried Forward from Previous Year	843,605	388,064
Funds Carried Forward	**258,074**	**843,605**

Net Investment Income

The following table shows the development of our Investment income/loss.

Net Investment Income			
(amounts in Euro, except %)			
	2020	2019	Increase/ Decrease
Ordinary Income*	620,348	444,220	40%
Realized Capital Gain/Loss	-909,849	1,151,101	-179%
Foreign Currency Gain/Loss Net	438,116	-175,270	-350%
Total Investment Income (net of foreign currency loss)	**148,615**	**1,420,051**	**-90%**
Less Investment Expenses	-295,206	-206,100	43%
Net Investment Income	-146,592	1,213,951	-112%

*Consists of: dividends; interest and similar Income and fund distributions

Turbulent capital markets in 2020 resulted in the investment committee and our discretionary managers re-positioning certain elements of the portfolio during the market downturn, resulting in a capital loss of almost €910,000. Partially offsetting these losses were increased ordinary income from our investments as well as significant currency gains from our hedging activity as the dollar weakened. Overall, we recorded a small investment loss in 2020 after a significant gain in 2019. As discussed below under "Investment Returns", the 2020 investment performance was overall positive on a total return basis.

Donations and Grants

In 2020, revenue from Donations and Grants include donations from private donors (corporate and individual donors), as well as funding from the Global Environment Facility (GEF) through UNDP. Private donors are a significant source of flexible funding for CNF, although these donations fluctuate significantly from year to year especially in a relatively small organization like ours; in 2020 they were down 21%. At the end of 2018, CNF was awarded a new €1.5 million project grant from GEF/UNDP for enhancing the financial sustainability of the Protected Areas system in Georgia. In 2020, we received the second tranche of this grant in a total amount of €393,798.

The development in revenue from grants and donations is shown in the following table.

Donations & Grants			
(amounts in Euro, except %)			
	2020	2019	Increase/ Decrease
Private Donations	141,247	179,615	-21%
GEF-6/UNDP	393,798	106,817	269%
Total Current Use Donations	**535,045**	**286,432**	**87%**

Expenses

CNF expenses consist of grant and project expenses, administrative and fundraising expenses.

Grant and Project Expenses

Of total CNF expenses in 2020 (€4.4 Mio), almost 93% are grant and project expenses which were used for our core mission; the rest covered administrative, fundraising and communications costs. The following table shows the development of CNF's grant and project expenses.

Grant & Project Expenses			
(amounts in Euro, except %)			
	2020	2019	Increase/ Decrease
Grants to Protected Areas	1,279,295	1,260,350	2%
Other Grants	2,283,615	284,824	702%
Consulting & Other Projects	367,240	202,959	81%
Total Program Grants & Projects	3,930,151	1,748,134	125%
Project Development, Technical Assistance & Monitoring - Internal	230,887	172,230	34%
Project Monitoring - External	6,520	20,055	-67%
Total Direct Program Support	237,407	192,285	23%
Total Program Grants & Expenses	**4,167,558**	**1,940,419**	**115%**

In 2020, the volume of the CNF program grants and projects increased 125% because CNF paid emergency grants to ensure continued operations of our partners in Armenia and Georgia during the Covid-19 Pandemic crisis to cover governmental budget shortfall. The emergency grants are reflected in the Other Grants line, which increased as a result by 702%. Our main Grants to Protected Areas' program was up only slightly year-on-year.

Since 2014, CNF has increased its targeted technical assistance program in the form of grants to consultants for planning and other purposes in the protected areas, as well as an expansion of our consulting work around biodiversity monitoring, protection, eco-tourism and management effectiveness. This program continued in 2020 at a substantially increased volume, principally financed by our GEF-6/UNDP grant.

Internal project development, technical assistance and monitoring expenses reflect mainly our staff costs in developing and managing our program and includes our direct engagement in strategic planning with the responsible government agencies and the protected areas themselves. The 34% increase in 2020 is explained mainly by salary increases for our long-serving Caucasus project staff, the overlap in the Executive Director position for two months at the end of the year, and a shift of an external project monitoring consultant to staff.

Administrative and Fundraising Expenses

Our administrative and fundraising expenses mostly reflect part of the salary of our Executive Director in the Caucasus, audit and bookkeeping services as well as the CNF portion of the partnership with Prespa Ohrid Nature Trust, Blue Action Fund and the recently joined Legacy Landscapes Fund in the funding of the European shared services support organization, Nature Trust Alliance.

Administrative & Fundraising Expenses			
(amounts in Euro, except %)			
	2020	2019	Increase/ Decrease
Administrative Expenses	307,789	242,272	27%
Fundraising & Communication Expenses	11,565	30,786	-62%
Total Administrative & Fundraising	**319,354**	**273,058**	**17%**

Administrative expenses increased 27% in 2020 due mainly to the Covid-19 Pandemic. The time that the Executive Director dedicated to administrative tasks (ensuring travel restrictions, precautions to avoid physical meetings and other safety precautions) was higher than in previous years. The two month overlap in Executive Directors also contributed to the increase. Fundraising and communication expenses decreased also in 2020 due to all the pandemic restrictions. For a review of our administrative efficiency ratios, see page 30.

Net Income, Reserves and Funds Carried Forward

In 2020, CNF's net income is its Net Revenue of €388,453 minus its total expenses, and as discussed above, the loss reflects that the spending of the funding capacity reserve is considered as a "transfer from the reserve" and therefore is shown later in the income statement. Until the funding capacity reserve is fully utilized, CNF's overall financial health is best reflected in its funds carried forward and their relationship to the developments in its balance sheet, including additions to its endowment and transfers to and from reserves.

Net Income, Reserves and Funds Carried Forward		
(amounts in Euro)		
	2020	2019
Net Income	-4,098,459	-713,094
Transfer to Free Reserves	0	-433,468
Transfer to Project Reserves	0	0
Transfer from Funding Capacity Reserve + Project Reserve (2030 Sinking Fund)	3,512,928	1,602,103
Funds Carried Forward from Prior Year	843,605	388,064
Funds Carried Forward	258,074	843,605

CNF is carrying forward €258,074 to 2021. These funds are the investment income carried forward from 2019 that has not been spent yet and are intended to finance the administrative and fundraising/communication portion of our expenses in 2021, and perhaps a portion of our program. This reflects CNF's current strategy to provide, to the extent possible, for at least the coming year's administrative and fundraising expenditures with funds carried forward from the prior year. For as long as we have the sinking fund, most of CNF's program expenses are expected to be covered by the sinking fund transfers. Current use donations, and in good years, investment income that cannot be transferred to reserves, will also contribute.

Efficiency Measurements

It is difficult to compare efficiency levels across different organizations in the charitable world. We believe there are two main reasons for this. First, there are a number of different and difficult to compare operating models and second, there is no clear consensus on cost categories underlying various cost items such as administrative expenses. We also believe that the best we can do is to be clear and transparent about how we account for expenses and the operating ratios that we use. For a full explanation, please visit our website.

As an organization we follow two ratios, the evolution of which you can follow in the table below for the last five years.

With the administrative expense ratio, we seek to ensure that the costs incurred to run our foundation are not out of line with our overall expenses including the grant program. We seek to ensure that administrative expenses are well below 15% of the total,

and in recent years, with our maturing grant program, that has been the case. The ratio decreased to 7% in 2020 due to the substantial increase in the program expenditures caused by the emergency grants.

With the program delivery ratio, we track the costs we incur in delivering the program (i.e. in developing and monitoring our grants) in relation to our overall program costs. We are primarily a grant making organization — and for the most part are not direct implementers of our projects. As such, we seek to control the cost of delivering our program, while at the same time keeping in mind the capacities of our grantees, their need for our support in developing their projects and the important monitoring necessary to ensure our funds are properly spent and making an impact. Here again, the emergency grants reduced this ratio significantly in 2020.

Efficiency Measurements / Expense Ratios					
Ratio	2020	2019	2018	2017	2016
Administrative Expense Ratio[1]	7,1%	12,3%	16,8%	22,3%	21,8%
Program Delivery Ratio[2]	5.7%	9.9%	11.4%	12.7%	17.7%

(1) Administrative Expenses (cluding Fundraising)/Total Expenses
(2) Total Direct Program Support/Total Program and Grant Expenses

Investment Returns

CNF's income statement reflects investment income in the form of dividend and interest income and realized capital gain or loss but does not reflect the underlying increase or decrease in the value of its investment portfolio (unrealized capital gain or loss). CNF follows closely the total return on its investment portfolio (the combination of earned income and realized gain or loss and the unrealized gain or loss). In 2020, and despite the volatile markets, CNF had an overall performance of 3.6%. Our investing activity contributed an overall increase in the value of our portfolio of €1.9 million in 2020.

Our investment program has managed an overall return on invested assets of 22.9% (5.1% per year) over the five-year period 2016-2020.

March 2021

Tobias Muenchmeyer
Executive Director
(from December 16, 2020)

Geof Giacomini
Executive Director
(until December 15, 2020)

Acknowledgements and Farewell from Geof Giacomini

Progress, especially in a pandemic year was slow, but as Khalil Gibran writes: "Progress is not in enhancing what is, but in advancing toward what will be", and that is always a struggle--and always takes more time than expected, especially in the South Caucasus. Therefore, I am grateful for the patience of everyone mentioned below as we have certainly, though slowly, advanced in 2020 (and previous years) towards "what will be".

After five years of working for and with them, I am convinced I have the most supportive Supervisory Board in existence and so I first want to thank them for their commitment, expertise, support, and guidance as we together have expanded and improved our organization during my tenure; this is something that we all can be proud of.

I am also most grateful to the members of our Investment Committee, where Al Breach and Johan Holgersson (and new member Alexandre Manghi) join CNF board members Ronald Kent and David Morrison in donating their time and expertise to ensure that CNF's investments produce a return that helps grow our capital and fund our ever-growing program.

The people I work with every day - CNF's Country Directors Arman Vermishyan in Armenia and Tea Barbakadze in Georgia - not only deserve but have certainly earned my thanks for making everything we do better. GEF-6 Program Manager Tamar Pataridze is somehow able to balance the components of to this extremely complex program, and because of her, we accomplished much in 2020 and are set for an even more impactful 2021. My sincere thanks to Alba Carreras and the NTA team in Frankfurt for your support (and friendship) which allows us here to focus all efforts on our core task – supporting people and conserving nature in the South Caucasus. Thanks also to Markus Knigge from Blue Action Fund and Mirjam de Koning of PONT who have worked with me to develop the NTA partnership. It has been a pleasure learning with and from you.

Finally, outside the organization, special thanks to Alvaro Berriel for his support over the years, and our best wishes to him in his new role with KfW. I am happy to welcome Alvaro's successor Frank Moerschel to his new responsibilities.

CNF is in capable new hands and I want to highlight how impressed I am with my successor Tobias Muenchmeyer. Within one month he not only grasped the nature of CNF but also identified our main challenges and priorities and began creating strategies to address them. I wish Tobias the best of luck and success.

Thank you all again for your support in 2020 and over the past five years. I will miss you all but look forward to the prospect of meeting again in one of our beautiful parks--or anywhere else. Until then,

Geof Giacomini
Executive Director
(March 2016 - December 2020)

Borjomi-Kharagauli National Park , Georgia
Photo: Elizabeth Streeter/Rangers Without Borders

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