

Sustainable Finance

For Protected Areas

Business-Oriented Financial Planning, an ingredient for PA financial success

The Nature
Conservancy



Marlon Flores, Global Protected Area Team
CBD Capacity Workshop. Rome, Italy, February 11th 2008

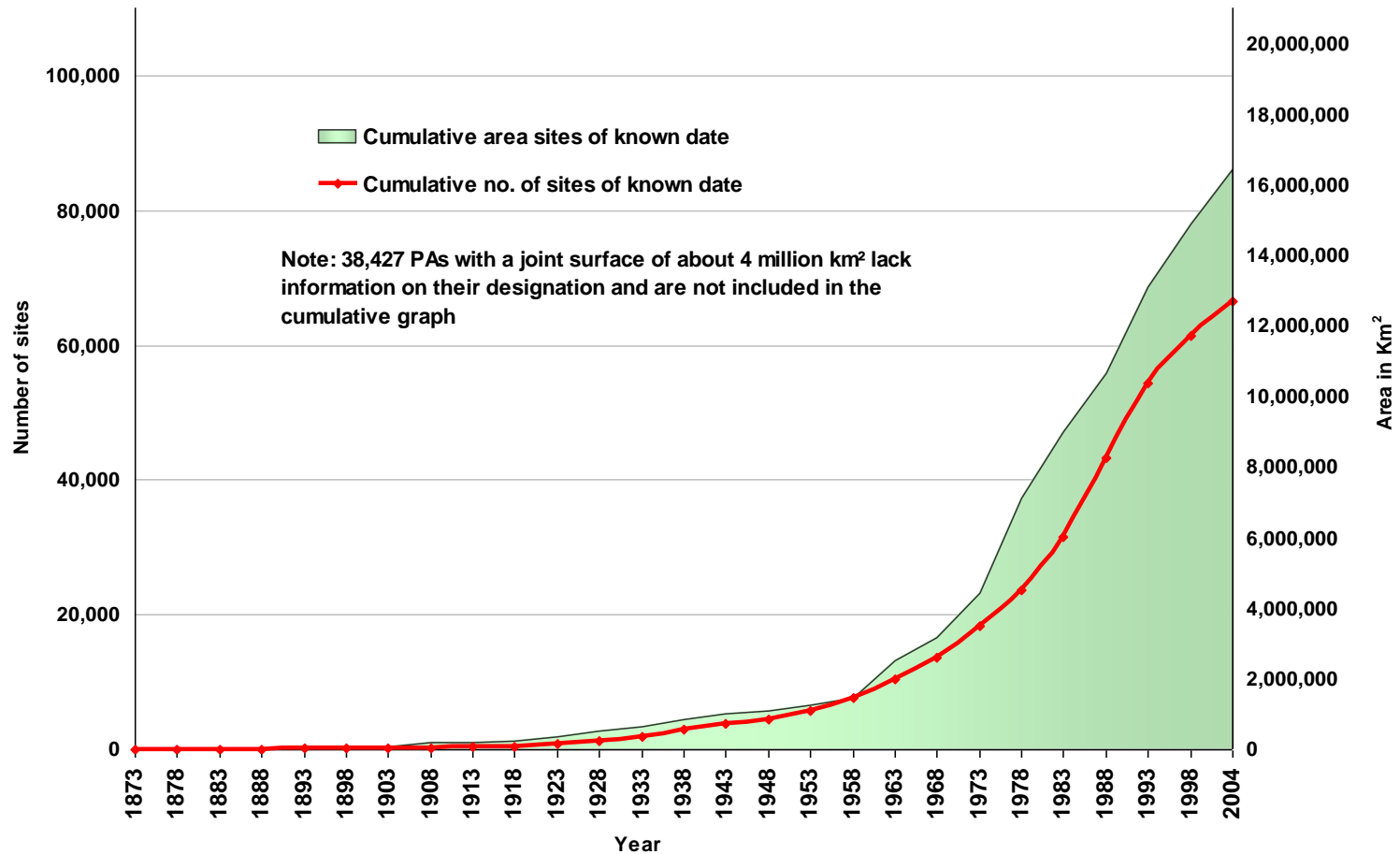
Objective

A the end of this presentation, you will have increased your understanding of:

- What is sustainable finance and business-oriented financial planning
- How business planning is instrumental in defining your PA objectives & goals
- How business-oriented financial planning is instrumental in achieving PA financial goals
- Business planning (what and how to do it) that can be adapted to the context of PA in your home-countries
- The benefits of business-oriented financial planning

Your input is critical to further develop this business-oriented approach

Increasing number of PA and PA coverage



Source: Chap, S., Harrison, J., Spalding, M., and Lysenko, I. 2005. "Measuring the extent and effectiveness of protected areas as an indicator for meeting global biodiversity targets" and IUCN.

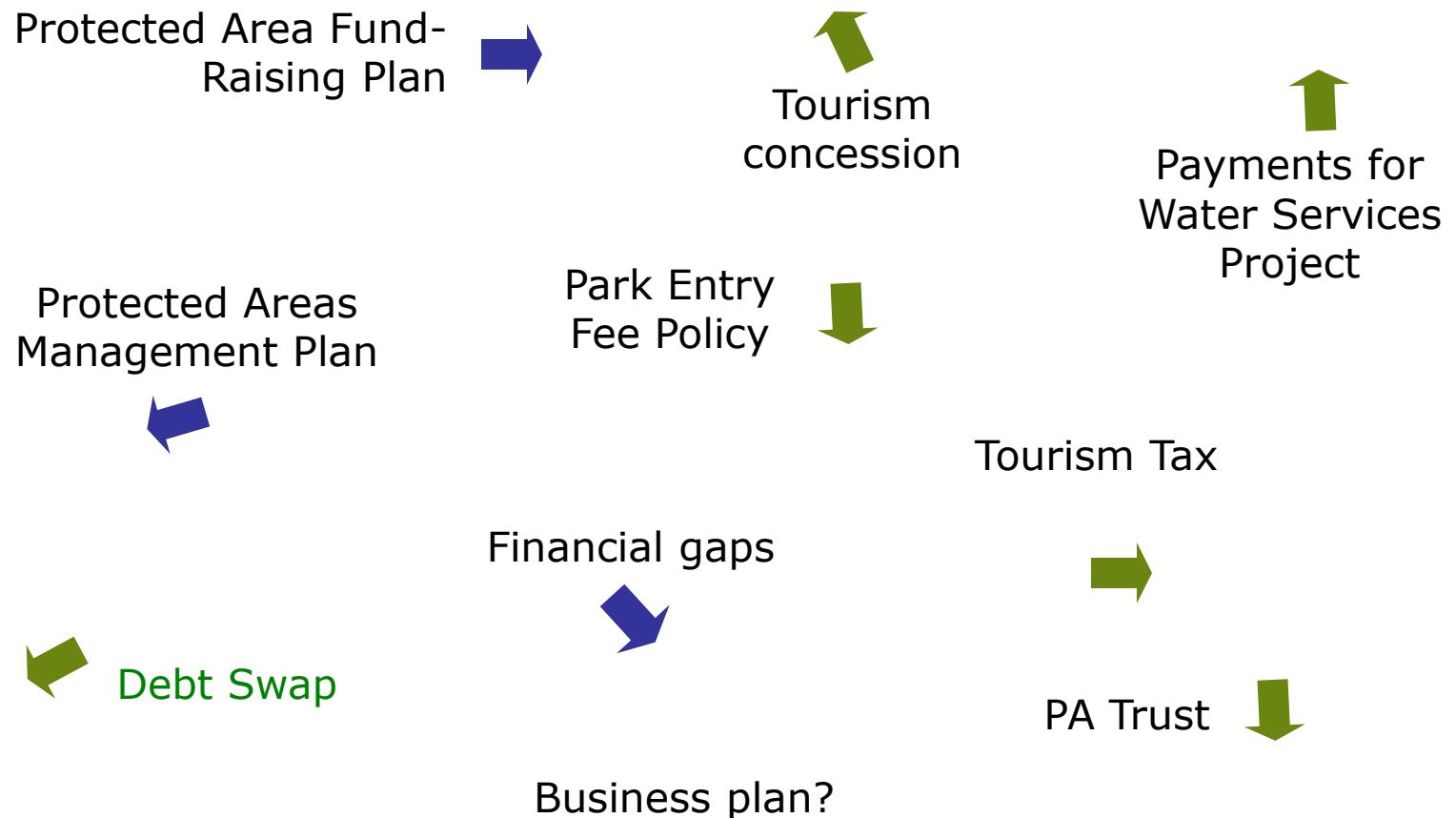
Traditional Approach to PA Financial planning

- Wish-list for international donors
- Limited diversification and no business approach
- Lack of incentives to promote behavioral change
- Absence of business-oriented planning tools and skills
- Absence of operational business plans based on:
 - Accurate assessment of financial needs
 - Cost reduction strategies
 - Diversification of market-based income sources
 - Cost-efficiency assessment of financial options
 - Implementation plans
 - Strategic allocation of revenue
- Limited governance

Traditional Approach to PA Financing

- Not linked to the National Development Agenda
- Site level approach and project based (e.g., USAID-PiP / GEF Projects)
- Endowment Funds:
 - Insufficient to fully finance PA needs
 - Partly solve problems of government capacity
 - Don't stimulate generation of revenue from PA
 - Disincentive for the creation of laws on direct revenue generation or retention for PA
 - Risk of low interest rates
 - Limited impact, often too small (under 5M)

Disconnected Financial Mechanisms and Plans

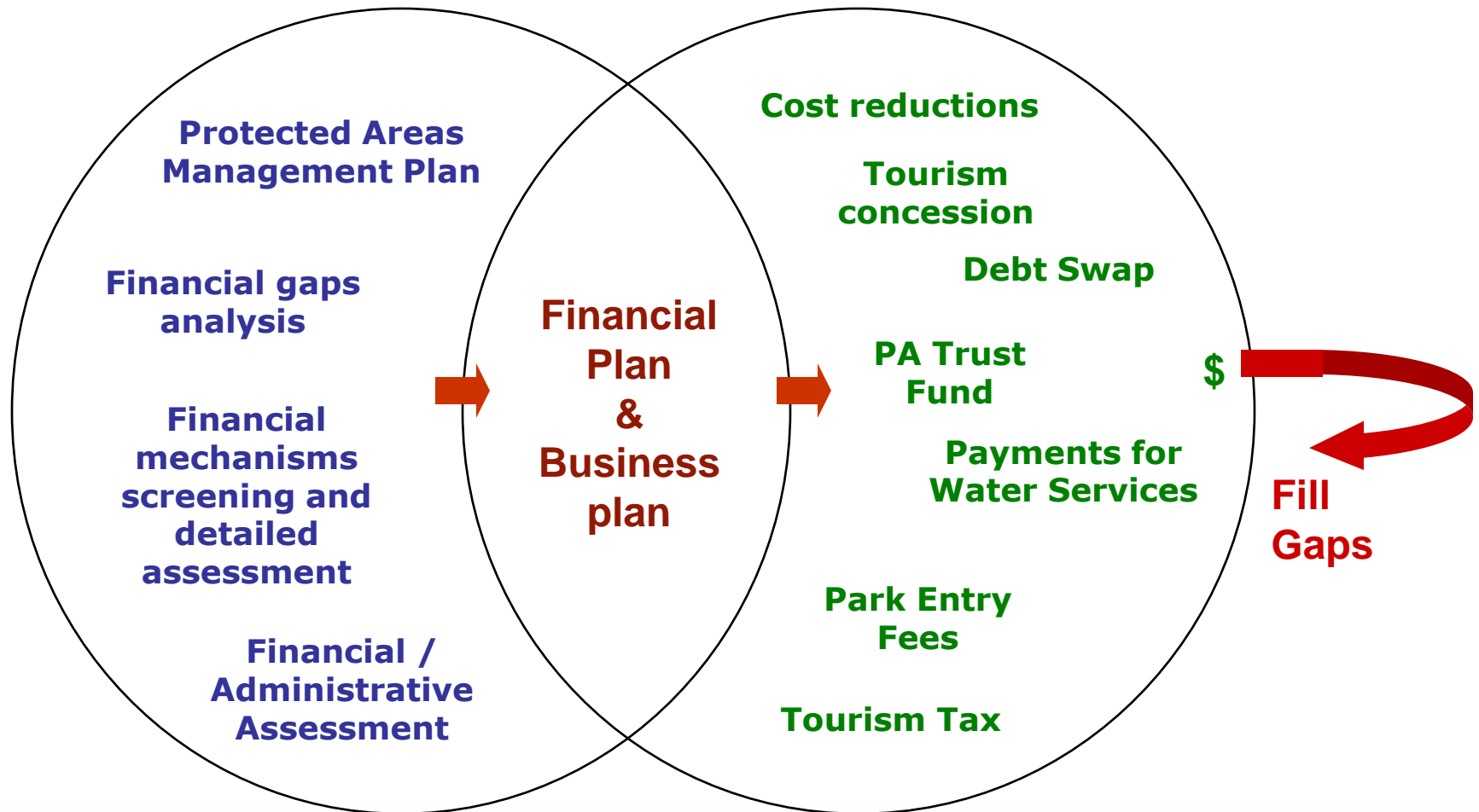


Designed Finance Mechanisms and Plans

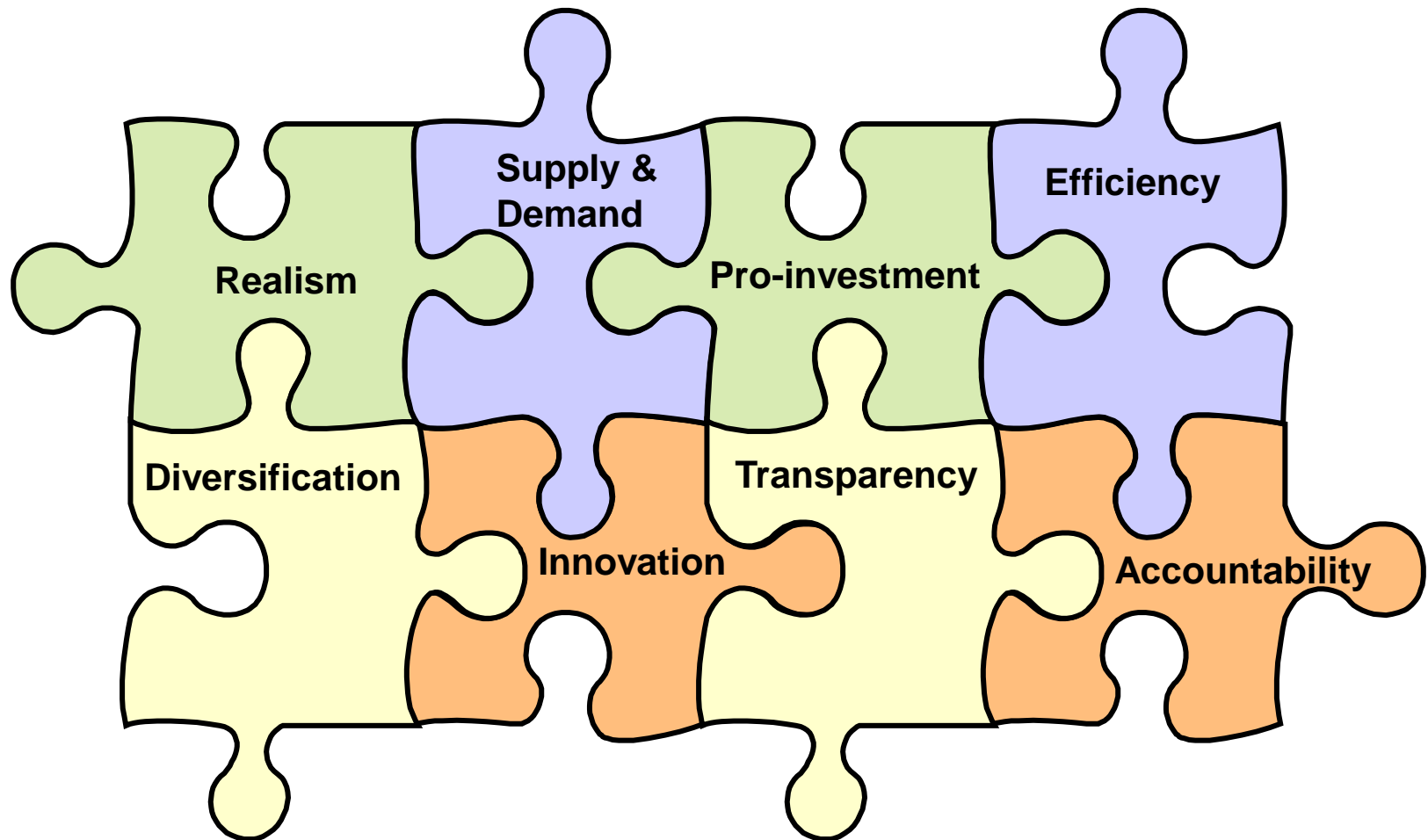
Assessment

Formulation

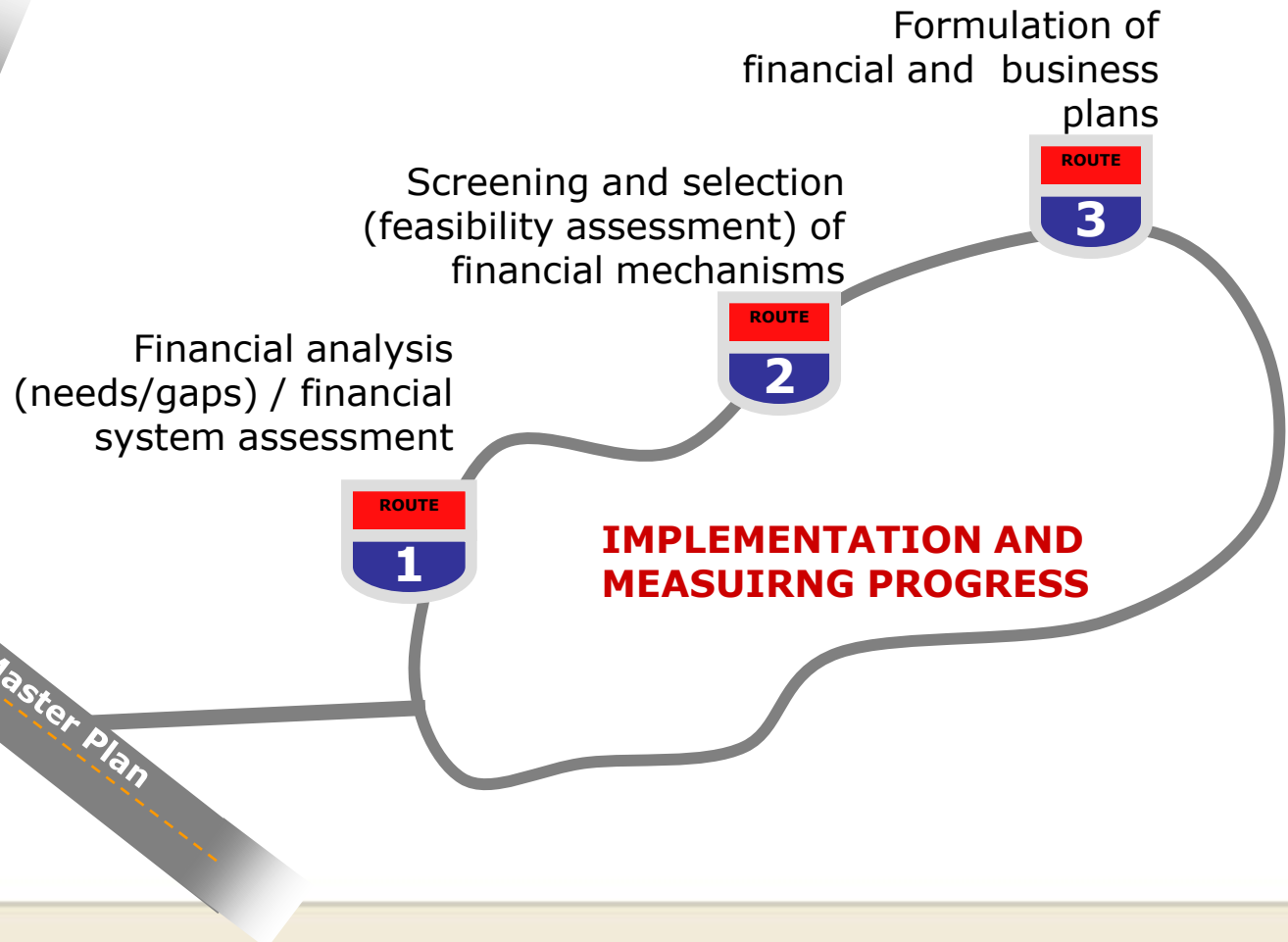
Implementation



Indispensable business principles



Financial Planning Roadmap



Financial Analysis



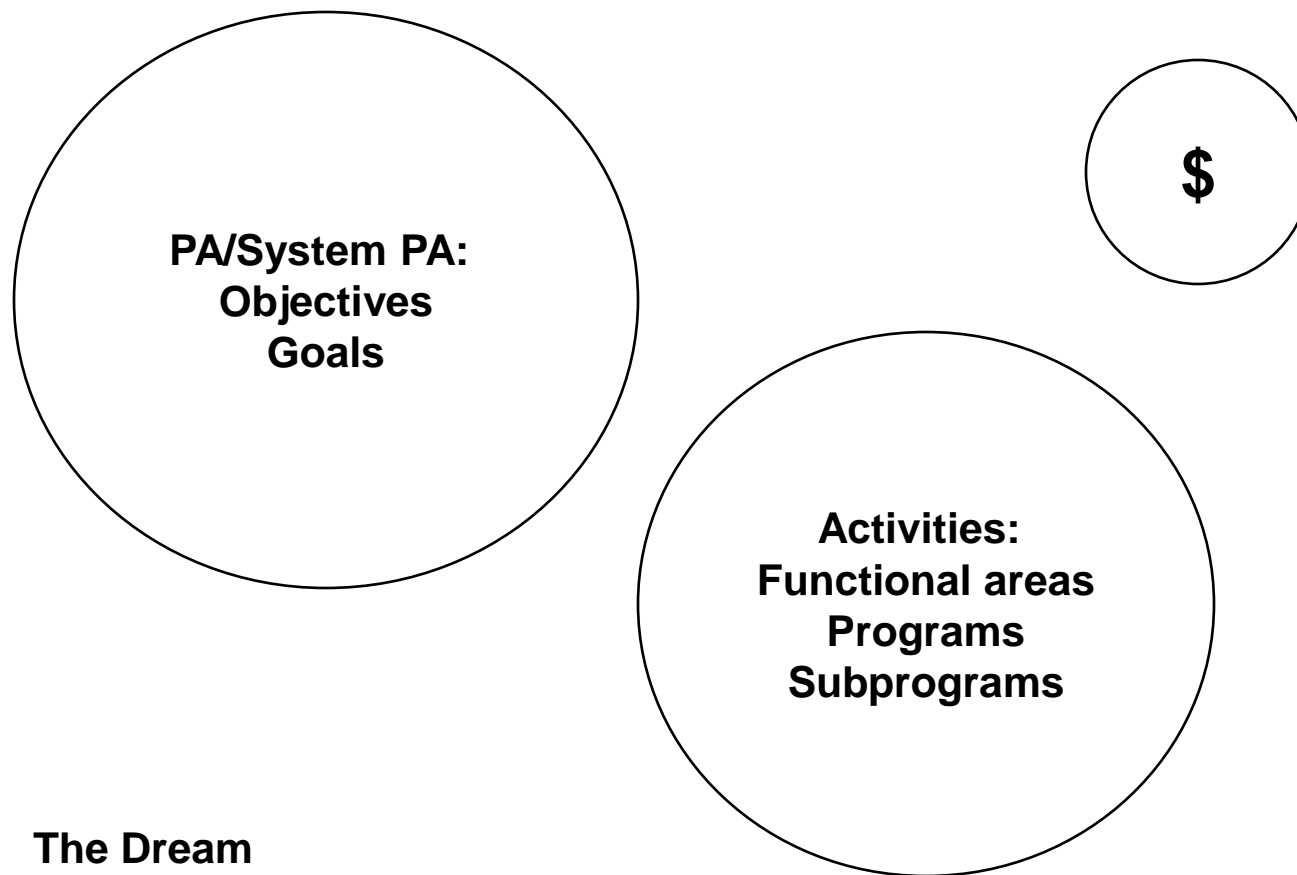
Financial Analysis

Key aspects:

- To identify the key objectives required to reach those goals
- To identify the metrics necessary to measure progress
- To be able to identify the financial needs of the PA and its financial gaps using an ABC accounting process
- To be able to justify additional funding or investments in program activities

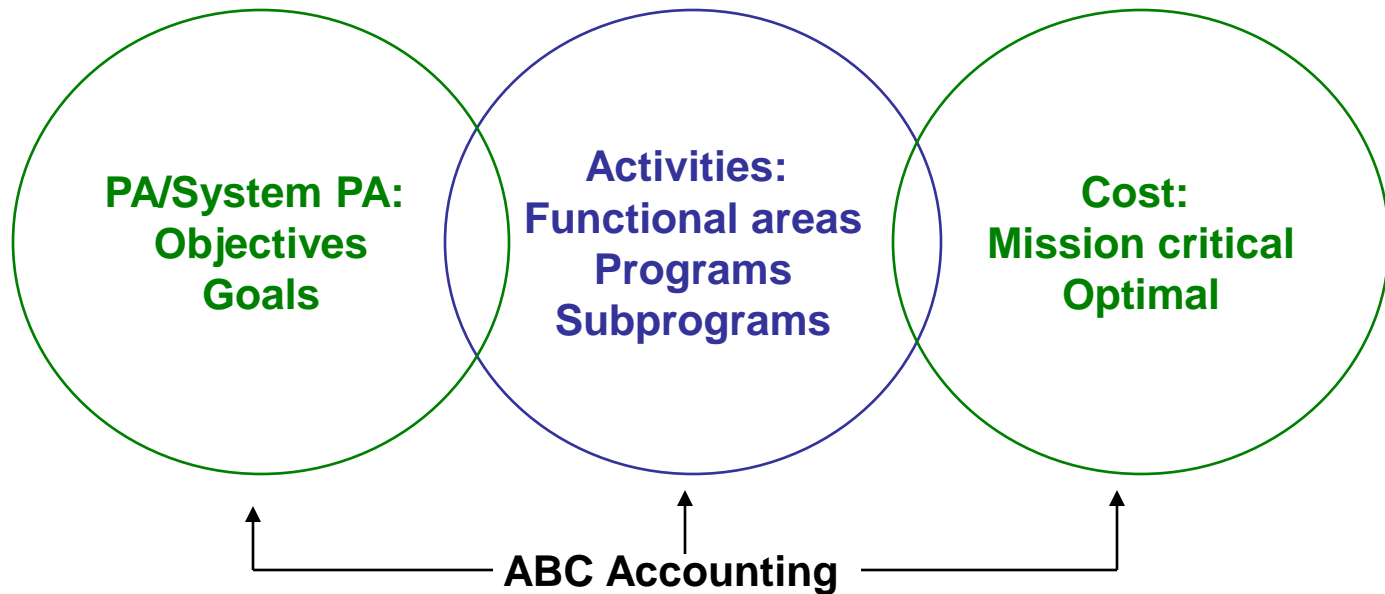
Functional area	Programs Areas		
Resource Management and Protection	Patrolling & Enforcement	Scientific Monitoring and Research	Habitat Res. and Ma
Community Development and Outreach	Formal Environmental Education	Public Outreach and Information	Ar. Liv
Tourism and Recreation	Recreation Fee Collection	Concessions and Recreation Special Uses	Vis. & P
Commercial and Commodity Uses	Timber and Forest Products	Special Commercial Uses	Fish (Ma Re
Management and Administration	Planning	General Management & Administration	Fir. Ma
Facility Operations and Maintenance	Docking Facilities (Marine)	Buildings, Grounds and Utilities	Tr

Linking PA Objectives & Goals with Financial Resources



The Dream

Linking PA Objectives & Goals with Financial Resources



From Dream to Reality!

Activity-Based Cost Accounting (12 step process)

Key aspects:

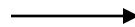
- **Separate all activities into program areas**
- List the key metrics for mission critical and optimal states
- List the operational metrics for each program
- Gather the necessary expenditure data for the last completed financial year
- Allocate expenditures and investments by program area
- Calculate the resources required to meet mission critical and optimal states
- Calculate the gap between currently available resources and required staff, non-staff and investment resources
- **Complete the summary financial statement**

Sample Sheet of Functional Areas / Programs

Functional area	Programs Areas					
Resource Management and Protection	Patrolling & Enforcement	Scientific Monitoring and Research	Habitat Restoration and Wildlife Management	Zoning and Boundaries	Wild land Fire Management	Cultural Resource Management
Community Development and Outreach	Formal Environmental Education	Public Outreach and Information	Alternative Livelihoods	Community Capacity Building		
Tourism and Recreation	Recreation Fee Collection	Concessions and Recreation Special Uses	Visitor Safety & Protection	Visitor Education & Interpretation		
Commercial and Commodity Uses	Timber and Forest Products	Special Commercial Uses	Fishing (Marine Resources)	Non-renewable resources		
Management and Administration	Planning	General Management & Administration	Financial Management	Partnership Relations	Information Technology	
Facility Operations and Maintenance	Docking Facilities (Marine)	Buildings, Grounds and Utilities	Trails	Campgrounds and Picnic Facilities	Fleet Operations and Maintenance	Roads

Activities that occur in the PA

- **Functional areas** are composed of programs, which are the categories of operational activities that occur within a protected area.
- **Program areas** are the parts of operations that require separate management and revolve around a discrete activity or set of activities.



Metrics

- The **mission critical state** describes the minimum level required to operate the program while meeting basic program requirements.
- The **optimal state** describes the ideal state of the program if all necessary funds, personnel and other resources were available to achieve that state.

Metrics

FS plan Detail Sheet: Natural Resource Management Program			
Date started:			
Date completed:			
Detail sheet owner:			
Program Description			
Program goals			
1			
2			
3			
4			
5			
Program Metrics	Mission critical level	Optimal state level	Current level
1			
2			
3			
4			
5			

Notice that these metrics are specific, measurable, achievable, and realistic and where necessary also have a time frame

Functional area / program goal	Mission critical	Optimal
Removal of invasive species	50%	80%
Indicator species populations are strong and healthy	50%	80%
Number of poaching incidents is less than	20/year	5/year
Number of hectares deforested less than	10/year	5/year
Water quality (particulate/pollution levels) in major streams at	200ppm	400ppm

Calculating Financial Gaps

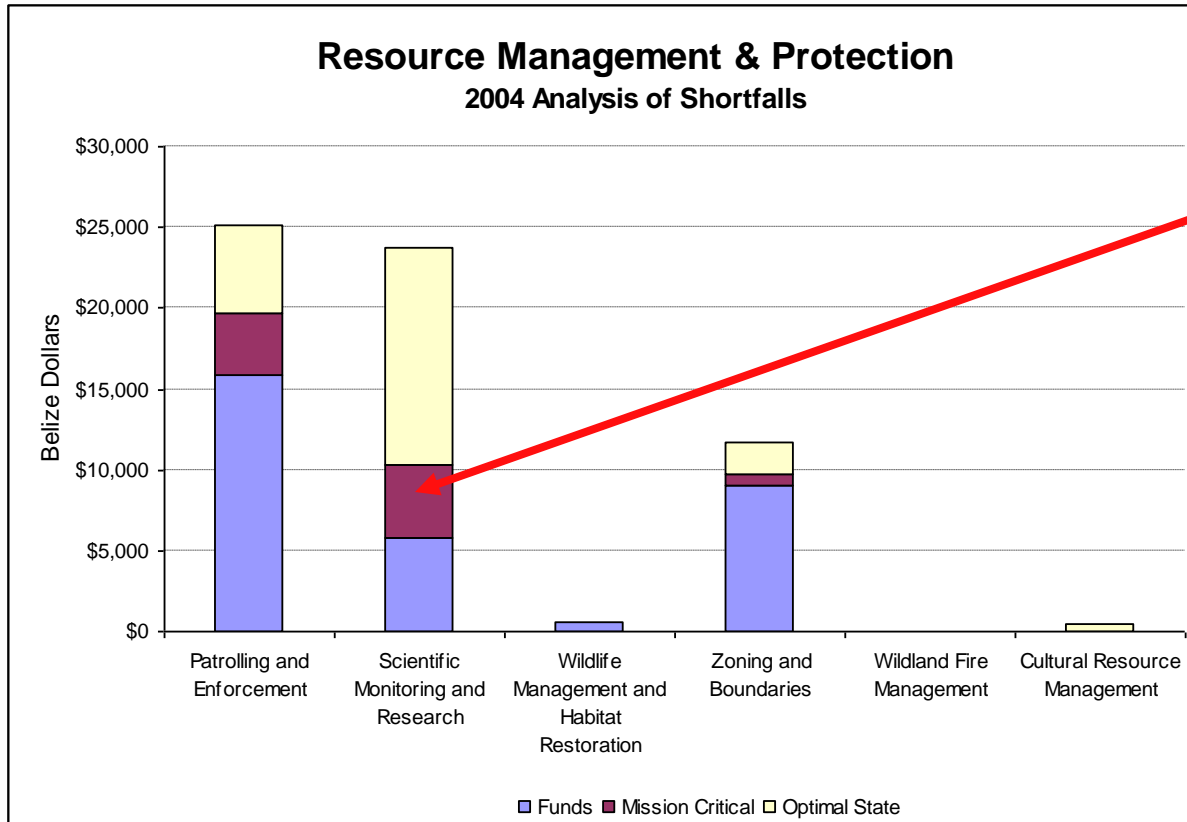
Resource Allocation - Scientific Monitoring and Research Program Area						
Program			Gap			
			Mission Critical level		Optimal level	
	Position	Salary	FTE	Funds	FTE	Funds
Staff - FTE						
Staff person A	Manager	\$40,000	0.25	\$10,000	0.75	\$30,000
Staff person B	Biologist	\$38,000	0.50	\$19,000	1.00	\$38,000
Staff person C	Biologist	\$30,000	0.25	\$7,500	0.50	\$15,000
Staff person D	Researcher	\$20,000	0.50	\$10,000	1.00	\$20,000
Staff person E	Researcher	\$20,000	0.25	\$5,000	0.50	\$10,000
Staff person F	Lab Technician	\$25,000	0.50	\$12,500	1.00	\$25,000
FTE Subtotal			2.25	\$64,000	4.75	\$138,000
Non-Staff Resources						
Vehicles				\$10,000		\$10,000
Training				\$500		\$1,500
Maintenance & equipment				\$1,000		\$1,500
Travel				\$500		\$2,000
Contracting & consulting				\$2,000		\$3,000
New computer equipment				\$10,000		\$20,000
NSR Subtotal				\$24,000		\$38,000
Total				\$88,000		\$176,000
Investments						
Construction of new wildlife monitoring station				\$0		\$0
International endangered species inventory project				\$0		\$0
Renovations to existing laboratory				\$20,000		\$30,000
Investments Subtotal				\$20,000		\$30,000
Grand Total			2.25	\$108,000	4.75	\$206,000

Costs Reduction Opportunities

- Personnel/salaries/ equipment
- Programs / activities
- Strategic alliances/ volunteers
- Improved financial systems (Funds management)
- Co-management of PAs



Financial Gaps



Gaps: difference between existing funding and needs

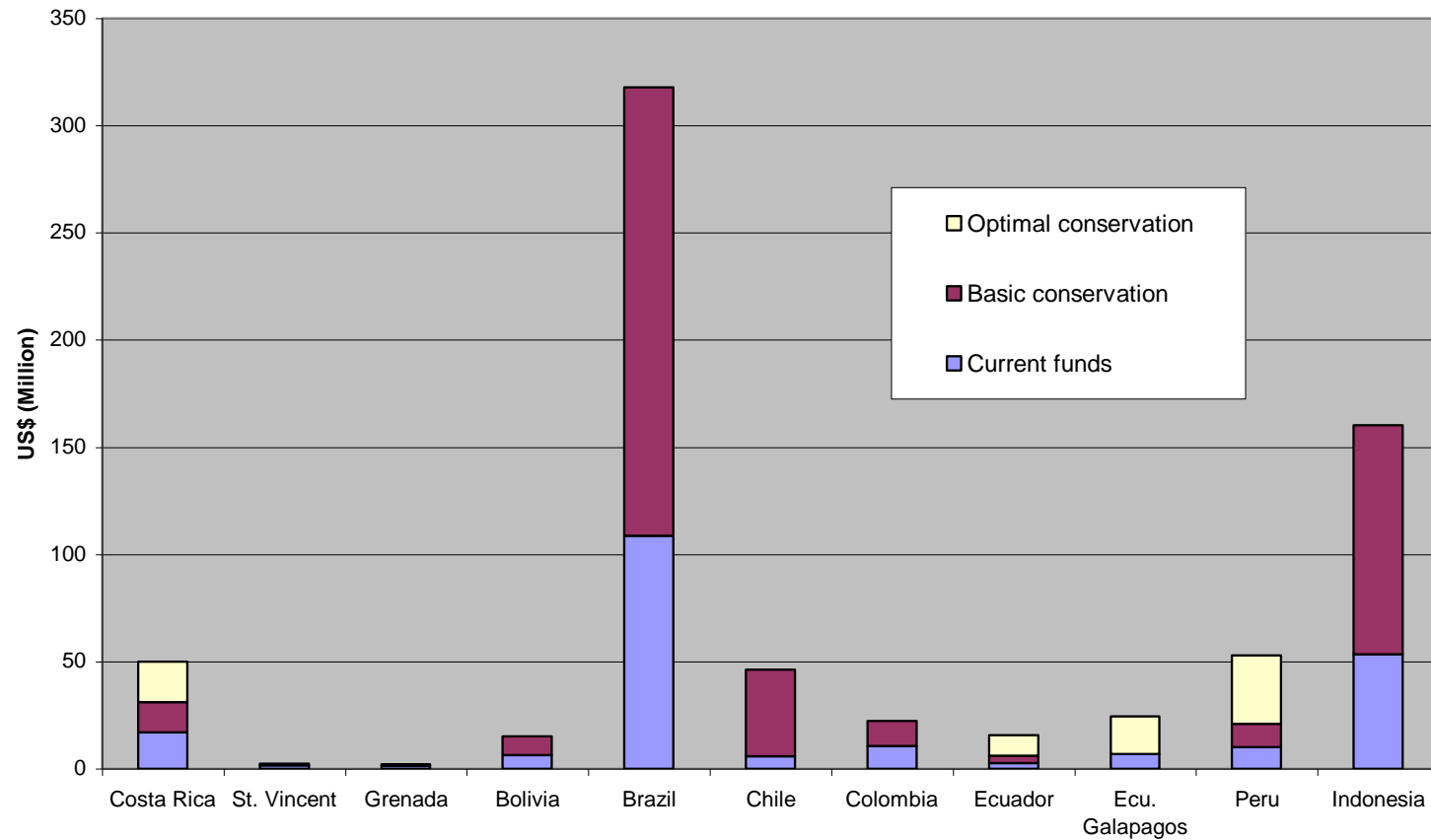
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PA Financial Summary Sheet

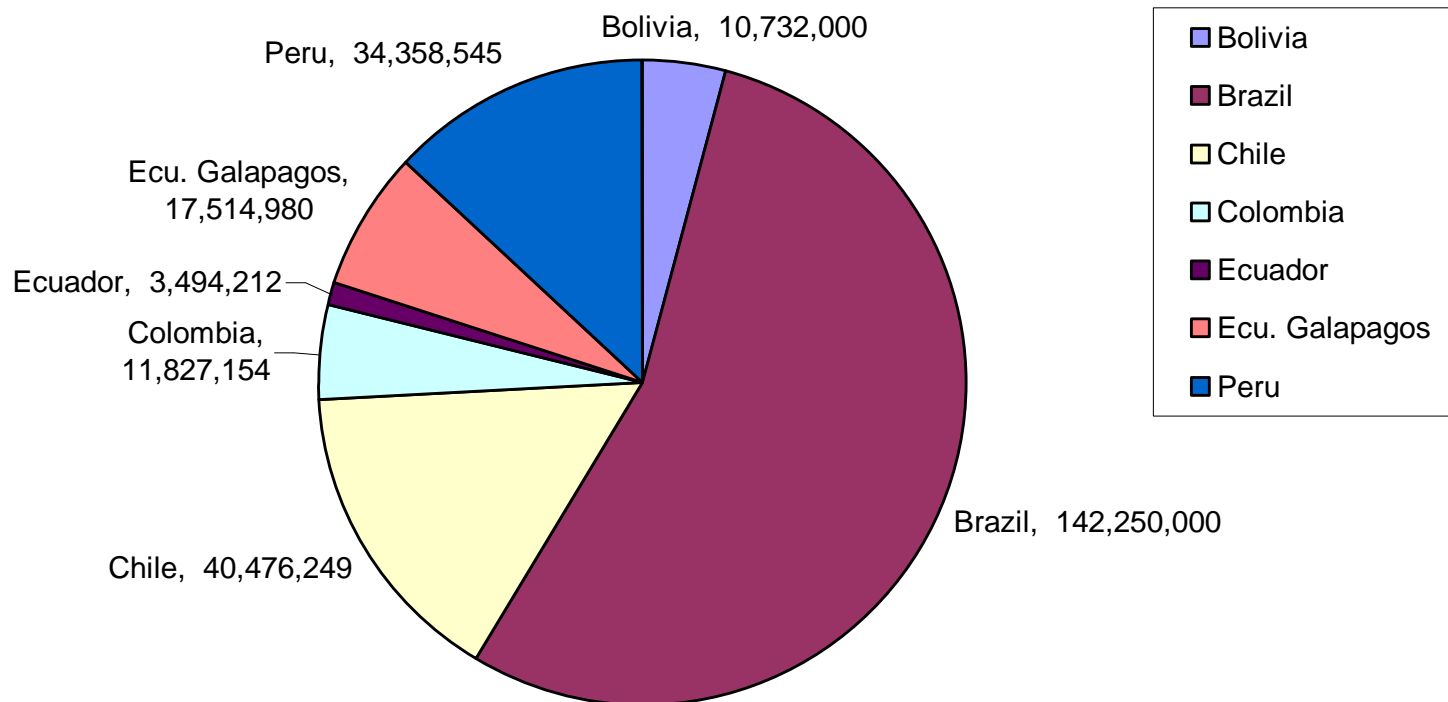
FUNCTIONAL AREAS AND PROGRAMS	REQUIRED		AVAILABLE					SURPLUS(DEFICIT)	
	FTE	Funds	APPROPRIATED		NON-APPROPRIATED		TOTAL	FTE	Funds
			Base	Non-base	Reimbursable	Revenue			
RESOURCE MANAGEMENT									
Wildlife Management	7.8	\$501,255	\$209,105	\$28,873	\$1,240	\$27,791	4.5	\$267,008	(3.3) (\$234,247)
Vegetation Management	2.5	\$191,128	\$61,183	\$14,726	\$0	\$0	1.1	\$75,909	(1.4) (\$115,219)
Heritage Resources	2.5	\$191,128	\$61,183	\$14,726	\$0	\$0	1.1	\$75,909	(1.4) (\$115,219)
Data Management	2.5	\$191,128	\$61,183	\$14,726	\$0	\$0	1.1	\$75,909	(1.4) (\$115,219)
Watershed & Air Management	2.5	\$191,128	\$61,183	\$14,726	\$0	\$0	1.1	\$75,909	(1.4) (\$115,219)
Land Ownership & Adjustment	4.2	\$284,205	\$152,612	\$112,097	\$1,096	\$6,934	4.2	\$272,740	0.0 (\$11,465)
Specialty Designated Areas Management	17.5	\$1,035,507	\$332,392	\$209,873	\$45,538	\$39,533	10.5	\$627,336	(7.0) (\$408,171)
Subtotal	39.5	\$2,585,480	\$938,841	\$409,748	\$47,874	\$74,258	23.7	\$1,470,721	(15.8) (\$1,114,760)
PUBLIC USE & ENJOYMENT									
Interpretive Services & Education	0.1	\$4,732	\$3,817	\$8	\$0	\$0	0.1	\$3,824	0.0 (\$908)
Visitor Safety & Protection	0.7	\$54,795	\$38,912	\$159	\$116	\$5,030	0.7	\$44,217	(0.1) (\$10,579)
Recreation Fee Collection	5.5	\$236,840	\$103,448	\$48	\$3	\$1,220	2.2	\$104,719	(3.3) (\$132,121)
Visitor Centers & Public Points of Contact Ops	15.7	\$549,558	\$28,194	\$1,836	\$4,702	\$263,701	11.0	\$298,434	(4.6) (\$251,123)
Concessions & Recreation Special Uses	8.6	\$444,006	\$233,704	\$1,460	\$516	\$60,342	6.8	\$295,023	(1.9) (\$147,983)
Subtotal	30.5	\$1,289,931	\$408,075	\$3,512	\$5,338	\$330,292	20.69	\$747,217	(9.8) (\$542,713)
FACILITY OPERATIONS & MAINTENANCE									
FO&M Management & Administration	5.5	\$296,675	\$152,007	\$11,420	\$373	\$25,620	4.3	\$189,419	(1.2) (\$107,256)
Buildings & Grounds	1.9	\$157,481	\$73,267	\$6,122	\$0	\$11,535	1.8	\$90,924	(0.2) (\$66,557)
Roads	0.8	\$40,929	\$18,849	\$0	\$0	\$1,695	0.7	\$20,819	(0.1) (\$20,110)

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Financial Gaps



Estimated annual gap 2005-2006 (selected countries): USD 261 Million



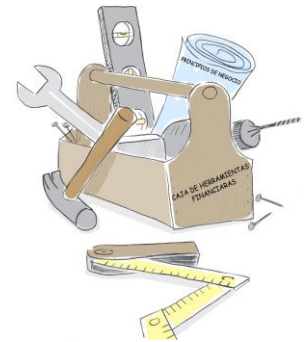
Progress on Financial Gap Analysis

Region / Country in US Million	Estimated annual needs of the system of PA	Estimated annual income to PA from domestic & international sources	Composition of existing income		Current Financial Gap of the PA System	
			% of domestic	% international	Basic	Optimal
Costa Rica	36	17	80%	20%	14	19
Grenada	2.2	1.4	80%	20%	0.8	?
St Vincent	2.5	1.5	80%	20%	1	?
Brazil	185 (F)	108 (F)	90%	10%	77	?
Ecuador	6.2	2.7	70%	30%	3.5	9.2
Peru	41.8	10	20%	80%	14	31.8
Indonesia	160.3	53.3	71%	29%	106.9	?

F: Federal level only

Financial Analysis & Planning Tools

- CFA Conservation Finance Guide (www.conservationfinance.org)
- Activity-based costing (CPM/TNC): US, Grenada, Jamaica, Belize, Bahamas (conserveonline.org/workspaces/patools)
- MYCOSIS (World Institute for Conservation and Environment –WICE): (http://www.birdlist.org/cam/honduras/hn_parks_study1.htm)
- Country hybrids: Ecuador, Peru, Colombia, Costa Rica, Indonesia
- UNDP's Sustainable Finance Scorecard (undp.org)
- TNC Financial Planning Guide (coming in May 2008)
- UNESCO-TNC-CFA On-line Training Program on Business Planning for Protected Areas, Available now. <http://www.capps.wsu.edu/SustainableFinance/>

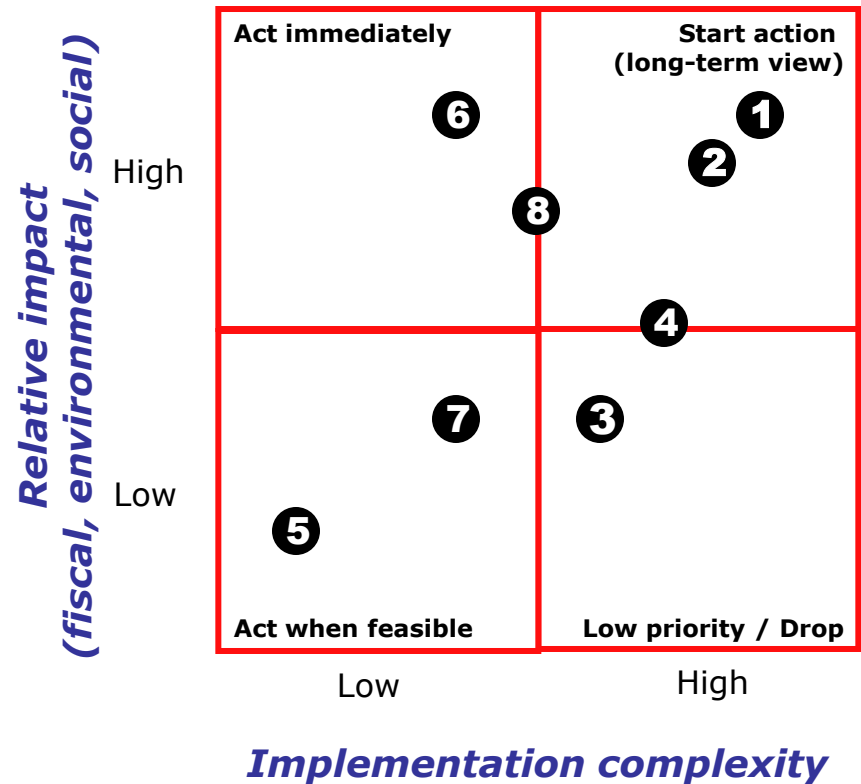




Screening & analysis of Financial Mechanisms

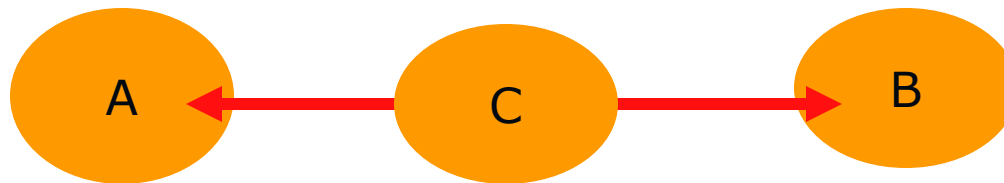
Screening of Financial Mechanisms (1)

1. Entry fee reform
2. Water user's fee
3. Voluntary contributions in restaurant and hotel bills
4. PA trust
5. Collection of spare currency
6. Co-management with Amigos of The Park Foundation
7. Gift & merchandise shop
8. PA volunteer program



Screening of Financial Mechanisms (2)

- A. Identification of goods and services (G/S) of PA
- B. Search for potential customers (investors) for the identified G/S
- C. Determination of the financial mechanism to tie investors to the identified goods and services (taxes, fees)



Pay for pre-investment cost ?

Feasibility Analysis of Financial Mechanisms

Focuses on identifying two or more operative models to implement a financial mechanism. Based on this analysis, the best operational model can be selected.

- Description of different options
- Advantages and disadvantages
- Market analysis: customers, demand, competition, market, costs, suppliers, location, resources, staff.
- Political viability and fiscal reform (legal/regulatory)
- Social viability
- Financial Analysis (investment /return)
- Risk analysis
- Comparative analysis
- Recommendations

Diversification: “Don’t put all your eggs in one basket”

- Risk management principle of investment policy
- Reduce dependency on international and government funding
- Promotes income generation / retention, and formulation of fiscal law
- Address government’s capacity issues



Market and Non-market based Financial Mechanisms

- International:
 - GEF grants
 - Multilateral & Bilateral: Grants, projects, conditional lending
 - Foundations
 - Intl. NGOs
 - Corporations



Formulation of Financial and Business Plans



Formulation of Financial and Business Plans

Financial Plan:

- strategic document that includes the financial background of the protected areas
- summarizes protected area income, needs and financial gaps
- implementation plan for the diverse financial mechanisms (FM) that will be used to address needs and fill financial gaps.
- different strategies to address legal and institutional reform to enable the implementation of the plan.

Business Plan

- Financial management tool, integrated to the financial plan.
- Used to ensure that the full economic potential of the chosen financial mechanisms are achieved.
- Defines all the implementation aspects of the operative model of a selected financial mechanism.
- Focuses on the single best operating model of a financial mechanism; and incorporates a marketing strategy

Business Approach to Protected Area Entry **Pass**

Pass and/or use	Duration	Form of payment	Purchase place
<ul style="list-style-type: none"> Admission to one protected area (PA) Admission to various PAs (regional or municipal) Admission to all PA of the system Scuba diving pass Hunting pass Camping pass Special event pass Special guided tours pass Horseback riding pass Fishing pass Research pass 	<ul style="list-style-type: none"> One day pass Weekly pass Monthly pass Yearly pass Seasonal pass* Yearly corporative pass Annual pass for the schools** Vehicle pass (small up to 7 people / large up to 30 people) 	<ul style="list-style-type: none"> Cash Credit card Debit card Air miles*** Electronic payments (e.g. <i>Paypal</i>) Exchange for goods or services^ Gift cards 	<ul style="list-style-type: none"> Supermarkets Banks Internet PAs Local and national government agencies Tourism agencies Consulates abroad Hotel chains

* Spring, summer, fall, winter.

** Paid by the Ministry of Education, academic institutions of private sector enterprises

*** In collaboration with international and domestic airlines

Pass price may also vary during low and high seasons !

Financial Planning Logic

SYSTEM-LEVEL MASTER PLAN

Financial Plan

- PA System background
- Objective
- Financial background
- Summary of financial gaps
- Summary of investment priorities
- Summary of financial strategies (mechanisms)
 - financial mechanisms
 - feasibility analyses
 - **business plans**
- Financial monitoring and evaluation
- **Action plan**

Business Plan

- Description of mechanism
- Marketing plan
- Operations
- Financial projections
- M & E
- Dedicated staff

Action Plan

- Activity program for non-market based financial mechanism
- **Implementation of business plans of (market based-mechanisms)**
- Legal, regulatory, administrative reform
- Resources (budget)
- Staff & Decision making
- Communications plan



Progress on Business Planning

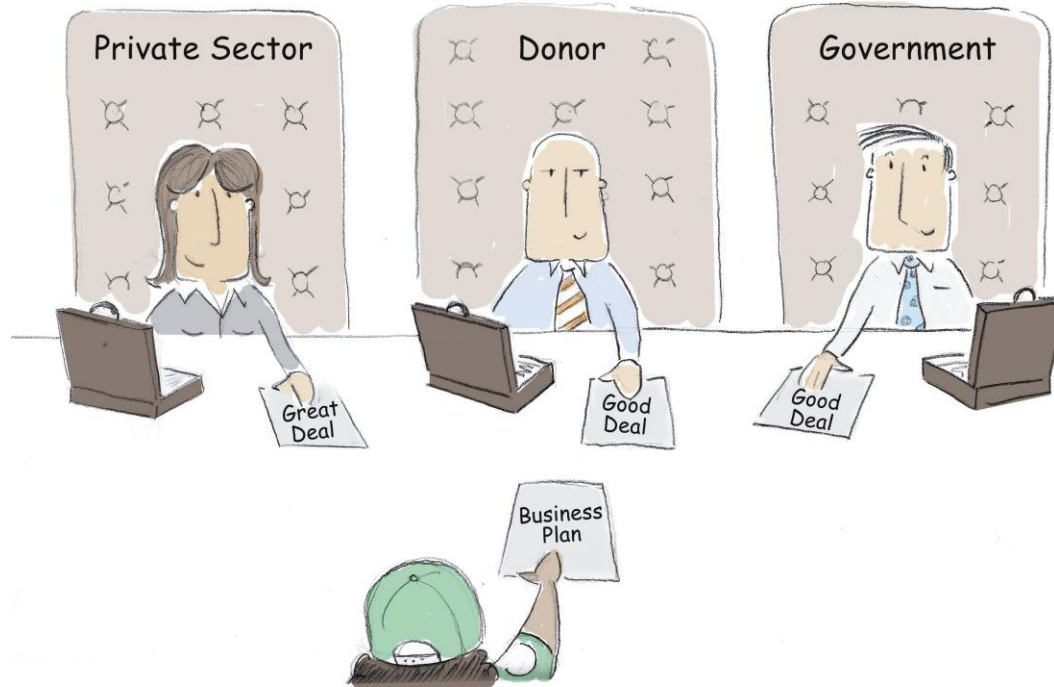
Country	Financial gap analysis	Pre-selection of financial mechanisms	Assessment of financial mechanisms	Governance assessment (laws & regulatory framework)	Formulation of business plan (system and sites)	Implementation of financial / governance action plans
Costa Rica	Completed	In progress	In progress	In process	In process	In process
Grenada	Completed	Completed	In progress	Completed	In progress	In progress
St Vincent	Completed	Completed	In progress	Completed	In Progress	
Bahamas	In process	In progress	In progress	In progress	In progress	
Brazil	Completed	Completed	In progress	In progress	In progress	
Colombia	Completed	In progress	In progress	In progress	In progress	
Ecuador	Completed	In progress	In progress	In progress	In progress	
Peru	Completed	In progress	In progress	In progress	In progress	
Indonesia	Completed	In progress				
Palau	Completed	In progress				

Why do we need Business-oriented Financial Plans?

- Promotes behavioral change to embrace a business approach
- Aligns financial opportunities with PA objectives and decision-making
- Anticipate financial shortfalls and propose remedies
- Screening of financial options determines whether the investment of time, effort and expense is worthwhile
- Market analysis helps to understand strengths and weaknesses and anticipate adjustments to achieve financial goals
- **The public, government decision-makers, donors and the private sector will see a PA manager as a business professional with clear goals.**

Sustainable Finance

MAKING DEALS



PA managers can be business professionals with a clear idea of where they are, where they are going and how they are going to get there!

The Financial Sustainability Scorecard is up next

