

Creating a Protected Area Business Plan: Overview of the process and components recommended by the Global Conservation Fund

Introduction

What is a Protected Area Business Plan?

The goal of the protected area business plan is to guide the financial development which will be required to fully implement the site's management plan. A business plan should describe the finances and financial management needed to implement a protected area management plan. The plan should also identify financial sources and opportunities provided by a protected area.

A business plan is a precondition to GCF support for most long-term financing projects. The purpose of this document is to provide an overview of GCF's view of protected area business planning and an explanation of its importance for our long-term financing grant approval process. We also intend to provide some guidance as to the components GCF looks for in reviewing applicant's business plans.

A well crafted business plan will include a detailed long-term financial plan, an analysis of current and potential revenue-generating opportunities and a plan for capitalizing on those opportunities. It will likely include an analysis of available revenue streams, possibly including an endowment fund, and how the revenue streams might be jointly applied to protected area management. This analysis in particular, within the context of a GCF-supported project, may be the first step in developing a long-term financing mechanism.

GCF Guidelines

There are several components and levels of analysis that should be included in a protected area business plan. We have outlined these components below, including the type of data and information needed and the outcome expected from each piece. The business plan should not be static and that the components outlined below are not necessarily drafted in consecutive order. The document should develop as each analysis is completed, and resulting information should be used to refine other parts of the plan.

In general, most Protected Area Business Plans include a

- I. **Long-term Financial Plan;** and a
- II. **Business Plan Narrative.**

Thus we have divided the document into these two sections, along with a specific section on the design of a **Long-term Financing Mechanism.**

There are a number of good resources available to assist with the process of creating a business plan for a protected area or protected area network. Rather than replicate that work, we have included references to some of the most useful documents as **Additional Resources.**

I. Long-term Financial Plan

Costing Analysis

The first step and core component of the business plan is a thorough documentation of all the costs involved in managing the protected area. This document should provide cost estimates for the following:

- Administration and general operations;
- Surveillance and enforcement;
- Monitoring, evaluation and research;
- Equipment and maintenance, including physical infrastructure to be purchased or maintained on a recurring basis;
- Outreach and education;
- Alternative income generation programs; and
- Any other activities or programs vital to the successful management of the site(s).

Most of the information required to complete this can be found within current and past budgets. However, some essential components (e.g. monitoring, infrastructure) may not have been fully supported or implemented to date. Therefore, it is important to consider future needs as well as past costs.

Additionally, many project budgets are broken down by cost type (salaries, equipment, etc.) whereas it is often useful for a protected area's ongoing financial plan to be organized by functional/programmatic area or activity such as those listed above. Doing so allows direct correlation to the management plan and may provide a clear picture of which components of management are the most costly or could be made more cost effective, etc.

The costing analysis should detail at least two scenarios:

- Optimal: The full suite of activities and programs that would provide full and comprehensive management of the site.
- Basic: The most essential or core costs that must be covered at all times in order to effectively manage the site.

Revenue Analysis

Once the costs of managing the area are estimated, the current and projected revenue streams should be analyzed. This part of the financial analysis should evaluate:

- Secured sources of revenue and how these streams of revenue will be used to cover the costs (e.g. government funds or in-kind contributions may cover only salaries, grants from donors may be for particular activities); and
- Planned and projected sources of revenue. (Note that the analysis described in the Business Plan section below will provide more detailed information for the planned and projected revenue component.)

Specific funding needs or gaps are identified through comparing costs to revenues at this stage. For GCF projects, this financial gap analysis helps to inform the potential role and desired size of an endowment fund to address the gaps.

Long-term Financial Plan

The costing and revenue information is further elaborated in a detailed multi-year financial plan (minimum of 5 years; 10 years is ideal) that incorporates the figures from the costing and revenue analysis, as well as the following:

Costs

- Protected area start-up costs transitioning to recurring costs;
- Maintenance or improvements to infrastructure;
- Periodic upgrading/purchase of equipment/technology;
- Any planned land acquisition or expansion of protected area boundaries;
- Additional costs due to future threats; and
- Inflation and/or market fluctuations

Revenues

- Projected growth in endowment capital through interest earned and/or fundraising, noting that:
 - Endowment funds are generally undercapitalized at the outset; and
 - It will take at least one year after an endowment fund is established before any income generated on the capital will be available for use.
- Best estimates of future revenue streams, noting that:
 - Projections should be estimated conservatively; it may make sense to ascribe percentage confidence levels or even apply risk discounts to assist with planning;
 - Capital investments may be required to pursue some revenue streams (e.g. building roads and facilities for tourism, conducting enhanced monitoring for carbon offset program); and
 - Income from certain activities (e.g., ecotourism, carbon) may be limited in early years and grow slowly over time.

The financial plan should include two or three scenarios representing best, worst and likely cases for markets, revenues, etc.

The financial plan should be adaptable, so that updates can be easily made by the protected area managers to costs, revenues and other variables in the projections. It is important that the document should be easy to understand by those who will actually be managing the finances for the protected area. If a consultant is employed to complete this work, GCF highly recommends that the consultant be required to involve staff in the process and train those who will be responsible for on-going financial management.

II. The Business Plan Narrative

In general, the business plan narrative should “identify the area's financial goals, how it plans to achieve the goals, and the milestones that will be used to measure progress.”¹ The narrative describes the financial opportunities offered by a protected area, provides recommendations on those opportunities that are most cost-effective and viable, and outlines a strategy for pursuing them. To do this, the plan must draw on the data from the long-term financial plan and a wealth of additional information about the site and region.

While the audience of the detailed long-term financial plan is primarily the protected area managers, the narrative section of the business plan should be designed to serve as a marketing and communications tool for the protected area. The audience is likely to include donors, government agencies and investors of various types. Therefore, the business plan should be clear and compelling, and should inspire confidence in the level of financial capacity of the protected area managers.

Components of the Narrative

The business development plan should include:

- A general description of the site and its management structure based on the management plan;
- Key sections of the financial plan (often displayed in charts and tables) along with a description of methods and assumptions;
- A overview of the “goods and services” that the site provides and the markets and competition that may exist for those goods and services now and in the future;
- A detailed assessment of the start-up and ongoing costs of pursuing the most viable sources of revenue for the site (often two or three sources);
- A detailed assessment of the assumed benefits and income from those revenue streams, along with an assessment of risk;
- An assessment of the legal and political framework as it relates to pursuing those revenue streams (e.g. whether tourism revenues will be directed at the specific PA or whether they must be submitted to the central government budget, whether the protected area has the legal authority to sell biodiversity or other ecosystem service credits);
- A discussion of the anticipated endowment fund's role in the financial plan and general structure; and
- Detailed strategies, next steps, activities and investments required to capitalize on the most viable opportunities. This may include a short-term fundraising strategy to raise the needed capital to pursue a particular strategy.

Please note that detailed guidance on identifying, analyzing and selecting markets and possible revenue streams can be found in the documents listed in the Additional Resources section below.

¹ Conservation Finance Alliance. Business Planning for Protected Areas Guidelines (2003)

III. The Long-term Financing Mechanism

Most GCF projects contemplate the use of a long-term financing mechanism as part of a sustainable financing strategy for a protected area. While the focus for GCF is endowment fund capitalization, long-term financing vehicles may be designed to manage an endowment fund as well as other revenue streams, such as sinking or revolving funds, under a single governance structure.

Therefore, we include here a short overview of some of the concepts relating to the LTF mechanism that may be contemplated indirectly in the business plan. The business plan, for example, is unlikely to include detailed information about the LTF mechanism's structure but understanding, in general, how that structure will impact the flow of funds to the protected area may assist in the business planning process.

LTF Mechanism Role and Structure

The role of the mechanism may be:

- To hold an endowment which will support the entire cost of managing the protected area (if no other revenue streams are feasible); or
- To hold an endowment which will provide one of several revenue sources individually directed at the site; and/or
- To pool and distribute funds from some or all of the other revenue streams by:
 - Investing revenues into the endowment capital, as in Figure 2; or
 - Holding multiple account “windows” within the broader long-term financing mechanism structure, including both endowment and sinking funds, as in Figure 3.

Figure 1. Traditional structure, multiple sources of revenue, in this case including an endowment, must be managed separately by the PA.

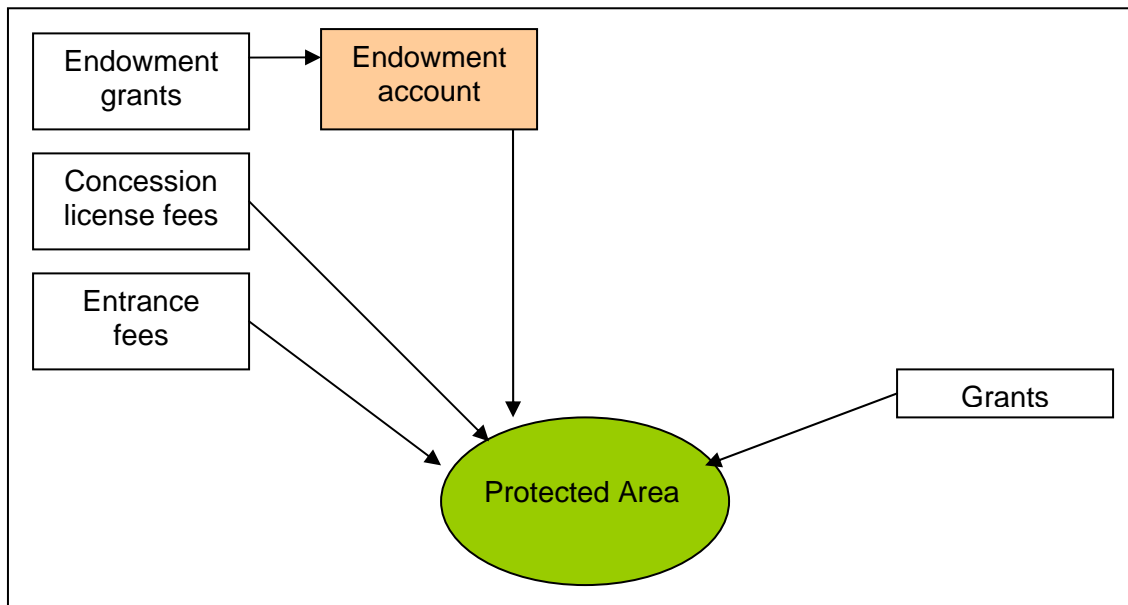


Figure 2. An LTF mechanism is established, multiple revenue streams directed into the endowment account, along with some funds granted directly to PA. Funds in the endowment are not be immediately available in full, but are invested to provide steady revenue in the future.

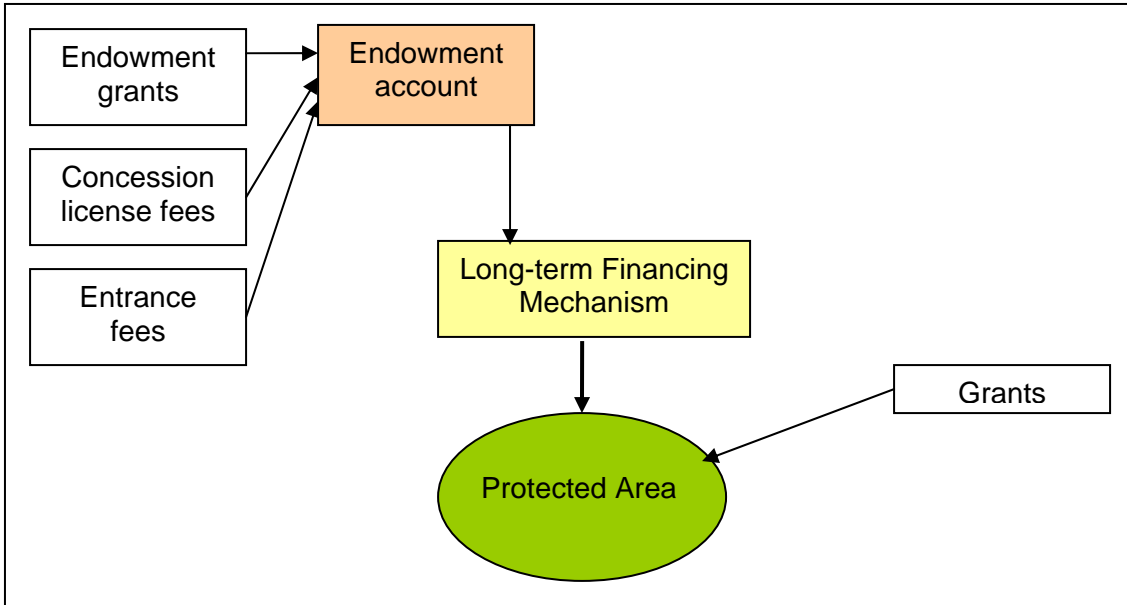
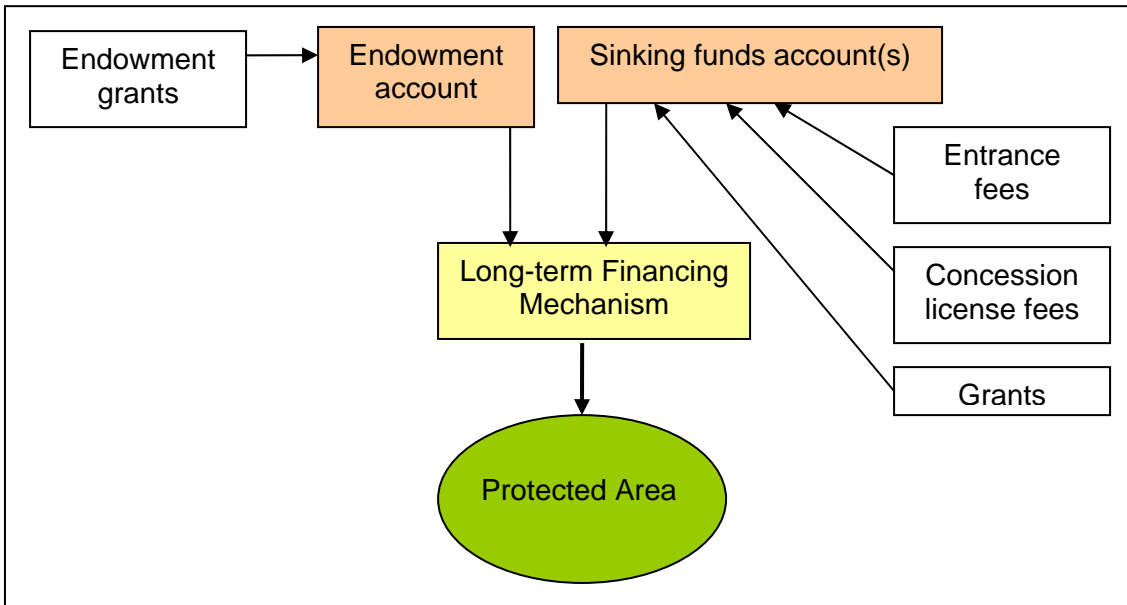


Figure 3. All funds are channeled through an LTF mechanism, either into an endowment account or into a sinking account (or accounts). Budgets and financial management are centralized by the LTF mechanism governance structure.



Capitalization Target

The target capitalization of an endowment will be determined based on the gaps identified in the financial plan. An average of 5% net annual returns is widely used to

calculate the return on endowment investments². Using these figures, a “capitalization target” can be set.

Figure 4. Examples of capitalization targets for different size funds

Annual Recurring Costs From the Endowment	Return on Investment	Capitalization Target
\$50,000	.05	\$1 million
\$250,000	.05	\$5 million
\$600,000	.05	\$12 million
\$1 million	.05	\$20 million

It should be noted that some long-term financing mechanisms, particularly those that are designed to support protected area networks rather than a single site, will have substantial administrative costs that must be accounted for. Other mechanisms can be managed at little cost by stakeholder NGOs or other entities, provided legal safeguards can be put in place to ensure transparency and reduce conflict of interest.

The financial plan and/or long-term financing mechanism’s operations manual should identify a particular amount that may be drawn from the endowment annually. While GCF recommends leaving the option open to draw from the endowment capital in certain circumstances, it should be assumed that only the return on investment (interest) will be used on an annual basis.

Fund Distribution Policy

A fund distribution policy sets forth procedures for determining the activities that will be supported through the endowment. The fund distribution policy itself will not be part of the business plan (it is normally found within the operations manual or by-laws of an LTF mechanism). We include it here simply to reinforce the linkages between the business plan and the design of the LTF mechanism.

The policy identifies priorities for funding in the event that needs for funding exceed available income. This is likely in the early years of the fund when it is undercapitalized or in years of poor market performance.

In fact, the best, worst and likely case scenarios developed as part of the financial plan may inform the fund distribution policy in the same way that they inform the business plan. It is worth considering whether the endowment should target at a minimum those vital costs that are most difficult to fundraise for annually (e.g. salaries, insurance, vehicles, monitoring equipment, etc.).

Additional Resources

GCF Tool Kit (2008)

² The figure of 5% return was developed in a 1998 GEF study of conservation endowment funds. Through its collaboration with the Conservation Finance Alliance, GCF is coordinating a review of this figure as well as best practices for endowment investments. As a result, this 5% projection may be revised once this analysis is complete in late 2008.

GCF has developed a collection of documents and references developed by GCF and partners relating to long-term financing mechanisms. This tool kit is available on the GCF website and as a CD upon request.

Conservation Finance Alliance. Business Planning for Protected Areas Guidelines (2003)

This document provides a comprehensive guide to the topics discussed above, as well as further elaboration on identifying and selecting revenue streams. The document also includes long-term financial plan worksheets developed by CFA and is available on the Conservation Finance Alliance website (<http://www.conservationfinance.org>) or by request from GCF.

Spergel, B. Raising Revenues for Protected Areas: A Menu of Options (2001).

Primarily example-based, this concise document describes some of the many revenue opportunities that may be available for protected areas. Additionally, an appendix lists the recommended steps for setting up a conservation trust fund.

Phillips, A. Financing Protected Areas: Guidelines for Protected Area Managers. IUCN (2000)

An IUCN perspective on business planning for protected areas, why it's important and the types of revenues that might be pursued.