

# **Business Planning for Environmental Enterprises**

**A Manual for Technical Staff**

**Edward Millard**



CONSERVATION  
INTERNATIONAL

Conservation International  
1919 M Street, NW, Suite 600  
Washington, DC 20036  
Tel: 202-912-1000  
Fax: 202-912-1030

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Author: Edward Millard  
Cover design: Christine Phipps  
Graphic design: Marili Ulloa

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My final thanks go to my wife, Jenny, who has always supported me to pursue my work in enterprise development, although it has resulted in our spending long periods of time apart.

Experience has shown that the possibilities of success of (biodiversity) conservation measures themselves are limited if they are not linked to attention for the needs of the social and human environment (Inter-American Development Bank, *Draft Environment Strategy*, October 2002).

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## **INTRODUCTION**

### **The Purpose and Format of the Manual**

The purpose of this manual is to strengthen the use of good business practice in the field of environmental enterprise development. It provides guidance in planning enterprises so that they achieve financial viability, socioeconomic development for local populations, and conservation of the region's natural resources—the triple bottom line. Conservation International (CI) calls these conservation enterprises. The manual is intended as a capacity-building resource for its regional staff and partners who use enterprise as a strategy for the conservation of biological diversity, and for other organizations that promote rural enterprise development with a social and environmental goal.

Using many actual examples from CI's experience, the manual presents the business planning process for new and existing small-scale enterprises that aim to benefit both local populations and their natural environment. It is organized into four main sections:

*Part I* outlines how technical staff can analyze an enterprise development opportunity. It describes the linkages between enterprise development and the conservation of natural resources; it explains the different ways that enterprises can promote conservation and the different approaches to enterprise development; and it introduces the SAFE analysis—a Short Analysis of the Feasibility of Enterprise.

*Part II* presents the business planning process in order to strengthen understanding of the tools of enterprise development. It describes for technical staff—who may not be specialists in the field but who may be called upon to be involved in it—the purpose of a business plan and how to prepare it. It covers the feasibility of an enterprise, its organization, management, marketing and financial planning and the safeguarding of its production capacity.

*Part III* is a business planning training course that CI has developed for small-scale enterprises. It may be adapted and used by technical staff that have experience in enterprise development. It includes all the material for a training course presented in an innovative Modular Approach, so that enterprises compile their business plan as they go through the course.

*Part IV* describes best practices in the provision of technical support. It includes a section on marketing partnerships and also on ways for in-country staff to coordinate effectively with technical teams, in order to strengthen enterprises and secure funds to support them.

The Conclusion presents a 10-point summary of the enterprise development planning process that comprises the Enterprise Quality Standard. Finally, the manual contains a list of Further Resources in environmental enterprise development- publications and web sites.

Throughout the manual, sidebars of two types are included:

- *Enterprise Examples*, to illustrate ideas explained in the text with actual examples from the experience of CI and other organizations, including initiatives from private sector partners
- *Enterprise Issues*, to summarize discussion points and best practices from current thinking in business development and financial services.

For the benefit of CI's regional staff, the manual refers at the beginning of each Part to relevant sections in CI's Strategy Handbook; the topics discussed in the Handbook are developed much more extensively here. The manual also uses some terms that CI has adopted in its planning. CI uses "conservation outcomes" to provide a quantitative measure of progress towards its three key desired results: species extinctions avoided, amount of area protected, and biodiversity corridor planning implemented. A biodiversity corridor is a conservation planning concept, through which CI aims to fulfill its mission to demonstrate how human societies can live in harmony with nature.

Otherwise, the manual strives to avoid words that may not be widely understood. It is written with respect to CI's organizational structure, in which regional staff undertake enterprise development projects together with local partners and receive the support of an enterprise technical team, based in either CI's head office in Washington or a regional office.

The words "enterprise" and "business" are used interchangeably in the text. The English language uses "entrepreneur" to describe somebody who starts a business and "business plan" to describe what will happen in the business. The word "project" is used to describe a specific enterprise development proposition or activity, which includes the actual business and the external technical support of it for a defined objective.

While business principles are common to all types of enterprises, specific industries have particular characteristics. Most of CI's enterprise development focuses on agroforestry and ecotourism. The manual contains some industry-specific sections on these.

*Edward Millard*

*Senior Enterprise Advisor, Conservation International*

*October 2002*



## PART I. PLANNING ENVIRONMENTAL ENTERPRISE DEVELOPMENT

### Chapter 1

#### Linking Enterprise Development and Conservation

Part I of this manual complements Step 3 of CI's Strategy Handbook: What To Do. It would be used as a resource in the Conservation Outcome Planning Module. Chapter 1 explains the different ways that conservation enterprises create incentives for conservation. The following chapters of Part I describe the two key conditions for incorporating enterprise development into a conservation strategy in a particular region:

- It is considered to be among the best options to achieve a conservation outcome.
- A viable enterprise opportunity exists, with one or more interested entrepreneurs and technical support capacity in enterprise development.

#### The Role of Enterprise Development in a Conservation Strategy

Conservation enterprises provide economic incentives to people to use land and natural resources in a way that does not destroy biodiversity. A conservation enterprise may be in any industry sector; what defines it is that it enables people to earn a livelihood without destroying the local biodiversity. It seeks either to change existing economic behavior that is destroying biodiversity or to prevent people from turning to such behavior. In either case, it will achieve this only if it is accompanied by enforceable limitations on destructive resource use; otherwise it would just provide an additional income to people who continue destroying biodiversity.

An enterprise can create incentives for conservation in five different ways:

1. Creating an alternative economic activity that depends on biodiversity
2. Building a constituency for conservation
3. Designing a corridor of sustainable land use
4. Providing resources that support protection
5. Creating alternative economic activities outside areas of high biodiversity

### 1. *Creating an alternative economic activity that depends on biodiversity*

An enterprise that depends upon the region's biodiversity in order to deliver its product or service is likely to motivate its members to conserve it. Enterprises based on forest products harvest their fruits, nuts, resins, etc to provide an annual income, as opposed to a one-time gain from selling the timber. Such enterprises can provide a direct response to threats of logging, land clearing and hunting, by creating an incentive to earn money from leaving the landscape undisturbed. This impact may occur only when two conditions are met: the members have the power to protect the resources; and the enterprise generates a significant contribution to the livelihoods of people. People may be influenced not only by the revenue from the enterprise, but also by their perception that threatened species and the areas that protect them can be assets rather than impediments to their own development interests.

Most of CI's early enterprise work was concerned with non-timber forest products, for example:

- Oils for the personal care industry: from allspice, cohune, and soapberry harvested by community enterprises in the Maya Biosphere Reserve in Guatemala; from collectors of ngali, a palm nut, in the Solomon Islands; and from Brazil nut harvesters in the Peruvian Amazon
- Tagua, a palm nut, from the Cotacachi-Cayapas Ecological Reserve in Ecuador, for the button and crafts industries
- Brazil nuts for the food industry



*Sorting ngali nuts in the Solomon Islands  
(Ted London)*

All of these enterprises were supported with technical assistance that sought to strengthen their management and to open new market opportunities through partnerships with leading companies in the industry.

In 1993, CI began to diversify its enterprise strategy into ecotourism. As defined by the International Ecotourism Society, this is "Responsible travel to natural areas that conserves nature and sustains the well being of local people." Ecotourism generates income for local populations from nature and wildlife attractions and supports traditional cultures.

### 2. *Building a constituency for conservation*

The conservation corridors that provide connectivity between protected areas often have large human populations with low incomes. Responding to their development needs through an enterprise that does not deplete natural resources can draw people away from other economic activity that does. Enterprise development builds a constituency for conservation by demonstrating to local governments and communities that CI is concerned about their interests. This generates support for other conservation work and sets an example for economic development in the region. One of CI's founding principles was that the economic interests of people living in the ecosystems with high biodiversity must be taken into account to achieve lasting conservation.

*Enterprise Example: Reducing Land Conversion and Hunting through Ecotourism*

Posada Amazonas is a 24-bedroom eco-lodge in Peru, opened in 1998 as a joint venture between the private company Rainforest Expeditions and the Ese'jea indigenous community. The contract between them defines the participants' proportions in the profit (60% for the community) and decision-making (50% for each associate); the management and financial responsibilities of each; the land-use terms, which included the creation of a 2,000-ha reserve from communal lands; obligations and rights of both parties; and the conflict resolution procedures. Work procedures, policies, marketing strategies, infrastructure, and itinerary development are all designed and approved jointly by Rainforest Expeditions and the community, as represented by its 10-member ecotourism committee. Marketing is managed by Rainforest Expeditions.

A study undertaken as part of a doctoral dissertation in 2001 concluded that economic and environmental impacts are positive. Wages from employment at the lodge were about 38% above the mean family income generated by traditional activities, such as farming and hunting. Tourism provides increased security by offering a further means of income diversification; it does not completely replace other economic activities. Other families earned a 36% increase in their household income from the sale of palm fronds, wood, and handicrafts to Posada Amazonas. Further benefits include learning new skills that are saleable elsewhere, improved nutrition from eating at the lodge, and health care, because the company provides for medical emergencies.

The study concluded, through several measures, that earnings increases are related to decreases in hunting and in the area of land under cultivation. Moreover, community members took steps to preserve their business interest through conserving wildlife. For example, eight large eagle nests located within community grounds have been assigned guardians, who receive money for every tourist that visits the nest. For years, although Ese'jea respected eagles, they hunted them for feathers.

Because it approached conservation through responding to local economic development concerns, CI-Guatemala gained social and political acceptance of its conservation agenda in the Maya Biosphere Reserve. The business success of CI's Ecoescuela de Español opened the door for discussions in the municipality of San Andrés, which is responsible for implementing policy in the reserve, and for the introduction of an environmental program in schools. The Ecoescuela de Español was the first CI enterprise project to achieve full independence in 1996 and has consistently achieved profits for its 56 community owners.

As local and central governments perceive the benefits of conservation-based economic initiatives, they are often motivated to create a regulatory framework to support them, such as controlling access to natural resources or ensuring adequate funding of park guards. Indeed, initiatives by CI to increase local incomes must be supported by agreements with local people and with governments that commit both of them to a conservation program. The awareness that conservation has something to offer to people directly also opens up receptiveness to stronger local environmental regulation. These are further ways in which an enterprise can leverage conservation benefits.

An important concern is that investing in the social and economic development of an area may encourage immigration and increase pressure on natural resources. Strategies to combat that risk are likely to include agreements with community partners that relate to natural resource use and environmental education. An evaluation of the Ecoescuela de Español undertaken in 1999 found that families participating in the businesses had reduced their use of agricultural land by 39% between 1994 and 1998. It is also argued that, in the long term, economic development should lead to an increase in family planning, which would reduce population pressure on resources.

### 3. *Designing a corridor of sustainable land use*

The importance of biodiversity (or conservation) corridors is their strategic role as a unit for large-scale conservation planning, in which conservation needs are reconciled with economic development interests. Within biodiversity corridors, critical biodiversity areas can be placed under strict protection alongside areas with economic potential that should be allocated for intensive development and other areas that could support both conservation and economic use such as agroforests that allows species movement across the landscape.

A biodiversity corridor comprises a network of parks, reserves, and areas of economic use, whose management is integrated to ensure the survival of the largest possible spectrum of species. This framework allows communities to accumulate additional benefits from hydrological and other environmental services. For planning purposes, what matters for conservation is the contribution of the corridors to the survival of threatened endemic species. For example, the relevance of “bird friendly” coffee to biodiversity conservation depends on which species inhabit the shade trees conserved by the agroforestry system.

Agroforestry practices require the elimination of understory vegetation and are not therefore as beneficial for biodiversity as intact forest. Nevertheless, given that landscapes in tropical ecosystems contain large numbers of low-income people, the promotion of agricultural systems that use shade trees from the forest represents an approach that can provide some biological connectivity between protected areas and forest fragments and reduce edge effects, as well as provide a diversified income for farmers. Maintaining a modified forest canopy builds soil fertility, provides food sources and habitat for many species, enhances populations of beneficial insects to reduce pests and diseases, and provides farmers with additional products to meet their subsistence and cash income needs. Direct links to conservation may also be achieved through agreements with farmers adjacent to parks and reserves to restrict destructive activities, such as encroachment on protected areas or intensive production methods, or to plan farm retirement programs and community concessions.

Shade-coffee farmers in Chiapas, Mexico, are required to adhere to the Conservation Principles for Coffee Production, a set of guidelines elaborated by CI, together with other leading scientific organizations, in order to access a credit program and to offer their coffee to CI's market partners in the United States. This direct incentive to overcome their two major problems—low prices in their current markets and lack of credit—motivates farmers strongly to adopt the principles. It illustrates CI's understanding of the realities of people trying to make a living and in designing complete responses that recognize how business and trade work.

The support of leading private sector companies is critical to leveraging market incentives for conservation. As market partners, they provide an outlet for the product or service. As standard-bearers for the industry, they in turn influence further investment. Starbucks Coffee Company has introduced Green Coffee Purchasing Guidelines that incorporate environmental, social and economic as well as quality criteria. Albergue Chalalán in Madidi National Park in Bolivia, an eco-lodge that has achieved its success in the market through the support of America Tours, a leading Bolivian operator, has influenced further investment by other tour companies in support of environmentally responsible tourism. The gradual expansion of shade coffee farms and eco-lodges is a stepping stone in the creation of a sustainable corridor, as people realize that conserving biodiversity is good for business.

#### 4. *Providing resources that support protection*

Successful ecotourism enterprises can leverage not only new investments but also new financial resources to support conservation. CI-Ghana created the prize-winning ecotourism site in Kakum National Park, featuring a visitors center and the first canopy walkway to be built in Africa. It attracts thousands of tourists annually. They pay an entrance fee, of which a proportion is given to the Wildlife Department to support Ghana's protected area system. The Wildlife Department had suffered previously from inadequate funding and management inefficiencies, limiting its effectiveness in conserving biodiversity, especially bushmeat species.

While the number of people who gain a direct incentive from the walkway is limited to park guards, other employees, and local suppliers, the indirect impact of the enterprise is to demonstrate the success of an environmental approach to economic growth. Because it was linked to a larger tourism development program, it has generated millions of dollars of investment in other tourism products and services. CI-Ghana demonstrated the link between conservation and tourism development and created an incentive for local people, regional businesses, and government to invest in the area and become advocates for conservation. The visitors center features an interactive exhibition of great educational value, especially to the large numbers of school children who visit Kakum.

#### 5. *Creating alternative economic activities outside areas of high biodiversity*

A different way of thinking of enterprise as a way to contribute to conservation is to support its development in areas of low biological importance in exchange for a commitment not to extract resources or to farm in an area of higher biological importance. This approach may enable CI to negotiate financial or other support for conservation from a private sector partner and can additionally reduce pressure on the target conservation area by drawing people away.

For example, agricultural intensification, which tends to be an efficient production method, may be supported in an area of low biodiversity in return for a commitment not to disturb an area of importance. CI's Amisconde project adopted this approach in six watersheds in the buffer zones of La Amistad Biosphere Reserve, bordering Costa Rica and Panama. Hundreds of hectares were reforested and thousands of hectares set aside for natural regeneration in the buffer zones. Communities were supported to establish small enterprises, through credit and technical assistance, which motivated them to stop encroaching on the forest. Three major international corporations supported the project. Its success leveraged government participation in community activities, which hitherto had not been forthcoming. A second phase of the project was funded, in which the communities manage all the activities. These comprise not just enterprise development and credit but also environmental education, forest fire control, and human health.

This approach to enterprise may become increasingly important for conservation planning at a regional scale. It is likely to involve negotiations with government planning departments, as well as companies, in order to coincide with local development plans.

### **Characteristics of Conservation Enterprise Development**

An enterprise contributes to conservation only if the socioeconomic development it promotes leads to people adopting economic behavior in accordance with a conservation outcome. Although the rationale for undertaking it and the type of enterprise will be different in each situation, conservation enterprise development should normally incorporate all of the following:

1. Outcome-based conservation strategy, through a clear linkage to the other components of the program strategy, demonstrated in a framework
2. Response to the economic priorities of stakeholders, through written agreements that set out the objectives and procedures for meeting their economic and social needs
3. Agreement regarding natural resource management, expressed in a plan that prevents the depletion of any natural resources used in the enterprise beyond their capacity for regeneration and that allows for viable business operations
4. Measuring of impact, through a procedure to monitor and evaluate the enterprise, not just for its business success but also for its impact on biodiversity
5. Financial sustainability, through a business plan that describes the purpose, objectives, and strategy of the enterprise and demonstrates its capacity for long-term profitable operations
6. Provision for local management by entrepreneurs, through access to skills development in business administration and appropriate technical support over a limited period

*Enterprise Issue: The Link Between Economic Development and Conservation*

The Biodiversity Conservation Network (BCN) was a project financed by the U.S. Agency for International Development (USAID) between 1992 and 1999 to examine the basic premise of conservation enterprise development: that if local people directly benefit from a business that depends on the biodiversity at a given site, then they should have the incentive to act to protect it against both internal and external threats to its destruction.

BCN funded 20 three-year implementation grants in seven countries in the Asia-Pacific region to support enterprise development and to monitor the social, economic, and biological impacts of the projects. It developed three core hypotheses for enterprise development to lead to conservation:

- The enterprise must be financially viable.
- There must be a direct link between the enterprise activity and the biodiversity of the region.
- The enterprise must involve a community of stakeholders that has the capacity to take action to counter the threats to biodiversity.

The main findings of BCN were as follows:

- For enterprises to become viable, they must have a well thought-out business plan.
- Direct linkage to biodiversity is not always a critical factor; the most important factor in stimulating positive conservation actions by participants appears to be the positive relations generated by the project between the technical staff and the entrepreneurs, who understood that their benefits derived from an investment in conservation.
- Non-cash benefits are generally more important than cash benefits, which are rarely sufficient to satisfy the income needs of the whole family.
- Communities need to have the power to defend resource rights.
- It is usually easier to combat threats caused by outsiders than those caused by insiders, which derive from social traditions.
- Education and awareness-building are important because they encourage stakeholders to take action to counter threats.
- An enterprise on its own will not create conservation; the overall plan for conservation, of which the enterprise is a component, will in large part determine its success.
- Large consortia of institutions cause complications; the least complex institutional arrangements are the most effective, and clear definition of roles is essential.
- Enterprise development in non-homogenous communities is particularly difficult because of social tensions between different groups.

## Chapter 2

### Assessing the Opportunity for Enterprise Development

The remaining three chapters of Part I describe how to evaluate the two conditions identified at the start of Chapter I for using enterprise development as a conservation strategy. This evaluation would be used in the Conservation Planning Module, which is described in Step 3 of CI's Strategy Handbook. The conditions are evaluated in two stages of analysis:

- Context analysis. Consider whether enterprise would be one of the best options to achieve the conservation outcomes defined in the regional plan.
- Pre-feasibility analysis. Undertake a SAFE study: a Short Analysis of the Feasibility of Enterprise, which identifies how and with which partners an enterprise would be developed.

These two analyses move from a broad possibility for an enterprise activity to the consideration of a specific project. If, once completed, they appear to confirm an important enterprise opportunity, then a full feasibility study of that enterprise should be undertaken, together with the selected target partners. The feasibility study is the subject of Part II of the manual.

This chapter covers the Context Analysis. It shows how the economic, social, and policy assessments that are undertaken at a regional scale, as described in Step 3 of the Strategy Handbook, provide information for making a preliminary assessment of whether enterprise is an appropriate strategy. If it appears to be so, the pre-feasibility analysis will take place.

#### Economic Analysis

The purpose of an economic analysis is to understand the threats that are created by the resource use of different stakeholders in a region and the opportunities for promoting its use in support of conservation. Resource economists provide tools and information for undertaking economic analysis. An analysis of resource use includes four components:

1. Determining the target areas and populations. In conservation planning, this will be based on the biological analysis that has previously identified the priority areas for conservation.
2. Evaluating existing economic activity in the target areas and analyzing potential project opportunities, based on the availability of skills and resources, that would be of sufficient interest to influence the economic behavior of target groups in support of conservation. Projects that do not effectively address the incentive patterns of different stakeholder groups are not likely to be effective in the long term.
3. Identifying other incentives that may determine the present resource use by the target populations. Note that incentives may be other than financial, e.g., institutional (laws, regulation, tenure) or policy-based (subsidies, taxes).

4. Calculating the financial benefits associated with resource use or with each existing major economic activity, in order to understand the opportunity cost, i.e., the lost benefit that any conservation project will have to compensate for in order to leave people as well off as they were before.

CI has developed the Rapid Assessment of Conservation Economics (RACE) as a participatory approach to undertaking this analysis. The economic information that it generates will help to evaluate whether enterprise could provide a strong incentive for conservation by identifying the following:

- Amount and type of economic activity in the area—key sectors, major companies, level of interest in conservation
- Potential conservation impact, potential stakeholder support, and opportunity costs for different activities
- Resources and infrastructure that could be used in an enterprise, such as the natural attractions for tourists and the materials, roads, and transport that an enterprise would need
- Probable level of expectations among people about income to be generated from enterprise

*Enterprise Example: Understanding Incentives of Ghana's Cocoa Farmers*

CI-Ghana collaborated with CI's enterprise and economics technical teams in early 2001, to identify the economic factors driving decision-making by the farmers of Kuapa Kokoo, CI's partner in Ghana for sustainable cocoa development. A workshop brought experts from agriculture, cocoa agroforestry, participatory rural appraisal, resource economics, and gender dynamics together with representatives of key government departments and institutions and the staff and members of Kuapa Kokoo. Using a participatory workshop-based approach enabled participants to have access to the knowledge and perspective of a wide group of stakeholders and experts, as well as to available research data. The workshop analysed two issues:

1. The impact of farm-level decisions on land uses surrounding protected natural forest. Participants undertook a preliminary assessment of the financial costs and benefits of replanting an existing aging cocoa farm in comparison with two different options available to farmers:

- Opening a new cocoa farm in previously uncultivated forest
- Converting the farm to an alternative crop

As a result of the workshop, CI's approach in Ghana has placed greater emphasis on training in crop diversification to stabilize farmer incomes and in farming techniques that will keep farms productive for longer periods, such as biological pest and disease control.

2. The approach for a baseline socioeconomic survey of farmers living around protected areas and the definition of socioeconomic monitoring and evaluation indicators. The workshop developed:

- A protocol for collecting baseline data: additional secondary research, participatory focus group interviews and individual household surveys for more detailed information
- Consensus on the key components of a participatory and sustainable monitoring system for tracking the effects of CI-Ghana's activities on cocoa farmers' livelihoods



## Social Analysis

A social analysis also focuses on the attitudes and concerns of local stakeholders. Its objectives are to help identify which conservation strategies are most likely to gain their support and what social issues will determine the achievement of conservation outcomes.

Understanding the social drivers that affect behavior in a region requires a strongly participatory and transparent process that

- Identifies the decision makers in communities
- Finds out what local people think about conservation
- Learns about religious and mystical beliefs that determine behavior, such as the concept of sacred forests, which can help to protect the wildlife and plants inside it
- Understands which cultural traditions are driving economic behavior, such as the consumption of bushmeat
- Helps people understand the benefits of conservation

The following examples illustrate how learning derived from social analysis can be incorporated into conservation planning

- Communities around the Apurimac Reserve Area in Peru became supportive of protecting it when they realized that their water quality could be improved by protecting the watershed, because they were suffering from water-borne diseases
- Communities in Côte d'Ivoire identified Marahoué National Park with French colonialism and therefore sought to extract everything possible from it

Participatory studies will also help to evaluate whether enterprise could provide a strong incentive for conservation by identifying

- The interest of people in different activities
- Traditions of entrepreneurial activity in the region—what types of enterprises exist and whether there is any evidence of interest in forming new ones
- Cultural and gender aspects that might affect the acceptance of enterprise, such as the impact from the arrival of tourists in an area
- Social structures that would influence participation and decision-making in an enterprise
- Potential impacts of an enterprise, both positive (economic and social development) and negative (e.g., creation of divisions in a community)

## Policy Analysis

Policy analysis contributes to the identification of the best conservation strategies in a region, by

- Identifying the decision makers and institutions that will affect conservation work and the legislation that guides their decisions
- Providing a diagnostic of the legislative, institutional and policy factors that determine how conservation is being done
- Prioritizing the legal and policy obstacles to achieving the regional program's outcomes
- Creating a map of the region that clarifies the boundaries and legal status of protected areas, zones where different degrees of use are allowed, and infrastructure development

- Evaluating whether political organization and alternative policy development may be more critical issues than working directly in the priority area.

Policy analysis will help to evaluate whether enterprise could provide a strong incentive for conservation, by identifying the

- Legislation regarding resource use that could affect an enterprise
- Interests of key decision makers and their decision-making processes
- Strength and interests of local institutions
- Legislative framework regarding any tourism that is managed in the region

#### Summary of the Context Analysis

### Comparing Enterprise with Other Conservation Incentive Programs

Enterprise is often attractive to stakeholders in the region because it promises to generate income. If an enterprise creates conservation and is also profitable, it will achieve conservation outcomes at no ongoing cost, once CI withdraws its technical support. The Ecoescuela de Español and Albergue Chalaán are two examples. However, there are a number of difficulties also with enterprise development as an approach to creating incentives for conservation:

- It can be too complex for the entrepreneurs to manage effectively, especially if the markets are international and entrepreneurial experience is limited.
- It can cause divisions in communities, as benefits are spread unequally or traditional power structures are challenged.
- The benefits may not be sufficiently important to maintain the interest of the entrepreneurs.
- The cost of supporting it may be excessively expensive, even if the enterprise is successful, and may not represent the “biggest bang for the buck,” i.e., the best way for CI to invest its limited resources to achieve the conservation outcome.
- Entrepreneurs may use the financial gains to increase land conversion for agriculture.

For these reasons, enterprise development should be pursued only after ensuring that there is demonstrable interest on the part of the local entrepreneurs, the capacity to provide whatever technical support would be necessary, and the potential that the enterprise will be viable.

In the 1990s, a number of conservation organizations followed CI in promoting enterprise as a conservation strategy. There have been several failures, most of which have been caused by insufficient initial analysis. Non-timber forest products, in particular, often lacked the hoped-for market potential and failed to compete with logging as a source of income for people from the nearby forests.

People evaluate their well-being and the security of their livelihoods not only on their cash income but also on the availability of resources for subsistence, the quality of their food and water, their access to health services and education, their ownership of land, and many other factors. CI has pioneered other incentives for communities to practice conservation, such as Trust Funds. It is presently developing concepts for other types of financial incentives, such as determining access to credit and adjusting interest rates on loans according to behavior towards biodiversity. It is essential to engage with local populations with an open mind and not with a predisposition towards enterprise development, which may not be the best approach to meeting their interests

*Enterprise Example: Maya Norte-the Potpourri Factory in Guatemala*

El Cruce Dos Aguadas in Guatemala is a community of 250 families, located at the entrance to the Maya Biosphere Reserve. In 1993 CI established a project to manufacture potpourri. CI's main objective was to limit the expansion of the agricultural frontier by creating financial benefits for families. The product was selected as a result of meetings to discuss what sort of economic activity would be of interest and potentially viable. CI undertook a market study to ascertain the sales potential for potpourri and found the results to be promising.

Villagers collected botanicals from the forest and brought them to a center constructed from local materials, where they were cleaned, dried, dyed and packed. Harvest limits were established for three dye trees and 20 botanicals considered viable for sustainable collection. Baseline data were collected in a survey that included the selection of the most appropriate botanicals based on density, distribution, and collection techniques. One bark dye was changed when it was discovered that extraction exceeded regeneration rates.

After the project began operations, CI began a process to form a cooperative business in the community to manage the activity. This was registered in 1997 as Maya Norte. The members took charge of the manufacturing center. CI recruited specialist enterprise development staff and secured pro bono support from international fragrance and design experts to assist in the development of packaged products and to identify and contact clients in Guatemala and internationally in the home decoration and gift markets. Export shipments began in 1994 and grew. Two U.S. distributors signed marketing agreements; CI licensed use of its name and logo to one. Maya Norte also obtained orders from the Body Shop, which visited Petén to identify new botanicals in the nearby forest that were in line with the market trends for potpourri.

However, Maya Norte did not achieve enough sales volume to consolidate its business. Several of its U.S. export customers did not re-order; local orders were small, and few larger customers in the cities had been willing to try the product. The major difficulty was price competitiveness. Botanicals are exported in large volumes from India and other countries at low prices. Guatemala has relatively high export freight costs. The Body Shop placed repeat orders but it became increasingly difficult for Maya Norte to fulfill them. The botanicals are available only at certain times of the year and can generally not be stored for long periods. The cooperative management was not strong enough to take on the key functions of running the business.

Maya Norte effectively ceased production in 2000. It had not been possible to consolidate the independent business for a number of reasons:

*Inadequate feasibility study:* None of the critical weaknesses in capacity and logistics that surfaced during operations had been identified in a SAFE analysis or feasibility study. Studies prior to establishing the enterprise focused mainly on the market opportunity.

*Lack of land security:* The community's primary concern was to secure their request for land to the National Council of Protected Areas. Members perceived the potpourri activity as a temporary economic option, rather than looking at it from a long-term perspective. That perception was the main obstacle for them to feel ownership and develop the market opportunity.

*Lack of management capacity:* Few members had business experience. The educational level in El Cruce is very low, with average attainment of only third grade of elementary school. Members looked to CI to take the decisions. It proved difficult to find a leader with entrepreneurial drive. CI transferred the business to local ownership several years after it had begun operations but had not been able to involve entrepreneurs sufficiently for them to learn the necessary skills. It was inappropriate, because of social tensions, to create a cooperative model with a large number of equal members.

*Social tensions:* The community was beset with divisions and rivalries between the two ethnic groups of ladinos (mixed European-indigenous) and Q'eqchies. Also, the long-standing civil war that ended with the 1996 peace accords had fostered a culture of individualism in Guatemala. There was little belief in the long-term survival of projects for conservation and sustainable forest production, nor much ecological awareness in most communities in the reserve.

*Perception of donated funds:* The community tended to believe that support from CI comes as a donation. This perception destroys the serious approach that a community must take toward this type of initiative. It was reinforced by interactions with evaluators from the international donor, USAID, which visited the center frequently. The group had concluded that if the money was coming as a donation, why worry about it?

*Complexity of business operation:* The manufacture of packaged potpourri is a complicated procedure, and extensive training was required. Except for the raw materials, all the components came from outside the community—packages, cartons, labels, etc. The product was previously unknown in the community. Moreover, the market was susceptible to change in taste, requiring external design assistance. When the business failed to generate the levels of income hoped for, people lost interest.

*Export dependence:* Few businesses can survive on export alone, especially if located in countries with high international transportation costs. Export procedures were too difficult for the people. Maya Norte needed regular domestic orders on which to base its business growth, but it was unable to achieve them.

*The limitation of the green message:* Few forest products are able to attract price premiums in the market. Maya Norte achieved interest and many initial orders on the basis of its conservation and community value. However, hard sales figures take over as the determining factor for repeat business. The costs of collection and production were too high, in comparison to those of competitors. At one stage, a large U.S. company showed serious interest in investing capital, but dropped out when it analyzed the costs.

## Chapter 3

### Approaches to Enterprise Development

Analyses of the economic, social, and policy contexts can help identify potential enterprise activities that, if successful, would provide strong incentives for conservation. A further analysis, called pre-feasibility, would then be done, to determine what type of enterprise could be developed, the entrepreneurs who would undertake it, the institutions that would support them, the potential for becoming profitable business opportunities, and the technical support required for the enterprise to create conservation.

This chapter describes different approaches to conservation enterprise development that will be considered in the pre-feasibility analysis. It considers the advantages and disadvantages of the different options available. A description follows of the main sectors for conservation enterprises and the advantages and disadvantages of each. Finally, this chapter considers the role of local populations. The purpose of these discussions is to assist determination of the potential partners for enterprise development and what would be involved in adopting the different approaches.

#### Options for Enterprise Development

Four main approaches are available for using enterprise development as a conservation strategy:

- Start a new enterprise
- Make an alliance with an existing enterprise producing a product or service
- Make an alliance with a marketing company operating in the region
- Invest in an enterprise

Each approach has different levels of risk and requires different resources. For any approach that is adopted, there must be evidence of capacity and interest among the potential partners. CI does not manage enterprises; instead, it facilitates their development with partners, who operate them. If no partner seems interested, it is an indication that the enterprise idea lacks viability.



*Language teaching in Ecoescuela de Español, Guatemala (Conservation International)*

#### 1. Starting a new enterprise

CI has done this on several occasions, in direct partnership with a target community, to whom ownership and management is subsequently transferred. Examples of now-independent businesses that started as CI enterprise development projects are Albergue Chalalán in Bolivia, Ecoescuela de Español in Guatemala, and PROFORES in Peru. CI's experience is that the downsides outweigh the upsides and that it is justified to take this approach only where no other is available, where local people are genuinely interested, where financing is available, and where creating an enterprise would create a strong incentive for conservation.

Advantages of approach:

- It enables CI to have a lot of influence over the enterprise and establish the conservation links at the outset.
- There may be a genuine opportunity to develop an enterprise that does not have high start-up or fixed costs and that is based on the skills of local people or local attractions that no entrepreneurs have yet developed for lack of finance or vision.
- It demonstrates to the community a strong level of commitment by CI.

Difficulties:

- It is very resource-consumptive, involving CI in operational issues and giving it responsibility for training and providing technical assistance to the community.
- Risk is usually high because it implies establishing an untried activity with inexperienced entrepreneurs who are probably unwilling to make decisions and take risks.
- A new enterprise is unlikely to achieve significant scale in a short time.
- Communities are rarely homogeneous and conflicts are possible.
- The amount of capital required for machinery, materials, and equipment to start an enterprise may be too high for the community to participate as shareholders, leaving CI as majority owner and relegating the role of the community to that of employees.
- The transfer of assets is a difficult issue that has to be dealt with when the business becomes independent.

## 2. Alliance with an existing production or service enterprise

If an enterprise in the target region is already working, opportunities for cooperation should be explored. This is how CI's agroforestry program has developed: all of the partners are established cooperatives or associations with which CI has made agreements to support shade cultivation on coffee and cocoa farms and marketing of the products.



*Field trial in Cocoa Research Institute of Ghana (Todd Hamner)*

Advantages of approach:

- The product or service can move to the market more quickly because the enterprise is already established.
- Management has achieved at least some level of capacity.
- Members are already committed to making their enterprise successful.

Difficulties:

- A new partnership with CI may present a challenge to the capacity of an existing enterprise. For example, CI's partner in Ghana, Kuapa Kokoo, was founded with a social, rather than environmental, mission. With a fast-growing membership and the need to deal with the organizational issues that result, it is not easy for it to integrate at the same time a new conservation-focused program into its operations.
- In cases where the enterprise is still inexperienced, CI has found that to provide extensive technical support to inexperienced enterprises is sometimes as demanding of resources as cases where CI has supported a community to begin a new enterprise.

*Enterprise Example: Coffee Cooperatives in Chiapas*

CI's Conservation Coffee program is based on partnerships with existing cooperatives located in and around the El Triunfo Biosphere Reserve in Chiapas. Only producers in its proximity, whose farming practices influence land and water use in the region, may be included in the program. The cooperatives have agreed to adopt cultivation according to the Conservation Principles for Coffee Production and have committed not to expand the area under cultivation or to sign contracts for timber extraction. Their incentive is to gain access to the profitable export markets to which CI has facilitated access.

CI supports the cooperatives, through its local office in Chiapas and the agroforestry technical team, in five areas:

*Business organization and planning.* Customized support in strategic business planning, market analysis, and financial projections. CI has written a training manual in agricultural business development that will enable local technical staff to pass on the knowledge. Mexican farmers are required to attend a business planning and credit training course in order to be eligible for loans.

*Finance.* Through the Conservation Enterprise Fund, CI finances the Fondo Eterno Verde, a local credit scheme that offers affordable finance to the cooperatives in partnership with a U.S. environmental investment company, Ecologic. Starbucks has provided a partial guarantee to enable farmers to receive pre-harvest and post-harvest loans. Since loans were introduced in 1999, there have been zero defaults and 100% on-time repayments.

*Marketing.* Starbucks buys most of the cooperatives' export-quality coffee. CI also has a partnership with a local exporter to provide channels for lesser-quality coffee.

*Agricultural techniques.* CI supports farmers to understand the beneficial impacts of shade cultivation, crop diversification, and use of ecological processes to combat pests and diseases.

*Monitoring.* CI monitors compliance with the agreements regarding production and also the impacts at economic, social, and environmental levels.

The Mexican coffee is certified organic, which gives it greater value in the market, although the principles applied to cultivation go beyond the technical requirements of organic certification. Starbucks negotiates prices annually with the cooperatives, with CI involvement. CI provides close supervision to pre-shipment quality sampling and export efficiency. It is developing indicators to measure the progress of the cooperatives towards acquiring sufficient capacity to trade without CI's support.

Although CI has to invest significant resources in the cooperatives in order to strengthen their management capacity, the program has been able to develop the commercial opportunity with great success, because the groups are stable and coffee cultivation is the main economic activity of the region. Starbucks has also invested in technical assistance, an indication that private sector enterprise partners will work with regional programs to secure high-quality product and service.

### 3. *Alliance with a local marketing company*

Private sector partnerships can sometimes be developed with marketing companies that are already operating in the priority ecosystem. Unlike the example of Starbucks, in which CI developed the relationship with the producers and then linked them to the marketing partner, an alliance with a local marketing company implies that the company is already undertaking, or is committed to developing, a relationship with local producers. This approach is very efficient, because CI's main role would be to negotiate and define with the partner and producers technical support activities that add the conservation dimension to the enterprise.

Local marketing company partners bring to a relationship significant value for a local enterprise:

- Knowledge of the product or service
- Investment of their own funds
- Responsibility for managing distribution and sales
- Management and marketing skills that can be harnessed to support the enterprise

Such private sector companies could be interested to negotiate a partnership with CI, for the additional value that CI could bring:

- Capacity to manage community relations and train people in entrepreneurial skills
- Scientific ability and commitment to evaluate sustainability issues and to monitor impact of the enterprise's operations
- International market contacts
- Credibility to the partner

For such partnerships to be effective, ground rules must be negotiated that guarantee conservation outcomes in a priority ecosystem. These would be written in an agreement, covering roles and responsibilities of each party, standards that apply to the products or services, decision-making processes, and communications procedures.

#### *Enterprise Example: A Private Sector Partnership in Namibia*

The Integrated Resource and Nature Conservation, an NGO in Namibia, supported by the international organization Management Systems International, brokered an agreement between a local community and a tour operator to develop tourism potential in Namibia. The community provided the land, on which the operator constructed an eco-camp. The operator further agreed to train the community in management and to hand over the camp to community ownership after 10 years. There would be no charge for this because the operator calculated that it would recover its investment over 10 years and thereafter make its money from operating the tour rather than owning the infrastructure. The community established a Trust Fund in which to invest a percentage of revenues from sales.

This agreement was successful because it started from the community side. Having evaluated the market potential, the NGO then formed a legal business structure in the community and advertised for investors. In this way, it not only created competition among the private sector but also gained the trust of the community that it was acting in its best interests. Its major challenge in brokering agreements was the tendency of the community to resist decision-making and to be suspicious of outside companies. In the final arrangement, each party was doing what it is best at, with product and market development left to a private sector specialist rather than an NGO.



#### 4. *Investment in an enterprise*

Investing in an existing business that operates in a priority ecosystem can be a very efficient way to promote conservation there. CI manages the Conservation Enterprise Fund, which was launched in 1998 with capital from the International Finance Corporation/Global Environment Facility SME program. It has invested \$1 million in loans to viable, independent businesses located in priority ecosystems. These are evaluated for both their business performance and their contribution to conservation. While the regional program is consulted about investments, neither it nor the enterprise technical team normally plays a part in the enterprise beyond monitoring its progress and of course the return of the investment. This is an effective way for CI to support private businesses that contribute to conservation by fulfilling the criteria of the Fund. The fund has now been fully disbursed, but CI is planning capitalization of a new Fund to continue with this approach of supporting an established link between enterprise and conservation.

##### *Enterprise Example: Conservation Enterprise Investment in ForesTrade*

ForesTrade is a company specializing in certified organic and sustainably harvested organic spices, essential oils, and coffee and working primarily in Indonesia and Guatemala. In Sumatra, it has strict guidelines for membership in its coffee program. These include bans on hunting and new land clearing and the adoption of shade and organic production, as well as restoration of owned degraded land for conservation set-asides. Compliance is being strictly monitored and people have been ejected from the program if found to be violating any of the regulations.

ForesTrade works with over 3,000 farmers on the island. Their incentive to join the program and comply with these regulations is to gain access to the markets ForesTrade provides. If conservation in Sumatra does not address economic issues, there will be very little support from the regional government or local communities—the constituency for conservation in Sumatra.

In 1999, the Conservation Enterprise Fund made a \$200,000, five-year loan, plus an equity option to purchase a percentage of shares in ForesTrade. The loan is used to purchase inventory and develop products in Guatemala and Indonesia. This investment supports ForesTrade's efforts to promote the sustainable production of spices and coffee. The company works only with existing farmers and does not promote the movement of new farmers into either region.

### The Importance of Agreements

The increasing emphasis on alliances in CI means that regional programs do not necessarily have to incorporate into their team a specialist in enterprise development in order to develop and support enterprise as a conservation strategy. However, they would need to cover this skill through an agreement with another competent organization if they do not have access to it in their own program. Enterprise requires specialist technical skills and, like any other activity, adequate oversight. There are unfortunately many examples of enterprises throughout the tropical world that did not succeed because technical guidance and support were insufficient.

Where enterprise development is undertaken through such partnerships, it is very important to have a clear, written agreement that covers roles and responsibilities, communications, and reporting between the parties. Without such agreements, the possibility exists that even successful enterprise development may not fulfill its environmental mission. Even with tight agreements, trusting relationships are usually the key to making partnerships work.

*Enterprise Example: The Tagua Initiative*

The Tagua Initiative (TI) was CI's first conservation enterprise project. It began in 1990, in partnership with the Ecuadorian NGO, Fundación de Capacitación e Investigación para el Desarrollo Socioambiental (CIDESA). Its purpose was to support the conservation of the 63,000 hectare Cotacachi-Cayapas Ecological Reserve in northwestern Ecuador by creating income for local communities, derived from sustainable management practices. The Initiative expanded in 1995 to include communities in Machalilla National Park on the central Pacific coast. Both areas form part of the Chocó-Manabí conservation corridor.

The TI was the first, and to date most successful in volume terms, example of collaboration between a conservation initiative in a tropical ecosystem and the private sector in the market. Distributors licensed by the TI in the United States sold an estimated 150 million manufactured and 80,000 hand-crafted buttons. Additional markets were created for over 50,000 pounds of whole tagua nuts, as well as craft decorations and jewelry. These sales generated over US\$800,000 of royalties from distributors licensed by CI. The royalty payments financed work in the communities and market development.

As a major initiative in linking enterprise to conservation, the TI generated significant media coverage, with many articles in journals and books. A notable innovation was the concept of alliances between communities, non-government organizations, and private industry as a force for conservation. CI and other organizations have built on the concept of facilitating links between communities and clients to leverage new investments in conservation and an increased role of the private sector. In this respect, the TI performed an important role as a model that inspired other local, national, and international projects; generated significant discussion and interest in bridging gaps between development and conservation; raised corporate and donor awareness; increased CI's credibility with corporations; and helped CI to finance its enterprise growth.

The TI's mission was to demonstrate that enterprises based on sustainable harvesting of natural resources from forested land can provide stable, long-term incomes to draw local populations away from economic activities that destroy the forest, such as hunting, logging, and agricultural expansion. The tagua palm (*Phytelephas aequatorialis*) is native to Ecuador. It is found principally as a managed species in agroforests that harbor higher levels of biodiversity than mono-species plantations. It has a history of commercial harvesting dating back more than a century, and it used to be a major raw material for the button industry before plastics cornered most of the market in the early twentieth century. Tagua can provide a more secure income for local people than other more recently introduced cash crops, such as bananas, which are perishable, easily damaged, input-intensive, and susceptible to diseases.

The TI was implemented with a clear separation of roles. CI took primary responsibility for product and market development and fundraising, and CIDESA for community organization, business development, and monitoring and evaluation. Business development had two aspects: the formation of micro-enterprises to collect, dry, and peel tagua; and the management of relations with the button blank manufacturers situated in Manta, who bought the peeled nuts.

CI had outstanding success in promoting the TI to button distributors and garment manufacturers. The concept was innovative and market trends in the garment industry moved in favor of natural fibers. CI secured the support of major retail companies, who required their suppliers to use tagua buttons only from the TI.

While the incentive system was strong and effective in the distribution chain, there was a weakness in the design at the supply end. Affiliated manufacturers were not required to meet annual volume or price targets for the purchase of tagua from the community micro-enterprises or to invest in developing relationships with them. Thus, an effective mechanism was missing to ensure that growing demand led to a strengthening of the micro-enterprises. Raw material supplied from the micro-enterprises constituted throughout the TI's life only a small proportion of the buttons passing through the distribution system under the TI license.

The local impact was further limited by the increasing role that CIDESA played as an intermediary in buying tagua from the micro-enterprises and transporting it to Manta for sale. The original concept was that independent micro-enterprises would grow, supported by a facilitating NGO and an incentive system for the buyers to deal with them. As they gained a foothold in the market, more tagua collectors would join them and more tagua would be harvested according to management principles that were established on scientific concepts. CIDESA should have reduced its initially necessary role in the trading chain, in order to enable increased contact between micro-enterprises and buyers. Instead, it consolidated its participation.

CI became increasingly concerned that local people were still not given an adequate incentive to change their economic behavior. Moreover, the TI was being abused by some opportunistic licensees who failed to declare their sales and sometimes failed to pay royalties while taking advantage of the promotional benefit. One such company was involved in the logging trade in Ecuador. During 1997, CI made a concerted attempt to investigate with CIDESA the formation of a community-managed trading company to capture more raw material and increase the amount of processing undertaken at source. However, after making a significant effort to establish this enterprise, it was not possible to define a commonly agreed and viable business plan. After a further period in which CI examined the possibility of establishing a more formal certification scheme, the decision was taken to close the TI in 1999 for the following reasons:

- There was insufficient evidence that it was making a positive contribution to conservation.
- Without a presence in Ecuador, CI was unable to exert much influence over the implementation of the field program or to receive information about progress.
- The licensees were faced with increasingly difficult market situations and intense competition in prices, and were becoming reluctant to continue their agreements.

### Other Types of Enterprise Support

Effective enterprise development may in fact not mean developing a business or providing technical support or investment. For example, CI-Peru supports associations of Brazil nut collectors to negotiate and manage concessions and to strengthen their institutions. The Conservation Principles for Coffee Production, by defining agricultural practices that lead to conservation, have strong support from the management of the reserve. CI-Ghana advocates its approach to cocoa extension to the Ministry of Agriculture. Changing the perspective of decision-makers about production methods can be a key component of an enterprise development strategy.

Policy initiatives can also have a major impact in ecotourism, for example, advocating for legislation to protect overexploited attractions, designing a management plan for tourism in a protected area, or lobbying donors to increase investment in the sector. CI- Madagascar supports the Andasibe Guides Association with equipment and training, in order to strengthen its capacity for effective maintenance of the Andasibe- Analamazaotra Reserve. Members of the Association earn proportionally to the number of tourists who visit the reserve. As seeing and photographing animals is the major tourist attraction, this mechanism provides a clear incentive for the guides to protect them.

CI is producing two separate, industry-specific guides for the analysis of approaches to enterprise: an Agroforestry Assessment Manual and a Rapid Tourism Assessment Manual. These provide a greater level of detail about the criteria for evaluating the appropriateness of a project in those sectors. These guides should be read in accompaniment to this chapter and the following pre-feasibility analysis. They assist regional programs during the Conservation Planning Module of CI's Strategy Handbook, which results in the determination of the most appropriate strategy.

## Advantages and Disadvantages of Different Types of Conservation Enterprises

In evaluating the potential for enterprise development, it is worth having in mind that each of the three most common types of conservation enterprises has advantages and disadvantages. Consideration of these as related to the particular situation and the learning from the economic, social and policy assessments will help to determine their appropriateness.

### *Forest products*

#### Advantages:

- Traditional knowledge of harvesting methods exists in local communities.
- Some international market interest exists for natural products from forests.
- The resource is renewable.

#### Disadvantages:

- They often yield insufficient income to cause a change in practices that destroy biodiversity.
- Markets may be controlled locally by intermediaries, reducing economic benefit and hence motivation for conservation among target population.
- They are often unpopular with local people, because collection may be physically demanding, involve risk, such as climbing trees, and not yield much economic benefit.
- Many traditional markets for wild harvested products have been eroded by competition from synthetic substitutes and agricultural production.
- Competition may be strong from more accessible places in the same country or others and able to reach market more cheaply.
- There may be restrictions on gathering in protected areas.
- Availability is often seasonal, making it difficult for a business to offer regular supply.
- Resource harvesting may not be practiced on a sustainable basis because of cost, market pressure, open access, or loss of knowledge of traditional techniques, such as climbing trees to gather allspice in Guatemala instead of cutting them down.
- It is usually costly to develop markets because forest products cover diverse industry sectors.

*Pepper harvesting in Indonesia  
(Tim Marshall) © ForesTrade, Inc.*

### *Agroforestry*

#### Advantages:

- It can achieve a large scale, affecting land use by many people over a large area.
- Agriculture is the most important economic activity in most priority ecosystems.
- Markets accord a premium price to most food products that are sold as shade or organic and the premium can be particularly high for coffee and cocoa.
- It is cost-effective to develop markets for major commodities, because they are large.

Disadvantages:

- It will normally require significant investment to strengthen farmer organizations to take advantage of the market opportunity.
- Severe fluctuations in international commodity prices can create downturns in productivity and insecurity regarding investments in conservation techniques.

*Ecotourism*

Advantages:

- It has great potential to leverage investment for increased protection of national parks.
- Most communities in tropical countries like visitors and attend them well; therefore the concepts are quite easily grasped.
- As the market travels to the product, it is more easily understood by the work communities.
- It promotes cultural identity.
- It is easy to integrate environmental education and awareness into ecotourism development.
- The international market for ecotourism is growing rapidly.

Disadvantages:

- Communities may not understand the expectations of tourists with respect to certain services, such as interpretation, punctuality, hygiene, etc.
- Tourists can introduce a new cultural dynamic that may have negative impacts.
- There is a high risk if the quality of service falls below the requirements of clients, because word of mouth is a powerful influence on marketing success in tourism.
- Infrastructure costs are often beyond a community's reach and require either private sector investment—not necessarily easy to find—or another external source of financing.
- Some places are not necessarily tourism destinations, because of lack of attractions.
- Competition for ecotourism customers is strong, but unfortunately many suppliers do not adhere to the definition of ecotourism.
- Attraction of visitors depends on the political, social, and economic environment and that may change beyond the control of the tour operator.

### The Role of Local Populations

Once it is decided to proceed with a pre-feasibility analysis, then the community where the enterprise is or would be sited must be brought into the process, for two reasons. First, some of the analysis will depend on their local knowledge. Second, potential partners need to be identified, who would then participate in the full feasibility study. Of course, other people may express an interest in joining once the feasibility study has been completed, but leaders tend to come forward early in the process.

It is important to avoid raising expectations among communities while analysis is taking place and to clarify from the outset that CI's commitment is limited at this stage to evaluating with stakeholders the potential for developing a new or existing enterprise, to conserve local resources and create social and economic benefits.

*Enterprise Issue: Options for Involvement by Local People*

A key characteristic of a conservation enterprise is that it generates benefits for local populations to motivate their good stewardship of the natural resources. People can benefit from a viable enterprise in a variety of ways, for example as

- Owners, who purchase shares; this idea should be pursued only where people demonstrate real understanding and interest and have a means to finance their purchase.
- Employees, full-time or part-time, who are employed by the owner(s). This option is risk-free, but carries no decision-making authority. It may not generate much income if priority for employment in an enterprise is given to shareholders, but it may provide very important health and other benefits in accordance with national employment law.
- Independent providers of goods or services, for whom the enterprise would be one but not the only customer. Albergue Chalalán in Bolivia buys all of its meat, vegetables, and fruit from the village of San José de Uchupiamonas.
- Direct recipients of contributions made by an enterprise to a community, through a fund or benefits in kind. Members of Kuapa Kokoo societies benefit from an annual bonus. In 2001 this was distributed by issuing new Wellington boots to farmers. Kuapa Kokoo also funds larger social projects through the price premiums it gains from selling cocoa to international fair trade markets.
- Indirect recipients of the benefits of an enterprise that stimulates a local economy. For example, tourism enterprises can stimulate local production of crafts and foodstuffs. This multiplier effect has been an important factor in support for conservation among residents of San Andrés in Guatemala, who have benefited from the money spent by visiting language school students for goods and services from the town.

## Chapter 4

### Being SAFE: Short Analysis of the Feasibility of Enterprise

This chapter describes the second stage of analysis of enterprise development as a potential conservation strategy—the Pre-feasibility or SAFE Analysis. The purpose is to define a specific enterprise development concept. Before undertaking this analysis, a regional program will have identified not only enterprise development as a potential strategy to achieve a conservation outcome but also potential partners for collaboration. The pre-feasibility study now determines what type of enterprise, if any, may be appropriate and who would participate in it.

At the outset of the pre-feasibility analysis, there may or may not be a specific enterprise idea. Often, the purpose of this analysis is to define together with a target group an appropriate enterprise, according to their interests and the likelihood of success. The exact nature of the analysis and the time that it takes depends on the level of information already available; the technological, human, and financial resources; and the type of product or service being considered.

#### The Participatory Process

The SAFE analysis must be participatory in order to confirm the partners that would be involved in managing either a proposed enterprise or an existing one with potential for collaboration. Local institutional partners would also be brought into this analysis. The enterprise technical team would have a limited involvement, in that the majority of the analysis is based on the local context.

The usual way to conduct a pre-feasibility analysis is through workshops that bring the stakeholders together. Additionally, some investigation of the local situation and the market potential will be included. The exact methodology will be determined by which enterprise approach is being considered. Discussions with a community about a partnership to create a new enterprise or develop an existing one will have a different timescale and process than discussions with an entrepreneur. Nevertheless, participatory workshops are usually the most appropriate means to ensure that all stakeholders evaluate which types of enterprise approaches may be best suited to meet the interests of all parties. This approach also ensures that their interests and concerns are heard, their knowledge and ideas are brought in to the process, and the outcome is one in which they have been a decision maker.

To avoid difficulties or disputes later on, it is also important at this stage to discuss and agree provisionally about the types of arrangements that are envisioned with local people. Enterprises that are started without going through this process are likely to encounter problems during implementation that arise from failing to understand and respond to the community's real interests.

Some of the issues may require further analysis in the full feasibility study that follows. However, it is necessary to strike a balance between gathering information and making decisions. Once local stakeholders are engaged, CI should aim to facilitate quick decision-making, otherwise the local population or entrepreneur may lose interest and meetings will be very unproductive.

*Enterprise Example: Pre-feasibility Analysis of an Ecotourism Lodge**1. Definition of Enterprise Development*

Define the potential location and facility, including as much detail as possible on

- Number of rooms
- Configuration of the building
- Food and beverage facilities
- Meeting facilities
- Amenities
- Construction costs

*2. Site Analysis*

Research and describe

- Topography (hilly, valley, peaks, etc.)
- Accessibility i.e., roads, airports and other means of transportation
- Availability and ownership of land
- Suitability of surroundings, i.e., quality of the local physical environment as regards factors such as aesthetics, sanitation, evidence of air, noise or material pollution
- Municipal services available i.e., electricity, water, and sewage
- Zoning restrictions, building and construction codes, i.e., residential, commercial, or industrial
- Likely effect on the natural environment (air, water, flora, fauna, and land.)
- Possible disturbance to species habitats, ecosystems, watershed areas, etc.
- Local environmental regulations
- Social impacts, i.e., the likely effect on neighboring populations and activities

*3. Analysis of Supply and Competition*

Identify competitors and their supply characteristics, including

- Location, facilities, and amenities
- Rooms and configurations of facilities
- Rates charged
- Occupancy rates
- Market segments served
- The seasonality of operations
- Potential for future competition and its impact on enterprise idea

*4. Market Analysis*

Discuss and define

- The markets to be served, i.e., tour groups, individual leisure tourists
- Characteristics of target markets, such as seasonality of travel and mode of transportation

*5. Stakeholder Analysis*

Identify the interests of people and institutions who would participate in or be affected by the enterprise:

- Benefits for local people
- Position of local government towards the enterprise development idea (potential grants or tax incentives?)
- Roles of participants
- Capacity for investment



## Enterprise Development Concept Paper

Three outcomes of a pre-feasibility analysis are possible:

1. The enterprise development idea is deemed not viable.
2. Certain factors or resources are critical to the success of the idea and must be investigated further.
3. There is enough interest and apparent potential in the idea to take it forward by doing a full feasibility study.

In the last case, the output of the SAFE analysis should be an Enterprise Development Concept Paper. This document describes what now becomes a specific proposition for an enterprise development project, and it serves to share the concept with all stakeholders. The Concept Paper, which would normally be four to five pages, should have four main sections:

### *1. Purpose of the Enterprise Development Project*

- How the project would contribute to the outcomes of the regional program
- How the project would meet the interests of local stakeholders

### *2. Enterprise Development Approach*

- Which approach is proposed, with which potential partners
- What research has been done to support the approach
- What specific problems the project will address
- Who are the entrepreneurs
- What are the roles of the participants

### *3. Local Context*

- Information about the economic, social, and policy context
- Factors that support the concept

### *4. Funding Requirement*

- Approximate cost of project
- Suggestions for funding sources

An *Enterprise Development Concept Paper* has two main target audiences:

- The enterprise technical team, who must be involved from now on in developing the project
- Potential funding sources; these will normally require that a funding proposal be presented in a specific format, which may include a logical framework or similar type of planning matrix

CI's enterprise technical team has responsibility for assisting in the implementation of the feasibility study and in the search for funds to undertake the study and to implement the project. The team has developed a Project Management Framework for CI's agroforestry projects. This consists of a set of tools that outline the project's objectives, the indicators to measure their accomplishment, the assumptions about external conditions that must hold true to accomplish the objectives, the activities necessary, and timing of those activities.

## Summary of Enterprise Development Planning Process

*Summary of Enterprise Development Planning Process*

## **PART II. MAKING AN ENVIRONMENTAL ENTERPRISE WORK**

### **Chapter 1**

#### **Business Planning**

Part II of this manual describes how to undertake a feasibility study or business plan of a conservation enterprise, once the SAFE study has been completed and funding sources determined. In CI's experience, many enterprise development projects are carried out and many small-scale businesses are operating without having developed proper business plans. This greatly restricts their capacity to fulfill their objectives. Chapter 1 provides an overview of the business planning process and discusses the role of local populations in undertaking it.

The term "feasibility study," rather than "business plan," is often used to refer to a study undertaken before a new enterprise is established; its purpose is to determine before operations begin that the enterprise can meet its objectives. Once the enterprise is established, it updates its business plan annually.

Part II complements Step 3 and the first part of Step 4 of CI's Strategy Handbook, which describe best practices for implementing conservation strategies.

#### **The Business Planning Cycle**

A business plan includes both a plan and a budget for a business. It describes what the owners aim to do in the period covered by the plan (objectives), how they intend to achieve that aim (marketing and operations strategy), and what the results will be (financial statements). A regional program supporting an enterprise will also have a plan and budget that describes and costs the training and technical support programs that help the enterprise achieve its goal. These are part of the enterprise development project and are dealt with in Parts III and IV.

A conservation enterprise should in due course become fully independent of subsidized external support. It should eventually internalize the costs of skills training, management development, market research, design, and other services that CI or an alliance partner may provide in an early phase.

A good business plan will demonstrate the financial capacity and management willingness of the enterprise to absorb those costs, to avoid the common problem of business failure because technical support is withdrawn when project funds have run out but before the enterprise is able to operate independently. The more that the owners and managers are involved early on in planning and the more they assume responsibility for costs, the better the chance that they will manage with progressively decreasing support from external agencies.

The planning steps described in Part I, which continue with the feasibility study and annual business plans, may seem like a lot of planning, but in reality any entrepreneur, however small, undertakes similar stages, even if only on the back of an envelope:

Informal entrepreneur	Conservation enterprise
1. Has an idea	Assessments that suggest enterprise as an appropriate strategy
2. Considers skills and resources needed to take it forward	Capacity assessment
3. Sounds out some trusted people for a reaction, gathers relevant information, and perhaps finds a partner	SAFE analysis
4. Estimates likely costs and revenues, potential markets, how much cash is needed to start up, and where to get it	Feasibility study
5. Updates plan each year according to what happens	Business plan

Business planning for a conservation enterprise involves six main activities, which are analyzed in detail in Chapter 3:

1. Analyzing the situation: researching products or services, markets, competitors, sources of finance and legislation
2. Understanding costs: determining the costs of providing products and services, prices of supplies and how to manage these costs
3. Setting targets and strategies: deciding the strategy for which products or services will be offered, at what price, into which market
4. Financial planning: determining cash flows and profitability; planning how much money is needed; managing risk
5. Capitalizing the business: securing finance and establishing the ownership structure
6. Managing for conservation: determining environmental and social objectives

### Planning a New Business

A new business has no hard evidence about its strengths and weaknesses, its capacity to supply its product or service, its competitive advantage, the willingness of customers to pay the prices asked, the skills of its managers, or the commitment of its staff. It also cannot supply historical financial statements—a promise of profitability is much less convincing than evidence of achieving it year after year. For all these reasons, a new business is much more risky than an existing one and, worldwide, most new businesses fail.

To overcome these difficulties to some extent, a plan for a new business needs to place particular emphasis on its human resource capacity, its market research, its sources of capital, and, because it is a conservation enterprise, its link to biodiversity. The plan must demonstrate a capacity to respond to all potential threats and to take advantage of market opportunities.

**Local Entrepreneurs**

Three parties should undertake the feasibility study:

- The actual or potential owners (local entrepreneurs)
- The CI regional program and/or partner in enterprise development
- The enterprise technical team

The optimal situation is that the entrepreneurs themselves undertake the necessary research and analysis. The reality of many of the regions in which CI works, however, is that they may be limited in knowledge, experience, and access to information. They will therefore require support from specialist consultants or technical staff from CI or partners. Moreover, CI’s regional program must ensure that the conservation value of the enterprise is not overlooked. This does not mean that CI should do all the work; for the owners to decide to proceed with the business, they must have a full part in designing the study, undertaking those parts that are within their capacity, and participating in the analysis that leads to a decision about whether to proceed.

In many cases, the threats that a conservation enterprise attempts to address are rooted in socioeconomic and environmental issues affecting local communities. The extent to which enterprises will directly benefit those communities will strongly influence their success in achieving conservation outcomes. CI and its partners support different types of entrepreneurs: individuals, associations, cooperatives, private companies, and local NGOs with whom CI also encourages community-private sector joint ventures or other types of partnerships.



... can be undertaken or shared by local entrepreneurs:

- ... in the country
- ... the proposed business activity
- ... potential
- ... for product-based enterprises

The role of CI’s enterprise technical team in a feasibility study is usually small and will diminish as regional programs increase their capacity through making alliances and recruiting enterprise specialists. Nevertheless, the experience of the technical team is helpful in designing the study and training people to undertake it. It is also invaluable in certain aspects of the implementation, such as an international market analysis. Regional programs and partners are often inexperienced in preparing the financial statements used by businesses and rightly required by prospective donors—another area in which the enterprise technical team can provide support.

*Constructing Albergue Chalalán from local natural materials (Conservation International)*

CI's participation—that of both the regional program and the technical team—in the feasibility study needs to be financed. Yet justifying an activity to a donor is often a difficulty because, until the study is undertaken, there is little hard information. However, it is easier to access funding if the enterprise is presented and justified as part of an overall conservation strategy supported by appropriate assessments, such as Conservation Planning Modules, RACE, SAFE, Agroforestry Assessment, and Rapid Tourism Assessment.

*Enterprise Example: The Participation of Communities in Marketing Studies*

The Food and Agriculture Organization of the United Nations (FAO) developed the Market Analysis and Development approach to enterprise development to “assist people to achieve a sustainable livelihood system in which their household and community assets are increased and local forest management is improved.” Through a facilitated participatory analysis, local people in target communities create a short list of potential products for further investigation according to existing or readily available knowledge under four headings: market, resource management (including legal considerations), social factors, and technology.

In Quang Binh, Vietnam, 12 farmers who demonstrated social and communication skills were trained to undertake interviews with households in local villages, government officials, and local traders. The information they gathered enabled the community to decide that forest honey was the most viable product option. They received technical support to undertake a market survey at a provincial and a national level, following which they recommended producing bottled honey and beeswax for sale to Vietnamese wholesalers. During the process of investigation, leaders emerged in the group and also in the villages to form an enterprise that would buy from local beekeepers and process and sell the honey. These people received technical support to draw up a financial plan for the business.

The Market Analysis and Development approach is slow, but it provides a stable basis for new community enterprise start-up, because decisions are not made outside the entrepreneur group. CI is in discussion with FAO to pilot the methodology in Latin America.

## Chapter 2

### The Purpose and Content of a Business Plan

The business plan of a conservation enterprise achieves a number of purposes for different audiences.

What it does:

- Communicates what the managers think the enterprise can achieve, describes the strategy they will pursue to achieve it, and projects the financial consequences of its plans
- Demonstrates to the owners and other stakeholders that managers are aware of opportunities and threats for the future of the enterprise and are making plans accordingly
- Identifies the financing needs, in order to attract finance from investors, banks, etc.
- Describes how the enterprise will create conservation benefits

Who needs to see it:

- Managers, so that they understand the targets for the business and their own work
- Investors, to determine whether it is interesting to invest in
- Donors, if the business, or the technical assistance to it, has been funded by grants
- Community partners, to provide information and win their support; the plan should provide them with an understanding of the objectives and activities of the business
- Employees, to motivate them and tell them what is expected of them
- Stakeholders elsewhere, to inform them of the purpose of the business

Who should not see it:

- Competitors
- Other organizations or individuals who do not have a stake in the business

A business plan should be marked “Confidential.” A business should not give competitors information about plans for new products or price changes, nor reveal its financial situation to anyone who does not have a right to know.

### The Components of a Business Plan

The exact format and length may vary; the three guiding concepts for a business plan are clarity, justification and completeness. The business plan of a conservation enterprise should be 12–15 pages long and contain the following (approximate amount of pages per section indicated):

#### *Overview (three pages)*

- Cover page, with the name of the business and the period covered by the plan (this should be not less than one year and preferably two or three)
- Contents page, with page numbers
- Executive summary: a summary of the key points of the plan

#### *Background (one page)*

- Description of products, services, location (map recommended), and stakeholders
- Mission statement: a statement in two to three sentences to describe the overall goal of the business
- Conservation value, including social, economic, and cultural benefits of the business

*Marketing and Sales (four pages)*

- Specific description of the type of business, the product(s) or service(s), why these are being selected, and how they will support conservation
- Analysis of the markets for those products or services and selection of target markets
- Capacity of the business to fulfill the market opportunity
- Analysis of the competition and how the business will differentiate itself
- Specific sales targets the business will set
- Strategy for achieving these targets

*Organizational Structure and Operations (three pages)*

- Description of how the business is/will be structured and managed
- Key personnel: owners, managers, advisors, board members
- Human resources required
- Infrastructure and equipment required
- Financial and technical support it will obtain (if applicable)

*Financial Plan (four pages: detailed financial statements are placed in an appendix)*

- Review of past financial performance (not applicable to new business)
- Summary of financial projections based on the targets
- Sources of finance
- Analysis of risk and responses to things that could go wrong

More important than the exact format or length, however, is the logic of a business plan. It should state the market opportunity, and, taking into account all the possibilities and constraints, determine realistic and profitable targets, describe how they will be achieved, and calculate the financial consequences. The acid test for a business plan is whether the potential investors are convinced by that logic.

The annual updating of business plans need not contain all the information required in a plan for a new business, unless it is seeking new investment. Annual plans focus particularly on updated market analysis, sales targets, and financial projections.

*Enterprise Example: Conservation Enterprise Mission Statements*

1. *Productos Forestales Sostenibles S.A.C. (PROFORES)* is a business dedicated to the processing and marketing of high-quality products that are sustainably harvested from Peru's Tambopata rainforest. PROFORES contributes to the establishment of economic incentives for conservation of the environment and progress of the communities, while securing their economic sustainability.
2. *Campeños Ecológicos de la Sierra Madre de Chiapas, S.C. (CESMACH)* organizes people in the communities of the Sierra Madre of Chiapas, Mexico, to join forces in the search for better living conditions for families, while respecting nature.
3. *Albergue Chalalán S.A. (Chalalán)* aims to improve the socioeconomic conditions of San José de Uchupiamonas, Bolivia, conserving the environment for future generations and strengthening the culture of the community. The mission is realized through the creation of an ecotourism lodge that creates sources of income based on the provision of services and the conservation of the attractions of flora and fauna of Madidi National Park. The success of Albergue Chalalán in national and international markets demonstrates the capacity of communities to achieve their own social development and establishes a replicable model of economic growth in harmony with nature.



## Chapter 3

### The Business Planning Process

This chapter describes in detail the six parts of the business planning process: (1) analyzing the situation; (2) understanding costs; (3) setting targets and strategies; (4) financial planning; (5) capitalizing the business; and (6) managing for conservation. It provides the resource material for the business planning training course that is presented in Part III. As such, it serves potential trainers who are already familiar with business planning but perhaps not used to these types of small-scale conservation enterprises, as well as non-specialists in enterprise development who need a broad understanding of the discipline.

Business planning should be as participatory as possible, with the local entrepreneur(s) driving the process. CI's regional staff and enterprise technical team should support it and ensure that as many of the key stakeholders are involved in it as early as possible. Providing capacity building and training to local entrepreneurs is likely to improve the quality of their participation. It is better to proceed slowly with full participation of the local entrepreneurs than quickly without it. A business plan produced without full buy-in by the actual enterprise has no value, because it will not achieve its main purpose of guiding decision-making by the managers.

#### 3.1. Analyzing the Situation

The business planning process starts with an analysis to understand the market in which the business operates and the opportunities and constraints that will determine its performance. The focus of the analysis is both external—what the market could buy—and internal—what is realistic for the business to sell. It is a common fault of business plans to underestimate the resources required to take advantage of potential opportunities in the market. This section describes the steps for that realistic objectives and effective strategies can be defined.

While the type of analysis varies according to nature of the particular industry, the steps are the same. They are described with reference to three of CI's partner enterprises: PROFORES, Peru (which produces fruit nectars), CESMACH, Mexico (coffee), and Albergue Chalalán, Bolivia (tourism services). They do not have to be undertaken in the order presented. A good approach is to have people work simultaneously on different aspects, then come together to agree on conclusions and set the objectives and strategies.

*Producing nectars in PROFORES, Peru (Conservation International)*

The analysis and the strategy that derives from it are the foundation of a business plan. Working through the process enables a business to identify its major information shortfalls, which would be the subject of future research, as resources become available.

#### *Step 1: Focusing the Research Requirements*

Entrepreneurs obviously cannot analyze every possible market in the world for its potential products and services; it would be too time-consuming, difficult and expensive. Moreover, the wider the analysis, the more likely it is to be superficial and less useful for guiding strategy.



Options for relevant market analysis can be focused quickly by thinking about the product or service that the business does or would sell, particularly its special characteristics, about logistical factors and about the capacity of the actual or potential management.

PROFORES makes nectars from sustainably harvested natural fruits of rainforest origin, bottled and labeled for final consumer sale. It would be too expensive to transport bottles very far. Although PROFORES is interested in researching the potential for producing fruit concentrates that could be distributed cheaply, for manufacture elsewhere, resources are not presently available for the investment in technology that would require.

CESMACH produces green coffee beans, suitable for processing in Mexico or abroad. Clients are both Mexican processing companies and international coffee importers.

Albergue Chalalán is situated in a remote location in Madidi National Park, accessible by expensive river transport. Staff also have to travel there from their village, resulting in high costs. Direct international communication and management of an international reservations system would be difficult. The main target market is therefore tourists who use tour operators to arrange their travel.

### *Step 2: Developing a Consumer Profile*

The purpose of this analysis is to understand as much as possible about the possible markets of the industry that the business would operate in, focusing on five questions:

*Question 1.* Who buys this product or service? The business should first consider the end-users (consumers). For example, PROFORES determined that visitors to the region, as well as local residents with some disposable income, would be the most likely consumers of local tropical fruit drinks. Albergue Chalalán considered all the groups that want to visit their main attraction—the Bolivian rainforest. These groups are not just nature tourists but also birdwatchers, researchers, and institutions for conferences.

*Question 2.* What specific products or services do they buy? This analysis aims to understand the more detailed requirements of consumers. For example, PROFORES would want to know which fruits people may like most, whether that varies among different nationalities, when they would drink fruit nectars, and what size bottles are convenient to buy. Albergue Chalalán would aim to find out what type of accommodations and activities would give visitors satisfaction, i.e., small conferences may need a meeting area and a minimum number of rooms, and vacationers may value privacy.

*Question 3.* How much might consumers be willing to pay? Pricing should be based not just on the costs of a product or service but also on the consumers' perception of what it is worth. If the market does not value a product or service more highly than it costs to produce, then the business concept is not viable. Albergue Chalalán is very interested to know not only how much people might pay to get there but also how much they might spend per day once there. Prices in commodity markets are less flexible than in ecotourism, but even so international consumers pay different prices according to the type of coffee they buy and where they buy it. Specialist niche markets can be important in this respect. Organic coffee is perceived as having health benefits for people as well as the environment and consumers are willing to pay more for it.

*Question 4.* Where do consumers buy the product or service? Most conservation enterprises sell not to consumers but to companies and so they want to know which ones supply to the target consumers. For example, PROFORES decided to investigate selling to nearby hotels and lodges, as well as to distributors of bottled drinks. International tourists who visit Albergue Chalalán in Bolivia tend to book their travel either through international tour operators in their countries or with tour operators and travel agents in La Paz.

Obviously, consumer analysis is least difficult in the country of operation. It is generally good advice for any new business to maximize opportunities to sell in its own country because it is possible to visit the market, talk to the customers, and understand better the perspectives of consumers.

*Question 5.* What are the trends in the market? Because a plan looks forward, it is important to be looking ahead to changing trends among consumers. The most successful entrepreneurs look not just at what has sold well to date but at what types of products or services are likely to appeal to people as tastes change. Key to this is understanding people's motivations and needs for different types of products and services. For example, nature tourism is the fastest growing part of the tourism market as urban cities become increasingly fast paced. With less green space to enjoy, people are looking for true escapes. Raised awareness of manufacturing processes and trends towards ethical consumption have led to a growing interest everywhere in natural products and that benefit local people. The United States has recently launched a fair trade certification scheme for coffee. All of these trends could be harnessed positively.

#### *Enterprise Issue: Fair Trade*

The fair trade movement grew in Europe and North America in response to concerns by consumers and development institutions about low prices and bad working conditions for many products sold by tropical countries. Its objective is to improve socioeconomic conditions among low-income agricultural and industrial workers by paying prices for imported products that reflect true costs of production, including respecting employment laws. At first, a number of different fair trade organizations imported without reference to a common standard and sold under their own brands. At the end of the 1980s, Max Havelaar in the Netherlands began the process of defining fair trade standards and licensing importers who complied with them to carry a seal on their products. Fair trade seals are now available in Europe and North America for a variety of products, including coffee, cocoa, and chocolate, from several licensing organizations using the same standard. Because the standards incorporate minimum prices, fair trade importers are very valuable customers to exporters, especially at times of low international commodity prices. For example, in 2001, the market price for green coffee beans was about one-half of the fair trade price of US\$1.26/pound FOB (free-on-board; see Chapter 3.3). Kuapa Kokoo in Ghana sells about 10% of its cocoa at fair trade prices.

Fair trade standards do not incorporate criteria relating to conservation of the production area. Therefore, CI developed the Conservation Principles for Coffee Production and plans to do the same for cocoa. CI supports the strengthening of the fair trade movement, because farmers cannot invest in conservation practices unless they earn a fair return on their crops; it hopes that the fair trade licensing organizations will recognize that farmers cannot sustain income gains if the environment for growing their crops is depleted, and so incorporate environmental management into their standard.

*Step 3: Industry Analysis*

The industry analysis addresses the same five questions as the consumer analysis, with the objective of knowing who the customers in the industry are, what products or services they buy, and how to reach them. In most cases this information will create strategic options from which to choose when setting objectives and strategies. For example, CESMACH could sell its coffee more easily in Mexico but probably more profitably internationally. In the international market, it might target the United States or Europe. The more information it has, the easier the decisions will be. Many small-scale enterprises want to export but fail because they do not know where to find the customers or understand their requirements in terms of quality, samples, and communications. For example, Albergue Chalalán has focused its strategy on establishing strong relationships with tour operators in La Paz who have the communication infrastructure and capacity to sell the destination directly to international tourists or tour operators. An industry analysis will identify major buyers, how and when they make their orders, major promotional events such as trade shows, and the mark-ups or commissions taken by the companies who operate between producers and consumers.

Most small-scale enterprises find it difficult to obtain information about international consumers and industry structures. While CI's enterprise technical team has a mandate to assist in these areas, the business must be involved at least in determining what is required and evaluating the information obtained, otherwise the essential process of transferring marketing skills is not occurring and dependence is building up. The role of the technical team is less to manage market development and more to guide it, providing sources of information and contacts. The interest in developing an enterprise may be strong if it contributes to a conservation outcome and donor funds to support start-up or growth are available; but experience shows that if the local population is not actively interested in developing the opportunity, it is unlikely to be effective in managing it later on.

Businesses in tropical countries have increasing local access to information, through the internet, international communities living in the country, and a growing number of institutions supporting trade development, including government offices. For example, the Ministry of Tourism should have statistics on visitors that could be helpful in determining target customers for a new tourism business. It is very worthwhile to talk to actual tourists in the country to understand their motivation, interests, and reactions. A visit to hotels, cafés or bars that are popular with tourists can provide a productive opportunity for conversation and learning. Similarly, PROFORES could fairly easily organize focus groups of tourists to provide feedback on its nectars.

Indeed, most market research involves talking to people, not just reading industry or economic trend reports, which tend to provide general information. The best people to talk to are companies in the industry, because they are potential customers and they know the major requirements. If these are located in the capital city, a visit to meet as many as possible early on is essential to understanding the potential for a product.

*Coffee farmer in Chiapas, Mexico (Conservation International)*

Internationally, a very productive use of time can be to visit an appropriate trade fair. There, all the major companies will be present with their products, providing an opportunity not only to meet them but also to find out more about the major competitors supplying them. Most industries have at least one important fair each year, even the Specialty Coffee Association of America.

#### *Step 4: Competition Analysis*

Competition may be direct—another eco-lodge in Bolivia or fruit nectar in Peru—or indirect—nature tourism in Costa Rica, which many of Albergue Chalalán's consumers would see as an alternative holiday destination, or another soft drink. The more a business can learn about the competition for its product or service, the better it can define any advantages it may have over the competition. These become important in determining the way it will present the product or service to the market.

Location can be an important factor. By definition, conservation enterprises tend to be situated in remote places, where costs for the product to reach the market, or, in the case of tourism, for the market to reach the service, may be high. The experience of Albergue Chalalán is that this is not a critical disadvantage. By contrast, many product-based conservation enterprises find themselves in competition with businesses offering a similar product from a location better connected to the markets. Where costs are further reduced by unsustainable extraction methods, the competition is all the harder to withstand.

Conservation enterprises may tend to over-emphasize the environmental benefits of their product or service as a competitive advantage. It is much more important to focus competition analysis on being competitive in quality and price. Although growing, the amount of premium that a market will pay for environmental or social benefits is limited, and generally the perception of value, as perceived in terms of quality and price, is the most powerful factor in gaining acceptance from consumers. For example, in recent surveys of UK tourism markets, 26% gave importance to environmental and ethical considerations when purchasing a holiday, but tourists were willing to pay only 5% more for these considerations (WTO, 2001). Consumers value primarily the benefits for themselves, rather than for the place of origin.

#### *Step 5: Economic, Social, and Political Factors*

The final part of the external analysis looks beyond the product or service to consider what other factors may influence the market. For example, tourism is affected by a downturn in the global economy because it will affect spending on leisure activities, such as vacations. Civil unrest or political instability in a country can bring tourism to a virtual halt, such as in the United States after 11 September 2001. Government policy on natural resource management, land use, zoning, and development projects can have a major impact on a conservation enterprise, for example, the granting of a mining or timber concession near a rainforest lodge or the use of pesticides near organic farms. Laws may control the import of certain products, for example, by restricting the use of certain materials for reasons of safety. Coffee consumption is subject to social trends; the overall volume consumed is declining because of perceptions about health, while consumption out of the home is increasing. The lack of a local bottling plant is a factor affecting costs and reliable supply of materials for PROFORES.

The external analysis should be summarized in the marketing and sales section of the business plan. It should convince the reader that the business understands the market in which it will operate and has a strategy to respond to the risks involved. Some business plans incorporate a SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis. This is a convenient, but not essential, way to summarize information. The external analysis represents the Opportunities and Threats—what is happening in the market that will be favorable and adverse for the product or service? From this understanding, the business can derive the strategies that maximize the opportunities and address the threats.

#### *Step 6: Business Performance*

The best market information available to a business is usually an analysis of its own past performance. This step cannot of course be undertaken in a feasibility study for a new enterprise. The more experience a business acquires, the easier planning becomes. Comparison of key data and sales figures over the years shows trends that can guide strategies. The most important market-related historical records a business needs are

- Breakdown of sales income: for example, Albergue Chalalán will analyze, among other things, the average length of stay, average expenditure per day, sales per tour operator; total sales per month will show seasonal trends of the business
- Analysis of customers: which customers are buying what percentage of sales
- Profile of the consumers: age, sex, place of origin
- Motivation and satisfaction of the customers: evidence of repeat purchases or recommendations, why customers buy the product or service, feedback given.

Like all parts of the business planning process, this is an exercise to do regularly, preferably every quarter. Analyzing sales performance and organizing occasional customer surveys are methods to keep in touch with market trends. Although the business plan is usually updated only once a year, a successful entrepreneur is always planning and uses information about what is happening in the business to guide the plans.

#### *Step 7: Strengths and Weaknesses*

Assessing the capacity of a business not only enables realistic plans to be set but also identifies areas to strengthen. Capacity should be analyzed with reference to four aspects:

1. *Human resources*: the level of skills and experience of the owners and managers. For example, none of the three conservation enterprises referred to in this section has English-speaking personnel; it would thus be very difficult for them to try to reach international markets directly without a commitment to acquire that skill through training or recruitment. The general lack of business experience makes it imperative that managers have access to appropriate training and capacity building, which is being provided through CI's technical assistance.
2. *Technology*: taken in the broadest sense to mean communications infrastructure, equipment and also technical skills. Many businesses believe that their best strategy is to undertake more processing locally. It may be the case, but it may not. Exporters of green coffee bean may be better off concentrating on improving the quality of the beans and reaching the best markets, hence limiting their processing ambitions to that stage in the distribution chain.

3. *Financing*: the money that is or could be available to the business to expand its activities. Even if a conservation enterprise is profitable, borrowing money may be difficult or expensive because of its lack of guarantees and the limited availability of schemes to support small-scale enterprise. This can restrict operations, for example, CESMACH's capacity to buy from its members or Albergue Chalalán's to add extra beds to meet potential high-season demand. CI places great importance on improving access to affordable financing for viable conservation enterprises.

*Enterprise Example: Business Plan for the Gudigwa Camp, Botswana*

Gudigwa is one of the few remaining Bushmen communities of the indigenous cultures of the Namibia, Botswana, and Angola regions. Their ancestors are recorded to have inhabited the area over 30,000 years ago. Bushmen have traditionally lived a semi-nomadic lifestyle, staying only as long as the natural resources in a place could support them. Once the resource base began to decline, the clan would move on, giving the previous area a chance to recuperate. Today, this nomadic lifestyle is virtually extinct. Because of the creation of protected areas and development strategies, Bushmen groups have been settled into villages, where traditional means of survival are no longer feasible. Gudigwa is one of these communities and is facing the challenges of lack of access to local markets, scarce resources, and poverty. The people are seeking ways to alleviate the increasing poverty levels in their community and control the deteriorating state of their natural environment—which is also directly linked to their quality of life.

Gudigwa is part of the Okavango Community Trust, which manages tourism operations in the area through a joint-venture partnership with a leading private sector tour operator in southern Africa, Wilderness Safaris. Building on their existing knowledge and taking advantage of ongoing tourism in the area, Gudigwa, through their own community organization, the Bukakhwe Cultural Conservation Trust, asked CI-Botswana to assist in developing the concept of a Traditional Village that would give them an opportunity to retain and restore their rich ancestral knowledge while generating income for the families. The Traditional Village is a reproduction of a traditional, semi-permanent Bushmen settlement, which will simultaneously function as a luxury camp for international tourists.

CI-Botswana took the first steps to prepare a pre-feasibility study in 1999, which was discussed with the community in a workshop. Fundraising began, to provide tourism and practical skills training for the community, as well to as develop the business plan. These steps were taken to ensure that the business would be sustainable and at the professional and organized level required for high-paying clients.

CI-Botswana, CI's enterprise technical team and the Bukakhwe Cultural Conservation Trust have coordinated closely to prepare the business plan and financial statements. The business has secured grant funding to cover start-up costs and plans to begin operating in 2003.

### 3.2. Understanding Costs

Costs are of four types:

1. *Start-up costs*: the initial investments required to set up the business, such as materials, equipment, legal fees, etc.
2. *Variable costs*: those costs incurred to make the product or provide the service being sold, for example, payment of tour guides, cost of food for tourists. They are often referred to as “direct costs.”
3. *Fixed costs*: the costs of managing and operating an enterprise that have to be paid whether there is activity or not, for example auditing fees, administrative salaries, electric light. This is often referred to as “overhead.”
4. *Indirect costs*: often the same as fixed costs, which are always indirect, but there may be some additional indirect costs that are variable, because the amount changes according to the level of operations, e.g., bank interest on a loan or overdraft; marketing materials.

A business needs to understand the costs of the individual products or services it sells so that it can ensure its prices cover them. The process for doing this is to calculate all the costs, but in different ways:

- Variable or direct costs are included in full and calculated per unit.
- Fixed and indirect costs are added to unit-variable costs to ascertain the full unit cost. There are different methods for calculating the addition of fixed costs, which can be complex. A common and simple one, which is probably accurate enough for most businesses, is to take total costs over a period and divide them by the number of units sold in an average period. For example, if PROFORES sells an average of 1,000 nectars a month and has fixed costs of \$300 per month, it would add \$0.33 per nectar to recover these costs through its sales revenue. The danger of this method is that if the number of units sold falls below the target sales, then the fixed costs will not be fully recovered and the business may make a loss.
- Start-up costs will mostly be converted to assets held by the business, because they add value to the business. However, those assets decline in value over time and will therefore bear depreciation, which is an indirect cost.

In this section, examples are given of all the financial statements that a business would need to prepare. The figures provided relate to a hypothetical businesses, Tree Fern Lodge, in order to respect the confidentiality of real business partners. Tree Fern Lodge is based on a typical community-owned ecotourism business. Moreover, the principles of financial analysis are common to all businesses, so that it is straightforward to relate the concepts given in the example to the types of business that CI most commonly supports. The other example used in this section, Ecomaya, is a real business partner in Guatemala; the example is used where no financial information is required.

A word of encouragement is necessary before addressing these detailed financial statements. They look complicated on paper but they are not, once a business starts using them. CI's enterprise technical team has facilitated business planning with people who have little formal education. Once they see how financial statements provide them with important information about and with control over their business, they quickly appreciate their value.



*Enterprise Example: Costing Sheet for Tree Fern Lodge*

**Costing Sheet 2001 (\$US)**

Variable (direct) costs per guest night

Room costs	
Room cleaning	1.48
Guest services	2.01
Room supplies (linens, soaps)	1.08
Food and beverage costs	
Food and drink supplies	7.94
Cooks and kitchen staff	4.47
Kitchen supplies (gas)	3.97
Excursions and activities	
Transport to/from airstrip	1.12
Tour guide fees	7.79
Performer fees	11.54
Meals and transport for guides	13.16
-----	-----
Total cost per guest night	54.56
-----	-----

Fixed costs (annual)

General administration	
Manager and administrative salaries	26,827.00
Office supplies, communications	1,133.00
Accounting fees	839.00
Staff uniforms and meals	9,346.00
Shortages (losses)	2,015.00
Staff training	500.00
Board trustees fees	2,308.00
-----	-----
Total administration	42,968.00

Sales and marketing	
Website maintenance	800.00
Brochures and promotional materials	2,689.00
CD-ROM	255.00
Travel	900.00
-----	-----
Total sales and marketing	4,644.00

Property and operations	
Freight	14,017.00
Fuel and energy	4,947.65
Maintenance	14,842.00
Labor	2,284.00
-----	-----
Total property and operations	36,090.65

Other costs	
Insurance	4,000.00
Bank interest	4,227.00

Depreciation	37,101.00
-----	-----
Total annual fixed costs	129,030.65

Guest nights in year 1,400

Fixed cost per guest night = 129,030.65 / 1,400 = 92.16

Total cost per guest night = 92.16 + 54.56 = 146.72

In the example above, the importance can be seen of reaching sales targets if fixed costs are to be covered. If Tree Fern Lodge sold only half of the number of guest nights, then it would need to add \$184.32 and not \$92.16 to the unit cost. This is the first reason that one of the most important rules for a new business is to keep fixed costs to a minimum. The higher they are, the more difficult it is to be confident in costing the products. The second reason is simply a question of cash flow. If sales fall below target, the business can more easily survive if it has low fixed costs, because its direct costs reduce proportionately to its volume of operation.

### Break-Even Analysis

Once it has differentiated its fixed and variable costs, a business can calculate how much it needs to sell to break even. The break-even point is reached when fixed costs are equal to the gross profit (sales revenues less variable costs). This concept is very useful in a number of ways:

- It provides a rough monitor of business performance, because without checking the accounts it is possible to know if the sales volume is enough to cover costs
- A business can calculate the volume of sales required to break even at different selling prices as a means of setting the most competitive price
- It can also calculate the selling price required to break even at different volumes of sales.

#### *Enterprise Example: Break-Even Volume of Tree Fern Lodge*

Fixed costs per year   \$129,031

Average selling price per guest night   \$165

Gross margin per guest = \$165 - \$54.56 = \$ 110.44

No. of visitors per year required to cover fixed costs =  $129,031 / 110.44 = 1,168.33$

If the business estimates that it can attract only 800 visitors, then its break-even average selling price would be:

Gross margin required from each visitor =  $\$129,031 / 800 = \$161.29$

Average selling price required to achieve gross margin =  $\$54.56 + \$161.29 = \$215.85$

The difficulty with break-even analysis is that very few businesses sell a single product at a single price. The true break-even volume of sales for Tree Fern Lodge depends on different factors about its visitors: the time of year they come, because selling prices vary between high season and low season; the size of group they come in, because costs lower when group size increases; and how long they stay, which affects income per guest night. So, at best, break-even analysis provides an approximate guide of the sales volume required to cover costs. This is very useful, provided that the inaccuracies are borne in mind.

## Managing Costs

Most businesses have scope to cut costs with careful management. Factors to consider include the following:

- Terms under which labor is employed; permanent employment will be more expensive
- Skill level of producers: their rate of production and wastage of materials
- Cash management: effective management of debtors and creditors can reduce interest charges by minimizing the amount borrowed from the bank
- Inventory management: keep it as low as possible to avoid financing charges and also loss of value if it deteriorates
- Diversification of product lines gives more opportunities to cover fixed operating costs.

### 3.3. Marketing Targets and Strategies

Once the situation analysis is completed, there remains a key ingredient on which this manual cannot assist: judgment. Business planning will always be strengthened by good information and donors will insist on it. Nevertheless, the most successful entrepreneurs are those who convert information into strategies by using insight and judgment to decide between options or who even sometimes just follow a feeling for which there is little supporting evidence.

The targets are the specific, quantified objectives that the business will hope to reach and the strategies are the activities it will carry out to achieve them. This is the marketing plan of the business. Again, it does not matter if the terminology used is different; the important thing is to provide some numbers, not just words! The conventional way to present this information is under four headings—Product, Price, Place, and Promotion. Marketing textbooks refer to these as the four Ps and in the case of tourism to the eight Ps, adding People, Packaging, Programming, and Partnerships. CI's International Communications department has adopted the same term, referring in its case to four different words—Problems, Publics, Products, and Plan.

It is a good idea to summarize the objectives in a table at the beginning for clarity. The main information required is as follows:

#### Product

- Targets - How many of each product or service the business will sell, divided into a time frame that is useful to the business, e.g., per month or per quarter
- Strategy - Which existing products or services will be sold  
 - Which new products or services will be introduced  
 - What steps will be taken to ensure high quality  
 - How will products be packaged, sized, graded, etc. (as appropriate)

Customers should guide product development. For example, Albergue Chalalán successfully added another product—an additional night's stay—because it found that visitors wanted to go slowly, not fill all their time with activities and then leave, especially as it took so long to get there. In cooperation with CI's marketing partner Aveda, PROFORES is experimenting with the production of oil from the ungrahui palm, which may have application in the personal-care industry. This could be produced with substantially the same machinery as that used for the nectars and would enable more regular production, as well as support to another community supplier.

In tourism, people are a large part of the product offered. Since tourism products are usually not tangible goods, but rather services that provide an experience, much of the perceived quality of the product relies on human resources, such as the local tour guides who provide interpretation of the surrounding natural environment. As such, tourism businesses need to factor in human resources carefully when setting product development strategies.

#### Price

- Targets**
- The price at which the products or services will be sold
  - Discounts or commissions that will apply for distributors

- Strategy**
- Plans for seasonal variations to stimulate demand at low season times
  - Pricing variations for particular target customers, introductory offers, etc.

Pricing is an art, whereas costing is a science. Adopting a flexible approach to pricing can increase sales and profitability. For example, Albergue Chalalán reduces its prices in low season (January–March) to just above the direct costs of operation. This means that it makes a small contribution to fixed costs per customer during this period. Without this price reduction it is unlikely that any visitors would arrive, as most tourists during the period are of the backpacker type who buy lower-priced tourism products.

Exporting bears additional costs—packaging, transport to port, documentation, and customs handling. If these are included in the price, then it is stated as an FOB (free-on-board) price. This is recommended for export. If these costs are not included, then it is an “ex-works” price. Importers do not like ex-works prices, because they have no control over costs in the exporting country but they will have to pay them. It is also advisable to quote prices in hard currency (\$US) to protect the enterprise against devaluation of local currency.

#### Promotion

- Targets**
- The main objective of promotion is to achieve the sales target, but for a conservation enterprise there may be a communications objective, e.g., make consumers aware of the biological importance of a tourism destination

- Strategy**
- Messages the business will put out
  - Media it will use, e.g., brochures, website
  - How it will try to obtain free promotion, e.g., contact journalists
  - Promotional events it will participate in, e.g., trade fairs
  - Promotional support it will give its customers

A renowned British industrialist, Lord Leverhulme, once said, “Half of the budget my company spends on advertising is wasted; the problem is, I don’t know which half.” It is clearly a challenge for new businesses to spend scarce resources effectively in market promotion. However, it is vital that they do invest in building knowledge among the target customers of their products or services and of the conservation benefits of their business. The best general guide for a business to allocate resources is to think carefully what it wants to say to whom and what media those target customers are most likely to use.

## Place

- Targets - Which of the potential markets the business will target, described in as much detail as possible: by country, type of customer, etc.
- Strategy - How it will distribute the products or services to that market, through which channels: e.g., use of distributors, sales agents or tour operators

Targeting more than one market is usually sensible for spreading risk, and maximizing opportunities nationally is also wise. Relying on export business is less secure and often more costly. The selection of markets has three elements:

1. Country or region
2. Point in the distribution chain at which the product will enter the market (wholesaler, importer, retailer, etc.)
3. Positioning—at the high end of the market that values quality and may be more interested in conservation, or at the more price-conscious low end of the market

Criteria for selecting which places to sell in and where to position would include the following:

- Market size
- Willingness to pay (a higher price may be possible in one market than another)
- Ease of reaching it physically (meeting clients is essential)
- Cost of the products reaching it (or for the client to reach it if ecotourism)
- Cultural and language affinity
- Capacity of producers or service providers to meet market requirements

Partnerships are often a significant part of how a product or service is developed, positioned, promoted, and priced in the tourism industry, because there is great value in establishing mutually beneficial relationships with other business in order to target a market. For example, an eco-lodge may team up with a local tour operator to put together certain packages, which are sold to travel-trade intermediates such as travel agents and tour wholesalers. Extra emphasis on partnerships will be needed when developing the “Place” strategy for tourism enterprises.

## Sales Targets

Once the marketing strategy is determined, a business estimates the sales that it thinks it can achieve. This serves two purposes: to provide a target against which to measure performance and to calculate budgeted revenues in the financial projections. Tree Fern Lodge changes its selling price according to the season and also depending on whether sales are direct (through the internet or a sales office) or through a tour operator.

*Enterprise Example: Setting Sales Targets for Tree Fern Lodge*

**Sales Targets 2002–2004**

	2002		2003		2004	
	Operator	FIT	Operator	FIT	Operator	FIT
<b>2 nights, 3 days Honeymoon Package</b>						
No. of visitors 1 <sup>st</sup> quarter	30	15	32	15	32	15
Selling price	\$250	300	\$255	\$305	\$265	320
Income	\$7,500	\$4,500	\$8,160	\$4,575	\$8,480	\$4,800
No. of visitors 2 <sup>nd</sup> quarter	70	35	74	35	76	36
Selling price	\$350	\$400	\$360	\$420	\$370	\$440
Income	\$24,500	\$14,000	\$26,640	\$14,700	\$28,120	\$15,840
No. of visitors 3 <sup>rd</sup> quarter	70	35	74	35	76	36
Selling price	\$350	\$400	\$360	\$420	\$370	\$440
Income	\$24,500	\$14,000	\$26,640	\$14,700	\$28,120	\$15,840
No. of visitors 4 <sup>th</sup> quarter	30	15	32	15	32	15
Selling price	\$250	\$300	\$255	\$305	\$265	320
Income	\$7,500	\$4,500	\$8,160	\$4,575	\$8,480	\$4,800
<b>Total income</b>	<b>\$64,000</b>	<b>\$37,000</b>	<b>\$69,600</b>	<b>\$38,550</b>	<b>\$73,200</b>	<b>\$41,280</b>
<b>3 nights, 4 days Trekker Package</b>						
No. of visitors 1 <sup>st</sup> quarter	30	15	32	15	32	15
Selling price	\$350	\$400	\$360	\$420	\$370	\$440
Income	\$10,500	\$6,000	\$11,520	\$6,300	\$11,840	\$6,600
No. of visitors 2 <sup>nd</sup> quarter	70	35	74	35	76	36
Selling price	\$450	\$500	\$470	\$530	\$490	\$550
Income	\$31,500	\$17,500	\$34,780	\$18,550	\$37,240	\$19,800
No. of visitors 3 <sup>rd</sup> quarter	70	35	74	35	76	36
Selling price	\$450	\$500	\$470	\$530	\$490	\$550
Income	\$31,500	\$17,500	\$34,780	\$18,550	\$37,240	\$19,800
No. of visitors 4 <sup>th</sup> quarter	30	15	32	15	32	15
Selling price	\$350	\$400	\$360	\$420	\$370	\$440
Income	\$10,500	\$6,000	\$11,520	\$6,300	\$11,840	\$6,600
<b>Total income</b>	<b>\$84,000</b>	<b>\$47,000</b>	<b>\$92,600</b>	<b>\$49,700</b>	<b>\$98,160</b>	<b>\$52,800</b>

*Note: FIT = Free Independent Traveler*

The business now has a marketing plan. If it is a new business, the plan should be for not less than two years and normally longer. It is unlikely that a new business would be profitable immediately and the plan should look as far forward as necessary to show when profitability would be achieved. It is not necessary to elaborate detailed strategies for more than a year, because strategies should be flexible according to experience and the financial performance. Objectives should change less because they are closely related to the mission. However, they too must be kept under constant review. If a product is not selling well, it may be possible to divert promotional resources to another one and make the same amount of income.

*Enterprise Example: Reaching the Market*

Ecomaya S.A. is a specialist marketing company in Petén, set up by CI-Guatemala together with community enterprises specializing in ecotourism services. It was established because its members, located in rural areas, were unable on their own to undertake marketing. They lack access to telephones or internet, do not speak English, and have no base in Flores, the capital of Petén, where most tourists decide which activities to buy. Ecomaya has an office and reservations center in Flores.

The Ecoescuela de Español is Ecomaya's most important supplier. It needs to reach potential customers in a number of different countries. These are mostly in the age group 22–34 and buy the language school service directly, not via intermediaries. The most effective promotional investment is the internet. Ecomaya's web page now incorporates an internet registration system so that customers can order directly and make payments through a secure server. Management of the system is outsourced. Ecomaya also has a general brochure about the language school to send to actual and potential customers and makes targeted telephone approaches to institutions and companies who may buy language classes. Its website and promotional materials also feature the other community enterprises.

In 2001, a number of private sector tourism companies, including tour operators, hoteliers, transport companies, and restaurants, recognized the need to compete more effectively with tour operators outside the region who controlled access to international markets. They opened negotiations with Ecomaya with a view to investing in it. A plan was drawn up to increase the company's capital through the issue of new shares. When negotiations were completed in 2002, the new investors became owners of 41% of the shares. ProPetén, the local NGO to which CI-Guatemala transferred its work in the region, holds 32%, and the communities and a few individuals the remaining 27%.

The partnership creates a major opportunity for ecotourism development in Petén. Ecomaya's business members are all in the process of obtaining certification under a local scheme, to demonstrate their commitment to generate social and environmental benefits from tourism. The new capitalization and combined knowledge and experience of the new owners of Ecomaya will enable the company to compete effectively with the tour operators of Guatemala City and Belize, increasing the market for the existing members and stimulating development of new community-based tourism products.

## Organizational Structure

The business plan should include a short section on how the business is structured, who the owners and senior managers are, and what their experience in the industry and in management is. The purpose is to demonstrate that the business has the organizational and human resource capacity to implement the plan that it has described. Because nobody can be certain that a plan can be achieved, potential investors place a lot of importance on the integrity, skills, and experience of the people who are running it.

Additional information that would strengthen a business plan includes how the business will handle seasonality or peak times or overstaffing situations; areas of the organization that may be contracted out; and a summary of the human resource policy. In today's increasingly competitive environment, a motivated workforce is essential for a successful business. For the purposes of the business plan, the summary should briefly describe what practices will be used to recruit staff; training/incentives to ensure customer service standards and how these will be monitored; and how competitive the business will be in benefits and wages offered to staff.

The managers also need to make a detailed implementation plan that covers all the activities necessary to achieve the plan and assigns responsibilities to specific people to carry them out. This is called the work plan and, to avoid confusing the overall picture with too much detail, it would not normally be included in the business plan.

A problem that many cooperatives face is regularly changing their elected officials. This creates a loss of knowledge and continuity in management. It provides a disincentive to train people, if they are shortly to leave the job. Key business functions need long-term managers.



*Ecomaya provides a market for community ecotourism businesses in Petén, Guatemala, including Paso Caballos, which operates the Scarlet Macaw trail (Conservation International)*

### 3.4. Financial Planning

Businesses use three main financial statements: Profit and Loss Statement (also called Income Statement), Cash Flow, and Balance Sheet. In a plan for an established business, it is necessary to include an income statement and balance sheet for each of the last two or three years and projections of the same statements, plus a cash flow, for the period of the plan. New businesses obviously cannot include the historical statements.

Each statement has a different purpose. Taken together, they provide owners, managers, employees, and investors with a complete financial picture of the business. They can be produced in accounting software programs, because they derive from the figures kept in the accounts. They can be set out in slightly different ways, particularly with regard to the amount of detail they include and also according to the nature of the business.

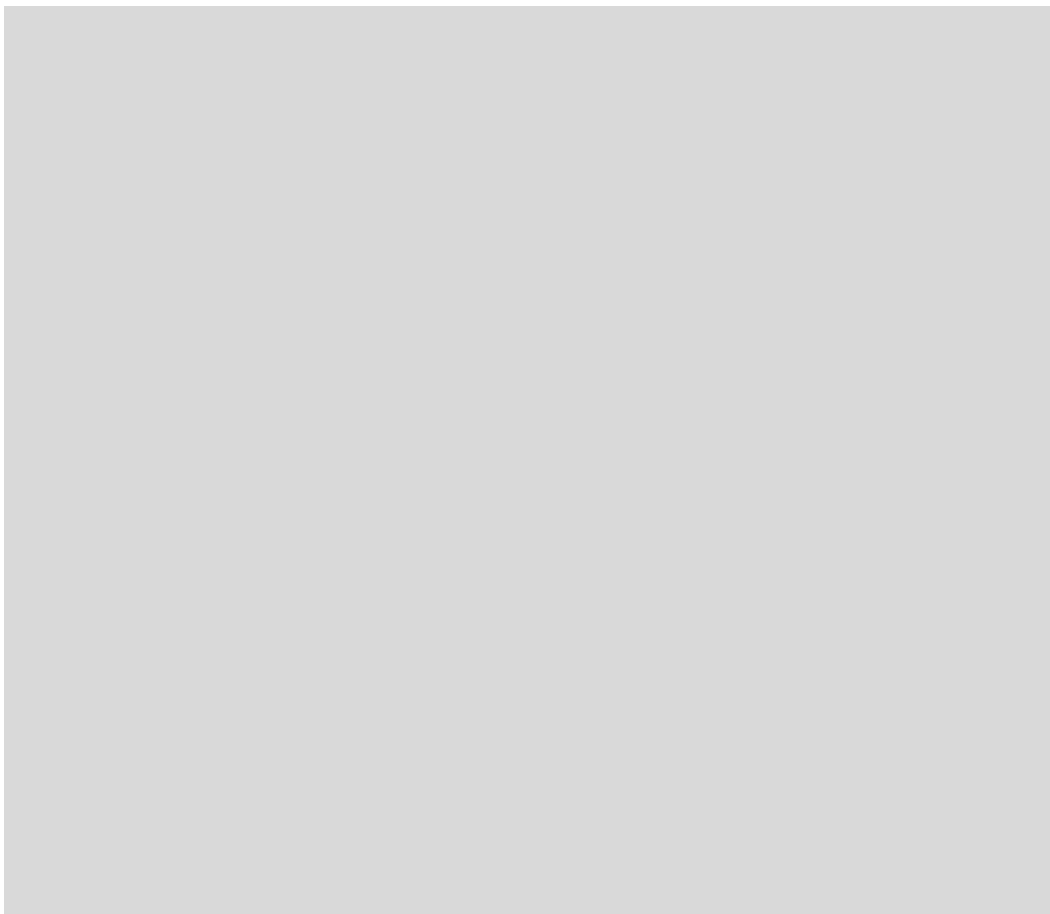
#### Income Statement

This is the statement that calculates whether the business has made a profit or loss. It must be produced once a year and, subject to the law of the country, may need to be audited independently. It summarizes three main sets of figures:

1. Revenues from sales and investments
2. Variable (direct) costs of achieving those sales, shown conventionally as Cost of Sales
3. Fixed costs of operating the business

The Gross Profit is calculated as Revenues less Variable Costs. The Net Profit (or loss) is calculated as Gross Profit less Indirect Costs and Tax. These are key financial indicators of business performance.





Enterprise Example: Income Statement of Tree Fern Lodge

Income Statement, 1 January–31 December, 2001 (\$US)	
Sales revenues	
Tourism packages	245,800
Other sales	3,335
<b>Total revenues</b>	<b>249,135</b>
Cost of sales	
Rooms	9,555
Food and beverages	25,359
Excursions	52,029
<b>Total cost of sales</b>	<b>86,943</b>
<b>Gross profit (revenues – cost of sales)</b>	<b>162,192</b>
Indirect costs	
Administration	51,195
Sales and marketing	4,844
Property and operations	36,911
Depreciation	37,101
<b>Total indirect costs</b>	<b>129,951</b>
<b>Net profit (gross profit – indirect costs)</b>	<b>33,161</b>
Taxes	
Bednight tax (1% of sales)	2,458
Income tax (25% of net profit)	8,290
<b>Total taxes</b>	<b>10,748</b>
<b>Net income (profit after tax)</b>	<b>22,443</b>

The example shows the financial results from the operations of the business during 2001. After paying tax, Tree Fern Lodge had a profit of \$22,443. It is for the owners to decide what to do with this profit. A prudent business would reinvest most or all of it, in order to achieve growth and avoid having to borrow money. The owners may decide to distribute a small amount of it as a dividend payment, especially if it is a community business.

The income statement communicates other types of important information:

- Gross profit margin (gross profit/ sales income)—in this example, 65.1%—and the net profit margin (net profit before tax/ sales income)—13.3%, both very healthy figures
- Expenditure on different operations; for example, the investment in marketing of this lodge is very low; this may suggest problems in the future, as the lodge has relatively high fixed costs and could not survive a prolonged, severe downturn in visitor numbers, but it may be that it has strong ties with tour operators to achieve sales
- Indirect costs as a proportion of total costs: low indirect costs enable a business to survive downturns in income more easily, because the total costs reduce more in line with income

### Projecting Revenues and Costs

To estimate its future financial performance, a business determines what it thinks its revenues and costs will be over the period of its plan. It does this on the basis of the sales targets, determination of prices and calculation of costs. These are often called the Assumptions of the business plan. These financial projections are the central piece of a business plan. Potential investors will examine them very closely to evaluate if the assumptions seem reasonable and the calculations based on them are accurate.

*Enterprise Example: Projecting Financial Performance*

**Tree Fern Lodge. Projected Income Statement 2002–2004 (\$US)**

	2002	2003	2004
No. of rooms	8	8	8
No. of beds	16	16	16
Total available bednights	4320	4320	4320
Total room revenues			
2 night/3 day Honeymoon Package	\$101,100	\$107,535	\$114,324
3 night/4 day Trekking Package	\$131,000	\$141,470	\$150,798
Other revenues	\$1,800	\$1,985	\$2,100
<b>Total revenues</b>	<b>\$233,800</b>	<b>\$250,990</b>	<b>\$267,222</b>
Average no. of bednights	1500	1550	1590
Average occupancy rate	35%	36%	37%
Average daily rate	\$155	\$161	\$167
Direct costs per bednight	\$55.00	\$57.75	\$60.64
Total direct costs	\$82,500	\$89,513	\$96,418
Indirect costs			
Administration			
Manager and administrative salaries	\$28,980	\$30,139	\$31,345
Office supplies	\$908	\$908	\$908
Communications	\$225	\$225	\$225
Accounting fees	\$839	\$839	\$839
Staff meals	\$6,923	\$6,923	\$6,923
Staff uniforms	\$2,769	\$2,769	\$2,769
Shortages (losses)	\$2,015	\$2,015	\$2,015
Staff training	\$500	\$500	\$500
Board trustees fees	\$2,308	\$2,308	\$2,308
Total administration	\$45,467	\$46,626	\$47,832
Sales and marketing			
Website maintenance	\$600	\$600	\$600
Photography		\$1400	
Media promotional package	\$100	\$100	\$100
Tour operator promotional package	\$100	\$100	\$100
CD-ROM (50 copies)	\$255	\$255	\$255
Brochures	\$1,244	\$2,862	\$1,431
Communications	\$200	\$200	\$200
Travel and entertainment	\$900	\$900	\$900
Total sales and marketing	\$3,399	\$6,417	\$3,586
Property and operations			
Freight	\$14,858	\$15,750	\$16,695
Fuel/energy	\$5,244	\$5,559	\$5,892
Maintenance	\$15,732	\$16,676	\$17,677
Labor	\$2,376	\$2,471	\$2,570
Total property and operations	\$38,210	\$40,456	\$42,834
Other costs			
Insurance	\$4,000	\$4,250	\$4,500
Bank interest	\$1,656		
Depreciation	\$39,753	\$39,753	\$39,753
<b>Total costs</b>	<b>\$214,985</b>	<b>\$227,015</b>	<b>\$234,923</b>
Net profit before tax	\$18,815	\$23,975	\$32,299
Taxes: Bednight tax (1%)	\$2,320	\$2,490	\$2,651
Income tax (25%)	\$4,703	\$5,994	\$8,075
<b>Net income</b>	<b>\$11,792</b>	<b>\$15,491</b>	<b>\$21,573</b>

In this example, Tree Fern Lodge is providing some additional information about its assumptions, such as the occupancy rate achieved with its target sales and tax rates. This is very helpful to a potential investor.

### Cash Flow

Many businesses fail not because they are unprofitable but because they run out of cash. For example, if a business pays a community \$100 for an ecotourism product and sells it for \$125 to another tour operator, it has made a profit of \$25. However, if the business pays the community immediately and the operator pays only after 30 days, then the business will not have any cash to make another purchase or pay its indirect costs during the month.

The cash flow shows the movement of cash in and out of the business as it happens. It is the most important statement for a business to produce, especially for new businesses, which often do not make a profit for two or three years. The critical issue in that case is whether the business has enough cash for it to survive until it reaches profitability.

Because it looks forward, the cash flow statement is based, like the projected income statement, on the estimated revenues and costs of the business plan. Unlike the income statement, cash flow projections need to be produced monthly and adjusted each month, as real information becomes available.

The cash flow always states at the outset the assumptions on which it has been elaborated. Most of these are included earlier in the business plan, for example, sales targets, but those may not necessarily be presented monthly. A key assumption to state is the terms of payment. In the example above, sales are paid over three months. The business has put in each month, starting in April, the amount of cash relating to each month's sales. June, for example, has 20% of June's sales, because that is what is paid in the same month, 60% of May's sales, paid after 30 days, and 20% of April's sales, paid after 60 days.

It is good practice in a business plan to present a cash flow for the whole period of the plan. Indeed, what many businesses do is present only a projected cash flow, rather than an income statement. This is of value because the cash position is so critical and the income statement shows neither the movement of cash nor the cash needed to purchase any investments.

## Enterprise Example: Cash Flow Statement of a New Forest Products Business

Tree Fern Lodge decides to diversify its business operations by setting up a small processing plant to make paper from banana leaves. This will give it an additional income, a further attraction to show to visitors and also provide benefit to neighboring communities, from whom it will purchase the leaves. It will run the unit as a completely separate business and sell to tourists and shops. It projects its cash flow from the new venture as follows:

### Cash Flow, January–December 2002 (US\$)

#### Assumptions

1. Initial investment needed in equipment and machinery \$10,000
2. Sales estimated to start in April and be \$3,000 in first month, rising \$150 per month
3. Purchases of materials will start in February and be \$1,000 in first month, rising \$50 per month
4. A manager will be hired from January, earning \$750/month, plus 20% benefits; other labor costs will be on an as-needed basis, estimated to cost \$400/month from April
5. Other indirect costs—office, electricity, water, telephone, book-keeping service—will amount to \$500/month
6. The business will invest \$200/month in marketing from March
7. 20% of target sales will be paid by cash; 60% after 30 days; 20% after 60 days
8. Communities will be paid at time of purchase of raw materials

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
Opening balance												
Sales income				600	1800 630	600 1890	630 1980	660 2070	690 2160	720 2250	750 2340	780 2430
Total income				600	2430	3150	3300	3450	3600	3750	3900	4050
Investment	10000											
Materials		1000	1050	1100	1150	1200	1250	1300	1350	1400	1450	1500
Staff	900	900	900	1300	1300	1300	1300	1300	1300	1300	1300	1300
Marketing			200	200	200	200	200	200	200	200	200	200
Indirect costs	500	500	500	500	500	500	500	500	500	500	500	500
Total outgoings	11400	2400	2650	3100	3150	3200	3250	3300	3350	3400	3450	3500
Net cash flow	(11400)	(2400)	(2650)	(2500)	(720)	(50)	50	150	250	350	450	550

Note: Negative numbers in accounting statements are shown in parentheses

### Depreciation

A notable difference between the cash flow statement and the income statement is the treatment of investments. This new business venture buys equipment and machinery for \$10,000. This is intended to last, say, 10 years and is called an asset, because it is something that will be used in the business over a long period. In an income statement, the business will depreciate that asset over its whole estimated life and charge as an expense each year only 10% of the cost. This is logical, because the calculation of profit should include only those expenses that were incurred to produce the income. If the asset has 10 years of life, then only one-tenth of its cost should be treated as an expense each year.

In the income statement above, the tourism lodge had a depreciation expense in 2001 of \$37,101. The period over which a business depreciates its assets depends on different factors: the type of asset, the climatic conditions, the use of the asset, the change in technology, and the law. Computers are usually depreciated over a short period, not because they wear out, but because they become outdated. Most countries have laws governing rates of depreciation for buildings and equipment. If there is no law, a business should choose the period it expects the asset to last, taking into account the factors above.

To acquire the asset, however, the business has to pay for it. Hence, the cash flow statement shows the full value of the asset. Cash flow statements do not show profitability, only the movement of cash. Income statements show profit or loss, not the impact of operations on cash. Tree Fern Lodge's proposed new business is potentially profitable, if it achieves its targets and controls its costs. In December 2002 it is projected to have sales income of \$4,050 and total costs of \$3,500, a net profit before depreciation of \$550, which, moreover, is planned to rise \$100 per month as sales increase by \$150 per month and costs by only \$50.

### Calculating Borrowing Requirements

To survive long enough to realize its profits, a business needs cash. The cash flow statement enables the owners to calculate exactly how much. From the cash flow of each month, a cumulative cash flow, or monthly cash balance, can be calculated easily:

#### *Enterprise Example: Calculating Financing Requirements*

##### **Start-up Financing Requirement: New Tree Fern Lodge Forest Products Business**

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
(11400)	(13800)	(16450)	(18950)	(19670)	(19720)	(19670)	(19520)	(19270)	(18920)	(18470)	(17920)

To launch this business, a \$20,000 investment is required.

### Risk Management

The tight management of cash is an important component of risk management in a business. What the business wants to avoid is nasty surprises, finding there is no cash available to pay its bills and as a result affecting its efficiency or even threatening its capacity to operate. In addition, a business wants to have easy access to cash, in case sales income is below target, or clients take longer to pay than foreseen.

In some countries, a business may be legally required to set aside a proportion of profits, rather than distributing them as income to the shareholders. To finance growth the owners decide how much cash to withdraw from the business each year and how much to leave in as Retained Earnings. An important aspect of risk management is increasing the capital of the business in this way. In a similar way, businesses that borrow money are often required by the lending institution to save a proportion of their earnings, to ensure that they are acquiring capital to reduce risk.

Apart from producing timely and complete information, and having financial back-up to cover performance below targets, businesses can manage risk in a variety of ways. By diversifying their products and markets, for example a business can better maintain sales if one product or market fails to perform. For instance, PROFORES also sells fiber-cement construction panels made of fast-growing wood from degraded land. This enables it to balance the more seasonal sales in nectars. Tourism businesses are susceptible to dependence on the national environment for tourism. For example, Albergue Chalalán suffered a drop in sales when Bolivia had civil unrest in 2000. In such circumstances, keeping fixed costs low is an important aspect of risk management, because the business is not committed to high outgoings each month.

Insurance and compliance with legal requirements are further instruments of risk management that businesses should take into account. For example, an ecotourism lodge in the Caribbean that applied to the Conservation Enterprise Fund demonstrated that it had insurance against damage from hurricanes, which are prevalent in the area. Ecotourism businesses also need liability insurance, to protect them against claims from tourists who have accidents during their stay. PROFORES needs documentation to show that it is in full compliance with food production regulations. A business activity started up by the Ghana Heritage Conservation Trust to sell bottled water from Kakum National Park had to undergo several procedures to obtain permission for the commercial sale of a resource from land owned by tribal chiefs. Any failures in these aspects could result in a business being forced to close, even though it was operating profitably.

### Balance Sheet

Whereas the income statement shows what happened during the course of the year, the balance sheet shows what the business is worth as a result of those operations. It is a legal requirement to produce a balance sheet at the end of each fiscal year. It shows the financial situation on that particular date, with the following specifics:

- What the business is worth at that time
- Who owns the business
- How much working capital it has: cash, inventory, debtors
- How much it owes (liabilities): creditors, tax, salaries
- The value of its fixed assets: land, building, equipment
- How the business is financed

The balance sheet uses a number of specialized accounting terms, of which the main ones are:

- Assets: something owned which has value
- Fixed asset: intended to remain in the business for a long time, e.g., buildings
- Current asset: intended to remain in the business less than a year, e.g., inventory
- Liability: something owed and of value, e.g., loan
- Current liability: has to be paid soon, e.g., accounts payable
- Working capital: current assets minus current liabilities
- Accounts receivable: money owed to the business
- Accounts payable: money the business owes
- Capital: long-term finance of the business
- Depreciation: the reduction in value of an asset
- Retained earnings (or Reserves): past profits that have been kept in the business

*Enterprise Example: Balance Sheet***Tree Fern Lodge. Balance Sheet at 31 December 2001 (\$US)**

Assets		Liabilities	
<b>Fixed assets</b>		<b>Current Liabilities</b>	
Buildings at cost	180,601	Accounts payable	4,156
Less depreciation (33.3%)	60,194	Taxes owed	5,726
Equipment at cost	56,992		
Less depreciation (40%)	22,797	<b>Long-term Liabilities</b>	
		Loan	20,000
<b>Total fixed assets</b>	<b>154,602</b>		
<b>Current assets</b>		<b>Capital</b>	
Cash	29,560	Retained Earnings	30,290
Accounts Receivable	22,450	Seed capital Donation	150,000
Food and Beverages	3,560		
<b>Total Assets</b>	<b>210,172</b>		<b>210,172</b>

From the balance sheet, it can be seen that Tree Fern Lodge was established with a start-up grant and a loan on very soft terms, because interest payments do not figure in its financial projections up to 2004, its fifth year of operation. It has completed two years of operations. The community donated labor to complete the construction and this has been included in the value of buildings. From the income statement of 2001, we know that net profit was \$22,443, so we can deduce from the retained earnings that in its first year, assuming it did not distribute any profits, it earned after tax \$7,847.

The two sides of the balance sheet balance, because the assets show what the business is worth, and the liabilities and capital show who owns that same value. This business has made a good start, achieving high visitor numbers and taking advantage of the generosity of its donor and creditor.

### Management Information

Managers need more financial information than is provided in the income statement and they need it more often than once a year. For example, the statement does not provide the following information, which would be necessary for effective management:

- What is the seasonal pattern of sales?
- How are sales and profits compared with targets?
- How are sales and profits compared with last year?
- Which products are selling well and which are not?
- Are costs within budget?
- What are the customers saying about their experiences here?

To address this need, businesses establish management information systems. An efficient business would provide quarterly or even monthly management reports, comparing performance with targets and previous history.

These reports enable managers to make timely decisions about their marketing strategy, adapting it according to what is happening. It is for each business to design its own management information system, depending on what it needs to know on a regular basis. Most CI regional offices do not send regular information about their business partners to the enterprise technical team. Yet, if these are producing basic management information, as they should, it is simple to send a copy and, as a result, to receive feedback and suggestions.

If a business does not incorporate management information into its operations, then managers either make no decisions during the year or make them without knowing what is happening in the business; neither situation will yield the best decisions. The provision of timely information about key aspects affecting business performance is the first principle of risk management.

The following example shows how Ecomaya gathers and presents information on a quarterly basis, to present to the Board. The main feature of the sales analysis is that it shows the actual performance compared with what was targeted in the business plan. Management information always relates performance to targets. In the space under item 4, the manager would provide an explanation of key points affecting performance in the period.

The annual income statement is therefore a summary of the performance of the business during the fiscal year, produced after it has finished. The monthly or quarterly management report is a detailed look at the key aspects of the business, produced during the year, so managers can make timely and informed decisions that will keep the business on track.





### 3.5. Capitalizing a Business

A business may be financed by equity—the money of its owners—or debt—money its owners borrow. Many businesses have a combination of the two. Most businesses do not receive a start-up donation; however, this does occur relatively often in community-based enterprise, where international donors are seeking to kick-start an economic activity.

When a company is established, its owners invest an amount of money that constitutes its share capital. They receive in return a piece of paper known as a share certificate, indicating how many shares they hold and what their value is. Countries establish by law the minimum amount of share capital that a business may have; it is always quite small, in order to encourage people to start up businesses. The owners often borrow the rest of the money they need to start operations, according to their cash flow.

In the Tree Fern Lodge example, the owners also provided some capital in kind, by contributing their labor, without compensation, to build the lodge. This is an effective way to capitalize a new business. The asset created can be valued by the cost of the foregone wages, as well as the materials used, and included in the capital as if it were cash. In the same way, donations appear as part of the capital of the business. The buildings constructed with the donation to Tree Fern Lodge have value in the assets and automatically increase the value of the business on the capital side of the balance sheet.

The tourism lodge took a loan on generous terms, giving it at least five years to establish the business before it has to pay interest and start repaying the capital. This is undoubtedly a beneficial arrangement, as long as the owners take full responsibility to manage their business profitably and do not consider the donation and soft loan as easy money that can be replaced if they lose it.

Generally, the advantages and disadvantages of the different options for capitalizing a business can be summarized as follows:

#### *Owner's equity*

##### Advantages:

- Reduces risk in the business, because of the owners' commitment to make it profitable
- Interest-free, unlike loans

##### Disadvantages:

- Owners usually do not have enough money; especially true of poor communities
- Control is shared among the owners, which can cause difficult management situations
- Profits are shared among the owners, whereas lenders do not have rights to the profits

For example, if a sole proprietor can borrow money and earn a higher rate of return in the business than the loan interest rate, it is probably more profitable to do that than to invite a partner to invest the same amount. The reason for including other shareholders has not only to do with the capital they bring but also with the knowledge and contacts they have to improve the performance of the business.

*Loans*

## Advantages:

- Allow more independence to the owners
- May be available at favorable interest rates for small businesses
- Enable a business to start up and grow if owner's equity is not available

## Disadvantages:

- Bear interest and arrangement fees, which reduce profits
- Carry high risk if they are the predominant source of financing

Most small businesses find it difficult to obtain loans because they lack the guarantees that lenders require. The situation is particularly difficult in rural communities in tropical countries, where land title may not be secure. Businesses should always be alert to opportunities for special loan schemes that carry low interest or minimal guarantee requirements.

A lender will ask to see a business plan, and a well-prepared set of financial statements will give the applicant strength in the negotiation, which is described after the next section.

*Donations*

## Advantages:

- Provide a great support to a risky new business to survive its start-up period

## Disadvantages:

- Diminish entrepreneurial thinking, as occurred in Maya Norte
- Protect a business from the realities of the market instead of preparing it to compete; when the donation stops it is often not possible to make the adjustment

**Sources of Loans**

If a business has decided that it wants to capitalize itself with credit, the first step will be to assess the loan providers operating in the region.

There are five potential sources of loan capital:

1. Numerous sources of informal credit, such as friends, family, money-lenders, and credit cards
2. Commercial banks: the most common
3. NGOs and local governments that may have credit programs
4. Micro-Finance Institutions (MFIs): most are nonprofit organizations but some that have been in operation for several years may be "graduating" to for-profit status in order to make their services independent of subsidy
5. Partners within the industry in which the enterprise is operating; for example, in the tourism sector, a private sector partner marketing and selling a community ecotourism business could offer credit to the community for infrastructure development and/or working capital

The following chart outlines the advantages and disadvantages of each of these sources:

The Reference section at the end of the manual lists websites that can provide information on the availability of credit from MFIs. For other sources, the business owners or regional program will need to promote the proposal for credit and the business plan to local banks, government offices and industry.

## Negotiating with a Loan Provider

Once an enterprise has found an appropriate financial institution, it should negotiate the six key components of the terms of the loan:

1. *The amount to be borrowed.* It is essential to know how much credit and at what rate the business can afford. Examining projected conservative cash flows before approaching a credit provider will ensure that the amount borrowed does not exceed the limit of what the business can afford to repay.
2. *Rate of interest:* Knowing the official (often called “prime”) rate of interest that banks charge prior to the negotiation will help a borrower to evaluate what the potential provider offers.
3. *Interest calculation:* Most banks will charge interest on the declining balance of principal. This means as the borrower pays off the loan, the amount on which the interest is calculated is reduced. However, some MFIs and NGOs may charge interest on a “straight-line” method, meaning that the borrower pays the same amount of interest each period, no matter how much debt is outstanding. If there is no difference in the rate of interest, the declining balance arrangement should be negotiated if possible.
4. *Repayment period:* Try to negotiate paying off interest and principal during the months/quarters when the business has the most cash. Think carefully about cash flow when negotiating repayment periods. Consider lower quarterly/monthly payments, amortized over a longer term. While the business will pay more interest in the long run, smaller payments are advantageous if cash flow is a problem. Also, try to negotiate no penalties for early repayment. If the business has a year when it has additional cash, investing in paying off debt often makes sense, especially if the interest rates are believed to be too high. Be careful of “balloon payments,” which require a large payment of principal at the end of the loan term, unless of course the borrower is certain that the enterprise will have the cash flow to cover this payment. Most credit providers should be able to provide flexibility on these issues as creditors also have an interest in making loans affordable. A bankrupt business doesn't repay its loan.
5. *Collateral/Guarantees:* Try to negotiate specific items to be collateralized under the loan, and not all the assets of the company. Many commercial lenders will want a minimum of twice the collateral value of the loan, to ensure they are repaid, especially given the high rates of depreciation on assets in tropical environments. Be very wary of providing personal collateral. For start-up businesses, banks in particular will require the managers to provide personal property as collateral. This should only be considered as a last resort, no matter how certain the entrepreneur is that the business will succeed.
6. *Fees:* Be careful of hidden fees. The borrower must make sure to understand the full cost of the loan, as interest rate alone is often only part of the cost.

## Investment by Local People

Where local people wish to participate in ownership but lack financial resources, the recommended approach to reduce the difficulty is sweat equity. This means that a part or the whole of the value of labor is not paid out in cash but remains as capital in the enterprise, in the name of the laborer. It was used successfully in the establishment of Albergue Chalalán in Bolivia.

A few CI programs have also used the technique of interest-free loans, in which a part of the capital required to start the enterprise or maintain it in its early phase is loaned by CI to the shareholders and recovered from them in cash or in labor over time. This approach is not recommended because if the enterprise is unable to pay back, it causes problems for the regional program's budgets. In any case, the only circumstance in which it can be considered as a short-term expedient is when the funds are from a restricted grant and the donor approves the use.

## Business Formation

Many NGOs, including CI, have started up businesses as projects and begun operations without a clear ownership structure or legal registration. This tends to happen because donors are seeking quick results. In reality, if it is a new business, a large amount of time is needed to undertake the SAFE and feasibility studies, identify the owners, and make the legal arrangements.

Starting up a business without this preparation creates a number of problems:

- Participants will tend to identify the NGO as the owner, assume an employee role, and seek maximum benefit for minimum commitment.
- Future owners cannot be identified because they are not investing in the business.
- Ownership will tend to be transferred according to the project timetable, rather than the interests of the participants.
- Finding an equitable basis for transferring the assets purchased by the project is difficult.

For these reasons, it is always preferable to deal with such issues at the outset, and usually to involve in conservation enterprises only the people who really want to be involved. Mechanisms then need to be found to compensate other people who have a stake, such as community members who are affected by the arrival of visitors or who are joint owners of land used.

### *Enterprise Example: Transfer of Ownership to Local Communities*

The ecotourism projects in Madidi National Park, Bolivia, and Sierra Lacandona, Mexico, were started without prior determination about ownership of assets. Machinery, materials, and equipment were paid for with donated funds, and community participants were paid for their labor. Both projects were then legally registered as businesses, Albergue Chalalán S.A. and Sociedad Cooperativa Sac Bahlán.

CI-Bolivia and CI-Mexico, with approval by the donors, determined that the owners of the new businesses should be the entire community in which the lodges were located. San José de Uchupiamonas is the beneficiary community in Madidi (Chalalán itself is uninhabited) and Ejido Ixcán in Mexico. Both communities provided the land on which the lodges were built and then part of the labor to complete construction, a mechanism introduced in both cases late in the project life. The decision was facilitated by the fact that both communities are small—fewer than 100 families—and fairly homogeneous. In both cases, an approach to the community to assume financial risk at the outset would have resulted in the projects not going forward.

This approach would be impossible in larger, more heterogeneous communities, in which widely shared ownership would seriously impede management capacity. It still bears significant risks that could result in social conflict in the communities:

- Many members will be owners in name but not contribute to the success of the businesses; those who really make them successful, if they continue to be so, may want to take control.
- Traditional power structures are challenged by the egalitarian concept.

Once the independent enterprise is created, it is strongly advisable to establish a Memorandum of Understanding with the owners, which deals with ongoing relationships. CI-Bolivia took a seat on the managing board of Albergue Chalalán.

## Registering a Business

The law defines the types of businesses that may be legally registered, such as sole ownership, limited liability, cooperative, etc. If a new business is being started, it is important to take legal advice on the most suitable type for the participants and on the starting capital. PROFORES, Albergue Chalalán, and Ecomaya are all Sociedades Anónimas, companies in which anyone may buy shares up to the limit of the authorized capital, the largest shareholders have the largest vote, and the liability of shareholders is limited to the value of their shareholding. A cooperative does not have shares and its members have equal participation.

### 3.6. Managing for Conservation

In its management report, Ecomaya includes a section about benefits to the community. This is because the purpose of the business is to provide economic alternatives for local populations. If it is not successful in generating employment and income, then it will not achieve this purpose, even though it may be profitable. The business plan of a conservation enterprise will refer to its conservation purpose in its mission statement. The body of the plan should include a section that describes briefly the way in which this will be made operational. There are three aspects:

#### 1. Natural resource management

The specific relevance of resource management depends on the type of business and its location. For example, Albergue Chalalán has a strategic business interest in conserving wildlife and plant species in its area of Madidi National Park. Some potential threats within its business operations to achieving that would be tourists walking outside delineated areas, tourists or guides frightening animals, business owners and employees hunting, or business owners and employees

for this reason, Albergue Chalalán has a code of behavior that is communicated to visitors when they arrive.



medicinal plant, is one.

with CI-Peru that it will source raw materials only from community-based organizations, so that the method and quantity of harvesting can be controlled. For some of its raw materials, such as ungurahui, for which CI-Peru has a conservation plan. Such an arrangement is valuable for the business, as it ensures that harvesting does not damage the products have gained popularity but have been harvested at a level that ensures the long-term economic welfare of communities; cat's claw, a

Establishing guidelines for sustainable management and levels of extraction may be possible without expert guidance or expensive studies. In Guatemala, one of the factors affecting the availability of allspice, an important export, is the cutting down of trees to gather the fruit. Traditional residents know how to harvest without damaging the tree; the problem is mostly among new settlers. In the same way, balata harvesters in Guyana can damage the tree if they do not make the correct incisions to extract the resin correctly.

*Balata harvesters in Guyana received training from the elders in extracting the resource without damaging the tree (Conservation International)*

CI-Guyana, which has supported the development of product and market expansion in balata carvings, has arranged a training course by older members to show younger ones how to preserve the resource for the long-term security of their livelihood. It is unnecessary to undertake an expensive study of balata trees, moreover, because it is completely clear that the resource is not threatened at the present or the foreseeable levels of extraction.

On other occasions, support from scientists will be required. CI-Peru undertook a study so that it could recommend sustainable extraction rates for ungurahui. Ghana Heritage Conservation Trust commissioned an analysis of water reserves before applying for its permit to sell bottled water. This is an area in which CI can usually provide advice. A business plan is strengthened by references to collaboration with a renowned international institution for the purpose of protecting the resource base. In business terms, this is another form of risk management and shows a commitment to invest by a non-shareholder in order to support the purpose of the business.

In Mexico, CI's cooperative partners agreed in 2001 to adopt the Conservation Principles for Coffee Production to guide practices on the farm. The motivation for them to sign was to have access to the market that CI's coffee program has opened, in much the same way that Albergue Chalalán wants to protect its market. Again, therefore, the adoption of management practices that promote conservation is part of strategic business interest.

A conservation enterprise does not necessarily use natural resources from threatened ecosystems. Businesses that draw people away from damaging behavior are also conservation enterprises. The Ecoescuela de Español has created a multiplier effect in the local Petén economy, because foreign tourists buy food and need washing done. CI-Guatemala built on this idea by establishing a credit fund, which included in its loan portfolio small-scale urban-based businesses. By strengthening this sector, it was hoped to reduce pressure for extraction-based employment. Such credit schemes should incorporate environmental criteria for loanees, such as waste disposal, to ensure that the benefit is not eroded by bad practice. Environmental impacts are particularly visible in ecotourism businesses, which need to have detailed plans for managing water, sanitary services, and solid and liquid wastes. The business plan should outline the environmental control procedures during the planning, construction and implementation stages.

### *2. Vigilance in the wider community*

Beyond the operations of the business, the owners have an interest in ensuring that other people are not depleting the resources on which they depend. In open-access systems, not only is this difficult to control but also motivation for responsible management is much reduced. Policy can be an instrument to support local enterprise. In Guatemala, the government allocated concessions to communities so that they control access to the natural resources within the area. However, there is often a difference between making a law and having the capacity to enforce it. Albergue Chalalán established its own group to patrol the forest to discourage hunters and loggers and protect the tourism trade. Unlike a scientific study for a management plan, however, the protection of the natural resources on which a business depends is an ongoing interest. Therefore, it is strongly advisable to build it into business operations.

### *3. Socioeconomic benefits*

The premium above the market price paid by Starbucks to the coffee cooperatives enables farmers to cover certain costs that result from producing in accordance with conservation principles. Particularly important is the long-term commitment to buy, so that farmers can invest with confidence in their farms. Prices in the international market for coffee have been



very low for some years. Many farmers who depend on traditional traders to sell their crop are tempted to abandon coffee and plant subsistence crops, especially corn. This is destructive of the environment, as the agricultural frontier starts to encroach on the forest, and also undermines the culture and economic diversity of the region, threatening its long-term sustainability.

When CI-Ghana undertook a survey of cocoa farmers, it found that pesticides suitable for cocoa were inappropriately used on subsistence crops and even to combat head lice, resulting in health problems among farmers. Learning natural pest management techniques enabled farmers not only to save the cost of agrochemicals but also to improve their health.

Increased safety may be an impact of conservation enterprise. CI-Philippines is investigating an enterprise development project in the northern province of Palawan, where 70% of the population lives below the poverty line. Because of the lack of employment opportunities, many people engage in fishing with dynamite and cyanide. This practice is destroying the biologically and economically valuable reefs and undermining the future food supply. It is, moreover, highly dangerous and practiced largely because people have no alternative to secure a livelihood. The project aims to provide cost-covering business training and credit and to promote enterprises that conserve the fragile coastal and marine ecosystem, such as ecotourism and aquaculture.

Social and economic benefits to the people engaged in the business activity directly affect their capacity to be entrepreneurs—not in the sense of acquiring management skills, but through increased motivation, energy and time availability. Showing how positive social and economic benefits will enhance business performance combats a tendency among people who are not well informed about living conditions in tropical countries to think that any investment in the people or the environment is just an additional cost that the business could do without.

#### *Enterprise Issue: Organic Agriculture*

In 2000, Ghana's government ruled that it would not allow cocoa production to be certified as organic. This was a setback for a pilot program in organic agriculture that CI was developing with Kuapa Kokoo. However, the principles of organic farming are not quite the same as those of conservation farming. To obtain organic certification, a farmer has to avoid using agrochemicals, usually for a period of three years. Biodiversity conservation is promoted not just by avoiding chemicals but by a dynamic management practice that encourages natural controls of pests and disease, adds nutrients to the soil, preserves water quality, and diversifies crop production. The reason that CI has encouraged farmers to obtain organic certification where possible, as in Mexico, is that it carries a premium in the market. Most consumers value organic food for the health benefit they perceive for themselves, not for the producing environment.

It is often not at all easy or cost-effective for farmers to obtain organic certification. The Ghana government's concern was that its cocoa production, which is so important to the national economy and people's livelihood, might be threatened if certain chemicals known to be effective against the most prevalent cocoa pests and diseases were not used. Because the government controls access to the market, farmers had to comply. However, even when a free market situation exists, farmers face many obstacles. Many producing countries do not have national certification agencies; they rely on foreign agencies, who are more expensive and whose criteria are not necessarily in line with the realities of the local situation. Even though several national agencies exist, the European Union does not recognize most of them, meaning that they have to partner with accredited European certification agencies. Moreover, procedures at farm level can be very complex, confusing farmers and taking a lot of time.

## Viable Conservation Enterprise

In summary, a viable conservation enterprise has five key components:

1. Legal structure that is appropriate for its mission
2. Quality products or services that are competitively priced
3. Markets that are willing to buy the products and services and that can be serviced profitably
4. Skilled managers who can prepare business plans, obtain the information they need and make decisions
5. Financial resources to provide capital for operations and investments

The business plan needs to demonstrate the capacity of the enterprise to achieve all of this.

## Chapter 4

### Monitoring Performance and Impact

Monitoring is dealt with in Step 4 of CI's Strategy Handbook. The objective of monitoring a conservation enterprise development project is to ensure that it is fulfilling its contribution to the outcomes of the regional program. To do this, it is necessary to monitor both its performance and its impact.

#### Performance Monitoring

Conservation enterprises have particular characteristics that relate to their role in the regional strategy. An agroforestry business incorporates particular farming practices that result in improved soil and water management. An ecotourism business may have specially designed energy-supply and waste-disposal systems. Both would have a purpose of generating benefits for local populations, whose behavior directly affects the natural resources. Monitoring the performance of such enterprises has two aspects, therefore. The first is its progress as a business. The second is its management of resources.

To increase the chances that the enterprise is successful, the project normally incorporates technical support in such areas as product development, management and marketing. The delivery of this support needs monitoring also, to ensure that needs are being met and commitments fulfilled.

#### 1. Business Performance

A monitoring system of business performance is the same as its management information system. Managing a business comprises five functions:

1. Planning the activities and resources required
2. Implementation of the work plan
3. Monitoring of what happens, by collecting relevant information
4. Evaluation, or analysis, of the information by presenting it in a meaningful way and drawing lessons for the future of the business
5. Control, or adaptive management, by applying those lessons in order to keep the business on track to achieve its mission

The information that Ecomaya produces on a quarterly basis is not the same as that it produces for its financial accounts. It is less detailed in some respects and more detailed in others. Designing the business performance monitoring, or management information, system is a question for each business individually. What should be included is determined by answering two questions:

- What do the stakeholders in this business want to know about it on a regular basis?
- What do the managers need to know on a regular basis to achieve the work plan and mission?

Certain standard business performance indicators would normally form part of a management information system, and the following are minimum requirements:

- Sales for the period, shown by product and type of outlet
- Advance sales (reservations or orders) for the following period
- Gross and net profit, in amount and as a percentage of sales

The purpose of adding a management report is to provide explanations and further relevant information behind the figures. For example, even the more detailed information above may not reveal trends that can be noticed in sales. Moreover, it is important to distinguish in management between external and internal factors. If tourism is declining in the country because of national insecurity, then a different set of responses is required than if the decline resulted from unsatisfactory service. If profits are reduced because the cost of buying raw materials was increased, this is very different from a reduction due to inefficiencies in production.

Credit fund indicators would normally include the following:

- Total loan portfolio, in amount and as a percentage of fund capital
- Number of loans made, per category of borrower
- Schedule of repayments—due date and actual reimbursements
- Gross and net profit for period

The management information report is a valuable training tool in community-based businesses. CI's experience is that when people have a stake in a business, their capacity to understand financial information is much greater than might be assumed from their educational level.

Like the business plan and the financial accounts, management information is confidential and should be shown only to those people and institutions with a right to know. If the Conservation Enterprise Fund makes an investment in a business, it has a strong interest in monitoring business performance in order to evaluate the security of its investment. For that reason, it requires borrowers to send regular management information.

## 2. Resource Management

How the actual management of resources should be monitored depends on the specific characteristics of the enterprise. Indicators should be determined to measure fulfillment of the particular plan. For example, the number of farmers being trained in conservation farming techniques, the amount of hectares they are farming, and a record of other crops being introduced would indicate the progress of the conservation aspect of an agroforestry enterprise. Indicators such as numbers of people harvesting or receiving employment or the amount of payments made to them for their products or labor would measure the benefits for local population.

*Monitoring farm practices in Chiapas, Mexico (Conservation International)*

A regional program providing or facilitating the provision of technical support to an enterprise would need to monitor its delivery. Those activities should be agreed with the enterprise owners at the outset and be included in the enterprise development project framework, which sets out the objectives of the project of which the conservation enterprise is the key component.

### *Responsibility for Performance Monitoring*

If a conservation enterprise is to be sustainable, then it must assume responsibility as early as possible for carrying out business performance monitoring—collecting and presenting the data and evaluating it—and adjusting its plans as a result. The enterprise technical team can assist in designing a system and can provide feedback on it.

The technical support to an enterprise development project would be monitored by CI's regional program. This may include monitoring performance of the conservation aspects of a business, but, as an integral part of business operations, this responsibility must be assumed by the enterprise members as quickly as possible. If they do not recognize monitoring the use of resources as an integral part of fulfilling their mission, then their commitment to conservation is not evident. They are usually the most knowledgeable people about the local resources and it is possible to design simple ways for them to gather and record data.

The procedures and responsibilities for monitoring should be decided jointly by CI and the business, in order to determine who is to do and pay for what over which time period, and then incorporated into the memorandum of understanding with participants. The factors that need to be agreed and then implemented are as follows:

- What information will be collected? The minimum monitoring necessary to obtain the information required should be undertaken. Every indicator costs resources to collect and analyze.
- How will it be collected? Business performance monitoring requires complete and timely bookkeeping and preparation of management accounts. Indicators of conservation management are likely to require specific investigation.
- When will it be collected? The frequency of collection should be determined by the needs of the stakeholders, including donors.
- Who will collect it? It needs to be in someone's job description to collect, analyze, and use the information.
- What if any equipment, logistical support, human or financial resources will be required to collect it? The budgets of the project and the enterprise must allow for any costs involved.
- How will the information be made available and analyzed? Having a participatory approach to evaluation is a powerful way of achieving understanding of the business. A minimum requirement is a quarterly meeting by the managers to review business performance and decide whether new strategies or investments are needed. A well-planned conservation enterprise responds to the interests of all the stakeholders; as a result all of them should have a real interest in knowing if it is progressing according to plan.

It may be helpful to write down a monitoring and evaluation work plan, to assist business managers and technical support staff in gathering and recording the required information. This would list the indicators from the project framework and describe how each is to be monitored. For example:

The decision by the owners of Albergue Chalalán to monitor the activities of poachers and loggers in the forest confirms that stakeholders will assume the cost of activities that they perceive as relevant to the success of their business.

*Enterprise Example: Collection of Data in Cocoa Agroforestry in Ghana*

Understanding the needs of the entities that will assume responsibility for the conservation enterprise is key to establishing a successful performance monitoring system. Project success is rooted in aligning project goals with the needs of the targeted business partners. During 1999, CI formed an alliance with Kuapa Kokoo, a farmers' organization, to implement a pilot Conservation Cocoa project in the buffer zone of Kakum Conservation Area in Ghana. The project objectives included a capacity-building component for Kuapa Kokoo and introduction of conservation-oriented cocoa production practices to Kuapa members.

For Conservation Cocoa to be a viable conservation tool, it must first meet the needs of Kuapa Kokoo as a service provider to the cocoa-producing members. Kuapa was seeking new market opportunities and its members were seeking low-cost practices to improve cocoa productivity and quality. Establishing a system for monitoring project performance in this case required working with Kuapa personnel and members to determine what types of indicators would be important for them to continue to operate, grow their membership, and verify the social and conservation value of their product in the marketplace. As a result, the project performance indicators were closely aligned with the indicators that were important for Kuapa Kokoo to operate as a viable enterprise that provides a set of environmental services in conjunction with cocoa production. The following are some examples:

- Percentage change in target societies annual membership
- Percentage of target farmer annual total production sold to Kuapa Kokoo
- Proportion of annual target farmers' cocoa harvest classified at society depot as Grade 1 quality

### Impact Monitoring

Monitoring and evaluating the impact of the business aims to find out whether it will generate the intended benefits. This is what ultimately interests all the stakeholders. Many donors supporting enterprise projects use the logical framework for planning; in such cases, impact monitoring focuses on the purpose and goal levels (milestones and outcomes, in CI's language). The indicators will have been established in the proposal, together with the quantity, quality and time for measuring them. As in performance monitoring, it is necessary to ensure that the monitoring activities are included in the work plan, that specific responsibilities have been allocated for collecting data, and that the financial resources required to collect and analyze it have been budgeted.

The impact of the business within overall regional outcomes is challenging to measure because it is very difficult to isolate the effect of each component of an integrated project. However, it is important to understand it as much as possible; otherwise there is no basis for determining if the support provided is an effective use of resources. There are three areas of focus:

### 1. Biological

These must relate to the specific conservation outcomes defined by the region, in terms of protected areas, corridors and species, for example:

- Habitat integrity (area and degree of habitat fragmentation) resulting from land use
- Conservation of key species achieved by business activity
- Ecological processes supported by the business, such as hydrologic cycles and pollination.
- Reduction of the threats to biodiversity conservation identified in the regional plan

### 2. Socioeconomic

People base decisions regarding their use of land and natural resources on what options they have and what yields the greatest financial return. The role of an enterprise is to increase people's economic options. Its success should be measured by whether behavior changes. For example,

- Awareness and attitudinal change achieved among target populations
- Cash and non-cash benefits generated
- Change in labor practices as people adopt less destructive income-generating activities
- Constituencies built in the community, alliances created with NGOs and the private sector, which otherwise would have resisted conservation interventions
- Cultural preservation: enterprises can support traditions, such as use of medicinal plants
- Stimulation of private sector investment in conservation-supporting activities

### 3. Policy

Influencing the policy framework is a key leveraging point for conservation enterprises, so their impact extends well beyond the specific location. For example:

- Income generated by enterprises can be invested in management of protected areas.
- Policy changes may promote access to natural resources by local populations or provide a favorable environment for business start-up.

Monitoring needs to alert project managers to any unintended negative conservation impacts of the business. Potential concerns can be incorporated into the monitoring plan, such as, in the example above, having guides in an ecotourism business monitor trails to ensure that visitation does not lead to trail widening and erosion alongside.

### Indicators for measuring impact

Indicators for impact monitoring must be appropriate to the region, though much may be learned from other projects. For example, if in a particular region, the normal practice for a family who increases its income is to buy a washing machine, then the amount of washing machines is an appropriate economic indicator. The selection of appropriate indicators should be "SMART":

Characteristics of Good Indicators	
<b>Specific:</b>	Each indicator must clearly and directly relate to the objective it is supposed to measure (and only that objective)
<b>Measurable:</b>	Specified unambiguously and reliable in terms of <ul style="list-style-type: none"> <li>▪ <b>Quantity:</b> numeric measure of how much change is to be observed</li> <li>▪ <b>Quality:</b> what kind and what level of change is expected</li> <li>▪ <b>Time:</b> when (or over what time frame) quantity and quality is expected</li> </ul>
<b>Appropriate:</b>	The collection and analysis of the information is necessary and can be done at an acceptable cost.
<b>Realistic:</b>	Indicator states a level of change that can realistically be achieved
<b>Targeted:</b>	Indicate to whom the change refers (target group, intermediaries, etc.)

*Enterprise Example: Impact Monitoring of Coffee in Mexico*

Measuring impact of a project should focus on the outcomes and milestones that a project defines. Key actor involvement in defining the types of impact monitoring to be conducted is very important and can result in improved long-term management of an area. For example, monitoring changes in many ecological processes (including levels of biodiversity) requires data collection over time in order to determine trends. In addition, measuring socioeconomic impact and market trends are critical to the sustainability of a conservation enterprise. Some key steps to establishing a useful impact monitoring system for a conservation enterprise project include the following:

1. Select locally and culturally relevant indicators. For example, to measure impact of project activities on socioeconomic well-being of a beneficiary population, conduct participatory forums with the beneficiaries to determine how they determine well-being of themselves and other community members. In the Conservation Coffee project in Chiapas, Mexico, many small coffee producers do not know their exact household income. To measure socioeconomic impact, the project is monitoring locally described indicators of well-being such as:

- Education (number of children attending school)
- Housing conditions (materials for the flooring and roof)
- Health care (can the household afford to pay for a doctor and medicine)

2. It is similarly useful to select ecological indicators that are relevant and interesting to the project beneficiaries. This will improve the likelihood that the indicators will continue to be monitored beyond the time frame of the project implementation. It is important to link the ecological indicators to livelihoods of the project beneficiaries where possible. For example, in the Chiapas Conservation Coffee project, aspects of habitat structure of the coffee farm are linked to the amount of coffee the project assists in marketing and the price the farmer receives. Habitat structure is a fundamental factor of defining key biodiversity ecosystems. The Conservation Coffee program seeks to improve the quality of habitat structure of existing coffee farms by improving the profitability of shade diversification, soil conservation, and organic production practices.

3. Consider all the possible types of environmental services a conservation enterprise might work to provide or protect, including carbon sequestration in forested ecosystems, increases in water quantity and quality, and decreased sedimentation rates in watersheds.



Participation in monitoring can be encouraged by selecting indicators that local people perceive as relevant. For example, in Ghana, elephant crop raiding is a major problem for farmers. Using elephants as an indicator of habitat integrity creates interest among cocoa farmers. If monitoring can be linked to the price obtained for the product, then people have the greatest incentive to participate. CI's coffee program achieves this by making access to the market dependent on monitoring of compliance with the Conservation Principles for Coffee Production.

As CI acquires more data from specific regional experiences, it will be able to evaluate the contribution of enterprise globally to biodiversity conservation. Learning which strategies appear to work best will improve CI's use of enterprise as a conservation strategy.

## A Ten-Point Summary of the Enterprise Development Process

1. Undertake strategic conservation planning. Identify what biodiversity conservation objective(s) the enterprise would meet and how it would contribute to the strategy.
2. Allocate responsibility within the team for taking the project forward.
3. Determine if there are existing enterprises with which an agreement could be made that would achieve the objective.
4. Negotiate and make a written agreement with the partners and community/ies who will participate.
5. Together with the participants and the enterprise technical team, research and prepare a business plan which shows:
  - Product and marketing plan, including consideration of whether the enterprise will use CI's name and logo in the market; this would require a further agreement
  - Ownership and legal structure;
  - Financial projections, including capital required to start the enterprise
  - Resource management plan.
6. Design the technical support program, including the monitoring and evaluation plan and an exit strategy.
7. Secure financing for the enterprise (loan or equity) and the development and support program (grant).
8. Implement the enterprise and the technical support program; maintain agreed communication procedures with the technical team and reporting procedures with donors.
9. Evaluate progress towards objectives annually; adjust plans according to events.
10. Together with the enterprise technical team, make a final evaluation after the support program finishes, in order to contribute to CI's enterprise learning system.

## **PART III. FORMING ENVIRONMENTAL ENTREPRENEURS**

### **Chapter 1**

#### **The Modular Approach to Business Planning**

This part presents an actual training course for environmental entrepreneurs. It covers all the aspects of conservation enterprise development that are described in this manual, which is in effect the resource book for such training. It has a particular focus is marketing and financial planning, the essence of any business plan. Part III is a key part of capacity building, which is referred to in the second part of Step 4 of CI's Strategy Handbook.

CI's enterprise technical team developed the Modular Business Planning course as an approach to training inexperienced entrepreneurs. It has been pilot tested in Latin America with coffee producers and leaders of community ecotourism businesses. This chapter presents a description of the course, and Chapter 2 provides the complete course outline and training material. This material is for use by technical staff that already have a sound grasp of enterprise development.

#### Making Business Planning Accessible

Many conservation enterprises, including ones that CI has been supporting for several years, do not have a proper business plan. The purpose of this course and the material that it uses is to make it easy to complete one by demystifying the process. . The course has three key characteristics:

1. It brings business leaders together to create a business plan for a case-study enterprise that is typical of those in which they themselves work. In this way, the confidentiality of their own businesses is respected, but they can easily relate the concepts to their own case.
2. The course is taught in separate stages, usually three sessions, but the number may vary, depending on the level of knowledge and experience of the participants. In between each stage, the participants apply the learning to their own business, accompanied by a technical advisor.

3. The material is pre-printed, so that participants have only to fill in worksheets. The sum of the worksheets constitutes their business plan. In this way, each participant completes over the duration of the course a real business plan.

This modular approach makes business planning easy, and the experience of the pilot tests has been that participants really do understand it. The key to success of this course, as with any training, is that it responds to the interests of participants. While they may begin the course unconvinced about the value of business planning, they leave it realizing that it gives them much more control over what happens.

For established businesses, the modular approach can be used effectively, even if the training course does not take place or parts of it are omitted. Indeed, the idea of the approach is that businesses renew their plans annually by updating the worksheets. Technical oversight of the business planning process is strongly recommended. With such facilitation, a business should be able to complete the course in three or four sessions with its managers present.

### The Introductory Business Planning Process

CI is also producing in Spanish a detailed course book and a manual for instructors of the training course presented here for small-scale coffee and cocoa cooperatives. This has an additional section dealing with credit applications. As explained in Part II, Chapter 3, determination of the amount of credit required derives from the cash flow statement. Coffee cooperatives that want to apply to the Eterno Verde credit fund established in Mexico with investment from the Conservation Enterprise Fund and Ecologic are required to support their application for credit with a business plan that includes a cash flow statement.

### Organizing a Course

The modular approach to business planning requires a series of preparatory activities. The following are the main steps:

1. Decide from three options: whether to give the whole course, a shortened form, or only the non-classroom technical assistance to the planning of each individual business. The decision is based on the level of experience of the target participants and what areas need focusing on—for example an entire business plan may need to be developed or perhaps the group needs to focus solely on the marketing aspects. The course is presented here in its complete form.
2. The length of the course determines how much time is required and the program of events. The program can then be written up and budgeted. The time can be set and participants invited. If classroom training is required, this can be done only when the cost can be covered, either by charging participants or receiving external support.
3. Select the course facilitators. In a mature business services market, several options may be available. CI can give the course, but always be aware that direct provision of services perpetuates a subsidized, single-provider model that is ultimately unsustainable. The enterprise technical team presently facilitates two or three trainings each year in order to train people who are able to facilitate the course in their own regions. Regional staff should identify local institutions that can provide the course. A minimum of two facilitators for a course is necessary; three is better, because participants spend a lot of their time in three working groups.

4. It is also beneficial to have experienced professionals make relevant presentations to the course participants during implementation. Identify external resource people who could make a presentation that would be appropriate for the course participants, and approach them.
5. Determine the terms of participation. A first course may justifiably be free of charge; but subsequent courses should bear at least a small charge, to promote the idea that all business services of value bear a cost.
6. Invite the participants. The course works best when they come from a single industry, because the material can be adapted to the realities of it. For example, members of a community ecotourism business will be more interested in working on the marketing plan and financial statements of a tourism example than of a coffee example. The ideal number for this training course is around 15, allowing for three working groups of five participants. Having more than three groups slows progress down too much. Five is an optimal working group size, six is a manageable maximum; more than 18 participants in a course is difficult to manage efficiently.
7. Prepare the material. A training course requires presentational material, and the worksheets should be adapted to the particular situation. The enterprise technical team can support this process, drawing on existing material that has been used in other workshops.
8. Schedule the individual guidance to the process, which will take place outside of the class room, after each Module, with each participant business. This is required to ensure that the worksheets are understood and completed correctly before the next Module is taught. At the start of each Module, the facilitator should check that the worksheets from the previous Module have been completed with the actual information of the participant businesses.
9. Ensure that the technical support process to complete the worksheets for each module includes all the people who need to take part in preparing the business plan.

### The Course Program

The sample course presented in Chapter 2 is divided into three modules. Module 1 can be completed in a single full day. Modules 2 and 3 each take two full days, although an inexperienced group may need three days to complete them. About a week should be spent between Modules to apply the learning to the actual business, using the worksheets that are distributed at the end of each Module and which are the same as those used in the course. Therefore, the complete process of preparing the modular business plan, using the whole course, takes about four weeks- five to seven days of classroom facilitation and a week of work by the businesses after each of the three classroom sessions, applying the worksheets to their actual business.

#### *Module 1: Introduction to Business Planning*

Why and how to do business planning  
 The contribution to conservation  
 The business plan case study  
 Individual worksheet preparation

*Module 2: The Marketing Plan*

Understanding costs  
 Analyzing the situation  
 Marketing targets and strategies  
 Individual worksheet preparation

*Module 3: The Financial Plan*

Preparing financial statements  
 Making financial projections  
 Calculating cash requirements  
 Sources of financing  
 Individual worksheet preparation

Chapter 2 contains the following sample material for the course:

1. An outline of the purpose of and program for each module. The program table breaks down the topics of each module into sessions and references the relevant explanatory text in Part II of this manual. After the program, notes suggesting how to organize it are provided. Sessions run for one and a half or two hours, depending on the topic, with breaks in between, so that three or sometimes four can be held in a day. Each session starts with a presentation by the facilitator of the main points, using acetate overheads or PowerPoint presentation. Acetates are available from previous training courses. The presentation should be based on the text in Part II of this manual. The facilitator must be familiar with this text and make any necessary adjustments to fit the local situation.
2. The Business Plan Case Study. This is a carefully written but fictitious example, describing a typical business in one of the sectors in which CI commonly works. It is used to complete the worksheets in each module. Case studies are available for an agroforestry cooperative and a community ecotourism business.
3. The worksheets. The participants divide into work groups and fill these in during the sessions, starting after the facilitator has made the presentation. A few sessions are just presentations and do not have worksheets. The three working groups all do the same exercises, using the same case study material. An important part of the dynamic of the workshop is that groups use the same information but make different plans from it. At the end of each session, the groups present the results on their worksheets and the lessons learned. They really enjoy comparing their approach with that of others. In the material presented, some of the worksheets are given as single pages, which list a number of questions for participants to answer. As they will be writing, rather than using a word processor, they will definitely need more space than is given in this sample, i.e., two or three actual pages. Where necessary, specific worksheets are presented for courses oriented to ecotourism or agroforestry businesses. Some worksheets are common to all types of business.

At the end of each module, all participants receive an identical blank set of worksheets to apply to their own businesses in the following week. In some cases, the blank worksheets might need to be different from those used in the classroom because different descriptions may be necessary. For example, each business will have slightly different categories of costs. It is easy to explain to groups how to change these for their own business when the worksheets are distributed at the end of the module.

The completed worksheets constitute their business plan. When the plan is completed, a cover sheet indicating the period covered by the plan, a table of contents, and an executive summary should be added. Participants will probably require additional worksheets for their own businesses, depending on type and size of the business and the number of products.

Obviously, any of this material can and should be adapted for the particular situation, so that it seems as real as possible to the participants. For example, the case study business should be located in the country or region where the course is taking place, using a recognizable currency, and engaged in an industry that will be understood at least in part by all participants.

The period for which the plan applies is an issue to determine before starting a course. The more mature a business and its managers are, the longer the period they can plan with confidence. A new business with inexperienced managers will find it difficult to think beyond the coming year.

The course worksheets project sales targets and financial results for two years. This is acceptable for most needs. Indeed, even completing one year comprehensively would represent a significant advance in business planning, compared with the actual state of many conservation enterprises.

## Chapter 2

### The Training Course

#### Module 1: Introduction to Business Planning

Purpose:

1. To create a good learning atmosphere and give the participants confidence.
2. To explain the process of the course and ensure commitment to work between modules.
3. To agree on the timetable for sessions and individual meetings between modules.
4. To understand why it is necessary to do business planning.
5. To explain the components of the business plan.
6. To discuss how the businesses participating contribute to conservation.

Suggested Agenda (\* Indicates session without a worksheet)

#### Organization of Program

Worksheets will be used in sessions 5 and 6. They are found after the case studies. Their purpose is to describe the business presented in the case study and then, after the module, the particular business of each participant: its mission, products or services, and organizational structure. Each worksheet contains four headings to guide the participants to the information required. The facilitator has an important role in ensuring that everyone understands the purpose and what information is required, as many participants will be doing this for the first time. For example, an organization chart should be shown in the presentation, explaining the relationship between the various decision makers and the particular functions of a business.



## Case Study for Agroforestry Business: Cooperativa Cafetalera S.C. (COCAFE)

### *Introduction*

COCAFE is a cooperative of 300 members who produce 11,200 quintales of pergamino coffee annually. When processed, this yields 7,500 quintales of green coffee, of which 90% is export quality and 10% is low quality, which can only be sold locally. 15% of the export quality production is certified organic. COCAFE has never been able to sell all of the coffee its members produce. It buys evenly during January, February, and March.

For the coffee it is able to buy, COCAFE pays 50% of the local price at the time of delivery and the other 50% when it receives payment from the client, adjusting the final payment for costs incurred in warehousing, grading, weighing, sorting, etc. The local price at present is \$50/quintal and the export price \$78/quintal. For organically certified coffee, the market will pay a premium of \$25/quintal, of which \$20 is passed on to the members and \$5 retained by COCAFE to cover costs of inspection, documentation, and additional infrastructure needs.

### *The Market*

COCAFE has four types of clients:

1. Local buyers, who will buy pergamino coffee that has been cleaned and sorted. The estimated price this season for local sales is \$58/quintal. These buyers pay on delivery and will usually accept coffee as soon as it is available. However, the market is very competitive and a maximum amount that could be sold is estimated to be 1,000 quintales.
2. Export clients, who buy only in containers and pay the market price. A container holds 375 quintales of green coffee. Most importers pay 30 days after shipment. However, COCAFE has one client who always pays a 40% advance and who can buy up to two containers per year, one in May and one in July.
3. A special international client, who supports COCAFE because it is promoting shade coffee production. This is very beneficial for the conservation of biodiversity, which is important because the cooperatives are located around El Quetzal National Park. The shade coffee farmers conserve the trees on their farms and do not use agrochemicals. This improves the quality of soil and water, as well as the health of the farmers, and provides a natural environment for birds, insects, and vegetation. The client buys both conventional and organic coffee and pays an additional shade premium of \$15/quintal. Payment is 30 days. The client has signaled interest to buy up to six containers this year, two per month starting in April.
4. Local merchants who can buy the low quality, for which the price is \$35/quintal. These merchants usually take the coffee in May and pay on delivery.

### *Operations*

COCAFE out-sources the processing of its coffee to a specialist company in the town. It pays \$1.80/quintal of pergamino to the processor and \$0.60/quintal each way for transport. These expenses are paid in March.

Before exporting, it has to send to the clients representative samples for approval, which cost \$47.50 per container lot for packing and postage. There is an additional cost of \$40 per organic

sample, because of further paperwork requirements. The actual organic inspection itself costs \$2,400 per annum and takes place in December. Export sales have to be packed in special-size bags, which cost \$1.30 each, payable after 30 days. Transport to port and agents' fees cost \$750 per container, also payable after 30 days.

COCAFE's biggest concern is financing. Lack of capital prevents it from buying and selling as much coffee as it would like to. COCAFE can get credit from its bank in December at 24% annual interest. It would have to repay in full by July and has a borrowing limit of \$100,000, which the Bank is not prepared to review until COCAFE can produce a proper business plan.

Market research suggests that the export market for shade coffee has considerable potential for growth, because consumers are very interested in the environmental benefits. The executive officers, who are elected every two years by the General Assembly and can hold office up to three times consecutively, are interested in visiting the United States to visit their clients and attend a trade fair. They hope that, as well as generating new business, they can secure some more advance payments to help finance their growth. They estimate the cost of the visit as \$5,000.

COCAFE has a warehouse that it bought in 1996 at a cost of \$30,000; a vehicle acquired in 1998 for \$20,000; and office equipment with a book value of \$16,000 at the start of the financial year, which runs from January to December. It owns the land, which has been valued recently at \$25,000. Depreciation rates per annum are 10% for buildings, 20% for vehicles and office equipment. Running costs are \$2,160/year for the vehicle, \$300/month for the telephone and fax, and \$70/month for office equipment.

The four executive officers receive an allowance each month of \$200 each. They report to a board of 10 people, who are entitled only to meeting expenses, which total \$125/month. The cooperative employs a technical advisor, who earns \$400/month and two extensionists, who each earn \$220/month. Each extensionist has a motorcycle, now fully depreciated, but which together incur running costs of \$100/month. In the warehouse, two full-time staff earn \$200/month each. All full time employees receive 20% benefits. In the peak season, from March to May, two part-time people are employed, each earning \$180/month.

COCAFE has been operating for 12 years and in that time has accumulated reserves of \$68,500, additional to its start-up capital of \$2,000. At the start of this financial year it had \$13,600 in cash. It had no debtors or creditors, having paid all outstanding accounts before closing its books. It had \$4,500 of inventory that it plans to sell next year. The tax rate for cooperatives is 15% on net profit.

An international non-government organization has provided support to COCAFE in the past two years in quality management, shade coffee cultivation and contacts in the market. It has offered to pay half the cost of the visit to the United States and to accompany the officers at the trade fair. When COCAFE told it about its borrowing difficulty, it agreed to provide a training course in business planning for the board and executive officers.

## Case Study for Ecotourism Business: Albergue Amazónica

### *Introduction*

Albergue Amazónica is an eco-lodge owned by a cooperative of 15 members in the community of La Esperanza. Located in a strategic position near the entrance to Monte Verde National Park, it was built with support from an international NGO to provide an incentive to the community to conserve the natural environment. There are few other employment opportunities in the area, so most people log and hunt or leave altogether to look for work in the city. The lodge has traditional-style cabins, with capacity for 14 people, including six double rooms, one matrimonial, a library/sitting room, an outside covered dining area, and a kitchen. It offers private bathrooms, with hot water and electricity provided by solar panels. Thanks to its favorable location and the high quality of birds and wildlife in the area, the lodge started up successfully.

### *The market*

The lodge has been open nearly three years but operating commercially for only two. The tourists have been 30% from the United States, 50% from Europe, and 20% from other countries, such as Australia and Japan. Fewer than 5% are national. The age of visitors ranges from 30 to 60 years. Many are adventure tourists, with a particular interest in nature, particularly the Europeans. Through a survey of visitor reaction, the cooperative has discovered that most people come to see wildlife and enjoy the setting in the Amazon. Many of them live in cities and want to rediscover nature.

Tourists find out about Albergue Amazónica mostly through tour operators and additionally through the internet, press, and guide books, because the NGO helped it to attract a lot of publicity when it opened. The lodge also has its own leaflets, brochure, and promotional video.

All sales are made through four national tour operators. The lodge offers two basic products, a three-night stay and a four-night stay. Two operators offer the longer stay as a stand-alone product; the other two combine the lodge with a visit to another destination nearby and therefore buy the shorter stay. Sales are even between the two products.

### *The products*

1. Three-night stay: includes transport between airport and dock and transfer by boat to the lodge; guide accompanying throughout; three breakfasts, three lunches, three dinners; and activities including a guided forest trail, a night hike, canoe rides, and cultural evening. The price to the tourist is \$195 per person and the tour operators pay \$160 to the lodge.
2. Four-night stay: includes an additional breakfast, lunch, and dinner and a guided walk concentrating on medicinal plants. The price to the tourist is \$260 per person and the tour operators pay \$205 to the lodge.

In its first year of full operation, Albergue Amazónica received 300 tourists, of which 100 came in groups of two and 200 in groups of four. The second year started strongly but then declined in the second half of the year. The final number was 320 tourists, equally split in groups of two and four. International arrivals are increasing by 1–2% annually, according to official statistics. At the national level, there is a growth of 10% in nature tourism, because of increasing interest in the Amazon. The government is increasing its investment in international tourism and has declared new protected areas. The high season for tourism is from May to September.

The NGO did a study of carrying capacity and determined that the number of visitors should not exceed 600 per year on the present trail and that group sizes should not exceed six people, because of disturbance to wildlife.

### *Competition*

There are two other lodges in the area. Albergue Descanso receives most of its tourists from the United States. It has 16 cabins, with private bathrooms and hot water. It has a dining room, interpretive room, swimming pool, and observation tower. It includes guided forest tours. The construction uses a lot of cement and services are not generally of high quality. The price to the tourist is \$250 for three nights and \$315 for four nights. It opened several months after Albergue Amazónica.

Albergue Don Rómulo is small, with four basic structures: (1) a kitchen area, dining area, and reception; (2) four double bedrooms; (3) a bathroom, with two showers; (4) a bar located by the river, with a pleasant view but problems with mosquitoes at dusk. Most of the tourists are Europeans and the lodge is always full. Its three-night stay costs \$150, and \$50 more per night. Don Rómulo has plans to build another lodge, which would be situated closer to Albergue Amazónica.

### *Costs*

The tour operators pay the cooperative after 30 days, but they settled all outstanding payments at the close of the last financial year in December. They constantly pressure the lodge to improve its quality in order to justify the price, and two of them have indicated the possibility of withdrawing it from their offer if improvements are not made. One of the major difficulties is that the guides do not speak English.

The cooperative has four full-time employees. The general manager, with overall responsibility for the lodge and for contracting outside services, is paid \$500/month. The reservations manager earns \$400/month, the cook \$250/month, and the maintenance supervisor \$150/month. Every six months, the cooperative has to pay an additional salary, to cover benefits, making 14 salaries a year. All other personnel are paid according to the services they provide. Whenever there are tourists, two additional people are required in the kitchen, one for general duties, such as carrying bags and serving drinks, and one for cleaning. All four people earn \$10/day.

Albergue Amazónica's policy is to provide one guide per group. Guides earn \$12/day. The cost of food per person is \$1.50 breakfast, \$3.00 lunch, and \$5 dinner. The cooperative estimates another \$60/month for food eaten by staff. Most of the food is bought from the nearby village. Other local benefits include the sale of crafts and handmade greetings cards, which people bring to the lodge during the cultural evening.

Transporting the tourists from the airport to the dock costs \$1 per person each way. The cooperative hires the services of a boat owner to transport them to the lodge. This costs \$75 each way regardless of numbers and the boat's capacity is six passengers, including the guide. However, the boat owner is not very reliable and many times tourists have been left waiting at the embarkation point.

The cost of construction material and installation of services to build the lodge was \$85,000. The cooperative received a grant from an international foundation of \$50,000 and borrowed the rest from a small business incentive scheme, to which the NGO had introduced it. It had a two-year interest holiday but last year the cooperative had to start paying monthly interest, at an annual rate of 9%. The cooperative members used their own labor to do much of the construction and this was capitalized when the business was legally registered, with a value of \$12,000. Because no money was left for working capital, the NGO lent \$5,000 interest-free, on the promise that it would be repaid as soon as possible and not later than this year. The cooperative used part to buy a canoe, which cost \$500, 10 lifejackets, which cost \$350, a radio for communications, which cost \$400, and kitchen equipment, which cost \$1,500.

The buildings depreciate in value 20% annually, because of the high humidity and susceptibility to insect damage. The same depreciation is applied to equipment. Depreciation was applied from the beginning of the first full year of operations, i.e., two years ago. The cooperative pays \$100/month on repairs and \$150/month on other running costs, including office supplies and uniforms. Without telephone service, it has to go to town for many of its communications, including maintenance of its web site through an external provider. The average cost of communications is \$300/month. Promotional material needs to be updated each April, just before the season starts, at a cost of \$2,000.

Albergue Amazónica has to pay two taxes: Value Added tax, at 13% of net profit, due annually, and 3% of gross sales, payable monthly. It paid last year's taxes before closing the books and started this year with a cash balance of \$7,324. Although operations had been very profitable, a number of inefficiencies had been discovered, leading to costs in excess of the calculated amount. It is concerned that it is not earning enough cash to invest in growth. It can borrow from a government scheme at 20% annual interest but is reluctant to take on more debt. It is not sure how to respond to the pressure from operators and the competition. It therefore asked the NGO to organize a training course in business planning, to help it address these issues.

## Module 1 Session 5 Worksheet: Description of Business.

Using the case study, fill out this worksheet by: (1) describing the products, services, and location of the business; (2) listing the stakeholders involved and their roles; (3) describing the mission statement of the business; and, (4) detailing the conservation impact of the business.

### Description of Business

1. General description of products and services and location of the business

2. Stakeholders involved in the business, their roles and interests

3. Mission statement of the business

4. Conservation benefit that will be achieved if business is successful

## Module 1 Session 6 Worksheet: Organizational Structure

In this worksheet, describe who owns the business, what their backgrounds are, and how management is organized. Describe the key functions and the experience of the people managing them. Finally, describe any external financial or technical support that the business receives. Note: This worksheet will be inserted after the section on marketing in the business plan.

### Organizational Structure

#### 1. Ownership of the business

#### 2. Organizational chart

#### 3. Key personnel

#### 4. Support received from external agencies

## Module 2: The Marketing Plan

### Purpose

1. To communicate and practice the process for analyzing markets, including doing market research.
2. To understand how the industry in question is organized and how products reach consumers.
3. To identify options for selling products or services and select the most promising ones.
4. To learn how budgeting and financial planning derives from the marketing plan.
5. To ensure that costs are known before prices are determined
6. To learn where information and support may be available.

### Suggested Agenda (\* Indicates session without a worksheet)

Session	Subject	Manual Reference
Day 1		
1. *	The process for doing the Marketing Plan Experience of the participants in selecting markets	Part II Ch 3.1 & 3.3
Break		
2	Calculating Costs	Part II Ch 3.2
Lunch		
3.	Marketing (1) Situation Analysis and Market Trends	Part II Ch 3.1
Break		
4. *	External presentation: how a local business has developed its market	
Day 2		
5.	Marketing (2) Selecting a strategy	Part II Ch 3.1 & 3.3
Break		
6.	Marketing (3) Defining Sales Targets	Part II Ch 3.3
Lunch		
7.	Resources Required to implement Marketing Plan	Part II Ch 3.3.
Break		
8	Full Costing	Part II Ch 3.2
9. *	Assignment of worksheet preparation	

### Organization of Program

In this module, participants spend most time developing their marketing plan for the case study business in groups. Plenty of time should be given to feedback from the groups and discussion of how they will apply learning to the marketing plans of their own businesses.

Costing is dealt with in two parts in the module. Before determining their sales strategy, participants calculate the variable (direct) costs of their products and the fixed costs of running the business. Once they have set their sales targets, they calculate the full cost of their products by dividing the fixed costs into the amount of products they plan to sell.



Module 2 Session 2 Worksheet: Costing Sheet for an Agroforestry Business

Complete first the variable costs for one quintal and then the annual fixed costs.

Coffee Costing Sheet (1) Variable Costs (\$)

1. Conventional coffee (per quintal) direct costs

- |      |   |       |
|------|---|-------|
| 1.1. | Purchase price from members                               | ----- |
| 1.2. | Transport to processing plant                             | ----- |
| 1.3. | Labor in processing plant                                 | ----- |
| 1.4. | Processing costs to produce green coffee                  | ----- |
| 1.5. | Total cost per quintal                                    | ----- |
| 1.6. | % Weight loss in processing                               | ----- |
| 1.7. | Production cost per quintal of green coffee (= 1.5 + 1.6) | ----- |

2. Organic coffee (per quintal) direct costs

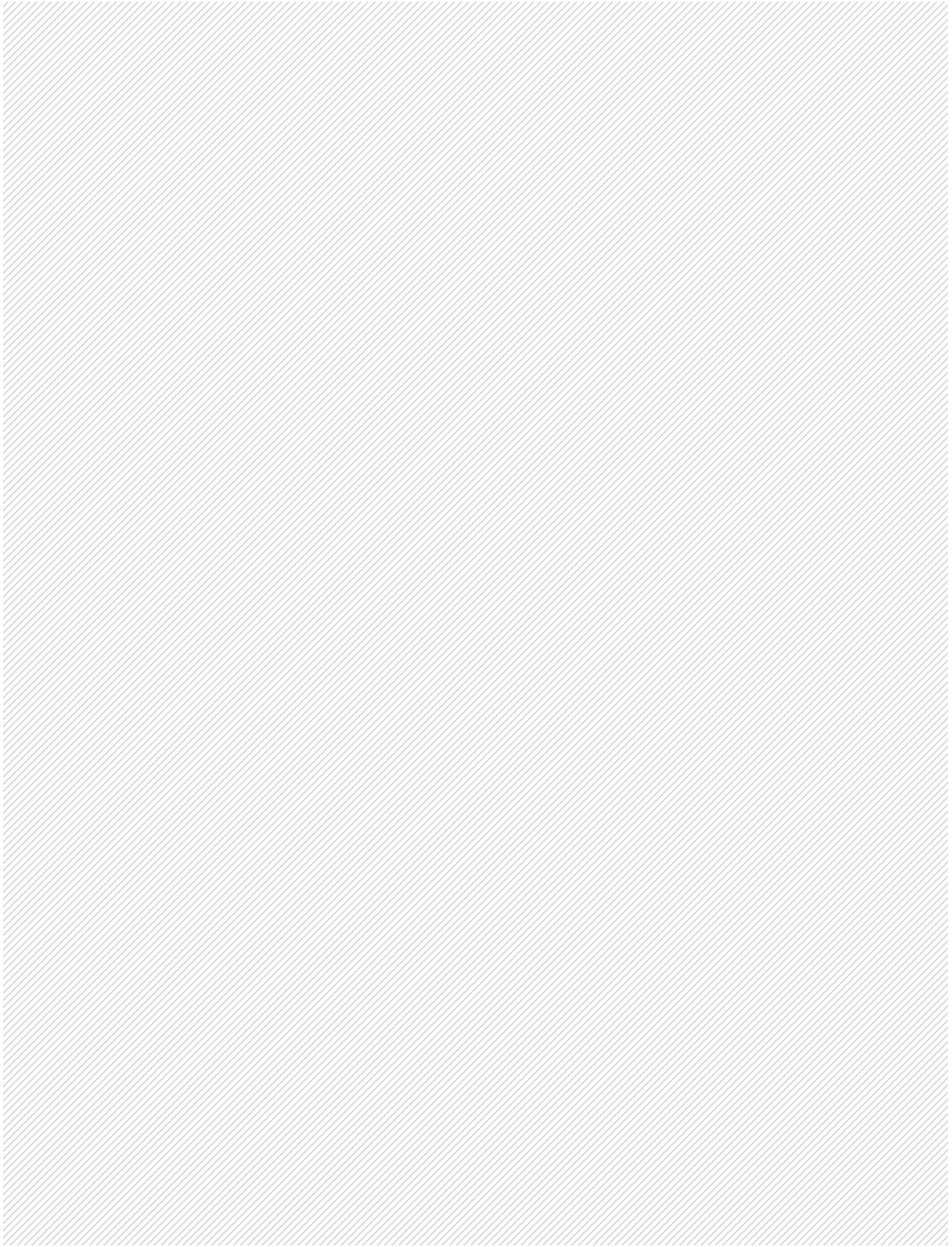
- |      |  |       |
|------|--|-------|
| 2.1. | Purchase price surcharge from members                              | ----- |
| 2.2. | Additional cost of weight loss (= 2.1 × 1.6)                       | ----- |
| 2.3. | Organic Inspection (= inspection cost / no. of quintales produced) | ----- |
| 2.4. | Production cost per quintal of organic coffee (= 1.7 + 2.1 + 2.2)  | ----- |

3. Variable (direct) costs per container (375 quintales of green coffee)

- |      |   |       |
|------|---|-------|
| 3.1. | Representative sample to client           | ----- |
| 3.2. | Quality inspection                        | ----- |
| 3.3. | Jute sacks                                | ----- |
| 3.4. | Transport to port                         | ----- |
| 3.5. | Customs clearance and agents fees         | ----- |
| 3.6. | Total costs per container                 | ----- |
| 3.7. | Additional cost per quintal (= 3.6 / 375) | ----- |

4. Total variable cost per quintal

# THREE



*The Training Course*

## Module 2 Session 2 Worksheet: Costing Sheet for an Ecotourism Business

Fill out the following costing sheet for the ecotourism business, with direct and fixed variable costs for a three-night package and a four-night package. The first two tables list costs of providing food, guides, transportation, and labor by group size. The third table lists fixed costs.

### Ecotourism Costing Sheet

#### Direct (Variable) Product Cost: Three-Night Stay (\$)

Group size	1	2	3	4	5	6
Food						
Guides						
Transport						
Temp labor						
Total						

#### Direct (Variable) Product Cost: Four-Night Stay (\$)

Group Size	1	2	3	4	5	6
Food						
Guides						
Transport						
Temp Labor						
Total						

#### Fixed (Indirect) Operating Costs (\$)

	This year	Next year
Administrative Salaries and Benefits		
Communications (post, telephone, fax)		
Office Supplies		
Marketing and Sales		
Travel		
Property and Operations		
Depreciation		
Total (excluding tax and interest)		

## Module 2 Session 3 Worksheet (1): Situation Analysis

Fill out the following worksheet by describing the products and services the business is selling or planning to sell. Describe the profile of the current or target markets and how the products or services provide a value to these particular customers. Finally, describe the strengths on which the business can build to successfully sell the products or services and any weaknesses the business will need to manage.

### Marketing (1) Situation Analysis

1. Specific products or services sold

2. Profile of current or target clients

3. Strengths and weaknesses of the business (include customer feedback)

## Module 2 Session 3 Worksheet (2): Market Trends

Think about the external environment in which the business is operating in order to fill in this worksheet. This perspective is the one that clients have: what is happening in the market that will affect interest in the products or services of the business. Consider who the competitors are and how the business will compete successfully.

### Marketing (2) Market Trends

1. Factors in the external environment (political, social, economic)

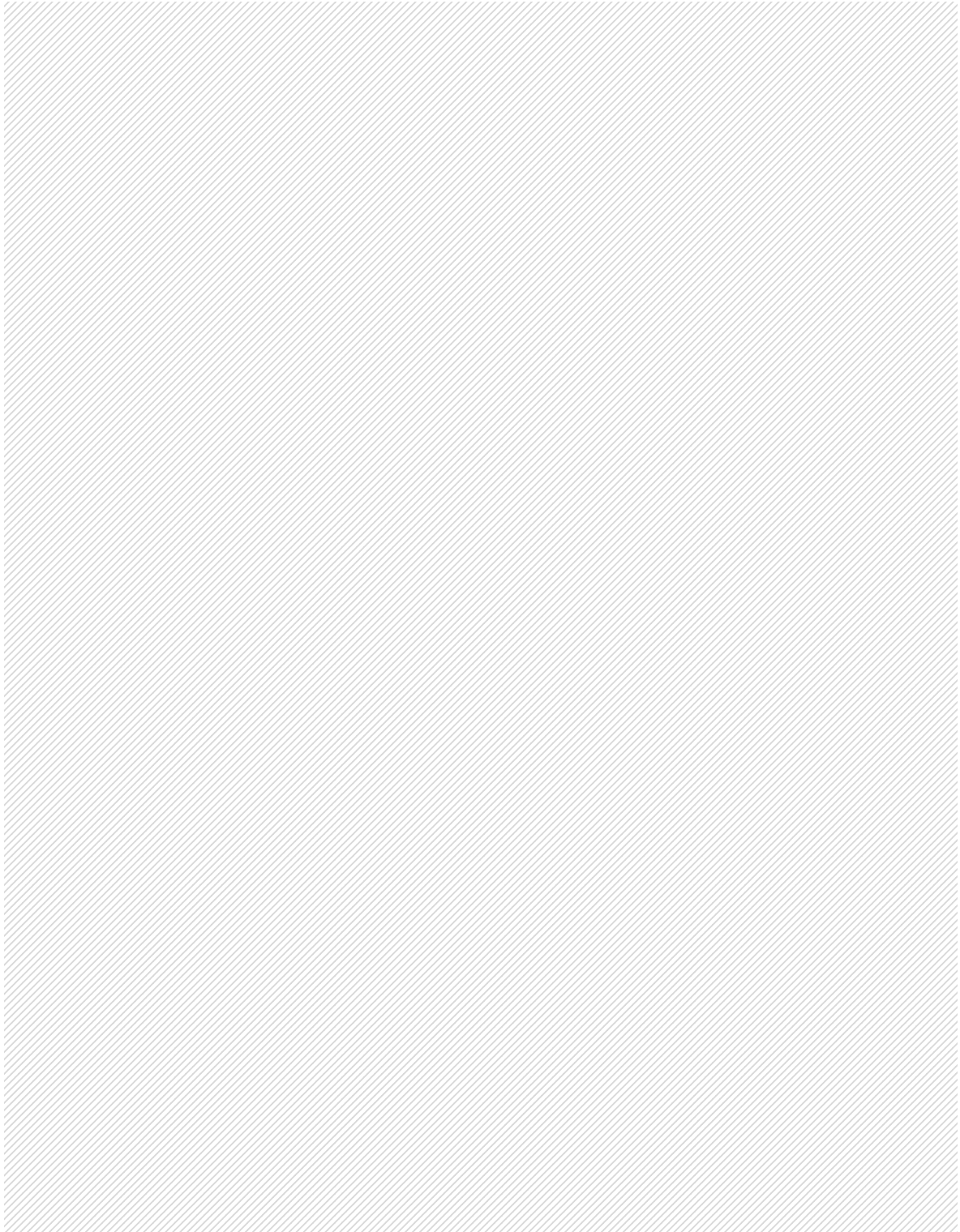
2. Trends in the market

3. Competition analysis and how the business will respond

4. Opportunities for and Threats to Business Growth

## Module 2 Session 5 Worksheet: Selecting a Marketing Strategy

In the following worksheet summarize the marketing strategy: (1) describe the products to be sold and how they will meet market demand; (2) what is the pricing strategy and the price of each product sold; (3) explain the channels through which the products or services will be sold; (4) define the promotions strategy and the marketing tools and resources to be used to accomplish these goals, e.g., direct sales, advertising, websites.



## Module 2 Session 6 Worksheet: Setting Sales Targets for an Agroforestry Business

Fill in the actual sales that the business achieved last year and the targets for the next two years.

### Marketing (4) Sales Targets

(1) by Volume (Quintales)

	Last year actual	This year target	Next year target
Pergamino coffee			
Local buyer 1			
Local buyer 2			
Green coffee- conventional			
Importer 1			
Importer 2			
Importer 3 (special)			
Green coffee- organic			
Importer 1			
Importer 2 (special)			
Low quality			
Merchant 1			

(2) by Value (\$)

	Last year actual	This year target	Next year target
Pergamino coffee			
Local buyer 1			
Local buyer 2			
Green coffee- conventional			
Importer 1			
Importer 2			
Importer 3 (special)			
Green coffee- organic			
Importer 1			
Importer 2 (special)			
Low quality			
Merchant 1			
Total forecasted sales			

(3) Monthly Movement of Goods (Quintales)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
Qty bought- conventional												
Qty bought-organic												
Qty shipped- pergamino												
Qty shipped- conventional												
Qty shipped-organic												

(4) Monthly Purchases and Sales (\$)

	Jan	Feb	Mar	Apr	May	June	July	Aug	Sept	Oct	Nov	Dec
<i>Purchases</i>												
Conventional												
Organic												
<i>Sales</i>												
Conventional												
Organic												
Pergamino												



## Module 2 Session 6 Worksheet: Setting Sales Targets for an Ecotourism Business

Fill in the target sales by volume and by value, per month, for this year and next year.

### Marketing (4) Sales Targets

(1) by Volume (No. of Visitors)

Month	This year			Next year		
	Product 1	Product 2	Product 3	Product 1	Product 2	Product 3
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						

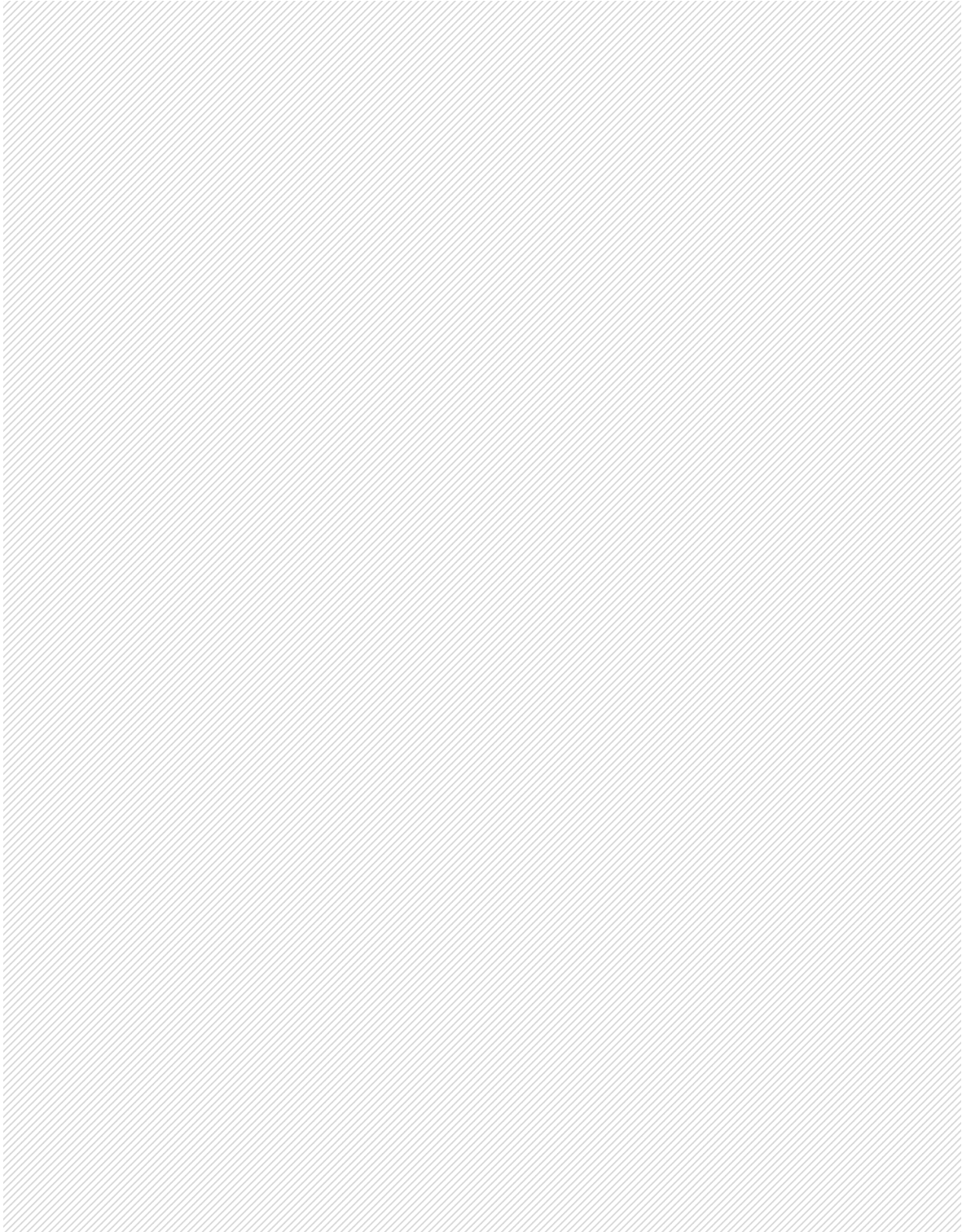
Month	This year			Next year		
	Product 1	Product 2	Product 3	Product 1	Product 2	Product 3
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Total Sales						

### Marketing (4) Sales Targets

(2) by Value (\$)

Module 2 Session 7 Worksheet: Operations Plan.

Describe what additional resources will be needed, including skills development, to fulfill the marketing strategy. Also describe how the materials or natural environment on which the business depends will be managed



## Module 2 Session 8 Worksheet: Full Costing

Full Costing: Ecotourism Business—This Year (\$)

Group size	1	2	3	4	5	6
1.Fixed costs						
2.Target PAX						
3.Cost per PAX						
4.Direct cost						
5.Total cost						

Full Costing: Ecotourism Business—Next Year (\$)

Group size	1	2	3	4	5	6
1.Fixed costs						
2.Target PAX						
3.Cost per PAX						
4.Direct cost						
5.Total cost						

## Module 3: The Financial Plan

### Purpose

1. To learn how to prepare financial statements
2. To interpret financial statements and use the information they provide
3. To calculate the amount of cash needed to implement the business plan
4. To give confidence in managing financial information
5. To identify options for financing a business
6. To think of what could go wrong and plan how to deal with it

### Suggested Agenda (\* Indicates session without a worksheet)

Session	Subject	Manual reference
Day 1		
1.	Review of assumptions. Cash flow statement. Calculating the cash flow of the case study business	Part II Ch 3.4
Lunch		
2.	Income (profit and loss) statement. Preparing the income statement of the case study business	Part II Ch 3.4
Break		
3.	Break-even analysis and checking assumptions	Part II Ch 3.4
Day 2		
4.	Balance sheet. Preparing the balance sheet of the case study business	Part II Ch 3.4
Break		
5 *	Sources of financing (if appropriate: Preparation of credit applications)	Part II Ch 3.5.
Lunch		
6. *	Risk: What could go wrong and how to deal with it	Part II Ch 3.4
Break		
7. *	Assignment of worksheet preparation	
8 *		
	Review of course. Summary of key learning. Evaluation	

### Organization of Program

This module analyzes financially the projected total revenues and costs, based on the sales targets. It projects whether the business will make a profit and have enough cash to finance its operations. If, having completed the financial statements, the business finds it cannot finance its plan, then it has to revise its sales targets downwards and adjust the worksheets accordingly. This is a realistic business situation.

Financial projections must state the basis on which the numbers have been calculated. These are known as the Assumptions of the business plan. All of this information was prepared in Module 2—sales targets, selling prices, variable and fixed costs, payments in and out. Module 3 starts by completing an worksheet on assumptions, which does not repeat all the information but prepares for doing the cash flow by stating the timing of payments. The cost information is transferred to the cash flow from the costing sheets and hence it is not necessary to include the costing sheets themselves in the business plan.

Experience suggests that there will not be time to complete assumptions or cash flows for two years and so only one year is included. The balance sheet exercise is considered optional. It is less important that the participants understand it than the cash flow and income statements. The break-even analysis is a very useful management tool that can be calculated from the cost analysis completed at the end of Module 2.

The module should finish with an evaluation of the course, which, together with notes taken by the facilitator during it, provides the basis for improving the material for the next course.



*Enthusiastic participants in a Making Cents Inc. Business Skills, Training-of-Trainer Course. Dakar, Senegal  
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Assumptions for Financial Projections of Coffee Cooperative. Year 1

1. Prices and Payment Terms (\$ per lb)

Purchase price and payment terms from members- conventional	
Purchase price and payment terms from members- organic	
Selling price and payment terms—pergamino	
Selling price and payment terms- conventional	
Selling price and payment terms—organic	
Selling price and payment terms-low quality	

2. Investments

Item	Cost (\$)	Planned date of purchase

Assumptions for Financial Projections of Ecotourism Business. Year 1

Sales

Average group size (used for cost calculations in projections)	
Selling price- three-night stay	
Selling price- four-night stay	
Payment terms of operators	
Payment terms to suppliers	

Investments

Item	Cost (\$)	Planned Date of Purchase

## Module 3 Session 1 Worksheet: Cash Flow Statement for an Agroforestry Business

Cash Flow Year 1 Coffee Cooperative (\$)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Opening cash</b>												
Cash from sales												
Conventional												
Organic												
Pergamino												
Low quality												
<b>Total cash received</b>												
Cash outgoings												
Coffee purchases conv												
Coffee purchases org												
Transport & labor												
Organic certification												
Samples & inspection												
Jute sacks												
Transport & documents												
Salaries & benefits												
Allowances												
Motorcycles												
Communications												
Office supplies												
Travel												
Promotion												
<b>Total cash outgoings</b>												
Net cash movement												
<b>Closing cash</b>												

## Module 3 Session 1 Worksheet: Cash Flow Statement for an Ecotourism Business

Cash Flow Year 1 Ecotourism Business (\$)

	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
<b>Opening Cash</b>												
Cash from Sales												
Three-night stay												
Four-night stay												
Other sales revenues												
<b>Total cash received</b>												
Cash outgoings												
Food												
Guides												
Transport												
Casual labor												
Staff & benefits												
Maintenance & repairs												
Communications												
Marketing												
<b>Total cash outgoings</b>												
Net cash movement												
<b>Closing cash</b>												



## Module 3 Session 2 Worksheet: Income Statement for an Agroforestry Business

Income Statement Years 1 and 2 (\$)

	Year 1	Year 2
<b>Revenues</b>		
Pergamino coffee		
Conventional green coffee		
Organic green coffee		
Low-quality coffee		
Other revenues		
<b>Total revenues</b>		
Cost of goods sold		
<b>Gross profit</b>		
<b>Operating expenses</b>		
Member services and purchases		
Organic certification		
Export costs		
Market development		
Administration		
<b>Total operating expenses</b>		
Interest		
<b>Net profit before tax</b>		
Income tax		
<b>Net income</b>		

Income Statement Years 1 and 2 (\$)

	Year 1	Year 2
<b>Revenues</b>		
Tour package 1		
Tour package 2		
Tour package 3		
Other Revenues		
<b>Total revenues</b>		
Cost of services		
Sales tax		
<b>Total cost of sales</b>		
<b>Gross profit</b>		
<b>Operating expenses</b>		
Staff & benefits		
Maintenance & repairs		
Communications		
Marketing		
<b>Total operating expenses</b>		
Interest		
<b>Net profit before tax</b>		
Income tax		
<b>Net income</b>		

## Module 3 Session 3 Worksheet: Break-Even Analysis

### Break-Even Sales Volume (Quintales)—Coffee Cooperative

	This year	Next year
1. Revenues-Variable Costs Conventional		
2. Revenues- Variable Costs Organic		
3. Revenues-Variable Costs Pergamino		
4. Fixed Costs		
5. Break-even Volume Conventional (= 4/1)		
6. Break-even Volume Organic (= 4/2)		
7. Break-even Volume Pergamino (= 4/3)		

### Break-Even Visitor Numbers—Ecotourism Business

	This year	Next year
1. Average variable cost per visitor		
2. Revenue—variable cost per visitor		
3. Fixed costs		
4. Break-even visitor number (= 3/2)		

## Module 3 Session 4 Worksheet: Balance Sheet

### Balance Sheet Coffee Cooperative at \_\_\_\_\_

<b>Assets</b>	<b>\$</b>	<b>Liabilities</b>	<b>\$</b>
Fixed assets		Current liabilities	
Buildings at cost		Accounts payable	
Less depreciation		Taxes owed	
Total fixed assets			
Long-term liabilities			
Current assets		Loan	
Cash		Initial capital	
Accounts receivable		Retained earnings	
Inventory			
Equipment & materials			
Total current assets			
<b>Total Assets</b>	_____	<b>Total liabilities and capital</b>	_____

### Balance Sheet Ecotourism Business at \_\_\_\_\_

<b>Assets</b>	<b>\$</b>	<b>Liabilities</b>	<b>\$</b>
Fixed assets		Current liabilities	
Buildings at cost		Accounts payable	
Less depreciation		Taxes owed	
Boats			
Equipment			
<b>Total fixed assets</b>		Long-term liabilities	
Current assets		Loan	
Cash		Initial capital	
Accounts receivable		Retained earnings	
Total current assets			
<b>Total assets</b>	_____	<b>Total liabilities and capital</b>	_____

## **PART IV. STRENGTHENING ENVIRONMENTAL ENTERPRISES**

### **Chapter 1**

#### **A Sustainable Approach to Service Provision**

Part IV of this manual deals with capacity building, which is the subject of Step 4 of CI's Strategy Handbook. Chapter 1 introduces the market approach to business development services, which is presently fashioning donor thinking about technical support. It also describes the Enterprise Capacity Assessment, a tool to guide an enterprise development partner through a participatory process to determine what type of technical support is appropriate. Chapter 2 explains how the enterprise technical team can provide specialist guidance to and communicate effectively with regional programs and enterprise partners, a topic dealt with in the section relating to working as a team in CI's Strategy Handbook.

#### Defining CI's Role

In the past, CI has taken a fairly direct role in the operations of some conservation enterprises. Usually, this has been providing management to compensate for the lack of experience among the entrepreneurs. Sometimes, this involvement has been limited to specific activities where the enterprise technical team has particular expertise, such as negotiating a contract with a buyer.

Direct involvement in the operations of an enterprise may be justified for a limited period. Neither the canopy walkway in Ghana nor Albergue Chalalán in Bolivia, two successful enterprises, would have received donor support without CI's assuming a lead role to get them established. CI brought them to a viable level of operation and then transferred them to local ownership and management. In the case of Albergue Chalalán, the local community had been active participants from the outset. However, similar approaches elsewhere, such as Maya Norte in Guatemala, have failed, because the partner is not committed to taking responsibility but rather wants to assume an employee role.

It should not be the role of CI's regional programs to run businesses. Experience has demonstrated that it is usually too time consuming, costly, and risky to justify this approach against an alternative conservation strategy. Actual business ownership is not consistent with CI's non-profit tax status in the United States, nor with the legal status of many of CI's regional offices.

Rather, CI has three major roles:

1. To identify enterprise opportunities, which are defined as (a) a viable business, (b) a significant contribution to conservation outcomes, and (c) a committed entrepreneur partner
2. To agree with the partner on what the enterprise will do for conservation and what CI will do for the enterprise
3. To facilitate the access of the enterprise to resources, partners, and essential support services

## From Provider to Facilitator

The technical support that CI's regional programs provide to enterprises in management, organization, market and product development, and training has traditionally been defined by CI, funded by donors, and supplemented by subsidized guidance from the enterprise technical team. There are three severe weaknesses with this approach:

- Most regional programs lack specific expertise in enterprise, and the capacity of the enterprise technical team to involve itself directly is limited; as a result, enterprises may not get systematic access to all the support they need.
- Enterprises are insufficiently involved in deciding what services they need. While it is true that inexperienced entrepreneurs may not know exactly what would be of benefit to their enterprise, they will learn much more from services that respond to their demand than to those that are designed externally.
- The provision of any services that depend on donor funds lasts as long as the funding. An inexperienced enterprise usually suffers, because the withdrawal of support occurs before it is fully ready.

The way forward from this dilemma is to see technical support to enterprises as business development services. This is the term that has been adopted over recent years by the donor community and that reflects the important reality that all businesses need ongoing access to services, such as training in new technology, design expertise to respond to market trends, or management development. Conventional businesses invest their own resources to acquire these services, in order to remain competitive, and they shop around to find the best service providers.

Applying this approach to the provision of technical support to conservation enterprises would mean making it possible for enterprises to access other providers of services, not only CI, and also establishing sustainable financial mechanisms for the services to continue for as long as they are required. Two basic financial possibilities exist: the provider either charges for the service or recovers the cost by including it in its own margin. For example, a training service provider could charge participants for a course and materials. A tour operator providing skills training to a community-managed eco-lodge might recover the cost in its selling price.

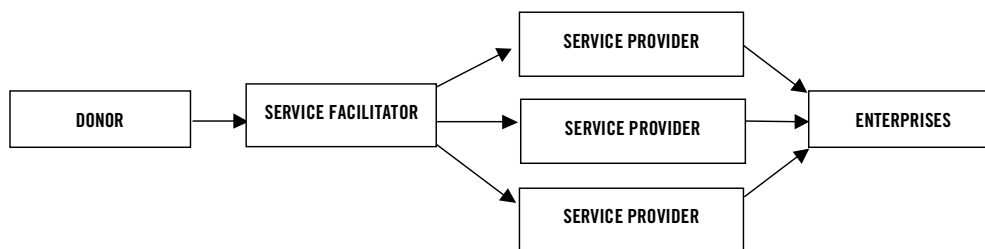
Most donors are now adopting this approach, which is called the market model for business development services. Their aim is that enterprises-the buyers-should be able to choose what services they want, and providers of business development service-the sellers-will compete to provide them. This model aims to ensure that the services offered are those that are required, that they can continue for as long as there is demand, and that enterprises do not collapse once project funds run out.

At the same time, donors recognize that there are two serious limitations to implementing the market model: first, most conservation enterprises do not have funds to pay for services; second, many areas where enterprises are established lack service providers. Donors are therefore providing financial support for the establishment of service providers.

### Old Model: Subsidized Service Provision



### New Model: Market Approach to Business Development Services



### Implementing the Market Model to Business Development Services

While the market model cannot be implemented straight away, CI needs to design technical support with a view to developing it over the life of the enterprise development project. This can be done in three ways:

1. Ensuring that the services it provides result from a consultative process with the entrepreneurs, in which they define their needs; an effective way that this can be done is through the Enterprise Capacity Assessment described below.
2. Incorporating cost-recovery elements from the outset; for example, a portion of the cost of a training program could be charged and put into a fund to pay for training after project funds are used up. This approach builds the market for services by creating capacity to pay and therefore encourages other providers to offer services;
3. Making links with other providers whose services would be relevant to the enterprise and supporting them to develop appropriate products. For example, instead of running a training course, CI may work with training institutions to develop an appropriate curriculum and then let the training institutions compete to sell the course.

In this way, the role of CI changes from being an exclusive supplier of services, for which it often lacks the specific expertise, to that of a facilitator, linking other providers to future potential clients and subsidizing the strengthening of both demand and supply during the life of the project. Future conservation enterprise proposals must address this issue of sustainability to be successful in attracting donor funds.

CI is starting to adopt the new approach with some of its business partners. Alianza Verde, a tourism certification partner in Guatemala, charges membership and certification fees as a way to recover the cost of its services to members. CI is a member of the Small Enterprise Education and Promotion (SEEP) Network, which is leading the thinking in this area through its Business Development Services Working Group.

### The Enterprise Capacity Assessment

An appropriate way help entrepreneurs identify the services they require is to undertake an Enterprise Capacity Assessment. This enterprise development tool gauges the current status of an enterprise in a participatory way and serves a number of purposes:

- Provides a record of progress from one assessment to the next and thereby measures the impact of the enterprise development project
- Identifies the strengths and weaknesses of the enterprise and hence its need for services
- Defines the human and other resources the organization requires to increase its capacity
- Provides a basis for monitoring a partner's enterprise capacity and for planning technical support in order to enhance it through agreements with partners

#### Composition of the Enterprise Capacity Assessment

Capacity assessments usually have four main components assessing the following elements of a business:

1. *Strategic leadership and management:* Leadership and direction of the enterprise and the mechanisms for planning, coordinating, monitoring, and controlling organizational activities. This component involves strategic planning, problem solving, decision-making, and legal status.
2. *Financial resources:* The resources required for purchasing goods and services; record and account for financial transactions; and monitoring and reporting on financial status. This component assesses the adequacy and diversity of available financial resources and the planned means of meeting resource needs.
3. *Marketing and operations:* Which products are sold to which target market, how (how to inform potential buyers of the offer and make the transaction) and when. This component assesses physical resources (materials, machines and labor), information systems, membership services, operations scheduling, materials management, and quality control, as well as export procedures and communications.
4. *Human resources and service provision:* The contribution that management, staff, and members make to the enterprise through their skills and motivation. This component assesses human resource planning, training and professional development and compensation. Service provision deals with the commercial and organizational services provided by partner organizations and assesses the value that the enterprise places on them, in order to assess whether or not it would contract such services in the absence of a partner relationship.



## Methodology of the Capacity Assessment

There is a choice of methodologies:

- *Purely self-assessment:* The cooperative conducts its own assessment through a survey and internal discussions. This works well with mature organizations that have an organizational culture emphasizing improvement.
- *Semi-structured, externally facilitated self-assessment:* An external facilitator leads the process. This approach is most appropriate with moderately mature organizations that are hierarchical and departmentalized.
- *Tightly structured, externally administered assessment:* An externally managed process that solicits input from the various parts of the organization and performs the analysis independently of the organization's management: appropriate for new enterprises without a clear mission.

CI recommends the use of an external facilitator and the use of self-assessments that engage the respondents at every stage of the process, thereby creating an enhanced sense of ownership. A representative sample of people from all areas of the enterprise (from the board to staff and associate members) should be selected. A group that can foster a dynamic enterprise-wide perspective that is not unwieldy, while also allowing for smaller break-out groups, is ideal—perhaps 12 to 15 people.

The assessment facilitator should make every effort to put the participants at ease with the purpose of the assessment, the ways in which the results will be used, and the confidentiality of the information that is collected. Participants must feel open to sharing information in order to produce constructive results that can be put into the enterprise development project planning. The assessment must be planned at a time of year when the participants are able to dedicate up to four days of their time to it.

### Sources of Technical Support

Regional programs that plan to use enterprise development as a conservation strategy would normally benefit from having an enterprise advisor, either at a national level or perhaps assigned to the major project, if its size or importance justifies the cost. If such a post is structured at a regional level, it is CI's experience effort will be concentrated in the base country, especially if a region contains countries with different languages. CI used this approach quite successfully in the Asia-Pacific region, where the advisor was based in the Philippines and made occasional trips to other countries. This was more efficient than having technical staff making short visits from Washington, given the long distance.

*Enterprise Issue: Using Advisors to Provide Business Development Services to Enterprises*

A number of enterprises supported by CI have benefited from the accompaniment of a young professional from the country or a foreign volunteer qualified in business administration. CI has a policy to recruit nationals of the country wherever possible to technical posts. However, it has often been difficult to recruit qualified, motivated professionals for enterprise development positions. A major reason is that enterprises and CI's program offices are based in rural areas, often with more limited housing and schools facilities than larger towns. Most enterprise specialists have a good choice of job possibilities in urban areas. The use of foreign nationals is an option that has worked well for some CI programs.

The following four models have been used by CI:

1. Paid long-term consultants. This is the most expensive option. The knowledge of the market that expatriates can bring, as well as their management capacity, sometimes justifies it, when resources are available. CI-Guyana used a foreign enterprise specialist to great effect to guide the balata business through to profitable independent operation.
2. Long-term volunteers and young professionals. A volunteer should always come through an institution, so that CI is not responsible for the person's welfare. Some regional programs have used Peace Corps volunteers continually; Peace Corps has a special small enterprise program. In 2001, CI placed two volunteers very successfully for nine months in Guatemala and Peru under the Emerging Markets Development Assistance Program (EMDAP), funded by USAID and administered by the International Institute of Education. This program uses students undertaking their Masters degree in Business Administration (MBA). An EMDAP advisor working in Mexico in 2002/03 is building the market for business development services for agricultural cooperatives. Another graduate program specializing in that area is the BDS Internship Program, managed by Johns Hopkins University's School of Advanced International Studies, in Washington, D.C. This program offers interns for the summer period or academic year.
3. Short-term volunteers. Several business schools manage summer placements for MBA graduates, in which small teams undertake assignments of four to six weeks. CI-Bolivia has twice received graduates from Kellogg School of Management (Northwestern University) to undertake business planning. Sometimes short-term volunteers are received on a direct basis; this is lower risk but still CI should ensure that the volunteer signs a liability waiver, exonerating CI from any financial consequences of accidents. The difficulty with short-term volunteers is that they do not have time to get to know the region, the people, or the culture and they tend to have expectations that do not match local realities.
4. Practicum. Through contact with local universities, it is often possible to receive interns for a period to undertake an assignment that contributes to their course work. A particular case is that of EARTH University in Costa Rica, a private, international university dedicated to education in agriculture. It promotes an entrepreneurial mentality, with social and environmental consciousness, as the way to improve agricultural activities and natural resource management, referring to its agriculturalists as agents of change and innovators. University students may be able to finance such internships through special scholarship programs. One such, in which CI is a partner, is the BP Conservation Programme, which gives annual awards for small teams addressing issues of global conservation importance.

Clearly, foreign nationals should always train local counterpart staff; otherwise, their skills leave the enterprise development project when they do.

## Chapter 2

### Marketing Partnerships

#### Developing Private Sector Partnerships

Much of the success that CI has enjoyed in conservation enterprise development is due to its ability to link the enterprises to markets. Sometimes this link is just a facilitation of a relationship between an enterprise and a client, in which the enterprise technical team identifies and targets a company that could buy the product or service and makes the introduction between the two parties. In this situation, CI either withdraws from further involvement or maintains a minimal communication, usually to resolve difficulties.

Wherever possible, though, CI makes a broader partnership with companies that operate in priority ecosystems and want to support the conservation of biodiversity in them. In such situations, the commercial relationship between the company and the enterprise is strengthened by further cooperation between the company and CI. The lead role in developing and negotiating these partnerships is now played in CI by the Center for Environmental Leadership in Business (CELB).

Marketing partners can provide four main services to enterprise development:

1. *Providing a market for the product:* Starbucks' role in purchasing coffee from the Mexican cooperatives is critical in providing the incentive for the farmers to adopt the Conservation Principles for Coffee Production. CI's marketing partners are mostly based in the United States but usually sell in a number of international markets, increasing their potential buying capacity. Starbucks, for example, has expanded to Europe, Japan, and even some coffee-producing countries, such as Indonesia.
2. *Providing expert technical support:* Because the partner has a commercial stake in the product or service, it will invest in ensuring that its quality meets the required standard. For example, Starbucks receives and reports on green coffee samples, a service that, if undertaken with a private quality control organization, would cost a lot of money. One of CI's early marketing partners, Croda Inc., an international chemical company, has likewise received and analyzed samples of non-timber forest products and given feedback on their appropriateness for the market. This function is a key component to negotiate in the partnership agreement.
3. *Investing funds in the enterprise development project:* An additional investment in the project's activities represents the partner's commitment to conservation. For example, Aveda provides funding to CI-Peru's enterprise development project in Tambopata that is channeled into support for PROFORES, associations of Brazil nut collectors, and business training. Some corporate partners of CI that are not engaged in marketing products or services also support CI's enterprise development projects. The financial services company, Citigroup Inc., has been a long-term supporter.



*CI's partnership with Starbucks creates a market for coffee farmers who adopt Conservation Practices*  
© Starbucks Coffee Company

4. *Communicating the conservation message:* Marketing partners provide information about their relationship with CI through their websites, annual reports, and other communications media, thereby spreading knowledge about the issues among the public.

CI's success in developing marketing partnerships has been based on five guiding principles, which can serve a regional program seeking to develop a marketing partnership in the region:

1. Carefully research the leading companies in the sector and identify those that demonstrate concern for the environment
2. Prepare an approach based on the product or service, because a company's commercial interests will invariably influence the partnerships it adopts
3. Try to identify a champion in the company, who will undertake the necessary internal promotion to the senior managers
4. Be patient and persistent in negotiating a partnership; many relationships take a long time to cultivate
5. Communicate regular information about the project's progress



*Aveda uses in its personal care products a protein extracted by Croda from Brazil nuts harvested in Peru (Conservation International)*

For the marketing partner, the relationship with CI brings a number of advantages:

- It provides access to new products that enhance a company's competitive position and increase sales
- It reinforces the company's environmental mission and demonstrates to clients its capacity to implement it through innovative product development
- It motivates employees and aids recruitment and retention
- It brings knowledge and information to the company about ecosystems and communities

The value that a relationship with CI has for its marketing partners is clearly demonstrated by looking at their promotional materials. It is worthwhile to be alert to opportunities for leveraging purchasing relationships between conservation enterprises and their clients through a broader marketing partnership with CI.

### Linking local enterprises to marketing partners

An enterprise development project must include an objective to develop long-term market opportunities that can be sustained after the project finishes. This means that the enterprise must learn how to service its clients efficiently. When the relationship is part of a marketing partnership, CI also has a stake in ensuring that the trading runs smoothly, as problems affect the wider partnership. Building the capacity of a conservation enterprise in marketing and sales is therefore a key component of CI's approach.

The market is a fickle place. It changes its moods and its fashions with a regularity that is very difficult for a small-scale rural enterprise in a tropical country to keep up with. It may require a large order when production is at its lowest, because of seasonal factors affecting raw materials or the availability of labor. It may stay silent for six months at a time, when the enterprise is trying to establish regular, monthly production. The market cannot be made to behave in the way the enterprise would like. The most important approach in enterprise development is to

strengthen the management capacity of the enterprise, so that it can understand and communicate with its target markets. CI has a role in supporting that process, but only for a limited time; the enterprise must manage the relationship with its clients as soon as possible.

There are five main factors in servicing a customer properly:

- *On-time delivery* of the product or service: The client itself has commitments and needs products at the time it states on its orders. Tourists left waiting for their transport become unhappy quickly.
- *High quality*: If a product or service does not meet the required quality standard, then the client may refuse to accept or pay for it and the supplier's reputation may suffer.
- *Consistency*: Clients do not like constant changes of prices or specifications.
- *Communication*: Keeping the client informed of progress and especially of difficulties enables it to plan properly; if a delay is unavoidable, the more warning it has, the more chance it can make alternative arrangements.
- *Information*: The enterprise has interesting stories to tell about its community and environment; the client will be interested to have such information on a regular basis.

While interest by companies and consumers in environmental issues is growing and offers opportunities for adding value to products and services that can be shown to benefit the environment, a company cannot sustain its interest unless its commercial requirements are also met.

#### *Enterprise Issue: Green Marketing*

A number of forward-looking companies are increasingly incorporating environmental values into their buying decisions. Starbucks Coffee Company is a leader in this area. According to Starbucks' President and CEO, Orin Smith, "CI has been our strategic partner for several years. Many parts of the world where we source our coffee are environmentally sensitive. CI is focused on these environmental hotspots and has the ability to help us protect these areas. We don't have the organization or expertise to carry out the work ourselves but we can fund and support it. CI addresses in a very practical way what the issues are."

Starbucks and CI formed a partnership in 1998 to encourage the production of shade-grown coffee using ecologically sound growing practices that help protect biodiversity and provide economic opportunities for small farmers. Starbucks' first project with CI was located in Chiapas, Mexico, in the coffee fields adjacent to the El Triunfo Biosphere Reserve. The project makes a major contribution to protecting the reserve, raising farmer incomes, and producing high-quality shade-grown coffee for Starbucks customers. The farmers have agreed to refrain from clearing forests to supplement their incomes, creating a buffer zone around the reserve, and to grow organically.

As part of Starbucks' long-standing commitment to farmers in origin countries, it purchases the highest-quality green coffee in the world and is committed to paying a premium well above the depressed international market price for high-quality coffee. By working with the farmers to ensure the production of high-quality coffee that also protects the environment, Starbucks and CI are achieving their respective goals—an economically viable and sustainable coffee supply and a sustainable environmental model.

CI entered into partnership with Croda, an international chemical company, to launch "Renewable Rainforest Resources". Croda committed to supporting CI's enterprise partners to identify suitable wild-harvested ingredients from the forest that could be processed and used in the products it supplies to personal-care manufacturers. The initiative began by sourcing from conservation enterprises in Guatemala and Peru. It continues today, but the trade has failed to reach anticipated volumes because neither the quality of service nor price of the products was sufficiently competitive with other ingredients of a similar function that Croda could source from plantation agriculture elsewhere. The rainforest conservation story itself has not been enough to enable Croda to sustain the initial level of market promotion.

## Licensing Agreements

One aspect of an agreement with a marketing partner that needs careful negotiation is the use of CI's name and logo. CI does allow these to be used by partners with which it signs a licensing agreement. This agreement commits the partner to pay either royalties from sales or a fixed annual amount. Licensing has been very little used inside regional programs, but it could be mutually advantageous. If the subject comes up, then the enterprise technical team can provide advice. In any event, all such agreements must pass through CI's legal counsel and may not in any circumstances be negotiated by a regional program alone.

## Chapter 3

### Working Together

The enterprise technical team in CI has the overall responsibility for setting and maintaining a quality standard for conservation enterprise development. In doing this, they support regional programs in a variety of areas:

1. Planning conservation enterprises and business development services:
  - Analysis of the enterprise concept
  - Participatory assessment workshops
  - Program design
  - Protected-area visitor management
2. Building capacity in enterprise development and support:
  - Staffing and human resources: job descriptions and terms of reference, recruitment, induction training and ongoing support—for full-time enterprise managers, program staff with part-time responsibility for enterprise and consultants
  - Training: course development and manual for conservation enterprise training
  - Fundraising: proposal development; identification of and presentation to donors
  - Developing tools for use in the regions—manuals, workshop methodologies
3. Providing specific, appropriate services to conservation enterprises:
  - Marketing: analysis; strategy (marketing plan); linkages to market partners; sales representation; advice on negotiating agreements and licensing, including royalty agreements
  - Information: systematizing and disseminating learning from CI programs; operating list serves; providing relevant contacts, publications
4. Managing relevant global programs that leverage the impact of conservation enterprises:
  - World Legacy Awards, in partnership with National Geographic Traveler magazine
  - Conservation Enterprise Fund
  - Research into the links between biodiversity and agroforestry/ biodiversity and tourism
  - Coordination with the Center for Environmental Leadership in Business (CELB) on development of corporate partnership activities, such as Purchasing Guidelines for coffee
  - Membership of specialist bodies that research and set good practice in enterprise
  - Communicating results and learning through publications, newsletters, participation in internal and external events.

The creation by CI of Centers for Biodiversity Conservation (CBCs) is designed to enable regional programs to increase their own technical capacity. CI's technical staff will maintain an open and continuous two-way information flow with their counterparts in CBCs, where technical expertise will be increasingly available directly in the region, either as part of a CI team or through in-country partner institutions.

By working directly with regional enterprise specialists, CI's enterprise technical team can focus on developing tools and generating resources, instead of being involved in detail in project support.

CI is also developing a Technical Consultation Network (TCN) to formalize cooperation between regional programs and technical support programs based in Washington. Historically, this cooperation has been voluntary, driven usually by budgets and personal relationships. Technical teams have worked closely with some regional programs in planning and implementing conservation projects but less with others. The TCN is designed to ensure that cooperation between a regional program and the relevant technical support department is systematic, in order to standardize best practice in project development and support.

## Making Agreements

With an increasing number of enterprise development projects occurring in CI, the enterprise technical team needs to plan its time and resources to best effect. While not discarding flexibility and opportunism, team members can best fulfill their responsibility through making agreements as far as possible in advance with regional programs. These may be for either an annual level of effort or a specific task. An agreement should specify:

- Dates of technical support
- Lead people on both sides
- Objectives of support
- Deliverables
- Responsibility for costs

The issue of costs has to be negotiated between a regional program and the technical team, which is required to raise money for the support it provides by initiating funding proposals and by participating in applications that are submitted by regional programs.

If regional programs intend to use technical staff to a significant extent during the year, then they should be willing to make some contribution to its costs. In FY02, CI's regional programs covered from their budgets less than 5% of the enterprise team's staff time and travel costs. Apart from the time fundraising takes, technical support needs to be focused on the regions for which funds have been raised, and these do not necessarily include all the areas where important enterprise issues require attention. Financing a technical visit to a project site can be a very effective way to leverage ongoing advice and support at no cost, as, unlike consultants, CI's technical teams provide a year-round advisory service and acquire knowledge from a visit of the region and its activities.

*Bushmen dancing at Gudigwa Camp (Michael Poliza)*  
© Wilderness Safaris



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## CONCLUSION

### The Enterprise Quality Standard

Following the process outlined in this manual for planning, implementing, and evaluating a conservation enterprise development project will ensure conformity with the quality standard:

1. The enterprise fulfills a biodiversity conservation outcome of the regional strategy.
2. CI is supporting local entrepreneurs to own and manage the business and not doing so itself.
3. The enterprise has a comprehensive business plan before it starts operating.
4. Operations are financed principally through loans or equity, with limited grant capital.
5. The enterprise's operations and CI's technical assistance maintain completely separate accounting systems.
6. The entrepreneurs have a for-profit mentality and confidence to negotiate with financial institutions, business development service providers, and the private sector.
7. A written agreement exists between the enterprise and CI regarding funding—for what and for how long—and technical support. There is a clear understanding what the business is responsible for and what the project should support. Funding is not disbursed before the agreement is signed.
8. The entrepreneurs and CI together have agreed on the success measurements for business performance and conservation impact.
9. CI has an exit strategy, which is clear to the enterprise partner and which allows for letting an enterprise fail when this is unavoidable without long-term subsidy.
10. All aspects of the enterprise are monitored and evaluated against its objectives and this information is shared among managers of the enterprise.

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## FURTHER RESOURCES

Technical staff with responsibility for environmental enterprise development will be able to perform their function better if they maintain their learning, keep in touch with trends in the field, and are aware of resources available in their own country. They need to be adequately trained and informed themselves and create training opportunities and access to information for enterprise leaders. For example, there may be courses arranged by the local or central government on business issues, such as exporting. Private educational institutions offering courses in bookkeeping, aspects of management development, English language, etc. can be found in many large towns. A new phenomenon is the establishment of learning centers using internet technology in less populated areas. For example, Galileo University in Guatemala has established a network of over 80 centers, equipped with computers, in rural areas and a similar initiative is taking place in Uganda. Distance learning is a growing field. Such resources are valuable and may be low in cost.

The references below highlight a small number of resources that are particularly relevant to the subject of this manual and can supplement the material presented. If there is any difficulty in obtaining material or making contact, please ask the enterprise technical team to assist.

### Part I. Planning Environmental Enterprise Development

#### *Publications*

Bovarnick, A., and Gupta, A. In press. *Small Business Development Strategies for Local Livelihoods and Global Biodiversity Conservation: A Guidance Manual for Better Project Design*. New York: Global Environment Facility, ESDG, BDP, United Nations Development Programme.

The only other resource known to CI that deals specifically with enterprise development for biodiversity conservation. The Manual will assist conservation practitioners and project designers to assess the role of small businesses in biodiversity conservation, determine whether a small business could be viable and sustainable, and incorporate into project and strategy designs elements and issues that will be important to develop a small business.

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Conservation International et al. 2001. *Conservation Principles for Coffee Production* (available from CI by e-mail).

Reining, C., Flynn, S., and Schwartz, N. 2001. *The Eco-Escuela de Español: An Assessment of Economic and Conservation Impacts in the Maya Biosphere Reserve*. Conservation International (available from CI by mail).

Salafsky, N., Cordes, B., Parks, J., and Hochman, C. 1999. *Evaluating Linkages Between Business, the Environment and Local Communities*, World Wildlife Fund.

The final report from the Biodiversity Conservation Network (BCN), which established 20 enterprise projects to study the linkages between biodiversity conservation and enterprise development. Highly recommended. See also from BCN, *Patterns in Conservation* (1999).

Wollenberg, E., and Ingles, A. 1998. *Incomes from the Forest: Methods for the development and conservation of forest products for local communities*, IUCN/CIFOR.

A collection of essays and case studies by recognized practitioners and experts in the field of forest products, presenting learning across a range of issues from resource management to business feasibility.

#### *Websites*

<http://www.BCNet.org>

Referred to in the text, the Biodiversity Conservation Network's experience in conservation enterprise provides valuable lessons about the role of enterprise in conservation.

<http://www.starbucks.com>

The website of Starbucks has detailed information about the partnership with CI and the shade coffee that it buys from Mexico.

[www.nri.org/nri/NRET.htm](http://www.nri.org/nri/NRET.htm)

The Natural Resources and Ethical Trade program of the Natural Resources Institute specializes in improving the social and environmental benefits of business in developing and emerging economies. The site provides information on services and access to its publications.

[www.unep-wcmc.org](http://www.unep-wcmc.org)

The United Nations Environment Programme and World Conservation Monitoring Centre are undertaking a research project to determine the factors that influence successful commercialization of non-timber forest products.

<http://www.fao.org/forestry/FOP/FOPW/NWFP/nwfp-e.stm>

The website of the Food and Agriculture Organization's (FAO's) Non-Wood Forest Products program contains the most highly recommended publication on non-timber forest products. The site has all the issues of Non-Wood News, the annual newsletter, which is the best general publication on this sector.

[www.fallsbrookcentre.ca](http://www.fallsbrookcentre.ca) (certification) [www.web.net/~fbcja](http://www.web.net/~fbcja)

Falls Brook Center is a non-government organization that specializes in non-timber forest products as an approach to sustainable development. It has also published "An Introduction to the Certification of Non Timber Forest Products" in conjunction with Estudios Rurales y Asesoría Campesina AC of Oaxaca.

<http://www.ecotourism.org>

The official website of The International Ecotourism Society (TIES), an international nonprofit organization, offers information on research, conservation, and business.

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<http://www.planeta.com>

Planeta offers an online public forum on ecotourism development and provides a wealth of information to both travelers and tourism development practitioners.

<http://www.world-tourism.org>

The World Tourism Organization is a government, private sector, and NGO membership association, which serves the global tourism industry. WTO produces statistics, develops education materials, and serves as a forum for tourism policies. Its website is a good source for facts, figures, news, and ordering publications.

<http://www.ecotour.org>

CI has established this site as part of its work to ensure that ecotourism development benefits local people while conserving biodiversity in the hotspots.

<http://www.unep.org/pc/tourism/home.htm>

Ecotourism is of special interest to the United Nations Environment Programme for its relationship with conservation, sustainability and biological diversity. UNEP's website provides information on major events, case studies, publications, and its position on ecotourism development.

<http://www.cfrrt.org.uk>

The Centre for Responsible Tourism is a European institution for training, consultancy, and research in global tourism, conservation, and sustainable development, based at the University of Greenwich in London. Its site provides details of courses, projects, links, and reference material on ecotourism development.

## **Part II. Making an Environmental Enterprise Work**

There is a wealth of material on business planning and start-up, and almost any of it would be relevant to a deeper understanding of enterprise development. Quite a lot has been written recently too on environmental and social approaches to business. Public and academic libraries should have a selection.

For more specific material on markets and trade, which is always worth updating before writing the annual business plan, the best sources of information are usually trade magazines. It is always worthwhile to find out the major trade publications in both the country of production and target markets. Government departments can provide trade statistics, as can specialist bodies such as a chamber of commerce or an association of exporters. This information can also be obtained via the internet. CI's enterprise technical team can help to identify relevant sites.

Information about sources of finance for enterprises requires local investigation. CI undertook a study of institutions in a number of countries where programs are supporting enterprises and provided the information to the regional office.

### *Publications*

Croucher J., et al. 2000. *Enterprise Development for Natural Products*. New York: EnterpriseWorks Worldwide/Asia Network for Small-scale Agricultural Bioresources.

An easy to read, concise overview of developing enterprise based on natural resources, with a particularly helpful section on sustainable harvesting.

Fridgen, Joseph D. 1996. *Dimensions of Tourism*. Orlando: Educational Institute of the American Hotel & Lodging Association

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Gartner, William C. 1996. *Tourism Development: Principles, Processes, and Policies*. Ontario: John Wiley & Sons Canada.

Kim, Alter S. 1999. *Managing the Double Bottom Line: A Business Planning Guide for Social Enterprises*. New York: Save The Children.

Leakey, RRB, Temu, A.B., Melnyk, M., and Vantomme, P. (eds.). 1996. *Domestication and Commercialization of non-timber forest products in agroforestry systems*. Rome: Food and Agriculture Organization.

The proceedings of an international conference held in Kenya in 1996, with case studies from many countries and a commercial focus.

Lecup, I., and Nicholson, K. 2000. *Community-Based Tree and Forest Product Enterprises: Market Analysis and Development*. Rome: Food and Agriculture Organization.

Referred to in the manual, this methodology for enterprise development is set out in a pack of six manuals that guide the practitioner through its stages. Definitely recommended and one of the few resources for enterprise development that focuses on both social and environmental benefits.

Margoluis, R., and Salafsky, N. 1998. *Measures of Success: Designing, Managing, and Monitoring Conservation and Development Projects*. Washington, D.C.: Island Press.

A comprehensive guide providing many tools for developing learning systems at particular sites including: mission clarification; conceptual model building; developing management, monitoring and implementation plans; analysis and adaptation.

McNeely, J., and Scherr, S. 2001. *Common Ground Common Future: How Ecoagriculture can help feed the world and save wild biodiversity*, IUCN,

Nelson, V. (ed.). In press. *Ethical Trade, People and Forests: A Manual*. Kent, U.K.: Natural Resources Institute.

The report of an investigation into the added value for forest people of approaches to trade that incorporate ethical principles, such as fair trade and organic certification. CI collaborated in the research and reviewed the text.

Shanley, P., Pierce, A., Laird, S., and Guillen, A. 2002. *Tapping the Green Market: Certification and Management of Non-Timber Forest Products, People and Plants*. London: Earthscan.

A detailed assessment of the viability and value of pursuing certification in non-timber forest products. CI provided input into the study.

Ward, T.J., and Dillon, M. 1991. *Guidelines to Hotel and Leisure Project Financing*. Madrid: Affiliate Members' Working Party on Investments in Tourism, World Tourism Organization.

Waters, Somerset R. (annually) *Travel Industry Yearbook*. New York: Rye Printing Co.

Wong, J., Thornber, K., and Baker, N. 2001. *Resource Assessment of Non-Wood Forest Products*. Rome: Food and Agriculture Organization.

A detailed study of using biometrics principles in assessing forest resources that could be available for enterprise development.

#### Websites

[www.enterweb.org](http://www.enterweb.org)

Enterweb describes its website as “the knowledge portal for small business.” It is a personal initiative, which aims to select the most important internet resources in small business development. Because it includes resources in northern as well as tropical countries, it contains a lot of information that is not relevant for conservation enterprises but also much that is.

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<http://wbln0018.worldbank.org/essd.nsf/agroenterprise>

This World Bank site on enterprise development is for agricultural businesses. It includes business planning, market development, etc.

<http://www.fscoax.org>

The website of the Forest Stewardship Council, the accreditation organization for forest certification agencies.

<http://www.efi.fi/cis>

The Certification Information Service (CIS) is provided by the European Forest Institute, funded by EU. It aims to provide ACP (Africa, Caribbean, and Pacific) countries with information on the progress of forest certification and the development of national and international certification schemes; also to provide European countries with information about the progress of certification in ACP countries. A key information point for forest certification

<http://www.ifoam.org>

The International Federation of Organic Agricultural Movements is the most important international body in organic agriculture.

<http://www.ifat.org>

The International Federation of Alternative Trade is an association of producers and trading organizations who are committed to the principles of fair trade. This is a good place to start to find out about this growing segment.

<http://isealalliance.org>

The International Social and Environmental Accreditation and Labeling Alliance (ISEAL) is a collaboration of a number of certification organizations interested in pooling knowledge, harmonizing techniques, improving systems, and building synergy between fair trade, social accountability, environmental protection, and the organic sectors.

#### *Websites on credit*

<http://www.gdrc.org/icm/index.html>

The Global Development Research Center Virtual Library on Micro-Credit

<http://www.ifad.org/partners/index.htm>

International Fund for Agricultural Development (IFAD)

<http://www.ecologic.org/projects/eev.htm>

Ecologic Enterprise Ventures Fund (Latin America only)

<http://nature.org/aboutus/projects/ecofund/about/index.html>

EcoEnterprise Fund (The Nature Conservancy)

<http://www.cgap.org>

Consultative Group to Assist the Poorest (World Bank)

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## Part III. Forming Environmental Entrepreneurs

### *Training Courses*

#### Making Cents

1424 L Street, N.W.

Washington, D.C. 20005, U.S.A.

Tel +1 202 783-4090

Fax +1 202 783-4091

[www.makingcents.com](http://www.makingcents.com)

Making Cents specializes in building the capacity of organizations working in the field of small, medium and micro-enterprise development through the provision of innovative training materials and training-of-trainer courses (TOTs). It provides training tools and courses that prepare trainers to:

- Teach business skills to entrepreneurs
- Assess micro-enterprise loan applications

Making Cents' training curricula and TOTs use experiential-learning methodology, which develops critical business skills while also building motivation and self-esteem. Training curricula for entrepreneurs range from introductory level-courses on basic business concepts to advanced business planning. The training curriculum is designed to teach young people and adults, women and men, semi-literate and tertiary-educated, in urban and rural areas. Making Cents has training materials in fourteen languages and works throughout the world. Contact Making Cents to discuss training dates and costs.

#### The Small Enterprise and Promotion (SEEP) Network

1825 Connecticut Avenue N.W.

Washington, D.C. 20009 U.S.A.

Phone: +1 202 884 8581

Fax: +1-202 884 8479

[www.seepnetwork.org](http://www.seepnetwork.org)

The SEEP Network is the most important organization in business development services and also actively links micro-finance institutions. Its business development services working group develops best practices in the field. This is important to keep in touch with, because it strongly influences donor approaches. SEEP administers a grant program (the Practitioner Learning Program) on behalf of USAID. Its website has a great deal of useful information, recommended approaches, examples, and contacts; it is highly recommended to technical staff. CI is a member of the SEEP Network and participates in the working group, especially providing a voice and also website material for environmental aspects of enterprise development.

SEEP runs a week-long training course each year in business development services. To date, this has been held in Washington, DC, in the summer. It is sometimes possible to apply for scholarships for part of the costs, e.g., Ecomaya secured one to take part in 2002. The course covers the market-based approach to services that is considered best practice now. Enterprise development grant programs of bilateral and multilateral agencies nowadays require technical programs to be designed in this way.

SEEP's website contains details of its publications, mostly on micro-finance, and working group papers. This is a website worth regular referral.

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Artisan Enterprise Network  
1001 Connecticut Avenue, N.W. ,Suite1035  
Washington, D.C. 20036 U.S.A.  
Tel +1 202 728 9603  
Fax +1 202 296 2452  
[www.craftscenter.org](http://www.craftscenter.org)

The website and training course offered by the Artisan Enterprise Network, which is a program of an NGO based in Washington, D.C., The Crafts Center, is largely relevant to small businesses in many sectors, although its market information is specific to crafts. The website has a wealth of market information, including Frequently Asked Questions; Grassroots Best Practices; Product Trends; U.S. wholesalers, importers, and retailers interested in handmade products; a Guide to trade shows, etc. There are hyperlinks to catalogs, businesses, and experts who can provide business tools and advice. In addition to providing information, the Network arranges market orientation and preparation programs. It is facilitating the establishment of networks in several countries, hosted by enterprise development organizations. These organizations will arrange training courses in their countries.

The Artisan Entrepreneur Business Training Curriculum is based on leading models of excellent management and planning curricula, such as Fast Trac©. It is written by entrepreneurs, with lessons based on the artisan's own business experience, and continually linked to practical tools that will help to ensure success in the marketplace. The curriculum is outlined on the website and taught in customized sessions.

#### *Training Publications*

International Labor Organization (ILO)  
4, route des Morillons  
CH-1211 Geneva 22  
Switzerland  
Phone: +41 22 799 6111  
Fax: +41 22 798 8685  
[www.ilo.org](http://www.ilo.org)

The ILO has a series of manuals for trainers that cover the process of enterprise development:

1. **Start Your Business:** Using participatory methods, it includes both theory and practical activities and explains how to do a feasibility study. The Trainers Guide is a separate publication.
2. **Improve Your Business:** This covers six topics—marketing, buying, inventory control, costing, record keeping, and financial planning. It also has a Trainers Guide to explain the steps in setting up a 40-hour course.
3. **Business Game:** A simulated exercise in testing the effect of business decisions.
4. **Promotional Materials:** Explains the role and preparation of brochures, videos, etc.
5. **Monitoring and Evaluation:** This covers evaluation of the training program, not the enterprise. It explains assessment of training needs of entrepreneurs and ongoing service and support requirements.

Tolentino, A. *Training and Development of Entrepreneurs-Managers of Small Enterprises: Pointers and Lessons Learned*. Enterprise and Cooperative Development Working Paper EMD/19E. Geneva: International Labor Organization.

The publication covers business start-up and the needs of small enterprises in local and global production networks. Available at <http://www.ilo.org/public/english/region/ampro/cinterfor/publ/papel/5/>



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## Part IV. Strengthening Environmental Enterprises

### *Publications*

Edgecomb, E., and Cawley, J. (eds.). 1993. *An Institutional Guide for Enterprise Development Organizations*. Washington, D.C.: SEEP Network.

### *Websites*

<http://www.actionforenterprise.org>

Action for Enterprise is a specialist enterprise development organization based in Washington, D. C. Its website is comprehensive and clear on approaches to establishing enterprises and also on developing the market for business services.

[www.itdg.org](http://www.itdg.org)

Intermediate Technology Development Group has a page on this website relating to the design and delivery of high-impact, cost-effective business development services.

<http://www.ilo.org/public/english/employment/ent/sed/bds/donor/index.htm>

The website of the Committee of Donor Agencies for Small Enterprise Development, an international forum, posts documents on emerging good practice in the provision of business development services.

<http://www.iadb.org/sds/pubtypeb.efm/507/english?docid=700&refer=recent#top>

This publication of a conference held in March 1999 on Building a Modern and Effective Business Development Service Industry also covers the market-based approach to services.

<http://conservation.bp.com>

Information about the BP Conservation Programme

[www.pactworld.org](http://www.pactworld.org)

Pact is a specialist capacity-building organization that has developed a number of tools, including an organizational assessment methodology.