

# KM 4 CTI Learning Notes

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ADB Regional Technical Assistance (RETA) 7307:

Regional Cooperation on Knowledge Management, Policy, and Institutional Support to the Coral Triangle Initiative



## SF 101. Using the sustainable finance costing template

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### **Introduction**

The ADB Knowledge Management (KM) project for the Coral Triangle Initiative (CTI) has been advocating for the use of a sustainable financing (SF) costing template which can produce a “coarse costing” of the National Plan of Action (NPOA) and the Regional Plan of Action (RPOA).

This template articulates the difference between two distinct elements of sustainable financing which are establishment costs and recurrent costs.

Two workshops have been organized by the project in 2011 focusing on the use of the costing template as a tool to determine the coarse costing of project or program. The first one was held in the Philippines in January and another one was conducted in the Solomon Islands in April which was co-funded by the Mama Graun Conservation Trust Fund.

This learning note was written as a guide to those who have undergone the coarse costing exercise and those who intend to use it for any of the CTI’s goals. These include work in climate change, marine protected area (MPA), seascapes, threatened species, and fisheries.



This learning note also aims to communicate a common understanding on how to use the costing template. It enables all stakeholders participating in a costing meeting - either from the communities, NGOs, and government department - to grasp the entirety of each topic to be costed, the whole costing process, and allow for an “on the spot peer-review” by these different groups.



## Uses of the generic costing template:

- ✓ to double check if the existing cost information is complete;
- ✓ to distinguish costs incurred per activity or program when working in multiple programs; and
- ✓ to identify how to reach the optimum cost to reach the level of “effective and efficient”

### What is coarse costing?

The term “coarse costing” refers to process of roughly estimating the financial requirements for a project or program. The template is a standard worksheet that identifies and provides cost information related to specific activities or programs covered by the RPOA or NPOA.

It is not an accounting tool and is more appropriate for a “back of the envelope” costing. This means that it is best used before approaching a potential donor for funds since a “back of the envelope” exercise would generate the rough estimation of the cost requirements. The specifics of the costing will be attended to as the proposal process matures.

### What makes the costing template useful?

First, using the template is very relevant since the countries and the Interim Regional Secretariat need to have a **better handle on the financing requirements of funding the Plans of Action**. It is best used as a “process tool” when multiple organizations (e.g., international NGOs, local NGOs, local

governments) conduct projects or activities that contribute to a particular goal.

Second, it is a **simple tool** that can be used at any governance level in the CTI. This includes communities as well as government departments, NGOs, community-based organizations (CBOs), or the private sector.

Third, it is **easy to follow** and can be used by non-financial experts who can adjust it based on their needs. It will help users determine the coarse costing for particular activities or programs including those which are simultaneously being implemented.

Fourth, the template can also **identify future long-term costs for organizations** that provide support to any activities of a program as well as for a collective of organizations working for the same activities or program.



Table 1: Sample template for two organizations working on one project

	A	B	D	E	F	G	H	I	J	K	L	M	N	O	P	Q	R	S	
<b>COSTING TEMPLATE</b>																			
1	Description	<b>Sulu Sulawesi seascape (SSME)</b>																	
2	Geographical area	Philippines																	
3	Activity or program	Fisheries																	
4	<b>Cost description per organization</b>	ESTABLISHMENT COST										RECURRENT COST							
5		ORGANIZATION 1					ORGANIZATION 2					Est. Cost Total	ORGANIZATION 1			ORGANIZATION 2			Recurrent Cost Total
6		Yr. 1	Yr. 2	Yr. 3	Yr. 4	Total	Yr. 1	Yr. 2	Yr. 3	Yr. 4	Total	Total	Current Rec cost org. 1	Effective conservation	Total	Current Rec cost org. 2	Effective conservation	Total	Total
7		<b>SALARIES</b>																	
8	Staff Salaries - Management																		
9	Staff Salaries - Field Staff																		
10	Staff Salaries - Administration																		
11	Consultant fees																		
12	<b>Subtotal</b>																		
13	<b>MEETING/ TRAINING/ SPECIAL EVENTS</b>																		
14	Fees																		
15	Registration																		
16	Travel, Food, Lodging																		
17	Venue. display booth,																		
18	Fellowships/ tuition fee																		

## What are the benefits of using the template?

The succeeding discussion on the features of the template will show how it can be used to compute for, and compare the average costs per cost component, for each organization, and for the program phases.

When each of the contributors know the real average cost associated with a certain type of activity or program, they can **determine the average price of doing that initiative in that area**. This is very informative for planning for succeeding activities that will be carried out in the same region.

It is also possible to extrapolate individual findings when multiple values are known for different areas with similar body of work. This is **useful in getting the average cost, identifying variation from different areas, or using it for a different purpose** (Balmford et al, 2004; McCrea-Strub et al, 2011; and Butardo-Torbio et al, 2009). Users can then extrapolate for multiple programs or sites and get a coarse number for a whole country or a whole region using the average cost.

Estimating costs associated with particular work streams or programs become difficult when multiple activities or program are being implemented. This challenge is very well the case with NPOA implementation which will inevitably involve multiple programs with activities that may have similar cost components. When various organizations involved in resource management are mobilized to participate in the costing exercise, the output from this simple costing template can be used by all parties involved in the management or financing of the particular project or program.

## How to use the costing template

For those who are using this learning note as a stand-alone material, the enumeration of elements to be costed during the establishment phase and the recurrent phase is useful in itself since some important cost components tend to be forgotten.

The first step is understanding the information requirements. In the sample table provided, the columns have been marked with letters and the rows by numbers.

### Areas of program

These first three rows (rows 1 to 3) are used to identify the areas or program that need to be costed and the extent of the geographical area covered. In the case of the CTI RPOA, the description can be aligned with any of the five major goals or targets.

- For example, Row 1 can contain the targeted seascape that is in the process of being costed: **“Sulu Sulawesi seascape (SSME).”**
- Row 2 can indicate the more specific geographical area of the SSME to be costed such as **“the Philippines.”**
- Row 3 for the activity / program can indicate the sector or component of the seascape that is targeted, e.g. **“fisheries.”** There will be one costing sheet for each component of the Seascape to be costed per geographical area. At the end of the costing, all SSME costing sheets will be added as one and will give the core costing of the whole SSME.

Each goal of the RPOA or NPOA would have its own set of costing template. It must be stressed, at this point, that since the costing template is generic, the user is free to add or delete cost components. .



*Establishment costs have a bearing on the recurrent cost. The bigger the house, the larger the maintenance.*

**ESTABLISHMENT PHASE (2-5 years)**

*Planning for the recurrent phase from the start protects the investments made in the establishment phase.*

**RECURRENT PHASE**

### Cost categories and cost components

(row A, yellow cells). Common costs associated with project / program implementation include personnel expense (salaries, wages, consultant fees); trainings and workshops; travel; capital expenditures (vehicles, building, equipment); communications and information materials, office maintenance, and other specific cost items.



new sites will start with an investment phase or establishment phase as determined. For example, in the template sheet, the establishment time frame is set for four years which is the time generally accepted in the gray literature as an average establishment period for a protected area site before entering into its recurrent phase.

### Establishment phase (columns B to L, green cells)

If a new project or program is started in an area of work, this is the first major phase. It is divided into the number of columns equivalent to the number of years required for completion of the phase. The costing template (See Table 1) provides four columns of one year each per column.

The number of years that makes up an establishment phase for a project or program generally comprises between two to five years depending of the type of activity. New projects in

During the establishment phase, the work to modify or get legislation in place or recognize the protected area is done. Therefore, all the work needed to accomplish these tasks are part of the establishment costs and will therefore disappear as activities in the recurrent cost phase.

Usually, setting up of a program involves basic activities such as *“development of a legal framework if needed or adaptation of the current one, cost related to development of a strategic/ management and financial plan, the costs associated with project proposal, outreach to local community and stakeholder groups, public education if applicable - community and*



*stakeholder compensation schemes if needed, ecological, economic and or socio-economic research or study, management and enforcement training, and infrastructure (including buildings, equipment, purchasing land or right or quota, creation of new institution or organization) hiring and training of new staff, participation to related meeting, conferences, etc.” (McCrea-Strub et al, 2011).*

When more than one organization is working on a similar program, the matrix simply allows for the rows to be replicated to conform to the number of organizations concurrently working in this program.

For example, if there are three organizations that are working on one initiative or program: one government department, one international NGO and one local NGO, the establishment grouping will be modified to accommodate 3 of the establishment grouping and one extra column will be added to sum the three organization's total cost per row in order to get the total establishment cost for the whole initiative or program. By doing so for each organization, average costs and /or unit costs may be compared among the organizations.

An overview of the spreadsheet will show, for example, how much NGO X spends for meetings and workshops as opposed to NGO Y. If the total area where both NGOs are operating is available, then it is possible also to compute for \$/ha spent on meetings and workshops as opposed to salaries, or gasoline, or research costs, etc.

## **What are costs associated with the Establishment Phase?**

“Building a house” is the analogy used in the training workshops to characterize establishment cost. These may include:

- buy a parcel of land to build the house;
- design the plan of the house and have the plan approved by the local council;
- organize for a mortgage for the total remaining cost of the house and section that you have not provided in the first down payment;
- if you are not building it yourself, you need to hire a master contractor;
- after the house is built you need to have your landscaping and the furniture in the house.

When you have roughly all the latter, the establishment phase is finished and you move to the recurrent phase. It needs to be stressed that the establishment costs will have a bearing on the recurrent costs, i.e., the bigger the house, the larger the maintenance. Thus, the recognition that recurrent costs will have to be dealt with allows some form of iteration on the funds committed in the establishment phase. What is important here is that the funding needs continue even after the project has been established.

Aside from specific establishment activities like development of legal framework, base line studies or investment costs like land, vehicle, building or equipment, there are activities that are to be carried out on monthly or annual basis that will be carried over in the recurrent phase and will be taken into account right there as they will become easily visible in the template”. In the past, most projects/ programs stop at the end of the establishment phase because of failures to recognize because key activities necessary to preserve and perpetuate the outcomes achieved during the establishment phase.

For instance, one will buy a vehicle for the project during the establishment phase but will not consider or factor in the cost of replacement of this vehicle once the project investment is



finished. How then will these costs be taken care of in the future? To solve this dilemma, it is important to plan for something that lasts. This is where the recurrent phase comes in as an integral part of program development from the project's start.

### **Recurrent cost phase** (columns M to S, blue cells)

This is the second major element of planning a project or a program. **Planning for recurrent costs is actually the heart of sustainable financing.** Most of the time, in project concept type development, many projects end after the establishment phase since there are no more financial resources available to continue recurrent activities.

These recurrent activities have not been planned by the implementers at the start of the project concept, were unknown, or were totally forgotten in the process. The problem is that when these activities that need to continue become clear during project implementation, there is no budget to address these issues and most importantly, the current way for donors to provide funding does not have a granting structure that allows for the long-term recurrent activities to be sustained.

This is why this type of integrated planning comprising the two phases is so important to sustain the conservation work on the long term, beyond the project base concept (Balmford et al, 2004 and McCrea-Strub et al, 2011 and Butardo-Torbio et al, 2009 ). With the information found in doing such planning and costing, one is able to build from the very beginning of a project or program what it will take to continue the main operation to protect the investments made during the initial/establishment phase.



*It is very important to always account for inflation to find the appropriate long-term recurrent cost of goods.*

#### **What is a recurrent phase cost?**

Again, using the “house building” as an analogy, the recurrent costs would include the following:

- monthly mortgage repayment;
- the yearly council tax for your parcel of land and/or the house;
- the insurance for the house;
- the utilities (water and electricity);
- the maintenance cost of the house and parcel of land on a yearly basis.

By thinking of integrated planning as comprising these two phases, conservation work on the long term and beyond the project base is sustained (Balmford et al, 2004 and McCrea-Strub et al, 2011 and Butardo-Torbio et al., 2009). With the information found in doing such planning and costing, one is able to build from the very beginning of a project or program what it will take to continue the main essential operation

to protect the investments made during the initial/establishment phase.

The recurrent cost section in the template is made up of three columns that allows users to calculate the recurrent cost for activities needed to maintain the achievement of a program beyond the establishment phase. As with the establishment phase, users may replicate the number of columns to account for each of the organization with concurrent activities.

**Recurrent costs from establishment phase** are associated with the replacement costs and necessary inflationary adjustments to investment and operational cost items that need to be repeated constantly to maintain the long term desired outcome. In calculating the recurrent cost, it is also necessary to account for the replacement or maintenance cost per year of all equipment and material as they are an integral part of whole investment cost of a program during that period.

**Effective Conservation cost** is described in question #3 (page 10). It is recommended that costing to obtain the recurrent cost be done with a group of all stakeholders that are working either in a project or program. This will avoid duplication of costs by different organizations if more than one is working in the project or program. Afterwards, the cost given by an organization will undergo a quasi-peer review process.

## Q&A for calculation and recurrent cost

**1. How do we estimate recurrent cost when activities already occur in one program, initiative or at site?**

Given this situation, we estimate the recurrent cost by computing for the replacement costs of equipment and material. If a boat or a car is purchased, one needs to look at the depreciation of these equipments.

For instance it might be 3 years for the car and 5 years for a boat depending of the type, i.e., some boats have up to 15 years of depreciation while cars are usually depreciated over 5 years. Depreciation time varies from place to place depending on prevailing conditions. It is best to consult with a certified public accountant for this information.

When the depreciation time is known for each equipment and material, the purchase price is to be divided by the number of years of depreciation. For instance, if the price of a boat is US\$20,000 and the depreciation is five years, then US\$20,000 divided by five equals \$4,000 per year.

**The question now will be: are we able to buy a comparable boat with \$20,000 in 5 years time? The answer is simply NO.**

Why is that? Because of **inflation**. Inflation can be defined as *“a rise in the general level of prices of goods and services in an economy over a period of time. When the general price level rises, each unit of currency buys fewer goods and services. Consequently, inflation also reflects erosion in the purchasing power of money. The way to measure this loss per year is the inflation rate.”*

**Computing for the average inflation rate per year**

Therefore one needs to find the average inflation rate per year, as this varies from one country to another, over the period of the depreciation of a product. As an example, let's say that in Australia the inflation rate average 3% per year over the





past five years. Now, work with a hand calculator and the average interest rate to find the future cost of a product.

- a. Change the inflation rate to a decimal (3% becomes 0.03) and add 1.

$$0.03 + 1 = 1.03$$

- b. Multiply the answer by the current cost (US \$20,000).

$$1.03 \times \text{US } \$20,000 = \text{US\$ } 20,600 \text{ (Year 1)}$$

- c. Multiply the product by 1.03 four more times to account for 5 years of inflation

$$\text{US } \$20,600 \times 1.03 = \$21,218 \text{ (Year 2)}$$

$$\text{US } \$21,218 \times 1.03 = \$21,854.54 \text{ (Year 3)}$$

$$\text{US } \$21,854.54 \times 1.03 = \$22,510.17 \text{ (Year 4)}$$

$$\text{US } \$22,510.17 \times 1.03 = \$23,185.48 \text{ (Year 5)}$$

- d. Add the final answer of US \$3,185.48 to the current price of US \$20,000 to the boat in order to get the similar boat in 5 years time.

- e. To get the real replacement cost, divide US \$23,185 by the depreciation time of 5 years which equals to US \$4,637.09 per year. This becomes the replacement cost for the boat per year.

**2. How do we account for activities that will occur on repetitive basis but only every 3, 4 or 5 years like a thorough external marine survey for example?**

One will account for them as it is done in the replacement cost explained above. For example, a site needs to have an external monitoring survey every 5 years to certify the state of the site and it is currently costing US \$25,000 to do that exercise.

- a. Divide US \$25,000 by 5 years which is US \$5,000 per year.

- b. To account for the inflation rate, repeat the steps in the previous section by taking the inflation



***Avoid making unrealistic demands. Some people have the tendency to inflate the real need to get more equipment or staff. When requests are inflated, they do not pass the test of the peer reviews.***

rate average per year for the past 5 years and extrapolating it to the next 5 years.

$$0.03 + 1 = 1.03$$

$$1.03 \times \text{US } \$25,000 = \text{US\$ } 25,750 \text{ (Year 1)}$$

$$\text{US\$ } 25,750 \times 1.03 = \text{US\$ } 26,522.50 \text{ (Year 2)}$$

$$\text{US\$ } 26,522.50 \times 1.03 = \text{US\$ } 27,318.175 \text{ (Year 3)}$$

$$\text{US\$ } 27,318.175 \times 1.03 = \text{US } \$28,137.72 \text{ (Year 4)}$$

$$\text{US\$ } 28,137.72 \times 1.03 = \text{US } \$28,981.85 \text{ (Year 5)}$$



c. Add to the total amount to be divided.

US \$28,981.85 - US \$25,000 (cost of purchase) =  
US \$3,981.85 (amount added to the original cost  
of US \$25,000 to account for the inflation)

d. Compute for the replacement cost per year

US \$28,981.85 / 5 years = US \$5,796.37 per year

It is very important to always account for inflation to find the appropriate long term recurrent cost of goods. Too often, this is not done or ignored and this greatly erodes the capacity of a program to be conducted with efficiency on the long term as the purchasing power is lost from year to year.

Accounting for this inflation rate is a normal procedure and it should be undertaken at all times because the total price is going up every year. We have seen so many great conservation projects get hampered by this simple fact when inflation has not been factored in the costing from the start. This applies as much for site level as well as with programming for the whole country.

### 3. Effective Conservation

During the early stage of developing the costing template many years ago and working with organizations implementing activities in protected areas for many years, someone raised the question, "Do you think that your current work amounts to effective conservation of the area?" Oftentimes, the answer is No.

This is usually followed up by : "given what is already being done, what do you think is missing to attain effective conservation? As people were practitioners, they come up with answer like: there is not people or we do not have enough people to patrol the whole area from time to time. Other said, that their boat engine was too small to catch the poachers and needed a bigger one, etc.etc.

The results obtained from asking this question show that practitioners are aware of what is missing to adequately protect a set conservation area. We are saying during the sustainable finance workshops that during costing exercise, all new request or demands should be grounded and not "pie in the sky" as they will always be peer reviewed.

### 4. What happens during the peer review?

After an organization fills in the recurrent cost part of the template, a peer review or control process is undertaken and all legitimate new requests are added to the total cost for the recurrent cost of this organization. If there is more than one organization working on the same program, this column should be revised by all organizations during a meeting to make sure that the numbers in that column for each organization reflect what everyone would agreed that it is needed to achieve effective conservation management in that particular area.

### 5. How do we use each of the template description rows on the left side (first column)?

A generic costing template will contain categories and a set of sub-category reminders under the first column. Examples include the following:

<b>Salaries</b>
Staff Salaries – Management
Staff Salaries – Field Staff
Staff Salaries – Administration
Subtotal
<b>Training</b>
Fees
Registration
Travel, Food, Lodging
Fellowships
Subtotal
<b>Equipment/Materials</b>
Car



Car Maintenance & Insurance
Boat incl. engines
Radar
Furniture
Tools (GPS, radio, scuba equipment etc)
Maintenance
Subtotal
<b>Monitoring and Surveillance</b>
Demarcation
Monitoring
Other (Delineation)
Subtotal

These may not always apply to every situation and when it does not apply, the corresponding column should stay void. On the other hand, if the category and sub-category is to be used but not with the sub-category reminder, it is up to the group or organizations to change the sub-category description to adapt them to their need. As an example, the first category is about salary. This includes staff salary or consultant fees.

In the sub-categories, there is distinction among different categories of salaries like: management, field staff, administration etc. These sub category descriptions are totally arbitrary and as mentioned before should be adapted to the needs of the initiative or program to be conducted. The same should be applied for every category.

A possible innovation in the CTI context could be organizing or tagging the cost components according to goals/ actions/targets of the CTI. This way, information on establishment cost can be monitored. Another way could also be to consolidate or integrate seascapes, MPA, and fisheries goals by providing specific actions while using MPAs as the overall framework.

Using MPAs as the base cost situation, one can improve on the cost template by introducing incremental activities unique to seascape management (for example engagement with transport sector, or policy advocacy at national

level) or ecosystem approach to fisheries management (for example, livelihood training for fishers, size-at-first maturity monitoring, etc. The average cost in terms of \$/ha for an MPA can reflect a base situation which can be adjusted by imputing incremental costs associated with fisheries management. Adding other goals will generate its own establishment and recurrent costs.

## 6. Total recurrent cost

When all recurrent costing and estimation are completed per organization and per goal or program, total recurrent costs for all organizations are added resulting to the total recurrent cost for the target program or goal.

## 7. How do we find the recurrent cost when there are no activities done in that particular area, program or initiative?

Using our master example from the training workshop of “building a house”, how do we find the recurrent cost of a house that is not yet built? The answer lies on the knowledge of the cost of building other houses from similar, region, size, construction material employed, etc.

By analyzing the cost of building other houses, one can even determine, depending of the quality of the material to be used to build the house (brick, wood, metal frame, etc.), the cost per square feet.. This way, by telling them what type of house you want, they will tell you the approximate price tag for that type of house based on similar pricing parameters.

This analogy can also be used in the CTI context. If you want to preserve a site and there is sufficient knowledge of other sites in the region, an average cost for the known sites can be used. Average costs can be applied to the amount of investments required, to the total establishment costs, to the average salaries



paid, or to research costs required at establishment phase.

Costs can be summarized according to function, according to categories, and even according to sites. It becomes possible then to draw on existing information and to do some extrapolation. This assumes that the data provided by the participants or resource management organizations is as accurate as possible. A peer review process will ensure that accurate information is shared. This is the beauty of using the costing template as a method to engage participants, more than anything else.

#### **8. How do we deal with one-off costs?**

One-off costs are incurred during the establishment phase but are not needed in the recurrent phase. When you build a house, one-off costs include the cost of contractor, the carpenter, plumber, electrician that you will not need further when the house is finished. These

are necessary one time expenses for building the house or program.

Setting up conservation trust funds or financial mechanisms to be locally managed also involves a one-off cost in the engagement of an expert to assist setting up the organization. When these financial mechanisms are up and running, there will be no more need for this assistance anymore.

#### **Conclusion**

This learning note shows how a simple tool such as the finance costing template can be powerful in engaging stakeholders when users have the right knowledge on how to use it and interpret its results. It becomes even more powerful as a process tool especially when multiple agencies are engaged which is the case with the CTI. Costing is just one part of the story and the other half which is equally important focuses on generating the funds or revenues. This will be the topic of the next learning note.

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RETA 7307 supports ongoing CTI efforts via knowledge management in the preparation of a State of the Coral Triangle Report, sustainable financing, and environmental economics and payment of environmental services for the CTI.

<http://www.coraltriangleinitiative.net/>

