

EUROPARC Federation
Report to Council
29th January 2015



Title: Report by Paulo Castro and Carol Ritchie on
management of the Charter

Summary: Discussion on future options for
EUROPARC Consulting

Recommendations:

- discuss the Consulting situation
- take a decision on the future of the company
- give a mandate to the President to negotiate with the Advisory Board and the Director of Consulting possible solutions according

EUROPARC Consulting, keeping the status quo versus a great opportunity with a new business target?

Facts about EUROPARC Consulting based in the available information

The structure of Consulting

Consulting has been created in 2001 with the aim of EUROPARC Federation having an independent commercial trading entity.

The purposes of this decision were that Consulting would provide expert consultancy services for members, using mainly the expertise of the network, helping to raise the Federation profile and at the same time to contribute financially to the Federation.

For legal reasons and in order to provide full independence of operation between Federation and Consulting and under the German Law, Consulting has an independent Advisory Board where out of 5 members two are representing the Federation (President and Director).

The formal competence the EUROPARC President has is to approve the annual results and dissolve the company. All the other competences are up to the Consulting Director that takes in consideration the Advisory Board recommendations.

For operational reasons (costs of bank transfer and taxes) Consulting has created a registered subsidiary company in UK, EUROPARC Consulting limited.

Consulting employs nowadays a full time Managing Director and a part-time book keeper.

The services provided by Consulting

In spite the expected provision of expert consultancy services to members, this has not been the core business of Consulting in terms of number of contracts and value. This deviation from the initial intentions has been caused mainly by us, the Federation.

In fact and from the beginning of the Charter process, the Federation's previous Director decided in 2001 to outsource the role of managing the verification process to Consulting. This allowed setting up all the Charter verification procedures with Consulting's work providing the several tasks: candidates' management, verifiers' appointment and secretariat of the Evaluation Committee.

The other contracts that Consulting had were expert consultancy services for members (tenders, etc.), EUROPARC events' management and study tours for members to members. All this work has helped in fact raising the profile of the Federation, has contributed to the membership and had also given a financial contribute to the Federation. From that point of view Consulting has fulfilled completely the purpose of its creation and the guidelines given by the Federation.

The Finances of Consulting

In spite there is no information available about the structure of income of Consulting, we have considered in this analysis the period of 2008-2014.

For the Charter verification procedures, Consulting had the full control of the Charter verification costs (actually 5.000 € per candidate) till 2013.

We have at the present moment 131 Charter Parks in 16 countries.

Considering only the Charter awarded since 2008 (meaning new candidates and rewarded Charter parks), Consulting had a total of 133 charter verifications and re-evaluations contracts representing a total of 641.200 € income (considering 118 X 5.000 € from 2008-2013 and 16X3.200 € in 2014). Income prior to this period has not been calculated for the purposes of this example.

Considering that for this period 2008-2014, Consulting claims they had contracts of more than 1,4 million euro, then the Charter contracts represent almost 46% of the total income of Consulting for this period.

If we consider that another part of the income has come from contracts facilitated by the Federation in workshop organization during EUROPARC annual conferences and some BfN funded projects, the % of income depending from the Federation only increases even more. The Federation itself has contracted Consulting directly about 188.000 € of non-charter work since 2008. Together this amounts to approximately 829.000 € of work from the Federation to Consulting.

For the same period of 2008-2014, Consulting also claims that they had given a resource recompense to the Federation of 142.500 € that represents 10% of their total income and 22% of the direct income provided by the Charter contracts.

In the meantime the Director of EUROPARC Consulting has presented an updated financial review to 31 December 2014 where the financial situation of the company is very critical. Basically Consulting will expect to have less than 10.000 € available by January in Consulting GmbH bank account plus a 5.600 € in the Consulting limited from UK. Besides these values, they count with the *Stammkapital* (the shareholding amount owned by the Federation) of 25.000 € that have strict rules to be used and only after the end of January.

Unless any other contracts are signed the company will have no more than a few months operating.

Conclusions:

The recent past has shown that the business strategy of Consulting was depending too much on the Federation as a direct client or a client provider, in particular on the Charter.

The transfer of part of the competences from Consulting to the Federation (has a decision taken in 2012 to have a stronger role of the Federation in the Charter Network) took place in 2014 and has diminished the income of Consulting from 5.000 € to 3.200 € per Charter contract. This fact allied with the lack of any new contracts has exposed the reality of the situation: Consulting is only surviving because the Federation provided the Charter verification contracts and they equally claim that even with the 3.200 € contract per Charter they run it with loss. They have now an unbalance ratio between income/costs that threatens its immediate survival. In other words the charter contract will not "save" Consulting.

Consulting needs and asks for a clear position from the EUROPARC President as the shareholder, in consultation with the Council, in order they know what will be their future. Naturally they prefer a solution that keeps them in business and therefore prefer our support, but are conscious of the eventual closure of the company.

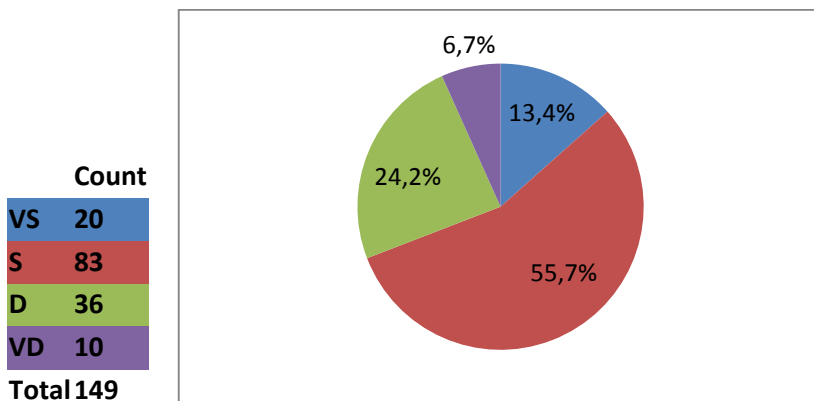
Some considerations before a clear recommendation from the President and Council to the EUROPARC Consulting Director and Advisory Board

Previous note: due to the need for independent operation of Consulting, we should be clear about what we expect from them in relation to our own operation and network, i.e., to be clear about how much business they can do with us and the members, but it should not be confused with influencing or having control over their competence of doing business independently.

What have the members said about it in the Consultation?

Despite over 12 years of operation, substantial work within the charter and a significantly higher profile within the Federation since 2008, the work of Consulting was not valued by the membership when asked in the consultation of 2014.

From the list of Federation’s work below, please indicate how satisfied you are as a member with this area of work



31% is one of the higher levels of dissatisfaction and only ranks behind the General Assembly as the 2nd highest level of very dissatisfied. This matter in relation to Consulting was also reflected in some focus group and written responses.

All other areas which scored high levels of dissatisfaction, General Assembly, Council, Directorate are being reviewed and are seeking to respond, change and improve.

What has said the Internal Auditor about it?

The previous internal auditor raised many questions and made many recommendations about the role, purpose and governance of Consulting and certainly suggested the Federation think very hard and carefully as to it need for, purpose of and relationship with Consulting. His full remarks are contained in the annexed reports. These were previously submitted to the EUROPARC Council and contain the comments and responses of Consulting. No formal responses from the Federation or Consulting has yet been made are recent events have taken precedence.

What have we approved in our Strategy?

In the approved strategy for 2015-2021, EUROPARC Consulting is mentioned in the Strategic Component #2 "Helping People and Organizations Learn" and is specifically mentioned as one of the leading partners in the following priority areas (page 19 of Strategy):

Priority area: 2.2. Staff Development

Action 2.2a: to organize networking events across Europe, where Consulting will be one of the partners (Sections, Directorate, hosting member and Consulting) helping deliver 10 events per year;

Action 2.2b: to facilitate staff exchange between members, where Consulting shares this task with Directorate helping deliver 5 per year;

Priority area: 2.3. Training

Action 2.3a: training to support the EUROPARC Products (such as Charter, Transboundary, Junior Ranger) where Consulting is the single responsible in charge to deliver 3 training actions.

2.3b: develop training programmes and run training events to help deliver the strategy where Consulting is the single responsible in charge to deliver 3 training actions/events.

The Strategy is clear about what we expect from Consulting as a supportive partner and develops work, in specific areas of business: networking events organization, staff exchange, specific training for EUROPARC main products.

Part of it is already being developed by Consulting, but clearly has not been enough in the recent past to solve income/costs unbalanced situation. These are areas will grow in coming years but not fast enough to become an immediate solution to Consulting's critical situation.

Tender's market and opportunities:

Consulting has been doing an enormous effort in tendering without success.

Insisting in tendering in the previous areas of interest has shown that it is not efficient (too many tenders attended, but few approved). It consumes time and money and Consulting cannot afford to keep running this option as its main market.

Tendering also is raising an issue of conflict of interests between Consulting with Federation and Sections. Consulting expects that Federation and Sections do not tender and give the opportunity to them. Recent past has showed this is not a realistic expectation, since Federation and Sections many times need also to tender in order to guarantee its own financial viability.

Consulting is a commercial company that should look for its own business where neither Federation nor Sections can attend/apply. That should be the essence of the role of Consulting as a commercial company owned by EUROPARC. Federation and Sections are NGO with a non for profit aim, therefore target markets/clients should be different.

The Charter operation

In what concerns the EUROPARC Strategy 2015-2021, there is no specific mention of Consulting as a partner in delivering the Charter procedures, mainly because these tasks are operational and should be all taken under the Federation control following the first transfer of competences of 2012.

The need for the Federation, to be more visible and active in the network as it has been claimed, the expected review of re-evaluations rules with a most probable decrease of income obliges the Federation to operate the Charter with a more efficient and with a less expensive solution. The Directorate has now trained staff to run the full Charter adding value to it with other actions that were never covered by Consulting (even if never asked to do so) and as such has no plans to renew the contract for Consulting to administer the verification process.

Federation can undertake all Charter related work, without any kind of ethical or legal limitation. The Charter procedures are a service provided to members with third party independent providers (verifiers and Evaluation Committee) and the cost efficiency is not only favourable to the Federation, (in fact Consulting has claimed that they were already operating with a loss in 2014) but also enables the Federation to utilise this source of income directly for its members .

Questions to be answered before we decide what to do about Consulting future

Assuming that we should not have a company doing what we can do (Charter and tenders and projects), why do we need a commercial company operating in our behalf? What should a commercial company do that we cannot do as a Federation?

Option a) We close Consulting because we don't need a commercial company any longer (nor understand its advantage) since we are mainly a networking and lobbying NGO. We decide to close it, before it gets worst. This means the legal procedures of closing down two companies and the liability with the people contracted by Consulting (2 persons).

In principle, Consulting should have the reserves to close the company without any need for the Federation to be financially involved.

Nevertheless we know that the closing of Consulting will have immediately an effect in our account/results because we have it registered as an asset with a 118.000 € value. This value will already be impacted because of Consulting's current financial status. We do not know what will be the outcome of closing it in terms of costs and liabilities and this information will be needed to see its impact in our own finances.

Closing Consulting does not provide any advantage in the near future, besides preventing a worst result with direct negative implications in our results.

Option b) We don't close Consulting if we expect that they will operate with profit (therefore are not a financial burden to the Federation in the short and long term), ensuring a compensation (in the midterm at least) to the Federation while operating with and around the EUROPARC brand and providing activities that we cannot provide for ethical or legally reasons as a NGO non for profit (nor the Sections).

The business area that Consulting could expand with a clear market advantage to other companies (since Consulting knows the network since the beginning and is operating under EUROPARC broad brand) is the promotion of the Charter Network as a tourism destination brand with the Charter partners and the travel agencies already engaged as Charter Partners. Federation cannot do it and yet this work has to be done under some kind of control by the Federation before it gets out of control. This means entering the tourism business sector, promotion of destinations and helping networking the different professionals that are

operating in each country/charter area. We need the European dimension to this and should profit our own condition to do that better than any other single member or partner. Consulting has the personal knowledge of the Charter Parks so can start working with the tourism businesses and the travel agencies. In that sense a negotiation with the Spanish, French and Italian Sections would be crucial for this decision and for setting up a model business to this next phase of the Charter. The Federation will not bring this business to Consulting but provides the opportunity for Consulting to create it.

Many other options can be thought by Consulting but these ones seem to be the most relevant to us Federation since will help us delivering a larger number of benefits/services to members and its local stakeholders.

Financial solutions for Consulting in the short term:

EUROPARC Federation will close 2014 with a bigger cash balance deficit than previous years, with a default in our reserves that hardly will be fully reset during the first semester, and the impact of Consulting's results will already reduce our overall value. Also the NGO Core Grant decision will be known until March. In these terms, we simply need to have a contingency plan and cannot risk spend any money in helping Consulting in the old business model that has proven to be inefficient and indeed failed to generate sufficient non Federation provided business.

We do not know how Consulting will close 2014 and whether has the financial capacity, during this first semester, to set up this model business (and specially find out funds for a possible project) is the question to be decided by Consulting Director with the Advisory Board. If not, a temporary stop of its activities and costs can be a possible solution till we all find out a project fund that suits our strategy.

Other options could be, ask for a loan, find out partners, look for a merger or sell the company under a franchise solution that allow the Federation to have control over the kind of operations of the company that would not jeopardize the brand EUROPARC.

Consulting doesn't assure us immediate profit but can help us solve some areas of activity where the Federation is definitely set aside for ethical and legal reasons but yet are strategic to the survival and logic of all the effort done with the Charter. This task most probably will be done by someone, either it is consulting or the Federation will work with others.

Recommendation

The Council discuss the Consulting situation and:

- a) take a decision on the future of the company
- b) give a mandate to the President to negotiate with the Advisory Board and the Director of Consulting possible solutions according