

# The National Conservation Finance Planning Process in Madagascar

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## Overview: conservation finance through 1999

Madagascar is one of the world's most highly prized hotspots of biodiversity. The island boasts an extraordinary level of endemism at the species, family and genera levels. The associated natural habitats consist mostly of dispersed blocks of forest. The existing system of 46 national protected areas covers 17,209 km<sup>2</sup>, equal to around 15% of existing forest and 3% of the country's total area. There are also significant stretches of rich coral reefs around the island although only one marine protected area exists at this time.

The National Association for the Management of Protected Areas (ANGAP) manages the network of protected areas. ANGAP is one of three implementing agencies created in 1991 as part of the design of the National Environmental Action Plan (NEAP). The remaining natural forests in Madagascar, also recognized as robust habitats of biodiversity, are almost all government-owned forests under the supervision of the Ministry of Water and Forests. Other key national agencies that play complementary roles in favor of conservation and biodiversity protection include the Ministry of Environment (responsible for policy dialogue), the National Environment Office (the ONE is responsible for environmental monitoring, EIA, and regional capacity building), and the National Association for Environmental Activities (ANAE is responsible for community-based soil and water resources management projects). See organization framework page 7.

The NEAP has been the primary vehicle for channeling support to the management of protected areas, other forest areas, wetlands and coral reefs. Because of the country's low GDP per capita, high level of indebtedness and widespread poverty, government resources for the environment are extremely limited. Financial support as well as considerable technical assistance has therefore come almost entirely from the international donor community. The World Bank, USAID, the KfW, and more recently, the GEF have mobilized the lion's share of total financial assistance for conservation in Madagascar. The intensive level of funding from these organizations and others over the past ten years has allowed ANGAP to operate and to evolve, in a relatively short amount of time, into a stable, organized and functional organization.

The management, institutional and financial conditions are less favorable for the forests not managed by ANGAP. Although the Ministry of Water and Forests (MEF) is responsible for overseeing the sustainable use and management of most of Madagascar's forests, it has neither the financial nor technical means necessary to fulfill its mandate. Most forests are therefore prey to a variety of pressures ranging from illegal logging of high-value hardwoods to harvesting for charcoal production. However, the most significant threat stems from the practice of slash-and-burn agriculture.

The NEAP foresaw a 15-year investment program broken into three phases as a necessary process to create the required conditions for a more self-sustaining system of natural resource management in Madagascar. Each phase is referred to as an Environment Program. The first phase, the EP1, ran from 1991 through 1996. The current phase, the EP2, spans the period 1997 through 2002. The final phase, the EP3, is expected to run from 2002 through 2007. The approach of the NEAP assumes that by the

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end of the 15-year period, environmental management concerns would be integrated into planning and investment programs across the range of sector ministries, as well as at local and regional levels. The underlying assumption has therefore been that donor support at the end of the 15-year program could gradually diminish in favor of domestically driven or managed funding mechanisms. All of the above-mentioned organizations participate directly to implement the NEAP.

A rapid assessment of the situation in late 1999 and early 2000 indicated that significant action must be taken to begin re-aligning costs at a level that the country could support on its own. Since their creation, ANGAP, ONE, and ANAE have all followed a project-based approach to budgeting and financial management. As leading implementing agencies of the EP2 investment program this was entirely logical. However, a look at the numbers shows that nearly 70% of operating costs and 100% of all investment costs for these three agencies are supported via international donor project funds.

Although the government pays MEF personnel salaries, the Ministry is highly dependent upon donor funds to operate and implement projects. Forest concession fees are limited in reality and also in potential. The revenue capture of the other leading agencies is also limited. ANGAP's park entry fees, for example, cover about 3% of total annual costs.

A second-tier sustainability problem also exists in that there is virtually no capacity at the regional or local level to assume financial or managerial responsibility for natural resource protection.

### **The transition**

The initial push to position Madagascar's conservation agencies on a healthier financial trajectory was a joint effort involving leaders at the Ministry of Environment, the ONE, and ANGAP on one hand and the representatives of the World Bank, the United States Agency for International Development (USAID), the World Wide Fund for Nature and Conservation International on the other. All parties agreed that the long-term financing needs go well beyond those of ANGAP to include the vast forest areas currently under MEF oversight and to other natural habitats. At the same time the ONE and ANAE have meaningful supporting roles for conservation and the government and donors recognized that a long-term solution needed to be found to sustain these organizations.

In July 2000, a USAID-sponsored workshop on sustainable financing for the environment led to the creation of a national sustainable financing commission (SFC –see organizational context, page 7). The commission's main task is to propose to Government a financing strategy for the third phase of the Environment Program, or EP3, and beyond. At the core of the strategy is a goal to manage a gradual shift in favor of internally managed funds and away from external project assistance.

The timing of the commission's creation was not a coincidence. Only a month earlier the government and donors had begun discussions on the planning of the transition from the current investment program, the EP2, towards the EP3, projected to take place in mid-2002. The commission was therefore proposed as one of three working groups under the supervision of a steering committee charged with the design of the EP3. The EP3 design steering committee is presided over by the Secretary General of the Ministry of Environment.

The sustainable finance commission includes representatives of the implementing agencies of the EP2, the Ministry of Finance, the Central Bank and Tany Meva, Madagascar's only foundation. The commission's president is the current Country Director of Conservation International's Madagascar office. He is a former minister of finance, served as a representative of Madagascar to the IMF, and has experience implementing debt-for-nature swaps in Madagascar. The Country Director of WWF-Madagascar is also a member of the commission. All of those involved in the commission have the position of director or above in their respective institutions.

Financial and technical support to the sustainable financing commission has, to date, come mostly from a USAID-funded project, called PAGE (support project for environmental management). One of the components of PAGE is oriented specifically to provide assistance and training on sustainable financing

issues. The government of Madagascar has also allocated some resources via a World Bank loan. Additional technical support on the specific needs of ANGAP has also come from a component of another USAID-funded technical assistance project.

Because PAGE already had a mandate to work on sustainable financing, the commission requested that the project act as the Secretariat to the commission.

### **The work of Madagascar's sustainable finance commission**

The commission's efforts began in earnest in September 2000. A year later the commission submitted a draft strategy for the financing of the third and final phase of the Environment Program. The strategy document will be the object of discussion and negotiation with the donor community over the coming months. It is expected that the strategy will undergo multiple revisions during that period. But just how did the commission go about preparing this draft financing strategy? The steps in the process are described below.

- 1. Preliminary needs assessment.** The commission began its work on a financing strategy with an analysis of the past uses and sources of funds. It was determined that the strategic objectives and activities of the EP3 were likely to be similar to those under the EP2. The strategic objectives for EP3 were initially identified as parks management, coastal zone management, sustainable forest management, soil and water conservation for rural development, and pollution control. The costs of the EP2 were used as a reference point for calculating future funding needs.
- 2. Identification of potential financial instruments.** In September-October 2000 the commission began assessing possible sources and instruments for meeting the needs of the EP3. The emphasis of the process was on identifying activities or objectives that had the highest potential for getting non-project funds. Given the international community's on-going interest to help protect Madagascar's biodiversity, it was judged that instruments and tools, such as trust funds, carbon sequestration, and debt swaps should be focused on biodiversity-related funding needs.
- 3. Initiate trust fund feasibility work.** The commission decided early on that a trust fund had particularly high potential for succeeding and that there was a need for the commission members to learn more about how biodiversity-related trust funds operate in other countries. PAGE mobilized a trust fund expert to undertake an initial feasibility analysis. Through the trust fund expert, the commission members learned about some of the key criteria that have led to the success of selected trust funds around the world.
- 4. A study tour to Latin America and the United States.** To familiarize themselves with the full range of financing tools that might be able to support conservation and environmental management in Madagascar, the commission decided to undertake a three-week study tour in April, 2001 to a few countries and organizations that have proven experience on the topic. During week one, the commission separated into two groups to visit Costa Rica and Mexico. During week two, the groups came together in Washington, D.C. where they met with representatives of perhaps a dozen institutions including the World Bank, GEF, USAID, WWF, CI, and The Nature Conservancy (TNC) to discuss examples of various financing instruments applied in other countries.

During week three, the Minister of Environment, and the Madagascar country representatives of CI and WWF joined the group. With the entire commission gathered in Washington, they spent three days behind closed doors to:

- a. create a typology of potential financing instruments for application in Madagascar;
- b. analyze the relative potential of each instrument to contribute to the strategic objectives of the EP3; and
- c. prepare a draft action plan for each financing instrument identified.

During the latter part of week three, the Minister of Environment met with representatives of the World

Bank, USAID, WWF, CI and with the UNDP in New York to discuss the financing strategies for the EP3. The Minister returned to Madagascar with assurances from all these institutions to continue supporting environmental programs in Madagascar and to assist in establishing a biodiversity trust fund for Madagascar.

- 5. Raise awareness and get consensus at home on sustainable financing issues.** ANGAP, in collaboration with IUCN, PAGE, WWF, CI and others organized an international Symposium in May 2001 in Madagascar on the subject of Sustainable Financing for Protected Areas and other Environmental Programs. The Symposium served as a public forum where the commission could present the results of its study tour. Symposium participants agreed with the commission's proposal that the highest priority short-term action involved establishing a biodiversity trust fund, although a much broader suite of instruments will inevitably be required.
- 6. Government approval to initiate creation of the trust fund.** It has been clear from the beginning that any trust fund for biodiversity would require the political and financial support of the government of Madagascar. The commission therefore prepared a brief technical note providing justification on the need for a trust fund and proposing next steps. The note called for the creation of a trust fund steering committee. The note also recommended that the government use HIPC funds as a counterpart to external financing. The Minister and the Prime Minister's office gave their approval in principle to these proposals, thus paving the way for the creation of a trust fund steering committee.
- 7. Proposal for allocating government funding to the environment.** The representative of the ONE to the commission prepared a comprehensive proposal for allocating USD 30 million in HIPC initiative funds between the years 2002-2006 to help meet a range of environmental objectives foreseen under the EP3.
- 8. Development of a sustainable financing strategy document.** With analysis and agreements described above in hand, the commission sat down to the task of preparing a draft sustainable financing strategy for the EP3. The strategy document, submitted to the EP3 planning group in September, 2001, has three broad thrusts. The first is on diversification of funding as a means to complement project-based donor assistance over the course of the next five years. The second thrust is on the gradual substitution of donor funds over time. The third thrust is to develop and improve structures and systems to contain and rationalize costs. The point here being that because implementing agencies have historically operated on the basis of project budgets that must be dispersed by a given point in time, they must begin thinking more like private sector operators that must maximize the impact of each dollar spent.

### **The typology and analysis of potential financing tools**

The typology of financing instruments developed by the commission can be broken down into five categories. The first category includes special instruments such as trust funds and debt swaps that are well suited to creating a long-term funding stream for specific objectives. The second category includes a suite of tourism-related fees, concessions or taxes. Such instruments will be developed gradually in a manner as to not discourage growth of Madagascar's small tourist industry.

A third category involves sector-based environmental fees. Madagascar is rich in natural resources, particularly mines, forests and fisheries. Because productive activities in all three can have negative impacts on the environment, the Ministry of Environment will examine the potential, in the medium-term of introducing environmental fees. One such fee is already in place in association with the sale of petroleum products.

A fourth category, denominated ecological payments for environmental services, focuses on testing the feasibility of schemes to get international or national actors to pay for the environmental services provided

by forest resources. Conservation concessions, carbon offsets and watershed maintenance fees are three examples that have been put in practice in other countries and that are believed to have a potential for use in Madagascar.

The last category involves direct mobilization of private sector investment in the environment. Despite the limited number of private investors in Madagascar, the commission proposes that the approach be encouraged now.

### Results to date

The process described above is really a work in progress. The most palpable result to date is the creation of the steering committee for the biodiversity trust fund. The trust fund is perceived as a cornerstone to the larger sustainable finance agenda. It is expected to lead to the mobilization of substantial funding necessary to ensure the core costs of operation of the parks network.

The commission recognizes that many of the other mechanisms will require negotiations and agreements with agencies or ministries not directly involved in the Environment Program. A green tax on international tourists, for example, would require the approval of the Ministry of Tourism and the Ministry of Finance. Furthermore, even if some instruments are technically and politically feasible, they are not always financially viable. This is the case of a diving fee in Madagascar. The total number of divers is extremely small and will grow slowly, thus the financial impact of a diving fee is projected to be marginal. In fact, the costs of designing and implementing the fee may be more than the potential revenues.

In the draft strategy document, the commission proposes that the EP3 serve as the main testing ground for innovative financing approaches and that donor funds under EP3 be earmarked for such testing. In the meantime, individual agencies are preparing their own strategies to improve their cost recovery and revenue streams. ANGAP is developing a marketing and business plan and intends to revise the entry fees to its flagship parks. The MEF is gradually restructuring the concession fee system and is moving towards a greater decentralization for management and use of funds. The ONE has prepared a strategy for higher cost recovery of its environmental impact assessment review fund.

### Lessons learned

The previous discussion is a more or less objective account of the process Madagascar has followed towards development of a national financing strategy for the environment and conservation. The following observations on lessons learned are those of the author.

The following factors appear to have had a particular significance on Madagascar's progress on sustainable financing for conservation.

1. **Timing.** Cost recovery, revenue generation strategies and trust funds have been discussed for several years in Madagascar but with marginal impact. Historically, the highest priority of government and donors has been to implement field activities, draft enabling legislation and develop human resources. The transition from EP2 to EP3, however, will involve re-negotiation with the donor community on funding and activities. The Ministry of Environment and the donor community agreed in June 2000 that financial sustainability had to assume a high priority in the design of the EP3. With the end of the EP2 looming on the horizon, it was no longer possible to simply ignore the questions and concerns about the long-term financial viability of Madagascar's environmental programs and institutions.
2. **A formalized process.** The creation of a sustainable financing commission in July 2000, under the supervision of the EP3 planning and design committee, was a fundamental step towards making real progress. Not only did it create an arena for analyzing options, but it also clearly allocated responsibility to a specific group to formulate and propose a strategy. This helped to address potentially thorny issues of mandates both across institutions and of personnel within institutions. For example, once the commission member representatives for each institution were

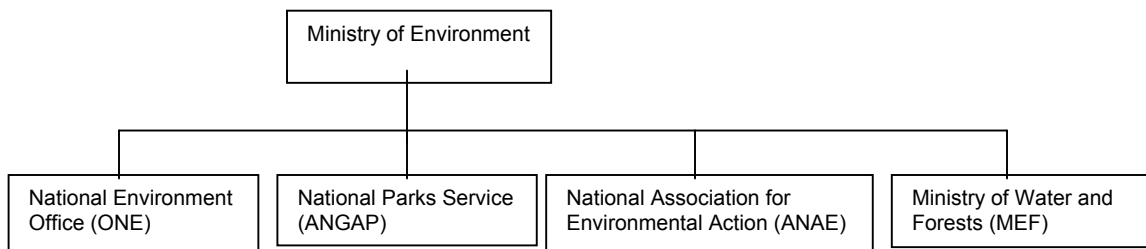
chosen, there was no longer any question as to who should participate in the study tour. Similarly, when it was decided that the EP3 pre-feasibility document should have a chapter on sustainable finance, there was immediate agreement that the commission would be responsible for writing the chapter.

3. **Leadership and personal charisma.** Even with a mandate and a formalized process, the success to date has also largely been determined by the personal qualities of those involved. The Minister of Environment, a former staff member at ANGAP, is very familiar with the need for greater cost control and improved revenue streams. He was therefore a consistent proponent of the idea that each agency must identify its core mandate and activities and then seek out ways to finance those activities. Similarly, the president of the sustainable finance commission, a former senior member of government, has played an excellent role in championing the work of the commission and ensuring that it gets the job done. Without the perseverance of these people and others, it is not clear that the commission would have functioned as an effective working group.
4. **Dedicated technical support and funding.** Typically, foreign technical assistance programs focus on institution-specific development. Although a valuable approach, it is not adequate to address problems that cut across institutions. Recognizing that there are over-arching conditions to sustainable development, like finance, USAID and the government agreed to create the PAGE project. The PAGE sustainable financing team works with the commission and with individual agencies at both the strategic and operational level. The value of a dedicated technical team should not be underestimated. All of the members of the sustainable finance commission have full-time responsibility within their respective institutions. The PAGE team takes some of the burden off of the commission members to keep up the momentum of the work.

Although many other factors have certainly contributed to the success of the process in Madagascar, the above four factors, when taken together, are what distinguish the results achieved since July 2000 with the previous ten years.

**Comparison of implementation framework of the Environment Program and the organizational context of the Sustainable Finance Commission**

**ORGANIZATIONAL FRAMEWORK FOR IMPLEMENTATION OF THE ENVIRONMENT PROGRAM**



**ORGANIZATIONAL CONTEXT OF THE SUSTAINABLE FINANCE COMMISSION**

