

Report to USAID/Madagascar

with recommendations for further development

of the

Foundation for the Environment of Madagascar

a component of "KEPEM"

by

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working as consultants through

EPAT, an AID funded project of Winrock International

with subcontracts through

**Management Systems International, and
Institute for International Research**

10 October 1992

MEMORANDUM

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To: Mr. Spike Millington, USAID/Madagascar
c/o Mr. Jamie Thompson, ARD

From:  Paul Weatherly and Gene Gibson, EPAT

Subject: Report on the Madagascar Endowment

Attached is the Madagascar endowment report. As you requested we are entrusting this memo and report to Jamie Thompson, who is scheduled to arrive in Madagascar on Monday, 12 October 1992.

We have followed closely the scope of work in the purchase order of 17 September. The report focuses on a plan for further development of the endowment (largely the result of EPAT funded work from 7 to 11 September (Part I of the report), a review and recommendations for a TA scope of work (Part II of the report), and a review and recommendations of the Conservation International debt swap proposal (Part III of the report).

In addition, as the 17 September purchase order requested, we met with numerous representatives of the Malagasy NGO community and international conservation NGOs. The list of contacts is given in Annex I of the attached report. Insights and recommendations gained from those discussions are noted where appropriate to the topic under discussion throughout the report.

Annex II of the report contains a letter from the Government of Bolivia outlining the terms of a dollar denominated environmental bond. Tony Pryor told us of the mission's interest in the terms of the Bolivian bond.

Please contact us if you have any questions about any part of the report. You can telephone us at: 202-408-5112 or via fax: 202-408-5021.

Please consider this memo as a request for payment for the consulting services requested in purchase order number 687-2226 of 17 September.

attached: report

PART I: Creating the Foundation for the Environment of Madagascar (FEM)

Figure 1 shows a sequence of activities or steps leading to the creation of an endowment (i.e. a fund with income earning financial assets), a foundation board and staff for overseeing the assets and administering a grants program. Interested parties, which include the Government of Madagascar (GOM), the Malagasy community of nongovernmental organizations (NGOs), and USAID/Madagascar should consider this sequence as a starting point for discussions leading to an agreement of timing, responsibilities, and goals.

The starting point for the suggested sequence is an agreement among the above listed parties on the nature of the role of several Malagasy NGO consortia, which include notably, COMODE and ANAE. The consultants, during their stay in Madagascar (mid September 1992), began discussions with both of these NGO consortia about possible roles which they could play in the development of the endowment. If these consortia agree on a process leading to the creation of an endowment, then either a part of that agreement, or an early shared responsibility, would be a refinement of the following sequence of steps. Or, alternatively, USAID, together with the GOM, and the NGOs could agree on a comparably detailed set of steps and a sequence. The following sequence, therefore, is intended to spur discussion among these parties.

STEP 1: Secure agreement on the NGO role

At the end of discussions (18 September 1992), consultants suggested to USAID/Madagascar that representatives of both COMODE and ANAE work together to suggest a formal meeting with USAID/Madagascar to agree on a mechanism for starting the endowment creation process. Other groups might be included in this initial effort. Among others are: a groups which represents the Malagasy private sector, e.g. GEM, and the Malagasy Academy.

It is important to the ultimate success of the endowment's claim to be a Malagasy institution that the first concrete proposal for a way to create the endowment come either solely from the Malagasy NGO

community or jointly from a meeting of duly authorized representatives of that community and USAID. In other words to have a valid claim of origin from within Malagasy society, this initiating proposal should have a strong identification with constituent and community based Malagasy NGOs.

Such an agreement should cover either the following sequence or another comparable sequence. While the first two or three steps should be covered in detail in this agreement, subsequent steps need only be characterized in broad terms. However, the process for agreeing on these details needs to be well thought out and characterized.

It is assumed that at least a tentative agreement can be reached by 1 December 1992. At that point the process of selecting an organizing committee can begin. If this agreement takes longer to reach, then the selection of the organizing committee would have to be delayed.

STEP 2: Form organizing committee; select board

If local NGO consortia decide to play a relatively active leadership role in setting up the process of creating a foundation, then a group or groups of Malagasy NGOs need to propose a process by which the process can be governed. Assuming that some form of organizing committee is set up, then the question becomes how to do so. One idea would call for the groups to propose six persons of stature as candidates for the organizing committee. These persons could be members of various NGOs who have reputations as being dedicated to environmental concerns, broad social goals, community development, or some other worthy aim. USAID, in conjunction with the GOM, could then select three of those proposed as members of the committee.

The organizing committee should have clearly defined duties. Among these might be: hiring the interim coordinator; overseeing the convening of regional forums for discussing the foundation concept; agreeing with AID on the nature, extent, and timing of technical assistance needed; working with AID to choose the TA; ensuring

broad participation in the drafting of a charter and by-laws for the foundation; and overseeing the process of selecting a board.

The last responsibility, of overseeing the creation of the foundation board, would be the final act of the organizing committee . After the board is in place, then they would have the further responsibility of carrying the creation process to its culmination. These last steps include: adopting the charter and bylaws; choosing among options for asset management; seeking formal registration of the foundation from the GOM; planning programs; and, when assets are transferred, of making the first grant(s).

It is estimated that the process of selecting an organizing committee would take two months. Once an organizing committee is in place then the process of finding and hiring an interim coordinator can begin immediately.

STEP 3: Retain interim coordinator

The organizing committee would have the responsibility of finding an interim coordinator. Several considerations argue strongly that this person should be a Malagasy national. A foreign interim coordinator may project the image of the foundation as being a donor driven creation. On the other side a local is more likely to understand local political currents, both inside and outside the NGO community.

AID may or may not participate in the selection of the interim coordinator, depending on the terms of the initial agreement. If AID funds the interim coordinator, then it would seem appropriate that AID have a say in how this position is filled. On the other hand, should the organizing committee use other funds, then AID would not necessarily have a say.

The organizing committee will need support for its expenses, the costs of the interim coordinator, and the costs of regional meetings, newsletters, etc. The TA described in a following section proposes a budget for these costs; however, the organizing committee could seek a grant from another donor, or a U.S. foundation to cover its expenses, the cost of the interim coordinator, and perhaps the costs of broad

participation in the foundation's creation. Having such a grant would give the Malagasy NGO community a small, but perhaps crucial measure of independence as it works with AID during the creation process.

The interim coordinator would have several areas of responsibility, including: promotion of participation in the creation process; staffing the work of the organizing committee; issuing newsletters; promoting public discussion of the foundation; and interfacing with AID—supplied TA. Note that in Madagascar, radio, and to a lesser extent television, may be media of choice in reaching the widest possible audience.

In figure 1, the interim coordinator is shown as ceasing function before the organizing committee transfers management to the board. In this scenario, the TA gradually assumes the continuing activities of the interim coordinator. However, an alternative scenario could call for the interim coordinator to continue until the board is formed. In this case the TA presumably could pay the costs of the interim coordinator.

Subsequent activity cannot begin until the interim coordinator is in place. Further it will take time for the interim coordinator to plan and initiate the activities for which he or she is responsible. It is estimated that the first regional meeting would take approximately 60 days to plan.

Among the responsibilities of the interim coordinator is the creation of a data base of local NGOs, their leaders, and prominent members. Such a data base will be immediately useful for mailings, such as announcements and newsletters, but could later serve as a membership list, if the foundation decides that it will be a membership organization (as the Philippine environmental foundation has become). Still later such a data base could help in the evaluation of grant proposals, the evaluation of grantee performance, etc.

STEP 4: Hold regional meetings of NGOs

During the first year of work, a key goal is broadening the

participation in the creation process. One way may be to hold a series of regional meetings in which the foundation concept is presented and ideas of local groups and communities sought. Helpful to this process would be the issuance of newsletters in Malagasy and French as well as the publication of articles in newspapers. It seems most efficient if this participation is under the management of the interim coordinator with oversight of the organizing committee .

STEP 5: Provide Technical Assistance

AID has agreed to provide both long term and short term TA to support the process of endowment creation. The suggested scope of work for this TA is described in the next section of this report. However, the timing of this TA and its relationship to other elements of the foundation creation plan are discussed in this section.

The TA will supply one long term (18 months or more) person who should either serve as the interim coordinator or work closely with the interim coordinator. Under the first option the interim coordinator could be paid via the TA. Under the second option, the interim coordinator would continue to be paid by whatever funding sources were used to hire the interim coordinator in the first place.

A third option could be considered. If the role of the interim coordinator is to be part of the TA, then the selection of the interim coordinator could be via a process involving the participation of the organizing committee . In other words the organizing committee could have an equal vote in evaluating the qualifications of proposals to USAID/Madagascar for supplying the TA. In this option the activities of the interim coordinator could not begin until the TA is in place. Therefore it would be necessary to try to advance the process of putting out the scope of work of the TA for bids. Otherwise the start of the efforts to build public participation would be delayed and the time available for a thorough review and discussion of the charter and bylaws (now set at one year) would have to be shortened.

STEP 6: Prepare Charter and By-laws

At a point approximately midway through step 3 (holding regional meetings) the process of drafting a charter and bylaws should begin. This process will require that two different sources of ideas and constraints be skillfully interwoven. The first source represents technical expertise, which will come equally from outside as well as from inside Madagascar. Examples of such expertise are financial advice and planning, legal advice, administrative structure and procedures, and the experience of other foundations. The second source represents the results of public discussions which involve as many different Malagasy groups and communities of interest as possible. All sources of ideas need to be melded into a coherent whole.

It is suggested that the organizing committee supervise the interim coordinator and the TA in the drafting process. The goal of this process is to write a charter and bylaws which are acceptable to all entities, including the Malagasy community of NGOs, foreign donors, and the GOM.

One year is allowed for this process to be certain not only that all sources of ideas and technical knowledge are tapped, but that there is time for reflection. Once consensus has been reached, then the board is selected by the process agreed to and the charter formally adopted. The charter and bylaws are then submitted to the GOM to secure recognition of the foundation as a non-profit association under Malagasy law.

STEP 7: Review options to manage assets

The organizing committee needs to initiate an examination of all options for the management of the foundation's assets. A subsequent section of this report offers a series of options, describes their pros and cons and makes recommendations for further evaluation of these options. This analysis should continue after the board is in place to allow the new board the opportunity to exhaust all questions and alternatives. Once the new board chooses an asset management plan, then there will likely be a continuing need for financial advice which can be supplied via a retainer contract with a local firm backed up by an international firm.

STEP 8: Register endowment; transfer assets

Once the new board is in place, then they would proceed to make a formal request to the GOM for registration as a non-profit association. This registration will involve negotiation of special privileges for the foundation, including, but not limited to, tax reductions on earnings and imports, tax incentives for donations from Malagasy individuals and corporations, etc. This process may take as long as three or four months. When it and the next step are complete, then the first tranche of assets can be transferred.

The transfer of funds cannot take place until all previous steps are either complete or in place. If during the early steps, it becomes apparent that delays will prevent meeting the October 1994 goal for fund transfer, then the planning and budgets must be revised to accommodate the extra time needed.

STEP 9: Hire staff, plan program & make first grant

In advance of the first grant, the board needs to begin to recruit staff and plan the first program which will issue grants. It is estimated that this process can take from six to eight months. For the three to five months of staff work which will be needed in advance of the transfer of assets with the first tranche, there will need to be funding of the activities of the staff. This need might be met by a follow-on grant from the same source as the first grant.

PART II: Recommendations for terms of reference for foundation TA

Introduction

USAID/Madagascar plans to provide TA through the KEPEM TA component. The Malagasy NGO community, USAID, and the GOM should develop a TA plan, which USAID will finance for creating the endowment. USAID/Madagascar could consider the following recommendations in designing the scope for the TA.

While creating a functioning endowment serves as the overall goal of the TA, a key strategy towards achieving this goal is assisting the Malagasy community of NGOs in *their* process of creation—rather than creating an institution and turning it over to Malagasy management at the end of the creation process. Thus the TA needs to be provided in such a way as to minimize an “American” imprint. Providing TA in a way which avoids branding the resulting endowment as a U.S. creation has two real benefits. Malagasy society will feel a greater ownership of the resulting institution and other donors, both bilateral and multilateral, will be more likely to provide funds for further institutional and program development and/or the foundation’s endowment.

USAID/Madagascar needs also to minimize, for the same set of reasons, allowing the TA to put an imprint on the endowment. When drafting a Request for Proposal (RFP), USAID/Madagascar should pay careful attention to not only the terms of reference for the specific types of TA requested and the experience profile of the individuals sought, but also to the “character” of the institution or firm which would provide the TA. For example, an international NGO with a specific agenda, such as a wildlife or conservation organization, necessarily brings baggage of public perception.

One way to avoid a reputation of being overly influenced by developed country donors and international NGOs would be to build, from the start, a network of cooperative relationships between the endowment and similar institutions in other developing countries. For example the Interim Coordinator could be sent to the Philippines to study the Philippine environmental foundation, or to Mozambique to

learn about the effort, supported by Rockefeller Foundation, to build up a foundation oriented to community development.

Individuals with low ego working through institutions with no bias or interest in particular priorities should supply the TA. For the foundation to succeed, its form, programs and priorities all must grow out of a process substantially under local control. Thus an overall recommendation calls for paying careful attention to the type of organization, whether non-profit or for profit, contracted to supply the TA.

Recommendations for TA

The KEPEM project paper of spring 1991 contained an annex describing the endowment proposal. This annex offered an outline for the TA needed. The EPAT consultants during their September 1992 visit, reviewed this TA. This section offers recommendation substantially revising this original TA plan.

An effective TA plan requires a combination of local and foreign technical expertise. The TA serves a dual purpose: to assist the creation of the endowment/foundation; and to build up local capacity to manage the foundation's affairs. This capacity must include both expertise within the foundation and available to it from other local consulting firms, accountants, lawyers, financial advisors, etc. Therefore the TA strategy should pair local expertise and foreign expertise whenever possible.

The TA will cost approximately \$894,000. This includes the cost of expertise and the direct costs of local institution building activities. Figure 2 gives the schedule of the expertise and other activities. , Figure 2 tracks closely the schedule of figure 1. Figure 3 shows the budget and the approximate times of involvement of each expert.

The TA has two phases. Phase one starts as soon as parties reach agreement on the process of creation and lasts until the foundation is fully formed, registered with the GOM and the first transfer of assets is made. This phase lasts 22 months and ends with the asset transfer, designated for October 1994. Phase one has two subphases—the

periods before and after the TA contract is signed, which is expected to happen in May 1993.

Phase two begins with the October 1994 transfer of assets. It represents a continuation of most activities of the TA, although at a lower level of intensity for approximately another year. The following description centers on the terms of reference for the TA for phase one. A series of profiles for the required expertise follows.

Concurrent with the end of phase one, a need arises for an evaluation of the the needs of phase two. The recommendation of this evaluation should serve as the basis for a decision to extend the activities of phase one, amend these activities, or develop a new scope of work. Because of the importance of this evaluation of progress and performance, only the most general of recommendations for the nature of the TA of phase two are offered.

Phase one—period before the TA contract

- **interim coordinator, salary and expenses for the period from March through August 1993 (approximately six months to allow for an overlap and smooth transition to the second period of phase one), who would be selected according to the agreement of AID and the organizing committee. This person (profile below) would initiate work before the TA contract is in place. After the TA contract is in place, the interim coordinator could become part of the TA contract or supported via a subcontract. The interim coordinator would cost approximately \$3000 per month (salary and expenses) for a total of \$18,000. The interim coordinator would:**
 - **work under the direction of the organizing committee to coordinate the role of the committee in the sequence of activities leading to the drafting of a charter and by-laws, develop a financial management plan, and plan for the creation of an administrative capacity**
 - **promote broad participation in the early discussions about the nature of the foundation by convening regional**

meetings (see below) which would involve a wide range of local community and nongovernmental groups

- create of a data base (see Part I) to facilitate participation in the early discussions about the foundation
 - write and issue newsletters, press releases, radio announcements, and other media programs to promote understanding and wider discussion about the foundation
 - liaise in the name of the organizing committee with AID, other donors, the GOM as well as the Malagasy community of NGOs and local community groups
- approximately six meetings outside Antananarivo of two days each for a total of \$54,000. These meetings would promote:
 - discussion of foundation goals and purposes
 - exchange of views and ideas about the nature of the board of directors, and whether the foundation would be a membership association
 - review of a draft charter and by-laws

Phase one—period beginning with the TA contract

- **Interim coordinator** would continue to work for another 13 months after the TA contract is in place up to the new board appoints an executive coordinator. The salary and expenses would be the same—approximately \$3000 per month for a total of \$39000.
- **foreign foundation/institutional development expert** (institutional expert) resident in Madagascar. This person (profile below) would serve as the chief of party for the TA contract. He or she would work closely on a daily basis with the interim coordinator to ensure that the activities of the agreed

upon plan were supported by the TA in a timely and cost-effective fashion.

The activities of the Institutional Expert will go through three phases. The first phase will entail a transition from initial activities to a full slate of activities which will commence when the TA contract is in place and the interim coordinator and the institutional expert began to share responsibilities. The second will begin when the decision is made either to make the Interim Coordinator a part of the TA team, as a co-manager of the TA, or have the Interim Coordinator continue on a separate contract paid by USAID or by another donor. The third phase begins when the organizing committee dissolves and is replaced by the board. Soon after that point, the new board will presumably hire an executive director to replace the interim coordinator.

A fourth phase possibly occurs when the foundation receives control of the assets. However, this does not represent a shift in management relationships and responsibility for accountability as the transitions between the first three phases. Working to ensure that these shifts in managerial relationships occur smoothly is a primary responsibility of the Institutional Expert.

The institutional expert should work continuously for 18 months at \$8,000 per month (salary and all expenses, including airfare, shipping of household effects, and other allowances) or \$144,000 total. The specific items of his or her scope include responsibility to:

- support the development of the foundation by coordinating the provision of TA, both from foreign as well as local firms and individuals
- support participation in the development of the endowment plan by working to identify and include new groups and organizations in the process of discussions
- advise on the process of forming a balanced, effective Board

- advise on the development of an effective, accountable administrative staff or secretariat
- advise on the development and management of grant programs
- advise on systems to monitor and evaluate grantees
- **local foundation/institutional expert**—10 person days per month for 18 months at \$50 per day for a total of \$9,000 for:
 - staff meetings of NGOs to discuss board membership, charter provisions, etc.
 - write and circulating reports of the meetings of the organizing committee

The following positions are paired—a foreign expert is matched with a local expert. The foreign makes periodic visits, the local is on a retainer. As stated above the idea is build up local capacity to advise the foundation board on a broad range of institutional, legal, procedural, financial and other questions. The two categories are legal/accounting and financial management. Responsibilities are given for both as a team to lend emphasis on the upgrading of local capacity. It is anticipated that the foundation board would wish to continue to retain as advisors. some or all of the local expertise after the TA is ended.

- **foreign legal/accounting advisor**—three trips at \$18,000 per trip for for a total of \$54,000 , and a
- **local legal/accounting advisor**—18 month retainer at \$1000 per month for for a total of \$18,000 for :
 - analyze and proposing amendments to laws
 - provide a resource to the process of selecting a board

- assist with the drafting of charter and by-laws
- provide advice on the terms of agreements with the GOM
- draft fiscal control procedures for the foundation's administrative staff
- negotiate agreements with other donors

- foreign financial expert—three trips at \$18,000 per trip for for a total of \$54,000 , and a

- local financial expert—18 month retainer at \$1000 per month for for a total of \$18,000 for :
 - provide advice on the terms of financial agreements with the Central Bank and Ministry of Finance of the GOM, and a review of options for the mix of assets in the endowment including, but not limited to, dollar denominated bonds, local equity, local real estate, shares of privatized parastatels, local certificates of deposit, Treasury bonds, etc.
 - develop a plan to manage assets of the endowment
 - advise on drafting fiscal control procedures for the foundation's administrative staff
 - review financial issues relevant to agreements with other donors

The following types of TA are designed to provide channels to the experience of other foundations as well as a source of independent evaluation of the plans and progress of the creation process.

- **foreign foundation/institutional expert (nonresident)—three trips over 18 months at \$18,000 per trip (salary and all expenses included) for \$54,000**
 - advise on the process of drafting a charter, bylaws and selecting a board
 - advise on developing and operating a grants program, including setting of program objectives, defining evaluation criteria for proposals, reviewing proposals, monitoring performance and evaluation of achievement
 - advise on management of administrative staff
 - advise on fund raising

- **Evaluation/link to other endowment/foundation efforts (nonresident)—three trips over 18 months of two persons at \$30,000 per trip (salary and all expenses included) for \$90,000. This is intended to serve as the monitoring and evaluation part of the TA. The costs of this are relatively high (approximately 10%) because the endowment in Madagascar is the first of its kind in Africa. Hence, there is a need for more frequent review of progress and problems so as to be able to make midterm corrections to the plan for TA. Specifically these two persons would:**
 - advise USAID/Madagascar on the management of the TA for the endowment
 - evaluate progress and recommend refinements of the TA
 - present experience with similar foundation in other countries
 - assist in networking key individuals in Madagascar with other foundation and endowment efforts in other countries.

Phase two—after asset transfer

Up to 18 months after the endowment's formal creation TA would be continued until the foundation achieves full operation. The TA would focus on the implementation of procedures for conducting grant programs and designig NGO institutional strengthening for the delivery of specific programs to aid the KEPEM agenda. These tasks would require a combination of local and foreign technical assistance. Specifically the TA required would cost an estimated \$200,000 for continuing the one long term foreign expert and the two local experts on legal/accounting and financial. The foundation should within a year of it's beginning to make grants, obtain (and internalize the costs of) contracts for local expertise. The Phase two expertise would be:

- **foreign institutional expert**
- **local legal/accounting expert**
- **local financial expert**
- **foreign expert on foundations**

Profiles of expertise needed for the TA

The expertise which USAID/Madagascar needs to seek for the TA should all share an unusually high degree of commitment to the goals of creating a locally managed, nationally representative foundation which is intended to last indefinitely. Thus USAID/needs to seek a contractor and individuals who have the experience of working for similar goals in developing country institutional building efforts. A hallmark of the experience needed would be statements which said that "[name] consulting firm or non-profit assisted a developing country group establish itself and achieve the group's objective," rather than, "[name] consulting firm or non-profit established a developing country group to achieve a given objective." Beyond this overarching requirement the profile of needed expertise is straightforwardly related to their work and responsibilities. Note that most local expert profiles ask for some command of English to facilitate networking with other foundation efforts in other countries.

- **Interim coordinator** should be a highly respected member of the Malagasy community of NGOs. He or she should have experience in working in the field with community development programs as well as experience in the management of NGO programs and staff. He or she must be fluent in Malagasy and French. A modest English ability (Foreign Service 2 or 2+) would be helpful. Skills in group facilitation, training, and communications are also key requirements.
- **foreign foundation/institutional development expert** should be experienced in African community development and local NGO institution building programs. He or she must be fluent in French (Foreign Service 3 or better). Must have a proven ability to lead through group processes rather than a top-down management style.
- **local foundation/institutional expert** should be a person with experience in the Malagasy NGO community, with specific experience in institutional building and administration of both staff and programs. He or she must be fluent in Malagasy and French. A modest English ability (Foreign Service 2 or 2+) would be helpful.
- **foreign legal/accounting expert** should be a person with experience in the legal and managerial issues of foundation-like institutions—preferably in developing countries and preferably in Africa. Must have a skill in fitting procedure to local traditions, whether those traditions stem from culture of a society or an institution. He or she must have at least modest French (Foreign Service 2 or better).
- **local legal/accounting expert** should be a person with experience in writing and implementing procedural policy in a variety of Malagasy organization. Skill in understanding and managing conflicts of interest in Malagasy organizations would also be useful. A modest English ability (Foreign Service 2 or 2+) would be helpful.

- **foreign financial expert** should be a person with experience in the financial issues of foundation-like institutions—preferably in developing countries and preferably in Africa. Must have an ability to develop highly innovative solutions to asset management in “difficult” economies. He or she must have at least modest French (Foreign Service 2 or better).
- **local financial expert** should be a person with experience in managing assets in the Malagasy economy. A modest English ability (Foreign Service 2 or 2+) would be helpful.
- **foreign expert on foundations** should be a person with long experience with U.S. foundations—especially in the management of assets, personnel, grants programs and fund-raising.

Figure 3: Budget for KEPEM Technical Assistance for creating an endowment (continued)

	Unit # of cost units	Total cost	1995					1996					
			J	F	M	A	M	J	J	A	S	O	
<i>Phase two</i>													
Foreign institutional expert (per month)	8,000	17 136,000	■	■	■	■	■	■	■	■	■	■	■
Local legal/accounting expert (per month's retainer)	1,000	13 13,000	■	■	■	■	■	■	■	■			
Local financial expert (per month's retainer)	1,000	13 13,000	■	■	■	■	■	■	■	■			
Foreign expert on foundations (per 3 week TDY)	18,000	1 18,000			■								
<i>Phase two: Other expenses</i>													
Communications/month	200	17 3,400											
Office expense/month	1,000	17 17,000											
GRAND TOTAL of Phase two		200,400											
TOTAL FOR BOTH PHASES		893,900											

PART III Review of Conservation International's proposal for Ecosystem Management and Conservation Training in Madagascar

The conservation finance component of Conservation International's (CI) "Ecosystem Management and Conservation Training in Madagascar" proposal offers a novel approach to the problem of providing a steady income flow to natural resource management projects. Several issues, however, concerning the mechanism to manage the funds, CI's economic assumptions and the mechanism's compatibility with other institutions require more elaboration.

Activity Continuation Trust

The Activity Continuation Trust (ACT), which will be managed by the Activity Continuation Trust Management Board (ACTMB) is centerpiece of this proposal. Four Malagasy private sector specialists, one representative from CI and possibly one representative from the Central Bank of Madagascar will comprise the ACTMB. Having in-country Malagasy financial specialists on the ACTMB will help maximize potential earnings. Generating income in Madagascar's volatile economy requires local knowledge and expertise. Nevertheless, the ACTMB should operate with clear guidelines so as to prevent conflict of interests and self-dealing abuses. Such guidelines have yet to be spelled out.

CI will select the initial members of the ACTMB, with the sitting board selecting subsequent members. CI's role in picking the ACTMB, even though it would be composed primarily of Malagasys, may raise some concerns with Malagasy local community groups (LCGs) and non-governmental organizations (NGOs). In many developing countries the process of choosing a board is just as important as the representatives ultimately chosen. However, this may not prove to be a contentious issue if the ACTMB limits itself to financial management decisions and LCGs and NGOs in the project areas have significant input into the programmatic decisions.

While the proposal calls the Activity Continuation Trust, a "trust" subsequent conversations with CI staff indicate that a formal legal trust will not actually be created. Creating a trust would raise the issue of

the status of trust law in Madagascar. In this regard, most civil code countries do not have a well developed body of trust law. The ACT will basically be a bank account in CI's name, and the ACTMB will advise CI on what to do with the money. The ACTMB will not have a legal identity.

The issue now arises of what will happen to the money after the first three years. Will the ACTMB be constituted as a legal entity and assume title to the assets or will a LCG/NGO consortia assume title? The proposal tends to indicate the former scenario. CI staff, however, indicate that CI wants to allow itself some flexibility in making this decision as to who ultimately controls the assets. This decision would be made at some point in the future and be based on how the program had evolved and the capabilities of the institutions that had emerged.

Despite a justified concern to maintain some flexibility, CI should provide more details as to the ultimate disposition of the funds. For instance, if the ACTMB assumes control would the ACTMB also make programmatic decisions? A related issue concerns to whom will the ACT be accountable -- CI, USAID, the Government of Madagascar (GOM), potential donors, or the LCGs in the project area? Furthermore, will the ACT be viewed as a legitimate voice for the people in the project area and how would it seek to achieve a mandate? Would CI and the ACT seek to work with indigenous NGOs with development expertise? In addition to these issues, there are a plethora of issues that still need to be addressed as to structure and administration of the legal entity that would have ultimate disposition of the funds.

Long-term Financial Sustainability

The financial sustainability of the ACT raises some concern. Paragraph 3.1.4.2. states that "interest alone will be used to support project activities, while principal remains intact." This is incorrect since the funds from the debt conversion will gradually be drawn down. A more accurate statement would be that the ACT's objective is to create a mechanism that will exist in perpetuity that would be designed to attract additional donor funds so as to maintain an endowment. The ACT's initial objective is to stretch the converted funds out for ten

years -- far beyond the normal USAID life-of-project cycle. A laudable goal.

CI provides few details as to specific investment scenarios. Moreover, CI's projection of a ten percent inflation rate is probably overly optimistic. Inflation in the immediate future will likely be around fifteen to twenty percent. It is problematic whether bank deposits can pay sufficient interest rates to beat inflation. The problem is compounded since too much liquidity currently exists in the banking system and banks are not accepting long term deposits.

CI addresses the problem of economic volatility by having a team of Malagasy financial advisers. These advisers will supposedly know the Malagasy market and the appropriate financial instruments. Moreover, the GOM will undertake a variety of financial reforms in conjunction with the World Bank. Such reforms could provide for new financing instruments which are not available now. Consequently, it is unrealistic to expect a definitive investment strategy at this time.

The issue of how to maintain the value of local currency accounts in a highly volatile economy, such as Madagascar's, will be discussed in detail in the Foundation report that EPAT is preparing for USAID. One option is to have a dollar denominated bond with principal and interest payments made in local currency. This option was adopted as part of the Government of Bolivia's (GOB) commitment to the Enterprise for the Americas Initiative. The GOB issued an environmental bond of US\$ 17.2 million face value which will generate the equivalent of US\$ 1 million in local currency per semester, in principal and interest payments, to be deposited to the name of the National Fund for the Environment. For additional information on Bolivia's environmental bond see the attached letter from Samuel Doria Medina, Bolivia's Minister of Planning and Coordination, to John E. Robson, at the U.S. Treasury, and the attached bond payment schedule.

In light of the economic volatility, the question arises as to the feasibility of making several small debt conversions rather than one large conversion. In such a scenario, the dollars could be maintained in an account outside Madagascar until new local currency funds are needed. While this scenario would help alleviate inflation and devaluation concerns, other factors must be considered—such as

availability of the debt, the current secondary price for the debt, and discounts for buying large blocks of debt. A low secondary market price with a favorable exchange rate may outweigh any losses from inflation or devaluation. Moreover, CI's debt conversion agreement with the GOM may prevent it from stretching its debt conversions out over a several year period.

CI lists as one of the major accomplishments of the program that CI would "conduct the largest debt-for-nature transaction to date in Madagascar." Carrying out the largest debt conversion does not in and of itself argue for doing the swap if the financial and programmatic components are not viable.

Compatibility with other Private Sector Environmental Institutions

The question arises as to the ACT's compatibility with other private sector environmental institutions operating in the country, such as the Association for the Management of Protected Areas (ANGAP), the Association for Environmental Actions (ANAE), Conseil Malgache des ONG pour le Developpement et l'Environnement (COMODE), and the proposed National Environmental Endowment Fund (NEEF). In light of a finite supply of human resources in Madagascar, sufficient environmental and financial expertise may not exist to service all of these organizations. On the other hand, if demand exists for such expertise the supply may increase.

A more serious issue concerns the availability of funds to divide up among these and other environment/development institutions. In this regard, ACT would most directly compete with ANGAP, which also works on protected area projects. This raises the issue of the viability of the Zahamena Natural Integral Reserve project and how this project ranks when prioritizing the areas needing protection. Such a discussion goes beyond the scope of this report. CI, however, could provide additional information as to possible relations with ANGAP.

A plethora of self-sustaining environmental institutions could foster uncoordinated environmental actions and policies. Confusion already exists among the donors, Malagasy government agencies, and the NGO community. On the other hand, increased competition for

human and financial resources and setting an environmental policy agenda could prove beneficial. Those institutions with the best programs could come to the fore.

Comments on CI's program design

Recent reviews of the protected area/buffer zone approach to conservation ("People and Parks," Michael Wells, the World Bank, 1992) have pointed out the difficulty of this approach and the lack of success to date. Given the uncertainty of this model, and the long time period necessary to show any progress, both the model's advocates and its funders should adopt a more rigorous programming framework so that successes and failures are clear. Without a strategic approach to planning and evaluation, successes will be difficult to recognize and prove. Hence, replication, even within Madagascar, will be difficult.

The CI proposal should recognize forthrightly the experimental nature of the the development interventions it suggests for the project area. If CI adopted a strategic planning framework, complete with quantifiable indicators and a monitoring and evaluation plan, then progress and failures could be recognized to the benefit of CI's efforts as well as other which USAID/Madagascar may fund.

Conclusions and recommendations

1. CI should provide additional information on the legal entity that it envisions as eventually managing the program and the process by which it will be created.
2. The concept of assembling a cadre of local financial experts is a good one, but additional information as to who these people are and their background would be helpful. In addition clear guidelines to prevent conflicts of interest and self-dealing abuses should be drafted.
3. While recognizing the difficulty in providing specific asset management schemes in Madagascar's volatile economy, CI, nevertheless, should provide additional information on possible asset management plans. A ten percent inflation rate is unrealistic.

4. USAID has already made a significant commitment to ANGAP via the SAVEM project. USAID now needs to consider how the CI proposal fits into the larger picture.

5. CI needs to adopt a strategic planning framework for its activities so that the success, in conservation terms, of buffer zone economic development efforts can be demonstrated.

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Presidencia de la República

MINISTERIO DE PLANEAMIENTO
Y COORDINACION
BOLIVIA

August 22, 1991

Mr. John E. Robson
Acting Secretary, Department of the Treasury
Washington D.C.

Dear Mr. Robson:

As a demonstration of Bolivia's commitment to full participation in the Enterprise for the Americas Initiative (EAI), I would like to inform you that the Government of Bolivia has decided to establish an environmental bond to be deposited in the EAI Environmental Fund under the structure of the Fondo Nacional para el Medio Ambiente (National Environmental Fund). The bond will be issued within 60 days after entry into force of the Environmental Framework Agreement (EFA) and will consist of twenty semi-annual payments of US\$ 1 million in local currency as described in Annex A. This bond is in addition to the local currency interest payments to be made into the EAI Environmental Fund pursuant to the EAI debt reduction agreement of August 22, 1991.

The income generated by the environmental bond will significantly contribute to the ambitious programs being developed and implemented by the General Secretariat of the Environment and the National Environmental Fund. These programs have been initiated in January of 1990 when President Paz signed into effect the "Pausa Ecológica Histórica". The Pausa Ecológica, as we stated at the Consultative Group for Bolivia in Paris last year, calls for a new vision of sustainable economic development in harmony with the environment. It defines as priorities the protection of biological diversity, the design and implementation of sustainable development models, and the support of environmental research and education in order to raise the ecological consciousness of the Bolivian people.

Sincerely,

Samuel Doris Medina
Minister of Planning and Coordination

ANNEX A

ENVIRONMENTAL BOND
SCHEDULE OF PAYMENTS
(US DOLLARS)

INTEREST RATE: 3.00%

DATE OF ISSUE:	DATE	BEGINNING PRINCIPAL	INTEREST EARNED TO DATE	PAYMENT	NEW PRINCIPAL
	21-Oct-91	17,168,638.79			
	21-Apr-92	17,168,638.79	257,529.88	(1,000,000.00)	16,426,168.37
	21-Oct-92	16,426,168.37	246,392.53	(1,000,000.00)	15,672,560.89
	21-Apr-93	15,672,560.89	235,088.41	(1,000,000.00)	14,907,649.31
	21-Oct-93	14,907,649.31	223,614.74	(1,000,000.00)	14,131,264.05
	21-Apr-94	14,131,264.05	211,968.96	(1,000,000.00)	13,343,233.01
	21-Oct-94	13,343,233.01	200,148.50	(1,000,000.00)	12,543,381.90
	21-Apr-95	12,543,381.90	188,150.72	(1,000,000.00)	11,731,532.22
	21-Oct-95	11,731,532.22	175,972.98	(1,000,000.00)	10,907,505.21
	21-Apr-96	10,907,505.21	163,612.58	(1,000,000.00)	10,071,117.79
	21-Oct-96	10,071,117.79	151,066.77	(1,000,000.00)	9,222,164.55
	21-Apr-97	9,222,164.55	138,332.77	(1,000,000.00)	8,360,517.32
	21-Oct-97	8,360,517.32	125,407.76	(1,000,000.00)	7,485,925.08
	21-Apr-98	7,485,925.08	112,288.88	(1,000,000.00)	6,598,213.96
	21-Oct-98	6,598,213.96	98,973.21	(1,000,000.00)	5,697,187.17
	21-Apr-99	5,697,187.17	85,457.81	(1,000,000.00)	4,782,644.97
	21-Oct-99	4,782,644.97	71,739.67	(1,000,000.00)	3,854,384.65
	21-Apr-00	3,854,384.65	57,815.77	(1,000,000.00)	2,912,200.42
	21-Oct-00	2,912,200.42	43,683.01	(1,000,000.00)	1,955,883.42
	21-Apr-01	1,955,883.42	29,338.25	(1,000,000.00)	985,221.68
	21-Oct-01	985,221.68	14,778.33	(1,000,000.00)	0.00



NOTE.- PAYMENTS WILL BE MADE IN LOCAL CURRENCY (BOLIVIANOS) EQUIVALENT TO THE DOLLAR AMOUNTS ESTABLISHED ABOVE AND SHALL BE CALCULATED AT THE HIGHEST LEGALLY OBTAINABLE EXCHANGE RATE IN BOLIVIA ON THE DATE THE PAYMENT FALLS DUE, WHICH SHALL BE NO LESS FAVORABLE THAN THE HIGHEST EXCHANGE RATE OBTAINABLE BY ANY OTHER COUNTRY ON THE DATE THE PAYMENT FALLS DUE.