



UNDP/GEF PROJECT ENTITLED "REDUCING ENVIRONMENTAL STRESS IN THE YELLOW SEA LARGE MARINE ECOSYSTEM"

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Preliminary Consideration on Financial Sustainability

1. Background

In the First Meeting of the Project Steering Committee (PSC), the importance of financial sustainability was recognised by all members of the PSC. It was decided that the Regional Working Group for Investment (RWG-I) should consider appropriate investment mechanisms to ensure the sustainable implementation of relevant activities to protect marine and coastal environments and sustainable use of marine and coastal resources in the Yellow Sea region.

This issue was discussed in detail at the Second Meeting of the RWG-I, and the following was the discussion and agreement from the meeting. The agreement was endorsed by the PSC at its second meeting:

The members noted the importance of securing financial sustainability for continuous implementation of management activities to be prepared and agreed in the Strategic Action Programme for the Yellow Sea. To achieve this purpose, there is a need to prepare a strategic paper on financial sustainability.

The meeting agreed that a draft strategy on financial sustainability should be prepared by the PMO, and presented to the next RWG-I meeting for consideration.

This document is prepared according to the agreements from RWG-I and the PSC. Instead of having a draft strategy, this document provides some preliminary ideas for consideration of the issues needed to be discussed by the participating governments and experts concerned.

2. Project Implementation and Financial Sustainability

Why does the project need to consider financial sustainability at this moment while the major activities are preparations of the Transboundary Diagnostic Analysis (TDA) and Strategic Action Programme (SAP)?

To protect marine and coastal environments and ensure sustainable use of marine and coastal resources require long-term commitment from all stakeholders concerned. To understand major environmental problems, take appropriate management actions, and to assess the impacts of those actions will take quite a long time - a minimum of 10-15 years.

Therefore, continued and stable financial investment to ensure the long-term process reaches its goal, is essential for a meaningful management plan.

During the YSLME project, the governments will participate in the preparation of TDA and SAP. For implementation of SAP, agreements will serve as a base for all the activities (actions) to be implemented. Moreover, active and sufficient government support is essential for the successful implementation of the activities (actions) identified in the SAP.

For successful implementation of the SAP, wide participation in, and support of the defined activities (actions) from a critical mass of people from diverse sectors of society will be a fundamental factor for the smooth implementation of the actions identified in the SAP.

Financial sustainability is important not only for financial support to implement the identified activities (actions), but also important to provide bases for the institutional support to ensure the effective implementation of the SAP. In summary, the financial sustainability will cover the issues of:

- Secretariat support in national institutions to maintain the project's outputs;
- Technical support; and
- Financial operation and management.

3. Types of Financial Resources

The major financial resources that can be used for marine environmental protection and sustainable use of marine resources mainly come from the following resources:

3.1 Government Commitments

As one of major stakeholders, governments are the major sources of financial support to the protection of marine environment.

Advantages:

- (i) The financial investments from the governments in the Yellow Sea region are normally large amount with systematic planning;
- (ii) The investments are relatively stable within certain periods of time, e.g. 5- 10 years;
- (iii) The government investments are often with clear objectives, staged-targets. Therefore, it is easy to monitor the progress and achievements.

Disadvantages:

- (i) The government investments are often associated with bureaucracies that cause problem in efficiencies of the investments;
- (ii) The decision-making process of the investments often lack consultation with wider stakeholders, in particular with local communities, NGOs and private sectors;

- (iii) Major beneficiaries of the investment on protection of marine environment cover most populations, but not all communities living in the coastal areas, which causes narrow participation.

3.2 Donor Contribution

The donors, both internal and external, often contribute to the protection of marine environment with special objectives, and often serve as seed funding for particular activities.

Advantages:

- (i) Specific purposes

The donor contributions have, in the most cases, clearly defined specific purposes, and with specially defined activities.

- (ii) Short-term investment, but quick benefits

The donor contributions are often short-term investment with clear objectives. Successful implementation of the activities will bring quick benefits to the stakeholders of the projects.

- (iii) Wider participation

The donor funded projects require, in the most cases, wider participation of all communities, private sectors, and NGOs. The wider participation can raise public awareness of marine environment protection.

- (iv) Transparent

With a well-established procedure, monitoring and evaluation, the donor funded projects operate in relatively transparent ways, which can win the trust from communities.

Disadvantages:

- (i) The donor-funded projects have, for most cases, an alarming problem of being donor-objective driven on decision making.
- (ii) Majority of donor funded projects have clearly defined objectives, but most of them are the short-term ones.
- (iii) The donor funded projects have, in some cases, less co-ordination and co-operation with existing projects/programmes, as well as with other donor projects.

3.3 Public Fund Raising

Advantages:

- (i) The resources generated from public fund raising come from wider range of societies, which generate not only financial resources, but also public awareness, and enhance public participation.

Disadvantages:

- (i) It is difficult to predict when one can receive the financial contribution, and the precise amount of the contribution. Therefore, it is difficult to make appropriate planning to co-ordinate the contribution with the existing funding and projects.
- (ii) Due to its unpredictability, there would be problems on effective use of the financial contribution in certain activities.

4. Type of Sustainable Mechanism

4.1 Enhancing Existing Mechanism

To better use the existing mechanism should be the first consideration to sustain the benefits of the project, in particular for the implementation of the SAP, both regional and national SAPs. There are several existing mechanisms that cover the Yellow Sea region, and deal with the problems identified. For instance, IOC/WESTPAC, established some 30 years ago, mainly deals with the scientific issues in the marine environment; NOWPAP is dealing with environmental issues, including marine pollution, but exclude the fishery and other issues; the FAO Regional Office is responsible for the fishery issues, but not dealing with other environmental problems existing in the Yellow Sea ecosystem.

When we discuss the existing mechanism for the sustainability, we need to examine first whether the existing mechanism works properly for the ecosystem based management.

The current situation in the region regarding the regional co-operation and co-ordination is quite complicated. On one hand, there are many international and regional organisations that are dealing with marine environmental problems, such as NOWPAP, PICES, IOC/WESTPAC, FAO Regional Office, etc. However, on another hand, most international and intergovernmental organisations in the region are concerned with sectoral management, but not a space-management. The implementation of SAP will need a strong space-management, i.e. managing the water body and associated coastal areas of the Yellow Sea.

One may suggest enhancing the existing mechanism to take care of the implementation of the SAP and associated activities, and provide necessary support as mentioned above. The simple justification is that there are already some organisations in the region, and it would be more effective if these existing mechanisms could be used separately or in combination with each other. It should be noted that to use the existing sectoral management mechanism to support the space-management activities would require a lot of co-ordinating work, which could be more complicated than establishing a new one.

4.2 Applying Endowment Mechanism

The endowment mechanism is another procedure that could be considered for providing secretariat and management support for the implementation of SAP. By accepting this mechanism, it is necessary to have clear design on a management structure, fund raising strategy, and fund operating strategy. As protection of marine environment will not create direct benefits from its activities, fund raising would not be easy to meet the targets identified in the SAP.

However, it should be noted that the governments in the Yellow Sea coastal areas have invested tremendous amount of money to cover the costs of the relevant activities. This funding is, in the most cases, used at the national level. With better understanding that marine environmental problems are transboundary problems and regional and international co-operation are the solutions to solve the problems. Therefore, appropriate mechanisms to implement the identified management activities is necessary and essential. Appropriate levels of investment at the regional level would provide better benefits and outcomes in the Yellow Sea region.

An example of an endowment mechanism is to establish a foundation, with responsibility to manage funding donated from various sources, and to carry out fund raising campaigns for implementing the activities.

If the project could successfully get support from GEF as the second phase to implement the SAP, it would provide seed funding to initiate the process, and finalise the mechanism and strategy for the endowment mechanism.

4.3 Establishing New Sustainable Mechanism

The option of the endowment foundation is one of new mechanism for implementation of the SAP, which has special operations of commercial arrangement. However, if the major funding would come from the governments of the coastal countries of the Yellow Sea, one may wish to establish a special intergovernmental mechanism with specific task to implement the SAP. Similarly, as described above, the GEF funding for the second phase of the YSLME will be major contribution and seed funding for the establishment of such mechanism.

If this option is preferred by the partners of the project, it should be clearly recognised that:

- (i) This mechanism would have very specific tasks in implementing SAP, and would be efficient for the actions to protect marine and coastal environments and sustainable use of marine and coastal resources;
- (ii) Close co-operation and co-ordination with other organisations in the region, with different responsibilities in protecting marine environment should be secured, to avoid duplication of efforts.

5. **Actions to Be Taken**

The third meeting of RWG-I will be invited to consider the preliminary considerations on the sustainability of the project, including but not limited to the financial sustainability, in particular in the following areas:

- The preliminary considerations of the financial sustainability issue as presented in the document should be carefully reviewed. The meeting should examine the topics for consideration, and agree on the direction the project should take, in order to have a regionally agreed strategy on this issue. It may need further investigation and studies to find more useful mechanisms. If this is the case, the RWG-I needs to decide on how it should be done.
- With the agreement on the direction, the RWG-I needs to give advice on how the strategy should be developed. It is worth to note the development of PEMSEA on the similar issue.

- It should be noted that the relevant parts of the strategy on the sustainability should be included in the SAP, as implementing mechanism. The RWG-I, as the body with the overall responsibility to develop SAP, should suggest possible actions to ensure the inclusion of the financial sustainability in the SAP.