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## **MEDITERRANEAN ACTION PLAN**

Training course for the preparation of Sectoral Plans and  
National Action Plans in the framework of the Strategic Action Programme (SAP)

Izmit (Turkey), 4-6 March 2004

### **STRATEGIC ACTION PROGRAMME**

#### **GUIDELINES**

**Guidelines for the preparation of Investment Portfolio for the implementation of  
the SAP / NAP**

In cooperation with





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## 1. Introduction

This short paper considers the role of the Investment Portfolio (IP) within the context of the MAP Guidelines<sup>1</sup> for the preparation of National Action Plans (NAP) and elaborates guidelines for the preparation of IP.

The primary purpose of this paper is to serve as a document for training and application with a view to integrating the methodology for the preparation of IP within the overall NAP process.

This document addresses this purpose in two main parts: The first part considers a number of key issues about the nature, purpose and significance of IP and, the second part, explains how it is prepared and the most important information involved in its preparation.

### Part One

## 2. Key issues

### 2.1. Methodology

There is no generally accepted methodology and established format for IP. However, as IP is an instrument for supporting environmental management actions, in this case those actions based on the SAP and promoted at the national / regional level by the NAPs, the methodology of IP, its framework and approach should, by definition, serve the requirements for an effective preparation and implementation of NAPs.

### 2.2 Mobilisation of resources

A major requirement for implementation of national actions is the mobilisation of financial resources and for this an economic approach needs to be incorporated into the NAP process.

### 2.3 Economics

The role of economics is central to the mobilisation of financial resources but it is not the only factor in this process. The application of economic principles highlights the importance of finance in implementation while equally important is to focus on how financial resources should be used in the broader effort to maximise national and regional (Mediterranean) benefits from improvements in environmental quality.

### 2.4 Scarcity of finance

The issue of scarcity needs particular attention. Despite the growing interest of regional donors in providing financial resources for addressing pollution from land based sources, financial resources will always be limited relative to the problems that have to be tackled. It is therefore wise to always bear in mind that NAPs will operate under conditions of relative financial shortage, pointing to the need for defining priorities to ensure that the most important actions are implemented first.

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<sup>1</sup> Strategic Action Programme – Guidelines for the Preparation of National Action Plans for the Reduction of Pollution of the Mediterranean from Land Based Sources, July 2003.

## 2.5 Priorities

Given that it is highly unlikely that NAPs will have at their disposal all the financial resources needed to achieve environmental protection and improvement to their full extent, *priorities* have to be established and justified. The question is *what kind of priorities?* While *environmental* priorities are rightly the dominant concern in the NAPs, reflecting SAP MED objectives, a closer look at priorities should be taken from an *economic point of view* to place environmental priorities within the context of a realistic and politically acceptable **Financial Strategy**.

## 2.6 MAP Guidelines

The *Guidelines* address considerable attention to the preparation of IP and assign an important role to it. According to the *Guidelines*, IP is one of the main objectives of NAPs and a major component in the 'Preparation of Financial Strategy (Phase 6) for 'Setting up the National List of Priority Actions for 2010', for the National Action Plan'.

## 2.7 Investment Priorities

A further comment on priorities is needed. Priorities are relative. Priorities may be broad and extensive or more specific and more sharply defined depending on the constraints that have to be taken into consideration. Therefore, an important step has to be taken to move from environmental priorities to investment priorities.

## 2.8 From environmental priorities to Investment Priorities

At the heart of IP is the need to identify investment priorities within the environmental action priorities defined in the context of the *Issue / Impact Matrix*. In short, IP is the tool that takes forward the already defined environmental priorities for reducing land based sources of pollution to form the **financial strategy** of the NAPs.

## 2.9 Investment information

The IP is much more than a list of cost-estimated projects. It is a readable and organized presentation of investment proposals short-listed from the larger list of proposed actions on the basis of investment-related information, including but not limited to costs, justifying them as more important than others for earlier implementation.

## 3. Main purpose of IP

The overriding purpose of IP is the development of a Financial Strategy necessary for the mobilization of financial resources for implementation. The IP builds up two of the most important components of the Financial Strategy:

- Defining investment priorities, and
- Communicating investment priorities to others (decision-makers, politicians, the general public, etc.).

**Defining investment priorities.** Priorities are important in reconciling environment objectives with financial constraints in order to ensure successful environmental management. Defining

priorities involves more than putting forward the sequence of actions a country wishes to pursue over a period of time. Important factors, such as cost, feasibility and benefits, have to be taken into consideration to focus on those actions that a country can realize. It is quite possible that decision makers can become very ambitious and commit themselves to a programme for implementing costly projects motivated by a strong environmental interest. There are cases where in the end very little is achieved in practice. Priorities help in finding a middle position between 'trying to do everything', out of excessive concern for addressing serious pollution impacts, and 'doing very little', out of under-estimation of the financial difficulties of implementation.

Defining investment priorities is a process of identifying and securing a course of action away from the two harmful extremes of 'trying to do everything' and 'doing nothing'. There is no country, organization or individual that is ever in a position to have all the necessary financial resources to pursue all the actions included in a plan. Choices have to be made within a framework of information that helps us translate the most important environmental actions proposed by the plan into investment priorities.

**Communicating investment priorities.** Investment priorities are defined not only for financial planning reasons but also to provide information for coherent communication between environmental experts and decision-makers, partners and the public. The articulation of investment priorities in the form of IP allows communication to operate as a tool for building awareness and strengthening shared objectives.

IP is also most important to stimulate and communicate a mentality of 'resource consciousness' in the NAP process and achieve a better integration between environmental and socio-economic parameters necessary for mobilizing donor and domestic resources, justifying choices and raising public awareness and commitment.

#### **4. IP in the National Action Plan process**

Although not expressed in those terms, the NAP *Guidelines* address considerable attention to the preparation of IP and assign an important role to it. According to the *Guidelines*, IP is one of the main objectives of NAPs and in particular a major component in the 'Preparation of Financial Strategy (Phase 6) for 'Setting up the National List of Priority Actions for 2010', for the National Action Plan'. In the *Guidelines*, setting up the national list of priority actions rightly comes several stages after the completion of important tasks that include:

- The preparation of the National Diagnostic Analysis (for the baseline budget for all SAP targeted pollutants);
- The assessment of National / Administrative Region Issue / Impact Matrix (based on the scoring / scaling system of Annex I, (that takes into consideration the SAP targets and commitments).
- The setting up of the relevant administrative region's plans and actions that will ensure the reduction of releases of specific pollutants from the various sectors.

Also, we should recall the main points stressed in the *Guidelines* regarding the role of the IP. These include:

- Definition of financial resource needs;
- Cost estimates, including the cost of no action, whenever possible;

- Assessment of benefits;
- Preparation of technical / feasibility studies and pre-investment studies;
- Identification of further investment opportunities;
- Identification of opportunities for promoting public-private partnerships (both domestic and foreign);
- Mobilization of partners;
- Assessment of specific requirements, budget cycles, priorities, and financial services and products offered by each potential partner;
- Assessment of availability of funding sources for the private sector, (development grants, subsidies, "soft loans", and/or new credit facilities at preferential rates;
- Development of Private-Public-Partnerships;
- Examination of alternative options for each of these issues;
- Clear guidance on sustainable practices;
- Emphasis on projects that have a solid demonstration function.

## **Part Two**

### **5. Preparation of IP**

The preparation of IP should consider the essence of the above points but to do so requires a methodology and an approach comprising a series of steps. These steps should include the most important factors that reflect crucial information about the priority to be given to projects and criteria that justify decisions for their implementation. Although, as said earlier, there is no established and generally accepted methodology for the preparation of IP, bearing in mind the role and purposes of IP as an instrument for identifying and communicating investment priorities for mobilizing resources, the sequence of important steps that must be taken should include the following:

**Step 1 Developing and agreeing on the main criteria to which importance is assigned**

**Step 2 Assessing the information required to operationalize these criteria**

**Step 3 Developing and agreeing on the scoring system to be attached to these criteria**

**Step 4 Developing and agreeing on the scaling system for refining the scoring system**

**Step 5 Reviewing the final scores defining the investment priority of 'selected projects'**

**Step 6 Working out an example for debate**

**Step 7 Reviewing the implications**

**Step 8 Presenting the IP**

**Step 9 Constructing a possible format for the overall IP**



## 6. Explanation of the process

### Step 1 – Developing and agreeing on the main criteria

There are several approaches for selecting investment priorities. The usefulness of each approach depends on the requirements and the focus of the larger programme or plan of which the investment strategy is a part. An important consideration is therefore to use an approach that serves best the needs of the programme in hand, (in this case the objectives of the SAP implemented through the NAPs) with available or easily accessible information without expensive research.

The important point here is that environmental priorities have already been defined within the context of the objectives of the SAP and the significance of the national / regional pollution problems deriving from the Issue / Impact Matrix (Annex I of the *Guidelines*). The issue now becomes the consideration of investment-oriented criteria for selecting priority projects for investment. The purpose of incorporating an IP in the NAPs is to focus on those actions or interventions that will address the environmental problems most effectively within a framework of (ultimately) limited financial resources, taking also into account other priorities and pressures which governments and decision-makers may carry with them. The transition from environmental priorities to 'selected' investment priorities requires a set of criteria that place proposed environmental actions in the wider national policy context.

There are various parameters that serve to bring closer together environmental priorities and investment commitments. The following parameters are among the most important:

- **Cost** – the capital and running costs of a project;
- **Benefits** – the impacts (or benefits) expected to accrue from a project;
- **Economic development** – the contribution of a project to the productivity of the local / national economy;
- **Feasibility** – the ease with which a project can be implemented within the existing legal / administrative institutional framework of the country / region;
- **Financial sustainability** – the capacity of a project to generate or mobilize future revenues sources for project replication and continuity of the programme.

An important clarification is needed here. In the widely-used Cost-Benefit Analysis the first two parameters are considered to be the most important in that they focus on the size of the costs relative to the values of benefits. This approach is most suitable when evaluating competing projects with well defined technical specifications, a task which follows after broad investment priorities have been established. This more detailed type of analysis is recommended after the IP is formulated and agreed and specific projects are approved for construction where a detailed technical-feasibility study is needed to elaborate their detailed phasing, cash flows and social impacts. In addition, a Cost-Benefit Analysis approach requires a certain minimum quantity and quality of data that are often unavailable without specific study. Also, considering only costs and benefits will be inadequate in highlighting other factors that play an important part in defining investment priorities to implement a national environmental plan, such as its contribution to development, its implementation feasibility and its financial sustainability.

### Step 2 Assessing the information required to operationalize the criteria

The basic information requirements relating to the above suggested criteria include the following:

Information	Comments
<b>Costs</b>	Cost information should include the estimated capital cost and running costs of the project. Cost information will be approximate (but realistic) as more accurate cost information will be estimated at the pre-feasibility stage when more technical details will be available.
<b>Benefits</b>	<p>Information about benefits should include two main elements: the cost of inaction avoided (cost savings) by undertaking the project, and the value of the positive improvements to environmental quality achieved by the project.</p> <p>The first type of benefits should try to estimate (with rough figures if possible) the existing and anticipated environmental losses which the project will prevent. This information should be available from the Issue/Impact Matrix that identified the environmental priority of the project. Only broad estimates of benefits should be obtained enough to show the magnitude of the impacts of inaction.</p> <p>The second type of benefits should try to assess the value of environmental resources improved by the project, such as additional production, recreational opportunities, or purely environmental services to the community. Again, rough estimates should be sufficient to indicate the importance of the project.</p>
<b>Development impacts</b>	Reduction of pollution has wider effects on future economic development and community welfare. Development impacts should include the main contributions of the project, for example, to the coastal economy and the sectors that comprise it (tourism, recreation, fisheries, etc.) The emphasis here should include the population groups gaining most from the project (distributional effects). Rough indications should be given about direct gains to low income population.
<b>Feasibility</b>	Information should be provided on whether the project is feasible within the existing administrative and legal structure of the country / region, or if changes will be needed which may delay implementation.
<b>Financial sustainability</b>	Information should be obtained about the availability of financial resources for implementation and the project's capacity to generate revenues. As financial resources are always limited it is important to give information about the interaction of the project with the market, that is if the project will produce 'marketable' services, if charges will be introduced to raise revenues contributing to cost recovery or at least to the annual running costs, and if it will involve private sector participation.

### Step 3 Developing and agreeing on the scoring system

It should be clear by now that IP is more than a list of cost-estimated projects. It is wrong to consider that the cost is the most important factor in determining investment priority. The size of the cost of a project may appear to be a clear indicator of priority but this is not the case as costs are relative. The actual availability of funds is indeed one factor that determines if a certain cost is high or low. Other factors are involved such as the value of benefits achieved, the recovery of costs, the impacts on development, etc.

The following scoring system is suggested:

#### Scoring

Project characteristic	Score
Benefits	5
Economic development	4
Financial sustainability	3
Feasibility	2
Cost	1

Notes on the scoring system:

- Benefits – The highest score is attributed to the value of results, that is the project's impacts on environmental quality (saved and created);
- Development issues – Second highest score is given to the contributions to development and welfare as all governments are committed to promote development particularly in low income regions with low income population;
- Financial sustainability – Next is the capacity of projects to create revenues from charges or attract private sector participation ensuring conditions of financial sustainability. The significance of financial sustainability is that it minimizes the dependence on scarce public sector funds, rendering the actual cost of investment less important than it may seem at first;
- Feasibility – Feasibility is often a very important issue. However, it is less important than the previous criteria because if a project possesses the above attributes (benefits, development contribution and financial sustainability) but requires some changes in the administrative / legal framework, it is a problem worth solving, also becoming instrumental to the improvement of the institutional set up and capacity building;
- Cost - The level of cost becomes of limited importance if all the other issues are present.

### Step 4 Developing and agreeing on the scaling system

The following scaling system is suggested

### Scaling

	Public health = 5
Benefits	Other benefits to disadvantaged group(s) = 3 General (unspecified) = 1
	Contribution to the leading economic sector in the area = 5
Development	Less important sector = 3 General = 1
	Opportunities for application of economic instruments = 5
Financial sustainability	Potential application of economic instruments = 3 Difficult to apply economic instruments = 1 Easy implementation = 5
Feasibility	With minimum changes = 3 With major changes = 1
	Low cost = 5
Cost	Medium cost = 3 High cost = 1

### Step 5 Reviewing the final score defining project investment priority

The following priority scoring is shown for illustration

#### Final score

Public health benefits	$5 \times 5 = 25$
Important distributional benefits	$5 \times 3 = 15$
General benefits	$5 \times 1 = 5$
Development impacts on major sector	$4 \times 5 = 20$
Development impacts on less important sector	$4 \times 3 = 12$
General	$4 \times 1 = 4$
Financial Sustainability high	$3 \times 5 = 15$
Financial sustainability medium	$3 \times 3 = 9$
Financial sustainability low	$3 \times 1 = 3$
Feasibility high	$2 \times 5 = 10$
Feasibility medium	$2 \times 3 = 6$
Feasibility low	$2 \times 1 = 2$
Cost low	$1 \times 5 = 5$
Cost medium	$1 \times 3 = 3$
Cost high	$1 \times 1 = 1$

### Step 6 Working out an example for debate

The following examples illustrate the priorities assigned to projects with the application of the scoring / scaling system.

#### Example

**Project A.** Project with general benefits but high economic development potential and opportunities for financial sustainability

**Project B.** Project with high public health benefits but only indirect economic and low financial returns

**Project C.** Project with medium values in all

Project	Score					
	Benefit	Development	Financial Sustainability	Feasibility	Cost	Total
Project A	5	20	15	6	3	49
Project B	25	4	3	6	3	41
Project C	14	12	9	6	3	44

### Step 7 Reviewing the implications

The following guide notes are offered as points of reference:

A project with limited benefits but very important development and financial characteristics will score higher than a project with very high benefits but very low development and financial characteristics. It may appear odd but consider that high development and financial performance will strengthen public sector budgets to fund such projects.

- However, a project with high benefits will not be left behind as it will underscore by only 10% (44) relative to the projects with high development and financial performance (49).

### Step 8 Presenting the IP

The following format is suggested for reference:

#### Individual project Sheet

Project Name	Description
Location	
Sector	
Main purpose	

<b>Priority criteria</b>	<b>Score</b>
<b>Project benefits</b>	
<b>Expected development impacts</b>	
<b>Financial sustainability</b>	
<b>Feasibility</b>	
<b>Estimated cost</b>	

### Step 9 Constructing a possible format for the overall IP

#### IP for 2010

Project in order of priority	Cost	Funding source Public / private	Commencement date
1			
2			
3			
4			
5			
6			
7			
8			
9			
10			

## 7. Conclusions

### How IP should be read

- It will present the project selected for investment as part of the overall list of projects identified to address serious environmental impacts;
- It will present in an organized format justification why particular selected projects are proposed, facilitating meaningful debate and increased awareness;
- It will present a basis for mobilizing funds, determining the financial strategy and providing a context for promoting the application of Economic Instruments for the environment;

- It will increase resource consciousness and help moderate ambitious approaches on the basis of priorities, ensuring actual results in the end;
- It will create stronger links between environmental policy and socio-economic policy.