



**United Nations
Environment
Programme**

UNEP(DEC)/RS.7/WP.2.RS

Original: ENGLISH



7th Global Meeting of the Regional Seas
Conventions and Action Plans

Helsinki, Finland 18-20 October 2005

Issues Paper: Challenges and Recommendations
for Sustainable Financing of the Regional Seas



7th Global Meeting of the Regional Seas
Helsinki, Finland
18th October – 20th October 2005



Challenges and Recommendations for Sustainable Financing of the Regional Seas

In line with the recommendation from the 6th Global Meeting of the Regional Seas to focus the next meeting on financial issues facing the Regional Seas Programme (RSP), the objective of the 7th Global Meeting of the Regional Seas is to discuss on ensuring the long-term sustainability of the Regional Seas. The meeting will address the challenges and processes involved in financing Regional Seas' secretariats and programme implementation. The mutual sharing of experiences as well as expertise on multiple matters of finance at this meeting will increase awareness of potential solutions to financial challenges as well as enable the RSPs to better determine their role in assisting and facilitating countries in implementing their actions in the future.

The information presented in the documents as well as during the Meeting through presentations, discussions and experience sharing should enable each RSP to formulate possible action points addressing the long-term financial sustainability of their programmes, during the third session of the Meeting.

The RSPs face sustainable financing challenges on three main levels: secretariat, programme and national:

- I) Financing RS secretariats and core activities (i.e. personnel, operating costs/housing, meetings, and reporting). These challenges vary from region to region. In general, it is increasingly difficult to identify funding for the core costs of the RSPs.
- II) Financing the Regional Seas Programme of Work (POW) as agreed by the Conference of the Parties (COPS) and/or Governing Bodies of the Regional Seas Conventions and Action Plans (RSCAPs)
- III) Financing the implementation of conventions and other agreed activities at national level is seriously under-funded and suffers from low mobilisation of domestic resources. The RSPs are in a unique position to assist national governments in the implementation of the Regional Seas at the national level.

Understanding mechanisms of strategic planning, sequencing of action, programme and project implementation is fundamental for identifying the real demand for financing (based on affordability and priority). Identifying the "real demands" for environmental financing will enable countries to tailor their financing mechanisms and instruments in accordance with their particular needs. The meeting aims to provide valuable information on how to maximise leveraging of international transfers and governmental subsidies as well as how to gradually and in a timely manner, mobilise domestic resources and mechanisms for the long-term sustainability of the programme. It must however, be clear that, no matter what resources are available at present, there is a need to gradually work towards long-term sustainable financing from sources such as national contributions, taxation and the polluter/user/beneficiary pays principle.

I. Financing Regional Seas Secretariats:

In order to meet the requirements of sustainable financing for RS secretariats' core costs, there is a need for RSPs to shift from the traditional mix of membership payments, UN contributions, GEF funding and other multilateral and bilateral donor contributions towards mobilising funding from countries in the region.

There is an increasing necessity to match available financing from bilateral donors, multilateral donors and the GEF with additional national commitments. The implementation phase, which many RSPs are currently moving into, highlights the urgency to focus on greater contributions from sustainable sources. In the long run, the only

sustainable financing for such activities are national contributions or resources from mechanisms such as trust funds or endowment funds that will allow constant interest generation at a sustainable level. When establishing a funding package for the core costs of the secretariat, it is important to take into consideration that the Secretariat will not be generating any revenue from its activities and thus will have to be financed completely by direct payments (member contributions) or grants.

The funding arrangements agreed upon by the member countries will need to generate consistent financing with little to no room for late or missed payments. In the short and medium term, it may be necessary for certain (often the wealthier) member countries to pay a larger share of the core costs but ideally the secretariat should aim to achieve a fair distribution of payments from its members. In order to ensure a strong sense of ownership, devising a funding mechanism where the poorer countries do not contribute should be avoided.

RSPs should identify their core activities in order to identify the minimum financial need for the future. A cost sharing arrangement between the RS countries implemented gradually over the next programme periods will strengthen the process of developing sustainable financing.

II. Financing RS Programme of Work:

RSPs are often requested to expand their activities either into new thematic areas, new sectors or simply to increase existing effort beyond what has previously been agreed. When accepting additional activities, it should be clear that financing is the responsibility of the national governments that have agreed to initiate these activities. Initially, donors or lead countries may finance such activities, but once mainstreamed into RSPs there will be a push from the initial donors to finance such issues through the core's funding mechanisms. Additional long-term activities should be acceptable if and only if there is a clear cost sharing agreement/commitment following similar lines as the core cost financing, mentioned above. To undertake agreed additional activities in a timely fashion, it may be relevant for the RSP to have a centralized fund, which may provide "kick off" funding until the agreed financing arrives.

III. National implementation:

Implementation of conventions and other national activities are the sole responsibility of national governments, which can be aided and encouraged by collaboration with the RSPs on the regional and global levels. Finding national or international resources to implement these activities have proven very challenging in almost all RS areas. Mechanisms such as full cost recovery, polluter and user pay principles and targeted subsidies, which may assist in providing domestic resources to their implementation is lacking, and in many regions not realistic at sufficient levels in the short to medium term.

In the short to medium term international loans and donor funding, including GEF, resources may be available for implementing actions. However, it should be clear that even though there may be plenty of financing instruments available, the only sustainable source of financing in the long run is from domestic sources. It should likewise be clear that loan financing and private sector financing are only bridging mechanism and will eventually have to be repaid by the borrower (from taxes or user charges).

It is necessary when planning larger national action programmes or convention implementation to have a clear understanding of the time frames involved and resources needed to implement these. Most activities cannot be financed at once (financial, institutional and capacity constraints) and therefore clear priorities for the short-term are necessary.

The implementation of short-term activities should include the preparation of strategic action plans for the medium-term and analysis of options for strengthening sustainable and domestic financing for the medium and

long-term implementation. Such strategic planning of short, medium and long-term actions will facilitate a process where it is more credible that actions will be implemented over time and that the prioritised projects are the correct projects given possible financing constraints.

Other Potential Arrangements or Methods:

In seeking to assist countries in securing increased resources for the implementation of conventions and national programmes of action the RSPs could:

- 1) Increase awareness of externalities and values of the ecosystems, which would provide justification for additional resources from public budgets as well as the recovery of future losses from polluters/users.
- 2) Express action plans in realistic financial terms, implemented into public investment programmes.
- 3) Increase awareness of long-term sustainable financing needs and long-term sources of domestic financing.
- 4) Establish networks between ministries of finance, economic planning, taxation and environment/water resources to address and discuss the creation of frameworks for domestic resource mobilisation.
- 5) Establish project implementation units to seek leveraging and blending of financial resources and to prepare medium and long-term actions.
- 6) Assist countries in ensuring efficiency in the use of existing resources.
- 7) Dissemination of best practices and capacity building activities.

RSPs need to understand the full project cycle for project implementation and process of funding national projects to be able to identify their role. It is crucial to understand that project developments take years of financial arrangements and that there is a very long process after the pre-feasibility stage: initial negotiation, feasibility, detailed design, financial negotiation, contracting – implementing and monitoring. RSPs need to find their roles based on capacity and resources.

* * *

Meeting Documents

In order to engender a deeper understanding of the broad-based issues described above, the RS Secretariat has compiled and prepared several information documents, each addressing specific topics relevant to the discussions on financial sustainability at the secretariat, programme and national levels.

“**Regional Seas Secretariat Costs**” (INF.14.RS) presents an overview of Regional Seas Programme’s sources of funding and allocation of resources at both the secretariat and programme levels. The report aims to highlight and assess similarities and differences between RSP financing mechanisms, specifically those of the CEP, OSPAR Commission, PAME and COBSEA.

The diverse financing mechanisms of PERSGA, the OSPAR Commission and the Baltic Sea region are illustrated in depth in three papers. The options, solutions and tools utilised in these regions provide possible methods that can be used in other RSPs, depending on the specific needs and situations of each regional programme.

“**Financing for the Conservation of the Environment of the Red Sea and Gulf of Aden (PERSGA)**” (INF.17.RS) focuses on three financing challenges facing PERSGA, reviews the financing mechanisms available to support environmental activities, and presents methods, tools and options to strengthen the implementation of the PERSGA Programme at both the regional and national level. Sections 3-5 of the report highlight valuable information also for the other RSPs. Section 3 deals with the fundamentals of environmental financing; Section 4 addresses financing the protection of the marine environment from land-based sources; and Section 5 highlights the financial constraints and prioritization of PERSGA’s action.

“**Financing the OSPAR Commission,**” (INF.16.RS) explains how the OSPAR Commission is financed, the advantages and disadvantages of the system and the new developments that are foreseen. The details given in the sections discussing the financing of the secretariat and core activity costs are also of particular interest.

“**Development of Financing Mechanisms in the Baltic Sea Region**” (INF.15.RS) illustrates the three-fold developmental process that has contributed to the financial achievements in the Baltic region. Firstly, following the collapse of the former Soviet Union, the Baltic region experienced a substantial increase in environmental financing from 1991 to the present, due mostly to a rise in donor support from among others, the Scandinavian countries, Germany and the European Commission. Secondly, Poland and the Baltic countries, including Latvia, Lithuania and Estonia increased their expenditure for environmental protection and established funding mechanisms for the increased need of investments. Several bilateral and multilateral financing programmes were created during this time, which provided subsidies, lending options and targeted support for environmental activities. Finally, the criteria required for the three Baltic countries and Poland to successfully undertake the European Union accession process provided a beneficial structure of clear standards and timeframes for implementing the EC directives.

Further to the paper on the Baltic Sea region, “**Lithuania. Environmental Financing Strategy**” presents a unique reference to a method of structuring environmental investments and actions at the national level. The report presents the Lithuanian need to comply with EU accession within the main environmental directives at project level. The process identifies potential financing sources, rolling pipeline, affordability constraints and capacity needs.

“**Economic Activity in Large Marine Ecosystems and Regional Seas: Indices and Case Studies**” (INF.13.RS) contributes substantially to discussions in Session 2 on “strengthening the claim for environmental financing.” The introduction of ecosystem-based management is emerging in 120 countries planning and/or implementing LME projects supported by the Global Environment Facility (GEF) to reduce and control coastal pollution, restore degraded habitats, and review depleted fish stocks. The GEF funding is for five to ten year periods and provides countries with the opportunity to demonstrate to stakeholders in relevant sectors, the socioeconomic benefits to be derived from sustainable use of marine resources and environments when GEF funds are made available. The report presents an overview of the compiled estimates of the direct output value of goods and services for each of the relevant marine sectors of countries bordering the world’s Large Marine Ecosystems (LMEs) in the Regional Seas, illustrates some cases studies and offers a comparison of the value of regional marine sectors with the amount of funding to be made available.

Finally, “**Financing Regional Seas Conventions: Paying for a Regional Public Good**” (INF.18.RS), a paper that was presented at the 3rd Global Meeting of the Regional Seas, Monaco, 6-10 November 2000, reflects the long- term historical need of the RSP to implement a financing strategy for the individual RS programmes. This paper illustrates the beginning of this lengthy process. Following requests from several Regional Seas Conventions and Action Plans for UNEP to assist in preparing a strategy to address financial issues, this report focuses specifically on innovative financing mechanisms in the context of the Wider Caribbean and the North-East Pacific regions in order to derive applicable approaches relevant to all the RSPs.

* * *

Session 3:

- RSPs divide into three working groups for brainstorm/discussion. Using the recommendations from this paper and the Meeting, participants will commit to two action points for each level contributing to financial sustainability (six action points for each RSP).
- The results will then be presented in plenary, followed by discussion.
- Each participant will work on the following table, in order to commit action points for their particular RSP.

Level	Potential Action Points
Secretariat and Core Activities	
RS Programme of Work	
National Implementation	