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Overview of Financial Challenges of Regional Seas Secretariats

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1.0 Introduction

1.1 Rationale

At the 6th Global Meeting of the Regional Seas the financial status of the future of the Regional Seas was discussed and decided that sustainable financing and, specifically, mobilizing domestic resources be the focus of the 7th Global Meeting of the Regional Seas.

The objective of the 7th Global Meeting of the Regional Seas is to discuss and explore ways to strengthen the long-term sustainability of the Regional Seas Programmes (RSPs) and the sustainability of the implementation of their programmes at the national level. The meeting will focus on the three elements of financing demands (RS secretariat costs, programmes and national implementation). The main focus will be on the national demands for financing the RS programmes and building sustainable financing mechanisms for these.

Sustainable financing is one of the cornerstones of strengthening the RSP at the global level as reflected in the agreed Strategic Directions 2004-2007 (Box: Strategic Direction 2)

The RSPs need the financial capacity to be strategically adaptive and proactive to effectively fulfill their responsibilities towards the priorities identified in relevant UNEP Governing Council decisions, to contribute to achieving the relevant targets of Agenda 21, the WSSD Plan of Implementation and the Millennium Development Goals, and in reconciling global conservation priorities with the realities of implementation at the regional level.

> <u>Strategic Direction 2:</u> Enhance the sustainability and effectiveness of RSP through increasing country ownership, incorporating Regional Seas conventions and protocols into national legislation, promoting compliance and enforcement mechanisms, involving civil society and the private sector, building capacities, ensuring viable national and international financial arrangements, as well as developing assessment/evaluation procedures where appropriate.

Due to expanding programmes of work as a result of changes in the development agenda, the state of the coastal and marine environment, the international policy framework, scientific knowledge, as well as socio-economic realities and trends, the RSPs face a series of financial challenges such as:

i. Financing of the core activities of the secretariats (i.e. personnel, operating costs/housing, meetings, and reporting).

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.

2.1 Scope of Work

This paper is based on financial information provided by RSPs for the purpose of exploring ways to strengthen financing of the RS activities at the three levels presented above, serving as background information for the 7th Global Meeting of the Regional Seas. A call letter was sent out on 1 July 2005 kindly requesting all RSPs to share their respective experience on financing (i) secretariat costs; (ii) budget and programme of work; and (iii) implementation of conventions and other agreed activities. The main purpose is to disseminate concrete experiences to assist in illustrating problems, trends and development paths as an input into the discussion on sustainable financing and ways to mobilize domestic resources of the RSPs.

COBSEA (East Asian Seas), CEP (Wider Caribbean), HELCOM (Baltic Sea), MAP (Mediterranean), OSPAR (North-East Atlantic), and PAME (Arctic) responded to this call letter and provided annual budgetary information for the period 2000-2004.

This paper provides a snap-shot of financing within the environment sector and background information on the UNEP Regional Seas Programme followed by description of the budgetary information provided by RSPs. The RSP incomes and expenditures are discussed, and examples provided on the status and mechanisms used, followed by a short summary and general discussion points.

2.0 Financing within the Environment Sector

Financing for the environment comes from various sources such as the public and private sectors, civil society and sources of international funding. Most environmental services are financed though user recovery (fees and charges) or public sector transfers (direct transfers, subsidies, grants, or guarantees). To a large extent, the demand for financing reflects society's ability to enforce regulations and users/polluters willingness to comply with these regulations, including voluntary approaches and/or voluntary financing. The demand for environmental financing from enterprises (public and privately owned) depends, to a large extent, on the enforcement of and compliance with regulations as well as the amount of available retained earnings to finance the needed activities. In addition, some foreign donor resources may be available usually to initiate capacity and institutional activities, support investment, and soften International Financial Institution (IFI) loans.

Limited availability of environmental financing is a main obstacle to increasing environmental protection. Globally, the reality is that budget numbers show declining international commitment to the environmental cause and broader, overall stagnation in official development assistance (ODA). The gap between the ODA pledged by the international community and actual contributions has remained largely unfilled. Regionally and nationally the deficiencies are mainly due to the relatively low effective financing available from the public sector, enterprises, and users of environmental services (i.e. lack of willingness and/or lack of ability to pay, and weak enforcement of regulations). When money is scarce, issues such as housing, education and health care often take priority over the environment.

Thus, although developed and developing countries share a common understanding of the causes of global environmental change, the developing nations are usually overburdened by domestic developmental problems to give priority to measures that specifically protect the environment. The general feeling in the international community is that northern countries will have to provide the South with 'new and additional' sources of finance, if global environmental problems are to be resolved and sustainable development encouraged.

The environment is central to the Millennium Development Goals, both in the specifics of Goal 7 (**"**Ensure Environmental Sustainability") and in the linkages of the environment with the other goals. It should be apparent that the environment and economy are inextricably bound to each other; in the long run, deterioration of natural assets will lead to erosions of economic and social welfare (thus the need for innovative management strategies that encourage sustainable practices).

There are several constraints, which could explain why the various sources of finance may not be attracted to the environment sector. The issue of political risk and poor governance seems to be the most important constraint that impedes the flow of finance into environment-related investments. These risks reflect the fact that political interference and unstable regulatory regimes can greatly alter the operating environment, impacting the ability to source finance for sustainable water projects.

In low and medium income countries environmentally related expenditure as a share of national income may be comparable with high-spending countries, though absolute levels are very low. This suggests that it is often the <u>willingness</u>, but sometimes also the <u>ability</u> to pay, linked to low income, that is the main constraint towards higher levels of domestic environmentally related expenditure, in particular within the water and sanitation sector.

Additional constraints could be due to:

- Low priority of environment in public sector spending (national and local) due to competing interests with other sectors such as health and education as a result of acute scarcity and accumulated external debt burden.
- Weak revenue generation from existing environmentally related charges, as the aggregated revenue-raising capacity is usually too small to create a critical mass of resources to support significant investments.

- Low levels of ODA/IFI[1] and FDI[2] to the developing countries as a result of weak demand by countries for environmental assistance.
- Centralization of financing possibilities of environmental activities reflects the lack of financial autonomy at the local government/municipality level and offers weak incentives to sub-national levels of government for responsible, long-term environmental management.
- Lack of accounting for costs of externality from environmental degradation such as health costs, loss of ecosystem services, tourism etc.

3.0 The UNEP Regional Seas Programme

At present, there are 18 regional programmes, 13 of which were established under the auspices of UNEP: the Black Sea, Wider Caribbean, East Africa, East Asian Seas, ROPME Sea Area, Mediterranean, North-East Pacific, North-West Pacific, Red Sea and Gulf of Aden, South Asia, South-East Pacific, South Pacific, and West and Central Africa. Furthermore, five independent partner programmes for the Antarctic, Arctic, Baltic Sea, Caspian Sea and North-East Atlantic Regions are members of the Regional Seas family.

Six of the UNEP RS programmes (Caribbean, East Asian Seas, East Africa, Mediterranean, North-West Pacific and West & and Central Africa) are directly administered by UNEP. This means that UNEP has been given responsibility for secretariat functions, usually through a Regional Coordinating Unit established in the region. For these Regional Seas programmes, UNEP/RSP is also accountable for administering the Trust Funds and provides financial and budgetary services, as well as provides technical backstopping and advice, and hence is more closely and directly involved in all their projects and activities.

UNEP, together with selected United Nations and other organizations, provides “seed money” or catalytic financing in the early stages of the regional programmes. Ultimately, the Governments of the region are expected to assume financial responsibility. Government financing may be channeled through regional trust funds administered by the organization responsible for secretariat functions of the Action Plan (often initially UNEP, later the RCU or a new independent regional organization).

3.1 Organizational Structure

The Regional Seas programmes reflect a similar approach and function through an Action Plan, yet each has been tailored by its own governments and institutions to suit the region’s particular environmental concerns and challenges as well as its socio-economic and political situation. They cover issues ranging from chemical wastes and coastal development to the conservation of marine life and ecosystems. A regional umbrella convention on specific problems most often provide the legal framework for an Action Plan and expresses the political will and legal commitment of the Governments to tackle their common environmental problems, acting both together and individually. Conventions are put into practice ‘on-the-ground’ and associated protocols may deal with specific problems such as oil spills, response to emergencies, land-based pollution, and conservation of wildlife and habitats.

Generally the member governments of respective RSPs agree upon an organization to act as the permanent or interim secretariat of the Action Plan, (the Regional Coordinating Unit (RCU) or Secretariat) and decide how often to hold intergovernmental meetings to review progress, approve new activities and discuss the budget.

4.0 Regional Seas Incomes and Expenditures

Traditionally, a mix of RSP member country payments, UN contributions, GEF funding and other multilateral and bilateral donor contributions has financed the RS secretariats’ core costs and their programmes. With increased commitments through evolving challenges and priorities in addressing

[1] International Financial Institutions
[2] Foreign Direct Investment

emerging issues there is a need to explore ways towards sustainable financing of the RSPs in particular with respect to move towards funding from countries in the region.

RS secretariats have the overall and practical responsibility for the implementation of the decisions of member countries (or contracting parties) regarding the operation of their respective action plans. The RSPs have running costs, which cannot be avoided no matter how little financing is available and generally include:

i. Financing core activities of the secretariats

ii. Financing the Regional Seas programme of work as agreed by COPs and IGM.

iii. Financing the implementation of conventions and other agreed activities at national level.

Although the RSPs reflect a similar approach, with a secretariats' function overseeing and facilitating their respective activities, each has been tailored by its own governments and institutions to suit their particular environmental challenges. In addition, the financial arrangements of the RSPs vary from region to region as respective member countries have very different economic structures and are at very different stages of development, hence a financial solution that may work for one country/region may not be appropriate or even possible in another country/region. For these operations to run it is necessary to secure stable and sustainable funding which will facilitate the activities expected of the secretariat.

4.1 Budgetary information provided by RSPs

The budget information provided by the RSPs varied in detail and are not presented as individual itemized budgetary information but rather compiled into the following four main categories for illustration purposes and comparison:

- Staff costs (including consultants and sub-contracts)
- Accommodation and equipment (including office services, rent and maintenance of the office, communication, material and equipment)
- Travel and meeting expenses (including support and translation)
- Miscellaneous (including audit, bank charges etc.)

Some of the RSPs provided breakdowns of their project costs but no comparison between regions was attempted as this reflects primarily the way in which the budget information is set forth. For example, in some regions the project costs are met directly by individual contracting parties and do not appear in their annual budgetary information. But this in no way reflects the activities, or lack thereof, in those regions.

Also, no attempt was made to compare the funding resources of the RSPs as the methods used to determine contributions from its member states vary greatly, from voluntary contributions based on a proposed "base figure" to methods based on the UN scale of assessment as agreed to by the General Assembly of the United Nations. The income sources of the RSPs presented in the next section illustrate the different mechanisms used.

4.2 Funding resources of the RSPs

RSPs rely primarily on contributions from the member states to fund their secretariat budgets. The mechanisms used to decide on the amount of contributions vary between regions. Contributions from international organizations such as the World Bank and GEF directed towards specific projects may represent a part of the RSPs project portfolio.

The potential funding resources can be both in-cash and in-kind and may consist of the following:

(a) regular contributions from participating governments to the RSPs Trust Fund, according to a scale determined;

(b) *ad hoc* contributions made in addition to annual pledges [outlined in (a) above] from the participating governments;

(c) support from UNEP;

(d) contributions from governments supporting the Action Plan but not participating in it;

(e) support from any other United Nations organization on a project-funding basis;

(f) support from the regional and global organizations which are not part of the United Nations System (e.g. World Bank) in most cases on a project-funding basis;

(g) support from specific international funds (e.g. GEF); any other source of funding that may be agreed to by the participating governments.

Below are examples of funding resources that illustrate the differences and complexity of the funding structures of the RSPs.

CEP

In the case of the CEP, the main source of funding is the Caribbean Trust Fund (CTF), which is administered by the UNEP Caribbean Regional Coordinating Unit in Kingston, Jamaica via UNEP Headquarters in Nairobi, Kenya. The CEP was initially funded under UNEP's Environment Fund, but the programme was designed to sustain long-term support from its member governments and organizations. Funding from a variety of other sources, including other international organizations, governments and non-governmental organizations, has also supported the objectives of the CEP Action Plan. The Action Plan is also partially funded by national counterpart contributions to projects implemented at a national level.

Today, the governments of the Wider Caribbean Region help to meet the basic financial operating costs of the Regional Coordinating Unit through voluntary contributions to the CTF. These levels of contribution are established during the biennial Intergovernmental Meetings of the CEP. But inconsistencies in actual and expected annual contributions to the CTF as shown in Figure 1 illustrate the funding uncertainties the Secretariat faces. This is by no means unique for CEP. In an effort to assist delinquent member states the CEP Secretariat does accept in-kind contributions. Examples of such contributions include the hosting of CEP meetings as well as providing secretarial services to these meetings. Secretarial services can be in the form of personnel (secretaries, interpreters, translators) or equipment (computers, printers, photocopy and fax machines).

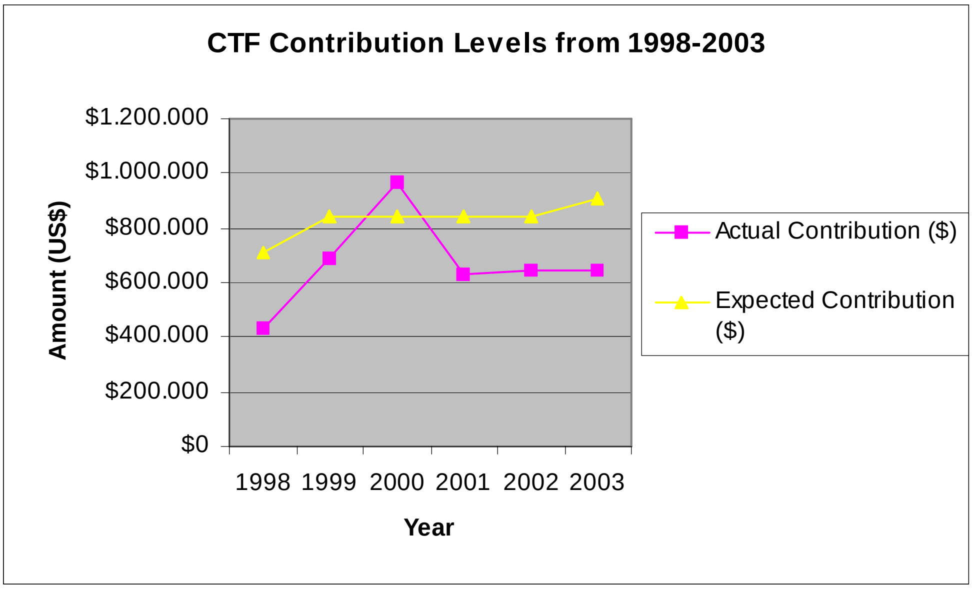

Figure 1. Comparison of actual and expected contribution to the CTF[3]

[3] From the 2005 CEP paper on: *Financing of the Regional Seas, their programmes and national implementation of the conventions/protocols*.

OSPAR

Apart from bank interest and sales, OSPAR[4] relies on contributions from the contracting parties to fund its budgets. The mechanism used by OSPAR to decide on contributions from its member states is a result of striking a balance between the following two different principles: Contracting parties should contribute according to their economic status and Contracting parties have equal voices in the OSPAR Commission and should therefore contribute equally. The OSPAR Commission has therefore agreed on the following for the general budget[5]:

a. two-fifths (40%) of the budget is divided in equal shares (16 Contracting parties each pay 2.5% of the general budget);

b. three-fifths (60%) is divided according to the size of the economies of the Contracting parties (the triennial assessment of the United Nations of the basis of contributions from member states is used for this purpose).

In addition, OSPAR has added refinements to this basic approach. For example, since the European Community does not have an economic base separate from its member states, it pays only the 2.5% share. Also, to prevent any one contracting party dominating the budget, a “cap” of 22% of the total general budget is applied to any one contribution.

This system, though complex, has been able to achieve, and maintain, unanimous agreement since the early 1990s. Its strength is that it means that small States know that they will not have to meet a disproportionate share, while large States know that small States cannot argue for increased expenditure without having to accept a reasonable share of the burden.

OSPAR maintains two funds: the General Fund and the Working Capital Fund. The General Fund is a way of dealing with the balances between years. The execution of the budget usually produces a small surplus (estimating is always a little on the cautious side), which is then most often used to reduce the contributions of the contracting parties a year later.

The Working Capital Fund is set at 10% of the total expenditure authorized in the general budget. This Fund has two purposes i.e. to provide a buffer against failure to pay or delays in contributions and to provide for unexpected expenditure.

PAME

The PAME Secretariat operates on annual voluntary contributions from the Arctic Council member states with approximately 50% of the operational costs contributed by its host, Iceland. PAME does not operate within a convention framework and all PAME projects are guided by Ministerial Declarations and further detailed in biennial work plans with identified lead country or countries which are then responsible for its expenditures.

COBSEA

Prior to the establishment of the East Asian Seas Trust Fund COBSEA is the Coordinating Body for the Seas of East Asia in 1982, and during the preparatory phase in the development of its Action Plan,