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Financing for Environmental Conservation of the Red Sea and Gulf of Aden (PERSGA)

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(A report on the options available for increasing sustainable financing for the implementation of the PERSGA programme at all levels)

Comment [bv1]: I took out "from land-based sources of pollution because the way the sentence read the implementation was from LB sources of pollution. The sentence should be re-structured if this phrase needs to be left in.

Final Draft
September 2005

[Not for Quotation]

PERSGA The Regional Organization
GPA Global Programme of Action for the Protection of the Marine Environment from Land-based Activities UNEP
Regional Seas

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Preface

PERSGA (Programme for the Environment of the Red Sea and Gulf of Aden) was set up as an organisation in 1995 to advance the conservation of the coastal and marine environments of the Red Sea and Gulf of Aden. Since the establishment of PERSGA much has been achieved – but there is more to be done to address the current environmental issues and move towards the vision of sustainable use and management of the region's coastal and marine resources.

With the Strategic Action Programme (SAP) ending in June 2005, PERSGA is now in a stage of transition and will be moving into the next phase of activities. This provides a vital opportunity for the work of PERSGA to gain fresh momentum and support as the new process of strategic planning for the Framework of Action (2005–2010) begins.

PERSGA has initiated a series of activities to support the next phase, which includes the development of the Regional Programme of Action, a review of PERSGA projects, a PERSGA business plan (2004–2014), and a draft protocol on the protection of the marine environment from land-based sources of pollution in the Red Sea and Gulf of Aden **(**LBS Protocol). These documents and reports provide the foundation for PERSGA's activities going forward.

As the next phase progresses, PERSGA is taking on a programme with a magnitude that can no longer be funded by a few donor contributions. This substantial increase in funding can only be achieved with the involvement of all member countries in close cooperation with international partners and donors. In addition, short-term funding through grants, donors, and/or subsidies will be essential until the necessary level of sustainable, long-term financing has been established. To organise such sustainable financing and increase the national implementation of the PERSGA programmes, domestic commitment, and domestic resources will need to be strengthened substantially.

Since the need for programme funding must be addressed directly, this report will discuss the financing process, determining financing needs, choosing the plan that best fits these needs, as well as the challenges that PERSGA will face moving forward with the next phase of activities. Since the most costly part of programme implementation will be at the national level, this report will focus on national action plan implementation and domestic resource mobilisation. The report will provide some international and regional examples as well as introducing methods, tools, and economic instruments and/or mechanisms that can assist the PERSGA Secretariat, its programmes and its member countries in creating a larger pool of sustainable, long-term financing[1].

The report is divided into the following five sections:

Section 1 provides a brief introduction on environmental financing as well as the rational and scope of this report.

Section 2 presents a brief background of PERSGA and discusses its demands for financing as presented in the work programme and at the national level.

Section 3 describes the different types of financing available, various funding sources, helpful financing options and tools that can be used to create the best financing package. This section also addresses options for increased environmental financing (user/polluter pay schemes, earmarking and general tax subsidies,

[1] Long term sustainable financing – can come from three main sources of funding. 1) Domestic public sector financing through direct or indirect transfers, 2) Polluters and user pays mechanisms and 3) foreign grants (international). It should be noted that loan financing and other form of future repayment mechanisms might bridge a time gap until sustainable financing mechanisms can be established. However, using bridging mechanisms based on future repayments will increase the need for domestic resources to be made available in the future when repayment is taking place.

Comment [bv2]: I don't think it's necessary to include each annex specifically but better to just keep them referenced as "annexes" in the TOC.

Comment [bv3]: I took this out of the TOC because this is also the title of section 3.3. I realise that within the report this is an intro to section 3.3 but it is confusing if put in the TOC. Section can be left as is within report but doesn't need to be referenced in the TOC.

Comment [bv4]: Title doesn't need to be repeated here.

etc.) and finally considerations to be taken when evaluating the potential of establishing an instrument. This section is supported by detailed annexes.

Section 4 is the central part of the report, presenting the art of financing action programmes at all levels. This section includes options for the blending and/or matching of different financial resources and considerations for financing different needs (secretariat costs, regional programmes, and national implementation). This section will specify relevant types of instruments as well as the framework which will need to be in place for the mechanisms to be effective.

Section 5 presents strategic planning methods and tools to help develop prioritised, affordable, realistic, and effective action programmes.

1.0. Introduction

Demand for environmental financing

The Programme for the Environment of the Red Sea and Gulf of Aden has developed a Strategic Action Programme for the Protection of the PERSGA region. The SAP in broad terms outlined the environmental problems facing PERSGA and the actions needed to address these. The SAP programme is currently in the process of being supported by a Regional Programme of Action to address pollution from land-based sources. It is widely expected that a protocol on land-based sources of pollution will be signed in late 2005. The Regional Programme of Action outlines which activities the PERSGA Secretariat will need to perform to assist countries when implementing the protocol – which includes the implementation of their National Programmes of Action for the protection of the marine environment from land-based sources. The NPAs outline the short-, medium-, and long-term activities that countries need to undertake for the protection of the marine environment.

Comment [bv5]: I took out "definition" because the report doesn't really provide a definition. It discuss mostly the demand.

Environmental financing comes from variable sources including the public sector, private sector, civil society, and international funding sources. When implementing environmental activities, it is always a challenge to select the right financing option/s and to identify enough available financing to cover the project.

The demand for environmental financing can be viewed from several angles. The national parliamentarian/policy maker will usually define the demand for financing, as the amount of funding needed to implement the legislation and policies in place at national and global levels. The ministries or municipal civil servants responsible for programme implementation will define the demand based on agreed programmes of work such as time-bound national action programmes or business plans. From a financial point of view, the demand for financing reflects the actual willingness of society to pay for the environment. Financing demand thus reflects the actual environmental financing made available in a given period.

With the latter definition, the demand for environmental financing becomes the result of: 1) the political commitment to the environment through budget transfers; 2) users willingness to pay for services and the use of the environmental resources; and 3) polluter's willingness (or enforced willingness) to clean up and prevent environmental degradation. 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.

There are three main groups that carry out environmental actions and/or investments:

- the public sector in providing environmental services to users (possibly through Public Private Partnerships);
- firms/enterprises with pollution abatement actions or actions to clean up inputs to their production; and
- other stakeholders that may wish, for varying reasons, to secure and maintain the environment (environmental groups and organisations).

Environmental degradation will often have a series of external effects which can be difficult or impossible to account for (externalities). Demand for environmental financing can be influenced by increasing the awareness of these externalities (full costs) related to environmental degradation or non-action. Including studies on the effects of non-action, environmental health costs, and environmental socio-economic relationships can become a valuable tool to justify increased financing for the environment. As an example of the serious costs involved, the Mediterranean Environmental Technical Assistance Program (METAP) has tried to assess the cost of environmental degradation in Egypt. The METAP has estimated the cost of environmental degradation to be between LE 10-19 billion annually or between 3-6 % of GDP. The figures should be taken as an order of magnitude and not as exact indications (METAP web).

Challenges in implementing PAs

The need to increase environmental financing usually arises from a policy process that has been initiated to strengthen environmental action for varying reasons, possibly because an environmental hot spot has arisen, health concerns have surfaced, or users/polluters have a need for services that protect the environment. The policy process creates a "demand" which most often results in the development of a programme of action (PA), which requires funding. In most countries, and increasingly so in transitional and developing countries, the development of PAs has uncovered several challenges that need to be addressed. The main challenges identified when implementing a PA are:

- the lack of widespread political and/or community support for the long-term actions and changes needed to protect coastal and marine environments;
- inadequate institutional capacity and/or human resources to satisfactorily address the wide range of land-based pressures facing coastal and marine environments;
- the lack of coordination between public investment programmes and national development/funding programmes – PAs are often developed by Ministries of Environment without recognising that other ministries will be responsible for implementing the PAs; and
- the lack of financial resources to adequately plan, design, implement, monitor, and evaluate firm actions to protect the marine environment from land-based activities.

To address these challenges and to ensure long-term sustainability at the national level, organisations must: involve stakeholders in the preparation and in the development of the PA; assign clear responsibility for the implementation and the funding of the PA; base the action plan on realistic assumptions of sustainable financing and on realistic expectations of institutional set-ups; and identify potential challenges to implementation and include actionable ways to overcome these challenges in the action programme.

The objective of the Regional Seas Programmes, such as PERSGA, is the protection of regional seas such as the Red Sea and Gulf of Aden, a shared natural resource, from threats of pollution and other forms of degradation. Regional seas are a cross-border resource, a shared public good, which no country could or has incentive to provide protection for on their own. The public good thus needs a regional cooperation to ensure the protection of the shared good: the regional sea. The challenge when protecting cross-border public goods is ensuring that all countries participate and that countries do not become "free riders" at the expense of other partners. The UNEP 2000 report titled "Financing Regional Seas Conventions: Paying for a Regional Public Good" presents a thorough analysis of the problems and issues that need to be addressed.

1.1. Rational for and scope of the study

Rational for the study
This report has been produced to assist PERSGA in developing a strong financing framework for its next phase of activities and to provide options for tackling the challenges that might arise. As discussed in more detail in section 2.1, the member countries may face a series of challenges that need to be addressed when implementing the PERSGA programme at the national level[2], such as:

- the lack of effective demand for financing;
- the lack of adequate institutional set-up;
- capacity constraints;
- legislative issues; and
- affordability constraints.

The information presented in the report should enable the PERSGA Secretariat and its member countries to more systematically address the sustainable financing needs of PERSGA and the long-term implementation

[2] It should be acknowledged that the PERSGA member countries are very different in terms of development and the availability of financing for environmental programmes.

of the Convention. The report will further enable PERSGA member countries to better decide how the PERSGA Secretariat through its programmes can assist in strengthening the national actions necessary for the implementation of the Convention.

Scope of the study

This report has been prepared for the PERSGA Secretariat, the national focal points[3] to PERSGA, and the relevant ministries responsible for implementing the PERSGA programme at the national level.

The report does not take an academic approach on the financing elements discussed, nor does it elaborate on the details of or the theories behind the presented economic instruments, methodologies, tools, processes, etc. The report aims to present enough information for policy makers to decide on options while limiting details to a minimum.

The report builds on existing information and experiences and will provide footnote references to additional supporting literature, which can be referenced for more detailed information. This report will focus strictly on the fiscal contributions of environmentally-related economic instruments but will not consider the actual environmental impact of these instruments.

The report will also discuss briefly the different options available to justify additional financing such as economic valuation, socio-economic issues, and affordability constraints at the household level, but will not go into great detail.