

**Project Proposal: Establishment of a Self- Sustaining Environmental Investment Service in the East Asian Seas Region**

**by the  
GEF/UNDP/IMO Regional Programme on Partnerships in  
Environmental management for the Seas of East Asia  
(PEMSEA)**

**Background**

The East Asian Seas face serious national and transboundary environmental challenges. Globalization of the economy and changes in production and consumption patterns have not only had an impact on the growth of the region but also have emphasized the interdependency of countries of the region on the health of their shared seas and economic sustainability. Any environmental problem within any part of the East Asian Seas, because of its semi-enclosed nature, can no longer be considered an isolated or localized concern, but a matter with potentially far-reaching implications.

East Asia is a major contributor to the world's urbanization and globalization trends. The expected annual growth rate of the urban population in East Asia from the mid-1990's to 2025 is estimated to be roughly four times that of the highest income countries of the world. For East Asia as a whole, this translates into an expected doubling of the urban population over 1994 figures. Coastal urban centers with current populations of the order of 300 million inhabitants are expected to account for more than half the total population of the region over the next 25 years. The implications with regard to use and degradation of coastal resources are clear.

Countries of the region are becoming increasingly aware of the urgency to stem overexploitation and degradation of the marine and coastal resources, and the roles and responsibilities of stakeholders from all sectors of society to change attitudes, awareness and behaviour when interacting with the natural environment. Countries are also aware that there needs to be greater focus on inclusion of the private sector in sustainable environmental investment policies. This will enable local and national governments to reduce the burden associated with financing resource conservation and environmental protection activities, and to focus more on setting and implementing the frameworks for private sector investment, including environmental considerations.

Another notable reaction is the increasing recognition of the vital role played by local governments in the planning, development and management of coastal areas. This is particularly evident in countries such as China, the Philippines, Indonesia and, more recently, Thailand, where national policies and/or legislation have been enacted to shift greater responsibility for environmental management to the local government level. In concert with their increasing responsibilities, local governments are being challenged to aggressively pursue new coastal management initiatives. For example, China is targeting a 40% reduction in pollution load to all marine and coastal areas, while Indonesia has determined that 50% of its coastal provinces will have ICM programmes in place within 4 years. In the Philippines, which already has a national coastal management programme in place, there are more than 1000 coastal municipalities.

In parallel to shifting responsibility to the local government level, national governments of the region are cooperating in a number of ongoing or new initiatives under the GEF

International Waters Portfolio<sup>1</sup>. The initiatives are concentrating on transboundary environmental concerns. Strengthening sub-regional institutional arrangements has been integrated into each of these projects to enhance the capacity of national governments, individually and collectively, to address transboundary environmental issues in the respective sub-regional sea areas.

### **PEMSEA's Role and Approach to Sustainable Environmental Management in the East Asian Seas Region**

PEMSEA's geographical scope covers the five large marine ecosystems of the East Asian Seas<sup>2</sup>. PEMSEA is working at local, national and regional levels, with the ultimate objective of creating a *self-sustaining regional mechanism* that will serve as an umbrella framework and unifying instrument for the governments of the region and the various sub-regional mechanisms. Not surprisingly, a common issue in each country is the lack of experience, skilled human resources and financing to meet these new challenges.

PEMSEA is addressing these shortfalls by:

- a) establishing 8 national ICM demonstration sites and 10 parallel ICM sites throughout the region. In addition to providing local governments with the experience and skilled human resources for coastal management, the ICM demonstration sites also serve as training grounds for future ICM site managers and staff, as well as national planners, policy makers and decision-makers; and
- b) promoting multi-country, multi-jurisdictional environmental management of 4 sub-regional sea areas and pollution hotspots through a risk assessment/risk management (RA/RM) framework. By applying the RA/RM process, governments (and different levels of government) bordering semi-enclosed sea areas jointly formulate a vision for their shared waterbody, and develop and implement a collective strategy and environmental management programme to achieve that vision.

The combined effect of these two approaches is a *working model for environmental management* involving:

- coastal and near-shore areas;
- sea-based and off-shore activities;
- transboundary issues; and
- sub-regional sea areas and large marine ecosystems.

The working model serves as a common tie among countries, levels of government, sub-regional initiatives, users and beneficiaries of marine and coastal resources, and related international conventions and agreements concerning the marine environment, within the planned regional mechanism.

*Sustainability of environmental management programmes*, and the regional mechanism itself, is a second area of focus. At each of its sites, PEMSEA assists national and local

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<sup>1</sup> Mekong River, Tumen River, Yellow Sea, South China Sea, East Asian Seas

<sup>2</sup> Yellow Sea, East China Sea, South China Sea, Sulu-Celebes Seas, and Indonesian Seas

governments with the development and application of institutional arrangements that are the foundation of sustainability. These include:

- a Council or Authority comprised of national and local stakeholders, tasked with overseeing the development and management of the marine and coastal areas;
- an operational body responsible for executing and/or co-coordinating the implementation of the Council's decisions;
- appropriate policies, regulations and economic instruments;
- enforcement capacity;
- strategic environmental management plans and issue-specific and area-specific action programmes;
- mobilization of the private sector, the scientific community and civil society as partners of government;
- land-sea use zonation plans;
- valuation of market and non-market uses of marine and coastal resources; and
- building human resource capacities.

The institutional arrangements that are being applied at each project site provide a measure of sustainability, by creating an environment of understanding, know-how and commitment. *But in most cases this is not enough.* At the end of the day, investment in facilities, services, products and technologies is required in order to move management programmes from a planning, coordination and assessment stage, into a response and intervention stage.

This requires a new approach. Reliance on government as the sole provider of expanding and new environmental facilities and services is neither realistic nor sustainable. Thus, the purpose of strengthening institutional arrangements is also to bring about private sector investment into environmental facilities and services. This will modify the nature of investment flows in the region, (which have been minimally related to environmental facilities and services), thereby contributing towards the long-term goal of sustainable development at the local, national and regional levels.

#### **A New Approach to Environmental Investments: Partnerships**

##### *Public Sector Role:*

- identify threats to marine and coastal areas
- create an environment suitable for investment
- develop environmental investment opportunities
- connect to the virtual center for environmental investments
- participate in the formulation/operation of an environmental investment fund

##### *Private Sector Role:*

- develop a global network of environmental investors, operating companies and venture capital groups
- delineate 'partnership' expectations of network members
- agree on the process by which network members become involved as partners
- connect to the virtual center for environmental investments
- participate in the formulation/operation of an environmental investment fund

PEMSEA has developed a process for identifying, promoting and developing capital investments in environmental facilities and services, through partnerships between the

public and private sectors. The process (i.e., Public-Private Partnership or PPP) was tested in Batangas Bay, Philippines, and is now being demonstrated and verified at other sites in the region. PPP is realized through:

- joint ownership of the project;
- economic and political commitment by both parties; and
- operational/administrative co-management of the project.

A number of lessons have been learned in formulating the PPP mechanism in the region. For example, timeliness, cost-effectiveness and a visible and quantifiable commitment from both the public and private sectors are essential components of the PPP process. Several roles must be played by facilitators in the PPP process, particularly with regard to moving investments from one stage to the next and forging the partnership bond between the public sector and the private sector. From this experience, it is PEMSEA's view that PPP is an appropriate financing mechanism, but one that needs the test of time and experience in order to become an acceptable alternative to traditional contractual relationships between the public and private sectors. It is this aspect, and the direct implication on the creation of a sustainable regional mechanism, that is the focus of the proposed project.

### **Project Objectives**

The objectives of the proposed project are:

1. To establish a regional "environmental investment fund", as a source of contingent loans, grants or loan guarantees for PPP financed environmental projects in the region; and
2. To set up and operationalize a self-sustaining environmental investment center.

The environmental investment fund will serve to leverage ownership and commitment to investments in environmental facilities and services from both the public and private sectors. The fund will be developed with a view to:

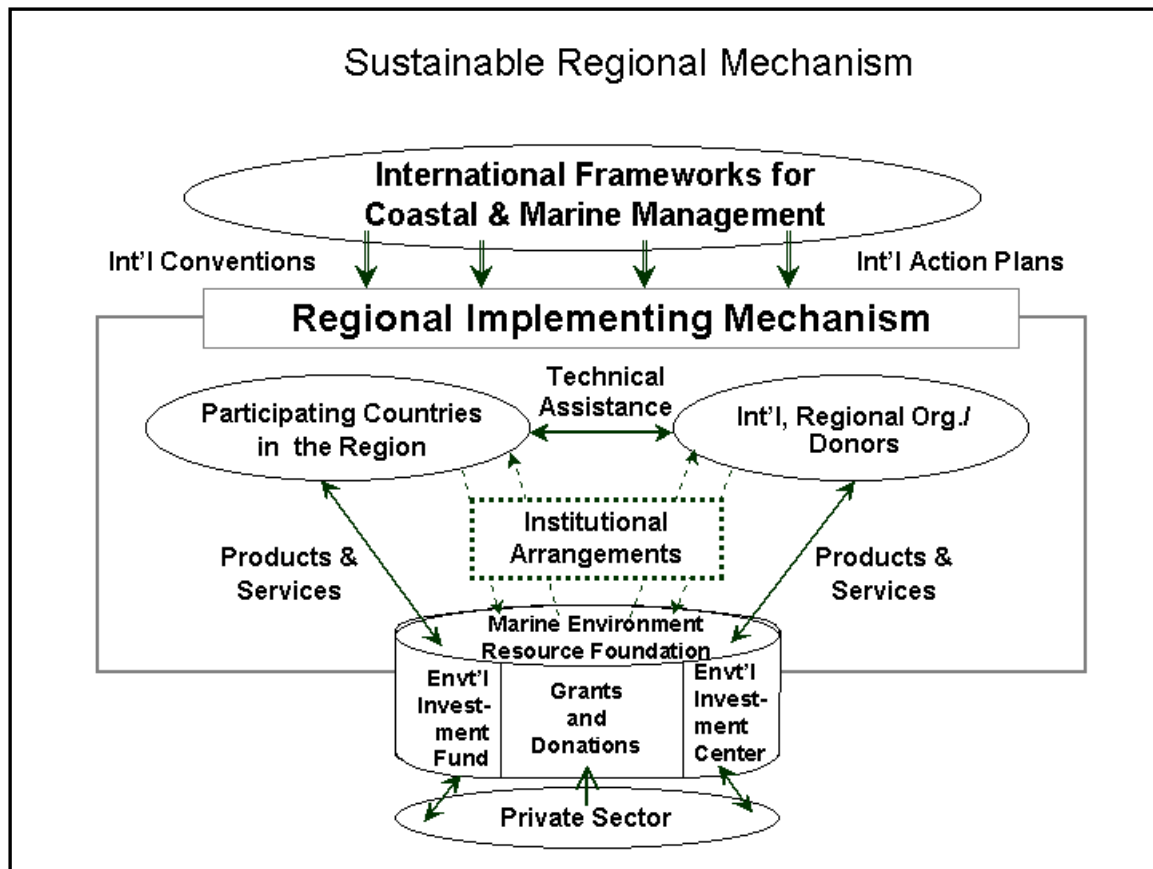
- increasing the priority given to investments in environmental facilities and services by local governments and central authorities;
- changing the attitude of the private sector and foreign investors regarding profit margins and project risks in environmental investments;
- fast-tracking environmental projects, facilities and services that are of regional significance;
- establishing functional public-private sector partnerships within a limited timeframe; and
- demonstrating the potential for achieving reasonable profitability under the PPP mechanism, thereby attracting further investment by the public and private sectors.

An environmental investment center will be developed to impart a variety of technical, financial and investment services to governments, thereby creating an appropriate environment for joint ventures between the public sector and private sector, as well as inputs from other sources of financing. The investment center will also serve as the legal, technical and financial advisory service to the environmental investment fund.

The fund and investment center are elements of a *self-sustaining regional mechanism*. The regional mechanism consists of two components: an intergovernmental arrangement for addressing individual and collective efforts of countries to implement international instruments related to marine and coastal management, and an environmental foundation (i.e., the Marine Environmental Resource Foundation or MERF).

MERF has three distinct roles within the framework of the regional mechanism:

1. Administration and management of the environmental investment fund;
2. Operation of an Environmental Investment Center, providing legal, financial and technical services and products to governments, and housing a virtual center for environmental investments; and
3. Facilitation and channel of grants and donations for strengthening capacities in marine and coastal management, and improving the investment environment at the national and local levels.



## **Project Development**

The project will be developed as a collaborative activity of PEMSEA. To assist participating countries of PEMSEA to establish a sustainable regional mechanism for environmental management in the Seas of East Asia, extra-budgetary resources are required for:

- detailing the basic vision of the environmental investment fund and its strategic focus;
- promoting and building consensus on the new mechanism with concerned governmental and non-governmental organizations in the region;
- engaging key extra-regional players, including international agencies, intergovernmental institutions, the private sector, donors, investors and commercial banks, to support the new mechanism and to participate in its development and implementation;
- assessing the type of fund, or combination of funds, and how they will be managed;
- identifying the time horizon required to attain a self-sustaining operation;
- defining legal, governance, financial, technical, monitoring and evaluation procedures concerning the environmental investment fund and the investment center;
- securing sufficient capital to meet initial co-financing targets; and
- building capital over time to achieve a self-sustaining co-financing programme within the defined time horizon.

## **Project Strategy/Approaches**

The project will be undertaken in the following stages:

### *1. Defining and building support for an environmental investment fund*

The creation of a new environmental investment fund requires an assessment of the advantages of creating such a fund versus the costs and commitments required to order to get a return on such investment. It is understood that such returns are likely to occur over a long time period, say 10 years, and that returns need to be measured in terms that are not solely financial.

Defining the scope and nature of an appropriate environmental investment fund entails designing its structure and operating modality, including:

- a) the basic vision and scope of environmental investments to be covered by the fund;
- b) the type and time horizon of activities needed to achieve the vision;
- c) the policies, legal and financial practices and supporting institutional arrangements in participating countries which inspire confidence in establishing such a mechanism;
- d) attributes that promote continuity, flexibility and co-financing collaborations between the public and private sectors;
- e) the ability to strategically direct and leverage financial resources to projects and practices that are of environmental significance to the region;

- f) capacity building, networking and information exchange, to create suitable investment environments; and
- g) governance of the environmental investment fund.

The first output of this stage will be a resource document covering the above issues. The resource document is employed during follow-on consultations with the participating countries, international agencies, intergovernmental institutions, the private sector, investors, donors, NGOs and commercial banks. The idea is to establish consensus and support for the environmental investment fund among these key stakeholders, with a view to garnering their support for and future participation in the fund.

## *2. Operationalizing the Environmental Investment Fund*

Once the basic vision and strategy for the environmental investment fund have been agreed to, development of the operating modalities of the mechanism may be undertaken. There are two approaches to be considered in the operationalization phase of the environmental investment fund, namely:

- a focused programme approach, covering objectives and activities selected for strategic impact, feasibility and ability to be carried out quickly in order to build a track record; or
- a pilot-phase approach, in which the fund concentrates on (a) geographical area(s), or specific issue(s) before beginning to accept proposals from other areas or broader issues.

This stage will review both approaches within the context of ongoing initiatives in the region, including initiatives under the International Waters Portfolio of GEF, and develop a preferred approach in consultation with key players within and outside the region. Some aspects to be considered involve:

- applying the frameworks and methodologies being employed by PEMSEA to identify areas and issues of strategic interest and priority in the region;
- using existing networks among governments, levels of government, international and regional programmes, the private sector and scientific and technical advisory groups in reaching agreement on operating modalities; and
- linking to national and regional environmental priorities.

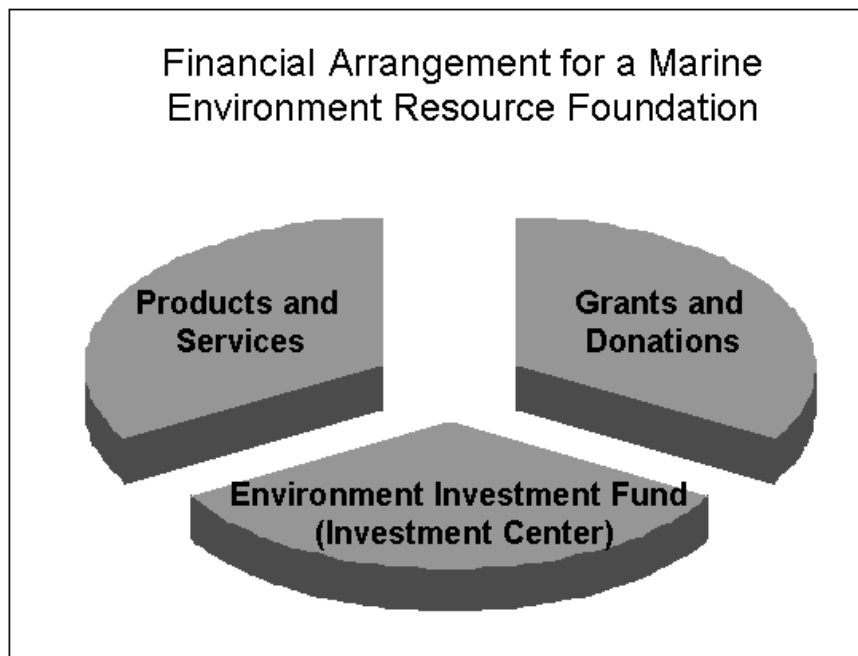
Some specific issues to be addressed include:

- mode and transparency of process in selecting investment projects;
- roles and responsibilities of the public and private sectors in selected projects, including project co-financing requirements;
- the financial structure of the fund, whether to provide contingent loans, grants and/or loan guarantees on environmental investments involving the PPP mechanism;
- the management structure of the fund, serving to meet the fund's objectives as well as a self-sustaining regional mechanism, within a budget based on a percentage of the fund's assets or returns;
- an investment center, providing legal, financial and technical expertise to develop the capacities of national and local governments, developing investment opportunities/investment environments, raising funds, linking the

local stakeholders/project proponents and a global network of investors, operating companies, etc., operating a virtual center of environmental investments, and selecting and supervising PPP implementation; and

- monitoring the performance of the investment portfolio and programme portfolio, and incorporating lessons to improve future management.

The principal output of this stage will be operating strategies and procedures for the environmental investment fund, with clear target areas for environmental investments, criteria for selecting projects and project proponents, financial and management structures for a self-sustaining operation, formation of technical/financial advisory and support group, delineation of performance indicators and establishment of monitoring and evaluation procedures.



### *3. Raising Capital for the Environmental Investment Fund*

The final stage of the project will be raising the necessary resources to meet the co-financing targets and performance indicators of the fund. In fact, the development of a fundraising strategy, and the raising of sinking, endowment or revolving funds, or a combination of funds, is a priority consideration at the very early stages of this project.

The Global Environment Facility will be a primary source of funds, with other stakeholder groups identified as secondary targets using the GEF resources as leverage. The following outline suggests the essential steps in preparation of a submission to GEF:

- a) An estimation of needs statement, including the programme plans for 5 to 10 years, with an in-depth financial plan and programme plan, listing of resources requirements for the programme and specification of endowment, sinking and/or revolving fund needs over a 5-to-10 year horizon;
- b) A prospectus on the management and financial structure of the environmental investment fund, including the operation of an investment center;



- c) Confirmation of the potential for a self-sustaining regional mechanism, showing governmental and non-governmental support and commitment to the programme, the full participation of global investors and private sector groups, the environmental threats and issues to be tackled through the investments, and the value-added benefit of the environmental investment fund both as a mechanism to increase financial commitments to facilities and services, and as a leverage to fast track interventions on regional environmental priorities; and
- d) Formulation of a fundraising strategy and campaign, identifying financial vehicles suited for potential 'partners', including donors, multi-lateral sources, international agencies, environmental foundations, etc.

## **Roles and Responsibilities in Project Implementation**

### Governments of participating countries

National and local governments shall provide technical and administrative support in conducting in-country assessments of policies, laws, programmes and initiatives that are supportive of, or a constraint to, the environmental investment fund and PPP process. Countries will also organize meetings and workshops with stakeholders, ensuring access to relevant information, developing consensus on the proposed investment fund among local stakeholders, and delineating the priority service needs from an investment center.

### Local stakeholders

Local stakeholders, including local government agencies, the private sector, NGOs, scientific and technical institutions and/or pertinent local community groups, as appropriate, shall participate in the formulation, implementation and evaluation of the environmental investment fund, coming to a consensus on appropriate options for environmental priorities and related financing mechanisms.

### The Private Sector

International investors, operating companies, venture capital groups, green investment funds, etc. with interest in environmental projects in the East Asian Seas region and the public-private partnership approach to financing environmental facilities and services in the region, shall participate in the formulation of the environmental investment fund strategy and operating modality.

### The Global Environment Facility

The GEF shall provide a grant to assist PEMSEA, the participating governments of the region, local stakeholders and the private sector to establish the environmental investment fund for the East Asian Seas Region and a supporting investment center.

## PEMSEA

PEMSEA will develop and coordinate the project, overseeing the preparation of the completion of each stage and the preparation of the final submission to GEF.

### **Project Duration**

The project will be implemented over an 18-month period.

### **Expected Outputs**

The project will result in:

1. A bankable document for the development and mobilization of an environmental investment fund for the Seas of East Asia region;
2. An investment center, serving as a link between project proponents from the region and a network of global investors and private sector groups;
3. Project endorsements from the governments of the region, local stakeholders, the international private sector and investment groups, donors and intergovernmental institutions.

## Project Budget

<i>Activity</i>	<i>Technical, Legal and Financial Consultants and Experts</i>	<i>Meetings/Workshops</i>	<i>Travel</i>	<i>Misc.</i>
<i>1. Defining and building support for an environmental investment fund</i>	Fund structure/operating modality \$50,000	2 regional/int'l @ \$35,000	\$15,000	\$5,000
	Country reviews 8 @ \$20,000	8 national @ \$4,000 ea.	\$10,000	\$4,000
	Fund governance \$50,000	.	\$10,000	\$5,000
<i>2. Operationalizing the Environmental Investment Fund</i>	Standard operating procedures and criteria, legal arrangements, roles and responsibilities \$71,500	1 regional workshop @ \$35,000	\$10,000	\$2,500
	Financial/management structure of the fund \$75,000	8 national @ \$4,000	\$10,000	\$4,000
	Investment center development and operation \$50,000			
	Monitoring and evaluation of performance indicators \$50,000			
<i>3. Raising Capital for the Environmental Investment Fund</i>	Preparation of submission \$50,000		\$7,500	\$1,500
	Endorsement by stakeholders \$25,000		\$10,000	\$5,000
	Fundraising strategy for potential partners \$50,000	\$10,000	\$10,000	\$5,000
<b>SUBTOTALS</b>	\$631,500	\$179,000	82,500	32,000
<b>Project Overhead</b>	\$75,000			

**Total Estimated Budget: US \$1,000,000**

**GEF contribution: US \$1,000,000**