



GREATER MEKONG SUBREGION
**ENVIRONMENT
OPERATIONS CENTER**

Core Environment Program and Biodiversity Conservation Corridors
Initiative, Phase II (2012–2016)

RETA-7987

Component Strategy – Institutions and Financing

November 2012

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I. BACKGROUND

A. Introduction to the GMS

In 1992, the six countries along the Mekong River – Cambodia, PR China, Lao PDR, Myanmar, Thailand and Viet Nam – formed the Greater Mekong Subregion (GMS) with the launch of the GMS Economic Cooperation Program (GMS Program). Facilitating regional investment, collaboration and integration across major growth sectors, the GMS Program has for 20 years successfully stimulated economic growth in the subregion, and helped reduce poverty and improve livelihoods. The Core Environment Program and Biodiversity Conservation Initiative (CEP-BCI), is designed to help achieve an environmentally sustainable GMS Program. The first phase of the program was implemented under an ADB Regional Technical Assistance (RETA 6289) between 2006 and 2012. The second phase (RETA 7987) was approved by ADB's Board in December 2011 and will be implemented between 2012 and 2016.

CEP-BCI Phase II aims to integrate sound environmental management, biodiversity conservation, and climate resilience measures into the GMS Program's and the expected outcome is "an environment friendly and climate-resilient GMS Program." This outcome will be achieved through a programmatic approach by supporting activities in priority economic corridors targeted by the GMS Program and in priority transboundary biodiversity conservation corridors and landscapes.

CEP-BCI has the following four components and outputs:

- ***Component 1: Environmental Planning, Safeguards, and Monitoring***
Output: Environmental planning systems, methods, and safeguards improved
- ***Component 2: Biodiversity Landscapes and Livelihoods***
Output: Management of transboundary biodiversity conservation landscapes and local livelihoods improved
- ***Component 3: Climate Change***
Output: Climate-resilient and low-carbon strategies developed
- ***Component 4: Institutions and Financing***
Output: Institutions and financing for sustainable environmental management improved

This paper outlines the 2012–2016 strategy and major activities for **Component 4: Institutions and Financing**.

B. Institutions and financing in the GMS

In the long-term, efforts to mainstream sound environmental management in the GMS will only be successful if strong national and sub-regional institutions are in place. The focal ministries of the Working Group on Environment as well as other sector ministries and line agencies will need to have the requisite capacity and a high level of coordination to scale up the concepts, tools and processes introduced through initiatives such as CEP-BCI. Country 'ownership' of sound environmental

management is essential. Environment ministries in the GMS, as in other regions of the world, often are poorly resourced and have weak capacity on a number of fronts, yet are charged with the crucial task of leading sustainable development efforts. Building institutional capacity is a long-term process and becomes increasingly urgent as rapid economic development entails the need for greater and more rapid environmental management responses.

Greater institutional capacity itself, however, will not be enough. Development in the GMS has long placed emphasis on realizing short- or medium-term economic gains, often to the detriment of environmental, and sometimes social, objectives. Decision making is often skewed towards unsustainable economic endeavours as the financial opportunity cost between economic and social/environment goals is considered too great. One means of reducing this opportunity cost is by strengthening the financial incentives for environmental management. For this to be sustainable, 'investments' in environmental management need to move beyond current donor project funding models and leverage off markets.

II. INSTITUTIONS AND FINANCING DURING CEP-BCI PHASE I

Under Phase I, CEP-BCI began **building institutional capacity** in the GMS for improved environmental management. Activities in this regard largely focused on strengthening the role and function of the Working Group on Environment (WGE) to oversee CEP-BCI and the role of the Environment Operations Center (EOC) to support the WGE. The scope of work included:

- Strengthening the technical capacity of WGE members and providing fora and other spaces for WGE to engage GMS Working Groups and sectors, in particular the agriculture, transport, tourism, and energy sectors;
- Establishing the EOC in 2006 to function as the secretariat and coordination body of the WGE, and begin building EOC as a knowledge hub for environmental information and tools for GMS sector policies, programs and projects; and
- Developing pilot National Support Units (NSUs) to support the WGE in implementing national activities.

In addition, sub-nationally, CEP-BCI supported local community institutions to engage in the program's conservation and livelihood development work at Biodiversity Conservation Corridor Initiative (BCI) pilot sites. As a result, more than 180 Village Development Funds and Natural Resource Management Committees were established or strengthened. Policy support was also provided to institutionalize transboundary biodiversity conservation corridors.

As well as institutional support, CEP-BCI also focused on **building technical capacity** for environmental management in the region. Training programs and other learning events during Phase I have considerably improved the knowledge base and technical skills of national stakeholders in understanding concepts, and applying tools and processes for improved environmental management. In addition to WGE members, these capacity building activities engaged line agency staff, national consultants, universities, emerging GMS development professionals, local government officials and local community members. Learning events ranged from international and national thematic

conferences and workshops, action-learning mentoring and training programs, study visits, GMS internships, and the deputation of government officials to the EOC. Action-learning training and mentoring programs were embedded in activities and included topics such as Strategic Environmental Assessments, climate change risk assessments, the use of GIS tools, livelihood development trainings in biodiversity conservation corridors, and valuation of ecosystem services.

For long-term and **sustainable financing**, CEP-BCI Phase I linked up with the broader GMS Program and country lending and non-lending portfolios to explore funding options, particularly with other multilateral and bilateral development partners. This led to supplementary financing resources during Phase I from Finland as well as the Climate Change Fund. The momentum built during the first phase of the program also led to the development of a program framework for a second phase of CEP-BCI which was endorsed by GMS Environment Ministers. Financing for Phase II has now been secured from ADB, the Government of Finland and the Swedish International Development Cooperation Agency.

The success of the BCI's integrated conservation and development approach led to the development of investment proposals for Cambodia, Lao PDR and Viet Nam. This eventuated in \$69 million of ADB loans and grants for the three countries to scale up work begun by BCI under a new initiative, the Biodiversity Conservation Corridors Project.

Innovative financing approaches were introduced to high level GMS officials through several study tours and capacity building events on different payment for ecosystem service (PES) modalities. These included: (i) carbon offsets, (ii) wetland offsets, (iii) transfer of payments for water services, and (iv) public payments for ecosystem services. REDD+ readiness was also supported in different countries, and through this initial awareness raising work, mechanisms to test participatory forest carbon monitoring were scoped out.

A. Lessons learned

The key lessons from Phase I activities relating to institutions and financing are summarized below and have informed the direction of Phase II work under this component.

Increased emphasis on strengthening organizational and institutional capacities, in particular the WGE focal agencies and NSUs

The sustainability of CEP-BCI's efforts to mainstream sound environmental practice in the GMS Program relies significantly on developing the institutional capacity of WGE ministries to have a greater role in CEP-BCI design and implementation and to more effectively collaborate with other sectors. However, building institutional capacity is a challenging, long-term task and must be approached strategically. In recognition of this, early in Phase II, an institutional needs assessment will be conducted to identify capacity gaps as well as opportunities within the WGE ministries.

From Phase I experience, it is clear that well resourced NSUs are essential for the WGE to increase its role in implementing and monitoring program activities, especially at the national level. A priority for Phase II will be to establish fully functional NSUs in all GMS countries which, as the program period matures, take an increasing role in implementation. The structural arrangements, roles and

responsibilities, and time period to establish each NSU will vary depending on the national context and will be informed by the needs assessment. It is expected that NSUs will be involved in mobilizing national consultants to train and support a wider body of government line agency stakeholders regarding the uptake of environmental and planning tools in sector development. NSUs will also facilitate EOC technical and financial support and provide a conduit for sub-regional and national exchange of knowledge and information.

Until WGE/NSUs have the requisite capacity to lead the planning and implementation of program activities at the national level, the EOC will need to continue to provide substantial support towards this. However as ‘decentralization’ gathers momentum, the EOC’s function will evolve to a more advisory and technical support role, except for regional activities, where it will continue to coordinate planning and implementation.

An increased emphasis for EOC in Phase II will be on scaling up its role as a regional knowledge hub for environmental management. It will aim to provide a ‘one-stop shop’ of data, information, knowledge and tools, from the region and beyond, and ensure that they are readily available to support the environmental efforts of all GMS stakeholders. In addition, opportunities for GMS nationals in the EOC itself will increase, with internships as well as associate positions earmarked for nationals of the six countries. It is expected that these opportunities will increase the pool of GMS candidates with the necessary skills and experience to implement the program.

Emphasis on ‘learn by doing’ technical human capacity development

Learn by doing approaches during Phase I proved successful in introducing important tools and concepts such as SEA, EPA, and GIS. This approach will continue to be emphasized under Phase II and will include additional technical areas such as safeguards. The institutional needs assessment will help identify technical expertise gaps in WGE and sector ministries which CEP-BCI will attempt to fill. The involvement of national research institutions/universities in CEP-BCI action research activities, such as climate change adaptation, will be continued. A consortium of planners and academic experts will be established to work in different thematic areas such as land-use plans, climate change, biodiversity landscape management, and REDD+ readiness etc. This is expected to evolve into a loose research network.

International experts will be involved where necessary to impart expertise and provide guidance, however the aim is to get to the point where government agencies, national institutes, and national experts can increasingly apply environmental best practice tools and processes without the need for substantial international input. Training of trainers programs will be employed under Phase II, where possible, to scale up national expertise, which in turn will contribute to the institutionalization of sound environmental practice.

Monitoring effectiveness of capacity building efforts

Under Phase II, the program monitoring framework will include milestones and indicators to track changes in institutional and technical human capacity. This information is essential to evaluate which

capacity building interventions are working, which are not, and what more needs to be done. The UNDP's Capacity Assessment Framework or similar tool will be used for this purpose.

Test interventions to capture and distribute innovative financing options

Phase I work illustrated the opportunities from financing options such as PES and REDD+, and highlighted initial commitment from government partners to explore these options further. Successful PES pilot projects in Viet Nam under parallel projects serve as excellent learning examples for the subregion. Under Phase II, pilot projects should be designed to test PES distribution mechanisms with the aim of up-scaling if successful. For REDD+ the initial focus will be on monitoring, reporting and verification (MRV) which continues to be a key area for determining future financing. In the longer term, the program will investigate opportunities to work on benefit distribution mechanisms and community participation frameworks. This work will build on experience from BCI sites where community level micro-financing instruments were successfully tested.

Identify a role for private sector players in the program

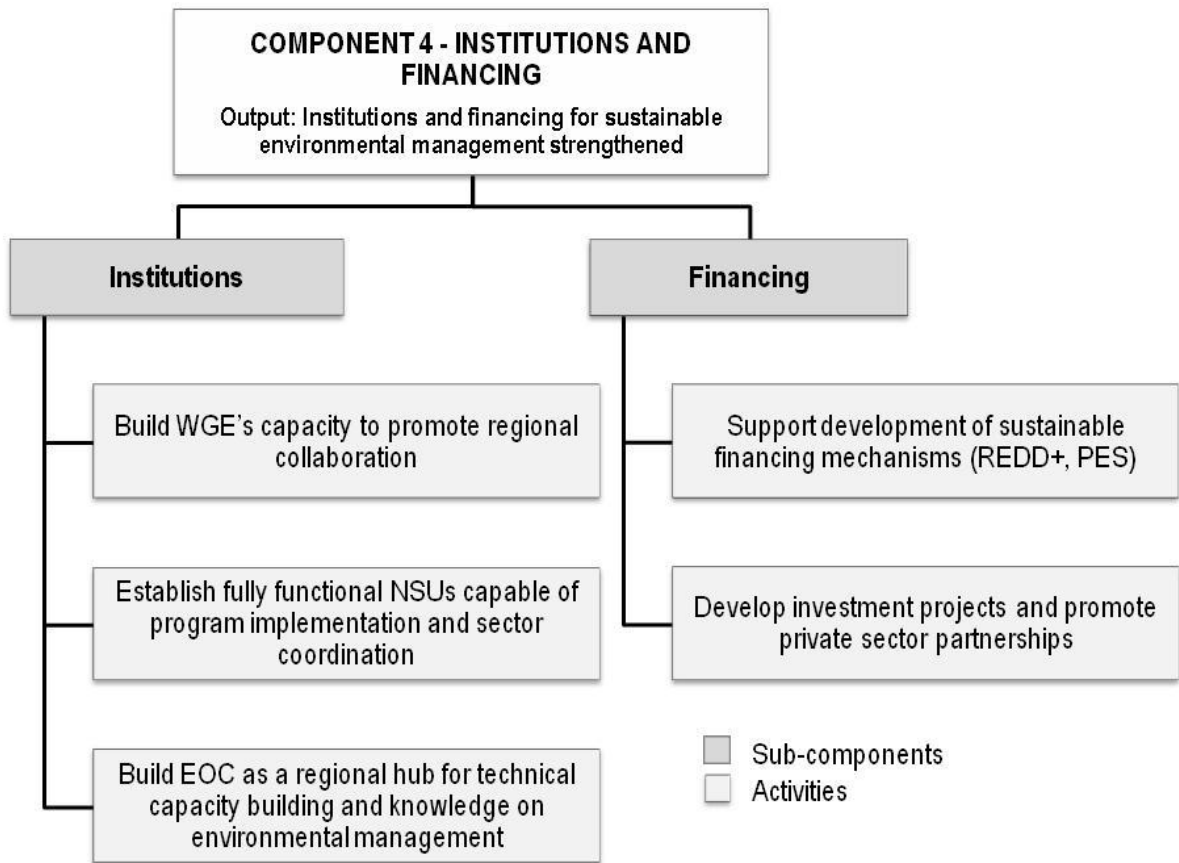
One of the main strategic directions for the GMS Program overall is to engage the private sector to increase the impact of program investments. During CEP-BCI Phase I, private sector engagement was limited to a few activities (e.g. CNTC feasibility study); however, in the long term it is important to increasingly leverage private sector finance to support environmental management. During Phase II, opportunities to engage the private sector will be identified through individual activities such as freight sector fuel efficiency, sustainable forest management, micro-insurance for climate change adaptation, and decentralized renewable energy.

III. COMPONENT OVERVIEW AND ACTIVITIES

The overall aim (output) of Component 4: Institutions and Financing, is to improve institutions and financing for sustainable environmental management. To achieve this output, the component has the following three objectives:

- Strengthen national and sub-national capacity for environmental management and monitoring with particular emphasis on the WGE, their environment ministries, and NSUs;
- Strengthen the EOC to better support the WGE to implement CEP-BCI, build institutional and technical capacity in the subregion, and further develop as a regional knowledge hub on environmental management; and
- Develop sustainable financing mechanisms and facilitate public-private-partnerships for ecosystem management.

Figure 1: Structure of Component 4 – Institutions and financing



A. Sub-components and activities

Under Component 4 there are two sub-components: Institutions and Financing. In this section, the two tables provide detail on the output of each subcomponent as well as major milestones, activities and indicators to track progress.

Subcomponent 4.1: Institutions

The output of this sub-component is to strengthen national and sub-national level capacity for environmental management and monitoring with particular emphasis the WGE, their environment ministries, and NSUs. It also aims to strengthen the EOC to better support the WGE to implement CEP-BCI, build institutional and technical capacity in the subregion, and further develop as a regional knowledge hub on environmental management.

Table 1: Activities, Milestones, and Indicators for Sub-component 4.1: Institutions

Activities	Milestones	Indicators	Scope
Build WGE's capacity to promote regional collaboration	2013 Areas of collaboration identified with other sector groups (e.g. agriculture, tourism, energy and transport).	Joint program framework developed at least with two other sectors.	1. Promote WGE/ EOCs participation in other sector working groups meetings, facilitate participation of relevant members of other working groups in WGE meetings, organize joint meetings/workshops with other sector working groups to identify areas of collaboration.
	2014 Program progress and future directions endorsed/supported by environment Ministers. Joint projects developed in collaboration other sector groups.	- WGE continues to provide technical direction for program development, implementation and monitoring. - At least two pilot/demonstration project concepts developed with other sector groups.	2. Organize WGE annual and semi-annual meetings, EMM and SOM meetings. 3. Jointly mobilize experts to conduct feasibility assessments and develop concept paper on pilot /demonstration projects (activities to be implemented under components 1, 2 and 3).
	2015 Joint projects implemented with other sectors contributing towards improved resource/energy efficiency, development of local supply chain for livelihoods and employment generations, safeguarding of environmental resources.	At least two projects successfully piloted with other sector groups.	4. Implement pilot/ demonstration projects on planning and safeguards support, agro-ecosystem products and services supply chain improvement, energy efficiency and renewable energy promotion, and climate resilience (Activities to be implemented under component 1, 2 and 3).
Establish NSUs capable of program implementation and sector coordination	2013 Structure, function and capacity needs identified for NSUs.	NSU development strategy in place.	5. Conduct capacity needs assessment for NSU to enable effective delivery of CEP-BCI. 6. Development of NSU capacity building strategy in consultation relevant stakeholders.

	2015 NSUs sufficiently resourced to implement CEP-BCI Phase II	- All NSUs resourced with 1 program, 2 technical and 1 administrative staff. - At least 10% of national activity funds being managed by NSU.	7. Put administrative arrangements in place to enable establishment of NSU office and recruitment of NSU staff consultants. 8. Recruitment of NSU staff consultants; and staff consultants engaged to: - Provide coordination, monitoring, reporting and outreach support to ensure effective and efficient implementation of CEP-BCI Phase 2 in-country activities; - Improve cross-sector coordination during design and implementation of program activities; and - Establish and maintain Environmental Information System (EIS) to develop, implement and monitor program activities and support subregional knowledge sharing.
Strengthen EOC's role as a hub for technical capacity building and knowledge building on environmental management	2013 Technical capacity of EOC to support WGE in place. Effective internal communication and reporting systems between EOC, WGE, NSUs, co-financers, and implementing partners established.	- Six EOC coordinator and associate positions filled by GMS nationals. - EOC staff expertise covers all program thematic areas. - Communications strategy developed. - Consolidated CEP-BCI program knowledge management system in place. - Regular and timely implementation updates and progress reports.	9. Develop ToRs and recruit GMS nationals for six EOC associate positions. 10. Develop ToRs and recruit core EOC staff with expertise in climate change, safeguards, environmental planning, GIS, knowledge management, capacity building, and communications. 11. Develop communications strategy. 12. Develop clear, regular internal reporting and information sharing mechanisms. 13. Develop marketing collateral – brochures, folders, posters, banners, branded give-aways such as thumb-drives.
	2014 Network of government officials engaged in environmental management developed. Increased demand for CEP-BCI expertise and knowledge products in the region.	50 mid and senior level government officials trained. - Number of unique visitors to the website averages at least 2000 per month. - At least 25 links from external websites. - Online library receives 50 downloads per month and grows by 1 publication per month. - At least 10 articles about CEP-BCI in national and international media, covering at least 5 of the GMS countries.	14. Hold regional exchange events on technical aspects of program implementation (SEA, REDD+, Climate change, Biodiversity landscape management, PES etc.). 15. Engage with technical capacity building programs (e.g. GMS PPP). 16. Develop marketing collateral – brochures, folders, posters, banners, branded give-aways such as thumb-drives.
	2015 'University network'	Loose network of planners and academics	17. Identify opportunities to engage universities and academic research

	with planners and decision makers established.	established in at least 3 thematic areas.	networks in activities. 18. Engage academic experts at an activity level and support knowledge exchange with policy makers. 19. Support the development of research questions that address current knowledge gaps.
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Subcomponent: Financing

Activities under this sub-component will provide policy support for sustainable financing; explore opportunities to leverage further financing for environmental management in the GMS, including engaging with private sector partners. Work under this sub-component will continue to build PES capacity in the region by testing PES schemes and supporting their integration into national planning.

Table 2: Activities, Milestones, and Indicators for Sub-component 4.2: Financing¹

Activities	Milestones	Indicators	Scope
Support development of sustainable financing mechanisms (PES, REDD+) <i>(In coordination with Component 1.1, 2.1 and 3.2)</i>	2013 Awareness of the role and value of ecosystem services increased.	Identification of PES interventions applicable in the GMS.	1. Identify ecosystem services that individually or bundled together would be able to compete with other uses.
	2015 PES interventions tested in local area.	PES instruments tested in at least one BCI landscape.	2. Test/pilot PES implementation at the site level for bundling ecosystem services such as carbon storage, water regulation, and eco-tourism assets etc; 3. Establish monitoring and verification systems for PES by building human resource capacity through a learn-by-doing approach.
	2015 PES incorporated into national planning process.	PES related policy decisions in two countries.	4. Incorporate PES into national plans (socio-economic, environment and biodiversity conservation, energy development, and tourism development); and 5. Scaling up PES interventions based on experience gained from pilot activities.
Develop investment projects and promote private sector partnerships	2013 Areas for collaboration with private sector developed.	Private sector partners engaged for at least 2 sub-components.	6. Identify activities with potential for private sector collaboration. 7. Identify private sector partners and develop activities implementation arrangements jointly.
	2014 Areas for potential investment identified.	3 investment frameworks prepared from Components 1, 2 and 3.	8. Identify potential opportunities for investment within components 1,2 and 3. 9. Test interventions in a local setting. 10. Develop investment road maps and quantify scale of investment.

¹ This is the same as sub-component 3.3 in the CEP-BCI Phase II Inception Report.

	2015 Further funding to support GMS countries to improve environmental management leveraged	2 new sources of funding secured for environmental management in the GMS	11. Identify government partners and source of funding. 12. Develop project concept notes.
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B. Implementation arrangements, budget and cost estimates

Implementation arrangements and monitoring of component progress will be in line with the CEP-BCI Phase II Inception Report and RETA 7987 Technical Assistance paper. Table 3 shows the cost estimates for the four components of the CEP-BCI Phase II for period 2012–2016.² Table 4 shows the estimated budget breakdown by sub-component and activity, excluding ADB and EOC administrative costs.

Table 3: Budget Estimate by Components in \$ '000

No.	Components	Amount (2012–2016)	%	Amount (2012-2013)	%
1	Environmental Planning, Safeguards, and Monitoring	7,300	26	3,019	31
2	Biodiversity Landscapes and Livelihoods	4,700	17	1,758	18
3	Climate Change	5,700	20	2,126	22
4	Institutions and Financing	6,800	24	1,917	19
	EOC Administrative Cost	2,200	8	652	7
	ADB Administrative Fee	1,400	5	415	4
Total		28,100	100	9,886	100

Source: CEP-BCI Phase II Inception Report, June 2012

Table 4: Budget Estimate by sub-component and activity in \$ '000

No.	Sub-component/activity	Phasing (start date)	Secured budget*	Projected budget
4.1	Institutions strengthened		4,050	4,850
	- Build WGE's capacity to promote regional collaboration	2013	600	650
	- Establish NSUs capable of program implementation and sector coordination	2013	2,000	2,500
	- Strengthen EOC's role as a hub for technical capacity building and knowledge building on environmental management	2013	1,450	1,700

² The estimates were computed on a base case model where Phase II is complemented by other programs including the BCC project and the GEF-supported GMS Forest and Biodiversity Conservation Program.

4.2	Investment and sustainable financing leveraged		400	400
	- Support development of sustainable financing mechanisms (PES, REDD+)	2013	300	300
		2013	100	100
	- Develop investment projects and promote private sector partnerships			
EOC Staff component			1,700	1,700
Total			6,150	6,950

*Secured budget as of December 2012 is \$23.1 million.

Source: ADB / EOC estimates, December 2012