



PROJECT PREPARATION GRANT (PPG)

PROJECT TYPE: Full-sized Project

TYPE OF TRUST FUND: GEF TRUST FUND

Submission date: 11/10/2012

Resubmission date: 18 Jan. 2013

GEF PROJECT ID: 5096

GEF AGENCY PROJECT ID: 4822

COUNTRY (IES): China

PROJECT TITLE: Payment for Watershed Services in the Chishui River Basin for Conservation of Globally Significant Biodiversity

GEF AGENCY (IES): UNDP

GEF FOCAL AREA(s): Biodiversity

A. PROJECT PREPARATION TIMEFRAME

Start date of PPG	April 2013
Completion date of PPG	January 2014

B. PROPOSED PROJECT PREPARATION ACTIVITIES (\$)

Describe the PPG Activities and Justifications: PPG will co-finance the following preparatory activities as listed below. The activities will be supported by partners and will include providing a response to advice given by the STAP reviewers, GEF SEC and Council.

Activity 1: Development of conceptual and methodological guidelines on PWS

The PPG will provide technical support to the government to develop conceptual and methodological guidelines on PWS in order to establish biodiversity/livelihood oriented PWS mechanism at selected sites. The guidelines will articulate the value added of the PWS to the on-going Eco-Compensation Programme in China which provides government-guided fiscal transfer payment employing the “command and control model”. Basic principles of command/control and market oriented approach will be integrated into a single action plan delivering viable conservation and development benefits to respond to problems faced by local stakeholders. Multidimensional nature of the PWS also needs to be articulated – i.e. PWS goes beyond maintenance of water quality and quantity and generates socioeconomic and biodiversity/ecosystem benefits. The guidelines will need to be fully adopted by the project stakeholders during the PPG phase. Global experiences in PES practices and lessons will be closely reviewed for incorporation within the project design. Moreover, complementary government and donor supported programmes and initiatives will be reviewed and synergies and coordination mechanisms will be identified.

Activity 2: Legal and institutional review for PWS development and management

This activity will conduct a thorough legal and institutional-policy review pertaining to the PWS development and management. Current legal and institutional framework at the national level and the three provinces along the Chishui River Basin will be examined. Existing legal and institutional gaps and barriers for development and operation of viable PWS mechanisms will be identified and barrier removal measures will be devised. In particular, legal and institutional mechanisms required for the PWS payment flow (who will verify watershed service provision, who will handle the payment transaction and ensure that service providers receive payment equitably etc.) will be closely examined. Current level of the government and (private) stakeholder investment in PWS related work in the Chishui River Basin will be determined as well as a clear methodology for assessing the investment in the context of existing legal/policy frameworks.

Activity 3: Target watershed profiling and baseline assessment

Based on further discussions with provincial and local stakeholders as well as the agreed criteria including biodiversity significance, existence of ecosystem services sellers and buyers, stakeholder willingness/capacity and preparedness for successful piloting within the project time frame, viability of Wuma as a pilot target site as well as viability of additional target sites will be examined, and the final target site(s) will be selected. The PPG will provide funds to review existing data, reports and studies to collate detailed information on the Chishui River Basin and proposed pilot sub-watershed areas. The desk top studies will be supplemented by necessary field-based research to cover critical information gaps. Baseline to be established includes: (i) environmental context –geographical information including information on protected areas in the landscape ; (ii) detailed information on biodiversity and analysis of threats to biodiversity and conservation needs in the priority watershed, as well as defining the project’s tangible contribution to global biodiversity conservation as well as the method for measuring the project impact and targets; (iii) hydrological assessment and production of a “water-map” containing water resource and usage assessment and stress factors; (iv) socioeconomic context – local administration system, population, land-use breakdown, business industries and livelihoods, and income level of the communities; (v) production of maps of the proposed priority watersheds; (vi) compilation of the GEF BD-2 tracking tool. In addition, co-financing will support remote sensing assessments in the Chishui River Basin, including assessment of changes in ecosystem distribution, structure, quality and services in the last 10- years as a baseline activity.

Activity 4: Provincial and local stakeholder analysis and capacity assessment

Under this activity, exact project stakeholders (government, communities, water users) will be defined. An assessment of local stakeholders, in particular local and indigenous communities, will be conducted to identify their responsibilities pertaining to watershed management, their potential roles in the project and their capacity needs for fulfilling these roles. The stakeholders’ roles in the project will be clarified and commitment for full participation will be secured, as well as an agreement on the working and coordination modality. A thorough and robust stakeholder capacity assessment will be conducted at the provincial, local and community levels. The UNDP Capacity Development Scorecard will be modified to assess capacity of different institutions for PWS establishment and management, and will be used as an indicator to gauge changes during the project implementation. Willingness/capacity of the stakeholders to engage in the buying and selling of watershed services will be thoroughly assessed. Stakeholder involvement plan will be developed for the project. In order to ensure community ownership and thus sustainability of the project interventions, capacity assessment and stakeholder involvement planning will be conducted in a highly participatory manner using participatory planning methodologies. Co-financing will cover preparatory assessment work for livelihood support work and institutional capacity assessment for enhanced environmental quality monitoring in the Chishui River Basin.

Activity 5: Gender assessment and social and environmental safeguard screening

In tandem with the target watershed profiling and stakeholder capacity assessment exercises above, a gender assessment will be incorporated reviewing the role of both females and males in project development and implementation and the potential impacts of the project on each gender group. This activity will support a social and environmental safeguard assessment following the UNDP Environmental and Social Screening Procedure (ESSP) and compile a social screening summary. This activity will be largely co-financed.

Activity 6: Preparatory studies for PWS and design of viable mechanism(s)

Based on the above for identification of hotspots for pilot sites and their baseline analysis and focusing on selected watershed(s) within the Chishui River Basin, a detailed preparatory study for establishment of PWS mechanism(s) will be undertaken and concrete plans for establishing PWS mechanism(s) will be developed. This will include a detailed hydrological study for the target watershed(s), initial cost-benefit analysis and confirmation of sellers and buyers of the identified watershed services. Detailed information on local livelihoods, land-use and biodiversity information will be collected. The PPG will develop a roadmap for establishment of the PWS scheme(s) on the ground through developing plans for establishing: methodologies for ecosystem service valuation, a robust institutional framework, an ecosystem service monitoring and verification mechanism, and a payment and compliance monitoring system, and land-use change alternative livelihood development plans. A clear methodological proposal to establish the links between pilot interventions and scaled-up

interventions will also be developed, with a clear definition of replication scale, type of interventions, and potential buyers and sellers. Entirely co-financed sub-activities under this activity include development of a “healthy watershed model” in the basin with spatial planning and development of a plan for the liquor industry’s spatial adjustment for its operation.

Activity 7: Feasibility analysis and budget

Based on the above analysis, the full project strategy will be developed. This will include:

- An assessment of the social, economic and financial sustainability of proposed project outputs and activities;
- An assessment of PWS valued added as a biodiversity conservation mechanism;
- Verification and confirmation of baseline and targets;
- A replication strategy for project activities;
- A monitoring and evaluation (M&E) and budget;
- A financing plan, including co-financing commitments for all project outputs and activities;
- An assessment of cost-effectiveness of project outputs and outcomes.

List of Proposed Project Preparation Activities	Outputs of the PPG Activities	Trust Fund	Grant Amount (a)	Co-financing (b)	Total c = a+b
Activity 1: Development of conceptual and methodological guidelines on PWS	Officially accepted conceptual and methodological guidelines on PWS to be followed by the piloting practice, in the form of a “How to Booklet”, articulating: (i) Difference between the Eco-Compensation Programme and PWS; (ii) Value added of the PWS and how it can contribute to the PES framework in China including the Eco-Compensation Programme; (iii) How PWS can produce multiple benefits including biodiversity and socioeconomic benefits; (iv) know-how on setting up a PWS mechanism which meets the practical needs of local sustainable development and well trade-offs benefits of stakeholders involved; (v) Experiences and lessons learned from international and national PES/PWS practices reviewed including the STAP guidance note on PES; (vi) PES framework and initiatives which are comparable to conditions in China identified and incorporated in the project design.	GEF TF	8,000	30,000	38,000
Activity 2: Legal and institutional review for PWS development and management	(i) Profile of legal and institutional framework at national, provincial and local level pertaining to PWS, with gaps and barriers to development and operation of viable PWS mechanisms in legislation and policy framework identified; (ii) Analysis and way forward for establishing legal and institutional mechanisms required for the PWS payment flow (who will verify watershed service provision, who will handle the payment transaction and ensure that service providers receive payment equitably etc.); (iii) Policy and/or legislative work for the project intervention identified, working timeline and methods developed; (iv) Institutional map with identification of strengths and weaknesses, with a plan for institutional capacity development; (v) Determination of a methodology for assessing the government’s and stakeholder investment in the PWS in the context of existing legal/policy frameworks. and determination of the baseline amount within the Chishui River Basin; (vi) Existing and planned government and donor supported programmes and projects mapped and	GEF TF	16,000	30,000	46,000

	complementarity and coordination mechanisms identified.				
Activity 3: Target watershed profiling and baseline assessment	Profile of the Chishui River Basin and selected target watershed(s) including Wuma Watershed entailing: (i) Develop criteria for identification of hotspots for pilot sites and their baseline analysis; (ii) detailed profile of the River Basin and target watersheds with map and information detailing physical, environmental and socioeconomic context (population structure, local administration structure, livelihoods, industries, income level), local and global biodiversity significance, conservation status, threats, management barriers and suggested actions for improvement.; (iii) a table and map showing the vegetation and ecosystem types in the area as well as land uses including the location of protected areas; (iv) hydrological assessment and production of a water map for the river basin and target watersheds including water resource and use assessment; (v) assessment of pressures and plans for reduction of threats to local biodiversity with baseline and targets; (vi) a project plan for optimizing land use for biodiversity and ecosystem services enhancement and livelihood improvement; (vii) assessment of the livelihood status and needs and income level of the target communities and determination of the baseline and target following a clearer assessment methodology to be documented; (ix) compilation of the GEF BD-2 tracking tool; (ix) remote sensing assessment in the Chishui River Basin.	GEF TF	18,000	170,000	188,000
Activity 4: Provincial and local stakeholder analysis and capacity assessment	(i) Identification of stakeholders including government, communities and liquor companies, their roles pertaining to watershed management and potential roles in the project; (ii) A profile of the liquor companies, their structure, interest and capacity; (iii) Thorough and participatory capacity assessment of government, community and other stakeholders at the provincial, local and community levels, using the UNDP Capacity Development Scorecards to be tailor made for gauging capacity for PWS establishment and management, including assessing willingness and capacity to sell/buy watershed services; (iv) Stakeholder involvement plan developed through extensive stakeholder consultations clearly indicating how stakeholders will be involved (their roles and responsibilities) in various components and producing various outputs; (v) Capacity development plan for local stakeholders to fulfil their roles and responsibilities in project implementation; (vi) Road map for the transfer of project ownership to local stakeholders, planned and agreed upon; (vii) preparatory assessment for livelihood improvement schemes; (viii) capacity assessment for enhanced environmental quality monitoring.	GEF TF	19,000	30,000	49,000
Activity 5: Gender assessment and social and environmental safeguard screening	(i) Gender assessment incorporated in the target watershed profiling and stakeholder involvement plan development, reviewing the role of both females and males in project development and implementation and potential impacts of the project on each gender group; (ii) Application of the UNDP Environmental and Social Screening Procedure (PESS), avoiding any adverse environmental or	GEF TF	2,457	40,000	42,457

	socioeconomic impacts from the project, and identifying some social and environmental risks and opportunities with a view to realise multiple development benefits from the project.				
Activity 6: Preparatory studies for PWS and design of viable mechanism(s)	Design of a PWS pilot scheme containing <i>inter alia</i> : (i) clear and vetted identification of sellers and buyers and their spatial and socio-economic profiles; (ii) determination of livelihood enhancement opportunities and land use changes to be delivered for the PWS scheme with full consultation and consent of identified buyers and sellers; (iii) indicative cost-benefit analysis for the schemes to make the business case; (iv) a robust capacity assessment of institutions and individuals required to manage the PWS pilot; (v) a local stakeholder enabling plan with capacity building, consultation activities etc.; (vi) methodology for valuating ecosystem services; (vii) proposed payment and financial transaction mechanisms; (viii) monitoring methodology on ecosystem service provision, payment compliance, livelihood enhancement, biodiversity conservation etc; (ix) an up scaling and replication system with a clear methodological proposal to establish the links between pilot interventions and scaled-up interventions, including size, scope, type of intervention required to respond to the needs of potential buyers and the capacity to deliver watershed services on the part of the potential seller; (x) Clear , thorough legal/institutional assessment; (xi) a “healthy watershed model” for the basin.	GEF TF	19,000	150,000	169,000
Activity 7: Feasibility Analysis and Budget	(i) Feasibility study for PWS and designing of a viable mechanism, including cost-benefit analysis; (ii) An assessment of the social, economic and financial sustainability of proposed project outputs and activities; (iii) An assessment of PWS valued added as a biodiversity conservation mechanism; (iv) Verification and confirmation of baseline and targets; (v) A replication strategy for project activities; (vi) A monitoring and evaluation (M&E) and budget; (vii) A financing plan, including co-financing commitments for all project outputs and activities; (viii) An assessment of cost-effectiveness of project outputs and outcomes; (ix)	GEF TF	18,000	90,000	108,000
Total project preparation financing			100,457	540,000	640,457

C. FINANCING PLAN SUMMARY FOR PROJECT PREPARATION GRANT: (\$)

	Project Preparation	Agency Fee
Grant Amount	100,457	9,543
Co-financing	540,000	
Total	640,457	9,543

D. PPG AMOUNT REQUESTED BY AGENCY (IES) , FOCAL AREA(S) AND COUNTRY (IES)¹ N/A

E. PPG BUDGET REQUEST

Cost Items	Total Estimated Person Weeks for Grant (PW)	Grant Amount (\$)	Co-financing (\$)	Total (\$)
Local consultants *	36	27,000	30,000	57,000
International consultants*	10	30,000	2,000	32,000
Travel – international and domestic travel and DSA for consultants		19,000	15,000	34,000
Workshops and consultations		11,000	16,000	27,000
Translation		5,000	18,000	23,000
BD data/information and map production		3,457	40,000	43,457
Miscellaneous - a contingency cost to cover expenses that may arise including exchange rate movements		5,000	15,000	20,000
Baseline project cost for remote sensing assessment of the Chihui River Basin, development of a “healthy watershed model” in the basin, environmental quality monitoring of the basin as well as preparatory work for livelihood support for upstream farming communities for improving farming practices and environmental quality management programme of the Chishui River Basin		0	404,000	404,000
Total PPG Budget		100,457	540,000	640,457

* Annex A for Consultant cost details should be prepared first before completing this table. See notes on Annex A for the required detailed information. This table is the sum of all local and international consultants presented in Annex A.

F. GEF AGENCY (IES) CERTIFICATION

This request has been prepared in accordance with GEF policies and procedures and meets the GEF criteria for project identification and preparation.

Agency Coordinator, Agency name	Signature	Date (Month, day, year)	Project Contact Person	Telephone	Email Address
Yannick Glemarec GEF Executive Coordinator, UNDP		January 18, 2013	Midori Paxton Regional Technical Adviser – EBD, UNDP	+66 818787510	midori.paxton@undp.org

Consultants Financed by the Project Preparation Grant (PPG)

Type of Consultant	Position / Titles	\$/ Person Week₁	Estimated PWs₂	Tasks to be performed
Local	Environmental policy and legislation / PES institutional capacity development specialist	750	18	<p>Acting as the leading national consultant, the expert will work in tandem with the two international consultants to successfully conduct all the activities within the PPG. The specialist will lead PPG Activity 2,3 and 4, while providing coordination and technical support for other activities. The consultant will ensure generation of necessary information, data and analysis for project planning for collation by the Ecosystem Management and Strategic Planning Specialist. Tasks will include:</p> <ul style="list-style-type: none"> a) Coordinate and conduct data collection, review and analysis work, and liaise with provincial and local stakeholders for coordination and organisation of technical meetings and consultation sessions; b) Support the international PWS specialist in developing the conceptual and methodological guidelines on PWS ensuring the guideline's applicability to situations in China; c) Lead the legal and institutional review for PWS development and management, profiling legal and institutional framework at the national, provincial and local level pertaining to PWS, identifying gaps and barriers to development of viable PWS mechanisms which will be tackled by the project, and producing institutional map with identification of strengths and weaknesses with a plan for institutional capacity development; d) Define stakeholders and their roles and responsibilities in PWS development and management, and thoroughly assess the capacity of various agencies, in respect of their roles, functions and/or responsibilities and their influence on, and importance in, the implementation of the proposed project; their capacity constraints, strengths and weaknesses in supporting or implementing project activities, in view of identifying the capacity development needs of the different stakeholder groups to ensure the sustainability of project investments beyond the term of the project; using the UNDP Capacity Development Scorecards that are tailor made for assessing institutional capacity for PWS. e) Produce the initial draft of the project stakeholder involvement plan, based on the capacity assessment findings and through community level consultations, specifying how individual stakeholders will be involved in different output components of the project. f) Develop a capacity development plan strengthening the provincial, local and community capacity for establishing and managing PWS schemes, and suggest appropriate indicators with baseline information; g) Lead and coordinate the target watershed profiling and baseline assessment, coordinating work of the biodiversity and ecosystem management specialist and community participation and gender specialists, providing all the necessary legal, institutional, environmental, socio-economic information required for the project with clear determination of all the baseline and targets within the projects results framework;

Type of Consultant	Position / Titles	\$/ Person Week ₁	Estimated PWS ₂	Tasks to be performed
				<p>h) In collaboration with the international PWS specialist conduct the preparatory analysis and design the viable PWS mechanism to be established with support of the project, including clear identification of sellers and buyers, determination of livelihood enhancement opportunities and land use changes to be delivered for the PWS scheme, indicative cost-benefit analysis for the schemes to make the business case, and a local stakeholder enabling plan, and develop a roadmap and plan for actions to be supported under the project;</p> <p>i) In collaboration with the international PWS specialist, develop a methodology for ecosystem services valuation to be used in the project, and design the ecosystem service monitoring and verification mechanism, and a payment and compliance monitoring system, and clear methodological proposal to establish the links between pilot interventions and scale up interventions, with clear replication strategy including definition of replication scale, type of interventions and potential buyers and sellers.</p>
Local	Biodiversity and ecosystem management specialist	750	2	<p>Working closely with the lead international and national consultants, the specialist will:</p> <p>a) Collate information on the biodiversity significance, biodiversity threat and conservation status of threatened terrestrial and fresh water habitat and species in the Chishui River Basin as well as information on the protected areas, major habitat blocks and unprotected critical biodiversity areas and potential corridors within the basin;</p> <p>b) Provide a table and map showing the vegetation and ecosystem types in the area as well as land uses including the location of protected areas;</p> <p>c) Provide technical support to identify areas where land use changes will be able to produce tangible global biodiversity benefit within the Chishui River Basin, and support design of the PWS pilot.</p> <p>d) Assess pressures and plans for reduction of threats to local biodiversity with baseline and targets with clear results measurement methodology.</p>
Local	Hydrology and water resource management specialist	750	2	<p>Working closely with the PWS specialist, the consultant will:</p> <p>a) Conduct a hydrological assessment of the Chishui River Basin in particular Wuma and other selected target watersheds;</p> <p>b) Produce a water map for the river basin and target watersheds mapping water resources and identifying current water use from different sectors and future scenario;</p> <p>c) Support development of a project plan for optimizing land use for ecosystem services enhancement and livelihood improvement.</p>
Local	Stakeholder engagement and gender specialist	750	14	<p>The specialist will be responsible for ensuring full stakeholder engagement including communities and private sector stakeholders at the target watershed(s) and consultation during the project preparation acting as a community liaison person, as well as generating communities' understanding and willingness to participate in the project.</p> <p>a) Identify project stakeholders at the target watershed(s) and their responsibilities pertaining to land and water resource management in target watersheds;</p> <p>b) Assess socioeconomic situations surrounding the target watersheds to be fed into the watershed profile;</p>

Type of Consultant	Position / Titles	\$/ Person Week ₁	Estimated PWS ₂	Tasks to be performed
				<ul style="list-style-type: none"> c) Take stock of the past and ongoing community based natural resources management and related work within the watersheds and compile lessons learned for use in project development; d) Engage with the local stakeholders (private sector, government and communities) in the potential demonstration watersheds to enhance their understanding on PWS, project's intents and their potential roles, and assess communities' interests in the project implementation and their capacity needs for fulfilling the roles through extensive consultation process; e) Identify opportunities for alternative livelihood/livelihood enhancement interventions in target watershed and develop a concrete plan for project support; f) Ensure local private sector and communities' understanding and consent to the project, with documentation of proof, full participation in project development and implementation; g) Conduct a gender assessment reviewing the role of both females and males in the project development and implementation and potential impacts of the project on each gender group.
International	Ecosystem management and Strategic Planning Specialist	3,000	5	<p>The specialist will provide strategic technical guidance to the PPG process and collate inputs of different team specialists and take the lead in collaboration with key stakeholders, implementing and executing agencies in designing the full project document. The work involves facilitating the following process;</p> <ul style="list-style-type: none"> a) Ensure full stakeholder consultation including communities in the target watersheds so as to ensure project ownership and full participation in implementation through generating buy-in on the project contents; b) Review baseline information delivered by the local experts and ensure the information quality; c) Develop the threats and root causes matrix, and the description of the barriers to the development and effective management of the PWS scheme; d) Conduct the Environmental and Social Screening for the project and compile a social screening summary; e) Carry out an incremental analysis and cost effectiveness analysis of the project strategy; f) Assess the sustainability of suggested project outcomes and outputs; g) Assess global environmental benefits sought from the project; h) Propose a project monitoring and evaluation framework with a set of measurable impact and progress indicators; i) Develop budget plans for the project; j) Ensure linkages with other government, donor and GEF biodiversity and land degradation projects in the country and region; k) Prepare necessary ToRs for the project staff and key consultancies during the implementation phase ; l) Take the lead in collating the inputs of different team specialists and draft the full project document and CEO request. Revise as necessary to satisfy all parties.
International	Payment for Watershed Service Expert	3,000	5	<p>The specialist will provide guidance to PPG consultants and government and other stakeholders on PWS schemes and the actions required in the FSP. In particular, the consultant will assume a lead technical role in PPG Activity 1 and 6 while providing substantial technical support for Activity</p>

Type of Consultant	Position / Titles	\$/ Person Week 1	Estimated PWs 2	Tasks to be performed
				<p>2,3 and 4. This would include reviewing inputs from the technical studies undertaken in the PPG and making recommendations for designing pilot approaches for testing payment levels, contractual models, and frameworks required for monitoring the delivery of services. It would also include recommendation on defining realistic targets for a) upscaling and replication and b) future up-take of market based PWS mechanisms in China or maximising global and national benefits linked to biodiversity conservation goals.</p> <p>The tasks entails:</p> <ul style="list-style-type: none"> a) Introduce and applying globally advanced PWS theory and experience to the target province and sites; b) Draft the conceptual and methodological guidelines on the PWS in close collaboration with the environmental policy and institutional capacity development specialist (lead national specialist); c) In close collaboration with the lead national specialist, conduct legal and institutional review for establishment and operationalisation of PWS schemes in the Chishui River Basin, identifying contradictions or critical gaps which may hamper the progress of project implementation, and suggesting measures to remove the barriers; d) Assess current level of the government and (private) stakeholder investment in PWS related work in the Chishui River Basin and develop a clear methodology for assessing the investment in the context of existing legal/policy frameworks; e) Adapt the UNDP Capacity Development Scorecard for gauging capacity for PWS establishment and management and provide technical support the application of the scorecard; f) Provide technical support for stakeholder analysis and a capacity assessment and development of a project stakeholder involvement plan; g) Provide support and guidance to the Chishui River Basin and watershed profiling exercise; h) Provide technical support for the hydrological assessment and production of a water-map. i) Working closely with the national and international specialists, conduct the preparatory analysis and design the viable PWS mechanism to be established with support of the project, including clear identification of sellers and buyers, determination of livelihood enhancement opportunities and land use changes to be delivered for the PWS scheme, indicative cost-benefit analysis for the schemes to make the business case, and a local stakeholder enabling plan, and develop a roadmap and plan for actions to be supported under the project; j) Working closely with the lead national consultant, develop a methodology for ecosystem services valuation to be used in the project, and design the ecosystem service monitoring and verification mechanism, and a payment and compliance monitoring system, and clear methodological proposal to establish the links between pilot interventions and scale up interventions, with clear replication strategy including definition of replication scale, type of interventions and potential buyers and sellers.

1. Provide dollar amount per person week.

2. Provide person weeks needed to carry out the task.