

## Review Aide Memoire

### Danish Support to the Mekong River Commission, 2011-2015

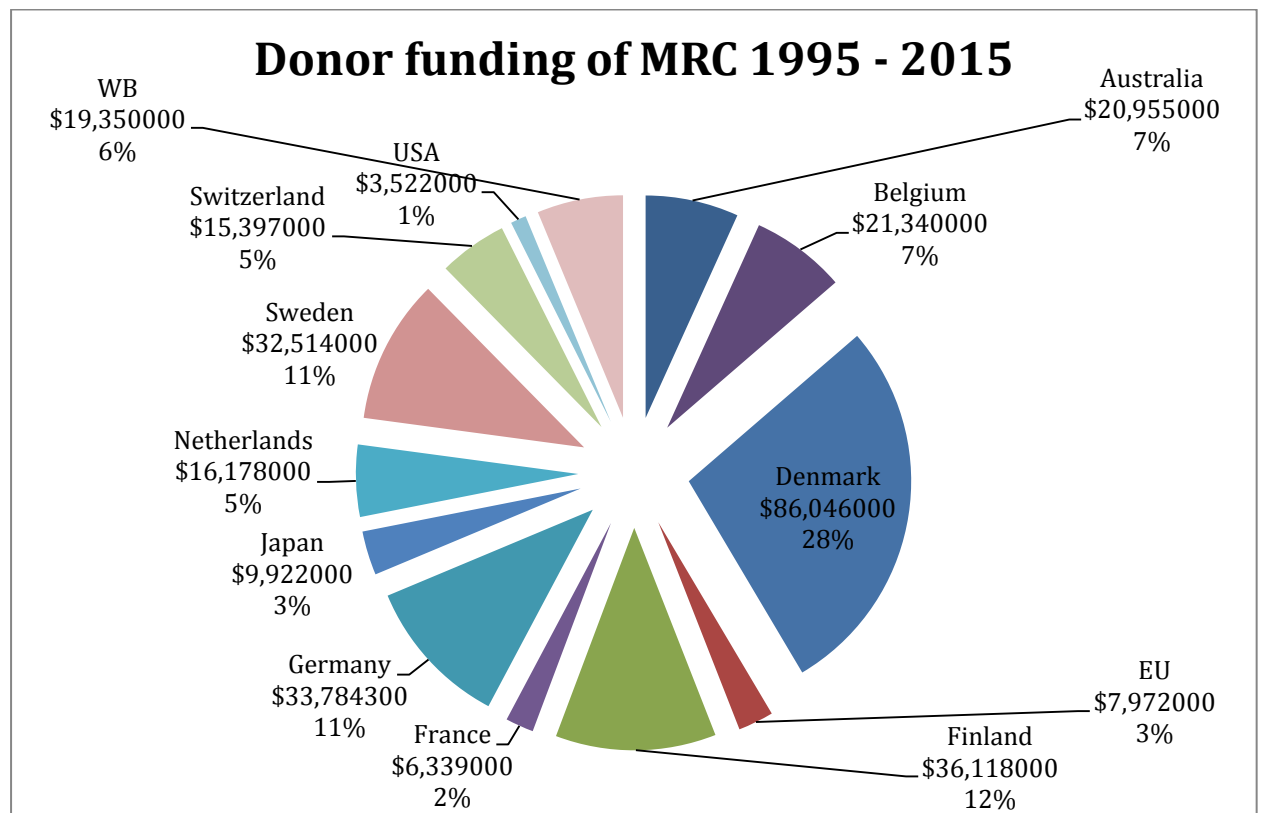
#### Danida Review Mission, 4-20 December 2013

##### 1. Introduction

A Danida Review Mission (RM) visited Cambodia, Laos, Thailand and Vietnam from 4-20 December 2013 to review the progress and outcomes of Danish support to the Mekong River Commission (MRC). The RM consisted of Kurt Mørck Jensen (Team Leader, Danida Senior Adviser); Palle Lindgaard Jørgensen (External Consultant to Danida); and Verner Kristiansen (External Consultant to Danida). The RM met with the MRC Secretariat (MRCS), National Mekong Committees (NMCs), selected Ministries in MRC Member States, Development Partners (DPs), NGOs and Mekong experts in the region. The RM would like to thank all persons met with for their contribution to this review.

##### 2. Background and context

Denmark has supported cooperation between the Lower Mekong States of Cambodia, Laos, Thailand and Vietnam since the early 1990s. With the establishment of the MRC under agreement between the four Member States in 1995, Danish assistance was expanded, totalling USD 86m between 1995-2015.



During the current five year MRC Strategic Plan period (2011-2015), Denmark supports the Basin Development Plan (BDP), Fisheries, Environment and Climate programmes with a total budget of DKK 65 million.

After twenty years of donor support amounting to USD 323 million<sup>1</sup> (1995-2015) it is appropriate to take stock of the MRC's performance as a transboundary river basin organization. Donor support has contributed to the MRC developing into an organisation charged with implementing many individual projects and programmes. Under the management of the MRC Secretariat, attempts are being made to integrate programmes under so-called core functions within the framework of an organizational and financial road map towards 2030. Donors are closely watching this reform process as it entails a scenario of donors phasing out their financial support. The objective of the reform road map is an effective MRC fully financed by Member States.

The accelerated economic development in the Mekong region over the last fifteen years has led to hydropower and other development investments throughout the Mekong river system. These developments challenge the MRC's mandate of supporting sustainable management of the river and its resources. The Xayaburi and Don Sahong mainstream hydropower projects have tested the MRC's governance system through the application of the Procedures for Notification, Prior Consultation and Agreement (PNPCA). In the case of the Xayaburi, it has not been possible to reach agreement among Member States on the conclusion of the PNPCA process, and construction of the dam is going ahead. This has led to questions regarding the relevance of the MRC from donors and a range of Mekong stakeholders. The Don Sahong will be the next test of the MRC's governance performance.

### **3. Summary of recommendations**

#### ***#1: Fast tracking the MRC's Regional Road Map***

*The RM recommends that MRC 2010 Summit commitments to reform be fast-tracked by advancing the Regional Road Map for Decentralisation from 2030 to 2020. The remaining two years of the current Strategic Plan (2014-15) period should involve:*

- *Transition from individual programmes to core functions by the end of 2015.*
- *Critically review the reduced number of core function activities (reduced to 40-50 by the MRC's Roadmap preparation process 2011-2013) with a view to discontinue some and only delegate strategically important ones with a demonstrable transboundary value.*

#### ***#2: Financial self-reliance***

*The RM recommends that financial self-reliance of the MRC by Member States be reached in 2020 by fast tracking the Regional Road Map (2030). Donor contribution to the MRC over the strategy period 2016-20 should be provided (i) through pool fund arrangements and (ii) capped at 50% of total budget and (iii) no more than USD 15m. A reduced annual MRC budget of USD 6m over the strategy period 2016-2012 assumes further reduction of the 40-50*

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<sup>1</sup> Information provided by the MRC Secretariat.

core function activities already identified by the MRC's Roadmap preparation process 2011-2013 (ref. recommendation #1 ii above).

**#3: Staff reduction**

The RM recommends that targets for MRCS staff reduction be reached by 2020 by fast tracking the Regional Road Map (2030). Riparianisation should be carefully balanced with requirements for adequate professional skills. A human resource policy should be geared towards attracting and retaining high performing professionals. Current efforts to identify a riparian CEO should be handled by professional recruiters charged with finding a pro-active professional with clear development visions and development diplomacy skills.

**#4: Organizational implications of fact tracking**

The RM recommends that a review be commissioned to assess organisational implications of the RM's proposed fast track implementation of the MRC's Regional Road Map. The review should be brief, based on existing documents and operational in identifying practical solutions to decentralisation and organisational challenges, including updating of the MRC proposal for a cost-sharing formula using percentage shares for Member States and suggestions for quantitative and qualitative staff requirements. In order to allow the MRC to implement the review recommendations by end of 2015, the review should be completed no later than June 2014 and include an operational process action plan.

**#5: Alignment of core functions under a Basin Development Strategy**

The RM recommends that the MRC's core basin management functions be aligned under a Basin Development Strategy based on a solid river baseline that also identifies potential sustainable development thresholds as a basis for planning of new developments. The baseline should be updated every five years.

**#6: Strengthen the MRC's cooperative framework**

The RM recommends that the MRC's cooperative framework be strengthened by emphasizing sharing of data and development of basin wide information such as (i) standard methods, tools and mechanisms relevant for flood and drought forecasting, (ii) flood emergency management, (iii) development of tools and mechanisms for water quality related emergency management, (iv) assessment of developments with potential transboundary implications, and (v) state of the basin assessment.

**#7: Strengthen the MRC's governance framework**

The RM recommends that the MRC's governance framework be strengthened by e.g. further qualifying the PNPCA by including assessment of economic trade-offs and benefit sharing options of notified projects. This will further enhance transparency and facilitate political decision making by Member States either at the level of the MRC Council or by Prime Ministers.

**#8: Strengthen civil society and stakeholder engagement**

The RM recommends that the MRC enhances interaction with civil society, knowledge providers, private sector developers and other regional stakeholders in order to strengthen its knowledge base and to improve its governance performance. The MRC should act on its core function commitment of dialogue and communication and establish a civil society and stakeholder platform that will become part of the MRC governance processes such as PNPCA.

**#9: Value-for-money audit**

*The RM recommends that a value-for-money audit be conducted by an external and independent auditor identified by Denmark. The audit, financed by the ongoing Danish supported programmes, should assess whether Danish programme funds are spent effectively and efficiently and results shared with all partners.*

**#10: Programme priorities 2014-2015**

*The RM recommends that for 2014-2015, programmes should give priority to data, information, standard methods, tools and mechanisms relevant for transboundary river basin management under core functions. There should be a reduced emphasis on national activities.*

*A Process Action Plan outlining the timing of actions recommended and the allocation of responsibility for follow-up is presented in Annex 1.*

**4. Overall assessment of the MRC's governance performance, organization and Danish supported programmes**

The Mekong and the MRC are facing challenging times as hydropower development on the mainstream is escalating. MRC governance performance has been put to the test with the Xayaburi dam. Observers argue that the test has resulted in the MRC being side-lined to the extent that its relevance and credibility as a river basin organisation is questioned.

The MRC is in the process of reform towards core functions and decentralisation based on a 2030 road map. While it is a tall order to change the world's largest river basin organization, circumstances require fast tracking of the 2030 road map. It is not justified to have a seventeen-year road map for organizational change. 2020 should be the target for full financial self-reliance by Member States and phasing out of DP funding.

Decentralisation prospects have already led to a dramatic increase in staffing of NMCs in Member States now amounting to 100 staff and set to rise further if NMC ambitions reported to the RM are realised. Also, MRC programme budgets and activities have been transferred to the national level<sup>2</sup>. The direction of decentralization needs to be reconsidered as it may tip the balance of the MRC towards the national level. This is not conducive to upholding the transboundary mandate of the MRC.

Danida funded programmes are progressing according to plan with the Climate Initiative being an exception. There appears to be an excess of time and resources spent on travel, workshops and meetings. Some activities in the Fisheries

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<sup>2</sup> Financial assistance from other regional funds (e.g. the Greater Mekong Subregion Programme) also contributes to the increase in NMC staff.

Programme and the BDP may need to be reconsidered as activities of national responsibility falling outside the purview of the MRC. There is a need for a value-for-money audit, carried out by external and independent professionals, to assess whether Danish programme funds are spent effectively and efficiently.

## **5. Mid-Term review of MRC Strategic Plan 2011-2015 and programmes**

The MRC is currently undertaking its own midterm review of its Strategic Plan 209-2015 and its programmes. Based on several meetings, the Danish review team has coordinated its findings with the two MRC review consultants.

The two review processes supplement each other in a very constructive way. Some of the strategic recommendations by the Danish review team on e.g. prioritizing and amalgamating activities from the MRC programmes under core functions will be underpinned by further operational recommendations by the MRC review consultants. Having the two reviews at the same time has provided an opportunity of mutual benefit in terms of scope, details and evidence

## **6. Reorganizing the MRC**

Implementing the Strategic Plan 2011-15 entails three key organisational priorities: decentralisation, financial self-reliance and strengthened leadership.

### **- *Decentralisation***

Endorsed by Prime Ministers at the Hua Hin Summit in 2010, the key priorities for a slimmer and more effective MRC have since been fleshed out in the draft report on *Core River Basin Management Function Decentralisation Regional Roadmap*<sup>3</sup>, now in the process of being followed up by Roadmaps for Secretariat and each Member State and working papers on future contribution formulas to assist in the essential process of rendering the MRC financially self-reliant.

The reform process documentation was generally found to provide a solid point of departure for strengthened regional ownership, balanced coordination between operations at regional and national levels in the delivery of MRC core functions. Concern is noted over the risk of carrying too many activities from MRCS to the level of Member States. Rather, the MRC should explore the opportunity of critically assessing if activities funded hitherto by external sources should be phased out rather than continued by default at delegated levels at the cost of Member States.

The RM was not convinced that the proposed transition period of seventeen years before full implementation of the reform agenda in 2030 would be beneficial to the MRC as an organisation.

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<sup>3</sup> *Core River Basin Management Function Decentralisation: Regional Roadmap*, Final Draft for Comment, MRC (Version 1.0, July 2013)

Prolonged periods of reorganisation and transition are potentially harmful to any organisation. For the MRC, regional developments since 2010, not least in mainstream hydropower, further justify fast tracking of the Regional Road Map, meriting implementation by 2020 rather than 2030. The view that fast tracking organisational reform could mitigate the risk of losing reform momentum was met with an overall favourable response from a broad range of stakeholders consulted during the Review Mission.

The drive towards decentralisation was found by the RM to be justified and enjoy universal support from all RM interlocutors encountered. Properly implemented, decentralisation could facilitate stronger ownership and involvement of a broad spectrum of stakeholder at national level – and opportunities for stronger focus.

However, the process also carries the risk of decentralisation degenerating into a undesirably weak MRCS combined with oversized and burdensome NMCs, a danger to sustainability in light of donor funding ending by 2020 and also a potential bottleneck for mobilisation of line ministry professionals. The RM noted with concern an expectation amongst NMCs consulted that large-scale transfer of functions would be accompanied by large-scale external funding – an expectation not resonating with donors keen to see a slim, self-reliant MRC.

The Roadmap proposes a USD 7.5m decentralisation fund to kick-start the proposed core river basin management financing mechanism from 2014 to 2016. According to the Roadmap, the fund is based on an agreed decentralisation pace, regional requirements and the need to prepare for implementation of second batch decentralisation. The Roadmap assumes that activities which cannot yet be decentralised at an agreed pace will continue within the scope of current PIPs. Whilst the RM finds that a transition fund may be sensible under certain conditions, an inherent risk lies in making delegation of functions too easy to agree to in the short term and raising unrealistic expectations in the long term.

In the best assessment of the RM, decentralisation should avoid the creation of administratively parallel NMC structures and instead build capacity of national line ministries whilst keeping the NMCs, mandated by Ministries of Foreign Affairs to have dialogue with other Riparian countries, in a lean and coordinating capacity, in line with best practice by river basin organisations internationally.

*#1: The RM recommends that MRC 2010 Summit commitments to reform be fast-tracked by advancing the Regional Road Map for Decentralisation from 2030 to 2020. The remaining two years of the current Strategic Plan (2014-15) period should involve:*

- *Transition from individual programmes to core functions by the end of 2015.*
- *Critically review the reduced number of core function activities (reduced to 40-50 by the MRC's Roadmap preparation process 2011-2013) with a view to discontinue some and only delegate strategically important ones with a demonstrable transboundary value.*

## **- Financial self-reliance**

Member State ownership and long-term sustainability of the MRC are found by the RM to be best promoted if financial self-reliance is pushed forward from the 2030 framework outlined by the Regional Roadmap.

RM consultations with donors revealed commitment to continue supporting MRC but at lower levels and with a budget cap of 50% to enable transition to self-reliance at MRC budget projections of USD 6m a year. A reduced annual budget of USD 6m assumes further reduction of the 40-50 core function activities already identified by the MRC's Roadmap preparation process 2011-2013 (ref. recommendation #1 ii above). Consequently, in pursuit of its long-term interest, the MRC needs to prepare now for donor phase out by 2020.

A draft roadmap to structure the transition to financial self-reliance by 2030 has been prepared by the MRCS in 2012/2013, including detailed proposals for balanced and transparent cost sharing amongst Member States<sup>4</sup>. Current proposals and projections concerning MRC internal level and distribution of operating expenditures (OEB) and activities (CRBMF) need further substantiation during 2014 to align with the fast track phasing out of donor funding by 2020. In order for financial self-reliance to be manageable, it would appear sensible to adopt a cost-sharing formula based on percentage shares of the total budget rather than absolute numbers, as suggested by MRCS in one of its future scenarios.

Transition from programmes to core functions has significant implications for the financial situation of the MRC as programmes have contributed an 11% overhead payment for administration and management and much will depend on MRC ability to critically assess relevance of current activity scope and only delegate priority functions. Tabled below is an overview of RM fast track recommendations vis-à-vis MRC plans for phased financial self-reliance.

***Table: Financial self-reliance perspectives***

	<b>2016 OEB</b>	<b>2016 CRBMF</b>	<b>2020</b>	<b>2025</b>	<b>2030</b>
Roadmap	Fully funded by MS	0% (gradual increase)	25%	50%	100%
RM prop	Fully funded by MS	50%	100%	100%	100%

With the MRCS slimmed and efficiently focused on its core functions and the NMCs kept lean and affordable, activities in support of core functions at country level should stick to a mandate of national coordination and delegation to relevant line ministries using fund mobilised from national budgets.

Opportunities for bilateral donor support to line ministries in Laos and Cambodia, found to be facing considerable financing and capacity gaps, could be explored as a transitional measure, as suggested by the Regional Roadmap and discussed during the RM with a favourable response from development partners.

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<sup>4</sup> *Review of the Member Contribution Formula to the Operational Expenses Budget (OEB), Draft Report, MRC (Version 1.2, November 2013)*

2#: The RM recommends that financial self-reliance of the MRC by Member States be reached in 2020 by fast tracking the Regional Road Map (2030). Donor contribution to the MRC over the strategy period 2016-20 should be provided (i) through pool fund arrangements and (ii) capped at 50% of total budget and (iii) no more than USD 15m. A reduced annual MRC budget of USD 6m over the strategy period 2016-2012 assumes further reduction of the 40-50 core function activities already identified by the MRC's Roadmap preparation process 2011-2013 (ref. recommendation #1 ii above).

- ***Strengthened leadership***

Considerable donor support to programmes has allowed MRCS to grow into the world's largest river basin organisation in terms of staffing to an extent costly for Member Countries to sustain in the long term. Comparisons with other river basin organisations support the recommendation to focus much more strongly on comparative advantages as a regional player and slim MRCS significantly.

The Regional Roadmap prepared by the MRC outlines plans for riparianisation of staff and significant reduction of staffing levels. Plans involve the complete phasing out of international staff from outside the region beyond 2015 and a phased reduction in total number of staff from 161 in 2012 to 45 in 2030. Whilst the RM found broad support for the principle of riparianisation of staff, it also noted the need to provide MRCS with the room for manoeuvre enjoyed by comparable river basin organisation to be able to procure the best qualified professional skills required for MRC delivery of its mandate.

Challenges relating to high turnover of staff and its associated problems of limited institutional memory and continuity were found by the RM to be broadly recognised by stakeholders but more difficult to find consensus to reform so far. Notwithstanding these difficulties, human resource reform is an urgent priority for the next CEO in order to attract and retain the appropriate calibre of staff

The table below illustrates how staffing levels can be reduced using the main elements of the phased approach of the Regional Road Map but with a fast track approach of achieving results by 2020 (RM timing proposals marked in *italics*).

<b>Staff category</b>	<b>2012 numbers</b> <i>2012 total 161</i>	<b>Projected 2020</b> <i>2015 total: 115</i>	<b>Projected 2030</b> <i>2020 total: 45</i>
General Support staff	76	40-45	10-18
Riparian Professional staff	61	50-55	25-30
Int'l Professional staff	13	-	-
Junior Riparian Professional	11	6-10	6

Current high turnover of staff challenges the MRC's institutional memory and technical capacity. However, it also presents an opportunity for swifter staff reduction in the interest of a fast-tracked 2020 Regional Road Map. A slimmer



MRC Secretariat should in future rely on outsourcing TA and knowledge work to regional knowledge centres, experts, universities and civil society.

The Fishery Programme has outsourced successfully during the last 10-15 years. Outsourcing arrangements could be based on the positive lesson learnt from the 2010 SEA of mainstream dams, in turn illustrating the potential for MRC to galvanise the filling of strategically important knowledge gaps by engaging with knowledge institutions and consultants in the region with game-changing effects.

The regional reform agenda now being translated into Roadmaps for the region as well as for individual Member States requires strong leadership from the CEO senior management of the MRCS to handle critical organizational reform issues, including the combination of slimming overall staffing levels and at the same time promoting institutional memory by retaining well performing professional staff. Apart from solid technical expertise and knowledge of the region, critical skills to accommodate the urgent need for internal reform of the organisation and stronger involvement with key stakeholders in the region include:

- Pro-active leadership
- Development vision
- Water diplomacy skills

The RM has noted that search for a riparian candidate to replace the current CEO next year is currently in process. It is assumed that there will be no gap between the expiry of the term of the present CEO and his successor.

The replacement comes at a critical time when developments in the region require a CEO with solid technical skills and proven abilities to pro-actively manage organisational reform as well as external political complexities.

*#3: The RM recommends that targets for MRCS staff reduction be reached by 2020 by fast tracking the Regional Road Map (2030). Riparianisation should be carefully balanced with requirements for adequate professional skills. A human resource policy should be geared towards attracting and retaining high performing professionals. Current efforts to identify a riparian CEO should be handled by professional recruiters charged with finding a pro-active professional with clear development visions and development diplomacy skills.*

- ***Review of organisational implications of fast track decentralisation***

It is recognised by the RM that fast tracking current plans for decentralisation reforms and a radically slimmer MRCS requires careful scrutiny of capacity at Secretariat and Member State level to ensure that selected activities relevant for core functions do not get lost in transition and the NMCs do not develop into oversized bottlenecks for effective engagement of line ministries.

Part of the challenge of fast tracking lies in negotiating faster take-over of the costs of running the MRC now envisaged to be completed by 2030. With the current cost-sharing formula based on absolute contribution figures, the MRC

runs a risk of having to open new negotiations whenever the total budget changes for one reason or the other.

The RM noted that one of the scenarios proposed by the MRCS of moving to percentage shares of total budget expenditure would appear worth consideration, possibly combined with strengthened procedures for budget monitoring by the Joint Committee.

There is a need to review the broad picture of organisational implications of fast tracking decentralisation plans and outline the quantity and quality of staff required by MRC in future. A review should look at the challenges of NMC role, capacity and running costs as well as actions towards a slimmer but at the same time stronger MRCS. It should also suggest measures to make the MRCS more attractive to qualified riparian professionals and enable the MRCS to retain high performing staff for longer periods of time to strengthen institutional memory.

*#4: The RM recommends that a review be commissioned to assess organisational implications of the RM's proposed fast track implementation of the MRC's Regional Road Map. The review should be brief, based on existing documents and operational in identifying practical solutions to decentralisation and organisational challenges, including updating of the MRC proposal for a cost-sharing formula using percentage shares for Member States and suggestions for quantitative and qualitative staff requirements. In order to allow the MRC to implement the review recommendations by end of 2015, the review should be completed no later than June 2014 and include an operational process action plan.*

#### **- From programmes to core functions**

Fast tracking of the MRC's organizational reform also implies that the move from programmes to core functions has to be initiated immediately to be in place by the start of the next Strategic Plan period (2016-2020). Moving from an MRC programme modality to core functions requires a solid planning and monitoring framework. The RM and the Strategic Plan Mid-Term Review (ST MTR) team have discussed how the Basin Development Strategy and the Basin Action Plan could provide the umbrella for the MRC core functions. The Basin Action Plan is foreseen to be implemented during 2013-15. It has been agreed to continue into 2016-20. The Basin Action Plan entails activities at the regional level by the MRCS and the national level through the NIPs. The latter is based on substantial support from the MRC budget.

As the RM recommendation for fast tracking only includes support to the MRCS during the next Strategic Plan period (2016-2020) and not to the national level, there will be no DP funds for the NIPs. The MRC and the NMCs may therefore need to rethink their priorities with regard to the NIPs.

The RM and the SP MTR teams agree that the existing Basin Development Strategy<sup>5</sup> with its emphasis on national activities and projects under the NIPs is not the appropriate transboundary mechanism for future management and development in the basin. Basin planning needs to be informed by a long term Basin Development Strategy and requires: i) a solid river baseline<sup>6</sup> to be updated every five years; and ii) identifying potential sustainable development thresholds as a basis for planning of new developments.

The SP MTR has preliminarily suggested a revised framework for a Basin Development Strategy based on 20 year scenarios and five year agreed priorities. The Strategy builds on information on national plans from each of the MRC countries in the tributaries and in the mainstream rather than implementing projects through a regional budget. The RM is in agreement with the SP MTR team's preliminary suggestions for a Basin development Strategy as an umbrella for the MRC core functions. The SP MTR team's preliminary thinking on how to further and amalgamate the core functions and river basin management functions are supportive of the RM's fast tracking of the MRC's reform process.

*#5: The RM recommends that the MRC's core basin management functions be aligned under a Basin Development Strategy based on a solid river baseline that also identifies potential sustainable development thresholds as a basis for planning of new developments. The baseline should be updated every five years.*

## **7. The MRC's governance performance**

### **- *MRC knowledge production and governance decisions***

Over the years the MRC has developed procedures for data collection, sharing and analysis to support decision-making and to inform Member States on the health of the basin. These procedures for data management are mandated in the 1995 Agreement with the aim of supporting the governance decisions of the MRC, not least in relation to its Procedures for Notification, Prior Consultation and Agreement (PNPCA).

In the case of the mainstream dams, the knowledge produced has been tested in its ability to support governance decisions by Member States. The ability of the MRC's knowledge to assess the impacts of the mainstream dams was questioned by the 2010 SEA of mainstream dams. The SEA report identified a number of areas where new data sets and analyses were required. These knowledge gaps led Vietnam to initiate the Mekong Delta Study and Thailand to embark on an ambitious national monitoring system to assess the present baseline against future impacts of mainstream dams. If the MRC with its multilateral mandate had done its work right, Vietnam and Thailand would not need to spend their own national

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<sup>5</sup> Including the BDP programme's plans for its implementation during 2016-20120.

<sup>6</sup> Flows, fisheries, water quality, sediment and nutrient transport, extraction (irrigation, sand mining), aquatic biodiversity, socio-economic.

budget on these exercises. The RM finds that this may erode the credibility and reputation of the MRC as a high quality knowledge provider.

The RM has taken note of the questions raised by knowledge institutions in the region: has the MRC developed the knowledge needed to adequately inform Member States and stakeholders on how to mitigate impacts of the mainstream dams in general and in particular the Xayaburi? Specific questions were also raised on how to design sediment flush systems, fish passages, etc. RM discussions with the MRC programmes confirmed that there are still many gaps in the MRC's data sets and data analyses.

The RM understands that the data and information gaps may also be related to the inaction on the part of Member States in encouraging the necessary resource inventory for a proper baseline to support decision-making. It is pertinent to ask: If there is a lack of data on the baseline situation today<sup>7</sup>, how will the MRC know what the impact from future developments will be? And how is it possible to know when the threshold for sustainable development is reached?

Hydropower developments on the Mekong mainstream have led to stakeholders painting a bleak picture of the MRC, not only because of side-tracking by national sovereignty and economic self-interest but also MRC knowledge production as discussed above. However, discussions with stakeholders during the review also gave evidence to the MRC's cooperative capacity rooted in a number of non-conflictive activities.

Hydro-meteorological data collected and assessed by MRCS can provide information to Member States relevant for their flood and drought management. The State of the Environment Report based on information collected by the Member States and assessed by the MRCS can assess long-term degradation of the quality and health of the basin and inform decisions to act. Without agreements amongst MRC countries to share data and to agree on methodologies to collect and assess data, this information would not be available.

*#6: The RM recommends that the MRC's cooperative framework be strengthened by emphasizing sharing of data and development of basin wide information such as (i) standard methods, tools and mechanisms relevant for flood and drought forecasting, (ii) flood emergency management, (iii) development of tools and mechanisms for water quality related emergency management, (iv) assessment of developments with potential transboundary implications, and (v) state of the basin assessment.*

#### **- Procedures for Notification, Prior Consultation and Agreement**

A total of 42 projects on the Mekong have been notified to MRC under the current PNPCA, including the mainstream Xayaburi and Don Sahong projects. The RM was informed by the MRCS that for the 42 notifications not all relevant

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<sup>7</sup> Fish stocks, migration of fish species, biodiversity in the basin, wetlands, etc.

documents were submitted by Member States as required by the PNPCHA. In most cases only a “Form of Notification” was submitted without additional information on e.g. feasibility studies and EIAs.

The PNPCHA’s Prior Consultation (PC) involves a six months period for national consultations on project impacts as well as discussions on how to mitigate potential negative impacts of the project. So far, only one project was submitted for PC by Laos, namely the Xayaburi Hydropower Project. According to the PNPCHA, the project is characterized as an intra-basin use on the mainstream, including during the dry season, and therefore has to go through PC.

The PC for Xayaburi comprised the following:

- All MRC Member States received documents on the EIA of the project and had the possibility to express their concern over its transboundary impacts.
- In some Member States stakeholder platforms were established to represent and safeguard the interest of affected communities and biodiversity.
- The MRCS established a working group to assess the project information submitted by Laos.

Outside the MRC platform, civil society voiced their concerns on the Xayaburi project based on their own impact assessments. At the time, civil society did not have access to the information submitted by Laos to MRCS. As a result of discussions involving Member States and the MRCS on how to mitigate project impacts, the Laotian government agreed to modify the design of the dam. The RM was informed by the MRCS that subsequently there has been a dialogue between the MRCS and the Laotian government on design modifications.

However, details of this dialogue are not clear. It is also not clear what the current positions of the downstream Member States of Cambodia and Vietnam are other than asking for more data and information on transboundary impacts. In the case of Vietnam, this has triggered the Delta Study focusing on the impacts of mainstream hydropower on the Mekong Delta and the Cambodian floodplain according to the identified data and knowledge gaps identified by the 2010 SEA of mainstream dams.

Based on the lessons learned from Xayaburi, the MRCS suggests that the six-month consultation period is inadequate when considering the need to fill data and information gaps. The MRCS has suggested reviewing the current PNPCHA with a view to:

- Considering extension of the six-month PC period
- Establishing criteria for Agreement after the PC process
- Reaching a common understanding of how the PNPCHA should be interpreted in the context of the 1995 Agreement
- Raising awareness on the PC process

The review was proposed for more than a year ago but is not getting traction. In a meeting with the Government of Laos, the RM was told that Laos does not want changes to the current PNPCA.

The Xayaburi project has tested the PNPCA and accordingly the MRC's governance performance. The upcoming Don Sahong project in southern Laos will be the second test. The implementation of the PNPCA came short of: (i) Member States agreeing on whether PC has been completed or not (Cambodia and Laos ask for more data and information on impacts); and (ii) reaching consensus and agreement. Hydropower projects on the mainstream are high-hanging fruits for the MRC Agreement and its governance provisions under the PNPCA. However, Member State agreement on further qualifying the PNPCA can improve transparency of strategic decision-making by Member States on conflicting mainstream investments with transboundary impacts.

*#7: The RM recommends that the MRC's governance framework be strengthened by e.g. further qualifying the PNPCA by including assessment of economic trade-offs and benefit sharing options of notified projects. This will further enhance transparency and facilitate political decision making by Member States either at the level of the MRC Council or by Prime Ministers.*

#### **- *Decision making on hydropower in the Mekong***

The many hydropower projects on the Mekong tributaries in Laos and Vietnam have been notified by Member States according to the first "Notification" step in the PNPCA. In almost all cases the notification has amounted to a simple registration of a particular project. The implementation of tributary projects is typically based on a unilateral decision by a Member State. This is based on a common understanding among Member States that tributary projects fall under the realm of national sovereignty<sup>8</sup>. Only in the case of hydropower projects on the 3S (Srepok, Sesan, Sekong) tributary system in Vietnam has there been a bilateral dialogue between Vietnam and Cambodia sharing the tributary system over impacts, dam management etc. The bilateral dialogue was to some extent facilitated by the MRC. The dialogue was not on whether the hydropower projects should be implemented or not, but on impacts, management of dams and other mitigation measures.

With the large number of tributary dams, there is increased attention to accumulated impacts as well as some planned tributary dams having particular transboundary impacts. The Lower Sesan 2 in Cambodia is a case in point.

The Xayaburi and Don Sahong mainstream dams in Laos have evoked considerable attention by the political leadership in Laos, Cambodia and Vietnam. The PNPCA was implemented in relation to the Xayaburi but consensus and

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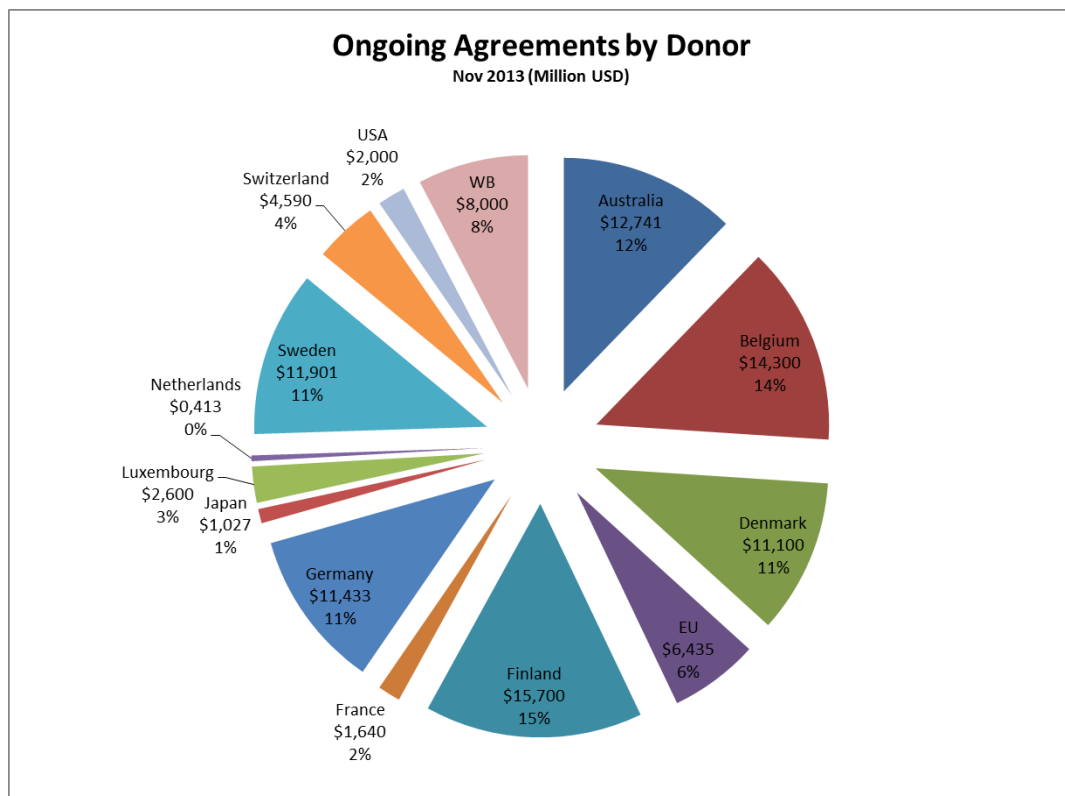
<sup>8</sup> Although one single project as well as the aggregated impact of all tributary projects are likely to have transboundary impacts.

agreement could not be reached. Disagreement on the potential dam impacts, as well as on interpretation of PNPCA outcome should be interpreted, lingers on. MRC decision-making vacuum was filled in at the level of Prime Ministers involving bilateral dialogue between Vietnam and Laos.

The political outcome of the Xayaburi process led observers, the media and civil society to suggest that the MRC had been side lined. Basic questions were raised regarding the relevance of the MRC in relation to in hydropower projects on the mainstream. The same questions are being asked in relation to the Don Sahong in southern Laos where Member States have not reached consensus on whether to proceed with Prior Consultation under the PNPCA or not. The Don Sahong project appears set to repeat the Xayaburi decision-making process outside the framework of the MRC.

- ***Development Partner interaction***

The MRC has registered a total of 26 development partners (DPs). Ccurrent DP commitments to the MRC amount to USD 103m representing the highest level of DP funding ever.



DPs currently consist of a diverse group of donors with different levels of MRC funding and track records of engagement. DPs coordinate their policies and decision-making on many MRC issues including funding modalities, the MRC reform process and MRC’s governance decisions in relation to mainstream dams. The coordination has transactions costs and it is not always possible for DPs with few resources to participate actively in the dialogue. It is essential that donors align

their policies and decision-making on future funding levels modalities for the next Strategic Plan period. For recommendations of this review to have traction for the MRC reform process, support from a critical mass of DPs is important.

- ***Civil society***

The MRC has engaged with civil society and external stakeholders over time. Civil society groups have been involved in stakeholder platforms under the BDP and in dialogues with other programmes. The IUCN and the WWF has been participating as observers in development partner meetings with the MRC in Council and Joint Committee meetings. Recently it appears there is disagreement as to whether the WWF and the IUCN should participate in these meetings. At points in time the MRC Secretariat has had dialogue with hydropower developers on approaches to sustainable hydropower. Earlier Danida review missions have pointed to the need for more systematic engagement with and outsourcing to centers of knowledge in the region such as universities, the AIT and civil society organizations engaged in knowledge production. It is not quite clear to which extent the MRC is proactively engaging and promoting dialogue and engagement with civil society and external stakeholders.

The RM finds that the MRC would benefit from proactive and well-organised engagement with external stakeholders and civil society. Perceived MRC sidelining by national sovereignty and self-interest in economic development may be mitigated by involving stakeholders in policy dialogue and joint initiatives, including outsourced knowledge generation. Enhanced interaction with stakeholders could help position MRC stronger as a high-profile centre of technical excellence and a cooperative mediator.

*#8: The RM recommends that the MRC enhances interaction with civil society, knowledge providers, private sector developers and other regional stakeholders in order to strengthen its knowledge base and to improve its governance performance. The MRC should act on its core function commitment of dialogue and communication and establish a civil society and stakeholder platform that will become part of the MRC governance processes such as PNPCA.*

**8. Progress of Danish supported programmes**

The assessment of the four programmes supported by Denmark (BDP, FP, EP, CCAI) is based on Annual Programme Progress Reports 2012, Progress reports January-June 2013, Financial reports up to October 2013, interviews with MRCS Programme staff, NMCs and MC line ministries and agencies.

<b>Overall progress of programme (activities, outputs, outcomes, changes)</b>	
<b>BDP</b>	Good progress is made towards development outcomes, except for establishing institutional framework to sustain the BDP process in the MRC. A Basin Development Strategy (BDS) update will be done by 2014 and new scenarios will be



	<p>analysed. The BDP has much focus on national activities through the National Implementation Programmes (NIPs). 56% of the overall BDP budget is spent nationally. The NIPs evolve as individual national projects. The NIPs have not delivered an updated development baseline in the sub-basins. The BDP has not reduced its activity plan, outputs or changed its result chains. No adjustments of the programme PIP is expected for 2014-2015. There are no plans for requesting for a no-cost extension beyond 2015.</p>
<b>Fisheries</b>	<p>The FP is making good progress towards planned outcomes. This programme relies on strong capacity and network in the line agencies developed over the years. The programme is progressing with some difficulty as its planning documents are (2011-2015) are very comprehensive and ambitious proposing around 120 tasks under 25 activities. The FP has difficulties in implementing its regional basin-wide activities for which reason it intends to request a one-year no-cost extension.</p>
<b>Environment</b>	<p>The EP is making good progress towards its outcomes. Water quality monitoring runs well and the Procedure for Water Quality has been approved but its technical guidelines are pending. The important output of Transboundary EIA shows no progress. This output has been in the EP work programme even in previous phases. Less progress has been made on wetland and biodiversity surveys. The EP is preparing a simplification of its PIP to be approved by the SC. The EP is not planning to ask for a no-cost extension.</p>
<b>Climate Change</b>	<p>The CCAI is waiting to get off the ground. Most of its outputs are still pending approval. As very little has been done at the regional level, the implementation period has been reduced to two years (2014-15). One Member State more or less withdrew from the programme and no regional meetings were held in 2013. Member States are now requesting a wrap up meeting prior to a decision on regional activities. There is reason to be seriously question the MRC's ability to advance this programme. CCAI is planning to request a no-cost extension of the programme.</p>

While there is good progress towards outcomes in three programmes, the RM is concerned about the increased focus on national versus basin-wide activities. The latter is the main objective of the programmes supporting also the rationale for donor funding through MRC rather than bilateral programmes. Also, the RM is concerned about the lack of progress on the understanding of the baseline situation in the basin which is a prerequisite for assessing new developments like e.g. hydropower.

The RM finds that all programmes are spending an unusual amount of time and funds on travel, workshops, meetings and training sessions. While this may be justified, the RM finds it necessary to assess the effectiveness and efficiency of these expenditures by means of a ‘value-for-money’ audit by an independent external auditor.

*#9: The RM recommends that a value-for-money audit be conducted by an external and independent auditor identified by Denmark. The audit, financed by the ongoing Danish supported programmes, should assess whether Danish programme funds are spent effectively and efficiently and results shared with all partners.*

<b>Financial status of programmes</b>			
	<b>Secured Funds and expenditures</b>	<b>Danida secured funds and expenditures</b>	<b>National contribution</b>
<b>BDP</b>	Programme still not fully funded with a funding gap of USD 3.5m. USD 4.5m out of 9m has been spent	30% of the Danish funds of USD 4.5m, 1.4m spent.	USD 1.5 million as in-kind contribution for 2011-2015.
<b>Fishery</b>	Total budget USD 12.3m; 10.6 external from Danida, Sida and USAID. 55% of external funds spent.	60% of Danish funds have been spent.	USD 1.7 million as in-kind contribution for 2011-2015
<b>Environment</b>	The budget for 2011-2015 of USD 11m has a funding gap of 3m. USD 4.8m out of the 8m committed has been spent.	17% of the Danish funds has been spent.	USD 800.000 as contribution for 2011-2015
<b>Climate Change</b>	CCAI is fully funded after the recent support from EU. The spending of secured funds is only 25%.	By now 25% of the Danish support has been spent.	No national in-kind contribution

The RM finds that spending more or less follows the progress of the programmes. As the Danish funds are secured for the whole programme period 2011-2015, the RM finds it acceptable that other donor funds, committed for shorter periods, are spent first. The RM did not find any documentation on national contributions to programmes. The RM finds it highly relevant in view of the expected future

higher contributions from the Member States that the national committed in-kind contributions are monitored and reported by the MRCS

<b>Staffing, management and organizational issues</b>	
<b>BDP</b>	The BDP now has all except one position staffed. One staff member recently left but recruitment is in process. The BDP has not set up a SC, the rationale being that NMC coordinators are at Deputy DG level.
<b>Fishery</b>	The FP has all positions staffed.
<b>Environment</b>	A regional Policy and Management expert was employed since April 2013 and a regional senior environmental specialist since November 2012. A vacant wetlands expert position is now under recruitment.
<b>Climate Change</b>	The CCAI was fully staffed, but the CTA has left the programme by end of October and a new has not been recruited yet.

The RM is pleased to observe the progress in staffing of programmes. This has been a major obstacle for progress in previous phases of some programmes. The RM is concerned about the stronger role taken by the NMC's in decision-making and implementation of the programmes. While the RM has not been able to make a full assessment of this, there are clear indications that the NMCs have a new understanding of their coordination role including being responsible for implementation and decisions on whether to include line agencies or not.

<b>Integrating programmes under MRC core functions</b>	
<b>BDP</b>	The BDP sees the basin action plan as an MRCS core function and coordination mechanism.
<b>Fisheries</b>	FP is closely collaborating with other MRC programme and initiatives and provides input for the preparation for core functions.
<b>Environment</b>	The progress into the MRC core function is going well for all functions for EP activities (water quality, ecological health, social).
<b>Climate Change</b>	The CCAI discusses with BDP on how to integrate climate into basin planning. The CCAI is working with the modelling team of IKMP on upgrading the tools necessary for climate modelling.

The RM finds that the Draft Roadmap for Decentralisation has been instrumental for the programmes to orient themselves towards centralised core functions. However, the RM notes a need to more critically consider what really needs to be carried over from programmes. This should be based on: i) the likely reduction in

support from DPs; and ii) as a comparison with other international river basin organisations. The RM has observed the following pending issues for better river basin management functions in the four programmes:

**BDP:**

(i) Cumulative impact assessment of present and planned tributary and mainstream developments; and (ii) information on the pending space or threshold for sustainable development.

**Fisheries:**

(i) Data on migration patterns of economically and ecologically important fish species; (ii) detailed habitat characterisation (both activities are pending) and (iii) transboundary fisheries management mechanisms and strategies

**Environment**

(i) Agreement on Transboundary EIA and (ii) biodiversity and wetland baseline for the basin (both activities are pending)

**Climate**

Operational model to forecast climate change effects on hydrology, floods and droughts including vulnerability assessment (activity is pending)

*#10: The RM recommends that for 2014-2015 programmes should give priority to data, information, standard methods, tools and mechanisms relevant for transboundary river basin management under MRC core functions. There should be a reduced emphasis on national activities.*

<b>Decentralization</b>	
<b>BDP</b>	The BDP is decentralizing core functions in the basin planning process and through the NIPs.
<b>Fisheries</b>	Decentralisation is at the core of the programme. Capacity to implement core functions at national level has been built in the Fisheries Departments of Member States in previous phases of the programme.
<b>Environment</b>	The water quality, ecological health and social monitoring has already been decentralised.
<b>Climate Change</b>	No decentralization of activities has been done up to now

The RM notes that national roadmaps for decentralisation of core functions have not been approved yet. The RM was informed by the NMCs that decentralisation would require more NMC staff and capacity building. According to RM consultations, NMC staff in the four Member States currently totals about 100. This figure may increase to 175. There is a risk that the NMCs may develop into

independent organisations with limited contact to national line agencies. This may weaken the national capacity to deliver on technical matters required for the regional core function.

<b>Programmes in the context of Mekong water resources</b>	
<b>BDP</b>	The BDP assessed the six dams (including Xayaburi) upstream of Vientiane against 42 criteria. The BDP together with the CEO and other MRCS staff are meeting regularly with Electricity Department of Laos to adapt the design of Xayaburi for sediment transport and fish migration. The BDP participated in the visit to Don Sahong organized by the Laotian Government.
<b>Fisheries</b>	The FP contributes to the discussion of mainstream dams by identifying knowledge gaps, analysis based on existing information, and providing feedback on EIAs and dam design documents. The FP also provided inputs to the inception report of the Mekong Delta Study.
<b>Environment</b>	The Xayaburi has not been a big issue for the EP during the current programme cycle. The large majority of the work on the Xayaburi was done in late 2010. After the MRC Council meeting and the PNP/PCA process, the Laotian Ministry of Energy and Mines in March 2013 called a meeting informing that MRCS would receive all reports. For the Don Sahong, the EP has received all EIA reports with the notification. MRCS programmes have screened the EIAs for internal use.
<b>Climate Change</b>	The CCAI has neither been involved in the Xayaburi nor in the Don Sahong projects.

In conclusion, the four programmes appear not to have brought their full knowledge and capacities to bear in assessing the impacts and potential for mitigation of the Xayaburi and Don Sahong projects

<b>Involvement of stakeholders and regional organisations</b>	
<b>BDP</b>	In the development of the BDP Strategy and Action Plans, a broad range of government stakeholders were involved. There were also some consultations with non-governmental organisations.
<b>Fisheries</b>	Design, formulation and implementation of transboundary fisheries management projects engage a broad range of government and non-government stakeholders. The FP has maintained and further developed strong interaction with regional organisations and knowledge centres since its early days in the mid-1990s.
<b>Environment</b>	The EP has cooperation with WWF and IUCN. Both as sub-contractors and expert advisors in capacity building workshops.
<b>Climate</b>	No concrete activities with organisations in the Mekong region. New

<b>Change</b>	activities have been initiated on transboundary climate aspects with UNECE water and climate programme.
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The RM finds that the BDP, EP and CCAI could learn from FP in building regional cooperation and partnering. The FP has established strong collaboration also with regional universities and with universities outside the region. Such relations will be important not only to maintain the high standard of the MRCS, but also as a means to slim down and outsource activities.

The RM notes that the programmes have reduced the number of activities by merging activities and also use the MRC M&E system in their reports. A result of this is improved quality of information on progress compared to previous phases.

<b>Challenges and risks</b>	
<b>BDP</b>	It is increasingly difficult to organize meetings. This may be related to the lack of coordination by the MRCS.
<b>Fisheries</b>	No new risks. The following challenges have been reported to the SC meeting 12-13 December 2013  There is a push from Member States exercised by the NMCs to implement more national activities related to fisheries, aquaculture and fisheries co-management that was not foreseen in the PIP, but is a result of the MRC decentralization process. The costs for these national activities are about 15-20% of the total annual expenditure not budgeted for in the PIP 2011-2015. As a result some regional activities have not been included in the Work Plan 2014 due to limitation of funding.
<b>Environment</b>	Engaging Member States in activities have recently emerged as a new challenge, especially regarding transboundary issues.
<b>Climate change</b>	No new risks and challenges.

<b>Programme ownership</b>	
<b>BDP</b>	Line agencies are strongly engaged in the programme through the NIPs.
<b>Fisheries</b>	The FP promotes programme ownership by Member States by involving government fisheries line agencies, including national fisheries departments and their research institutes and centres as well as community-based organizations and the private sector in planning and implementing activities.
<b>Environment</b>	Strong ownership, in particular by the line agencies running the water quality monitoring. Biological monitoring is done by university labs. Private sector involvement only through consultants.

<b>Climate Change</b>	There is a mixed interest by member countries. The countries lack TA on regional activities.
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## Process Action Plan

The Process Action Plan (PAP) outlines the timing of actions recommended and the allocation of responsibility for follow-up in ***bold italics***. The PAP represents an opportunity for further Danish engagement with the MRC on its reform agenda and policy direction. It is also an invitation to other development partners (DPs) to engage.

### 20 December 2013

Submission of the draft Review Aide Memoire (RAM) by the ***Danish Review Mission***

### 3 January 2014

Submission of the final RAM by the ***Danish Review Mission***

### 15 January 2014 (to be confirmed)

DP group meeting and agreement on follow-up to the RAM recommendations.  
***Meeting called by the Danish Embassy in Hanoi.***

### January 2014

Written MRC response to the RAM recommendations including MRC follow-up action, ***the MRC Secretariat.***

### February 2014

Workshop at the MRC Secretariat to discuss the findings and recommendations of the Danish RAM and the Strategic Plan Mid-term Review (SP MTR) and the Mid-term Review of Programmes, ***the MRC Secretariat.***

### February 2014

Agreement between the MRC Secretariat/CEO and Denmark/DPs on follow-up action to the recommendations of the RAM, the Strategic Plan Mid-term Review (SP MTR) and the Mid-term Review of Programmes, ***the MRC Secretariat and DPs.***

### March 2014

Independent external value-for-money audit of Danish funded programme commissioned by ***the Danish Embassy in Hanoi.***

### March 2014

Commissioning of a quick “Organizational Review” to assess and recommend on the organizational implications of the proposed fast track implementation of the MRC’s Regional Road Map, ***the MRC Secretariat.***

### March 2014 (timing to be confirmed)



Presentation of RAM and Strategic Plan Mid-term Review (SP MTR) recommendations for decision making on MRC follow-up by the MRC Council meeting, *the MRC Secretariat and MRC Council*.

**April 2014** (timing to be confirmed, pending the MRC Council meeting)  
Agreement on MRC follow-up action on key elements of donor agreed RAM recommendations at the MRC Summit in Vietnam, *MRC Member States*.

**May 2014**

Organizational Review completed and submitted to the MRC Joint Committee for decision on follow-up action, *the MRC Secretariat*.

**June 2014**

Agreement on the establishment of a civil society platform for engagement with the MRC on the implementation of the core function and the MRC's governance procedures (e.g. the PNPCHA) *by the MRC*.

**June 2014**

Agreement between the *MRC Secretariat and DPs* on milestones (up to the end of the current Strategic Plan 2011-2015) for fast tracking the regional road map including:

- Identification of programme activities relevant for a reduced set of MRC core functions *ready by September 2014*
- Identification of programme activities not qualifying for carry over to core functions *ready by September 2014*
- Amalgamation of programme activities for core functions ready for implementation *ready by December 2015*
- Programme activities not qualifying for MRC core functions phased out and sustainability of relevant activities ensured *by December 2015*.
- A staffing plan (quantitative and qualitative) for the MRC Secretariat up to end 2015 according the recommendations of the “Organizational Review” *ready by August 2014*.
- New staff designations with job descriptions at the MRC Secretariat to match core function tasks *ready by September 2014*.
- Revised and reduced programme and OEB budgets up to end 2015 *ready by September*.

- Identification of programme activities at national level qualifying for supporting MRC core functions (in view of the proposed fast tracked reforms and non-availability of donor funding after 2015) **ready by October 2014.**
- Exit strategies for activities at national level not qualifying for MRC core functions **ready by October 2014.**
- Establishment of a joint DP funding and support mechanism for the next Strategic Plan period (2016-2020) **by February 2015.**
- Agreement by MRC Member States on a 50% cost sharing of a reduced 2016-2020 budget for the MRC Secretariat in the total range of USD 30 million **by February 2015.**
- Agreement between the MRC and DPs on a donor pool fund mechanism covering up to 50% of the total costs of the MRC Secretariat for 2016-2020 **by February 2015.**
- Member States to take full financial responsibility for national activities by line ministries to support the implementation of the MRC core functions during the Strategic Plan 2016-2020 period **by January 2016**