Global Environment Facility

GEF/C.16/Inf. 9
October 26, 2000

GEF Council
November 1-3, 2000

PROGRESS REPORT ON THE PROPOSED GEF PARTNERSHIP ON NUTRIENT REDUCTION FOR THE DANUBE/BLACK SEA BASIN

I. INTRODUCTION

1. Countries often face very complex, transboundary water-related environmental problems. In order to help address these problems, the GEF Operational Strategy recognized that a series of international waters projects may be needed over time to: (a) build the capacity of countries to work together; (b) jointly understand and set priorities based on the environmental status of their waterbody; (c) identify actions to address the top priority transboundary problems; and (d) implement the agreed policy, legal, and institutional reforms and investments needed to address them.

2. The 17 countries draining to the Black Sea through the Danube, Dniepro, and other river basins face a variety of shared environmental problems that are transboundary in nature[1]. Through a series of GEF assisted projects since the Pilot Phase, the countries have identified excessive nutrient pollution from agriculture, municipal, and industrial sources as the most urgent transboundary water problem they share. Nitrogen and phosphorus travel down the rivers to pollute the Danube Delta and the Black Sea, compromising their human use, reducing their biological diversity, and creating serious economic impacts. Beginning in the Pilot Phase of the GEF, the Danube Basin countries decided to work together as did the six countries surrounding the Black Sea with European Union and GEF assistance on a series of small international waters projects. These projects have resulted in the countries learning to work together, setting priorities related to the most serious transboundary problems, and agreeing on interventions needed to address the top priorities through their programs or plans of actions (known as "Strategic Action Programs" or SAPs in the GEF Operational Strategy).

3. The Danube Basin SAP and the Black Sea SAP are now ready for implementation by the countries consistent with GEF Operational Program No. 8 in the International Waters focal area. A Danube/Black Sea basin pollution reduction program, with particular emphasis on nutrients and toxic substances, has been developed to accelerate implementation of the SAPs. The programmatic approach, developed over the last 18 months, was discussed at a "Stocktaking Meeting" in June 2000 with all 17 basin countries (see footnote below) and fits into an "international waters programmatic approach" developed by the GEF and its all three Implementing Agencies (IAs) as a way of meeting the country-driven needs according to the comparative advantages of each IA.

4. This paper provides an update on the proposed GEF Partnership on Nutrient Reduction for the Danube/Black Sea Basin. Specifically, this paper:

(a) Reviews the background of GEF assistance in the Danube/Black Sea Basin since the Pilot Phase and describes some of the complexity the countries face;

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[1] The riparian countries are Georgia, Turkey, Ukraine, Bulgaria, Romania, Russia Fed., Czech Rep., Slovakia, Hungary, Slovenia, Croatia, Bosnia and Herzegovina, Moldova, Yugoslavia, Bulgaria, Romania, Ukraine, and three non-GEF recipient countries-Austria, Yugoslavia, and Germany.

(b) Summarizes the processes leading to a proposed partnership to accelerate implementation of measures identified in previous GEF projects; and

(c) Outlines the main elements of future GEF support for the partnership.

5. While the nutrient pollution or eutrophication problems existing in the Danube Delta and Black Sea are very serious, they are only several examples of an ever-increasing worldwide environmental problem involving disruption of the earth's nitrogen cycle. Non-recipient countries of Europe, North America and Asia are themselves struggling to address their own cases of coastal and marine eutrophication. This is clearly a serious transboundary environmental problem, and this proposed partnership has global implications if it successfully accelerates implementation of measures to reverse the situation (see Box 1).

II. BACKGROUND

6. Based on years of preparatory discussions and closely following the Earth Summit in 1992, the Danube River basin countries signed a convention pledging to work together to restore the environment of their transboundary river system and the six Black Sea countries signed their own convention pledging to do the same for the Black Sea environment[2]:

(a) To assist these countries to implement these commitments, the GEF and other donors provided the following assistance: In 1992 the European Union joined forces with the GEF to provide $12 million in cofinance for a Danube Basin GEF international waters project ($8.5 million GEF grant) and in 1993 provided $23 million in cofinance for a Black Sea international waters GEF project ($9.3 million GEF grant). Implementation of both projects was led by UNDP, predated the GEF Operational Strategy, and was aimed at building the countries' capacity to work together to solve their shared water problems; and

(b) Two separate biodiversity projects were started on the Danube Delta, one in Romania for its part of the delta ($4.5 million GEF grant) and the other in Ukraine($1.5 million GEF grant), both under the leadership of the World Bank.

[2] The Black Sea Countries are: Georgia, Turkey, Ukraine, Bulgaria, Romania, Russian Fed.

Box 1. Black Sea/Danube and Other Waterbodies Experience Serious Nutrient Pollution

Nutrient over-enrichment or eutrophication is becoming a more widespread pollution problem around the globe. Countries of Europe, North America, and Asia are still trying to reverse nutrient pollution of coastal and marine waterbodies such as the North Sea, Baltic Sea, Adriatic, Gulf of Mexico, Chesapeake Bay, Albemarle/Pamlico Sound, Florida Bay, and the Seto Inland Sea. Until the 1960s, the Black Sea was known for its productive fishery, scenic beauty, and reputation as a resort destination for millions of people. Since that time, as with other waterbodies around the world, massive over-fertilization of the sea by nitrogen and phosphorus from agriculture, municipal, and industrial sources has seriously degraded the ecosystem, disrupted the fisheries, reduced biodiversity, posed health threats to humans, and resulted in billions of dollars of economic losses to the economies of the six countries. Pollution from 17 countries (14 GEF-recipient countries as well as Yugoslavia, Germany and Austria) has created this transboundary water quality problem. Since 1992, efforts have been underway with European Union and GEF support to gradually reverse the situation.

7. These initial projects came to a close just as the Council adopted the GEF Operational Strategy. In 1996, Council approved the following UNDP implemented "bridging projects" to complete the strategic work, based on programmatic approach recommended by the GEF Operational Strategy in Operational Program No. 8 on river basins draining:

(a) The Danube basin bridging project ran from 1997-1999 with a GEF grant of $3.9 and $6 million cofinance and the Black Sea bridging project from 1998-2000 with a GEF grant of $1.8 and $4 million cofinance; and

(b) The other large, multicountry river draining to the sea is the Dneipro River. An international waters project was approved by Council for that three country in the Dneipro river basin in 1998 with UNDP($7.3 million GEF, $11 million cofinance) and is under implementation to complete equivalent strategic work to the rest of the basin and begin implementation of nutrient reduction measures.

8. Through these GEF, European Union, and United States supported projects, much has been learned about the complexity of the transboundary water-related environmental problems that these countries are facing. While the 17 countries agree that the top priority transboundary problem relates to excessive discharges of nutrient pollution, hotspots of toxic substances contamination have been identified that also require remediation. The mining waste spills during the winter of 1999-2000 are typical of some of these hotspots in the Danube basin as well as in other tributaries to the Sea. In many of the basins, floodplain wetlands have been drained for conversion to agriculture, have been diked for flood protection, and rivers straightened. These lost floodplains and wetlands are no longer able to trap pollutants, therefore, once pollutants enter a ditch or

small waterway, their transmission to the Danube Delta and Black Sea is enhanced. This means that even upstream basin countries such as Germany and Austria have some nutrient reduction to accomplish to restore the Black Sea.

III. PROCESSES LEADING TO AN INTERNATIONAL WATERS PROGRAMMATIC APPROACH

9. As noted above, through the late 1990s, the Danube and Black Sea international waters projects as well as separate Danube Delta biodiversity projects have been implemented. Restoration of wetland functions by filling drainage ditches and breaching the floodplain dikes was piloted in the Romania Danube Delta project and the basin countries have learned from that experience. Given successful completion of that demonstration as well as completion of strategic work in identifying hotspots for remediation, priority investments, and necessary commitments regarding reforms for country adoption, the 17 countries are entering a new implementation phase. In order to accelerate on-the-ground implementation of these policy, institutional, and legal reforms and priority investments, programmatic approach has been built upon the country driven action programs to simplify implementation, to ensure collaboration according to IA comparative advantage, and to provide opportunities for other organizations to assist the countries in addressing priorities outlined in the action programs.

10. The strategy is quite simple and is based on a partnership among the GEF, its IAs, and countries concerned. The partnership has four components. As suggested by the countries, the first two components would be regional projects to assist the Danube and the Black Sea countries to implement the reforms (and, in some cases, to build capacity to enact the reforms) consistent with the basin conventions the countries have already signed. These two components, led by UNDP , would complement the separate, already approved Dneipro basin project also being led by UNDP (the third component). The fourth component would be a flexible World Bank led program on nutrient reduction, which would translate the multicountry priority on nutrient reduction into single country investment operations that accelerate implementation of investments in nutrient reduction in the agriculture, municipal, and wetland restoration areas.

11. The GEF Danube/Black Sea partnership was developed by the countries with the GEF and its IAs. The draft papers were discussed with representatives of all 17 countries at a "Stocktaking Meeting" held in Istanbul June 29-30, 2000. The "Stocktaking Meeting" was organized by the International Commission for the Protection of the Danube River and the Black Sea Commission and all three IAs and the GEF participated in the dialogue for accelerating implementation of the Danube and Black Sea action programs. Follow-up discussions were held with the Black sea country representatives at a Commission meeting in September 2000 at which the countries endorsed the proposed UNDP regional projects and the World Bank program.

12. An important lesson has been learned for the GEF International Waters focal area in this first test of developing such a programmatic approach to simplify complex situations, to utilize the comparative advantages of all three IAs, and to seek means to accelerate implementation. The processes of consultation in formulating such an approach not only helped to develop common understandings among recipient countries, IAs, and the GEF but also served as an instrument for involving other organizations wishing to assist the countries so that coordination and collaboration may be achieved . In particular, the European Union, EBRD, EIB, USAID, WWF, and the Governments of Germany and Austria have been involved in the process and are contributing to accelerate SAP implementation.

IV. GEF DANUBE/BLACK SEA PARTNERSHIP

13. The GEF Danube/Black Sea Basin partnership aims to address pollution reduction in the basin, with particular attention to nutrients and toxic substances, in the most efficient and coordinated manner. The GEF and its IAs are proposing programs of capital investments, economic instruments, development and enforcement of environmental law and policy, strengthening of public participation, and monitoring of trends and compliance. The partnership would include both GEF and non-GEF (EC, EBRD, IA regular programs, etc.) elements. The expected outcomes of the partnership include the following:

(a) Danube/Black Sea basin countries adopt and implement policy, institutional and regulatory changes to reduce point and non-point source nutrient discharges, restore nutrient 'sinks', and prevent and remediate toxics "hot spots"[3];

(b) Countries gain experience in making investments in nutrient reduction, prevention, and remediation of toxics "hot spots";

(c) Capacity of the Danube and Black Sea Convention Secretariats is increased through permanent status, sustainable funding, and development of international waters process, stress reduction and environmental status indicators adopted through Convention processes;

(d) Country commitments to cap nutrient releases to the Black Sea at 1997 levels and agreed targets for toxics reduction for the interim, and possible future reductions or revisions using an adaptive management approach after 2004 are formalized into specific nutrients control and toxics discharge protocol(s) or Annex(es) to both Conventions;

[3] This outcome would support the implementation of the Black Sea Strategic Action Plan and the "Common Platform for Development of National Policies and Actions for Pollution Reduction under the Danube River Protection Convention", taking into account the mandate of the Sofia and Bucharest Conventions.

(e) The IAs, European Union, other funding partners and countries formalize nutrient and toxics reduction commitments into their regular programs with countries; and

(f) Pilot techniques for restoration of Danube/Black Sea basin nutrient sinks and reduction of non-point source nutrient discharges through integrated management of land and water resources by involving private sector, government, NGO's, and communities in restoration and prevention activities.

ELEMENTS OF THE PARTNERSHIP

The Proposed UNDP Regional Projects

14. As indicated above (see paragraph 10), the proposed Danube/Black Sea basin partnership has four complementary elements. For the first two elements, UNDP and UNEP, in collaboration with the World Bank, have developed two regional projects aimed at addressing transboundary environmental degradation in the Danube/Black Sea basin through policy and legal reform, public awareness raising, and institutional strengthening. Each project will be operated through or closely linked to the respective Black Sea and Danube Secretariats in Istanbul and Vienna. Each of the projects would focus on the following activities (the lead agency is indicated):

(a) Actions to revise and/or create a nutrients and toxics reduction protocol or annex to the Black Sea Convention in accordance with the Global Programme of Action to Protect the Marine Environment from Land Based Activities (UNEP). For the Danube, strategies and measures for nutrient reduction will be reflected in the International Commission for the Protection of the Danube River (ICPDR) Action Plan, which will be endorsed and thus become legally binding to the contracting Danube countries under the Danube River Protection Convention (UNDP);

(b) Activities to develop and implement policies and legislation aimed at addressing sectoral causes of nutrient and toxics releases, such as phosphate detergent phase-out, agricultural reform, cleaner production in industry, etc. (UNDP);

(c) Policy and legislative reforms aimed at promoting the protection and restoration of critical nutrient sinks, particularly wetlands and floodplains (UNDP);

(d) Strengthening of the institutional capacities of the Black Sea and Danube Secretariats to build long-term capacity to understand, address and monitor levels and impacts of transboundary nutrients and toxics (UNDP);

(e) Public awareness raising in support of basin-wide nutrient and toxics reduction efforts (UNDP);

(f) Harmonization of water regulatory standards (in line with EU regulations, where applicable) among the Danube/Black Sea basin countries to include similar nutrient and toxics reduction provisions (UNDP);

(g) Development of harmonized monitoring and evaluation indicators for process, stress reduction and environmental status indicators (UNDP);

(h) Strengthening of information systems to allow interactive information exchange and update on nutrient reduction (UNDP);

(i) Support for further development of NGO activities at national and regional level (UNDP);

(j) Establishment of small grants trust fund to reinforce community-based actions for nutrient reduction, with particular attention to agricultural reform projects, wetland restoration and use of lagoons for nutrient reduction (UNDP); and

(k) Feasibility studies for a nutrient emission trading system at the national and regional levels for the Black Sea basin. The ICPDR/KfW will carry out a feasibility study for the Danube River basin on the use of economic instruments for nutrient management (UNDP).

The GEF Dniepro Basin Environment Project

15. The Dniepro River transports about 20,000 tons of nitrogen annually to the Black Sea, further exacerbating the Black Sea's eutrophication problem. The third element of the partnership, a GEF project to assist the riparian countries of the Dniepro River (Russia, Belarus and Ukraine) to develop and implement a Transboundary Diagnostic Analysis and a SAP was approved by GEF in March, 1998. The project will assist the Dniepro basin countries to identify prioritize and address both point and non-point sources of nutrient and toxics pollution to the Dniepro and the downstream Black Sea, through legal, policy and institutional reforms and priority investments.

The Proposed World Bank Investment Program

16. The proposed World Bank investment program is the fourth element of the partnership. It represents the World Bank's commitment to assist the 15 recipient countries in the Basin to implement the two SAPs in addressing the top transboundary priority: nutrient reduction. The program, which is being developed as a "strategic partnership" between the GEF and the World Bank would involve:

(a) Incorporating in Bank's country dialogue with each of the 15 GEF-recipient countries policies that address nutrient reduction in the agriculture, municipal, and industrial sectors;

(b) Promoting inclusion of Danube/Black Sea restoration issues in the on-going Country Assistance Strategy (CAS) development processes; and

(c) Using the Bank's convening powers and comparative advantage to mobilize funding and engage other donors/partners to ultimately achieve an overall contribution of $3 from other sources for every $1 from GEF in implementing demonstration nutrient reduction measures (an overall 2:1 leverage target in tranche 1 and 3:1 in tranche 2).

Provisions of the Program

17. *Delegated Approval Authority to CEO*. Implementation would be streamlined by delegating approval authority to reduce high transactions costs. Each sub-project would be approved and implemented following standard World Bank procedures and, therefore, would be subject to World Bank Board approval.

18. *Specific, Pre-approved Eligibility Criteria*. CEO review of proposed sub-projects would be simplified through specific eligibility criteria including: country identified as a priority investment as part of the SAP development process; demonstrated replicability of proposed activities; country commitments to policy/legal/institutional reforms related to nutrient reduction and water quality improvement; GEF focal point endorsement; country being up-to-date on contributions to its regional convention; and cofinance secured to cover the expected baseline costs of a non-incremental nature.

19. *Leveraging Ratios*. The first tranche would need to meet at a minimum overall leveraging ratio of at least 2:1 (external funds to GEF funds) in order to proceed to tranche 2. As a result of tranche 2, the total leveraging ratio overall for the entire program would exceed 3:1 (this leveraging ratio is similar to that of the Renewable Energy Partnership previously approved by Council). Expected baseline costs would be covered by a combination of national financing, loans from the World Bank or other International Financial Institutions, and grant funding from donors and partners.

Countries experiencing serious difficulty in economic transition would not have to secure loans to meet expected baseline. The World Bank would assist them in finding cofinance so that they can participate.

20. *Policy Dialogue Commitments*. The Bank commits to promote the partnership, nutrient reduction policies, and the need for Danube/Black Sea restoration in its policy dialogue with the 15 GEF-recipient countries as well as in World Bank Country Assistance Strategies (CAS) as they are updated. This will facilitate replication of the demonstration activities.

21. *Reporting Requirements*. The CEO would circulate each proposal intended for approval to Council for information for a two weeks period for comments. The World Bank would report annually to the Council on status of the program and to the two commissions at their meetings. The CEO would transmit a report to Council on achievement of the first tranche for consideration at a Council meeting before authorizing the second tranche. A final report, including program results, impacts, lessons learned, and recommendations would be submitted to Council.

22. *Monitoring and Evaluation provisions*. Each individual sub-project would have its own monitoring indicators, benchmarks, and monitoring plan to confirm actual nutrient reduction achieved. This is very important globally in that cost-effectiveness indicators ($/kilogram nitrogen or phosphorus removed) would be established through the program for different situations to be used in possible future applications by GEF and the international community as non-recipient countries enhance their actions to reduce nutrient over-enrichment of coastal/marine ecosystems.

23. *Collaboration.* Barriers to collaboration on investments that have occurred in the past due to the regional nature of the Danube/Dneipro/Black Sea projects would be removed through this program that harnesses the World Bank's strength in single-country projects for addressing the country-driven transboundary priority. Funds would be available to ensure coordination with the three regional projects focused on SAP implementation as well as with the countries and their commissions created by the regional conventions. In addition, from time to time, there may be projects with additional benefits for the global environment in other focal areas. This integrated approach can help to multiply global benefits, especially in wetland restoration projects.

Next Steps

24. The next step is to process the three remaining components of the partnership on nutrient reduction for the Danube and the Black sea: the two UNDP regional projects and the World Bank investment program (with its proposed expedited procedure).