

Global Environment Facility**Proposal for PDF Block B & C Grants**

Countries: Republic of Azerbaijan, Islamic Republic of Iran, Republic of Kazakhstan, Russian Federation and Republic of Turkmenistan

Project Title: Caspian Sea Environment Programme

Focal Area(s): International Waters

Requesting Agency: UNDP

Executing Agency: OPS

Block B: ☒

Block C: ☐

Amount of PDF Funding Requested: US\$ 349,920

Associated Financing: UNDP Regional Programme US\$ 100,000
UNEP Trust Fund, Regional Office for Europe US\$100,000
World Bank (PHRD) 450,000US\$
European Union Tacis 2,7 million Ecu 96/97

Project Duration: One year

Block A Grant Awarded: Yes ☒ No ☐
(US\$ 25,000; fact-finding mission)

Block B Grant Awarded: Yes ☐ No ☒

Full Project financing: \$5-\$7 million

Full Project duration: 4 years

I. PDF Project Summary, Objectives and Description:

The objectives of this PDF-B project preparation activity for the Caspian Sea Environment Programme¹ include:

- 1) To establish an effective Coordination Framework for the Caspian Sea Environment Programme, at the regional, country-specific and donor agency levels.
- 2) To identify the elements of a Transboundary Diagnostic Analysis for the Caspian region.
- 3) To prepare a GEF Project Proposal for the further development and implementation of a Transboundary Diagnostic Analysis and a Strategic Action Programme for the Caspian Environment.

More specifically the PDF project will:

- a) undertake a comprehensive review, synthesis and analysis of existing data and information concerning the sources and fate of transboundary pollution as a building block on which to design appropriate actions;
- b) identify degraded and threatened habitats, point and non-point pollution sources, overexploited living marine resources, and exotic species of concern;
- c) review existing national and regional environmental legislation relating to the Caspian and its surrounding environment;
- d) provide a framework to strengthen the institutional, legal and regulatory structure in the Caspian region.

The Strategic Action Programme developed in the ensuing full project proposal will detail both national and regional programmes for implementing mechanisms identified during the PDF project to:

- a) identify appropriate control mechanisms and management strategies to reduce existing and prevent new sources of pollution;
- b) prevent future loss of critical habitats in the Caspian Sea;

¹ The Caspian Environment Programme is intended to include the Volga and other rivers and their associated watersheds.

- c) protect and manage wetlands especially those of international significance;
- d) harvest and manage Caspian living marine resources sustainably;
- e) reverse land degradation processes and rehabilitate suitable areas;
- f) control ship-based sources of contamination including biological contaminants;
- g) promote the adoption of sound environmental policy; and

II. Background

The Caspian Sea, surrounded by the five countries mentioned above, is the largest land-locked body of water on earth. It is situated in a natural depression which places it below mean sea level. It receives water from the Volga, Ural and the Kura rivers and numerous other freshwater inputs, but does not have an outlet. Over the past 15 years it has been rising steadily, flooding large tracts of land in the littoral states. While the sea level fluctuations are believed to be largely a natural cyclic phenomenon, it has nevertheless had serious consequences for the region, displacing thousands of persons and destroying investments in industry and infrastructure.

The Volga is the largest river in Europe, draining 20% of the European land area, and is the source of 80% of the Caspian's freshwater inflows. In addition, while its overall contribution to the Caspian may have diminished somewhat over the years due to extensive dam construction, its lower reaches are heavily industrialized with numerous unregulated releases of pollutants. According to a recent joint session of the Russian Ecology and Natural Resources Ministry collegium, some 61 million people living in the Volga River basin in Russia are forced to use highly contaminated drinking water, which is making increased chlorination necessary, thus damaging the health of the population. The collegium's data states that no territory in the Volga area has health and hygiene and microbiological standards for the quality of drinking water. The ecological situation is especially poor in the Cherepovtsy, Nizhniy Novgorod, Samara, Saratov, Volgograd, and Astrakhan industrial centers, where there is a high level of pollution due to petroleum products, phenols, and other compounds.

The Caspian basin is rich in hydrocarbon deposits. Production of oil and gas is significant and much exploration activity is under way. Oil and oil products generate a constant traffic which has been estimated to total around 10,000 shipping movements annually. The magnitude of oil and gas extraction and transport activity thus constitutes a serious risk to water quality. To this must be added the fishing fleets and the passenger, dry goods and other cargo traffic that cross the Caspian and, by entering the Volga-Don canal system, can reach the Black Sea or the Baltic. This traffic has a number of possible impacts on the Caspian's environmental integrity. For example, the Volga-Don connection poses a threat in the form of introductions of exotic species through ballast waters

inter alia, and stringent measures are urgently needed to prevent them. Two IMO missions to Azerbaijan (1993) and Iran (1994) found that shipping and training facilities were close to international standards but that organizational skills and environmental considerations were lacking.

The Caspian sturgeon fishery is a traditional and well-known activity due to the high economic value of Caspian-derived caviar; at its peak, the Sea contained over 80% of the world's sturgeon stock. In recent years, however, sturgeon landings have decreased dramatically: from 30,000 tonnes in 1985 to only 2,100 tonnes in 1994. A quota system which was introduced together with a temporary ban on pelagic fishing does not appear to have been effective in reviving the dwindling populations. While fishing methods have clearly become more efficient and overfishing has occurred, one of the most severe impacts on the sturgeon and other anadromous species is thought to arise from the construction of numerous dams on the Volga and Kura Rivers. The latter structures effectively bar the fish from their main spawning areas. In addition, development of numerous industrial complexes on the river banks with the associated discharges, well as non-point source pollution from intensive agriculture, leads to the bioaccumulation of metals and persistent organic pollutants in the sturgeon endemic to these waters.

The isolation of the Caspian basin, its climatic gradient and its salinity gradient, which increases from north to south have combined to create a unique ecological system. Some 400 species are endemic to the Caspian waters, and some of these, notably the sturgeons, are of major economic importance. Bird life is prolific with large increases during the migration seasons, when many birds patronize the extensive deltas, shallows and other wetlands. Many Caspian biota are threatened by over-exploitation, habitat destruction and pollution, the latter from oil and gas activities, riverine and atmospheric inputs and run-off.

III. Preparatory work:

In response to these problems, UNDP, UNEP and the World Bank have indicated to the Caspian Governments their willingness to assist them in preparing a comprehensive, integrated environmental management programme for the Caspian. The overall goal of the Caspian Sea Environment Programme will be the environmentally sustainable development and management of the Caspian/Volga watershed environment, including living resources and water quality, so as to obtain the greatest possible long-term benefits for the human populations of the region, while protecting human health, ecological integrity and the region's sustainability for future generations.

At the request of the littoral states, UNDP, UNEP and the World Bank prepared (partly with the support of a PDF Block A grant) a preliminary concept paper which described the main steps considered to be needed for establishing a regional environmental management programme for the Caspian. The concept paper proposed the following main set of activities:

- i) Establish an inter-disciplinary programme of studies of natural and human-induced processes affecting the Caspian region and a sound, coordinated information-gathering and monitoring system for environmental and resource management;
- ii) Strengthen and harmonize institutional, legal and regulatory frameworks for environmental management and the protection of Caspian living resources from internal and trans-boundary threats;
- iii) Develop an integrated coastal zone management system in each of the five littoral States such that the five systems will be compatible and in harmony with one another, allowing coordinated implementation;
- iv) Address the causes and consequences of rapidly-fluctuating water levels and develop regional monitoring and forecasting capabilities;
- v) Prepare an Urgent Investments Portfolio to incorporate the most appropriate infrastructural investments in flood-prone and habitat-degraded areas, manage major pollution sources and undertake pre-feasibility studies;
- vi) Improve the regional capacity to identify and control the sources and address the effects of Caspian water pollution, particularly those sources and effects that span national borders;
- vii) Identify and provide adequate protection for ecological resources, particularly endemic species and species at risk, and their habitats, through the establishment of a coordinated framework of protected areas, *inter alia*, in the Caspian region;
- viii) Establish the institutional framework for the integrated management of the Caspian Environment Programme at both the regional and national levels, and provide for programme management and administration arrangements; and
- ix) Establish mechanisms of coordinating agencies currently working in the Caspian.

The concept paper was presented at a meeting of Government representatives of the Caspian States in Tehran in April 1995 and supportive written comments were received from each of the Governments. The GEF Project Proposal to be prepared through this PDF grant will be based on several elements of this preparatory work.

IV. Full Project description:

The GEF full project to be formulated with this PDF will cover three major elements to be addressed through a four year period:

- 1) Completion of a Transboundary Diagnostic Analysis of priority water-related environmental concerns for the Caspian Sea/Volga River ecosystem;
- 2) Formulation and endorsement of a Strategic Action Programme outlining priority actions to be taken on behalf of sustaining the Caspian Sea and its associated resources;
- 3) The development of a regional networking mechanism for the sustainable development and management of the Caspian Sea environment through an institutional framework, capacity building, public awareness outputs, stakeholder training, and pilot projects.

The wide range of issues to be addressed by the Caspian Sea Environment Programme and the geographic extent of the Caspian basin will necessitate that discussions be carried out on consultation and coordination mechanisms for the effective implementation of the future GEF project. In order to accurately reflect country-specific and global priorities as well as regional environmental and resource management objectives, a consensus-building process should be initiated which represents and effectively integrates the concerns of all interested parties in littoral states, at all levels and at all stages of programme development. In accordance with the GEF Operational Strategy for International Waters, a Transboundary Diagnostic Analysis will identify the issues and priority concerns, and a Strategic Action Plan will be formulated to address them. Both the PDF-B and full projects will involve representatives of a substantial number of organizations within the region and the riparian countries for the following reasons:

- the regional/transboundary nature of the problem;
- the need for multi-disciplinary specialists to evaluate diverse aspects of the problem;
- the concern with both institutional and human resources development;
- the need to coordinate various initiatives which are already taking place on the Caspian Sea and Volga River watershed.

V. Description of Proposed PDF Activities

The PDF Block B grant would be used to undertake the following activities:

Activity 1: Creation of a Project Preparation Task Force

This will consist of senior representatives from the Ministries of Finance and the Environment for each of the five littoral states, representatives from UNDP, UNEP

and the World Bank, and representative(s) from the private sector (oil and gas). This group will be operationally responsible for preparing the outputs and workplan relating to the proposed full-scale GEF assistance.

Outcome of PDF activity: Project preparation Task Force established.

Activity 2: Establishment of country-specific mechanisms for preparing the project

A meeting of the Task Force for the Caspian Sea Environment Programme will be organized to identify the options for regional technical and policy-level coordinating mechanisms. This will include setting up Regional Expert groups of science and policy experts corresponding to several of the major themes spelled out in the Project Concept (see III. Preparatory Work). These groups will be coordinated by the Caspian Sea national focal points and deliver background analysis and technical recommendations. In addition, national focal points would set up and lead national Country Coordinating Groups (CCG) consisting of high-level policy and decision-makers from various ministries as well as the private sector (oil and gas in particular). Consultations will be arranged among the interested parties in each country to identify alternative options for cross-sectoral consultation and coordination mechanisms during the implementation of the GEF Caspian Sea project. The consultations should involve participants from professional associations, NGO's, community groups and the private sector, as well as planning, regulatory, research and educational institutions. The UN system, with the help of national and international consultants and the UNDP offices in each country, will serve as facilitator for this consultation process.

Outcome of PDF activity: Agreement reached on the Caspian Sea Environment Programme/project coordination and consultation structure, including the clear identification of all relevant stakeholders.

Activity 3: Planning of coordination among the GEF Implementing Agencies and Task Force establishments

The three GEF implementing Agencies will cooperate closely by creating a Project Coordinating Group. They will meet in mid-1997 to finalize their respective responsibilities, work programme and schedule. The Implementing Agencies will work with the governments to identify a team of international experts (legal, scientific and economic) to assist the governments formulating the GEF Caspian Sea Environment Programme Project Proposal. This GEF Coordinating Group will also provide technical advice to the Regional and National Groups through the Task Force.

Outcome of PDF activity: Programme coordination among the GEF Implementing agencies; identification of international experts.

Activity 4: Preparation of the framework of Transboundary Diagnostic Analysis: elements to be included/design of processes;

A comprehensive review of existing and on-going studies and environmental problems, environmental legislation and institutions, including their relevance to a regional strategy, will be conducted by the Expert groups as background for planning the elements of the Transboundary Diagnostic Analysis. It will also include suggestions for activities which may benefit from regional coordination. Identification and prioritization of environmentally sensitive areas by physical, biodiversity and environmental significance should also be included in the preparation of the Diagnostic part of the project. The Regional Expert Groups will meet twice; first to prepare and agree upon the framework of the TDA, and second to finalize the report on the design and elements of the TDA. Technical support and advice will also be provided to the Expert Groups by UNEP and the UNDP Technical Advisor(s).

Output of PDF activity: Report summarizing definition and agreement on the Transboundary Diagnostic Analysis elements and design, identification of Caspian Sea and Volga River environmental problems, available studies/data and various stakeholders; evaluation of costs and timing.

Activity 5: Preparation of the framework of a Strategic Action Programme development process: elements to be included/design of processes; activities for Implementing Agencies/donor programmes (World Bank, UNDP, UNEP programmes, IAEA, WHO, WMO, UNESCO, TACIS);

Based *inter alia* on input from Activity 4, a draft proposal on the framework of a Strategic Action Programme development process will be prepared by the International Experts and submitted to the Country Coordinating Groups for review at their first regional meeting. Consultations will also take place on the options for institutional coordination and harmonization taking into account national priorities and intentions.

Outcome of PDF activity: Definition and agreement on the process for developing the Strategic Action Programme.

Activity 6: Regular informal contacts will be maintained with other donors and the private sector in order to mobilize co-financing and external assistance for those activities not eligible for funding under the GEF full project, and arrangements will be made

to convene a meeting of the donors to the Caspian Sea Environment Programme during the next phase. The project will also be coordinated closely with parallel activities planned in the region by the World Bank, which include the development of an Urgent Investment Portfolio and a Bio-Resources Network for a sustainable sturgeon fishery.

Outcome of PDF activity: Well-documented report on ongoing and parallel project and funding activities and preliminary agreement on potential co-funding and cost-sharing activities.

Activity 7: Preparation of second draft of GEF Project Proposal

Based on input from the Country Coordinating Groups, the International Experts will meet again to prepare the second Draft Project Proposal to be reviewed and approved by the CCG at its second meeting. A project brief for GEF assistance will be elaborated whose main purpose would be to serve as a means of obtaining GEF financing for the Caspian Environment Programme

Activity 8: Organisation of a country review with strong stakeholder involvement followed by the endorsement of the prepared GEF project brief by the national focal points.

Outcome of PDF activity: Endorsement by the national focal points of the final version of the project brief for submission to GEF Council.

VI. Eligibility

The Caspian Sea Environmental Programme will be comprehensive and address a broad suite of sectors which directly influence the long-term sustainability of the Caspian system. As a component of the GEF International Waters Operational Strategy, it will support Waterbody-based International Waters Operational Programme, including:

- Project focuses on "hot spots" and ecological status of marine ecosystems;
 - Areas where transboundary concerns create significant threats to ecosystem functioning;
- Collaborative Transboundary Diagnostic Analysis;
- Strategic Action Programme formulation;
- Fostering commitments to change sectoral policies and activities responsible;

- Stakeholder involvement/analysis and participation of different sectoral ministries;
- Development of and strengthening of multi-country institutional arrangements;
- Projects which leverage cofinancing in association with national and external funding, regular implementing agency programs and private sector initiatives.

All of the five Caspian littoral states are eligible for GEF funding.

VIIa. National level support

In 1993, the five littoral states founded the Organization for the Cooperation of the Caspian Sea Coastal Neighbouring Countries. Environmental protection and wise use of resources were among the areas identified for cooperation. Difficulties regarding the Caspian's legal status and the extent of national sovereign territories slowed down progress. There seemed to be a consensus that this could be set aside for the time being in order to achieve progress on those aspects which are not contentious.

At Almaty in May 1994, the littoral states adopted the Declaration on Environmental Cooperation in the Caspian Sea, through which they affirmed their desire to cooperate constructively in environmental management and their commitment to cooperate fully in the preparation and implementation of programmes of joint activities for the protection of the Caspian environment, with the assistance of the international community.

In response, UNDP, UNEP and the World Bank have indicated to the Governments of the littoral states their willingness to assist them in preparing a comprehensive, integrated environmental management programme for the Caspian. The overall goal of the Caspian Sea Environment Programme will be the environmentally sustainable development and management of the Caspian region, including living resources and water quality, so as to obtain the greatest possible benefits for the human populations of the region, while protecting human health, ecological integrity, and the region's sustainability for future generations. At the request of the littoral states, UNDP, UNEP and the World Bank prepared (partly with the support of a PDF Block A), a preliminary concept paper presented at a meeting of the riparian States in Tehran in April 1995. This paper describes the main steps considered to be needed for establishing a regional environmental management plan for the Caspian (see I.).

Following this meeting in Tehran, a statement by the Caspian littoral states reiterated their concern regarding the deterioration of the Caspian environment; renewed their commitment to work together on this issue; and renewed their invitation to the UN system to support regional and national programmes for the protection and sustainable management of the Caspian Sea.

Some concern has been expressed regarding the prudence of the international community getting involved in the problems of the Caspian environment before the Caspian riparian countries have reached agreement on the management and use of the region's vast oil resources. Other GEF projects (e.g. East Asian Seas) have enjoyed great success in making rapid, substantive progress in addressing multi-country, transboundary marine environmental issues even in the absence of multi-national agreements on hydrocarbon resource management. In this context, this proposal is put forth with the clear expectation that multi-country collaborative projects such as the one proposed could in fact help facilitate a dialogue to reach agreement on the aforementioned issues.

VIIb. Private Sector Support:

The May, 1995 joint UNDP, UNEP and World Bank to the Caspian Sea in 1995 also met with representatives from the private sector. In Kazakhstan, representatives of the Kazakhstancaspishelf (KCS) State Company expressed their strong interest in seeing a regional environmental programme developed. The mission was also informed by the Kazakhstan Minister of Ecology and Natural Resources of the Chevron Corporation's interest in making a financial contribution towards a regional environmental programme. In Azerbaijan, in meetings with senior officials from the Pennzoil Caspian Corporation, Pennzoil expressed its interest in contributing in some way to a programme that might result from the mission. Pennzoil has undertaken extensive environmental impact assessment in association with its oil exploration work and is willing to share that information with a regional monitoring programme once established; interest was also expressed regarding possible financial participation. In meetings with the Azerbaijan International Operating Company, an international oil consortium, the consortium expressed their interest in participating in a regional oil spill contingency plan and network as well as the reestablishment of a regional monitoring system. In summary, all of the private sector representatives that the mission met with were very interested in participating in a regional environmental programme for the Caspian environment. Given the enormous importance of the oil and gas sector to both the region's environmental quality and economic future, from the outset the project has been designed to integrate the private sector into project development, management and implementation to as high a degree as possible.

VIII. Justification for PDF Grant

A PDF Block B grant is now needed to prepare a full GEF project proposal, establish a participatory, consultative framework for a Strategic Action Programme and a Transboundary Diagnostic Analysis, prepare the organizational framework for the Caspian Sea Environment Programme, and set up modalities for the mobilization of the resources needed from other donors for the Programme's implementation.

IX. Timetable

It is expected that activities under the PDF Block B grant will be completed within one year from the start of project operations. The full GEF project is expected to have a duration of four years although the Caspian Sea Environment Programme is expected to continue beyond that period.

X. Budget

The PDF Block B grant of US\$ 349,920 will be applied towards the activities set out in section V (Description of proposed PDF activities) of this document. GEF support will include project administration, national and international consultants and regional meetings/workshops as set out in the attached budget.

Associated financing and related parallel activities consist of the following anticipated grants, programmes and funds:

UNDP Regional Programme US\$100,000

UNEP Trust Fund, Regional Office for Europe US\$100,000 (towards Framework Convention)

World Bank (PHRD) US\$450,000

European Union Tacis ECU2.7 million 1996/97

XI. PDF Outputs

The outputs resulting from the GEF PDF Block B grant will be as follows:

- (1) A first review of existing studies, projects and transboundary problems in order to provide complete information about the situation to country officials and IAs, and to act as an environmental baseline against which the future success of the Caspian Sea Environment Programme can be measured;
- (2) A comprehensive review of the relevant environmental legislation and institutions in the riparian countries of the Caspian/Volga basin;
- (3) Establishment of modalities for the coordination and management of the Caspian Sea Environment Programme allowing for the full responsibility of the littoral states for decision-making;

- (4) The framework of a Transboundary Diagnostic Analysis and a Strategic Action Programme, identifying major sets of issues and the anticipated scope of the TDA and SAP;
- (5) An endorsed project proposal for submission to the GEF Council; it should cover GEF assistance needed in support of the Caspian Sea Environment Programme, and describe the support needed from other donors.

The outputs of the *full* GEF project will include:

- (1) A Transboundary Diagnostic Analysis;
- (2) A Strategic Action Programme, including the priorities set, baseline actions, unfunded needs, and additional actions needed to resolve the priority transboundary water-related environmental concerns that GEF might consider funding as incremental costs; and
- (3) The development of a regional networking mechanism for the sustainable development and management of the Caspian Sea/Volga River environment through an established multi-country institutional framework, capacity building, public awareness outputs, private sector involvement, stakeholder training, and identification of specific pilot projects.

**PROJECT BUDGET COVERING
GEF PDF BLOCK B CONTRIBUTION**

Regional: Azerbaijan, Kazakhstan, Turkmenistan, Iran, Russia

Description		TOTAL	
		US\$ (1997-98)	
Project Personnel			
Project Administrator (1 year)		12,000.00	
Secretarial Support (1 year)		8,000.00	
Translators		8,000.00	
National Professionals (5x 6 months)		30,000.00	
International Consultant (3 weeks; proj. docu.)		9,000.00	
International Experts (3 x 2 months each)		78,000.00	
Component total		145,000.00	
Sub-contracts (5)		45,000.00	
Training/meetings			
Task Force (1)		20,000.00	
Country Coordinating Groups (2)		36,000.00	
1. Review SAP framework proposal			
2. Review GEF project proposal			
Regional Scientific and Policy Expert Groups (2)		36,000.00	
1. Prepare TDA framework			
2. Finalize TDA design			
Component Total		92,000.00	
Project Staff travel		10,000.00	
International Expert travel (to CCG meetings)		13,000.00	
Component Total		23,000.00	
Miscellaneous			
Communication		9,000.00	
Project monitoring/reporting		5,000.00	
Sundry		5,000.00	
Component Total		19,000.00	
Project Support Services @ 8%		25,920.00	
GRAND TOTAL		349,920.00	

Annex I

Full documentation is also available on the following materials in support of this PDF proposal:

Declaration on Environmental Cooperation in the Caspian Sea (Almaty, May 1994)

Mission Report: Caspian Environment Programme/Facilitation of GEF/PDF Proposal (April 1996)

- **Comments from each riparian government on project concept summarized in III.**