



This problem -- the financing of commons management regimes -- has dogged regional programmes worldwide. It is thus a problem of global dimensions. Who is to apportion and finance the incremental costs of commons management?

The objective of a proposed new component of the on-going GEF project Environmental Management and Protection of the Black Sea will be to conduct a detailed examination of the feasibility of establishing a Black Sea Environmental Fund (BSEF), which would represent a sustainable source of finance for addressing environmental problems of regional and global significance. Such a fund would be self-sustaining, managed regionally and a future source of capital for environmental investments. It is intended that this new regional fund be financed primarily through economic instruments applied on a nation-by-nation basis across the region.

Such a funding mechanism was not planned at the time the initial project was approved, but it has since emerged as an innovative possible solution to the crucial problem of financing. The purpose of the fund will be to ensure the financial sustainability of the Black Sea Environmental Programme by providing a source of financial support for activities and investments dealing with issues of international concern. Such issues represent the incremental elements of the ongoing programme, i.e., the commons issues which cannot be dealt with by any single state.

This new concept of economic instrument-based regional environmental funds, for the Black Sea and beyond, has recently been given widespread support in a number of fora. The idea was first put forward at the Black Sea Economic Cooperations Ministerial Conference on Environment and Development, in Tbilisi, Georgia in September 1994. Following the encouraging reception given to the proposal, both at the Tbilisi meeting and at subsequent meetings of the BSEPs National Coordinators Contact Group and Steering Committee, it was decided to develop a pragmatic proposal demonstrating how the idea could be applied by the six countries sharing the Black Sea environment.

An April 1995 meeting of the BSEPs environmental economics expert group<sup>1</sup>, which includes representatives of all Black Sea coastal countries as well as outside experts, unanimously concluded that the BSEF proposal was promising and worthy of further investigation. These findings were in turn considered by the first meeting of the Black Sea (Istanbul) Commission, held in Varna, Bulgaria from 2-5 May. As a result, the interim financial rules of the Commission, which were approved by this meeting, included the following statement: Within this period [1995-98], it is planned that the Contracting Parties shall establish a Black Sea Environmental Fund, which would serve as the primary source of financing the implementation of the Convention. These rules shall therefore be revised upon the establishment of such a fund.

Finally, the regional fund concept has successfully been brought to the global stage at the

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<sup>1</sup>See GEF Black Sea Environmental Programme, April 1995. "Environmental Economics Expert Group, Technical Sub-Group on Environmental Financing: Meeting on Establishing a Black Sea Environmental Fund. Summary Report"

Conference on Funding and Institutional Issues for the Washington Action Programme on Protection of the Marine Environment from Land-based Activities (Rio de Janeiro, 18-20 June 1995). This important independent preparatory meeting for the Global Action Programme (to be adopted at Washington in October/November 1995) recommended that innovative, sustainable funding mechanisms such as national and regional environmental funds, should be adopted based upon appropriate economic instruments, in the medium term. Thus, the proposal has already demonstrated the potential to become a model for future regional funds in other parts of the world.

The proposed new project component will review and assess the following issues relating to the establishment and operation of the proposed fund:

- **Revenue Sources:** Potential sources of revenue considered by the above Expert Group meeting included transport levies on shipping, user fees on tourism, natural resource extraction fees, a bonding scheme for hazardous materials and fisheries fees. Each of these as well as other potential economic instruments will be examined in detail.
- **Disbursement Issues:** The question of how programmatic priorities, as well as specific projects, will be identified and developed will be addressed. In order to begin identifying programmatic priorities from a regional/global perspective, the work will link closely with the ongoing Black Sea Environmental Priorities Study (BSEPS)<sup>2</sup>. In particular, the analysis will attempt to draw a distinction between investments with primarily national benefits and investments justified from an international/global perspective. Ensuring the implementation of the transboundary component of the regional strategy outlined by BSEPS and the Black Sea Action Plan is expected to be the guiding theme of the Black Sea Environmental Fund.
- **Organisational Structure, Management and Supervision:** Major tasks related to Fund management will include managing the project cycle and supporting elements in the programme cycle, as well as providing political endorsement to the operation of the Fund, i.e., making and endorsing strategic and disbursement decisions, assisting enforcement of payment obligations, etc. Two basic organizational structures necessary to accomplish the above tasks are a management body and a supervisory body. The organisation and roles of each will be examined. In addition, the relationships between a BSEF, the Black Sea Commission and an eventual Black Sea Fisheries Commission need to be worked out.

In each of the above areas, close attention will be paid to ways of transferring the important and analogous experience gained in many countries, particularly in Eastern Europe, in the management of national environmental funds.

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<sup>2</sup>Currently under implementation, BSEPS is designed to provide policy-makers, donors, international financing institutions and, potentially, fund managers with a strategic framework - based on rigorous assessment of economic, including environmental, costs and benefits - for decisions concerning investments and other actions which can help to improve Black Sea environmental quality.

## II. Description of Proposed PDF Activities and Timetable

Funds available under the requested PDF grant would be utilised to conduct an in-depth consultative process with governments of the region, and to prepare a project brief which will be submitted to the next meeting of the GEF Council, for funding of the new component.

The consultative process will begin with a mission, to be undertaken by PCU staff, to each of the six participating countries, aimed at broadening the process of national consultation which is already underway. A one-day think-tank will be organised in each country, participants in which will be representatives of relevant ministries, including those of Environment and of Finance. Participants are also expected to include, wherever possible, World Bank country office representatives. Indeed, the active support of the World Bank, particularly given its close contact with Ministries of Finance, is considered essential to eventual success in establishing the Fund.

Following the mission, a consultant will be engaged to prepare the findings into a draft project brief. The draft brief will be considered and finalised during a wrap-up meeting, which will include the six national coordinators, as well as representatives of the three GEF partner agencies. The resulting project brief will be submitted to the next GEF Council for approval as an add-on component of the ongoing project.

Activity	Date for completion
Missions to Black Sea Countries	August-September 1995
Meeting to finalise project brief (3 days)	September, 1995
Submission of project brief	early October 1995

## III. PDF Outputs

1. Mission reports from the six Black Sea countries.
2. Consolidated review of priorities for a new GEF Black Sea project component with the specific objective of instituting a self-sustaining mechanism to ensure the environmental management of the Black Sea.
3. A project brief (approx. 10 pages) for submission to the GEF Council.

## IV. Eligibility

- 1) It is important to stress the global relevance of the programme as it will operate as a pilot study for a unique new mechanism which attempts to achieve the operational sustainability of a regional environmental programme. The existing bodies and institutions are not able to

provide the necessary financial means to deal with the protection of a common good from a transboundary perspective.

2) The proposed new project component is also directly relevant to priority goals of the International Waters programme, namely:

- control of land-based sources of pollution;  
control of shipborne or ship-derived waste;
- restoration of coastal biodiversity reserves (including wetlands); and  
the proper management of natural renewable resources.

Finally, the project is of direct relevance to the implementation of the Biodiversity Convention and hence the biodiversity component of GEF.

#### V. National Level Support

##### **Inputs from participating countries:**

- a) Full logistical support for the missions, including the provision of an interpreter where necessary.

##### **Inputs from the Black Sea PCU<sup>3</sup>**

- a) Logistical support with the organization of the missions and the wrap-up meeting.
- b) Services of selected staff for carrying out the missions.
- c) Provision of supporting documents based upon the existing project.

#### VI. Justification

The on-going GEF project Environmental Management and Protection of the Black Sea (RER/93/G31, US \$9.3 million) has been fully operational since 1993. These funds are committed on specific activities, as described in the project document agreed upon in 1993, for a three-year period ending in May 1996. It helped to generate the larger multi-donor BSEP programme of over \$30 million, including cost-sharing technical cooperation and investments from the World Bank, the Dutch Ministry of Transport, Public Works and Water Management, Canada's IDRC, the European Bank for Reconstruction and Development, France, Norway and Japan. However, these funds are dedicated to very specific activities linked to the agreed on-going programme.

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<sup>3</sup>Please note that this activity is not contemplated within the scope of the existing Project Document but is conducted at the request of the Governments involved.

This new request for GEF support was endorsed by the official representatives of the participant countries at the Second Meeting of the Steering Committee of the GEF Black Sea Environmental Programme in December 1994.

#### VII. Item to be Financed

1. Staff of the Black Sea Programme Coordination Unit will visit the Ministries of Environmental Protection of the six Black Sea countries in order to conduct high-level discussions on the programme elements described in the introductory sections above. A consultant will then assist in preparing a consolidated overview of the missions findings and a draft project brief (in a format approved by the GEF Council).
2. A meeting of the six National Coordinators would be held in order to review the documents prepared above and to subscribe to a joint submission to the GEF Council for further support. The meeting would include representatives of all three GEF partners. The major donors would also be invited as observers to this meeting.

The project will be implemented by the Black Sea PCU through UN-OPS with the active participation of RDEC/UNDP.

The urgency of action is to ensure that the current momentum and evident spirit of cooperation shall continue and shall be sustained on a regional basis. It should be stressed that the actions outlined above were not contemplated within the GEF Black Sea project as originally formulated.

#### Budget:

	TOTAL m/m	\$	Total Cost US\$
10. PROJECT PERSONNEL	/3		
11. Consultants		18,000	18,000
16. Staff Travel		12,000	12,000
19. Personnel Component Total		30,000	30,000
30. TRAINING			
34. Workshops	/3	16,000	16,000
39. Component Total		16,000	16,000
53. Miscellaneous (communications, reporting, etc)		3,000	3,000
99. GRAND TOTAL		49,000	49,000