

COMPILATION OF TECHNICAL COMMENTS
SUBMITTED BY COUNCIL MEMBERS ON
INTERSESSIONAL WORK PROGRAM
APPROVED IN MARCH 2001

NOTE: This document is a compilation of technical comments concerning the project proposals presented in the intersessional work program approved by the Council in March 2001. These comments were submitted to the Secretariat by the Council Members.

General Comments:

Comments from Sweden:

On behalf of my constituency, I would like to confirm that we approve the Intersessional Work Program.

We would like to share the following comments with you and your colleagues in the GEF Secretariat that you might wish to duly consider in the future work program:

- We note that the work program could have been significantly larger had it not been for the amount of resources available for the year 2001. We hope the current restraint on resources will not be a recurrent phenomenon.
- We congratulate the GEF for the very good leverage effect of the proposed work programme: the planned GEF support of 79 MUSD is expected to catalyze 654 MUSD.
- We are somewhat concerned about the relatively small number of climate change activities in the categories of Medium Sized Projects (one climate project vs. 5 biodiversity projects) and project development grants (9 climate projects vs. 21 biodiversity projects). Also, concerning full sized projects, the average total costs for climate projects are considerably smaller than those for biodiversity projects. The reasons for this disparity should be reflected upon.
- We note that none of the climate change or biodiversity projects involves the new executing agencies of the GEF. Is this an indication of an inadequate operationalization of the new policy of expanded opportunities for executing agencies?
- We welcome the strong evidence of country ownership with many of the projects integrated in national strategies and executed by national authorities. Besides contributing to the sustainability of the project results, country ownership is essential in building political support for the GEF.
- Many of the proposed projects have a good national, regional and even global replicability potential. However, in many of them, the strategy for realizing this potential should be further elaborated.
- We welcome the strong capacity-building elements in many of the proposed projects. It is important that capacity-building efforts target, not only national

public authorities but also stakeholders representing government, civil society and private sector.

Comments from Switzerland:

We are hereby approving the Work Program with a view to its further development.

Comments from Germany:

We can agree to proceed with the further preparation and implementation of the projects. However, we are attaching some comments regarding the projects listed below and ask to take them into account during further project planning and implementation.

Comments from the U.S.A.:

As with the last intersessional, we are pleased with this program overall.

First, we express our approval for the program. We want to take special note of the high level of cofinancing and the consistent involvement of stakeholders. We look forward to reviewing several documents and projects highlighted for the future (e.g. the strategy for support of fuel cell bus projects and the Danube-Black Sea Basin Strategic Partnership).

Second, we are pleased to see the increased amount of cofinancing by the World Bank in this work program. We have been concerned by at least two recent World Bank-GEF projects in previous workplans which include no cofinancing, contrary to the Bank's commitments on mainstreaming. We have expressed this view to the Bank as well.

Comments from Indonesia:

I would like to inform you that in principle, I agree with this proposed intersessional work program.

Biodiversity:

Chile: Water Resources and Biodiversity Management (WB) \$10.33m

Comments from France:

No objection to the principle of this project, which is to incorporate biodiversity considerations in a national water resource management policy covering eight river-basins in Chile. However, the commitment amounts announced seem oversized for a focal area in which institutional and regulatory development plans are affected more often than not by implementation delays. Moreover, if the objective is to develop an integrated river-basin management policy, it would be prudent to test any proposal in one or two basins and then replicate the preferred management system throughout the country.

China: Sustainable Forest Development (WB) \$16.35m

Comments from France:

No objection to the content or objectives of the project.

Comments from Germany:

The planned project overlaps with various forestry projects implemented by the GTZ on behalf of the German Ministry for Economic Cooperation and Development, in particular with projects carried out in Sichuan and Hainan provinces. It also overlaps with regard to project approaches, particularly in Sichuan province.

The protected area Tangjiahe has been selected as a pilot area by the Technical Assistance Project „Resource Protection in Nature Conservation Areas in the Province of Sichuan“ supported by Germany through the implementing agency GTZ (PN 95.2551.0). In the course of this project, measures to improve the management capacities were undertaken, and especially in the last 18 months plans and concepts to reduce the damage by game have been developed. In this context participatory land use planning was initiated and activities for protection against browsing by wildlife were planned. Germany will contribute an additional DM 0.8 m through the Bank for Reconstruction and Development (Kreditanstalt für Wiederaufbau, KfW) towards the realisation of these activities. The description of the „existing or proposed programs“ given in the project proposal thus falls short of or is strongly understating the facts; at least from the German side there has substantially more been done and is further planned than described in the proposal.

Recommendation: It is strongly recommended that the implementing agency plan further steps in close cooperation with the German implementing agency GTZ, as otherwise there would be the danger of duplicating efforts.

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Tangjiahe Nature Reserve in Sichuan Province is one of the reserves in which PAM will be implemented.

In 1998 the Reserve's management suggested the financing of a major infrastructural component within the Reserve and in a "Panda corridor" leading into neighbouring Pingwu County. The German implementing agency, KfW, in its appraisal mission, strictly rejected such measures because of expected adverse effects as to the protection of Pandas, Takins, Golden Monkeys, Black Bears and other rare wildlife. Also heavy infrastructural measures for ecotourism within the Reserve seemed inadequate in connection with the specific nature conservation situation of the Reserve. The same applies to the extensive purchase of bulldozers, lorries and 4x4 cars, suggested to KfW in 1998. It is recommended that possible similar proposals may be carefully scrutinised. KfW is implementing the „Sino-German Afforestation and Nature Conservation Project Sichuan Province“ which, after modifications to the original Chinese request in 1998, also comprises the buffer zone of the Tangjiahe Nature Reserve (Qingchuan County). The villages in the buffer zone which are involved are Lianmeng, Sanlong and Gonglong, all belonging to Qingxi township. The project measures in all of Qingchuan County comprise the rehabilitation and afforestation (timber protection and economic forest) of about 15.000 ha based on participatory land use planning. In co-cooperation with GTZ wildlife management measures outside the Reserve will be implemented, aiming at reducing damages to farmers' fields, mainly caused by an overpopulation of wild boars, by means of mechanical protection measures.

It is understood that the focus of PAM is the nature reserve itself with regard to wildlife survey and reserve management (incl. the development of the respective capacities in the relevant institutions) as well as the participation of the communities inside the Nature Reserve.

However, the focus of the Sino-German Afforestation and Nature Conservation Project is the region adjacent to Tangjiahe Nature Reserve and thus the specific problems in buffer zone areas. Accordingly the project goals are to increase the productivity of land and forest resources and to reduce the damages by wildlife in the buffer zone and by way of this to contribute to the rehabilitation of the ecological environment as well as to an increase in income of the local population.

Recommendation: In the region of the Tangjiahe Nature Reserve a close co-ordination of actions between KfW and GEF do not seem to be necessary at present. However, an exchange of information concerning the project progress is highly recommended because the same Project Executing Agency (Forestry Department of Sichuan Province) is involved.

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Comments from Switzerland:

General Commentaries

The program's objectives are fully coherent with GEF principles and conditions: SFDP is of high interest and importance, particularly when considering the potential replicability of the models to be established throughout other Chinese regions and ecosystems under the national Natural Forest Protection Program.

We found particularly positive the following points:

- The strong commitment of the Government of China through a very important baseline both in the GEF-funded component and in the two other components of the project; both financial and institutional commitments at regional and local levels seem also well developed.
- The project contributes well to the new policy adopted by China regarding forest management, consequently to the disastrous natural disasters experienced during the recent years (floods). It complements a previous GEF project and will benefit from numerous lessons learned from previous community-based natural resource management projects; especially those implemented by international NGOs, among them WWF who is also cooperating in the development of the project discussed here.
- The strong participatory approach applied in project preparation, which should be continued throughout the implementation phase, particularly in regard to forest and protected areas management planning.

Main Concerns

Institutional co-ordination

Considering the ambitious objectives of the program and the number of institutions involved, co-ordination will be an essential issue; we consider this to be insufficiently addressed in the brief. In particular, the respective status and roles of the State Forestry Administration (and its Nature Forest Protection Centre) and of the Office of Nature Reserves are not clear.

Financial sustainability

In spite of the very important government commitment apparently secured for the project's implementation, long-term financial sustainability concerns are not yet addressed in a satisfactory manner. Very little is mentioned about how "self-managed community revolving funds" will function, aside from a vague reference stating that "routine" operating costs are expected to be met by the government.

Participatory approach

Although apparently carefully planned at different levels of management planning, a truly participatory approach may be challenging in this case, considering that many of the sites selected are inhabited by ethnical minorities (a total of 18 recognized nationalities). There is little indication on how training and capacity building will address language and cultural obstacles to introduce to the communities topics as complex and new for them as management plans or conservation funds.

Similarly, it remains unclear whether local communities will eventually be fully in charge of natural resource management. It appears possible that the participatory approach will be limited to the planning phases without subsequent establishment of community-based management systems, which in our assessment increases several of the inherent risks. Direct, practical incentives for the population to cooperate with the project appear rather elusive at present and will have to be further developed.

Plantation Establishment (component 2)

The linkage of this non-GEF funded component with Nature forest (comp. 1) or Protected areas management (3) is not obvious, in spite of what is claimed in the brief (p.8). It is difficult to imagine how local pressure on forests in the remote areas selected for the implementation of components 1 & 3 will be eased by the establishment of large commercial crop plantations, as market access, price- and ownership questions remain unaddressed. In addition, there is little information on any assessment of the environmental impacts of such plantations.

It may be advisable to also explore some possible alternatives, such as agroforestry and household forestry.

Conclusions and Recommendations

We support this project and recommend that the issues raised in this comment be taken into account in the further development of the project.

Further Commentaries

The project, though not at an early stage of preparation, still needs considerable work. Many of the planned activities remain in rudimentary state of planning and are therefore difficult to assess at present. Obviously, much will depend on the precise analysis of local root causes. On this point we are observing a trend towards oversimplification when the threats to natural forests are stated in non-specific terms such as hunting, collection of non-timber forest products (NTFP), firewood collection or swidden cultivation. These topics, in addition to others, merit careful and site-specific analysis. In particular, sustainable levels of such forest-based activities should be identified prior to the planning of any alternatives to reduce the risk of non-acceptance by the affected local populations.

**Guatemala: Western Altiplano Integrated Natural Resource Management (WB)
\$8.350m**

Comments from France:

No objection to the principle of this project.

However, the figures given on page 21 indicate that the “Conservation” component will not be sustainable. The projections show conservation expenses amounting to US\$660 per km² per year, or US\$1.1 million per year for a protected area of only 1,750 km², or six times more than the resources currently allocated for conservation in this area. The Government of Guatemala will surely not have these resources to carry on the program after the end of the project.

In all its biodiversity projects, the GEF needs to begin to tailor the dimensions of its conservation interventions to the level of resources that can realistically be mobilized on a permanent basis.

Comments from Germany:

The project design is based on three major components: 1. Sustainable livelihoods, 2. Biodiversity conservation, and 3. Environmental services market. It is highly appreciated that the project design intends to promote both conservation and development. Being aware, however, of the tardiness of social processes, and the resistance towards change and innovation, some of the results seem highly ambitious. For instance, one of the subcomponents aims at:

"enabling the local organizations for participatory planning; establishing or improving financial accounting, planning, and management systems; multi-stakeholder collaborative decision-making and problem solving; developing leadership skills; membership training, participatory monitoring and evaluation, gender inclusion, and cultural communications skills; cross-visits to learn from successful groups; and linkages with other organizations and programs"

Social processes tend to be highly complex, interrelated and interdependent, and very difficult to insert influence upon - especially if this is expected to be taking place in a country that has been destroyed by a long civil war, where social cohesion and all systems of local organisations have been affected severely, where inter-ethnic hate reigns and mistrust is felt towards all forms of governmental intervention or organisation. It should therefore be considered whether the highly ambitious project goals can really be achieved within the relatively short project period, which is five years only.

A critical point within the component "Livelihood Systems" seems to be the allocation of a high level of funding (US\$ 40.6 Mio) within a short time span to only 40 municipalities (out of a total of 132) in the Altiplano region. It should carefully be checked whether this may cause additional social tensions or even lead to open conflicts among the various stakeholder groups.

The design of the livelihood component implies the preparation, implementation and evaluation of 1000 subprojects to be designed and carried out by local communities. This will impose an enormous work load on the project management team, and again the time horizon and the ambitiousness of participatory processes might imply major risks - in addition to administrative challenges.

Recommendation: These deliberations should be taken into account during the further planning and implementation of the project.

Comments from Switzerland:

General Observations

The project development objective is to enhance the sustainability of rural livelihoods by promoting more sustainable productive agriculture by improved management and

conservation of natural resources of the Western Altiplano of Guatemala. The project covers an area of 40 municipalities. The strengthening of local organizations is an important component of the project. The Ministry of Agriculture, Livestock and Food, with the participation of the National Protected Areas Council (CONAP) and the National Forestry Institute (INAB), figures as executing agency. The financing requested by GEF is USD 8 million; the total project cost of the current project is given as USD 51.45 million.

Basically we support the project's objectives, share the proponents' view that the conservation of biodiversity in the project region is of global importance, and agree that the project appears consistent with established GEF criteria and operational principles.

Main Concerns

Need for further information:

Although the overall documentation covers 143 pages, some quite essential issues are not sufficiently detailed. The project description summary provides only very general information and lacks a description of outputs. In consequence, the monitoring and evaluation indicators are also too general. Thus, regarding component 2 “biodiversity conservation”, which is the core component (and “raison d’être”) from the point of view of the GEF, the information given on outputs and indicators does simply not allow for a proper appraisal of the quality of the proposal.

Co-financing?

The project brief indicates a co-financing of USD 43.1 million. On the one hand, USD 38 million of the overall project cost refers to component 1 “sustainable livelihood development”, which is essentially oriented towards domestic objectives. On the other hand, component 2 that is indeed conservation-oriented only totals USD 5.4 million USD, and component 3 “environmental services policy development” with domestic and global aspects concerned is estimated at USD 1.26 million.

We would expect the project proponents to clearly differentiate between baseline financing and co-financing, otherwise we cannot follow the argumentation of a co-financing of USD 38 million. Is there any substantial co-financing for the GEF component of biodiversity conservation?

Conservation strategy:

The current project is embedded in the framework of the Mesoamerican Biological Corridor. The proponents correctly stress that (a) the mesoamerican biological corridor provides a regional strategy for conservation, and (b) that intense coordination with the representatives of this project has taken place. However, the project brief does not provide any information concerning conservation objectives and strategy, and on how exactly the project is strategically embedded in the regional corridor project.

Coordination / cooperation with the medium-sized Helvetas-Probosques Project (in GEF pipeline with UNDP):

The proponents state that “Of all actual or proposed GEF investments, the one most closely complementary to the proposed project is the Helvetas mid-sized project: Conservation of the Biodiversity in the Western Plateau of Guatemala”. This project exists since 1996, with bilateral assistance of the Swiss Government, and a new project phase is now proposed for GEF financing with UNDP as implementing agency. We would encourage the IA to intensify its consultations and cooperation with this project to take advantage of its network and lessons learned.

Institutional set-up

The project brief indicates that as of late 2000, a new Ministry of Environment and Natural Resources (MARN) has been created to which CONAP and INAB will be attached. It seems important to clearly define the institutional competences with regard to the new situation in order to prevent future institutional conflicts that could hinder successful project implementation in the near future.

Conclusions and Recommendations

We support this project in essence, but it still needs very considerable work at all levels before CEO Endorsement. We request that the institutional situation of the project is re-analysed with a view to the institutional changes which have occurred recently. Furthermore, the conservation strategy, outputs and indicators need to be further developed and the co-financing arrangement should be presented in a more clear and transparent manner.

We would like to encourage the project authorities to involve more actively the municipalities in further planning and to intensify technical coordination efforts with the Helvetas-Probosques and the MBC projects.

**Colombia: Conservation of Montane Forest and Paramo in the Colombian Massif,
Phase I (UNDP) \$4.025m**

Comments from France:

No objection to the principle of this project, which proposes to extend the Massif Protected Area System beyond the four existing national parks to other areas falling into different management categories (indigenous reserves, private reserves, buffer zones, etc.).

However, Phase 1 of the project, presented here for agreement, focuses on studies and on definition of methodologies, actions programs, and the financing plan. Except for (i) provision of physical resources for the management of the four existing parks and (ii) the 30 % increase in the number of existing private or indigenous reserves (the initial number is unknown), project outcomes will be essentially on paper. For that reason, we do not see how Phase 2, projected to cost less than Phase 1, will translate into effective protection for 11,000 km² of the Massif.

As stated in the project document, the commitment to Phase 2 should not be made until resources to cover recurring protection costs are assured.

Comments from Switzerland:

General Commentaries

The project is located in the cordillera of the Andes in south-west Colombia. It focuses on the consolidation and enlargement of protected areas with mountain forest and paramo ecosystems in the region named Colombian Massif. It aims principally at the protection of three National Parks, comprising the Andean Biosphere Reserve, the elaboration and implementation of management plans for parks, buffer zones and corridors, the development of conservation compatible land-use practices in buffer zones and corridors between the parks. The executing Agency is the Colombian National Parks Service (under the Ministry of Environment). The proposal requests a GEF financing of USD 4 mio for a first project phase, a second phase is envisaged with further USD 3 mio from the GEF.

The current project is one out of 4 GEF projects referring to the Colombian Andes. The project “Conservation and Sustainable Use of Biodiversity in the Andes Region” approved by the 15th Council is designed as an “umbrella” project and directly intervenes in 5 priority areas, the 3 others (including the newly proposed one) have a sub-regional scope¹.

¹ The other two ones are: Project GEF/C15/3 N°A-5 “Conservation and Sustainable Use of Biodiversity in the Andes Region” and Project GEF/C14/6 N°A-3 “Conservation of Biodiversity in the Sierra Nevada de Santa Marta”; and the current proposal.

In general, the current project is well designed and soundly embedded in existing environmental protection efforts and the institutional context of Colombia. It is consistent with overall national policies, particularly with the biodiversity conservation strategy of the Ministry of Environment (MMA), and is based on a participatory approach.

Focusing exclusively on this new project, we are supportive and consider it consistent with the principles and criteria of the GEF, and with its Operational Program 4 (Mountain Ecosystems). However, if we see the project in the context of the four other GEF biodiversity projects in the Andes region, we are concerned about the comparative consistency, mutual supportiveness, cost-effectiveness and overall coherence of the project interventions comprising this overall portfolio.

Main Concerns

The GEF principle of cost-effectiveness is not met at the level of the portfolio. The parallel development of separate Andean conservation projects with similar objectives is not based on comprehensive planning and therefore implies duplication and the loss of overall cost-effectiveness.

We positively appreciate the efforts made in the new proposal to explain the complementarities between the new project and the Andean Conservation “umbrella project”², as well as the principles of prioritization to select biodiversity conservation areas. However, the question must be raised: why is the Region of the Colombian Massif not one of the five selected priority areas of the Andean region conservation “umbrella project”, considering furthermore the possibility of including additional priority areas in the planned second phase of the umbrella project.

We add the following remarks:

- The main reasons and criteria for the (see project brief Annex 1) design of three sub-regional projects (including the current proposal) to complement the Andean Conservation “umbrella project” are not sufficiently clear. The objectives of the 2 projects do not differ substantially. Regarding cost-effectiveness, the question must be raised: why are the biodiversity conservation objectives and actions of the current sub-regional proposal not integrated into the Andean “umbrella project”.
- The National Park Service is the executing agency of the current project. The Alexander Von Humboldt Research Institution is the executing agency of the umbrella project, with a mandate to coordinate activities among participating national and local institutions, including the National Park Service. Again, what are the reasons for not integrating the current project institutionally into the umbrella project scheme?
- It appears as if it was a priority to adapt a GEF Andes conservation portfolio with different but co-existing institutional arrangements in order to achieve some kind of balance among the local institutions that are to receive project financing. We would question whether such a 'balance' among local institutions is something the GEF

² Project GEF/C15/3 N°A-5 “Conservation and Sustainable Use of Biodiversity in the Andes Region”

should strive for, especially if it goes seemingly at the expense of coherence, cost-effectiveness and ultimately sustainability.

Sustainability

Regarding the GEF portfolio for biodiversity conservation for the Andes in particular, and for Colombia in general, the increasingly exclusive reliance and dependency on ODA- and GEF-funding for national biodiversity conservation is striking as it raises severe questions for the long-term sustainability of these efforts. Sustainability should not only be a central concern at the level of the individual project, but also at the level of the overall portfolio. It would be very timely to assess this portfolio in terms of overall coherence, cost-effectiveness, mutual supportiveness of individual projects and long-term sustainability of the financed conservation efforts. There is no hint of any such analysis in this newest proposal, even though it becomes increasingly difficult to try and assess new additions to this portfolio on their own merits, without consideration of the larger context of GEF-funded project interventions in the same focal area and often the same geographic area in Colombia. In other words, it is high time for a more programmatic approach and we begin to wonder whether there exist any effort at all in this direction.

Conclusions and Recommendations

In general terms we support the current proposal. However, we have some reservations regarding the consistency of the growing GEF biodiversity conservation portfolio for Colombia and the Andean Region and we feel that this should be properly addressed before submitting any further projects for this portfolio.

Comments from Germany:

The security situation in the project area is described as stable; whatever the actual security situation is, the general social tensions should nevertheless be taken into account; they may have severe impacts on the project and this should be acknowledged as a project risk. Appropriate means of dealing with such situations if they are encountered should be developed beforehand.

The project goals and the success indicators are very ambitious, and the project planning seems not to be very realistic in some places. Examples: participatory planning, implementation and evaluation of management plans in a total of eight protected areas within only six years. Participatory processes usually need much more time, in particular when projects attempt to establish co-management structures.

The active participation of local people is taken as an assumption. However, activities need to be undertaken to involve local people in these management processes. The assumption is therefore actually an activity.

65. The Regional Project Director (RPD) will be the Director of this Territorial Division and will be responsible for overseeing the implementation of the project, supervising the project's Technical Coordinator (TC) and financial assistant, facilitating operational procedures with UNDP, coordinating with other funding sources at the regional level, ensuring that project implementation is complemented by the Division's existing conservation actions, monitoring project progress and periodically reporting on this to the NPD. To facilitate the flow of resources between the national and regional levels of the National Parks Administrative Unit, both the NPD and the RPD will have signatures registered with the UNDP along with details on specific disbursement levels to be authorized by each level.

Having this description of tasks in mind, it seems questionable whether the Regional Project Director can fulfil these tasks in addition to his normal tasks. This may indicate that the personnel concept has not been fully worked out and may need to be revised on a realistic level.

Recommendation: These comments should be taken into account during the further development of the project.

Russian Federation: Demonstrating Sustainable Conservation of Biological Diversity in Four Protected Areas in Russia's Kamchatka Oblast, Phase 1 (UNDP) \$2.334m

Comments from France:

No objection to this project.

However, one requirement for launching the project must be that the anticipated bilateral co-financing, the donor of which prefers to remain anonymous at this point, is actually available, given that it represents two-thirds of the co-financing funds.

The projected trust fund is for a modest amount, which improves the chances of convincing donors.

By way of comparison with the Guatemalan project discussed above, it is estimated in this case that a trust fund of US\$4.5 million will make it possible to cover recurring costs for four parks with a total area of 30,000 km², while in the Guatemalan project the same amount covers only five years of project expenses in an area of 1 750 km². This comparison confirms the general problem of determining the dimensions of GEF projects in certain cases.

Comments from Germany:

The project proposal states that the protected areas management authorities in the Kamchatka Oblast have seen a 90% decrease of budget allocations. The effects of this under-financing have been going on for years, and are extremely serious: "No funds would be available for key PA planning, management and operations. The requisite financial stability for the effective long-term conservation of the PA's biodiversity would, therefore, continue to be absent".

This baseline scenario is thus an extremely negative one for a project to be funded by the Global Environment Facility – which is designed to fund activities with a global benefit only. Under the adverse financial circumstances in the Kamchatka Oblast there will always be the danger that the project will have to fund activities with domestic benefits (including e.g. operational costs of PA management) – in order to keep the protected areas alive. There is apparently no government commitment to increase the PA funding to at least the previous level, and it should therefore be considered a risk that the project may fund activities towards domestic rather than global benefits.

The Kamchatka Protected Areas Conservation Fund which is foreseen to help to overcome the budgetary constraints, will be designed as a sinking Trust Fund. Sinking funds, however, are usually designed to bridge a certain period, after which funding can be substituted by other sources. In the case of the Kamchatka Oblast, the project proposal does not give information on how the costs for protected areas management can be covered once the capital of the Trust Fund has been exhausted.

Recommendation: Germany sees serious risks to successful and sustainable project implementation. However, we acknowledge the effort of demonstrating sustainable Conservation of biological diversity in the concerned areas. Therefore, the planning and implementation of the project should proceed but the above deliberations should be taken into account.

Comments from Switzerland:

General Observations

We find this project quite courageous, given that Far East Russia is - from the institutional and political point of view - a very difficult region to work in. What is commonly referred to as 'country risk' is extremely critical here, by any measure. Therefore, the choice of local partners will most certainly determine the project's success or failure and will be the main determinant of sustainability.

Main Concerns

- As a direct partner, the Ministry of Natural Resources is mentioned - within that, probably the former people of the State Committee of Environmental Protection which was dismissed by the Putin government. Environmental administration and institutions are in general very weak in Russia and we would therefore strongly recommend to have a close partnership with the responsible ministries for tourism, forestry, and -very important- hunting and fishing from the outset. Otherwise, the project will not have the political weight and commitment that is needed
- The brief shows a tendency to see the main problem in the fact that the zapavednik regime is no longer functioning. However, the zapavednik regime was always limited to very small areas (compared to the size of the country) and did not include any sustainable use components. The real threat to biodiversity in Russia seems to be in most cases organized illegal logging and poaching campaigns, not the detrimental practices of some tourists or farmers inside the borders of former zapavedniks. Sustainable use should be the focus of any protection efforts. Under the current Russian conditions, protection measures alone have very little prospect for success, even though many Russian environmentalists still hope to re-establish the zapavednik regime. To add to the difficulties, the concept of sustainable use is still little accepted / understood by Russian environmentalists (both NGOs and government institutions) – they tend to strive for pure protection measures.

- WWF and IUCN appear to be the only strong and rather successful Russian NGOs in the field of biodiversity and sustainable forestry. They are also able to make valuable contributions to national policy formulation and are rather well tolerated by the federal and some regional administrations. It would be most useful to have them represented in a steering or advisory body and, if possible, to involve them in implementation.
- The lack of alternative income for the local population and the lack of sustainable financing mechanisms are basic problems that will have to be properly addressed if this project is to succeed in a sustainable manner. These central concerns are not sufficiently reflected and addressed in the proposal in its current form and will have to be strengthened considerably in the further development of the project, in terms of local staff capacities and in terms of substantial and dedicated project budget lines for these activities.

A. Climate Change

General Comments:

Comments from Sweden:

We welcome the inclusion in the work programme of two climate change projects integrated in national energy sector reform programmes. Both of these projects aim at promoting renewable energy technologies, mainly solar photovoltaic, in rural electrification. Still, grid-extension and diesel remain essential elements of the reform programmes. It is important to ensure that environmental issues are comprehensively addressed in the reform process. Besides promoting renewable energies, energy conservation and energy efficiency need to be improved both in energy end-use and in energy production and transmission. Furthermore, it might be useful to adopt a broader approach to renewable energies instead of focusing only on solar PV.

We welcome the operationalization of the fuel cell bus strategy and look forward to its further development on the basis of lessons learned from the first two projects.

Regional* Balkans Energy Efficiency Program (BEEP) (WB) \$6.00m

Comments from France:

Identification seems inadequate to justify a supporting grant amount of US\$6 million. The investment mechanism is not described in detail, particularly conditions for participation by the IFC. The project brief gives no information on the audits already performed in the two countries or on the energy environment (tariff policies and provisions), material that would make it possible to assess this initiative's timeliness and chances of success

The deficiencies in the appraisal report lead us to suggest deferment of this project to a later session.

Comments from Germany:

The aim of the BEEP is to introduce measures for the urgently needed improvement of energy efficiency in Albanian and Macedonian SMEs. Germany generally has no objections against the implementation of the program. However, we would like to make a few comments:

Given that the energy prices both in Albania and in Macedonia are well below the world market level, the prospects that the establishment of ESCOs will be successful in these two countries in the medium to long term are limited. Therefore, energy price increases in Albania for instance are provided for by law. The main problem here is the low collection efficiency of less than 50%. Not until the legal framework enables power companies to stop the supply of power and the power supply companies introduce an explicit client and cost management will an incentive be created for the efficient use of energy within the SMEs and, in consequence, for any new market opportunities for ESCOs. Although there have been attempts to introduce such ESCOs in Germany for over five years, both in the private sector and by (semi)public energy agencies, the number of concluded agreements has remained well below expectations.

From our experience we know that the access of SMEs to credit is rather limited. Therefore, the approach seems slightly optimistic in the sense that sufficient FIs are in place and willing to provide SMEs with credits for EE measures.

Another question that should be raised is whether the Hungarian Programme really achieved the leverage effect that is envisaged for the BEEP. Due to the lack of financial means SMEs are hardly in a position to finance additional technical assistance or provide investment finance from their own resources. An intensified monitoring of the leverage should help to keep expectations realistic.

* Albania, Macedonia FYR

Recommendation: These deliberations should be taken into account during the further planning and implementation of the project.

Comments from Switzerland:

General Commentaries

This Energy Efficiency project is a priority given the inefficient patterns of energy use in both countries. The objectives are consistent with the GEF operational program “Removing Barriers to Energy Conservation and Energy Efficiency”.

The focus on the SME sector makes sense as the government’s own efforts will likely be focused on larger state owned enterprises. It is also recognised that the SME sector will be a driving force of employment and economic growth in these countries.

The need for technical assistance and capacity building on all levels and demonstration projects is recognised. These aspects are critical for the sustainability

Main Concerns

1. There are a few questions about the types of EE projects to be undertaken and the techno-economic feasibility of these projects :
 - What are going to be the sectors of intervention ? Is there a cluster approach?
 - What are the proposed measures? What is their potential for energy saving ? What about the replicability of the proposed measures ? Are the measures financially viable and sustainable?
 - Is the technology available ?
 - Are potential partners willing to cooperate?
2. Is the ESCO model the only alternative for the EE market in this region? Has another alternative been considered?
3. The project will be executed by a newly founded IFC-managed facility : BEF (Balkan Enterprise Facility). It seems that it is designed in priority to assist SMEs in business planning, financial management and marketing. Is the technical competence available for energy efficiency projects, and if not, how will it be built?

Conclusions and Recommendations

- It would be recommended to integrate potential partners and if possible industrial associations for the identification of the most promising EE projects. At the same time strengthening of industry association would certainly be necessary. This would

also be useful for the dissemination of results and to generate interest among the SME actors.

- Energy efficiency projects require competence pooling. The availability of technical and financial experts will be crucial for the success of the project.

Comments from Sweden:

We note that the possible implementation of the Regional Balkans Energy Efficiency Program would require careful monitoring of the volatile political situation in the region, including armed skirmishes between Albanian guerilla soldiers and the Macedonian Armed Forces and KFOR.

**Ecuador: Public Enterprise Reform and Privatization Technical Assistance (WB)
\$2.500m**

Comments from France:

No objection to this project, in which GEF support will make it possible to strengthen the energy efficiency and decentralized electrification components. It is suggested that the different sectors involved be clearly separated, by specifying what reform role the GEF will play in each of these sectors.

Comments from Germany:

Germany sees mobilising private investors for rural energy supply as a challenge in the context of this project. However, it approves of the overall project design and has no objections to the implementation of the project.

Comments from Switzerland:

General Commentaries

The project preparation seems to have followed a very top-down approach. It seems that there is not sufficient analysis about what people, institutions, etc. need and want, how much they are willing and able to pay, to what extent they are motivated to participate, etc. All these aspects could be of great help for the preparation of the project. Some of them could be critical for the sustainability of the project.

Main Concerns

Is there any intention to integrate an energy-efficiency component in this ambitious project, which seems mainly focused on electricity and telecommunications, their promotion, market and legal/institutional/regulatory frameworks?

Conclusions and Recommendations

- The GEF rural electrification component completes well the World Bank project by increasing access to electricity in remote rural areas, which would otherwise not be sufficiently considered.
- It would perhaps be more effective to integrate the electricity efficiency GEF component in another global energy efficiency program where energy consumption is considered as a whole, and not only electricity but also energy for the production of heat in industries, etc.

(in this GEF component, the energy efficiency component addresses mainly lighting, refrigeration efficiency in the commercial and residential sectors and motor efficiency in the industrial sectors). This would allow the identification of measures with the highest potential for energy saving.

- Switzerland would recommend to try and integrate the main potential partners into the process well before project appraisal.

Egypt: Fuel Cell Bus Demonstration Projection in Cairo, Phase 1 (UNDP) \$6.510m

Comments from France:

The proposed financial arrangements and the explanation of this technology's impact on the greenhouse gas effect are not convincing and confirm that the problem of the sustainability of these projects remains unsolved (they are entirely likely to come to an abrupt halt once the GEF subsidy runs out). Independent evaluations should be performed in order to assess the real impact of the GEF on these technological developments.

Comments from Germany:

Germany has general objections to fuel cell projects and has stated those objections clearly in the process leading up to the approval of the fuel cell programme.

1. In the context of the Mexico and in particular the Egypt project, we are not satisfied with the low level of private sector co-financing. There should be a minimum requirement for private sector co-financing of 20% of total project costs for all fuel cell projects. In both projects, we strongly request further efforts to fulfill this target.
2. We recommend to use the fuel cell buses to undertake a GEF public awareness campaign. Millions of people will see and use the buses. This should be used to make GEF better known. Ideas in this respect should be developed and should be implemented within the existing financial support for the the fuel cell projects.
3. We also question the over-optimistic projections of the commercialization of the fuel cell technology in the bus sector in developing countries. The decisive factor will be the role of the private sector, not the GEF.

General comment concerning OP11, Sustainable Transport: Through the fuel cell bus projects OP 11 very strongly leans towards fuel cells technology. However, there are many other ways of fostering sustainable transport. Emission reductions of conventional transport technologies is a more significant contribution to GHG abatement in the short and medium term and has important ancillary benefits in the short as well as in the long term. It can be achieved through traffic planning in cities, stringent emission specifications and controls, capacity building for transport authorities, etc. In order to avoid the impression that OP11 is an operational programme for fuel cells, we *strongly recommend* to undertake efforts to develop other projects in the transport area.

Germany is not prepared to agree to further fuel cell bus projects if there is not a private sector participation in total project costs of at least 20% in future fuel cell projects.

Comments from Sweden:

We welcome the operationalization of the fuel cell bus strategy and look forward to its further development on the basis of lessons learned from the first two projects.

Malaysia: Biomass-based Power Generation and Co-generation in the Malaysian Palm Oil Industry, Phase I (UNDP) \$4.025m

Comments from France:

The project is interesting, but it would be advisable to explain the project economics involved better, taking into account electricity repurchase costs and tariff provisions. The amounts for studies and support seem high for a high-profile sector that is already relatively well inventoried.

Comments from Germany:

Germany approves the project design.

However, we would like to remind that by supporting the oil palm industry biodiversity losses cannot be excluded.

Monoculture plantations like oil palms often cause biodiversity losses, in particular when primary forests are cut. In Southeast Asia there is a sequence of first exploiting illegally valuable tree species, with the purpose to burn the remaining forests and turn them into conversion areas for agricultural use. Finally the plantation of oil palm increases the risk of soil erosion.

Comments from Switzerland:

General Commentaries

Biomass-based cogeneration is a very effective CO₂ abatement technology. This project aims at removing barriers in the development of this technology. It goes beyond traditional approaches by trying to recover also derived biogas from tanks and ponds, lagoons

Main Concerns

The concept of the project is very attractive; there are however some questions which seem to be only partially answered in the project document:

- The optimal size for such a system (including biogas recovery) is not mentioned and does not seem to have been studied. This may imply that optimum scale could be beyond the size of a single unit.
- It is not clear which kind of mechanism would allow biomass (and biogas?) to be supplied by other mills/plantations to a larger plant. As far as biomass is sourced from the unit itself, it seems quite simple, but when the unit has to buy from others, the

associated processes and mechanisms need to be explored, and their viability ascertained

- The assumptions on biogas recovery will have to be proven on actual units with practical experience, along with the willingness and ability of the operators to manage it
- Grid-connected systems do not have as per now a guarantee on price ?

Conclusions and Recommendations

We support this project, it has indeed a very large CO₂ abatement potential. However, the main concerns expressed above seem relevant. There proponents will rapidly need more concrete numbers concerning financial viability and attractiveness for the potential investors.

Mexico: Demonstration of Hydrogen Fuel Cell Buses and an Associated System for Hydrogen Supply in Mexico City, Phase 1 (UNDP) \$5.417m

Comments from France:

The proposed financial arrangements and the explanation of this technology's impact on the greenhouse gas effect are not convincing and confirm that the problem of the sustainability of these projects remains unsolved (they are entirely likely to come to an abrupt halt once the GEF subsidy runs out). Independent evaluations should be performed in order to assess the real impact of the GEF on these technological developments.

Comments from Germany:

Germany has general objections to fuel cell projects and has stated those objections clearly in the process leading up to the approval of the fuel cell programme.

4. In the context of the Mexico and in particular the Egypt project, we are not satisfied with the low level of private sector co-financing. There should be a minimum requirement for private sector co-financing of 20% of total project costs for all fuel cell projects. In both projects, we strongly request further efforts to fulfill this target.
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Germany is not prepared to agree to further fuel cell bus projects if there is not a private sector participation in total project costs of at least 20% in future fuel cell projects.

Comments from Sweden:

We welcome the operationalization of the fuel cell bus strategy and look forward to its further development on the basis of lessons learned from the first two projects.

Senegal: Energy Sector Investment Project (WB/IDA) \$5.00m

Comments from France:

The French Development Agency (AFD) is examining the possibility of a project that would be launched with support from the FFEM (French Global Environment Facility). World Bank and AFD competitive bidding will be coordinated.

Comments from Germany:

Although the project description appears sound and well-founded, some important recent developments in the Senegalese energy sector have not been taken into account or analysed: The rupture between the state and the strategic private partner of SENELEC that finally led to the re-nationalisation of the energy provider in September 2000 will have an important impact and represents a major challenge for the further implementation of the ESAP. As SENELEC's participation is also anticipated for the grid extension in rural areas, the future of the company will also be an important criterion for the success of the proposed activities targeting an increased rural electricity coverage.

Furthermore, we would like to state that German Financial Cooperation has always rejected financing proposals for rural electrification projects in Senegal because it has been judged extremely difficult to fulfil the criteria applicable to all energy projects financed through funds of German Financial Cooperation. Especially the objectives of cost-coverage and profitability as well as the stipulation that at least 60 % of additional energy-supply realised by a project should be used for productive means are extremely difficult to realise in the rural context. Experiences made within a former GTZ-supported project showed that renewable energy solutions for the electrification of villages in rural areas in particular lack individual profitability and that tariffs are far from covering the related investment costs. The appraisal document of the GEF does not provide a transparent picture of these aspects.

In any case should the above mentioned points (unsuccessful privatisation of SENELEC, financial rate of return and productivity criteria for rural electrification) be taken into consideration for further planning and during project implementation.

Comments from Switzerland:

General Commentaries

The proposed Project comprises four components: (i) to support setting up a national agency for rural electrification (ASER) operating mainly in villages unconnected to the grid (ii) to support the establishment and financing of an autonomous Rural

Electrification Financing Mechanism (REFM), (ii) finance TA and equipment for the regulatory agencies and (iv) finance grid extension to rural areas through the national electricity agency SENELEC. GEF financing is involved in components /i) and (ii) only with project cost of 45 million out of the total cost of 120 million USD. These two components shall pave the road for private sector buy-in to grid marketing of PV solar household systems (SHS). These objectives are fully supported. 4 out of the 5 million GEF financing would be earmarked for concessional financing of 20'000 small and medium sized systems (?) of totally 350kW capacity. The total abatement of 74'000 t CO₂ leads to relatively high abatement costs of 54 USD/t CO₂. The main driving forces in this project are the development objectives of rural electrification and barrier removal to develop PV markets in a sustainable manner rather than GHG abatement. From the narrow viewpoint of cost-effective GHG abatement the project is rather costly.

Main Concerns

There are two main concerns:

- (1) The first relates to the sustainability of project financing and is also addressed by the STAP review and not adequately addressed in the Bank's reply. We understand that the STAP reviewer, based on experiences with concession-based approaches in other countries, expresses reservations with the proposed financing approach. This concession-based approach covers supposedly the incremental first cost of the PV system by a grant to make it price competitive with present cost of kerosene lamps. Switzerland shares the STAP reservations. Using subsidies involves a risk of not being sustainable at project end after 5 years. The project brief states that subsidies for rural electrification will remain an element of Government of Senegal's policy - an answer not fully convincing as the anticipated price reductions in PV systems in 5 years' time do not reach the level of the subsidy used over this 5 year time period. The anticipated co-financing level of 20 million USD appears impressive. To ensure true private sector financing of the REFM, however, a larger percentage share from the private sector is recommended.
- (2) The second concern refers to the co-financing figure of 115 million. As components (iii) and (iv) are related to rural electrification and grid extension and do not have a renewable energy component the true level of co-financing (components i and ii) is 40 million, not 115 million. The project brief provides a distorted picture and serves as another case in point that GEF is in need of more definitional clarity and consistent application of co-financing categories. If not, the statistically available figures on co-financing will become increasingly muddled and unreliable, with unforeseeable consequences in the future, should someone ever attempt any rigorous analysis of this topic.

Conclusions and Recommendations

It is strongly recommended to show the correct level of co-financing in the final document, to undertake an additional effort to secure a higher share of private sector co-financing in the REFM and to monitor the sustainability of the undertaking carefully

Ukraine: Removing Barriers to Greenhouse Gas Emissions Mitigation through Energy Efficiency in the District Heating System, Phase I (UNDP) \$2.03m

Comments from France:

The subject is actually a priority in the Ukraine and has already led to many instances of European bilateral cooperation in particular. It would be worthwhile to put together an explicit assessment of the impact of these different projects. Considering the fact they have already been carried out, the cost of the first phase (set-up) of this project seems high (US\$1.8 million). It is proposed to bring many banks together to finance the investment required for Phase 2, which complicates the financial package unduly.

An evaluation (results, tools introduced, procedures, etc.) of ESCO projects supported by the GEF through the World Bank or UNDP would be a valuable means of disseminating awareness of the experience acquired in these earlier projects, for both the GEF in connection with future projects and for the countries involved in these processes.

Comments from Switzerland:

General Commentaries

This project promotes demand-side energy-efficiency improvements in the district heating system for one pilot city in Ukraine. The proposed GEF involvement is designed to complement a mainly private investor financed project to set up an ESCO (Energy Saving Company) in the city of Rivne. While for setting up the ESCO (phase 1) GEF is the main financing agency (GEF contribution 640'000 USD out of total cost of 740'000 USD) the lead changes in the investment programme under phase 2 where private investors, the local and national government, the EBRD and foreign banks provide a major co-financing of 20 million USD (GEF grant contribution 4 million).

Ukraine is an economy in transition with among the world-wide greatest emission levels per unit of GDP. The project has the potential to increase building energy efficiency at district heat supplier and end user level. The project takes into consideration experiences gained with the establishment of state owned UkrEsco under a 30 million EBRD loan in 1998. The proposed project is putting high emphasis on private finance equity participation and shall establish a model for public and private energy service providers within the Ukraine. Output expected from the project is (i) to make energy-efficiency investments in the district heating system and in residential buildings connected to the system; (ii) to strengthen the regulatory and institutional frameworks and a municipal program that create greater incentives for energy efficiency; and (iii) to invest about USD 24m in the district heating network and buildings.

Main Concerns

- (1) Neither the cover note of the work programme nor the project brief provide any reasoning why only phase 1 (GEF contribution of USD 2.030 million, total cost of USD 2.130 m as project brief, USD 3.03 m as per cover note) is proposed for approval now, and whether the document would be modified (in what respect?) for a later council approval of phase 2. Further, the project brief does not provide a clear picture of the cost breakdown claimed for phase 1: Annex 2 of the project brief displays the GEF contribution to setting up the ESCO of 740'000 USD compared to totally claimed phase 1 cost to GEF of 2.030 m USD. Does it make sense to set up the ESCO without also approving the investment programme foreseen under phase 2?
- (2) Based on Swiss experience in working with the local implementing agency ARENA Eco in promoting energy efficiency measures in residential buildings, the risks outlined by the STAP reviews relating to the incentive structure on the side of the local heat supply company to comply with the objectives of energy efficiency pursued by this project merit close monitoring from the side of the implementing agencies and the project team. Though ESCO experiences are available in the Ukraine, systematic monitoring of risks needs to be strengthened along with the capacity building efforts under this project.

Conclusions and Recommendations

The project is recommended for approval upon receipt of a plausible and transparent explanation why only phase 1 should be approved at this stage and for what purpose phase 1 GEF funds shall be spent. At the time of drafting these comments we are still awaiting the clarifications UNDP has promised. While confident that the necessary explanations will be provided by the IA, we would recommend that GEFSEC monitor this issue, also with a view to providing some explanations to other Council Members, if necessary, and to avoid bad precedent. Our additional comments, if considered valid by GEF, IA and the Government of Ukraine, should be considered in the further development of this promising project.

B. International Waters

Regional Baltic Sea Project, Phase I APL (WB) \$5.850 m**

Comments from France:

No objection to the content or objectives of this project. We applaud the phasing of the program, although the rate at which it is planned to implement the various phases would seem difficult to maintain.

Comments from Germany:

Germany wholeheartedly approves of this project.

Recommendation: Proceed with the implementation as soon as feasible.

Comments from Sweden:

We support the inclusion of the Baltic Sea Regional Project in the Work Programme. We hope that it can be launched without further delays.

Ramon Prudencio C. de Mesa
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** Estonia, Latvia, Lithuania, Russian Federation