Global Environment Facility

Study of GEF's Overall Performance

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FOREWORD

At its October 1996 meeting, the GEF Council asked the GEF Senior Monitoring and Evaluation Coordinator to undertake a study of GEF's overall performance. This is the first study of the restructured GEF's overall accomplishments. An independent evaluation of GEF's Pilot Phase was organized by the Implementing Agencies' evaluation departments and completed in 1993.

The main audience for the study, in addition to the GEF Council, consists of the participants at the GEF Assembly on April 1-3, 1998 in New Delhi. Other audiences are various cooperating partners at the country level, the secretariats of the conventions for biodiversity and climate change, implementing and executing agencies, nongovernmental organizations (NGOs), and private enterprises.

The terms of reference for the study was prepared by the GEF Senior Monitoring and Evaluation Coordinator after consultation with Implementing Agency officials, GEF Council members, the secretariats of the conventions for climate change and biological diversity, non-governmental organizations and others in April and May 1997. The terms of reference constitutes Annex 1.

The Senior Monitoring and Evaluation Coordinator recruited the core study team, composed of Gareth Porter (team leader), Raymond Clémençon, Waafas Ofosu-Amaah, Michael Philips, and Gerardo Budowski. In addition, another five international and sixteen national consultants were recruited. Their names are listed on the preceding pages. All team members were selected on the basis of their high competence in requisite fields and their independence relative to GEF and its projects.

The Senior Monitoring and Evaluation Coordinator also appointed the Senior Advisory Panel for the study. This consists of experienced and knowledgeable persons from four developing and four industrial countries. The members are M. S. Swaminathan, India (chairman); Maria Tereza Jorge Padua, Brazil; Brice Lalonde, France; Hisham Khatib, Jordan; Wakako Hironaka, Japan; Rudolf Dolzer, Germany; Edward Ayensu, Ghana; and Richard Bissell, United States. The principal objectives of the panel, as laid down in the TOR, are to provide strategic guidance on the approach and implementation of the study and added assurance that it is complete in coverage and a fully independent review of the accomplishments of GEF in the areas to be examined. The panel met on June 27 and October 27-29 in 1997 and on January 17, 1998. The panel's statement on the report is appended as Annex 2.

The team members collected data for the period May(December 1997. Documents were collected from a wide variety of sources, and meetings were held with all GEF entities, the convention secretariats, and other international organizations. The study is particularly built on data collected by the core team members in ten countries: Brazil, China, Egypt, India, Indonesia, Kenya, Mexico, Poland, Russia, and Zimbabwe. Additional material was collected through smaller studies by local consultants in Argentina, Costa Rica, Côte d'Ivoire, Jordan, Philippines, and Viet Nam.

Interviews were held in the sixteen countries with council members, GEF Focal Points and other relevant government departments, implementing and executing agencies, NGOs, research institutions, and private enterprises as well as project personnel and stakeholders. Annex 3 lists the institutions and project visited. The countries and projects studied represent a wide variety of efforts, country contexts, and policies, although they may not be representative of all the 155 participating countries in GEF and all the variables that surround GEF-assisted projects. Although desirable, that was not feasible.

The first draft study was sent to the GEF Secretariat, Implementing Agencies, and the Scientific and Technical Advisory Panel (STAP) for comments on December 2, 1997. Their comments were received around December 10, and the team made such amendments on this basis as it deemed required, especially concerning factual errors, misunderstandings, and the like.

The second draft was dispatched to the GEF Council, convention secretariats, the sixteen countries, GEF entities, Implementing Agencies, Senior Advisory Panel, and the GEF-NGO Network on December 19 for comments. On the basis of the comments received, some amendments were made and the report was finalized on February 5.

I am truly grateful to all those who participated and contributed to the study, especially in the sixteen countries. Athough a large number of consultants and informants provided the information on which the study is based, the views expressed in this final document are those of the authors, who are listed above. These views do not necessarily represent the views of all team members, nor GEF. The description of GEF in Chapter I. Introduction, was provided by the Senior Monitoring and Evaluation Coordinator. It is the judgment of the Senior Advisory Panel that the study represents an honest and independent assessment of GEF. It is my hope that the report will contribute to improving future endeavors to protect the global environment.

Jarle Harstad
Senior Monitoring and Evaluation Coordinator

Preface

In the short time that GEF has had to develop since its 1994 restructuring, it has only recently begun to create a portfolio of projects that reflect its new management structure, programming strategy and project cycle procedures. It is thus too early to attempt to gauge the success of the GEF in accomplishing its objectives. Therefore the study is not aimed at evaluating the performance of the GEF in terms of its impact on the global environment in the four focal areas.

Instead, this study is explicitly directed at a set of issues related to the performance of GEF in terms of institutions, procedures and policies. Since the restructuring, a number of concerns regarding the GEF's identity, internal organization and project development procedures have been addressed. Thus, the study team identified indicators of performance in different areas of activity—from the effectiveness of the GEF Focal Point system in recipient countries to the effectiveness of the institutional structure to the degree of mainstreaming of the global environment in the regular operations of the three Implementing Agencies.

The issues analyzed by the study team for the report were specified by the Terms of Reference (TOR) for the study (Appendix 1). The TOR included a large number of issues related to GEF's overall performance. Unfortunately, the team was unable to address every issue in the TOR due to the time constraints, unavailability of reliable quantitative data and the inherent limitations of relatively brief country visits. Specifically, the team has not addressed the adequacy of procedures for drawing and applying lessons from project experience, the efficiency of GEF in disbursing resources after project approval, or the extent to which GEF has been able to clearly identify and measure global benefits expected from its projects. The team has made an effort to be explicit about the limitations of data wherever appropriate.

In most issues analyzed by the study team, the distinction between the Pilot Phase experience (1991–94) and that of GEF 1 (since the end of 1994) is of critical importance. One way of gauging GEF's overall performance is by comparing the situation at the end of GEF 1 with that which prevailed during the Pilot Phase. The team has made that comparison explicitly where relevant. For some issues, however, such as the impact of GEF on country policies, the distinction between Pilot Phase projects and GEF 1 projects may not be significant, and so it has not been highlighted.

The team has made a number of recommendations for consideration by the GEF throughout the text. Of these recommendations, it has identified seven which it regards as being of highest priority. These priority recommendations are highlighted in the Executive Summary of the report.

The team has summed up its overall evaluation of the GEF's performance in the Conclusions to this report (Section VIII). In that section, we have been careful to make judgments only upon reflection on the aggregated findings from each subsection of the report.

Gareth Porter, Team Leader
Raymond Clémençon
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Michael Philips

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Acronyms and Initials

CAS	Country Assistance Strategy
CBD	Convention on Biological Diversity
CEO	Chief Executive Officer
COP	Conferences of the Parties
CCF	Country Cooperation Framework (of UNDP)
DAC	Development Assistance Committee
EA	Enabling Activity
FCCC	Framework Convention on Climate Change
GEFOP	GEF Operations Committee
IFC	International Finance Corporation
MOEF	Ministry of Environment and Forests
NGO	Non-Governmental Organization
OECD	Organisation for Economic Cooperation and Development
ODA	Official Development Assistance
OP	Operational Program
PDF	Project Preparation and Development Facility
PIR	Project Implementation Review
PV	Photovoltaic
QOR	Quarterly Operational Report
SAP	Strategic Action Program
SGP	Small Grants Programme (of UNDP)
STAP	Scientific and Technical Advisory Panel
TDA	Transboundary Diagnostic Analysis
TOR	Terms of Reference
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

Executive Summary

I. Introduction

This report presents the findings and recommendations of the Study of the Overall Performance of the Global Environment Facility, which was requested by the GEF Council at its October 1996 meeting. The study focused on a set of issues related to institutions, procedures, policies and programming of the GEF. The study team proposed a number of recommendations for consideration by the GEF, including seven priority recommendations which are highlighted in this executive summary.

II. Provision of Resources for the Global Environment

The study team analyzed issues related to the provision of resources for the global environment both directly through funding of the GEF itself and indirectly through leveraging of financing by other agencies.

New and additional resources: The study team found that the concept of "new and additional resources" has not been defined by the international bodies that have agreed on it as a principle. Therefore, it could not establish whether or not GEF resources are truly new and additional. It also found that a possible indicator of additionality is whether the GEF is treated as distinct from general development cooperation in national budgetary processes, and that in some countries this distinction has not been maintained.

Recommendations: *The GEF Council should address the need for a clear definition of "new and additional" financing for the GEF, including the indicators that should be used in determining additionality.*

Donor countries should consider separating budget lines for global environmental measures in developing countries and for contributions to GEF from budget lines for development cooperation.

Comparison of GEF with other sources: The study team could not determine the significance of the GEF's funding for biodiversity and climate relative to other funding, because reliable and comparable data were unavailable. However, it found the GEF to be the largest funder in the international waters focal area. The team also found that some agencies have significantly increased their funding in biodiversity and climate from previously low levels. However, it found GEF's role in funding activities that benefit the global environment to be distinct in several ways in terms of its programming and institutional strengths.

Recommendations: *GEF should regularly review and compare its own portfolio and project pipeline with those of other institutions to ensure that it is either providing significant additional resources or demonstrating a comparative advantage over other institutions involved in funding the same activities. In this regard, particular attention should be paid to GEF support for solar photovoltaics, energy-efficient lighting, and biodiversity trust funds.*

GEF should work with the OECD and other appropriate international institutions to ensure that reliable, comparable data on financing measures to protect the global environment, including data on different types of projects, is compiled and made available to the public.

Leveraging of additional resources: The study team found that GEF grants have leveraged additional funding for global environmental benefits from both Implementing Agencies and other funding sources. On balance, the team found that the GEF has been more successful in mobilizing cofinancing during GEF 1 than in the Pilot Phase. However, based on its study of a sample of 18 projects, the team believes that the actual level of leveraging, strictly defined, has been significantly smaller than the total level of cofinancing reported. The team found that a high proportion of World Bank loans that cofinance GEF projects for climate and biodiversity have genuinely leveraged additional financing during GEF 1. However, in some instances such associated loans have brought disadvantages, such as project delays. The team concluded that there is a danger in giving too much emphasis to leveraging as a measure of the GEF's success, and that it should be considered alongside a number of other relevant indicators, such as GEF's impacts on policies and programs and the replicability of GEF projects.

The study team was unable to conduct a systematic analysis of the likelihood that GEF projects will be replicated.

Recommendations: *The GEF should adopt a rigorous definition of "leveraging" that includes only funding that is additional to existing funding patterns and that is expected to create global environmental benefits. It should apply this definition in the Quarterly Operational Report and other relevant GEF documents. Implementing Agencies should apply this more rigorous definition in their own databases and reports on cofinancing of GEF projects.*

When there is sufficient experience with implementation of GEF projects, the GEF's Senior Monitoring and Evaluation Coordinator should commission a study of the replicability of projects in the GEF portfolio.

Leveraging resources from the private sector: The study team found that the GEF has been able to mobilize a small but growing level of private sector financing of GEF projects, but comparatively little by mainstream private financial institutions. Major barriers to increasing support from the financial sector exist, particularly the GEF's long and complex approval procedures and the greater risk of global environmental projects compared with normal commercial projects. However, the team notes that GEF assistance can be provided in a way that reduces risks to private firms and financial intermediaries and does not subsidize private profit.

Priority Recommendation: Private Sector

The GEF Secretariat and Implementing Agencies should engage business and banking associations and mobilize financing from individual private financial sector companies, such as banks, insurance companies and pension funds. To interest the financial sector in GEF projects, the GEF should use the "incremental risk" of a potential private sector GEF project as a way of determining the size of the GEF grant.

GEF should identify and apply techniques for reducing the risk of the private investors of participating in GEF projects, such as using GEF funds to provide loan guarantees.

III. Issues at the Country Level

The Focal Point system in recipient countries: The study team found that the Focal Point system is not yet adequately institutionalized in some recipient countries. Most have not set up formal coordinating mechanisms for interacting with relevant government offices and other country stakeholders. Some Operational Focal Points are not clear on their roles. Others have not been able to fully carry out their coordinating functions because of institutional weaknesses such as the inability of environment ministries to get more powerful ministries to cooperate with them. In some cases, Focal Points have tended to limit information to a relatively narrow circle of government stakeholders.

**Priority Recommendation:
The Focal Point System**

In order to enable Operational Focal Points to be more effective advocates for GEF issues in their country, the GEF Secretariat and Implementing Agencies should broaden the existing Project Development Workshop format by involving the Operational Focal Points as much as possible in planning and execution and by focusing more on the coordination and information dissemination functions of the Operational Focal Points.

The GEF should provide resources for translation of basic GEF documents into the local language of those countries requiring such translated documents.

The requirement for projects to be country-driven: The study team found that the degree to which a project is "country-driven" is related primarily to the degree of country involvement in project design and development. In most cases projects were either originated in part by the recipient country or the country played an active role in helping to develop it. This helped ensure their ownership of the project. The study team found some cases in which the "country drivenness" of a project was slight but in which country ownership was ensured by the fact that the country valued the project outcomes. The team found other cases, primarily global projects, in which neither the involvement of the government nor its interest in project outcomes was sufficient to generate country ownership. The team also found that the use of foreign consultants, although necessary in many instances, has been criticized by recipient countries and tends to reduce local involvement necessary for projects to be country driven and for recipient country ownership.

Recommendation: *The GEF Council should adopt a policy, paralleling that for stakeholder participation, aimed at promoting the greater use of local and regional consultants in projects; encouraging an appropriate mix of local and foreign experts in GEF projects; and securing greater recipient government participation in the screening, short-listing and selection of project consultants.*

Contribution of GEF to awareness of global environment: The study team found that awareness and understanding of the GEF and global environment issues was very low outside the relatively small circle of officials involved with GEF projects, and that NGOs and the private sector generally know little or nothing about the GEF. However, the team did find from its country studies that, in some cases, the GEF has made contributions to awareness of global environmental problems among strategically important constituencies.

Priority Recommendation: Communications and Outreach

The GEF Council should authorize and adequately fund the development of a GEF outreach and communications strategy that targets GEF's multiple constituencies, including the Focal Points and relevant government agencies, NGOs and civil society, the media and the private sector. The strategy should rely on simple, user-friendly materials about the GEF and its operations, and should include provision of basic GEF documents in local languages. This strategy should be coordinated with the broadening of the Project Development Workshops.

Stakeholder participation in GEF projects: The study team found that the issuance of GEF guidelines calling for stakeholder participation has been one of the significant accomplishments of GEF 1. As a result, GEF 1 project designs have included detailed and comprehensive plans for public participation and consultation with multiple stakeholder groups, especially in the biodiversity focal area. Most of the projects are in the early stages of implementation, but the study team found that some projects are already including local stakeholders in key project activities. Projects involving trust funds in particular have provided innovative opportunities for different stakeholders to participate in the same project at policy and operational levels. In some cases, however, the team found that local communities had not been provided with feedback on the results of consultations.

Recommendation: *The GEF Secretariat should work with implementing Agencies to develop quantitative and qualitative indicators of successful stakeholder involvement at different stages of the GEF project cycle, and to document best practices of stakeholder participation by focal area.*

Impacts on country programs and policies: Based on its analysis of projects in the ten countries visited by the team and six other country reports by local consultants, the study team found that in some cases, GEF projects have had significant impacts on country policies and programs that go beyond the immediate objectives of the project. These impacts include establishing new mechanisms for intragovernment coordination and regional or subregional collaboration on issues of global environmental importance, increasing investment in, or priority placed on, a particular technology or method for addressing a global environmental problem, persuading the government to accept a greater degree of stakeholder involvement in projects for the global environment, and contributing to the development of a strategy or action plan. Given the relatively small size of GEF projects, the team found that these changes represent a positive achievement.

Handling of policies and activities that could undermine project success: In a number of instances, either government sectoral or macroeconomic policies or private sector economic activities could undermine the success of GEF projects. The team analyzed a sample of seven projects in which risks to project success were posed by such policies or activities. The team found that Implementing Agencies usually identified and raised such policy issues and activities with recipient countries, but in most cases, the identification was either too general or incomplete, and assurances from the government regarding the policy or activities in question were either not forthcoming or were not specific enough. In four of the six cases, the Implementing Agency took steps that brought about some reduction of the risk. In the two others the outcome is still unclear. In one case, the chances of project success were clearly undermined by a failure to take any follow-up action.

Recommendations: *The GEF project submission format's description of project risks should call for identification of specific policies and sectoral economic activities that could negatively affect project success, as well as the steps that need to be taken to reduce the risks to project success from those policies and activities.*

The GEF should adopt a policy requiring that Implementing Agencies must obtain clear, formal commitments from recipient country governments regarding policies and sectoral activities identified as increasing the risk of project failure before proceeding with project implementation.

Financial sustainability of GEF projects: On the basis of an examination of the proposals for seventeen projects in the countries it visited, the study team found that serious financial planning for continuation of project activities after completion of GEF funding appears in less than half of the proposals. The study team found that the sustainability of activities beyond GEF funding of the project depends in part on the project type. In near-commercial projects, sustainability depends largely on their replicability by government or private investors, whereas noncommercial biodiversity projects must be either self-financing through trust funds or obtain additional grant financing from donors or the government itself. The experience of the Pilot Phase indicates that biodiversity projects are more likely to have serious problems of financial sustainability than climate projects.

Recommendations: *The GEF Secretariat and Implementing Agencies should require that project proposals contain a more thorough assessment of options for achieving financial sustainability.*

The GEF Secretariat and Implementing Agencies should encourage the broader use of biodiversity trust funds to help ensure the funding of biodiversity projects in perpetuity. The Implementing Agencies should continue to seek a high rate of leveraging of other sources of trust fund capital.

The Implementing Agencies should provide for longer project implementation periods—for example, five to seven years instead of three of five years—in cases in which project sponsors can show that extra time will be necessary to implement the project and demonstrate its viability for future funders.

IV. Institutional Issues

Mainstreaming of the global environment by the Implementing Agencies: The study team developed a separate set of criteria for evaluating the mainstreaming of the global environment in each of the three Implementing Agencies. The study team found that the World Bank has mainstreamed with regard to cofinancing of GEF projects. However, it found that the Bank has not done as much in its regular portfolio of projects in the biodiversity and climate focal areas as it might have; that it has not taken steps to create the staff incentives necessary to put global environmental concerns on a par with traditional bank business; that it has not systematically integrated global environmental objectives into economic and sector work or into the Country Assistance Strategies (CAS) process, and that it has not adequately addressed the impact on the global environment of its financing of fossil fuel power development. Finally, the team found that the Bank has not yet undertaken programming based on global environmental objectives on any significant scale, although it appears to be poised to take an important step in that regard, by entering into a "Strategic Renewable Energy Partnership" with the GEF.

The study team found that UNDP has increased its cofinancing of GEF projects compared with a very low level in the Pilot Phase. The trend since 1995 has been upward, although the team noted a significant proportion of this cofinancing is government funding that would have been spent in any case. The team found that UNDP has put in place a set of positive incentives for work on GEF projects, although they do not appear to apply to the Latin American region. It found that UNDP does not track projects or components related to biodiversity conservation in its regular portfolio, and allowed renewable energy projects to drop significantly in the 1994-97 period compared with the pre-GEF period. The latter trend was attributable primarily to UNDP's five year project cycle for 1992-96, which began in the early Pilot Phase of GEF, and UNDP has now taken steps aimed at reversing that trend in renewable energy in its regular portfolio. However, UNDP has not given similar emphasis to biodiversity. The team found that UNDP's lack of clarity about associated projects and its failure to mainstream the GEF systematically in preparing its Country Cooperation Frameworks (CCFs) during GEF 1 indicates institutional obstacles to mainstreaming.

The study team assumes that UNEP has mainstreamed the global environment in terms of giving adequate attention to the four focal areas in its core activities, but found that UNEP has not provided any staff incentives for work on GEF projects. It also found that UNEP has shown some improvement in submitting project proposals that are consistent with the principle of additionality to core program activities, but that further progress is needed in this regard.

Cooperation between GEF and the conventions: The study team found that the GEF has strictly implemented the guidance of the conventions with due regard for the GEF's own mandate and funding limitations and in a reasonably timely fashion. The team found that guidance provided by the COP of the CBD has been overly broad and would be more useful if it focused on prioritization among ecosystems or ecosystem types. The team also found that the GEF

Priority Recommendation: Mainstreaming by the Implementing Agencies

The World Bank *should adopt public, measurable goals for the integration of global environmental objectives into its regular operations, including goals related to: 1) staff incentives, 2) funding level and/or number of GEF associated projects, 3) funding level and/or number of projects for the global environment in its regular lending portfolio, and 4) integration into its sector work and the Country Assistance Strategy (CAS) process. It should report regularly to GEF and to the public on its progress in achieving these objectives.*

The World Bank should begin a transition from its role in financing conventional power loans to a new role in financing sustainable energy technologies.

The World Bank should allocate increased financial resources to the Global Overlays program in order to ensure adequate staffing for a substantially higher level of integration of global environment into sector work and the CAS process.

The IFC should maintain a database of its projects with global environmental benefits, so that its mainstreaming of global environment can be assessed in the future.

UNDP *should establish a system of tracking projects and components that are relevant to the GEF focal areas and set public, measurable targets related to: 1) funding levels and/or number of core-funded projects for biodiversity conservation, alternative energy and international waters, 2) funding level and/or number of GEF-associated projects, and 3) the Country Cooperation Frameworks (CCFs). It should report regularly to GEF and to the public on its progress in achieving those targets. It should also consider making linkages between potential GEF projects and potential core budget projects an explicit objective of the process of preparing the Country Cooperation Frameworks.*

UNEP *should devise a system of staff incentives, involving at least a revision of staff evaluation criteria, to give adequate consideration to GEF work.*

The GEF Secretariat and UNEP should devote more staff time and resources to upstream consultation not only in Washington but in Nairobi to ensure that all relevant UNEP program staff have adequate guidance in formulating GEF proposals.

made a major adjustment in approval procedures for enabling activities (EA), which resulted in a significant acceleration of approvals in 1996-97. The team also found that the EA program does not appear to have been as effective in achieving its objectives regarding national communications and reports to the conventions as had been anticipated.

Recommendations: *The GEF should play a more proactive role in its relations with the conventions and should, in consultation with Implementing Agencies, prepare more detailed requests for guidance on those issues on which guidance would be most helpful.*

The GEF Secretariat, the Implementing Agencies, and the convention secretariats should undertake a comprehensive review of enabling activities before the end of 1998 to determine how successful the projects have been, analyze the reasons for those that have failed, and consider policy and programmatic responses to the problem.

The Implementing Agency "monopoly" issue: Although the original understanding among the three Implementing Agencies was that each would have a distinct role in the GEF based on its comparative advantage, the study team found that the roles assigned to the World Bank and UNDP have become blurred during GEF 1. The team found that increasing the number of organizations which can propose projects directly to the GEF Secretariat could result in an increase in the number and types of viable GEF projects, and that increased competition among Implementing Agencies could help to reduce the transaction costs of such a move. Although there could be some disadvantages to such a change, these disadvantages would have to be weighed against the advantages.

Priority Recommendation: Implementing Agency Monopoly

The GEF Council should undertake a study of the advantages and disadvantages of various approaches to permitting additional organizations to propose GEF projects directly to the Secretariat and assume direct responsibility for GEF projects.

Work Program roles and responsibilities: The team found that agreement has been reached within the GEF on the issue of the roles and responsibilities of the Implementing Agencies and of the GEF Secretariat in reviewing projects for the work program, but that some issues could continue to be contentious in the future. Both Implementing Agencies and the Secretariat agree that the Secretariat has the responsibility to examine each proposal for incremental costs, eligibility and consistency with the Operational Strategy and long-term portfolio development. They both also agree that the Secretariat's review of project proposals has often been overly detailed and focused on nonstrategic issues. The Implementing Agencies believe that the Secretariat has used its review of incremental costs to exceed its legitimate role. The team found, however, that the Secretariat's review of incremental costs does on occasion require the assessment of issues that would otherwise be considered the proper sphere of the Implementing Agencies.

Mechanisms for coordination: The study team found that the mechanisms for coordination that have evolved in GEF 1 have generally succeeded in raising the level of collaboration among Implementing Agencies. Joint pipeline reviews have reduced duplication and competition in projects. Focal area task forces have already produced useful programming discussions in international waters, although the others have only just begun to be used for such discussions.

The role of STAP: The study team found that STAP has played a useful role in helping to define the Operational Strategy and Programs, and its roster of experts was found to have been valuable to Implementing Agencies in internal review of projects. However, the team found that STAP was less successful in its selective review of projects. Its project review for the Secretariat-Implementing Agency consultations prior to entry into the work program has now been discontinued.

Recommendation: *The Council should provide a new, more sharply focused mandate for the STAP in light of the change in the GEF's needs and the experience of STAP during GEF 1.*

V. GEF Project Cycle Procedures

Implementing Agencies' project cycles: Recipient countries complained to the study team about delays in the GEF project cycle, citing Implementing Agency and GEF procedures, and disagreements between government and the agencies as causes. The study team found that both the World Bank and UNDP have made some progress in shortening their phases of the project cycle — UNDP by combining the preparation of project briefs and project documents and the World Bank by moving its submission of project briefs upstream. The longest stage of the project cycle, however, involves project preparation by the recipient government and the Implementing Agencies. The team found that the benefit of shortening the World Bank's project cycle by allowing a range of incremental cost estimates at the concept stage outweighs the benefit of requiring a single incremental cost estimate at the project concept stage.

Recommendation: *In order to encourage continued adherence by the World Bank to its streamlined project cycle, the GEF Secretariat should allow the Implementing Agencies to submit a range of estimates when a project is first submitted, on the understanding that a firm estimate will be submitted for final approval.*

Incremental cost requirement: The study team found that the present process of determining incremental costs has excluded the participation of recipient country officials in most cases, because of the lack of understanding of the concept and methodologies. Although the new streamlined incremental cost procedures are an improvement over the original, the study team doubts that they will be sufficient to persuade the majority of recipient country officials that they can and should be involved in the process unless the GEF undertakes further efforts to engage them.

> **Priority Recommendation:**
> **Incremental Costs**
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> *A working group representing the GEF Secretariat and the Implementing Agencies should, in consultation with the convention secretariats, develop simpler, more straightforward guidance and communication for recipient country officials on the calculation of incremental costs and a strategy for increasing their involvement in the process of estimating those costs.*

GEF Council review of projects: The study team found that, although the GEF Council's second review of project proposals may have been justified in the early phase of the GEF because of the lack of experience with Implementing Agencies, it has now become routine that the GEF Secretariat checks on consistency of final project proposals with earlier Council comments. Both the Implementing Agencies and the Secretariat support the delegation of the function to the Secretariat, and such delegation would have significant savings in time and other costs to the GEF.

> **Priority Recommendation:**
> **GEF Council Review**
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> *The GEF Council should seriously consider delegating the second review of project proposals to the GEF Secretariat.*

VI. Programming Issues

Overall programming issues: The team found that the allocation of resources among the four focal areas has caused a shortfall within the International Waters focal area that is likely to be exacerbated in the future. It further found that the GEF has effectively balanced capacity building and investment activities in the GEF portfolio by combining both types of activities in the same project.

Programming issues in the focal areas: In the **Biodiversity** focal area, the issue of prioritization is subject to significant political constraints, and there are practical limitations to applying a programming strategy that is based on a scientific set of criteria. However, the team found that the GEF had not been able to focus on ecosystems of greatest global importance to the extent that would be desirable. It further found that the GEF has not yet resolved some of the conceptual and practical difficulties associated with projects for sustainable use of biodiversity, and that the dearth of published information on successful experiences in such projects is a major problem. In the **Climate** focal area, the team found that the present emphasis on barrier removal is appropriate, but that more emphasis may be needed in the future on combining near-commercial barrier-removal projects, and longer term buy-down projects. This may require a rethinking of the present delineation of Operational Programs. In the **International Waters** focal area, the team found that the approach to programming established a solid basis for international collaboration. The approach to programming in the International Waters focal area has redirected GEF funding toward challenges that should have high priority and establishes solid bases for international collaboration and national policymaking on cross-sectoral issues. The team also concluded that further initiative is needed in the contaminant-based Operational Program on encouraging the development of project proposals relating to reducing developing countries' dependence on persistent organic pollutants.

Recommendations: *The GEF Council should authorize the GEF Secretariat and Implementing Agencies, in consultation with the Secretariat of the CBD, to undertake a formal exercise to identify the ecosystems and ecosystem types within each Operational Program in biodiversity that should be the highest priorities for GEF in terms of a set of agreed criteria, including those specified in the Operational Strategy.*

The GEF Secretariat should compile information on successful projects in sustainable use from NGOs and other bilateral and multilateral agencies worldwide, and disseminate them to Implementing Agencies and recipient country Focal Points.

The application of incremental costs as a programming tool: The study team found that the operationalization of the incremental cost concept as a programming tool has advanced markedly since 1995, based on the degree of transparency and detail in discussions of incremental costs in project documents. Although cases of inflation of incremental cost estimates may have occurred, the team found no evidence of a systematic tendency toward inflation of incremental cost estimates. The team believes that greater confidence can be placed in the final incremental cost estimates for climate and ozone projects than for biodiversity and international waters projects, because there is no single, commonly understood and widely used methodology for calculating the incremental costs in the latter focal areas.

VII. Follow up to the Pilot Phase Evaluation

The study team found that the GEF Secretariat and Council have taken action on most of the recommendations of the Pilot Phase evaluation. They have prepared GEF's Operational Strategy and Programs, and other documents defining more clearly the project cycle, incremental cost calculations and many other topics. They have served to articulate the GEF mission and strategy, focus GEF investments, and improve the management of GEF operations. Some recommendations, however, have not been adopted or have been adopted only partially. The participants in the restructuring of GEF decided not to follow the recommendation to broaden the range of Implementing Agencies beyond the existing three. And contrary to the recommendation by the Pilot Phase evaluation, the GEF Council decided to continue programming resources while the Operational Strategy was being drafted. With regard to the recommendation on establishing a permanent monitoring and evaluation mechanism, a Council-approved monitoring and evaluation plan is in the process of being implemented, based on shared responsibility between the GEF Secretariat and the Implementing Agencies. The plan provides for both internal project monitoring and external independent project evaluations. When more of its components, such as systematic inclusion of performance indicators, are in place, assessments of overall project performance can be made on a more objective basis.

VIII. Overall Conclusion

The study team concluded that the GEF has generally performed effectively with regard to rapidly creating new institutional arrangements and approaches to programming its resources in the four focal areas. The GEF has also been relatively successful in leveraging cofinancing for GEF projects and has had some positive impacts on policies and programs in recipient countries. A significant accomplishment has been the advisement of stakeholder participation in GEF projects. On the other hand, the Implementing Agencies have made little progress in mainstreaming the global environment, and the team believes that much more needs to be done in several areas, including strengthening the Focal Point system, improving the process of calculating incremental costs, better planning for the financial sustainability of projects, shortening the project cycle, and raising awareness of the GEF and of global environmental issues.

The study team believes that the progress made in the brief period of GEF 1 and the potential for much greater success, particularly in mainstreaming, constitutes a basis for building a much stronger GEF in the near future. The success of the GEF ultimately hinges, of course, on political support in donor and recipient countries for mainstreaming global environmental concerns into development.

I. Introduction to the GEF

1. The GEF is a financial mechanism that promotes international cooperation and fosters actions to protect the global environment. The grants and concessional funds disbursed complement traditional development assistance by covering the additional costs (also known as "agreed incremental costs") incurred when a national, regional, or global development project also targets global environmental objectives.

2. The GEF was officially established in October 1991, for a three-year Pilot Phase. The GEF has defined four focal areas for its programs: biological diversity, climate change, international waters and depletion of the Earth's ozone layer. Efforts to stem land degradation as they relate to the above four focal areas are also eligible for GEF funding. A total of 116 projects with GEF funding of $733 million were approved between 1991 and mid-1994. Based on experience during the Pilot Phase, the GEF was restructured in 1994. Thirty-four nations, including 13 recipient countries, pledged $2 billion to the restructured GEF's core fund. With this funding, additional project allocations totaling $883 million were approved by the GEF Council through June 30, 1997. A second replenishment of the GEF is currently in process and is planned to be completed in early 1998. It will provide new funds for the 1998-2002 period.

3. The governance, policy and implementation structure of the GEF are shown in Figure 1. The GEF Assembly, Council and Secretariat comprise the Facility's governance structure. The GEF Assembly, which meets every three years, consists of representatives of all participating countries—currently numbering 155—and is responsible for reviewing GEF's general policies. The GEF Council is the main governing body. It is responsible for developing, adopting and evaluating operational policies and programs. The Council comprises representatives of 32 constituencies—16 members from developing countries, 14 from developed countries and 2 from countries with transitional economies. It meets every six months. The GEF Secretariat services and reports to the Assembly and Council. It is headed by a Chief Executive Officer (CEO), who also serves as Chair of the Council. The Secretariat's responsibilities include ensuring that decisions taken by the Assembly and Council translate into effective actions. It coordinates the formulation of the work program, oversees implementation, and ensures that GEF's operational policies are followed.

4. The GEF serves as the interim financial mechanism for the Convention on Biological Diversity and the UN Framework Convention on Climate Change. In this regard, the GEF Council receives formal guidance from the Parties to the Conventions and is accountable to them. In its work related to international waters and the phase out of ozone depleting substances, the GEF is not accountable to a governing body of an international agreement. However, it does take into consideration guiding principles from Agenda 21 of the United Nations Conference on Environment and Development, and relevant treaties such as the Montreal Protocol.

5. GEF's Implementing Agencies (IAs) are responsible for developing projects for GEF funding and implementing them through executing agencies in specific countries and regions. The IAs are the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), and the World Bank. The World Bank also serves as GEF's trustee. Each agency has created a GEF Coordination Unit in its headquarters office, led by an Executive Coordinator. In addition, the GEF "family" includes a Scientific and Technical Advisory Panel (STAP) of 12 internationally-recognized experts. The STAP is an independent advisory body that provides scientific and technical guidance on GEF policies, operational strategies and programs. The STAP maintains a Roster of Experts, and all GEF projects must be reviewed by someone on this list.

6. Each country participating in the GEF has a Political Focal Point. In addition, each recipient country has a GEF Operational Focal Point. The role of the Political Focal Point is to serve as the contact point with the GEF Secretariat, within their country, and with other members of the constituency in which their country is included on issues related to governance. The role of the Operational Focal Point is to identify project ideas that meet country priorities and ensure

that GEF proposals are consistent with country priorities and commitments under the global environmental conventions. The Operational Focal Points must endorse all project proposals for GEF in their countries.

7. GEF projects are executed in the field by a wide variety of organizations, ranging from government agencies, international organizations (e.g., the Food and Agriculture Organization (FAO) of the UN and the World Meteorological Organization), private sector institutions, and international, national and local non-government and civil society organizations. Several projects for which the World Bank is the GEF implementing agency are executed by the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB).

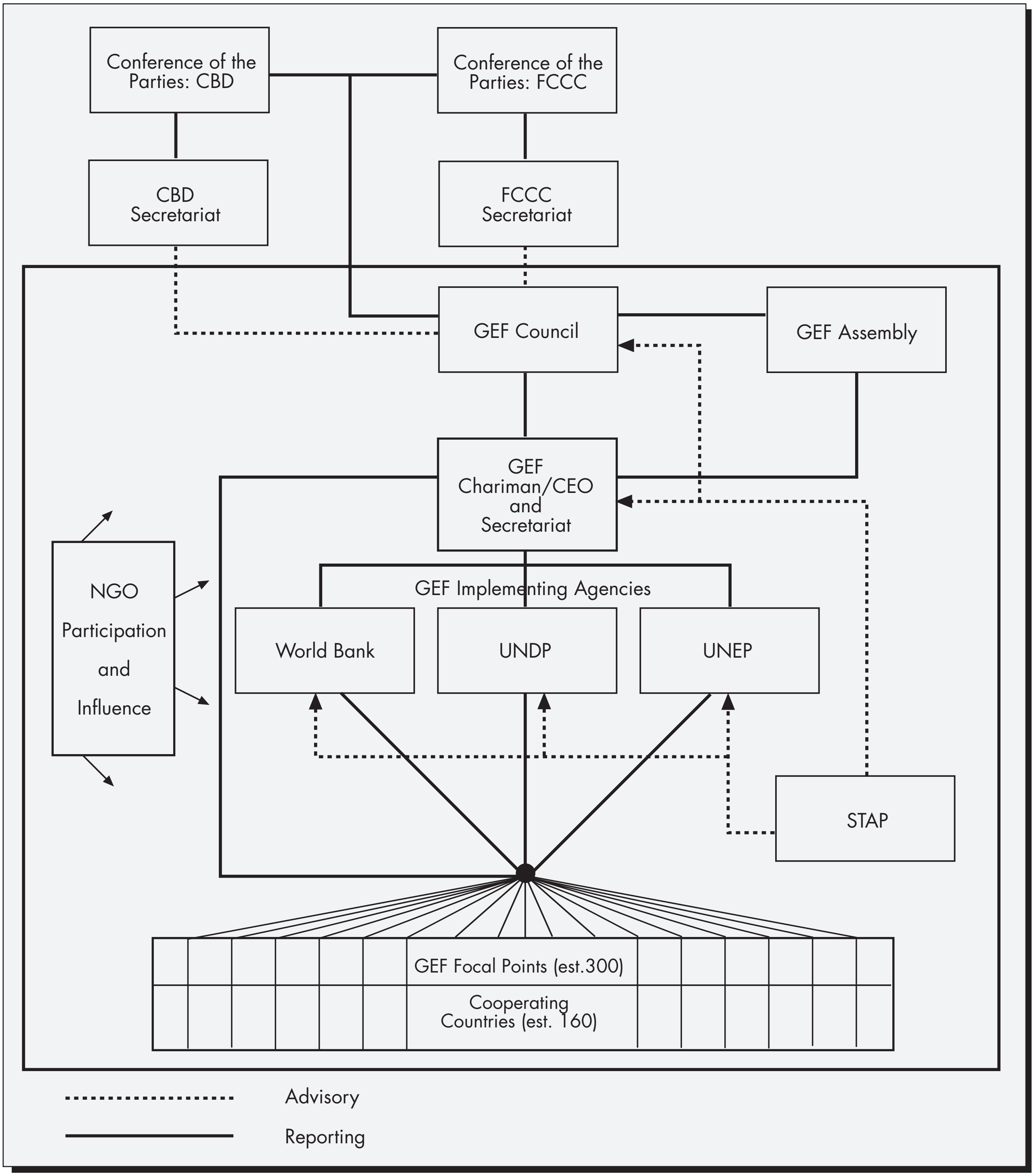
8. Non-governmental organizations (NGOs) play an active role in the GEF at a variety of levels. There is a network of 16 NGO GEF regional Focal Points that serve as points of contact, information and coordination between national and local NGOs and the GEF. Immediately preceding each GEF Council meeting, a one-day consultation with NGO representatives takes place. NGOs also participate as observers in Council meetings. In addition, many GEF projects are executed wholly or in part by NGOs.

9. A variety of coordination mechanisms have been developed within the GEF structure. The CEO meets annually with the heads of the Implementing Agencies, and more often with the Executive Coordinators in the IAs. The GEF Operations Committee (GEFOP) is the forum through which members of the GEF family regularly discuss major policy issues. The GEFOP meets at least quarterly and includes representatives of the Secretariat, IAs and STAP. In addition, representatives from the biodiversity and climate change conventions participate in the GEFOP. Focal area Task Forces in biodiversity, climate change and international waters comprised of specialists from the Secretariat and IAs' GEF coordination units are fora for discussions of program and policy issues and for coordinating the pipelines of new projects within these focal areas. Finally, the GEF conducts an annual Project Implementation Review (PIR) to examine the status of GEF projects that have been in implementation for at least a year, and to identify lessons learned.[1] The PIR involves an internal review by each IA and an interagency review organized by GEF's Senior Monitoring and Evaluation Coordinator.

10. The GEF funds three broad types of activities in its four focal areas. The vast majority of GEF resources are allocated to projects which are consistent with its Operational Strategy. The Operational Strategy reflects program guidance from the biodiversity and climate change conventions, and currently defines ten long-term Operational Programs. Secondly, GEF finances Enabling Activities in the biodiversity and climate change areas to help countries identify their needs and prepare for projects which will help them meet their obligations to the biodiversity and climate change conventions. Enabling Activities include compilation and assessment of existing country information, as well as development of strategies and action plans. Finally, GEF funds a limited number of short-term response measures that do not fall within the parameters of long-term programs or enabling activities, but are high priority and yield immediate benefits at low cost.

[1] For a report of the 1997 PIR, see Global Environment Facility, *Project Implementation Review, 1997* (Washington, D.C.: January 1998). This report, as well as the report of the results of the 1996 PIR, are available from the GEF Secretariat.

FIGURE 1.
GEF: INSTITUTIONAL STRUCTURE



II. Provision of Resources for the Global Environment

A. Introduction

11. This chapter examines the performance of GEF as a direct provider of grant and concessional resources and as an instrument for leveraging resources from other donors, governments, and the private sector.

12. After restructuring, GEF donor countries committed $2 billion over four years to the first regular funding period of GEF. Most donor countries hailed the level of funding finally agreed to as a significant achievement. [2] Recipient countries and NGOs, however, considered the replenishment of GEF inadequate as well as a big step away from expectations that had been raised at the Rio conference.

13. The best estimates of funding needs in the two key GEF focal areas show that the resources available today for global environmental activities in general and for GEF in particular are small. Although such aggregate estimates are plagued by great uncertainties, they indicate the magnitude of the challenge. The World Conservation Monitoring Centre, for example, finds that the cost of conservation of critical biodiversity is around $20 billion per year, based on extrapolations from estimates provided in United Nations Environment Programme (UNEP) Biodiversity Country Studies. [3] Yet the center estimates that total national expenditures in 1992 covered some $6 billion a year for biodiversity conservation. On climate change, estimates of the costs of carbon emissions abatement have varied widely, depending on the baseline assumptions adopted (such as GDP growth rate, rate of technological change, and pricing regimes) and the reduction targets to be achieved. [4] There is clearly great potential for measures that would result in short-term cost savings as well as carbon emission reductions. Overall investment needs to realize carbon emission abatement opportunities in developing countries are large. [5] Although these could produce considerable savings down the road, sometimes offsetting costs, various political and institutional barriers prevent large-scale investments in such activities. No aggregate cost estimates have been developed in the international waters focal area.

14. GEF was never intended to cover all the international financing needs of global environmental programs but rather to work in various ways as a catalyst for measures to address global environmental problems. Given the limited resources available compared with funding need estimates, GEF needs to program resources in ways that leverage additional resources as much as possible from other sources. In this section, the study team addresses three broad issues related to the role of GEF in providing resources: whether GEF

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[2] During the Rio Conference, both Germany and France, the initiators of the GEF Pilot-Phase, as well as some smaller European countries had advocated a substantial replenishment of GEF at around $3 billion. At the Participants Meeting in Beijing in May 1993, the working numbers for replenishment advanced by the GEF Secretariat after consultations with all donor countries were 2 to 3 billion SDR (Special Drawing Rights), which at that time corresponded to $2.8–$4.2 billion (GEF/RE.93/3, November 3, 1993).

[3] BirdLife International, *New and Additional Financial Resources for Biodiversity Conservation in Developing Countries 1987–1994* (Cambridge, United Kingdom: 1996)—a study based on work carried out by the World Conservation Monitoring Centre, funded by the European Commission.

[4] Florentin Krause and others, *Cutting Carbon Emissions: Burden or Benefit?* (El Cerrito, Calif.: International Project for Sustainable Energy Paths, 1995). The Organisation for Economic Cooperation and Development (OECD) has also done considerable work on the overall economic effects of carbon taxes or emission quota allocations to different OECD countries. OECD, Global Warming, Economic Dimensions, and Policy Responses (Paris: 1995).

[5] For example, carbon emission reduction investment needs in India for an emission mitigation option that would not hurt the economy have been estimated at $135 billion for all economic sectors and $42 billion alone for afforestation (Asian Development Bank, Climate Change in Asia: India [Manila, Philippines: 1994], p. 119). A study done by the Asian Development Bank for Indonesia puts the additional costs for only installing technologies to improve energy-efficiency in the transportation, industry, and electricity generation sectors, without requiring sacrifices in economic development, at $1 billion annually (Asian Development Bank, *Climate Change in Asia: Indonesia* [Manila, Philippines: 1994], p. 49).

has met the expectation that its funds would be new and additional to traditional development cooperation resources, how significant GEF has been as a source of funding compared with other multilateral and bilateral donors, and how successful GEF has been in leveraging additional financial resources from Implementing Agencies and other sources, which GEF participants and the GEF Council have considered a key strategic objective.

B. Are GEF Resources New and Additional?

15. Paragraph 2 of the GEF Instrument adopted by GEF participants in March 1994 specifies that GEF "shall operate . . . as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits" in the four focal areas of climate change, biological diversity, international waters, and ozone layer depletion. The rationale for industrial countries' commitment to provide new and additional financial resources for global environmental measures is that they have a historic responsibility for global environmental problems and better means to pay for measures to address them. This principle is acknowledged in the Preamble of the 1992 Framework Convention on Climate Change, which states the "common but differentiated responsibilities" of developing and industrial countries, based on different histories of consumption of natural resources and differences in their ability to pay for measures benefiting the global environment. [6] Similarly, the Convention on Biological Diversity acknowledges that "special provision is required to meet the needs of developing countries, including the provision of new and additional financial resources and appropriate access to relevant technologies." [7] Both conventions recognize that economic and social development and poverty eradication are the first and overriding priorities of developing countries.

16. "New and additional funding" is a political concept, which leaves room for interpretation. Language adopted by the climate change and biodiversity conventions, the Rio Declaration and in Agenda 21 stipulates that resources for global environmental measures in developing countries should be provided above and beyond those allocated to traditional development cooperation and not at the expense of development assistance. International treaty language, however, does not provide an operational definition of "new and additional" by, for example, defining a base year against which official development assistance (ODA) and GEF resource flows could be compared. Although developing countries tend to consider 1992 "the year of the Rio conference" as the base year, many donor countries maintain that "new and additional" simply refers to funding efforts that go beyond the level of ODA resources that would have been allocated without the existence of GEF.

17. Only a definition of "new and additional funding" that is based on the level of development assistance level in a base year can be operationalized to be used to determine whether donor countries have actually met the obligation. A definition that requires the use of a counterfactual (what would have been the level of ODA in the absence of GEF?) cannot be used for that purpose, because there is no objective basis for determining if allocation of GEF resources in donor-country budgets has come at the cost of ODA resources. And it is not clear what base year would be chosen for the purpose of comparison: Should it be 1991? 1992? Should new and additional resources be calculated for each successive GEF replenishment on the basis of the ODA level at the beginning of the replenishment?

18. A second difficulty in answering the question is the lack of clarity about what data should be used for the base year and subsequent years. Should it be only grant assistance? Grants and concessional loans? All grant and grant-like flows? Nonconcessional loans? The Official Development Assistance totals provided by the Organisation for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) include a range of financial flows going beyond grant assistance, including bilateral debt relief, bilateral loans, and contributions to multilateral institutions, including the World Bank and multilateral development banks. However, it has never been established what should be included in the yardstick for determining "new and additional."

[6] Preamble to the United Nations Framework Convention on Climate Change.

[7] Preamble to the Convention on Biological Diversity.

19. One way of operationalizing the concept of "new and additional" as applied to GEF would be to take 1992 as the base year and compare the gross ODA levels in successive years. The OECD DAC figures show a decline in the total from close to $61 billion in 1992 to a little more than $55 billion in 1996. Because DAC totals for ODA fluctuate significantly from year to year, the choice of base year would strongly affect the answer to the "new and additional" question: the overall ODA flow indicator fluctuates significantly from year to year and, for example, reached close to $59 billion in 1995 before falling to $55 billion in fiscal 1996. Moreover, if only bilateral grants were counted, the trend would be shown to have gone up since 1992.

20. More important, however, the study team also understands that DAC figures are unreliable and that individual countries are known to underreport or overreport resource flows because of both differential completeness in reporting and methodological differences in tracking ODA expenditures.[8] The study team cannot vouch for the accuracy of the figures, therefore, even assuming that DAC statistics on ODA constitutes the correct indicator to be compared.

21. Another indicator of the additionality of resources provided to GEF that could be applied at the individual country level would be whether national budgetary allocation processes recognize GEF as distinct from regular development cooperation, that is, as a mechanism whose objective is the realization of global benefits and not of national development benefits. Although, in some donor countries, GEF resources appear to have been allocated on top of and independently from development assistance budgets, in others they seem to have come out of an overall budget line for development cooperation. Where this happens, institutional barriers may be working against increased funding levels for GEF and global environmental measures. Mid-level government officials have no incentive to push funding for global environmental purposes if they fear that this will entail trimming other budget lines of the same ministry.

Conclusions

22. All these definitional and methodological problems stand in the way of a clear answer to the question of whether donor countries have provided "new and additional" funds for GEF. The study team is simply unable to answer the question without clearer guidance from the GEF Council or another authoritative international body on operationalizing "new and additional." Indeed, without such guidance, the concept is doomed to remain one without practical meaning.

Recommendations

23. The GEF Council should address the need for a clear definition of "new and additional" financing for the GEF, including the indicators that should be used in measuring additionality.

24. Donor countries should consider separating budget lines for global environmental measures in developing countries and for contributions to GEF from budget lines for development cooperation.

C. Comparison of GEF Funding with All Sources of Financing for the Global Environment

25. The study team attempted to analyze the significance of GEF funding in the context of overall financing in GEF's focal areas from all sources, bilateral and multilateral. Although a fair amount of data is available on the global environmental activities of various agencies, those data are often unreliable and cannot be compared or aggregated due to differences in definition or methodologies. Different agencies have different definitions of what constitutes a biodiversity project or what exactly energy efficiency means. In many cases, an agency's assistance on biodiversity or renewable energy or international waters is aggregated with nonglobal environmental and energy work.

26. The team tried to use OECD's DAC data base to obtain quantitative data on non-GEF assistance in the four GEF focal areas. However, the DAC statistics are highly unreliable, because they rely on voluntary reporting by donor country agencies, which does not always occur or is incomplete. When the reporting does occur, it is not reviewed for its accuracy or definitional consistency. Moreover, the team was also uncertain whether bilateral contributions to GEF are aggregated with non-GEF spending in the data base, making comparisons between GEF and other sources impossible.

[8] Data from the DAC/OECD home page on the World Wide Web.

27. Given these difficulties, the team ultimately decided not to attempt to provide quantitative comparisons of financing by GEF and other sources. Despite its inability to quantify total financing for the focal areas and, thus, the relative significance of GEF financing, the team can make some broad observations about financing for the global environment, based on interviews, country visits, and professional experience.

28. Bilateral and multilateral agencies have increased their financing of global environmental activities in the 1990s, including those in biodiversity, climate change, and international waters. It is not clear whether this increase accelerated or slowed in response to the establishment of GEF. But the increase has taken place even while overall development assistance flows have decreased. Some donors have established programs and institutional units dedicated solely to energy efficiency or to biodiversity. Several areas have experienced particularly notable increases in non-GEF support. For example, there have been sharp increases in bilateral support for biodiversity trust funds from several donors and rapid increases in support for renewable energy, particularly solar photovoltaics, by a number of bilateral agencies. Support for energy efficiency by multilateral institutions has also greatly increased, particularly in Central and Eastern Europe.

29. The one focal area in which it seems clear that GEF is the largest funder is international waters, defined as international collaborative efforts to reduce threats to international waters at the regional or subregional level. [9] Several multilateral agencies have funded projects for generating activities to reduce threats to international waters, primarily in the Mediterranean, Baltic, Black, Caspian and Aral Seas, and the Danube, Nile, and Mekong river basins but, unlike the GEF, they generally have not involved the same international process of jointly evaluating threats and determining priorities.

30. As bilateral and multilateral assistance for global environmental activities increase, GEF may find itself increasingly funding projects similar to those of other agencies. This issue appears most pertinent for solar photovoltaics (PVs), energy-efficient lighting, and biodiversity trust funds, which have attracted particular interest from funding and financing institutions. For example, the GEF Solar Home Systems Project in Indonesia, if not derailed by the country's financial crisis, will facilitate the purchase and installation of 200,000 solar photovoltaic systems in rural homes; at the same time, at least four other donors have separate projects that fund another 120,000-130,000 rural solar home systems. Likewise, some of the energy-efficient lighting projects under preparation by the International Finance Corporation (IFC) will operate through private sector intermediaries, possibly in the same Central and East European countries in which the European Bank for Reconstruction and Development has been establishing credit lines at commercial banks to help remove investment barriers to energy efficiency, including energy-efficient lighting. [10]

31. These examples do not mean that GEF should not support photovoltaics or other technologies supported by other donors. In the Indonesian case, for example, the GEF solar project is significantly different from the bilateral projects in that it is helping to establish a rural PV credit system. But these examples underline the growing need for close coordination with other donors and the need to take stock regularly of how GEF projects compare with those of other donors.

32. In the area of biodiversity, although GEF is one of a number of donors supporting the capitalization of trust funds, GEF's continued involvement helps attract additional donors. As others play an increasing role in capitalizing the funds, GEF could shift its orientation toward bridge funding to cover the first year of a trust fund's operation or could provide just the technical assistance on establishment and operation of the funds. GEF's continued involvement is important, however, to ensure that at least part of the funds will go toward the global environment, not just the local environment. In this regard, one approach would be for GEF to provide capital for a global window at an environmental fund. This approach was used, for example, in the UNDP's Central American Fund for Environment and Development.

[9] Thus, the team does not consider investments in wastewater treatment or industrial pollution abatement as assistance for international waters, despite the fact that they have impacts on international waters, because they are made primarily for national economic development purposes.

[10] Caspar Henderson, "EBRD Recaps Progress in Efficiency," *Clean Energy Finance* (newsletter), Vol. 2, No. 1, Spring 1997, p. 4., http://solstice.crest.org/efficiency/cef/index/html

33. The study team encountered many examples of poor coordination among donor agencies in the countries visited, leading the team to believe that the donor agencies are probably not well coordinated with GEF or each other on planning and implementing financial assistance related to climate change and biodiversity. There are exceptions to this generalization. An interagency coordinating body has been formed on environmental trust funds, for example. In Central and Eastern Europe, the London-based Project Preparation Committee seeks to improve coordination between donors and financial institutions in the field of environment investments. An Agenda 21 process in China seeks to coordinate all donors on environmental activities, and similar processes have started in Russia and Kenya, among other countries. But many countries do not have a mechanism for filling gaps and avoiding duplication in GEF's focal areas.

34. Even though other donors are funding projects that are similar to GEF projects in some manner, GEF funding is different from bilateral or multilateral funders or multilaterals in other ways.

35. First, GEF is able to program its resources on a global basis with a minimum of influence on programming decisions from political relationships. Other multilateral and bilateral donors program their resources on a country-by-country basis; their decisions are often heavily influenced by broader economic and political considerations.

36. Second, GEF brings to projects a strong emphasis on public involvement in initiation, design, and implementation. In some countries, this has opened up decisionmaking processes and, in others, brought in more NGO involvement than multilateral lenders could have attracted.

37. Third, GEF's more rigorous approval process means that countries must think through and justify GEF projects in greater detail than for most other donors. This appears to result in better projects, although it also makes the approval process longer and more complex.

38. Fourth, GEF's association with the three Implementing Agencies gives it greater institutional capacity for project preparation and implementation, including impact on policy, than other donors.

Conclusions

39. Because reliable and comparable data were unavailable, the study team could not determine the significance of GEF's funding for global environmental activities relative to non-GEF sources of funding for those activities, although it found GEF to be the largest funder in the area of international waters. The team also found that other institutions have significantly increased their funding in biodiversity and climate. However, it found GEF's role in funding to be distinct in several ways. Given the fact that complete information on the activities of other financing agencies in a given country is frequently unavailable, the additionality and distinct advantage of a GEF project in that country may also sometimes be unclear.

Recommendations

40. GEF should regularly review and compare its own portfolio and project pipeline with those of other institutions to ensure that it is either providing significant additional resources or demonstrating a comparative advantage over other institutions involved in the same activities. In this regard, particular attention should be paid to GEF support for solar photovoltaics, energy-efficient lighting, and biodiversity trust funds.

41. GEF should work with OECD and other appropriate international institutions to ensure that reliable, comparable data on financing for measures to protect the global environment, including data on different types of projects, is compiled and made available to the public.

D. Leveraging Additional Resources

Leveraging Through Cofinancing and Associated Projects

42. Since the beginning of the Pilot Phase, GEF has put great emphasis on leveraging additional financing to enhance its impact on the four focal areas. Recognizing that the funds available from GEF itself are small in relation to the needs, the GEF Council, GEF Secretariat, and Implementing Agencies have all agreed on the objective of using GEF grants to leverage financing from other sources.

43. The study team was asked to evaluate the success of GEF's efforts to mobilize financing from all sources. The team focused on leveraging through cofinancing of GEF projects by Implementing Agencies, either by spending money from their own core operational resources or by bringing in additional financing from other donors or the private sector to cover part of the costs of a GEF project.

44. As of June 30, 1997, GEF had committed $861 million to regular projects during GEF 1. Based on figures provided by the Implementing Agencies on cofinancing of GEF projects, the team found that the aggregate total of cofinancing during GEF 1 is just under $2.2 billion. This represents a ratio of 2.5 additional dollars to one GEF dollar during GEF 1.

45. During the Pilot Phase, GEF invested $733 million in regular projects and the Implementing Agencies provided or mobilized $2.24 billion in cofinancing—almost exactly the same amount as in GEF 1. This amount represented three additional dollars for every dollar provided by GEF. The comparison is somewhat misleading, however, considering that one pilot project accounted for $1.3 billion in cofinancing. For this reason, the study team found that GEF has on balance been more successful in mobilizing cofinancing during GEF 1 than during the Pilot Phase. Furthermore, the team found the aggregate cofinancing to represent a significant degree of leveraging of additional funding—and activities for global environmental benefit—by making GEF grants available.

46. Cofinancing by Implementing Agencies, other donors, or the private sector is not always the same as leveraging financial resources for global environmental benefit, however. No definition of leveraging has been provided by the GEF Council or Secretariat, so the term has been used in different ways by Implementing Agencies and the secretariat. The study team defined leveraged financing as financing in conjunction with a GEF project that supports activities producing global environmental benefit and that would not have been spent in the absence of the GEF project or that would otherwise have been spent in ways that would have contributed to global environmental degradation.

47. The study team recognizes that this is not the only way that leveraging can be defined. In discussions with the team, UNDP argued that leveraging should be defined to include cofinancing for a GEF project that fills the gap between the "business as usual" baseline scenario and a "sustainable development" baseline scenario. It asserted that without the financing of a certain minimum set of sustainable development activities, including those focused on health and poverty, it is often impossible to implement the incremental cost activities of a GEF project. Therefore, according to UNDP, the financing of such baseline activities should be counted as leveraging by GEF.

48. The team believes, however, that this broader definition of leveraging would be misleading. It would mean that financing activities that are clearly in the national development interest of a country and that have no effect or only the most indirect effect on the global environment would be regarded as a GEF accomplishment. In short, the distinction between national development objectives and global environmental objectives would be completely lost. It is the study team's understanding that GEF was established based on the importance of maintaining that distinction.

49. Based on the study team's definition of leveraging, project documents submitted by the Implementing Agencies were analyzed for a sample of eighteen full GEF projects, representing all the projects approved for the GEF work program during the calendar year of 1997 on which project documentation was available at the time of the study. The contributions by recipient governments and other funding entities to these projects that were listed as cofinancing either in the GEF Quarterly Operational Report (QOR) or in an Implementing Agency's own summary of cofinancing totaled $774.2 million, of which $276.4 million was from recipient governments.

50. The study team analyzed the figures for government cofinancing and for total non-GEF contributions to project financing for each project, based on data in the project document regarding the activities being financed. It counted these financial contributions as leveraging only if the funding was to generate global environmental benefit and would not have been spent in the absence of the GEF project or if the GEF project caused the government to spend the same amount but in ways that had global environmental benefit.

51. The results of this analysis are shown in Table 1. The study team found that in five of the eighteen projects, most or all of the cofinancing listed in GEF documents represented actual leveraging and that gov-

Table 1.
Cofinancing and Actual Leveraging in a Sample of Eighteen GEF Projects (millions of U.S. dollars)

Project	GEF Funding	Cofinancing as Used in the QOR		Leveraging as Strictly Defined	
		By Government	*Project Total*	*By Government*	*Project Total*
1. India Coal-Bed Methane	9.19	6.80	8.10	6.80	8.10
2. Uruguay Banados del Este Biosphere Reserve	2.50	1.50	1.54	0.00	0.36
3. Bolivia Energy-Based Rural Electrification	4.45	1.60	4.05	1.60	4.05
4. China Capacity Building for Rapid Commercialization	8.80	8.90	18.84	?	8.5-18.84
5. China Energy Conservation	22.00	44.00	180.00	7.00	70.00
6. Indonesia Coral Reef Rehab. and Management	12.00	13.00	48.00	1.50	3.20
7. Uganda Protected Areas Management and Sustainable Use	10.00	9.30	96.80	0.00	26.00
8. Sri Lanka Medicinal Plants	4.57	20.72	20.72	.50	.50
9. Romania Integrated Protected Areas	5.00	1.60	1.60	0.00	0.00
10. Pakistan Protected Areas Management	10.80	15.70	15.70	0.00	0.00
11. Aral Sea Basin	12.00	12.00	47.50	0.00	18.30
12. Brazil Biomass Power Commercial Demo	40.00	?	82.00	?	82.00
13. Reducing Biodiversity Loss at Cross Border Sites in East Africa	12.65	1.70	5.77	1.20	5.27
14. Conservation of Wetlands and Coastal Ecosystems in Med.	13.27	22.70	28.60	0.00	2.30
15. Brazil Energy Efficiency	20.00	100.00	177.00	0.00	3.00
16. Eritrea Conservation Management	4.99	?	10.80*	0.00	0.00
17. Argentina Patagonia	5.20	?	13.90*	0.00	0.00
18. Czech Republic Kyjof Waste Heat	5.09	4.00	14.00	4.00	14.00
Total	203.00	276.00	775.00	23.00	246-256

* Claimed as cofinancing in UNDP cofinancing data sheet but not in QOR.

ernment spending involved substitutional activities benefiting the global environment.[11] In three other cases, the amount of GEF-leveraged financing was found to be significant but less than half of what was claimed.[12] In one case, leveraging was significant, but the project document reflected genuine uncertainty about whether the government funding for renewable energy activities would have been devoted to the activities supported by the project in the absence of the GEF project, so a range of estimates for total leveraging was used.[13] In the other nine cases, the project documents indicated clearly that a high proportion of the funding in question was for baseline activities and, in the case of government spending, that most or all of it would have been spent on the activities in the project in any case.[14]

52. Total cofinancing found to be genuinely leveraged in the eighteen projects in the sample is estimated as $246-$256 million, which represents about one-third of the $775 million in cofinancing as identified in the QOR or in Implementing Agency documentation. The amount of government financing in this sample of projects that was found to be genuinely leveraged was $23 million, representing 8 percent of the $276 million listed as cofinancing.

53. The study team cannot provide a quantitative estimate of overall leveraging based on the analysis of the sample. A few projects with real leveraging can make up for many projects in which such leveraging is absent. One-third of the leveraging in this sample of eighteen projects is accounted for by the Brazil Biomass Power Demonstration project. And the Philippines Geothermal Project during the Pilot Phase, which leveraged $1.3 billion through substitutional activity, accounts for a large proportion of all leveraging in the Pilot Phase and GEF 1.

54. Nevertheless, based on this analysis of a sample of projects, the study team concludes that the amount of financial leveraging, defined in a strict sense, is significantly smaller than the total cofinancing based on the QOR and Implementing Agency data.

55. The main mechanism for leveraging additional resources for GEF has been World Bank loans associated with GEF projects. The GEF Council and Secretariat have expressed a strong preference for World Bank GEF projects that are associated with non-GEF projects over "freestanding" World Bank GEF projects (which have no Bank loan financing) to increase the leveraging of GEF's limited resources. By linking a GEF grant with a World Bank loan, GEF has hoped that the Bank could persuade client governments to borrow for projects that would provide global environmental benefits. However, whether World Bank loans associated with GEF projects have provided financing for activities that are both additional and benefit the global environment has been the subject of some debate since GEF began.

56. Most of the funding for the World Bank's associated loans (84 percent of the total since the beginning of the Pilot Phase) has been in the climate change focal area. The study team analyzed the portfolio of eight World Bank-associated loans in the climate change focal area during GEF 1 as of mid-1997[15] and seven during the Pilot Phase[16] to determine the extent to

[11] India Coal-Bed Methane, Bolivia Energy-Based Rural Electrification, Reducing Biodiversity Loss at Cross-Border Sites in East Africa, Brazil Biomass Power Commercial Demonstration, and Czech Republic Kyjov Waste Heat.

[12] China Energy Efficiency, Uganda Protected Areas Management and Sustainable Development, and Aral Sea Basin projects. The China Energy Efficiency project proposal claims $41—$91 million in domestic bank loans as part of the financing plan, despite the fact that the funding would only be available for commercialization of technologies in the event that applications of the energy services company concept prove successful during the pilot program. The figure given in the Quarterly Operational Report for June 1997 for the China Energy Conservation Project apparently assumes $55 million in commercial bank loans for that purpose. The study team concluded that such financing should not be considered as cofinancing because there is no commitment by the founders and because project managers have no control over the decision to finance. It should be considered, however, as leveraging through replication.

[13] China Capacity Building for Rapid Commercialization.

[14] In the case of Indonesia Coral Reef Rehabilitation and Management, the World Bank indicated that the project involves substitutional activities for government baseline spending on the site chosen for global biodiversity importance, which represents a relatively small percentage of its contribution to the project.

[15] The eight projects in the portfolio of GEF 1 are: Brazil Biomass Commercial Demonstration, China Energy Conservation, Indonesia Renewable Energy Small Private Power, Indonesia Solar Home Systems, Latvia Solid Waste Management and Landfill Gas Recovery, Lithuania Klaipeda Geothermal Demonstration, Senegal Sustainable and Participatory Energy Management, and Sri Lanka Energy Services Delivery. The study team considered only the demand management and fuel substitution component of the Senegal project as its climate portion, because the rest of the project involves sustainable management of a protected area and is considered to be in the biodiversity focal area.

[16] The five Pilot-Phase projects on which information could be obtained were China Sichuan Gas Transmission and Distribution Rehabilitation, India Alternative Energy, Philippine Leyte-Luzon Geothermal, Poland Coal-to-Gas, and Russian Federation Greenhouse Gas Reduction. The study team was unable to contact the task managers for the other two Pilot-Phase, GEF-associated climate loans.

which these loans represent genuine leveraging by GEF. The key issue in this examination was whether the Bank would have made a very similar loan to the country in question in the absence of the GEF grant. The team was able to interview the task managers of six of the nine associated loans for GEF 1 climate projects and the task managers of five of seven Pilot Phase associated loans with regard to this question.

57. Five of the six task managers of GEF 1 projects interviewed indicated that the associated loan would not have been made without the GEF grant being available. In only one case—the demand management and fuel substitution component of the Senegal Sustainable and Participatory Energy Management Loan—did the task manager say that the loan would have been made regardless of GEF's involvement in the project. Thus, the team found that associated loans in the climate focal area generally did leverage additional global environmental funding during GEF 1.

58. The examination of the Bank's Pilot Phase, GEF-associated loans for climate projects, however, showed that two (Philippine Leyte-Luzon Geothermal and India Alternative Energy) would definitely not have gone forward in the absence of the GEF grant, one would definitely have proceeded, another would probably have gone ahead, and, in one case, the task manager remained uncertain.

59. The study team also examined all eight of the Bank's loans for biodiversity associated with GEF biodiversity grants through the Pilot Phase and the two GEF-associated loans for biodiversity approved during the Pilot Phase (Lao People's Democratic Republic Wildlife and Protected Area Conservation and Biodiversity Conservation in Southeast Zimbabwe) to determine the extent to which they represent genuine leveraging of financing for global environmental benefits. Interviews were conducted with the task managers of all eight of these World Bank-associated loan projects to find out whether GEF was crucial to the biodiversity conservation benefits provided by these loans. Again, the team asked the task managers whether the World Bank would have made the loans in the absence of a GEF grant and, if so, whether the loan projects would have been designed to protect biodiversity as were the actual GEF-associated loans.

60. In only one of the eight associated loans—the Argentina Biodiversity Conservation Project—did the task manager believe the loan would have been made without the GEF grant and would have provided the biodiversity protection of the GEF-associated loan project. In that case, the loan grew out of a World Bank Forestry Sector Review in Argentina and the GEF grant was considered incidental to the project.

61. In some instances, GEF was the key to the project being developed at all; in most cases, the availability of the GEF grant was necessary to the loan's focus on conservation of biodiversity in sites of global importance. The India Ecodevelopment Project originated from the Indian government's exercise in creating a project especially for GEF, and the International Development Association (IDA) contribution resulted from the project becoming too big for GEF to fund. Similarly, the Lake Victoria Environmental Management project would not have happened without GEF funding: it began entirely as a GEF project, but because the cost was greater than GEF could fund by itself, IDA was asked to match the GEF grant. The Second Madagascar Environmental Program Support project is a multidonor operation, the design of which was based on a process of analysis funded by GEF; it is not clear whether the loan would have proceeded at all without the presence of a GEF grant.

62. In the other cases, the World Bank would have made a loan with some similarities to the GEF associated loan, but it would not have protected biodiversity at all or would not have done so as effectively as the associated loan. In the case of the Pilot Phase Lao People's Democratic Republic Wildlife and Protected Area Conservation Project, the Bank would not have made a loan to support a protected area system in Laos without GEF, although it would have gone ahead with a traditional forest management loan. In the case of the Kerinci Seblat Integrated Conservation and Development Project, the World Bank would have made a loan for development projects in the Kerinci Seblat area regardless of GEF's existence, but the projects would not have been focused on protecting biodiversity, because the Indonesian Ministry of Forestry has a policy of not borrowing, especially for biodiversity conservation.

63. Similarly, in the case of the Indonesia Coral Reef Rehabilitation and Management (COREMAP) project, the Bank probably would have moved ahead on a coral reef project without GEF, but it would not have included sites of global importance. In all the other projects, the GEF loan was viewed as crucial to successful biodiversity protection. Without the GEF grant, there would have been no ring of communities

committed to sustainable forest management surrounding the national park in the Senegal Sustainable and Participatory Energy Management Project. In the case of the Honduras Biodiversity in Priority Areas Project, without the GEF grant, the Bank loan would not have been based on a set of priority biodiversity conservation sites or on the broad participation of nongovernment stakeholders. And without the GEF grant, the Zimbabwe Conservation in Southeast Zimbabwe Project would not have had the policy dialogue between the World Bank and the government in 1994-96, which made possible key institutional and policy reforms that were vital to the success of the project in saving biodiversity.

64. The evidence indicates that during GEF 1, GEF has leveraged global environmental benefits that would not otherwise have occurred in eight of nine World Bank-associated loans that cofinanced GEF biodiversity projects and five of six associated loans that cofinanced GEF climate projects.

65. The study team also found evidence that the use of an associated Bank loan to leverage financing for a GEF project can have disadvantages for the GEF project. When a country agrees to a GEF-associated Bank loan, some government agencies may also push for more activities in the project to generate foreign exchange with which to repay the loan. For example, the World Bank staff in Indonesia reported that more such activities had to be included in the Kerinci Seblat project at the insistence of the Home Affairs Ministry, with the result that fewer funds were available for park protection. Second, the associated loan may be caught in domestic politics, causing long delays in start-up. The main cause of delay in the Egypt Red Sea Coastal and Marine Resource Management project, for instance, was that the World Bank loan was opposed by the Egyptian parliament. In addition, some countries that are highly indebted are likely to be reluctant to take out loans for conservation in the foreseeable future. Although the associated loan must remain the main mechanism for leveraging additional resources for the global environment, the study team believes GEF must be aware of the problems it poses in certain circumstances.

66. UNDP has the advantage of being able to associate GEF grants with its own grants, which could create a strong incentive for greater emphasis on projects that complement GEF's portfolio. However, the potential for leveraging inherent in this association was not realized during GEF 1. Only two non-GEF UNDP projects in the GEF focal area were associated with GEF projects. The study team believes that it represents a major untapped resource for leveraging in support of GEF objectives, which should be a key objective in the next phase of GEF.

67. Apart from resources that GEF leverages through cofinancing, GEF may also leverage additional funding for complementary activities through demonstration and replication. Many projects in the climate focal area anticipate that successful completion of their activities will demonstrate to other funders that the technology in question is commercially viable and will lead to replication. In at least one case, the China Coal-Bed Methane Project, the project has already successfully demonstrated technologies for reducing methane emissions and recovery of methane as a fuel in three sites, resulting in several agreements for joint ventures for investment in similar projects in the future.[17]

68. Other projects have been designed in the expectation of such replication by the private sector. The India Coal-Bed Methane Project is expected by project sponsors to attract private sector investments in the technology. And in the case of the China Energy Conservation Project, if the energy service companies supported by the project are successful, domestic Chinese banks and the World Bank are ready to commit a total of $100-$155 million to commercialization.

69. Although evidence from a few individual cases indicates that additional funding for the global environment should be generated by GEF projects through replication, the study team was unable to do a systematic analysis of the likelihood that GEF projects, particularly in the climate focal area, will be replicated.

70. The strong emphasis placed by GEF on leveraging is legitimate, given the relatively small size of the fund and the fact that it is one of the few quantitative measures available for judging GEF success. The team believes, however, that there is a danger in placing too much emphasis on leveraging of financial resources by GEF projects as a measure of success. An overemphasis on total financial resources mobilized may distort programming decisions by tilting them in the direction of projects that have the largest amount of cofinancing.

[17] GEF, *Project Implementation Review 1997*, op. cit., p. 15.

Although they are important, such totals are not an accurate indicator of the impact of individual projects or of the GEF portfolio as a whole.

Conclusions

71. GEF has succeeded in using grants to mobilize resources on a significant scale, and its performance in GEF 1 has been superior, on balance, to its performance in the Pilot Phase. The study team found that a high proportion of World Bank-associated loans that have cofinanced GEF projects have actually leveraged additional resources for global environmental benefit and those loans have been the primary mechanism by which financing has been leveraging by GEF. However, it found that associated GEF projects with such loans may carry some disadvantages in certain circumstances. It also concluded that UNDP-associated grants represent a large, untapped potential for such leveraging.

72. Using a rigorous definition of leveraging, the study team found that the actual leveraging of resources for the global environment has been substantially less than the overall totals for cofinancing mobilized by the Implementing Agencies. The study team found, however, that there is a danger in emphasizing leveraging too much as a measure of GEF's success. It should be considered along with a number of other relevant institutional and programmatic indicators.

Recommendations

73. The GEF should adopt a rigorous definition of "leveraging" that includes only funding that is additional to existing funding patterns and that is expected to create global environmental benefits. It should apply this definition in the Quarterly Operational Report and other relevant GEF documents. Implementing Agencies should apply this more rigorous definition in their own databases and reports on cofinancing of GEF projects.

74. When there is sufficient experience with implementation of GEF projects, the GEF's Senior Monitoring and Evaluation Coordinator should commission a study of the replicability of projects in the GEF portfolio.

Leveraging Private Sector Investment

75. The study team recognized that the mobilization of private capital for the global environment is a special concern for GEF. Indeed, the private sector has an increasingly important role in providing investment capital to developing countries, taking on much of the role traditionally played by multilateral development banks. Private debt capital inflows into emerging market countries, which amounted to just $26 billion in 1984 (in 1996 dollars) had increased to $88.6 billion by 1996. Foreign direct investment into emerging market countries during this time jumped from $9.4 billion to $109.5 billion. [18] Although this investment is focused primarily on fewer than a dozen nations, these are countries that are important to GEF's mandate of maximizing global environmental benefits.

76. Increased financial flows can place more pressure on natural resources and the environment. But they also hold out enormous opportunity for raising the amount of private sector investment in GEF projects. GEF's success in this regard has been growing but remains small in comparison to the opportunity. Private sector financing has taken place or is expected to take place in forty-five GEF projects, including both Pilot Phase and GEF 1. Of these, twenty-two are under way or nearly under way (see Table 2 below).[19] Ten are in the ozone depletion focal area, ten are in climate change, and two projects involve both climate change and biodiversity. There are no reported instances of international waters projects leveraging private investment.

77. Total private investment in these twenty-two projects is $1.12 billion, but more than half of this ($754 million) is accounted for by the Philippines geothermal project. Also, the total probably overstates true private investment because in some cases, such as China, India, and the Russian Federation, the investments are coming from state or quasi-state enterprises, not the private sector. A more conservative estimate, subtracting these projects as well as the ozone projects (because recipient country investment in them is mandatory) yields a figure of $910.5 million for total private sector commitments to date in GEF projects. Without the Philippines geothermal project accounts, the total is just $156.5 million.

[18] Global Finance (September 1997), p. 184.

[19] Jamison Suter, World Bank, personal communication, September 1997.

TABLE 2.
WORLD BANK GEF PROJECTS WITH PRIVATE SECTOR COMMITMENTS

Country	Project/Concept Name	Funding Equity Name	Est. Amount Leveraged *(Millions of U.S. Dollars)*
Global	Small- and Medium-Scale Enterprise Program (pilot phase)	Small-scale private enterprises	2.90
Global	Small- and Medium-Scale Enterprise Program (replenishment)	Small- and medium-scale enterprises	3.50
Belarus	Phaseout of Ozone-Depleting Substances	Local enterprises	8.80
Brazil	Biomass Power Commercial Demonstration	Sponsor's equity	29.00
Bulgaria	Ozone-Depleting Substances Phaseout	Recipient enterprises	3.00
China	Efficient Industrial Boilers	Local private sector	68.60
Czech Republic	Kyjov Waste Heat Utilization	TEPLARNA Kyjov	10.00
Czech Republic	Phaseout of Ozone-Depleting Substances	Recipient enterprises	1.80
Hungary	Phaseout of Ozone-Depleting Substances	Recipient enterprises	1.50
India	Alternate Energy	TNPL and developers	44.00
Indonesia	Solar Home Systems	Local participants	72.30
Philippines	Leyte-Luzon Geothermal	Private contractor	620.40
Philippines	Leyte-Luzon Geothermal	Private contractor	133.90
Poland	Energy-Efficient Lighting	Recipient enterprises	1.60
Poland	Phaseout of Ozone-Depleting Substances	Local enterprises	14.00
Russian Federation	Ozone-Depleting Substance Consumption Phaseout (first tranche)	Recipient enterprises	12.70
Russian Federation	Phaseout of Ozone-Depleting Substances (second tranche)	Recipient enterprises	21.50
Slovak Republic	Ozone-Depleting Substances Reduction	Recipient enterprises	2.50
Slovenia	Phaseout of Ozone-Depleting Substances	Recipient enterprises	3.50
Sri Lanka	Energy Services Delivery	Private sector	23.30
Tunisia	Solar Water Heating	Private sector	13.60
Ukraine	Phaseout of Ozone-Depleting Substances	Local industries	32.20

78. In nearly all cases of private investment in GEF projects, the private sector party involved is the beneficiary or sponsor of the project, such as the enterprise that is converting to non-ozone-depleting equipment or the developer of alternative energy projects. There are few instances in which GEF projects seek to leverage private financial institutions, such as commercial banks, insurance companies, pension funds, and other institutional investment funds. In some cases, the involvement of such institutions will follow if project sponsors can generate well-designed, profitable projects. But to secure their investment capital, it may be necessary to include them in the up-front identification and development of projects with high perceived risks.

79. The study team could identify just five instances in which such third-party investors are playing (or soon will play) a key financial role in GEF projects.

First, IFC's Renewable Energy and Energy Efficiency Fund is intended to attract roughly $175 million from private sources for its initial capitalization. The private managers of the fund have committed a portion of the capital. The rest must still be raised. Second, IFC's Terra Capital Biodiversity Fund is intended to attract roughly $40 million in private investment for its capitalization. Third, IFC's Hungary Energy Efficiency Cofinancing Project uses GEF funds in the form of a guarantee to reduce the credit risk to private domestic financial institutions. Fourth, the World Bank's Indonesia Solar Home System Project will involve four local commercial banks that will provide lines of credit to solar equipment dealers, who in turn will provide credits to solar system buyers. Initially, the banks will use mainly World Bank funds, but after project completion, it is anticipated that they will use their own funds. Fifth, the IFC's Small- and Medium-Scale Enterprise Fund operates through private financial intermediaries, some of whom may ultimately lend their own funds in addition to administering the on-lending of GEF funds.

80. In the ten countries visited by the team, there was little active participation by the private sector in GEF projects beyond providing procured equipment and services or, in some cases, acting in an advisory capacity. Despite the frequently expressed desire by Focal Point ministries and other government officials to include the private sector, there appears to be little tangible effort on their part to do so. In some cases, those host country individuals involved in GEF do not know how to involve the private sector. In other cases, there is a reluctance to do so out of concern that GEF might simply end up subsidizing private companies. There are also a number of policy and regulatory barriers to increased private sector involvement.

81. According to Implementing Agency staff, one of the main barriers to private sector involvement is the long GEF approval process. Given the uncertainty, risk, and high opportunity cost inherent in a GEF project, private firms do not have sufficient incentive to wait two or more years for approval. Streamlining this process for private sector projects has been frequently suggested. Implementing agency staff also note that when proprietary information is involved, outside review of private sector GEF proposals may need to be restricted.

82. Another procedural issue has to do with the concept of incremental costs. In many cases, it may not be these costs that are the barrier to commercial investment but the level of risk compared with projects normally financed. Under such circumstances, the appropriate GEF role would be to help reduce the risk through such actions as providing a partial guarantee, paying for some of the up-front transaction costs, or taking a range of other risk-reduction steps rather than subsidizing the size of the firm's investment. Allowing Implementing Agencies to calculate the "incremental risk" as a way of determining the size of the GEF grant could help target GEF grants more efficiently on removing the barriers to private sector participation. The GEF Secretariat has reportedly shown considerable flexibility during the last year on this issue. [20]

83. Most private sector involvement in GEF is through the World Bank, although IFC is playing an increasingly important role. The IFC reports that as of December 1997, $69.3 million worth of IFC-sponsored GEF projects were under way and $68.7 million in the near-term pipeline. [21] IFC's GEF strategy is to focus on near-commercial projects and those that are commercial but highly risky to maximize the leveraging of GEF funding and avoid using GEF in the form of grants. For example, IFC has provided GEF assistance in the form of concessional loans and loan guarantees. The Energy Efficiency Cofinancing Project in Hungary is the only instance of GEF funds being provided in the form of a guarantee. Providing GEF assistance in the form of loan guarantees has the dual benefit of attracting private lenders to global environment projects and allowing the GEF loan guarantee funds to be reused for another project (or expansion of the original project) if they are not called on to cover financial losses.

84. To date, IFC has spent few of its own funds to cofinance GEF projects, but this will change, since it has already approved funds for cocapitalizing the Renewable Energy and Energy Efficiency Fund and the Terra Capital Biodiversity Fund at $35 million and $5

[20] Louis Boorstin and Dana Younger, IFC, personal communication, December 1997.
[21] Ibid.

million, respectively. IFC staff report that they are also actively looking for opportunities to use existing IFC credit lines for global environmental purposes. For example, one proposed project involves the use of GEF funds to leverage an existing IFC credit line in Argentine commercial banks for improving the energy efficiency of street-lighting.

85. In April 1996, the GEF Council reviewed a paper prepared by the secretariat on increasing private sector involvement in GEF. [22] Although the council did not take any action based on the paper, there was a consensus that increased private sector involvement was desirable. One of the paper's major recommendations was that nongrant financing, such as concessional loans and equity investments, should be pursued for providing GEF support to private sector projects. New ways of attracting private investment to GEF projects are currently being explored by the secretariat. One approach under consideration is the broader use of GEF funds in the form of loan guarantees, as in IFC's Energy Efficiency Cofinancing Project in Hungary. Another approach being examined is the establishment of a special environmental loan guarantee fund at the Multilateral Investment Guarantee Agency, the risk insurance agency in the World Bank Group.

Conclusions

86. The study team found that GEF has been able to mobilize a small but growing level of private sector financing of GEF projects. It has been particularly successful at mobilizing funds from the direct beneficiaries of projects but has had comparatively little success with mainstream private financial institutions. The use of GEF funds to establish environmental investment funds shows great promise, particularly from a leveraging standpoint. However, the lack of operational experience to date, due in part to long start-up delays for some of the funds, has meant the team could not evaluate the funds' effectiveness.

87. The team found that major barriers to increasing support from the private sector exist, particularly GEF's long and complex approval procedure and the comparatively greater risk of global environmental projects compared with normal commercial projects. However, the team notes that GEF assistance can be provided to the private sector in a way that does not subsidize private profits but instead reduces the risks to private firms and financial intermediaries of committing capital to projects with global environmental benefits. Such assistance can involve a variety of financing mechanisms, including instruments which have below market returns (e.g. low interest rate loans) and/or contingent payment features (e.g. partial guarantees which are forgivable if a project fails).

Recommendations

88. The GEF Secretariat and Implementing Agencies should engage business and banking associations and mobilize financing from individual private financial sector companies, such as banks, insurance companies, and pension funds. To interest the private sector in GEF projects, the GEF should use the "incremental risks" of a potential private sector GEF project as a way of determining the size of the GEF grant.

89. GEF should identify and apply techniques for reducing the risk of the private investors of participating in GEF projects, such as using GEF funds to provide loan guarantees.

[22] Global Environmental Facility, Draft "GEF Strategy for Engaging the Private Sector," GEF/C.7/12, March 7, 1996.

III. Issues at the Country Level

A. The Focal Point System in Recipient Countries

90. There are two types of GEF Focal Points—political (usually the country's representative on the GEF Council, if the nation is a member) and operational (usually the ministry that provides financial and technical overview of GEF projects). The study team found that the effectiveness and level of engagement of the Operational Focal Point are likely to be greater if the country is a GEF Council member. Nine of the ten countries visited by the core team during the study have political Focal Points who are council members. Although council members have minimal staff and resources, most appear to have established effective working relationships with the Operational Focal Point.

91. According to the procedural steps in the GEF project cycle,[23] the Focal Point is responsible for "*(a)* acting as the principal contact point for all GEF activities within the country, *(b)* reviewing project ideas and concepts, endorsing their consistency with respect to the national programs and the country's participation in conventions and confirming their national priorities, *(c)* facilitating broad as well as project-related consultations with stakeholders, *(d)* providing feedback on GEF activities." An effective GEF Focal Point can also help to develop the country's GEF pipeline by identifying sound project ideas and can promote understanding of and interest in GEF by disseminating information among government and nongovernmental stakeholders.

92. The study team found significant variations among the countries visited in terms of the Operational Focal Point undertaking these roles. Most Focal Points are undertaking some form of coordination of GEF-related activities at least within the government. But most of the coordinating mechanisms are more informal. Some play a lead role in the development of GEF projects. Others believe they are circumvented by more powerful agencies, such as the Ministry of Finance.

93. Table 3 provides an overview of the different approaches to coordination in the ten countries visited. It shows that most of the countries have not yet established any formal body for intragovernmental coordination of activities related to the coordination of GEF activities.

- **Interagency mechanisms for project screening and pipeline development.** In Russia, the Inter-Agency Committee and state commissions together provide interagency coordination with regard to GEF projects. In Mexico, coordination takes place through the National Council for Sustainable Development. In China, this coordination function is carried out by a panel of technical experts, which examines projects for technical soundness and fit with national criteria and priorities. In Kenya, the National Review Panel provides this coordination, but it is a relatively new mechanism and, therefore, premature to assess its impact. In India and Egypt, the Ministry of Environment and Forests and the Egyptian Environmental Affairs Agency, respectively, convene meetings of the ministries relevant to GEF projects as the need arises. In Poland, a formal coordinating mechanism is still in the process of being created. Some Focal Points consider that GEF projects have such small funding that they do not warrant any special coordination effort.

- **Policy coordination with Focal Points for the conventions.** Frequent divergence between positions toward GEF taken by recipient countries in the GEF Council, on one hand, and in one of the conventions, on the other, reflects poor policy coordination among government agencies. In most of the countries visited, there were no institutionalized mechanisms for formal interaction between the GEF Focal Point and the Focal Points (national secretariats) for the conventions. This is true even in those countries in which the GEF Focal Points are housed within the same ministry as the convention Focal Points. In Zimbabwe, the Ministry of Environment serves both as the GEF and biodiversity convention Focal Points.

[23] Global Environment Facility, *The GEF Project Cycle,* (Washington, D.C.: March 1996), p. 4.

TABLE 3.
DESCRIPTION OF GEF FOCAL POINT SYSTEMS IN TEN COUNTRIES

Country	Political Focal Point	Operational Focal Point (Financial and Technical Aspects of In-country GEF Activities	Functions of Operational Focal Point	Mechanism for Intra-government Coordination
Brazil	Secretaria de Asuntos Internacionais (SEAIN) (Secretariat for International Affairs)	SEAIN, although it appears that the Ministry of Planning and Budget, Foreign Loans Division, plays a role too.	Disseminates GEF information, analyzes and reviews projects, conducts technical analyses of GEF policies and projects.	GTAP (Grupo Trabalho de Analisis de Projetos).
China	Ministry of Finance (World Bank Department)	Ministry of Finance (World Bank Department) for financial aspects with technical support from the National Environmental Protection Agency (NEPA)	Monitors GEF activities and collaborates with other relevant government offices responsible for GEF focal areas, such as NEPA Office of the Convention on Biological Diversity (CBD), the focal point for the CBD. Develops GEF project pipeline.	Ad hoc panel of technical experts provides advice on an as-needed basis to vet technical soundness of GEF projects and fit with national criteria and priorities.
Egypt	Egyptian Environmental Affairs Agency (EEAA)	EEAA	Convenes interministerial meetings for review of GEF projects and other GEF issues.	Ad hoc interministerial meetings chaired by the focal point
India	Ministry of Finance, Department of Economic Affairs (DEA)	Ministry of Environment and Forests (MOEF)	Conducts technical review of projects, coordinates with other ministries, and convenes interagency meetings to review and approve projects. Ministry of Finance (DEA) gives final approval and clearance.	MOEF plans to establish a GEF "cell" within MOEF.
Indonesia	Planning Ministry (BAPPENAS)	Planning Ministry and Ministry of Finance, with technical support from Ministry of Environment	Unclear which functions are performed by Operational Focal Point. BAPPENAS keeps and updates a central "blue book" of all funding proposals and sends approved projects to Ministry of Finance.	No mechanism for collaboration or to ensure that Ministry of Environment's technical input is always sought for all proposals.
Kenya	Ministry of Finance	Ministry of Environment and Natural Resources, National Environment Secretariat (NES)	Reviews all project proposals, follows up on projects, and houses the coordinating offices of the two GEF enabling activities in biodiversity and climate change. Also liaises with the Inter-Ministerial Committee on Environment, Subcommittees on Biodiversity and Climate Change.	Thirty-eight-member National Review Panel, consisting of government agencies, NGOs, Implementing Agencies, and the private sector. Its mandate is to review all proposals to ensure that they meet GEF criteria and are country driven.
Mexico	Ministry of Finance and Public Credit	The National Council for Sustainable Development.	Coordinates GEF activities.	Ministry of Finance and Public Credit (Directorate of International Financial Organisms)
Poland	Ministry of Foreign Affairs	Ministry of Foreign Affairs	Monitors GEF activities and disseminates information on GEF activities and Council policies.	There were some indications that limited size of GEF funds does not warrant special coordination efforts, however, a formal coordination mechanism is now being developed and is in a "process of advanced development."
Russia	State Committee for Environmental Protection	State Committee for Environmental Protection	Coordinates GEF projects in Russia.	Strong centralized system, Inter-Agency Committee and State Commissions.
Zimbabwe	Ministry of Tourism, Environment and Mines	Ministry of Tourism, Environment, and Mines (Department of Environment)	Coordinates GEF projects in Zimbabwe.	Ad hoc interministerial steering committees are established on a project-by-project basis.

In China, the National Environmental Protection Agency serves as the Focal Point for the biodiversity convention but also plays an active role (as technical Focal Point for GEF) in many GEF matters in collaboration with the Ministry of Foreign Affairs.

94. The team identified several problems encountered by at least some Focal Points in the ten countries visited. First, there is a lack of clarity on the mandate, terms of reference, and functions. In one country, there was even some confusion as to which agency is the Focal Point. Although this points mainly to internal coordination weaknesses of a recipient government, further clarity in the role of the Focal Point relative to other government agencies (including parastatals and government-funded research and scientific institutions), Implementing Agency country offices, and institutions preparing proposals would enhance the effectiveness of the Focal Point system.

95. A second problem concerned institutional and budgetary constraints. Five of the ten Operational Focal Points in the countries visited were located in the environment ministry or agency. However, there is some evidence that worldwide, a much higher proportion of Operational Focal Points are located in environment ministries. [24] That situation appears to present special problems for Focal Point coordination, because of the relative weakness of environment ministries. This weakness stems from the low priority accorded to the environment in most recipient countries compared with ministries dealing with economic affairs. Environment units usually have no statutory powers to coordinate other ministries and lack sufficient political influence to get other ministries to respond. In India, the Ministry of Environment and Forests (MOEF) complained that, in the past, a number of biodiversity projects had gone to the Ministry of Finance's Department of Economic Affairs (the political Focal Point) without consulting MOEF. In Egypt, the Environmental Affairs Agency indicated that other ministries had been unresponsive to its requests as Focal Point for attendance at meetings or feedback.

96. The lack of budgetary resources for GEF functions exacerbates the problem. Some Focal Points noted that without some budgetary resources at their disposal, they could not do an adequate job of coordination. The Egyptian Focal Point believed that he had to provide some small incentive, such as lunch or travel expenses, for other agencies to attend interagency meetings. Some Focal Points have made no attempt to secure funds from national budgets on the grounds that they are acting as Focal Points for GEF more than for their governments. This was particularly the case for the political Focal Points, whose representational responsibilities sometimes extend beyond their countries to a group of countries within the region.

97. The lack of broad consultation with and dissemination of information to stakeholders is a problem with some Focal Points. Due to its strong government focus, GEF information emanating from the Focal Point sometimes remains within a close-knit group of government agencies. In Indonesia, for example, the study team found that many government organizations and research institutes do not know what types of proposals are eligible for GEF funding. It appears that the Russian Federation Focal Point has not included some relevant government agencies in its consultations. In Egypt, NGOs said they were not being consulted. In Brazil, interested NGOs complain that the Focal Point will not accept proposals from them.

98. The final problem identified by the study team concerned the limited availability of language-specific information about GEF. Focal points need easy-to-understand information to help them with their information dissemination responsibilities, and those interviewed expressed the strong desire for such materials. In Russia and Egypt, however, the team found no official GEF information available in local languages, and the country study in Viet Nam reported that only the GEF Project Cycle document was available in Vietnamese.

99. The GEF Secretariat and the Implementing Agencies have been aware of problems and shortcomings in the Focal Point system and have taken some steps intended to redress them. Since 1996, the Implementing Agencies have collaborated in carrying out a series of project development workshops designed to provide government officials, NGOs, and project staff with training and basic information on project devel-

[24] According to a 1996 UNEP document, 62 percent of the sixty Operational Focal Points that had been designated up to that point were located in environmental ministries (United Nations Environment Programme, "Enabling Activity Proposal for PDF Block B Grant" (August 31, 1996), p. 2.)

opment and design. As of mid-1997, forty-one such workshops had been held or were planned either in individual countries or in regions. UNDP is planning to translate a "beginner's guide to GEF" into multiple languages.

100. However, the experiences of the ten countries visited indicate that GEF efforts to strengthen the Focal Point system need to be more carefully targeted. An evaluation of the Project Development Workshops by the three Implementing Agencies in 1997 suggested that the current version of the workshops may need substantial revision and that Operational Focal Points might be asked to manage the workshops. The workshops could also focus much more centrally on problems of coordination, both on projects and policy and on stakeholder involvement.

Conclusions

101. The study team found that the GEF Focal Point system is not yet adequately institutionalized in some countries. Some Focal Points have not yet set up standing coordinating mechanisms for interactions with other ministries, country representatives to the conventions, or NGO stakeholders. Some are not clear on their roles, and others are unable to carry them out adequately because of internal weaknesses, such as the unwillingness of powerful ministries to cooperate. A common weakness is the tendency to limit information to a relatively narrow circle of government stakeholders.

Recommendations

102. In order to enable Operational Focal Points to be more effective advocates for GEF issues in their country, the GEF Secretariat and Implementing Agencies should broaden the existing Project Development Workshop format by involving the Operational Focal Points as much as possible in planning and execution and by focusing more on the coordination and information dissemination functions of the Operational Focal Points.

103. The GEF should provide resources for translation of basic GEF documents into the local languages of those countries requiring such translated documents.

B. The Requirement for Projects to Be Country Driven

104. The requirement for GEF projects to be "country driven" is a paramount principle in GEF legislative, strategic, and operational documents. The GEF Instrument states that projects must be "country driven and based on national priorities designed to support sustainable development, as identified within the context of national programs."

105. The study team examined two key questions: what constitutes a "country-driven project" and what is its impact on country ownership of a project as defined as the level of commitment to and support for a project on the part of the recipient country's government and nongovernmental stakeholders? Although it is desirable for projects to be country driven, it is country ownership that is a prerequisite for the success and long-term sustainability of a project.

Country-Driven Projects

106. In the absence of a GEF definition of a project being country driven, the study team considered two possible indicators that a project is country driven: Focal Point endorsement of a project and the degree of recipient country involvement in project development and management.

107. Country Focal Point endorsement of a project is required by GEF as evidence that it is country driven. It does not appear, however, to be a reliable indicator of its being country driven. Such an endorsement provides no evidence of the inclusiveness of the process and the involvement of other government, private sector, and civil society stakeholders. Some country Focal Points are attempting to include a broad range of stakeholders in their decisionmaking processes by establishing multistakeholder coordination mechanisms, but others have not yet done so.

108. The degree of recipient country involvement in project development and management is a more reliable indicator of the degree to which a project is country driven. Therefore, the team focused on how projects were initiated, designed, and managed as an indication of how strongly they are country driven.

109. Three different patterns of country involvement in project development were found. In the first, project proposals clearly originated in the recipient countries

and reflected predominant recipient country influence. The India Ecodevelopment Project was an Indian creation and design, although the scale of the project was strongly influenced by World Bank advice. Similarly, in the India Alternate Energy Project, design and preparation were undertaken primarily by the Ministry of Non-Conventional Energy Sources and the Indian Renewable Energy Development Authority. In Mexico, the Protected Areas Program was said by Mexican officials to be designed primarily by national agencies, although major differences with the World Bank emerged in the development process. Thus, these projects are highly country driven, even though Implementing Agencies also played major roles in their development. Stakeholders in these cases consider that the projects to have strong country-level support.

110. A second pattern was one in which the Implementing Agency came up with the initial idea and played a large or even dominant role in development but with significant input from the recipient government. The Biodiversity Conservation in Southeast Zimbabwe Project, for example, was initiated by the World Bank (to be associated with its Wildlife Management and Environmental Conservation project). The Viet Nam Protected Areas for Resources Conservation Project was brought to the State Planning Committee by UNDP, which provided most of the impetus for its design. In the Philippines and Jordan, the Implementing Agencies initially advanced the suggestion for GEF biodiversity projects to the government agencies and were the main force in designing them. The Lake Victoria Environmental Management Project involving Kenya, Tanzania, and Uganda was also initiated and primarily designed by the World Bank. These projects are much less country driven than those in the first category. They can, however, still enjoy government and nongovernmental stakeholder support to the extent government agencies and other relevant stakeholders believe that they have been adequately involved in the process.

111. In the third pattern, projects are initiated by the Implementing Agency and have little recipient country involvement in design and development. For example, according to Indonesian officials, all of Indonesia's climate projects were initiated primarily by the World Bank and developed with little government input. Although the government did not play an active role in project design or development, it is possible for them to have strong country support if they are closely linked to existing government policy. Indonesia is interested in developing solar energy to carry out rural electrification in areas off the main grid, so GEF climate-related projects are a relatively high priority. The Indonesia Solar Homes Project fits into the country's policy to install one million solar homes within the next nine years. So, even though the project may not be country driven, the team found that the project has country ownership.

112. Some projects that have little recipient government input, however, enjoy much less support. Due to their international nature, regional and global projects require that the Implementing Agencies play an important catalytic role; these projects are usually endorsed at the request of that agency. If the outputs are not considered a high priority in a country's national interests, ownership and commitment may be low. One example is the regional, climate change enabling activity in Kenya, Building Capacity in Sub-Saharan Africa to Respond to the U.N. FCCC (Framework Convention on Climate Change). According to most interviewees, the project was prepared by a multinational team of energy and climate specialists and is executed by an NGO based in Senegal. Kenya, Zimbabwe, and Ghana are involved in the project. In Kenya, concerns were expressed about lukewarm commitment because of the limited role played by the recipient country. UNDP is working with Kenya to redress misunderstandings and to ensure full buy-in by all stakeholders.

113. Regional projects involving private sector partnerships may encounter similar problems because they are often initiated by the Implementing Agencies in collaboration with private entities. The Photovoltaic Market Transformation Initiative implemented by IFC in India, Kenya, and Morocco have raised to concerns in India and Kenya about the low level of involvement by government stakeholders in project development. Although IFC consulted with and informed the governments about the initiative in both cases, the team heard complaints in both countries that some officials first found out about national participation in the project when an IFC consultant visited the country. These complaints suggest that either inadequate consultation with recipient country stakeholders by the Implementing Agencies or inadequate intragovernmental coordination can undermine country ownership of a project.

114. These examples show that country ownership of projects does not necessarily depend on initiation or

development of a project by the recipient government. Rather, it depends on the degree of participation by government and nongovernmental stakeholders in its development and the degree of coincidence with the country's interests.

115. Recipient countries differ in the degree to which they have an interest in GEF focal areas. When a country views a focal area as a priority in its environmental or development strategy, GEF projects are likely to gain more commitment and ownership. On the other hand, some countries are not interested in establishing a strategy for mitigating climate change, to cite one focal area. Under those circumstances, country ownership of a climate change project is likely to be weak unless the project is linked to an important national need. The draft 1997 Project Implementation Review (PIR) of GEF lists a number of projects in which national ownership has been enhanced by the coincidence of project goals and national needs, such as providing economic/livelihood benefits, creating a forum for influencing the environment policy framework, or enhancing mine safety.

116. Although the Implementing Agencies have improved their efforts to use national and subregional experts at all stages of the project cycle, there continues to be dissatisfaction in developing countries with the reliance on foreign consultants. In all countries visited, the team found that the use of foreign consultants in some instances has reduced government and local participation in projects at the design phase. The issue came up in relation to at least one project in each country visited. In the India Ecodevelopment Project, for example, the government insisted that the World Bank not involve foreign consultants at the design phase of the project. In Egypt, 20 percent of the funds for the Lake Manzala Engineered Wetlands Project had already been spent on foreign consultants before project implementation.

117. Foreign consultants are often necessary in areas in which domestic expertise is lacking—for example, projects involving novel concepts and technologies. The study team did not find evidence of concerted efforts to team local and foreign experts to present opportunities to build and strengthen local capacities in such situations. Implementing agencies relied on foreign consultants for the calculation of incremental costs in nearly all the countries visited by the study team. There may be some variations among Implementing Agencies and among regions in the extent to which foreign consultants are required. UNDP indicated in its comments on an earlier draft of this report that it does not use international consultants so heavily in Latin America and the Caribbean as in other regions.

118. According to the Implementing Agencies, all project decisions (including hiring of consultants) are the responsibility of recipient governments. The team, however, encountered instances in which international consultants played an unwelcome role in the preparation and implementation phases, leading to conflicts between Implementing Agency and recipient country stakeholders. The team was unable to corroborate the allegations made about the international consultants in all cases. It did take note, however, of the general dissatisfaction regarding the use of foreign consultants, based on some general perceptions about them:

- They are expensive (compared with local experts) and drain project resources.
- They are not as knowledgeable about culture-specific issues, political sensitivities, and idiosyncrasies that might warrant particular approaches.
- They compromise a project's sustainability because at the end of the assignment they take away with them the expertise and knowledge acquired.
- Reliance on short-term consultants on project-specific assignments provides no means of capturing their collective expertise for future projects or for consistency and continuity.

119. These concerns are compounded by the lack of mechanisms or procedures to document country-level project experiences for future use. Some of the GEF project preparation activities involve cutting-edge or precedent-setting approaches, especially on incremental costs and stakeholder participation. GEF's project-related expertise and experience reside in the Implementing Agencies. Although this is a strength of the system, cost-effective ways of documenting consultants' experiences need to be identified so that these are integrated into lessons on which all members of the GEF family can draw. These could be integrated into the PIR process as part of a set of best practices in the field to be used on a continuous basis to inform project design and development.

Conclusions

120. The team found that country-driven projects and country ownership are related but not synonymous. A project may not be country driven in origin, but it can

ultimately enjoy country ownership if recipient country stakeholders play a role in its development and execution or if it is viewed as coinciding with country needs. "Country driven" should be seen as a dynamic rather than a static concept. More GEF projects will become more country driven with time as recipient governments initiate more project concepts and become more involved in project design and preparation.

121. The team found that a number of projects have achieved country ownership, even when the role of national stakeholders in the initial project design was limited, because the country finds the project valuable. It also found that a minority of projects, including a number of global and regional projects, have enjoyed limited recipient commitment but that these concerns can be addressed by strengthening the Focal Point system.

122. Although foreign consultants may be necessary in many instances (and in some cases, a mix of local and foreign consultants may be the best approach), the reliance by Implementing Agencies on foreign experts instead of on national and subregional expertise has come under criticism, because it tends to reduce the local involvement necessary for country-driven projects and country ownership.

Recommendations

123. The GEF Council should adopt a policy, paralleling that for stakeholder participation, aimed at promoting the greater use of local and regional consultants in projects; encouraging an appropriate mix of local and foreign experts in GEF projects; and securing greater recipient-government participation in the screening, short-listing, and selection of project consultants.

C. Contribution of GEF to Awareness of Global Environmental Issues

124. The study team assessed GEF's contribution to increased awareness of global environmental issues. In some countries the low level of awareness of global environmental issues means that any knowledge of the GEF focal areas, even from a narrow local perspective, represents an increase in awareness.

125. The major difficulty in making such an assessment, however, is that many other players are involved in GEF's focal areas, including U.N. agencies, bilateral donors, and international environmental NGOs. In this crowded field, the incremental impact of GEF is difficult to identify. Therefore, the team identified indicators of direct GEF impact on public awareness relating to knowledge about GEF and to knowledge about global environmental issues.

Indicators of Knowledge of GEF

126. The study team looked for evidence of the visibility of GEF and an understanding of how it works. It found that GEF has extremely low visibility in some countries. In Indonesia and India, the team was told that most people do not distinguish between the World Bank and GEF. In Poland, those who have heard of GEF are likely to view it as an adjunct of the World Bank. Even when GEF projects attract media attention, as in Belize, the project is associated with the Implementing Agency. GEF is least well known within the private sector. The head of the Chamber of Commerce of India indicated that there is little awareness of GEF within Indian industry, for example, and he was unaware that GEF funded private sector projects.

127. The level of understanding of GEF varies among different constituencies. Even country officials who are concerned with GEF-related activities, such as *Agenda 21* and global environmental conventions, are not familiar with GEF criteria or how to access GEF resources. Those who are involved with GEF activities and have some basic knowledge about GEF as a source of external funds often lack understanding of the funding criteria in the focal areas. GEF was described in one instance as a "Washington-based black box." There is even less understanding of GEF among nongovernmental stakeholders. In Egypt, the small grants coordinator, the general coordinator of the Egyptian steering committee, and a group of fifteen NGOs with whom the team met all agreed that NGOs are generally uninformed about GEF. In India, an NGO representative said that the NGO sector is "completely GEF-illiterate." In some cases, even field-level staff of the Implementing Agencies were not fully briefed about GEF.

128. In sharp contrast, the GEF Small Grants Programme (SGP) has relatively high visibility among NGOs. In most countries with SGPs, NGOs and other stakeholders could associate it with a local coordinator. Most of these coordinators are effectively integrated into the NGO, United Nations, and donor communities. In Kenya, Poland, and Zimbabwe, for example, SGP offices have established effective work-

ing relationships with the players in both regular environmental activities as well as with GEF 1 projects in anticipation of the scale-up of some SGPs.

129. The team found at least two major factors contributing to the low level of awareness and understanding of GEF. First, current GEF information does not reach all of GEF's diverse constituencies. GEF's main contacts in most countries are the Focal Points, usually the Ministries of Finance, Environment, or both. They receive considerable amounts of information from the GEF Secretariat, but, in some cases, make no systematic effort to ensure that this information is disseminated to the relevant stakeholders. Furthermore, several countries commented about the highly technical nature of GEF documentation and the fact that it was not available in the local language.

130. Second, those who know about GEF appear to have few incentives to promote it. In many countries, particularly the larger ones visited by the study team, GEF is one of many donors and viewed as a small fund with complex rules and procedures. Some Focal Points claimed that they were reluctant to encourage government agencies to submit proposals because of the lengthy development and approval process. Even within the Implementing Agencies' country offices, the incentives to disseminate information about GEF beyond the key ministries with which they work are weak. In some cases, field-level staff are not well trained or briefed on GEF programming and criteria. Some Implementing Agency staff identify GEF as a potential funding source but the complex project cycle exacts a high price in terms of time, raising the need for extreme commitment in promoting a project, otherwise it would not get far.

131. In recognition of the low level of awareness and understanding of GEF at the country level, GEF established the Communications Working Group. In mid-1996, the group reached agreement on the division of responsibilities for raising awareness about GEF and global environment issues. It is now developing an overall GEF communications strategy.

Indicators of Awareness of Global Environment Issues

132. Indicators of GEF's impact on awareness of global environmental problems include GEF-inspired media coverage of global environmental issues and the development of networks on global environmental concerns.

133. The study team collected a few examples of cases of media coverage either directly or indirectly inspired by GEF projects. In Egypt, the coordinator of the GEF climate enabling activity convinced newspapers to carry a number of articles on climate change for a period of weeks—a first in local coverage. In its 1997 PIR, UNDP reports that two projects (in Belize and Papua New Guinea) have stimulated policy debates in the media. In Viet Nam, during the six months prior to the team's visit, some 200 articles on biodiversity were published in local newspapers at least partly as a result of the GEF-funded Biodiversity Action Plan.

134. Some GEF projects generate considerable debate—negative or positive—about GEF's focal areas. During its early preparatory phase, the Tana River Primate Reserve project in Kenya generated debate on public participation and sustainable use projects in Kenya, whereas the Photovoltaics for Households Project in Zimbabwe has elevated local knowledge about solar energy as an option. Another project containing components that have attracted considerable media interest is the designation of the Belize Barrier Reef as a World Heritage Site in the Belize Sustainable Development and Management of Biologically Diverse Coastal Resources Project.

135. GEF enabling activities have contributed to the development of networks of constituencies on global environmental issues (among academic research and NGO communities). On both climate change and biodiversity, there is evidence that growing networks of interest groups that have been involved in enabling activities now exist and may continue their involvement. GEF in Egypt has created a large network of up to 500 institutions and professionals involved in the climate change area, according to the project manager. The Viet Nam country study reported that three years of work preparing the GEF-funded Biodiversity Action Plan had created a network of government staff, local consultants, academics, and others working on biodiversity conservation. The constituencies for biodiversity conservation include more than one thousand forest staff trained for one month in biodiversity conservation, many of whom had never heard of biodiversity or global environmental problems before.

Conclusions

136. These examples of GEF impacts on public awareness from country studies lead the study team to conclude that, at least in certain countries, GEF has had

some impact on awareness of global environmental issues. These impacts are obviously small in relation to the problem as a whole, although they sometimes involve strategically important constituencies.

137. GEF is not well known or understood in recipient countries, because of lack of incentives for Implementing Agencies and Focal Points to promote it and the absence of a well-targeted communication and outreach strategy.

Recommendations

138. The GEF Council should authorize and adequately fund the development of a GEF outreach and communications strategy that targets GEF's multiple constituencies, including the Focal Points and relevant government agencies, NGOs and civil society, the media and the private sector. This strategy should rely on simple, user-friendly materials about GEF and its operations, and should include provision of basic GEF documents in local languages. This strategy should be coordinated with the broadening of the Project Development Workshops.

D. Stakeholder Participation in GEF Projects

139. The GEF policy on stakeholder involvement requires that all GEF projects provide for, among other things, "consultation with and participation, as appropriate, of major groups and local communities throughout the project cycle." [25] To evaluate GEF's overall performance in the area of stakeholder participation, the study team examined the policy framework created by GEF as well as the practices associated with stakeholder participation in projects.

The Background: Previous Evaluations

140. The benefits of stakeholder participation include enhancing country ownership; ensuring that the needs of affected communities are adequately met; improving project design, implementation, and evaluation; and helping to strengthen the capacities of NGOs and civil society groups. Such benefits can contribute to achieving desired project impacts and sustainability.

141. GEF defines stakeholders as the "individuals, groups, or institutions that have an interest or stake in the outcome of a GEF-financed project," including governments, Implementing Agencies, and executing agencies. Although this definition does not mention NGOs, they make up one of the most prominent groups of stakeholders in GEF activities. NGOs range from policy advocacy groups operating at the international or national level to grassroots institutions and groups operating at an intermediate level, serving as spokespersons on behalf of communities in the rural areas. Some groups focus on technical issues, including research and academic institutions and "think tanks," whose input can be important in some highly technical projects. Some NGOs operate independently; others, such as those in some economies in transition, are partially funded by state budgets. The team found that GEF projects have worked with the full range of stakeholders, although in most cases the main participants have been policy advocacy groups.

142. A number of studies have evaluated the performance of GEF on stakeholder participation either in the Pilot Phase or in a specific set of GEF 1 projects. The *Independent Evaluation of GEF's Pilot Phase* conducted in 1994 found unsatisfactory participation by affected populations. It documented the need for a more systematic means of fostering mutually beneficial collaboration with multiple stakeholders, especially NGOs. In 1995 Climate Network Europe commissioned a series of studies on the role of participation in several GEF climate change projects, including the Renewable Resource Management Project in India. The study found that, although there had been limited NGO participation at the design phase, the implementation phase had involved a wider group of stakeholders. It also found that GEF guidelines are so complex and lengthy as to practically exclude the involvement of smaller stakeholders at the design phase.

143. The NGO Working Group produced a report in 1996 with case studies of NGO participation in GEF projects (these include acting as advocates, facilitating policymaking, contributing to project development and implementation, and providing outreach for GEF). It found four types of problems: difficulties, such as cash flow problems arising out of the World Bank's complex and often slow procurement procedures; competition with nonlocal consultants, who

[25] Global Environment Facility, *Public Involvement in GEF-Financed Projects* (Washington, D.C.: June 1996), p. 2.

tend to be favored by the World Bank; lack of understanding of complex GEF/World Bank procedures and decisionmaking processes; and dissatisfaction with the rules that prohibit the use of GEF funds for capacity building, which is necessary to increase NGO capacity to absorb project funds.

144. A second study produced for the GEF Council meeting, *Promoting Strategic Partnerships between GEF and the NGO Community*,[26] although not an evaluation of GEF performance, noted that GEF has not taken full advantage of the potential of NGOs, academic institutions, and private sector groups. It made many recommendations on facilitating the greater participation of such groups, including expedited access to medium-sized grants.

The Policy Framework for Stakeholder Participation in GEF Projects

145. In response to recommendations by the *Independent Evaluation of the Pilot Phase* and other studies, the GEF Secretariat issued clear policy guidelines on stakeholder participation in projects, requiring that stakeholders are identified clearly and consulted with throughout the project cycle. The study team noted that these guidelines were developed by the GEF Secretariat in collaboration with the Implementing Agencies and that they present a comprehensive and far-reaching policy framework. It has added a social scientist to the staff who is responsible for reviewing cross-cutting issues and lessons. The officer reviews project proposals and comments on the integration of stakeholder issues.

146. The effectiveness of GEF policy guidelines depends on the responses of the Implementing Agencies and recipient governments. Stakeholder participation is closely linked to the issue of transparency and accountability in the operations of the Implementing Agencies. The team, therefore, examined agency policies regarding stakeholder participation and public access to project information.

147. UNEP adopted a policy and procedures relating to public availability of documentary information on GEF operations in 1993.[27] In 1994, its executive committee approved a policy and procedures for public participation in its GEF operations. This was designed to foster public involvement in GEF operations and provides a detailed list of groups encompassed in its definition of "public."[28] Basically, these two sets of documents provide for public access to information, consultations with relevant stakeholders, and provision of opportunities for stakeholder involvement in implementing UNEP's GEF projects. Both sets of policy documents, however, make explicit references to the fact that the provisions are for the "sole purposes of UNEP's participation in GEF, pending the adoption approval of an agency-wide directive," an indication of the documents' unique and precedent-setting nature.

148. Like UNEP, UNDP has adopted policies on the disclosure of public information and documentation. The policies on participation have specified a broader group than NGOs, highlighting the importance of civil society organizations[29] and attempting to engage smaller groups, such as community-based organizations, in UNDP's work. Its policy statement on this issue lists three principal objectives: encouraging policy dialogues among government, civil society organizations, and donors; supporting capacity-building needs of civil society organizations; and enhancing the capacity of UNDP offices to strengthen such partnerships. It is partially in recognition of its experiences with and emphasis on establishing partnerships with such groups that UNDP assumed responsibility for the SGP.

149. The World Bank's policies for involving stakeholders not in the public sector (particularly NGOs) in its projects fall into three categories: those relating to involving NGOs in project preparation, those relating to environmental assessments, and those relating to disclosure of public information. These policies have emerged in response to the increasing importance of NGOs in development activities and the need for the Bank to guide its staff to ensure early involvement of

[26] *Promoting Strategic Partnerships Between GEF and the NGO Community.* A Report from the GEF-NGO Working Group (Washington, D.C.: February 29, 1996), GEF/C.7/Inf.8.

[27] "UNEP Administrative Note: Policy and Procedures Related to Public Availability of Documentary Information on GEF Operations."

[28] Public includes the scientific community; representatives of environmental, consumer, women's youth, indigenous peoples' educational and social and economic development associations or groups; and NGOs that may have an interest in or may be affected by a GEF/UNEP activity or decision.

[29] UNDP defines civil society organizations as including NGOs, people's organizations, women's and youth groups, grassroots movements and organizations of indigenous peoples, consumer and human rights groups, and so on.

NGOs in all stages of Bank project processes.[30] The Bank has initiated annual meetings with the NGO - World Bank Committee and has instituted a policy that advocates that prospective borrowers use NGOs[31] wherever appropriate. In the environment sector, the Bank's Operational Directive 4.01 expects prospective borrowers to take the views of affected groups (including tribals and indigenous people) and local NGOs fully into account, especially in preparing environmental assessments.

150. World Bank projects that cover areas inhabited by indigenous societies are required to delineate an action plan to deal with indigenous communities' concerns. Countries are expected to hold consultations with affected groups in these environmental assessments of projects. Its 1994 policy on disclosure of information expands the range of documents that are to be made available through its Public Information Center or, in the case of the environmental information, in the client country at a public place that is accessible to affected groups and local NGOs. The policy for disclosure of information on the Bank's GEF operations goes beyond this and provides for more open access to GEF project-related information.

151. The GEF policy requires that projects monitor and keep a record of stakeholder consultations with major groups and local communities during project preparation. Although the Implementing Agencies regularly keep records of such consultations, the team notes that GEF's specific integration of this activity into its policy guidelines has elevated the policy significance of this practice.

Stakeholder Participation in GEF Projects

152. The study team examined project documents for more concrete indicators of plans for stakeholder participation. The indicators noted include the types of stakeholders identified, the provisions for consultation with stakeholders, the representative nature of the institutional frameworks that are set up, the extent to which NGO stakeholders play an executing role in projects, and the financial allocations that the projects make to support such activities.

153. The following types of stakeholders have been involved in Pilot Phase and GEF 1 projects (based on frequency of involvement and in terms of institutional capacity-building impact): academia, international NGO constituencies, national and local NGOs, and the private sector. GEF projects involving trust funds have generally been effective vehicles for securing broadly based participation of these different groups within the same project. They have also demonstrated flexibility in opening doors for private sector groups, such as the tourism industry. There may be a need for more detailed disaggregation of stakeholders to ensure that the full range of players in the industries and activities involved in each focal area can be identified and effectively integrated early in the process.

154. The project documents place significant emphasis on consultations with NGOs and local communities, but there is a wide range of understanding of what "consultations" means. These could be as limited as pro forma "briefings" or as detailed as ongoing interactions and joint planning with NGOs. The latter is the desired option, as it emphasizes genuinely local representation in consultations as well as clarity on the expected outcomes of these consultations. A potential pitfall of such emphasis on consultations is that they may be viewed as an end in themselves, especially if there is no provision for feedback to the local communities. During the country visits, team members heard complaints from community members that they did not receive any reports about the outcome of many consultations.

155. GEF projects have established a variety of institutional mechanisms to bring government and nongovernmental stakeholders together. The Russian Biodiversity Project, for example, established the joint International Expert Council on Protected Areas and the thirteen-member Lake Baikal Supervisory Committee, which consists of six nongovernmental representatives from the local, academic, scientific, social, and NGO communities. In the Mexico Protected Areas Project, in each of the ten protected areas that form the core of the project, technical advisory committees make provision for the active participation of stakeholders, such as indigenous communities.

[30] This policy note (OPN 10.05) was reissued as an Operational Directive in 1989 and was replaced in March 1997 by GP 14.70 with specific references to different groups, such as "private organizations that pursue activities to relieve suffering, promote the interest of the poor, protect the environment, provide basic social service, or undertake community development."

[31] The World Bank defines NGOs as "groups and institutions that are entirely or largely independent of government."

156. The study team also examined reliance on nongovernmental stakeholders for the execution of GEF projects. Some projects use such groups to execute projects or as contractors or subcontractors. UNDP reports in its 1997 PIR that 84 percent of its full GEF projects involve NGOs in one of two roles—project execution or policy/advisory—and has recently issued guidelines on NGO execution of projects. The large sums of money involved in GEF projects and the limited technical and administrative skills of local NGOs to absorb or manage such funds effectively may account for the limited role of nongovernmental stakeholders in this regard.

157. The study team found that this approach is more likely in the case of a trust fund than in other types of projects. For example, the three biodiversity projects in Brazil, Mexico, and Costa Rica were initiated by governments but eventually turned over to NGOs—Fundacion Getulio Vargas in Brazil, Mexican Fund for Nature Conservation, and the National Parks Foundation in Costa Rica—for implementation. This practice could yield many benefits, including institutional capacity building and improved working relationships between public and nongovernmental sectors.

158. GEF 1 projects appear to be making greater attempts to specify how statements about stakeholder participation will be followed through in projects. The team's review of work programs for GEF 1 projects shows significant discussion between the Implementing Agencies and the GEF Secretariat on the means of verifying statements in project documents regarding stakeholder participation. The Implementing Agencies provided clarifications and descriptions of how stakeholders will be identified, consulted, and otherwise involved in the project.

159. One indicator of the potential of provisions in project documents to achieve optimal participation is the level of budget resources allocated for consultations. In some projects, it is difficult to separate consultation activities from the public education and awareness components. (Indeed, some of these activities may overlap.) This was particularly true of some Pilot Phase projects. For example, the Russia Biodiversity Project is funded by a $25 -$26 million GEF grant. It allocates $75,000 to support stakeholder work groups as part of the biodiversity policy support component (an amount that implies this is not as high a priority as other activities, especially when compared with the 11 percent allocations for public support and education and for institution strengthening). Although some stakeholders may benefit from these education activities, a limited budget focusing specifically on stakeholder issues is unlikely to secure more than just a one-time full participation exercise.

160. GEF 1 projects appear to be paying closer attention to these budget provisions, because adequate budget allocations can ensure that consultations are meaningful for the lifetime of projects. Some GEF 1 projects have allocated more than 50 percent of total project costs for local-level activities that involve community participation in planning, such as "microplanning" (India Ecodevelopment), "ecomanagement" (China Nature Reserves Management), and "area/village development activities" (Indonesia Kerinci Seblat). The UNDP 1997 PIR notes that the ecological zoning subproject of the larger Pilot Phase Regional Support for the Conservation and Sustainable Use of Natural Resources in the Amazon Project has allocated more than 25 percent of its budget to consultations and that 50 percent of staff time has been spent on stakeholder issues. It is important to note, however, that in many instances all public awareness components of projects—training programs, workshops, publication of information, subcontracting, and so on—can be and are categorized as stakeholder participation.

E. Experiences with Stakeholder Participation by Focal Area

161. **Biological Diversity**Stakeholder participation issues in biodiversity projects present a complex set of problems for project design and implementation, including: the inherent tension between traditional approaches to biodiversity conservation (planning and "policing" protected areas) and the survival and livelihood needs of local communities; the need to secure the collaboration of communities in "buffer zones" that might be established as part of reserve management; the need to promote a biodiversity conservation ethic that accommodates new management partnerships between protected area managers, the users of resources, and community groups; and the relatively limited experience and expertise within Implementing Agencies working on an interdisciplinary basis on each of these issues within the same project. Therefore, biodiversity projects often require long, painstaking processes to ensure stakeholders' participation and to reconcile it with biodiversity protection goals.

162. These lengthy processes may be one of the tradeoffs associated with all aspects of GEF project preparation; these processes have given GEF projects in some countries a reputation as complicated, repetitive, cumbersome, and excessively long. Nevertheless, these processes can have a positive impact on stakeholder participation. For example, the Biodiversity Conservation in Southeast Zimbabwe Project has identified five key stakeholder groups that are now developing proposals for possible participation in the project. The process of consultation with and among these groups is providing the basis for different (and sometimes conflicting) interests to be better defined.

163. Biodiversity projects may also require provisions for resettlement, land and property use rights, gender or other special groups' concerns, and complex social assessments. One factor that could improve the success of GEF projects is the strengthening by Implementing Agencies of methodologies for mainstreaming social and gender concerns specifically in environment projects, especially through increasing reliance by Implementing Agencies on the expertise of social scientists and the systematic documentation of experiences with social concerns in project implementation. The 1997 Project Implementation Review highlights the "lack of explicit treatment of gender issues in project implementation reviews."

164. **Climate Change.**Climate change projects are more likely to involve private sector stakeholders than biodiversity projects. Projects involving new energy technologies require more private sector stakeholder involvement at the design phase to secure their input regarding such issues as assumptions about market performance of technologies. A large and varied group of private and public sector organizations, including solar industries, parastatals, and public utilities, are involved in implementing the Photovoltaics for Households and Community Use project in Zimbabwe. The IFC-executed Small and Medium-Scale Enterprise Program has approved NGOs as an appropriate group of intermediaries.

165. **International Waters.** Due to their transboundary nature, international waters projects involve upstream policy-oriented activities that engage stakeholders in the technical and scientific communities as well as government policymakers. The projects often make provision for these stakeholders to be fully engaged in the preparation and implementation of these strategies. Few local or community-based stakeholders have been involved, although most of the projects identify NGO groups as potential partners.

166. One GEF 1 international waters project that is designed to engage NGOs is the Lake Victoria Environmental Management project. In Kenya, OSIENALA (Friends of Lake Victoria), a local NGO that acts as an intermediary for the smaller, less well-organized community groups in the villages surrounding the lake, was involved in early consultations with communities. However, since the government took over project coordination, such interactions have subsided. Critics claim that this shift is evidence of the government's reluctance to work with existing NGOs and that it is taking its time to set up its own "NGOs" to participate in this project. Team members visiting one of the communities on the Kenyan side of the lake found that neither community members nor local authorities had much knowledge of the specifics of the project and the potential role that they could play in it.

Conclusions

167. The study team found that the issuance of GEF guidelines on stakeholder participation in GEF-financed projects has been one of the significant accomplishments of GEF 1. They provide the basis for one of the most extensive and far-reaching policies on public involvement in, and disclosure of information on, projects.

168. The team found that GEF 1 project designs have involved detailed and comprehensive plans for public participation, especially in the biodiversity focal area. Most of these projects are in the early stages of implementation, but the team found that some projects are already including local stakeholders in key project activities. Projects involving trust funds in particular have provided innovative opportunities for different stakeholders to work together on the same project at policy and operational levels. In some cases, however, local communities have not been provided with feedback on consultations. The team finds, therefore, that careful monitoring and evaluation of progress in actual implementation of GEF guidelines and project provisions for stakeholder participation is needed.

Recommendations

169. The GEF Secretariat should work with Implementing Agencies to develop quantitative and qualitative indicators of successful stakeholder involvement

at different stages of the GEF project cycle and to document best practices of stakeholder participation by focal area.

F. Impacts on Country Programs and Policies

170. The study team was asked to evaluate the impact of GEF projects on country programs and policies. The team considered how the projects have helped to create broader changes in the way in which recipient countries deal with issues related to the four focal areas.

171. As with the assessment of GEF's impact on awareness of global environmental issues, the team encountered difficulty in some cases in isolating GEF's contribution to changing policies and programs in recipient countries. Other activities and actors also have provided impetus for such changes. For example, many countries have been adopting measures to incorporate the results of the Rio process and Agenda 21 into national plans, policies, and programs. Bilateral and multilateral agencies are supporting many of these efforts. Thus, in some instances, the impacts of GEF projects are difficult to distinguish from those of other agencies, including those of the recipient government itself; in others, the relationship between the GEF project and the new policy or program is reasonably clear.

172. To analyze the impacts on policy and program of GEF projects, the team relied on the informed assessments of government officials and stakeholders in the countries visited as well as officials and assessments of Implementing Agencies. This analysis does not represent an exhaustive examination of such project impacts within the ten-country sample of projects. The study team did not attempt to include every example of projects that have impacts that are within the scope of the project's explicit objectives, such as new strategies or action plans or mechanisms for intragovernmental or international collaboration.

173. The study team found that GEF projects in the ten countries had five types of impacts on recipient government policies or programs: establishment of new mechanisms for intragovernmental coordination, higher priority given to a particular activity benefiting the global environment, new mechanism for regional or subregional collaboration on a global environmental issue, acceptance of greater stakeholder participation in projects, and development of a national strategy and action plan for a global environmental problem.

174. Some GEF projects were found to be directly responsible for helping countries establish new mechanisms for intragovernmental coordination. Egypt had no mechanism for coordinating its national policy toward climate change when the GEF climate change enabling activity was implemented. However, the chairman of the Egyptian Organization for Energy Conservation and Planning told the team that the steering committee for the environmental assessment, which meets every three months to assess progress, was going to become the national committee on climate change and would be the main vehicle for discussing possible Egyptian participation in joint implementation projects, for example. In Kenya, the study team learned that the Pilot Phase Institutional Support to Protect East African Biodiversity project, which was completed in December 1996, had established the first unit for biodiversity within the Ministry of Environment and Natural Resources intended to coordinate the activities of all government ministries relevant to the problem.

175. A second observed impact of GEF projects is the higher government priority given to an activity benefiting the global environment. Most of the examples of this found by the study team are from the climate focal area. The Pilot Phase China Issues and Options in GHG Emissions Control Project led to a new policy dialogue with the World Bank on energy efficiency and renewables, which in turn resulted in a new level of Chinese interest in investing in clean energy projects. According to officials of the Indian Renewable Energy Development Agency (IREDA), the India Biomethanation Project created a distinct shift in perception of the importance of creating energy from waste and led the government to spend $60 million in three years on that technology. The Mexico Efficient Lighting Project is cited as evidence of a government's shift in priority relating to efficiency improvements. The Poland Coal-to-Gas Project is credited by some observers with having significantly increased awareness among government officials of the importance of coal-to-gas conversions. The Pilot Phase Mexico Protected Areas Program is credited by both Mexican environment ministry officials with having played a crucial role in convincing the Mexican government to significantly increase its budgetary outlays for protected areas, which previously had been woefully inadequate.

176. The third type of effect of GEF projects—new intergovernmental collaboration at regional or subre-

gional levels on a global environment problem—was found in the GEF international waters projects project for Lake Victoria, which had as one of its objectives the establishment of new mechanisms to carry out such collaboration. The Lake Victoria Project has established a regional secretariat representing the governments of Kenya, Tanzania, and Uganda to harmonize water quality and monitoring standards for the lake. It is also facilitating the creation of the Lake Victoria Fisheries Organization to regulate fishing more effectively. In this case, it is clear that the creation of these new institutions for international collaboration were stimulated by the GEF project.

177. The fourth type of impact of GEF projects has been to convince recipient governments to accept more extensive involvement of nongovernmental stakeholders than is usually normal in project development and/or implementation. For a variety of political, social, and cultural reasons, many recipient countries have not established collaborative relationships with civil society groups. At the same time, global environmental benefits in themselves do not tend to receive high priority in many countries unless they are linked to social and economic priorities, mainly poverty reduction. A potential benefit of the increased involvement of civil society groups is the likelihood of creating an appropriate forum for these different priorities to be combined within the context of securing global environment benefits. In the case of the India Ecodevelopment Project, for instance, the Ministry of Forestry adopted an approach to community participation in management of protected areas that it had resisted in the past.

178. A fifth policy impact—the development of a strategy and action plan—occurs most frequently in the biodiversity focal area, as many governments have sought GEF support to establish an overall biodiversity strategy. The China Biodiversity Conservation Action Plan, which resulted from a Pilot Phase Pre-Investment Facility project approved in March 1992 and was completed in 1994, has resulted in the development of several plans, for example, such as the agricultural biodiversity action plan, the National State Oceanic Administration's marine biodiversity action plan, and a mangroves action plan. These have led to project proposals, such as the wetlands management project (submitted for GEF funding through UNDP). It has also led to the funding of the GEF Nature Reserves Management project approved in 1995.

179. The changes that the study team found attributable in whole or in large part to GEF generally involve new ways of addressing or giving priority to global environmental issues.

Conclusions

180. Based on analysis of projects in the ten countries visited by the study team, the team found a number of significant GEF project impacts on country policies and programs, including some going beyond immediate project objectives. Other actors clearly played some role in certain cases, but in other cases, the GEF can claim the credit. Given the relatively small size of GEF projects, the team found that these changes represent a positive achievement.

G. Handling of Policies and Activities That Could Undermine Project Success

181. Macroeconomic or sectoral policies and economic activities may undermine GEF projects either by creating perverse incentives that frustrate market penetration, as in the case of energy pricing, or by impinging physically on the project area, as in the cases of building roads through protected areas, mining, unsustainable logging, or damaging tourism development. One of the challenges faced by the Implementing Agencies, therefore, is how to deal effectively with such policies and activities at each stage of the project cycle.

182. This can be done in several ways. Any such threat to the project needs to be identified early in project design, discussed with project proponents, and referred to in project documents. Assurances of actions to remove or prevent the threat need to be secured in negotiations on the project agreement. In addition, if the policies or activities do, in fact, appear to undermine project effectiveness during implementation, the Implementing Agency must take action through representations to the government and, if necessary, halt disbursements to bring about action to remedy the situation. Unless commitments to avoid or prevent undermining actions are written into the project document, such issues can be contentious.

183. Given the small size of its projects, GEF does not have the ability to leverage fundamental policy changes on issues in which the economic stakes are high domestically, particularly in countries with large economies. However, the Implementing Agency can

insist that a specific activity in a particular area not interfere with the project. It may sometimes be desirable to proceed with the project in spite of the activity. But when the threat of perverse incentives or physically damaging activities is severe and when the Implementing Agency determines that the policy or activity in question cannot reasonably be expected to end, it may not be desirable to go ahead with project development.

184. The team looked into how the Implementing Agencies have dealt with projects in which government policy or sectoral activities constitute a significant problem. Based on the sixteen country studies as well as interviews with Implementing Agency task managers, regional coordinators, and thematic specialists, the team identified seven cases of projects now in implementation in which government policies or sectoral activities could pose significant threats to project success and on which the handling of the issue could be documented. This is just a sample of a much larger universe of projects in which this issue is relevant.

185. The study team found that Implementing Agencies have generally identified in project documents policy issues or sectoral activity that could pose significant risks to the project and have raised the issues with recipient governments during project design. In all seven case studies, the Implementing Agency included some mention of such threats in project documents. However, in five of the seven cases, the identification was either too general or incomplete. In two cases (Jordan Consolidation and Conservation of Azraq Wetlands and Dana Wildlands Project and Egypt Red Sea Coastal and Marine Resource Management Project), the Implementing Agency failed to identify a key problem. In the Jordan biodiversity conservation project, the problems of tourism, copper mining and grazing were identified, but the government's subsidies for grazing were not. Similarly, in the case of the Egypt Red Sea Coastal and Marine Resource Management project, the World Bank identified unregulated tourism, but did not identify government subsidies to develop tourism, in the form of the sale of coastal land at bargain basement prices, as an issue that had to be addressed in the project preparation stage.

186. In both the Philippine Conservation of Priority Protected Areas Project and the Congo Wildlands Protection and Management Project, the problem was lack of specificity in identification of threats by the World Bank. In the Philippine case, the World Bank identified the threat in terms of the absence of gazetting rather than in terms of specific sectoral activities. That left open the possibility of differences in interpretation over what would be permitted within or near the project site. And in the Congo project, the World Bank correctly identified logging as a threat to the project, but only within the national park and not in adjoining areas. It also did not identify gold mining specifically as one of the activities that could disrupt the project, although it specified the requirement for gazetting priority project sites in the project brief.

187. The study team found that the Implementing Agency has usually failed to obtain adequate formal assurances from governments in project agreements about policies and activities that could affect project success. In only two of the seven case studies did the Implementing Agencies obtain formal assurances from the government that were adequate. In the case of India Ecodevelopment, the World Bank raised the problem of development activities that might impinge on project success—logging practices, road building, mining, cement manufacturing, and tea and teak plantations—during project development and insisted that the project agreement include assurances that the government would not permit such activities either in the project area or in areas adjoining it. In part as a result, the Indian Ministry of Environment and Forests drew up a list of twenty-nine development projects that had to be kept at a reasonable distance from the project sites. And, in the case of Indonesia Kerinci Seblat, the government agreed to preclude road construction or upgrading within the protected area until management and zoning plans were completed for the project area.

188. But in the Congo Wildlands case, the assurances given by the government in the grant agreement did not cover logging adjacent to but outside a priority reserve, nor did it specifically mention mining. In 1996 the Bank learned that the government had granted a fifteen-year renewable logging and processing permit on a concession close to one of the priority sites and granted a mining exploration permit within one of the priority sites. In the Philippines case, the World Bank made the implementation of legislation on a National Integrated Protected Areas System a condition for a sectoral adjustment loan to deal with the problem of economic activities that might impinge on the project's success. But the legislation was ambiguous on whether minerals or geothermal energy exploration activities are forbidden within the protected areas. The absence of specific agreements on the activities in question leaves uncertainty as to whether such

activities will be allowed in the future. In the case of Zimbabwe Photovoltaics, the government gave UNDP assurances that tariffs on photovoltaic components for the project itself would be reduced, but not on those photovoltaic components beyond the project's duration. And in the Jordan Consolidation and Conservation Project and the Egypt Red Sea Coastal and Marine Resource Management cases, the government did not give UNDP formal assurances that grazing and tourist development land subsidies would not be provided.

189. In all but one case (India Ecodevelopment), some follow-up was needed in the implementation phase of the project with regard to policies or sectoral activities that present a risk to project success. In four of the six cases where it was needed, either the Implementing Agency or the project staff has taken steps that have brought about some reduction of the risk. In the Indonesia case, when the state government tried to put a new road through the protected area in violation of the project agreement, the Bank resisted it, threatening to halt fund disbursement. In the Congo case, the Bank considered the logging and mining concessions a violation of the grant agreement, even though the government argued that the grant agreement only covered logging concessions inside the priority sites and that mining was not mentioned as an undesirable activity. The World Bank acted in early 1997 to suspend disbursements on the project in large part because of these activities, although the suspension was technically based on the government's failure to fulfill financial obligations. [32] Disbursements were resumed after the government made financial restitution and agreed to an environmental assessment of the mining operation as a basis for determining its future and the logging company agreed to measures to ensure that it would not negatively affect conservation in the core reserve.[33]

190. In the Jordan case, the project staff itself negotiated an agreement with the government to obtain regulation of copper mining in the project area but was unable to stop mining completely. In the cases of the Zimbabwe Photovoltaics, UNDP discussed the tariffs on photovoltaic components in general with the government and has now obtained assurances that the tariffs will be lowered. However, the World Bank has not acted to get more explicit, formal assurances from the Philippine government on the interpretation of the protected areas system legislation. In the Egyptian case, the Bank has not followed up on the government's subsidized sale of coastal land or tourism development, which has resulted in the allocation of more than 40 percent of the Red Sea coastline to tourism developers and speculators by mid-1997. This development appears to have undermined the prospects for project success, because it moots the development of a coastal and marine management plan that would guide the allocation of land for tourism and biodiversity protection.

Conclusions

191. The study team found that more than half the projects studied have had some problems in the handling of policies and activities that could have negative effects on project outcomes. In most cases, assurances from the government regarding the policy or activities in question were either not forthcoming or were not specific enough; in some cases, the identification was incomplete or lacking in specificity. Implementing Agencies have generally followed up where it was needed, in some cases threatening to threatening to halt disbursement, and these interventions have usually had a favorable impact on the situation. In one case, the chances of project success were clearly undermined, and in two others, the outcome is still not clear.

Recommendations

192. The GEF project submission format's description of project risks should call for identification of any specific policies or sectoral economic activities that could negatively affect project success, as well as the steps that need to be taken to reduce the risks to project success from those policies and activities.

193. The GEF should adopt a policy requiring that Implementing Agencies obtain clear, formal commitments from recipient country governments regarding policies and sectoral activities identified as increasing the risk of project failure before proceeding with project implementation.

[32] See letter from Jean-Louis Sarbib, vice-president, Africa Region, to Nguila Moungana Nkombo, minister of the economy, finance, and planning (January 10, 1997) in GEF Secretariat files.

[33] Letter from Lars Vidaeus, executive coordinator, World Bank GEF Operations, to Mohammed T. El-Ashry, CEO and chairman, GEF (June 9, 1997) in GEF Secretariat files.

H. Financial Sustainability of GEF Projects

194. The GEF portfolio is still young and most projects are not yet completed, so it is premature to reach conclusions about the long-term sustainability of projects. Nevertheless, information provided by the Implementing Agencies, government officials, NGOs, and others provides a general picture of the post-project outlook for many projects.

195. The financial sustainability of a project—that is, its continuance or expansion beyond the disbursement of GEF funds—can be influenced by a number of factors: its ability to attract government and community buy-in, the cost of continuing the project, and the degree to which improvement of management skills, training, and general institutional development have been emphasized during the project. These are important determinants for all projects but appear to be especially important for those that have little or no commercial potential. Conversely, the sustainability of near-commercial projects, such as some of the energy projects, largely depends on their ability to push (or pull) the market and, thus, to stimulate replication using private funds.

196. Projects involving capacity building appear to be among the most sustainable. The 1996 PIR highlights three projects as being successful in this regard—UNDP's Monitoring and Research Network for Ozone and Greenhouse Gases in the Southern Cone Project, the related Global Monitoring of Greenhouse Gases Including Ozone Project, and UNDP's Sustainable Development and Management of Biologically Diverse Coastal Resources Project in Belize. All three are institutional development types of projects, as opposed to investment projects. Although these may well help set the stage for environmentally sustainable development practices, they are also less risky than investment projects. For countries reluctant to commit resources to sustainable practices in energy, forestry, land use, and so forth, it may be both financially and politically easier to support these monitoring and institutional kinds of activities on a recurring basis.

197. In some cases, projects have needed a longer time frame than permitted to implement the project activities, demonstrate success, and achieve financial sustainability. For example, the Lake Victoria project may need five to seven years instead of the expected three to five years to resolve certain issues that impede its near-term implementation, such as establishing fully functional intragovernmental coordination mechanisms. Likewise, the necessary time frames for the Guyana Sustainable Forestry Project and the Papua New Guinea Biodiversity Program were underestimated. In cases in which time frames are insufficient, the GEF grants do not necessarily have to be increased, just disbursed over a longer period. In other cases, both a longer time frame and a larger GEF contribution may be needed. Such may be the case for the Zimbabwe biodiversity project.

Climate Change Projects

198. The projects that appear to be most sustainable are those that involve support for near-commercial practices, programs, or technologies. For near-commercial projects, post-GEF sustainability is defined by the projects' replicability. Thus, the sustainability of the project can be measured largely by its expansion into additional communities. Project sponsors expect the Brazil Energy Efficiency Project, for example, to be widely replicated.

199. Many of the energy projects under the Operational Programs (OP) 5 and 6 categories, such as the India Alternate Energy (wind power component), Poland Efficient Lighting, India Biomethanization (abattoir anaerobic digestion sub-project), and Mexico Efficient Lighting projects, involve near-commercial activities and have good prospects for replication. The India Alternate Energy project, which funded a modest wind energy demonstration, has helped facilitate an expansion of wind power well beyond what the GEF subsidy covered. The project helped stimulate subsequent investment roughly the equivalent of 800 megawatts of additional wind power capacity.

200. Other projects involve financial approaches that are explicitly designed to keep the project operating after GEF funds are fully expended. These include the World Bank's Brazil Energy Efficiency project, the Bank's Indonesia Solar Home System Project, and IFC's Hungary Energy Efficiency Cofinancing Project. In the Indonesian project, solar dealers will receive GEF grant funds, some of which they can invest in strengthening their businesses. The initial start-up cost will be high for the dealers, and the GEF grants will help pay for this higher price. By the time the GEF grant funds are disbursed, it is hoped that the start-up costs will have dropped enough for dealers to continue operating without subsidies.

201. Although some generalizations can be made about what kinds of projects are near-commercial, this will vary by country and market conditions. For example, solar photovoltaics appear to be increasingly commercial in a number of countries and the Indonesia Solar Home System project seems poised to implement a sustainable PV credit system, but GEF-supported PV efforts in India and Zimbabwe may face difficulties in continuing without GEF funds. In the India Alternate Energy Project, the greater financial sustainability of the wind power sub-projects compared with the PV sub-projects may be due to higher PV marketing costs, lower consumer awareness of PV, and more limited ability for beneficiaries to pay for PV technology. [34]

202. Most of the climate portfolio involves near-commercial projects, although some projects only hold the promise of demonstrating near-term improvements in a particular technology or practice, thereby reducing the time it takes to become commercial. The ability of these more innovative or risky projects (which fall within the OP7 category) to attract commercial financing is not as important as their contribution to improving the economics and increasing the knowledge base of a given technology or practice. This increases the chances of attracting new (noncommercial) funding for the project or its replication so that further advances can be made. Examples include the Brazil Biomass Gasification project and the upcoming India Solar Thermal hybrid project. So far, no such noncommercial GEF projects have been completed, so their sustainability remains uncertain.

203. The increased orientation of climate projects toward technology commercialization and market transformation and accompanying private sector financing increases the sustainability of the GEF climate portfolio. The trend toward private sector financial involvement is due partly to project sponsors' desire to ensure financial sustainability and partly to the need for this involvement to finance such near-commercial projects.

Biodiversity Projects

204. With few exceptions, projects in the biodiversity portfolio that do not have trust funds are unlikely to become financially sustainable without subsequent grants from a bilateral or multilateral donor or a government decision that continuing the activity is in its development interest. Projects that include commercial elements such as ecotourism or nontimber enterprises stand a greater chance of achieving financial sustainability because such elements can pay at least a portion of the recurrent costs. IFC's Small- and Medium-Scale Enterprises Project and Terra Capital Fund are GEF's main efforts to exploit commercial biodiversity opportunities.

205. Because grant-making agencies and organizations change over time, the need for most biodiversity projects to attract additional grant funds may not be sustainable in the long term. Hence, many such projects are seeking to establish trust funds. In the GEF Pilot Phase, six out of thirty biodiversity projects had GEF-funded trust funds. So far, seven projects in the operational phase have or anticipate having them. Trust funds provide ongoing funding because only the interest earnings of the fund are used. If well-managed, the fund will finance the project in perpetuity.

206. Some GEF Council members are concerned that capitalizing a trust fund involves a much larger commitment of GEF funds than simply paying for the near-term costs of a project. For example, a protected area project that might cost GEF $5 million over five years would require a trust fund of $20 million to yield $1 million annually (based on annual interest earnings at 5 percent). On the other hand, without a trust fund, many projects with recurrent costs are likely to either return to GEF for subsequent grants or disappear.

207. One indicator of a noncommercial project's likelihood of attracting future resources is the degree of political support generated by the project within the host government. A proportionately large government contribution can sometimes signify stronger support for the project's objectives and, thus, a willingness to support the project once GEF funds have been spent. For example, the Government of Indonesia has contributed $500,000 to supplement the $1 million from GEF for the Rhino Protection Project. This program is achieving more success than most other GEF projects in Indonesia and has received commitments for additional funds at the end of the GEF project cycle. A high proportion of government funding does not necessarily mean the government will pay recurring costs later, however. It does not even mean strong government

[34] Global Environment Facility, *Project Implementation Review 1996* (Washington, D.C.: 1997), p. 13.

support for all the project's aims. Although the Government of Indonesia is providing $13 million toward the $47 million Kerinci Seblat Park Project, the project has run into major problems, in part because of conflicting interests among different government agencies.

208. GEF project submissions are required to include a specific discussion of financial sustainability. Although many submissions give this topic only superficial attention, others contain plans for post-GEF financing. For example, the China energy conservation project included several domestic banks in project preparation activities to familiarize them with energy performance contracting and prepare them for eventual financial support of performance contracting once the project is completed. Similarly, the India solar thermal project is predicated on the state government of Rajasthan raising electricity tariffs so that the state electric utility will be able to collect enough ratepayer funds to pay for the solar-generated electricity when the GEF funds are fully spent. The Indonesia COREMAP coral reef project anticipates strengthening legal structures to allow coastal communities to charge fishing user fees that would capitalize a fund to pay for reef maintenance.

209. In general, however, serious financial planning for project continuation in the post-GEF period appears uncommon. The team's review of seventeen investment project submissions in the ten focus countries found that financial sustainability was addressed in more than a cursory manner in just seven cases. Many of the submissions confuse sustainability and project success. Most list factors the sponsors hope will contribute to sustainability, but few discuss how recurrent costs will be met.

210. One indicator of sustainability is the extent to which project sponsors return to GEF for a second grant. Of projects approved during the Pilot Phase and now completed, the proportion applying for another grant is relatively high in the biodiversity focal area: six out of eight completed projects. Five of these are country-specific projects and one is a global project. In contrast, only five out of fifteen completed (or nearly completed) climate change projects have applied for a second grant. Of these, only one is a country-specific project. It should be noted, however, that in some cases, although it was not specifically agreed to at the outset, a follow-up grant was expected, as GEF financed the preparation of management plans or feasibility studies that would lead to implementation. This was the case, for example, with the biodiversity projects in Argentina and Viet Nam and the climate project in Brazil. In other cases, a second grant was sought because the project was expanding into new areas or involved more time than was originally anticipated. In nearly all cases, the second grant sought and awarded has been larger than the first one.

Conclusions

211. The study team found that the post-GEF sustainability of projects is likely to vary greatly from project to project. Financial sustainability in the near-commercial climate projects differs fundamentally from that in largely noncommercial biodiversity projects. The former depends largely on replicability by government or private investors, whereas the latter must be either self-financing through trust funds or obtain additional grant financing from donors or the government. The experience of Pilot Phase projects now completed indicates that biodiversity projects are more likely to have serious problems of financial sustainability than climate projects.

212. In some cases, unreasonably short project timetables have made it difficult to implement project activities, demonstrate success, and achieve financial sustainability. The GEF family has not always been realistic about the time needed to implement some projects, particularly in the biodiversity focal area.

Recommendations

213. The GEF Secretariat and Implementing Agencies should require that project proposals contain a more thorough assessment of options for achieving financial sustainability.

214. The GEF Secretariat and Implementing Agencies should encourage the broader use of biodiversity trust funds to help ensure the funding of biodiversity projects in perpetuity. The Implementing Agencies should continue to seek a high rate of leveraging of other sources of trust fund capital.

215. The Implementing Agencies should provide for longer project implementation periods—for example, five to seven instead of three to five years—in cases in which project sponsors can show that extra time will be necessary to implement the project and demonstrate its viability for future funders.

IV. Institutional Roles and Relations

A. Mainstreaming of the Global Environment by Implementing Agencies

216. One of the measures of GEF's success is the extent to which the three Implementing Agencies "mainstream" the global environment. In the GEF Corporate Budget for fiscal 1998, mainstreaming is defined as having two dimensions: first, increasing the number of GEF projects with cofinancing and, second, increasing the number of GEF-type projects in regular operations of the Implementing Agencies.[35] In fact, the three agencies have committed themselves to increasing the resources committed as direct cofinancing of GEF projects and "associated, complementary, and follow-up activities" in the four focal areas.[36] The study team took these two criteria as a starting point for creating its own operational definition of mainstreaming. However, the team also noted that cofinancing statistics can be misleading and difficult to compare.

217. The study team determined that the definition of "mainstreaming" the global environment for the purpose of this study must incorporate criteria going beyond funding levels for GEF and non-GEF projects and that it must reflect the wide differences of structure, culture, type of operation, and level of resources among the three Implementing Agencies. So the team developed a set of criteria for mainstreaming that are specific to each agency.

218. Analyzing mainstreaming in the World Bank involves more criteria than for the other two Implementing Agencies. In addition, the Bank's GEF portfolio as well as regular portfolio of projects is much larger in financial terms. Therefore, the space allocated to the World Bank is substantially greater than that allocated to UNDP and UNEP. In contrast, the criteria for assessing mainstreaming in UNEP are fewer and its GEF portfolio and regular budget are much smaller than those of UNDP, so the analysis for UNEP is correspondingly shorter.

Mainstreaming in the World Bank

219. The World Bank is unique among the three Implementing Agencies in that it is a lending institution with a centralized structure directed by a full-time executive board. It has a large and varied portfolio of active projects and concentrates authority and resources in its country departments. Although the Bank is client oriented, it has significant resources with which to influence client governments' investment priorities.

220. The indicators chosen by the study team for evaluating progress in mainstreaming in the World Bank are:

- The amount of cofinancing of GEF projects and financing of associated World Bank loans that add further global environmental benefits
- The number and dollar amounts of loans in the regular World Bank portfolio that complement the GEF portfolio in the four focal areas
- Whether internal incentives for World Bank staff to push for and manage projects with global environmental benefits are equal to those for the regular loan portfolio
- The extent and quality of the integration of global environmental objectives into sectoral and adjustment lending operations
- The extent to which the Bank does programming on the basis of global environmental objectives, as distinct from country objectives.

Amount of Cofinancing of World Bank GEF Projects and Associated Bank Loans

221. The World Bank agreed as part of the "Implementing Agency Work Program" adopted by GEF in its Corporate Business Plan for fiscal 1998-2000 that its mainstreaming would be judged by whether "an increasing proportion of Bank GEF projects" are "associated in an integrated way with regular Bank operations."[37] World Bank data show that, as of Sep-

[35] Global Environment Facility, *GEF Corporate Budget for FY98,* GEF/C.9/4 (April 1, 1997), p. 13.

[36] Global Environment Facility, *GEF Corporate Business Plan F99-FY01,* FEF,C.10/4 (October 3, 1997), p. l 3.

tember 1997, 44 percent of World Bank GEF projects approved during GEF 1 were associated with World Bank loans, whereas 56 percent were freestanding—that is, they did not have a World Bank loan as part of their financing.

222. This is identical to the percentage that held during the GEF Pilot Phase. However, the Bank's record of cofinancing through associated loans is much better in GEF 1 than in the Pilot Phase, because only two World Bank–associated loans during the Pilot Phase were fully integrated with GEF projects (i.e., financing the same activities that are financed by GEF grants), whereas more than 40 percent were fully integrated during GEF 1, according to data provided by the World Bank GEF coordination unit. Moreover, nearly one-fourth of the associated loans during the Pilot Phase were associated for convenience only, according to a World Bank task force report in mid-1996. Some of the loans that are categorized as associated loans by the World Bank do not fund activities that are related to the global environment and are not considered as cofinancing in the World Bank compilation of GEF project financing submitted to the study team. The study team found eight associated loans in the Pilot Phase on which the World Bank did not claim any cofinancing for the global environment in its own financial records, but only three such associated loans in GEF 1.[38]

223. As of mid-1997, the World Bank had provided $490 million of its own funds for cofinancing of GEF projects in the form of loans for Bank projects associated with projects in the GEF 1 work program. That total represents 75 cents for every dollar put into World Bank GEF projects by GEF itself, including freestanding and associated projects. This amount is slightly less than the amount during the Pilot Phase ($554.6 million).

224. When all cofinancing mobilized by the World Bank, including from governments, other funders, and the private sector, are added to direct Bank cofinancing, the total cofinancing for World Bank GEF projects in GEF 1 as of mid-1997 was $2.003 billion. Total cofinancing mobilized by the Bank for GEF, thus, represents more than three dollars for every dollar of GEF funds. Most of this total was accounted for by climate change projects, for which the Bank provided $1.244 billion compared with $284 million from GEF itself—a ratio of 4.4 to 1. The study team found this to be a significant accomplishment in mainstreaming and an important contribution to GEF's success.

225. Total World Bank cofinancing in GEF 1 is slightly less than the $2.227 billion mobilized by the Bank during the Pilot Phase. But since about two-thirds of the total Pilot Phase cofinancing was accounted for by a single project (the Philippines Leyte-Luzon Geothermal), the team found the Bank's performance in mobilizing cofinancing in GEF 1 to be substantially more effective than it was during the Pilot Phase.

226. The Bank generated the bulk of its financing for GEF climate projects through associated loans. Of the total of $3.2 billion in Bank-generated financing for GEF-related climate projects, almost 70 percent was mobilized through Bank loans associated with GEF projects rather than from government counterpart and other donor financing of freestanding World Bank-implemented GEF projects.

227. An even higher proportion of the cofinancing for World Bank GEF biodiversity projects came through associated World Bank loans. Of the total of $691 million mobilized by the World Bank for GEF biodiversity-related projects approved for GEF work programs through June 30, 1997, 86 percent ($597 million) was accounted for by loans associated with GEF projects. The Bank's mobilization of cofinancing for biodiversity through associated loans on an annual basis is shown in table 4 below.

Lending for the Global Environment in the World Bank's Regular Portfolio

228. For the purpose of assessing the World Bank's mainstreaming of the global environment, the study

[37] Global Environment Facility, *GEF Corporate Business Plan FY98-00,* GEF/C.8/6 (September 4, 1996), Annex 2, p. 3.

[38] The Pilot Phase-associated loans included in this category are: Ecuador Biodiversity Protection, Red Sea Coastal and Marine Resource Management, Ghana Coastal Wetlands Management, Mexico Protected Areas, Philippines Conservation of Priority Protected Areas, Poland Coal-to-Gas, Seychelles Biodiversity Conservation and Marine Pollution Abatement, and Turkey In-Situ Conservation of Genetic Biodiversity. The GEF 1 projects are: Central Africa Regional Environment Information Management, China Efficient Industrial Boilers, and China Nature Reserves Management.

team distinguished between the Bank's financing of projects linked with GEF and its financing of and mobilization of resources for relevant projects in its regular portfolio. Although cofinancing GEF projects is an important dimension of mainstreaming in the Bank, the study team believes that the Bank's success in increasing lending for the global environment is another measure of its success in mainstreaming. Therefore, the criterion of lending for global environmental objectives in projects not associated with GEF requires that overall Bank lending in the focal areas be analyzed in two separate categories: its mobilization of funding for the global environment in connection with GEF and its mobilization of such funding through loans unconnected with GEF.

229. To assess this dimension of mainstreaming in the Bank, the team analyzed the World Bank's lending for GEF projects for biodiversity protection and energy efficiency and renewable energy that was unrelated to GEF projects. It did not evaluate the Bank's performance in regard to international waters because of a combination of time constraints and the complexity of separating out the data on Bank lending that are most comparable to GEF financing for international waters. It did not examine the ozone focal area, because the Bank does no lending related to ozone depletion.

230. In the case of biodiversity, the team found that a high proportion of World Bank loans associated with GEF biodiversity projects either would not have been made or would not have financed activities that effectively protect biodiversity of global importance. Therefore, the study team believes that Bank loans associated with GEF can be separated legitimately from regular non-GEF Bank loans to evaluate the success of the Bank in generating greater interest in biodiversity lending without the aid of grant assistance.

231. A major methodological problem in regard to this dimension of mainstreaming is that constructing an annual trend line for lending in a particular sector may be misleading, both because project approvals may cluster in certain years rather than being evenly distributed over several years and because a single large project can cause a major spike in the trend line.

232. A second methodological problem involves the time lag between the creation of GEF and appearance of a regular bank loan in annual statistics. It usually takes at least two to three years between the beginning of project development and final approval by the Bank's executive board. Therefore, the study team concluded that fiscal 1991, fiscal 1992, and fiscal 1993 should not be considered part of the GEF period for purposes of comparison with the pre-GEF period. The comparison between pre-GEF and GEF period Bank lending for biodiversity and energy is based on fiscal 1994 as the first post-GEF year.

233. Bearing these difficulties in mind, the team assembled the data on the Bank's non-GEF lending on biodiversity from fiscal 1988 through fiscal 1997. The data are shown in Table 4 opposite. During the fiscal 1988-94 period, the Bank's non-GEF-related lending totaled $645 million, for an annual average of $107 million. During the period from fiscal 1994–97, representing the GEF period, the total was $325 million for an annual average of $81.3 million. However, virtually the entire difference between the pre-GEF and GEF periods is accounted for by a single IDA project (Kenya Wildlife Services) for $142 million in 1992. When that project is removed from the data, they show no clear trend line. The only conclusion that can be reached from the data is that biodiversity lending in the World Bank's regular portfolio unrelated to GEF has not increased from the pre-GEF period.

234. When all cofinancing connected with World Bank loans for biodiversity associated with GEF projects is added to the annual World Bank biodiversity lending totals, overall World Bank financing for biodiversity since fiscal 1993 is shown to average $133 million annually compared to an average of $115 million annually during the pre-GEF period. It can be concluded that GEF has accounted for the relatively small overall increase in the average annual level of World Bank lending for biodiversity since fiscal 1993. The World Bank's GEF chief executive coordinator argued to the team that the more successful the World Bank is in identifying opportunities for associating loans with GEF financing of biodiversity conservation, the less successful it will be in its lending for that purpose apart from GEF. The coordinator suggested that he would expect the level of lending for biodiversity conservation in the Bank's regular portfolio to decline as more and more borrowing countries and Bank task managers become aware of the opportunity to obtain a "global premium" associated with protection of biodiversity of "global importance." This argument is in line with the conclusion reached by an earlier internal World Bank study that found a trend among IDA countries to avail themselves increasingly of GEF grant financing for biodiversity conservation

Table 4.
Financing for Biodiversity Protection through World Bank Loans, Including Non-Bank Contributions, Fiscal 1988–93 and Fiscal 1994-97
(millions of U.S. dollars)

Fiscal 1988-1993

Fiscal Year	Not GEF-associated	GEF-associated*
1988	21.40	0.00
1989	13.20	0.00
1990	244.40	0.00
1991	45.60	0.00
1992	245.00	44.00
1993	76.40	0.00
Total	645.00	44.00

Fiscal 1994-1997

Fiscal Year	Not GEF-associated	GEF-associated*
1994	70.40	15.30
1995	110.70	0.00
1996	3.20	0.00
1997	141.00	191.00
Total	325.30	206.00

* Based on dates of GEF work plan approvals.

Sources: Pilot phase-associated loan data from computer run submitted by World Bank Global Environment Coordination Division, January 14, 1998. Data for 1988-96 from "The IBRD/IDA Projects Containing Biodiversity Elements: fiscal 1988–96," annex to Andrew Keck, "Biodiversity in World Bank Projects: A Portfolio Review," Land, Water, and Natural Habitats Division, Environment Department, World Bank, draft, n.d. Data for 1997 based on Gonzalo Castro and Kerstin Canby, "Biodiversity in World Bank Projects," January 9, 1998, table 3. Castro and Canby include in their annual totals data on GEF-funded projects as well European Union-funded Brazil Rain Forest Trust Fund projects, neither of which involves World Bank lending and are, therefore, excluded from the fiscal 1994-97 table.

and to do less borrowing from the World Bank for that purpose. [39]

235. It is impossible to prove or disprove this argument based on existing data. The study team believes that it would have been possible for the World Bank to identify more opportunities for biodiversity projects that are in the national development interest of the country in question and, thus, increase its non-GEF-related lending for biodiversity conservation, even as it made loans linked with—and, thus, made more attractive by—GEF grants. This view is based on the assumption that there are some biodiversity conservation projects that would not be funded by GEF because they are not of global importance but would be in the interest of a potential borrowing country. However, to the extent that the GEF policy is perceived as not distinguishing between biodiversity of

[39] See C. Andrew Keck, "Biodiversity in World Bank projects: A Portfolio Review," Land, Water and Natural Habitats Division, Environment Department, World Bank (no date), p. 3.

global importance and biodiversity of national importance, it increases the risk that potential borrowing countries would refuse to borrow for biodiversity conservation unless it is linked with a GEF grant.

236. The main methodological problem associated with assessing climate-related lending in the Bank's regular portfolio is determining what kinds of loans to include within the scope of the inquiry. The Bank provides financing affecting energy efficiency not only through end-user efficiency components of energy sector loans but in supply-side management components, such as reducing power sector losses and district heating as well. Nonenergy sector loans, including housing, transportation, industrial pollution, and municipal services, also affect energy efficiency.

237. The study team decided to focus primarily on non-GEF World Bank project components involving end-use energy efficiency, both because complete data on financing of nonenergy sector loans with impacts on energy efficiency are unavailable and because the benefits to the environment are often incidental to economic considerations.

238. With regard to end-use efficiency, data compiled by its Operations Evaluations Department indicate that Bank lending has increased during the GEF period, compared with the extremely low level of funding during the pre-GEF period. During the 1980-93 period, the Bank financed only about $110 million for end-use efficiency components in eighteen energy sector projects. During the 1994–97 period, the Bank has financed components on end-use efficiency totaling $245 million, most of which was for three large projects. And outside the energy sector, two projects in the Europe and Central Asia region have been approved for heating efficiency in residential buildings for $310 million. The Bank, therefore, is now lending approximately sixteen times more for end-use efficiency than it was in the pre-GEF period.

239. With regard to supply-side management in general, no data could be obtained on the pre-GEF Bank lending. Although the Bank has financed projects for improving the efficiency of district heating in Eastern Europe and China in recent years at a cost of $350 million, it is not possible to make meaningful comparisons with the previous period regarding supply-side management in general.

240. An assessment of the Bank's lending for renewable energy development must take into account the fact that geothermal energy, which was financed by both the Bank and GEF in the past, has become commercialized to the point that neither are funding it any longer. Lending for nongeothermal renewable energy unconnected to GEF during the entire period from 1990 to 1993 included four projects totaling $273 million. But from fiscal 1994 through fiscal 1997, the Bank made only one such loan in its regular portfolio—an $18 million component within the Indonesia Second Rural Electrification loan approved in fiscal 1995. The other loans for renewable energy have all been linked with GEF grants. Moreover, the Bank's project pipeline includes no loans for nongeothermal renewable energy development without GEF funding.[40]

241. The World Bank GEF Coordinating Unit argued that the World Bank should not be expected to lend for renewable energy technologies apart from GEF, because they are not commercial. The study team recognizes that borrowing countries would not take out loans for most of the projects financed by GEF and by bilateral agencies on a grant basis. On the other hand, it is also clear that loans can be made for some renewable energy technologies in some countries without the addition of a GEF grant. For example, India borrowed $100 million from the Asian Development Bank in 1996 for the generation of 125 megawatts of cumulative power through biomethanation of industrial effluent, bagasse-based cogeneration of power, and wind and solar-thermal energy.

242. The study team notes that the viability of renewable energy projects in a particular country may depend in part on whether the government has created an atmosphere in which the renewable technology can be competitive through energy pricing reform and other energy policy reforms. In any effort to encourage a transition to less reliance on fossil fuel for energy, this aspect of the Bank's energy lending strategy would need to be given much greater emphasis. The team found no evidence that the Bank has made this objective part of its energy lending strategy.

[40] "World Bank Pipeline of Renewable Energy Projects (FY98-00)," submitted to the study team by the World Bank GEF Coordinating Unit.

243. The Bank has, thus, maintained roughly the same level of lending for biodiversity in its regular portfolio as in the "pre-GEF" period. Regarding climate-related projects, it is lending many times more annually in the GEF period for end-use efficiency than it was in the previous period. Renewable energy lending, however, has fallen compared with the pre-GEF period.

Incentives to World Bank Staff to Encourage or Manage Projects with Global Environmental Benefits

244. One issue regarding incentives for Bank staff is whether the budget for task managers for GEF projects and the continuity of task managers was on a par with regular Bank lending projects. The World Bank Coordinating Unit indicates that during the Pilot Phase, GEF was treated "like second-class citizens." The problem was raised by the coordinating unit with regional management, and a major improvement in regard to these indicators occurred during GEF 1. A survey done by a World Bank task force in 1996 indicated that most GEF task managers were satisfied with their budget and would be happy to be a GEF task manager again.

245. Another problem for the World Bank is the failure of Bank management to recognize and reward work on GEF as equal in importance to its regular business. GEF projects are much smaller than regular Bank projects but are often equally or more complex and challenging. Yet the Bank's evaluation system is not set up to give equal recognition to GEF managers. When asked about the system of incentives with regard to work on GEF, Bank regional coordinators indicated that it is difficult for management to recognize work on GEF projects as much as on regular projects that are many times larger.

246. Furthermore, country department management has no incentive to focus on opportunities for GEF or global environmental benefits when they are under pressure to produce higher volumes of loans on a smaller budget. According to Bank staff, the transfer of budget and staff to new country directors, which began in 1995, has led to a significantly greater preoccupation with traditional Bank business—first in Africa and then in other regions. These pressures constitute an additional disincentive for country directors to give GEF the same attention as traditional Bank operations.

Extent and Quality of Integration of Global Environmental Concerns into Sectoral Lending Strategies

247. The Bank's primary mechanism for integrating global environmental concerns into sector lending operations is the country economic and sector work program undertaken with the borrower, which is supposed to provide analytical frameworks for evaluating development strategies and donor assistance activities. Ideally, the sectoral component of this program, based on the supporting analytical work already done by the Bank, would always include a thorough analysis of how existing management of energy resources and biodiversity affects the long-term sustainability of the economy as well as the global environment. And it would identify opportunities for promoting both development objectives and global environmental benefits in loan projects to be included in the Bank's lending strategy to the country and for the policy dialogue with the government.

248. Such systematic integration does not appear to take place, nor did the study team find evidence of any strong impetus toward it. The Bank's Operational Policy on Economic Evaluation of Investment Operations states that global externalities should be identified in sector analysis. [41] But in practice it has remained a low priority. As the Bank's administrative budget has shrunk in recent years, country departments are under strong pressure to produce more projects with less staff time and money. One consequence is that country sector work, which had once been a relatively large part of the work program, now receives fewer resources and less time, and it has been even more difficult to increase the attention given to global environmental concerns.

249. The Global Overlays Program, launched in 1996 by the Bank's Environment Department, shows how and at what cost policies and investment priorities would change if global environmental objectives were added to conventional sectoral objectives. The overlay for a given country and sector explicitly identifies "win-win" opportunities for protecting the global environment, while advancing national development strategies. It also points to activities for global benefits whose incremental costs would be appropriate for GEF funding. The program has produced guidelines for

[41] World Bank, Environment Department, Global Environment Division, *Mainstreaming Biodiversity in Development*, Environment Department Papers No. 029 (November 1995), p. 20 and footnote., p. 23.

climate change overlays; three of these have been completed, and more climate and biodiversity overlays are being prepared.

250. Despite their potential value for making sectoral lending strategies more responsive to global environmental objectives, however, the global overlays program has not yet had significant impact on sector analysis in the regional offices. Several obstacles to their widespread use by those who make decisions on sector analysis still remain to be removed, according to Environment Department staff. The main problem is that the program has not had an adequate budget. It is coordinated by a person working on a less than half-time basis and has too few resources to be effective in creating demand for global overlays on the part of regional management. Many managers in the regional offices are not yet sufficiently acquainted with the global overlays program, and more needs to be done to help them understand it clearly.

251. Country assistance strategies (CASs) are documents that formalize the Bank's lending strategy for the next three years. They are the basis for the Bank's policy dialogues with client governments and the main vehicle by which the executive board reviews the Bank's assistance strategy in a borrowing country. They reflect the views of the Bank as well as of the borrowing government on investment priorities and lending strategy for the country.

252. The study team examined the CASs for the ten countries it visited. Eight of the CASs were finished in 1997, one in 1996, and one in 1995, which was updated in 1996. The team found that fewer than half of them referred to World Bank GEF projects either in specific or generic terms and that nearly half of them make no reference at all to GEF. Only two of the ten link renewable resource problems in the country to the global issue of biodiversity loss, and none link the energy sector with climate change, despite Bank loans involving power generation.

253. In a few cases, the failure of the CAS to make such linkages was particularly striking. In one case, the discussion of Bank support for tourism as a foreign exchange earner made no reference to the potential threat to marine biodiversity. In another, the CAS calls for adding power generation capacity but contains no reference to the need for development of alternative energy. And, in a third, the CAS refers to a possible loan for biomass power but fails to note any relationship with climate change. One CAS fails to refer to the country's importance to global biodiversity conservation.

254. This sample suggests that neither the global environment nor GEF have yet been integrated systematically into the CAS process. The most glaring weakness in integrating environmental issues into the CAS appears to be the failure to note linkages between sectoral loan strategies and global environmental concerns or between GEF programs and strategies, particularly in climate change. The study team found that climate is completely absent from discussions of energy sector and infrastructure issues in the CAS.

255. According to interviews with Bank staff, in the vast majority of cases the CAS is based on sector analysis in which the global environment is weak or absent. Moreover, government National Environmental Action Plans and other environmental strategies, on which the CAS process also relies, seldom identify and examine the shortcomings of government sector policies and their impact on biodiversity loss and climate change. [42] And the CAS teams seldom request the help of environmental specialists, which would require that money be spent from tight budgets. In addition, there is no mandate from Bank management to integrate the global environment into the CAS. Bank procedures for the CAS provide that global environmental issues and the role of GEF are to be discussed only "when appropriate."

256. The study team also looked at a third aspect of integrating environmental concerns into sectoral lending strategies—the elimination of loans that contribute to environmental degradation. The Bank has an Operational Policy on Environmental Assessment that requires systematic screening of all projects for their impact on biodiversity and prevention or minimization of adverse impacts. In recent years, environmental

[42] Stefano Pagiola and John Kellenberg with Lars Vidaeus and Jitendra Srivastava, *Mainstreaming Biodiversity in Agricultural Development: Toward Good Practice*, World Bank Environmental Paper No. 15 (Washington, D.C.: 1997), pp. 24-25.

[43] The World Bank, Environment Department, Land, Water, and Natural Habitats Division, *The Impact of Environmental Assessment: The World Bank's Experience* (Washington, D.C.: November 1996), p. xv; Robert Goodland, World Bank staff, private communication.

assessments have become more systematic and have taken place earlier in project design and preparation than when they were in the 1989-92 period; the result is that project design is usually influenced positively. But the actions required by the environmental assessment are often defined in the staff appraisal reports and project agreements too generally to be effective. This problem is often undetected until mid-way through implementation or even later. [43]

257. In 1995 the Bank adopted a new policy of not supporting any project that would result in the significant conversion or degradation of natural habitats, provided that the habitat is officially designated as critical. But the policy allows conversion even of such critical habitats if there are no feasible alternatives, if the environmental assessment demonstrates that benefits substantially outweigh the costs, or if acceptable mitigation measures (usually compensatory protected areas equal to the habitat) are implemented. The study team was unable to obtain any data on how often such conversion has taken place.

258. The World Bank's conventional power project portfolio has obvious implications for emission of greenhouse gases. The Bank has approved 170 loans in the electric power sector since 1990, totaling more than $24 billion, mostly for countries that will not have to reduce their greenhouse gas emissions in the next decade. [44] These loans will result in the emission of an estimated 10 billion tons of carbon in the projects' lifetimes. [45]

259. The Operational Policy Committee approved in November 1997 a recommendation in the Environment Department's draft energy and environment policy paper that task managers run their net present value calculations on fossil fuel loans both with and without a $20 per ton of carbon emitted shadow price for the global externalities associated with fossil fuel use. If the value drops significantly with the shadow price included, this would signal that the proposed project will have significant global environmental impacts and that alternatives should be considered. This procedure represents a positive development. However, the new policy explicitly rules out rejecting a loan on the basis of its impact on the global environment.

260. The World Bank's Global Environment Coordination Division defends this policy by arguing that the climate change convention does not permit the Bank to "force" a country to accept a higher cost alternative on the ground that it has lower global impacts. It argues that rejecting any loans for fossil fuel power projects on global environmental grounds would be inconsistent with the FCCC, because the agreement does not require non-Annex 1 countries to control their greenhouse gas emissions. [46] But, no language in the FCCC forces the Bank to approve any specific type of loan; the Bank has not acted in the past on the assumption that it is obligated to approve whatever energy sector loan is cheapest for its clients. The Bank has established a wide range of environmental conditions on lending in the energy sector, including narrow limits on the type of coal projects it finances, stringent requirements for reducing sulfur dioxide and other pollutants and a complete prohibition on nuclear power projects, against the wishes of client governments, because such environmental conditions increase the costs of power generation for the borrower.

261. The team recognizes that a transition from the Bank's traditional role in financing conventional power fossil fuel power projects to a new role in financing sustainable energy cannot be accomplished swiftly or easily. And any change in the present policy will require political decisions by the major donor countries represented on the Bank's executive board. But the team believes that continued financing by the World Bank for such projects is inconsistent with mainstreaming of the global environment in the Bank's regular operations.

Programming on the Basis of Global Environmental Objectives

262. Global environmental programming would require setting aside a substantial portion of total lending

[44] See Hagler Bailly, Stockholm Environment Institute, and IIEC, *The Effect of a Shadow Price on Carbon Emissions in the Energy Portfolio of the Bank: A Backcasting Exercise*, Final Report to the Global Climate Change Unit, Global Environment Division, World Bank (June 13, 1997), p. I-1.

[45] See Institute for Policy Studies and International Trade Information Service, *The World Bank and the G-7: Changing the Earth's Climate for Business*, at http://www.igc.org/ifps/publicat/wb-g7-report/executive summary.en.html.

[46] For an early statement of the Bank's position on "consistency" with the FCCC, see World Bank, *The World Bank and the UN Framework Convention on Climate Change*, Environment Department Papers, no. 008 (Washington, D.C.: March 1995), pp. 4-5.

for global environmental objectives and inviting countries to submit project proposals that would meet eligibility criteria. It would mean refocusing the Bank's corporate strategy on the production of global "commons" benefits in sector lending and setting programmatic goals for global environmental problems, such as the amount of forest to be brought under effective protected area management or greenhouse gas emissions to be reduced through development of renewable energy technologies.

263. A policy paper drafted within the Bank in 1997 proposed that the Bank enter into a "strategic renewable energy partnership" with GEF by allocating a significant portion of its energy lending to support development of renewable energy technologies, to which GEF would add grant resources amounting to one-fourth of the total fund. According to the World Bank's Executive Coordinator for GEF Operations, the strategic renewable energy partnership was adopted in principle by the Bank's Operational Policy Committee in November 1997, and a task force is now being convened to formulate recommendations on how the partnership would be structured. Still to be determined is how much the Bank would commit to the partnership and whether the Bank would establish a special fund or would simply set a target for lending for renewable energy. The study team believes that this partnership could be a significant first step by the Bank to mainstream the global environment through global programming.

Mainstreaming in the International Finance Corporation

264. Another member of the World Bank Group, IFC is the largest multilateral source of loan and equity financing for private sector projects in the developing world. Apart from its management and cofinancing of GEF projects, it appears that IFC has begun to put increased emphasis on projects with global environmental benefits in recent years, particularly in the climate focal area. It has already approved financing for a small run-of-the-river hydro project in Nepal and is close to approving financing of a wind power project in Costa Rica. Other projects related to the global environment, including ecotourism projects, are now in the pipeline. IFC also asserted that global benefits can arise from IFC investments not explicitly intended to benefit the global environment, such as elimination of natural gas flaring in oil and gas investments. The study team could not assess the degree of change in IFC emphasis on such projects, however, because IFC does not keep statistics on investments by focal area or investments with alleged global environmental benefits, generally. Nor is IFC able to produce a complete list of projects in either category.

265. Mainstreaming by IFC in its non-GEF portfolio is inhibited by the fact that even larger clean energy projects are usually at or above the low end of IFC's financing range ($20 million). Because most renewable energy and energy efficiency projects are too small for the agency to invest in directly, IFC established the GEF-supported Renewable Energy and Energy Efficiency Fund in 1996, designed to help finance the smaller clean energy projects.

Conclusions

266. The study team found that the Bank has mainstreamed the global environment effectively in terms of cofinancing and leveraging resources in conjunction with GEF projects. However, it has not done as much to build up its regular loan portfolio with regard to biodiversity or renewable energy as it could have with the necessary commitment and resources. It has not created all the staff incentives necessary to put global environmental concerns on a par with traditional bank business. The Bank has not succeeded in systematically integrating global environmental objectives into economic and sector work or into the CAS process, nor has it taken meaningful action to reduce the impact of its traditional role as financier of fossil fuel power development. And it has not yet undertaken any programming based on global environmental objectives, although it appears to be poised to take an important step in that regard. Overall, the team found that, although the World Bank's cofinancing of GEF projects is a significant accomplishment in mainstreaming the global environment, it has fallen well short of its potential for mainstreaming.

Recommendations

267. The **World Bank**should adopt public, measurable goals for the integration of global environmental objectives into its regular operations, including goals related to: 1) staff incentives, 2) funding level and/or number of GEF associated projects, 3) funding level and/or number of projects for the global environment in its regular lending portfolio, and 4) integration into its sector work and the Country Assistance Strategy (CAS) process. It should report regularly to GEF and to the public on its progress in achieving these objectives.

268. The World Bank should begin a transition from its role in financing conventional power loans to a new role in financing sustainable energy technologies.

269. The World Bank should allocate increased financial resources to the Global Overlays Program in order to ensure adequate staffing for a substantially higher level of integration of global environment into sector work and the CAS.

270. The IFC should maintain a database of its projects with global environmental benefits, so that its mainstreaming of global environment can be assessed in the future.

Mainstreaming in UNDP

271. UNDP is a grant-making institution focused primarily on poverty eradication and promoting sustainable human development. It allocates its development resources to developing countries on the basis of objective factors, such as population and per capita income, so most of its funds go to the least developed countries. UNDP has a decentralized system of project planning: UNDP country offices have authority to program the funds allocated to the country over a three-year cycle (changed from a five-year cycle in 1996). UNDP/GEF projects represent approximately 7 percent of UNDP's annual budget of about $1.1 billion.

272. The study team identified the following criteria as most appropriate for assessing the degree of mainstreaming in UNDP:

- Extent of UNDP financial contributions to GEF projects and of financing non-GEF projects associated with GEF projects
- Number and total funding of projects in UNDP's regular portfolio that provide global environmental benefit in the four focal areas
- Incentives and rewards for UNDP staff work on GEF projects compared with those for work on regular UNDP projects
- Extent of integration of GEF and the global environmental concerns into country cooperation frameworks or other country dialogues.

Financing of GEF Projects and Association of GEF Projects with Non-GEF UNDP Projects

273. UNDP mobilized some cofinancing in 42 percent of its GEF projects during GEF 1. This represents a major improvement of its performance in generating cofinancing during the Pilot Phase, when such cofinancing is provided in only 14 percent of its GEF projects.[47]

274. With regard to direct cofinancing from its core budget, UNDP provided $15.6 million to GEF projects during GEF 1, whereas it provided no cofinancing to GEF projects from its core budget during the Pilot Phase.

275. UNDP claims total cofinancing in full GEF projects of $213.5 million during GEF 1, which would account for 48 percent of the total financing (including GEF financing) of UNDP GEF projects. However, the study team found discrepancies between figures provided for specific projects in its data sheet on cofinancing and the project documents.[48] Taking these discrepancies into account, the study team found that the actual cofinancing total for UNDP GEF projects is $195.5 million. Moreover, the study team found that in a number of UNDP GEF projects, cofinancing by governments is for baseline activities that would have been funded regardless of the GEF projects in question.

276. UNDP committed itself at the Heads of Agency Meeting in 1996 to "integrate the new UNDP programming cycle to the GEF work program to produce more projects benefiting from joint financing by UNDP and other donors."[49] UNDP figures for the past three years do show a significant increase in financing for GEF projects from other sources. UNDP GEF projects ap-

[47] All figures cited for UNDP cofinancing are based on data supplied by UNDP in "Cofinancing in UNDP/GEF Projects Operational Phase as of FY97," submitted by UNDP on October 3, 1997, and "UNDP/GEF Pilot Phase Co-financing Projects" (n.d.).

[48] UNDP claims a total of $27 million in cofinancing for the Madagascar Environment Biodiversity Program on its cofinancing data sheet, but the regional coordinator confirmed that the total cofinancing for the UNDP-managed components of the project was $6.7 million. And the $5.4 million claimed as cofinancing for the Republic of Yemen Socotra Archipelago Project is identified in the project brief as "parallel financing" for regular development activities from various U.N. agencies, including UNICEF and WHO, which would have been spent regardless of the GEF project. The study team notes that such ongoing financing of development activities is sometimes counted as cofinancing in UNDP project briefs and data sheet and sometimes not.

[49] GEF, *GEF Corporate Business Plan FY98-00*, op. cit., p. 15.

proved in 1995 had financing from governments, NGOs, and other funding entities of only $24.6 million, whereas those approved in 1996 and 1997 had financing from other sources of $88.3 million and $66.4 million, respectively.

277. A second form of cofinancing of GEF projects is the financing of an associated project. The team found only three cases in which UNDP identified projects as "associated projects." Moreover, UNDP's use of the term "associated project" in project documents and in its comments on an earlier draft of this report indicates that UNDP was unclear about the term's meaning during GEF 1.

278. In the case of the Yemen Socotra Archipelago, UNDP referred to the "Government of Yemen Transport Development for Socotra Project as an "associated project." But that regular UNDP project has little or nothing to do with biodiversity conservation and sustainable use. And in the case of the Viet Nam Creating Protected Areas for Resource Conservation project, UNDP listed all UNDP and GEF projects in Viet Nam related to biodiversity or environmental awareness as associated projects.

279. UNDP argues that the baseline costs of GEF projects are the equivalent of regular UNDP projects that are linked with GEF grants, which provide the global environmental benefit and are, therefore, "associated projects." The study team believes this argument represents a misunderstanding of the concept of associated projects. The team assumes that GEF-associated projects are those that either are closely related to a GEF project (blended with it or complementing it) or that involve a change in the design of an otherwise unrelated project that is intended to benefit the global environment. Defining associated projects to mean a project involving only baseline activities that are not altered because of the association with the GEF project would deprive the concept of any value in leveraging additional funding related to the global environment.

280. Based on this definition, the study team found that UNDP has not yet begun to mainstream with regard to associated projects. UNDP's five-year project cycle beginning in 1992 was obviously a major obstacle to progress in this regard, but UNDP's understanding of associated projects is a more fundamental problem that must be addressed. However, the team notes that the GEF Council has not provided clear guidance on what constitutes an associated project, and that some confusion is to be expected under those circumstances.

281. The team believes that there is considerable potential for UNDP to generate interest on the part of recipient countries in GEF-associated projects by using the additional grant money from GEF as an incentive for such associations. Success in this effort will depend, however, on the degree to which global environmental concerns in general and GEF in particular are integrated into the planning of country programming, which is addressed separately below. The improvement by UNDP of coordination between energy projects funded with core resources and GEF-financed energy projects—one of the objectives of its "Sustainable Energy Global Programme"—is obviously one prerequisite for achieving an adequate level of associated projects.

Funding of Non-GEF UNDP Projects That Provide Global Environmental Benefits

282. Statistics on UNDP's regular portfolio of projects show that UNDP still does not have a system to track its funding of biodiversity conservation projects. [50] Therefore, the study team was unable to determine the pattern of spending over recent years in this area. The absence of any statistical tracking of biodiversity projects or any new initiative to increase project funding for biodiversity conservation suggests that there has been no new emphasis on biodiversity in the UNDP portfolio since the creation of GEF.

283. The data show that UNDP has reduced the number of projects and total funding for new and renewable energy since it began tracking that subsector of energy projects in 1993. From twenty-two projects for a total of $22.6 million in 1993, renewable energy as a category fell gradually to only eleven projects for a total of $5.1 million in 1996. [51]

[50] Documentation and Statistics Office, Bureau for Programme Policy and Evaluation, United Nations Development Programme, *Compendium of Ongoing Projects*, UNDP/Series A/Nos. 22-27, 1992-96. UNDP informed the study team in January 1998 that UNDP is changing its project classification scheme but did not indicate whether it would begin tracking biodiversity projects under the new system.

[51] Ibid.

284. UNDP project statistics indicate that in fiscal 1997 UNDP continued to provide four times more grant funding for "conventional sources of energy (petroleum, coal, and gas)" than it did for "new and renewable sources of energy." [52] UNDP commented that assistance for "energy planning and conservation," for which funding was one-third higher than for conventional energy sources, also includes projects related to renewables. However, it is impossible to tell from project statistics how much of that category was for promotion of new and renewable energy.

285. Commenting on the decisions made early in the 1992-96 program cycle, UNDP's Energy and Atmosphere Program acknowledged that the overall decline in regular UNDP program funds and availability of GEF funding for climate change projects had caused a "noticeable tendency within UNDP to give lower priority to funding energy projects under the regular IPF programme," which it noted was "counter to the spirit and intention of GEF." [53]

286. These patterns and trends on energy projects in UNDP's regular portfolio reflect the priorities determined in 1992-93, when core funds were committed to projects for the fifth five-year cycle (1992-96). UNDP had little flexibility to reprogram funds during the final two years of GEF 1, when mainstreaming was discussed with GEF. The allocations among categories of projects, including environment and natural resource management, within country programs are negotiated both between UNDP resident representatives and their country counterparts, on the one hand, and among recipient government agencies, on the other hand, and are, therefore, difficult to reopen.

287. UNDP has taken some key steps that should make it possible to make a dramatic shift in the project portfolio toward a much greater emphasis on new and renewable energy: First, UNDP has adopted a three-year cycle, which is no longer "front-loaded" but is a rolling project approval and implementation process that allows for a major shift in the energy portfolio to take place progressively in the next several years. The first such three-year cycle began in 1997. Second, UNDP has introduced the Initiative for Sustainable Energy, a policy document that serves as the basis for national and regional training events for UNDP and government counterpart staff. So far, more than thirty countries have participated in such events. Third, core resources are being used to support project identification and design, pilot activities, and resources mobilization for sustainable energy projects in at least thirty countries, according to UNDP's deputy executive coordinator.

288. These changes should give UNDP the capacity to leverage shifts in its regular portfolio toward many more new and renewable energy projects during GEF II. The study team notes, however, that biodiversity protection has not received comparable attention during GEF 1.

Integration of GEF and Global Environment into Country Cooperation Frameworks

289. Closely related to the degree of mainstreaming by UNDP through associated projects and project funding in its regular portfolio is the integration of the global environment into the Country Cooperation Framework (CCF) process. The CCF presents the development priorities agreed to by the country and UNDP and the strategy for addressing those priorities through projects over three years. It provides an opportunity for UNDP to integrate global environmental concerns into their cooperation with client governments and to align their strategies with those of GEF. UNDP's response to the GEF Secretariat's inquiry about ways that the agency had mainstreamed the global environment during GEF 1 specifically referred to "ensuring that, in the current process, GEF operations are part of the Country Programme Cooperation Framework." The CCF process is an opportunity to identify UNDP projects related to biodiversity or climate change that could be linked with GEF projects, as well as possible core UNDP projects that would have both global and national benefits.

290. The study team assessed the extent to which GEF operations were integrated into CCFs by examining the frameworks that were available for thirteen of the sixteen countries visited by the team or for which country studies were done by local consultants. Nine of the thirteen were completed in 1997, three in 1996, and one in 1995. The team looked for indications of the extent to which the CCFs identified opportunities

[52] UNDP, *Compendium of Ongoing Projects as of 31 December 1996*, Series A/no. 27, p. 43.

[53] Energy and Atmosphere Programme, United Nations Development Programme, *UNDP Initiative for Sustainable Energy* (New York: June 1996), p. 75.

**TABLE 5.
REFERENCES TO GEF IN A SAMPLE OF CCFS**

References to GEF Country	Refers to GEF Only As Source of Funding	Refers to GEF Programs or Priorities	Refers to Linkage between UNDP Project and GEF Project
Russian Federaton (1997)			✓
Egypt (1997)	✓		
Brazil (1997)	✓		
Indonesia (1995)		✓	
India (1996)	✓		
China (1996)	✓		
Poland (1996)	✓		
Zimbabwe (1997)	✓		
Mexico (1997)		✓	
Jordan (1997)	✓		
Argentina (1997)	✓		
Viet Nam (1997)		✓	
Philippines (1997)		✓	

for projects relating to biodiversity, climate, or international waters either independent of GEF funding or separate from but linked to GEF projects.

291. In general, the team found that the CCFs introduced broad themes relating to the global environment, sometimes stated in extremely general terms, such as "conservation and use of biodiversity" (Argentina), and sometimes in slightly more concrete terms, such as "implement biodiversity and conservation measures for important wetlands and wildlands" (Jordan) or "promotion of the use of renewable energy" (Egypt). But the CCFs seldom went beyond this general level of program objectives to identify specific types of projects to be developed during the planning period. There are some exceptions to this general pattern: the Russian Federation CCF was specific about types of projects contemplated and even project sites, and the India and China CCFs were more concrete than most. But for the most part, the CCFs appear to reflect a stage of planning in which it is too early to identify opportunities for linkages between core budget projects and GEF projects or even levels of allocation of core resources to different types of projects.

292. The team analyzed the ten CCFs in terms of how they treated GEF and GEF projects in relation to UNDP core projects. The results of this analysis are shown in summary form in table 5 below. The team found that, in most cases, the CCFs refer to GEF only in the "Resource Mobilization Target Table" for the planning period covered by the document or in a passing reference as a source of financing for UNDP projects. Only three of the thirteen CCFs referred to GEF objectives directly or indirectly. And in only one case was any linkage between a non-GEF UNDP project and a GEF project made. Only one CCF referred to a UNDP project as a GEF project. And none of the documents foreshadowed the association of GEF grants with UNDP grants in one of the focal areas.

293. Based on this sample, it appears that the CCFs have given greater prominence conceptually to global environmental issues in country program planning. But the study team could not ascertain the likelihood that any of them will generate an increase in core-funded UNDP projects relating to the global environment. The team found that, although some CCFs have referred to GEF priorities and programs, they have not yet systematically begun to link GEF's operations with regular portfolio projects. Indeed, most of the CCFs ignore GEF except as a source of funding for UNDP projects. This may be a result of having been written too early in the planning process. The question arises, therefore, whether these documents could be written somewhat later in the process and be explicitly de-

signed to identify specific core projects related to biodiversity, climate, and international waters.

Staff Incentives for Work on GEF Projects

294. Generally speaking, UNDP does not have the same problem in rewarding work on GEF projects as the World Bank, because regular UNDP projects are usually in the same range of cost as GEF projects. So working on GEF projects is not given less recognition in most UNDP country offices. This problem does arise in Latin America, however; many regular UNDP projects are substantially larger there, with significant cofinancing by governments.

295. According to UNDP staff, the agency intends to establish a system that will reward work on GEF by recognizing GEF project funding as leveraging of additional resources. Thus, every time the Focal Point for GEF in a UNDP country office has a project approved, the officer will leverage additional sources of financing, which will be considered as one component in the officer's performance evaluation. The incentive for working on GEF projects will, thus, be biggest in Africa, where there are the least non-GEF opportunities for obtaining cofinancing from governments. However, the new incentive system will not work in Latin America, where cofinancing opportunities are numerous; it is precisely in Latin America that such incentives are needed.

296. As an additional incentive to work on GEF projects, UNDP, in coordination with the GEF Secretariat, offers training in logframe (logical framework) program development, which is considered advantageous for career advancement in UNDP, exclusively to staff working on GEF projects. It appears that this incentive makes working on GEF projects at least as attractive as work on regular UNDP projects, if not more attractive, again except in Latin America, where the incentives for working on GEF projects appear to be much weaker.

Conclusions

297. The study team found that UNDP had made measurable progress in providing cofinancing for GEF projects compared with the Pilot Phase. It found that the coincidence of UNDP's five-year project cycle and the beginning of the GEF Pilot Phase made it extremely difficult for UNDP to mainstream the global environment in its regular portfolio during GEF 1. UNDP has taken steps that give it the capacity to increase dramatically the role of renewable energy in its regular project portfolio, although biodiversity does not appear to have been given parallel emphasis. UNDP has adopted a set of positive incentives for staff work on GEF projects, although Latin America may be a weak point in that regard. The CCFs have begun to refer to GEF projects and programs but have not yet systematically integrated global environmental concerns into lending strategies. And the lack of clarity in UNDP about associated projects indicates that there are still institutional obstacles to the mainstreaming of the global environment and GEF in UNDP's program planning.

Recommendations

298. UNDP should establish a system of tracking projects and components that are relevant to the GEF focal areas and set public, measurable targets related to: 1) funding levels and/or number of core-funded projects for biodiversity conservation, alternative energy and international waters, 2) funding level and/or number of GEF-associated projects, and 3) the Country Cooperation Frameworks (CCFs). It should report regularly to GEF and to the public on its progress in achieving those targets. It should also consider making linkages between potential GEF projects and potential core budget project an explicit objective of the process of preparing the Country Cooperation Frameworks.

Mainstreaming in UNEP

299. UNEP, unlike the World Bank and UNDP, is not a funding agency and does not normally implement country-level development-related projects. It has a budget approximately one-thirtieth the size of UNDP's, and that budget has shrunk drastically in the last few years.

300. It is not reasonable to expect UNEP to be able to provide cofinancing for GEF projects. The nature of UNEP projects is such that it is much more difficult to mobilize additional financing from other sources than it is for the other Implementing Agencies. UNEP partners in the science and environmental communities generally do not have access to the resources of sectoral and development agencies, and governments are less willing to finance regional and subregional activities. The criteria for mainstreaming for UNEP must be significantly different from those applied to the other two Implementing Agencies.

301. UNEP already has a mandate to focus on reducing global environmental threats. The study team, therefore, assumes that UNEP is in fact giving sufficient attention to the global environment in its regular operations. Apart from this criterion, the study team believes that the most appropriate criteria for assessing mainstreaming in UNEP are the incentives provided by UNEP for its personnel to work on GEF projects and the extent to which UNEP has followed the principle that GEF programming should be additional to UNEP's regular program activities.

302. With regard to personnel incentives, UNEP's GEF Core Unit has informed the study team that it has not instituted any special incentives for GEF work. Furthermore, it has observed that overall there are strong disincentives to UNEP staff becoming involved in GEF matters, because of the complexity and duration of the process of project approval.

303. With regard to the additionality of its core mandate, one UNEP official observed that, in the early phase of GEF 1, UNEP program staff looked on GEF as little more than another source of financial support for programs that were being cut and that they sought funding from GEF for whatever they could not get funded elsewhere. During GEF 1, UNEP developed a number of project proposals that represented parts of its regular work program for which funding has been cut.

304. In 1996 most of UNEP's proposals for regular projects (thirteen of eighteen) were not approved by GEF for inclusion in the work program. Most of the projects were rejected because they were either not recipient country focused or did not appear to be country driven. But in several cases, the reason given was that GEF cannot fund activities of international organizations that are supposed to be supported by their regular budgets. Some of these proposals were resubmitted in slightly different form, despite the secretariat's advising UNEP that the GEF could not fund existing programs of agencies.

305. The problem of pressure from program units to promote their projects appears to have arisen because of a widespread lack of understanding on the part of UNEP program officers of how GEF operates. Until 1996 only one or two officials staffed UNEP's GEF unit and little effort was made to familiarize program officers with GEF's objectives and procedures. The GEF Secretariat found on a mission to UNEP headquarters in April 1996 that some UNEP staff who were preparing GEF project proposals were still unaware of the Operational Strategy. [54]

306. Since then, UNEP has taken several initiatives to acquaint senior management, substantive units, and regional offices with GEF's policies, procedures, and operational guidelines, including a retreat for senior management, workshops at headquarters and in all regional offices, and distribution of a manual on UNEP GEF operations.

307. UNEP's familiarization efforts and consultations with the GEF Secretariat have led to an improvement in UNEP's programming with regard to the additionality requirement. During 1997 UNEP submitted a larger number of proposals that are additional to UNEP's core program activities and otherwise conform to GEF eligibility requirements than in 1996. UNEP's proposal for Global International Waters Assessment, which should make a major contribution to future GEF programming in international waters, was approved for inclusion in the work program, as were fourteen Project Preparation and Development Facility (PDF) grants dealing with biodiversity conservation, international waters, and ozone depletion.

308. However, UNEP was still submitting proposals in 1997 that were not consistent with any GEF Operational Program and lacked sufficient evidence of country involvement. Specifically, the Pilot GEF Informational Network Project and the Integrated Environment and Socio-Economic Information System Project Proposals were viewed by the GEF Secretariat as agency driven and potentially funding existing activities of UNEP. The submission of such projects for inclusion in the work program suggests that the principle of additionality had not been completely accepted by UNEP, despite the awareness-raising efforts that have been carried out.

309. The study team believes that greater efforts by both the GEF Secretariat and UNEP are needed to ensure that all relevant UNEP staff have a clear understanding of the requirements for eligibility for GEF funding, including the principle of additionality to core budget activities.

[54] Ken King, GEF Secretariat, "Mission to UNEP: Back-to-Office Report " (May 1, 1996)

Conclusions

310. The study team found that UNEP has not provided any incentives for work on GEF projects and that it could devise some simple ways to improve the situation. It also found that UNEP has shown some improvement in submitting GEF project proposals that are consistent with the principle of additionality to core program activities, but that further progress is needed in this regard.

Recommendations

311. UNEP should devise a system of staff incentives, involving at least a revision of the staff evaluation criteria, to give adequate consideration to GEF work.

312. The GEF Secretariat and UNEP should devote more staff time and resources to upstream consultation not only in Washington but in Nairobi to ensure that all relevant UNEP program staff have adequate guidance in formulating GEF proposals.

B. Cooperation Between GEF and the Conventions

313. As the institutional structure managing the financial mechanism for the Framework Convention on Climate Change (FCCC) and the Convention on Biological Diversity (CBD) on an interim basis, GEF is supposed to function "under the guidance [of], and be accountable to, the Conferences of the Parties, which shall decide on policies, program priorities, and eligibility criteria for the purposes of the conventions."[55] The study team has examined the two main dimensions of the relationships between GEF and the two conventions: GEF's implementation of the guidance issued by the two Conferences of the Parties (COPs) and the effectiveness of GEF in funding enabling activities to support the implementation of the conventions by countries eligible for GEF assistance.

Guidance to GEF from the Conventions

314. As the GEF Secretariat began preparing the GEF Operational Strategy in 1995, it presented a report to the first meeting of the COP of the FCCC, which asked for guidance on whether the strategy should focus on short-term cost-effectiveness, long-term cost-effectiveness, or a combination of the two. The COP responded by calling for a mixed strategy. Although the Operational Strategy emphasizes projects with a long-term impact on the problem, it embraces short-term measures as well.

315. In its initial guidance to GEF in April 1995, the FCCC COP called for primary emphasis on enabling activities, such as planning and capacity building, to facilitate implementation of "effective response measures." It called for strengthening research and technological capabilities of convention implementation by developing countries that are parties to the convention. It further called for emphasis on improving public awareness of climate change and response measures and for financing formulation of national programs to address climate change issues and support their implementation and agreed activities to mitigate climate change. These points were integrated into the eligibility criteria for climate enabling activities.

316. As a result of the guidance from the COP of the FCCC, GEF has allocated some 10 percent of its resources for regular projects in the climate change focal area ($35 million out of $364 million) to short-term measures, whereas about 90 percent of the funding has been allocated to long-term measures within the Operational Programs.[56]

317. At its second session, the COP of the FCCC expressed concern about "difficulties encountered by developing country parties in receiving the necessary assistance from the Global Environment Facility," referring to operational policies on eligibility criteria, disbursement, project cycle and approval, as well as the application of the concept of incremental costs. It also expressed concern about difficulties of non-Annex I parties in obtaining funds for preparing their national communications. The COP called for "steps to facilitate the provision of financial resources for implementing measures to mitigate climate change, including "pragmatic application of [the] concept of incremental costs on a case-by-case basis." It also called for GEF to "expedite the approval and the disbursement of financial resources" for non-Annex I countries preparing their national communications. GEF response to this guidance is assessed below.

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[55] *Instrument for the Establishment of the Restructured Global Environment Facility* (Washington, D.C.: 1996), paragraph 6, p. 7.

[56] Data compiled by the GEF Secretariat.

318. Guidance from the CBD COP has focused on a number of "programme priorities." The guidance from COP I of the CBD in 1994 had thirteen separate parts. The guidance from COP II covered national programs and reports, the need for expedited procedures, public involvement, modalities of support for the clearinghouse mechanism, support for general measures for conservation and sustainable use and for in situ and ex situ conservation, and sustainable use of components of biodiversity. Guidance from COP III covered capacity building for biosafety, assessment and monitoring (including taxonomy), and indigenous and local communities. It also covered support for activities on agricultural biodiversity (or agrobiodiversity), the clearinghouse mechanism, targeted research, awareness and understanding, and in situ and ex situ conservation. It further reiterated earlier guidance on incentive measures, including compensation for opportunity costs forgone by communities. And it asked GEF to collaborate with the CBD Secretariat in preparing a proposal on "the means to address the fair and equitable sharing of benefits arising out of genetic resources."

319. The approach adopted by the secretariat in responding to the guidance of the CBD's COP was to use the existing framework of Operational Programs as much as possible. It was concerned about the possible proliferation of Operational Programs, which makes programming of GEF resources more difficult. It was also aware that the greater the change in the existing framework required to implement a given COP guidance, the longer it would take to respond and the more political support would be needed. Thus, the secretariat preferred to implement the guidance through enabling activities wherever possible or through revising the Operational Strategy where necessary, rather than adding a new Operational Strategy.

320. The secretariat took advantage of drafting the Operational Strategy and Operational Programs to integrate priorities identified by the COP into those documents before they were approved as a means of responding to the guidance. The GEF Secretariat consulted the CBD Secretariat and incorporated guidance from COP I into the Operational Strategy before it was approved by the GEF Council in October 1995. The secretariat also developed the Operational Criteria for Enabling Activities in June 1996 based in part on the guidance from COP II. These were revised in April 1997 to reflect the guidance provided by COP III.

321. The Operational Programs were still going through revision when COP II guidance was issued. The secretariat had planned originally to publish the final version in April 1997 but decided to delay publication until June to revise it to include mention, wherever appropriate, of the activities called for by COP III. A proposal on benefit sharing has already been drafted by the secretariat in collaboration with the CBD Secretariat; the two bodies are still in the process of reaching consensus on a final version to be presented to COP IV in May 1998. In addition, the secretariat committed to write policy papers and reviews on assessment and monitoring, incentive measures, genetic resources, and indigenous and local communities.

322. The issue of whether the COP guidance on biodiversity should be translated into a new Operational Program was debated among the GEF Secretariat, the CBD Secretariat, and the Implementing Agencies for several months before the secretariat decided in early 1997 to issue a policy note explaining to the GEF Council how agrobiodiversity activities would be integrated into the existing Operational Programs on biodiversity. The COP's guidance on agrobiodiversity was extremely broad, referring to the FAO's Global Plan of Action on Agriculture and Genetic Resources as well as the COP's own multiyear program, which involves six program components. GEF had already explicitly included activities relating to conservation and sustainable use of agrobiodiversity in its Operational Programs in biodiversity before the COP guidance. However, GEF could not realistically include all of the possible activities outlined in the guidance within the scope of those Operational Programs, so the secretariat's policy note focuses on those activities that would be relevant to GEF's mandate and capabilities. [57]

323. The note indicates that the role of GEF will be to help remove specific constraints to sustainable use of biodiversity important to agriculture. The note identifies three distinct GEF responses to the guidance: emphasizing biodiversity concerns in applying the Operational Programs, revising the operational criteria for enabling activities, and encouraging Implementing Agencies to assist with country-driven, short-term re-

[57] "A Framework for GEF Activities concerning Conservation and Sustainable Use of Biological Diversity Important to Agriculture," draft (n.d.).

sponse measures in agrobiodiversity and inclusion of pilot components and demonstration of techniques in project proposals.

324. The secretariat's follow-up to the COP guidance on capacity building for biosafety has taken the form of approving a pilot project that covers (*a*) building awareness, stock taking, identification of options, and development of strategies for biosafety in eighteen countries and (*b*) regional workshops open to all GEF-eligible countries. The project has been sent to the GEF Council for final endorsement.

325. In the cases of some issues covered by COP guidance, the secretariat had already approved projects that addressed the COP's concerns even before the guidance was issued. In the case of taxonomy, the Costa Rica Biodiversity Resources Development Project, approved in June 1995, was intended to complete an inventory for five major plant and animal groups in Guanacaste Conservation Area and surrounding buffer zones as well as to develop human capacity and institutional capacity for future taxonomic projects. The Inventory, Evaluation, and Monitoring of Botanical Diversity in Southern Africa Project was approved in April 1996 to build the capacity of 102 professionals and support staff in ten countries to inventory, evaluate, and monitor some 30,000 species of flowering plants and ferns.

326. With regard to incentive measures, including ways of compensating benefits forgone, GEF has now approved a project that specifically includes provision for compensating communities for benefits forgone in conservation of biodiversity. In the Ghana Natural Resources Management and Biodiversity Project, approved in July 1997, communities are to be compensated through alternate livelihood activities for the benefits forgone by taking forest reserves out of production.

327. The CBD Secretariat confirmed that the GEF Secretariat had generally integrated the guidance from the COP into the relevant GEF documents. However, it viewed the Operational Criteria for Enabling Activities as designed primarily for the climate convention rather than the biodiversity convention. Specifically, the CBD Secretariat emphasized the much greater importance to the CBD of the clearinghouse mechanism, intended to disseminate convention-related information, which was not reflected in the Operational Criteria. The CBD Secretariat also expressed frustration about what it believed was the slowness of the GEF Secretariat to provide support for the clearinghouse mechanism of the CBD.

328. COP II requested that GEF "explore the modalities" of providing support to developing countries for capacity building in relation to the operation of the clearinghouse mechanism. At a GEF Operations Committee meeting in May 1996, the CBD Secretariat proposed that the project matrix for enabling activities should include something on the clearinghouse mechanism, and it was agreed that the idea was sound. The Operational Criteria for Biodiversity were modified in June 1996 to include participation in the clearinghouse mechanism as an eligible activity.

329. However, the GEF Secretariat did not include in the revised Operational Criteria the specific cost ranges for participation in the clearinghouse mechanism, on the grounds that the CBD was still in the process of designing the clearinghouse mechanism. After wide-ranging consultations with the CBD Secretariat and several of the delegations most interested in the issue, the GEF Secretariat presented its proposed modalities for GEF assistance to capacity building in relation to the clearinghouse mechanism at the COP III in November 1996. The COP requested that GEF operationalize the revised criteria as soon as possible; in April 1997 the GEF Secretariat developed cost ranges for various hardware, software, and training costs for using the Internet as guidelines for preparing enabling proposals.

330. The CBD Secretariat strongly believed that the GEF Secretariat should have moved much faster on allowing countries to draw on enabling activities to participate in the clearinghouse, noting that it took more than a year to complete the task. The GEF Secretariat, however, believed that it should receive the guidance of the COP before making the decision, particularly because the clearinghouse mechanism itself had not yet been designed by the CBD Secretariat.

331. The study team notes that the apparent tentativeness of the COP's guidance, combined with the uncompleted plans for the mechanism itself, was the primary cause of the delay in acting on the issue of the clearinghouse mechanism.

332. The larger problem in cooperation between GEF and the conventions regarding the guidance provided by the CBD is that guidance has been overly broad in

scope, yielding so many priorities that it tends to make GEF programming more diffuse than focused. Ideally, the CBD would provide GEF with a scientifically based methodology for prioritizing among ecosystems. The study team recognizes that this is politically unrealistic given the nature of the COP's makeup. However, it would be desirable for the CBD's guidance to be more focused.

Conclusions

333. The study team found that GEF has sought and strictly implemented the guidance of the conventions wherever possible. The team also found that the guidance provided by the COP of the CBD has been overly broad in scope and has not included guidance on prioritizing GEF programming in regard to ecosystems or ecosystem types.

Recommendations

334. The GEF should play a more proactive role in its relations with the conventions and should, in consultation with Implementing Agencies, prepare more detailed requests for guidance on those issues on which guidance would be most helpful.

GEF Financing of Enabling Activities

335. GEF enabling activities (EAs) are intended to build the capacity of recipient countries to implement objectives of the biodiversity and climate conventions. Activities supported in these projects include training, research, education, and institution strengthening for preparation of national plans and strategies as well as first national communications to the two convention secretariats. In addition, because all non-Annex 1 parties to the Climate Change Convention, developing country parties to the CBD, and economies in transition otherwise eligible for GEF funding are entitled to EA's, they are considered important to maintaining broad global political support for the conventions.

336. As a result of the expedited procedures, by June 1997 the average elapsed time had been reduced to six months for climate EAs according to the FCCC Secretariat. [58] Data provided by UNDP show that the average time between receipt of the proposal and final CEO approval for its entire portfolio of biodiversity EAs is 4.4 months and that many of them take two months or less. From May 1996 to June 1997, GEF approved forty-six climate enabling activities covering fifty-nine countries.

337. By the time of the Kyoto meeting of the COP of the FCCC, seven non-Annex 1 parties (Argentina, Uruguay, Senegal, Mexico, Micronesia, and Zimbabwe) had submitted their national communications to the FCCC. All seven have received GEF grants for enabling activities.

338. As of January 1998, more than forty countries that have received EAs had submitted their first national reports to the CBD, and more are expected by the time of COP IV in May 1998. Some of these reports, mostly from African countries, are "interim" reports rather than complete reports, according to the CBD Secretariat, but the vast majority are complete.

339. As early as 1996 the convention secretariats believed that many countries would not be able to complete their reports, even after receiving funding for preparing them, without more direct support. At the October 1996 GEF Council meeting, the idea of a global support project for fulfillment of national obligations under the two conventions was discussed, and PDF Bs were drafted by UNDP in early 1997 for both biodiversity and climate. The PDF B for the "Global Support Program for Enabling Activities in Biodiversity" was approved in June 1997. It involves hiring international consultants to provide direct advice and support to officials working on biodiversity strategies and action plans and first national reports to the CBD. The support would take the form of workshops, a "hotline," and a "help desk."

340. A similar PDF B for a "National Communications Support Program" in regard to the FCCC was approved in March 1997, and a full project proposal for a $3.6 million program is now under discussion with the secretariat. It argues that such a support program is needed as "insurance" against the failure of recipients of GEF climate enabling activities to deliver their national communications. The UNDP staff working on climate EAs told the study team in June 1997 that as many as thirty of the enabling activities might not achieve their intended objective without further outside help.

[58] Study team meeting with FCCC Secretariat, Bonn, June 16, 1997.

341. The CBD Secretariat asserted in an interview with the study team that the GEF Secretariat's response to the request for funding for a support program for national communications was too slow and inadequate. The GEF Secretariat, however, has been skeptical about the alleged need for additional support. It argues that models of how to write national plans for biodiversity already have been widely circulated and that the enabling activities are already supposed to build the capacity to write the national reports.

342. The requests for substantial amounts of GEF funding for further assistance to countries in meeting obligations to the two conventions suggest that the EAs have not been as effective as anticipated and, in some cases, may not be effective at all. Whether GEF funds these support programs or not, the future of enabling activities as a means of bolstering the two conventions requires much more careful thought.

Conclusions

343. The study team found that GEF has sought and strictly implemented the guidance of the conventions with due regard for GEF's own mandate and funding limitations. The team also found that the guidance provided COP of the CBD has been overly broad in scope and has not included guidance on prioritizing GEF programming in regard to ecosystems or ecosystem types. It found that GEF has made a major adjustment in procedures, which resulted in enabling activities being funded rapidly during 1997 but that the enabling activities program does not appear to be as effective in achieving its objectives regarding national communications as anticipated.

Recommendations

344. The GEF Secretariat, the Implementing Agencies, and the convention secretariats should undertake a comprehensive review of enabling activities before the end of 1998 to determine how successful the projects have been, analyze the reasons for those that have failed, and consider policy and programmatic responses to the problem.

C. Roles, Responsibilities, and Relations

Using the Comparative Advantages of Implementing Agencies

345. One of the underlying principles of GEF is using the comparative advantage of each Implementing Agency. The three agencies of the Pilot Phase signed an agreement in November 1991 that identified their respective roles in GEF. When GEF was restructured, the three agencies agreed that they would revisit the question of their respective roles at some future time. But the 1991 agreement was included as an annex to the GEF Instrument. The agreement provided that each agency would have its own "area of emphasis" within GEF: UNDP would be the primary agency for capacity building and technical assistance, UNEP would have the primary role in scientific and technical analysis and environmental management, and the World Bank would be the primary agency for investment projects.[59]

346. This original understanding no longer appears to be a meaningful way of distinguishing the relevant strengths and appropriate roles for the Implementing Agencies. The World Bank has not limited itself to infrastructure or investment-type projects for many years. Typically, World Bank projects include a range of components, including technical assistance and support. Pure investment projects are found only in the ozone-depleting substances and climate focal areas.

347. Meanwhile, UNDP has been implementing some projects in the climate focal area that are either investment projects (defined as those that generate an income stream) or have an investment component.[60] Although these are small investment projects or components compared with those of the World Bank, the size of such projects is growing and UNDP is expected to increase the number and size of investment-oriented GEF projects in the future. This development also has created friction; the World Bank has expressed concern that UNDP's approach is too government oriented rather than being attuned to the need to ensure that

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[59] *Instrument for the Establishment of the Restructured Global Environment Facility* op. cit., "Principles of Cooperation Among the Implementing Agencies," Annex D, pp. 30-31.

[60] Includes Bolivia Energy-Based Rural Electrification, China Promoting Methane Recovery and Utilization from Mixed Municipal Refuse, Ghana Renewable Energy-Based Electricity, and Uganda Photovoltaics for Rural Electrification.

GEF investment supports private sector initiatives. Meanwhile, UNDP has sought to preserve a special niche in technical assistance within GEF, despite the fact that the World Bank usually has technical assistance components in its projects.

348. The World Bank clearly has the greatest expertise on its staff with regard to investment projects, including economic expertise. But, although the Bank may still have a comparative advantage in implementing large infrastructure projects, the three Implementing Agencies are not so clearly differentiated in regard to most of the types of projects that GEF funds. The team notes that Implementing Agencies hire consultants for a wide range of activities involved in GEF projects, so the distinctions among agencies in regard to technical capacity for project implementation have become quite blurred.

349. The blurring of the original tripartite definition of roles and responsibilities does not mean that the Implementing Agencies do not have comparative advantages in regard to projects. In many countries, the World Bank has a history of dialogue on policy reforms at the macroeconomic and sectoral levels and a willingness to take tough stances in negotiating project conditions to create the necessary sectoral policy environment for success of a site-specific investment project. UNDP has the greatest in-country presence worldwide of the three agencies, in the form of resident representatives in each country, and the broadest network of contacts. Moreover, UNDP is often viewed by recipient governments as a nonthreatening party and, therefore, can more easily convene local stakeholders to develop consensus on policy issues.

350. UNEP's comparative advantage in GEF is its ability to catalyze scientific-technical analysis of global environmental problems. UNEP has the best links with environmental agencies and scientific networks and enjoys particularly close working relations with some African countries. Although UNEP has not traditionally undertaken national-level projects, it has executed activities at the national level in support of regional and global projects. In GEF 1, UNEP has become heavily involved in enabling activities and has implemented some country-level projects. The executive director of UNEP has stated that the agency would focus on international waters, global and regional assessment in biodiversity and climate change, enabling activities, and providing support to the Scientific and Technical Advisory Panel (STAP).

351. Some of the most important comparative advantages of each Implementing Agency, therefore, may depend on both the country and the type of institutional process and policy issues involved in a project. These advantages cannot be easily formalized, nor would it be advantageous to do so.

352. The blurring of distinctions among the Implementing Agencies is an inevitable result of the kinds of projects that have evolved in response to recipient country needs. It is not necessarily harmful to the mission of GEF. Indeed, it could result in greater responsiveness to country demands and greater efficiency in project preparation if more than one agency is capable of implementing the same type of project. The potential harm from the increased competition can be reduced through upstream consultations on project pipelines among the Implementing Agencies, which are already being implemented with positive effect.

The Implementing Agency "Monopoly" Issue

353. The subject of comparative advantage of the three Implementing Agencies is directly related to the question of whether these three agencies should be the only ones with the right to implement GEF projects. This issue has been raised by a number of NGOs and some countries, who believe that the present situation unnecessarily restricts access to GEF funds. It has not been clearly defined up to now, and it is unclear whether a change in the present Implementing Agencies would be more likely to take the form of adding a specific set of agencies or of establishing criteria for Implementing Agencies that would leave the ultimate number open ended.

354. Assuming that both alternatives are to be considered, the team has identified several criteria as appropriate for the examination of this issue:

- Would increasing access to GEF funds beyond the existing Implementing Agencies increase the flow of project proposals to GEF and improve GEF programming?
- Would opening the field to additional organizations increase transaction costs of project cycle management?
- Would having more Implementing Agencies inevitably dilute the commitment of GEF to its ten operational principles for development and implementation of GEF's work program?

- Would greater competition among agencies enhance or diminish the effectiveness of the existing GEF operations within the Implementing Agencies?
- Would additional agencies be as accountable for project quality?

355. Regarding the first issue of increasing access to GEF funds, the study team encountered complaints from officials in Poland and China to the effect that some types of projects or project components were ruled out by Implementing Agency preferences. Chinese officials argued that the three agencies tended to reject proposals that did not match their own agendas, regardless of GEF's operational strategy and programs. They proposed that GEF should allow regional development banks to be Implementing Agencies as well. Obviously, country-level officials do not want to have their project concepts rejected, and this argument cannot be regarded as entirely disinterested. But the argument that the limited choice of Implementing Agencies is likely to narrow the range of projects that are funded also cannot be easily dismissed.

356. NGO representatives presented a variant of this argument in their 1996 working paper on promoting partnerships between GEF and the NGO community: "Typically, [Implementing Agency] task managers are primarily responsible for ensuring that the large, multimillion dollar projects that are central to their basic work programs are successfully executed. They have little time and limited incentives to pay attention to the processing of small or mid-sized GEF projects that are not components of their basic work program."[61] Although the expedited procedures for medium-sized projects, which require less preparation than larger projects, were intended to encourage submission of smaller projects from a range of sources, they do not resolve the problem that World Bank officials have an incentive to focus on larger projects. On the other hand, UNDP often manages smaller projects, including those in the range of $50,000 to $100,000, in its regular portfolio, so this generalization does not appear to apply to its incentive structure.

357. Apart from the issue of project quality, increasing access to GEF funds would certainly have the effect of increasing the number of proposals that are submitted to GEF for consideration. One of the problems that GEF now has in programming in climate and biodiversity is that the GEF is getting fewer good project proposals than it has the resources to support. The existing Implementing Agencies obviously have an interest in avoiding a situation in which its staff time is spent on developing project proposals that could be rejected in favor of an alternative proposal. However, a heavier flow of high quality projects would be desirable in terms of GEF programming goals, because it would allow a closer fit with strategic objectives to be achieved over time.

358. The study team believes that opening up the circle of Implementing Agencies would increase some transaction costs, because the GEF Secretariat would have to consult with a larger number of agencies. However, such a step would also reduce some transaction costs, especially by increasing the competition among agencies for GEF funds, which would tend to make the agencies more efficient and more responsive in regard to the project cycle. Although it is possible that allowing a wider range of agencies to implement GEF projects would reduce the incentive for task managers of the existing Implementing Agencies to work on GEF project executions, that risk would be small if the funds allocated to additional agencies were to represent a relatively small proportion of the total.

359. Regarding the commitment to operational principles, the experience of the past three years suggests that it is likely to take a relatively long time for larger agencies, such as multilateral banks, to adjust fully to GEF's operational principles. It would probably be less of a problem, however, for NGOs, which are already involved in international cooperation on the environment.

360. In addition, on the issue of accountability for project quality, the study team believes that the ability of various organizations to provide such accountability varies greatly and that it is a legitimate criterion for eligibility on becoming a GEF Implementing Agency. However, the team believes that such accountability does not depend exclusively or even primarily on the having an intergovernmental governing bodies. It depends primarily on the mechanisms adopted by the organization for screening project proposals and for monitoring and evaluation of project implementation.

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[61] *Promoting Strategic Partnership Between GEF and the NGO Community*, op. cit.

Conclusions

361. The study team found that increasing the number of Implementing Agencies could result both in an increase in the number of project proposals submitted to the GEF and a broadening of their range. It also found that increased competition among Implementing Agencies would help reduce the transaction costs of permitting additional organizations to be Implementing Agencies. Although there could be some short-term sacrifice of commitment by the GEF family to its operational principles, depending on which organizations become Implementing Agencies, and some reduced incentive for existing Implementing Agencies to work on GEF projects, these risks would have to be weighed against the advantages.

Recommendations

362. The GEF Council should undertake a study of the advantages and disadvantages of various approaches to permitting additional organizations to propose GEF projects directly to the Secretariat and assume direct responsibility for GEF projects.

Secretariat-Implementing Agency Consultations on the Work Program

363. In the GEF Instrument, the role of the secretariat is to "coordinate the formulation and oversee the implementation of program activities pursuant to the joint work program, ensuring liaison with other bodies as required." [62] The secretariat has carried out this function through formal consultations with the Implementing Agencies, but it has the responsibility of advising the CEO on whether or not to include a project proposal in the work program of GEF.

364. The original mechanism for consultations on project proposals was the GEF Operations Committee (known as GEFOP), which involved the GEF Secretariat, all Implementing Agencies, the convention secretariats, and STAP. Most participants agree that GEFOP tended to create unnecessary conflicts among Implementing Agencies as well as between the secretariat and the agencies. The secretariat believes that the GEFOP process encouraged efforts by one agency to gain the support of another agency for its proposals.

365. The management of the secretariat and that of the three Implementing Agencies agreed at a management retreat in July 1996 to a new procedure for project review, under which the secretariat would consult bilaterally with each of the Implementing Agencies on the work program. It was agreed that these bilateral consultations would "primarily address eligibility and programmatic aspects of activities proposed for funding in light of GEF policies, operational strategy, and operational programs."

366. Secretariat and Implementing Agency respondents all agree that this shift has resulted in a reduction in conflict among Implementing Agencies and more efficient use of time. However, the shift to bilateral consultations has left UNEP feeling more marginalized, because it does not have joint upstream discussions with UNDP or the World Bank.

367. Moreover, the shift from multilateral to bilateral consultations has given much greater responsibility than previously to the GEF Secretariat for analyzing projects and determining whether they should be cleared for GEF Council review. Implementing agencies have believed that the secretariat has sometimes screened projects not only for consistency with GEF requirements but for issues of project quality—issues that they believe are outside the secretariat's proper purview.

368. Interviews with Implementing Agency participants indicate that the GEF Secretariat has often raised issues of technical detail that the Implementing Agencies believe fall within the responsibility of the Implementing Agencies themselves. Implementing agency participants generally concede that the GEF Secretariat has a legitimate role to play in screening projects to ensure that they meet GEF eligibility requirements, are consistent with the strategies underlying the Operational Programs, and have correctly calculated the incremental costs of the project. But they are united in wanting the secretariat to avoid micromanaging the project preparation by the Implementing Agencies.

369. The climate focal area has generated contentious issues in the bilateral process, primarily because of the problem of incremental costs in climate projects. World Bank coordinators and officials from the re-

[62] *Instrument for the Establishment of the Restructured Global Environment Facility,* op. cit., Paragraph 21(b), p. 11.

gional bureaus have complained that the GEF Secretariat has questioned their judgments on technical assumptions underlying incremental cost calculations. The secretariat argues, however, that it cannot carry out its responsibility for checking on these calculations without addressing the assumptions underlying the analysis, component by component. That, in turn, requires it to address the technical background of the project. In essence, the secretariat argues that in climate projects, incremental costs cannot be separated from technical issues, which are, therefore, a necessary part of its project review function.

370. The management of the secretariat recognizes the need to focus bilateral consultations on broader strategic issues and not on narrow technical issues or project quality. However, it is unwilling to give up the authority to review projects for the quality of incremental cost calculations because of the concern that, without such a secretariat review, incremental costs will creep upward.

371. A consensus on the issue was registered in the findings of a September 1997 GEF Retreat—that the GEF Secretariat's role in project review should focus on incremental costs, eligibility, consistency with strategies, operational programs and policies, and long-term portfolio development. That consensus strongly implies that the number as well as the detail of secretariat comments on projects will diminish in the future and that the transaction costs of the project cycle for Implementing Agencies should also be reduced.

Conclusions

372 The study team found agreement among Implementing Agencies and the GEF Secretariat that the secretariat's review of project proposals has in the past often been overly detailed and focused on nonstrategic issues. However, it also found that the secretariat's review of incremental costs does require assessments of issues that would otherwise be considered the proper sphere of the Implementing Agencies. The differences between the secretariat and Implementing Agencies on the issue now appear to focus primarily on the problem of incremental costs and technical details. The team concluded that attempting to define precisely the scope of the secretariat's role in project review may not be practical.

Mechanisms for Coordination

373. Since the beginning of GEF 1, the secretariat and Implementing Agencies have had to evolve a new set of mechanisms for coordination. These tools include regular portfolio consultations among Implementing Agencies, focal area task forces, cross-sectoral task forces, and the Executive GEF Operations Committee.

Joint Pipeline Reviews

374. In 1995 the World Bank and UNDP instituted periodic joint portfolio reviews to avoid duplication and competition in particular countries. At first, these were carried out informally between regional coordinators. As more confidence was built in the process, information on project pipelines was more fully shared. Interviews with regional coordinators suggest that the working relationship between the World Bank and UNDP for pipeline reviews improved with the replacement in 1996 of GEFOP meetings with bilateral consultations. In 1996 the process of joint pipeline review by region was formalized by the two agencies' GEF coordinators.

375. Implementing agencies agree that the joint pipeline reviews have significantly reduced duplication of projects, which was viewed as a serious problem by World Bank task managers surveyed by a Bank task force in 1996. When the reviews reveal a potential duplication or overlapping of proposed projects, discussions at a higher level between UNDP and the World Bank have sometimes been required. In some cases, the issue has been resolved by UNDP agreeing to let the World Bank implement the project. In others, the two agencies have agreed to develop complementary projects. In the Latin American region, for example, the World Bank and UNDP agreed on complementary projects on the Meso-American Biological Corridor and on the Argentina Patagonian Coastal Zone Management Plan. At the same time, UNDP and the World Bank have also agreed to collaborate on a growing number of GEF projects. These include renewable energy projects in China and Sri Lanka and biodiversity projects in Madagascar, Honduras, and Brazil and on the Red Sea. They have also collaborated on a PDF A for the Tanzania Eastern Arc Mountains Project.

376. No broad joint pipeline reviews between UNEP and the other two Implementing Agencies have occurred yet at the global level. However, UNDP has had

informal consultations on GEF project pipelines at the regional level in Latin America through UNEP's regional office in Mexico. UNEP has proposed the establishment of regular trilateral review meetings, but the World Bank and UNDP have not agreed. The World Bank's GEF coordinating unit indicated that the Bank does not feel the same urgency about joint pipeline review with UNEP that it feels with UNDP, because UNEP does not have a mandate to implement country-based projects.

Focal Area Task Forces

377. Task forces were created in 1996 for discussion of project, policy, and programming issues that arise in the climate, biodiversity, and international waters focal areas, usually by teleconference. Task forces are informal institutions without terms of reference or other procedural guidelines, so the frequency of meetings and the manner in which they have been conducted have varied across the three focal areas.[63]

378. The climate task force was created primarily to discuss and agree on the Operational Strategy and Programs in the focal area and on guidelines for enabling activities regarding national communications to the FCCC. Although the discussions focused on guidelines for the enabling activities, no final agreement was formalized and task force members report some confusion about what had been agreed; the GEF Secretariat adopted a different understanding than the Implementing Agencies. The differences were never resolved in the task force.

379. After its January 1997 meeting, the climate task force did not meet again for eight months. Implementing agency task force members were under the impression that task force meetings had been replaced by bilateral consultations between the secretariat and the Implementing Agencies. The task force resumed meeting in September 1997 and dealt with a wide range of programmatic issues.

380. The biodiversity task force was originally intended to be ad hoc and informal to stimulate discussion among the technical specialists on biodiversity. But when the task force dealt with issues on which one or more Implementing Agencies had political sensitivities, such as enabling activities, it became more formalized and more politicized. At times, it was chaired by the GEF deputy CEO and attended by executive coordinators rather than biodiversity specialists. And efforts by the task force to have a joint pipeline review on enabling activities in biodiversity were frustrated by differences on issues that had implications for an expanded portfolio of such projects by UNEP. In 1997 the task force began to discuss the issues of a possible operational program on agrobiodiversity and priorities in programming.

381. The international waters task force met four times between November 1996 and September 1997. Unlike the other groups, this task force was not created initially to deal with enabling activities, nor has it had any new operational programs to handle. Instead, it was established explicitly to focus on strategic issues related to the Operational Programs and the pipelines of the Implementing Agencies in international waters. Agency participants believe that it has been a valuable forum for discussing operational programs and eligibility requirements, providing, in effect, the upstream consultation on projects envisioned by the Procedures for GEF Operational Programming issued in March 1997. The task force has also conducted a pipeline review in light of operational program goals for the next three to four years. As a result of task force discussions of Operational Program number 10, which had been largely inactive, two new project ideas within the operational program have been developed.

Executive GEFOP

382. In early 1997, a new GEF Operations Committee was established (often referred to as the Executive GEFOP), comprising the assistant CEO (and, as necessary, the CEO), the coordinator and deputy coordinator of each of the Implementing Agencies, the executive secretaries of the Convention on Biological Diversity and the Framework Convention Climate on Change, and the chairperson of STAP. The primary purpose of this mechanism, as reflected in the "Procedures for GEF Operational Programming" document, is to discuss policy and strategic issues raised in proposed work programs and long-term issues in the portfolio.

[63] All projects in the ozone layer depletion focal area are short-term measures, and it has not been the subject of a focal area task force.

383. Despite the desire of the Executive GEFOP to avoid dealing with project-specific issues, it has also been called on to review a number of projects referred to it by the GEF Secretariat, either because they raised significant new policy issues or because disagreement between the secretariat and the Implementing Agency could not be resolved in bilateral consultations. The Executive GEFOP has also been preoccupied with the issue of operational procedures for bilateral consultations on work programs, on which Implementing Agencies have pressed for substantive changes.

Conclusions

384. The study team found that the coordinating mechanisms that have evolved in GEF 1 have generally increased the level of coordination and collaborative thinking. The joint pipeline reviews have been successful in reducing duplication and competition in projects. The focal area task forces have already produced useful programmatic discussions on international waters, whereas the biodiversity and climate task forces have just begun to be used for that purpose. The Executive GEFOP, which is less than a year old, has only begun to move into broader operational policy coordination.

The Role of the Scientific and Technical Advisory Panel

385. STAP was given a mandate by the GEF Council at its October 1995 meeting that focused on three main functions: to give strategic, scientific, and technical advice on Operational Strategies and Programs; to develop and maintain a roster of experts to review individual projects; and to provide objective scientific and technical advice on the GEF portfolio and selective review and evaluation of projects.

386. Implementing Agencies and GEF Secretariat focal area specialists credit STAP with significant contributions on strategic advice regarding operational programs. STAP's most significant contribution appears to be providing the intellectual underpinnings of the Operational Programs in the climate focal area, both through individual writings of the STAP climate working group and through formal and informal consultations with the GEF Secretariat and Implementing Agencies. The STAP proposal for the scope of the Operational Programs in climate was accepted by the secretariat without any significant change. STAP's expert workshops on the transport sector, clean coal, renewable energy, and energy efficiency, and planning for adaptation to climate change have made intellectual contributions on these issues.

387. In the biodiversity area, STAP initially played a relatively limited role in providing scientific and technical advice. However, the STAP workshop on land degradation contributed to the GEF framework for land degradation projects. It also contributed to the work by UNEP, in collaboration with UNDP, identifying six concepts for projects dealing with land degradation. Another recent STAP workshop on sustainable use of biodiversity resources was regarded by Implementing Agencies as a useful contribution.

388. STAP also contributed to a more strategic, long-term approach, advocating a "basinwide" concept of programming that would link currently independent GEF projects operating in the same drainage basin, such as the Black Sea-Danube-Dnieper. STAP also advocated the development of a Global International Waters Assessment, analogous to the Global Biodiversity Assessment being implemented by UNEP.

389. STAP has recently conducted a survey of Implementing Agency users of the reviews by its roster of experts. The reviews by the STAP Roster of Experts were found by the World Bank and UNDP regional coordinators to be extremely valuable as a tool for improving external review of project proposals. World Bank task managers judged the quality of the reviewers to be high. [64] Only 6 percent of the reviews were considered inadequate. However, some gaps and weaknesses in the roster have been noted, especially an overrepresentation of experts from Europe and North America. This has been corrected by a recent addition of more than fifty experts, most of whom are from Eastern Europe, Asia, Africa, and Latin America.

390. STAP's role in the review of projects for the GEFOP consultations was generally found by World Bank and UNDP regional coordinators to be much less useful than STAP roster reviews. STAP decided to discontinue those reviews in 1997.

[64] Global Environment Facility, "GEF Experiences in Incorporation the Work of STAP," GEF/C.10/5 (October 3, 1997).

391. STAP has conducted selected reviews of projects at the request of the council with regard to only three projects (Lake Victoria Project, the Rajasthan Solar Thermal Project, and Phase 1 of the Alternatives to Slash-and-Burn Project). The GEF Secretariat reported that the review of the Lake Victoria project was found by the World Bank to be overly broad and not confined to scientific and technical issues, whereas, in the Rajasthan Project, the review was not regarded by the Bank as sufficiently timely. STAP did not undertake any selective reviews on its own.

Conclusions

392. The study team found that STAP has played a useful role in helping define the Operational Strategy and Programs and that its roster of experts has been valuable to Implementing Agencies in internal review of projects. But it has been less successful in its selective review of projects and its review of projects for the secretariat -Implementing Agency consultations on work program.

Recommendations

393. The GEF Council should provide a new, more sharply focused mandate for the STAP in light of the change in GEF's needs and the experience of STAP during GEF 1.

V. GEF Project Cycle Procedures

394. One of the major challenges facing GEF is to ensure that its procedures for managing the project cycle are cost-effective. [65] The process of getting GEF projects approved is perceived by recipient countries as lengthy, cumbersome, and frequently marked by unexplained delays. In the countries visited by the study team and covered by local consultants, government and Implementing Agency officials were asked about their experience with the GEF project cycle. Government officials almost always viewed it as too lengthy and cumbersome, especially in view of the size of the grants. In only one of those countries (Argentina) did an official assert that the efficiency of the project approval process had improved over time.

395. Table 6 shows the incidence of different causes for slowness in the project cycle as viewed by officials in ten countries. Government and Implementing Agency officials often cited different reasons for delays in approval or disbursement. Their explanations are not mutually exclusive, of course, but point to multiple sources of delay. In five of the ten countries in which answers were received on delays, officials mentioned delays that were either not identified as to source or that the Implementing Agency had allegedly failed to explain. In six countries, GEF procedures or the lack of an operational strategy were mentioned as the cause of delay. Disagreements between government and Implementing Agencies were cited as the cause in three countries, and either inefficiency on the part of the Implementing Agencies or their procedures were cited in five countries. Not included in the data were instances of delays attributed to problems within the recipient government, although such instances arise frequently.

396. Of course, a longer process for project approval does not always have a net negative impact on the final project. The study team found instances in which either project sponsors or the Implementing Agency task manager indicated that the delay had ultimately improved project design, implementation, or both. In the Mexico Protected Areas Program, the team was told by Mexican officials that the length of time between project concept and final approval by the World Bank was fortunate in this regard. Similarly, the task manager reported that the India Ecodevelopment Project was a stronger project because more than a year was taken between appraisal and negotiation of the loan to work out some differences both within the Bank and between the Bank and the Government of India. The Brazilian national energy program indicated that GEF's procedural complexity, including the linkage of the Brazil Energy Efficiency Project to a World Bank loan, had helped the project, because it focused the agency on matters that had previously been underemphasized, such as marketing and evaluation.

397. But the team also found that lengthy delays in the project cycle often increase transaction costs without contributing equivalent value to the project. Chinese officials noted, for example, that such delays caused severe problems in their planning process. In some cases, the length of the project cycle even undermined the prospect of project success. The three- to four-year delay in approval of the associated World Bank loan for the Red Sea Coastal and Marine Resource Management project, for instance, resulted in the project getting started only well after the Egyptian Tourist Development Authority had allocated more than 40 percent of the Red Sea coastline to developers for tourism, severely reducing the potential impact of the GEF project that was supposed to produce a management plan that would guide allocations for tourism and for protected areas. In the case of the Poland Coal-to-Gas Project, the situation in Poland changed dramatically in the three years between entry into the GEF work program and approval by the World Bank. By the time implementation began, many other entities had already undertaken coal-to-gas conversion projects in the country.

398. The study team examined the factors affecting the GEF project cycle, including GEF's project cycle procedures and their impact on transaction costs for recipient countries and Implementing Agencies. These

[65] *Instrument for the Establishment of the Restructured Global Environment Facility,* op. cit., paragraph 4, p. 6.

TABLE 6.
CAUSES OF DELAYS IN PROJECT APPROVAL IN TEN COUNTRY STUDIES

Country	Implementing Agency	GEF Procedures	Unidentified or No Information from Implementing Agency	Government-Implementing Agency Disagreements
Argentina			✓	
Brazil		✓	✓	✓
China	✓	✓		
Egypt	✓			✓
India	✓		✓	
Indonesia			✓	
Philippeans		✓		✓
Poland		✓		✓
Russia		✓		
Viet Nam			✓	

procedures may increase the transaction costs of preparing GEF project proposals either to recipient countries or Implementing Agencies or both. They may raise costs by increasing the length of time required for a project concept to reach the implementation stage by increasing the staff time and "nuisance cost" of getting a proposal through the approval process successfully or by discouraging the submission of proposals to GEF that would advance its objectives. Three project cycle procedural issues were identified by either recipient countries or Implementing Agencies as increasing transaction costs significantly:

- Implementing Agencies' project cycles
- Requirement for incremental cost calculations
- Procedures for GEF council review of projects.

A. IMPLEMENTING AGENCIES' PROJECT CYCLES

399. The project cycle for a GEF project has three distinct components: project development, GEF review and approval, and approval by the Implementing Agency. Most of the time in the project cycle—from project concept to the beginning of the implementation phase—is accounted for by preparation of the project proposal by the government and interactions between the project proponents and the Implementing Agency.

400. The submission of project concepts by recipient country governments and other sources to Implementing Agencies is the first major potential procedural issue in the project cycle. Most project ideas that have been generated at the country level have been rejected by the Implementing Agency rather than by the secretariat in the consultations with the Implementing Agencies. Both World Bank and UNDP procedures call for country offices to screen projects for GEF eligibility before passing them on to headquarters. But at UNDP, there was relatively little such screening at the beginning of GEF 1. The review of project ideas at headquarters increased both the time required to respond to project initiators and the risk that the latter would experience frustration over the process.

401. In fiscal 1995 and fiscal 1996, data submitted by Implementing Agencies and compiled by the GEF Secretariat showed that the agencies rejected far more project ideas than were developed and submitted to the secretariat for review: in 1995 the Implementing Agencies developed only twenty-nine project ideas (5 percent of the total received) for submission as part of the work program, whereas 180 project ideas (30 percent of the total) were declared ineligible or rejected for other reasons. [66]

[66] Global Environment Facility, *Annual Report 1995* (Washington, D.C.: 1996), Annex C, Table 3, p. 4.

402. At the end of fiscal 1995, the Implementing Agencies had backlogs of project proposals on which they had not acted, either because the agency was waiting for government endorsement, was seeking to integrate the idea into another project, was not sure of its eligibility, or needed more information. Most of the projects in this backlog were ultimately either rejected or cleared by the Implementing Agencies. Some projects, however, died of neglect without any action having been taken. A UNDP official commented that, during the 1994 -96 period, when a high volume of project ideas were being submitted in many forms, processing often took a long time, and some projects were never acted on.

403 One cause of delay was the inability of GEF to make a decision on the eligibility of a project in the absence of operational strategy and programs. The study team heard from recipient country officials in several country visits that Implementing Agencies were unable to tell the recipient government whether the project would be eligible because the operational program in the focal area had not yet been completed. That source of delay should have been eliminated by the publication of the GEF Operational Programs in April 1997, but for most officials interviewed, their only experiences with GEF procedures predated this publication.

404. Despite the decentralization of responsibility for GEF project screening to country offices, review and screening of project ideas by UNDP offices remained spotty in 1997. In some countries, according to UNDP officials, it is done inadequately or not at all. A UNDP paper on UNDP/GEF project cycle management written in 1997 noted that headquarters was still "assuming tasks that should be carried out at the country level."[67]

405. Moreover, officials in Argentina, China, and Brazil specifically complained that it takes too long for the Implementing Agency to inform them of the status of project ideas or the reason for it being turned down. In the case of Argentina, proponents of project ideas were reported as claiming that in some instances they received no response at all.

406. Once the decision is made by an Implementing Agency to proceed with formulation of a proposal for submission to GEF for review, the longest pre-implementation phase of the project cycle begins. In this project development phase, the roles of Implementing Agencies and recipient country governments vary from one project to another, depending on a variety of factors. In countries with more project preparation capacity, the government is more likely to play the dominant role, whereas in countries with less capacity, the Implementing Agency plays a more proactive role and is more likely to shape the proposal.

407. The procedures of the World Bank and UNDP require that the potential recipient country take formal responsibility for preparing the project document for GEF, although Bank staff prepare the contract with the country. Both these agencies, however, have frequently taken initial project ideas that were not eligible for GEF funding and turned them into GEF project concepts. The Egypt Energy Efficiency Project, for example, was originally written in a way that did not meet GEF requirements, and UNDP had to develop it into a project that could be submitted to the GEF Secretariat.

408. Both UNDP and the World Bank must review and approve the proposed project internally and negotiate and sign the final contract with the recipient country, although the Bank's procedures in this regard are more complex and lengthy. The study team examined the evolution of the project development phase and GEF approval-to-signature phase of the project cycles of the Implementing Agencies to identify key bottlenecks and actions taken during GEF 1 to streamline the process.

409. Differences between the Implementing Agency and the project sponsors in the recipient country are one cause of delay during this phase of the project cycle. In a number of cases encountered by the study team in its country visits, it took a year or more of negotiations between the Implementing Agency and recipient country before agreement could be reached on a project brief or the final project document. In the Lake Victoria Environment Management Project, for example, disagreements between the Government of Kenya, on the one hand, and the World Bank and UNEP, on the other, regarding stakeholder participation resulted in a lengthy delay in project preparation. In the case of the India Ecodevelopment Project, differences between the World Bank and India caused a year's delay between the Bank's internal appraisal and negotiation of the project agreement.

[67] "Final Proposal: Project Identification, Formulation and Approval Processes, UNDP/GEF Project Cycle Management" (May 28, 1997), p. 3.

410. The necessity for project proponents within recipient governments to obtain consensus among key government and nongovernmental stakeholders on the proposed project is also an important factor in the length of time required for this phase of the project cycle.

411. Another major cause of delay in the past was the uncertainty of UNDP staff that the project brief would be approved by the GEF Secretariat. That uncertainty reduced the incentive to write the project document, which required a significantly greater amount of work, at the same time as the project brief. So work on the project document did not begin until after GEF approval of the project brief, adding at least several months to the UNDP project cycle. The UNDP project cycle was shortened during 1997 by combining the processes of writing the project brief and the project document. Thus, a project can be appraised by the country Project Appraisal Committee even before final approval by the GEF Council, and the agreement can be signed quickly after that approval.

412. This streamlining has been facilitated by several developments, according to UNDP regional coordinators. First, since 1996, PDF funds have been used to develop the project and the accompanying process of approval of the PDF request by the GEF Secretariat; this has given UNDP staff a much better idea of what the secretariat expects in relation to a particular project and greater confidence that the brief will be approved. Second, the beginning of upstream consultations with the secretariat in 1997 further increased UNDP staff confidence that the final project brief would be approved and, thus, the incentive for early work on the project document. Third, as the project brief has included more detail on budgets and activities, the differences between project brief and project document have been reduced. UNDP's submission to the GEF Corporate Budget for 1998 indicates that processing time for the average project from project identification to agency approval has been reduced from twenty-one to sixteen months. [68] The study team could not verify that figure, but it believes that a substantial streamlining of the project cycle has taken place.

413. The World Bank GEF project cycle until late 1996 took about twenty-seven months on average. Development of the project concept to work program approval took about eighteen months. But work program approval to Bank approval took another nine months because of a more complex process of internal approval than UNDP's.[69] A major bottleneck for the Bank was that it had only presented project documents to GEF for review relatively late in the process of preparation—only after many months of development of the proposal. As in the case of UNDP, the GEF review process added four months to the World Bank's GEF project cycle. The Bank's project proposal was already so advanced in preparation during the GEF review process that Bank staff could only wait for the GEF process to be completed before proceeding with staff appraisal of the proposal and negotiation of the project agreement.

414. In late 1996, the Bank implemented the recommendation of a task force report intended to shorten the GEF project cycle and began to submit project proposals to GEF at a much earlier phase of development, when it was still essentially a project concept rather than a detailed proposal. That meant that the four months taken up for GEF review of the proposal would not be additional, because development of the proposal could continue without interruption. So the period from project identification to GEF Council approval could be reduced from eighteen to fourteen months. (This project cycle reform applied mainly to biodiversity projects, because most of the Bank's GEF projects in the climate focal area are developed initially by non-GEF Bank staff and are designated as GEF proposals only at a relatively late stage.)

415. But the Bank's efforts to reduce the total project cycle by four months by realigning its internal project cycle with that of GEF have run up against a GEF procedural obstacle: the secretariat's requirement for a relatively well-defined estimate of the incremental costs of the project. Because the proposal was still in an early stage of development, World Bank staff were unable to provide such an estimate and instead substituted a range of possible incremental costs, to be refined later.

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[68] GEF, *GEF Corporate Budget for FY98*, op. cit., Annex 2, p. 1.

[69] GEF, *GEF Corporate Business Plan FY98-00*, op. cit., Annex 2, p. 3. This account of the average elapsed time of the World Bank project cycle differs from that presented in a task force report in mid-1996, which showed an average cycle of twenty-three months. See World Bank, Environmentally Sustainable Development, *Report of Task Force on Streamlining Bank-GEF Procedures,* Annex V, p. 1.

416. The secretariat rejected that alternative, however, on the ground that the GEF Council would not accept such an "open-ended" incremental cost estimate, fearing that it would encourage the use of higher-end estimates. The World Bank GEF Coordinating Unit believes that the requirement for a specific figure for incremental costs forces the unit either to come up with an estimate that is not yet reliable or add months to the GEF project cycle.

Conclusions

417. The GEF project cycle is long and complex and has generated much complaint by recipient countries. However, the study team found that both UNDP and the World Bank have implemented significant reforms of their GEF project cycle—UNDP, by combining the preparation of project briefs and project documents, and the World Bank, by moving its submission of project briefs upstream, so that it can still continue project preparation through the stage of GEF approval. The largest component of the project cycle involves project preparation by the recipient government and the Implementing Agencies.

418. The team found that the benefit of shortening the World Bank's project cycle by realigning it with that of GEF far outweighs the benefit of enforcing a requirement for a single cost estimate at the project concept stage. An estimate that it is simply halfway between two ends of the estimated range does not appear to provide any greater assurance of cost minimization than the full range itself.

Recommendations

419. In order to encourage continued adherence by the World Bank to its streamlined project cycle, the GEF Secretariat should allow the Implementing Agencies to submit a range of estimates when a project is first submitted, on the understanding that a firm estimate will be submitted for final approval.

B. The Incremental Cost Requirement

420. One of the fundamental principles underlying GEF operational programming has been the requirement that GEF fund only the incremental costs of a project—that is, only the costs of those activities that provide a global environmental benefit that do not also provide national economic development benefits. A basic provision of the GEF Instrument is that the "agreed incremental costs" of activities in the four focal areas are eligible for funding. The same principle is included in the language of the biodiversity and climate conventions, for which GEF is the financial mechanism.

421. The main reason that the incremental cost principle has been so prominent in GEF's operations is that donors want to ensure that the grants for activities for the global environment are not actually replacing funding that would otherwise be committed by the recipient government. Indeed, donor contributions to GEF are premised on the continued use of incremental costs as the cost-sharing principle.

422. In May 1995 the GEF Council approved a secretariat paper setting out in detail the approach for estimating agreed incremental costs and financing modalities, while calling for its "flexible application." The essence of the incremental cost concept presented in the secretariat paper is simple: the costs of the eligible activities are to be compared with the costs of the activities for national development for which they substitute or modify. The difference between the two sets of costs is the incremental cost of GEF-eligible activities. Incremental costs are viewed as the burden accepted by the country in choosing activities that benefit the global community instead of those that simply benefit the country itself.

423. The main problem associated with incremental costs has been the identification and quantification of the "baseline"—the projection into the future of national development activities related to the proposed GEF project. The secretariat paper acknowledges that determining what constitutes a "plausible" baseline well into the future involves not only calculations of what is economically attractive but assumptions about what is politically feasible in each country; this baseline is likely to be subject to different interpretations, depending on the perspective of the actor in question. Regional coordinators for the World Bank and UNDP told the team that establishing the baseline inevitably involved a degree of subjectivity and that it was possible to come to different conclusions about the incremental costs, depending on the assumptions made about a reasonable expectation of government expenditures for environmental purposes. The problem is particularly acute when the country in question is experiencing an economic-financial crisis, creating strong pressures on budgets. This problem is especially relevant to calculating the incremental costs of GEF biodiversity projects.

424. Some task managers and regional coordinators in the Implementing Agencies, particularly in the World Bank, also complained that the requirement for doing incremental cost calculations for protected area projects in the biodiversity focal area is meaningless and simply constitutes unnecessary "busy work." They argue that the GEF requirement for detailed analysis of such projects raises the transaction costs of project preparation without yielding any benefit.

425. As a result of such complaints and general confusion among recipient countries about the incremental cost requirement, GEF moved to streamline the operational guidelines on incremental costs as they applied to biodiversity projects. At a GEF Management Retreat in July 1996, it was agreed that criteria for "biodiversity rapid incremental cost assessment" were to be developed, with streamlined guidelines for climate change projects to follow.[70] Draft streamlined procedures for incremental cost assessment were sent to the Implementing Agencies in March 1997, and the final version was distributed in July 1997.

426. The streamlined procedures make a sharper distinction than the original procedures between *substitutional* and *complementary* activities in terms of incremental cost requirements. Substitutional activities are those that change baseline development activities in ways that benefit the global environment, whereas complementary activities have no direct or major impact on other economic activities. The new guidelines indicate that proposals involving complementary activities would require evidence of assurances that existing levels of financing for protected areas will continue and that cost sharing and financial sustainability will be built into the project to justify the incremental costs. Substitutional activities, however, will require further effort to separate baseline and incremental costs, including establishment of a system boundary that captures all major effects of the proposed activity and an incremental cost matrix.

427. The new streamlined procedures thus simplify the incremental cost requirement considerably for most biodiversity project proposals, which are no longer required to include an incremental cost matrix. However, the new procedures have had no impact on the way in which Implementing Agencies prepare project proposals. The World Bank GEF Coordinating Unit did not view the document as marking any dramatic change in the requirements for incremental cost analysis. The unit's specialist on incremental costs told the study team that the World Bank will continue to submit the same six-page incremental cost analysis as before, including a cost matrix, even for protected area projects. The Bank's practice will not change, primarily because the GEF unit wants to reduce the risk of having to respond to questions.

428. The new streamlined procedures obviously had not reached recipient countries by the time the study team carried out its country visits. However, the team found that the requirement for incremental costs is problematic for most recipient country officials. The country studies do refer to a few instances—mostly in the climate focal area—in which project managers in recipient countries have been actively involved in incremental cost calculation.[71] However, the country studies also found that most officials of the relevant agencies had not been involved in initial incremental cost calculations. These officials indicated that they do not understand the concept of incremental cost and regard it as something done by the Implementing Agency. The agencies confirmed that in the vast majority of cases, international consultants are hired to undertake the incremental cost calculation.

429. Many officials of recipient countries lodged strong complaints about incremental costs, either in terms of its lack of clarity or the process by which it is decided. The Mexican Environmental Project Approval Committee said that the incremental cost procedures were so frustrating that people "do not want to apply to GEF." GEF project officers in China expressed strong criticism of the process of calculating incremental costs, charging that calculations were made by international consultants hired by GEF without consulting the officers, that it caused delays in project development, and that it resulted in reductions in project activities that the officers believed were somewhat arbitrary. In Brazil, a project sponsor in the climate focal area complained that the incremental cost

[70] "Final Minutes of the GEF Management Retreat, July 24-25, 1996," Memorandum from Mohammed T. El-Ashry to Rafael Asenjo, Ahmed Djoghlaf, and Lars Vidaeus (October 18, 1996).

[71] The Energy Ministry in Argentina, the Climate Change Project Coordinator in Jordan, the Ministry of Non-Conventional Energy Sources in India, and the Foreign Assisted and Special Projects Office in the Philippines.

analysis was meaningless and should be replaced with a different formula for cost sharing. Some officials from Russia and Kenya also indicated that there were no real negotiations on the figures, but that the Implementing Agency's consultant unilaterally determined the amount.

Conclusions

430. The study team recognized that the incremental cost concept must be retained, because it is necessary to ensure proper cost sharing and, therefore, continued donor support. However, the team found that the incremental cost requirement has raised transaction costs, primarily by reducing the active involvement of project proponents in preparation of the proposal and, secondarily, by adding more time to the project cycle. Although the new streamlined incremental cost procedures are an improvement, the study team doubted that it will be sufficient to persuade most recipient country officials that they can and should be involved in the process. The team found that, in the absence of a more comprehensive effort to increase understanding of the concept and to engage the officials in the process of calculating it, these individuals are likely to remain passive spectators to the process.

Recommendations

431. A working group representing the GEF Secretariat and the Implementing Agencies should, in consultation with the convention secretariats, develop simpler, more straightforward guidance and communication for recipient country officials on the calculation of incremental costs and a strategy for increasing their involvement in the process of estimating those costs.

C. GEF Council Review of Projects

432. One feature of the GEF project cycle procedures that clearly adds to the length of time required for approval is the GEF Council review of projects. In the present project cycle procedures, after a proposal has been discussed in bilateral consultations for inclusion in the work program and a recommendation is made to the CEO, the CEO sends the draft project document to council members four weeks before a council meeting. Members then have three weeks after the council meeting in which to send the secretariat technical comments on the project proposal. Following this, the Implementing Agency makes any changes necessary in the proposal and finalizes the document according to its own procedures and submits it to the CEO of GEF.

433. On ascertaining that the project document reflects any comments that were made by the council, the CEO forwards the project document to council members for a *second* review. That review was originally supposed to take no more than four weeks, but Implementing Agency officials indicate that it has now become six weeks in practice, and in some cases even longer. After that review is completed, the CEO issues an endorsement letter, which allows the funds to be released to the Implementing Agency for the project.

434. The study team asked Implementing Agency and GEF Secretariat officials for their views on this aspect of GEF project cycle procedures and found unanimous agreement that the second review of project proposals by the council is not necessary and could be eliminated without any sacrifice in project quality. The GEF Instrument requires only that the council review project proposals once, but the procedure has evolved through a series of council decisions that have significantly lengthened the project cycle. As the project cycle is now implemented, review by the council in two separate parts of the cycle can take up to thirteen weeks. And because the project proposal generally has to be nearly ready for negotiation of the final project agreement, no progress can be made on project development while the Implementing Agency waits.

435. The purpose of the second council review of project proposals is to verify that any comments made earlier have in fact been reflected in the revised project document. Such verification is now done by the GEF Secretariat during the brief period between the receipt of the final project document and forwarding the document to the council for the second review. Although in the early phase of GEF 1, a few projects were rejected by the council at the second review, this has not happened for the past two years. The secretariat believes that, although the second review may have been justified in the early phase of GEF 1 because of lack of experience with the Implementing Agencies, the process has now become so routine that actual review by the council is no longer necessary. Both the Implementing Agencies and the secretariat support the delegation of the function of verifying the necessary changes to the secretariat.

Conclusions

436. The study team found that eliminating the second Council review of project proposals would have significant savings in time and other costs to GEF.

Recommendations

437. The GEF Council should seriously consider delegating the second review of project proposals to the GEF Secretariat.

VI. Programming Issues

A. Role of Various Factors in Determining the GEF Portfolio

438. During the Pilot Phase, GEF lacked a formal governance structure as well as a strategic programmatic approach in the four focal areas. The basic responsibility for testing project ideas addressing global environmental issues fell to the designated GEF Implementing Agencies. They were to identify, develop, and implement project ideas in consultation with the GEF Secretariat. Meetings of GEF participants provided broad oversight and political guidance. One of the few programmatic guidelines given was that about 40 percent of GEF funds should be used for climate change and 40 percent for biodiversity projects. This allocation rule has been maintained during GEF 1.

439. Programming during the Pilot Phase was driven largely by the project proposals that the Implementing Agencies and international NGOs had already developed. Almost overnight, GEF provided considerable funding for the biodiversity focal area, in which there were many more project ideas than could be funded by non-GEF sources. The identification of suitable climate change projects, however, took more time. The Pilot Phase work program is, therefore, slightly skewed toward biodiversity, which accounts for fifty-eight projects costing a total of $332 million, compared with forty-one climate change projects totaling $259 million.

440. The lack of a systematic approach to programming resources was strongly criticized by the Independent Evaluation of the Pilot Phase and was a high priority for GEF 1. However, the ad hoc programming approach did enable the new mechanism to operate experimentally at a time when negotiations on the climate change and biological diversity conventions had barely begun.

441. During GEF 1, two kinds of factors have determined the composition of the work program. The first are the top-down, demand-side factors resulting from decisions of the GEF Council and the conventions affecting programming, from efforts made by the GEF Secretariat and Implementing Agencies to set priorities within and among programs, and from GEF's Operational Strategy and Operational Programs. The second are the bottom-up, supply-side factors, which result from the opportunities that present themselves in the proposals for GEF funding, driven by country priorities and Implementing Agency interests.

442. The GEF Council has played an important role in determining strategic direction in GEF programming. It did not passively accept the draft Operational Strategy presented to it in 1995 but insisted on changes. For example, the council rejected a proposed programming strategy in biodiversity that would have relied on scientific criteria regarding species richness and endemism. The main influence of the GEF Council on programming, beyond approval of the Operational Strategy and Programs, has been its continuation of the informal division of resources among the four focal areas, which has meant that about 80 percent of GEF funding has gone to biodiversity and climate. The council has also determined that efforts to phase out ozone-depleting substances should receive a small portion of GEF funds, because developing countries already have access to resources from the Montreal Protocol Fund.

443. The conferences of the parties to the biodiversity and climate conventions have contributed to shaping the GEF portfolio by providing guidance on programming. The Conference of Parties to the FCCC called for a combination of short-term and long-term measures, and the Conference of Parties to the CBD has asked GEF to integrate a wide range of activities into the Operational Strategy.

444. The direct influence of the secretariat on programming has been felt mainly in the international waters focal area, as discussed in more detail later in this chapter.

445. The Operational Strategy was developed by the GEF Secretariat in consultations with the Implementing Agencies and the convention secretariats. Although some complaints were expressed that the secretariat tended to ignore comments that did not fit its view

during these consultations, the Operational Strategy was ultimately fully endorsed by the heads of all three Implementing Agencies. And the document was discussed extensively and finally adopted by the GEF Council.

446. The strategy establishes programmatic and strategic criteria and principles for GEF project selection and development. It defines ten Operational Programs, which are intended to provide "a conceptual and planning framework for the design, implementation, and coordination of a set of projects to achieve a global environmental objective in a particular focal area."[72] Based on the Operational Strategy, draft Operational Programs were developed by the GEF Secretariat in cooperation with the Implementing Agencies and STAP. The first draft is dated October 9, 1996, and the final printed version appeared in June 1997. The ten programs defined in the Operational Strategy and detailed in the Operational Programs document are:

Biodiversity
OP1: Arid and Semiarid Zone Ecosystems
OP2: Coastal, Marine, and Freshwater Ecosystems
OP3: Forest Ecosystems
OP4: Mountain Ecosystems

Climate Change
OP5: Removal of Barriers to Energy Efficiency and Energy Conservation
OP6: Promoting the Adoption of Renewable Energy by Removing Barriers and Reducing Implementation Costs
OP7: Reducing the Long-Term Costs of Low Greenhouse Gas-Emitting Energy Technologies

International Waters
OP8: Water Body-Based Operational Program
OP9: Integrated Land and Water Multiple Focal Area Operational Program
OP10: Contaminant-Based Operational Program

447. In response to recent guidance from the conventions, transport energy and carbon sequestration have now been designated as Operational Programs 11 and 12, respectively.

448. One of the challenges in programming GEF resources is how to promote a supply of project proposals that fits most closely with the strategic objectives of the Operational Strategy and Operational Programs. To maximize that strategic fit, it is obviously important that the strategy and Operational Programs be thoroughly understood by project originators in recipient countries. The study team found that this understanding varies considerably among countries and among agencies within countries.

449. In countries with the greatest project design capacity, such as Argentina, Brazil, China, India, and, Russia, the team found that some key agency officials are familiar with one or both documents. In China, for example, the four-ecosystem approach of the Operational Programs in the biodiversity focal area was criticized in the Chinese context. The Brazilian Environment Ministry was also familiar with the Operational Strategy, and in Argentina, the Operational Strategy was said to be important in developing ideas for programs. The Indian Operational Focal Point, however, noted that the Operational Programs are not widely disseminated among ministries.

450. In some other countries, neither the Operational Strategy nor Operational Programs are understood by the agencies that should be initiating project ideas. In some cases, the absence of translations of the documents into local languages is a problem, as indicated in Viet Nam and Egypt. In Egypt, however, officials of the Organization for Energy Conservation and Planning indicated that the strategy and Operational Programs are "very voluminous and sophisticated" and that they had not had time to read them. In Kenya, most officials did not have a detailed understanding of the criteria for funding in the Operational Programs, and, in both Kenya and Zimbabwe, there was misapprehension on how land degradation—an issue of primary concern to these countries—fits into the Operational Programs. In Indonesia, key officials at the Environment Ministry appeared to be poorly informed on how GEF works.

451. GEF projects generally fit declared national policy objectives—that is, they pursue objectives that are stated government policy and for which some legislative framework or official government action program exists. This is particularly the case for biodiversity conservation (support for national park systems), climate change (renewable energy programs), and the phaseout of ozone-depleting sub-

[72] Global Environment Facility, *GEF Operational Strategy* (Washington, D.C.: 1995), p. 7.

stances (for which the requirement is that a country is signatory to the Montreal Protocol).

452. Implementing agencies play a key role in shaping the GEF portfolio. They differ markedly in the degree to which they proactively work with governments to develop project ideas. World Bank data indicate that about one-third of the project ideas emanating from governments have been jointly developed by the Bank and the government agency, and two-thirds are generated exclusively by the government. But by the time project concepts reach World Bank headquarters, virtually every one has become a jointly developed project idea. Thus, the fit with GEF Operational Programs and Strategy is usually quite close.

453. UNDP country offices have tended in the past to send most projects directly to headquarters for processing. The degree of knowledge of GEF Operational Strategy and Programs at the country level is a major factor in determining what proportion of project ideas emanating from government agencies can be submitted for review by the GEF Secretariat. UNDP indicates that, in the climate area, only about half the projects they receive are "GEF-able," because project originators did not understand what GEF could fund.

454. The Implementing Agencies' own organizational strengths, mandates, and requirements also influence the pipeline of GEF projects. The World Bank has an internal need to minimize staff time and other transaction costs and has been directed by the GEF Council to contribute to GEF through cofinancing, so it seeks to maximize the number of GEF projects that can be fully blended with World Bank loans. That need probably biases the World Bank GEF portfolio in the direction of larger projects.

B. Overall Programming Issues

Allocation of Resources Among the Focal Areas

455. GEF's programming of resources among the four areas has been guided by the general view of the council that biodiversity and climate are of primary importance, because of their link with the two global conventions. Thus, the GEF work program as of July 1997 showed that the biodiversity and climate change focal areas had respectively received 38 percent and 38.7 percent of the total resources allocated, whereas 11.3 percent had gone to international waters, 7 percent to ozone, and multifocal area projects had received 5 percent.

456. This allocation of resources among the focal areas has had significant implications for programming processes and outcomes in the focal areas during GEF 1. Biodiversity and climate change have had more funds than were absorbed by the number of proposed projects that were judged acceptable. Meanwhile, the international waters focal area, which had received an indicative allocation of 12 percent of total resources for GEF 1—4 percent less than its indicative allocation during the Pilot Phase—reached the point in 1997 that it could no longer accept any projects because existing commitments were greater than the amount available. By July 1997, international waters had PDF B projects either already approved or close to approval that would put the total funding commitments for the focal area at $240 million, the upper end of the indicative allocation for the fiscal 1999-2000 period.

457. The shortage of funding for international waters in relation to the demand was an advantage in that it allowed the GEF Secretariat to be more selective regarding project proposals. But it also suggests the need for an adjustment in the indicative funding figures for the focal areas. Ideally, biodiversity and climate change focal areas should be close to the point at which all available funding is absorbed by quality projects and international waters should be slightly above that point as well.

458. The study team notes that the projected resource programming ranges proposed by the GEF Secretariat for fiscal 1999-2001 would again allocate only about 10 percent of total GEF resources to international waters. That would mean that the entire focal area would receive only $220 million—$20 million less than was allocated in fiscal 1997-2000. The team is concerned that this could create an even greater gap between eligible projects and the funding available in the international waters focal area than emerged during GEF 1.

Conclusions

459. The study team found that the existing and planned allocation of funds for the international waters focal area is likely to be inadequate, given the experience of GEF 1.

Balance Between Investment and Noninvestment Activities

460. Another programming issue is whether an adequate balance has been struck in GEF programming

TABLE 7.
DISTRIBUTION OF GEF FUNDING BY PROJECT TYPE
(US$ MILLIONS)

	Pilot Phase				GEF 1			
Focal Area	Stand-Alone Capacity Building	"Integrated" Investment and Capacity Building	Trust Funds	Total	Stand-Alone Capacity Building	"Integrated" Investment and Capacity Building	EA's	Total
Biodiversity	54	214	64	332	6	246	15	267
Climate Change	41	218		249	186	315	22	355
Int'l Waters	3	115		118		59		59
Ozone		4		4		109		109
Multifocal	3	17		20		90		90
Total	101	568	64	733	24	819	37	880
Total (percent)	14	77	9	100	3	93	4	100

Source: GEF Secretariat, Quarterly Operational Report, June 1997.

between investment activities, on the one hand, and capacity building, training, and research activities, on the other. If GEF is to be effective as a catalyst for increased policy and programming emphases on activities that yield both local and global environmental benefits and are sustainable in the long run, it must support recipient countries in both types of activities.

461. In the early period of the GEF Pilot Phase, GEF work programs were clearly divided into a work program for investment projects and a work program for technical assistance projects. [73] The question of balancing investment and technical assistance projects, thus, stems from this clear distinction in the beginning of GEF.

462. To consider this issue, the study team first reviewed the number of project ideas submitted to the Implementing Agencies, according to category, as reported in the GEF Annual Reports for fiscal 1995 and fiscal 1996. These data indicate recipient countries' perceived needs in regard to capacity building and investment activities. Then, it reviewed the GEF portfolio of approved projects to see how the two were balanced in GEF programming.

463. Potential recipient countries are by far the largest source of project ideas (accounting for 47 percent of the total, compared with 16 percent for NGOs and 25 percent for the Implementing Agencies themselves during fiscal 1997). [74] Data on project ideas by category are available only for fiscal 1995-96 and do not distinguish on the basis of the source of the idea. It can be assumed that they are broadly representative of government preferences, even if the percentages for government-originated ideas would be slightly different. The Implementing Agencies' data on project ideas submitted by category for those years show that the overwhelming majority have been related to capacity building. Capacity building, technical assistance, and research proposals represented 75 percent of the projects submitted. [75]

464. Analysis of the GEF portfolio of approved projects (Pilot Phase and GEF 1) led the study team to conclude that GEF has addressed the ongoing needs for capacity building and investments by integrating them in regular projects. With some few exceptions, regular GEF projects cannot be clearly differentiated between capacity building and investments projects.

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[73] Global Environment Facility, "Report by the Chairman to the December 1991 Participants' Meeting," Part One: Main Report (November 1991), p. 13.

[74] These figures are preliminary and based on partial data submitted by Implementing Agencies during fiscal 1997. See Global Environment Facility, Draft Annual Report of the GEF, FY97, GEF/C.10/9, Annex G.

[75] GEF, *Annual Report 1995*, op. cit., Annex C, Table 2, p. 4; Annual Report 1996, Annex B, Table 5.

As shown in table 7, when the amount of funding is considered, 77 percent of Pilot Phase and 93 percent of GEF 1 projects were "integrated" projects involving both capacity building and investment components.

465. The investment components of these "integrated" projects concentrate on activities such as physical infrastructure for conservation, credit guarantees, construction, or equipment purchase options (for example, to stimulate the expansion of alternative energy technologies, to improve the management of protected areas or to purchase vehicles and other equipment to assist with management). In addition, these projects also make provision for training, policy, and research activities. For example, in the biodiversity focal area, the World Bank's large projects—usually thought of as "investment" projects—are all focused on developing management plans, monitoring and evaluation systems for protected areas, and biodiversity conservation and have budgets for capacity building in the millions of dollars. A large investment project such as the World Bank's Indonesia Kerinci Seblat incorporates capacity-building elements with a budget of almost $6 million of a total of $15 million in GEF funding.

466. The twenty-eight projects that we could categorize as stand-alone capacity building in the Pilot Phase accounted for 14 percent of Pilot Phase funding, whereas the seven stand-alone capacity-building projects in the GEF 1 portfolio represent less than 5 percent of that funding. Most of these are regional climate change projects (including Climate Change Capacity Building; Global Change Systems for Analysis, Research, and Training; and Asia Least-Cost Greenhouse Gas Abatement Strategy) and were implemented by UNDP or UNEP.

467. Biodiversity trust funds, which account for six of fifty-nine biodiversity projects and 9 percent of the Pilot Phase funding, represent a separate category, because they involve managing the GEF contribution to yield investment income with which to fund project activities. The study team found that the project objectives of trust funds, like other types of projects, integrate both types of interventions. Resources of trust funds have been used to fund "soft" investments, such as vehicles and equipment for park management activities, demonstration projects, and other high capital-cost activities, as well as for staff, training, and recurrent costs. With the exception of the $5 million contribution to the Terra Capita Biodiversity Fund, GEF 1 has not funded any trust funds, although some are now in the pipeline.

468. Programming during GEF 1 has, thus, been guided by an explicit assumption that projects should generally include both "investment" and "capacity-building" components and that capacity building should not become a separate category of projects. This reflects the council's opposition to funding capacity-building activities that are not linked directly to regular projects. This general orientation toward integrating capacity building with investment activities was further reinforced in May 1997 when the GEF Council adopted a set of principles for financing of targeted research. These require that GEF-funded research projects be designed either to support a specific group of projects or an individual operational program. Because of this "supportive" requirement for targeted research, it is anticipated that the funds flowing into such projects will be limited to a small share of total GEF programming resources.

Conclusions

469. The study team concluded that GEF has used the most effective approach to balancing capacity-building and investment activities in the portfolio, which is to combine both types of activities in the same project.

C. Programming Issues in Biodiversity

470. The study team identified two primary issues in the programming of GEF resources in the biodiversity focal area: can and should GEF do more to set priorities for specific ecosystems or ecosystem types? And should GEF deliberately allocate more resources to projects on sustainable use of biodiversity and less on projects on protected areas?

471. On the issue of priorities, the first question to be assessed is whether GEF has done enough to focus available resources on the ecosystems or countries that loom largest in biodiversity loss. The Pilot Phase Evaluation criticized GEF because it found only a "partial correlation" between the portfolio of biodiversity projects and the areas of greatest global importance. Setting priorities by country or ecosystem may be particularly difficult for GEF, however, both politically and practically.

472 Numerous scientifically based approaches have been advanced as the base for setting priorities in

biodiversity conservation, such as the use of such criteria as species richness or endemism of an ecosystem, concentration of species that are at particularly high risk of being lost ("hotspots"), and the expanse of relatively undisturbed forest capable of providing habitat for both large and small species. These have also been criticized, however, for failing to distinguish among different types of ecosystems.

473. GEF's programming strategy in this area was established in the Operational Strategy as developing a portfolio of projects "from a broadly representative base of globally important ecosystems," while "recognizing the potential importance of particular species and endemism-rich ecosystems." The Operational Strategy noted in an endnote that no consensus had been reached among biodiversity specialists on what approach to use for priority setting and acknowledged the need for further efforts to develop a GEF approach. But no such broader study of priorities has been done by or for GEF.

474. The secretariat indicated to the study team that it has defined "globally important" biodiversity as biodiversity located in ecosystems that are included on one of the lists compiled by international organizations, bilateral agencies, NGOs, or international conservation treaties. Such lists include the World Heritage Sites, the Ramsar list of threatened wetlands, and IUCN's Global Representative System of Marine Protected Areas.

475. This GEF strategy is not intended to concentrate resources on countries with the greatest concentration of biodiversity, whether measured by species richness and endemism or other criteria. Yet the Implementing Agencies have, in practice, tended to focus more on what are known as "megadiversity countries" in developing their biodiversity portfolios. Indeed, GEF resources have been relatively well focused on countries with the highest concentration of biodiversity during GEF 1. Whereas during the Pilot Phase only six of the ten countries with the highest allocation of resources were among the top twenty-five countries in species richness and endemism, all ten of the countries with the highest share of resources allocated to biodiversity in GEF 1 are in this key category. Moreover, of the top ten countries in density of mammal, bird, reptile, and amphibian biodiversity, only one country eligible for GEF funding (Venezuela) has not received support for a biodiversity project. [76]

476. Countries receiving GEF grants for biodiversity that are among the top twenty-five in concentration of biodiversity have received 60 percent of the funding, whereas countries in the next twenty-five received 16 percent of the funding. Islands and groups of islands with high endemism but fewer species overall received 4 percent of the funding, and other countries received the remaining 19 percent of the funding. This represents a substantial increase in concentration of resources compared with the Pilot Phase, when 54 percent of the funding went to the most important twenty-five countries and 28 percent went to countries that were not among the top fifty.

477. Although GEF's programming resources have produced a reasonable allocation of resources relative to megadiversity countries, this does not mean that GEF has focused its programming on the sites of greatest global importance within each country. Countries sometimes push for protection of sites that are not of the greatest global importance by objective criteria, and the Implementing Agency does not always insist that the sites chosen be those of greatest importance.

478. Moreover, the criterion of inclusion on a global list does not provide a very fine screen for determining priorities in programming. Just three of the global lists consulted by the GEF Secretariat and Implementing Agencies in determining the eligibility of a project—the Ramsar Convention, UNESCO Biosphere Reserves, and World Heritage Sites—include about 1,000 sites worldwide, and not all of the biosphere reserves are chosen on the basis of global importance.

479. In addition, GEF has no strategy for ensuring that resources for biodiversity conservation are going to those ecosystem *types* that are most important or that representatives of each type are funded over a given period of time.

480. The study team recognizes that there have been significant political constraints on GEF's ability to set priorities in its project spending in biodiversity: the adoption of any strategy that would focus on ecosys-

[76] On the ranking of countries in species richness and endemism, see World Conservation Monitoring Centre, *Priorities for Conserving Global Species Richness and Endemism,* (London: June 1994).

tems with the greatest species richness or endemism or on the most threatened ecosystems or largest relatively undisturbed forest ecosystems would be opposed by some members of the GEF Council. Indeed, suggestions by the secretariat as to establishing priorities in biodiversity funding as part of the Operational Strategy were criticized by the council. It is not surprising, therefore, that the secretariat has advanced a set of five priority ecosystem types under its Operational Program on arid and semiarid ecosystems but has proposed no further prioritization within the other three Operational Programs in biodiversity.

481. There are some arguments against GEF moving toward greater emphasis on megadiversity countries or countries under greatest threat. Given the limited quantity of funds, it may make sense to focus on the quality of each project rather than on whether the project fits a particular priority based on criteria of species richness, endemism, threat, or other scientific criteria. Because GEF will not be able to fund enough projects to have any hope of achieving a strategic target based on one of the other scientific approaches, according to this argument, it might better focus on projects that can provide models for the entire bilateral and multilateral funding community in terms of type of intervention rather than a site-specific criterion. This approach is consistent with GEF's overall operational principle of a diverse portfolio of projects that "provide lessons beyond their immediate impact" and "catalyze complementary actions or have a multiplier effect."

482. But this argument does not require the abandonment of conscious prioritization in programming. GEF remains the most important source of funding for biodiversity worldwide. Maximizing its influence on global biodiversity conservation requires greater focus on a subset of ecosystem types that are higher priorities, even within each major ecosystem category, based on an agreed set of criteria. A strategy for prioritizing in biodiversity programming would give the GEF Council greater assurance that the biodiversity portfolio is directing funding to projects that have the greatest impact on the status of earth's biodiversity.

483. An even more important reason for a higher level of prioritization in GEF biodiversity programming is to reduce the incentive for recipient countries to claim all their biodiversity as being of global importance and to have recourse to GEF funding for conservation when they could and should borrow from the World Bank or another multilateral development bank for the purpose of biodiversity protection. By having a clearer set of priorities for global biodiversity conservation, GEF can shift the incentive for some countries regarding borrowing for biodiversity projects.

484. The secretariat and Implementing Agencies could collaborate through the Biodiversity Task Force in identifying certain ecosystems and ecosystem types as priorities for funding in the coastal, marine, and freshwater ecosystems Operational Program, the forest Operational Program, and the mountain ecosystems Operational Program. Such identification would be based on species richness and endemism as well as the severity of the threats facing them and the estimated chances of actually saving the ecosystem's biodiversity through GEF interventions. It might also take into account the existing pattern of funding by donors, including both gaps and areas of heavy concentration. Most of these considerations are explicitly mentioned in the Operational Strategy, although not elaborated in the Operational Programs for biodiversity.

485. With regard to the second main issue considered by the study team—the allocation of funds for protected areas or for the sustainable use of biodiversity—it is clear that GEF must try to support both types of activities. The GEF Operational Strategy states that operational programs in biodiversity will cover "long-term protection and sustainable use of biodiversity" and lists various types of activities in both categories that would be included in the scope of the programs. Neither the Operational Strategy nor the Operational Programs in Biodiversity suggest how much emphasis should be placed in programming resources for these two types of activities.

486. Thus far, the GEF biodiversity portfolio has been concentrated heavily on protected area conservation projects. Of the twenty-seven biodiversity projects funded in the GEF 1 work program, only the Central African Republic Bangassou Dense Forest project and Sri Lanka Conservation and Sustainable Use of Medicinal Plants project are wholly or primarily for sustainable use. In addition, the Guyana Iwokrama Rain Forest project funded in the Pilot Phase is a demonstration project on guidelines for sustainable use of tropical forests. However, at least nine GEF 1 projects that are primarily for protected areas also have sustainable use components. Fifteen protected area projects do not have a sustainable use component.

487. The GEF Corporate Business Plan for FY 1999-2001 recognizes this imbalance, while noting that protected areas are the cornerstone of biodiversity and that GEF will still need to provide adequate support for "significant but poorly protected areas." The study team agreed there is a need for more emphasis in the portfolio on sustainable use in view of the increasing pressures on biodiversity from economic activities in productive landscapes. However, the team believes that a number of issues should be considered carefully before allocating significantly greater GEF resources to sustainable use activities.

488. The first issue is whether the additional resources would come at the expense of adequate funding for protected areas. The number of existing protected areas in ecosystems of global importance that are considered "paper parks" or that clearly need strengthening is so great that GEF could absorb many more funds in financing just protected area activities alone.

489. Sustainable use projects, which generate significant national benefits, should be capable of attracting more cofinancing, including government commitments of funds, than protected area projects. However, there is still too little experience to be able to say whether such cofinancing will be forthcoming. Additional funding for sustainable use projects in GEF 2 should not be greater than the increment in funding for the focal area as a whole over GEF 1.

490. Furthermore, a number of conceptual issues related to sustainable use projects have not yet been satisfactorily resolved.[77] It is difficult to differentiate many types of sustainable use activities from regular development activities. Some observers wonder if financing a project for a shift from unsustainable to sustainable logging, for example, is a legitimate use of GEF funds. It could only be justified if there are significant barriers to the private sector undertaking such clearly economic projects. The problem is that the project would be economic for the economy as a whole but not for the private sector, which can make more profit by applying more destructive but cheaper techniques. One unresolved issue, therefore, is whether GEF is or should be prepared to compensate private firms for changing their techniques for exploiting biological resources.

491. Furthermore, some GEF biodiversity specialists view the idea of removing barriers to the sustainable use of biodiversity as not well thought through. They point out that biodiversity is a global issue only because of values other than the use value of biodiversity, including its option and existence values. Unlike climate, for which there are genuine joint benefits created by removing barriers to win/win solutions, in biodiversity there is a serious threat that supporting new uses of biological resources can result in the loss of these values. For example, opening markets for species of tropical fruit can result in elimination of the forest and the biodiversity for which it provides habitat.

492. Successful examples of the sustainable use of biological diversity are rare, but NGOs have demonstrated in small-scale projects in Africa and Central America that successful applications are possible. In El Salvador, for example, wood ducks migrating up and down the coast were being systematically killed for food until NGOs convinced communities that they could get more protein from setting nests for the birds and harvesting some eggs, leaving enough to sustain the duck populations. A need exists, however, to collect examples of successful experiences in sustainable use projects and disseminate them widely among Implementing Agency staff as well as staff of recipient agencies.

493. Some biodiversity specialists are concerned about rapidly increasing funding for sustainable use at a time when conceptual and practical problems of how to reconcile increased use of biodiversity and conservation of ecosystems have not been worked out.

Conclusions

494. The study team found that in the biodiversity focal area, the issue of priorities has been subject to significant political constraints, and there are practical limitations on GEF applying a programming strategy based on a scientific set of criteria. However, the team found that GEF had not been able to focus on ecosys-

[77] A workshop sponsored by STAP in November 1997 discussed the problems associated with sustainable use projects. For a summary of the discussion, see Eduardo Fuentes, "Back to Office Report on the STAP Sustainable Use Workshop, Malaysia, November 24-26," UNDP, New York.

tems of the greatest global importance to the extent that would be desirable. It further found that GEF has not yet resolved some of the conceptual and practical difficulties associated with projects for sustainable use of biodiversity. A major problem in developing viable sustainable use projects is the dearth of published information on successful experiences in such projects.

Recommendations

495. The GEF Council should authorize the GEF Secretariat and Implementing Agencies, in consultation with the Secretariat of the CBD, to undertake a formal priority-setting exercise to identify the ecosystems and ecosystem types within each Operational Program in biodiversity that should be the highest priorities for GEF in terms of a set of agreed criteria, including those specified in the Operational Strategy.

496. The GEF Secretariat should compile information on successful projects in sustainable use from NGOs and other bilateral and multilateral agencies worldwide, and disseminate them to Implementing Agencies and recipient country Focal Points.

D. Programming Issues in Climate Change

497. In the climate change focal area, GEF faces the challenge of programming resources to have the maximum impact in the long run on emissions of greenhouse gases in GEF-eligible countries. This raises two distinct programming issues involving priorities: Should more or less emphasis be placed on any of the Operational Programs in the focal area? How much should GEF focus its resources on countries with the highest emissions of greenhouse gases?

498. The GEF climate portfolio is based on three Operational Programs (OPs)—removal of barriers to energy conservation and efficiency technologies that are already commercial (OP5), removal of barriers to renewable energy technologies that are already commercial (OP6), and buying down the cost of renewable energy technologies that are not yet commercially viable (OP7). But a key programming issue in the climate focal area is how many funds should be allocated to barrier removal projects and how many to buying down costs of promising technologies?

499. The original strategy envisioned by the secretariat was to focus on buying down the cost of promising technologies. That strategy was directly related to the incremental cost concept, because GEF was expected to pay for the difference in cost between a more expensive but lower greenhouse gas -emitting energy technology and a lower-cost fossil-fuel alternative. It was not contemplated that GEF would finance projects for energy efficiency, because they would be economic projects for the recipient country. But after extensive discussions, the GEF Council added the two barrier removal programs on the grounds that these "win-win" solutions would not happen without GEF financing. The rationale, as outlined in the Operational Strategy, is that there are "cultural, institutional, administrative, technical, policy-related, and financial learning barriers" to market penetration by climate-friendly technologies. GEF, therefore, would finance the costs of removing those barriers, making it possible for "win-win" projects to be implemented.

500. Based on both numbers of projects and total GEF resources allocated, the barrier removal approach has received most of the emphasis, thus far. As of July 1, 1997, twenty-three projects in GEF-1 had been approved in the barrier removal category for a total of $179.9 million, compared with only three projects in the buy-down category for a total of $93.3 million. Thus, the buy-down projects constituted just 12 percent of the total number of projects and 34 percent of the total funding during GEF 1. Although the Operational Programs did not exist during the Pilot Phase, the secretariat has retrospectively categorized projects with the result that twenty-one Pilot Phase projects costing GEF $125.6 million are considered to have been barrier removal projects, compared with only two projects costing $37.7 million that are considered to have been buy-down projects. So buy-down projects represented 9 percent of the projects and 23 percent of the Pilot Phase funding in the climate focal area.

501. Each approach in the climate portfolio has distinct advantages and drawbacks. First, barrier removal projects are a good deal cheaper than buy-down projects. The average cost per project in OP5 and OP6 during GEF 1 through July 1997 was $7.8 million, compared with $31 million for the average project in OP7. This sharp difference in cost per project makes it possible to do more barrier removal than buy-down projects per amount of money spent.

502. Moreover, barrier removal projects, which are obviously much more in the self-interest of the recipient country, generate higher amounts of cofinancing per project, although the difference is much less dra-

matic than the difference in cost. Barrier removal projects in the GEF 1 portfolio have brought four dollars of cofinancing for every dollar spent by GEF, whereas buy-down projects have generated three dollars for every GEF dollar. It is argued, therefore, that the cost of buying down technologies is greater than GEF can afford to finance and the barrier removal approach has to be the mainstay of the portfolio.

503. But each type of project has its own distinct risk. Buy-down projects carry the risk that GEF will be investing in a technology that is not going to be one of the "winners" in the long run. Given the long period of gestation for such technologies (possibly decades), it is difficult to anticipate which technologies will achieve the steepest learning curve and reduce costs to the point of market penetration first. GEF has tried to reduce that risk by inviting projects related to seven different technologies and by its readiness to revise the list in light of experience. Nevertheless, there is a substantial risk that the technologies that are now being backed may turn out to be the wrong ones. This risk is often referred to as the "technology risk."

504. Barrier removal projects, however, carry the risk that GEF may not be able to remove all the constraints to commercial viability and that the energy efficiency or renewable energy technology will remain stymied by barriers that were beyond the project's ability to influence. One of the problems that such projects face is that governments may temporarily remove a barrier, such as tariffs or subsidies for the purpose of the project itself but later reimpose the barrier. Moreover, the range of barriers to commercialization of a technology that may be encountered in a single market may be rather large, and some may only become known during the lifetime of the project. UNDP argues that it is not realistic to expect each project to come up with a way to remove every barrier, as the Operational Strategy and Programs now require. UNDP believes that it may be necessary and desirable to fund follow-up projects that would build on the first project's achievements.

505. Thus far, none of the completed barrier removal climate projects have come back for follow-on grants. It may be premature to draw any conclusion from that fact, but it is far from clear that GEF will have to fund barrier removal projects repeatedly in the same country. The study team believes that the complete elimination of all barriers, whether by the project itself or by other means, is not necessarily a precondition for success. The degree of project success will depend on the relative importance of the barriers removed by the project and those that still remain.

506. The main risk inherent in the barrier removal category will continue to be the possibility that a project will fail because some key barriers cannot be removed. However, even if a buy-down project is successful in achieving sufficiently rapid reduction in costs, the technology in question will also face the same risk of not being able to surmount various social, policy, and administration barriers.

507. Another source of controversy surrounding barrier removal projects is the secretariat's insistence that commercial demonstration not be included in the scope of barrier removal projects. The rationale for this position is that once barriers have been removed, it is up to the private sector to finance demonstrations. But photovoltaics and wind power technologies may be simultaneously cost-effective in off-grid applications but not cost-effective for on-grid applications in the same country. So UNDP has argued that it may be necessary to have a small commercial demonstration component within a larger barrier removal project to promote the on-grid application of the technology. Thus, for some of the technologies that are becoming mainstays of the GEF climate portfolio, there may no such thing as a pure barrier removal project.

508. The question of allocation of GEF resources by country is framed starkly by the statistics on emissions of greenhouse gases. The top ten greenhouse gas-emitting countries among those eligible for GEF projects account for nearly one-third of all emissions of carbon from fossil fuel burning worldwide. So they are clearly crucial to the success of the global climate change regime. And the programming of resources in the climate change focal area since the beginning of the Pilot Phase reflects the importance of these ten countries. They received $308 million or 87 percent of the total funding for countries in the climate Operational Programs ($355 million). Twenty-seven other countries in which GEF projects were funded, accounting for only a tiny percentage of the world's carbon emissions from fossil fuel burning, received the remaining 13 percent of the country-based funding.

509. This allocation represents a relatively high degree of concentration, considering GEF's mandate to catalyze activities worldwide through its project funding. It has been argued that concentrating GEF projects on the biggest countries is a mistake, because the sheer

size of the economic systems makes it more difficult for GEF projects to have an impact in those countries. According to this view, GEF should be looking primarily for the most promising laboratory for technology innovation, rather than the countries that are now emitting the most greenhouse gases, in the hope that the project will be emulated elsewhere, including high-emitting countries. But although it is important to have projects in a relatively wide range of countries, in view of the different economic and institutional conditions that exist in each, projects must ultimately succeed or fail within the high-emitting countries and they should be the main focus of GEF climate funding.

Conclusions

510. The study team found that the present emphasis in the climate portfolio on barrier removal is appropriate, given the risks inherent in any innovative project intended to promote long-term change toward adoption of climate-friendly technologies. It further found that more emphasis may be needed on combined barrier removal and buy-down projects, requiring a rethinking of the present delineation of Operational Programs. The team found that GEF has allocated an appropriately high proportion of climate funding to high-emitting countries.

511. The study team found that the present allocation of funding in the climate change focal area across recipient countries is appropriate, given the need to both affect the countries of greatest importance to climate as well as to experiment with different types of projects in a variety of settings.

E. Programming Issues in International Waters

512 Programming in the international waters focal area can be distinguished from programming in the other focal areas by three characteristics: It emphasizes international collaboration rather than unilateral national action. It is not guided by an international convention. And the amount of funding available has turned out to be less than the amount than can be absorbed by eligible project proposals submitted by Implementing Agencies.

513. Based in part on these circumstances, GEF has adopted a distinctive strategy for the focal area that has strongly shaped the international waters portfolio. Two of the Operational Programs (the water body–based Operational Program and the integrated land and water multiple focal area) require international collaboration, whereas the third (the contaminant-based Operational Program) does not. The programs focused on international collaboration put primary emphasis, at least in the first phase of development, on creation of institutional mechanisms and diagnosis of the problem and less on investment activities to correct problems.

514 Because it is not tied to any existing convention, the international waters portfolio could develop more slowly than the climate and biodiversity focal areas: as of June 1997, only six projects had been approved in GEF 1 and five in the Pilot Phase. Another feature of this development, however, was that the GEF Secretariat was more proactive than in any other focal area, encouraging cooperation among Implementing Agencies and between the agencies and recipient countries in developing project proposals for various water bodies. The twenty projects in the pipeline as of September 1997—particularly those in OP8—reflect greater commonality of approach than is found in project proposals in the climate and biodiversity focal areas. Moreover, the international waters portfolio is the only one in which more proposals have been submitted to the secretariat than could be approved with the funds available. Thus, the secretariat has had to say no to a number of projects that do not fit into its strategy for developing an international waters portfolio.

515. Another advantage in this focal area that has contributed to a more strategic allocation of GEF resources is that it can achieve broad coverage of relevant international waters while at the same time setting priorities on the expenditures, given the limited number of large marine ecosystems worldwide and the fact that one project normally addresses the sources of degradation of the entire ecosystem. Of forty-nine large marine ecosystems, twenty-five are located in or near highly industrialized countries. Of the remaining twenty-four, GEF now has full projects or PDFs in eleven, with two more in the pipeline.

516. The centerpiece of the GEF strategy on international waters is the concept of "strategic joint fact finding" as a means of arriving at a consensus on what actions are needed to address threats. In strategic joint fact finding, collaborating states establish technical teams that work to establish a common baseline of facts and analysis of the problem in the form of a transboundary diagnostic analysis (TDA), which is

then used to set national priorities for actions to address threats to international waters in the form of a strategic action program (SAP). This approach represents an elaboration of those developed in the past by UNEP and other international organizations to address collaboration on problems of shared water bodies. In OP8 and OP9, these TDAs and SAPs are required for a project to be eligible for GEF funding. The GEF strategy has been to make funding of investment, technical assistance, or capacity-building components of a project contingent on the successful completion of these initial stages of the project.

517. The use of strategic joint fact finding and SAPs as the primary components of projects appears to be the most appropriate approach for OP8 and OP9. It has some major advantages over an approach that funds investment or technical assistance projects that have not been preceded by such processes: first, it builds the capacity of recipient countries for international collaboration as well as domestic cross-sectoral planning and policymaking. Second, it provides GEF with the means of ensuring that national actions are well targeted and that recipient countries have demonstrated commitment to them before they are funded. Third, because the issues are of high national concern to participating countries, there is some basis for hoping that the structures for international collaboration and national coordination and policymaking established by the projects will remain viable after GEF funding is ended.

518. The SAPs that are supported by GEF grants will generate proposals for actions, most of which are clearly in the national interest of the countries concerned, because they deal with reducing the pollution of lakes and coastal zones and increasing the productivity of those waters under national jurisdiction. If they are correctly formulated, therefore, the SAPs will show that the incremental costs of most of the actions are relatively small, covering only components required to remove or reduce the transboundary effects of environmental degradation. So it is vital that the TDA is done properly. Because the processes of negotiating the SAPs are still at an early stage, even in the most advanced projects (the Black Sea and Danube), it is too early to know how they will address this issue. But there is an obvious danger that the SAPs will produce requests for GEF funding that are unrealistically high.

519. The international waters portfolio has changed dramatically since the Pilot Phase, when contaminant-based projects—mostly related to ocean pollution from ships—accounted for nearly 60 percent of the total funding in the focal area ($68.9 million out of $118.4 million total). Marine pollution from ships accounts for only about 10 percent of contamination of international waters, whereas at least 80 percent is believed to emanate from land-based sources. The independent evaluation criticized GEF's priorities in the Pilot Phase for too much emphasis on ship-generated pollution and called for greater emphasis on pollution from land-based sources. International waters programming in GEF 1 has focused primarily on large marine ecosystems and freshwater basins involving international collaboration; integrated land and water projects was a second priority. Of a total of $62.4 million allocated in the international waters portfolio during GEF 1, $47.3 million (75 percent) has been allocated to large marine ecosystems and freshwater basins and the remainder to integrated land and water projects.

520. Within the contaminant-based Operational Program, moreover, the secretariat has turned down several ship-related projects on the grounds that they did not fit GEF's priorities, despite the fact that such projects are included within the scope of the Operational Program. Thus far, no project relating to global pollutants has been funded, although a project on mercury contamination is now in the pipeline. The absence of any such projects is unfortunate in view of the fact that persistent organic pollutants have now been recognized as a priority environmental issue by the world community and a global treaty is to be negotiated beginning in 1998. The importance of this issue suggests that more efforts should be made by the secretariat and Implementing Agencies to explore opportunities for assisting eligible countries in reducing dependence on persistent organic pollutants.

521. A development that could affect future GEF programming in the international waters focal area is the funding of a UNEP project to carry out a three-year Global International Waters Assessment. This will engage government experts on each continent in evaluating the environmental status and priority threats to international waters in the region, establishing a common analysis of data on which countries could propose actions. The project is intended to provide an authoritative scientific basis for policymaking on international waters, just as the Intergovernmental Panel on Climate Change has done for the climate change issue. It should help strengthen political commitment by states

to collaborative efforts to address problems of marine pollution from land-based sources, overfishing, and other threats. It can also be expected to generate a larger volume of GEF project proposals for investment and technical assistance. These regional assessments, if successful, could also be the basis for proposing revisions of the Operational Programs in international waters.

Conclusions

522. The study team concluded that the approach to programming imbedded in the Operational Strategy and International Waters Operational Programs has redirected GEF funding toward challenges that should have high priority and establishes solid bases for international collaboration and national policymaking on cross-sectoral issues. The team also concluded that further initiative is needed in the contaminant-based Operational Program on encouraging the development of project proposals relating to reducing developing countries' dependence on persistent organic pollutants.

F. The Application of Incremental Costs as a Programming Tool

523. The requirement for distinguishing incremental from baseline costs as the basis for funding is one of GEF's tools for programming its funds. It allows the Implementing Agencies and the secretariat to direct funds toward activities that contribute global environmental benefits rather than toward those that are solely in the development interests of the recipient country. In the Pilot Phase, there was no requirement for incremental cost calculation in project proposals, and decisions on project approval were made on the basis of whether or not the project would generate net economic benefits to the recipient country.

524. The study team examined whether GEF has been successful in applying the incremental cost concept in a way that is methodologically clear, well-conceived, and rigorous. To ensure the objective of cost-effective programming, the incremental cost calculations accompanying project proposals should present a level of detail that makes clear how the baseline scenario was constructed, how it is related to the economic development interests of the recipient country, and how the alternative scenario provides global benefits. It should make a convincing case that the project has a positive incremental cost.

525. The study team examined the discussions of incremental costs in project proposals included in the 1995 and early 1996 work programs. The examination revealed seriously deficient incremental cost calculations in at least ten projects.[78] In one case (Mauritius Marine Protection and Biodiversity Conservation), there was no mention of incremental cost in the document at all and no indication as to why GEF's contribution was $3.3 million. In another case (India Ecodevelopment), the definition of incremental cost was clearly incorrect. In a third, it was difficult to distinguish baseline activities from incremental cost ones. In several projects, there was no explanation for the incremental cost calculation. In two climate projects (China Efficient Industrial Boilers and India Solar Thermal-Electric), the baseline calculation was clearly not according to GEF procedures and, in the former case, the secretariat was concerned that an artificially narrow definition of the system boundary could conceal potentially negative incremental costs.

526. In February 1996, the secretariat issued the final version of the GEF policy toward incremental costs, as revised in light of comments made during the May 1995 Council meeting. A new reporting format for incremental costs included a requirement that the costs and domestic as well as global environmental benefits of the baseline and alternative courses of action be summarized in a simple matrix. That requirement and the circulation of a draft in early 1997 of streamlined procedures for incremental cost assessments have brought about a fundamental change in project proposals, reflecting increased understanding of the concept and methodology by the Implementing Agencies.

527. A review of GEF Secretariat memoranda on the outcomes of eight bilateral reviews with the World Bank and UNDP during 1997 showed that nine of twenty-five project briefs had failed to do the incremental cost matrix in the format shown in the incremental cost policy paper. However, an examination of

[78] The Guatemala Integrated Biodiversity in the Sartum-Mantagua Region, Mauritius Marine Protection and Biodiversity Conservation, Regional Capacity-Building Network for Southern African Botanic Diversity, Central African Republic Bangassou Dense Forest, China Nature Reserves Management, India Ecodevelopment, Indonesia Kerinci Seblat Integrated Conservation and Development, Lake Victoria Environmental Management, China Efficient Industrial Boilers, and India Solar Thermal-Electric projects.

the incremental cost matrices themselves revealed that the differences in format were minor in every case but one (Pakistan Protected Areas Management Project), in which no matrix was presented at all. In the other cases, the matrices showed clearly the assumptions about domestic benefits and global benefits in the baseline and alternative courses of action and distinguished among individual components of the project, so that it is possible to tell in each case whether the benefits accrue to the global environment or to national development.

528. Of course, incremental cost calculations may still use a method or assumption that is invalid. Nevertheless, they are now far more transparent than they were a year or two earlier, and gross departures from a reasonable process of calculation are correspondingly less frequent.

529. A second issue examined by the study team was whether there is a systematic tendency for incremental costs to be inflated in the project preparation process. Some in the secretariat believe that both recipient countries and Implementing Agencies have incentives to inflate incremental costs—the country because it is primarily interested in grant assistance for national development purposes and the agency because it wishes to please the client government and because higher incremental costs mean larger administrative budgets for projects. Anecdotal evidence suggests that officials who initiate projects in recipient countries sometimes find it in their interest to request GEF funding for activities they know should be part of the baseline, because they are in the interest of the country. At an Intergovernmental Panel on Climate Change workshop on the costs of mitigation actions, for example, several countries reportedly suggested that they had no incentive to calculate the incremental costs of GEF climate projects accurately.

530. The team found no evidence, however, of Implementing Agencies knowingly cooperating with efforts to get more funding from GEF than would be objectively justified. Agency regional coordinators cite many instances in which incremental costs have actually gone down from the original estimate, and attribute departures from that to the inherent difficulty of estimating incremental costs in biodiversity rather than to perverse incentives.

531. UNDP regional coordinators asserted that there were no cases in UNDP GEF projects in which the GEF contribution to incremental costs had been increased as a result of a revision. The coordinator for Latin America indicated that UNDP usually reduces substantially the original incremental cost request accompanying project proposals received from recipient governments. These proposals usually contain lists of activities for which GEF funding is requested, along with the government's own cost estimates. UNDP winnows out activities it believes would not be eligible for funding, either because they do not fall within operational programs or because they are not truly incremental to baseline activities. Most of the activities eliminated by UNDP, according to the coordinator, are those that are not truly incremental. The coordinator estimates that the original request is reduced overall by 30–50 percent in most cases and that the generalization applies equally to climate, biodiversity, and international waters projects.

532. World Bank regional coordinators indicated that it is difficult to inflate the incremental costs of a climate project artificially, noting that they are reviewed by several individuals in each case and that such an effort is not likely to remain undetected. They also note that task managers have no incentive to inflate the incremental costs of climate change projects, even if the client government is disappointed by the result, because it does not increase the administrative budget.

533. For some climate projects in the Commonwealth of Independent States region, the final incremental cost was reduced substantially from the original proposal: the Hungary biomass project was in the pipeline as a $20 million project for eighteen months but is now being sent to the GEF Council as a $5.8 million project. The Ukraine coal-bed methane project was listed as a $20 million project for three years but has now been reduced to $12 million. The Czech Republic Kyjov Waste Heat project has recalculated the incremental costs five times and is now listed as a $5 million project, whereas the original proposal was in the range of $3.8-7.6 million. Projects on ozone-depleting substances are similarly difficult to inflate, according to World Bank coordinators; the usual result is that final incremental costs are within a few percentage points of the original estimate.

534. World Bank regional coordinators indicated that biodiversity projects have not been subject to a single, commonly understood methodology for calculation of incremental costs as have climate and ozone projects. The possibility that these estimates are in some instances higher than they would be if done by an independent entity cannot be ruled out. A similar possibility exists for international waters projects.

535. However, the study team did not find any consistent pattern in which the Implementing Agencies have constructed inflated incremental cost estimates. In some cases, they appear to have applied the incremental cost concept to either reduce the costs to GEF compared with what would have been requested by recipient countries or have done the calculation in ways that do not lend themselves to inflating the size of the grant. These data cannot be verified by the study team, but it has no data from other sources that would lead it to doubt the overall picture these data present.

Conclusions

536. The study team found that the operationalization of the incremental cost requirement by GEF has advanced markedly since 1995, based on the degree of transparency and detail in discussions of incremental costs in project documents. Although some instances of inflation of incremental cost estimates may have occurred, the study team found no evidence of a general pattern of such inflation. The team concluded that greater confidence can be placed in the final incremental cost estimates for climate and ozone projects than for biodiversity and international waters projects.

VII. Follow-up to the Pilot Phase Evaluation

537. In May 1994 an evaluation of the GEF Pilot Phase was issued by an independent panel of experts. The evaluation, requested by GEF participants (since replaced by the GEF Council), was part of an effort to learn from the experience of the Pilot Phase to guide future planning for GEF. The GEF Council, GEF Secretariat, and Implementing Agencies have taken steps to respond to the evaluation's recommendations. A fundamental restructuring of GEF took place through which the GEF Council and GEF Secretariat were established, the GEF Instrument was adopted, the Operational Strategy and Operational Programs were promulgated, a clear governance structure was established, and the permanent monitoring and evaluation office was created. The following is a point-by-point review of developments in GEF reform since the 1994 report was issued. Detailed discussions of many of the reforms are contained elsewhere in this report.

538. **Recommendation 1 of the Pilot Phase evaluation:** Clearly articulate the GEF mission.

539. **Recommendation 2 of the Pilot Phase evaluation:** Develop program objectives and strategy.

540. The Pilot Phase evaluators found that GEF's raison d'être was unclear, the overarching objectives and strategy of GEF had not been fully elaborated, and clear objectives and strategies were lacking. They asked, "What is GEF's niche in global environmental affairs that sets it apart from other international endeavors dealing with environmental issues?"

541. Since the Pilot Phase evaluation was issued, the GEF Instrument and operational strategy, approved in October 1995, have articulated the GEF mission. A number of other written materials pertaining to the GEF project cycle, Operational Programs, and incremental cost calculations have further articulated the GEF mission and framed its objectives and strategies.

542. *For more discussion and evaluation on these issues, see chapter VI on the use of the Operational Strategy and Operational Programs.*

543. **Recommendation 3 of the Pilot Phase evaluation:** Reform GEF's leadership, management, and organizational relationships.

544. The Pilot Phase evaluators found that "the present operation arrangement is a major impediment to the effective professional leadership and management of GEF as a unique international entity." Specifically, the evaluators found that the decisionmaking processes for project development are complex, cumbersome, and costly; accountability at policy, program, and project levels is diffused; and coordination arrangements among the Implementing Agencies are ineffective. The evaluators specifically recommended four measures:

545. First, establish a GEF Secretariat that is organizationally, administratively, and functionally independent from the Implementing Agencies and organizations. This recommendation has been carried out.

546. Second, make STAP an independent advisory body. This recommendation has likewise been carried out.

547. Third, prepare guidelines for host countries to propose programs to address global environmental concerns. Guidelines have indeed been prepared, although some host-country officials still express concerns that these guidelines are too complex.

548. Fourth, broaden the range of organizations eligible to implement and execute programs and projects with GEF funds to include—in addition to the World Bank, UNDP, and UNEP—the regional development banks, other United Nations agencies, governments, and NGOs. Some of these organizations have become more involved in the execution of GEF projects. In a few cases, UNDP has delegated implementation authority to an outside agency. For example, UNDP delegated authority to the Asian Development Bank to implement the Asia Least-Cost Greenhouse Gas Abatement Strategy Project in GEF's Pilot Phase. In general, however, the recommendation to expand the number

of Implementing Agencies that can sponsor and oversee projects and receive direct GEF funding has not been implemented.

549. *For more discussion and evaluation of these issues, see chapter IV, section C, on the institutional relationships between the GEF Secretariat and Implementing Agencies, on STAP, and on expanding the number of Implementing Agencies, and chapter V on GEF project cycle procedures and guidelines.*

550. **Recommendation 4 of the Pilot Phase evaluation: Clarify and establish clear lines of authority for GEF.**

551. The Pilot Phase evaluators specifically recommended that the new GEF Secretariat be empowered with programming and budgeting oversight functions, authority to allocate GEF resources for the programs and budgets endorsed by the GEF Council, and the responsibility of reporting to the council regularly on the administration of GEF programs and budgets. The GEF Instrument, approved by the council in October 1995, clarifies these lines of authority. Through the instrument's adoption, this recommendation has been largely carried out.

552. *See chapter IV, section C, for more on GEF institutional roles and relationships.*

553. **Recommendation 5 of the Pilot Phase evaluation:** Establish a permanent mechanism for identifying lessons and promoting their application in GEF programs.

554. The Pilot Phase evaluators found that no GEF-wide system had been set up to gather and disseminate information systematically on project identification, design experience, and Implementing Agency operations or to track and monitor GEF strategies, operations, and projects. The evaluators also stated that such a system should be independent of the Implementing Agencies.

555. The main mechanism for gathering and disseminating information on GEF programs and individual projects is the annual project implementation review (PIR). The PIR is intended to provide feedback on the successes and problems of GEF strategies, operations, and projects. However, the PIRs do not constitute independent evaluations, because they are prepared by the Implementing Agencies and do not go into depth on individual projects.

556. The Pilot Phase evaluation recommended the creation of monitoring and evaluation systems for individual GEF projects. In May 1995, the GEF Council specified that the work program will include "operational monitoring and evaluation, scientific and technical monitoring and evaluation, and evaluation of strategic and cross-program issues." To provide an independent check on GEF operations, an independent monitoring and evaluation office was established at the GEF Secretariat in April 1996. To ensure independence from the secretariat and the Implementing Agencies, the Senior Monitoring and Evaluation Coordinator reports directly to the GEF Council in evaluation matters. He reports to the CEO in monitoring and administrative matters. The current evaluation of GEF's overall performance and a separate evaluation of "lessons learned" are coordinated by him.

557. In April 1997, the Council approved a monitoring and evaluation framework and plan for the GEF.[79] But to date, the monitoring and evaluation budget has not been sufficient to facilitate the systematic incorporation of monitoring and evaluation components into all GEF projects. Instead, individual project performance is determined largely by the Implementing Agencies themselves. World Bank policy requires that key performance indicators for all its projects be established during project appraisal. However, the February 1995 paper "Monitoring and Evaluation: Making Headway" by the Bank's Operations Evaluation Department found that there has been inadequate attention to monitoring and evaluation of Bank projects at either the appraisal stage or during implementation. On the other hand, the 1996 PIR states, "The Bank reports that over 50 percent of its existing GEF biodiversity projects have performance indicators that are being tracked regularly." This suggests that the World Bank is doing a better job of tracking the performance of its GEF projects than its non-GEF projects.

558. The study team was not able to verify the degree to which the performance tracking of the Bank's GEF projects is in fact taking place. Neither was the team able to determine whether such indicators are in place

[79] Framework and Work Program for GEF's Monitoring, Evaluation, and Dissemination Activities, GEF/C8/Rev. 1, April 1, 1997

and are being tracked for the rest of the Bank's GEF portfolio (besides the biodiversity component) or whether such tracking systems are operating at UNDP and UNEP for their GEF projects. The 1996 PIR does concede the need for "improved monitoring and evaluation systems in projects."

559. The monitoring and evaluation coordination team estimates that performance indicators will be in place for all World Bank GEF projects by July 1998. UNDP and UNEP, while working toward the same goal, have not yet set dates for completion of this objective.

560. Thus, at this time the determination of a project's success is largely subjective because there is not necessarily a set of predetermined indicators of success against which a project's performance can be evaluated. Where such indicators do exist, the extent to which they are used in project evaluations is unclear.

561. In addition to performance indicators, the monitoring and evaluation plan calls for adoption of risk rating and baseline determinations in all project submissions; and independent mid-term project evaluations where project duration will exceed three years. Risk rating is being done in all World Bank submissions and is increasingly being done by the other Implementing Agencies. Baseline information addressing what a host government would do in the absence of a GEF project is routinely included in incremental cost analyses. But full baseline determinations that address the state of affairs with regard to a country's loss of forest cover, improving energy efficiency, etc. are not being systematically performed by any of the Implementing Agencies. The monitoring and evaluation team plans to address this issue soon. Independent mid-term evaluations are not being done systematically, although the UNDP and UNEP have undertaken such reviews of some of their larger and lengthier projects. Instead, the World Bank—and to a lesser extent, the UNDP and UNEP—tend to conduct project monitoring and interim evaluations internally, for example through the use of staff supervisory reports.

562. The GEF monitoring and evaluation plan calls for a number of non-project-specific evaluations and the establishment of performance indicators pertaining to GEF's programs (e.g. the ten operational programs), GEF's socio-economic impacts in host countries, GEF's impacts on host-country institutions and policies, and GEF projects's environmental impacts. Some initial work has been done to develop these.

563. The GEF monitoring and evaluation program is still in an early phase of implementation, so its effectiveness cannot yet be evaluated. Yet, implementation is proceeding. All three Implementing Agencies are cooperating with the monitoring and evaluation team and have components of a comprehensive program in place. Timetables are in place for the systematic incorporation of project performance indicators, although timetables have not yet been set for many other components of the monitoring and evaluation plan, such as the preparation and implementation of performance indicators for GEF programs, socio-economic impact, institutional impact, and environmental impact.

564. **Recommendation 6 of the Pilot Phase evaluation:** Following the development of GEF strategies, establish common guidelines for the management of GEF operations by implementing organizations and undertake an independent review of their capacities.

565. The Pilot Phase evaluators were concerned about the institutional capacity and operational procedures of the Implementing Agencies and also the extent to which they would incorporate GEF objectives into their non-GEF operations. They believed such capacity concerns could be addressed in part through the streamlining of project development procedures; promulgation of focal area strategies as well as guidelines on such subjects as participation, incremental cost calculations, definition of global benefits, sustainability, and innovation; and training of Implementing Agency and developing country staffs on these concepts and practices.

566. The Operational Strategy and Operational Programs have been developed to provide guidance on how GEF should address each focal area. In addition, efforts have been undertaken to streamline project development procedures. The streamlining and simplification process is ongoing. Guidelines on incremental cost calculations and stakeholder participation have been developed but not on sustainability or innovation.

567. There has been no independent review of Implementing Agency capacities; it was not within the terms of reference of the study team to undertake such a review.

568. *For discussion and evaluation of the effectiveness of guidelines for the management of GEF operations, see chapter IV, section C, on GEF roles and responsibilities;*

chapter III, section D, on stakeholder participation; chapter V on GEF project cycle procedures; and chapter V, section A, on project implementation issues.

569. **Recommendation 7 of the Pilot Phase evaluation:** Improve participation in the GEF program at the country and community levels.

570. The Pilot Phase evaluators were concerned about inadequate participation by governments and communities in identifying and shaping Pilot Phase GEF projects. They believed such participation was necessary for GEF to have broader impact within a country, such as developing and strengthening national environmental action plans and generally increasing concern for the global environment.

571. The study team found that in rapidly industrializing countries, the government is the primary initiator of project ideas and participates actively in project development; in some other countries, the Implementing Agencies play the dominant role in project development. Most recipient government officials do not participate in the process of calculating incremental costs, which is usually done by foreign consultants.

572. Recipient governments are gradually increasing their ability to develop project concepts that are eligible for GEF funding, as indicated by an increasing proportion of project ideas received by Implementing Agencies that meet eligibility requirements.

573. In some of the countries visited by the study team, broadly based participation was limited by the government. Key government ministries are often either marginalized or completely circumvented in identifying and preparing GEF projects. The Focal Point ministry itself sometimes excludes some ministries from GEF decisionmaking.

574. The GEF Secretariat has promulgated guidelines for stakeholder participation in GEF projects that go beyond existing Implementing Agency policies on public involvement in GEF-related activities. Strategies for stakeholder involvement are a required part of every project proposal. However, not all projects have implemented the guidelines in practice. The GEF Secretariat is in the process of developing indicators of stakeholder participation in GEF projects.

575. *For more information on government and public participation in GEF project development, see in chapter III, section B on country-driven projects and section D on stakeholder participation.*

576. **Recommendation 8 of the Pilot Phase evaluation:** Establish mutually beneficial collaboration with nongovernmental organizations.

577. As stated under recommendation 7 above, public participation has generally improved in GEF project development, and the GEF process is one of the most inclusive project development processes in some countries. Yet many local NGOs continue to express concerns about their limited access to information and involvement in GEF project development other than in the Small Grants Programme. They state that they are often consulted in a token manner or only after a project has been under development for some time. In some cases, ministries concede that they intentionally exclude NGOs from participation in project design. This is based in part on the ministries' opinion that most NGOs are ill equipped to participate in the technical and financial analyses involved in project formulation and are more suitably used for project implementation and information dissemination. It is also based on the ministries' belief that most NGOs will not be constructive and will instead, through the continuous raising of objections, obstruct worthwhile projects.

578. The picture is quite different for certain international NGOs. The Implementing Agencies commonly consult with and involve international organizations in preparation of GEF projects. In such cases, the NGOs are tantamount to consulting firms; as such, they must abide by the Implementing Agencies' rules on confidentiality and participation, including the sharing of information with other NGOs.

579. *For more on NGO involvement in GEF project development, see chapter III, section D, on stakeholder participation.*

580. **Recommendation 9 of the Pilot Phase evaluation:** Ensure that strategies and program guidelines are in place before program initiatives are undertaken with the funds anticipated from the replenishment for GEF II.

581. This recommendation has to do with the timing of new initiatives relative to the preparation of relevant guidelines and strategies. The Pilot Phase evaluators were concerned that funds would start to be allocated

for certain focal areas or new projects prior to the adoption of the guidelines and strategies called for under recommendation 2.

582. This recommendation was not followed by GEF. The basic strategies of GEF are contained in the Operational Strategy, which was presented to the GEF Council in October 1995. Earlier in 1995, however, while the strategy was still being drafted, the council decided to program $280 -$340 million or roughly 15 percent of its total resources. [80]

Overall Assessment of the Follow-Up to the Pilot Phase Evaluation

583. The GEF Secretariat and GEF Council have taken action on most, but not all, recommendations in the Pilot Phase evaluation. They have prepared documents on the GEF Instrument, Operational Strategy, Operational Programs, project cycle, incremental cost calculations, and many other topics. These have served to articulate GEF mission and strategy, focus GEF investments in better-defined categories, and improve overall management of GEF operations. These were all serious efforts to improve clarity, coordination, management, and ultimately the effectiveness of GEF. In general, these actions have been effective and beneficial. Indeed, GEF does have a clearer identity and strategy. It is better organized and better managed, and NGOs are more involved.

584. But in some cases, GEF has either not implemented the recommendation or has implemented it partially. It did not refrain from funding projects during the period before the Operational Strategy and Programs were adopted, nor did it choose to implement the recommendation to broaden the range of Implementing Agencies beyond the existing three. And although project cycle procedures have been streamlined, as called for in the independent evaluation, it is arguable that the reforms to date have not adequately addressed the problem. The recommendation for a permanent mechanism for identifying and applying lessons has only been partially implemented, thus far.

[80] Global Environment Facility, *Annual Report 1995*, p. 2.

VIII. Conclusions

585. GEF has had to evolve quickly as a funding mechanism for global environmental measures in developing countries in general and for the Framework Convention on Climate Change and the Convention on Biological Diversity in particular. Endowed with limited resources and an untested organizational structure and facing high expectations and considerable political constraints, GEF has had fewer than four years of regular operations to create the institutional, policy, and procedural bases for a system of selecting and implementing effective projects to reduce global environmental threats.

586. The ultimate test of GEF's performance will be a combination of the cumulative impact of GEF projects on the physical state of the environment and its ability to influence policies and catalyze activities for global environmental benefit by others. The study team assessed the performance of GEF only in mobilizing resources for protection of the global environment, in making its presence felt in recipient countries, in creating an effective set of organizational arrangements and project cycle procedures, and in programming GEF resources. In conducting the Overall Performance Study, the study team was conscious of the brevity of the operational phase of GEF, the relatively small size of GEF funding, and of the relativity of the indicators it chose to assess GEF's success.

A. Resource Mobilization

587. Considering the magnitude of investment needs in the focal areas and the small amounts available to GEF, it has to leverage resources as effectively as possible for global environmental benefits. As intended by the donor countries, the availability of GEF grants has succeeded in leveraging significant additional funding for projects from a number of sources, particularly through World Bank loans associated with GEF projects, although the study team found that the extent of genuine leveraging of funds has been overstated in GEF documents. It also believes that there is a danger of placing too much emphasis on leveraging in relation to other measures of GEF's success. The team could not establish whether or not the funding for the GEF is new and additional, but it did find that some countries have not distinguished between funding for GEF and general development cooperation, which does not encourage additionality.

588. GEF has been able to mobilize a small but growing level of private-sector financing for projects, but relatively little from private financial institutions. Major barriers to increasing support from the financial sector exist, particularly GEF's long and complex approval procedures and the comparatively greater risk of GEF projects compared with regular commercial projects. Thus, the study team concluded that more could be done by the GEF family to increase the attractiveness of GEF activities to the private sector.

B. Country-Level Issues

589. The study team examined some dimensions of GEF's performance at the country level, including the strength of the Focal Point system, GEF's impact on country policies and programs and awareness of the global environment, and stakeholder participation in GEF projects. It found that, although it has made modest contributions to raising awareness of global environment issues, GEF has not been able to achieve visibility in recipient countries beyond a small circle of government officials and NGOs.

590. Moreover, in some countries the Focal Point system in recipient countries has not yet been adequately institutionalized, in the sense of having formal coordinating mechanisms for interacting with relevant government offices and other country stakeholders. The study team recognized that the weaknesses of the Focal Point system reflect the political realities in individual countries but found that the lack of a comprehensive GEF strategy for strengthening Focal Points and communicating with key constituencies in recipient countries has also limited progress in this area.

591. Based on its analysis of projects in the sixteen countries on which it had country reports, the study team found that in some cases, GEF projects have had significant impacts on country policies and programs

that go beyond the immediate objectives of the projects. Given the relatively small size of the GEF projects, the team found that these changes represent a positive achievement.

592. A key project issue is how successful GEF has been in providing for the financial sustainability of GEF-funded activities. The study team found that most project proposals in GEF 1 did not contain serious financial planning for continuation after GEF funding. It also noted, however, that GEF has not been realistic about the time needed in some cases to demonstrate the project's value and viability to potential future funders.

593. A significant achievement of GEF is its leveraging of greater stakeholder participation in project design, development, and implementation than would have been the case otherwise. The study team found that the issuance of GEF guidelines calling for stakeholder participation resulted in project designs that include detailed and comprehensive plans for public participation issues, especially in the biodiversity focal area.

C. Institutional and Project Cycle Issues

594. The study team found that GEF's institutional structure has evolved from a rudimentary set of arrangements to a relatively effective set of mechanisms for coordination and decisionmaking in a short period. The team found that despite differences in culture, mandate, and structure among Implementing Agencies and between them and the Secretariat, the GEF has taken a series of organizational and procedural steps that have resulted in the first systematic coordination of pipeline development among the Implementing Agencies, the streamlining of the project review process, and the beginning of joint consideration of the key strategic issues in programming. The Implementing Agencies have also made some progress in shortening their own project cycles. Although the project cycle is still lengthy, the team noted that some of the key factors contributing to the length of the project cycle are under the control of recipient government rather than GEF.

595. GEF has implemented the guidance of the Framework Convention on Climate Change and the Convention on Biological Diversity in an appropriate and timely manner, especially considering the number and complexity of directives from the latter. Although its initial system for processing proposals for enabling activities was far too time-consuming, GEF has also responded effectively to the request of the Conventions to streamline its procedures for approval of enabling activities, resulting in a major acceleration of the process. The problem of how best to assist countries in preparing national reports to the conventions, however, remains unresolved.

596. The team found that increasing the number of organizations authorized to propose projects directly to the GEF Secretariat could result in an increase in the number and types of viable GEF projects, and that increased competition among Implementing Agencies could help to reduce the transaction costs of such a move. Although such a move could also have some disadvantages, the team believes it would have to be weighed against the advantages.

597. The calculation of incremental costs of projects has been one of the most difficult aspects of the transition of GEF from the Pilot Phase to the operational phase. Implementing Agencies had not mastered the concept in the early phase of GEF 1, based on their project proposals. However, by the end of GEF 1 they had at least begun to make systematic presentation of cost estimates. The methodology has become increasingly standardized in climate change, but legitimate differences still arise over baseline assumptions. With regard to biodiversity, the team had much less confidence in the rigor of the calculations. The team found that the most serious problem with incremental cost calculations is that recipient country officials are generally excluded from the process, because they do not understand the incremental cost concept or the possibility of negotiating with the Implementing Agencies on the basis of a range of incremental cost estimates reflecting different assumptions.

598. The main shortcoming identified by the team is that the Implementing Agencies have done much less to mainstream the global environment in their regular operations than the team believed was possible. Although the World Bank has made a significant contribution to GEF through its cofinancing of GEF projects, neither the Bank nor UNDP has done as much as it could to integrate global environmental concerns into its regular project programming. Although UNDP was restricted in this regard by its five-year project planning cycle during GEF 1, it could have done more to

integrate the global environment into programming in its Country Cooperation Frameworks over the past two years. The Bank has taken no meaningful steps to reduce the global environmental impact of its traditional role as financier of fossil fuel power development. Nor has it put into place the necessary staff incentives for encouraging work on GEF projects. UNEP has been slow to internalize the principle that GEF projects should be additional to the core activities of an Implementing Agency and has not provided any incentives for staff work on the GEF.

D. Programming Issues

599. GEF has made considerable progress in programming resources strategically for greatest global benefit within the four focal areas. Considering that no agreed basis for programming resources existed when GEF became operational in 1994, the team views the development of the Operational Strategy and Operational Programs, in cooperation with the convention secretariats and based on convention guidance, as one of the most significant achievements of GEF. The team also found that the GEF has successfully balanced capacity building and investment activities in the portfolio by generally combining both types of activities in the same project.

600. The study team concluded that GEF has performed well in its choices of project interventions to be supported in the biodiversity, climate, and international waters focal areas. Although the team recognizes that there are political factors that may restrict the GEF's freedom with regard to prioritization in the biodiversity focal area, it found that greater priority setting is necessary, in part to establish a clearer distinction between biodiversity conservation that should be financed by the global community and that which should be financed by the country itself. The team is conscious of the difficulty of clearly delineating activities for global benefit that should be financed by the GEF from those that are for national benefit and should therefore be financed by governments themselves.

E. Overall Conclusion

601. The study team concluded that the GEF has generally performed effectively with regard to rapidly creating new institutional arrangements and approaches to programming its resources in the four focal areas. The GEF has also been relatively successful in leveraging cofinancing for GEF projects, and has had some positive impacts on policies and programs in recipient countries. A significant accomplishment has been the development of the Operational Strategy and Operational Programs, and the advancement of stakeholder participation in GEF projects. On the other hand, the Implementing Agencies have made little progress in mainstreaming the global environment, and the team believes that much more needs to be done in several areas, including strengthening the Focal Point system, improving the process of calculation of incremental costs, better planning for the financial sustainability of projects, shortening the length of the project cycle, and raising awareness of the GEF and of global environmental issues.

602. The study team believes that the progress made in the brief period of GEF 1 and the potential for much greater success, particularly in mainstreaming, constitutes a basis for building a much stronger GEF in the near future. The success of the GEF ultimately hinges, of course, on political support in donor and recipient countries for mainstreaming global environmental concerns into development.

ANNEX 1.

TERMS OF REFERENCES FOR A STUDY OF GEF'S OVERALL PERFORMANCE (INCLUDING SCOPE OF WORK FOR THE EXPERT ADVISORY PANEL)

I. BACKGROUND

The Global Environment Facility (GEF) is a financial mechanism that promotes international cooperation and fosters actions to protect the global environment. The grants and concessional funds disbursed complement traditional development assistance by covering the additional costs (also known as "agreed incremental costs") incurred when a national, regional, or global development project also targets global environmental objectives. The GEF has defined four focal areas for its programs: biological diversity, climate change, international waters and ozone layer depletion. Efforts to stem land degradation as they relate to the above four focal areas are also eligible for GEF funding.

After a Pilot Phase of three years, the Restructured Global Environment Facility (GEF) was made operational in 1994 with a pledged core fund of US$ 2 billion. Project approvals have increased steadily over the years, and now total about US$ 1.6 billion.

The GEF Council, comprising 32 members from developing and developed countries, as well as countries in transition, is the governing body. GEF's Implementing Agencies (IAs) are UNDP, UNEP, as well as the World Bank, which also serves as GEF's trustee. The Scientific and Technical Advisory Panel (STAP) is an independent advisory body that provides strategic scientific and technical advice.

The GEF serves as the interim financial mechanism for the Convention on Biological Diversity and the UN Framework Convention on Climate Change. In this function the GEF receives formal guidance from the Conference of the Parties to the Conventions and is accountable to them. In its work related to international waters and the phase out of ozone depleting substances the GEF takes into consideration guiding principles from Agenda 21 of the United Nations Conference on Environment and Development, and relevant international treaties such as the Montreal Protocol.

The "Instrument for the Establishment of the Restructured GEF", the GEF Operational Strategy and other key documents and Council decisions have laid down additional objectives and guidelines for the GEF itself as well as for GEF-supported projects. These are i.a.

- to establish GEF as the principal mechanism for global environment funding;
- to ensure a governance structure that is transparent and democratic in nature;
- to promote universality in its participation and to provide for full cooperation in its implementation among UNDP, UNEP and the World Bank;
- to secure that projects are country-driven;
- to support capacity building and enabling activities (These activities are designed to help countries fulfill their commitments under the two Rio Conventions on climate change and on biodiversity and relate to national reporting and development of national strategies in these two focal areas);
- to create participatory schemes in the local context at all stages of project design and implementation, particularly by involving local stakeholder communities and NGO expertise;
- to gain experience with a broad range of projects in order to identify highly effective approaches that can be replicated in different settings and regions or serve as demonstration models in the public and private sectors;
- to make use of innovative technologies and procedures;
- to use the most cost-effective instruments available; and

- to encourage co-financing arrangements and follow-up activities supported by recipient and donor governments, multilateral aid organizations, NGOs, and the private sector.

The study of GEF's Overall Performance will not address the first two bullet points, but will otherwise assess to what extent the GEF has achieved, or is on its way to achieving, the main objectives and guidelines laid down during the Pilot Phase in 1991 and during the restructuring in 1994. The 1994 Independent Evaluation of the GEF will serve as useful background material in this respect.

The study report will be an input for the GEF Assembly to be held in early 1998, but is equally intended to inform all GEF stakeholders, particularly the convention secretariats, the GEF Council, governments Implementing Agencies, executing agencies, NGOs and the interested public.

II. Scope of Work

Provision of resources

The study will firstly assess the GEF's role as a catalyst in providing and leveraging resources for global environmental efforts by developed and developing country governments, multilateral and other institutions and the private sector. It will also study whether GEF's "incremental cost financing" has had the effect of mobilizing new and additional resources for global environment efforts.

Issues at the country level

GEF has been assigned the role to assist developing countries' efforts to fulfill their responsibilities under the Convention on Biological Diversity and the UN Framework Convention on Climate Change. The study will examine this role as well as the modalities of cooperation between the GEF Secretariat, implementing and executing agencies vis-à-vis host governments, national institutions and stakeholder groups in projects, and the extent to which GEF has helped promote global environmental objectives in recipient countries beyond the narrow project settings.

Institutional issues and procedures

On the basis of GEF's roles and functions with regard to the international conventions and agreements, the study will assess the extent to which effective cooperation mechanisms and procedures have been established among the GEF Secretariat, IAs, STAP, convention secretariats, and other cooperation partners. The study will also examine the extent to which the GEF has encouraged integration of global environmental objectives into mainstream operations of multilateral and other aid organizations.

GEF's programming efforts

The study will assess GEF's approaches and strategies to operationalize Convention guidance and Council decisions. With a primary focus on the Operational Strategy and Operational Programmes, it will address criteria and priorities for developing the overall portfolio, project selection, the choice of viable concepts, technologies and designs as well as systems for learning from experience, as well as demonstration and replication of promising approaches.

Project implementation lessons

The GEF's project portfolio is still at an early stage of implementation, and therefore does not allow for conclusive aggregated analyses of outcomes and impacts. However, the nearly 100 projects that have been under implementation for more than one year have just been subjected to the second *Project Implementation Review*. Likewise, an ongoing "Evaluation of Project Lessons" will provide useful portfolio insights.

The study will distill and present the main lessons learned from GEF's project monitoring and evaluation activities.

III. Subject Areas For Assessment

1. Increasing Resources for Global Environmental Efforts

The study team shall:

1.1 assess the effectiveness of the GEF in providing additional funds for developing countries' global environmental efforts;

1.2 assess the extent to which the GEF in the pilot and present phases has been able to leverage other resources for developing countries global environmental efforts beyond GEF contribution in the form of co-financing (e.g. counterpart, Implementing Agencies, bilateral), parallel financing and financing for complementary and follow-up activities.

1.3 assess the frequency of use of the incremental cost approach in project preparation, especially in GEF's more recent portfolio, and its effects on identifying and selecting cost-effective ways of achieving global environmental benefits as well as linking developmental and global environmental objectives.

1.4 assess the efficiency of the GEF mechanism in disbursing financial resources once a project is approved by the GEF Council and the Implementing Agencies.

2. GEF Policy Issues at the Country Level

The assessment will be based mainly on information resulting from visits to a sample of host countries.

The study team shall:

2.1 assess the GEF's contribution to country-level processes that prepared countries to implement the Convention on Biological Diversity and the UN Framework Convention on Climate Change; assess its assistance to countries towards fulfilling their reporting requirements to the Conventions, towards establishing national action plans and towards taking related measures in compliance with the Conventions;

2.2 Examine how incremental costs are negotiated and agreed between the host governments and GEF in project preparation;

2.3 examine to what extent environmental policies which have a bearing on the success of GEF-funded projects (e.g. price regimes) have been addressed in project documents, agreements and during project implementation;

2.4 consider the extent to which GEF has contributed to an increased awareness and support of the global environment agenda at the country level; assess the GEF's information sharing activities and contact network with relevant institutions/organizations in participating countries. Consider whether institutions and organizations implementing GEF-funded projects have developed and contributed to transmitting a corporate identity and organizational mission, and examine whether the GEF Focal Point system is integrating GEF activities into the country environmental programs and contexts.

2.5 examine to what extent studies and national communication efforts, supported by the GEF, have encouraged involvement of local expertise and have promoted institutional capacity building;

2.6 examine the effectiveness of modalities of cooperation between the IAs and recipient governments under varying circumstances, and the degree to which the identification and implementation of projects is country-driven;

2.7 examine the degree to which participation of national or local interest groups and NGOs has been institutionalized or otherwise secured in decision making during project identification, design and implementation;

2.8 assess how consideration is given to the principle that GEF-funded efforts should become financially sustainable once the project is completed i.e. what efforts are made to secure long term government, private sector or other stakeholder contributions, or to establish trust funds, user fees or other revenue schemes for recurrent cost financing in various focal areas and national contexts.

2.9 For transboundary projects, assess the adequacy of collaboration mechanisms and approaches between the various national and international actors involved.

3. Institutional Issues and Procedures

In close coordination with the convention secretariats in order to avoid unnecessary overlaps with their ongoing reviews of GEF, the team shall:

3.1 examine how relations between the CBD and the UN FCCC and the GEF have evolved, especially with regard to operationalizing convention guidance in programs and projects; identify possible areas where further or clearer guidance would assist GEF's programming efforts.

3.2 examine the information sharing and the formal and informal collaboration and coordination between the relevant convention secretariats and the GEF Secretariat, as well as between the Parties to the Conventions and the GEF Council members;

Further, the team shall:

3.3 examine GEF's contribution to mainstreaming global environmental concerns into regular operations and policy advice in the participating agencies; examine the extent to which procedural steps have been taken in the IAs to secure a better integration of global environmental concerns in programmatic objectives and at the project level;

3.4 assess the current GEF procedures and guidelines for Project Cycle Management, including planning, implementation, monitoring and evaluation, as well as estimating the baseline situation of projects and selection of project indicators. Consider whether the expedited procedures for project approval are well balanced with regard to securing quality at entry as well as expedient decision making.

3.5 examine the division of work and the mechanisms for cooperation between the GEF Secretariat, the Implementing Agencies, STAP, executing agencies, NGOs, and other relevant organizations; assess to what extent the roles are complementary and whether the cooperation is effective in utilizing the combined institutional competence in a satisfactory way;

3.6 assess the adequacy of the procedures and achievements of the GEF Secretariat and Implementing Agencies in drawing lessons for ongoing amendments and improvements of operations and management.

4. GEF's Programming Efforts

The team shall:

4.1 describe how GEF's program objectives, goals and criteria have evolved on the basis of the above-named conventions, international agreements, the GEF Instrument, the Operational Strategy, Operational Programs, as well as other Council documents or decisions.

4.2 discuss GEF's programming efforts concerning:

- balancing of focal areas;
- short term and long term measures (e.g. immediate reduction of greenhouse gas through technology transfer versus capacity building to teach energy conservation measures);
- demand side versus supply side measures (e.g. providing better technologies for supplying energy versus reducing energy demand at the source);
- capacity building and research activities versus investment activities;

4.3 assess broadly how successful the GEF has been in supporting projects which can be expected to result in clearly identifiable global environmental benefits in the short or long run; and in operationalizing and disseminating the incremental cost concept in a useful way;

4.4 assess whether the GEF via its project portfolio in the four focal areas is making use of viable concepts, approaches, designs and technologies; assess whether the GEF is focusing on environmental issues or areas which constitute large threats or hold the promise of big gains; discuss whether GEF is striking an adequate balance between supporting established project types on the one hand and encouraging innovativeness, experimentation, new and unproved approaches and designs on the other.

4.5 examine the extent to which the composition of the GEF project portfolio is driven by the priorities defined in the Operational Strategy, the Operational Programs or other GEF key document; assess the cooperation between the Secretariat and Implementing Agencies with governments, NGOs and other stakeholders to prioritize and identify projects that respond to GEF objectives,

4.6 assess the extent to which GEF activities have contributed to, or have the potential to contribute to, learning from experience, demonstration and replication effects.

5. Project Implementation Lessons

Drawing mainly on the experience of the 1996 GEF Project Implementation Review, the "Evaluation of Project Lessons", as well as its own first hand information, the team shall:

5.1 Discuss the main lessons learned in project implementation to date, i.a.:

- Prospects for sustainability and replication of project outcomes, including global environmental benefits;

- Ways in which global environmental benefits and incremental costs are estimated in projects;
- Experience with timely provision of co-financing and government counterpart contributions;
- Experience with stakeholder involvement;
- Private sector (NGO and for-profit) involvement in the project;
- Experience with regional collaboration mechanisms;
- The extent to which the project includes innovations, and is carrying out innovative approaches; and
- Information exchange and communication, including demonstration and replication of viable projects.

6. Follow-up of the 1994 Independent Evaluation

Describe and assess the adequacy of the follow-up of the 1994 Independent Evaluation of the GEF.

IV. Study Team

The study team will consist of a core team of international experts and a number of national or regional experts.

The team leader will have a high international standing, acknowledged integrity and good knowledge of global environmental issues. He or she will lead the main work of operationalizing the study and be responsible for the drafting the final report. He/she will be employed full-time for the duration of the project and be situated in the in GEF Monitoring and Evaluation Unit in the GEF Secretariat and work under the guidance of the Senior Monitoring and Evaluation Coordinator.

The other international team members will be renowned focal area experts, with experience in policy and program formulation, evaluation, and/or management of environmental or development assistance. Most international team members will participate in country visits. Some are expected to be available for other work such as conducting interviews with the convention secretariats, the GEF Implementing and executing agencies, STAP, NGOs and other organizations and with the preparation of the final report.

National or regional team members will be recruited to take part in the conduct of the country studies. These will have general competence in the same areas as the international team members, and good overview of the national issues, institutions and persons in the relevant fields.

An International Expert Advisory Panel of about 6 - 7 renowned members with extensive background and knowledge of global environmental issues and measures will be convened by the GEF Senior Monitoring and Evaluation Coordinator. It is envisaged that the International Panel will meet at the inception and final stages of the study.

The principal objectives of the panel are to provide strategic guidance on the design and execution of the study, add assurance that the study is complete in coverage and a fully independent review of the accomplishments of the GEF in the areas examined (see attached Terms of Reference for the Panel).

V. Mode of Work

The team members will familiarize themselves with a Background Study that is being prepared for the GEF Secretariat, as well as other relevant GEF documents, including the May 1994 Independent Evaluation of the GEF. Further documentary work on the basis of country, institutional and project files is envisaged.

The team will prepare an Inception Report, which is designed to operationalize the study, and which will be discussed at, and finalized after, a seminar with the Advisory Panel, GEF staffs and selected individuals. The report will contain an overview of data sources, plans for how to address the various study issues, outlines of questionnaires or structured interview guides as well as a more detailed list of interviewees and modes and schedules for the implementation of the study.

The number of countries visited by the study team members will be limited to 10. The countries were selected on the basis of the following criteria:

- Number of GEF projects and size of funds allocated,

- Good representation of the various focal areas,
- Countries hosting well performing as well as less well performing projects,
- Length of GEF involvement,
- Various institutional models for responding to GEF initiatives,
- GDP per capita,
- Geographical representativeness.

Teams comprising two international members and one national member will conduct studies in Brazil, China, Egypt, India, Indonesia, Kenya, Mexico, Poland, Russia, and Zimbabwe. In order to seek a more comprehensive picture of GEF at the country level, structured interviews by local consultants will be conducted in Argentina, Costa Rica, Côte d'Ivoire, Jordan, Philippines, and Vietnam.

On the basis of specific agreements in each case, the Country Focal Points assisted by the field missions of the Implementing Agencies (IAs) of the GEF, the World Bank, UNDP and UNEP will assist in the preparation for the country assessments. The main report will consist of 60-80 pages plus appendices, including i.a. list of all interviews and data sources. It will be written in MS Word 6.0.

VI. Scope of Work for the Expert Advisory Panel

An international Expert Advisory Panel will be convened by the GEF Senior Monitoring and Evaluation Coordinator to provide overall guidance to the study team. It will be made up of 6-7 members with extensive background in and excellent knowledge of global environmental issues and measures. Panel members will be representative of different regions of the world and GEF stakeholder groups, including NGOs and have expertise in key aspects of GEF operations, including in stakeholder involvement in GEF policy and projects and in Implementing Agencies assistance processes.

The principal objectives of the Panel are to provide strategic guidance on the approach and implementation of the study and added assurance that the study is complete in coverage and a fully independent review of the accomplishments of the GEF in the areas to be examined.

The Panel will be convened early in the implementation of the Overall Performance Study to review the study's scope of work, the method of conducting the study, and the work plan developed by the study team. This meeting is expected to occur in June, 1997. At this first meeting, the Panel will select from its members a Chairperson. On the basis of its review, the Panel will prepare a report to the Senior M&E Coordinator and the study's Team Leader on its views regarding the work plan and approach.

The Panel will be convened a second time to review the draft final report of the study team. This meeting is expected to occur in October, 1997. The Panel will meet with the Team Leader and other members of the evaluation team to review and provide guidance on their preliminary findings and conclusions. The Panel will prepare a report to the Senior M&E Coordinator which provides its comments and suggestions on the report, and recommendations for further study. This report will be submitted by the Senior M&E Coordinator to the GEF Council and GEF Assembly, together with the final study report.

In addition to these two formal meetings, the Expert Advisory Panel will be available to consult with the Senior M&E Coordinator, the study's Team Leader, and individual team members on matters related to the conduct, at various stages, of the Overall Performance Study.

Annex 2.
Report of the International Expert Advisory Panel for the Study of GEF's Overall Performance
January 1998

Upon encouragement from the GEF Council at its Spring 1997 meeting, the Senior Monitoring and Evaluation Coordinator in the GEF Secretariat convened an International Expert Advisory Panel to provide guidance to the Study of GEF's Overall Performance and to assure that the study is complete in coverage and a fully independent review.

The Panel met in Washington, D.C. on June 27, 1997, to review the Terms of Reference and Inception Report for the study and on October 27-29, 1997, to review the first draft of the report prepared by the study team. The Panel provided detailed reactions, comments and guidance to the GEF Senior Monitoring and Evaluation Coordinator and to the study team to assist it in completing the report of the study. The final draft of the team's study was shared with the Panel for further review and comment prior to the completion of the study, and a third meeting was held in Paris on January 17, 1998, to prepare this report. All the comments to the draft study by Council members and others were shared with the Panel.

In addition to its comments on the study report itself, the Panel agreed on a number of conclusions and recommendations to the GEF Council on the topics examined by the Overall Performance Study. These are presented in this report.

Mobilization of Resources for the Global Environment

Based on the information analyzed for the study, it appears that there has been a gradual overall increase in investments for the environment over the last five years. Levels of official development assistance (ODA) may have decreased, but overall—including investments by developing countries themselves and the private sector—there has been an increase. This conclusion is necessarily tentative, since there are no reliable numbers and there is no agreement as to criteria. A global organization/mechanism to establish the validity of such numbers does not exist. Nevertheless, it is clear that levels of funding for the environment, and to address global environmental problems in particular, are still inadequate in relation to the threats and problems. New and additional resources are urgently needed by GEF, national governments and other international organizations, based on common but differentiated responsibilities among nations. The donors need to be careful, however, not to further degrade the concept of "new and additional", given its importance to the underlying political support for the GEF.

There would be considerable benefit in establishing more coordinated strategies at the country level to address environmental problems. In this regard, the Panel supports the recommendation of the study team that GEF implementing agencies, in association with national governments, initiate Environmental Consultative Group meetings at the country level. Such groups would be made up of all donors providing climate, biodiversity and other GEF mandate-related assistance to the country, as well as a range of government agencies and other organizations, including the private sector, interested in environmental issues. The objective of these consultative groups would be to advise on the reduction of duplication, identification of gaps where additional efforts are needed, ways to make optimum use of resources to address global environmental problems, and how to assure the continuation and sustainability of activities initiated with support from the GEF.

The Panel believes that it is important to emphasize the international public good nature of the GEF and the need to sustain funding for global environmental investments over time. The Panel would also note the responsibility of the developed countries with regard to their own policies and programs that influence global environmental outcomes. The recent Kyoto Conference clarified those responsibilities and the importance of action by developed counties in their own realms even as the GEF focuses on global environmental issues in developing countries.

The GEF should explore additional ideas and mechanisms to expand the involvement of the private sector in addressing global environmental issues. This would include not only private businesses, but also the major international philanthropic foundations and environmental organizations. The Panel recommends that the GEF consider organizing a workshop with private sector organizations such as the World Business Council for Sustainable Development to suggest opportunities for greater involvement of the private sector. The Panel is concerned about the level of resources available to address the issues in the international waters focal area. The lack of parity with other focal areas is addressed in the study team's report, and the Panel strongly believes that the international community will have to address this in the near future in order to enable the GEF and other organizations to devote additional resources.

Similarly, the GEF should initiate further steps to identify mechanisms for the expanded involvement of the international scientific and academic communities in the effective implementation of its mandate.

There is a need for greater public awareness and understanding of global environmental issues and the role the GEF is playing to address them. Some of this effort could be carried out by the GEF directly. In addition, national committees for GEF, which should include government, NGO, business, scientific and other representatives, could be formed to play a role in this regard. There may also be opportunities to work with regional groupings in this area, as well. At the country level, the implementing agencies should make greater efforts to describe and identify GEF-funded activities with the GEF rather than with the agencies themselves.

Institutional Roles and Relationships

The GEF has emphasized the importance of mainstreaming the global environment in the Implementing Agencies. The Panel is disappointed to note the study team's conclusion that mainstreaming of global environmental concerns into the regular (non-GEF) strategies and programs of the World Bank and UNDP is limited to date. However, it also noted that, to be effective, this kind of mainstreaming has to be built on partnerships between these implementing agencies and governments in recipient countries. Overall country strategies and programs are not the product of the World Bank and UNDP alone. National and donor priorities are focused on poverty alleviation, sustainable livelihoods, and elimination of gender inequity. However, the linkages between these priorities and environmental issues, including global environmental issues, are clear and important. To take one example in the area of climate change, the energy investments (especially fossil fuels) create special challenges for the World Bank in the evident contradiction between greater energy production and the reduction of greenhouse gases. The Panel, except for one member, believes that the Bank will have to do more to take such global impacts into account. The World Bank and UNDP should make greater efforts at the country level to raise awareness of these linkages and of the importance of addressing environmental issues, and in this way increasingly mainstream them in their country assistance strategies and programs. The proposed national committees for GEF could also help in this regard. The implementing agencies, in carrying out the GEF mandate, may also need to re-examine the potential for influencing their other partners, such as the International Monetary Fund.

The general roles of the three implementing agencies within the GEF should, in the near term, remain basically as they are evolving. The Panel expects that this would mean that the World Bank would likely be the major financing channel for disbursing GEF resources. Among the World Bank institutions, the majority of Panel members, through not all, finds that the International Finance Corporation has significant potential to expand its GEF-related financing. As for the UNEP, the Panel notes the broad international discussion about UNEP's future in recent years, and the fact that the UN Secretary-General has called for a review. The Panel hopes that UNEP will make constructive strides to play such a useful role as envisioned for it by the GEF founders. In the future a fourth "partner" might be the private sector, including foundations—not necessarily as implementing agencies, but as a fuller partner within the GEF, for example, for technology transfer. The recommended workshop with the World Business Council for Sustainable Development might explore ways this partnership could be developed and institutionalized.

The Panel believes that the GEF should devote continued efforts to streamline the procedures for designing, approving and implementing projects, and to make these procedures simpler and more nationally-driven, but without abandoning high quality standards. The UNDP-managed Small Grants Programme has, by all reports, been very successful in this regard, and the new expedited medium-sized project procedures also have potential to make significant strides in this direction. In view of this, the Panel suggests that the GEF consider raising the ceilings for maximum project size under the Small Grants Programme and under the medium-sized projects procedures with a view to increasing the percentage of the projects funded by the GEF that benefit from expedited procedures. In addition, as a step toward expediting project approval procedures, the Panel concurs with the study team's recommendation that the GEF Council seriously consider delegating its second review of project proposals to the Secretariat.

The Panel noted the discussion in the draft study report of the merits of expanding the number of GEF implementing agencies from the existing three. This is not a new issue, and has been the subject of a number of NGO letters to the Chairman of the Panel. Upon consideration of the arguments on both sides of this issue, the Panel believes that, for the moment, the GEF should focus on consolidating its strengths and streamlining procedures and should not, at least for the near future, expand the number of implementing agencies. However, the Panel encourages the three existing implementing agencies to look for increased opportunities to involve regional development banks and other suitable organizations in GEF programs implemented through them. In addition, the Panel recommends that the GEF undertake a study to examine the potential for lowering transaction costs by including other organizations as GEF implementing agencies.

The Panel believes that it is essential for the effective operation of the GEF that there be a Secretariat that plays a strong coordinating and catalytic role within the GEF family. Its focus should be on strategic and policy issues, aimed at creating common systems and approaches for the GEF as a whole. It should promote strategic alliances within the GEF family and, for example, with the climate change and biological diversity convention secretariats. The GEF secretariat's role should not include micro-management or detailed review of project designs presented by the implementing agencies for GEF approval. The Panel stressed that, in fact, neither should it be the role of the implementing agencies to micro-manage projects, since recipient countries should have the principal project management responsibility.

The Panel noted the valuable and important work performed by the STAP since the creation of the GEF. However, it noted that during the past five years, a number of other strong, government-approved scientific bodies have been created, including the subsidiary bodies of the two conventions for which the GEF is the interim financial mechanism. The Panel recommends that the Council review the future mandate, scope and role of the STAP taking into consideration the existence of these other bodies.

Country-Level Issues

It is important that there is a correspondence between the project idea and country interests, priorities and policies. It is not a prerequisite that the idea always originate in the country, since the benefits of GEF projects are designed to transcend national priorities. Project management should be "driven" by organizations and individuals of the stakeholder country or countries. Finally, ownership is closely related to, and reflected in, the long-term sustainability of project activities. Thus, even though an idea for a GEF-funded project may initially come from outside the country, it is essential that management responsibility be with the country and that the country commitment to and ownership of the activity be such that it will be sustained following the completion of the GEF project.

The Panel believes that the study team brought out a number of good points on the issue of the use of foreign consultants in GEF projects, and the impact this can have on country ownership. The Panel recognizes that in areas related to the global environment there is sometimes a need for expertise from outside developing countries. However, the Panel believes that the need for foreign consultants is likely more often to be the exception rather than the rule, and that GEF's implementing agencies should give a strong emphasis to involving local and regional expertise in the design, analysis and implementation of GEF projects, including PDF activities.

The GEF's emphasis on stakeholder participation has led a number of countries to recognize the positive contributions that NGOs and other stakeholders can make to the solution of global environment and national development problems. The Panel encourages the GEF to continue its emphasis on stakeholder participation and to look for ways to do more in this area, especially in the area of monitoring and evaluation. The creation of national committees for GEF involving a wide range of organizations and interests, as suggested earlier, might help identify the ways this could be done.

The GEF has a key role to play in raising awareness of global environmental issues in the countries where it works, and in this way helping assure that these considerations are increasingly reflected in country policies, regulations and priorities. The Panel recognizes that the process of impacting policies and programs has just begun, especially in those countries where GEF resources are dwarfed by the scale of other investments. In particular, the Panel recognizes the contributions of the Small Grants Programme to mainstreaming environmental concerns more broadly in the countries where it has functioned. The Panel encourages the Council to look for additional mechanisms through which the GEF, working with its implementing agencies, the climate and biological diversity conventions and others, can help create a broader public understanding of global environmental issues in developing countries. One such mechanism might be for GEF to provide support to media resource centers in some countries.

Project Issues

The Panel recommends that all GEF projects incorporate a specific withdrawal strategy in their design. Such a strategy would address how the activities supported by the project would be sustained over the long term following completion of GEF funding. While the specific approaches will vary project by project, the Panel believes it is very important to focus on long term sustainability at the beginning of project support. The Panel believes that the analysis conducted for the design of each GEF project should identify the costs of long-term sustainability. The sources of such future support clearly would need to be identified over time, but it is useful to identify likely future requirements at the outset so that proactive measures can be taken to assure continuity.

In order to ensure greater clarity in the criteria for calculating and negotiating the incremental costs on which GEF-funded projects are based, the Panel endorses the recommendation of the study team that a working group of representatives from the GEF and convention secretariats and implementing agencies be formed to explore ways to make the process of determining incremental costs more flexible and easier for recipient countries.

Programme Issues

In terms of the allocation of resources among developing countries, the Panel endorses the view expressed by the study team that further efforts for priority setting would be desirable in all focal areas. For example, within "Climate Change" high emitting countries or regions with conducive policies for abatement and promising technologies should be the main focus of GEF funding. International waters needs enhanced attention by GEF and other relevant organizations. This requires additional funds.

Final Comments

The Panel believes that the world requires a well-run multilateral mechanism for worldwide "ecological security". Global environmental issues cannot be left exclusively to the multitude of bilateral negotiations and efforts underway. That multilateral funding mechanism is the GEF. The GEF should be continued and strengthened.

Based on its review of the Overall Performance study and the draft report, the Panel believes the study team has conducted an honest and independent assessment of the GEF. The Panel compliments the team on its work. It also compliments GEF's Senior Monitoring and Evaluation Coordinator on the procedures followed in designing and carrying out the study, which have contributed greatly to the quality and objectivity of the assessment. The Panel believes that the study will be very useful to the GEF family and others interested in the GEF, and recommends that comprehensive assessments of the accomplishments of the GEF be conducted at appropriate intervals in the future when there will be additional basis for determining the impacts and effectiveness of GEF-funded activities.

ANNEX 3.

LIST OF INTERVIEWS AND PROJECT SITE VISITS

A. IMPLEMENTING AGENCIES (Headquarters)
- UNDP
- UNEP
- The World Bank

B. SCIENTIFIC AND TECHNICAL ADVISORY PANEL (STAP)

C. CONVENTION SECRETARIATS
- Secretariat of the Convention on Biological Diversity
- Secretariat of the UN Framework Convention on Climate Change

D. GEF SECRETARIAT

E. COUNTRY VISITS:

1. BRAZIL
- Agencia para Aplicação de Energia (Energy Efficiency Organization), São Paulo
- Ceara State Ministry for Transportation, Energy, Communication and Works, Fortaleza
- CEPEL (National Energy Testing Lab), Recife
- CHESF (regional electric utility) Biogas Project Staff
- COELCE (Ceará State Utility with renewable energy program), Fortaleza
- DNAEE (Energy Regulatory Agency)
- EMBRAPA-CENARGEN
- Fundacion Pro-Natura
- GTAP (Inter-Ministerial Panel for GEF Projects)
- Instituto Sociedade, População e Natureza (Small Grants Coordinating NGO)
- Instituto Brasileiro do Meio Ambiente e dos Recursos Naturais Renovaveis - Ministerio de Meio Ambiente, dos Recursos Hidricos e da Amazonia Legal
- Ministry of Energy, Department of Decentralized Energy
- Ministry of Science and Technology
- Selected NGOs
- PROCEL (National Energy Efficiency Program), Rio de Janeiro
- SEAIN (Ministry of Planning - GEF Focal Point)
- Secretariat of International Affairs
- UNDP Brazil Country Office
- Wind Energy Test Center, Recife
- World Bank Resident Mission
- WWF Brazil

2. CHINA
- Chinese Academy of Sciences
- Chinese Academy of Environmental Sciences
- Energy Research Institute
- Forestry Department of Hubei Province
- Hubei Province Governor's Office
- Ministry of Coal Industry
- Ministry of Communications
- Ministry of Finance, World Bank Department
- Ministry of Foreign Affairs
- Ministry of Forestry, GEF Nature Reserves Project Office
- National Environment Protection Agency
- Shennongjia Nature Reserve
- State Economic and Trade Commission
- State Planning Commission
- State Science and Technology Commission
- Tsinghua University, Institute for Nuclear Energy Technology (INET)
- UNDP China Country Office
- World Bank Resident Mission

3. EGYPT
- Egyptian Environmental Affairs Agency
- Ministry of Agriculture, Undersecretariat for Afforestation
- New and Renewable Energy Authority
- Organization for Energy Conservation and Planning

- Red Sea Governorate
- Red Sea Coastal and Marine Resource Management Project Office
- Tourism Development Authority
- UNDP Egypt Country Office
- UNEP
- US Agency for International Development (USAID) Office of Environment
- World Bank Resident Mission

4. INDIA
- Al Kabeer Exports Ltd. (Biomethanation project), Hyderabad
- Center for Science and Environment
- Confederation of Indian Industries
- Development Alternatives
- Energy Management Centre
- GTZ Resident Mission, Bangalore
- Indian Institute of Public Administration
- Indian Institute of Science, Bangalore
- Indian Renewable Energy Development Authority (IREDA)
- Ministry of Economic Affairs
- Ministry of Environment and Forests
- Ministry of Non-Conventional Energy Sources
- National Cleaner Production Center
- Tamil Nadu Energy Development Agency, Chennai
- Tamil Nadu Electricity Board, Chennai
- UNDP India Country Office
- Vestas India Ltd. (wind machine manufacturer), Chennai
- Winrock International
- World Bank Resident Mission
- World Wildlife Federation

5. INDONESIA
- Agency for the Assessment and Application of Technology (BPPT)
- Asian Development Bank Resident Mission
- Association of South-East Asian Nations
- British Petroleum Indonesia
- BP Solar
- Center for Environmental Studies, Bogor Agricultural University
- Department of Forest Resources Conservation, Bogor Agricultural University
- Indonesian Biodiversity Foundation
- Indonesian Institute of Sciences, Bogor
- Institute of Technology, Bandung
- International Finance Corporation (IFC) Country Office
- Ministry of Agriculture: Agency for Agricultural Research and Development, Bogor
- Ministry of Environment
- Ministry of Finance: Directorate General for External Funds; Bureau of Planning and International Cooperation
- Ministry of Forestry: Directorate of Programme and Directorate General of Forest Protection
- Ministry of Mines and Energy
- National Development Planning Office (BAPPENAS)
- The Nature Conservancy
- Sudimara (private solar firm), Jakarta
- UNESCO Country Office
- UNDP Indonesia Country Office
- UNIDO Country Office
- US Agency for International Development (USAID)
- World Bank Resident Mission
- World Wild Fund for Nature
- YBUL (NGO), Jakarta

6. KENYA
- Climate Network Africa
- Embu Clinics (Small Grants Project NGO)
- Food and Agriculture Organization (FAO) Kenya Country Office
- International Finance Corporation
- Kenya Association of Manufacturers
- Kenya Wildlife Service
- Lake Victoria Environmental Management Programme, National Secretariat
- Ministry of Energy, Renewable Energy Unit
- Ministry of Environment: National Environment Secretariat
- Ministry of Finance
- Ministry of Planning and National Development
- Ministry of Water
- National Environmental Action Plan (NEAP) secretariat
- OSIENALA (Friends of Lake Victoria)
- Rural Initiatives for Sustainable Development (RISDEV - Small Grants Project NGO)
- Total Oil Kenya Limited
- UNDP Kenya Country Office

- Wildlife Clubs of Kenya
- World Bank Resident Mission
- World Conservation Union

7. MEXICO
- Centro de Estudios del Sector Privado para el Desarrollo Sustentable (Cespedes)
- Comisión de Ecología de la Confederación de Camaras Industriales (CONCAMIN)
- Comisión Nacional para el Uso y Conocimiento de la Biodiversidad (CONABIO)
- Conservación Internacional
- Fondo Mexicano para la Conservación de la Naturaleza
- Instituto Nacional de Ecología
- Instituto Nacional de la Pesca
- Organismos Financieros Internacionales, Secretaría de Hacienda y Crédito Publico
- PNUMA
- PNUD
- Pronatura A.C.
- Recursos Naturales y Pesca, Secretaria de Medio Ambiente
- Secretaria de Energía
- Secretaría de Medio Ambiente, Recursos Naturales y Pesca
- Secretaría de Relaciones Exteriores, Dirección General de Cooperación Técnica y Cientifica
- The Nature Conservancy, Mexico Program - Arlington
- The Nature Conservancy

8. POLAND
- Agricultural University Faculty of Forestry, Department of Forest Utilization
- Association for Nature "WOLF"
- Bank for Environmental Protection (BOS)
- Bialowieza Forest Protection Society, Bialowieza
- City of Krakow, Mayor's Office
- District Heating Company, Krakow
- Ecofund
- Food and Agriculture Organization (FAO)
- Foundation for Energy Efficiency, Krakow
- Industrial Chemistry Research Institute, Ozone Layer Protection Unit
- Institute for Environmental Protection
- Institute for Sustainable Development
- Institute of Waste Management
- Lighting Project Implementing Agency – Polish Efficient Lighting Project (PELP)
- Ministry of Economy: Department of Industrial Policy; Department of Multilateral Economic Relations; Ozone Layer Protection Unit
- Ministry of Environmental Protection, Natural Resources and Forestry
- Ministry of Environment (General Directorate of State Forests)
- Ministry of Finance: Foreign Department
- Ministry of Foreign Affairs: Department of UN System
- National Foundation for Environmental Protection
- National Fund for Environmental Protection and Water Management
- Polish Ecological Club, Krakow
- Polish Energy Efficiency Agency
- Polish Environmental Partnership Foundation
- Puszcza Bialowieska, Gruszki
- Social Ecological Institute
- UNDP Poland Country Office
- Voivod Office of Krakow, Environment Protection Department
- World Bank Resident Mission

9. RUSSIA
- Biodiversity Conservation Center
- Institute of Energy Saving and Ecological Problems, Moscow
- March for Parks, NGO
- Ministry of Energy and Fuels: Department on Energy Efficiency; Institute of Energy Saving and Ecological Problems
- Ministry of Science and Technology
- Russian Energy Efficiency Demonstration Zones, Moscow
- Russian Federal Service for Hydrometeorology and Environmental Monitoring
- Socio-Ecological Union
- State Committee of the Russian Federation for Environmental Protection: Centre for Preparation and Implementation of International Projects on Technical Assistance; Ozone Depleting Substances Phase-Out Project Implementation Group
- UNDP Russia Country Office
- World Bank Resident Mission
- WWF Russian Programme Office

10. ZIMBABWE
- Africa 2000/GEF Small Grants Programme
- Biomass User's Network
- Campfire Association
- Chiredzi District Council
- Environment 2000
- Forestry Commission
- GEF Photovoltaics Project Coordination Office
- Glen Forest Training Centre
- Jebesa Pfungwa (NGO)
- Mahenye District Campfire Committee
- Masvingho Provincial Government, Parks Department
- Ministry of Environment
- Ministry of Finance and Economic Planning
- National Parks Department
- Save Valley Conservancy
- The Southern Center
- UNDP Zimbabwe Country Office
- University of Zimbabwe, Center for Applied Social Studies
- World Bank Resident Mission

F. PROJECT SITE VISITS

Country	Project	Focal Area	Date of Visit
Brazil	Biomass Integrated Gasification and Generation Project	Climate Change (Pilot Phase)	7/97
China	Development of Coal-bed Methane Resources Project: Kailuan Coal Mining Administration	Climate Change (Pilot Phase)	7/97
China	Nature Reserves Management Project: Shennongjia Nature Reserve	Biodiversity (GEF I)	7/97
Egypt	Red Sea Coastal and Marine Resource Management: Hurghada	Biodiversity (Pilot Phase)	8/97
India	Alternate Energy (Wind Power) Project: the State of Tamil Nadu	Climate Change (Pilot Phase)	7/97
India	Development of High Rate Biomethanation Processes: Al Kabeer Slaughterhouse	Climate Change (Pilot Phase)	8/97
Indonesia	Indonesia Solar Homes Project: Sudimara Co., Pelabuhan Ratu	Climate Change (GEF I)	8/97
Kenya	Lake Victoria Environmental Management Project: Kisumu	International Waters (GEF I)	8/97
Poland	Forest Biodiversity Protection: Bialowieza Primeval Forest	Biodiversity (Pilot Phase)	7/97
Poland	Coal-to-Gas Project: Jura Housing Corporation & Jura Cooperative in Chestahova, Krakow	Climate Change (Pilot Phase)	7/97
Russia	Biodiversity Conservation: Losiny Ostrov National Park & Prioksko-Terrasny State Biosphere Reserve	Biodiversity (Pilot Phase)	7/97
Russia	Phase-out of Ozone Depleting Substances: Joint Stock Company "Garmonia" (aerosol company)	Ozone Depletion (GEF I)	7/97
Zimbabwe	Biodiversity Conservation in S. E. Zimbabwe: Gonarezhou National Park	Biodiversity (Pilot Phase)	8/97

- Zimbabwe Electricity Supply Authority (ZESA)
- Zimbabwe Energy Research Organization (ZERO)
- Zimbabwe Women's Bureau

G. "DESK" STUDY COUNTRIES

1. ARGENTINA
- Ministerio de Relaciones Exteriores, Secretaría de Relaciones Exteriores y Asuntos Latinoamericanos, Dirección de Cooperación Internacional (Ministry of Foreign Relations and Latin American Affairs Secretary, International Cooperation Direction)
- Secretaría de Energía, Ministerio de Economía de la Nación (Secretariat of Energy, Ministry of Economy of the Nation)
- Consejo Nacional de Investigaciones Científicas y Técnicas (CONICET) - Atmosphere Sciences Department, Universidad de Buenos Aires (UBA)
- GEF Biodiversity Enabling Activity Coordination Unit
- Dirección Nacional de Fortalecimiento Institucional, Secretaría de Recursos Naturales y Desarrollo Sustentable de la Nación
- Natural Resources and Sustainable Development National Secretariat
- National Parks Administration
- National Institute of Agropecuarian Technology (INTA)
- GEF PDF project - Conservation of Biodiversity in Threatened Ecosystems
- UNDP Country Office
- Asociación Ornitológica del Plata
- Fundación Vida Silvestre
- Fundación Recursos Naturales y Medio Ambiente
- Fundación Patagonia Natural

2. COSTA RICA
- Ministerio de Ambiente y Energía
- Wildlife Conservation Society
- Fundación de Parques Nacionales
- PNUD
- Instituto Nacional de Biodiversidad
- Instituto Meteorologico Nacional
- Superior Direction of Cooperation and International Affairs
- Fundecooperación

3. CôTE D'IVOIRE
- Ministry of the Environment
- Deputy Director of the Environment and Focal Point, Convention on Biodiversity Focal Point
- Technical Advisor to the Minister of the Environment and Focal Point, Convention on Climate Change
- Programme Cadre de Géstion des Aires Protégés
- Gulf of Guinea - Large Marine Ecosystem Project Office
- GEF Small Grants Programme (IVC/93/G51)
- UNDP Côte d'Ivoire Country Office
- Community-Based Natural Resource and Wildlife Management Project
- Environment Impact Assessment Unit, Ministry of the Environment
- Agence Africaine d'Assistance pour l'Environnement et le Développement (NGO)
- Projet Efficacité Energétique dans les Bâtiments
- Projet de Lutte contre les Végétaux Acquatiques Envahissants Les Plans d'Eau pour Améliorer la Diversité Biologique
- Groupement d'Intérêt Economique des Femmes de Bezibozouzoua(NGO)
- Côte d'Ivoire Ecologie (NGO)
- NEAP Technical Advisor
- Project Manager - Elevage de la Faune Sauvage et Culture des Champignons

4. JORDAN
- Project Manager: Azraq Oasis Conservation Project
- GEF National Focal Point, Ministry of Planning
- Royal Society for the Conservation of Nature (RSCN)
- Jordan Biogas Company
- Friends of Environment Society
- Jordan Biogas Project
- GEF Small Grants Program National Coordinator

- University of Jordan, Jordan Country Biodiversity Study Office
- Project Coordinator, Climate Change Project
- Royal Society for the Conservation of Nature (RSCN)
- General Corporation for Environment Protection (GCEP)

5. PHILIPPINES

- Conservation of Priority Protected Areas (CPPAP), Protected Areas and Wildlife Bureau
- CPPAP, Ninoy Aquino Protected Area Wildlife and Nature Center
- Kitanglad Integrated NGOs (Host NGO)
- CPPAP Mt. Kitanglad Range National Park, Provincial ENR Office
- Leyte-Luzon Geothermal Project
- PNOC-Energy Development Corporation
- Regional Progamme for the Prevention and Management of Marine Pollution in the East Asian Seas
- Environmental Management Bureau
- Environmental Protection and Monitoring Division, Department of Energy
- Protected Areas and Wildlife Bureau, Ninoy Aquino Protected Area and Wildlife Nature Center
- Philippine Sustainable Development Network (NGO)
- Foundation for the Philippine Environment
- NGOs for Integrated Protected Areas, Inc.
- UNDP Philippines Country Office

6. VIETNAM

- Policy Division, NEA (National Focal Point)
- UNDP Vietnam Country Office
- Institute of Meteorology and Hydrology
- Conservation and Environment Division, Forest Protection Department
- Ministry of Agriculture & Rural Development
- Ministry of Industry: Energy Institute
- Ministry of Planning and Investment: Foreign Economic Relations Department
- WWF Indochina Programme
- Department of Zoology, Institute of Ecology and Biological Resources
- Cuc Phuong Training Center
- Energy Economics Division