

GLOBAL
ENVIRONMENT
FACILITY

THE PROJECT DEVELOPMENT AND
PREPARATION FACILITY (PDF)

GEF Council Meeting
Washington, D.C.
February 22 - 24, 1995

RECOMMENDED DRAFT COUNCIL DECISION

The Council is invited to review this document and to consider adopting the following decision:

The Council reviewed *The Project Development and Preparation Facility (PDF)*, document GEF/C.3/6, and approved the policies on eligibility for, and use of, PDF resources presented therein. The Council invites the Secretariat to make the PDF fully operational as soon as possible.

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I. INTRODUCTION

1. The second Council meeting, November 1-3, 1994, reviewed document GEF/C.2/3, *Proposed GEF Project Cycle*, and requested that the paper be revised taking into account Members' comments and submitted for approval to the fourth Council Meeting (May 1995). With respect to the Project Development Facility (PDF), the Council agreed that it should be established with an initial allocation of \$15 million. However, the Council requested for its third meeting (February 1995) a note further elaborating: (i) the criteria that would help guide the selection of projects for PDF financing; (ii) the approach that would be taken to monitor resource allocation and deployment including reporting requirements; and (iii) Implementing Agencies' best practice on project preparation funding. It was agreed that no Block C funds would be committed until the Council had reviewed the requested note at its third meeting.

2. This document addresses the Council's request for more information on the PDF. It first reviews the project preparation experience of the Pilot Phase, including recommendations made by the Independent Evaluation¹. It outlines a long term strategy to ensure that PDF funds will be used in support of national and local priority programs and projects. It also proposes a set of criteria to guide the allocation of PDF resources during 1995. Finally, it reviews reporting and monitoring requirements of the PDF.

II. PROJECT PREPARATION DURING THE PILOT PHASE

3. During the Pilot Phase, project preparation was funded from a variety of funding sources, including two parallel project preparation facilities established under the GEF and the administrative budgets of the Implementing Agencies.² UNDP first established a Pre-Investment Facility (PRIF) to provide funding for larger scale projects, many of which were proposed investment projects. In April 1992, the World Bank established its own facility, the Project Preparation Advances (PPA), to fund the development of its investment projects. Some \$34 million was committed to project preparation under these two parallel project preparation facilities.

4. The Evaluation³ reviewed project preparation in the Pilot Phase. Key issues identified in the Evaluation include:

- (a) the need for clear terminology to distinguish project preparation activities from project implementation;
- (b) the need to consolidate the two project preparation schemes into one and to ensure greater degrees of inter-agency coordination in their planning and execution;
- (c) improved levels of scrutiny of proposals;

¹ Global Environment Facility: Independent Evaluation of the Pilot Phase. ISBN: 0-8213-2812-3. May 1994.

² For example, under its administrative budget, UNDP funded approximately \$6.9 million in project preparation activities under an internal GEF project development agreement. These funds were used to prepare approximately 55 projects in the GEF portfolio.

³ See especially Chapter 8.

- (d) a greater degree of accountability for the drawdown of GEF funds; and
- (e) the issuance of guidelines to determine eligible expenditure items, funding ceilings for activities, and information requirements.

An analysis of the Pilot Phase experience, including more detailed conclusions of the Evaluation, is presented in Annex A to this document.

III. THE PDF AND ITS ROLE IN THE PROJECT CYCLE

5. The PDF, once fully operational, must address the project preparation weaknesses identified in the Evaluation Report. The revised paper on the Project Cycle (to be considered at the May 1995 Council meeting) will include a proposed plan of action for developing a truly country-driven Project Cycle which ensures that, over the long term, project concepts and activities developed and funded under the PDF will emanate from the country and be tied closely to country plans and priorities. Specifically, the proposal will include:

- (a) the introduction of a "GEF Country Account" which will provide "on-line" information regarding all forms of GEF expenditures incurred by, for or on-behalf of, a country;
- (b) a recommendation to encourage the formation of GEF national contact groups and identification of a GEF national focal point that will act as the principal contact point for all Implementing Agency activities in country, provide feedback on GEF activities, review project ideas and concepts, facilitate broad based as well as project-related consultation, and facilitate national interagency discussions on issues of substantive interest to the GEF. Where necessary, an in-country representative of the three Implementing Agencies, identified by agreement of the agencies, could be requested to promote and facilitate the identification and activities of the national focal point;
- (c) the utilization of in-country preparatory resources not only to prepare specific projects and/or programs but also to assist recipient countries to understand GEF policies and procedures and to encourage national consultations and information seminars on the GEF;
- (d) an elaboration of "country driven" indicators⁴; and
- (e) an elaboration of the operation, management and monitoring of the Project Cycle and the PDF including detailed reporting procedures.

⁴ The term country driven "indicators" was used in the Project Cycle paper (Doc: GEF/C.2/3). Several Council Members have noted that it is perhaps not precisely what is needed. Rather what is required is a checklist which would provide Council with sufficient information on the extent to which a particular project proposed for GEF funding could be considered "country driven". The checklist could, for example, include: the level and commitment of the host government in endorsing the project; an assessment of how the particular activity complements national plans and strategies; level of national ownership in the proposed project; or level of local and national participatory project development involvement of NGOs, community groups and other stakeholders in the identification of project concepts.

6. Where feasible, the PDF would normally complement other sources of finance for project preparation: World Bank loans, UNDP technical assistance grants, bilateral finance, GEF project funds⁵ and private finance. GEF project preparation resources should be allocated on an incremental cost basis; that is, in proportion to the likely level of project preparation costs financed by the non-incremental financier. Recourse to PDF funds is optional -- there may be many cases where PDF funds are not required or where the level of project preparation is sufficiently advanced to propose the project for inclusion in the GEF work program.

IV. INTERIM GUIDANCE FOR THE PDF

7. The main concerns expressed by Council members with respect to the start up of the PDF revolve around a number of issues:

- (a) cost containment in light of increased demands for such resources and the objective of "casting the net widely" for project and program ideas;
- (b) clarification as to what will constitute eligible expenditures and assurances that PDF resources will be utilized for the purposes intended;
- (c) screening criteria and mechanisms to ensure both quality and relevance and to provide for essential levels of consultation;
- (d) requirements for transparent and accountable reporting that would provide a clear understanding of projects and programs under preparation;
- (e) the level of ceilings proposed for the PDF's funding through blocks B and C, respectively, especially given the view that some level of project sponsor cost-sharing is appropriate; and
- (f) the requirements for providing a safeguard against PDF resources being used to substitute for administrative costs.

8. This section provides a summary of:

- (a) PDF organization;
- (b) criteria and screening mechanisms for access to funds and the role of the Implementing Agencies;
- (c) eligible expenditure items under the PDF;

⁵ For example, it would be possible to include a project preparation component in a GEF project if a follow up project appeared justified.

- (d) mechanisms by which countries and other potential project sponsors will be informed of opportunities to submit applications for funding under the PDF;
- (e) reporting and monitoring of resource use, including reporting to Council; and
- (f) evaluation of the PDF.

Organizational Arrangements

9. Under the direction of the CEO, the GEF Operations Committee (GEFOP) will play a central role in the PDF. The GEFOP will meet approximately every month and will review submissions for PDF funding under Blocks B and C, and it will conduct regular periodic reviews of the use of Block A funds⁶. Each submission must be sponsored by an Implementing Agency which will have responsibility for pre-screening and explaining proposals. GEFOP will assess the relative priority of submissions on the basis of: (i) country eligibility; (ii) strategic and technical priority; and (iii) portfolio considerations. Simple proforma will be developed and a prospectus prepared for access to funds. Subsequent applications for additional PDF funds may be submitted with regard to an already-funded proposal, if warranted. The same approval process as that followed for the original application would need to be followed. In no circumstances would the total cost for any one project exceed the ceilings approved by the Council.

10. Once approved, the particular Implementing Agency will be responsible for allocating and disbursing funds and monitoring the work in much the same manner as in the pilot phase. The administrative and supervision costs of the Implementing Agency will be borne by its administrative budget. Each Implementing Agency will follow its own established procedures in managing PDF resources. Annexes B and C include the current regular procedures followed by the World Bank and UNDP, respectively.

11. At least annually (and more often if required) the Implementing Agencies will meet with the Secretariat to determine an indicative requirement of PDF resources. Such a meeting will also allow a greater level of coordination between the Implementing Agencies at an early stage in the Project Cycle, will minimize duplication in work program development, and will provide an opportunity to ensure that future projects fit within an overall long term GEF operational strategy. In addition, reviewing proposed project ideas at an early stage may also help to identify priority activities not addressed by the Implementing Agencies.

12. A data base will be maintained for all PDF applications including those that are (i) rejected by an Implementing Agency as not suitable for further development, or (ii) rejected by GEFOP for funding. Project applicants will be notified by the individual Implementing Agency. Records will be maintained which will indicate the reasons for rejection, deferral or acceptance of particular proposals. For those projects cleared by GEFOP a more elaborate monitoring and reporting system will be introduced. Summary data would be provided in the GEF Annual Report, and descriptions of project proposals receiving PDF funding will be available upon request.

⁶ The GEFOP will include representatives of the three Implementing Agencies; the Secretariat; the chair of the GEF's Scientific and Technical Panel (STAP); and, where appropriate, representatives of the Convention on Biological Diversity or the Framework Convention on Climate Change.

Criteria for access to PDF funds

13. Each Implementing Agency will be responsible for ensuring that the criteria outlined in this document are complied with in requesting and disbursing PDF Funds.
14. The generic criteria for access to funds would be:
- (a) Focal area -- the proposed activity must fall within one or more of the four focal areas of the GEF as provided in paragraphs 2 and 3 of the *Instrument for the Establishment of the Restructured GEF* (the Instrument);
 - (b) country eligibility -- the proposed GEF funds must be utilized in a country or countries that are eligible to receive grants from the GEF as provided in Paragraph 9 of the Instrument; and
 - (c) GEF operational strategy -- the proposed request must conform to the strategic and operational priorities of the GEF's operational strategy as approved by the Council, which will include the policies, strategies and program priorities approved by the Convention on Biological Diversity and the Framework Convention on Climate Change. The Secretariat will occasionally circulate Operational Guidance (OPG) on particular aspects of the approved strategy, when needed.

Screening of Projects

15. The Secretariat will periodically (at a maximum quarterly) provide the Implementing Agencies with any additional criteria for purposes of screening proposals. Such information could be based on: (i) new policies adopted by the Council or the conventions; (ii) portfolio considerations (e.g., where a particular technology was already well represented in the portfolio); (iii) evaluation considerations (e.g., when a particular technology has not worked or where a particular aspect of project preparation has not been given sufficient attention such as local consultation); (iv) changes in science or technologies suggesting new approaches; or (v) shifts in operational strategies and/or priorities which indicate new areas of emphasis. This, together with the annual indicative planning exercise noted in paragraph 11, should provide for a well coordinated and strategically relevant portfolio of project preparation activities.

Eligible Expenditures

16. The PDF has three broad blocks of project preparation resources, each with a ceiling for funding.⁷ The objectives of providing a stepwise and coordinated approach to project preparation are to ensure:

- (a) the continuous review of quality;
- (b) that small amounts of funds are utilized carefully for promising but essentially high risk ventures in a first stage without unnecessarily committing large resources;

⁷ The proposed ceilings are \$50,000 for Block A; \$350,000 for Block B and \$1 million for Block C.

- (c) that critical components in the project preparatory process have been met prior to larger funding commitments. Thus, for example, early consultations in country would, for many projects, be a necessary precursor to developing the technical aspects of the project. Funds would also be assured for local consultation and/or participation in the early stages of project design;
- (d) that funding increases for project preparation in parallel with increases in the likelihood that the project will be included in the work program for approval by Council; and
- (e) that smaller project sponsors are not excluded by believing that the thresholds are only intended for developing large projects⁸

17. It will be important to maintain a flexible and pragmatic approach to project development. Project ideas may emanate from any number of sources: governments, NGOs, private companies, Implementing Agency task managers, or executing agencies. Furthermore, the commitment to a country driven approach to program formulation suggests that the majority of PDF funds should be closely aligned to national plans and strategies. Providing modest funding in a speedy, non-bureaucratic and flexible manner could facilitate considerable innovation and early consultation among a wide range of interested parties.

18. Given the above considerations this section identifies key eligible expenditures in each Block of funding and the likely range of outputs that could be anticipated.

Block A -- Ceiling \$50,000

19. Generally, Block A funds would be used at the very early stages of project or program identification and for pre-project activities at the national level, including the costs of consultations and in-country work examining options for program and project ideas. Block A funds could cover in-country expenditures with the general understanding that the operational costs involved by staff of the Implementing Agencies would be covered by their administrative budgets. Block A funds would, therefore, normally be used for:

- (a) an examination and national discussion of various options and/or strategies to meet key GEF objectives;
- (b) initiating and planning of tasks for convention-related enabling activities; and
- (c) the development of specific project concepts leading to the preparation of an initial project brief or a draft project document.

20. Funding would cover:

- (a) local consultations, national hearings, and/or workshops to inform about GEF purposes and procedures or to discuss specific project and/or program ideas, including translation

⁸ A common and recurrent theme during many consultations with NGOs and others engaged in GEF activities, in particular in biodiversity protection work, is that projects are too large and cumbersome and that small amounts of "seed money" correctly managed can have a relatively large impact.

into local languages where appropriate and the preparation of background papers that could facilitate discussion;

- (b) travel costs for local experts to visit neighboring countries for consultations and discussions on potential transboundary projects;
- (c) local workshops to discuss a project concept and provide a platform for divergent views on its efficacy;
- (d) consultancies to develop program and/or project options, including the preparation of terms of reference for feasibility studies, strategy papers and, where possible, the preparation of such papers;⁹
- (e) scientific, technical and environmental reviews of proposed projects to ensure that they warrant further consideration;¹⁰ and
- (f) costs of external expertise, as appropriate.

21. For funding at the national level, a government would, through its GEF focal point (if identified), endorse all expenditures. In addition to government institutions, NGOs, private sector and other groups would be encouraged to submit project ideas. Given the relatively low ceiling for Block A grants, no assessment would normally be conducted with respect to incremental costs. However, project sponsors would be encouraged, where possible, to provide some level of self-finance or cofinancing, including in-kind contributions.

22. Pending the identification of GEF national focal points, Block A funds would be allocated through Implementing Agencies on an annual basis. A strategy would be developed with the Implementing Agencies to facilitate the identification of GEF focal points which eventually would be expected to coordinate such funds (see paragraph 5(b)).

23. Approval of individual Block A grants would rest with the Implementing Agency in conjunction with the national government. Individual requests would not come to GEFOP or the Secretariat for approval. Each Implementing Agency would be responsible for ensuring that submissions were for eligible activities and corresponded to the strategic and operational priorities of the GEF. The Implementing Agency would also screen requests to ensure that appropriate levels of funding were being proposed. Information on each Block A activity would be provided on a one page summary sheet and would be registered with the Secretariat at the time of approval. The Information sheet would include information on a basic project description, executing agency, expected outputs, and budget amounts. At its discretion, the Secretariat could offer comments to the Implementing Agency. Each quarter the GEFOP would review the coverage and direction of Block A funded activities and make recommendations on their content and direction.

⁹ See paragraph 34(a) which describes circumstances under which travel and subsistence of Implementing Agency staff could be financed by PDF resources.

¹⁰ The required external review by an expert from the STAP roster would continue to be funded out of the administrative budgets of the Implementing Agencies.

24. Outputs of Block A could include: (i) preliminary/initial project briefs with sufficient analysis to justify submission for further PDF funding; (ii) information sufficient to allow the preparation of a draft project document for submission to the Council; (iii) assessment of technical, scientific, environmental and economic feasibility of the proposed activity including its relevance for future funding; (iv) preparation of specific documents such as terms of reference for further feasibility work or enabling activities, short strategic notes on programs and policies designed to facilitate in-country discussion, sectoral strategy notes or issues and options papers designed to facilitate informed decision-making in-country; and (v) documentation of in-country consultations on GEF programs and potential project options.

Block B -- Ceiling \$350,000

25. Block B grants would be considered for project/program proposals which are already clearly identified. Proposals would be expected to clearly fit into the GEF's operational strategy and be considered technically, scientifically and environmentally feasible. Grants would support tasks associated with the completion of project/program preparation leading up to approval by the Council and subsequent appraisal.

26. Block B funds would normally be used:

- (a) to provide information necessary for the preparation of GEF project submissions including pre-feasibility, feasibility, basic costing, technical and scientific design parameters, and the development of a financing plan, including an assessment of the incremental costs;
- (b) for in-country preparation of the project, including project workshops, consultation with interested parties and stakeholders, and local participation, where warranted, in project design; and
- (c) for national and/or sectoral preparatory work required for the design of the proposed GEF activity. This could include assistance in preparing sectoral plans and programs (such as energy, industry, or agriculture) which have a direct bearing on project design; national policy analysis; and inventories and data analysis in support of the proposed project.

27. Each Block B funding proposal would be submitted by an Implementing Agency to the Secretariat for consideration by the GEFOP. The GEFOP would recommend to the CEO an allocation of funds. A brief proposal (2 pages in standardized format) for Block B funding would be required. It would include:

- (a) a brief description of the project, its objectives and justification with respect to the GEF's operational strategy;
- (b) a summary of the recipient's commitment to undertake the project, an identification of the key stakeholders, and a summary of the level and nature of national level consultations which have taken place or are planned;

- (c) a summary of the project's history and its relationship to the relevant global environmental convention(s), the recipient's national strategies and plans, its relationship to the Implementing Agency's country assistance strategy and, where appropriate, any related GEF project; and
- (d) a summary of the financing plan where other financiers are providing funds.

28. Where the final project is expected to be cofunded -- with the Implementing Agency's regular assistance program or with other external sources of finance -- the request for PDF funds should be accompanied by a statement showing the level of preparatory funding committed by the cofunder. The proposed cost sharing would be reviewed by the GEFOP.

29. Block B funding should normally be sufficient to cover the costs of project preparation and provide the necessary information to complete project appraisal and prepare the documentation for project approval.

Block C -- Ceiling \$1 million

30. Access to funds under Block C would normally be limited for those projects which:

- (a) have been approved by Council but require more detailed technical design work;
- (b) are large scale, normally infrastructure, projects which require considerable technical design and engineering feasibility work; and
- (c) where all pre-conditions of project preparation have been met including national consultations, technical and engineering pre-feasibility work, and country commitment.

31. To request Block C funds, an Implementing Agency should submit a request to the Secretariat that includes: (i) an explanation of project preparation resources (PDF or other) that have already been utilized; (ii) justification for the requested resources; (iii) a financing plan for use of Block C funds; and (iv) a description of, and schedule for, outputs.

32. It is expected that Block C funding would be used on a limited scale. In many cases, such as where it is needed for engineering design and detailed feasibility work (e.g., final engineering design parameters) the Council is likely to have already approved the project following inclusion in an approved work program¹¹. In those cases where Block C funds are requested for a project that has not yet been approved by the Council, the request for funds would be submitted to GEFOP for more detailed review. GEFOP would recommend to the CEO an allocation of funds. Given the Council's concern with respect to the \$1 million ceiling for Block C, it is proposed that the CEO's authority for approving Block C funds would be limited to amounts up to \$750,000 (the average size of the Pilot Phase PRIFs). In those instances where additional preparatory resources are required in excess of \$750,000 (but below \$1 million) the CEO would consult with the Council before approval.

¹¹ Given the lag time between approval by Council of a GEF work program and final approval of the project by the Implementing Agency it may be quite reasonable for project preparation to continue beyond work program approval.

V. REGIONAL AND GLOBAL PROJECTS

33. The above discussion addresses the preparation of national projects. Not all PDF resources will be used for country level activities. Funds may also be required for regional and global programs. Additional criteria will apply to proposals to develop regional and global projects as follows:

- (a) there must be evidence of widespread support of the eligible recipient countries to be included in the regional or global activity;
- (b) funding should be provided for in-country costs in eligible recipient countries, including national or regional institutions in eligible recipient countries, and travel and subsistence costs of recipient country experts to consultations associated with the development of a regional or global program; and
- (c) no resources should be provided to support the regular staff or regular program activities of an Implementing Agency or an executing agency.

VI. INELIGIBLE EXPENDITURE ITEMS

34. Normally, the following items would not be eligible for PDF funding:

- (a) the costs associated with the work of specialized Implementing Agency staff or consultants retained by an Implementing Agency needed for a particular task (over and above those covered by administrative budgets) unless, on an exceptional basis, a country¹² requests a particular staff member or Implementing Agency consultant by name. In these latter circumstances, travel and subsistence costs could be covered;
- (b) non-project preparation costs including: project start up costs; demonstration and pilot projects; the implementation of large scale enabling activities including detailed country-wide inventories and country studies; training activities other than where they are directly related to project and/or country preparation; and major research¹³;
- (c) capital goods other than those directly required for project preparation, such as computers and engineering equipment; and
- (d) goods and services that can be procured through funding channels other than the GEF.

¹² Such request may also be made by a national or regional institution.

¹³ However, preparatory work which tested out analytical methods to determine their appropriateness, preparation of terms of reference or work plans to execute country programs would qualify.

VII. INFORMATION ON PDF

35. An important aspect of "casting the net widely" lies in ensuring that clear and concise information on GEF activities is made available to potential interested parties in, and outside of, government. The Secretariat has prepared an information presentation which provides general information on the GEF. It is currently being tested in a number of countries. UNDP has been working with the other Implementing Agencies to prepare material to facilitate in-country project preparation. In addition, the Secretariat will prepare a GEF prospectus to guide the preparation of potential GEF projects, including procedures under the PDF. The prospectus will be based on the procedures described in this document and will provide a summary of basic GEF criteria, guidance on information requirements from project proposers, and procedures for registering submissions. It will be finalized as soon as the Council approves these procedures.

36. The prospectus will be disseminated widely through a number of outlets including:

- (a) the regular publications and office outlets of the Implementing Agencies, including their headquarters, regional and national field offices;
- (b) Council Members, Alternates and national GEF focal points. For recipient countries it would be possible to provide PDF funds (Block A) for translation, printing and dissemination within country;
- (c) NGO networks and NGOs accredited to the GEF; and
- (d) electronic networks including the Worldwide Web (WWWEB).

VIII. REPORTING

37. The Implementing Agencies and the Secretariat will maintain reports on all PDF activities including:

- (a) basic information on all PDF submissions (see paragraph 12);
- (b) financial data on commitments and expenditures; and
- (c) GEFOP records on status of PDF applications.

38. A consolidated annual report on the PDF will be prepared by the Secretariat with highlights included in the GEF Annual Report. In addition, Implementing Agencies will provide a report on the activities of the PDF in all project proposals where PDF resources have been used. PDF funds utilized for the preparation of a project will be counted as part of the total GEF funding for the project.

IX. MONITORING AND EVALUATION

39. One of the lessons of the Independent Evaluation is that more oversight is required in the project preparation phase of the GEF. A paper on Monitoring and Evaluation is to be prepared for the fifth Council meeting. That paper will include recommendations for monitoring and evaluating the PDF. In any case, given that the PDF is a new feature of the GEF, it is appropriate that a careful evaluation be made at the end of its first year of operation. This evaluation would be submitted to the Council for consideration. In addition, the Secretariat could consider hosting a Council seminar on the implementation of the PDF sometime during its first year of operation.

X. CONCLUSION

40. Considerable flexibility will be required in the implementation of the PDF. It is new, and it attempts to rectify some of the weaknesses identified by the Evaluation. Its success will also require a coordinated response from the Implementing Agencies. The proposed design of the PDF should ameliorate a number of the weaknesses of the Pilot Phase (see Annex A) although a number of issues will have to be kept under close scrutiny in the first year of its operation. These include:

- (a) the mechanisms by which national level involvement takes place;
- (b) the planning and screening of proposals to ensure quality and relevance to GEF objectives and strategy;
- (c) the level of funds provided for project preparation; and
- (d) the extent to which unsolicited proposals are dealt with in an effective and efficient manner including an assessment of the effectiveness of the Implementing Agencies in "casting the net" widely for project ideas.

	BLOCK A	BLOCK B	BLOCK C
CEILING:	\$50,000	\$350,000	\$1 million
OBJECTIVE:	To make funds available at very early stages of project or program identification for pre-project activities at the national level and to inform and help prepare countries for GEF activities.	To provide information necessary to complete project proposals and necessary supporting documentation.	To provide additional financing where required for large scale projects to complete technical design and feasibility work. Normally funds will be made available after Council has approved project proposal.
APPROVAL:	Implementing Agency	CEO taking into account recommendations of GEFOP.	<p>1. If Council has approved project, by CEO taking into account recommendations of GEFOP.</p> <p>2. If Council has not approved project proposal, taking into account: recommendations of GEFOP (a) by CEO up to \$750,000 (b) by CEO in consultation with the Council for funds between \$750,000 and \$1 million.</p>
ENDORSEMENT:	National Focal Point	National Focal Point	National Focal Point
DOCUMENT:	Information Sheet including basic project description, executing agency, expected outputs, and budget.	2-page proposal including: project description, objectives and justification in view of GEF operational strategy; summary of recipient's commitment; identification of key stakeholders; level and nature of national-level consultations; relationships to conventions, national strategies and plans, and Implementing Agency country assistance; and preliminary financing plan.	PDF proposal including: (i) an explanation of project preparation resources (PDF or other) that have already been utilized; (ii) justification for the requested resources; (iii) a financing plan for use of Block C funds; and (iv) a description of, and schedule for, outputs.
REVIEW OF FUNDS USE:	Information sheet to be submitted to the Secretariat for its information and record keeping. Each quarter GEFOP to review coverage, direction and eligibility of Block A funded activities and to make recommendations on their content and direction.	Report on how funds were used to be submitted to Council together with project proposal that is prepared with PDF resources.	Report on how funds were used to be submitted to Council.
OUTPUTS:	Information necessary to prepare a preliminary initial project brief or draft project document; scientific, technical and environmental and economic assessments; documentation on in-country consultations;	Final project appraisal and supporting documentation and information required for preparing project documentation for approval.	Technical Design and Feasibility Reports, Engineering designs and projects.

PROJECT PREPARATION DURING THE PILOT PHASE

1. During the Pilot Phase, project preparation was funded from a variety of funding sources, including two parallel project preparation facilities established under the GEF and the administrative budgets of the Implementing Agencies.
2. Under its administrative budget, UNDP funded the preparation of 55 technical assistance projects at a cost of \$6.9 million from the UNDP administrative budget. For each of the 55 approved projects, on average, 2 to 4 proposals were not accepted. The average cost of preparing these 55 projects was between \$25,000 and \$125,000 per project.
3. The following is specifically concerned with the Pilot Phase experience of the two project preparation facilities. UNDP first established a Pre-Investment Facility (PRIF) to provide funding for larger scale projects, many of which were preparation for investment projects. In April 1992, the World Bank established its own facility, the Project Preparation Advances (PPA) to fund the development of its investment projects. Some \$34 million was committed to project preparation under these two parallel project preparation facilities (UNDP's PRIF and the World Bank's PPA). There was a total of 57 projects: 28 projects under UNDP (including one managed by UNEP) and 29 projects under the World Bank. As of September 1994 approximately \$12 million of the \$34 million had been disbursed. The overall average size of project preparation grants was \$580,000 with UNDP's PRIFs at \$750,000 and the World Bank's PPAs at \$420,000. The actual project preparation activities ranged from a low of \$100,000 to a high of \$2.5 million.
4. It is difficult to assess the impact of project preparation activities on the development of follow up GEF projects. Since only one third of the funds allocated have been disbursed and very few PPAs/PRIFs have been completed, it is not surprising that only a small proportion have resulted in follow up project submissions. At the first GEFOP meeting, four project submissions could be traced back to GEF-financed project preparation work. Obviously, over time it is reasonable to expect a larger number of projects to be derived directly from GEF project preparation financing.
5. Another observation relates to the overall size of project preparation funds allocated to individual projects. The average size seems large given the nature of many of the projects included in the pilot phase. Some PRIF/PPA activities cost close to, or exceed, \$2 million. It is also interesting to note that the average level of funds allocated is larger for technical assistance projects than for investment projects, especially when compared with the average size of such projects as endorsed by the Participants (technical assistance: \$4.7 million and investment: \$8.5 million)¹⁴.

¹⁴ Two caveats should be kept in mind when analyzing such aggregate numbers. The first is that the figures relate to the size of the GEF grant rather than the size of the project which may include non-incremental financing. However, about half of the World Bank's GEF projects and almost all of UNDP and UNEP's GEF projects are stand-alone projects in the Pilot Phase. Secondly, it is possible that the PPA/PRIF funds are currently being used to prepare projects whose average size will be significantly larger than those of the Pilot Phase. For information, the average size of GEF grants during the Pilot Phase is as follows: Climate Change: \$ 6.3 million; Biodiversity: \$5.6 million; International Waters: \$9.96 million; Total portfolio: \$6.26 million. The average size of Technical Assistance grants is \$ 4.7 million and \$ 8.5

6. Ideally, GEF project preparation resources should be allocated on an incremental cost basis; that is, in proportion to the likely level of project preparation costs financed by the non-incremental financier. It is not clear if this approach was adopted in the Pilot Phase and it is likely that GEF preparatory resources were used more typically to cover the total costs of project preparation. In the future it would be wise to ensure some level of cost sharing in the preparation of projects.

7. Considering the proposed financing ceilings for the three blocks of the PDF¹⁵, the majority of projects under the PPA/PRIF would have been included in Block C. Of the 57 projects under the Pilot Phase, 2 would have received only Block A funds; 24 would have risen to Block B; and 31 would have required Block C funding. Indeed, some 8 projects would have exceeded the proposed ceiling for Block C¹⁶. The low number of activities with only Block A equivalence is likely due to the fact that for projects requiring a smaller level of preparatory expenditures the Implementing Agencies used funds from their administrative budget.

8. Project preparation activities were normally noted in the Chairman's Report submitted to Participants during the Pilot Phase but no substantive documentation was provided by the Implementing Agencies. Project preparation costs were rarely scrutinized at the Implementation Committee of the Pilot Phase.

9. The Evaluation¹⁷ reviewed project preparation in the Pilot Phase. Its conclusions are provided in Attachment One. Key issues identified in the Evaluation include:

- (a) the need for clear terminology to distinguish project preparation activities from project implementation;
- (b) the need to consolidate the two project preparation schemes into one and to ensure greater degrees of inter-agency coordination in their planning and execution;
- (c) improved levels of scrutiny of proposals;
- (d) a greater degree of accountability for the drawdown of GEF funds; and
- (e) the issuance of guidelines to determine eligible expenditure items, funding ceilings for activities, and information requirements.

10. In particular, the Evaluation noted that project preparation funds appear to have been utilized for a broader range of activities than the preparation and design of future project proposals. The Evaluation noted that funds had been used "...to finance a smorgasbord of GEF activities,... including pilot projects

million for Investment grants.

¹⁵ Block A: \$50,000; Block B: \$350,000; Block C: \$1,000,000.

¹⁶ The ceiling for Block C is \$1,000,000. However, since project preparation financing could be done in steps progressively increasing in each Block, the maximum resources under the PDF for any given project preparation activity would be \$1.4 million. Even this figure would have been reached or exceeded in five cases under the Pilot Phase.

¹⁷ see especially Chapter 8.

and start-up activities of projects". The need to establish clear guidelines as to what qualifies as project preparation is an urgent priority.

11. The Evaluation also noted that GEF funds approved for administrative costs were used for project development work. This is also borne out by the analysis currently underway (see document GEF/C.3/4) of proposed Implementing Agency budgets which request resources for preparation, economic and sector work, and technical assistance as well as policy and technical work which would assist in project preparation. Providing clear guidance on eligible expenditures both for administrative purposes as well as for project preparation is required.

12. An important issue related to project preparation is the role that "consultation" and "participation" of those outside of project sponsors should play early in the Project Cycle. The Evaluation suggests that, during the Pilot Phase, this played a perfunctory role. It noted that: (i) the pressure to produce projects quickly may have resulted in insufficient attention to consultations; and (ii) more time and modest funding for such activities early in the Project Cycle would be needed. This is an important conclusion with respect to the future operation of the Project Development Facility (PDF).

13. The concept of "country driven" is also closely linked to participation and consultation. The Evaluation noted that the identification of project concepts had been dominated by Implementing Agency interests in order to ensure a rapid buildup of the GEF portfolio. It stressed that there was a need to "ensure that countries are the main initiators of project proposals that correspond to both GEF requirements and their own national priorities". In the Project Cycle paper it is recommended that a number of "country driven" indicators might aid in the screening of project proposals to assess the level of country commitment.

**GEF: INDEPENDENT EVALUATION OF THE PILOT PHASE
FINDINGS ON GEF PRE-INVESTMENT FACILITIES¹⁸**

The Enabling Memorandum recognized that "many of the activities tentatively identified will require upstream work to establish their technical feasibility." Because of "its experience in the management of...pre-investment assistance," UNDP was assigned the responsibility for coordinating the financing of GEF pre-investment work, with a ceiling of US\$2.5 million for individual activities (see Chapter 3).

The UNDP review system for the PRIFs has been similar to the one used for regular GEF projects. After a PRIF concept has received clearance, the Activity Initiation Brief is drawn up justifying the pre-investment activity. The Brief is reviewed by the in-country PAC and then forwarded up the line for Headquarters' approval. A review of the GEF experience with the PRIF reveals the need for an overhaul of the apparatus. In the first place, the GEF terminology used to characterize PRIF efforts has become increasingly imprecise and confusing. The UNDP Operations Memorandum referred to PRIF funding being authorized "for studies intended to lead to investment or large/complex Technical Assistance proposals, for which the outcome (that is, the feasibility) has not been assured."

In practice, the PRIF has been used to finance a smorgasbord of GEF activities. In addition to financing straightforward pre-investment activities, PRIF funding has been used to finance (a) the design of program-level frame-works for in-country GEF activities; (b) the design of projects and attendant agreements; (c) pilot activities designed to test a project approach on a small scale, with the parent project becoming a large replication of the pilot scheme; and (d) start-up activities for projects.

The UNDP-administered PRIF was weakened early in the GEF pilot phase by the inability of UNDP and the World Bank to agree on modalities for the PRIF approval process. The communication breakdown (see Chapter 9) led to the World Bank's setting up of its own pre-investment facility for GEF activities in April 1992. The Project Preparation Advance, the World Bank's facility, is used for (a) upstream preparatory work, including studies that are essential to expedite preparation and implementation of a project proposal for GEF financing; (b) pre-investment studies to confirm the feasibility of the proposed project; and (c) equipment and materials that will demonstrate feasibility and help design large-scale replication of the same technology.

As under the PRIF, all projects for which PPA funding is sought must be formally proposed by the recipient government. The project must also have passed a technical review that supplements the IEPs review. PPA funding is denominated in SDR and the ceiling for individual activities is SDR 1 million.

¹⁸ Pages 116 - 117 of the Evaluation.

There are now two GEF pre-project facilities, running in parallel and separately, with little GEF oversight of PRIF/PPA processes. The participants receive no documentation on PRIF/PPA activities except in the form of activity titles and allocations. The Implementation Committee must declare the parent project eligible for PRIF/PPA funding but does not review the Activity Initiation Brief, the document which provides the justification for the PRIF. The Administrator's Office simply acts as a recorder of the PRIF/PPA obligation after the fact. In effect, each agency decides what pre-investment activities are, how much GEF money will be spent on such activities, and what the money will be spent for. It is anticipated that approximately US\$26 million will be expended through PRIF/PPA channels during the GEF pilot phase.

Virtually all pre-project expenditures are currently charged to the GEF account by the implementing agencies. Consequently, there is no compelling reason that pre-project costs for some projects should be scrutinized in advance under a pre-investment facility while pre-project costs for the remaining projects are reported only on a post facto basis. GEF funds for administration costs also are used for project development work.

A greater degree of accountability for the drawdown of GEF pre-project funding should be introduced into the GEF programming system. The GEF Secretariat should issue guidelines on the use of GEF funds for pre-project purposes that would indicate (a) the nature of pre-project activities that will be reimbursed; (b) the funding ceilings for these activities; and (c) the information that should be submitted, along with the Brief, to justify the pre-project expenditures. Based on these guidelines, implementing-agencies would be expected to justify costs for pre-project activities for all proposed projects at the time of Brief submission and review. In the exceptional case wherein the GEF Secretariat decides not to recommend that the GEF finance a project, for which GEF pre-project activity costs have been authorized, the sponsoring implementing agency should still be reimbursed for the pre-project expenditures.

**EXTRACTS FROM WORLD BANK
OPERATIONAL DIRECTIVE 9.01
"PROCEDURES FOR INVESTMENT OPERATIONS
UNDER THE GLOBAL ENVIRONMENT FACILITY"**

...

11. *GET Project Preparation Support.* Preinvestment studies under the GEF may be financed through the GEF preinvestment facility (PRIF) or the GEF Project Preparation Advances (PPA). Both are funded from the GET. (See Annex B [forthcoming] for further information about the PRIF and Annex C for further information about the GEF-PPA). To be eligible for financing from the PRIF or PPA, projects must have passed stages (a), (b), and (c) in para. 3. In the case of the PRIF, the Bank may serve as executing agency for UNDP under the arrangements that apply to Bank execution of UNDP GEF technical assistance projects, defined in para. 6. The GEF-PPA and the PRIF differ substantively in only two respects: execution options and funding caps. PPA grants are capped at SDR 1 million and are executed by governments. PRIF grants are normally executed by the Bank and, by agreement with the implementing agencies, are capped at \$2.5 million.

Annex C

Project Preparation Advances from the Global Environment Trust Fund

1. To assist borrowers in preparing projects to be financed by the Global Environment Trust Fund (GET), a separate window has been established for Project Preparation Advances (PPAs). This was important mainly because many of the Global Environment Facility (GEF) projects are innovative, are in a new area of concern, and require the formulation of innovative measures to be implemented. GET-PPAs may be used for

- (a) upstream preparatory work, including studies that are essential to expedite preparation and implementation of a project proposed for GET financing;
- (b) preinvestment studies to confirm the feasibility of the proposed project; and
- (c) equipment and materials that will demonstrate feasibility and help design large-scale replication of the same technology.

Eligibility Criteria

2. The same eligibility criteria that apply to the GET apply to the GET-PPA: First, the project must be in developing countries and territories with UNDP programs with a per capita GDP at or below \$4,000 in 1989. Second, the project for which a GET-PPA is requested must have cleared stages (a), (b), and (c) referred to in para. 3 of OD 9.01, *Procedures for Investment Operations under the Global Environment Facility*. Third, GET-PPAs are limited to a maximum of SDR 1 million equivalent per proposed project. Fourth, GET-PPAs are made only when there is a strong probability

that a GET grant would be made within two years after signing of the Bank's letter to the potential recipient. Fifth, all advances are denominated in SDRs.¹

3. The country department concerned reviews a proposal for a GET-PPA to determine whether it complies with the guidelines set forth above (relating to conditions/purposes). The division concerned submits to the country department director a brief memorandum summarizing the results of the review, requesting approval for the advance, and indicating whether the granting of the advance has been cleared for approval by the GEF Chairman through the GEF Operations Coordinator. The memorandum should be cleared with the Legal Department (LEG) and the disbursement officer. Once the advance is approved by the country department director, the TM arranges for the processing of the Letter of Agreement required for the PPA (see Annex C1). The text of the letter is cleared with LEG and the disbursement officer. It is also cleared by the Trust Funds administrator, who assigns the GET-PPA number that is to be shown on the letter. The Letter of Agreement is signed by an authorized officer in the Region (see Administrative Manual Statement 1.30, *Authority to Sign Written Instruments: Bank and Association*) and countersigned by the duly authorized government official.

4. The TM provides to the GEF Operations Coordinator, for inclusion in the GEF Chairman's Report, a report of the status of implementation of the GET-PPA-supported activity.

5. GET-PPAs are grants. However, to encourage the prompt use of these funds, the Financial Provisions Applicable to GET-PPAs provide, inter alia, that

- (a) the Trustee may cancel the GET-PPA if within 90 days of the recipient government's countersigning of the Trustee's letter the government concerned has not started any of the preparatory activities for which the advance was granted; and
- (b) except as the Bank (the Trustee) may otherwise establish, no withdrawals of the advance may be made after two years from the date of signature of the Bank's (the Trustee's) letter to the potential recipient, the unwithdrawn amount then being canceled.

¹ SDR equivalents of U.S. dollar amounts are established by the Loan Department, essentially on the same basis as for IDA credits.

EXTRACTS FROM "GEF UNDP OPERATIONS MEMORANDUM NUMBER TWO"

...

(iii) Pre-investment Feasibility Studies

28. Another feature of the GEF is the Pre-Investment Facility (PRIF) managed by UNDP. The PRIF finances feasibility studies for investment projects and complex technical assistance projects. These studies are expected to range in cost between \$50,000 and \$2.5 million. Detailed instructions for the processing of PRIF studies are given in paras 52-61.

(v) Processing Pre-Investment Facility (PRIF) Studies

52. As mentioned earlier, the PRIF finances feasibility studies for investment projects and complex technical assistance projects. A diagrammatic presentation of the steps to process a PRIF study are outlined in Appendix 3.

53. Before a study from the PRIF can be processed, the "parent" project (i.e. the larger investment or TA project under consideration must be identified and requested by Government. A standard Project Brief for the parent project should be prepared. The lead agency (World Bank or UNDP) internally examines the request and undertakes the customary independent technical review. Successfully reviewed parent projects are then presented to the STAP and the Implementation Committee where eligibility for GEF assistance is determined.

54. It is expected that funds from the PRIFs are for studies intended to lead to investment or large TA proposals, but for which the outcome (i.e. the feasibility) has not been determined. Accordingly, the parent project would not be included in the Chairman's Work Programme submitted to the Participants until after the feasibility study is successfully completed. This suggests that, the parent project would not have GEF allocations until after the PRIF is completed.

55. It should also be noted that where a PRIF successfully leads to a GEF project, that the funds from the PRIF be included in the allocation for the project.

56. Once the parent project is considered favorably by the IC, a Government wishing assistance from the PRIF is to prepare a simplified Project Document called an "Activity Initiation Brief" (AIB). AIB's are to be about 10 pages long and emphasize detailed terms of reference for the consultants to undertake the study. A suggested Table of Contents is shown in Appendix 4. The AIB serves as the Project Document for the PRIF study and should therefore have a standard cover page and budget page.

57. In the Brief will be an indication of the preferred Executing Agency (this might be the World Bank, Regional Development Banks, UNDP/OPS, National Execution, a United Nations Specialized Agency or an appropriate NGO). Practically speaking, it can be expected that the World Bank may

be the Executing Agency for many of the studies related to investment projects. However, in accordance with existing procedures, UNDP, in consultation with the concerned parties, determines the appropriate Executing Agency.

58. Where the PRIF studies are executed by the World Bank, the Task Manager in charge should be prepared to assist governments in the preparation of Activity Initiation Briefs and in undertaking any revisions to the documentation required after the PAC.

59. The AID is to be signed and submitted by Governments to the Resident Representative where it will be subjected to the local Project Appraisal Committee (PAC). As soon as the PAC is satisfied with the study proposal, the AIB is submitted to the relevant Regional Bureau at UNDP Headquarters where it is reviewed by the PAC and Action Committee, in accordance with regular UNDP procedures.

60. Any pre-investment project proposals which go beyond feasibility study work (for example pilot investment projects and institutional strengthening projects) will be referred back to the lead agency to be processed as free-standing Projects.

61. Once a feasibility study is approved the simplified Project Document (i.e. the AID) will be assigned a Project Number and the funds will be channeled to the Executing Agency using normal UNDP procedures. In the case of the Bank execution, the existing accounting system which is now used with the Bank for IPF-funded feasibility studies will be utilized. UNDP will report on all approved feasibility studies to the Implementation Committee and subsequently to the Participants.

E. Preparatory Assistance

72. After a project concept has been cleared by the Implementation Committee, detailed preparation costs (normally in the order of \$50,000 to \$150,000) will be funded through a Preparatory Assistance (PA) phase using normal UNDP procedures for preparatory assistance. For this purpose the Regional Bureau, assisted by ENR, will help identify qualified expertise as may be necessary. A Preparatory Assistance document will be prepared which provides detailed terms of reference for the consultants and cost estimates. The costs of the PA will be included in the costs of the GEF free-standing project being prepared. The PA will be assigned a project number by the GEF Financial Officer in BPPE, which will be the number of the eventual GEF project. Normally the Executing Agency expected to undertake the main project will also undertake the PA.

73. Preparatory assistance documents should be signed by the Director of the Relevant Bureau, after obtaining clearance from the GEF Coordinator in BPPE.

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