GLOBAL ENVIRONMENT FACILITY

DRAFT OPERATIONAL STRATEGY

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The Council reviewed document GEF/C.5/3, a preliminary draft operational strategy. The Council notes that the document is a "work in progress" and requests the Secretariat to continue its efforts, in consultation with the Implementing Agencies, STAP, and the convention secretariats to prepare a revised draft text of the operational strategy for review by the Council at its meeting in October 1995. In preparing the revised document, the Secretariat is requested to take into account the comments made by the Council, and in particular the following:

[Insert comments of the Council]

Council Members are invited to submit written comments on the draft operational strategy to the Secretariat by August 11, 1995.

NOTE BY THE SECRETARIAT

1. The following document is a preliminary draft of the GEF operational strategy. It is presented to the Council for review and comments.

2. In reviewing the document, the Council should bear in mind that this is a "work in progress". On the basis of the Council's review, the Secretariat, in consultation with the Implementing Agencies, STAP and the secretariats of the global conventions will continue to revise the document for review by the Council with a view to its adoption at its meeting in October 1995.

3. Chapter 4, *International Waters*, and Chapter 6, *Land Degradation*, are not included in this text. It will be recalled that the Council at its February meeting had before it two preliminary papers on these matters:

Scope and Preliminary Operational Strategy for International Waters, GEF/C.3/7, and

Scope and Preliminary Operational Strategy for Land Degradation, GEF/C.3/8.

The Council extensively discussed these papers during its February meeting, and the comments made, together with subsequent written comments, have been used in preparing revised texts of the papers. After the Council's consideration of the basic framework of the operational strategy, those papers will serve as the basis for the preparation of Chapters 4 and 6 in a format consistent with the other chapters of the strategy.

4. In preparing this preliminary draft, the Secretariat has undertaken to consult with the Implementing Agencies as fully as possible. To a large extent, the views of the three Implementing Agencies are well reflected in this paper. However, it is recognized by the Secretariat and the Implementing Agencies that there is a need for further consultation and discussion to refine some of the concepts and text. It is the Secretariat's intention to continue to work with the Implementing Agencies with a view to providing a consensus draft for consideration at the October meeting.

5. The convention Secretariats were also consulted on the preliminary draft text, and their views have been incorporated in the document. Their views will continue to be sought as the text is revised.

6. The views of STAP were also solicited, but given the recent establishment of STAP and its meeting schedule, it was not possible for them to offer their views for inclusion in the present text. It is the understanding of the Secretariat that STAP will review this text prior to the Council meeting in July. The Secretariat is hopeful that STAP will be able to participate fully in the interagency process that will undertake to prepare the revised operational strategy for review by the Council in October.

7. In preparing this draft, the Secretariat incorporated many of the ideas and proposals that were raised during the regional consultations convened by the Secretariat during FY95. During the period between the July and October Council meetings, the Secretariat will also seek the views of a wider audience on the draft text.

CONTENTS

ANNEXES

(to be determined on basis of policy decisions of Council)

DRAFT

OPERATIONAL STRATEGY

PREFACE

i. Environmental concerns are pervasive within and between countries, and are of a local, national, and global nature. A broad-based and integrated environmental strategy linked with sound economic and social policies for sustainable development is necessary to address them. Such issues have been debated extensively in a number of international forums, notably at the United Nations Conference on Environment and Development (UNCED). Agenda 21, adopted by UNCED, provides a comprehensive summary of the environment and development issues likely to confront all countries. It is evident that sound environmental management is an intrinsic part of the sustainability of the development process.

ii. In response to environment and development concerns, multilateral and bilateral organizations have taken a number of steps to assist developing countries to incorporate environmental costs and benefits more systematically into their development policies and programs.

iii. There is also general recognition that some environmental problems transcend national boundaries and require internationally-negotiated solutions. In order to assist developing countries in dealing with global environmental problems, the Global Environment Facility (GEF) was established in 1990 as a three year pilot program. Conventions covering two global environmental issues - climate change and biodiversity - were adopted in 1992 and have entered into force. The Conference of the Parties of each convention has requested the GEF, on an interim basis, to assist developing country Parties to meet their obligations under the conventions. Governments have responded to concerns about ozone depletion by adopting the Vienna Convention on the Protection of the Ozone Layer, the Montreal Protocol on Substances that Deplete the Ozone Layer in 1987, and further amendments in 1990 (London) and in 1992 (Copenhagen).

iv. The GEF was restructured in 1994. To assist in the restructuring, Participants in the GEF Pilot Phase called for an Independent Evaluation. The evaluation was part of the effort to learn from the experience of the pilot phase so as to guide future planning for the GEF. The first two recommendations of the independent evaluation called for the GEF to; i) clearly articulate its mission, and 2) develop program objectives and strategies.[1]

v. The *Instrument for the Establishment of the Global Environment Facility* established a GEF Council with responsibility for developing, adopting and evaluating the operational policies and programs for GEF-financed activities. Paragraph 20(f) of the *Instrument for the Establishment of the Restructured Global Environment Facility* specifically provides, *inter alia*, that the GEF Council is to approve and periodically review "operational strategies and directives for project selection".

vi. At its first meeting, the Council approved a "two track" approach for purposes of programming GEF resources in 1995: the Council agreed that while a long-term comprehensive operational strategy is being developed and guidance is being approved in the context of the Framework Convention on Climate Change and the Convention on Biological Diversity (track one), project activities which allow for a smooth transition between the operations of the pilot phase and the restructured GEF should be continued (track two). The main product of the first track will be

the long-term operational strategy for the GEF. The aim of the two-track approach was to facilitate a balance between strategic policy development and immediate operational activities.

vii. The present operational strategy has been approved by the Council, and is based on consultations and preparatory work of the GEF Secretariat and the Implementing Agencies. The Scientific and Technical Advisory Panel (STAP) also contributed to the preparation of the operational strategy. The secretariats of the Convention on Biological Diversity and the UN Framework Convention on Climate Change were consulted so as to ensure that the strategy fully integrates the guidance approved by the Conference of the Parties of each of the two conventions for purposes of its financial mechanism. The GEF Secretariat also sponsored five regional consultations in Africa, Asia, Europe, Latin America and North America to contribute to the development of the operational strategy. The consultations involved thinkers and practitioners in the environment and development fields.[2]

viii. The operational strategy has six main chapters. The first is an overview of the mission and objectives of the GEF. The next four chapters present the operational strategy specific to each of the four focal areas of the GEF. The sixth chapter presents the operational strategy for activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas. In addition, the strategy presents several annexes that address cross-cutting issues, such as incremental costs and targeted research.

CHAPTER ONE

OPERATIONAL FRAMEWORK

INTRODUCTION

1.1 In accordance with the *Instrument for the Establishment of the Restructured GEF*:

"The GEF shall operate, on the basis of collaboration and partnership among the Implementing Agencies, 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 following focal areas:

(a) biological diversity;
(b) climate change;
(c) international waters; and
(d) ozone layer depletion.

"The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas shall be eligible for funding. The agreed incremental costs of other relevant activities under Agenda 21 that may be agreed by the Council shall also be eligible for funding insofar as they achieve global environmental benefits by protecting the global environment in the four focal areas."[3]

1.2 Paragraph 6 of the Instrument provides that "the GEF shall be available to continue to serve for the purposes of the financial mechanism of [the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change] if it is requested to do so by their Conferences of the Parties". The first meeting of the Conference of the Parties to the Convention on Biological Diversity requested the GEF to "continue to serve as the institutional structure to operate the financial mechanism under the Convention on an interim basis". The first meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change requested the GEF to "continue, on an interim basis, to be the international entity entrusted with the operation of the financial mechanism...".

1.3 In order to guide the programming of GEF resources, the Council called for the development of a long-term operational strategy. The strategy is to provide:

(a) a vision to the long-term direction of GEF and a framework for programming resources in the use of finite GEF funds;

(b) a means for integrating in the programming of GEF resources the guidance received from the Conference of the Parties to the Convention on Biological Diversity and the UN Framework Convention on Climate Change; and

(c) a cohesive statement of GEF operational objectives with respect to the funding of actions which secure global environmental benefits and as a basis for monitoring and evaluating performance.

1.4 The operational strategy also provides the basis for the convergence of views amongst a wide range of GEF constituents and clients and a framework for explicitly recognizing tradeoffs. It will guide the Council, the Secretariat and the Implementing Agencies in developing and approving the GEF business plans and budgets.

MISSION

1.5 The GEF's mission is to maximize global environmental benefits and minimize global environmental risks by promoting cost-effective actions in recipient countries[4] through the provision of new and additional financial resources in support of long-term and preventive, as well as short-term and urgent, actions based on the best available scientific knowledge and environmentally sound technology, and in a framework of global sustainable development.

1.6 The objectives of GEF activities in each of the four focal areas may be summarized as follows. Global environmental benefits in each focal area will be achieved by seeking opportunities to meet these objectives through cost-effective activities:

(a) *Biological Diversity*: The objective of activities in this focal area is to contribute to the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources, including by appropriate access to genetic resources and by appropriate transfer of relevant technologies, taking into account all rights over those resources and to technologies, and by appropriate funding;[5]

(b) *Climate Change*: The objective of activities in this focal area is to contribute to the achievement of stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner;[6]

(c) *International Waters*: [text to be drafted together with international waters focal area chapter][7]; and

(d) *Ozone Layer Depletion*: The objective of activities in this focal area is to contribute to measures to protect human health and the environment against adverse effects resulting or likely to result from human activities which modify or are likely to modify the ozone layer.[8]

1.7 The objective of GEF activities concerning *land degradation* is to contribute to prevention and control of land degradation through the programming of activities in the interface between land

degradation and the focal areas of the GEF. GEF will encourage countries to integrate their plans and strategies for biodiversity, climate change and international waters with that for prevention and control of land degradation. National environmental action plans or national plans for sustainable development that are sensitive to global environmental objectives, will facilitate the implementation of an integrated approach to land degradation prevention and control, establishing a synergy between achieving national and global objectives.

STRATEGIC OBJECTIVES

1.8 Two broad strategic objectives will be adopted as the path to be followed to fulfill the GEF mission and to contribute to the focal area objectives. First, the GEF will seek to minimize the risks of global environmental damage. Second, the GEF will seek to maximize global environmental benefits. By pursuing these two objectives, the GEF will strive to have the broadest possible impact within the boundaries set by its finite resources. There are seven means which will be pursued to meet these objectives:

(a) Integrating GEF activities with the national activities and priorities;

(b) Ensuring the sustainability of global environmental benefits;

(c) Developing a strategic and diverse portfolio of cost-effective activities as a means of reducing risks against future uncertainty;

(d) Increasing and enhancing environmental information to improve decision making;

(e) complementing, not substituting for, traditional sources of development funding;

(f) facilitating effective responses beyond GEF-financed activities to address global environmental issues; and

(g) ensuring the cost-effectiveness of its activities.

Integration with national activities and priorities.

1.9 To ensure success, GEF activities should be consistent with the recipient country's own actions for sustainable development. GEF-assisted operations are *country-driven*[9], and will be linked with the national development effort. Public consultation and participation of local communities and other stakeholders should enhance the quality, impact, relevance and national ownership of GEF-financed activities.

1.10 In developing GEF activities, the recipient country and Implementing Agency will take into account the *national policy* context of a GEF-assisted operation when:

(a) the success of the activities depends on the national policies;

(b) the recipient country is seeking financial support for the activity as part of a country-driven process to align national policies with global environmental objectives; or

(c) this is needed to integrate the proposed activity in the national development process.

1.11 GEF regional programs and projects will be undertaken when they are endorsed as a national priority by the participating countries of the region and the countries receiving GEF financing through the project are eligible recipient countries of the GEF. The GEF will also seek to encourage new partnerships to address programs at the regional level. Global and inter-regional projects may be undertaken "for other activities promoting the purposes of the Facility".[10] It is expected that GEF-financed global programs and projects will subsequently contribute to facilitating national-level efforts to achieve global environmental benefits.

Ensure the sustainability of global environmental benefits.

1.12 The main focus of GEF activities would concern *long-term* measures. Such measures, to be a part of the long-term solution, would have to be *environmentally sustainable*, and not merely more benign forms of current but unsustainable activities. Furthermore, in order to promote long-term integration of the measures into national development activities, the GEF program should seek *financial sustainability*. Individual projects are financially sustainable if their design includes a means of ensuring a stable long-term source of funding for recurrent costs. Programs are financially sustainable if the initial GEF support reduces financial risk, overcomes transaction barriers,or builds markets to an extent that lowers future costs for measures of the same type. This will require careful program and project design to ensure that GEF projects are integrated with national sustainable development programs and plans. It will also require funding programs that ensure financial, ecological and social sustainability. To ensure their sustainability, GEF financed-activities at the country level will be designed to promote, and where appropriate strengthen:

(a) national policy frameworks which provide adequate incentives for development paths that are sound from a global environmental perspective insofar as they align global environment concerns with national development strategies and plans and ensure that national policies contribute to the effective implementation of GEF-assisted operations;

(b) institutional arrangements which are supportive of the global environment;

(c) human resources and skills necessary to integrate global and national environmental objectives in sustainable development plans;

(d) communications and outreach to promote better public understanding of the global environment, to build support for the GEF's objectives, strategy and programs and to mobilize peoples and communities to protect the global environment over the long term; and

(e) public participation and consultation with major groups,[11] local communities and other stakeholders throughout project development and implementation.

Develop a strategic and diverse portfolio of cost-effective activities as a means of reducing risks[12] against future uncertainty.

1.13 The activities the GEF helps to finance will be cost-effective precautionary measures against long-term global environmental damage. While there is significant scientific knowledge about global environmental issues, there is still a great deal to be learned. A degree of scientific uncertainty will be part of the context in which the operational strategy is set. This suggests that the precautionary principle, proclaimed in the Rio Declaration on Environment and Development, should be considered in programming GEF activities[13]. Developing a strategic and diverse portfolio is fully consistent with a precautionary approach. There will be two principal and interrelated paths that will be pursued in programming GEF activities. First, enabling activities will be given a high priority so that all recipient countries that so request will receive assistance necessary to have a basic and essential level of information and training to enable the country to address global environmental problems cost effectively within the context of its national sustainable development. Second, beyond enabling activities, finite resources would indicate that the GEF will need to be more selective and diverse in choosing programs and projects to demonstrate long-term measures that reduce risk and promote global environmental benefits.

1.14 In developing a strategic and diverse portfolio the GEF will:

(a) develop and manage a portfolio of funded activities which are commensurate with the best available scientific and technological advice and consistent with the guidance from the global environmental conventions for which it serves as the financial mechanism. It is expected that in the focal areas of biodiversity and climate change, the GEF activities will be fully consistent with the guidance of the Conference of the Parties of the relevant convention whether those activities fall within or outside of the financial mechanism. For ozone depletion, GEF activities will be consistent with the objectives of the Montreal Protocol;

(b) finance activities that are needed to enable countries to identify ways in which they can implement international conventions on the global environment;

(c) expedite immediate action where the causes, effects, and ameliorative actions are well-established (such as those related to ozone depletion and biodiversity);

(d) where there is scope for learning and improvement in techniques and institutional responses to serious threats such as climate change and biodiversity, consult with the scientific community, especially STAP;

(e) require monitoring and evaluation of all programs and projects;

(f) finance capacity-building, institutional strengthening, information gathering and dissemination and building on lessons learned from relevant activities; and

(g) keep under review the size of GEF grants so as to maintain the capacity to allocate resources to a diverse portfolio.

1.15 Key features of a strategic and diverse portfolio will include:

(a) carefully selected programs of projects and activities which involve a range of approaches recognizing the need for on-going innovation and experimentation;

(b) funding of programs and projects that address the underlying causes of global environmental deterioration, including economic policy, legal and social causes, institutional weaknesses or information barriers;

(c) funding of activities that provide lessons beyond their immediate impact or provide long-term sustainable global benefits such as reduction in costs of technologies or demonstration of alternative environmentally sound and viable approaches;

(d) involvement of a range of project executors from the public and private sector in project execution; and

(e) funding of programs that advance the scientific and technical capacity in recipient countries to reduce or remove global environmental threats.

Increase and enhance environmental information to improve decision making

1.16 Actions that increase awareness of global environmental issues and their significance, provide basic information to assist in effective decision making, and targeted scientific investigation are often necessary first steps in reducing long-term risks. Funding the collection and synthesis of useable information and ensuring its dissemination among decision makers, scientists and the general public is a central component of the GEF's operational strategy. GEF will provide assistance for:

(a) enabling activities which will include inventories, compilation and analysis of existing information, policy analysis, strategies and action plans within countries to help integrate global environmental objectives in national planning and decision making. Such information should also enable countries to report to the global environmental conventions and may provide useful inter-country or inter-regional information bases;

(b) capacity building, technical assistance, and institutional strengthening as these relate to operational priorities;

(c) information dissemination among, and within, countries to help inform decision making with respect to policies, investment choices, resource management, and the application of proven environmentally sound technologies. The GEF will encourage the systematic sharing of information and experience on activities to protect the global environment, including the results of monitoring and evaluation exercises. In so doing, GEF will seek to complement existing activities;

(d) documenting and sharing experiences in addressing the link between the global environment and national sustainable development programs;

(e) public participation and consultation with local stakeholders throughout the project cycle;[14] and

(f) collection and analysis of scientific information through targeted research to help identify key areas for program development.[15]

Complement, not substitute for, traditional sources of development funding.

1.17 The GEF is to provide new and additional grant and concessional funding to meet the incremental costs of the agreed measures to achieve agreed global environmental benefits. [16] This principle has two main ramifications with regard to financing: (i) GEF funding should be used only for ***incremental costs***; and (ii) GEF should ascertain that its resources are "***new and additional***" and not substituting for regular budgetary sources of program and project financing in the international system.

1.18 GEF funds are clearly intended to be additional to traditional sources of development aid. This principle is articulated in the GEF Instrument and the two global environment conventions, and it provides the analytical underpinning to the concept of *incremental cost*. Action to achieve sustainable development at the national level, although clearly necessary and directly in the country's own interest, is insufficient to maintain sustainability at a global level because many activities have detrimental global environmental effects. Additional national action imposes additional (or "incremental") costs on countries beyond the costs that are strictly necessary for achieving their own development goals, but nevertheless generates additional benefits that the world as a whole can share.

1.19 In estimating incremental costs, the cost of a GEF activity should be compared to that of the activity it replaces or makes redundant. The difference between the two costs - the expenditure on the GEF supported activity and the cost saving on the replaced or redundant activity - is the incremental cost. In cases where no activity exists, the incremental costs may be equal to full costs: i.e., the baseline for the activity is zero. It is a measure of the future economic burden on the country that would result from its choosing the GEF supported activity in preference to one that would have been sufficient in the national interest. At its meeting in May 1995, the Council approved an approach on estimating agreed incremental costs.[17] The Council also requested the Secretariat to develop, in consultation with the Implementing Agencies, operational guidelines to implement this approach. [These guidelines are set forth in Annex __ of this strategy.][18]

1.20 The principle that GEF funds will be *additional* to funds required for national development purposes ensures that scarce resources are not diverted from development and maximizes the extent to which GEF can help protect the global environment with the resources at its disposal. Therefore, GEF financing should complement, but not substitute for, the usual sources of project finance including development assistance and budgetary support for the administrative costs associated with the mandated activities of international agencies. The GEF will not provide budgetary financing for the staff and activities of international organizations or other international bodies to fulfill their own mandate, even if their mandates are concerned with the global environment. GEF resources will best be applied to strengthen and extend activities in eligible recipient countries and hence complement the activities of other donors and international agencies.

Facilitate effective responses beyond GEF-financed activities to address global environmental issues

1.21 If it is to fulfill its mission effectively, the GEF must strive to extend its catalytic role by promoting and encouraging actions to benefit the global environment beyond those directly funded by the GEF. The GEF can best facilitate complementary activities in a number of ways:

(a) through continuous inter-action between the GEF and the regular work of the three Implementing Agencies, GEF resources will complement their funds and activities in the provision of assistance to recipient countries. The Implementing Agencies will be instrumental in promoting the mobilization of financing to meet the non-incremental costs [19];

(b) by funding not only government programs but also non-government and private sector activities, the GEF will encourage more wide-reaching actions than those directly financed by the GEF to protect the global environment;

(c) by promoting projects that have no or negative incremental cost yet still lead to global environmental benefits (often referred to as "win-win" projects). Such projects may include those that would normally be considered a part of an "environmentally reasonable baseline" of activities for the country or its region, and consequently would not incur incremental costs. In such cases, it may be appropriate for the GEF to facilitate information dissemination and advice, or to provide concessional lending[20]. The GEF will also be available to help countries overcome barriers or cooperate regionally in ways that benefit the global environment;

(d) the GEF's role will extend beyond the development of a common strategic approach within the three Implementing Agencies. By encouraging the adoption of common norms of assistance and facilitating learning and partnerships between recipient countries and potential financiers, the GEF will provide a broad forum for cost effectively addressing the global environment; and

(e) by leveraging additional finance through creative and innovative approaches to working with the private sector[21].

Ensure cost-effectiveness of activities

1.22 The GEF will ensure the cost-effectiveness of its activities in addressing the targeted global environmental issues.[22] Cost-effectiveness requires that an activity is likely to achieve its intended global environmental objective at the lowest incremental cost. (In calculating incremental cost, it is also assumed that the national objective would be achieved at the lowest (baseline) cost.) Criteria for cost effectiveness for long-term and short-term response measures are described in the next section of this Chapter.

PROGRAMMING GEF OPERATIONS

1.23 The Independent Evaluation of the GEF Pilot Phase stated "a primary finding of the evaluation ...is that the absence of well-developed and approved policies, strategies, and criteria to guide project formulation has constrained the efficient and effective targeting and programming of GEF resources". Therefore, the evaluators recommended that:

> " The participants should, in collaboration with focal area conventions, ensure the development of the GEF program objectives and strategies. These should clearly enunciate:
>
> The priority areas for the concentration of GEF resources for the coming decade;
>
> The criteria and reasoning used in the selection of these priorities; and
>
> The kind of program and project-level interventions that will receive priority attention under the GEF initiative."

1.24 If the GEF had access to unlimited resources, and if it were programmatically feasible, it would be desirable to undertake all activities, in all countries, and in all situations to mitigate the risk of global environmental damage. The reality is that GEF resources are finite, and that there are limited absorptive capacities in recipient countries and in the Implementing Agencies to program activities in any given time frame. Therefore, it is appropriate to structure GEF activities so as to begin to respond in a sequential way to global environmental risks and to begin with those measures that are likely to reduce global environmental risk as quickly as possible. Other activities will be developed and implemented as program feasibility is increased.

1.25 A new feature of the restructured GEF will be an emphasis on a more programmatic approach which will be matched with country-driven project opportunities to lead to coordinated and cost-effective work programs. This will be done through the elaboration of **"operational programs"** which identify specific activities consistent with this operational strategy. The purpose of a programmatic approach is to capture systemic (or "programmatic") benefits that would not be captured by the more atomistic (or "project-by-project") approach characteristic of the Pilot Phase. The operational programs will provide a framework through which projects can be identified, and better coordinated. Coordinated activities and projects within a long-term operation program will build upon the comparative advantages of the Implementing Agencies. An operational framework will also facilitate the identification of various sources of financing. The basis for an operation program will vary depending upon the focal area and the global environmental benefit being sought: for example, programs may be based on geography (e.g., ecosystems and regions), technology (e.g., solar energy); issues (e.g., trust funds or sustainable use of biodiversity); or type of activity (e.g., enabling activities). Operational programs will direct the allocation of GEF resources to activities which achieve specified long-term programmatic objectives. Operational programs may also be evaluated on the basis of their stated objectives. Evidence of the long-term effects would be needed.

1.26 The **identification** of which operational programs to pursue will follow the guidance emanating from the conventions. Operational programs will be developed in accordance with the

program priorities approved by the Conferences of the Parties. Once an operational program has been elaborated, the implementation of the program will be dependent upon available project opportunities and resources. The GEFOP will have an important role in identifying which programs should receive initial emphasis and the sequencing of programming implementation, taking into account the strategic objectives and means described in this strategy.

1.27 Another source for program identification will be the casting of a wide net for project ideas. As project ideas and concepts are initially explored with financial assistance from PDF-Block A funds, one criterion for development will be the matching of the project idea with an operational program. Should an interesting idea be proposed for which there is no programmatic framework, consideration will be given as to whether it would be beneficial to explore the development of an operational program that encompasses the project concept.

1.28 Operational programs will be matched with country-driven project opportunities and priorities. Many country driven opportunities will be identified in national strategies and action plans or through other enabling activities. As noted, interesting country-driven project concepts may emerge for which there is not an immediate matching with an operational program. Such a concept may be further explored with a view to ascertaining whether it would be useful to develop an operational program on the basis of the project concept and to seek other country-driven opportunities to support the program or to fund it on the basis of short-term criteria (see below).

1.29 In addition, a limited number of projects will be considered on an individual basis in accordance with short-term criteria specified below and in each focal area chapter. Such individual projects will be so beneficial in their own right ("too good to miss") or may address such an important short-term issue ("too urgent to forgo") that they would be justified even without any programmatic benefit. In both cases, GEF operations will be programmed to ensure that global environmental objectives will be met cost-effectively.

1.30 In each focal area, the GEF will develop four categories of activities: enabling activities; long-term response measures; short-term response measures; and targeted research.

Enabling activities[23].

1.31 Enabling activities, which will include inventories, compilation and analysis of existing information, policy analysis, strategies and action plans, represent a basic building block of GEF assistance to countries, either as a means of fulfilling essential reporting requirements to a convention, in providing a basic and essential level of information to enable policy and strategic decisions to be made, or in assisting planning that identifies priority activities within a country. Countries thus enabled will have the ability to formulate and direct sectoral and economy-wide programs to address global environmental problems cost effectively within the context of national sustainable development. Enabling activities would normally qualify for full cost funding when they are solely related to securing of global environmental benefits and are consistent with the convention's guidance.

Long-term Response Measures.

1.32 Many activities have indirect effects that can only be realized in the context of an entire program. For example, a single project in biodiversity may have no lasting effect on an ecosystem unless all the threats to that ecosystem are addressed simultaneously. Likewise, a greenhouse gas reducing project may, as part of a program of similar activities, help to build up a market sufficiently large to cause manufacturers to invest heavily in commercialization thereby reducing the future costs of supplying such technology. In each case, the effect of the proposed activity cannot be assessed in isolation but only as part of a program of activities. These operational programs are called "long-term" because their constituent projects have additional or indirect effects beyond the individual project.

1.33 The cost-effectiveness of a program will be expressed in terms of its long-term programmatic objective. As always, it is the least cost way of achieving the stated objective that will be preferred. In the climate change example above, the least cost way of reducing the future cost of the technology to some specified competitive level would be selected. In fact, the individual projects of the operational program are unlikely to meet the short-term criteria--if they did, they could be justified without reference to any of the "long-term" effects. In effect, the GEF would pay a "premium" above its short-term cost norms for these long-term operational benefits. [24]

Short-term response measures.

1.34 Activities that meet the global environmental objectives directly would be considered individually on the basis of project criteria. These criteria are called "short-term" because they would apply to projects that do not purport to have any additional long-term (i.e., "indirect", "strategic" or "programmatic") benefit beyond themselves. For example, climate change projects that do this would aim only to reduce the net emissions of greenhouse gases while maintaining national benefits.

1.35 The generic short-term criteria for cost-effectiveness in reaching a global environmental objective directly would include:

(a) criteria for maximizing the likelihood of success (which could be a qualitative criterion concerning the viability of the enterprise and the institutional and technical risks of implementation);

(b) cost norms for actions of the type proposed; and

(c) a cost comparator on the basis of which the least (incremental) cost alternative can be chosen.[25]

1.36 Projects approved on the basis of short-term criteria would be evaluated on the same basis; that is, in terms of implementation success and, where applicable, the extent conservation or greenhouse gas abated by the project in relation to the incremental cost incurred.

Targeted Research

1.37 The GEF will also finance targeted research that will contribute to project development and the achievement of global environmental benefits. The Council will consider a proposal for a GEF policy on targeted research subsequent to the adoption of this strategy[26]. The policy will be annexed to the strategy once it is approved.[27] It is expected that the policy will call for the development of tools and methodology necessary for the development of quality programs and projects together with related information gathering and dissemination.

1.38 In programming activities, the Implementing Agencies will give special attention to opportunities to develop activities that address two or more focal areas. Multi-focal area activities may offer particularly advantageous opportunities to achieve global benefits. Examples of multi-focal activities are presented in the focal area chapters.

Means to develop operational programs

1.39 In carrying out its activities, the GEF will seek to work in full partnership with recipient Governments to ensure that GEF-financed activities are "country-driven" and will build upon constructive collaboration of its various institutional components:

(a) The GEF will provide assistance through its partner institutions in order to maximize the complementarity of the three Implementing Agencies by building on their comparative advantages and by emphasizing their joint role in enhancing sustainable development within recipient countries[28];

(b) STAP will provide advice to the Secretariat and the Implementing Agencies on strategic scientific and technical issues[29];

(c) The GEF will work closely with the global environment conventions[30];

(d) Responsibility for involving other partners as executors of GEF projects lies with the Implementing Agencies[31]; and

(e) GEF-assisted operations will make provision for consultation with, and participation as appropriate, of major groups and local communities.[32]

1.40 The GEF Council is to approve a three year business plan for GEF activities at its regular meetings each October. This business plan will provide information on existing operational programs and operational programs under development. It will also provide information on proposals for new program development. The plan will also need to provide flexibility to explore other programs that may emerge as a result of guidance from the conventions or new project concepts. The Council will be invited to review and approve the business plan as well as the administrative budget necessary to carry out the activities described in the plan. Through the business plan, the Council will be fully informed of the activities of the Secretariat and the Implementing Agencies in developing and implementing specific operational programs pursuant to this operational strategy. The Council will oversee the activities undertaken to meet the objectives and criteria of the operational strategy and its related operational programs through its approval of project proposals in the bi-annual work programs.

ENDNOTES

Preface

1. The full text of the recommendations reads:

Recommendation 1:
Clearly articulate the GEF mission.

The participants should define more comprehensively and substantively the raison d'etre, objectives, and strategies for the GEF for the coming decade, based on the broad framework of Agenda 21 adopted by UNCED and focal area conventions, and drawing on the experience of the pilot phase and on the extensive work of other national and international organizations.

This definition should be developed in full partnership with developed and developing countries and should clearly articulate the mission of the GEF in:

- Advancing, through GEF-funded program activities, a better understanding of the issues of the global environment and h ow to address them to achieve sustainable economic development. This work would be carried out in close collaboration with existing and evolving international environmental agreements (conventions) and programs relevant to the GEF focal areas. However, it should also cover other areas without such conventions;

- Clarifying the relationships between global, national and regional benefits; the programmatic implications of these relationships; the sharing of costs for program and project activities; and the responsibilities for the long-term sustainability of these global and national benefits;

- Supporting, with GEF financial assistance, the development of a worldwide knowledge-base on global environmental conditions, prospects, protection requirements, and lessons learned to guide the choice of program activity and its design;

- Strengthening national and regional environmental and developmental policies and actions by incorporating in them the global environment perspective;

- Building national and regional institutional and professional capacities, and developing approaches to facilitate local participation in activities of global environmental concerns; and

- Facilitating the integration of global environmental concerns in the programs of public and private multilateral and bilateral development assistance agencies.

Recommendation 2: Develop program objectives and strategies.

The participants should, in collaboration with focal area conventions, ensure the development of the GEF program objectives and strategies. These should clearly enunciate:

- The priority areas for the concentration of GEF resources for the coming decade;

- The criteria and reasoning used in the selection of these priorities; and

- The kind of program and project-level interventions that will receive priority attention under the GEF initiative.

[2] This paragraph will be finalized when the operational strategy is approved by the Council.

ENDNOTES

Chapter One

[3] Instrument for the Establishment of the Global Environment Facility, page 6, para. 2.

[4] Eligibility for GEF funding is determined in accordance with paragraph 9 of the *Instrument for the Establishment of the Restructured Global Environment Facility*.

[5] Convention on Biological Diversity, Article 1.

[6] United Nations Framework Convention on Climate Change, Article 2.

[7] On the basis of the current working draft of the focal area chapter on international waters, the objective would read: "the objective of activities in this focal area is to contribute to a more comprehensive ecosystem-based approach in managing international waters and their drainage basins as a means to operationalize sustainable development and achieve global environmental benefits. In this approach, the transboundary river basin, groundwater system, coastal zone, or large marine ecosystem becomes a management unit upon which to base changes in how sectoral development activities are carried out and where priority environmental interventions are required. Interventions are to focus on changing the way human activities in different sectors are carried out so that the capacity of the particular water environment to sustainably support human activities is not exceeded." The text of the objective will be reviewed and revised when the international waters focal area chapter is reviewed by the Council at its meeting in October 1995.

[8] Vienna Convention for the Protection of the Ozone Layer, Article 2.

[9] See Document GEF/C.4/7, "GEF Project Cycle".

[10] See paragraph 9(b) of the *Instrument for the Establishment of the Restructured Global Environment Facility*.

[11] *Instrument for the Establishment of the Restructured GEF*, paragraph 4. See also *Agenda 21*, Section III, "Strengthening the Role of Major Groups".

[12] **Risk occurs at four levels in the GEF portfolio:**

> **First**, there is the normal commercial and technical risk associated with any development project. Such risks are addressed through appropriate project design, insurance, and guarantee schemes in the normal course of project development.
> **Second**, the recipient may experience an additional project risk as a result of opting for a measure that also protects the global environment. For example, there may be increased technical risk when a new renewable energy technology is used as a substitute for a familiar fossil fuel technology. Such an additional risk is specifically attributable to the GEF involvement, and should be addressed by appropriate project design (additional capacity-building to manage new systems, recurrent disbursements made on monitored incremental costs, or reimbursement for the increased costs of insurance).
> **Third**, GEF runs project risks that the expected global environmental benefits do not materialize or are not incremental. For example, GEF may pay the incremental costs of protecting a wetland from development activities in the expectation that this provided cost-effective protection for the wetland's biodiversity only to discover, many years later, that the project agreement had been breached and the wetland was drained for an alternative economic use.
> **Finally**, GEF runs a portfolio risk in that the measures it has sought to achieve turn out not to be the best or most effective in meeting its overall objectives. For example, if all of the GEF resources for climate change were devoted to one or two very specific technologies that were expected to become very effective in the

long term in reducing greenhouse gases, and these technologies failed to develop into financially self-sustaining ones as expected, the entire portfolio in climate change would have failed. This type of risk is best handled by having a diverse portfolio of Strategic Programs. There is a trade-off between the **diversity of programs** (which reduce portfolio risk) and the **strategic concentration of resources within each program** (where synergy and scale can increase the chance of market take-off for alternatives and their integration with sustainable development).

[13] Principle 15 of the Rio Declaration on Environment and Development provides: "In order to protect the environment, the precautionary approach shall be widely applied by States according to their capabilities. Where there are threats of serious or irreversible damage, lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation".

[14] The Council will consider at its meeting in October 1995 a proposal for GEF policy on public participation and consultation.

[15] The Council will consider a proposal for a GEF policy on targeted research at a later meeting. UNEP will lead an interagency process to prepare a proposal for submission to the Council through the Secretariat. STAP will be consulted through this process.

[16] See *Instrument for the Establishment of the Restructured Global Environment Facility*, paragraph 2, and Document GEF/C.2/6/Rev.2, "Incremental Costs and Financing Modalities".

[17] See Document GEF/C.2/6/Rev. 2.

[18] The operational guidelines on incremental cost will be annexed to the text of the revised draft operational strategy that the Council will review in October 1995.

[19] At the Heads of Agency Meeting held on April 17, 1995, the Heads of the Implementing Agencies endorsed the need for better integration of GEF funded activities with their agencies own development and environment activities. In endorsed the "leveraging" aspects of the GEF, and the Heads of Agency felt that GEF's success ultimately lies in carrying out its activities within a framework of sustainable development. This necessitates "mainstreaming," "upstreaming," and cofinancing of GEF actions and Implementing Agencies own activities so as to produce both domestic and global benefits at the country level. In this regard, the GEF CEO noted with satisfaction the steps being taken by the Implementing Agencies in the development of the GEF portfolio.

[20] Paragraph 9(c) of the Instrument provides "GEF concessional financing in a form other than grants that is made available within the framework of the financial mechanism of the conventions referred to in paragraph 6 shall be in conformity with eligibility criteria decided by the Conference of the Parties of each convention, as provided under the arrangements or agreements referred to in paragraph 27. GEF concessional financing in a form other than grants may also be made available outside those frameworks on terms to be determined by the Council."

[21] A paper on how the GEF may best promote private sector activities will be considered by the Council in October 1995.

[22] See GEF Instrument, paragraph 4.

[23] See *Provision of Assistance for Enabling Activities and National Communications concerning the Framework Convention on Climate Change*, Document GEF/C.3/Inf.2. An interagency task force, chaired by the Executive Secretary of the Convention on Biological Diversity, is preparing a proposal for a consistent approach to enabling activities in the biodiversity focal area.

[24] For example, climate change projects that abate greenhouse gases at less than $3.30 per tonne are regarded as justified even in the absence of any learning, demonstration, market-opening, or any other long-term benefit. Yet individual solar energy projects that abate greenhouse gases at $100 per tonne may well be justified in a program that is expected to lead ultimately to widespread adoption of financially self-sustaining solar energy plants of the same sort, because the ultimate

abatement would be much more than that achieved by the project itself and the ultimate unit abatement cost much lower than the short-term criterion. See Chapter Three (Section IV) for a discussion of these climate change criteria.

[25] For biodiversity operations the comparator could be just the cost of achieving the stated objective (say, preservation of a defined habitat) in alternative ways and the least cost means would then be chosen on this basis. For climate change operations, the comparator would be the unit abatement cost (the cost per unit of greenhouse gas abatement, expressed for example, as dollars per tonne of carbon). For ozone operations, it would also be a unit abatement cost (e.g., in dollars per kilogram of ozone depleting potential).

[26] STAP will play a major role in reviewing and advising on the development of the proposal, which will be prepared under the guidance of UNEP.

[27] See Endnote number 10.

[28] Collaboration with the Implementing Agencies will be facilitated through an on-going interagency process coordinated by the Secretariat. In particular, the GEF Operations Committee (GEFOP) will facilitate the preparation of the GEF joint work programs and oversight of the implementation of program activities. For issues specific to particular focal areas, informal task forces of specialists within the Secretariat and the Implementing Agencies will be used to seek consensus on issue. The informal task forces will also assume a lead role in preparing operational programs in the focal areas.

[29] STAP will provide a forum for integrating the best-available expertise on science and technology in the GEF activities. Experts from the STAP roster will provide objective project-by-project reviews in order to enhance the scientific and technical quality of the portfolio.

[30] The GEFOP includes representation, as appropriate, from the Convention on Biological Diversity, the Framework Convention on Climate Change, and the Montreal Protocol on Substances that Deplete the Ozone Layer and its Multilateral Fund.

[31] See *Instrument for the Establishment of the Restructured Global Environment Facility*, paragraph 28.

[32] See *Instrument for the Establishment of the Restructured Global Environment Facility*, paragraph 5. The Council is to consider a proposed GEF policy on information disclosure and public participation in GEF activities at its meeting in October 1995.

CHAPTER TWO

BIOLOGICAL DIVERSITY

2.1 While estimates vary[1] there is general scientific consensus that the world is becoming less biologically diverse. However, the role of biological diversity in the sustainable functioning of the biosphere is not well understood. There is little understanding of the social, economic or ecosystemic consequences of a less biologically diverse world. Scientists estimate that less than 15 per cent of all species have been described[2].

2.2 Biodiversity is acknowledged to be a source of significant economic, aesthetic, ethical and cultural benefits which form the foundation for sustainable development. However, the scale of human impacts on biological diversity -- in its three forms (genes, species, and ecosystems) -- is increasing exponentially due to rapidly increasing consumption and growth in human population.

2.3 Biodiversity is not equally distributed throughout the world[3]; rates of loss vary across ecosystems; and ecosystems vary in levels of species richness. For example, tropical forests are estimated to house between 50 and 90 per cent of total species[4]. Neither the economic nor the ecosystemic value of species and ecosystems is well understood. Reducing the rate of biodiversity loss and conserving existing biodiversity as a basis for sustainable development remains a major global challenge.

2.4 The adoption of the Convention on Biological Diversity (CBD), as an instrument to address biodiversity conservation and its sustainable use, recognizes the intrinsic value of biological diversity and its importance for evolution and for maintaining life sustaining systems of the biosphere. The CBD expressed the Parties's concern that biological diversity is being significantly reduced by certain human activities, and noted that it is vital to "anticipate, prevent and attack the cause of significant reduction or loss of biological diversity at source. The CBD also states that "where there is a threat of significant reduction or loss of biological diversity, lack of full scientific certainty should not be used as a reason for postponing measures to avoid or minimize such a threat"[5].

2.5 The GEF operates, on the basis of collaboration and partnership among Implementing Agencies, 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 global environmental benefits in biological diversity. Global environmental benefits will be in the form of the reduced risks of global biological diversity loss and the enhanced protection of ecosystems and the species contained therein.

2.6 GEF's objectives in biological diversity derive from the CBD and are to contribute to the conservation of biological diversity, the sustainable use of its components and the fair and equitable sharing of the benefits arising out of the utilization of genetic resources, including by appropriate access to genetic resources and by appropriate transfer of relevant technologies, taking into account all rights over those resources and to technologies, and by appropriate funding[6].

Guidance

2.7 The GEF Operational Strategy in Biological Diversity is an operational response to the policy guidance of the Conference of the Parties (COP) to the Convention on Biological Diversity (CBD)[7]

Convention context

2.8 The COP designated the GEF to serve as the institutional structure to operate the financial mechanism of the CBD on an interim basis[8]. The COP, at its first meeting[9] provided the GEF with guidance on policy, strategy, program priorities and eligibility criteria[10]. Thus, for purposes of the Convention the operational strategy for biodiversity would lead to operational programs and projects that would be fully consistent with the Convention guidance. Those program priorities are related primarily to biodiversity conservation and sustainable ecosystem management and do not cover the other CBD Article 1 issues related to genetic resources. The operational strategy for biodiversity will initially focus upon the current CBD guidance while recognizing the need to accommodate revisions to such COP guidance as it may emerge.

Non-convention context

2.9 While GEF may provide funds to any of its eligible recipient countries, only developing country Parties are eligible to receive funding through the financial mechanism of the Convention. When GEF provides complementary assistance outside the financial mechanism such assistance will be consistent with the policies, program priorities, and eligibility criteria for activities as relevant, established by the COP.

I. PORTFOLIO OF GEF ACTIVITIES

2.10 The overall strategic thrust of the biodiversity portfolio is to: (i) integrate the conservation and sustainable uses of biodiversity within national sustainable development plans and policies; and (ii) protect and sustainably manage ecosystems through a combination of targeted cost effective interventions.

2.11 Consistent with the overarching operational strategy for the GEF outlined in Chapter One, the operational strategy for biological diversity will focus upon four broad areas: (i) **Enabling Activities**; (ii) **Long Term** ***measures*** designed to protect and manage biodiversity in a sustainable manner; (iii) **Short Term** ***interventions*** which offer low-cost opportunities to protect biodiversity and therefore may be considered "too good to miss" or "too urgent to forgo"; and (iv) **Targeted Research**. The GEF Secretariat and the Implementing Agencies[11], will work together in the overall design of a GEF biodiversity portfolio.

2.12 Enabling activities will underpin the larger and longer term interventions which will be required to support biodiversity on a sustainable basis. It is expected that the long-term measures themselves will utilize the largest portion of financing for the biodiversity portfolio. The four operational areas for consideration under GEF are described below.

2.13 Where feasible and cost-effective, programs and activities would be designed and located in such a way as to increase the level of global environmental benefits in the other focal areas and to prevent or control land degradation. For example, actions to sequester carbon may offer opportunities for biodiversity conservation; international waters projects may offer opportunities for integrating aquatic biodiversity components; and biodiversity-based land management practices may offer opportunities for effective land management against degradation[12].

2.14 Annex 2A provides a summary of the relationship between CBD guidance on program priorities on the one hand and GEF strategic objectives and operational activities on the other.

II. ENABLING ACTIVITIES

2.15 The concept of "Enabling Activities" has not been formally adopted by the COP of the CBD, although many of the enabling activities described generically in Chapter One are of direct relevance to biodiversity and are recognized as priority activities by the CBD [13].

2.16 Enabling Activities in biodiversity[14] include:

(a) activities that help countries better understand the CBD including its financial mechanism;

(b) activities that help countries better understand the implications of being a Contracting Party to the CBD; and

(c) activities that help countries prepare and develop biodiversity planning exercises such as stock taking of country studies, strategies, action plans, sectoral plans, programs and projects.

2.17 Enabling Activities, in the context of the GEF operational strategy, will normally deal with the review and assessment of existing information and will thus assist a recipient country to gain a better understanding of the nature and scope of its biodiversity assets and issues as well as a clearer sense of options for management and conservation[15]. Since enabling activities would be an essential element of a **cost-effective precautionary** approach -- they require relatively modest funds to provide countries with a minimum amount of information on which to act -- programming of modest funds on a wide scale for access to all eligible parties is appropriate. Furthermore, enabling activities will normally be regarded as entirely incremental and therefore funded on the basis of full cost reimbursement. Exceptions to this could include incremental finance to further develop sectoral plans, programs and projects in light of global environmental objectives.

2.18 As a follow up to Enabling Activities, some Parties may require capacity building to establish or strengthen institutional and legal frameworks or undertake research to conserve biodiversity. Enabling activities will provide a basis for such efforts although normally capacity building will be undertaken as an integral part of the long term operational programs described in the next section.

2.19 The GEF will develop an Operational Program of enabling activities for biodiversity which would set out:

(a) the key elements of enabling activities including an indicative list of products;

(b) an outline of recommended processes to prepare, discuss and disseminate enabling activities within a recipient country[16];

(c) cost norms for types of activities; and

(d) the development of a data base of activities to ensure cohesive programming and to avoid duplication[17].

III. LONG TERM MEASURES

Ecosystems

2.20 GEF would provide assistance in the context of long term operational programs designed to conserve and sustainably use biodiversity. There is clear scientific logic in preparing operational programs on the basis of ecosystems. However, ecosystem priorities would also need to be set out in accordance with national priorities for conservation[18]. Operational programs, based on national priorities, would outline the main causes of biodiversity deterioration and loss, and then identify and fund the most promising ameliorative actions to be undertaken. All activities within an operational program would be country driven, although inter-country cooperation would be encouraged where ecosystems are transboundary, where there are established relationships between ecosystems (for example, related to migrating species), or where opportunities exit for collaborative sub-regional, regional and international activities [19].

2.21 Ideally, country-driven Operational Programs, would arise from the analysis and assessment contained in the enabling activities and other nationally developed baseline information. Such assessments would serve as the basis for developing operational programs including activities in capacity building, information and public awareness activities, technical assistance, training, institutional strengthening, pre-investment, and investment.

2.22 Each Operational Program would be uniquely tailored to the specific country and ecosystem conditions and would derive from country based priorities for action. Operational Programs could, in some cases, provide a basis for very long term actions. These may exceed the likely commitment period of the current GEF replenishment; although aggregate project and activity level commitments would not exceed the total resources mobilized. Forward looking programs of a long term nature are more likely to consider **sustainability** as a driving factor.

2.23 Funding requirements for ameliorative long-term programs are likely to exceed, by a large margin, current GEF resource availabilities. Unlike enabling activities where a strong case can be made for widespread adoption, a more selective approach is required for long-term operational programs. The long term **cost effective precautionary** principle suggests that a portfolio should be

developed over time which provides for a high level of representativeness of global ecosystems, especially in tropical regions[20]. It is difficult to define a precise sampling technique that would provide for a truly representative biodiversity portfolio since: (i) there is uncertainty with respect to the level of species richness and its value within ecosystems; and (ii) relationships between ecosystems are uncertain. Therefore, the portfolio should develop from a broadly representative base of ecosystems in the first instance but with increasing recognition of the potential importance of species and endemic rich ecosystems[21]. Within representative ecosystems, attention would be focused on the degree of threat (especially to coastal and marine resources)[22], level of vulnerability (especially in arid, semi-arid and mountain regions)[23], and priority status at the national and regional level[24].

2.24 Annex 2B illustrates the type of elements that wold comprise an ecosystem-based operational program.

Measures

2.25 In addition, cross-cutting operational programs would be described in cases where the testing of new approaches, innovative funding modalities, and specific interventions could contribute to a learning process beyond the immediate ecosystem or country. In such cases, key elements of an ecosystem-based operational program would be identified and evaluated in the context of the broader learning objectives of the GEF. A series of cross-cutting operational programs will be prepared which, in addition to serving country-driven priorities, would enhance broad-based learning. Such programs would include: (i) approaches to addressing recurrent cost-financing in biodiversity, including trust funds and endowments where the primary concern of financial **sustainability** would be addressed; (ii) sustainable management practices in a wide range of ecosystems where issues of long-term ecosystem (and social) **sustainability** would be addressed; and (iii) the role and functioning of financial and economic instruments which would identify opportunities for **cost effectively** protecting ecosystems through recourse to regulatory and policy instruments and would **facilitate**, through resource mobilization through venture capital funds and other means.

2.26 Three mutually reinforcing types of actions will characterize both ecosystems-based and measures-based the long term operational programs for biodiversity conservation:

(a) an understanding of the underlying economic and policy causes of biodiversity loss and the actions needed for reversal;

(b) actions which build on synergies and strengthen the inter-relationship between biodiversity conservation and sustainable development practices in the main productive sectors of the economy, especially in agriculture and forestry; and

(c) actions which strengthen in-situ biodiversity conservation management especially within protected areas.

2.27 Elements of an operational program could contain some or all of the following[25]:

(a) the establishment of a national policy framework for biodiversity including the introduction of specific legal, economic and social policy measures;

(b) actions which create conditions and incentives for local biodiversity conservation including the sustainable utilization of products and services from wild habitats;

(c) actions which support biodiversity conservation management initiatives in both the public and private sectors;

(d) actions which address financial sustainbility;

(e) actions to strengthen and/or expand existing protected areas and/or assist in the demarcation and management of potentially important new areas; and

(f) actions which develop human capacity to conserve biodiversity at local, national and regional levels.

2.28 The social dimensions of biodiversity conservation and utilization are of central importance to many countries. Conservation and resource use are an integral aspect of social process where local and indigenous communities play a vital role in the management and protection of biodiversity. All GEF-funded activities will be consistent with the consultation and participation guidelines to be approved by Council[26].

2.29 GEF activities that encourage the private sector[27], especially when they ensure the mobilization of additional funds for biodiversity conservation and sustainable use of resources, would have priority. Such activities which would normally form part of a long term strategic program to protect an ecosystem and might include: establishment of trust funds whereby GEF would **complement** private funds; the creation of venture capital funds for sustainable ecosystem development which GEF would **facilitate**; and, projects that promote access to, and transfer of, technology[28]. As noted, these issues would form the basis for an operational program.

2.30 Annex 2C illustrates the types of elements that would be in a measures-based operational program.

Underlying Causes and Policy Analysis

2.31 Biodiversity loss occurs through direct and indirect causes. These causes are typically multiple and synergistic. They stem from complex interactions of demographic, social, ecological, economic and political factors [29]. Three levels of causality can be identified: proximate causes (where human action such as land clearing directly induces biodiversity loss); intermediate causes (such as inadequate functioning of the price mechanism); and ultimate causes (such as population growth coupled with low standards of living which increase pressure on natural resources)[30].

2.32 Addressing all of these causes would go beyond the GEF's mandate and ability to finance since many actions are considered justifiable for reasons well beyond biodiversity conservation[31]. Nevertheless, recipient countries may have an interest in understanding the range and importance of these factors and their role in ameliorating biodiversity loss. Implementing appropriate economic and social policies may well offer **cost effective** long term solutions to biodiversity protection[32]. While GEF would concentrate its efforts in addressing proximate and intermediate causes it could, through its Implementing Agencies and their regular development programs, **facilitate** efforts to address ultimate causes as they relate to sustainable development within countries.

2.33 Operational activities would include:

(a) identification of major policy causes (proximate, intermediate, ultimate) of biodiversity loss and assessments of feasible actions;

(b) specific projects and other forms of assistance in implementing remedial measures including capacity building, shifts in economic policy, introduction of legal, institutional and regulatory systems, and incremental investment in agriculture, water resource management, and industry sectors; and

(c) innovative measures, including economic incentives, which would aim at the conservation of biodiversity and/or its sustainable use[33].

Sustainable Use of Biodiversity

2.34 Activities which address biodiversity management within the productive sectors of an economy are likely to lead to long term **sustainability**. Some sectors of the economy such as forestry, agriculture, and fisheries rely upon and/or utilize biodiversity assets. Activities would be developed which integrate the sustainable use of such resources. They would include:

(a) integrating biodiversity conservation and sustainable use into landuse planning, and resource use;

(b) implementing programs which establish regulatory frameworks to minimize or ameliorate the harmful impact of commercial activities on natural resource use;

(c) management systems based upon sustainable use of natural products such as non-timber forest products, wild relatives of domesticated species, and agro-biodiversity;

(d) the development of marketing systems for wild plants and animal products;

(e) the development and implementation of sustainable harvesting regimes; and

(f) the development of sustainable wildlife-based tourism.

Conservation of Biodiversity

2.35 Initial emphasis will be placed on in situ activities within and adjacent to designated protected areas of biological importance. Initial efforts will focus upon those national priority protected areas identified as being of global significance[34]. However, countries may seek assistance to demarcate and gazette other potentially important biodiversity reserves.

2.36 Conservation activities will be linked not only to direct management interventions but also through the promotion of economic development alternatives to ensure that livelihoods can be maintained in and around the protected areas. While operational programs would cover a variety of protected area ecosystems, marine ecosystems and wetlands appear to be particularly vulnerable.

2.37 Activities within operational programs would include:

(a) demarcation, gazetting, and strengthening of protected areas;

(b) establishment of long term funding mechanisms, including trust funds, to ensure recurrent costs are provided for;

(c) integrated conservation and development projects (ICDPs) around protected areas;

(d) schemes to promote sustainable natural resource management by local communities, indigenous groups and other sectors of society; and

(e) demonstration projects linked to alternative livelihoods for local and indigenous communities consistent with biodiversity conservation.

IV. SHORT TERM MEASURES

2.38 In some cases there will be project proposals that are not an integral part of a long term operational program but which would still be **cost effective** to undertake or which provide an opportunity considered "too good to miss" or "too urgent to forgo". It would be unwise to reject such projects on the premise that they were not part of an agreed long term plan or program, especially if the costs were relatively low, the outcomes relatively certain, and their urgency and/or priority unchallenged.

2.39 Short term criteria would be used to rank such project proposals and would include:

(a) Likelihood of Success: the project would need to demonstrate that it was a high quality and well designed intervention. Supporting assessments of technical quality and relevance would be needed, and STAP may be consulted directly;

(b) Cost effectiveness: Few useful quantifiable measures of cost effectiveness exist. Where possible, normative information would be provided to assess the nature of the costs involved;

(c) Degree of Threat and/or Urgency: Some interventions may be considered extremely high priority on the basis of immediate or short term threat to the ecosystem. This would apply especially to coastal and marine biodiversity[35];

(d) Level of vulnerability, especially in areas such as arid, semi arid and mountainous regions[36]; and

(e) Opportunism: the timing of critical factors -- political changes, emergence of a conducive policy environment, urgent and emerging nature of the problem etc. -- may provide opportunities "too urgent to forgo" for developing and funding projects. In addition, promising new ideas may be considered "too good to miss".

2.40 Examples of activities that would qualify under short-term response measures include: activities within ecosystems on threatened or endangered species where population numbers are still at critical maintenance levels; restoration and/or rehabilitation of unique habitats in areas of high diversity or endemism; actions to reduce immediate threats to migratory species; and projects of a highly innovative nature.

IV. RESEARCH

2.41 Council will consider for approval an overall policy on research at its October, 1995 meeting. There is justification for providing limited funds for highly targeted research efforts in recipient countries:

(a) biodiversity is highly site specific and therefore baseline research, monitoring and inventorying efforts can only be undertaken in recipient countries;

(b) funding for applied biodiversity research is difficult to secure and hence GEF could play a **facilitative** role in resource mobilization and/or **complementary** role in co-funding other efforts; and

(c) the application of tools and methodologies is relatively under-developed in many GEF recipient countries[37]

2.42 An operational program for research would be developed only after Council had approved the overall policy on research. Areas for targeted research in biodiversity could include: technology applications for sustainable resource use; social dimensions of protected areas; assistance to existing research and monitoring institutions and the development and testing of relevant tools of methodologies. GEF funds would not be used to fund basic research nor to create new research institutions, nor would GEF fund short-term recurrent costs of research since they would not be **sustainable.**

GEF Operational Strategy
GEF Strategic Objectives and CBD Program Priorities
(Biodiversity)

CBD - Program Priorities 2/ \ GEF - Strategic objectives 1/	Sustainability	Integration	Diverse Portfolio	Information	Complementarity	Facilitate	Cost effectiveness
(a) National Priority	✓	✓		✓			
(b) Integration		✓					
(c) Sustainable ecosystems Management	✓			✓			✓
(d) Monitoring				✓			✓
(e) Capacity Building	✓	✓		✓	✓		✓
(f) Technology transfer			✓			✓	
(g) Sustainability	✓						
(h) Private funding					✓	✓	
(i) Economic incentives					✓	✓	✓
(j) Local involvement	✓						
(k) Threat and vulnerability			✓				
(l) Endemism			✓				
(m) Social dimensions	✓	✓					

CBD - Program Priorities 2/ \ GEF - Operational activities 1/	Enabling Activities	Long-term	Short-term	Research
(a) National Priority	✓	✓	✓	✓
(b) Integration	✓	✓		
(c) Sustainable ecosystems Management		✓		✓
(d) Monitoring		✓		✓
(e) Capacity Building		✓	✓	✓
(f) Technology transfer		✓		
(g) Sustainability	✓	✓	✓	✓
(h) Private funding		✓	✓	
(i) Economic incentives		✓		
(j) Local involvement		✓	✓	
(k) Threat and vulnerability		✓	✓	
l) Endemism		✓		
(m) Social dimensions	✓	✓	✓	✓

1/ See Chapter One.

2/ See Annex 1 of Convention on Biological Diversity 1994, UNEP/CBD/COP/1/L.6

ANNEX 2B

ELEMENTS OF AN ECOSYSTEM-BASED OPERATIONAL PROGRAM

1. **Biodiversity**

   (a) Description of the biodiversity under threat

   (b) The biological unit whose diversity in threatened (species, ecosystem type, etc.)

   (c) The biological resources and their use.

2. **Priority**

   (a) Guidance of the COP of the CBD showing that the preservation of the particular biodiversity is a global priority

   (b) National priority, indicating how activities 'fit' within national action plans

3. **The Ecosystem**

   (a) Justification for selecting a given ecosystem

   (b) Description of the ecosystem
      (i) Identification of underlying economic and policy causes of the loss of biodiversity (proximate, intermediate, ultimate)
      (ii) Identification of barriers to sustainable use
         a. Market barriers
         b. Legal and administrative
         c. Information
         d. Other

4. **Sustainable Use**

5. **Conservation of Biodiversity**

6. **Proposed Measures**

   (a) National policy framework
      (i) Legal measures
      (ii) Economic measures
      (iii) Social measures

   (b) Incentives for local action on conservation and sustainable use
   (c) Conservation management measures

(i) Public
(ii) Private

(d) Financial sustainability

(e) Protected area management measures
(i) Expansion of existing areas
(ii) Demarcation and management of new areas

(f) Capacity building
(i) Local
(ii) National
(iii) Regional

7. Sectoral Context of the Measures

For each cause and barrier:

(a) Identify the sector

(b) Propose the action to remove the cause or overcome the barrier

(c) Identify the mix of investment, capacity-building, research etc. required

(d) Set out timetable

(e) Project, in the sectoral context where it occurs, the effect of the measure

(f) Show the measures collectively will conserve the ecosystem or permit sustainable use

(g) Identify sources of finance and agents of implementation

(h) Estimate, for any measure proposed for GEF specifically, the likely cost

8. Sustainability

(a) Ecological sustainability

(b) Financial sustainability of the program after GEF financing is complete

(c) For each measure and for the program as a whole, the likelihood of success
(i) Commitments to CBD
(ii) Government undertakings
(iii) Local participation
(iv) Other indicators of country-driven support
(v) Source of equipment and expertise required

9. Implementation and Evaluation

(a) Roles of the Implementing Agencies

(b) Foundations provided by existing programs and initiatives

(c) Other organizations involved (NGOs, Regional Centers of Excellence, private sector, research institutes)

(d) Program termination (criterion to determine when objective met)

(e) Aggregate financial support proposed for GEF funding

ELEMENTS OF A MEASURE-BASED OPERATIONAL PROGRAM

1. **Measure**

   (a) Description of the measure; situations where it would be used

   (b) The likely value of the measure in conserving biodiversity or promoting sustainable use of biological resources in a wide range of countries.

2. **Priority**

   (a) Guidance of the COP of the CBD showing that measures of the type proposed are a global priority

   (b) National priority, indicating how such measures would help implement within national action plans.

3. **The Programmatic Basis**

   (a) Justification for studying the measure in a program context
   - (i) State of knowledge; what needs to be learned
   - (ii) Likely opportunities for learning
   - (iii) Reason that recipient countries provide best opportunities for learning

   (b) Identification of underlying economic and policy causes of the loss of biodiversity (proximate, intermediate, ultimate) that the measure would address

   (c) Identification of barriers to sustainable use that the measure would address.

4. **Country Application**

   (a) Countries included in the operational program

   (b) Sequence of structured learning projects

   (c) Future country-driven opportunities for fully developed measures in ecosystem-based operational programs

5. **Sustainability**

   (a) Ecological sustainability

   (b) Financial sustainability of the program after GEF financing is complete

(c) For each country case study and for the program as a whole, the likelihood of success
   (i) Commitments to CBD
   (ii) Government undertakings
   (iii) Local participation
   (iv) Other indicators of country-driven support
   (v) Source of equipment and expertise required

6. Implementation and Evaluation

(a) Roles of the Implementing Agencies

(b) Foundations provided by existing programs and initiatives

(c) Other organizations involved (NGOs, Regional Centers of Excellence, private sector, research institutes)

(d) Program termination (criterion to determine when objective met)

(e) Aggregate financial support proposed for GEF funding

7. Dissemination of the Results

ENDNOTES

[1] Global Biodiversity Strategy: "Guidelines for Action to save, Study, and Use Earth's Biotic Wealth Sustainably and Equitably" World Resources Institute (WRI), The World Conservation Union (IUCN), United Nations Environment Programme (UNEP), see especially Chapter II.
"Global Biodiversity Assessment" (Draft, forthcoming): The Assessment (GBA) notes that the earth is losing species at rates some 50 to 100 times higher than "background" rates, and that some 5 to 20 per cent of vertebrates and plants are now threatened by extinction.

[2] Ibid., The GBA notes that the earth is home to an estimated 13 million species, of which about 1.7 million have been described.

[3] Op. cit., GBA, WCMC global biodiversity.

[4] Ibid., Chapter 2.

[5] see Preamble to Convention on Biological Diversity.

[6] Convention on Biological Diversity, Article 1.

[7] Convention on Biological Diversity, 1994. UNEP/CBD/COP/1/L.6 including annexes I to III and Corrigendum 1 to Document L.6.

[8] Decision I/2, "Financial Resources and Mechanism", Report of the First Meeting of the Conference of the Parties to the Convention on Biological Diversity, UNEP/CBD/COP/1/17, February 28, 1995.

[9] The first meeting of the Conference of the Parties was held in Nassau, Bahamas, November 28 - December 9, 1994.

[10] "Policy, Strategy, Programme Priorities and Eligibility Criteria for access to and Utilization of Financial Resources of the Convention on Biological Diversity (UNEP/CBD/COP/1/L.6; Annex 1, pages 3 through 5) - referred to hereafter as "Criteria" which states:

"Annex No. 1. Policy, Strategy, Programme Priorities and Eligibility Criteria for access to and utilization of financial resources of the Convention on Biological Diversity (UNEP/CBD/COP/1/L.6; Annex I, page 3-5)

I. Policy and Strategy

Financial resources should be allocated to projects that fulfill the eligibility criteria and are endorsed and promoted by the Parties concerned. Projects should contribute to the extent possible to build cooperation at the sub-regional, regional and international levels in the implementation of the Convention. Projects should promote utilization of local and regional expertise. The institutional structure should over time assist all eligible countries to fulfil their obligations under the Convention. Policy and strategy may be revised, as necessary, by the Conference of the Parties.

II. Eligibility Criteria

Only developing countries that are Parties to the Convention are eligible to receive funding upon entry into force of the Convention for them. In accordance with the provisions of the Convention, projects that seek to meet the objectives of conservation of biological diversity and sustainable use of its components are eligible for financial support from the institutional structure.

III. Programme priorities

1. The conservation of biological diversity and sustainable use of its components is one of the key elements in achieving sustainable development and therefore contribute to combating poverty.

2. All the actions contemplated in the Convention will have to be carried out at the national and international level, as appropriate. However, for the purposes of giving direction to the interim structure operating the financial mechanism, a list of programme priorities is given in paragraph 4 below. The list may be revised by the Conference of the Parties, as necessary.

3. Programme priorities should promote utilization of regional and local expertise and be flexible to accommodate national priorities and regional needs within the aims of the Convention.

4. The programme priorities are as follows:

a) Projects and programmes that have national priority status and that fulfil the obligations of the Convention;

b) Development of integrated national strategies, plans or programmes for the conservation of biological diversity and sustainable use of its components in accordance with Article 6 of the Convention;

c) Strengthening conservation, management and sustainable use of ecosystems and habitats identified by national governments in accordance with Article 7 of the Convention;

d) Identification and monitoring of wild and domesticated biodiversity components, in particular those under threat, and implementation of measures of their conservation and sustainable use;

e) Capacity-building, including human resource development and institutional development and/or strengthening, to facilitate the preparation and/or implementation of national strategies, plans for priority programmes and activities for conservation of biological diversity and sustainable use of its components;

f) In accordance with Article 16 of the Convention, and to meet the objectives of conservation of biological diversity and sustainable use of its components, projects that promote access to, transfer of and cooperation for joint development of technology;

g) Projects that promote the sustainability of project benefits; that offer a potential contribution to experience in the conservation of biological diversity and sustainable use of its components which may have application elsewhere; and that encourage scientific excellence;

h) Activities that provide access to other international, national and/or private sector funds and scientific and technical cooperation;

i) Innovative measures, including in the field of economic incentives, aiming at conservation of biological diversity and/or sustainable use of its components, including those which assist developing countries to address situations where opportunity costs are incurred by local communities and to identify ways and means by which these can be compensated, in accordance with Article 11 of the Convention;

j) Projects that strengthen the involvement of local and indigenous people in the conservation of biological diversity and sustainable use of its components;

k) Projects that promote the conservation and sustainable use of biological diversity of coastal and marine resources under threat. Also, projects which promote the conservation of biological diversity and sustainable use of its components in other environmentally vulnerable areas such as arid and semi-arid and mountainous areas;

l) Projects that promote the conservation and/or sustainable use of endemic species;

m) Projects aimed at the conservation of biological diversity and sustainable use of its components which integrate social dimensions including those related to poverty.

[11] To facilitate implementing agency coordination, the GEF Secretariat created an informal task force on biodiversity to assist it in the design and implementation of the GEF's portfolio on biodiversity. The task force reviews draft operational policies of direct relevance to biodiversity, advises the GEF Secretariat on the technical content of project submissions, and undertakes ad hoc assignments at the request of the GEF Secretariat. The Task Force is normally chaired by the GEF Secretariat and consists of technical experts drawn from the GEF's Implementing Agencies. However, outside experts may be requested to join task force meetings.

[12] Biodiversity concerns cut across all the GEF focal areas:

(a) Climate Change examples include: actions that keep the greatest genetic variability possible in their natural systems to be able to adapt to climate change; programs that increase reforestation with indigenous plant species for carbon sequestration in ecologically important areas.

(b) International waters examples include: actions seeking prevention of ecological degradation of critical water habitats (wetlands, estuaries, lakes); programs to prevent the introduction of exotic species; projects that address over-exploitation of key marine environments such as coral reefs or of specific species through unsustainable harvesting practices.

(c) Ozone Depletion examples include: the impacts of methylbromide based fungicides (ozone depleting substances) and their impact upon biodiversity.

(d) land degradation examples include: prevention of land degradation and the link with unsustainable agricultural practices.

[13] see CBD: Preamble; Article 6, 7(b), 12, 18(2) and CBD guidance (footnote 7): 4(c), (h), (j).

[14] *Final Report of the meeting of the Task Force on GEF Enabling Activities under the CBD*, 5-6 April 1995, Nairobi. The Task Force identified a fourth category of activity: "enabling activities for general use rather than country-specific (e.g., development of guidelines for biodiversity planning)". However, such activities also relate to Research and, as such, will be reviewed in that context.

[15] The GEF Secretariat has established an inter-agency task force on biodiversity. It reviews all biodiversity project and activity proposals and undertake ad hoc review work. The task force was convened in April 1995 to specifically review enabling activities in biodiversity. The CBD secretariat was invited to chair the meeting, which was hosted by UNEP on the 5 and 6 April, 1995, and it reviewed: (i) the definition and scope of enabling activities in biodiversity; (ii) systems needed to ensure programmatic cohesion and cost effectiveness; and (iii) preliminary assessments of norms and standards to be applied in programming resources.

[16] GEF would encourage countries to disseminate findings widely within the country and to encourage discussion and debate amongst all major stakeholders. GEF consultation and participation guidelines (once approved by Council) would provide a framework for such activities.

[17] GEF would, in the normal course of its project/activity monitoring, maintain a data-base on all enabling activities it funds. This information could be made available to the CBD secretariat. In order to improve co-ordination and avoid duplication it will eventually be useful to develop a data-base of enabling activities that would include all efforts including those funded from GEF and non-GEF sources.

[18] See 4 (c) of CBD Program Priorities and Article 7 of the Convention on Biological Diversity.

[19] Op. cit., Policy and Strategy.

[20] At its first meeting, the Conference of the Parties identified "strengthening conservation, management and sustainable use of ecosystems and habitats identified by national Governments in accordance with article 7 of the Convention" as a program priority.

> Article 7 of the Convention provides that a Contracting Party is to identify components of biological diversity important for its conservation and sustainable use having regard to the indicative list of categories set down in Annex I.
>
> The criteria set down in Annex I of the Convention are:
>
> 1. Ecosystems and habitats: containing high diversity, large numbers of endemic or threatened species or wilderness; required by migratory species; of social, economic, cultural or scientific importance; or, which are representative, unique or associated with key evolutionary or other biological processes;
>
> 2. Species and communities which are: threatened; wild relatives of domesticated or cultivated species; of medicinal, agricultural or other economic value; or social, scientific or cultural importance; or importance for research into conservation and sustainable use of biological diversity, such as indicator species; and
>
> 3. Described genomes and genes of social, scientific or economic importance.

[21] There has been considerable academic debate on methodologies to determine relative priorities in global biodiversity and no consensus has yet been reached. Further efforts will be required in this field and STAP could be requested to play a role on advising the GEF Secretariat on the validity of priorities setting methods and approaches.

[22] Op. cit., "Criteria": 4 (k).

[23] Op. cit., "Criteria": 4 (k).

[24] Op. cit., paragraph 4 (a) and paragraph 3.

[25] Global Biodiversity Strategy (1992) ibid: see especially pages 183 through 197 which provides a useful "user's guide to the global biodiversity strategy and contains a number of recommended actions covering strategic, policy, research and human development activities from which the list of activities included in this paragraph are largely derived.

[26] To be approved by Council at its October 1995 meeting. However, also note op. cit., "Criteria": paragraph 4 (j), (m).

[27] Op. cit., "Criteria": paragraph 4 (h).

[28] Op. cit., "Criteria": paragraph 4 (f).

[29] see, for example, "Economics and the Conservation of Global Biological Diversity": Katrina Brown, David Pearce, Charles Perrings, Timothy Swanson. Working Paper Number 2, Global Environment Facility. Chapter Three -- The Economic Causes of Biodiversity Erosion -- provides a succinct summary of the key variables affecting biodiversity loss. See also Figure 5.1 which provides a schematic summary of factors affecting global biological diversity.

[30] Cervigni, R., (CSERGE, 1994): "Incremental Cost of Biodiversity Conservation; informal report submitted to the Global Environment Facility".

[31] for example, it is unlikely that GEF would fund population programs, direct anti-poverty interventions, or potable water schemes even if these were identified as causal factors affecting the deterioration of biodiversity. Such programs would be of the highest national priority and would normally be an integral part of national economic and social development plans and policies.

[32] The removal or reduction of economic distortions which are generally beneficial to the economies of a country in question will often simultaneously benefit the environment and biodiversity. Case study work at the country level would be able to assess the likely impact of removing economic distortions. Numerous publications testify to this, but see especially: Pearce D.W, and Warford J.: World Without End: Environment Economics and Sustainable Development, Oxford University Press, 1993.

[33] Op. cit., "Criteria": paragraph 4 (i).

[34] While there is no universally agreed classification for establishing the global importance of protected areas, a number of reference materials identify such sites. Efforts could be focused on those sites listed in one or more of the following:

(a) Directory of Wetlands of International Importance (RAMSAR);
(b) World Heritage Sites (as included in the World Heritage Convention);
(c) Biosphere Reserves (UNESCO) of international importance and as also recorded by the World Conservation Monitoring Centre (WCMC), Global Biodiversity, 1992;
(d) Bird Areas of International Importance (Bird-life International);
(e) Centers of plant diversity, IUCN, 1987. IUCN Threatened Plants Unit. Kew, U.K.; and: WCM; pages: 66-67.
(f) Regions of diversity of crop plants (WCMC, pp. 338-342).

The above efforts, while useful in their own right, point out the need to strengthen an overall system for classifying and assessing the global significance of biodiversity sites.

[35] Op. cit., "Criteria": paragraph 4 (k).

[36] Op. cit., "Criteria": paragraph 4 (k).

[37] This is suggested as an Enabling Activity by the Biodiversity Enabling Task Force.

CHAPTER THREE

CLIMATE CHANGE

3.1 Human activities have been substantially increasing the atmospheric concentrations of greenhouse gases. These increases enhance the natural greenhouse effect, and this will result on average in an additional warming of the Earth's surface and lower atmosphere and there is widespread concern that this may adversely affect natural ecosystems and humankind. The United Nations Framework Convention on Climate Change (FCCC), which became effective in March 1994, was an international acknowledgment that change in the Earth's climate and its adverse effects are a common concern of humankind and that the global nature of climate change calls for the widest possible cooperation by all countries. While recognizing that various actions to address climate change can be justified economically in their own right and can also help in solving other environmental problems, the Convention also saw the need for all countries, especially developing countries, to have access to resources to achieve sustainable social and economic development. In order for developing countries to progress towards sustainable development, their energy consumption will need to grow taking into account the possibilities for achieving greater energy efficiency and for controlling greenhouse gas emissions in general, including through the application of new technologies on terms which make such an application economically and socially beneficial.[1]

3.2 The GEF operates, on the basis of collaboration and partnership among its Implementing Agencies, 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 (among other focal areas) climate change.[2] Global environmental benefits will be in the form of the reduced risks of climate change, and the GEF operational strategy for climate change sets out the way in which the GEF, within its own mandate and according to its general policies, can assist eligible recipient countries to do this.

3.3 GEF's objective in climate change is to contribute to the achievement of stabilization of greenhouse gas concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system. Such a level should be achieved within a time-frame sufficient to allow ecosystems to adapt naturally to climate change, to ensure that food production is not threatened and to enable economic development to proceed in a sustainable manner.

Guidance

3.4 The GEF Operational Strategy in climate change is an operational response to the policy guidance of the Framework Convention on Climate Change (FCCC).

Convention context

3.5 The most recent guidance of the FCCC was provided by the First Conference of the Parties (COP), which met in Berlin from March 28 to April 7, 1995.[3] The COP adopted the recommendations[4] of the Intergovernmental Negotiating Committee on Climate Change concerning

initial guidance on eligibility criteria, program priorities, and policies for the financial mechanism, for which the GEF is the international entity entrusted, on an interim basis, with its operation. The GEF had also requested the COP for additional guidance on the development of this operational strategy.[5] In response to a specific request, the COP adopted:

> "a mixed strategy wherein projects in climate change will be selected with a double set of program priorities as described in paragraph 9(c) of the [GEF] report,[6] that is, if they met either one of the long-term programme priorities or one of the short-term programme priorities."[7]

The operational strategy for climate change would thus set out, over time, both the long-term and short-term operational programs that would follow and be fully consistent with the Convention guidance.

Non-convention context

3.6 While GEF may provide funds to any of its eligible recipient countries, only developing country Parties are eligible to receive funding through the financial mechanism. When GEF provides complementary assistance outside the financial mechanism -- for example, to countries with economies in transition -- it will follow the recommendation[8] of the COP that such assistance be consistent with the policies, program priorities, and eligibility criteria for activities as relevant, established by the COP.[9]

I. PORTFOLIO OF *GEF* ACTIVITIES

3.7 The overall strategic thrust of the climate change portfolio is to support sustainable long-term prevention measures, normally referred to as "mitigation measures."[10] Mitigation measures are those that reduce the emission of greenhouse gas (GHG) from anthropogenic sources or protect or enhance their removal by sinks. In the initial period it will be important to emphasize support for enabling activities to all eligible countries that require them and to take advantage of short-term opportunities to reduce GHGs. In the long run, the cost of the latter items would be a relatively small part of the overall portfolio because enabling activities will be prepared according to appropriate cost norms and because the short-term mitigation criteria have appropriate cost-effectiveness and project financing limits. The Implementing Agencies will concentrate most of their staff resources in pursuit of enabling activities and those proposals that fall within long-term operational programs.

3.8 Wherever feasible, projects would be designed and located in such a way as to maximize global environmental benefits in other focal areas and to prevent or control land degradation. For example, there may be opportunities to locate a carbon sequestration project to protect important habitat or improve the stabilization of soil, without significantly compromising its climate change objectives.

3.9 The GEF Secretariat, in consultation with the Implementing Agencies, will prepare a climate change portfolio comprising:

(a) an operational program of enabling activities;
(b) various operational programs of long-term mitigation measures;
(c) individual short-term mitigation measures; and
(d) targeted research in climate change (if and when a GEF policy in this area is approved).

3.10 Annex 3.A summarizes the relationship between the COP guidance on program priorities and the way GEF strategic objectives will be met.

II. ENABLING ACTIVITIES

3.11 Enabling activities are the foundations for addressing climate change through country-driven activities. The concept of enabling activities has been defined by the FCCC.[11] Enabling activities related to communication of information under Article 12.1 of the Convention[12] comprise planning and endogenous capacity-building, including institutional strengthening, training, research and education, that will facilitate implementation, in accordance with the Convention, of effective response measures.[13] Enabling activities for complying with the obligations of Article 12.1 are financeable on the basis of "agreed full cost."[14] In the short term, planning for adaptation in the context of the formulation of national communications is also envisaged, and this includes studies of possible impacts of climate change and the identification of options for implementing the adaptation provisions -- especially the obligations contained in Article 4.1 (b) and Article 4.1 (c) of the Convention and relevant capacity-building.[15]

3.12 To maximize global environmental benefits through reducing the risk of climate change, it is essential that all countries understand the scientific, technical, legal, and financial aspects of the issue, systematically assess their options, and plan their mitigation and adaptation responses. An operational program on enabling activities will support eligible countries to do this, in conformity with the FCCC guidance on enabling activities, national communications, and adaptation (Stage I).

3.13 In the climate change focal area, an integrated interagency operational program would be developed that, among other matters, would set out:

(a) Elements of enabling activities (e.g., GHG inventory, description of steps to implement the Convention, other relevant information, and preparation of the National Communication). The operational program for enabling activities would, among other things, help to distinguish "enabling activities" for the purpose of communicating information under Article 12.1 of the FCCC (and for which developing countries receive grants equal to the "agreed full costs") from other "capacity-building" undertaken to implement the national response strategy (and for which "agreed full incremental costs" are relevant);

(b) The database of activities completed, underway, or planned and their elements and funding sources (to promote complementarity and avoid duplication);
(c) Cost norms; and
(d) Proposed activities.

III. LONG TERM MITIGATION MEASURES

3.14 GEF would use long-term operational programs for mitigation to sequence activities and concentrate resources in order to reduce greenhouse gas emissions[16] by as much as possible in the long term. Working Group I of the Intergovernmental Panel on Climate Change (IPCC) has emphasized that it is the cumulative emissions that determine the impact of GHGs on climate rather than when the emissions take place. Therefore, GEF will put emphasis on the long-term mitigation measures rather than on short-term measures (Section V).

3.15 By and large, the measures required to reduce net GHG emissions concern the energy, transport, industry, agriculture, forestry and waste management sectors, as set out in the FCCC.[17] Most of the measures to be supported in these sectors are policy initiatives, public and private investments,[18] and capacity-building in the conservation of and substitution for fossil fuels, and for the creation, protection, and enhancement of GHG sinks. GHG reduction will be achieved and maintained only if the these measures are put in place and made environmentally, socially, and financially self-sustaining.

3.16 The overall idea of long-term operational programs builds on the proposed approach outlined in the STAP Analytical Framework.[19] STAP referred to promoting the "backstop" technologies -- the technologies, such as renewable energy technology, that would in the long run be necessary to avoid GHG emissions -- and to inducing cost reductions as a primary strategic thrust STAP noted that:

> "What is relevant for the GEF therefore is not only
> (a) [backstop technologies'] current cost, but
> (b) the prospects for reduction in costs of the technologies in question, and
> (c) the contribution that GEF can make to cost reductions."

Following STAP's suggestions, long-term operational programs would be established to expand, facilitate, and aggregate the markets for the needed technologies, resulting in reduced cost of their commercial production and diffusion. Programs could be devised to accelerate the adoption of the measures needed in the long term by inducing *reductions in the cost* of their manufacture or implementation. (The costs of the implementation include what are often termed "transaction" or "learning" costs, which can eventually be eliminated.)

Operational Programming

3.17 Long-term operational programs provide a basis for GEF programming that was not used in the Pilot Phase. With program objectives that are explicit and monitorable, an operational program would provide a rational operational basis for:

(a) Selecting projects from among country-driven proposals;
(b) Relating the constituent elements of the program -- capacity-building (including training and institutional strengthening), technical assistance, pre-investment studies, investment, and any targeted research[20] -- would help meet program objectives (rather than be seen as ends in themselves);
(c) Showing how any claimed "demonstration" or other programmatic effects are to be obtained and evaluated; and
(d) Evaluating GEF's effectiveness. (Projects would also be evaluated individually in terms of the program objectives.)

Common Elements of Operational Programs

3.18 The elements common to all the long-term operational programs in the climate change focal area are set out in Annex 3.B. Several operational programs are envisioned, for various promising types of mitigation measure. Mitigation measures could be grouped as follows:

(a) Support for the use of available technologies. In this approach, technical risk would be minimized by
  (i) selecting technologies that are commercially available and proven in one or more industrialized country, but which are not available in most recipient countries;
  (ii) requesting STAP advice; and
  (iii) evaluating projects during the course of a program and making mid-course corrections where necessary; and

(b) Measures to open or expand markets for relevant technologies, through provision of information, support for local capacity-building, and establishment of policies that attract private and public capital investments in the local use of these technologies. The emphasis of the measures will be achieving specific goals (e.g., improved energy use in commercial buildings), and will provide maximum flexibility and opportunity for the private and public sectors to determine the means for achieving these goals. The national policy context that shapes that market would need to be analyzed. It will be important to show leverage and the catalysis of private investment.[21]

Developing Long-Term Operational Programs

3.19 As in other focal areas, GEF will "cast the net widely" in the search for innovative *ideas* for the mitigation of climate change.[22] The range of opportunities for mitigation is comprehensive, and Article 4.1 of the FCCC lists a number of sectors, refers to all GHGs, and includes both sources and sinks. This ensures that it is possible to develop many different proposals for operational programs. Proposals would be developed that are:

(a) Consistent with the guidance of the COP of the FCCC;
(b) Technically the most promising, in accordance with the latest scientific and technical assessments of the IPCC[23] and STAP;
(c) **Cost-effective**; that is, their components are chosen to meet the program objective at the least cost; and
(d) Consistent with the other operational principles of GEF; e.g., they meet the essential GEF principles of **sustainability**, **country integration**, **information provision**, **complementarity**, and **facilitation**.

Proposed operational programs would follow the outline given in Annex 3.B.

Implementation of Long-Term Operational Programs

3.20 The development of operational programs will be a dynamic process, and there would be successive generations of operational programs. Over time, operational programs could be developed that cover the measures that countries identify in their National Communications, which are expected by 1997. In the immediate short term, the constraints on programming will be the financial resources available for a given replenishment period and the existing capacities of the GEF, its Implementing Agencies, and the recipient countries to undertake the program development and the implementation of the projects.[24]

3.21 Therefore, and in accordance with GEF principles, GEF would emphasize the earliest implementation of proposed operational programs that:

(a) Are highly **cost-effective**, in terms of meeting the overall long-term mitigation objective at the lowest cost as determined by the program parameters. That is, not only would each operational program be devised to meet its own program objective at least cost, but the most cost-effective of the proposed programs in terms of long-term mitigation would be implemented first; and
(b) Add to **portfolio diversity**. Other things being equal, the portfolio would be as diverse as possible in order to minimize the risk of failing to meet overall global environmental objectives.[25]

3.22 Proposals for operational programs would be sent to GEFOP for review and approval. Long term mitigation projects would then be considered by GEFOP if they fell within an approved program.

3.23 Initially (although this is subject to technical consideration of the mitigation options proposed above), it is anticipated that work would begin on the development of the seven proposals for operational programs, set out below. These were suggested on the basis of extensive technical literature, including recent work for the GEF on cost-reductions expected in new energy technologies[26] and are consistent with the most recent IPCC findings.[27] Other proposals that conform with the program priorities of the FCCC will also be developed.

3.24 Financing would be in conformity with the incremental cost policy of the GEF. Until such time as additional financing modalities are approved by the Council, there will be no concessional or contingent loans, nor the establishment of revolving funds.

Size, Number, Duration and Evaluation of Long-Term Operational Programs

3.25 The *size* of an operational program will be the minimum needed to meet the program objectives and would be justified at the outset. This may vary from large programs of a hundred million dollars or more for incremental investment plus associated technical assistance, to smaller programs where the costs are mainly those of capacity-building, pre-investment, and demonstration activities.

3.26 The *duration* of an operational program is the time required to meet the program objectives. It would depend in part on the absorptive capacities of the Implementing Agencies and countries in the program, the normal duration of the project cycle, and the time required for program evaluation. A typical program may require about five to ten years to complete. Resources for the programs may thus have to come from more than one GEF replenishment. Operational programs, by their forward-looking long-term nature, are therefore predicated on GEF as a permanent facility, although aggregate project *commitments* at any one time would not of course exceed the total resources mobilized. Operational programs could in fact provide an analytical basis for estimating longer-term resource requirements.

3.27 The *number* of operational programs is also important. First, too few programs may increase the risk of programmatic failure because the measures chosen do not succeed as anticipated. Clearly, some diversity in the supported measures would be a **cost-effective** precaution against this type of uncertainty. Second, too many programs would vitiate the programmatic approach, because it would not be possible to concentrate resources effectively and it may not be possible to have sufficient resources in any one program to meet the program's objective of cost reduction, market opening etc. Having too many programs would be, in effect, a "Pilot Phase" mode of operation, where each project was appraised in its own right, either for its short-term GHG reduction or innovativeness. The number of operational programs that have been approved and which are still in effect at any given time would be kept under review. Although the number of programs would depend on the amount of GEF funds that are anticipated, it is envisaged that about ten may provide the required focus. Each program would have its own milestones and "sunset" provisions (conditions under which the program would draw to a close; e.g., when the objectives had been met or when new scientific or technical information suggested it was no longer cost-effective to continue).

3.28 Portfolio *evaluation* will be at two levels. While individual projects will need to be monitored and evaluated according to the usual criteria and procedures of the Implementing Agency

concerned, each operational program will also need to be monitored and evaluated. Because these are interagency programs with broader strategic goals, such as cost reductions of specified measures, these will have to be evaluated on the basis of the strategic objectives set out in each program.

IV. Initial Development of Operational Program Proposals

3.29 Below are:

(a) Seven illustrative operational programs for which it is anticipated that proposals may be developed. However, development of these proposals would still be subject to confirmation that they are technically appropriate (e.g., according to the IPCC recommendations or STAP), and other proposals might also be developed;
(b) Examples of areas where operational programs would not be proposed, and the reasons; and
(c) Examples of where further strategic analysis would be needed before an operational program could be proposed.

Expansion of the Markets for Renewable Energy Technologies

3.30 *Operational Program #1 – Renewable Energy Markets* : This would be an operational program to support the expansion of aggregate markets for renewable energy technologies as a way to overcome regional market barriers and so lead to a reduction in implementation costs.

3.31 Renewable energy technologies such as photovoltaic (PV) power generation would be a part of a **sustainable** long-term energy supply system for many developing countries. In many countries, some forms of renewable energy are economically attractive in remote (off-grid) areas where the cost of generating energy from other means is high. In such situations, there is no justification for GEF support because these are development projects with no positive incremental costs. However, the *expansion* of existing market opportunities to include less economically attractive market opportunities may make further commercialization of and organizational learning in renewable energy attractive to the point where future implementation costs are significantly reduced, further opening the economic scope for its adoption.

3.32 An operational program in (say) PV would seek (in the words of the STAP *Analytical Framework*) to "bundle" enough projects in one place to expand the market niche. First, finance would have to be identified for the already economically attractive PV units to ensure that GEF funding was truly **complementary**. Second, GEF would make grants for the lowest unit incremental cost options that could expand this market, and for appropriate pre-investment and capacity-building needed to support the country-driven efforts. This would be a **cost-effective precaution** that would help establish market opportunities for large-scale private investment. All applications would be country-driven, ensuring **country integration**. Finally, the program should show how the markets would "take off"; that is, through reduction of barriers, become **sustainable** by the time the GEF program terminates. Similar considerations would apply to other renewable energy technologies.

3.33 *Operational Program #2 -- Advanced Biomass Power and Fuel Systems* : This is a highly prospective operational program, although it requires some further strategic analysis. IPCC sees an enormous potential and role for biomass-power and liquid fuels. This includes both large-scale systems, such as the GEF Pilot Phase project in Brazil for the use of biomass in aeroderivative turbines, and smaller rural and cogeneration uses. GEF has accumulated experience of this in the Pilot Phase project in Brazil.

Application and Demonstration of Renewable Energy Technologies

3.34 *Operational Program #3 -- Solar Thermal Electric* : This would be an operational program to support applications of solar thermal electric technology to stimulate and accelerate their commercialization through demonstration and manufacturing cost reductions.

3.35 This technology, when fully mature, would be a part of a **sustainable** long-term energy supply infrastructure of developing countries. At present, it is not the least-cost alternative for power supply, so countries would incur an incremental cost in adopting it now. GEF financing of these incremental costs would be **complementary** to the normal sources of financing required for power development in the concerned countries. However, as the principal new markets for this technology will be in developing countries, it is expected that the GEF program in this technology would accelerate learning and lower the incremental costs for future applications, bringing the technology closer to competitiveness with fossil fuel. It is a **cost-effective** precaution. Moreover, there are many country-driven proposals, so that **country integration** can be ensured.

3.36 There would also be other renewable energy technologies that warrant GEF support.

3.37 *Operational Program #4 -- Geothermal Heat* : This would be an operational program to demonstrate the use of geothermal heat. A number of developing countries and countries with economies in transition have unexploited geothermal reserves that could be used for heating (e.g., district heating in some cases). The technology to exploit them is well-known, low-risk, and near commercialization. The GEF-World Bank geothermal project in Lithuania would be reviewed to determine whether it could form part of an operational program (e.g., GEF could meet the incremental costs of Lithuania's demonstrating this approach to, and for pre-investment work in, other countries where similar reservoirs might be exploited). Geothermal applications would be **sustainable** if they are environmentally and socially acceptable (e.g., if the geothermal operation does not release significant amounts of greenhouse gas or other air pollutants, solid or liquid waste, or visual intrusion or noise) . For funding to be **complementary**, the costs that are incremental to the least-cost, environmentally reasonable way of satisfying the heat requirements would have to be assessed in accordance with the GEF policy on incremental costs.

3.38 Examples of measures on which further technical advice and strategic analysis is required before an operational program could be developed include: (i) wind power; and (ii) ocean thermal power. Currently, an operational program in wind power may **not** be a **cost-effective** precaution at this time given that the costs of wind power have already dropped dramatically. Wind is already cost-competitive with fossil fuel alternatives in many developing countries. Is there sufficient scope for further learning and cost reductions that would justify a programmatic approach? Is there not sufficient scope in developed countries for wind power to ensure that any future cost reductions

would result from applications there? Ocean thermal energy conversion technology still requires considerable research funding, for which other sources of funds should be used.

Demonstrating Energy Efficiency Technologies and Techniques

3.39 *Operational Program #5 -- Energy Efficiency* : This would be an operational program in energy conservation would that seek to promote energy conservation where it leads to GHG reduction,; that is: (i) where fossil fuel is the source of the energy being conserved; or (ii) where the energy efficiency of a non-fossil alternative energy source is a significant barrier to its competitiveness. Projects in the operational program would target these situations and promote the:

(a) application of energy conservation techniques that are currently uneconomic in a particular recipient country because of barriers associated with risk and other transaction costs, but which are expected to become commercially viable once those barriers are overcome; or

(b) demonstrating of new energy technologies and techniques to other countries.

3.40 For this program to be **sustainable** in the long term, projects within it must show, among other things, how similar projects in future will become financially self-sustaining. That is, they must build in principles of cost recovery from the beneficiaries of energy conservation. The costs of programs that are economic in national terms, such as those energy conservation programs that are economic in terms of fuel and other cost savings, can ultimately recover their costs, including the initial transaction costs. The GEF program should show (i) how the measures will be sustained even after the GEF support has ended, and (ii) how the momentum in other countries for early action on energy conservation will also be sustained (and not, on the contrary, slowed by the expectation that waiting will give time for a GEF grant).

3.41 Operational programs would help to stimulate appropriate policies, institutional practices, and cost-recovery techniques that are quite *general* in application. While energy efficiency projects that are *specific* to fossil-fuel technologies -- gas-flaring reduction, gas pipeline leak reduction, or coal boiler efficiency improvement -- could be eligible if they were particularly cost-effective and met other criteria for short-term support (Section V), they would not be included in a long-term operational program.

3.42 In order that GEF funds be **complementary**, the GEF will not be the funder of first resort for economic opportunities in any program, including energy conservation. GEF will not displace World Bank or other appropriate sources of development assistance that should be sought for these. In particular, GEF grant *financing* is for the incremental costs (including that part of the transaction costs that, being incremental, is not recoverable). To show this financial complementarity, it would be useful to identify all the sources of co-financing for the non-incremental costs (e.g., cost recovery mechanisms, development assistance, and other sources).

3.43 The *measures* in the operational programs need to be **complementary**; that is, additional to a national program of standard measures that are economically attractive, to which the country is committed, and for which finance has been identified.

3.44 In some cases, energy conservation programs will not have any incremental costs; that is, they will be justified in purely national economic terms. In such cases, GEF could nevertheless **facilitate** the program by financing only modest pre-investment work such as program development and identification of sources of investment, and the costs of adding a component that demonstrates the results internationally.

3.45 Programs would not be developed for non-incremental financing; e.g., for the application of such standard technologies as housing insulation and more efficient lightbulbs. Such programs are economically attractive and, moreover, their development costs can be recovered from the beneficiaries.

Carbon Sequestration

3.46 *Operational Program #6 -- Carbon sequestration:* This would be an operational program of carbon sequestration projects where there are major transferable learning opportunities that would reduce future costs, or where there are global environmental benefits in other focal areas (such as habitat preservation). Depending on country circumstances, the protection, creation, or expansion of carbon sinks may be a **cost-effective** precaution, and the FCCC requires all parties to "promote sustainable management, and promote and cooperate in the conservation and enhancement, as appropriate, of sinks and reservoirs of all greenhouse gases not controlled by the Montreal Protocol, including biomass, forests and oceans as well as other terrestrial, coastal and marine ecosystems."[28] To begin, a program would be based on the IPCC findings that the most appropriate focus for carbon sequestration would be on land restoration and sustainable land use through:

(a) The build up of soil carbon. Land management techniques and the modification of some agricultural development and land management projects (e.g., through change of technology, scale, regional and sectoral co-ordination of policies and programs) could protect soil carbon and address land degradation issues. There would be incremental costs where these are not normal development projects undertaken for agricultural productivity and soil conservation; and

(b) The generation of bioenergy to substitute for fossil fuels that would otherwise have been used. An innovative program to develop incentive structures that promote forest replanting, or replanting degraded land, to sequester carbon and the sustainable use of the biomass use could be developed.

Transport Energy

3.47 The transport sector accounts for a large fraction of fossil fuel consumption and therefore contributes significantly to greenhouse gas emissions. It is conceivable that a carefully devised GEF operational program of support for countries that are approaching a critical transition in the

development of their transport infrastructures could cost-effectively help the country concerned to shift to a low-GHG transport and urban development pattern. Identifying the critical point where a major choice has to be made between different long-term development paths -- sometimes referred to as a "bifurcation" -- is an urgent task for fast-growing urban communities in rapidly expanding economies. A rise in income usually heralds a substantial shift from a traditional mode of transport to a more motorized one that depends almost entirely on fossil fuels. Investment in vehicles, roads, petroleum refining and distribution, and other associated transport infrastructure to support this more motorized development path then "locks" the country into a high GHG-emitting transport pattern. Yet there may be alternative development paths that are less GHG emitting but which require early attention. This "bifurcation" between transport development paths and the appropriate form of GEF support for country-driven proposals to opt for low GHG development paths have not yet been analyzed sufficiently to permit a GEF operational program to be devised, but the matter will be kept under review.[29] The investments in transport infrastructure are immense; also it is **not** yet possible to show that covering the incremental costs of low-GHG transport infrastructure (such as for urban electric mass transit projects, fuel cells, or retrofits of buses with compressed natural gas fuel systems) would be a **cost-effective** precaution.[30]

3.48 *Operational Program #7 -- Selected Transport Studies* : This would be an operational program comprising some carefully chosen planning studies for urban development and transport infrastructure that in turn would provide opportunities to devise and test long-term sustainable solutions to the provision of transport services. GEF could consider cofinancing these plans if there is national willingness to implement those sustainable aspects. However, GEF would not as a matter of course cofinance urban or transport planning studies because it is not generally possible to show that such funding is truly **complementary.** The cost of planning is usually fully justified by the benefits of economic rationalization, fuel and foreign exchange savings, environmental improvements, and reduced congestion. There are other sources of development finance for this. In future, after this analytical and strategic work, GEF may develop carefully focused operational programs of investment and capacity-building in transport alternatives.

Clean Fossil Fuel Technology

3.49 No operational programs would be drawn up for fossil fuel technologies, including the advanced technologies that reduce consumption and hence the emission of GHGs, because:

(a) Fossil fuel technology is stop-gap and **not** part of a **sustainable** energy future. (Some individual projects that are highly cost-effective may be eligible under the short-term criteria.); and

(b) Financial support for advanced designs may **not** even be **complementary**, as these designs may well be introduced anyway as part of an environmentally reasonable baseline in the near future. For example:

  (i) clean coal technology may be required as an essential component of a domestic environmental program or a regional program on acid rain;

  (ii) gas-for-coal substitution is an energy efficiency and environmental measure, reducing air pollution and ash disposal problems; and

(iii) coal-washing plants reduce ash disposal problems and coal freight costs substantially.

V. SHORT TERM MITIGATION

3.50 In some cases, there will be project proposals that are not part of a long-term operational program but which would still be a very **cost-effective** precaution that reduced greenhouse gases in the short term. Such proposals would be "too good to miss" because of their cost-effectiveness -- that is, they have a low unit abatement cost (UAC). The UAC could be measured in dollars per tonne of carbon emissions abated or sequestered. No operational program as such is needed in such cases as there is, by assumption, no strategic goal for which any short-term sacrifice is required. However a criterion, a UAC ceiling, is required in order to judge whether any proposal is sufficiently cost-effective in the short term.

3.51 The criterion could be applied to the schedule of country-driven opportunities for mitigation. Typically, country mitigation plans include a schedule of options arranged in ascending order of UAC[31]. The schedule begins with negative UAC options (the options that are economic in their own right), shows intermediate options with modest UACs, and ends with the very high UAC options. The negative UAC options are economic in their own right and, having no incremental cost, are not eligible for GEF grants. Options with modest positive UACs, below the threshold used as a short-term cost-effectiveness criterion, would be eligible as cost-effective means to reduce GHGs in the short term. It would not be cost-effective to prefer a high UAC option to a low UAC option unless it provided some programmatic benefit in addition to the project-related GHG reduction. This additional programmatic benefit (which would be identified in the operational program of which the project formed a part) would have to justify the "premium" paid (the extent to which the UAC exceeded that regarded as appropriate for GHG reduction alone). However options having a positive but modest UAC below the ceiling would be eligible under the short-term cost-effectiveness criterion.

3.52 One way to estimate what a reasonable UAC ceiling for GEF purposes might be, is to require that the impact of spending (hypothetically) the entire GEF replenishment ($ 2 billion) on such short-term measures produce a significant reduction in the amount of GHG emitted by recipient countries. Over three years GEF recipient countries are expected to emit about 12 gigatonnes (Gt) of carbon in the form of carbon dioxide, and a 5 per cent reduction in this would require an average UAC of $ 3.30/tonne of carbon if pursued in this way. Because GHGs are still being emitted, this could only *postpone* carbon accumulation, and over a three-year period would do so by about four weeks.

3.53 Such short-term proposals would still need to show **country integration**. Furthermore, because the main focus of GEF mitigation activities will be on long-term **sustainable** measures, the resources available for purely short-term or opportunistic projects would be limited.

Short-term Criteria

3.54 Short-term criteria would be used to balance considerations of cost-effectiveness with maximizing the number of countries to which such support can be given. To ensure high cost-effectiveness the project should be highly likely to succeed and reduce GHGs at a very low cost. The following short-term criteria would be used:

(i) Unit Abatement Cost Ceiling
The maximum unit abatement cost (incremental cost per unit of GHG sequestered or not emitted, in 1995 prices) will be set on the basis of operational experience concerning the availability of country-driven opportunities. Initially, the following indicative ceiling would be applied, although exceptions would be reviewed on a case-by-case basis:

Maximum UAC = $ 3.30/tonne of carbon
≅ $ 0.90/tonne carbon dioxide equivalent in global warming potential terms.

(ii)Likelihood of Success
Because the project is to be justified in terms of actual carbon abatement of the project itself and not in terms of any programmatic influence (as would be the case in operational programs, which provide appropriate opportunities for learning), short-term projects should have a very high likelihood of success. This is a qualitative criterion, but supporting assessments of technical and institutional risk would be needed.

3.55 In addition, it would be desirable to ensure that, without exceeding the cost-effectiveness criteria above, some way be found to ensure that the projects are spread as widely as possible in order to maximize country participation in GHG-reduction process and maximize **portfolio diversity** as a risk management tool. First, as an indication that the proposal is country-driven, it would nationally emerge as a national priority from an enabling activity or similar national planning exercise. Second, it may also be necessary to limit expenditures on any one project, so that funds are available to support this diversity. The Secretariat would review project expenditures continuously with this objective in mind, and set an indicative maximum on the project incremental cost on the basis of operational experience. Any proposed project exceeding such a cap would need particularly strong justification. This suggestion would be reviewed in the light of experience concerning the number of countries that can be assisted.

Examples

3.56 Projects that may meet the short-term criteria, depending on the country situation, are:

(a) Fixing the leaks in natural gas pipelines;
(b) Use of crop residues to substitute for fossil fuel in power generation;
(c) Further substitution of HFCs by hydrocarbon refrigerants (when done as a supplement to a project in the ozone focal area that phases out CFC);
(d) Gas flaring reduction; and
(e) Substitution of a low GHG-emitting fossil fuel for a high GHG-emitting fossil fuel, such as natural gas for either coal or oil.

VI. RESEARCH

3.57 At its October 1995 meeting, the Council will consider for approval an overall policy on research. There is justification for providing limited funds for highly targeted research efforts in recipient countries. The types of research efforts would include:

(a) highly site-specific research and monitoring on climate change and its effects; and
(b) application of climate change mitigation measures in countries other than the ones in which they had been developed.

3.58 An operational program for research would be developed only after the Council had approved the overall policy on research. GEF funds would not be used to fund basic research nor to create new research institutions, nor would GEF fund short-term recurrent costs of research since they would not be **sustainable**.

GEF Oper. Strategy
GEF Strategic Objectives a.. .'CCC Program Priorities
(Climate Change)

Annex 3A

COP-Guidance on Program Priorities / GEF - Strategic objectives	Minimize Global Environmental Risk				Maximize Global Environmental benefits		
	Sustainability	Integration	Diverse Portfolio	Information	Complementarity	Facilitate	Cost effectiveness
(a) National Communications & Enabling Activities	EA	EA	EA	EA	EA (Bilaterals)	EA (Cofunding)	EA (Cost norms)
(b) Research and Tech. Capabilities	TR	TR	TR	TR	TR		TR (Cost norms)
(c) Public Awareness and Education		EA		EA	EA, LT		EA (Cost norms)
(d) Formulation of National Programs		EA		EA	EA		EA (Cost norms)
(e) Implementation of National Programs		ST		ST	ST (Inc. cost)	ST	ST (Unit abatement cost ceiling)
(f) Mitigation	LT	LT, ST	LT, ST	LT	LT, ST (Inc. cost, additional measures)	LT	LT, ST (Unit abatement cost ceiling)

Legend: EA -- Enabling Activities
LT -- Long-term Operational Programs of Mitigation Measures
ST -- Short-term Mitigation Projects
TR -- Targeted research

For COP Guidance on Program Priorities, see Intergovernmental Negotiating Committee 1995. Recommendation 11. A/AC.237/91/Add.1, 8 March 1995.

ELEMENTS OF AN OPERATIONAL PROGRAM

1. Objective of the Program.

Operational programs will be developed for specified measures that will form part of the long-term sustainable response to climate change. The objective of each operational program is to accelerate the adoption of the specified measure through stimulating cost reductions by:

(a) Developing a global market that is sufficiently large for this purpose; or
(b) Overcoming national or regional non-market barriers.

2. Choice of Measure (showing it to be, among other things, *sustainable*)

(a) Justification for the measure in terms of the program priorities of the FCCC. Sustainability.
(b) Scientific and technical assessment of the measure by STAP (scientific soundness, technical feasibility, extent to which the measure will help build a zero or low GHG emitting infrastructure in the long term).

3. Replicability of the Measure.

(a) Situations where the measure is likely to be applicable in eligible recipient countries.
(b) Range of countries where it might apply, on the basis of data on infrastructure and natural resources.

4. Strategic Goal and the Assumptions underlying the Program (showing support to be *complementary*).

(a) Quantitative goal.
(b) Justification for believing that support for such measures would reduce long term costs below what would result from the mere passage of time. Analysis of the manner in which costs would be driven down by the program, e.g., due to economies of scale, stimulation of research and development as a result of guaranteed market size, learning-by-doing, endogenous capacity-building, demonstration effects etc.
(c) Justification for believing that it is the application of the measure *in GEF eligible countries* that is important, rather than the applications expected in developed countries. The reason that GEF would actually make a difference, rather than displace other sources of finance.

5. Operational Program Parameters (showing, among other things, *country integration*).

(a) Minimum size of program that will achieve a stated objective.
(b) Likely financial support required in order to achieve program of the required size.
(c) Indications of country driven opportunities in the National Communications to the FCCC, country studies, or Implementing Agency programming missions.
(d) Suppliers of equipment and services needed, especially those in recipient countries. Number and location of suppliers, availability of supplies, international competitiveness of the industry, prospects for development of regional suppliers in recipient countries, and need for technology transfer.
(e) Project selection criteria, especially *cost-effectiveness*. Indicators to show that the least-cost means of satisfying the overall program objective would be chosen. Availability of finance for the non-incremental costs and for the total costs of measures of the same type having negative incremental cost.

6. **Estimated Impact of the Operational Program (showing it to be *cost-effective*).**

(a) Current and projected adoption of the measure
(i) with, and (ii) without support from the proposed GEF program.

(b) Current and projected future costs of the measure, and estimated current and future incremental costs of the measure (a) with, and (b) without support from the proposed GEF program.

(c) Estimated greenhouse gas reductions in as a result of
(i) the projects supported, and
(ii) the overall program (i.e., including long term and indirect effects due to the accelerated adoption of the measure).

(d) Proposed method of monitoring progress in meeting the objective and evaluating the success of the Strategic Program.

7. **Implementation of Projects.**

(a) Roles of the Implementing Agencies, and the foundations provided by existing development programs and other initiatives (such as the World Bank's *Solar Initiative* and its *Renewable Energy Strategy for Africa*) .

(b) Other organizations, including NGOs, Regional Centers of Excellence, private sector, and research institutes.

(c) Risks and likelihood of success.

(d) Program termination (objective met, new assessment of technology etc.).

ENDNOTES

[1] See the *United Nations Framework Convention for Climate Change*, especially the *Preamble*.

[2] Global Environment Facility, 1994. *Instrument for the Establishment of the Restructured Global Environment Facility*, GEF, Washington, D.C. para 2(a).

[3] Framework Convention on Climate Change, 1995. FCCC/CP/1995/L.5.

[4] Intergovernmental Negotiating Committee (INC), 1995. *Recommendations of the Intergovernmental Negotiating Committee for a Framework Convention on Climate Change on the Work of its Eleventh Session held at New York from 6 to 17 February 1995*. Addendum: Part Two: Recommendations to the Conference of the Parties and Other Decisions and Conclusions of the Committee. A/AC.237/91/Add.1, 8 March 1995. Recommendation 11.

[5] Global Environment Facility, 1995. Report by the GEF to the First Conference of the Parties of the Framework Convention on Climate Change, GEF/C.3/10, GEF, Washington, D.C. February 1995.

[6] Ibid.

[7] Framework Convention on Climate Change, 1995. FCCC/CP/1995/L.1, 31 March 1995.

[8] INC, 1995. Op. cit. Recommendation 11, paragraph 2 (a).

[9] Ibid. Recommendation 11.2 (a).

[10] See INC 1995 op. cit., Recommendation 11; and FCCC Article 4.1.

[11] See Chapter One for the concept of an enabling activity, and for the common elements and common procedures for such activities in all focal areas.

[12] INC, op. cit. Recommendation 11.1 (c) (ii).

[13] INC 1995. op. cit. Recommendation 11.1 (i).

[14] GEF *Instrument*, paragraph 2.

[15] INC, op. cit. Recommendation 11.1 (d).

[16] While most programs would address carbon dioxide, it is possible that some may include other greenhouse gases such as methane, nitrogen oxides, and tropospheric ozone.

[17] See for example FCCC Article 4.1(c).

[18] GEF policy on private sector operations is forthcoming.

[19] STAP *Analytical Frameworks*, p. 31.

[20] This is subject to GEF policy on research which will be developed at a later stage.

[21] GEF policy papers on leverage and the private sector are in preparation.

[22] For example, these ideas could be developed through a Block A PDF grant.

[23] IPCC Working Group II has just finished a report on mitigation options.

[24] However, even in the near future, many of these additional measures could be covered as individual projects according to the short-term criteria.

[25] See Chapter 1 for a discussion of the levels of risk. The risk of having a very narrow portfolio is that if the measure or measures chosen were to fail, the whole portfolio would fail.

[26] See Anderson, Dennis and Kulsum Ahmed (1994).

[27] IPCC, Working Group II (1995).

[28] Article 4(1) (d).

[29] A methodological study and a series of case studies is planned under the Program for Measuring Incremental Costs for the Environment (PRINCE) with a regional center of excellence.

[30] It is also very difficult to identify what the incremental cost would be in such long-run development programs.

[31] See IPCC, 1995. Draft Chapter 8 of the Second Assessment Report of Working Group III, "Estimating the costs of Mitigating Greenhouse Gases", May 1995.

CHAPTER FOUR

INTERNATIONAL WATERS

The draft text of this chapter will be prepared for consideration by the Council at its meeting in October 1995. The draft chapter will be based on *Scope and Preliminary Operational Strategy for International Waters*, document GEF/C.3/7, which was reviewed by the Council at its meeting in February 1995, and subsequent written comments received by the Secretariat.

CHAPTER FIVE

OZONE DEPLETION

5.1 The stratospheric ozone layer is a protective shield that absorbs most of the ultraviolet radiation that could harm living organisms on earth. Stratospheric ozone is constantly being created and destroyed by natural photochemical processes that are in dynamic equilibrium. This equilibrium has been disrupted by the release of anthropogenic chemicals -- mainly chlorine and bromine compounds such as chloroflourocarbons (CFCs), halons, and a broad range of industrial chemicals used as refrigerants, foaming agents, aerosol propellants, fire retardants, solvents and fumigants.

5.2 As a result, the ozone layer is being depleted. Scientific observations show significant depletion throughout the year in both the northern and the southern hemispheres at middle and high latitudes,[1] although not yet at the tropics. This depletion allows more ultraviolet-B (UV-B) radiation to reach the ground, which could raise the incidence of skin cancer, cataracts, and other irreversible eye damage, and suppress the immune system. In addition, even minor increases of the UV-B radiation could disrupt ecological food chains, affecting agriculture, fisheries, and biological diversity.

5.3 Governments responded to these concerns about ozone depletion by adopting the *Vienna Convention on the Protection of the Ozone Layer* (Vienna Convention) in 1985, the *Montreal Protocol on Substances that Deplete the Ozone Layer* (Montreal Protocol) in 1987, and its amendments in London in 1990 and Copenhagen in 1992. By June 1995, more than 150 countries had ratified the Montreal Protocol. These agreements have significantly slowed the atmospheric accumulation of several major ozone-depleting substances (ODS) -- for example, worldwide CFC production and consumption had decreased by more than 50 per cent between 1986 and 1994. Many of the remaining major producers and consumers of CFCs and other ODS are the GEF eligible countries that are legally committed to phase out major ODS at the end of 1995 according to Montreal Protocol regulations. There is a risk that, unless assisted financially, these countries will continue to produce and use ODS and therefore negate much of the ozone layer protection that has already been achieved.

5.4 Ozone depletion is also linked to other global environmental problems. For example, both ozone and the ODS are greenhouse gases. While the major ODS have very strong global warming potentials (GWP),[2] the ozone depletion they caused has had a net cooling effect which offset about 20 per cent of the radiative forcing due to the atmospheric accumulation of greenhouse gases between 1980 and 1990. In restoring the ozone layer though, it will be necessary to minimize the global warming that might be caused by ODS substitutes. The relationship with biodiversity is more direct: protection of the ozone layer is a prerequisite for conservation and sustainable use of biodiversity. Ozone layer depletion, leading to increased ultraviolet radiation at the Earth's surface, would endanger species already under threat and the biological diversity generally.

5.5 The GEF operates, on the basis of collaboration and partnership among its Implementing Agencies, 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 (among other focal areas) ozone depletion.[3] Global environmental benefits will be in the form of the reduced risks of adverse effects, and the GEF operational strategy for ozone depletion sets out the way in which the GEF, within its own mandate and according to its general policies, can assist eligible recipient countries to do this.

5.6 GEF's objective in ozone depletion is, through the provision of finance, to contribute to measures that protect human health and the environment against adverse effects resulting or likely to result from human activities which modify or are likely to modify the ozone layer.[4] GEF's assistance in preventing the release of ozone-depleting substances (ODS) will be in accordance with countries' commitments to the Montreal Protocol concerning phaseout schedules and control measures.

Guidance

5.7 Although GEF is not linked formally to the Montreal Protocol (it is the Multilateral Fund and not the GEF that is the financial mechanism), the GEF Operational Strategy in ozone depletion is an operational response to the Montreal Protocol, its amendments, and adjustments.

5.8 Therefore, the GEF will use, as its guidance:

(a) the list of control measures;
(b) the list of controlled substances; and
(c) the ODS phaseout schedules set out in the Montreal Protocol, and the amendments and adjustments that are approved from time to time by the Meeting of the Parties (MOP). The Montreal Protocol contains agreed schedules for the reduction of production and consumption of specified "controlled substances"[5] that deplete the ozone layer. The London Amendment established a financial mechanism, the Multilateral Fund, to provide developing countries with financial and technical assistance.[6] The amendment also required that the financial mechanism use the "agreed incremental cost"[7] approach to financing measures. Taking into account the urgency of further steps to protect the ozone layer, the fourth MOP in Copenhagen in 1992 adopted further adjustments and an amendment to speed up the phaseout of ODS.

5.9 To the extent consistent with other GEF policies (such as those on project cycle and incremental cost), GEF operational policies would also be broadly consistent with those of the Multilateral Fund,[8] as set out in Section III.

5.10 In accordance with the GEF Instrument[9], the GEF Secretariat has exchanged letters with the secretariats of the Montreal Protocol and its Multilateral Fund that show areas of cooperation such as the coordination of activities, the exchange of information of mutual interest, methodologies, methods of project assessment, and the interpretation of relevant MOP decisions. This cooperation will facilitate consistency and complementarity with ODS phaseout operations within the legal ambit of the Montreal Protocol.

I. PORTFOLIO OF *GEF* ACTIVITIES

5.11 The GEF Secretariat, in consultation with the Implementing Agencies, will prepare an ozone depletion portfolio comprising an operational program of enabling activities, short-term ODS phaseout measures, and targeted research including related monitoring in ozone depletion (subject to any overall GEF policy in this area).

5.12 The overall thrust of the ozone depletion portfolio is to support ODS phaseout activities committed under the Montreal Protocol, with special emphasis on near-term commitments and on enabling activities. Because of the short deadlines for ODS phaseout, all phaseout measures will be considered under short-term criteria rather than as part of a long-term operational program with strategic goals.

Country Eligibility

5.13 *Complementarity*. The Multilateral Fund provides assistance only for

(a) developing countries operating under Article 5, paragraph 1; and
(b) activities incurring eligible expenditures (as listed on the Indicative List[10]).

In conformity with the principle of complementarity -- avoiding duplication of effort and not substituting for other sources of funds -- GEF would provide only **complementary** assistance outside the financial mechanism. This means, in effect, that GEF would assist otherwise eligible recipient countries:

(a) that are not Article 5 countries[11]; or
(b) whose activities, while consistent with the objectives of the Montreal Protocol, are of a type not covered by the Indicative List.[12]

5.14 *Ratification and compliance*. To be eligible, countries must also be a party to the Montreal Protocol, have ratified at least the London Amendment, and have fulfilled their obligations to report ODS production, consumption, and trade data according to the requirements of the Protocol.[13] In cases of non compliance with the control measures of the Montreal Protocol (as adjusted and amended), any funding shall be subject to a formal justification to the Parties of the Montreal Protocol through its secretariat and/or Implementation Committee. Such a justification should include the causes of non compliance, assessments of expected delays in the implementation of control measures, and a revised schedule of commitments. The clarification of arrears in contributions to the Multilateral Fund of the Montreal Protocol and demonstration of needs for assistance shall be included in those cases where obligations of the recipient country are defined under Article 2 of the Montreal Protocol. GEF assistance shall be in line with the "Indicative List of Measures that might be taken by a Meeting of the Parties to the Montreal Protocol in respect of non compliance"[14].

Synergism

5.15 *Climate change*. There are two potential ways in which the phaseout of ODS might add to the risk of climate change. The first and most important is the use of ODS substitutes that have high global warming potential -- such as HFCs and transitional substances. Therefore, GEF will not fund the conversion to any ODS substitute that has a significant global warming potential unless explicit justification is provided that:

(a) no alternative is technically feasible; or
(b) the alternative is economically unacceptable.[15]

The second is the use of non-ODS technologies with lower energy efficiency. Depending on the way energy is supplied in a given situation, the energy efficiency of the alternatives should not be inferior to that of the substituted technologies. If energy is supplied from fossil fuels, decreasing energy efficiency would cause increasing emission of greenhouse gases. Alternatives which do not lower energy efficiency would be preferred.

5.16 *Biodiversity*. One potential way that GEF operations in the biodiversity focal area might add to ozone depletion would be through the use of methyl bromide as part of any integrated pest management program. Such programs would not be funded.

Portfolio

5.17 GEF funding in the ozone layer depletion focal area is mainly based on short-term commitments of GEF recipient countries according to the ODS phaseout schedules of the Montreal Protocol. Because of the complementarity of GEF operations, GEF support will emphasize short-term activities that ensure immediate ODS phaseout and on steps needed to enable countries to prepare such projects.

II. ENABLING ACTIVITIES

5.18 To minimize ozone depletion, it is essential that all countries understand the scientific, technical, legal, and financial aspects of the issue; systematically assess their options; and plan their ODS phaseout measures. Where country programs do not already exist, GEF will fund the activities that enable countries to prepare them.

5.19 The concept of "enabling activities" has been defined in the context of climate change by the United Nations Framework Convention on Climate Change, although it has been applied to other focal areas as well.[16] In general, enabling activities are related to communication of information and comprise planning and endogenous capacity-building, including institutional strengthening, training, research and education, that will facilitate implementation, in accordance with the relevant convention, of effective response measures.[17] Country programs, similar to those required for financing under the Multilateral Fund, match this definition of "enabling activities" in the context of Montreal Protocol operations. Such country programs are required only as an enabling response to the Montreal Protocol, the incremental cost of producing them is in fact the full cost.

5.20 In the ozone depletion focal area, an integrated interagency operational program of country programs would be developed that, among other matters, would set out:

(a) Elements of country programs (e.g., application of data provided in accordance with requirements of the Montreal Protocol[18] on the production, use, trade, and consumption of ODS; assessment of national options; and a phaseout plan in accordance with the schedules).
(b) The database of activities completed, underway, or planned and their elements and funding sources (to promote complementarity and avoid duplication);
(c) Cost norms; and
(d) Proposed activities.

5.21 UNDP will work jointly with UNEP in the preparation of Country Programs:

(a) UNDP will identify investment projects and will have the responsibility for all technical assistance in particular those related to project identification, analysis and initial formulation (preappraisal). During the course of Country Program preparation, UNDP will consult regularly with the World Bank in order to ensure consistency with information requirements for planning of investment projects. UNDP may also provide technical assistance for the implementation of those elements of a Country Program that will be financed by national sources.
(b) UNEP will play the primary role in promoting research activities[19] and in providing relevant information and training, as the basis for country program preparation and implementation. The provision of such information and training shall be demand-driven.

5.22 The World Bank will develop and manage the investment projects, namely the short-term ODS phaseout measures set out below.

III. SHORT-TERM ODS PHASEOUT MEASURES

5.23 GEF funding for phaseout measures shall be based on a nationally approved Country Program to be submitted by the recipient government to the GEF secretariat. The Country Program should include country commitments to fulfill control measures as specified in the Montreal Protocol as amended and adjusted and a detailed workplan that includes all necessary steps (including projects) to ensure compliance with the Protocol. Government approval is required at least at the cabinet level. The content of the Country Program shall be broadly consistent with the guidelines developed by the Multilateral Fund, endorsed by the Fourth Meeting of the Parties to the Montreal Protocol.[20]

Eligible Expenditures

5.24 GEF would finance the incremental costs of:

(a) expenditure items on the indicative list approved by the Fourth MOP[21]; and

(b) other activities[22] consistent with the objectives of the Montreal Protocol

in accordance with the GEF policy on incremental costs, especially taking into account incremental benefits[23] arising from technology upgrades in production facilities included in several ODS phaseout technology conversions. In particular, conversions that are economic in their own right are not eligible for any GEF grants.

5.25 However, so as not to exceed the terms of the parallel operations of the Multilateral Fund, the following expenditure eligibilities will also apply:

(a) *Retroactive financing*. Expenditures should follow, not precede, Council consideration of the project and measures proposed. However, to avoid delays in projects that are ready for implementation and to encourage immediate preparations for the phaseout of ODS, a small amount of retroactive financing would be needed. To balance these considerations, on a case-by-case basis, the expenditures considered for retroactive financing:

(i) will only relate to projects that had been neither completed nor ongoing at the time the proposed project was identified by the Implementing Agency;
(ii) will not exceed 10 per cent of the total proposed GEF grant; and
(iii) will not have been committed more than 12 months prior to approval of the relevant GEF Work Program by the Council.

(b) *Exports*. Eligible expenditures are affected by the extent to which the recipient enterprise produces goods for export to a country that either:

(i) is not eligible to be a GEF recipient at all; or
(ii) is eligible to receive assistance from the Multilateral Fund.

Such exports are the "relevant exports" for calculating the eligible expenditures,[24] as follows:

(i) GEF will not finance expenditures of an enterprise whose relevant exports account for more than half of its production; and
(ii) in cases where relevant exports account for less than half of the production, GEF will finance a pro rata share of the expenditures.

(c) *Ownership*. Expenditures of enterprises located in tax-free zones or fully owned by transnational corporations based in non GEF-eligible countries or in countries that are not Parties to the Montreal Protocol will not be eligible. Expenditures of enterprises that are partially owned by local interests shall be reimbursed in the same proportion as the local ownership. If local ownership is less than 20 per cent, GEF assistance will not be considered.

(d) *Operational costs*. Net operational costs (operational costs in excess of operational savings) are not eligible.

(e) *Increases in use of ODS*. Only those enterprises that were ODS users at the time of the Montreal Protocol entered into force in the concerned country are eligible.

Financial assistance will be provided for only that amount of ODS which was being consumed at the time of project appraisal or at the time of ratification, whichever is less.

Short-term criteria

5.26 Proposed measures will satisfy the following criteria:

(a) *Cost-effectiveness*
The measures will be chosen to ensure a phaseout of the maximum amount of ODS with the minimum of GEF funding in the shortest period of time. The least-cost method would be used for each subsector and country. To do this, the costs of proposed measures would be assessed against GEF cost norms. The cost-effectiveness of Multilateral Fund projects would be taken into account in the development of these norms, as would the stage of the phaseout in the proposing country. (Towards the end of the phaseout period, it is to be expected that the cost-effectiveness will decline because the most cost-effective projects would have been implemented first.) The costs of proposed projects that do not meet the GEF cost norms would require explicit justification.

(b) *Likelihood of Success*
Short-term projects should have a very high likelihood of success. This is a qualitative criterion, but supporting assessments of technical and institutional risk would be needed to demonstrate the economic sustainability of the ultimate recipients of the GEF grants. Only enterprises which are financially viable would be eligible.

(c) *Country Integration*
As an indication that the proposal is country-driven, it would also emerge as a national priority from a Country Program.

(d) *Non-toxicity*
Toxicity of several ODS substitutes shall be especially taken into account during project preparation and implementation based on Environmental Impact Assessments according to policies of the Implementing Agencies and in line with environmental best practice.

Initial Emphasis

5.27 Initially, projects would be chosen to emphasize one or more of the following:

(a) financial and technical assistance to avoid the immediate risk of non compliance of Parties to the Montreal Protocol with agreed control measures.
(b) projects that aim to minimize the period of non compliance with the Montreal Protocol as adjusted and amended
(c) projects that enable country wide 100 per cent phaseout of ODS (except for essential uses) in one step

(d) projects that aim to achieve additional global environmental benefits (e.g. by reducing ozone depletion and global warming in one step using ODS substitutes with zero ODP and low GWP).

ENDNOTES

[1] Scientific assessment of ozone depletion 1994, Report of the Scientific Assessment Panel, UNEP March 1995.

[2] These vary from 4,000 for CFC-11 to 11,700 for CFC-13 (on a 100 years' time horizon). See *Scientific Assessment of Ozone Depletion 1994*, Report of the Scientific Assessment Panel, UNEP March 1995.

[3] Global Environment Facility, 1994. *Instrument for the Establishment of the Restructured Global Environment Facility*, GEF, Washington, D.C. para 2(a).

[4] Vienna Convention for the Protection of the Ozone Layer, Article 2.

[5] Montreal Protocol, Article 2 A - 2H.

[6] The mechanism became permanent after the Copenhagen meeting in 1992.

[7] Montreal Protocol, Article 10 , paragraph 1 as amended by decision II/8 of the Second Meeting of the Parties.

[8] Technical consistency of GEF projects with relevant guidance used within the Multilateral Fund of the Montreal Protocol would be ensured by using the same technical expertise for technical review. In this regard those technical advisors who are involved in the technical review of Multilateral Fund projects are being included into the STAP roster.

[9] GEF Instrument, paragraph 21(f).

[10] Decision IV/5 of the Fourth Meeting of the Parties to the Montreal Protocol.

[11] Many CEITs, but not all, are outside the financial mechanism. Article 5 defines eligibility in terms of per capita consumption of ODS, and some CEITs (such as Romania) are eligible under the Multilateral Fund.

[12] Subject to Council consideration of an overall policy on research and monitoring, such activities could include a project such as the Latin America regional project in the Pilot Phase *Monitoring and Research Network for Ozone and Greenhouse Gases in the Southern Cone*.

[13] Montreal Protocol, Article 7.

[14] Decision IV/5 of the Fourth Meeting of the Parties to the Montreal Protocol.

[15] The alternatives would be at least twice as expensive.

[16] See the *Overarching Strategy* for the concept of an enabling activity, and for the common elements and common procedures for such activities in all focal areas.

[17] Intergovernmental Negotiating Committee, op. cit. Recommendation 11.1 (i).

[18] Article 7.

[19] Funding of research would be subject of the approval of a strategy on research by the GEF Council.

[20] Decision IV/18 of the Fourth Meeting of the Parties to the Montreal Protocol.

[21] Decision IV/ 18 of the Fourth Meeting of the Parties to the Montreal Protocol.

[22] There is a general presumption that countries eligible for GEF financing in the ozone focal area may not require assistance for general capacity-building or institutional strengthening. Proposals for these would be considered on their merits on a case-by-case basis.

[23] Decision GEF/C.2/6/Rev.2.

[24] This restriction parallels that of the Multilateral Fund, where exports to non-Article 5 countries affect the eligible expenditures.

CHAPTER SIX

LAND DEGRADATION

The draft text of this chapter will be prepared for consideration by the Council at its meeting in October 1995. The draft chapter will be based on *Scope and Preliminary Operational Strategy for Land Degradation*, document GEF/C.3/8, which was reviewed by the Council at its meeting in February 1995, and subsequent written comments received by the Secretariat.

ANNEXES

A number of annexes will be prepared that will be based on GEF approved policies concerning cross-cutting issues, such as incremental costs, information disclosure, public participation and the project cycle.