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Agenda Item 13

**MECHANISMS AND ARRANGEMENTS FOR EXPEDITING
DISBURSEMENT OF FUNDS FOR SMALL PROJECTS**

Recommended Council Decision

The Council, having reviewed document GEF/C.17/12, *Mechanisms and Arrangements for Expediting Disbursement of Funds for Small Projects*, welcomes the reports of the Implementing Agencies on steps that they have undertaken to streamline the processing and implementation of projects and disbursement of funds. The Council approves the procedures proposed in the document to expedite the disbursement of the first tranche of GEF financing for PDF grants, enabling activities and medium-sized projects. The Council requests the GEF Secretariat to work with the Implementing and Executing Agencies acting under expanded opportunities to prepare standard legal agreements that address project start up activities and to ensure that procedures are in place in each agency that will allow the timely release of start up funds for such projects and that promote maintenance of financial accountability together with decentralized financial management of funds at the country level.

INTRODUCTION

1. The GEF Council at its meeting in November 2000 requested the Implementing Agencies to *provide a report to the Council at its next meeting on the mechanisms and arrangements through which they can expedite the disbursement of GEF funds for small projects*. Noting that the Council has already approved expedited approval procedures for small GEF grants, namely Project Preparation and Development Facility grants, enabling activities of \$450,000 or less, and medium-sized projects of \$1m or less, the CEO now proposes for Council's consideration procedures that will expedite the disbursements for these grants.
2. The Secretariat and Implementing Agencies continue to streamline their procedures to reduce overall processing time and disbursement of funds for full and medium-sized projects (MSPs) and enabling activities (EAs). In the case of projects requiring smaller amounts of financing, the GEF has had very positive experience in providing relatively small grants to countries through its Small Grants Program (GEF/SGP). The GEF/SGP, which is managed by UNDP, was launched in 1992 to provide grants of up to US\$50,000 to community-based groups and non-governmental organizations (NGOs) for addressing through local action the global environmental issues of the GEF mandate.
3. This cover note, prepared by the Secretariat in consultation with the Implementing Agencies, complements the reports submitted by the Implementing Agencies which are presented in Annexes A-C, and proposes for Council's consideration procedures to expedite the disbursement of financing for grants made under expedited approval procedures.
4. The Implementing Agencies have already used the following principles to streamline small projects:
 - (a) UNDP has established mechanisms at its country offices to support the projects under the GEF/SGP;
 - (b) UNEP has reduced project processing time previously needed to reformat GEF project documents into UNEP project documents by simply appending the UNEP-specific information to the GEF document. UNEP has also introduced a specific mechanism for authorizing GEF activities which is different from its regular project approval process; and
 - (c) The World Bank now disburses funds for MSPs on the basis of projected expenditures rather than an ex-post reimbursement for expenses. This helps to reduce the executing agencies' up-front cost and to reduce delay in activities that depend on funds flow.

PROPOSED MECHANISM AND ARRANGEMENT FOR EXPEDITED DISBURSEMENT

5. Recognizing the continuous challenge of expediting disbursement of funds, particularly in the initial phases of a project, consideration has been given to how best to facilitate the prompt start of project activities. Although in approving expedited procedures for the approval of Biodiversity and Climate Change enabling activities the Council agreed that 15 percent of the total budget should be released immediately after CEO approval of such projects, the reviews by the GEF Monitoring and Evaluation Unit of enabling activities concluded that this has not been effective in accelerating project start up because of existing disbursement procedures of the Implementing Agencies¹.
6. Building upon the reviews and the experience of the Implementing Agencies, it is proposed that the Council request the Implementing and Executing Agencies acting under expanded opportunities to develop and implement the procedures described below to expedite disbursement of GEF funds for start up activities of PDF's, enabling activity and medium-sized projects.
7. The start-up costs for project preparation and for enabling activities and medium-sized projects are being addressed since the Council has already approved expedited procedures for their development and approval; they often are concerned with issues that require urgent attention; the GEF financing is usually the most significant, if not the only, source of financing; and the financial limitations placed on these kinds of projects ensure that the financial risks are minimal.
8. For the purposes of the procedures described below start-up activities will need to be described in the proposal for any PDF grant, enabling activity, or medium-sized project, and the cost of such activities should not exceed US\$100,000 in GEF financing.
9. Specifically, it is proposed that the following steps be taken:
 - (a) *Standard legal agreement*: The GEF Secretariat will work with each Implementing Agency and each Executing Agency acting under expanded opportunities to develop, consistent with the agency's internal rules and procedures, a brief, standard legal agreement that addresses the start up activities of a PDF, enabling activity or medium-sized project following GEF approval of the project proposal. The standard agreement will incorporate basic GEF principles and policies. Standardization should expedite preparation of the legal agreements necessary for the first tranche of project activities.
 - (b) *Timely release of funds*: Following signature of the legal agreement by the GEF agency and the national authority or designated organization, the Implementing or Executing Agency acting under expanded opportunities will release the approved start

¹ GEF 1999. Interim Assessment of Biodiversity Enabling Activities (Evaluation Report #2-99) and GEF 2000. Review of Climate Change Enabling Activities (Evaluation Report #2-00).

up funds (the first tranche of funds), up to US\$100,000, within 10 working days to the project executing agency.

- (c) The amount released will be based on projected expenditure for the first tranche of activities, rather than ex-post reimbursement for expenses. Subsequent tranches will be released according to an agreed schedule in the project document and satisfactory submission of a statement of expenditure by the project executing agency.
- (d) *Decentralized financial management:* Project expenditures will be audited according to existing Implementing or Executing Agency procedures. Financial oversight by these agencies will be decentralized as much as possible. GEF agencies with country offices will be expected to delegate financial management to their local offices.

ANNEX A

UNEP'S REPORT TO THE GEF COUNCIL ON EXPEDITE PROCESSING OF SMALL PROJECTS

I. INTRODUCTION

10. The 20th session of the UNEP Governing Council, held 1-5 February 1999, Nairobi, welcomed the Action Plan on Complementarity between the activities undertaken by the United Nations Environment Programme under the GEF and its regular programme of work and requested the Executive Director to transmit it to the GEF Council. At the 13th GEF Council meeting held 5-7 May 1999, Washington DC, the Action Plan was unanimously endorsed.

11. Immediately after the endorsement of the Action Plan, the UNEP/GEF Programme Coordination Committee (PCC) was established and its first meeting was held in June 1999 to start putting the Action Plan into practice. On 25 January the PCC adopted streamlined procedures for the internal approval process for UNEP's GEF project activities. The streamlined procedures included mechanisms and arrangements for expediting disbursement of GEF funds for small projects.

II. MEASURES INTRODUCED FOR SMALL PROJECTS

12. UNEP has streamlined its internal procedures for project appraisal and approval in line with the GEF Council's recommendations, in particular for small projects such as PDF-As, MSPs (medium-sized projects), and enabling activities. These measures are outlined below in comparison with the UNEP procedures for full GEF projects.

Full GEF Projects

13. Full GEF projects are approved by one of quarterly meetings of the PCC scheduled to take place immediately prior to the bilaterals. The PCC approves the brief at this stage and the Chief of BFMS (Budget and Financial Management Service) is authorized to sign the operational project document once the GEF approval process has been completed.

14. The development of a UNEP project document constitutes the last major element of full project preparation. In order to avoid total reformatting of the GEF project brief as approved by the GEF Council, it is amended through the addition of: (i) the front cover of the UNEP format for project documents, (ii) a detailed budget by object of expenditure, (iii) reporting information, and (iv) any subordinate financial agreements required which are added as Annexes to the full project document.

PDF-As

15. Proposals for PDF-A funding are circulated to the PCC for approval on a five day no-objection basis, before they are presented to the other Implementing Agencies for comments. Thus PDF-A proposals are not bound by the PPC quarterly meetings.

16. After GEF approval of a project, the UNEP project document is prepared. Sections to be added are basically as same as those necessary for full project internalization as mentioned above. However the PDF-As are normally far simpler than full projects in project structure and rarely involve as many co-financing/executing agencies as full projects do. Thus project document preparation for PDF-As necessitates only very limited time and effort compared with full projects.

Medium Sized Projects (MSPs)

17. UNEP has a long-standing experience of projects of less than 1 million dollars since many of its regular projects fit in that category. In order to help ensure expedited review and processing of MSPs, UNEP has designated a focal point on MSPs, who liaises with the UNEP NGO focal point and the substantive divisions of UNEP.

18. The expedited process for MSPs requires submission of a two-page project concept for the standard format to the UNEP GEF Coordination Office to determine the eligibility of the project for GEF financing. At this stage the MSP concept is exempted from the PCC review.

19. Following preparation of the MSP brief in GEF format, it is circulated to the PCC for approval on a ten day no objection basis prior to submission to the GEF Secretariat. The UNEP GEF Coordination Office submits it to the GEF Secretariat and circulates it to the other Implementing Agencies, STAP and convention secretariats, where necessary.

20. Once the final CEO approval has been obtained, the UNEP project document is prepared. The requirements are the same as the full GEF projects. For MSPs this process is normally completed within eight weeks with the assistance of UNEP GEF Coordination Office. This shorter processing time for MSPs is again mainly due to the fact that MSPs are in most cases not as complicated as full GEF projects.

Enabling Activities

21. The PCC has given blanket approval for the addition of enabling activities under the existing project documents. In other words enabling activities are exempted from the PCC review as they have been already approved as a whole as the UNEP umbrella project. Thus the total processing time for enabling activities tends to reflect the time required by GEF Secretariat to approve them.

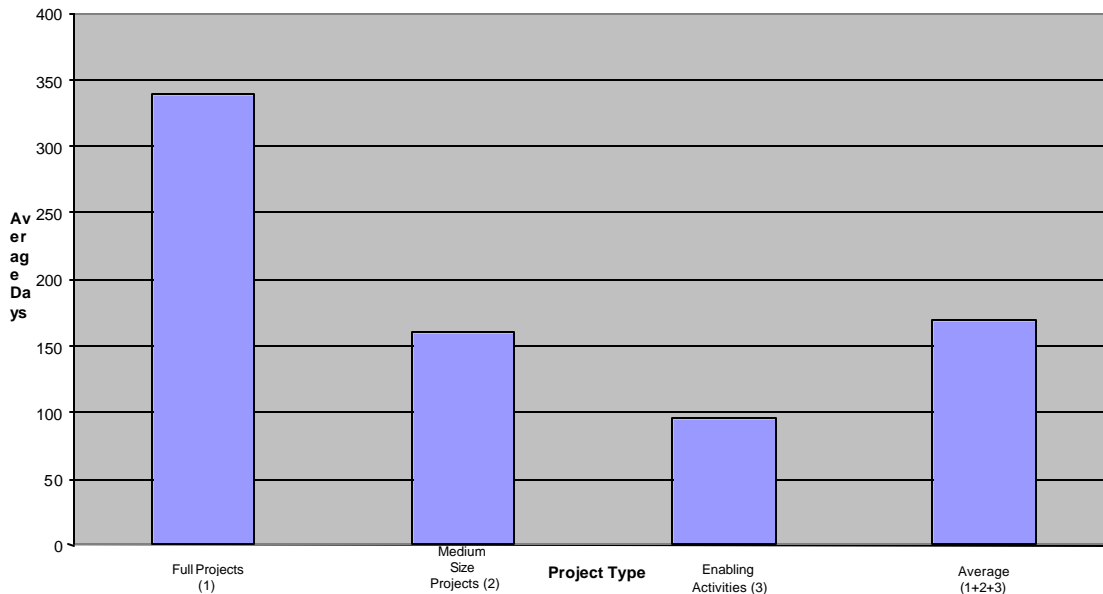
22. After approval by the GEF Secretariat, the UNEP project document is prepared. This requirement remains the same for all types of GEF projects. However for enabling activities this process is normally far faster than full projects because most enabling activities are less complicated and rather uniform in project structure.

III. EFFECTS OF EXPEDITED PROCEDURES

23. The graph 1 below indicates the difference in the number of days UNEP spent to process different types of projects after the GEF approval. While more than 300 days were spent for a full GEF project to be processed, only about 160 days and less than 100 days were necessary on average for a MSP and an enabling activity to be processed, respectively.

24. This difference cannot be totally attributed to the expedited procedures introduced by UNEP for small projects such as MSPs and enabling activities, since there are a number of other factors that affect the processing time of each project. In fact these average figures tend to be very much influenced by a few projects, which took exceptionally long time to be effected. This is considered particularly true with UNEP, since the number of projects UNEP has been handling is comparatively limited. Thus these average figures indicated in the graph should be taken with caution. Nevertheless it seems one can at least safely conclude that UNEP's expedited procedures for small projects have contributed to speedy processing in general of such projects within UNEP.

Graph 1: Average Processing Time Between GEF Approval and Project Internalization by UNEP



ANNEX B

UNDP REPORT ON DISBURSEMENT OF GEF FUNDS FOR SMALL PROJECTS

I. INTRODUCTION

25. In response to the November 2000 GEF Council decision on Agenda Item 7 (Driving for Results in the GEF: Streamlining and Balancing Project Cycle Management) where the council requested the Implementing Agencies “to provide a report to the Council at its next meeting on the mechanisms and arrangements through which they can expedite the disbursement of GEF funds for small projects”, UNDP presents this report.

26. UNDP has three main comparative advantages in disbursing funds for small projects. (1) UNDP has over 30 years of experience in disbursing small capacity development grants; (2) through this experience UNDP has evolved flexible arrangements for disbursing grant funding; and (3) UNDP’s system of Country Offices enable it to decentralize grant making to respond better to country needs, and maintain a higher degree of accountability over the disbursement of project grant funding.

27. *Experience in disbursing small technical assistance grants:* UNDP’s role within the UN system is to manage project grants. This includes managing the delivery of capacity development grant financing for projects and assuming accountability for the progress of projects and the expenditure of project finances.

28. *UNDP’s decentralized institutional Architecture:* UNDP delivers most of its services through its 132 country offices; including national and regional advocacy and analysis to increase knowledge, sharing best practices, building partnerships including technical cooperation among developing countries, mobilizing resources, and promoting enabling frameworks including international targets for reducing poverty. UNDP’s country offices are also essential in providing decentralized project development and monitoring as well as basic administrative, financial and technical support to country counterpart institutions. Although the role of the country office varies according to the execution modality in all cases they play an anchoring role in delivering UNDP support. Financial authority is delegated to the Resident Representative to approve all projects that are inline with UNDP National Programme, the Country Cooperation Framework, except, where there are specific policy issues. He and the Programme Managers (equivalent to the World Bank’s task managers) are located in country placing them to provide effective project oversight, backstopping and to be responsive to project stakeholders.

29. All grant delivery is bound by UNDP’s Standard Basic Assistance Agreement (SBAA), whatever the execution modality. Under the SBAA the CO’s retain UNDP by disbursing project funds every quarter, and verify project expenditures against the project’s work plan. However depending on the client the CO’s can also play a range of additional services to assist the project executors. At a

more substantive level the CO can assist with resource mobilization; identify national experts; provide access to government officials and decision-makers, and act as an impartial convening body.

30. *Flexible execution arrangements:* A variety of execution modalities allows UNDP to respond to specific country needs and capacities and customize the delivery of its support. These modalities are summarized below.

II. UNDP'S EXECUTION MODALITIES

(a) *National Execution (NEX):* under this modality the host government institution is given the responsibility for managing project expenditure and progress. The institution is responsible for procurement, hiring and administering project personnel, and monitoring and reporting project activities and expenditures. While the modality is generally slower than most other execution modalities, it has the great advantage of enabling the national executing agency to build its own project execution capacity through practice and experience. This modality is preferred by UNDP and adopted when the government has project execution capacity to meet UNDP's minimum financial management and project reporting requirements.

(b) *Execution by a United Nations agency or multilateral development bank,* is an alternative option when the agency can lend technical expertise essential to the success of the project, but which is not available nationally.

(c) *NGO Execution,* is a relatively new modality, and is preferred particularly when a project requires close participation with local communities.

31. National Execution is the most usual modality of project execution. 60% of UNDP's project portfolio is nationally executed, primarily because of the capacity building advantages.

III. UNDP/GEF'S EXPERIENCE IN DISBURSING SMALL GRANTS

32. Within the UNDP/GEF portfolio over 90% of the Enabling Activities, and over 60% of the Medium Sized Projects and Full Sized Projects are using the NEX modality. 36% of all MSPs and FSPs are executed through a UN agency predominately through UNOPS. Below are some examples of how UNDP has applied its execution modalities. These examples show how they can be applied flexibly to meet specific needs as they arise.

Small Grants Programme

33. The Small Grants Programme (SGP) is a good example to illustrate how UNDP has managed to adjust to GEF requirements with a flexible modality. Given the rather centralized nature of the GEF decision-making process, and in agreement with the GEF Secretariat, the SGP is able to take GEF guidance, rapidly make it operational, and disseminate it to its network of country programmes. Conversely the SGP must also be able to centralize progress, lessons and the financial status of its national programmes and projects, and present a single integrated report to the GEF Council. The key principles of the SGP institutional architecture of the SGP has therefore been to decentralize grant decision-making as far as possible, while maintaining centralized strategic management, support, and report functions. In summary the SGP structure aims at a cost effective, fast and flexible grant delivery mechanism that responds to grass root requests for funding, while remaining within the GEF's operational guidance.

Centralized structure

34. The SGP has a centralized structure to mirror and respond to the GEF Council and Secretariat requests and decisions. This includes *The Central Programme Management Team (CMPT)*, who present to the Council annually a three year rolling plan, indicating the intended direction of the SGP, and requesting an annual grant to cover the costs of the third year. This is accompanied by a single progress report measuring progress against a single set of milestones. The CMPT provides the national programmes with strategic guidance and support, assisting national programmes to respond to GEF operational guidance.

National Structure

35. At the national level the SGP structure aims to ensure national buy-in and support for the SGP. Credible and well respected figures in climate change, biodiversity and international waters, mainly in academia and NGOs are appointed to the *National Steering Committee* to give overall guidance to the SGP National Programme.

36. A *National Coordinator* supports the NSC in its decision, while promoting the SGP among local communities and soliciting ideas for grants from them. The SGP is anchored at the national level by a *National Host Institution (NHI)*. Where ever feasible the Country Offices lend an immediate credibility to the SGP; they can engender government support for the programme; bring together government and civil sectors of societies to discuss the SGP; identify the best technical experts and civil leaders and enlist for their support and participation in the SGP; help mobilize project co-financing; publicize the successes of the SGP in all sectors of society, in addition to the usual administrative and financial support they can provide.

Enabling Activities

37. UNDP/GEF has gained valuable experience in processing small projects through implementing GEF Enabling Activities. UNDP implements 78% of the GEF Climate Change Enabling Activities and 62% of the GEF Biodiversity Enabling Activities. A Recent reviews by the GEF on Enabling Activities in both focal areas notes the progress the agencies have made in expediting Enabling Activities.

“During the period 1995-1998, there was a significant decrease (60%) in the amount of time taken to process a project—from an average of 499 days in 1995 to an average of 188 days in 1998....UNDP has made efforts to remove the bottlenecks affecting the project processing cycle over the past five years.”

38. UNDP has further responded by introducing procedures to speed up the processing time for the Enabling Activity “top-ups” while maintaining financial accountability and control.

Operational Focal Point Support Initiative

39. In the context of the OFP initiative UNDP was chosen by 87% of all 105 countries to disburse funds in an expedited way and provide services to the GEF focal points. This could be interpreted as an indicator of UNDP’s ability to handle small amounts of money in an efficient manner. UNDP is using a modality called “extra-budgetary funding mechanism” that allows to transfer funds quickly to country offices. Accountability is being ensured through the regular audit procedures.

40. One reason for the success of the initiative has been the streamlined procedures for delivering funds:

- (a) once selected, the CO agree with the OFP on the set of services required;
- (b) an annual work plan and budget, along with an annual report on the previous years expenditure is prepared and submitted to HQ; and
- (c) disbursements are made based on the work plan, and satisfactory reporting on expenditures.

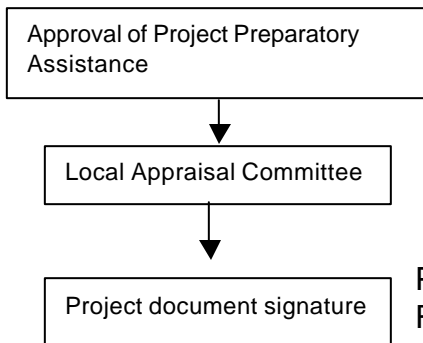
IV. UNDP’S PROJECT CYCLE – KEY MILESTONES

41. UNDP has extremely flexible arrangements for the design and execution of projects. These arrangements are for delivering small technical assistance projects responding to country needs identified during a consultative process with the host government and other stakeholders and experts. Financial authority to approve projects is delegated to the Resident Representative once the Country Cooperation Framework (CCF) is approved. The CCF is the basic planning framework, including substantive direction and focus, as well as an indicative financial envelop, for a UNDP Country Office’s

national programme for the coming 3 years. This give the Resident Representative the authority and flexibility to respond to emerging national circumstances.

Project Preparation and Development

42. There are only 3 mandatory steps in project preparation and development. Any appropriate techniques and processes can be used to identify and develop a project idea. Once defined, UNDP can release funds for Project Preparatory Assistance (PPA), to collect data and verify the feasibility of project ideas.

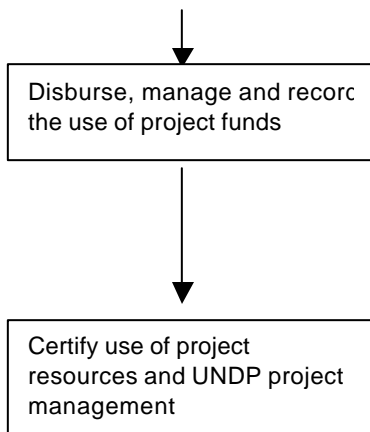


UN Resident Representative approves PPA, after consultation with Gov. and stakeholders.

Tripartite meeting of UNDP, Host Government and designated institution appraise to developed projects.

Project document approved by signature of UN Resident Representative, gov and designated institution.

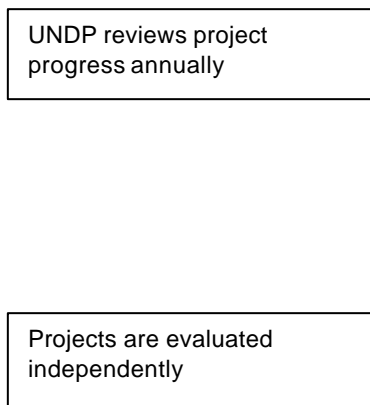
Project Implementation



UNDP verifies expenditures against the project work plan and project progress and disburses funds quarterly as requested by the executing agency; verifies the request against expected costs of the work plan; and keeps an account of disbursement and expenditure.

Auditors audit UNDP management systems and certify they are adequate to ensure appropriate use of UNDP resources. In doing so, they audit project records and certify resources are being used according to the SBAA.

Monitoring and Evaluation



The executing agency prepares an Annual Project Review Report (APR), in consultation with the stakeholders, highlighting issues and solutions. UNDP, the host government and the executing agency hold a Tripartite Review (TPR), based on the APR assess project progress, and recommend improvements.

UNDP ensures that projects of more than USD 1 million are independently evaluated at least once, to ensure accountability, provide a basis for decision making, and to generate practical lessons from projects. For projects of less than USD 1 million an independent evaluation is recommended but not mandatory.

ANNEX C

WORLD BANK MECHANISMS AND ARRANGEMENTS FOR THE DISBURSEMENT OF GEF FUNDS FOR SMALL PROJECTS

I. INTRODUCTION

43. This report responds to the GEF Council's request to the Implementing Agencies in November 2000 "to provide a report to the Council at its next meeting on the mechanisms and arrangements through which they can expedite the disbursement of GEF funds for small projects".

44. Based on GEF Council and Secretariat guidance, as well as client country needs, the Bank has adapted its operational policies and procedures in order to expedite the processing of, and disbursements, for small projects. In particular, the Bank undertook a major initiative in 1997 to streamline procedures for GEF Medium-Sized Projects (MSPs). As part of its mainstream operations, the Bank also introduced in 1997 new investment lending instruments called "adaptable lending instruments" with the objective of allowing the Bank to adapt effectively to the changing needs of clients and the changing nature of development. Most recently, the Bank, the GEF and a major NGO, Conservation International, established the Critical Ecosystem Partnership Fund with the purpose of creating a new biodiversity funding instrument that combines technical and financial strength, field knowledge, and administrative agility and flexibility. The World Bank Group, through the International Finance Corporation (IFC), also administers a number of private equity funds or fund-like instruments, which have procedures for rapid approval of sub-projects and quick disbursements to qualified financial intermediaries or small and medium scale enterprises. Moreover, the Bank has taken a leadership role in the design and supervision of conservation trust funds, which are effective, transparent and efficient mechanisms for transferring resources – often in relatively small amounts – to field activities.

45. Mechanisms and arrangements for each of these modalities are described below. It should be noted that the overall elapsed time for projects is affected by a combination of factors: Bank procedures (where there is continued scope for streamlining), client response time (which is beyond the control of the Implementing Agency), and the GEF Secretariat's review/clearance period (where there is also scope for reducing processing time). Expediting disbursements for small projects will require attention to all three groups of factors.

46. As of April 2001, the World Bank Group's GEF-approved portfolio consisted of 46 MSPs. The Bank is the Implementing Agency (IA) for the largest number of MSPs in the GEF portfolio. In addition, the Bank's GEF portfolio consisted of 14 projects with a total project cost (GEF grants plus co-financing) between \$1 million and \$5 million. The Bank is also the GEF Implementing Agency for 27 Enabling Activities in Biodiversity and Climate Change. These projects constitute about 40% of the Bank's GEF-approved projects

II. WORLD BANK PROCEDURES FOR MEDIUM-SIZED PROJECTS

47. MSPs have provided an effective instrument for the Bank to establish partnerships with a broad range of groups and individuals on smaller projects which address the GEF's focal areas. The significant development of the Bank's MSP portfolio has been facilitated by the adoption of procedures which seek to respond to the business practices and needs of these projects proposers and executing agencies, thus reducing the barriers to entry for not only NGOs, but also private enterprises, government agencies and others that undertake smaller projects.

48. The GEF operational guidelines for MSPs established expedited procedures for projects of \$1 million or less in GEF grants, and envisaged corresponding actions by the IAs to streamline their procedures for processing MSPs and to provide project proposers with supplementary information on these procedures. In November 1997, the Bank issued an *Information Kit Supplement for Medium-Size Project Proposers Working with the World Bank* to help project proposers provide the information necessary for expedited Bank processing and approval of MSP grant agreements. The Kit is based on the recognition that awareness and information on the part of project proposers and executing agencies is a critical factor in ensuring timely disbursements.

49. As a first step in expediting the processing of MSPs, approval authority for these projects is delegated to the Country Director. Consistent with GEF streamlined procedures, the additional internal Bank documentation requirements for CMU approval are significantly lighter than for full-sized projects (no PCD or PAD is required), and hence there is little or no appraisal work after GEF CEO approval of the project brief.

50. The Information Kit Supplement covers the following areas in which standard Bank operational policies and procedures have been streamlined for the purpose of Bank management approval of MSP grant agreements and subsequent disbursements to the executing agency:

Financial Management Systems, Reporting and Auditing

51. To assist the project proposer in providing information, the Information Kit sets out the principles of financial management, recording and reporting that the Bank expects all MSP project proposers to follow. Each project proposer is requested to briefly describe the internal controls, accounting system, accounting/finance staffing and audit arrangements of the institution seeking the MSP grant. MSP grant recipients are expected to periodically² provide an expenditure report and summary of uses of the MSP grant, as well as a forecast of cash needs in order to receive grant funds during the life of the project. Sample formats of the two financial reports and the forecast are also included for

² An expenditure report and summary of use of the grant, as well as a narrative account of progress of the grant-funded activities will be provided each time the grant recipient is seeking a release of grant funds. This could be quarterly, semi-annually or annually.

information. These are recommended formats, and other reporting formats currently used by the project proposer can be considered by the Bank, to the extent they can clearly identify the source and uses of the MSP grant funds. Audit reports are required on the receipt and use of the GEF grant funds; the receipt and use of the project's funds; and the local implementing agency.

Projections of Grant Disbursements

52. The Bank disburses funds for MSPs as advances based on projections and expenditure reports, rather than ex-post reimbursements for expenses, thus reducing the up-front costs for executing agencies (many of which tend to be smaller organizations with limited resources) and facilitating their efforts to submit project proposals to the GEF. The executing agency is requested to prepare a forecast of the use of grant funds over the life of the project, in order to establish how the grant funds will be released. The use of funds should be detailed by project activity. The Bank recommends that the table also incorporate the physical sub-activities that will account for how funds are spent; these "activity targets" are the basis for the forecast use of funds and help monitor disbursements as they relate to progress in carrying out the activities. Funds may be disbursed quarterly, semi-annually or annually depending on the nature of the project.

53. Disbursement of grant funds, other than the initial disbursement, are made based on the grant recipient's submission of an official withdrawal application together with supporting evidence on how the funds have been used. Reports are also required on progress in achieving the activity targets corresponding to each disbursement period as well as the financial reports and forecast referred to above.

Procurement Under the Medium-Size Project

54. It is expected that the small size of MSP grants will result in small packages for procurement of goods and works for which the Bank's standard guidelines allow flexibility for the use of shopping, and smaller size service contracts or other arrangements that fall outside of QCBS practice³.

55. Information provided by the executing agency is intended to help the Bank understand what procedures will guide the everyday purchase of goods and services and contracting for works. It is important for the Bank to be certain that a grant recipient is capable of purchasing goods or services efficiently, economically and with transparency, and follows competitive practices whenever feasible, in order to make the best use of MSP grant funds awarded to it.

56. To assist the project proposer in preparing an annex to the MSP Project Brief on how goods and services financed by the MSP grant will be purchased and contracted, a guidance note titled

³ Quality and Cost-Based Selection. This selection method is used for contracts exceeding \$100,000 and requires (i) preparation of consultant terms of reference, cost estimates and budget, (ii) advertising, (iii) preparation of a short list of consultants, (iv) issuance of a Request for Proposals, (v) evaluations of technical and financial proposals received and (vi) contract negotiations and award.

“Information on Procurement of Goods, Services and Works” is provided. The guidance note summarizes key principles that should be applied by the project proposer when the latter is deciding how to select and purchase goods and services, and in many cases will provide all information needed by the project proposer. Should the project proposer wish to have more information than the guidance note offers, copies of the Bank’s *Guidelines for Procurement* and *Guidelines for Selection and Employment of Consultants* are also included.

Compliance with the Bank’s Operational Directives and Operational Policies

57. Because all GEF-supported projects receiving World Bank funds or funds administered by the World Bank must comply with the policies and directives of the Bank, all project proposers are required to attest to the compliance of their project with these policies and directives. A summary of the Bank’s key environmental and social policies is provided to assist the project proposer in determining whether the proposed project involves any issues associated with these policies.

Elapsed time between MSP project cycle steps

58. For the 18 Medium-Sized Projects approved by Bank management in FY00, the average number of days from GEF CEO approval to Bank management approval was 138 days (by comparison, the average elapsed time from GEF Council approval to Bank Board approval for full-sized projects was 490 days in FY00). It should be noted that there was a large standard deviation almost entirely due to the significant delays in three MSPs – all of which took more than 300 days – caused by uncertainty about the signing authority in the government for MSP grant agreements, a matter that has now been settled. Seven out of 18 MSPs approved in FY00 were within the range of the service norm of 8 weeks proposed by the GEF.

59. For the 16 medium-sized projects that became effective in FY00, the average elapsed time from Bank management approval to effectiveness was 45 days in FY00. The majority of projects took less than three weeks to become effective after Bank management approval. By comparison, full-sized projects that became effective in FY00 required an average of 215 days.

Learning and Innovation Loans (LILs)

60. To-date eight Bank GEF projects are associated with LILs, and this number may grow as more LILs enter the Bank’s pipeline. LILs provide a significant opportunity to expedite disbursement of funds in small GEF projects. The objective of the LIL instrument (capped at \$5 million) is to provide structured support for small, time-sensitive projects to pilot promising development initiatives based on a sound developmental hypothesis, or to experiment in order to develop locally based models prior to larger-scale interventions. This is consistent with the objectives of many GEF projects.

61. The Bank’s objective is to process a LIL within 3 to 4 months between the Bank’s decision on the concept and the signature of the Regional Vice President (RVP). A key outcome expected from the

adoption of LILs was the reduction in the commitment of money and time to the preparation of operations that, by their nature, are not amenable to precise design and planning. A review of the first year of experience with LILs showed that the average elapsed time from identification to approval was 5.5 months and that most LILs were signed within two months of approval. The review confirmed that preparation of LILs has been completed in less time and at less cost than other types of operations (although a key challenge has been the need to meet the standards of the Bank's fiduciary and safeguard policies while keeping LIL processing on a fast track. Many clients reported that the LIL had allowed them to begin implementing projects much more quickly and at much lower costs than in the past.

62. In terms of procedures, the flexibility inherent in current procurement policies has been applied in most cases to select non-ICB procurement methods that are most appropriate to the small scale of the operations. Most of the LILs have been assigned environmental rating of "C". The economic, financial and some other analyses normally completed ex ante for the Bank's conventional investment lending are not expected in such detail in LILs, particularly in cases where these analyses were to be carried out during implementation in order to demonstrate feasibility of the approach being tested. Simplified PCD and PAD formats for LILs have been introduced to help Bank teams focus on the development hypothesis to be tested or approach to be piloted, and on the methodology for testing or piloting.

63. However, the potential benefits of LILs have not fully materialized for GEF-financed projects due to the fact that current Bank policy requires all GEF projects to be submitted to the Board. Discussions are now underway to explore the possibility of delegating Bank approval of GEF LILs to the RVPs, similar to mainstream Bank operations.

Critical Ecosystem Partnership Fund (CEPF)

64. The CEPF represents an effort by the World Bank and the GEF to partner with Conservation International (CI) and other institutions to create a new biodiversity funding instrument that combines technical and financial strength, field knowledge, administrative agility and flexibility, and a knowledge system to facilitate information communication. The combination of these strengths will allow the CEPF to provide a significant total amount of targeted funding in small- to medium-sized field projects in a more streamlined fashion than has been possible to date.

65. The CEPF introduces a new, flexible approach to disbursement to the field. Under the CEPF agreement, CI acts as the managing partner and is responsible for grant disbursement within the strategic funding direction approved by the CEPF Council and delineated in hotspot-specific "ecosystem profiles." Once an ecosystem profile is approved by the CEPF Council, CI advertises grant availability via a variety of mechanisms including its own networks, country offices, and the internet.

66. CI maintains staff especially dedicated to interacting with applicants. When the prospective applicant has access to the internet, the process is fully automated. The applicant enters an interactive web page through which eligibility is immediately determined. If the proposal is eligible, the applicant can

then "navigate" through a series of screens to fine-tune eligibility and ensure full compliance with Bank, GEF, and CEPF safeguard and other policies. If compliance is determined this way, the applicant can submit the grant application on line. Depending on the size of the grant, CI makes a decision (based on the fit of the proposal with the strategic priorities in the ecosystem profile) within anywhere from 2 days to 2 weeks. When the applicant does not have access to the internet, the above process takes place via regular mail or in person through CI's in-country offices.

67. Once the grant is approved, disbursement occurs directly from the "CEPF Account" maintained by CI. The CEPF thus represents an approach that balances compliance with donor policy requirements with agile decision-making and disbursement to the field.

Internal Finance Corporation-administered Funds

68. The IFC administers several private equity funds or fund-like instruments which have procedures for rapid approval of sub-projects (many of them relatively small) and disbursements to financial intermediaries and/or small and medium scale enterprises. Examples of such funds include the Small and Medium Scale Enterprise Program (SME), Renewable Energy and Energy Efficiency Fund, Solar Development Group, and Photovoltaic Market Transformation Initiative.

69. The SME project is characterized by disbursements to small sub-projects, since the funding provided in any one case is limited to \$250,000. SMEs are defined as enterprises with assets valued at less than \$5 million. During the Pilot SME project, the average sub-project size financed by the various intermediaries ranged from \$661 to \$240,000. Limiting the amount per intermediary and per SME provides a good incentive to keep the size of the firms small.

70. The basic feature of the SME Program is that it operates primarily through intermediaries. These intermediaries are selected by IFC on the basis of their experience with SMEs, their financial viability, and their financial and environmental technical capabilities. The intermediaries identify, analyze, finance and monitor GEF eligible SME projects and in the process assume the risks inherent in these projects through the provision of loans or equity investments. The intermediaries receive a long term, low interest rate loan from the Program but combine their own and other sources of funding to complete the financing requirements of the eligible SME projects. Working through intermediaries permits the SME Program to reach a larger number of smaller SMEs, increases efficiency, enhances timeliness in Program implementation, and reduces risk, by tapping into their client networks and their knowledge of the local business environment.

71. The procedures of the SME Program require that all intermediaries present their projects to a Review Committee and an Advisory Panel. Once the Review Committee and the Advisory Panel are convinced that an intermediary can identify, analyze and structure SME projects that are commercially viable and that address GEF objectives, then that intermediary is authorized to finance projects without Committee approval. The intermediaries must advise the Program Task Manager of the details of all

projects financed according to a standard SME Program reporting format. The Advisory Panel reviews and confirms the global environmental benefit descriptions of each project.

72. All loan funds allocated to intermediaries must be on-lent within two years or they must be returned to SME accounts. This has created a good incentive for intermediaries to draw on their allocations in a time frame that is consistent with developing and managing a pipeline of projects

III. CONSERVATION TRUST FUNDS

73. The GEF has supported conservation trust funds in several countries as a means of providing long-term funding for biodiversity conservation; the World Bank is the Implementing Agency for most of these projects. Conservation trust funds can absorb major amounts of funding and disburse it over time consistent with the absorptive capacity of recipient organizations. These funds include “parks” funds that support protected areas and “grants” funds that channel resources to target groups (typically NGOs and community-based organizations) for a broad-range of conservation and sustainable development projects. Conservation trust funds legally set aside assets whose use is restricted to the specific purposes set out in a legal trust instrument. They can be structured financially as endowments, sinking funds or revolving funds. The majority of the funds are set up as non-governmental institutions with mixed public-private governing bodies.

74. The Bank, in a departure from its standard disbursement procedures, disburses up-front the full amount necessary to capitalize conservation trust funds. Administration of the grant program is the responsibility of the fund’s management, based on agreed procurement and disbursement procedures which can be designed to ensure timely disbursement of small amounts of funds at the field level. In particular, this mechanism allows for special consideration to be made for communities to access funds.

75. The GEF’s review of Conservation Trust Funds concluded that the funds have made major achievements in establishing transparent selection processes, and in some countries trust funds have had the opportunity to adopt elements of small-grant making procedures successfully used by private foundations and donors. However, the study also found that that agile administrative procedures have been difficult to establish in several cases, often due to donor requirements. In seeking the appropriate balance between fiduciary accountability and operational effectiveness, the Bank reviews the financial management and procurement procedures of recipient institutions to ensure that they are consistent with its fiduciary policies, while considering the impact of such procedures on trust fund agility and responsiveness.

IV. CONCLUSION

76. Small projects are a significant part of the Bank's work on the global environment. Substantial progress has been made in developing instruments and partnerships to expedite disbursements for such projects. At the same time, the Bank recognizes the need to continually explore ways and means to further streamline project processing, as well as disseminating and replicating lessons learned from mechanisms adopted in a variety of GEF projects.