



# Global Environment Facility

## Summary of Document GEF/C.31/12

### Operational Guidelines for the Application of the Incremental Cost Principle

#### Recommended Council Decision

The Council, having reviewed document GEF/C.31/12, *Operational Guidelines for the Application of the Incremental Cost Principle*, approves the guidelines as a basis for a simplified demonstration of the “business-as-usual” scenario, incremental reasoning, fit with the focal area strategies and co-funding. The Council requests the Secretariat, the GEF agencies and the Evaluation Office to ensure that the guidelines and information requirements are followed in project design and implementation, monitoring and evaluation.

#### EXECUTIVE SUMMARY

1. The GEF Instrument states that “the GEF...shall operate 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 GEF focal areas.
2. Its application has been recognized as complex and not always transparent by GEF Council, the Secretariat and agencies as well as project proponents, Governments and NGOs.
3. Recently, the GEF Evaluation Office conducted an evaluation of how incremental cost assessments have been undertaken in GEF projects and concluded that while the principle of incremental funding is alive and well in GEF, there remains weak understanding and much confusion about incremental cost concepts and procedures; most project documents register low quality and compliance when measured against GEF requirements for incremental cost assessment and reporting; and as currently applied, incremental cost assessment and reporting do not add value to project design, documentation and implementation.
4. To address the concerns presented in the *Evaluation of the Incremental Cost Assessment*, and Council’s request to address these issues, this document describes a **pragmatic, simplified, strategic and cost-effective approach** for determining incremental costs.
5. The proposed approach consists of five steps that simplify the process of negotiating incremental costs, clarifies definitions, and links incremental cost analysis to result based management and the GEF project cycle. The guidelines enhance the transparency of the determination of incremental costs of a project during the preparation period, as well as its implementation through:

- (a) determination of the environmental problem, threat, or barrier, and the “**business-as-usual**” scenario (or: What would happen without the GEF?);
- (b) identification of the **global environmental benefits (GEB)** and fit with GEF strategic programs and priorities linked to the GEF focal area;
- (c) development of the **result framework** of the intervention;
- (d) provision of the **incremental reasoning** and GEF’s role; and
- (e) negotiation of the role of **co-financing**.

6. An annex summarizes the information requirements linked to each step at various GEF project cycle stages.