

## **ANALYSIS OF THE PDF**

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### **RECOMMENDED DRAFT COUNCIL DECISION:**

The Council reviewed document GEF/C.7/10, *Analysis of PDF*, and takes note of the information and conclusions presented in the analysis. The Council, recognizing that the PDF has been in operation for less than a year, requests the Secretariat to keep under review the work of the PDF and to report to the Council as appropriate.

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## INTRODUCTION

1. At its second meeting in November 1994, the Council agreed to establish the Project Preparation and Development Facility (PDF), with an initial allocation of US\$15.0 million.
2. The Council at its third meeting reviewed document GEF/C.3/6, *Project Preparation and Development Facility (PDF)*, and approved the policies on eligibility for, and use of, PDF resources presented therein, subject to the comments and revisions agreed to during the Council meeting.[\(1\)](#)
3. In approving the PDF policy paper, a key issue of concern was the proposed ceilings for Blocks A, B, and C of the PDF (respectively, US\$50,000, US\$350,000, and US\$1 million). The Council agreed to a lower ceiling of US\$25,000 for Block A with respect to project preparation activities. The Council requested the Secretariat and the Implementing Agencies to evaluate the process of allocating project preparatory funds after a year of operation. Given the interest in PDF activities since its start-up in March 1995 and the fact that more than two-thirds of funding are already committed, this report therefore covers PDF activities from beginning March 1995 to end January 1996.[\(2\)](#) It includes general information on PDFs, more specific information about Block A, B, and C PDFs, issues arising from analysis of the PDFs, and recommendations for future activities.

## PDF - GENERAL INFORMATION

4. During the period under review, a total of US\$10,385,302 was committed for PDFs. This is approximately 69 percent of the total allocation for PDFs [\(3\)](#). As of end January 1996, US\$1,471,081 had been disbursed, representing 14 percent of commitments. The breakdown by each Block is as follows:
5. **Block A PDFs:** Block A funds are used at the very early stages of project or program identification and cover in-country expenditures with the general understanding that the operational costs of staff of the Implementing Agencies would be covered by their administrative budgets. Approval of individual Block A grants rests with the Implementing Agency in conjunction with the national government. Individual requests do not come to the GEFOP or the Secretariat for approval. However, the Block A PDF proposals are circulated to the other Implementing Agencies, the Secretariat, and the Scientific and Technical Advisory Panel (STAP) for comment within a five-day period. Copies of approved Block A PDF formats are sent to the Secretariat for information. Each Implementing Agency is responsible for ensuring that submissions are for eligible countries and activities and correspond to the strategic and operational priorities of the GEF.

6. In March 1995, the Secretariat allocated to each agency the amounts below for Block A PDFs (4). During the period under review, the Implementing Agencies approved 29 Block A PDFs for a total of US\$766,500:

UNDP - \$ 500,000

UNEP - \$ 75,000

World Bank - \$ 500,000

**TOTAL:** \$1,075,000

7. **Block B PDFs:** Block B grants are considered for projects or programs which are already clearly identified. Proposals are expected to fit clearly into the GEF's operational strategy and to be considered technically, scientifically, and environmentally feasible. Grants should support tasks associated with the completion of project or program preparation leading up to approval by the Council and subsequent appraisal. Each Block B funding proposal is submitted by an Implementing Agency. The GEFOP recommends to the CEO an allocation of funds. Where the final project is expected to be cofunded, the request for PDF funds is to be accompanied by a statement showing the level of preparatory funding committed by the cofunder; the proposed cost sharing is reviewed by GEFOP.

8. During the period under review, 36 Block B PDFs were submitted to the CEO, based on recommendations from the GEFOP, and approved. They totalled US\$8,872,802. Cofunding of Block B PDFs totalled an additional US\$8,857,490.

9. **Block C PDF:** Each Block C proposal is submitted by an Implementing Agency to the Secretariat. Access to Block C PDFs is normally limited to projects which have been approved by Council but require more detailed technical design work; are large scale projects which require considerable technical design and engineering feasibility work; and where all pre-conditions of project preparation have been met, including national consultations, technical and engineering pre-feasibility work, and country commitment. Where the project has not yet been approved by Council, the request for funds goes to GEFOP for more detailed review. GEFOP then recommends to the CEO an allocation of funds. The CEO has authority to approve amounts up to US\$750,000. For amounts between US\$750,000 and US\$1 million, the CEO consults with the Council before approval.

10. During the period under review, only one Block C PDF, (China Efficient Industrial Boilers, a US\$746,000 submission by the World Bank) was approved. The US\$101 million project proposal includes US\$32.8 million of GEF financing (and US\$68 million financing from Chinese enterprises and commercial banks) and is included in the work program submitted to the April 1996 Council meeting.

11. **Regional and Global PDFs:** Twenty-seven of 66 PDFs (41 percent) involved multi-country, regional, or global project preparation activities. They met the additional criteria for PDF funding, namely: each participating country must endorse and be eligible to receive funding; and

funding should be provided for in-country costs in eligible recipient countries, and travel and subsistence costs of recipient country experts to consultations associated with the development of a regional or global program.

**12. Ineligible Expenditure Items:** Ineligible expenditures for PDFs include resources to support the regular staff or program activities of an Implementing Agency or executing agency; administrative costs of the Implementing Agencies; non-project preparation costs, including project startup costs, demonstration and pilot projects, enabling activities, general training activities, and major research; capital goods other than those directly required for project preparation; and goods and services which can be procured through funding channels other than the GEF. In general, PDFs did not fund ineligible activities, although there were some cases of PDFs undertaking demonstration and pilot activities as part of the project preparation process.

**13. Breakdown by Implementing Agency and Focal Area:** Tables 1 and 2 include information on the allocation of Block A and B PDFs by focal area and Implementing Agency. Table 3 includes a breakdown on the amounts allocated for Block A and B PDFs. Table 4 provides information on the number of project preparation ideas received by the Agencies and the status of these proposals. As there was only one Block C PDF, it is not included in the Tables 1-4. Table 5 shows PDFs by individual Implementing Agency (i.e. excluding PDFs involving funding by more than one Agency) and cofinancing by the Agencies and from other sources, where such information is available and applicable.

14. About half of the Block A and B PDFs (both in number and amount) were used for biodiversity focal area project preparation. UNDP project preparation activities account for more than 60 percent of Block A PDF commitments; World Bank, more than 50 percent of Block B commitments. World Bank preparation activities account for 100 percent of Block C PDF commitments (one PDF).

**TOTAL PDFs (A,B,C) - March 1995 to January 1996:  
(Copies of these tables available on request from the GEF Secretariat).**

15. UNDP has noted that it is not possible to provide the information requested in Table 4 because it receives project ideas and proposals from a great many sources and hundreds of concepts are considered in various forms, from phone calls and personal meetings, to e-mails and faxes. In FY95, for example, UNDP received 396 proposals, 19 of which were cleared for further development (including 4 that were approved as PDFs). Project ideas are developed further in close collaboration with the originator(s), government(s), and the UNDP Country Office(s). The process of project development will in most cases involve the use of Block A and/or Block B PDF funds. Very few project proposals are already submitted to UNDP as a Block A or Block B PDF request.

16. The ratio of cofinancing to the GEF component of the PDFs (UNDP, 1:2; UNEP, 1.2:1; World Bank, 1.3:1) illustrates that the Implementing Agencies have satisfactorily managed to obtain other resources for financing project preparation, including from within their Agencies.

## **BLOCK A PDFS**

17. The majority of Block A PDFs was used to prepare GEF project briefs, using international and local consultants to develop program or project options, including the preparation of terms of reference for feasibility studies and strategy papers. Almost two-thirds of the PDFs funded local consultations, national hearings, and/or workshops to discuss specific project and/or program ideas. In a few cases, funds were used to prepare scientific, technical, and environmental reviews of proposed projects to ensure they warranted further consideration. Table 6 lists the Block A PDFs, including cofinancing, and, where available, information on the estimated amount of financing to be requested for the final project proposal under preparation (To Be Determined (TBD) is used where no project amount figures are yet available). The total financing for Block A PDFs was US\$950,900, with the GEF share being US\$766,500 (representing 81 percent of the total) and cofinancing totalling US\$184,400 (19 percent of the total).

18. Three Block A PDFs (Egypt/Regional Southern Mediterranean, Ghana Bioprospecting, Global Photovoltaic Initiative) exceeded the US\$25,000 limit. The first of these is a non-project, non-program PDF to fund a conference of government representatives of the southern Mediterranean region to define a broad strategy for addressing marine pollution, including coastal zone management issues and oil spill contingency planning. The Block A PDF for Ghana is also a non-project, non-program activity to fund analysis of Ghana's existing policies, laws, and regulations relevant to biodiversity prospecting in order to identify gaps, contradictions, and inconsistencies, and to propose the development of a coherent national policy and legal framework for bioprospecting. It included a workshop to discuss the findings of the various analyses. The third Block A PDF funds a series of workshops in several countries to bring together stakeholders with different, complementary skills (photovoltaic companies, system integrators, in-country utilities and system houses, distributors, NGOs, commercial banks, investors, energy companies, research and development institutions) to form consortia. While the Block A PDF was put forward as one package for approval, each country hosting a workshop receives a separate grant, thus minimizing administrative costs for the Implementing Agency.

**19. Block A PDFs which led to higher-ceiling PDFs:** Four of the PDFs (representing 13 percent of Block A PDF funding commitments) are in the process of being formulated as requests for further work under Block B PDFs. Two of these involve preparatory work in the international waters focal area leading to the development and/or elaboration of programs to promote integrated approaches to the protection and sustainable use of the affected ecosystems. The other two PDFs, both in the biodiversity focal area, have involved the preparation of workshops. The Western Indian Ocean Block A PDF funds were used to prepare for a proposed PDF B-funded workshop involving donors and stakeholders in the region; the Caribbean Block A PDF funds were used towards a regional workshop to prepare background materials and facilitate discussions on preliminary objectives, activities and outputs, relevant capacities, and implementing arrangements for national biodiversity strategies in the region.

**20. Block A PDFs which led to projects:** Of the 29 PDFs approved during the period under review, 2 (representing 4 percent of Block A PDF funding commitments) eventually "graduated" to projects totalling US\$640,000 which were included in the Council's work program in May 1995. Both of these projects (Armenia and Sudan) were enabling activities under the Framework Convention on Climate Change and the average time of their approval as PDFs to their inclusion in the work program as project proposals was about 2 months. Another project (Sri Lanka

Renewable Energy) resulting from a Block A PDF, totalling US\$1.5 million, is to be submitted to the Council's April 1996 work program. Two other PDFs in the biodiversity focal area (Chad Capacity-Building and Zaire Capacity-Building, both approved in March 1995) led to project proposals submitted to the October GEFOP, but were deferred pending, inter alia, further guidance and deliberation on enabling activities. A Block A PDF funding preliminary work on a Survival Plan for White Rhinoceros is to be incorporated in the Zaire enabling activity cited above.

21. The remaining 19 Block A PDFs (representing 71 percent of funding commitments) are either in the process of being completed, or, where they have been completed, have been used as a basis for further project preparation. In general, the time between approval of a PDF, the completion of its planned activities, and eventual inclusion of a successful project proposal in the GEF work program is estimated to be between 12-18 months. To date, there is no report of a Block A PDF being terminated (i.e. the Implementing Agency has decided not to graduate the PDF to a higher ceiling and/or to a project), but this may require a longer time lag to ascertain more accurately the number of such PDFs.

22. As of end September, 1995, UNDP had disbursed US\$210,000 [\(9\)](#); by end January, 1996 UNEP had disbursed US\$25,000 and World Bank US\$157,000 for Block A PDFs. This represented 55 percent of commitments for UNDP, 33 percent of commitments for UNEP, and 70 percent of commitments for the World Bank.

**23. Country-driven activities and PDF execution:** Most of the Block A PDFs support project proposals initiated by the recipient country (or countries) government(s). A few result from studies or other activities initiated by NGOs (e.g. Marine Biodiversity Conservation Programme in the Western Indian Ocean, Southern African Biodiversity Support Programme, Africa Building Local NGO Capacity through a Biodiversity Survey, Zaire Survival Plan for the White Rhinoceros). Submissions by NGOs represented about one-fifth of the Block PDF proposals submitted to the Implementing Agencies. About 59 percent of the Block A PDFs, representing US\$421,800 in costs, were executed by the Implementing Agencies (either directly or through, for example, the UN Office for Project Services (UNOPS), UN Department of Development Support and Management Services (UNDDSMS), and the International Finance Corporation); the remainder (\$344,700) were executed by governments. In a few cases, the execution of the PDFs involved close collaboration with NGOs or research institutes.

24. One-third of the Block A PDFs specifically cite work undertaken by national consultants and experts. The costs (actual or projected) of their work represent approximately 31 percent of total expenditures in these PDFs. However, more than half (55 percent) of the Block A PDFs specifically cite work undertaken by international consultants (with 2 or 3 only specifically mentioning the hiring of regional consultants). The costs of their services (actual or projected) represent approximately 51 percent of total expenditures in these PDFs.

25. About half of the Block A PDFs involved national level consultations and workshops to prepare project proposals; one-quarter involved regional or multi-country meetings. Most of the workshops brought together government officials and various experts to define strategic issues and provide scientific and technical input to project design. In a few cases, workshops involved

senior decision-makers addressing broader policy and operational implications of project identification, design, and implementation (e.g. regional coordination or integration). Several workshops (at least 25 percent) involved the private and NGO sectors and, in some cases, their involvement was key to project outcome (e.g. Africa Building Local NGO Capacity through a Biodiversity Survey).

## **BLOCK B PDFS**

26. As expected, all the Block B PDFs are components of projects in the pipeline, although only half of the 36 Block B PDFs include specific project outcomes in their proposals. Project preparation was evenly split between activities for providing the information necessary for preparation of GEF project proposals (including pre-feasibility and feasibility studies, technical and scientific design parameters, and the development of financing modalities, including incremental costs) and national and/or sectoral preparatory work required for the design of the proposed GEF activity (including national policy analysis and inventories and data analysis to support the project). More than two-thirds of the Block B PDFs involved consultations or workshops, involving governments, NGOs, the private sector, research institutions, and local community stakeholders with an interest in the project. In a few cases, stakeholder consultations constituted the bulk of the PDF (e.g. CARICOM Climate Change, Indonesia Coral Reefs). One or two PDFs included small community-based demonstration and/or pilot activities to prepare for project implementation (e.g. Uganda Biodiversity Strategy).

27. Table 7 lists the Block B PDFs, including cofinancing, and, where available, information on the amount of financing to be requested of the project proposal under preparation (To Be Determined (TBD) is used where no project amount figures are yet available). The total financing for Block B PDFs was US\$17,730,292, with the GEF share being US\$8,872,802 (representing about 50 percent of the total) and cofinancing totalling US\$8,857,490 (50 percent of the total).

**28. Block B PDFs which led to projects:** Of the 36 Block B PDFs approved during the period under review, 1 (representing 3.4 percent of Block B PDF commitments) was part of a \$6.5 million project (CARICOM climate change) included in the work program in May 1995. Another (Sri Lanka Energy Services Delivery) has led to a \$7.3 million project to be submitted to the Council's April 1996 work program. The remainder are in the pipeline, with an estimated average time lag of 12-18 months between approval of a PDF and inclusion of the final project in the work program. Seven of the eight international waters PDFs involve the elaboration of Strategic Action Programs, which will provide a framework for identifying future project activities. To date, none of the Block B PDFs have "graduated" to Block C PDFs.

29. In the cases for which there is information on the estimated amounts of final projects, Block B PDFs represent 4.1 percent of the total cost of the GEF-financed portion of a project (i.e. US\$4.5 million out of US\$109.7 million). Total Block B PDFs (including cofinancing) represent 3.1 percent of the total cost of the project, including cofinancing (i.e. US\$10.9 million out of US\$347.7 million).

30. As of end September 1995, UNDP had disbursed no funds (10); by end January, 1996 UNEP had disbursed US\$231,000, and World Bank \$648,081. This represented 54 percent of commitments for UNEP, and 18 percent of commitments for the World Bank.

**31. Block B PDFs which were not cleared by GEFOP:** In addition to the 36 PDFs approved between March 1995 and end January 1996, 9 (representing 20 percent of total projects) were not approved. One (Paraguay Protection of Ecosystems) had to await further policy guidance on enabling activities in the biodiversity focal area; three others (Laos GHG Inventory, Lebanon GHG Inventory, Sri Lanka GHG Inventory) were enabling activities under the Framework Convention on Climate Change, two of which (Laos and Lebanon) were eventually included in the work program in October 1995. Two others (Bolivia Flared Gas, Colombia Fuel-Switch Study) did not clear as a Block B PDFs, but at the suggestion of the GEFOP, were later approved by the World Bank as a Block A PDFs. The other Block B PDFs were not cleared by GEFOP either because the project preparation proposals did not meet GEF eligibility requirements or key issues needed to be further elaborated before the PDF could be approved.

32. The GEFOP reviewed Block B PDF proposals with respect to quality, eligibility requirements, GEF objectives, incremental cost issues, and the extent to which they involved affected stakeholders in project design. Ten PDFs were submitted more than once to the GEFOP before being cleared (the time lag between the initial submission and the final, successful submission averaged about two months). In 6 of the cases, PDF amounts were adjusted (upwards and downwards). In two cases (Lake Chad, Colombia Fuel-Switch Study), the GEFOP suggested that Block A funding be used to develop frameworks or feasibility studies before advancing further the project preparation; this was done in the case of Colombia, but the Lake Chad Block B PDF was modified and eventually approved. One project proposal (Danube River Basin) was submitted as a Block B and C PDF; part of the proposal was cleared as a Block B PDF to undertake transboundary analysis and priority setting before undertaking more advanced project preparation. Four projects which were not cleared were later submitted as PDFs to the GEFOP, of which only one was cleared as a Block B PDF in 1995.

**33. Country-driven activities and PDF execution:** Two-thirds of the Block B PDFs involved consultations with affected stakeholders, including analyses of current capacities in addressing certain environmental issues, legal and institutional changes required to implement projects, and, in some cases, market research. Half of the 36 Block B PDFs are being executed by governments, a few of which involve collaboration with the Implementing Agencies or NGOs. One-quarter of the Block B PDFs are being executed by Implementing Agencies; the Organization of American States is the executing agency for another 2 Block B PDFs. Fifteen percent of the Block B PDFs are being executed by NGOs or research institutions; a few more PDFs involve either collaborations with or sub-contracting of services to NGOs.

34. About one-third of the PDFs include budget breakdowns on the amounts allocated for international consultants and national consultants to undertake project preparation work. In these Block B PDFs, international consultants represent 41 percent of projected expenditures of the GEF-financed portion of the PDF; national consultants, 18 percent (the remainder of the budget is allocated to project preparations expenses, administrative expenses, and/or workshops).

## **BLOCK C PDF**

35. Only one Block C PDF has been approved during the last year (China Efficient Industrial Boilers). Outputs include feasibility studies, identification of international firms which have the potential for transferring new boiler technology, and calculation of incremental costs eligible for GEF financing. The PDF is being executed by the Chinese Government (Ministry of Machinery Industry) and, *inter alia*, funds work by international consultants (56 staff-weeks) and national consultants (537 staff-weeks). The Block C PDF has graduated to a project proposal which is included in the work program submitted to the April 1996 Council meeting. As of end January 1996, US\$200,000 had been disbursed, representing 27 percent of the commitment. Table 8 includes information on the PDF:

## **ISSUES**

### *Overall Assessment:*

36. Overall, the PDF appears to be meeting the objectives established by Council in Document GEF/C.3/6 and the decisions taken at the third Council meeting in February 1995. The estimated lag time between PDF approval and project submission of around 12 to 18 months means that only a handful of projects have been developed from PDF resources. However, an analysis of the GEF pipeline suggests that a large number of PDF funded proposals (beyond Block B level) will mature into full project proposals. To date, some US\$10 million allocated to PDF should result in around US\$300 million of GEF investments, a ratio of 1 to 30.

37. An added advantage of the PDF, compared with the GEF's pilot phase [\(11\)](#), is that more in-depth screening by the GEFOP is provided very early on in the project cycle. This provides each Implementing Agency with an opportunity to review and critique the proposal, ensure inter-agency coordination where appropriate, and provides some level of comfort to project sponsors that its project conforms to the expectations and requirements of the GEF. Indeed, at the GEFOP review stage, PDF proposals are often given as much attention (and time) as fully prepared projects: the hope is that final GEFOP review of work program-ready projects will be expeditious. Key issues discussed at the GEFOP have included: (i) strategic fit within the operational strategy and GEF objectives including in the context of convention guidance; (ii) opportunities for inter-agency coordination; (iii) identification of expanded policy work within the context of project preparation; and (iv) technical commentary, normally provided in follow up correspondence. The net result has been largely to enhance the quality of proposals and provide an early opportunity to facilitate interagency coordination.

38. However, as with any new initiative, some initial teething problems have been identified both by the GEF Secretariat as well as by the three Implementing Agencies. The GEF Secretariat did not conduct surveys of recipient countries to assess their views of the PDF. After some initial difficulties monitoring Block A PDFs, the information flow is becoming more regular, sustained, and satisfactory. Furthermore, the PDF has only been operational less than a year and will need further time to become a fully operational component of the GEF project and programming cycle.

39. The remainder of this paper sets out some of the early issues identified especially in light of some of Council's concerns when it approved the establishment of the PDF. The conclusions section includes a short list of recommendations.

### **Issue One: The administration of PDF resources**

40. The administrative costs of preparing, submitting, defending, and supervising PDFs is the responsibility of the Implementing Agencies. In some cases, this is funded from their administrative budgets, while in other cases a fee is charged within the overall cost of the PDF proposal (12). One Implementing Agency has suggested that a flat fee structure (e.g. 20 percent for Block A PDFs and 10 percent for Block B and C PDFs) for administration should be considered, as this would simplify procedures for the PDFs, as well as making them more transparent and equitable across Implementing Agencies. It is clear that further work is required to establish a system that would be both cost-effective and fair, and which would complement project preparation activities covered under the administrative budget.

### **Issue Two: Information on PDF resources**

41. In its policy paper on the PDF (GEF/C.3/6), the Secretariat undertook to prepare, in addition to existing information materials on the GEF, a prospectus to guide the preparation of potential GEF projects, including procedures under the PDF. This prospectus is to be based on the procedures described in the policy document and will provide a summary of basic GEF criteria, guidance on information requirements from project proposers, and procedures for registering submissions. Although the prospectus has not yet been prepared (it had to await finalization of the Project Cycle and Operational Strategy documents in late 1995), information on procedures for preparing PDF proposals are included in the Project Development Workshop ("Casting the Net Widely") project which is being submitted for inclusion in the work program at the April 1996 Council meeting; as well, a summary of PDF submission procedures will be included in the forthcoming GEF Information Kit.

### **Issue Three: The effectiveness of Block A resources**

42. Block A resources are relatively small in size (up to \$25,000) and are to be used to initiate project preparation processes within recipient countries and to "cast the net widely" for nascent project ideas worthy of further development. The resources were committed en-bloc to each Implementing Agency which has full responsibility for programming the resources, although each Agency submits its Block A proposals to members of GEFOP for comment but not clearance (Initially, this did not occur uniformly for all Block A project submissions, although as noted earlier, this is no longer an issue). No GEFOP meeting is required to review Block A proposals.

43. A number of issues need to be addressed. They are outlined in the paragraphs below. However, these issues should be judged against the relatively modest allocation (US\$766,500) during the period under review and the value of outputs and follow-on projects.

(i) *The ceiling for Block A:*

44. The Implementing Agencies have indicated that the ceiling for Block A -- set at \$25,000 -- "is far too low and, as a result, does not provide adequate resources to meet Council's expectations." The Implementing Agencies would prefer a ceiling of \$50,000 for project related activities, arguing that not only are the current ceilings limiting good identification and preparation activities, but they make the grants less cost-effective for the Agencies to distribute. As well, some project preparation activities involve consultations and studies, requiring more than \$25,000 to do early pre-feasibility work on project proposals.

45. Interestingly, the data on Block A and Block B PDF allocations does not provide full support for this view. In principle, any Implementing Agency experiencing difficulties in operating within the Block A PDF ceiling could apply for a Block B grant. This would require submission to GEFOP, but would impose seemingly modest transaction costs upon the Implementing Agency. However, in the past year only one Block B proposal below \$50,000 has been submitted. The Implementing Agencies either perceive the additional effort un-warranted or have found the rules for Block B PDF submissions too restrictive. In any event, it might have been expected that several more requests below \$50,000 would have been submitted before coming to such a conclusion.

46. Consultations with the Implementing Agencies on this matter, however, reveal a number of important reasons for increasing the ceiling:

(a) The transaction costs may, in fact, be high. The Implementing Agencies argue that overheads of administration of Block A PDFs are as much as 50 percent of the grant amount, a cost which they cannot recover. Without matching funds and given Agency concerns about quality being compromised (because of underfunding and narrowed scopes for project preparation), the Implementing Agencies have occasionally opted not to proceed with the development of a project concept. The Implementing Agencies also point out that due to more complex GEFOP and Block B PDF procedures and time lags between submission and eventual approval (including making required changes to proposals), the preparation of Block B PDF proposals require a substantial amount of funding, thus making it cost-ineffective to submit requests below a certain amount of funding (including at the Block A level) [\(13\)](#)

(b) Since Block B PDF resources are for developing a specific project, Implementing Agencies have been unable to put forward proposals related purely to more general strategies, plans, and sectoral work. Thus, a highly cost-effective means of undertaking such enabling activities has been lost and the same kinds of activities, indeed the same country tasks in some cases, are now being undertaken at much higher cost under the enabling activities window of the GEF; and

(c) Implementing Agencies also point out that, in their opinion, the purposes of Block A and Block B PDFs are quite distinct (Block As are to be used at the very early stages of project identification and Block Bs are for projects and programs already identified) and therefore it is not always the case that a Block A PDF would ultimately become a specific project (e.g. general consultations on strategic issues may not result in a project proposal). Greater policy and/or operational clarification may be required to ensure that project development is relatively seamless among the PDF Blocks, thus reinforcing the main objective of PDFs -- development of projects for final approval.

(ii) *The scope of Block A activities:*

47. A related issue is the extent to which the current PDF policy provides too many limitations on the use of PDF resources by taking too narrow a view on project preparation. This issue was highlighted in the PDF paper submitted to the February 1995 Council meeting but was primarily focused on "country preparation" activities. Subsequently, some Implementing Agencies have indicated that PDF funding of small scale pilot projects such as technology demonstrations should also be eligible, and indeed, in a very few cases, one Implementing Agency has included such outputs in its current PDF proposals. While such efforts may have a large payback, the danger, of course, is that opening up the PDF to non-project preparation activities may diffuse its essential purpose.

(iii) *Execution of Block A PDFs:*

48. There is strong evidence from the allocations within Block A grants that recipient countries undertook broad-based in-country consultations on project concepts. This appears to have been a useful use of GEF resources. However, Block A PDF resources have either been managed by the Implementing Agencies or the public sector. No projects were managed by other entities, although a few of the PDFs involved collaboration with national NGOs. The lack of access by NGOs to PDF resources is an issue identified in the paper *Promoting Strategic Partnerships between the GEF and the NGO Community* (document GEF/C.7/Inf.8, which is being circulated at the April 1996 Council meeting and NGO consultation by a working group of NGOs) and in the GEF paper of a *Strategy for Engaging the Private Sector* (document GEF/C.7/12). Careful attention will need to be given by the Implementing Agencies to opportunities, within a country driven framework, for involving non-public sector entities such as NGOs and private companies.

(iv) *Country ownership:*

49. More than half of the Block A PDFs (59 percent) were executed by the Implementing Agencies (notably, UNDP through the UN Office for Project Services (UNOPS)). Although governments also constituted significant ownership of project preparation and other sectors of civil society actively collaborated with governments and Implementing Agencies in executing components of the PDF, more effort will have to be made to engage in-country management of project preparation. This not only means the public sector (which managed the remaining 41 percent of the Block A PDFs, with some collaboration with NGOs or research institutes), but the private and NGO sectors as well.

(v) *Eligible expenditures:*

50. This paper has not included a detailed review of expenditure patterns within the PDF. Some broad conclusions regarding expenditures for consultants and other services have been noted (please refer to paragraphs 23 and 24) but there have been no conclusions drawn regarding the extent to which ineligible expenditures were funded with PDF resources. Furthermore, in three cases the ceiling for Block A was exceeded and, in one case, a single project preparation task was covered through two simultaneous Block A grants. In another two cases, the Secretariat suggested to the submitting Implementing Agency that, in its view, the preparation activity did

not conform fully to the Operational Strategy. Given the somewhat more discretionary nature of these PDF resources, greater attention to ensuring that only eligible expenditures are reimbursed is warranted. In this regard, the GEF Secretariat has not played a prominent role to date, but could facilitate improvements through better formatting and clearer budget statements, for example.

#### **Issue Four: The effectiveness of Block B and C**

51. PDF Block B and C grants were to be utilized for mainstream project development, where the project concept was clear, and where there was a high likelihood of a project moving forward for inclusion in the GEF work program. Block C was intended for large complex projects requiring considerable engineering and other design work.

52. By and large PDF funds under these two blocks appear to have been well utilized although few projects have, as yet, appeared in the pipeline. The turnaround for processing Blocks B and C seems reasonable and GEFOP minutes record useful discussions on both the policy and technical aspects of the proposals. In one case, the PDF is also being used, *inter alia*, to develop an Operational Program for a tropical ecosystem.

53. The main issues identified are outlined in the paragraphs below.

(i) *The throughput of Block B grants still needs to be determined:*

54. The majority of PDF funds are channeled through Block B and it appears that these funds provide a good basis for project preparation although, to date, only four projects prepared by Block B grants have been submitted for work program approval. This is to be expected given the time lag required to prepare projects for submission to the work program and in the next year it is estimated that at least 15 more projects will be submitted for inclusion in the work program. One issue that does arise, however, is the lack of uniformity in identifying the likely level of funding required for the final project. In many cases (50 percent of all Block B PDF submissions), Implementing Agencies did not provide an indication of the likely size of the final project; this does not assist in portfolio management nor provide a helpful basis for operational and financial planning. In future, it would help if all Implementing Agencies included estimates of future project size.

55. On the basis of an analysis of those Block B PDFs which did include an estimate of future project funding needs it appears that a Block B PDF funding to final project funding ratio of around 1:25 is required (14): this will need close monitoring over the coming year since it will help the GEF program future PDF resources more carefully.

(ii) *Ceiling for Block B appears adequate:*

56. The ceiling established for PDF Block B appears to be reasonable. This is borne out somewhat by the data which indicates that in about a third of the cases PDF funds were close to the \$350,000 Block B PDF ceiling. World Bank Block B PDFs were on average higher than UNDP Block Bs (US\$263,100 to US\$210,500), a logical outcome given the preparation of

investment projects compared to technical assistance projects (15). Several of the technical assistance project preparations were toward the ceiling of the Block B PDFs; this may stem from the fact that certain types of capacity building projects require more pre-project planning and design or it may simply be that technical assistance and components of project preparation are intertwined.

(iii) *Cofinancing of PDFs:*

57. The PDF policy paper states that the proposed GEF funds should normally complement other sources of finance for project preparations. Relatively little attention has been given to determining the appropriate relative share of project preparation expenditures although in 50 percent of the proposals cofinancing is identified. The World Bank has typically, although not exclusively, turned to its own resources (IDA or IBRD); UNEP has also undertaken some cofinancing of project preparation activities. UNDP has typically utilized other resources, normally government contributions and bilateral aid: only 2 proposals to date specifically cite UNDP cofinancing, one for a UNDP PDF, the other for a World Bank PDF (16). More attention is warranted to ensuring that the provisions of the Incremental Costs paper (document GEF/C.7/Inf.5) are met in funding PDFs and that Implementing Agencies allocate funds for cofinancing.

(iv) *Mainstreaming Block B PDFs into the Implementing Agencies:*

58. As noted above, there are some broad differences in approach in terms of co-financing. While this does not reflect negatively on the the willingness of some agencies to engage cofinancing from a variety of interested and committed governments, donors, private sector enterprises, NGOs, and others, it does raise the question of the extent to which the Implementing Agencies are mainstreaming GEF activities into their own projects and programs.

(v) *Broader role of executing agencies:*

59. While each recipient country must always have the final approval regarding the appropriate in-country executing agency for managing PDF resources there probably are more opportunities for engaging non-governmental actors than has been undertaken to date. This does not mean that PDF resources should be allocated in a manner that earmarks funds for the public, private and non-governmental sectors but rather that implementing agencies identify appropriate opportunities where a broad range of executing agencies could provide high quality project preparation services. To date, the public sector has acted as executing agents in a about half of the Block B PDF projects although components have been managed by others (notably, the Implementing Agencies).

(vi) *Country ownership:*

60. The Block B PDFs demonstrated more variety in execution: more than half were executed by governments, about one-fifth by Implementing Agencies, 5 by NGOs and research institutes, and 2 by international organizations. Several other PDFs involved collaboration between Implementing Agencies and NGOs, Implementing Agencies and governments, and governments

and NGOs. Although this is somewhat better than the situation with respect to Block A PDFs, more effort will also be required to engage in-country management of project preparation by the public, private, and NGO sectors.

(vii) *Block C has been used judiciously:*

61. At the time it approved the PDF policy paper Council had extensive discussions about the ceiling of Block C. Its concerns were that too many projects would be included with insufficient regard to project quality and relevance. In fact, from March 1995 to January 1996, only one project proposal was submitted formally for Block C funds (17). There is evidence that the provision of these funds has assisted in the accelerated development of the project, which is included in the April 1996 work program. It is thus reasonable to maintain the current ceiling.

## **CONCLUSIONS**

62. This analysis of PDF performance to date together with consultations with the Implementing Agencies suggests that the PDF has performed well and is meeting its objectives. It should be continued, but with some modest adjustments:

(a) Block A PDFs should be more carefully monitored by the Secretariat. Every six months, a report could be prepared which would be incorporated into the Secretariat's note to Council on operational and programmatic issues;

(b) Implementing Agencies should be required to submit their best estimates of the size of the final project proposal. Projects approved for inclusion in the work program should include information on the expenditures of the PDFs;

(c) More attention should be given to the incremental costs of PDFs, including cost-sharing by the Implementing Agencies. It is important that the Implementing Agencies not only provide their own resources in GEF project preparation activities, but also demonstrate how they are mainstreaming GEF activities into the projects and programs of their agencies; and

(d) More effort is required to broaden the execution of projects from Implementing Agencies and governments to the private and NGO sectors (or collaborative arrangements among different sectors).

63. It is too early for an evaluation of the PDF, but in another year, such an evaluation would be useful to assess the effectiveness of the PDF and to address any consideration for raising ceilings or changing scope. In the context of routine auditing within each Implementing Agency, auditors may also wish to identify key issues for future audits or evaluations.

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### ***Endnotes:***

1. The Secretariat has since revised the PDF paper and made it available as a reference document.

2. The PDF policy paper was approved at the February 1995 Council meeting. This analysis, therefore, covers PDF activity between March 1995 and January 1996 for which the Secretariat has data in time for transmission to the Council.
3. It does not include other PDFs approved after February 1, 1996, which total an additional US\$1,102,440.
4. The allocation of block grant resources for purposes of Block A PDFs was consistent with guidance from the Council. These allocations were discussed and agreed to by the GEFOP.
5. Project proposals either rejected by the Agency or by GEFOP.
6. Please refer to paragraph 18 of this report.
7. Please refer to paragraph 18 of this report.
8. Please refer to paragraph 18 of this report.
9. UNDP disbursement figures for end December 1995 will not be available until end March 1996.
10. See footnote 9.
11. During the Pilot Phase, the UNDP Pre-Investment Facility (PRIF) and World Bank Project Preparation Advances (PPAs) were established by each agency to prepare GEF projects. The Independent Evaluation of the GEF Pilot Phase recommended, inter alia, (i) that the two project preparation schemes should be combined into one facility to ensure greater degrees of inter-agency coordination in their planning and execution; (ii) that there should be increased scrutiny of proposals; (iii) that there should be a greater degree of accountability for the drawdown of GEF funds; and (iv) guidelines should be issued to determine eligible expenditure items, funding ceilings for activities, and information requirements.
12. For example, UNOPS charges 8 percent of the PDF for support costs.
13. The World Bank has suggested that the Block A PDF ceiling be increased to US\$50,000, subject to GEFOP clearance; in addition, Block A PDFs up to US\$100,000 would be considered, provided there is one-to-one matching grants mobilized for the additional US\$50,000.
14. When Block A and Block C PDFs are factored in, along with the estimated cost for the final projects, the ratio is 1:30.
15. The World Bank has in fact suggested that a US\$400,000 ceiling be considered for investment Block B PDFs and a US\$200,000 ceiling for technical assistance/capacity-building Block B PDFs.

16. UNDP states that it is fulfilling its responsibility to bring in cofinancing to the GEF even though regular UNDP Indicative Planning Figure (IPF) resources have not been available to UNDP-GEF during the Pilot Phase, as UNDP IPF funding at the time GEF started was already programmed for its next five-year cycle. Discussions for the upcoming cycle are scheduled to start this year and UNDP-GEF is determined to ensure co-programming of resources wherever feasible.

17. This interestingly compares with the pilot phase where 9 project preparation advances (PPAs/PRIFs) were made which were US\$1 million or more.