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FINANCING OF GEF PROJECTS

CONTENTS

INTRODUCTION

1. Operational interpretations on financing are derived from the *Instrument for the Establishment of the Restructured GEF*, the approach to incremental costs, and the Operational Strategy. In accordance with the *Instrument*, GEF will provide grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the focal areas (1). GEF financing modalities would thus be based on grant and concessional funding.

Until now, only grant modalities have been used, and no policy has been adopted for distinguishing the circumstances under which grant modalities should be used rather than modalities based on other concessional forms of financing.

2. The Council, at its meeting in May 1995, approved an approach for estimating and agreeing to the incremental costs of global environmental benefits. That approach is set out in document GEF/C.7/Inf.5, *Incremental Costs*.

3. At its meeting in October 1995, the Council approved the GEF Operational Strategy (2), which sets out operational principles that define a common approach to project financing. This approach applies to both the public and private sectors and to all focal areas, recipient countries, Implementing Agencies, and executing agencies.

1.1 Project Financing Strategy

4. Three of the principles in the Operational Strategy provide the underpinnings for a GEF strategy on project finance:

(a) **Leverage**: "In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources"(3);

(b) **Cost-effectiveness**: "The GEF will ensure the cost-effectiveness of its activities to maximize global environmental benefits;"(4) and

(c) **Eligibility**: "GEF projects will conform to the eligibility requirements set forth in paragraph 9 of the *Instrument*."(5);

5. Section 2 defines *leverage* and describes the means by which leverage can occur. This will require consistent interpretation and will be attainable through the application of existing policies. Section 3 concerns *costeffectiveness*. It describes a range of possible financing modalities that would be consistent with the *Instrument* and shows how the right choice of modality for each type and time distribution of the incremental cost can increase effectiveness of the GEF financing. Section 4 identifies the *eligibility* of expenditures under the *Instrument* and identifies issues affecting the use of GEF funds.

1.2 Approaches to Developing Project Financing Policy

6. There are two broad approaches for developing project financing policy. One approach is for the Council to determine all, or many, of the policies prior to the preparation of project proposals. The advantage of this approach is that GEF policy would be known with greater certainty, but the disadvantages are that not all the ramifications would be appreciated in advance and that the policy debate would need to cover many issues that in fact may never arise in proposals brought by the Implementing Agencies. The second approach is for the Council to discuss and decide upon specific policies in light of issues that arise in actual project proposals. The advantages of this approach are the efficient use of Council's time and the ability to illustrate each policy issue with a proposed project rather than a hypothetical example. The disadvantage is that there would

be some uncertainty about newer areas of policy until a test case is proposed for inclusion in a work program.

7. If this latter approach was followed, the Secretariat would prepare a policy note on each significant policy issue the first time it arose in the context of a project proposal. This note would accompany the project proposal so that the Council could explicitly consider, for possible approval, any financing policy needed to address the issue. For this purpose, significant policy issues include, but need not be limited to, all the policy issues identified in this document. The following would also be the occasion for a policy note:

(a) The proposed use of any of the modalities other than a single initial lumpsum grant; and

(b) The proposed use of a Councilapproved modality (such as a lumpsum grant) in situations when another modality (such as equity, guarantee, or loan) would be more costeffective or better able to leverage additional funds.

2. LEVERAGE

8. Leverage occurs when the use of specified resources for a given objective *causes* more financial resources to be applied for that objective than would otherwise be the case. Leverage occurs through

(a) *additionality*, when additional resources are mobilized for the objective; or

(b) *substitution*, when existing resources are channeled to activities consistent with that objective rather than to other activities.

9. Project cofinancing is therefore evidence of leverage only when the cofinancier pays for part of the incremental cost (additionality) or -- more commonly - pays for part of the nonincremental cost of an activity that is a substitute for the baseline activity (see Section 2.2 below)(6). Leverage can also occur beyond the project - for example, when the project is replicated or when programmatic benefits are realized. Beyond the project, both additionality and substitution could occur.

10. Under existing operational policies, GEF is able to leverage resources in four main ways: mainstreaming global environmental considerations into regular development efforts of the Implementing Agencies; supporting substitute projects; inducing programmatic effects; and removing market barriers to investment in economically attractive ways of protecting the global environment.

2.1 Mainstreaming Global Environmental Considerations

11. "Through integration of the GEF work programs with the regular programs of the three Implementing Agencies, GEF will complement the funds and assistance they provide to recipient countries. The Implementing Agencies will, in turn, finance and/or help mobilize financing to meet the nonincremental costs of GEF projects."(7); In addition to financing or mobilizing

finance for these baseline expenditures, UNDP, UNEP, and the World Bank will also mainstream global environmental considerations into their regular work programs. The Secretariat will work with the Implementing Agencies to provide information about their roles in:

(a) financing baseline costs;

(b) mobilizing additional finance for baseline costs; and

(c) mainstreaming global environmental considerations into their regular work programs.

2.2 Supporting Substitute Projects

12. By providing incremental cost financing for a *substitute* technology or development approach (rather than the full cost of just an *addon* component), GEF can effectively re-direct the non-incremental cost financing.

13. Consider the following illustrations:

(a) An endofpipe water pollution filter in an international waters project consistent with the Operational Strategy. The only new funds flowing to protection of the global environment in this case are those provided for the addon component, because the baseline activity is presumed to remain the same. No leverage is obtained through any project cofinancing for the associated baseline activity.; and

(b) A solar power station costing $550 million that substitutes for and is equivalent to an oilfired power station costing $500 million (including future fuel and maintenance costs). Being equivalent means that the same amount and the same quality of power would be available from either alternative and that the same reasonable standards of local environmental protection would be met or exceeded by whichever were chosen. In this illustration, a $50 million GEF grant leverages another $500 million that now also flows to the solar technology rather than the oil technology.

2.3 Inducing Programmatic Effects

14. By having a long term programmatic effect, funds used on GEF projects can help shape the course of regular investment programs. This is the principle behind the use of operational programs and the reason for the emphasis placed on monitoring, evaluation, demonstration, and dissemination of lessons.

15. Consider the following illustrations:

(a) GEF support for a change of agricultural practices that prevents pesticide run-off that had previously threatened a particular wetland ecosystem. In accordance with the Operational Program on Coastal, Marine, and Freshwater Ecosystems, this ecosystem would be the focus of coordinated efforts by the governments; by UNDP, UNEP, and the World Bank under both their regular and GEF mandates; and by other organizations to the extent this can be facilitated.

Suppose, for this illustration, that the two other key threats to the wetland (diversion of inflowing water to irrigation and fragmentation of habitat by forestry) are being addressed by other organizations. In isolation, no individual project has much effect because each of other two remaining threats is sufficient to undermine the ecosystemic support for the wetland's biodiversity. By applying the approach set out in the operational program to this particular ecosystem, GEF and these other organizations achieve collectively what they may not be able to achieve in isolation: the overall preservation of the ecosystem. The GEF resources induce programmatic effects by complementing and attracting the other resources needed; and

(b) Concentration of support for a solarthermal power generation through the operational program for reducing the longterm costs of low greenhouse gasemitting energy technologies. Even without the use of an operational program, support for any renewable energy technology in situations where the alternative is fossil fuel will directly reduce greenhouse gases. (Measures termed "shortterm" in the Operational Strategy are of this type.) The advantage of applying the operational program is the programmatic effect, namely the *additional indirect* greenhouse gas reduction achieved. In this illustration, the programmatic effect will be achieved because (i) the particular solar technology is susceptible to scale-induced cost reductions; (ii) the technology is specially applicable to recipient countries so that it is unlikely that applications in non-recipient countries alone will achieve the requisite scale early; and (iii) resources are concentrated on this and a few other similar technologies and not spread over many alternatives, thereby achieving a scale sufficient to achieve cost reductions that open up new markets that do not require GEF support. Hence, GEF resources will have leveraged the additional resources that will flow to those future applications.

2.4 Removing Operational Programmatic Barriers

16. By removing barriers to the adoption of "win/win" techniques and technologies, GEF funds could have a very large impact on the way funds are directed. Once the barriers have been removed, GEF itself would not have to provide financial support for the individual projects that protect the global environment because in the absence of the barriers each would become economically attractive in its own right and would be expected to attract other (i.e., leveraged) finance. Removing a barrier (such as lack of information) is often more effective and less costly than continuously subsidizing projects to overcome it.

17. Two of the three operational programs in Climate Change are explicitly dedicated to barrier removal, and the concept is also applicable to operational programs in biodiversity where there are often formidable market barriers to sustainable use of biological resources (such as community forestry).

18. Consider the following illustrations:

(a) Indonesia photovoltaic market development project (GEF-1 project). Here GEF support and a World Bank loan will together remove barriers -- the thinness of the distribution and support channels -- and provide critical mass for a major commercial take-off for photovoltaic home systems;

(b) Costa Rica wind-power demonstration (pilot phase project). This began as a public sector project with $3 million in GEF financing. The private sector has since invested five times that amount, and electric current from the resulting installations now flows through the national grid; and

(c) Transition to sustainable development in an Asian Wildlife Reserve (case study). The adoption of unsustainable fishing practices by indigenous communities in this reserve and the possible introduction of exotic fish species, threaten endemic species. Sustainable livelihoods that preserve the biodiversity of the area are economically attractive, but lack of information is a barrier. Funds spent on providing necessary extension services are unrecoverable from the subsistence workers, but successful instruction and demonstration projects would generate sustained replication that does not require continued GEF support.

3. COSTEFFECTIVENESS

19. GEF financing for the incremental costs of actions to protect the global environment is intended to encourage recipient countries to undertake these actions. Funding is made by a grant or another concessional funding modality(8) , but in any given situation the modalities are not equally costeffective:

(a) It is expected that, for most project proposals, GEF would continue to make a single initial grant payment to cover the incremental cost. Because this modality is simple it has lower *administrative* costs than the other modalities explored below. These lower administrative costs would often make this the most costeffective means of financing;

(b) For some project proposals however, GEF could be more costeffective if it were to make grants on a contingent or phased basis, in order to make just the right level of payment while not discouraging innovative or unusual projects; and

(c) For yet other project proposals, GEF could be more costeffective than at present if it were to use nongrant concessional financing. The type of project proposal where this may be the case is one that does not require a grant; without nongrant modalities, GEF would either have to make a grant anyway or forgo support.

20. GEF can provide a financial incentive to act by financing the incremental cost in the concessional way that is most appropriate. The most appropriate way depends on how financially sustainable the project can be made, i.e., how recoverable initial costs are; how well one knows them in advance, i.e., how uncertain they are; and whether costs are incurred repeatedly or only once, i.e., whether they are recurrent. If these factors are taken into account systematically in the choice of financing modality (or mixture of financing modalities), GEF can provide the necessary incentive with the appropriate amount of funding.

21. This section briefly reviews the ways incremental costs arise and the best ways by which they can be financed, consistent with the *Instrument*. The grant modality (including using the trust fund mechanism and phasing project disbursements) is the only one that has been used so

far; other concessional funding has not been used. Possible nongrant modalities for concessional funding include concessional loans, guarantees (contingent grants), and equity participation.

3.1 No Incremental Costs

22. At one end of the spectrum of possible measures there are situations in which no, or very low and non-monetized incremental cost would be incurred. Perhaps it is a lack of awareness or a lack of coordination of international funding that prevents a desirable project from coming to fruition, rather than any financial disincentive as such.

23. Consider the following hypothetical situations:

(a) A regional seas agreement where all parties will gain from coordinated action to protect a shared waterbody and avert the decline of fish stocks; and

(b) The transition to a sustainable use of biological resources that involves changes in policy but no incremental investment (9).

Facilitation

24. In a few important cases, GEF can be effective by facilitating regular development assistance where this effort would also protect the global environment. Facilitation is cooperation with other international organizations to encourage them to cofinance or finance fully activities that support the GEF Operational Strategy.

25. Occasionally, after preparation or appraisal, a proposed project with global environmental benefits may turn out unexpectedly to have no incremental costs. It could be desirable for GEF to facilitate financing, although this would incur some modest cost.

26. Where there are global environmental benefits but no incremental costs, the GEF will not provide financing but it may still play a facilitative role to ensure that the global environmental benefits are realized. Such a facilitative role would be focused on proposed projects that support the GEF Operational Strategy.

3.2 Recoverability

27. In many cases, the adoption of a new technology or technique for the protection of the global environment will impose initial incremental costs that will later be recovered, at least in part, as a consequence of generating additional revenue or avoiding costs that would otherwise have been incurred. Consider these examples:

(a) An energy conservation program for industry that costs more at the outset for equipment and services but leads to substantial fuel cost savings (as well as reducing greenhouse gas as intended);

(b) Transition to a sustainable logging regime that reduces near term revenue but maintains revenue streams in the future well beyond what would otherwise be the case (as well as preserving important habitat as intended); and

(c) Conversion of aerosol manufacturing plant from the use of the chlorofluorocarbons, which are ozone-depleting, to the use of (less-costly) hydrocarbons, which are not.

28. To promote replicability, it is necessary to devise and demonstrate mechanisms for financial sustainability of the supported actions. Grants may even be counter-productive in such cases (10).

Concessional Loans and Revolving Funds

29. The pattern of incremental expenditures in the illustrations above closely matches that of regular investments which are paid back from revenue or cost savings. In such cases, the initial loan amount (principal) and an additional amount reflecting the time value of the money (interest) can be recovered. A loan would be appropriate in these cases. Repayment obligations would also strengthen project design and implementation and help to build in and test mechanisms for the long term financial sustainability of similar projects. As required by the *Instrument*, any such loan provided by the GEF would be concessional; concessionality would provide an incentive to act and can be ensured by charging a rate of interest less than the market rate. Where there are many small investments of this type, a revolving fund in the country would offer flexibility and savings in administrative costs.

30. The following approaches are suggested:

(a) GEF concessional loans could be used when a market exists, or can be developed within the country, for recovering initial incremental investment costs;

(b) Revolving funds could be used when there are large numbers of small incremental investments with recoverable costs; and

(c) Because the World Bank is the only Implementing Agency providing loans in its regular development program, its lending rates could be used as benchmarks for the concessionality required for GEF loans. GEF loans would be made on terms more favorable than those of IBRD.

Grants

31. The presumption in the above is that initial incremental costs are recoverable, but this is not always the case and an additional incentive may be required if it can be shown that the investment results in a net economic loss for the country or if the administrative costs of recovering the investment make such recovery impractical. Consider three illustrations of this:

(a) Information to promote energy conservation. Costs cannot be recovered from individual beneficiaries of a general information campaign by normal market mechanisms (i.e., in proportion to their use of the information). However, the costs of specific energy audits can be recovered in full from firms or homeowners, which in turn recover their energy audit costs from their savings on energy purchased;

(b) Setting aside land with domestic economic value for the protection of an ecosystem that has global significance; and

(c) Establishing a solar power plant that is more expensive than the least cost energy alternative in order to help build a worldwide market that will reduce future costs for all countries.

32. The portion of the incremental cost that is an outright economic loss to the country can never be recovered by it. If GEF had financed this portion initially, repayment by the country to the GEF would be an added burden to the country. Therefore, only a *grant* reimbursement from the GEF could be effective in this case. A grant is a non-repayable payment that could be either a single lump sum (e.g., for the net present value of the incremental cost incurred) or a series of payments for recurring incremental costs.

3.3 Uncertainty

Guarantees

33. The involvement of GEF will help to reduce costs and risks through building markets, removing barriers in specific markets, and sharing expertise. In some cases, there may be residual financial risk in that the actual incremental costs may not be known with confidence at the outset because the technology is new and untested in a particular country. In such cases and even when the action is expected to be economic, the country may be reluctant to bear the additional risk specific to the technology choice.

34. Consider these illustrations:

(a) An innovative energy conservation project. This may have welldefined costs but the energy cost savings, although substantial, may not be known accurately enough in advance to justify the investment on economic grounds to the investor;

(b) A solar power plant for a country with economic potential for solar energy but no experience in the particular technology proposed. There may be uncertain future costs such as maintenance costs that are unexpected but nevertheless inherent in this new technology; and

(c) An alternative irrigation technique is proposed to preserve a wetland habitat. This may have uncertain costs due to incompletely known soil characteristics.

35. To be effective, it is necessary to cover this incremental risk. Because innovative projects incur some additional technical risk over the normal baseline risks, a guarantee needs to be given to the country that the full incremental costs of satisfying the original development goal would be met. This would not mean having to compensate for commercial and other risks that would also have affected the baseline development, but would mean having to finance unexpected

technical repairs and improvements specific to the new method. The GEF grant, however, would only be made if and when such costs were actually incurred in the future.

36. Guarantees are a mainstream instrument (11) of the World Bank Group's operations. These guarantees are most likely to be used for infrastructure financing, where the demands for funding are large, political and sovereign risks are significant, and the need for longmaturity financing is often critical to a project's viability. The Bank guarantees also leverage funds. The Secretariat will explore the use of this instrument with the Bank to determine its potential extension to GEF activities.

37. The following approaches are suggested:

(a) Guarantees could be given to cover additional technical (but not commercial) risk specifically associated with the new technique or technology proposed; and

(b) Guarantees could be invoked (and the incremental cost payment made) if and when a previously agreed contingency arose. Such a contingency would be outside the control of the country, and should not remove incentives for efficient implementation or operation.

Equity

38. Another way to reduce risk, conserve resources, and automatically share any losses is through equity participation. (An equity stake is a part ownership of an enterprise through purchased shares, including venture capital.) GEF funds could be used to act as a business partner with a private firm in "win/win" projects to build confidence and share risk with the other partners. By providing equity, GEF would share in any gains, while making net payments only if there are actual losses.

39. Consider the following example:

(a) Biodiversity Enterprise or Venture Capital Fund. In principle the incremental costs should be those incurred by investors and lenders by applying ecological criteria of biodiversity as an instrument of funding and monitoring. In practice these are hard to estimate. If GEF makes a grant, it would in effect finance administrative costs and thereby either underwrite the investors' losses from all causes or add to their profits from the same level of investment. If GEF takes an equity position as well or instead, it could be more proactive and hence more costeffective. First it could use its shareholder voice to maximize global environmental benefits and, second, it would share in any gains made by the Fund.

40. The following approach is suggested:

(a) GEF could finance an equity stake in proposed funds. It could use its voting power to influence the fund's activities to obtain the intended global environmental benefits and to obtain additional leverage. Such equity could be held by the concerned Implementing Agency on behalf of the GEF. This agency would exercise its shareholder responsibilities in accordance with GEF objectives. The legal and institutional arrangements would need further exploration.

3.4 Recurrence

41. In the long term, as the result of demonstration and promotion, activities to protect the global environment are expected to become not only environmentally sustainable but also financially self-supporting. Until that time though, some individual projects may incur eligible incremental costs and these incremental costs may be incurred recurrently throughout the life of the project as incremental operational costs rather than all at once as initial capital costs.

42. Consider the following illustrations:

(a) Protecting the breeding ground of an endangered migratory species, which requires continuous inputs of additional labor; and

(b) Changing a manufacturing process to produce, for domestic use, an "ozone- friendly" refrigerator. This new process may requires substitute refrigerants and parts that will, for several years, be more costly than those of the refrigerators no longer manufactured.

Multiple Disbursements, Trust Funds, and Phased Projects

43. To be effective, grants will need to be made to cover these costs as they occur over time. Options include:

(a) A lump sum grant equivalent to the net present value of the economic loss can be made to the recipient;

(b) A trust fund can be established for the project with a single grant from GEF. The proceeds of this would be used to meet recurring or other future incremental costs. To maintain project sustainability, it is important that the fund can be administered without continued support from the GEF;

(c) Several small grants (or disbursements from the overall grant) can be made as and when the incremental costs occur (e.g., annually); and

(d) The project can be phased.

44. Single initial lump sums are less costly to administer than a series of payments and single-phase projects are less costly to administer than multi-phased projects. Yet by making multiple payments or by phasing the project, GEF can give itself a more structured opportunity for controlling, monitoring, and evaluating the application of its funds.

45. For projects whose costs are incurred in a short time (for example, less than two years), a lump sum grant equal to the expected incremental cost would normally be made. The main issue concerns the manner of meeting longterm recurrent costs.

46. Where there are longterm recurrent costs, the following methods of disbursement could be tested and evaluated: (i) a trust fund, from which GEF disbursements would be made annually on

the basis of costs expected in the forthcoming year or incurred in the preceding year, or (ii) phasing, in accordance with project progress.

4. ELIGIBILITY

47. GEF funds are made available in accordance with the *Instrument* *(12)*. Criteria for the *eligibility of expenditures* for which GEF incremental cost financing is appropriate include, among others, that the expenditures are incurred

(a) in eligible *recipient* countries; and

(b) for measures that achieve *agreed global environmental benefits*.

48. As the GEF gains relevant operational experience, policies on financing GEF projects may be developed to provide guidance on the situations in which GEF funds might be viewed as having been provided for ineligible expenditures, namely where:

(a) expenditures for the recipient country activity are actually incurred in, or substantially benefit, an organization or firm not in a recipient country; and

(b) expenditures are incurred for purposes other than those of the GEF.

49. In particular, issues may arise with regard to procurement, involvement of the private sector, and exports. These are discussed below.

4.1 Procurement

Application of the Existing Policies of the Implementing Agencies

50. The Implementing Agencies have their own procurement policies and, within the World Bank Group, IBRD and IFC have different procurement policies reflecting the nature of their regular operations. The Implementing Agencies use their existing procedures for GEF projects. For most purposes, such differences are immaterial. Where major items of equipment are procured though, the differences between IBRD and IFC may be significant because of the more flexible approach the latter may take with respect to sole source procurement. To the extent these policies differ, GEF implicitly makes choices about procurement policy casebycase by accepting proposals from IFC rather than IBRD and *vice versa*. The concessional nature of GEF financing (e.g., incentives, use of grants, and eligibility issues) may raise special procurement issues, such as issues of competitive bidding versus sole source procurement.

4.2 Private Sector Involvement

51. GEF is exploring ways of leveraging additional resources from the private sector through innovative and creative approaches (13). Explicit financing policies for this involvement might facilitate such leveraging.

Indirect versus Direct Involvement

52. Recognizing that firms are very interested to supply the large emerging markets in recipient countries with technologies and techniques that are friendly to the global environment, the principle underlying collaboration with the private sector is to respect and to harness the competitive dynamic.

53. Indirect engagement of the private sector does not raise new policy issues. The method currently used is:

(a) Financing eligible country-driven proposals to remove barriers which currently inhibit the free development of the market; and

(b) Competitive procurement for GEF funded activities.

54. Estimating the costs that are incremental to the country requires estimates of the cost of the baseline and the alternative that will result in global environmental benefits. The latter would be revealed through a competitive bidding process.

55. Direct engagement of the private sector, on the other hand, may raise some new issues insofar as directly financing the incremental costs of firms may require data about the firm's cost structure. The Implementing Agency would need to address two practical difficulties: commercial confidentiality and the incentives for profit maximization.

International and Domestic Private Sector

56. The GEF is also exploring ways to collaborate directly with the international private sector. Indirect engagement (through international competitive bidding) raises no unique policy issues concerning the international private sector. However, direct engagement (including equity participation) may raise the issue of interpreting country eligibility. On the one hand, the project must take place in an eligible recipient country; on the other hand, the firm itself need not be owned by citizens of that recipient.

4.3 Exports

57. The issue with financing export industries (14) is that GEF financing may undermine competitive forces. Consider the following illustration:

(a) Manufacture of wind pumps for export. Suppose that the pumps to be made in the project are destined for export to neighboring countries. Greenhouse gas emissions would be reduced in those neighboring countries and not in the country of manufacture. In this case, the particular firm chosen for GEF support would enjoy a price advantage not enjoyed by other potential suppliers (whether in the same country, another recipient country, or a nonrecipient country). This means, for example, that a local manufacturer could be outbid unfairly and that the total cost to the GEF would be higher.

58. Similar issues have been raised within the context of Multilateral Fund for the Implementation of the Montreal Protocol. Should an issue of this nature arise within the context of a GEF proposal, the experience of the Multilateral Fund may provide useful lessons to be applied in the context of the GEF.

Endnotes:

1. Instrument, para. 2.

2. GEF Operational Strategy, GEF/C.6/3, approved with revisions at the Council Meeting October 25-27, 1996.

3. Operational Principle No. 9. See Box 1.1, Operational Strategy.

4. Operational Principle No. 3. See Box 1.1, Operational Strategy.

5. Operational Principle No. 8. See Box 1.1, Operational Strategy.

6. The non incremental (baseline) cost cannot be said to be additional because the baseline (with respect to which incremental costs and global environmental benefits are estimated) is by definition financially feasible. So cofinancing of baseline costs can only be leverage when the GEF supported activity substitutes for a baseline activity, rather than just adds to it.

7. Operational Strategy para. 1.17.

8. Instrument, para. 2.

9. Some policy changes incur significant costs, but not all.

10. The literature suggests, furthermore, that grants for energy conservation have not been very successful. This may be because they have not encouraged financial sustainability of the supported action.

11. The World Bank's Guarantees: Catalysts for Private Capital Flows, Cofinancing and Financial Advisory Services, World Bank, 1994

12. Instrument, paras. 2, 3, 6, and 9.

13. Operational Strategy, para. 1.21 (e). GEF Strategy for Engaging the Private Sector, document GEF/C.7/12, March 6, 1996.

14. Special policies apply to funding in the ozone focal area because of the need to maintain complementarity with the Multilateral Fund for the Implementation of the Montreal Protocol.