



# Global Environment Facility

GEF/C.12/Inf.4  
September 14, 1998

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GEF Council  
October 14 – 16, 1998

## PROGRESS ON INCREMENTAL COSTS

## NOTE ON INCREMENTAL COSTS

1. At its meeting in November 1997, the Council called upon the Secretariat, in consultation with the Implementing Agencies and the Secretariats of the Biodiversity and Climate Change Conventions to continue its work on incremental costs with a view to further clarifying definitions and facilitating application of the concept. The Council also requested the Secretariat to prepare operational criteria and paradigm cases for different types of GEF activities and projects.

2. This call was reaffirmed by the First GEF Assembly. Specifically, the New Delhi Statement notes that:

“While recognizing the importance of the principle of incremental costs for the GEF, its definition should be made more understandable. GEF should make the process of determining incremental costs more transparent and its application more pragmatic.”

3. In responding to the Council decision of November 1997, the Secretariat sought to base its work on a consultative process that would be as comprehensive as possible and would take into account the views of a range of stakeholders who may participate in a GEF project at different stages of the project cycle. To assist in this effort, the Secretariat invited RESOLVE, an independent, non-profit provider of facilitation, mediation and dispute resolution services, to prepare a scoping/issues assessment relating to incremental cost determinations for GEF funded projects.

4. The attached report, prepared by RESOLVE, summarizes the opinions and comments of over 30 individuals who represent all stages of the GEF project cycle, including: Council Members, Alternates, political and operational focal points, Convention focal points, executing agencies, project directors, NGOs, consultants, task managers and staff from the Implementing Agencies, Convention Secretariats and STAP. In addition, RESOLVE received eleven written responses. The report outlines the main issues and challenges that were identified in the interviews and written submissions as well as suggestions for addressing those challenges. The report concludes with recommendations presented by RESOLVE,

5. In preparing the assessment, RESOLVE worked with a group of representatives from the Implementing Agencies, the Secretariats of the Biodiversity and Climate Change Conventions, and the GEF Secretariat.

6. The initial assessment of the GEF Secretariat and its colleagues in the Implementing Agencies and the Convention Secretariats is that this report provides valuable insights and suggestions that will assist them in moving forward in preparing operational criteria, paradigm cases, and other material aimed at making the process of determining incremental costs more transparent and its application more pragmatic. The findings of this report reaffirm the concerns generally expressed on incremental cost, but importantly, the study provides a sound and consensual basis on which to proceed and structure the ongoing process towards clarifying and simplifying the concept. The report will also help ensure that ongoing and future efforts to clarify

and simplify the concept will be based on a better understanding of the experiences and concerns faced by these stakeholders.

7. The Secretariat, and the Implementing Agencies, are involved in a number of on-going efforts and initiatives to further the operational aspects of incremental costs. This includes the preparation of paradigm cases to illustrate the application of the concept, and linking incremental costs with logical framework analysis during project preparation. This work has illustrated that there is a definite link between good project design and incremental cost assessment.

8. The Secretariat, together with colleagues in the Implementing Agencies and Convention Secretariats, is presently working to finalize an incremental cost kit which will be structured in stand-alone sections that can be updated over time as useful lessons are drawn from GEF project experience. The group will also be working on operational criteria to simplify the application of the concept of incremental costs.

9. Additionally, and to put incremental costs into perspective, consideration is being given to the development of customized training to provide guidance on the application of the logical framework approach to the GEF project cycle, which should facilitate the application of the incremental cost concept. This guidance would allow an objective framework for incremental cost determination to be mainstreamed into project design in a more effective manner. Further, upstream consultation with countries on their proposed projects based on the principle of incremental costs would provide a better basis for formulating GEF funded projects. The prospect of having an on-line project development advisory services, which would provide guidance on all relevant aspects of project development and management in accordance with GEF policies and procedures (including incremental cost) is also being explored. Such an interactive homepage, if installed, would supplement country level outreach activities and would allow back-up support for local experts applying newly acquired project development skills on-site.

10. Council Members are invited to submit written comments on the RESOLVE report, together with comments on the work being undertaken, to the Secretariat. The Secretariat expects to present to the Council at its meeting in May 1999 the results of the work it is undertaking together with the Implementing Agencies and Convention Secretariat.

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**Issues Assessment:  
Incremental Cost Determination for  
GEF-Funded Projects**

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by  
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September 10, 1998

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# **Issues Assessment: Incremental Cost Determination for**

GEF-Funded Projects

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## **I. INTRODUCTION**

### **I.A. Background and Work Request**

1. In June of 1998 RESOLVE<sup>1</sup> was asked by the Global Environment Facility (GEF) Secretariat to conduct an independent assessment of the issues, concerns, challenges and opportunities associated with the determination of Incremental Costs for GEF funded projects. This assessment is part of an undertaking by the GEF Secretariat to organize efforts to clarify definitions, and to simplify the process of determining Incremental Costs in GEF-financed activities, as called for by the GEF Council.
2. The assessment took the form of a consultative process, probing the experience of a broad range of players in the GEF project cycle in order to identify issues and challenges associated with the conceptual basis for calculating Incremental Costs, as well as the process that is used in estimating and negotiating them; and further, to solicit and explore options for improving the process. Primary emphasis was placed on two of the four GEF Focal Areas: climate change and biological diversity, which account for 80% of GEF financing.
3. In planning and conducting the assessment, RESOLVE assumed that the Incremental Cost concept must be maintained as a defining cornerstone of the GEF instrument. Thus the focus of the consultations was not on whether to retain or eliminate it, but rather to explore the procedural issues associated with the application of this concept.
4. It is important to emphasize that the nature of this consultation, and therefore of the findings emerging from it, represents a mix of perceptions and experiences of a relatively small group of individuals<sup>2</sup>. Each individual interviewed was asked to provide honest opinions and perspectives based on their own direct experience, knowledge, and familiarity with GEF project development or review - the nature and extent of which varied significantly from

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<sup>1</sup> RESOLVE is a non-profit organization providing neutral conflict assessment, facilitation, mediation and dispute resolution services, based in Washington DC. In conducting this assessment RESOLVE has taken no positions with regard to the consideration of the substantive issues reflected in this report.

<sup>2</sup> See Annex 1.

individual to individual. Therefore, it should be understood that the findings in this report may reflect any misperceptions or unintended factual inaccuracies influencing the experiences and views of those interviews. This should not detract from the value of the findings. On the contrary, to the extent that the challenges associated with determining Incremental Cost are a function of misperceptions or misinformation, this provides valuable insight into some of the steps that can be taken relatively quickly to improve the situation. The perceptions and opinions of those with real practical experience with the challenging process of implementing the Incremental Cost concept at the project level represents a most powerful resource in the effort to understand and pursue promising options for improvement.

## **I.B. The Consultation Process**

5. *Planning and Design.* RESOLVE worked with a small group of representatives from the GEF Secretariat, Implementing Agencies and the Conventions on Biological Diversity and Climate Change (CBD, UNFCCC), to develop the desired scope of outreach for this consultation. This included identifying the desired categories and balance of interests and roles in GEF activities, and criteria for identifying a representative range of individuals (see Annex I). Using these as a guide, a list of individuals and contact information was developed by the group. In addition, RESOLVE developed a set of questions for use as a consistent interview protocol (see Annex II). The questions were designed to explore the following areas:
  - Nature and level of experience and with incremental costs;
  - Issues and concerns about estimating incremental costs and the process actually used to determine incremental costs;
  - Challenges to negotiating incremental costs;
  - Desired characteristics of a preferred process for estimating incremental costs;
  - Familiarity with, and usefulness of, available information resources and assessment of what additional information or resources would be useful.
6. *Interviews.* During July and August 1998 a total of 43 parties involved in the GEF process, ranging from the individual project level to Council Members, were contacted. Of these, 31 were interviewed in person or by telephone. Parties were contacted initially by a fax which included a brief introduction and explanation of the consultative process and a copy of the interview questionnaire. Follow-up calls were then made to schedule specific interview times. Due to scheduling conflicts and time constraints, it was not possible to interview all of the individuals whose names were submitted by the Task Force. One or two of those not interviewed generously provided written responses to the questionnaire. Interviews lasted between 30 and 105 minutes. All of the interviewees were accommodating, responsive, open and generous with their time.
7. *Written responses.* In addition to the personal interview process, the GEF Secretariat distributed the interview questionnaire to all GEF Council Members, Alternates and Political Focal Points, explaining the consultation effort and inviting their written responses. A total of

11 written responses were received, which have been reviewed and incorporated into this report.

8. *Summary of findings and recommendations.* The remainder of this report summarizes the findings of the 42 interviews and written responses. It emphasizes the common themes that emerged from the consultations and suggestions for improvement in applying the Incremental Cost concept for GEF projects. This report also includes RESOLVE's recommendations for next steps that can usefully be included in a process to simplify the determination of Incremental Costs.

## **II. SUMMARY OF CONSULTATION FINDINGS**

9. In spite of wide variation among those interviewed with respect to the nature and extent of experience with GEF projects generally, and Incremental Cost determinations specifically, strong common themes emerged from this consultative process. In some cases, an individual's input was based on experience with a single project, while others based their reflections on involvement in numerous projects. Most had experience in only one of the GEF focal areas.
10. Throughout this process of consultation many issues and concerns were raised that are not directly related to aspects of the GEF project cycle concerned with the determination of Incremental Costs. While many of these issues may be important, and of particular interest, to those who raised them, they are not reflected in this summary of findings because they were deemed to fall outside the scope of this study.
11. Findings are divided into four major areas:
  - A. general findings and themes;
  - B. issues related to the conceptual basis for calculating Incremental Costs,
  - C. issues related to the process for estimating and negotiating Incremental Costs; and
  - D. suggestions from those interviewed for improving the process for determining Incremental Costs.

### **II. A. General Findings and Themes**

12. Overall, those interviewed welcomed and endorsed this process of reviewing and assessing Incremental Cost determination issues. They particularly supported the effort to seek input from all levels of interest, responsibility and activity in the GEF project development and approval process. Many indicated that the time is right for such an assessment, noting that experience to date has illuminated issues and provided sufficient foundation for sharing reflections and exploring improvements.
13. The GEF project approval process (as distinct from the incremental cost determination) was described by some as a "moving target." The criteria that the GEF uses to make its funding determinations are perceived as unpredictable and inconsistent, frustrating efforts to develop



successful project proposals. While not directly related to the incremental cost determination, this process is poorly understood, resulting in misperception and confusion. Many expressed desire for a better understanding of the full context in which incremental cost determinations are evaluated.

## **II.B. Issues related to the conceptual basis for calculating incremental costs**

14. Almost without exception, those consulted were aware of and appreciate the importance of the Incremental Cost concept as the defining cornerstone of the GEF Instrument.<sup>3</sup>
15. Support is virtually unanimous for simplifying the application of the concept, with the understanding that simplification should not erode the fundamental role of the incremental cost concept in determining the GEF's involvement in, and level of support for, project financing.
16. The level of understanding of the distinction between traditional development projects and GEF projects varies significantly among different developing countries. For some, this distinction remains quite vague. Some of the recipient countries view GEF funding simply as one of several potential sources of money for development projects.

## **II.C. Issues related to the process for estimating and negotiating Incremental Costs**

17. While the need to distinguish the incremental costs of providing global environmental benefits is clear in concept, with very few exceptions, those consulted emphasized that its actual application to specific projects is much more complex and difficult than anticipated.
18. Inconsistent criteria have been used for determining and approving Incremental Costs for different projects. Different interpretations of the concept and the best way to apply the GEF Framework to given projects are made by the different Implementing Agencies (or their consulting experts). The same Implementing Agency may also use different criteria depending on the project. This causes significant confusion, which is compounded by the perception that the GEF Secretariat and the Implementing Agencies also seem to use different approaches and criteria for estimating incremental costs.
19. The point when the incremental cost determination takes place in a project varies significantly. It usually is not a consideration very early in the process, unless the project concept originates with an Implementing Agency. Project ideas usually originate and their preliminary development occurs, before planning for funding sources. In some cases, it has been two years into the project development process before the GEF funding option was introduced. The Implementing Agencies, particularly UNDP and the World Bank, encourage project proponents to consider incremental costs as part of the project conception and development

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<sup>3</sup> Only two exceptions to this were found and these were among the written responses where we were unable to engage in a discussion to understand the basis for the comment.

process. Often, the need to deal with incremental costs arises just prior to pre-appraisal stage when it is identified as a procedural hoop to jump through. Sometimes, incremental costs have not been addressed until after total project costs have been determined and a funding “shortfall” identified (i.e. that amount not covered by other financing mechanisms) that GEF funding is sought to resolve.

20. It is unclear who is *accountable* for the incremental cost determinations. There is strong reliance on the Implementing Agencies and consultants because the recipient countries generally do not have the technical expertise or experience.
21. Implementing Agencies often rely on outside expert consultants and there is significant concern over the fact that these consultants are almost never local, and often are inadequately informed regarding local or even regional conditions.
22. Some interviewees noted that local project stakeholders (those who are affected by or have an interest in the actual implementation of the project) presently have no role in the incremental cost process and that they should be involved to some extent. Because of the complexity in determining incremental costs the opportunities for input by these stakeholders are limited as a practical matter. However, they can be involved in the process by providing the basic information about costs and benefits that will be used to make the incremental cost estimates.
23. The extent to which the determination of “agreed full incremental costs” are negotiated is very inconsistent from project to project, and generally occurs much less than is envisioned, particularly by the GEF Council and in-country project proponents. In many (some believe most) cases no negotiation takes place, except, perhaps internally within an Implementing Agency as it designs a project for which the GEF component is one of several parts, and also between the Implementing Agency and the GEF Secretariat when a proposed project is reviewed. The Incremental Cost determination is relatively rarely the result of a “consensus process.” Many different explanations for this were offered, including:
  - a) Recipient countries’ *capacity* for engaging in sophisticated Incremental Cost assessment varies widely and, in many developing countries, is currently insufficient for meaningful involvement. Recipient countries which have relatively highly sophisticated in-country expertise have engaged actively and successfully in negotiating agreed full incremental costs. On the other hand, countries with less technical capacity, or familiarity with the GEF, may defer to Implementing Agencies – either gratefully (so that they can compete for GEF funds effectively without investing limited resources in building internal capacity in this area), or because they feel that there is insufficient information or opportunity for developing the capacity to engage effectively themselves. Country representatives may therefore choose to defer to the Implementing Agencies in order to benefit from their greater expertise, resources, experience, and familiarity with the history of GEF project funding decisions. This is especially likely to be the case in countries where it is perceived as unlikely that they will ever be involved in more than one GEF project.

- b) The level of interest, on the part of a recipient country, in getting involved in either estimating or negotiating Incremental Costs may be related to where and with whom the project concept originated. If the project originated with the Implementing Agency, countries may be less inclined to insert themselves, but are grateful for whatever the Implementing Agency can get them. If the project originated in-country, there may be more interest in becoming actively involved in a process of negotiating incremental costs.
  - c) Implementing Agencies may encourage the perception that Incremental Cost determinations are especially complex and burdensome and that they – and their expert consultants - are the only ones capable of comprehending and successfully completing the determination.
  - d) The Implementing Agency or a consultant sometimes simply tells project proponents (including the National Focal Points) what the GEF will fund or not fund. In some instances an Implementing Agency changed incremental cost numbers without consulting with or getting the agreement of the government of the country where the project was located. Country sponsors often feel that they are not in a position to oppose or engage in a process to challenge or change these determinations.
  - e) There is currently no prescribed process for negotiating agreement on incremental costs for GEF project proposals. In the absence of this, and of a motivated and capable recipient country, the default tends to be for the Implementing Agencies to make the determination.
  - f) The requirement to describe the process of negotiation used to arrive at “agreed incremental costs” in the GEF application process is insufficient to ensure a meaningful negotiation process has actually occurred. This requirement was described as a “throw-away” paragraph in the GEF application.
24. This overall lack of negotiation contributes to a lack of transparency in incremental cost determinations which in turn provides the basis for the criticism that incremental cost determinations are the result of magic at best, and back-room politics at worst. It also runs counter to the desire expressed by Council members for assurance that the Incremental Cost estimates are the product of consensus processes.
25. The most effective timing for Implementing Agencies to provide useful and effective assistance with Incremental Cost determinations is early in the project planning process. The extent to which this happens also varies significantly from project to project and may depend upon the project proponent’s level of awareness and familiarity with the GEF funding option early in their project development process.
26. Many feel that experience to date has shown that Incremental Cost determinations – as they are currently implemented - are highly vulnerable to manipulation, artificiality and arbitrariness. This is not diminished by the use of highly sophisticated technical expertise and

economic analyses to arrive at an Incremental Cost estimate. It was suggested that no two individuals or teams would arrive at the same incremental cost estimate for the same project, and further, that an elaborate process is sometimes used to arrive at a pre-determined number. One interviewee commented that “any smart economist can do an analysis and arrive at the number you want.” Some believe that the number is determined based on an Implementing Agency’s familiarity with GEF’s previous funding decisions – calculated as a percentage of the total cost of a “like” project.

27. Great variation exists (among those interviewed, and also more broadly as perceived by those interviewed) in the level of understanding of, and level of comfort with, the current GEF Framework for applying the concept of “agreed full incremental costs.” Variation stems from the degree of familiarity with the origins and underlying principle of the GEF, the level of previous experience with GEF projects, and the particular focal area (particularly Climate Change or Biological Diversity) in which a given individual is working.
28. Many acknowledged that the GEF Framework provides a good theoretical approach to determining incremental costs – that is, identifying the baseline and the alternative; distinguishing between global environmental benefits and domestic development benefits; and distinguishing the co-financing mechanisms. However, the definition and applicability of these terms in the context of a real project is criticized for its complexity, variability and seeming artificiality.
29. The applicability of existing framework for determining Incremental Cost varies across the different GEF Focal Areas. Except for a very narrow range of types of projects the process for applying the Framework is unclear. The GEF should not be content with the current framework as an expected or accepted approach for all projects, because of its limited and often burdensome and /or inappropriate applicability. More specifically, the Framework works relatively well for many projects in the Climate Change portfolio, particularly for projects such as energy development projects where the distinctions between the baseline and the alternative are technology-based and relatively easily quantified, and the environmental advantages of baseline and the alternative are also relatively easily delineated and measured. Application to biological diversity projects has proven to be much more challenging and, according to many, inappropriate. Several reasons for this were repeatedly offered by those who have had experience with biological diversity projects:
  - a) It is extremely difficult, many feel impossible, to distinguish in any measurable or otherwise credible way, between the global environmental benefits and domestic benefits of a biodiversity project.
  - b) Because the current GEF Framework is not a “good fit” for these projects, it is necessary to invent new and creative adaptations for each project. Experience has shown that this requires extensive (and often unavailable or non-existent) resources and technical expertise disproportionate to the scale of the projects and level of technical expertise and funds available. Project Development Funds can help with this, but sometimes they are insufficient, and, more importantly, throwing money at the

problem may enable a creative “force-fit” but does not result in a better or more credible incremental cost assessment.

#### **II.D. Information and Training Resources**

30. All interviewees were asked to comment on available GEF informational and training resources (see Annex II, Question 4). Responses varied considerably and were not consistent. Depending on the project type, the individual’s role, level of interest, or extent of direct involvement in the determination of Incremental Costs, interviewees had very different perspectives on the usefulness of the resources noted. There was also significant variation regarding awareness of the existence and availability of written documents. A list of specific comments is included in Annex III.

#### **II.E. Suggestions from Interviewees for Improving Incremental Cost Determinations**

31. Throughout the consultations, consistent suggestions emerged for improving the process of determining Incremental Costs for GEF projects. The persistent themes running throughout the suggestions include:

- a) simplify the application without eroding the incremental cost concept as the principle foundation for GEF project funding (and preferably strengthening it by making it less artificial and vulnerable to manipulation);
- b) provide more specific guidance regarding a process for negotiating agreed full incremental costs;
- c) develop an array of incremental cost determination processes appropriate to the different types of projects that has the endorsement of all relevant parties; and thereby
- d) provide for greater transparency, consistency, and predictability in the GEF project approval process.

32. Several specific suggestions for accomplishing these improvements and for which multiple interviewees emphasized that the time is ripe, and that they believe are “do-able,” include the following:

- a) Develop and make available a more explicit description of procedures for application of existing GEF Framework for calculating Incremental Costs. Combine this with training courses for all GEF project cycle players in host countries – including National Focal Points (The IUCN Guide<sup>4</sup> was highlighted as an example; and the Incremental Cost Kit that is currently under development might fill this need). This should take the form of a detailed work manual providing guidance and support throughout the Incremental Cost determination process. A single consolidated document would be preferable.

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<sup>4</sup> “Biodiversity, International Waters and the GEF: An IUCN Guide to Developing Project Proposals for the Global Environment Facility”. Jeffrey Griffin; International Union for Conservation of Nature and Natural Resources (IUCN), 1997

- b) Develop new or modified approaches to incremental costs determinations specific to typologies of projects, rather than trying to fit all projects into the current GEF Framework. Establish categories of projects, distinguished at a minimum by focal area, and preferably more specifically by typology of projects, and utilize experience to date to develop tailored approaches to incremental cost determination. The approaches could describe (for the purposes of the GEF) the type of activity, the aspects of that type of project that meet the criteria for global environmental benefit; what constitutes the criteria for determining baseline; what qualifies as incremental cost, and what the average GEF contribution as percentage of cost is likely to be. There will need to be sufficient opportunity for consultation and preferably general consensus, as well as review by respected technical specialists to ensure credibility. These approaches must include a mechanism for taking into account the fact that the same type of project may be undertaken in countries with different baselines. The approaches will ultimately need to be endorsed by the GEF Council.
- c) Establish a recognized pool of highly trained GEF project development experts that are available to anyone seriously interested in developing a GEF project for assistance with project development (including incremental cost determination). Included in the pool should be expertise and GEF-specific experience with the different focal areas and different project types, and also regional familiarity and expertise. These individuals could help to identify the appropriate team of project-related players and could help to ensure as well as inform an inclusive and credible negotiation process for determining agreed full incremental costs.
- d) Develop a mechanism for increased communication among National Focal Points for the purpose of sharing their experiences and expertise in determining Incremental Costs for GEF project funding.

### **III. RESOLVE RECOMMENDATIONS**

33. Based on the findings of this consultative process, RESOLVE recommends steps that could be taken in the form of actions and products that could be pursued by the GEF in its efforts to simplify and improve the process for determining Incremental Costs. These recommendations primarily are intended to address the two most significant problems that were identified: 1) the lack of transparency and consistency in the process and criteria for decision-making, and 2) the frustration with the limited applicability of the current Framework for incremental cost determination.

34. RESOLVE recommends the following actions and products:

- a) Clarification of misperceptions
- b) Identification of a pool of technical assistance experts
- c) Development of guidelines for negotiation of Incremental Costs,

- d) Development of simplified approaches to Incremental Cost determinations specific to GEF focal area or type of project.

### **III.A. Clarification of Misperceptions**

35. This consultative process revealed numerous factual inaccuracies in peoples' perceptions and understanding of a range of aspects of the GEF project development, evaluation, and approval process that are contributing to sub-optimal implementation of the Incremental Cost concept so fundamental to the GEF. By providing clear and accurate information regarding not only expectations related to Incremental Cost determination, but also the GEF review and approval criteria and process – the larger context in which Incremental Cost assessments are considered for funding purposes – the GEF could dispel the “black box” syndrome that nurtures speculation and misunderstanding about GEF decision making. In addition, summary information regarding GEF portfolio history and trends (regarding project types and accurate funding history) would be particularly useful to address inaccurate assumptions about GEF funding trends.
36. This could be accomplished with relatively modest additional consultation to further identify the areas of most frequent misunderstanding , including inquiries to determine what kind of information would be most useful. Any materials produced to provide accurate information must be readable, and widely disseminated, and made accessible and readily available.

### **III.B. Identification of a pool of technical assistance experts**

37. Consistent with the suggestions from several of those interviewed, the GEF could identify a pool of trained and experienced experts who are available and qualified to provide technical assistance to any project proponent in need of guidance and assistance regarding incremental cost determinations. The pool should include expertise specific to GEF focal areas and project types, as well as regional familiarity and credibility. This would be especially useful for those countries, or other project proponents, who are less inclined or able to develop their own internal expertise but who seek qualified assistance. Outreach and consultation with those experienced with current or completed GEF project development efforts will help to identify individuals with demonstrated relevant experience and expertise and who would be willing and interested in being included in a publicly available (and actively disseminated) list of technical experts.

### **III.C. Development of guidelines for negotiating agreed Incremental Costs**

38. The GEF should initiate a process for developing and issuing clear guidelines for negotiating agreed Incremental Costs. Outreach and consultation to identify examples and characteristics of successful negotiated processes to date with GEF projects, and to seek the benefit of these experiences in developing the guidelines would add to their credibility and acceptability to stakeholders in the process. Significant experience and expertise in the development of guidelines for customized participatory processes exists today that the GEF could draw on in developing these guidelines.

39. These guidelines should include or be accompanied by a clear explanation the GEF's criteria for what constitutes a credible negotiation process. This should further be accompanied by commitment by the GEF to encourage meaningful negotiation processes to apply this criteria as part of the project approval process.

#### **III.D. Development of simplified approaches to Incremental Cost determinations specific to GEF focal area or type of project**

40. The GEF should establish a mechanism to pursue the suggestion forwarded by many of those interviewed to develop a series of simplified, tailored approaches to calculating Incremental Cost according to GEF focal areas and identifiable "types" of projects. The GEF should acknowledge the difficulty of pursuing a one-size-fits-all approach and reach out to those with experience trying to adapt the GEF framework to different types of projects for assistance in generating credible, simplified, and applicable approaches. Enough experience has accumulated to identify categories of project types (either within or across focal areas) as well as the nature of the challenges involved in delineating baselines, and the activities and outcomes that are associated with global versus domestic benefits, to develop approaches that move in the direction of being more user-friendly, less resource intensive, and more credible, than is currently the case.
41. The process of developing these new approaches would require extensive outreach and consultation and will necessarily be an iterative process. One mechanism for accomplishing this could involve a centrally (GEF) coordinated process of soliciting and circulating a series of independent papers identifying project types and preliminary proposals for simplified processes, and the further development of the most promising approaches through an iterative process of revisions. At the other end of the spectrum, the GEF could establish a designated representative dialogue group tasked with working intensively through a series of facilitated meetings over a relatively short period (perhaps one year) to produce a set of new project-type-specific frameworks for calculating Incremental Costs. The latter could be highly resource intensive and the former less so. Some combination of these could also be a very promising option.
42. The order in which these recommendations appear is deliberate, representing a progression from relatively short term, easier to implement and lower intensity of effort and resources, to longer term, more complex and potentially higher intensity of effort and resources. Likewise, the level and intensity of outreach and collaboration, and its importance to success increases progressively across the order of these recommendations.
43. To be successful in pursuing each or any of these actions and products, RESOLVE strongly emphasizes the need to draw on the rich experience to date with GEF projects, through deliberate outreach to, and collaboration with, the full range of players experienced in the GEF project cycle, of which those interviewed in this consultative process are representative. Only this way will the GEF be able to achieve the increased transparency, ownership, and needed support for these efforts that is critical to their successful implementation, and to the ultimate goal of improving the process for, and thereby the results of, Incremental Cost



determinations. Based on the input from those consulted and on past experience, RESOLVE believes that if this is done, all of these actions and products are eminently achievable.

#### **IV. CONCLUSION**

44. The incremental cost concept is simple to state, but difficult to implement. This is not surprising as the concepts are relatively new in the context of the project development process and, they are being defined and refined on an on-going basis so there may be differences from one project to the next. Until the concepts and process are standardized and commonly understood in the development community, they may be able to be applied only by people with specialized knowledge. There are signs that the situation is changing, primarily due to efforts by the Secretariat and Implementing Agencies to define and refine concepts, educate interested parties, and disseminate information.
45. The rich and varied combined experience of those who have been involved in the challenging process of determining Incremental Cost in the context of real projects in their different roles in the GEF project cycle represents one of the most powerful tools available in the effort to improve this process. The undertaking of this consultative process and issue assessment reflects an understanding of this great potential, and provides a first step in mining it. As the GEF builds on this, the challenges associated with estimating incremental costs will diminish over time and the support for and credibility of new approaches will grow.

#### **ANNEXES**

##### **I . GEF Incremental Cost Assessment Consultations – by Category**

##### **II. Consultation Discussion Questions**

##### **III. Comments of Interviewees Regarding Available Information and Training Resources for Incremental Cost Determinations**

## GEF Incremental Cost Assessment Consultations

Stakeholder Group Category	Targeted	Actual	Comments
<b><i>COUNCIL MEMBERS</i></b>	<b>5</b>	<b>4</b>	
From donor countries	2	2	
From recipient countries	3	2	
<b><i>COUNTRY PROJECT TEAM LEADERS/ COORDINATORS</i></b>	<b>8</b>	<b>3</b>	
With biodiversity focus	4	3	
With climate change focus	3	0	
With regional focus	1	0	
<b><i>NATIONAL EXECUTING AGENCIES</i></b>	<b>1</b>	<b>0</b>	
<b><i>TASK MANAGERS</i></b>	<b>6</b>	<b>6</b>	
From World Bank (from different geographic regions)	3	3	Managers in East Asia and South Asia.
From UNDP (from different geographic regions)	2	2	An additional UNDP staff member participated in one consultation.
From UNEP	1	1	Also classified as Implementing Agency Coordination Unit staff.
<b><i>CONSULTANTS</i></b>	<b>2</b>	<b>2</b>	
UNDP	1	1	
UNEP	1	1	
<b><i>NGOs</i></b>	<b>4</b>	<b>3</b>	
Policy Level	2	2	
Executing Agencies	2	1	
<b><i>NATIONAL OPERATIONAL FOCAL POINTS</i></b>	<b>6</b>	<b>3</b>	
<b><i>CONVENTION REPRESENTATIVES</i></b>	<b>4</b>	<b>3</b>	
UNFCC	2	2	
CBD	2	1	
<b><i>IMPLEMENTING AGENCY COORDINATION UNITS</i></b>	<b>3</b>	<b>3</b>	
World Bank	1	1	
UNDP	1	1	
UNEP	1	1	Also classified as Task Manager staff.
<b><i>OTHER</i></b>	<b>4</b>	<b>4</b>	
GEF Secretariat	1	1	
STAP	2	2	
IFC	1	1	An additional IFC staff member



**GLOBAL ENVIRONMENTAL FACILITY**  
**Incremental Cost Determination: Issues Assessment**

Consultation Discussion Questions

1. What is your overall role and what are you responsible for in the context of the GEF project cycle? What is the nature of your involvement with incremental costs? What is your specific experience with incremental costs (e.g. specific project(s), training programs, academic training, etc.)?
2. What is your general view of:
  - GEF's framework for estimating agreed full incremental costs, and
  - the process that has been used for estimating or negotiating incremental costs?
3. What are the major issues associated with estimating incremental costs?
4. What sources of information or guidance do you , or have you, used for addressing incremental costs in the context of your work on GEF projects? Are you familiar with the following documents:
  - Program for Measuring Incremental Costs for the Environment(PRINCE) Incremental Cost Paper (GEF/C.7/inf.5)
  - Study of GEF's Overall Performance,
  - Standard Reporting Format for Incremental Cost
  - Paradigm Case Illustrations of Incremental Cost Analysis (GEF)
  - The Global Environment Facility: Medium-Sized Projects
  - Streamlined Procedures on Incremental Cost Assessment
  - Designing Projects within the GEF Focal Areas to Address Land Degradation: with Special Reference to Incremental Cost Estimation
  - Material explaining the incremental costs assessment prepared by the World Bank, UNEP or UNDP,
  - GEF's website ([www.gefweb.org](http://www.gefweb.org)), or
  - other sources of information?

If so, how useful are they? What are the strengths and/or limitations of these documents? How could these documents be improved and/or what additional resources would be useful to you regarding incremental cost determinations?

5. What concerns do you have about the definition of incremental cost and the process that actually has been used to determine incremental costs at different levels of the project cycle?
6. What would be the characteristics of a workable process for estimating incremental costs? How might others involved in GEF project development react to those characteristics?
7. What is your view of the following:
  - how and to what extent different stakeholders are involved in the process;

- the process for determining eligible incremental costs for GEF projects that have both domestic and global environmental benefits?
8. What are the challenges, if any, to negotiating incremental costs? Could they be overcome? How?
  9. What would be the impact on the issues of concern to you if the process for estimating or negotiating incremental costs remains the same or was changed?
  10. What steps or information, if any, would contribute to a successful resolution of the issues you identified?
  11. Who else shares your perspective on these issues? Are there others who would disagree you? If so, why?
  12. Is there anyone who you believe is particularly important for us to contact as for this assessment?

### **Comments of Interviewees Regarding Available Information and Training Resources for Incremental Cost Determination**

The following comments regarding available information and training resources were provided by the whole range of interviewees and have not been synthesized.

- a) There are too many documents. It is hard to know which ones to turn to with a given question.
- b) Most of the documents are only available in English and therefore are not easily accessible to many that could benefit from them.
- c) Too many documents with in-depth technical analyses confuses and frustrates project level people on the ground in recipient countries who may only interface with the GEF once.
- d) There are inconsistencies among the documents, particularly between the GEF's documents and those provided by the Implementing Agencies.
- e) The GEF documents use too much jargon.
- f) There needs to be a single, simple guidance document (along the lines of the IUCN Guide<sup>5</sup>) that is accompanied by case examples for each focal area and/or type of project.
- g) Complete the Incremental Cost Kit.
- h) A clear description of the criteria GEF considers in making funding decisions is needed. This should include the criteria a specific project must meet to be a viable candidate, but also a description of the broader considerations that the GEF must deal with.
- i) The example in the Framework document is too simple and lends itself only to a specific type of climate change project.
- j) The Incremental Cost Paper (GEF/C.7/inf.5) document is not "user friendly."
- k) The matrix contained in the Standard Reporting Format for Incremental Costs document is confusing.
- l) The Paradigm Cases document needs to include wider range of cases. It is needed, but has never been published. The document assumes knowledge that is not readily available. There should be a technical audit conducted to ensure accuracy before the document is published.

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<sup>5</sup> "Biodiversity, International Waters and the GEF: An IUCN Guide to Developing Project Proposals for the Global Environment Facility". Jeffrey Griffin; International Union for Conservation of Nature and Natural Resources (IUCN), 1997

- m) The Streamlined Procedures on Incremental Cost Assessment needs to include more in-depth examples of incremental cost estimates. The document does not identify or specify streamlined procedures.
- n) There need to be better distribution mechanisms. Many were familiar with the internet site, but indicated that it is not sufficient.
- o) The GEF web site needs to be maintained and kept up to date – especially with regard to the identification of contact persons such as Council Members, National Focal Points, Implementing Agency Coordination Unit Directors, etc. There was a suggestion to include preparation grants on the internet site.
- p) Many people were familiar with materials about incremental costs prepared by UNDP and IUCN, and found them to be understandable and helpful.
- q) Training programs on incremental costs conducted by UNDP and the World Bank also have been understandable and helpful.