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**EXPANDED OPPORTUNITIES FOR EXECUTING AGENCIES:
RECENT EFFORTS AND CURRENT PROPOSALS TO EXPAND
OPPORTUNITIES FOR REGIONAL DEVELOPMENT BANKS**

Recommended Council Decision

The Council reviewed document GEF/C.13/3, *Expanded Opportunities for Executing Agencies*. The Council notes the efforts being made to expand opportunities for Regional Development Banks and approves the proposed approach for the participation of Regional Development Banks in preparing and implementing GEF projects and their access to PDF-B resources. The Council requests the Secretariat to provide a report on progress made at its May/June 2000 meeting.

I. INTRODUCTION

1. Cooperation with other bodies to promote the achievement of the purposes of the GEF has long been recognized as essential if the GEF is to catalyze international action to protect the global environment. The GEF Council discussed this subject at its meetings in November 1994, February 1995, July 1995, March 1998 and again in November 1998. At its last meeting, the Council requested the Secretariat to consult with the Implementing Agencies (IAs) and selected Executing Agencies, especially the Regional Development Banks (RDBs) and present the Council with a more detailed analysis of the options for expanding opportunities for executing agencies. This paper responds to this Council request¹. As a first phase, it concentrates on efforts to expand opportunities for RDBs and results from consultations between the RDBs, the IAs and the Secretariat.

2. There are several advantages to the GEF of expanding opportunities for executing agencies. First, strengthening collaboration with executing agencies having special expertise and close contacts in recipient countries would increase the capacity to deliver projects. This will be essential given the continued expansion in country-driven demand.² Second, it would also increase the number of innovative project ideas and diversify the experience on which the GEF as a whole can draw.³ Third, expansion of opportunities for agencies with a capacity to co-finance and mobilize additional finance for GEF projects will leverage additional resources for the global environment.

3. However, there are a few challenges in realizing these advantages. These challenges include the need to maintain the quality of projects which has been built up over many years by the IAs and the need to adhere strictly to the policies of the GEF pertinent to the special niche that it occupies. Another challenge is to expand opportunities while maintaining accountability to the Council and responsibility for the cost-effective use of GEF resources.

4. Past debates have shown that different institutions have different concerns on expanding opportunities for increased participation of RDBs in GEF activities. Section II briefly summarizes the experience of the RDBs in the GEF and also of the IAs in attempting to increase opportunities for project execution by the RDBs. Section III outlines issues that concern the RDBs for which relatively straightforward operational remedies exist and for which action is planned. Section IV presents the recommended approach for expanding opportunities for the RDBs, as agreed with the IAs following consultations with the RDBs.

¹ Joint Summary of the Chairs, October 20, 1999; Decision on Agenda Item 11.

² The expected 15% per annum growth rate has not been sustained either for Climate Change or for Biodiversity focal areas.

³ As an example of lack of diversity in projects aimed at engaging the private sector, almost 80% of the GEF allocations for private sector projects have been channeled through fund-like instruments.

II. REVIEW OF RDB EXPERIENCE AND PERSPECTIVES

5. For some time now, the RDBs have been ready to assist their member countries for country-driven activities designed to protect the global environment using both RDB and GEF resources. Their shareholders and management accord high priority to their offering assistance for environmental concerns, including those dealing with the global environment. Heads of RDBs wrote the World Bank President in 1992 expressing their keen interest in participating meaningfully in GEF activities. At various times, RDBs have also submitted project concepts and proposals to the IAs.

6. Nonetheless, RDB's efforts to become involved in GEF activities have not yet been very successful. By the end of FY 1998, only two of the four major RDBs,⁴ (Asian Development Bank and the Inter-American Development Bank) had participated in GEF activities. Total allocations through RDBs since inception of the GEF have amounted to about \$25 million, about one percent of total GEF allocations.

7. RDBs have identified three related sets of factors that have inhibited their participation to date in GEF processes. First, lack of staff training has prevented many RDB ideas from becoming eligible GEF projects. Second, the structure of the GEF adds an extra step of IA decision-making onto RDB decision-making. And third, the RDBs feel that the GEF-eligibility of their project ideas do not get the consideration they deserve when those projects fall outside an IA's institutional priorities or country strategies.

8. Training of RDB personnel in the unique nature of GEF projects has not been fully effective. The lack of capacity building has meant a lack of interest, enthusiasm and ownership among operations staff of the RDBs and has resulted in a large number of ideas proposed by the RDBs being deemed ineligible for GEF financing by the concerned IA. This lack of success introduces uncertainty about programming within the RDBs, increases their administrative costs and also reinforces the perception among recipient countries that RDBs have only a very minor role to play in GEF-related activities.

9. The RDBs feel that the structure of the GEF with its three IAs introduces a layer between the GEF and those wishing to collaborate with the GEF. As a result, the understanding of the GEF and its unique requirements has not spread to most development participants but has remained confined to the IAs. At the operational level, this system of indirect participation requires multiple scrutiny of proposals, increases complexity of coordination, leads to duplication of procedures and documentation, and delays communication. The RDBs have the confidence of their governing bodies on the quality of the development projects they undertake; it is only in relation to the uniquely GEF elements that they require outside assistance.

⁴ The four major regional development banks are – the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), and the Inter-American Development Bank (IADB).

10. Since the operations of the IAs and the RDBs in their respective regions are alike in many ways, it is possible that real or perceived conflict-of-interest situations can arise. As operational units within the IAs have their own work plans and country assistance strategies, these may or may not coincide with RDB proposals. Unless RDB proposals complement and promote the operational unit's objectives at a given time, there is no incentive for unit managers within IAs to support RDB proposals and commit their staff resources to the development, processing and subsequent supervision of such proposals. For the RDBs, therefore, such a situation would considerably raise the hurdle that their proposals must clear.

11. When the GEF was established, the IAs were chosen on account of their institutional infrastructure, their international knowledge, expertise and experience, network of contacts, and country presence. IAs continue to have this comparative advantage and their skills and experience constitute a valuable asset.

12. The IAs have much experience in partnerships with diverse executing agencies,⁵ including the RDBs. While the UNDP managed the pilot-phase *ALGAS* project, the Asian Development Bank was the executing agency. Again in the pilot phase, the World Bank cooperated with the Inter-American Development Bank (IADB) for the *Costa Rica: Tejona Wind Power Project*. Since then, the World Bank and the Asian Development Bank have found a constructive way to collaborate on the *Bangladesh: Biodiversity Conservation in the Sundarbans Reserved Forest Project*. The World Bank has also opened a dialogue with the African Development Bank (AfDB) on identifying opportunities within AfDB's lending pipeline that would be eligible for GEF funding. UNEP is also collaborating with the AfDB, especially on land degradation issues.

III. CURRENT EFFORTS TO EXPAND OPPORTUNITIES FOR RDBS

13. This section discusses how some of the first set of factors that the RDBs have identified (in paragraph 8) can be addressed *operationally* within the framework of existing GEF policies.

14. The first issue is lack of understanding of GEF policies and procedures. Much of the operational experience in preparing, reviewing, processing and implementing GEF projects is largely confined to the immediate GEF family. All others interested in participating in GEF activities, including the RDBs, have only limited familiarity with the special requirements of GEF projects and the project cycle. Training of RDB staff needs to be intensified and given a high priority to enable them to participate more substantially in GEF activities. Staff of RDB will be invited to participate in bi-annual orientation and training program that the GEF Secretariat is organizing for new staff of the Secretariat and the IAs. The Secretariat and the IAs are also considering offering initial training on GEF policies, procedures and methodologies for RDB staff at RDB headquarters. An

⁵ As mentioned in GEF/C.12/10, UNDP been successful in facilitating access to GEF for a wide variety of partners. NGOs (e.g., IUCN, CI, WWF) and civil society organizations are involved in 84% of the UNDP/GEF portfolio and can now act as executing agencies. The World Bank is exploring collaboration with IFAD and reviewing project specific partnerships with KfW and FAO.

increased understanding of the GEF should contribute to enhancing the quality of the GEF aspects of RDB project proposals.

15. The second issue of concern to the RDBs is the perceived lack of commitment by GEF. Consultations with RDBs in programming would give RDBs a stronger sense of ownership, and elicit far greater commitment and innovation from them. This can be accomplished by involving the RDBs in more upstream consultations, especially during the preparation of the three-year GEF Corporate Business Plan.

16. The third issue is credibility. In spite of the fact that the RDBs are the major (and sometimes the largest) providers of development assistance in their respective regions, they suffer from a common perception in their member countries that there is no significant role for them in matters pertaining to the GEF. This credibility with member countries can best be built up over time through a portfolio of approved high quality projects. The Secretariat and the IAs initiate the process by inviting the relevant RDB to participate in the GEF Country Dialogue Workshops organized in their regions.

17. The fourth issue is operational uncertainty. Currently the IAs have a considerable influence on whether, when, and how RDB proposals can be presented to the GEF. This introduces a great deal of uncertainty about the timing and the prospects of RDB proposals. For increased transparency, RDBs would like to receive eligibility rulings for their concepts, from the GEF Secretariat, similar to the procedure currently permitted for proponents for Medium-Sized Projects. The IAs also have an interest in ensuring that their eligibility rulings are seen to be based on GEF criteria rather than on their institutional interests.

IV. RECOMMENDED APPROACH FOR EXPANDING OPPORTUNITIES FOR RDBS

18. There are at least three ways to expand opportunities for executing agencies. These had been described in the previous Council paper, GEF/C.12/10. Typically an IA develops and prepares the project, shepherds the proposal through the GEF project cycle, manages and monitors the project, supervises its execution by an executing agency and finally evaluates its outcome. The IA is responsible to the Council for all these “implementation” functions and does not delegate them to the executing agency (**Option 1**). However, because all IAs welcome the added value that the RDBs can bring to the GEF, and recognize their abilities for project processing and delivering assistance, they believe that Option 1 is unsuitable for fostering partnerships with the RDBs. Expanding opportunities for the RDBs should therefore be done in accordance with one or other of the following two options, also set out in GEF/C.12/10.

19. In **Option 2**, an IA shares implementation tasks of a project (identified in paragraph 18 above) with an RDB -- the amount of sharing depending on the RDB and the project -- but the IA remains *fully* accountable to Council for that implementation.

20. In **Option 3**, an RDB, for selected projects and circumstances only (as described in paragraph 27 below), implements the project completely and is fully and directly

accountable to Council for its implementation.⁶

21. The approach recommended in this paper is based on Option 2, which involves sharing of implementation tasks, but with a few important adjustments to take account of the difficulties experienced to date in making these partnerships with the RDBs work.

22. The approach has two essential components. First, RDBs would have streamlined access to project preparation resources (PDF-B). Second, IAs would remain fully accountable for project implementation. The first component is sketched in paragraph 23, whereas accountability is discussed in the following four paragraphs.

23. As already mentioned in paragraphs 15 and 17, RDBs will be involved in upstream consultations on programming and on eligibility rulings. It is proposed that for project concepts that are deemed GEF-eligible and require preparatory funds to prepare the GEF components, RDBs would have direct access to PDF-B resources to prepare eligible projects for inclusion in the work program. This approach allows for greater transparency and predictability in programming, and will strengthen the credibility of RDBs within their member countries.

24. Maintaining accountability to Council through an IA adds to transaction costs. Hence, all GEF partners will endeavor to streamline processes, minimize duplication of effort, and enhance communications. However, for projects that are to be executed by RDBs, it is proposed to define early and clearly which implementation tasks would be performed by the IA to exercise its responsibility for the project and which implementation tasks would be carried out by the RDBs. This sharing would be defined during trilateral discussions between the RDBs, the concerned IA, and the GEF Secretariat at the time of PDF-B approval.

25. Clearly, if IAs are to be accountable to the Council for projects executed by the RDBs, they will need to undertake certain activities in order to maintain their accountability. However, to reduce the burden on RDBs from additional steps of decision-making and uncertain requirements, the specific minimum set of such activities through which this responsibility would be exercised will be set out at the time the project is proposed to the Council for inclusion in the work program. Such IA activities might include specific joint missions, an agreed process for making major decisions, monitoring, record keeping and financial reporting.⁷

⁶ This option is *within* paragraph 28 of the Instrument and does not involve giving full-fledged IA status to the RDBs, which would entail an amendment of the Instrument. Besides, RDBs have expressed no wish to become IAs in order to participate more effectively in GEF activities. While Option 3 is the preferred option for the RDBs, it is not recommended at this time to enable all partners to gain more experience with the recommended approach.

⁷ In the Bangladesh Sundarbans project the World Bank has advised the ADB on aspects of project design and documentation that relate to GEF policies and procedures and handles matters related to the GEF project cycle. It has also made GEF funds available to the ADB. The ADB is responsible for project document preparation, management of GEF funds made available by the World Bank, for project supervision and reporting, including to the World Bank. These arrangements have been formalized in a project-specific Memorandum of Agreement between the two agencies.

26. Recognizing that the Heads of Agencies have recently reiterated their support for efforts to expand opportunities for the four Regional Development Banks in executing GEF projects, the IAs will put in place procedures to ensure that eligible RDB projects would be supported in a timely, expeditious, and cost-effective manner. The IA would make any additional cost of shared implementation arrangements transparent in the project document and keep these to a minimum.

27. UNDP and UNEP share the view that there is significant potential for synergy and complementarity between their agendas and RDB business. The World Bank also does not foresee any problems where the RDB proposals are consistent with the Bank's ten safeguard policies and the policy framework in the recipient country is conducive to the successful implementation of the project. The RDBs, however see a risk in this approach outlined in this section when the objectives of their proposal fall outside the priorities in the World Bank's Country Assistance Strategy. The risk they see is that the World Bank may not want to be accountable for *every* GEF-eligible investment proposal that the RDBs bring forward. In this event, the proposal would be brought to the Council for a separate discussion to see whether the RDB could be made directly accountable to the Council *for that particular project*.

28. The GEF Trustee has flagged certain issues for consideration which may become relevant in the context of an expanded role for RDBs. These concern (i) financial controls and reporting, (ii) disbursement projections, maintenance of liquidity, and (iii) the transfer of funds. Policies and procedures are currently in place for IAs. If project implementation tasks were to be shared between an IA and an RDB, the current framework could be adapted (depending upon which tasks were shared). However, even if an RDB were to have direct accountability for a specific project, the current framework could be extended more formally to that RDB, so that procedures and financial controls were consistent across agencies. These issues are resolvable and acceptable procedures could be put in place, and therefore should not preclude the consideration of any option.

29. The experience with expanding opportunities for RDBs would be reported to Council in the context of *each work program* and a review of the proposed approach and experience would be undertaken for the May/June 2000 Council meeting.