

GLOBAL
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COLLABORATION BETWEEN THE WORLD BANK
AND REGIONAL DEVELOPMENT BANKS
IN GEF IMPLEMENTATION: A STATUS REPORT

Information Note prepared by the World Bank

GEF Council Meeting
Washington, D.C.
November 1 - 3, 1994

1. On September 14, 1994, the four Regional Development Banks (RDBs) met with World Bank representatives to review the status of GEF implementation and progress in drafting formal agreements to be executed between the World Bank and the respective participating RDBs in due course. The work unit in the Bank coordinating the negotiation and execution of the Bank-RDB GEF collaboration agreement is the Global Environment Coordination Division. A list of attendees is appended.

IFAD Collaboration

2. First, the World Bank informed the meeting that the International Fund for Agricultural Development (IFAD) and the Bank recently agreed to collaborate in GEF implementation, and introduced senior IFAD managers who were observing the meeting. The IFAD-Bank agreement will focus on innovative small-scale demonstration projects which serve the main thematic areas of the GEF, while achieving the twin objectives of rural poverty alleviation and improved natural resource management, including land degradation as it relates to GEF focal areas. IFAD-Bank GEF projects will build on IFAD's experience in local participation and will leverage both IFAD and Bank funds, although, subject to longer term review, these GEF projects will be appraised by the Bank as part of its overall portfolio. The IFAD-Bank GEF collaboration agreement will be finalized within the same time frame as the Bank-RDB collaboration agreements.

Background

3. The RDBs and the Bank first launched discussions toward formalizing GEF collaboration more than two years ago for pilot phase implementation. Events overtook the finalization of a GEF pilot phase collaboration agreement, however, and from May 1993 onward, discussions were re-oriented toward collaboration in the permanent GEF, thereby making them dependent upon the outcome of GEF restructuring and replenishment. Pilot phase GEF-RDB collaboration was limited to a project specific agreement between the Bank and the IDB for the Costa Rica grid-connected large-scale windpower development project and an agreement between UNDP and the ADB to implement the Asia region greenhouse gas strategy development project.

4. As a result of World Bank-RDB discussions during the last two years, a draft framework agreement for RDB collaboration in the GEF is close to completion. Issues addressed in the current Bank-RDB meeting, as well as operational modalities pending GEF Council deliberation, remain to be incorporated.

Meeting Outcomes

5. At this stock-taking meeting, representatives of the participating RDBs confirmed their understanding that the collaboration agreements could not be finalized with the Bank, nor any investment work programs approved by the GEF Council for the utilization of GEF funds, until the Council had reviewed and approved GEF operational policies and strategies. They indicated that they had been prepared for some time to participate in GEF implementation and perceived a loss of momentum. However, the RDBs wished to convey to the Council their willingness to play their anticipated role as reflected in previous draft versions of the collaboration agreements, adjusted to

accommodate the essential operational policy framework and modalities to be established by the Council.

6. The Bank and participating RDBs reconfirmed their desire to collaborate as full partners in investment work program development, as well as in the execution of specific projects, with their regional developing country clients. In a question and answer session with the GEF CEO, confirmation was obtained that the RDBs are expected to attend by prior arrangement, and be available to actively participate in, sessions of the GEF Operations Committee and GEF Council where their projects or programs are being reviewed. It was noted that the World Bank will not be responsible to answer for projects being carried out by any other agency. Pursuant to the Instrument, all GEF projects will be subject to the endorsement of the CEO before final approval.

7. The Bank agreed to assist the regional banks in strengthening their capacity for GEF collaboration by providing training materials, holding workshops, offering on-the-job experience in the Bank's global environment operations work unit, and arranging for experienced GEF Bank staff and consultants to spend varying lengths of time in RDB (and IFAD) headquarters with new GEF task managers to impart requisite project processing information and analytical skills for review and development of a GEF project pipeline. The Bank will support this capacity building from its own GEF administrative budget until such time as administrative budget allocations are disbursed to the RDBs.

Resolution of Outstanding Issues in Collaboration

8. The following is a summary of specific issues addressed by the meeting and their proposed resolution or next steps toward resolution before 1995.

Fiduciary Responsibility for Global Environment Trust Funds

9. Staff representing the Bank's role as Trustee for the GEF identified the need for special accounts or trust funds to legally protect GEF funds transferred by the Trustee to the RDBs under the terms of the proposed collaboration agreements. Options for the management of these accounts satisfactory to the Trustee will be devised and, once agreed, incorporated into the final draft of the collaboration agreements.

Managing Financial Risk

10. Bank lawyers also identified currency exchange risk and donor default risk which should not be borne by either the World Bank or the RDB's and therefore will need to be managed by them, and they also indicated mechanisms for alleviating these risks. Agreement will be sought on the mechanisms to manage these risks, provision for which will be made in the final collaboration agreements.

Procurement and Consultant Services

11. In utilizing GEF resources, each RDB will use its own rules and procedures concerning the procurement of goods and services and the selection and use of consultants, including restricting the eligibility of contractors, goods and services to its member countries.

Disclosure

12. The RDBs saw no difficulty in complying with the information disclosure requirements of the GEF. It was understood that each participating RDB will submit to the World Bank its current information disclosure policies and the Bank will refer these to the GEF Secretariat for review of compliance with the GEF Instrument and any other instruction to be provided. The collaboration agreements will not be finalized until the Secretariat confirms that the respective disclosure policies are thereby in compliance. Regional banks will be solely responsible, however, for provision of information subject to disclosure under the GEF collaboration agreements.

Cost Recovery

13. The Bank reiterated that the GEF will provide for compensation of all reasonable costs incurred by the RDBs in undertaking authorized GEF implementation activities. While the modalities of such compensation are still under review, it was indicated that they would accord in principle with a flat fee arrangement structured to maintain incentives for cost efficiency and GEF project implementation quality and should that be consistent with GEF Council instructions regarding administrative costs. Methods of flat fee calculation under consideration include using the rolling average annual administrative costs of the Bank as the fee index, subject to coefficients of certain cost elements which vary in estimable proportion to those of the Bank (e.g., travel cost variance, whereby the Bank's costs may be higher to service a particular region than those of the respective RDB). Upon effectiveness of the collaboration agreements, respective banks will be provided with advances for administrative costs.

Disbursement Arrangements

14. It is understood that in order to reduce the call on donor funds, GEF project funds will be disbursed quarterly by the Trustee directly to the RDBs on the basis of a rolling estimate of project disbursement requirements. Provision will not be made in the proposed agreement for the execution of concessional loans under GEF, although the agreements can be amended in future to so provide, if required.

Dispute Resolution

15. In accordance with the GEF Instrument, the Secretariat may be requested to resolve disagreements among the parties to the collaboration agreements. However, the World Bank and the RDB's agreed that best efforts would be made to resolve disputes first among themselves internally before seeking recourse from the Secretariat.

Timetable for Execution of Agreements

16. It was understood that the GEF Council is deliberating on policy and operational modalities which have a bearing on the content of the proposed collaboration agreements, hence the agreements cannot be finalized until Council deliberations are completed. In the event that the relevant policies and procedures are approved by the Council in November 1994, a final draft agreement will be submitted by the Bank to the RDBs as soon as feasible and negotiations should lead to execution of the agreements before March 1995.

PARTICIPANTS - RDB/BANK COLLABORATION

September 14, 1994

NAME	TITLE	ORGANIZATION
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Benjamin Kamugasha	Environmental/Lawyer	AfDB
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