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Subject Critical Ecosystems Partnership Fund Response to US Concerns

Dear Steve,

Thank you for the comprehensive response to the U.S. concerns about the Critical Ecosystem Partnership Fund.

This information is helpful in some ways, but raises more questions, and we remain concerned about what we view as serious problems with the fund. We are looking at the attached as a possible draft Council decision. The notes below explain why we believe there needs to be some clear direction from the Council on this. We would welcome an opportunity to discuss this with you and other Council Members in Cape Town.

Administrative expenses:

We do not agree with the CEPF's apparent definition of administrative expenses. In our view, and as a general matter in international financial institutions that we oversee, corporate administrative expenses would include components such as business planning, knowledge management, including a web site, analytic reviews, lessons learned and good practice, that CEPF apparently categorizes as program expenses. In the GEF, for example, these items are included in the GEF corporate budget. So we remain concerned that the corporate administrative expenses are excessive. Our very rough estimate of the share of corporate administrative expenses (based on the admittedly basic table on page 9) is close to 38%, including the 9% implementation fee from the World Bank and the cost of the RITs (10% of component 2), and believe that the share should be no more than 20%, including the implementing agency fee. We are assuming that project-management costs for sub-grantees and for CI-executed projects remains capped at 13%, as indicated in the World Bank project document at the time of final CEO endorsement of the GEF grant to CEPF in October 2000. If our rough estimates are correct, even with the proposed 20% cap, the total administrative overhead of the fund appears to be 33%; without the cap, it is over 50%.

Delivery mechanism:

The issue is not whether or not the CEPF can get money to people, but (1) whether it makes sense for governments to provide money to the GEF, which would in turn provide money to the World Bank, which would in turn provide money to this separately governed fund, which would then have its own administrative structure (RITs) to get funds to community groups. Each layer adds extra costs and time and is not efficient; and (2) whether GEF should be providing direct capacity building support to civil society groups, with the hope or expectation that this will later provide for global environmental benefits. In our view, this is not an appropriate use of GEF funds, which should be directed to projects that are designed to create direct global environmental benefits, with civil society groups helping to execute those projects.

#### Conflict of interest:

The problem is a REAL conflict of interest, not a potential or a perceived one, since CI has made decisions on issues in which it has a financial interest. The proposals put forward are a step in the right direction, but there is still a problem because grantees who lose out to CI, even in regions where CI is not the coordinator, would have to ultimately appeal to CI if they believe they were unfairly treated. Also, there should be a clearer definition of comparative advantage which does not favor CI, particularly if it cites a compared advantage that relates to previous experience (or IPR rights) gained through CEPF-1. We believe that the conflict of interest provisions need to be clearly spelled out in the operational manual, and would request that experts on conflicts of interest at the World Bank be involved in drafting those provisions.

#### Complaint mechanisms:

We are pleased to learn that the CEPF-2 program will be covered by the Bank's complaint mechanisms. However, our question related to the current situation under CEPF-1. We could not find anything in the operational manual about the inspection panel or the hotline. CEPF management told us that they weren't sure whether these mechanisms applied. Your written response indicates that eligibility criteria in decision-making processes are widely publicized, but it doesn't say whether rights and access to complaint mechanisms are widely publicized. Again, on this issue, we would like to see clear provisions in the operational manual, applying to all CEPF-1 and CEPF-2 projects, requiring that information on these mechanisms be disseminated to all grantees and affected communities.

#### Independent evaluation:

We have serious questions about whether this external evaluation can be called "independent". This evaluation was not commissioned or conducted by an independent evaluation office, such as GEF's Evaluation Office, or the World Bank's IEG. Nor was it reviewed by either of these evaluation offices. In addition, we still don't understand why the terms of reference explicitly excluded looking at results. That being said, we are pleased that the World Bank will complete an ICR and that GEF OE's upcoming evaluation of small grants will also include CEPF. We would like to see the completed ICR prior to CEO endorsement of the second phase. Finally, we are skeptical of "participatory evaluations" that are used to evaluate CEPF projects. While

consultations with those in the area is an essential part of a good evaluation, we do not believe it is a substitute for professional evaluation, certainly not for projects over \$1 million, and we would not want to see this fund adopting evaluation standards that are lower than what we have agreed to apply in the GEF.

Exit strategy:

The problem is that an exit strategy was supposed to be completed in the first year of establishment of the CEPR, but this was not done. There was no indication in the previous request for GEF support in July 2000 that this was more than a one-time funding request. The World Bank is apparently not planning to provide further support. Will this be the last phase for which GEF support will be requested?

Delegation of authority:

There is no cap on the amount of subprojects in this proposal. We would like to request that GEF Secretariat representative to the CEPF circulate all project proposals of \$1 m and over for the Council to review for a four-week period prior to CEPF approval.

I will be leaving on tomorrow. If possible, let's try to touch base before then. Again, I appreciate your help on this. We all agree with the object of the project, but we have to address these problems.

Many thanks --

Helen