GLOBAL ENVIRONMENT FACILITY

STUDY OF GEF'S OVERALL PERFORMANCE

GARETH PORTER
RAYMOND CLÉMENÇON
WAAFAS OFOSU-AMAAH
MICHAEL PHILIPS

GLOBAL ENVIRONMENT FACILITY

STUDY OF GEF'S OVERALL PERFORMANCE

TEAM MEMBERS

Core Team:	Gareth Porter, Team Leader Raymond Clémençon Waafas Ofosu-Amaah Michael Philips Gerardo Budowski
International Consultants:	Toufiq A. Siddiqi Eric Martinot Wouter Justus Veening Richard H. Warner
National Consultants:	Jorge Luis Frangi, Argentina Mary Helena Allegretti, Brazil Gerardo Budowski, Costa Rica Edmundo de Alba Alcatras, Mexico Abou Makari Bamba, Cote d'Ivoire Baha El Din, Egypt Rosemary Achieng, Kenya Norbert Nziramasanga, Zimbabwe Raed Daoud, Jordan Ni Wiedou, China Kalipada Chatterjee, India Yani Witjaksono, Indonesia Jose E. Padilla, Philippines Nguyen Ngoc Ly, Vietnam Pawel Tekiela, Poland Vassily Sokolov, Russia

FOREWORD

At its October 1996 meeting, the GEF Council asked the GEF Senior Monitoring and Evaluation Coordinator to undertake a study of GEF's overall performance. This is the first study of the restructured GEF's overall accomplishments. An independent evaluation of GEF's pilot phase was organized by the Implementing Agencies' evaluation departments and completed in 1993.

The main audience for the study, in addition to the GEF Council, consists of the participants at the GEF Assembly on April 1–3, 1998 in New Delhi. Other audiences are various cooperating partners at the country level, the secretariats of the conventions for biodiversity and climate change, implementing and executing agencies, nongovernmental organizations (NGOs), and private enterprises.

The terms of reference for the study was prepared by the GEF Senior Monitoring and Evaluation Coordinator after consultation with Implementing Agency officials, GEF Council members, the secretariats of the conventions for climate change and biological diversity, non-governmental organizations and others in April and May 1997. The terms of reference constitutes Annex 1.

The Senior Monitoring and Evaluation Coordinator recruited the core study team, composed of Gareth Porter (team leader), Raymond Clémençon, Waafas Ofosu-Amaah, Michael Philips, and Gerardo Budowski. In addition, another five international and sixteen national consultants were recruited. Their names are listed on the preceding pages. All team members were selected on the basis of their high competence in requisite fields and their independence relative to GEF and its projects. The report was prepared by Gareth Porter, Raymond Clémençon, Waafas Ofosu-Amaah and Michael Philips.

The Senior Monitoring and Evaluation Coordinator also appointed the Senior Advisory Panel for the study. This consists of experienced and knowledgeable persons from four developing and four industrial countries. The members are M. S. Swaminathan, India (chairman); Maria Tereza Jorge Padua, Brazil; Brice Lalonde, France; Hisham Khatib, Jordan; Wakako Hironaka, Japan; Rudolf Dolzer, Germany; Edward Ayensu, Ghana; and Richard Bissell, United States. The principal objectives of the panel, as laid down in the TOR, are to provide strategic guidance on the approach and implementation of the study and added assurance that it is complete in coverage and a fully independent review of the accomplishments of GEF in the areas to be examined. The panel met on June 27 and October 27–29 in 1997 and on January 17, 1998. The panel's statement on the report is appended as Annex 2.

The team members collected data for the period May–December 1997. Documents were collected from a wide variety of sources, and meetings were held with all GEF entities, the convention secretariats, and other international organizations. The study is particularly built on data collected by the core team members in ten countries: Brazil, China, Egypt, India, Indonesia Kenya, Mexico, Poland, Russia, and Zimbabwe. Additional material was collected through smaller studies by local consultants in Argentina, Costa Rica, Côte d'Ivoire, Jordan, Philippines, and Viet Nam.

Interviews were held in the sixteen countries with council members, GEF Focal Points and other relevant government departments, implementing and executing agencies, NGOs, research institutions, and private enterprises as well as project personnel and stakeholders. Annex 3 lists the institutions and project visited. The countries and projects studied represent a wide variety of efforts, country contexts, and policies, although they may not be representative of all the 155 participating countries in GEF and all the variables that surround GEF-assisted projects. Although desirable, that was not feasible.

The first draft study was sent to the GEF Secretariat, Implementing Agencies, and the Scientific and Technical Advisory Panel (STAP) for comments on December 2, 1997. Their comments were received around December 10, and the team made such amendments on this basis as it deemed required, especially concerning factual errors, misunderstandings, and the like.

The second draft was dispatched to the GEF Council, convention secretariats, the sixteen countries, GEF entities, Implementing Agencies, Senior Advisory Panel, and the GEF-NGO Network on December 19 for comments. On the basis of the comments received, some amendments were made and the report was finalized on February 5.

I am truly grateful to all those who participated and contributed to the study, especially in the sixteen countries. Although a large number of consultants and informants provided the information on which the study is based, the views expressed in this final document are those of the authors, who are listed above. These views do not necessarily represent the views of all team members, nor GEF. The description of GEF in Chapter I. Introduction, was provided by the Senior Monitoring and Evaluation Coordinator. It is the judgment of the Senior Advisory Panel that the study represents an honest and independent assessment of GEF. It is my hope that the report will contribute to improving future endeavors to protect the global environment.

Jarle Harstad
Senior Monitoring and Evaluation Coordinator

PREFACE

In the short time that GEF has had to develop since its 1994 restructuring, it has only recently begun to create a portfolio of projects that reflect its new management structure, programming strategy and project cycle procedures. It is thus too early to attempt to gauge the success of the GEF in accomplishing its objectives. Therefore the study is not aimed at evaluating the performance of the GEF in terms of its impact on the global environment in the four focal areas.

Instead, this study is explicitly directed at a set of issues related to the performance of GEF in terms of institutions, procedures and policies. Since the restructuring, a number of concerns regarding the GEF's identity, internal organization and project development procedures have been addressed. Thus, the study team identified indicators of performance in different areas of activity—from the effectiveness of the GEF Focal Point system in recipient countries to the effectiveness of the institutional structure to the degree of mainstreaming of the global environment in the regular operations of the three Implementing Agencies.

The issues analyzed by the study team for the report were specified by the Terms of Reference (TOR) for the study (Appendix 1). The TOR included a large number of issues related to GEF's overall performance. Unfortunately, the team was unable to address every issue in the TOR due to the time constraints, unavailability of reliable quantitative data and the inherent limitations of relatively brief country visits. Specifically, the team has not addressed the adequacy of procedures for drawing and applying lessons from project experience, the efficiency of GEF in disbursing resources after project approval, or the extent to which GEF has been able to clearly identify and measure global benefits expected from its projects. The team has made an effort to be explicit about the limitations of data wherever appropriate.

In most issues analyzed by the study team, the distinction between the pilot phase experience (1991–94) and that of GEF 1 (since the end of 1994) is of critical importance. One way of gauging GEF's overall performance is by comparing the situation at the end of GEF 1 with that which prevailed during the pilot phase. The team has made that comparison explicitly where relevant. For some issues, however, such as the impact of GEF on country policies, the distinction between pilot phase projects and GEF 1 projects may not be significant, and so it has not been highlighted.

The team has made a number of recommendations for consideration by the GEF throughout the text. Of these recommendations, it has identified seven which it regards as being of highest priority. These priority recommendations are highlighted in the Executive Summary of the report.

The team has summed up its overall evaluation of the GEF's performance in the

Conclusions to this report (Section VIII). In that section, we have been careful to make judgments only upon reflection on the aggregated findings from each subsection of the report

Gareth Porter, Team Leader
Raymond Clémençon
Waafas Ofosu-Amaah
Michael Philips

TABLE OF CONTENTS

ACRONYMS AND INITIALS

CAS	Country Assistance Strategy
CBD	Convention on Biological Diversity
CEO	Chief Executive Officer
COP	Conferences of the Parties
CCF	Country Cooperation Framework (of UNDP)
DAC	Development Assistance Committee
EA	Enabling Activity
FCCC	Framework Convention on Climate Change
GEFOP	GEF Operations Committee
IFC	International Finance Corporation
MOEF	Ministry of Environment and Forests
NGO	Non-governmental Organization
OECD	Organization for Economic Cooperation and Development
ODA	Official Development Assistance
OP	Operational Program
PDF	Project Preparation and Development Facility
PIR	Project Implementation Review
PV	Photovoltaic
QOR	Quarterly Operational Report
SAP	Strategic Action Program
SGP	Small Grants Programme (of UNDP)
STAP	Scientific and Technical Advisory Panel
TDA	Transboundary Diagnostic Analysis
TOR	Terms of Reference
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

STUDY OF GEF'S OVERALL PERFORMANCE
EXECUTIVE SUMMARY

I. INTRODUCTION

This report presents the findings and recommendations of the Study of the Overall Performance of the Global Environment Facility, which was requested by the GEF Council at its October 1996 meeting. The study focused on a set of issues related to institutions, procedures, policies and programming of the GEF. The study team proposed a number of recommendations for consideration by the GEF, including seven priority recommendations which are highlighted in this executive summary.

II. PROVISION OF RESOURCES FOR THE GLOBAL ENVIRONMENT

The study team analyzed issues related to the provision of resources for the global environment both directly through funding of the GEF itself and indirectly through leveraging of financing by other sources.

New and additional resources: The study team found that the concept of "new and additional resources" has not been defined by the international bodies that have agreed on it as a principle. Therefore, it could not establish whether or not GEF resources are truly new and additional. It also found that a possible indicator of additionality is whether the GEF is treated as distinct from general development cooperation in national budgetary processes, and that in some countries this distinction has not been maintained.

Recommendations: *The GEF Council should address the need for a clear definition of "new and additional" financing for the GEF, including the indicators that should be used in measuring additionaitly.*

Donor countries should consider separating budget lines for global environmental measures in developing countries and for contributions to GEF from budget lines for development cooperation.

Comparison of GEF with other sources: The study team could not determine the significance of the GEF's funding for biodiversity and climate relative to other funding, because reliable and comparable data were unavailable. However, it found the GEF to be the largest founder in the international waters focal area. The team also found that some agencies have significantly increased their funding in biodiversity and climate from previously low levels. However, it found GEF's role in funding activities that benefit the global environment to be distinct in several ways in terms of its programming and institutional strengths.

Recommendations: *GEF should regularly review and compare its own portfolio and project pipeline with those of other institutions to ensure that it is either providing significant additional resources or demonstrating a comparative advantage over other institutions involved in funding the same activities. In this regard, particular attention should be paid to GEF support for solar photovoltaics, energy-efficient lighting, and biodiversity trust funds.*

GEF should work with the OECD and other appropriate international institutions to ensure that reliable, comparable data on financing measures to protect the global environment, including data on different types of projects, is compiled and made available to the public.

Leveraging of additional resources: The study team found that GEF grants have leveraged additional funding for global environmental benefits from both Implementing Agencies and other funding sources. On balance, the team found that the GEF has been more successful in mobilizing cofinancing during GEF 1 than in the Pilot-Phase. However, based on its study of a sample of 18 projects, the team believes that the actual level of leveraging, strictly defined, has been significantly smaller than the total level of cofinancing reported. The team found that a high proportion of World Bank loans that cofinance GEF projects for climate and biodiversity have genuinely leveraged additional financing during GEF 1. However, in some instances such associated loans have brought disadvantages, such as project delays. The team concluded that there is a danger in giving too much emphasis to leveraging as a measure of the GEF's success, and that it should be considered alongside a number of other relevant indicators, such as GEF's impacts on policies and programs and the replicability of GEF projects. The study team was unable to conduct a systematic analysis of the likelihood that GEF projects will be replicated.

Recommendations: *The GEF should adopt a rigorous definition of "leveraging" that includes only funding that is additional to existing funding patterns and that is expected to create global environmental benefits. It should apply this definition in the Quarterly Operational Report and other relevant GEF documents. Implementing Agencies should apply this more rigorous definition in their own databases and reports on cofinancing of GEF projects.*

When there is sufficient experience with implementation of GEF projects, the GEF's Senior Monitoring and Evaluation Coordinator should commission a study of the replicability of projects in the GEF portfolio.

Leveraging resources from the private sector: The study team found that the GEF has been able to mobilize a small but growing level of private sector financing of GEF projects, but comparatively little by mainstream private financial institutions. Major barriers to increasing support from the financial sector exist, particularly the GEF's long and complex approval procedures and the greater risk of global environmental projects compared with normal commercial projects. However, the team notes that GEF assistance can be provided in a way that reduces risks to private firms and financial intermediaries and does not subsidize private profit.

> **Priority Recommendation: Private Sector**
> *The GEF Secretariat and Implementing Agencies should engage business and banking associations and mobilize financing from individual private financial sector companies, such as banks, insurance companies and pension funds. To interest the financial sector in GEF projects, the GEF should use the "incremental risk" of a potential private sector GEF project as a way of determining the size of the GEF grant.*
>
> *GEF should identify and apply techniques for reducing the risk of the private investors of participating in GEF projects, such as using GEF funds to provide loan guarantees.*

III. Issues at the Country Level

The Focal Point system in recipient countries: The study team found that the Focal Point system is not yet adequately institutionalized in some recipient countries. Most have not set up formal coordinating mechanisms for interacting with relevant government offices and other country stakeholders. Some Operational Focal Points are not clear on their roles. Others have not been able to fully carry out their coordinating functions because of institutional weaknesses such as the inability of environment ministries to get more powerful ministries to cooperate with them. In some cases, Focal Points have tended to limit information to a relatively narrow circle of government stakeholders.

> **Priority Recommendation: The Focal Point System**
> *In order to enable Operational Focal Points to be more effective advocates for GEF issues in their country, the GEF Secretariat and Implementing Agencies should broaden the existing Project Development Workshop format by involving the Operational Focal Points as much as possible in planning and execution and by focusing more on the coordination and information dissemination functions of the Operational Focal Points.*
>
> *The GEF should provide resources for translation of basic GEF documents into the local languages of those countries requiring such translated documents.*

The requirement for projects to be country-driven: The study team found that the degree to which a project is "country-driven" is related primarily to the degree of country involvement in project design and development. In most cases projects were either originated in part by the recipient country or the country played an active role in helping to develop it. This helped ensure their ownership of the project. The study team found some cases in which the "country drivenness" of a project was slight but in which country ownership was ensured by the fact that the country valued the project outcomes.

The team found other cases, primarily global projects, in which neither the involvement of the government nor its interest in project outcomes was sufficient to generate country ownership. The team also found that the use of foreign consultants, although necessary in many instances, has been criticized by recipient countries and tends to reduce local involvement necessary for projects to be country driven and for recipient country ownership.

Recommendation: *The GEF Council should adopt a policy, paralleling that for stakeholder participation, aimed at promoting the greater use of local and regional consultants in projects; encouraging an appropriate mix of local and foreign experts in GEF projects; and securing greater recipient government participation in the screening, short-listing and selection of project consultants.*

Contribution of GEF to awareness of global environment: The study team found that awareness and understanding of the GEF and global environment issues was very low outside the relatively small circle of officials involved with GEF projects, and that NGOs and the private sector generally know little or nothing about the GEF. However, the team did find from its country studies that, in some cases, the GEF has made contributions to awareness of global environmental problems among strategically important constituencies.

Priority Recommendation: Communications and Outreach

The GEF Council should authorize and adequately fund the development of a GEF outreach and communications strategy that targets GEF's multiple constituencies, including the Focal Points and relevant government agencies, NGOs and civil society, the media and the private sector. The strategy should rely on simple, user-friendly materials about the GEF and its operations, and should include provision of basic GEF documents in local languages. This strategy should be coordinated with the broadening of the Project Development Workshops.

Stakeholder participation in GEF projects: The study team found that the issuance of GEF guidelines calling for stakeholder participation has been one of the significant accomplishments of GEF 1. As a result, GEF 1 project designs have included detailed and comprehensive plans for public participation and consultation with multiple stakeholder groups, especially in the biodiversity focal area. Most of the projects are in the early stages of implementation, but the study team found that some projects are already including local stakeholders in key project activities. Projects involving trust funds in particular have provided innovative opportunities for different stakeholders to participate in the same project at policy and operational levels. In some cases, however, the team found that local communities had not been provided with feedback on the results of consultations.

Recommendation*: The GEF Secretariat should work with implementing Agencies to develop quantitative and qualitative indicators of successful stakeholder involvement at different stages of the GEF project cycle, and to document best practices of stakeholder participation by focal area.*

Impacts on country programs and policies: Based on its analysis of projects in the ten countries visited by the team and six other country reports by local consultants, the study team found that in some cases, GEF projects have had significant impacts on country policies and programs that go beyond the immediate objectives of the project. These impacts include establishing new mechanisms for intragovernment coordination and regional or subregional collaboration on issues of global environmental importance, increasing investment in, or priority placed on, a particular technology or method for addressing a global environmental problem, persuading the government to accept a greater degree of stakeholder involvement in projects for the global environment, and contributing to the development of a strategy or action plan. Given the relatively small size of GEF projects, the team found that these changes represent a positive achievement.

Handling of policies and activities that could undermine project success: In a number of instances, either government sectoral or macroeconomic policies or private sector economic activities could undermine the success of GEF projects. The team analyzed a sample of seven projects in which risks to project success were posed by such policies or activities. The team found that Implementing Agencies usually identified and raised such policy issues and activities with recipient countries, but in most cases, the identification was either too general or incomplete, and assurances from the government regarding the policy or activities in question were either not forthcoming or were not specific enough. In four of the six cases, the Implementing Agency took steps that brought about some reduction of the risk. In the two others the outcome is still unclear. In one case, the chances of project success were clearly undermined by a failure to take any follow-up action.

Recommendations: *The GEF project submission format's description of project risks should call for identification of any specific policies or sectoral economic activities that could negatively affect project success, as well as the steps that need to be taken to reduce the risks to project success from those policies and activities.*

The GEF should adopt a policy requiring that Implementing Agencies obtain clear, formal commitments from recipient country governments regarding policies and sectoral activities identified as increasing the risk of project failure before proceeding with project implementation.

Financial sustainability of GEF projects: On the basis of an examination of the proposals for seventeen projects in the countries it visited, the study team found that serious financial planning for continuation of project activities after completion of GEF funding appears in less than half of the proposals. The study team found that the sustainability of activities beyond GEF funding of the project depends in part on the project type. In near-commercial projects, sustainability depends largely on their replicability by government or private investors, whereas noncommercial biodiversity projects must be either self-financing through trust funds or obtain additional grant financing from donors or the government itself. The experience of the Pilot-Phase indicates that biodiversity projects are more likely to have serious problems of financial sustainability than climate projects.

Recommendations: *The GEF Secretariat and Implementing Agencies should require that project proposals contain a more thorough assessment of options for achieving financial sustainability.*

The GEF Secretariat and Implementing Agencies should encourage the broader use of biodiversity trust funds to help ensure the funding of biodiversity projects in perpetuity. The Implementing Agencies should continue to seek a high rate of leveraging of other sources of trust fund capital.

The Implementing Agencies should provide for longer project implementation periods--for example, five to seven years instead of three of five years--in cases in which project sponsors can show that extra time will be necessary to implement the project and demonstrate its viability for future funders.

IV. INSTITUTIONAL ISSUES

Mainstreaming of the global environment by the Implementing Agencies: The study team developed a separate set of criteria for evaluating the mainstreaming of the global environment in each of the three Implementing Agencies. The study team found that the World Bank has mainstreamed with regard to cofinancing of GEF projects. However, it found that the Bank has not done as much in its regular portfolio of projects in the biodiversity and climate focal areas as it might have; that it has not taken steps to create the staff incentives necessary to put global environmental concerns on a par with traditional bank business; that it has not systematically integrated global environmental objectives into economic and sector work or into the Country Assistance Strategies (CAS) process, and that it has not adequately addressed the impact on the global environment of its financing of fossil fuel power development. Finally, the team found that the Bank has not yet undertaken programming based on global environmental objectives on any significant scale, although it appears to be poised to take an important step in that regard, by entering into a “Strategic Renewable Energy Partnership” with the GEF.

The study team found that UNDP has increased its cofinancing of GEF projects compared with a very low level in the pilot phase. The trend since 1995 has been upward, although the team noted a significant proportion of this cofinancing is government funding that would have been spent in any case. The team found that UNDP has put in place a set of positive incentives for work on GEF projects, although they do not appear to apply to the Latin American region. It found that UNDP does not track projects or components related to biodiversity conservation in its regular portfolio, and allowed renewable energy projects to drop significantly in the 1994-97 period compared with the pre-GEF period. The latter trend was attributable primarily to UNDP’s five year project cycle for 1992-96, which began in the early pilot phase of GEF, and UNDP has now taken steps aimed at reversing that trend in renewable energy in its regular portfolio.

However, UNDP has not given similar emphasis to biodiversity. The team found that UNDP's lack of clarity about associated projects and its failure to mainstream the GEF systematically in preparing its Country Cooperation Frameworks (CCFs) during GEF 1 indicates institutional obstacles to mainstreaming.

The study team assumes that UNEP has mainstreamed the global environment in terms of giving adequate attention to the four focal areas in its core activities, but found that UNEP has not provided any staff incentives for work on GEF projects. It also found that UNEP has shown some improvement in submitting project proposals that are consistent with the principle of additionality to core program activities, but that further progress is needed in this regard.

Priority Recommendation: Mainstreaming by the Implementing Agencies

The World Bank *should adopt public, measurable goals for the integration of global environmental objectives into its regular operations, including goals related to: 1) staff incentives, 2) funding level and/or number of GEF associated projects, 3) funding level and/or number of projects for the global environment in its regular lending portfolio, and 4) integration into its sector work and the Country Assistance Strategy (CAS) process. It should report regularly to GEF and to the public on its progress in achieving these objectives.*

The World Bank should begin a transition from its role in financing conventional power loans to a new role in financing sustainable energy technologies.

The World Bank should allocate increased financial resources to the Global Overlays Program in order to ensure adequate staffing for a substantially higher level of integration of global environment into sector work and the CAS process.

The IFC should maintain a database of its projects with global environmental benefits, so that its mainstreaming of global environment can be assessed in the future.

UNDP *should establish a system of tracking projects and components that are relevant to the GEF focal areas and set public, measurable targets related to: 1) funding levels and/or number of core-funded projects for biodiversity conservation, alternative energy and international waters, 2) funding level and/or number of GEF-associated projects, and 3) the Country Cooperation Frameworks (CCFs). It should report regularly to GEF and to the public on its progress in achieving those targets. It should also consider making linkages between potential GEF projects and potential core budget project an explicit objective of the process of preparing the Country Cooperation Frameworks.*

UNEP *should devise a system of staff incentives, involving at least a revision of staff evaluation criteria, to give adequate consideration to GEF work.*

The GEF Secretariat and UNEP should devote more staff time and resources to upstream consultation not only in Washington but in Nairobi to ensure that all relevant UNEP program staff have adequate guidance in formulating GEF proposals.

Cooperation between GEF and the conventions: The study team found that the GEF has strictly implemented the guidance of the conventions with due regard for the GEF's own mandate and funding limitations and in a reasonably timely fashion. The team found that guidance provided by the COP of the CBD has been overly broad and would be more useful if it focused on prioritization among ecosystems or ecosystem types. The team also found that the GEF made a major adjustment in approval procedures for enabling activities (EA), which resulted in a significant acceleration of approvals in 1996-97. The team also found that the EA program does not appear to have been as effective in achieving its objectives regarding national communications and reports to the conventions as had been anticipated.

Recommendations*: The GEF should play a more proactive role in its relations with the conventions and should, in consultation with Implementing Agencies, prepare more detailed requests for guidance on those issues on which guidance would be most helpful.*

The GEF Secretariat, the Implementing Agencies, and the convention secretariats should undertake a comprehensive review of enabling activities before the end of 1998 to determine how successful the projects have been, analyze the reasons for those that have failed, and consider policy and programmatic responses to the problem.

The Implementing Agency "monopoly" issue: Although the original understanding among the three Implementing Agencies was that each would have a distinct role in the GEF based on its comparative advantage, the study team found that the roles assigned to the World Bank and UNDP have become blurred during GEF 1. The team found that increasing the number of organizations which can propose projects directly to the GEF Secretariat could result in an increase in the number and types of viable GEF projects, and that increased competition among Implementing Agencies could help to reduce the transaction costs of such a move. Although there could be some disadvantages to such a change, these disadvantages would have to be weighed against the advantages.

Priority Recommendation: Implementing Agency Monopoly

The GEF Council should undertake a study of the advantages and disadvantages of various approaches to permitting additional organizations to propose GEF projects directly to the Secretariat and assume direct responsibility for GEF projects.

Work Program roles and responsibilities: The team found that agreement has been reached within the GEF on the issue of the roles and responsibilities of the Implementing Agencies and of the GEF Secretariat in reviewing projects for the work program, but that some issues could continue to be contentious in the future. Both Implementing Agencies and the Secretariat agree that the Secretariat has the responsibility to examine each proposal for incremental costs, eligibility and consistency with the Operational Strategy and long-term portfolio development. They both also agree that the Secretariat's review of project proposals has often been overly detailed and focused on nonstrategic issues. The Implementing Agencies believe that the Secretariat has used its review of incremental costs to exceed its legitimate role. The team found, however, that the Secretariat's review of incremental costs does on occasion require the assessment of issues that would otherwise be considered the proper sphere of the Implementing Agencies.

Mechanisms for coordination: The study team found that the mechanisms for coordination that have evolved in GEF 1 have generally succeeded in raising the level of collaboration among Implementing Agencies. Joint pipeline reviews have reduced duplication and competition in projects. Focal area task forces have already produced useful programming discussions in international waters, although the others have only just begun to be used for such discussions.

The role of STAP: The study team found that STAP has played a useful role in helping to define the Operational Strategy and Programs, and its roster of experts was found to have been valuable to Implementing Agencies in internal review of projects. However, the team found that STAP was less successful in its selective review of projects. Its project review for the Secretariat-Implementing Agency consultations prior to entry into the work program has now been discontinued.

Recommendation: *The Council should provide a new, more sharply focused mandate for the STAP in light of the change in the GEF's needs and the experience of STAP during GEF 1.*

V. GEF PROJECT CYCLE PROCEDURES

Implementing Agencies' project cycles: Recipient countries complained to the study team about delays in the GEF project cycle, citing Implementing Agency and GEF procedures, and disagreements between government and the agencies as causes. The study team found that both the World Bank and UNDP have made some progress in shortening their phases of the project cycle -- UNDP by combining the preparation of project briefs and project documents and the World Bank by moving its submission of project briefs upstream. The longest stage of the project cycle, however, involves project preparation by the recipient government and the Implementing Agencies. The team found that the benefit of shortening the World Bank's project cycle by allowing a range of incremental cost estimates at the concept stage outweighs the benefit of requiring a single incremental cost estimate at the project concept stage.

Recommendation*: In order to encourage continued adherence by the World Bank to its streamlined project cycle, the GEF Secretariat should allow the Implementing Agencies to submit a range of estimates when a project is first submitted, on the understanding that a firm estimate will be submitted for final approval.*

Incremental cost requirement: The study team found that the present process of determining incremental costs has excluded the participation of recipient country officials in most cases, because of the lack of understanding of the concept and methodologies. Although the new streamlined incremental cost procedures are an improvement over the original, the study team doubts that they will be sufficient to persuade the majority of recipient country officials that they can and should be involved in the process unless the GEF undertakes further efforts to engage them.

Priority Recommendation: Incremental Costs

A working group representing the GEF Secretariat and the Implementing Agencies should, in consultation with the convention secretariats, develop simpler, more straightforward guidance and communication for recipient country officials on the *calculation of incremental costs and a strategy for increasing their involvement in the process of estimating those costs.*

GEF Council review of projects: The study team found that, although the GEF Council's second review of project proposals may have been justified in the early phase of the GEF because of the lack of experience with Implementing Agencies, it has now become routine that the GEF Secretariat checks on consistency of final project proposals with earlier Council comments. Both the Implementing Agencies and the Secretariat support the delegation of the function to the Secretariat, and such delegation would have significant savings in time and other costs to the GEF.

Priority Recommendation: GEF Council Review

The GEF Council should seriously consider delegating the second review of project proposals to the GEF Secretariat.

VI. PROGRAMMING ISSUES

Overall programming issues: The team found that the allocation of resources among the four focal areas has caused a shortfall within the International Waters focal area that is likely to be exacerbated in the future. It further found that the GEF has effectively balanced capacity building and investment activities in the GEF portfolio by combining both types of activities in the same project.

Programming issues in the focal areas: In the **Biodiversity** focal area, the issue of prioritization is subject to significant political constraints, and there are practical limitations to applying a programming strategy that is based on a scientific set of criteria. However, the team found that the GEF had not been able to focus on ecosystems of greatest global importance to the extent that would be desirable. It further found that the GEF has not yet resolved some of the conceptual and practical difficulties associated with projects for sustainable use of biodiversity, and that the dearth of published information on successful experiences in such projects is a major problem. In the **Climate** focal area, the team found that the present emphasis on barrier removal is appropriate, but that more emphasis may be needed in the future on combining near-commercial barrier-removal projects, and longer term buy-down projects. This may require a rethinking of the present delineation of Operational Programs. In the **International Waters** focal area, the team found that the approach to programming established a solid basis for international collaboration. The approach to programming in the International Waters focal area has redirected GEF funding toward challenges that should have high priority and establishes solid bases for international collaboration and national policymaking on cross-sectoral issues. The team also concluded that further initiative is needed in the contaminant-based Operational Program on encouraging the development of project proposals relating to reducing developing countries' dependence on persistent organic pollutants.

Recommendations: *The GEF Council should authorize the GEF Secretariat and Implementing Agencies, in consultation with the Secretariat of the CBD, to undertake a formal exercise to identify the ecosystems and ecosystem types within each Operational Program in biodiversity that should be the highest priorities for GEF in terms of a set of agreed criteria, including those specified in the Operational Strategy.*

The GEF Secretariat should compile information on successful projects in sustainable use from NGOs and other bilateral and multilateral agencies worldwide, and disseminate them to Implementing Agencies and recipient country Focal Points.

The application of incremental costs as a programming tool: The study team found that the operationalization of the incremental cost concept as a programming tool has advanced markedly since 1995, based on the degree of transparency and detail in discussions of incremental costs in project documents. Although cases of inflation of incremental cost estimates may have occurred, the team found no evidence of a systematic tendency toward inflation of incremental cost estimates. The team believes that greater confidence can be placed in the final incremental cost estimates for climate and ozone projects than for biodiversity and international waters projects, because there is no single, commonly understood and widely used methodology for calculating the incremental costs in the latter focal areas.

VII. FOLLOW UP TO THE PILOT-PHASE EVALUATION

The study team found that the GEF Secretariat and Council have taken action on most of the recommendations of the Pilot-Phase evaluation. They have prepared GEF's Operational Strategy and Programs, and other documents defining more clearly the project cycle, incremental cost calculations and many other topics. They have served to articulate the GEF mission and strategy, focus GEF investments, and improve the management of GEF operations. Some recommendations, however, have not been adopted or have been adopted only partially. The participants in the restructuring of GEF decided not to follow the recommendation to broaden the range of Implementing Agencies beyond the existing three. And contrary to the recommendation by the Pilot Phase evaluation, the GEF Council decided to continue programming resources while the Operational Strategy was being drafted. With regard to the recommendation on establishing a permanent monitoring and evaluation mechanism, a Council-approved monitoring and evaluation plan is in the process of being implemented, based on shared responsibility between the GEF Secretariat and the Implementing Agencies. The plan provides for both internal project monitoring and external independent project evaluations. When more of its components, such as systematic inclusion of performance indicators, are in place, assessments of overall project performance can be made on a more objective basis.

VIII. OVERALL CONCLUSION

The study team concluded that the GEF has generally performed effectively with regard to rapidly creating new institutional arrangements and approaches to programming its resources in the four focal areas. The GEF has also been relatively successful in leveraging cofinancing for GEF projects and has had some positive impacts on policies and programs in recipient countries. A significant accomplishment has been the advisement of stakeholder participation in GEF projects. On the other hand, the Implementing Agencies have made little progress in mainstreaming the global environment, and the team believes that much more needs to be done in several areas, including strengthening the Focal Point system, improving the process of calculating incremental costs, better planning for the financial sustainability of projects, shortening the project cycle, and raising awareness of the GEF and of global environmental issues.

The study team believes that the progress made in the brief period of GEF 1 and the potential for much greater success, particularly in mainstreaming, constitutes a basis for building a much stronger GEF in the near future. The success of the GEF ultimately hinges, of course, on political support in donor and recipient countries for mainstreaming global environmental concerns into development.

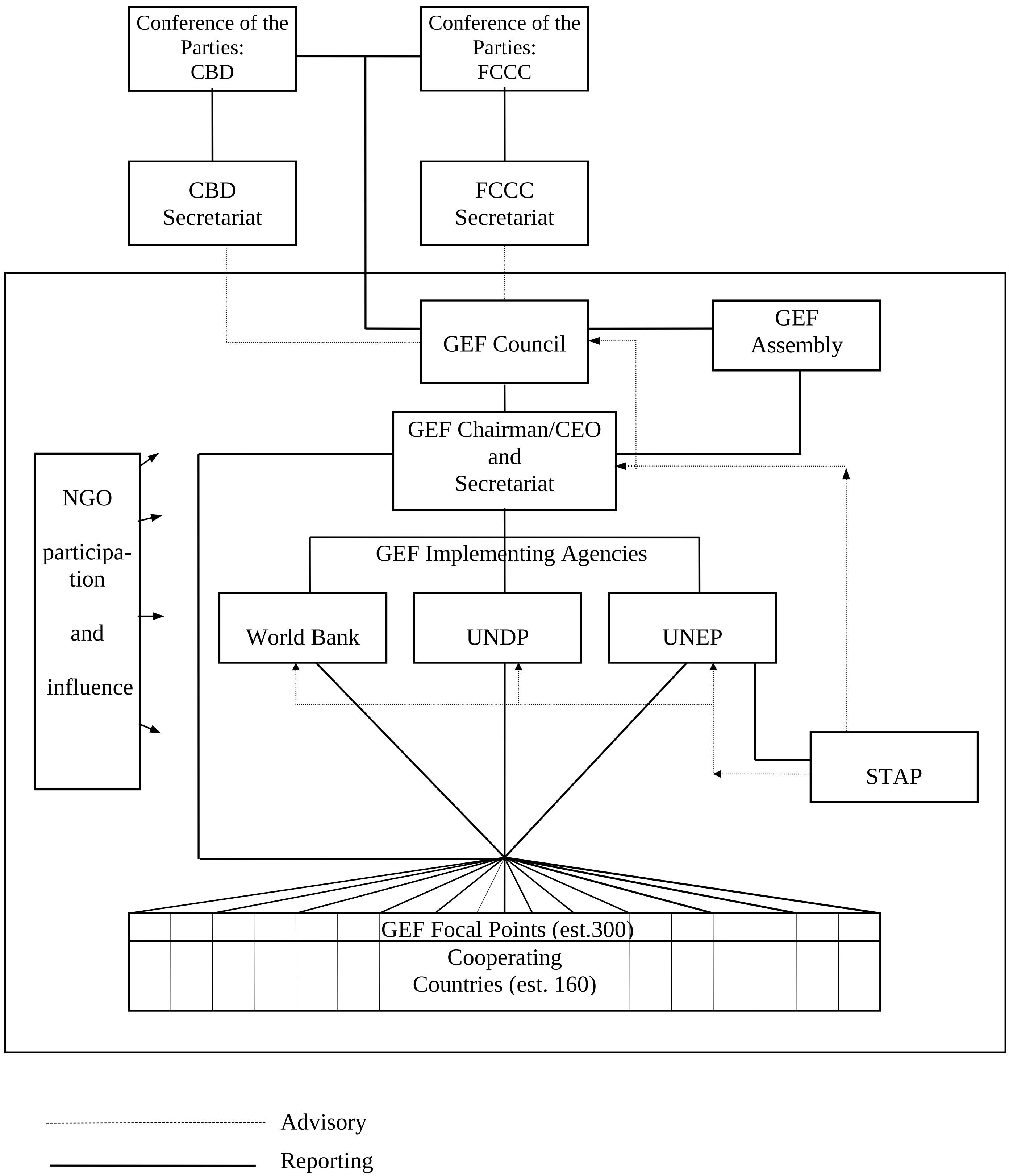
I. INTRODUCTION TO THE GEF

1. The GEF is a financial mechanism that promotes international cooperation and fosters actions to protect the global environment. The grants and concessional funds disbursed complement traditional development assistance by covering the additional costs (also known as "agreed incremental costs") incurred when a national, regional, or global development project also targets global environmental objectives.

2. The GEF was officially established in October 1991, for a three-year Pilot Phase. The GEF has defined four focal areas for its programs: biological diversity, climate change, international waters and depletion of the Earth's ozone layer. Efforts to stem land degradation as they relate to the above four focal areas are also eligible for GEF funding. A total of 116 projects with GEF funding of $733 million were approved between 1991 and mid-1994. Based on experience during the Pilot Phase, the GEF was restructured in 1994. Thirty-four nations, including 13 recipient countries, pledged $2 billion to the restructured GEF's core fund. With this funding, additional project allocations totaling $883 million were approved by the GEF Council through June 30, 1997. A second replenishment of the GEF is currently in process and is planned to be completed in early 1998. It will provide new funds for the 1998-2002 period.

3. The governance, policy and implementation structure of the GEF are shown in Figure 1. The GEF Assembly, Council and Secretariat comprise the Facility's governance structure. The GEF Assembly, which meets every three years, consists of representatives of all participating countries--currently numbering 155--and is responsible for reviewing GEF's general policies. The GEF Council is the main governing body. It is responsible for developing, adopting and evaluating operational policies and programs. The Council comprises representatives of 32 constituencies--16 members from developing countries, 14 from developed countries and 2 from countries with transitional economies. It meets every six months. The GEF Secretariat services and reports to the Assembly and Council. It is headed by a Chief Executive Officer (CEO), who also serves as Chair of the Council. The Secretariat's responsibilities include ensuring that decisions taken by the Assembly and Council translate into effective actions. It coordinates the formulation of the work program, oversees implementation, and ensures that GEF's operational policies are followed.

Figure 1: GEF: Institutional Structure



4. The GEF serves as the interim financial mechanism for the Convention on Biological Diversity and the UN Framework Convention on Climate Change. In this regard, the GEF Council receives formal guidance from the Parties to the Conventions and is accountable to them. In its work related to international waters and the phase out of ozone depleting substances, the GEF is not accountable to a governing body of an international agreement. However, it does take into consideration guiding principles from Agenda 21 of the United Nations Conference on Environment and Development, and relevant treaties such as the Montreal Protocol.

5. GEF's Implementing Agencies (IAs) are responsible for developing projects for GEF funding and implementing them through executing agencies in specific countries and regions. The IAs are the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), and the World Bank. The World Bank also serves as GEF's trustee. Each agency has created a GEF Coordination Unit in its headquarters office, led by an Executive Coordinator. In addition, the GEF "family" includes a Scientific and Technical Advisory Panel (STAP) of 12 internationally-recognized experts. The STAP is an independent advisory body that provides scientific and technical guidance on GEF policies, operational strategies and programs. The STAP maintains a Roster of Experts, and all GEF projects must be reviewed by someone on this list.

6. Each country participating in the GEF has a Political Focal Point. In addition, each recipient country has a GEF Operational Focal Point. The role of the Political Focal Point is to serve as the contact point with the GEF Secretariat, within their country, and with other members of the constituency in which their country is included on issues related to governance. The role of the Operational Focal Point is to identify project ideas that meet country priorities and ensure that GEF proposals are consistent with country priorities and commitments under the global environmental conventions. The Operational Focal Points must endorse all project proposals for GEF in their countries.

7. GEF projects are executed in the field by a wide variety of organizations, ranging from government agencies, international organizations (e.g., the Food and Agriculture Organization (FAO) of the UN and the World Meteorological Organization), private sector institutions, and international, national and local non-government and civil society organizations. Several projects for which the World Bank is the GEF implementing agency are executed by the International Finance Corporation (IFC) and the Inter-American Development Bank (IDB).

8. Non-governmental organizations (NGOs) play an active role in the GEF at a variety of levels. There is a network of 16 NGO GEF regional focal points that serve as points of contact, information and coordination between national and local NGOs and the GEF. Immediately proceeding each GEF Council meeting, a one-day consultation with NGO representatives takes place. NGOs also participate as observers in Council meetings. In addition, many GEF projects are executed wholly or in part by NGOs.

9. A variety of coordination mechanisms have been developed within the GEF

structure. The CEO meets annually with the heads of the Implementing Agencies, and more often with the Executive Coordinators in the IAs. The GEF Operations Committee (GEFOP) is the forum through which members of the GEF family regularly discuss major policy issues. The GEFOP meets at least quarterly and includes representatives of the Secretariat, IAs and STAP. In addition, representatives from the biodiversity and climate change conventions participate in the GEFOP. Focal area Task Forces in biodiversity, climate change and international waters comprised of specialists from the Secretariat and IAs' GEF coordination units are fora for discussions of program and policy issues and for coordinating the pipelines of new projects within these focal areas. Finally, the GEF conducts an annual Project Implementation Review (PIR) to examine the status of GEF projects that have been in implementation for at least a year, and to identify lessons learned.[1] The PIR involves an internal review by each IA and an interagency review organized by GEF's Senior Monitoring and Evaluation Coordinator.

10. The GEF funds three broad types of activities in its four focal areas. The vast majority of GEF resources are allocated to projects which are consistent with its Operational Strategy. The Operational Strategy reflects program guidance from the biodiversity and climate change conventions, and currently defines ten long-term Operational Programs. Secondly, GEF finances Enabling Activities in the biodiversity and climate change areas to help countries identify their needs and prepare for projects which will help them meet their obligations to the biodiversity and climate change conventions. Enabling Activities include compilation and assessment of existing country information, as well as development of strategies and action plans. Finally, GEF funds a limited number of short-term response measures that do not fall within the parameters of long-term programs or enabling activities, but are high priority and yield immediate benefits at low cost.

[1] For a report of the 1997 PIR, see *Global Environment Facility, Project Implementation Review, 1997, (Washington, D.C.;* January 1998). This report, as well as the report of the results of the 1996 PIR, are available from the GEF Secretariat.

II. Provision of Resources for the Global Environment

A. Introduction

11. This chapter examines the performance of GEF as a direct provider of grant and concessional resources and as an instrument for leveraging resources from other donors, governments, and the private sector.

12. After restructuring, GEF donor countries committed $2 billion over four years to the first regular funding period of GEF. Most donor countries hailed the level of funding finally agreed to as a significant achievement.[2] Recipient countries and NGOs, however, considered the replenishment of GEF inadequate as well as a big step away from expectations that had been raised at the Rio conference.

13. The best estimates of funding needs in the two key GEF focal areas show that the resources available today for global environmental activities in general and for GEF in particular are small. Although such aggregate estimates are plagued by great uncertainties, they indicate the magnitude of the challenge. The World Conservation Monitoring Centre, for example, finds that the cost of conservation of critical biodiversity is around $20 billion per year, based on extrapolations from estimates provided in United Nations Environment Programme (UNEP) Biodiversity Country Studies.[3] Yet the center estimates that total national expenditures in 1992 covered some $6 billion a year for biodiversity conservation. On climate change, estimates of the costs of carbon emissions abatement have varied widely, depending on the baseline assumptions adopted (such as GDP growth rate, rate of technological change, and pricing regimes) and the reduction targets to be achieved.[4] There is clearly great potential for measures that would result in short-term cost savings as well as carbon emission reductions. Overall investment needs to realize carbon emission abatement opportunities in developing countries are large.[5]

---

[2] During the Rio Conference, both Germany and France, the initiators of the GEF pilot phase, as well as some smaller European countries had advocated a substantial replenishment of GEF at around $3 billion. At the Participants Meeting in Beijing in May 1993, the working numbers for replenishment advanced by the GEF Secretariat after consultations with all donor countries were 2 to 3 billion SDR (Special Drawing Rights), which at that time corresponded to $2.8–$4.2 billion (GEF/RE.93/3, November 3, 1993).

[3] BirdLife International, *New and Additional Financial Resources for Biodiversity Conservation in Developing Countries 1987–1994* (Cambridge, United Kingdom: 1996)—a study based on work carried out by the World Conservation Monitoring Centre, funded by the European Commission.

[4] Florentin Krause and others, *Cutting Carbon Emissions: Burden or Benefit?* (El Cerrito, Calif.: International Project for Sustainable Energy Paths, 1995). The Organisation for Economic Cooperation and Development (OECD) has also done considerable work on the overall economic effects of carbon taxes or emission quota allocations to different OECD countries. OECD, *Global Warming, Economic Dimensions, and Policy Responses* (Paris: 1995).

[5] For example, carbon emission reduction investment needs in India for an emission mitigation option that would not hurt the economy have been estimated at $135 billion for all economic sectors and $42 billion alone for afforestation (Asian Development Bank, *Climate Change in Asia: India* [Manila, Philippines: 1994], p. 119). A study done by the Asian Development Bank for Indonesia puts the additional costs for only installing technologies to improve energy-efficiency in the transportation, industry, and electricity generation sectors, without requiring sacrifices in economic development, at $1 billion annually

Although these could produce considerable savings down the road, sometimes offsetting costs, various political and institutional barriers prevent large-scale investments in such activities. No aggregate cost estimates have been developed in the international waters focal area.

14. GEF was never intended to cover all the international financing needs of global environmental programs but rather to work in various ways as a catalyst for measures to address global environmental problems. Given the limited resources available compared with funding need estimates, GEF needs to program resources in ways that leverage additional resources as much as possible from other sources. In this section, the study team addresses three broad issues related to the role of GEF in providing resources: whether GEF has met the expectation that its funds would be new and additional to traditional development cooperation resources, how significant GEF has been as a source of funding compared with other multilateral and bilateral donors, and how successful GEF has been in leveraging additional financial resources from Implementing Agencies and other sources, which GEF participants and the GEF Council have considered a key strategic objective.

B. ARE GEF RESOURCES NEW AND ADDITIONAL?

15. Paragraph 2 of the GEF Instrument adopted by GEF participants in March 1994 specifies that GEF "shall operate . . . as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits" in the four focal areas of climate change, biological diversity, international waters, and ozone layer depletion. The rationale for industrial countries' commitment to provide new and additional financial resources for global environmental measures is that they have a historic responsibility for global environmental problems and better means to pay for measures to address them. This principle is acknowledged in the Preamble of the 1992 Framework Convention on Climate Change, which states the "common but differentiated responsibilities" of developing and industrial countries, based on different histories of consumption of natural resources and differences in their ability to pay for measures benefiting the global environment.[6] Similarly, the Convention on Biological Diversity acknowledges that "special provision is required to meet the needs of developing countries, including the provision of new and additional financial resources and appropriate access to relevant technologies."[7] Both conventions recognize that economic and social development and poverty eradication are the first and overriding priorities of developing countries.

16. "New and additional funding" is a political concept, which leaves room for interpretation. Language adopted by the climate change and biodiversity conventions, the

---

(Asian Development Bank, *Climate Change in Asia: Indonesia* [Manila, Philippines: 1994], p. 49).

[6] Preamble to the United Nations Framework Convention on Climate Change.

[7] Preamble to the Convention on Biological Diversity.

Rio Declaration and in *Agenda 21* stipulates that resources for global environmental measures in developing countries should be provided above and beyond those allocated to traditional development cooperation and not at the expense of development assistance. International treaty language, however, does not provide an operational definition of "new and additional" by, for example, defining a base year against which official development assistance (ODA) and GEF resource flows could be compared. Although developing countries tend to consider 1992—the year of the Rio conference—as the base year, many donor countries maintain that "new and additional" simply refers to funding efforts that go beyond the level of ODA resources that would have been allocated without the existence of GEF.

17. Only a definition of "new and additional funding" that is based on the level of development assistance level in a base year can be operationalized to be used to determine whether donor countries have actually met the obligation. A definition that requires the use of a counterfactual (what would have been the level of ODA in the absence of GEF?) cannot be used for that purpose, because there is no objective basis for determining if allocation of GEF resources in donor-country budgets has come at the cost of ODA resources. And it is not clear what base year would be chosen for the purpose of comparison: Should it be 1991? 1992? Should new and additional resources be calculated for each successive GEF replenishment on the basis of the ODA level at the beginning of the replenishment?

18. A second difficulty in answering the question is the lack of clarity about what data should be used for the base year and subsequent years. Should it be only grant assistance? Grants and concessional loans? All grant and grant-like flows? Nonconcessional loans? The Official Development Assistance totals provided by the Organization for Economic Cooperation and Development (OECD) Development Assistance Committee (DAC) include a range of financial flows going beyond grant assistance, including bilateral debt relief, bilateral loans, and contributions to multilateral institutions, including the World Bank and multilateral development banks. However, it has never been established what should be included in the yardstick for determining "new and additional."

19. One way of operationalizing the concept of "new and additional" as applied to GEF would be to take 1992 as the base year and compare the gross ODA levels in successive years. The OECD DAC figures show a decline in the total from close to $61 billion in 1992 to a little more than $55 billion in 1996. Because DAC totals for ODA fluctuate significantly from year to year, the choice of base year would strongly affect the answer to the "new and additional" question: the overall ODA flow indicator fluctuates significantly from year to year and, for example, reached close to $59 billion in 1995 before falling to $55 billion in fiscal 1996. Moreover, if only bilateral grants were counted, the trend would be shown to have gone up since 1992.

20. More important, however, the study team also understands that DAC figures are unreliable and that individual countries are known to underreport or overreport resource

flows because of both differential completeness in reporting and methodological differences in tracking ODA expenditures.[8] The study team cannot vouch for the accuracy of the figures, therefore, even assuming that DAC statistics on ODA constitutes the correct indicator to be compared.

21. Another indicator of the additionality of resources provided to GEF that could be applied at the individual country level would be whether national budgetary allocation processes recognize GEF as distinct from regular development cooperation, that is, as a mechanism whose objective is the realization of global benefits and not of national development benefits. Although, in some donor countries, GEF resources appear to have been allocated on top of and independently from development assistance budgets, in others they seem to have come out of an overall budget line for development cooperation. Where this happens, institutional barriers may be working against increased funding levels for GEF and global environmental measures. Mid-level government officials have no incentive to push funding for global environmental purposes if they fear that this will entail trimming other budget lines of the same ministry.

Conclusions

22. All these definitional and methodological problems stand in the way of a clear answer to the question of whether donor countries have provided "new and additional" funds for GEF. The study team is simply unable to answer the question without clearer guidance from the GEF Council or another authoritative international body on operationalizing "new and additional." Indeed, without such guidance, the concept is doomed to remain one without practical meaning.

Recommendations

23. The GEF Council should address the need for a clear definition of "new and additional" financing for the GEF, including the indicators that should be used in measuring additionality.

24. Donor countries should consider separating budget lines for global environmental measures in developing countries and for contributions to GEF from budget lines for development cooperation.

C. Comparison of GEF Funding with All Sources of Financing for the Global Environment

[8] Data from the DAC/OECD home page on the World Wide Web.

25. The study team attempted to analyze the significance of GEF funding in the context of overall financing in GEF's focal areas from all sources, bilateral and multilateral. Although a fair amount of data is available on the global environmental activities of various agencies, those data are often unreliable and cannot be compared or aggregated due to differences in definition or methodologies. Different agencies have different definitions of what constitutes a biodiversity project or what exactly energy efficiency means. In many cases, an agency's assistance on biodiversity or renewable energy or international waters is aggregated with nonglobal environmental and energy work.

26. The team tried to use OECD's DAC data base to obtain quantitative data on non-GEF assistance in the four GEF focal areas. However, the DAC statistics are highly unreliable, because they rely on voluntary reporting by donor country agencies, which does not always occur or is incomplete. When the reporting does occur, it is not reviewed for its accuracy or definitional consistency. Moreover, the team was also uncertain whether bilateral contributions to GEF are aggregated with non-GEF spending in the data base, making comparisons between GEF and other sources impossible.

27. Given these difficulties, the team ultimately decided not to attempt to provide quantitative comparisons of financing by GEF and other sources. Despite its inability to quantify total financing for the focal areas and, thus, the relative significance of GEF financing, the team can make some broad observations about financing for the global environment, based on interviews, country visits, and professional experience.

28. Bilateral and multilateral agencies have increased their financing of global environmental activities in the 1990s, including those in biodiversity, climate change, and international waters. It is not clear whether this increase accelerated or slowed in response to the establishment of GEF. But the increase has taken place even while overall development assistance flows have decreased. Some donors have established programs and institutional units dedicated solely to energy efficiency or to biodiversity. Several areas have experienced particularly notable increases in non-GEF support. For example, there have been sharp increases in bilateral support for biodiversity trust funds from several donors and rapid increases in support for renewable energy, particularly solar photovoltaics, by a number of bilateral agencies. Support for energy efficiency by multilateral institutions has also greatly increased, particularly in Central and Eastern Europe.

29. The one focal area in which it seems clear that GEF is the largest funder is international waters, defined as international collaborative efforts to reduce threats to international waters at the regional or subregional level.[9] Several multilateral agencies have funded projects for generating activities to reduce threats to international waters,

[9] Thus, the team does not consider investments in wastewater treatment or industrial pollution abatement as assistance for international waters, despite the fact that they have impacts on international waters, because they are made primarily for national economic development purposes.

primarily in the Mediterranean, Baltic, Black, Caspian and Aral Seas, and the Danube, Nile, and Mekong river basins but, unlike the GEF, they generally have not involved the same international process of jointly evaluating threats and determining priorities.

30. As bilateral and multilateral assistance for global environmental activities increase, GEF may find itself increasingly funding projects similar to those of other agencies. This issue appears most pertinent for solar photovoltaics (PVs), energy-efficient lighting, and biodiversity trust funds, which have attracted particular interest from funding and financing institutions. For example, the GEF Solar Home Systems Project in Indonesia, if not derailed by the country's financial crisis, will facilitate the purchase and installation of 200,000 solar photovoltaic systems in rural homes; at the same time, at least four other donors have separate projects that fund another 120,000–130,000 rural solar home systems. Likewise, some of the energy-efficient lighting projects under preparation by the International Finance Corporation (IFC) will operate through private sector intermediaries, possibly in the same Central and East European countries in which the European Bank for Reconstruction and Development has been establishing credit lines at commercial banks to help remove investment barriers to energy efficiency, including energy-efficient lighting.[10]

31. These examples do not mean that GEF should not support photovoltaics or other technologies supported by other donors. In the Indonesian case, for example, the GEF solar project is significantly different from the bilateral projects in that it is helping to establish a rural PV credit system. But these examples underline the growing need for close coordination with other donors and the need to take stock regularly of how GEF projects compare with those of other donors.

32. In the area of biodiversity, although GEF is one of a number of donors supporting the capitalization of trust funds, GEF's continued involvement helps attract additional donors. As others play an increasing role in capitalizing the funds, GEF could shift its orientation toward bridge funding to cover the first year of a trust fund's operation or could provide just the technical assistance on establishment and operation of the funds. GEF's continued involvement is important, however, to ensure that at least part of the funds will go toward the global environment, not just the local environment. In this regard, one approach would be for GEF to provide capital for a global window at an environmental fund. This approach was used, for example, in the UNDP's Central American Fund for Environment and Development.

33. The study team encountered many examples of poor coordination among donor agencies in the countries visited, leading the team to believe that the donor agencies are probably not well coordinated with GEF or each other on planning and implementing financial assistance related to climate change and biodiversity. There are exceptions to this generalization. An interagency coordinating body has been formed on environmental trust funds, for example. In Central and Eastern Europe, the London-based Project

[10] Caspar Henderson, "EBRD Recaps Progress in Efficiency," *Clean Energy Finance* (newsletter), Vol. 2, No. 1, Spring 1997, p. 4., http://solstice.crest.org/efficiency/cef/index/html

Preparation Committee seeks to improve coordination between donors and financial institutions in the field of environment investments. An Agenda 21 process in China seeks to coordinate all donors on environmental activities, and similar processes have started in Russia and Kenya, among other countries. But many countries do not have a mechanism for filling gaps and avoiding duplication in GEF's focal areas.

34. Even though other donors are funding projects that are similar to GEF projects in some manner, GEF funding is different from bilateral or multilateral funders or multilaterals in other ways.

35. First, GEF is able to program its resources on a global basis with a minimum of influence on programming decisions from political relationships. Other multilateral and bilateral donors program their resources on a country-by-country basis; their decisions are often heavily influenced by broader economic and political considerations.

36. Second, GEF brings to projects a strong emphasis on public involvement in initiation, design, and implementation. In some countries, this has opened up decisionmaking processes and, in others, brought in more NGO involvement than multilateral lenders could have attracted.

37. Third, GEF's more rigorous approval process means that countries must think through and justify GEF projects in greater detail than for most other donors. This appears to result in better projects, although it also makes the approval process longer and more complex.

38. Fourth, GEF's association with the three Implementing Agencies gives it greater institutional capacity for project preparation and implementation, including impact on policy, than other donors.

Conclusions

39. Because reliable and comparable data were unavailable, the study team could not determine the significance of GEF's funding for global environmental activities relative to non-GEF sources of funding for those activities, although it found GEF to be the largest funder in the area of international waters. The team also found that other institutions have significantly increased their funding in biodiversity and climate. However, it found GEF's role in funding to be distinct in several ways. Given the fact that complete information on the activities of other financing agencies in a given country is frequently unavailable, the additionality and distinct advantage of a GEF project in that country may also sometimes be unclear.

Recommendations

40. GEF should regularly review and compare its own portfolio and project pipeline with those of other institutions to ensure that it is either providing significant additional resources or demonstrating a comparative advantage over other institutions involved in

funding the same activities. In this regard, particular attention should be paid to GEF support for solar photovoltaics, energy-efficient lighting, and biodiversity trust funds.

41. GEF should work with the OECD and other appropriate international institutions to ensure that reliable, comparable data on financing measures to protect the global environment, including data on different types of projects, is compiled and made available to the public.

D. LEVERAGING ADDITIONAL RESOURCES

Leveraging Through Cofinancing and Associated Projects

42. Since the beginning of the pilot phase, GEF has put great emphasis on leveraging additional financing to enhance its impact on the four focal areas. Recognizing that the funds available from GEF itself are small in relation to the needs, the GEF Council, GEF Secretariat, and Implementing Agencies have all agreed on the objective of using GEF grants to leverage financing from other sources.

43. The study team was asked to evaluate the success of GEF's efforts to mobilize financing from all sources. The team focused on leveraging through cofinancing of GEF projects by Implementing Agencies, either by spending money from their own core operational resources or by bringing in additional financing from other donors or the private sector to cover part of the costs of a GEF project.

44. As of June 30, 1997, GEF had committed $861 million to regular projects during GEF 1. Based on figures provided by the Implementing Agencies on cofinancing of GEF projects, the team found that the aggregate total of cofinancing during GEF 1 is just under $2.2 billion. This represents a ratio of 2.5 additional dollars to one GEF dollar during GEF 1.

45. During the pilot phase, GEF invested $733 million in regular projects and the Implementing Agencies provided or mobilized $2.24 billion in cofinancing—almost exactly the same amount as in GEF 1. This amount represented three additional dollars for every dollar provided by GEF. The comparison is somewhat misleading, however, considering that one pilot project accounted for $1.3 billion in cofinancing. For this reason, the study team found that GEF has on balance been more successful in mobilizing cofinancing during GEF 1 than during the pilot phase. Furthermore, the team found the aggregate cofinancing to represent a significant degree of leveraging of additional funding—and activities for global environmental benefit—by making GEF grants available.

46. Cofinancing by Implementing Agencies, other donors, or the private sector is not always the same as leveraging financial resources for global environmental benefit, however. No definition of leveraging has been provided by the GEF Council or Secretariat, so the term has been used in different ways by Implementing Agencies and the secretariat. The study team defined leveraged financing as financing in conjunction

with a GEF project that supports activities producing global environmental benefit and that would not have been spent in the absence of the GEF project or that would otherwise have been spent in ways that would have contributed to global environmental degradation.

47. The study team recognizes that this is not the only way that leveraging can be defined. In discussions with the team, UNDP argued that leveraging should be defined to include cofinancing for a GEF project that fills the gap between the "business as usual" baseline scenario and a "sustainable development" baseline scenario. It asserted that without the financing of a certain minimum set of sustainable development activities, including those focused on health and poverty, it is often impossible to implement the incremental cost activities of a GEF project. Therefore, according to UNDP, the financing of such baseline activities should be counted as leveraging by GEF.

48. The team believes, however, that this broader definition of leveraging would be misleading. It would mean that financing activities that are clearly in the national development interest of a country and that have no effect or only the most indirect effect on the global environment would be regarded as a GEF accomplishment. In short, the distinction between national development objectives and global environmental objectives would be completely lost. It is the study team's understanding that GEF was established based on the importance of maintaining that distinction.

49. Based on the study team's definition of leveraging, project documents submitted by the Implementing Agencies were analyzed for a sample of eighteen full GEF projects, representing all the projects approved for the GEF work program during the calendar year of 1997 on which project documentation was available at the time of the study. The contributions by recipient governments and other funding entities to these projects that were listed as cofinancing either in the GEF Quarterly Operational Report (QOR) or in an Implementing Agency's own summary of cofinancing totaled $774.2 million, of which $276.4 million was from recipient governments.

50. The study team analyzed the figures for government cofinancing and for total non-GEF contributions to project financing for each project, based on data in the project document regarding the activities being financed. It counted these financial contributions as leveraging only if the funding was to generate global environmental benefit and would not have been spent in the absence of the GEF project or if the GEF project caused the government to spend the same amount but in ways that had global environmental benefit.

51. The results of this analysis are shown in Table 1. The study team found that in five of the eighteen projects, most or all of the cofinancing listed in GEF documents represented actual leveraging and that government spending involved substitutional activities benefiting the global environment.[11] In three other cases, the amount of GEF-

[11] India Coal-Bed Methane, Bolivia Energy-Based Rural Electrification, Reducing Biodiversity Loss at Cross-Border Sites in East Africa, Brazil Biomass Power Commercial Demonstration, and Czech Republic Kyjov Waste Heat.

leveraged financing was found to be significant but less than half of what was claimed.[12] In one case, leveraging was significant, but the project document reflected genuine uncertainty about whether the government funding for renewable energy activities would have been devoted to the activities supported by the project in the absence of the GEF project, so a range of estimates for total leveraging was used.[13] In the other nine cases, the project documents indicated clearly that a high proportion of the funding in question was for baseline activities and, in the case of government spending, that most or all of it would have been spent on the activities in the project in any case.[14]

52. Total cofinancing found to be genuinely leveraged in the eighteen projects in the sample is estimated as $246–$256 million, which represents about one-third of the $775 million in cofinancing as identified in the QOR or in Implementing Agency documentation. The amount of government financing in this sample of projects that was found to be genuinely leveraged was $23 million, representing 8 percent of the $276 million listed as cofinancing.

[12] China Energy Efficiency, Uganda Protected Areas Management and Sustainable Development, and Aral Sea Basin projects. The China Energy Efficiency project proposal claims $41–$91 million in domestic bank loans as part of the financing plan, despite the fact that the funding would only be available for commercialization of technologies in the event that applications of the energy services company concept prove successful during the pilot program. The figure given in the Quarterly Operational Report for June 1997 for the China Energy Conservation Project apparently assumes $55 million in commercial bank loans for that purpose. The study team concluded that such financing should not be considered as cofinancing because there is no commitment by the founders and because project managers have no control over the decision to finance. It should be considered, however, as leveraging through replication.
[13] China Capacity Building for Rapid Commercialization.
[14] In the case of Indonesia Coral Reef Rehabilitation and Management, the World Bank indicated that the project involves substitutional activities for government baseline spending on the site chosen for global biodiversity importance, which represents a relatively small percentage of its contribution to the project.

Table 1: Cofinancing and Actual Leveraging in a Sample of Eighteen GEF Projects
(millions of U.S. dollars)

Project	GEF Funding	Cofinancing as used in the QOR		Leveraging as strictly defined	
		By govt	*Project total*	*By govt*	*Project total*
1. India Coal-Bed Methane	9.19	6.8	8.1	6.8	8.1
2. Uruguay Banados del Este Biosphere Reserve	2.50	1.5	1.54	0	0.36
3. Bolivia Energy-Based Rural Electrification	4.45	1.6	4.05	1.6	4.05
4. China Capacity Building for Rapid Commercialization	8.8	8.9	18.84	?	8.5–18.84
5. China Energy Conservation	22	44	180	7	70
6. Indonesia Coral Reef Rehab. and Management	12	13	48	1.5	3.2
7. Uganda Protected Areas Management and Sustainable Use	10.0	9.3	96.8	0	26
8. Sri Lanka Medicinal Plants	4.57	20.72	20.72	.5	.5
9. Romania Integrated Protected Areas	5.0	1.6	1.6	0	0
10. Pakistan Protected Areas Management	10.8	15.7	15.7	0	0
11. Aral Sea Basin	12	12	47.5	0	18.3
12. Brazil Biomass Power Commercial Demo	40	?	82	?	82
13. Reducing Biodiversity Loss at Cross Border Sites in East. Africa	12.65	1.7	5.77	1.2	5.27
14. Conservation of Wetlands and Coastal Ecosystems in Med.	13.27	22.7	28.6	0	2.3
15. Brazil Energy Efficiency	20	100	177	0	3
16. Eritrea Conservation Management	4.99	?	10.8*	0	0
17. Argentina Patagonia	5.2	?	13.9*	0	0
18. Czech Republic Kyjof Waste Heat	5.09	4	14	4	14
Total	203	276	775	23	246–256

* Claimed as cofinancing in UNDP cofinancing data sheet but not in QOR.

53. The study team cannot provide a quantitative estimate of overall leveraging based on the analysis of the sample. A few projects with real leveraging can make up for many projects in which such leveraging is absent. One-third of the leveraging in this sample of eighteen projects is accounted for by the Brazil Biomass Power Demonstration project. And the Philippines Geothermal Project during the pilot phase, which leveraged $1.3 billion through substitutional activity, accounts for a large proportion of all leveraging in the pilot phase and GEF 1.

54. Nevertheless, based on this analysis of a sample of projects, the study team concludes that the amount of financial leveraging, defined in a strict sense, is

significantly smaller than the total cofinancing based on the QOR and Implementing Agency data.

55. The main mechanism for leveraging additional resources for GEF has been World Bank loans associated with GEF projects. The GEF Council and Secretariat have expressed a strong preference for World Bank GEF projects that are associated with non-GEF projects over “freestanding” World Bank GEF projects (which have no Bank loan financing) to increase the leveraging of GEF’s limited resources. By linking a GEF grant with a World Bank loan, GEF has hoped that the Bank could persuade client governments to borrow for projects that would provide global environmental benefits. However, whether World Bank loans associated with GEF projects have provided financing for activities that are both additional and benefit the global environment has been the subject of some debate since GEF began.

56. Most of the funding for the World Bank’s associated loans (84 percent of the total since the beginning of the pilot phase) has been in the climate change focal area. The study team analyzed the portfolio of eight World Bank–associated loans in the climate change focal area during GEF 1 as of mid-1997[15] and seven during the pilot phase[16] to determine the extent to which these loans represent genuine leveraging by GEF. The key issue in this examination was whether the Bank would have made a very similar loan to the country in question in the absence of the GEF grant. The team was able to interview the task managers of six of the nine associated loans for GEF 1 climate projects and the task managers of five of seven pilot phase associated loans with regard to this question.

57. Five of the six task managers of GEF 1 projects interviewed indicated that the associated loan would not have been made without the GEF grant being available. In only one case—the demand management and fuel substitution component of the Senegal Sustainable and Participatory Energy Management Loan—did the task manager say that the loan would have been made regardless of GEF’s involvement in the project. Thus, the team found that associated loans in the climate focal area generally did leverage additional global environmental funding during GEF 1.

58. The examination of the Bank’s pilot phase, GEF-associated loans for climate projects, however, showed that two (Philippine Leyte-Luzon Geothermal and India Alternative Energy) would definitely not have gone forward in the absence of the GEF

[15] The eight projects in the portfolio of GEF 1 are: Brazil Biomass Commercial Demonstration, China Energy Conservation, Indonesia Renewable Energy Small Private Power, Indonesia Solar Home Systems, Latvia Solid Waste Management and Landfill Gas Recovery, Lithuania Klaipeda Geothermal Demonstration, Senegal Sustainable and Participatory Energy Management, and Sri Lanka Energy Services Delivery. The study team considered only the demand management and fuel substitution component of the Senegal project as its climate portion, because the rest of the project involves sustainable management of a protected area and is considered to be in the biodiversity focal area.

[16] The five pilot phase projects on which information could be obtained were China Sichuan Gas Transmission and Distribution Rehabilitation, India Alternative Energy, Philippine Leyte-Luzon Geothermal, Poland Coal-to-Gas, and Russian Federation Greenhouse Gas Reduction. The study team was unable to contact the task managers for the other two pilot phase, GEF-associated climate loans.

grant, one would definitely have proceeded, another would probably have gone ahead, and, in one case, the task manager remained uncertain.

59. The study team also examined all eight of the Bank's loans for biodiversity associated with GEF biodiversity grants through the pilot phase and the two GEF-associated loans for biodiversity approved during the pilot phase (Lao People's Democratic Republic Wildlife and Protected Area Conservation and Biodiversity Conservation in Southeast Zimbabwe) to determine the extent to which they represent genuine leveraging of financing for global environmental benefits. Interviews were conducted with the task managers of all eight of these World Bank–associated loan projects to find out whether GEF was crucial to the biodiversity conservation benefits provided by these loans. Again, the team asked the task managers whether the World Bank would have made the loans in the absence of a GEF grant and, if so, whether the loan projects would have been designed to protect biodiversity as were the actual GEF-associated loans.

60. In only one of the eight associated loans—the Argentina Biodiversity Conservation Project—did the task manager believe the loan would have been made without the GEF grant and would have provided the biodiversity protection of the GEF-associated loan project. In that case, the loan grew out of a World Bank Forestry Sector Review in Argentina and the GEF grant was considered incidental to the project.

61. In some instances, GEF was the key to the project being developed at all; in most cases, the availability of the GEF grant was necessary to the loan's focus on conservation of biodiversity in sites of global importance. The India Ecodevelopment Project originated from the Indian government's exercise in creating a project especially for GEF, and the International Development Association (IDA) contribution resulted from the project becoming too big for GEF to fund. Similarly, the Lake Victoria Environmental Management project would not have happened without GEF funding: it began entirely as a GEF project, but because the cost was greater than GEF could fund by itself, IDA was asked to match the GEF grant. The Second Madagascar Environmental Program Support project is a multidonor operation, the design of which was based on a process of analysis funded by GEF; it is not clear whether the loan would have proceeded at all without the presence of a GEF grant.

62. In the other cases, the World Bank would have made a loan with some similarities to the GEF associated loan, but it would not have protected biodiversity at all or would not have done so as effectively as the associated loan. In the case of the pilot phase Lao People's Democratic Republic Wildlife and Protected Area Conservation Project, the Bank would not have made a loan to support a protected area system in Laos without GEF, although it would have gone ahead with a traditional forest management loan. In the case of the Kerinci Seblat Integrated Conservation and Development Project, the World Bank would have made a loan for development projects in the Kerinci Seblat area regardless of GEF's existence, but the projects would not have been focused on protecting biodiversity, because the Indonesian Ministry of Forestry has a policy of not borrowing, especially for biodiversity conservation.

63. Similarly, in the case of the Indonesia Coral Reef Rehabilitation and Management (COREMAP) project, the Bank probably would have moved ahead on a coral reef project without GEF, but it would not have included sites of global importance. In all the other projects, the GEF loan was viewed as crucial to successful biodiversity protection. Without the GEF grant, there would have been no ring of communities committed to sustainable forest management surrounding the national park in the Senegal Sustainable and Participatory Energy Management Project. In the case of the Honduras Biodiversity in Priority Areas Project, without the GEF grant, the Bank loan would not have been based on a set of priority biodiversity conservation sites or on the broad participation of nongovernment stakeholders. And without the GEF grant, the Zimbabwe Conservation in Southeast Zimbabwe Project would not have had the policy dialogue between the World Bank and the government in 1994–96, which made possible key institutional and policy reforms that were vital to the success of the project in saving biodiversity.

64. The evidence indicates that during GEF 1, GEF has leveraged global environmental benefits that would not otherwise have occurred in eight of nine World Bank–associated loans that cofinanced GEF biodiversity projects and five of six associated loans that cofinanced GEF climate projects.

65. The study team also found evidence that the use of an associated Bank loan to leverage financing for a GEF project can have disadvantages for the GEF project. When a country agrees to a GEF-associated Bank loan, some government agencies may also push for more activities in the project to generate foreign exchange with which to repay the loan. For example, the World Bank staff in Indonesia reported that more such activities had to be included in the Kerinci Seblat project at the insistence of the Home Affairs Ministry, with the result that fewer funds were available for park protection. Second, the associated loan may be caught in domestic politics, causing long delays in start-up. The main cause of delay in the Egypt Red Sea Coastal and Marine Resource Management project, for instance, was that the World Bank loan was opposed by the Egyptian parliament. In addition, some countries that are highly indebted are likely to be reluctant to take out loans for conservation in the foreseeable future. Although the associated loan must remain the main mechanism for leveraging additional resources for the global environment, the study team believes GEF must be aware of the problems it poses in certain circumstances.

66. UNDP has the advantage of being able to associate GEF grants with its own grants, which could create a strong incentive for greater emphasis on projects that complement GEF's portfolio. However, the potential for leveraging inherent in this association was not realized during GEF 1. Only two non-GEF UNDP projects in the GEF focal area were associated with GEF projects. The study team believes that it represents a major untapped resource for leveraging in support of GEF objectives, which should be a key objective in the next phase of GEF.

67. Apart from resources that GEF leverages through cofinancing, GEF may also leverage additional funding for complementary activities through demonstration and replication. Many projects in the climate focal area anticipate that successful completion of their activities will demonstrate to other funders that the technology in question is commercially viable and will lead to replication. In at least one case, the China Coal-Bed Methane Project, the project has already successfully demonstrated technologies for reducing methane emissions and recovery of methane as a fuel in three sites, resulting in several agreements for joint ventures for investment in similar projects in the future.[17]

68. Other projects have been designed in the expectation of such replication by the private sector. The India Coal-Bed Methane Project is expected by project sponsors to attract private sector investments in the technology. And in the case of the China Energy Conservation Project, if the energy service companies supported by the project are successful, domestic Chinese banks and the World Bank are ready to commit a total of $100–$155 million to commercialization.

[17] GEF, *Project Implementation Review 1997* op. cit, p. 15.

69. Although evidence from a few individual cases indicates that additional funding for the global environment should be generated by GEF projects through replication, the study team was unable to do a systematic analysis of the likelihood that GEF projects, particularly in the climate focal area, will be replicated.

70. The strong emphasis placed by GEF on leveraging is legitimate, given the relatively small size of the fund and the fact that it is one of the few quantitative measures available for judging GEF success. The team believes, however, that there is a danger in placing too much emphasis on leveraging of financial resources by GEF projects as a measure of success. An overemphasis on total financial resources mobilized may distort programming decisions by tilting them in the direction of projects that have the largest amount of cofinancing. Although they are important, such totals are not an accurate indicator of the impact of individual projects or of the GEF portfolio as a whole.

Conclusions

71. GEF has succeeded in using grants to mobilize resources on a significant scale, and its performance in GEF 1 has been superior, on balance, to its performance in the pilot phase. The study team found that a high proportion of World Bank–associated loans that have cofinanced GEF projects have actually leveraged additional resources for global environmental benefit and those loans have been the primary mechanism by which financing has been leveraging by GEF. However, it found that associated GEF projects with such loans may carry some disadvantages in certain circumstances. It also concluded that UNDP-associated grants represent a large, untapped potential for such leveraging.

72. Using a rigorous definition of leveraging, the study team found that the actual leveraging of resources for the global environment has been substantially less than the overall totals for cofinancing mobilized by the Implementing Agencies. The study team found, however, that there is a danger in emphasizing leveraging too much as a measure of GEF's success. It should be considered along with a number of other relevant institutional and programmatic indicators.

Recommendations

73. The GEF should adopt a rigorous definition of "leveraging" that includes only funding that is additional to existing funding patterns and that is expected to create global environmental benefits. It should apply this definition in the Quarterly Operational Report and other relevant GEF documents. Implementing Agencies should apply this more rigorous definition in their own databases and reports on cofinancing of GEF projects.

74. When there is sufficient experience with implementation of GEF projects, the GEF's Senior Monitoring and Evaluation Coordinator should commission a study of the replicability of projects in the GEF portfolio.

Leveraging Private Sector Investment

75. The study team recognized that the mobilization of private capital for the global environment is a special concern for GEF. Indeed, the private sector has an increasingly important role in providing investment capital to developing countries, taking on much of the role traditionally played by multilateral development banks. Private debt capital inflows into emerging market countries, which amounted to just $26 billion in 1984 (in 1996 dollars) had increased to $88.6 billion by 1996. Foreign direct investment into emerging market countries during this time jumped from $9.4 billion to $109.5 billion.[18] Although this investment is focused primarily on fewer than a dozen nations, these are countries that are important to GEF's mandate of maximizing global environmental benefits.

76. Increased financial flows can place more pressure on natural resources and the environment. But they also hold out enormous opportunity for raising the amount of private sector investment in GEF projects. GEF's success in this regard has been growing but remains small in comparison to the opportunity. Private sector financing has taken place or is expected to take place in forty-five GEF projects, including both pilot phase and GEF 1. Of these, twenty-two are under way or nearly under way (see table 2 below).[19] Ten are in the ozone depletion focal area, ten are in climate change, and two projects involve both climate change and biodiversity. There are no reported instances of international waters projects leveraging private investment.

77. Total private investment in these twenty-two projects is $1.12 billion, but more than half of this ($754 million) is accounted for by the Philippines geothermal project. Also, the total probably overstates true private investment because in some cases, such as China, India, and the Russian Federation, the investments are coming from state or quasi-state enterprises, not the private sector. A more conservative estimate, subtracting these projects as well as the ozone projects (because recipient country investment in them is mandatory) yields a figure of $910.5 million for total private sector commitments to date in GEF projects. Without the Philippines geothermal project accounts, the total is just $156.5 million.

78. In nearly all cases of private investment in GEF projects, the private sector party involved is the beneficiary or sponsor of the project, such as the enterprise that is converting to non-ozone-depleting equipment or the developer of alternative energy projects. There are few instances in which GEF projects seek to leverage private financial institutions, such as commercial banks, insurance companies, pension funds, and other institutional investment funds. In some cases, the involvement of such institutions will follow if project sponsors can generate well-designed, profitable projects. But to secure their investment capital, it may be necessary to include them in the up-front identification and development of projects with high perceived risks.

[18] *Global Finance* (September 1997), p. 184.
[19] Jamison Suter, World Bank, personal communication, September 1997.

79. The study team could identify just five instances in which such third-party investors are playing (or soon will play) a key financial role in GEF projects. First, IFC's Renewable Energy and Energy Efficiency Fund is intended to attract roughly $175 million from private sources for its initial capitalization. The private managers of the fund have committed a portion of the capital. The rest must still be raised. Second, IFC's Terra Capital Biodiversity Fund is intended to attract roughly $40 million in private investment for its capitalization. Third, IFC's Hungary Energy Efficiency Cofinancing Project uses GEF funds in the form of a guarantee to reduce the credit risk to private domestic financial institutions. Fourth, the World Bank's Indonesia Solar Home System Project will involve four local commercial banks that will provide lines of credit to solar equipment dealers, who in turn will provide credits to solar system buyers. Initially, the banks will use mainly World Bank funds, but after project completion, it is anticipated that they will use their own funds. Fifth, the IFC's Small- and Medium-Scale Enterprise Fund operates through private financial intermediaries, some of whom may ultimately lend their own funds in addition to administering the on-lending of GEF funds.

Table 2: World Bank GEF Projects with Private Sector Commitments

Country	**Project/Concept Name**	**Funding Entity Name**	**Est. Amount Leveraged** *(millions of U.S. dollars)*
Global	Small- and Medium-Scale Enterprise Program (pilot phase)	Small-scale private enterprises	2.9
Global	Small- and Medium-Scale Enterprise Program (replenishment)	Small- and medium-scale enterprises	3.5
Belarus	Phaseout of Ozone-Depleting Substances	Local enterprises	8.8
Brazil	Biomass Power Commercial Demonstration	Sponsor's equity	29
Bulgaria	Ozone-Depleting Substances Phaseout	Recipient enterprises	3
China	Efficient Industrial Boilers	Local private sector	68.6
Czech Republic	Kyjov Waste Heat Utilization	TEPLARNA Kyjov	10
Czech Republic	Phaseout of Ozone-Depleting Substances	Recipient enterprises	1.8
Hungary	Phaseout of Ozone-Depleting Substances	Recipient enterprises	1.5
India	Alternate Energy	TNPL and developers	44
Indonesia	Solar Home Systems	Local participants	72.3
Philippines	Leyte-Luzon Geothermal	Private contractor	620.4
Philippines	Leyte-Luzon Geothermal	Private contractor	133.9
Poland	Energy-Efficient Lighting	Recipient enterprises	1.6
Poland	Phaseout of Ozone-Depleting Substances	Local enterprises	14.0
Russian Federation	Ozone-Depleting Substance Consumption Phaseout (first tranche)	Recipient enterprises	12.7
Russian Federation	Phaseout of Ozone-Depleting Substances (second tranche)	Recipient enterprises	21.5
Slovak Republic	Ozone-Depleting Substances Reduction	Recipient enterprises	2.5

Slovenia	Phaseout of Ozone-Depleting Substances	Recipient enterprises	3.5
Sri Lanka	Energy Services Delivery	Private sector	23.3
Tunisia	Solar Water Heating	Private sector	13.6
Ukraine	Phaseout of Ozone-Depleting Substances	Local industries	32.2

80. In the ten countries visited by the team, there was little active participation by the private sector in GEF projects beyond providing procured equipment and services or, in some cases, acting in an advisory capacity. Despite the frequently expressed desire by Focal Point ministries and other government officials to include the private sector, there appears to be little tangible effort on their part to do so. In some cases, those host country individuals involved in GEF do not know how to involve the private sector. In other cases, there is a reluctance to do so out of concern that GEF might simply end up subsidizing private companies. There are also a number of policy and regulatory barriers to increased private sector involvement.

81. According to Implementing Agency staff, one of the main barriers to private sector involvement is the long GEF approval process. Given the uncertainty, risk, and high opportunity cost inherent in a GEF project, private firms do not have sufficient incentive to wait two or more years for approval. Streamlining this process for private sector projects has been frequently suggested. Implementing agency staff also note that when proprietary information is involved, outside review of private sector GEF proposals may need to be restricted.

82. Another procedural issue has to do with the concept of incremental costs. In many cases, it may not be these costs that are the barrier to commercial investment but the level of risk compared with projects normally financed. Under such circumstances, the appropriate GEF role would be to help reduce the risk through such actions as providing a partial guarantee, paying for some of the up-front transaction costs, or taking a range of other risk-reduction steps rather than subsidizing the size of the firm's investment. Allowing Implementing Agencies to calculate the "incremental risk" as a way of determining the size of the GEF grant could help target GEF grants more efficiently on removing the barriers to private sector participation. The GEF Secretariat has reportedly shown considerable flexibility during the last year on this issue.[20]

83. Most private sector involvement in GEF is through the World Bank, although IFC is playing an increasingly important role. The IFC reports that as of December 1997, $69.3 million worth of IFC-sponsored GEF projects were under way and $68.7 million in the near-term pipeline.[21] IFC's GEF strategy is to focus on near-commercial projects and those that are commercial but highly risky to maximize the leveraging of GEF funding and avoid using GEF in the form of grants. For example, IFC has provided GEF assistance in the form of concessional loans and loan guarantees. The Energy Efficiency Cofinancing Project in Hungary is the only instance of GEF funds being provided in the

[20] Louis Boorstin and Dana Younger, IFC, personal communication, December 1997.
[21] Ibid

form of a guarantee. Providing GEF assistance in the form of loan guarantees has the dual benefit of attracting private lenders to global environment projects and allowing the GEF loan guarantee funds to be reused for another project (or expansion of the original project) if they are not called on to cover financial losses.

84. To date, IFC has spent few of its own funds to cofinance GEF projects, but this will change, since it has already approved funds for cocapitalizing the Renewable Energy and Energy Efficiency Fund and the Terra Capital Biodiversity Fund at $35 million and $5 million, respectively. IFC staff report that they are also actively looking for opportunities to use existing IFC credit lines for global environmental purposes. For example, one proposed project involves the use of GEF funds to leverage an existing IFC credit line in Argentine commercial banks for improving the energy efficiency of street-lighting.

85. In April 1996, the GEF Council reviewed a paper prepared by the secretariat on increasing private sector involvement in GEF.[22] Although the council did not take any action based on the paper, there was a consensus that increased private sector involvement was desirable. One of the paper's major recommendations was that nongrant financing, such as concessional loans and equity investments, should be pursued for providing GEF support to private sector projects. New ways of attracting private investment to GEF projects are currently being explored by the secretariat. One approach under consideration is the broader use of GEF funds in the form of loan guarantees, as in IFC's Energy Efficiency Cofinancing Project in Hungary. Another approach being examined is the establishment of a special environmental loan guarantee fund at the Multilateral Investment Guarantee Agency, the risk insurance agency in the World Bank Group.

Conclusions

86. The study team found that GEF has been able to mobilize a small but growing level of private sector financing of GEF projects. It has been particularly successful at mobilizing funds from the direct beneficiaries of projects but has had comparatively little success with mainstream private financial institutions. The use of GEF funds to establish environmental investment funds shows great promise, particularly from a leveraging standpoint. However, the lack of operational experience to date, due in part to long start-up delays for some of the funds, has meant the team could not evaluate the funds' effectiveness.

87. The team found that major barriers to increasing support from the private sector exist, particularly GEF's long and complex approval procedure and the comparatively greater risk of global environmental projects compared with normal commercial projects. However, the team notes that GEF assistance can be provided to the private sector in a way that does not subsidize private profits but instead reduces the risks to private firms

[22] "Global Environment Facility, Draft Strategy for Engaging the Private Sector," GEF/C.7/12, March 7, 1996.

and financial intermediaries of committing capital to projects with global environmental benefits. Such assistance can involve a variety of financing mechanisms, including instruments which have below market returns (e.g. low interest rate loans) and/or contingent payment features (e.g. partial guarantees which are forgivable if a project fails).

Recommendations

88. The GEF Secretariat and Implementing Agencies should engage business and banking associations and mobilize financing from individual private financial sector companies, such as banks, insurance companies and pension funds. To interest the financial sector in GEF projects, the GEF should use the "incremental risk" of a potential private sector GEF project as a way of determining the size of the GEF grant.

89. GEF should identify and apply techniques for reducing the risk of the private investors of participating in GEF projects, such as using GEF funds to provide loan guarantees.

III. ISSUES AT THE COUNTRY LEVEL

A. THE FOCAL POINT SYSTEM IN RECIPIENT COUNTRIES

90. There are two types of GEF Focal Points—political (usually the country's representative on the GEF Council, if the nation is a member) and operational (usually the ministry that provides financial and technical overview of GEF projects). The study team found that the effectiveness and level of engagement of the Operational Focal Point are likely to be greater if the country is a GEF Council member. Nine of the ten countries visited by the core team during the study have political focal points who are council members. Although council members have minimal staff and resources, most appear to have established effective working relationships with the Operational Focal Point.

91. According to the procedural steps in the GEF project cycle,[23] the focal point is responsible for "*(a)* acting as the principal contact point for all GEF activities within the country, *(b)* reviewing project ideas and concepts, endorsing their consistency with respect to the national programs and the country's participation in conventions and confirming their national priorities, *(c)* facilitating broad as well as project-related consultations with stakeholders, *(d)* providing feedback on GEF activities." An effective GEF Focal Point can also help to develop the country's GEF pipeline by identifying sound project ideas and can promote understanding of and interest in GEF by disseminating information among government and nongovernmental stakeholders.

92. The study team found significant variations among the countries visited in terms of the Operational Focal Point undertaking these roles. Most focal points are undertaking some form of coordination of GEF-related activities at least within the government. But most of the coordinating mechanisms are more informal. Some play a lead role in the development of GEF projects. Others believe they are circumvented by more powerful agencies, such as the Ministry of Finance.

93. Table 3 provides an overview of the different approaches to coordination in the ten countries visited. It shows that most of the countries have not yet established any formal body for intragovernmental coordination of activities related to the coordination of GEF activities.

[23] Global Environment Facility, *The GEF Project Cycle*, *(*Washington, D.C. : March 1996), p. 4.

Table 3: Description of GEF Focal Point Systems in Ten Countries

COUNTRY	POLITICAL FOCAL POINT	OPERATIONAL FOCAL POINT (Financial and Technical Aspects of in-country GEF activities)	FUNCTIONS OF OPERATIONAL FOCAL POINT	MECHANISM FOR INTRAGOVERNMENT COORDINATION
Brazil	Secretaria de Asuntos Internacionais (SEAIN) (Secretariat for International Affairs)	SEAIN, although it appears that the Ministry of Planning and Budget, Foreign Loans Division, plays a role too.	Disseminates GEF information, analyzes and reviews projects, conducts technical analyses of GEF policies and projects.	GTAP (Grupo Trabalho de Analisis de Projetos).
China	Ministry of Finance (World Bank Department)	Ministry of Finance (World Bank Department) for financial aspects with technical support from the National Environmental Protection Agency (NEPA)	Monitors GEF activities and collaborates with other relevant government offices responsible for GEF focal areas, such as NEPA Office of the Convention on Biological Diversity (CBD), the focal point for the CBD. Develops GEF project pipeline.	Ad hoc panel of technical experts provides advice on an as-needed basis to vet technical soundness of GEF projects and fit with national criteria and priorities.
Egypt	Egyptian Environmental Affairs Agency (EEAA)	EEAA	Convenes interministerial meetings for review of GEF projects and other GEF issues.	Ad hoc interministerial meetings chaired by the focal point
India	Ministry of Finance, Department of Economic Affairs (DEA)	Ministry of Environment and Forests (MOEF)	Conducts technical review of projects, coordinates with other ministries, and convenes interagency meetings to review and approve projects. Ministry of Finance (DEA) gives final approval and clearance.	MOEF plans to establish a GEF “cell” within MOEF.
Indonesia	Planning Ministry (BAPPENAS)	Planning Ministry and Ministry of Finance, with technical support from Ministry of Environment	Unclear which functions are performed by Operational Focal Point. BAPPENAS keeps and updates a central “blue book” of all funding proposals and sends approved projects to Ministry of Finance.	No mechanism for collaboration or to ensure that Ministry of Environment’s technical input is always sought for all proposals.
Kenya	Ministry of Finance	Ministry of Environment and Natural Resources, National Environment Secretariat (NES)	Reviews all project proposals, follows up on projects, and houses the coordinating offices of the two GEF enabling activities in biodiversity and climate change. Also liaises with the Inter-Ministerial Committee on Environment, Subcommittees on Biodiversity and Climate Change.	Thirty-eight-member National Review Panel, consisting of government agencies, NGOs, Implementing Agencies, and the private sector. Its mandate is to review all proposals to ensure that they meet GEF criteria and are country driven.
Mexico	Ministry of Finance and Public Credit	Ministry of Finance and Public Credit (Directorate of International Financial Organisms)	Coordinates GEF activities.	The National Council for Sustainable Development.
Poland	Ministry of Foreign Affairs	Ministry of Foreign Affairs	Monitors GEF activities and disseminates information on GEF activities and Council policies.	There were some indications that limited size of GEF funds does not warrant special coordination efforts, however, a formal coordination mechanism is now being developed and is in a “process of advanced development.”
Russia	State Committee for Environmental Protection	State Committee for Environmental Protection	Coordinates GEF projects in Russia.	Strong centralized system, Inter-Agency Committee and State Commissions.
Zimbabwe	Ministry of Tourism, Environment and Mines	Ministry of Tourism, Environment, and Mines (Department of Environment)	Coordinates GEF projects in Zimbabwe.	Ad hoc interministerial steering committees are established on a project-by-project basis.

- ***Interagency mechanisms for project screening and pipeline development.*** In Russia, the Inter-Agency Committee and state commissions together provide interagency coordination with regard to GEF projects. In Mexico, coordination takes place through the National Council for Sustainable Development. In China, this coordination function is carried out by a panel of technical experts, which examines projects for technical soundness and fit with national criteria and priorities. In Kenya, the National Review Panel provides this coordination, but it is a relatively new mechanism and, therefore, premature to assess its impact. In India and Egypt, the Ministry of Environment and Forests and the Egyptian Environmental Affairs Agency, respectively, convene meetings of the ministries relevant to GEF projects as the need arises. In Poland, a formal coordinating mechanism is still in the process of being created. Some focal points consider that GEF projects have such small funding that they do not warrant any special coordination effort.

- ***Policy coordination with focal points for the conventions.*** Frequent divergence between positions toward GEF taken by recipient countries in the GEF Council, on one hand, and in one of the conventions, on the other, reflects poor policy coordination among government agencies. In most of the countries visited, there were no institutionalized mechanisms for formal interaction between the GEF Focal Point and the focal points (national secretariats) for the conventions. This is true even in those countries in which the GEF Focal Points are housed within the same ministry as the convention focal points. In Zimbabwe, the Ministry of Environment serves both as the GEF and biodiversity convention focal points. In China, the National Environmental Protection Agency serves as the focal point for the biodiversity convention but also plays an active role (as technical focal point for GEF) in many GEF matters in collaboration with the Ministry of Foreign Affairs.

94. The team identified several problems encountered by at least some focal points in the ten countries visited. First, there is a lack of clarity on the mandate, terms of reference, and functions. In one country, there was even some confusion as to which agency is the focal point. Although this points mainly to internal coordination weaknesses of a recipient government, further clarity in the role of the focal point relative to other government agencies (including parastatals and government-funded research and scientific institutions), Implementing Agency country offices, and institutions preparing proposals would enhance the effectiveness of the focal point system.

95. A second problem concerned institutional and budgetary constraints. Five of the ten Operational Focal Points in the countries visited were located in the environment ministry or agency. However, there is some evidence that worldwide, a much higher proportion of Operational Focal Points are located in environment ministries.[24] That situation appears to present special problems for focal point coordination, because of the

[24] According to a 1996 UNEP document, 62 percent of the sixty Operational Focal Points that had been designated up to that point were located in environmental ministries (United Nations Environment Programme, “Enabling Activity Proposal for PDF Block B Grant” (August 31, 1996), p. 2.)

relative weakness of environment ministries. This weakness stems from the low priority accorded to the environment in most recipient countries compared with ministries dealing with economic affairs. Environment units usually have no statutory powers to coordinate other ministries and lack sufficient political influence to get other ministries to respond. In India, the Ministry of Environment and Forests (MOEF) complained that, in the past, a number of biodiversity projects had gone to the Ministry of Finance's Department of Economic Affairs (the political focal point) without consulting MOEF. In Egypt, the Environmental Affairs Agency indicated that other ministries had been unresponsive to its requests as focal point for attendance at meetings or feedback.

96. The lack of budgetary resources for GEF functions exacerbates the problem. Some focal points noted that without some budgetary resources at their disposal, they could not do an adequate job of coordination. The Egyptian focal point believed that he had to provide some small incentive, such as lunch or travel expenses, for other agencies to attend interagency meetings. Some focal points have made no attempt to secure funds from national budgets on the grounds that they are acting as focal points for GEF more than for their governments. This was particularly the case for the political focal points, whose representational responsibilities sometimes extend beyond their countries to a group of countries within the region.

97. The lack of broad consultation with and dissemination of information to stakeholders is a problem with some focal points. Due to its strong government focus, GEF information emanating from the focal point sometimes remains within a close-knit group of government agencies. In Indonesia, for example, the study team found that many government organizations and research institutes do not know what types of proposals are eligible for GEF funding. It appears that the Russian Federation Focal Point has not included some relevant government agencies in its consultations. In Egypt, NGOs said they were not being consulted. In Brazil, interested NGOs complain that the focal point will not accept proposals from them.

98. The final problem identified by the study team concerned the limited availability of language-specific information about GEF. Focal points need easy-to-understand information to help them with their information dissemination responsibilities, and those interviewed expressed the strong desire for such materials. In Russia and Egypt, however, the team found no official GEF information available in local languages, and the country study in Viet Nam reported that only the GEF Project Cycle document was available in Vietnamese.

99. The GEF Secretariat and the Implementing Agencies have been aware of problems and shortcomings in the focal point system and have taken some steps intended to redress them. Since 1996, the Implementing Agencies have collaborated in carrying out a series of project development workshops designed to provide government officials, NGOs, and project staff with training and basic information on project development and design. As of mid-1997, forty-one such workshops had been held or were planned either in individual countries or in regions. UNDP is planning to translate a "beginner's guide to GEF" into multiple languages.

100. However, the experiences of the ten countries visited indicate that GEF efforts to strengthen the focal point system need to be more carefully targeted. An evaluation of the Project Development Workshops by the three Implementing Agencies in 1997 suggested that the current version of the workshops may need substantial revision and that Operational Focal Points might be asked to manage the workshops. The workshops could also focus much more centrally on problems of coordination, both on projects and policy and on stakeholder involvement.

Conclusions

101. The study team found that the GEF Focal Point system is not yet adequately institutionalized in some countries. Some focal points have not yet set up standing coordinating mechanisms for interactions with other ministries, country representatives to the conventions, or NGO stakeholders. Some are not clear on their roles, and others are unable to carry them out adequately because of internal weaknesses, such as the unwillingness of powerful ministries to cooperate. A common weakness is the tendency to limit information to a relatively narrow circle of government stakeholders.

Recommendations

102. In order to enable Operational Focal Points to be more effective advocates for GEF issues in their country, the GEF Secretariat and Implementing Agencies should broaden the existing Project Development Workshop format by involving the Operational Focal Points as much as possible in planning and execution and by focusing more on the coordination and information dissemination functions of the Operational Focal Points.

103. The GEF should provide resources for translation of basic GEF documents into the local languages of those countries requiring such translated documents.

B. THE REQUIREMENT FOR PROJECTS TO BE COUNTRY DRIVEN

104. The requirement for GEF projects to be "country driven" is a paramount principle in GEF legislative, strategic, and operational documents. The GEF Instrument states that projects must be "country driven and based on national priorities designed to support sustainable development, as identified within the context of national programs."

105. The study team examined two key questions: what constitutes a "country-driven

project" and what is its impact on country ownership of a project as defined as the level of commitment to and support for a project on the part of the recipient country's government and nongovernmental stakeholders? Although it is desirable for projects to be country driven, it is country ownership that is a prerequisite for the success and long-term sustainability of a project.

Country-Driven Projects

106. In the absence of a GEF definition of a project being country driven, the study team considered two possible indicators that a project is country driven: focal point endorsement of a project and the degree of recipient country involvement in project development and management.

107. Country focal point endorsement of a project is required by GEF as evidence that it is country driven. It does not appear, however, to be a reliable indicator of its being country driven. Such an endorsement provides no evidence of the inclusiveness of the process and the involvement of other government, private sector, and civil society stakeholders. Some country focal points are attempting to include a broad range of stakeholders in their decisionmaking processes by establishing multistakeholder coordination mechanisms, but others have not yet done so.

108. The degree of recipient country involvement in project development and management is a more reliable indicator of the degree to which a project is country driven. Therefore, the team focused on how projects were initiated, designed, and managed as an indication of how strongly they are country driven.

109. Three different patterns of country involvement in project development were found. In the first, project proposals clearly originated in the recipient countries and reflected predominant recipient country influence. The India Ecodevelopment Project was an Indian creation and design, although the scale of the project was strongly influenced by World Bank advice. Similarly, in the India Alternate Energy Project, design and preparation were undertaken primarily by the Ministry of Non-Conventional Energy Sources and the Indian Renewable Energy Development Authority. In Mexico, the Protected Areas Program was said by Mexican officials to be designed primarily by national agencies, although major differences with the World Bank emerged in the development process. Thus, these projects are highly country driven, even though Implementing Agencies also played major roles in their development. Stakeholders in these cases consider that the projects to have strong country-level support.

110. A second pattern was one in which the Implementing Agency came up with the initial idea and played a large or even dominant role in development but with significant input from the recipient government. The Biodiversity Conservation in Southeast Zimbabwe Project, for example, was initiated by the World Bank (to be associated with its Wildlife Management and Environmental Conservation project). The Viet Nam Protected Areas for Resources Conservation Project was brought to the State Planning Committee by UNDP, which provided most of the impetus for its design. In the

Philippines and Jordan, the Implementing Agencies initially advanced the suggestion for GEF biodiversity projects to the government agencies and were the main force in designing them. The Lake Victoria Environmental Management Project involving Kenya, Tanzania, and Uganda was also initiated and primarily designed by the World Bank. These projects are much less country driven than those in the first category. They can, however, still enjoy government and nongovernmental stakeholder support to the extent government agencies and other relevant stakeholders believe that they have been adequately involved in the process.

111. In the third pattern, projects are initiated by the Implementing Agency and have little recipient country involvement in design and development. For example, according to Indonesian officials, all of Indonesia's climate projects were initiated primarily by the World Bank and developed with little government input. Although the government did not play an active role in project design or development, it is possible for them to have strong country support if they are closely linked to existing government policy. Indonesia is interested in developing solar energy to carry out rural electrification in areas off the main grid, so GEF climate-related projects are a relatively high priority. The Indonesia Solar Homes Project fits into the country's policy to install one million solar homes within the next nine years. So, even though the project may not be country driven, the team found that the project has country ownership.

112. Some projects that have little recipient government input, however, enjoy much less support. Due to their international nature, regional and global projects require that the Implementing Agencies play an important catalytic role; these projects are usually endorsed at the request of that agency. If the outputs are not considered a high priority in a country's national interests, ownership and commitment may be low. One example is the regional, climate change enabling activity in Kenya, Building Capacity in Sub-Saharan Africa to Respond to the U.N. FCCC (Framework Convention on Climate Change). According to most interviewees, the project was prepared by a multinational team of energy and climate specialists and is executed by an NGO based in Senegal. Kenya, Zimbabwe, and Ghana are involved in the project. In Kenya, concerns were expressed about lukewarm commitment because of the limited role played by the recipient country. UNDP is working with Kenya to redress misunderstandings and to ensure full buy-in by all stakeholders.

113. Regional projects involving private sector partnerships may encounter similar problems because they are often initiated by the Implementing Agencies in collaboration with private entities. The Photovoltaic Market Transformation Initiative implemented by IFC in India, Kenya, and Morocco have raised to concerns in India and Kenya about the low level of involvement by government stakeholders in project development. Although IFC consulted with and informed the governments about the initiative in both cases, the team heard complaints in both countries that some officials first found out about national participation in the project when an IFC consultant visited the country. These complaints suggest that either inadequate consultation with recipient country stakeholders by the Implementing Agencies or inadequate intragovernmental coordination can undermine country ownership of a project.

114. These examples show that country ownership of projects does not necessarily depend on initiation or development of a project by the recipient government. Rather, it depends on the degree of participation by government and nongovernmental stakeholders in its development and the degree of coincidence with the country's interests.

115. Recipient countries differ in the degree to which they have an interest in GEF focal areas. When a country views a focal area as a priority in its environmental or development strategy, GEF projects are likely to gain more commitment and ownership. On the other hand, some countries are not interested in establishing a strategy for mitigating climate change, to cite one focal area. Under those circumstances, country ownership of a climate change project is likely to be weak unless the project is linked to an important national need. The draft 1997 Project Implementation Review (PIR) of GEF lists a number of projects in which national ownership has been enhanced by the coincidence of project goals and national needs, such as providing economic/livelihood benefits, creating a forum for influencing the environment policy framework, or enhancing mine safety.

116. Although the Implementing Agencies have improved their efforts to use national and subregional experts at all stages of the project cycle, there continues to be dissatisfaction in developing countries with the reliance on foreign consultants. In all countries visited, the team found that the use of foreign consultants in some instances has reduced government and local participation in projects at the design phase. The issue came up in relation to at least one project in each country visited. In the India Ecodevelopment Project, for example, the government insisted that the World Bank not involve foreign consultants at the design phase of the project. In Egypt, 20 percent of the funds for the Lake Manzala Engineered Wetlands Project had already been spent on foreign consultants before project implementation.

117. Foreign consultants are often necessary in areas in which domestic expertise is lacking—for example, projects involving novel concepts and technologies. The study team did not find evidence of concerted efforts to team local and foreign experts to present opportunities to build and strengthen local capacities in such situations. Implementing agencies relied on foreign consultants for the calculation of incremental costs in nearly all the countries visited by the study team. There may be some variations among Implementing Agencies and among regions in the extent to which foreign consultants are required. UNDP indicated in its comments on an earlier draft of this report that it does not use international consultants so heavily in Latin America and the Caribbean as in other regions.

118. According to the Implementing Agencies, all project decisions (including hiring of consultants) are the responsibility of recipient governments. The team, however, encountered instances in which international consultants played an unwelcome role in the preparation and implementation phases, leading to conflicts between Implementing Agency and recipient country stakeholders. The team was unable to corroborate the allegations made about the international consultants in all cases. It did take note,

however, of the general dissatisfaction regarding the use of foreign consultants, based on some general perceptions about them:

- They are expensive (compared with local experts) and drain project resources.
- They are not as knowledgeable about culture-specific issues, political sensitivities, and idiosyncrasies that might warrant particular approaches.
- They compromise a project's sustainability because at the end of the assignment they take away with them the expertise and knowledge acquired.
- Reliance on short-term consultants on project-specific assignments provides no means of capturing their collective expertise for future projects or for consistency and continuity.

119. These concerns are compounded by the lack of mechanisms or procedures to document country-level project experiences for future use. Some of the GEF project preparation activities involve cutting-edge or precedent-setting approaches, especially on incremental costs and stakeholder participation. GEF's project-related expertise and experience reside in the Implementing Agencies. Although this is a strength of the system, cost-effective ways of documenting consultants' experiences need to be identified so that these are integrated into lessons on which all members of the GEF family can draw. These could be integrated into the PIR process as part of a set of best practices in the field to be used on a continuous basis to inform project design and development.

Conclusions

120. The team found that country-driven projects and country ownership are related but not synonymous. A project may not be country driven in origin, but it can ultimately enjoy country ownership if recipient country stakeholders play a role in its development and execution or if it is viewed as coinciding with country needs. "Country driven" should be seen as a dynamic rather than a static concept. More GEF projects will become more country driven with time as recipient governments initiate more project concepts and become more involved in project design and preparation.

121. The team found that a number of projects have achieved country ownership, even when the role of national stakeholders in the initial project design was limited, because the country finds the project valuable. It also found that a minority of projects, including a number of global and regional projects, have enjoyed limited recipient commitment but that these concerns can be addressed by strengthening the focal point system.

122. Although foreign consultants may be necessary in many instances (and in some cases, a mix of local and foreign consultants may be the best approach), the reliance by Implementing Agencies on foreign experts instead of on national and subregional expertise has come under criticism, because it tends to reduce the local involvement necessary for country-driven projects and country ownership.

Recommendations

123. The GEF Council should adopt a policy, paralleling that for stakeholder participation, aimed at promoting the greater use of local and regional consultants in projects; encouraging an appropriate mix of local and foreign experts in GEF projects; and securing greater recipient government participation in the screening, short-listing and selection of project consultants.

C. CONTRIBUTION OF GEF TO AWARENESS OF GLOBAL ENVIRONMENTAL ISSUES

124. The study team assessed GEF's contribution to increased awareness of global environmental issues. In some countries the low level of awareness of global environmental issues means that any knowledge of the GEF focal areas, even from a narrow local perspective, represents an increase in awareness.

125. The major difficulty in making such an assessment, however, is that many other players are involved in GEF's focal areas, including U.N. agencies, bilateral donors, and international environmental NGOs. In this crowded field, the incremental impact of GEF is difficult to identify. Therefore, the team identified indicators of direct GEF impact on public awareness relating to knowledge about GEF and to knowledge about global environmental issues.

Indicators of Knowledge of GEF

126. The study team looked for evidence of the visibility of GEF and an understanding of how it works. It found that GEF has extremely low visibility in some countries. In Indonesia and India, the team was told that most people do not distinguish between the World Bank and GEF. In Poland, those who have heard of GEF are likely to view it as an adjunct of the World Bank. Even when GEF projects attract media attention, as in Belize, the project is associated with the Implementing Agency. GEF is least well known within the private sector. The head of the Chamber of Commerce of India indicated that there is little awareness of GEF within Indian industry, for example, and he was unaware that GEF funded private sector projects.

127. The level of understanding of GEF varies among different constituencies. Even country officials who are concerned with GEF-related activities, such as *Agenda 21* and global environmental conventions, are not familiar with GEF criteria or how to access GEF resources. Those who are involved with GEF activities and have some basic knowledge about GEF as a source of external funds often lack understanding of the funding criteria in the focal areas. GEF was described in one instance as a "Washington-based black box." There is even less understanding of GEF among nongovernmental stakeholders. In Egypt, the small grants coordinator, the general coordinator of the Egyptian steering committee, and a group of fifteen NGOs with whom the team met all agreed that NGOs are generally uninformed about GEF. In India, an NGO representative said that the NGO sector is "completely GEF-illiterate." In some cases, even field-level staff of the Implementing Agencies were not fully briefed about GEF.

128. In sharp contrast, the GEF Small Grants Programme (SGP) has relatively high visibility among NGOs. In most countries with SGPs, NGOs and other stakeholders could associate it with a local coordinator. Most of these coordinators are effectively integrated into the NGO, United Nations, and donor communities. In Kenya, Poland, and Zimbabwe, for example, SGP offices have established effective working relationships with the players in both regular environmental activities as well as with GEF 1 projects in anticipation of the scale-up of some SGPs.

129. The team found at least two major factors contributing to the low level of awareness and understanding of GEF. First, current GEF information does not reach all of GEF's diverse constituencies. GEF's main contacts in most countries are the focal points, usually the Ministries of Finance, Environment, or both. They receive considerable amounts of information from the GEF Secretariat, but, in some cases, make no systematic effort to ensure that this information is disseminated to the relevant stakeholders. Furthermore, several countries commented about the highly technical nature of GEF documentation and the fact that it was not available in the local language.

130. Second, those who know about GEF appear to have few incentives to promote it. In many countries, particularly the larger ones visited by the study team, GEF is one of many donors and viewed as a small fund with complex rules and procedures. Some focal points claimed that they were reluctant to encourage government agencies to submit proposals because of the lengthy development and approval process. Even within the Implementing Agencies' country offices, the incentives to disseminate information about GEF beyond the key ministries with which they work are weak. In some cases, field-level staff are not well trained or briefed on GEF programming and criteria. Some Implementing Agency staff identify GEF as a potential funding source but the complex project cycle exacts a high price in terms of time, raising the need for extreme commitment in promoting a project, otherwise it would not get far.

131. In recognition of the low level of awareness and understanding of GEF at the country level, GEF established the Communications Working Group. In mid-1996, the group reached agreement on the division of responsibilities for raising awareness about GEF and global environment issues. It is now developing an overall GEF

communications strategy.

Indicators of Awareness of Global Environment Issues

132. Indicators of GEF's impact on awareness of global environmental problems include GEF-inspired media coverage of global environmental issues and the development of networks on global environmental concerns.

133. The study team collected a few examples of cases of media coverage either directly or indirectly inspired by GEF projects. In Egypt, the coordinator of the GEF climate enabling activity convinced newspapers to carry a number of articles on climate change for a period of weeks—a first in local coverage. In its 1997 PIR, UNDP reports that two projects (in Belize and Papua New Guinea) have stimulated policy debates in the media. In Viet Nam, during the six months prior to the team's visit, some 200 articles on biodiversity were published in local newspapers at least partly as a result of the GEF-funded Biodiversity Action Plan.

134. Some GEF projects generate considerable debate—negative or positive—about GEF's focal areas. During its early preparatory phase, the Tana River Primate Reserve project in Kenya generated debate on public participation and sustainable use projects in Kenya, whereas the Photovoltaics for Households Project in Zimbabwe has elevated local knowledge about solar energy as an option. Another project containing components that have attracted considerable media interest is the designation of the Belize Barrier Reef as a World Heritage Site in the Belize Sustainable Development and Management of Biologically Diverse Coastal Resources Project.

135. GEF enabling activities have contributed to the development of networks of constituencies on global environmental issues (among academic research and NGO communities). On both climate change and biodiversity, there is evidence that growing networks of interest groups that have been involved in enabling activities now exist and may continue their involvement. GEF in Egypt has created a large network of up to 500 institutions and professionals involved in the climate change area, according to the project manager. The Viet Nam country study reported that three years of work preparing the GEF-funded Biodiversity Action Plan had created a network of government staff, local consultants, academics, and others working on biodiversity conservation. The constituencies for biodiversity conservation include more than one thousand forest staff trained for one month in biodiversity conservation, many of whom had never heard of biodiversity or global environmental problems before.

Conclusions

136. These examples of GEF impacts on public awareness from country studies lead the study team to conclude that, at least in certain countries, GEF has had some impact on awareness of global environmental issues. These impacts are obviously small in relation to the problem as a whole, although they sometimes involve strategically important constituencies.

137. GEF is not well known or understood in recipient countries, because of lack of incentives for Implementing Agencies and focal points to promote it and the absence of a well-targeted communication and outreach strategy.

Recommendations

138. The GEF Council should authorize and adequately fund the development of a GEF outreach and communications strategy that targets GEF's multiple constituencies, including the Focal Points and relevant government agencies, NGOs and civil society, the media and the private sector. The strategy should rely on simple, user-friendly materials about the GEF and its operations, and should include provision of basic GEF documents in local languages. This strategy should be coordinated with the broadening of the Project Development Workshops.

D. STAKEHOLDER PARTICIPATION IN GEF PROJECTS

139. The GEF policy on stakeholder involvement requires that all GEF projects provide for, among other things, "consultation with and participation, as appropriate, of major groups and local communities throughout the project cycle."[25] To evaluate GEF's overall performance in the area of stakeholder participation, the study team examined the policy framework created by GEF as well as the practices associated with stakeholder participation in projects.

The Background: Previous Evaluations

140. The benefits of stakeholder participation include enhancing country ownership; ensuring that the needs of affected communities are adequately met; improving project design, implementation, and evaluation; and helping to strengthen the capacities of NGOs and civil society groups. Such benefits can contribute to achieving desired project impacts and sustainability.

141. GEF defines stakeholders as the "individuals, groups, or institutions that have an interest or stake in the outcome of a GEF-financed project," including governments, Implementing Agencies, and executing agencies. Although this definition does not mention NGOs, they make up one of the most prominent groups of stakeholders in GEF

---

[25] Global Environment Facility, *Public Involvement in GEF-Financed Projects* (Washington, D.C. : June 1996) p. 2.

activities. NGOs range from policy advocacy groups operating at the international or national level to grassroots institutions and groups operating at an intermediate level, serving as spokespersons on behalf of communities in the rural areas. Some groups focus on technical issues, including research and academic institutions and "think tanks," whose input can be important in some highly technical projects. Some NGOs operate independently; others, such as those in some economies in transition, are partially funded by state budgets. The team found that GEF projects have worked with the full range of stakeholders, although in most cases the main participants have been policy advocacy groups.

142. A number of studies have evaluated the performance of GEF on stakeholder participation either in the pilot phase or in a specific set of GEF 1 projects. The *Independent Evaluation of GEF's Pilot Phase* conducted in 1994 found unsatisfactory participation by affected populations. It documented the need for a more systematic means of fostering mutually beneficial collaboration with multiple stakeholders, especially NGOs. In 1995 Climate Network Europe commissioned a series of studies on the role of participation in several GEF climate change projects, including the Renewable Resource Management Project in India. The study found that, although there had been limited NGO participation at the design phase, the implementation phase had involved a wider group of stakeholders. It also found that GEF guidelines are so complex and lengthy as to practically exclude the involvement of smaller stakeholders at the design phase.

143. The NGO Working Group produced a report in 1996 with case studies of NGO participation in GEF projects (these include acting as advocates, facilitating policymaking, contributing to project development and implementation, and providing outreach for GEF). It found four types of problems: difficulties, such as cash flow problems arising out of the World Bank's complex and often slow procurement procedures; competition with nonlocal consultants, who tend to be favored by the World Bank; lack of understanding of complex GEF/World Bank procedures and decisionmaking processes; and dissatisfaction with the rules that prohibit the use of GEF funds for capacity building, which is necessary to increase NGO capacity to absorb project funds.

144. A second study produced for the GEF Council meeting, *Promoting Strategic Partnerships between GEF and the NGO Community,*[26] although not an evaluation of GEF performance, noted that GEF has not taken full advantage of the potential of NGOs, academic institutions, and private sector groups. It made many recommendations on facilitating the greater participation of such groups, including expedited access to medium-sized grants.

The Policy Framework for Stakeholder Participation in GEF Projects

[26] *Promoting Strategic Partnerships between GEF and the NGO Communty*. A report from the GEF-NGO Working Group (Washington, D.C. : February 29, 1996), GEF/C.7/Inf.8.

145. In response to recommendations by the *Independent Evaluation of the Pilot Phase* and other studies, the GEF Secretariat issued clear policy guidelines on stakeholder participation in projects, requiring that stakeholders are identified clearly and consulted with throughout the project cycle. The study team noted that these guidelines were developed by the GEF Secretariat in collaboration with the Implementing Agencies and that they present a comprehensive and far-reaching policy framework. It has added a social scientist to the staff who is responsible for reviewing cross-cutting issues and lessons. The officer reviews project proposals and comments on the integration of stakeholder issues.

146. The effectiveness of GEF policy guidelines depends on the responses of the Implementing Agencies and recipient governments. Stakeholder participation is closely linked to the issue of transparency and accountability in the operations of the Implementing Agencies. The team, therefore, examined agency policies regarding stakeholder participation and public access to project information.

147. UNEP adopted a policy and procedures relating to public availability of documentary information on GEF operations in 1993.[27] In 1994, its executive committee approved a policy and procedures for public participation in its GEF operations. This was designed to foster public involvement in GEF operations and provides a detailed list of groups encompassed in its definition of "public."[28] Basically, these two sets of documents provide for public access to information, consultations with relevant stakeholders, and provision of opportunities for stakeholder involvement in implementing UNEP's GEF projects. Both sets of policy documents, however, make explicit references to the fact that the provisions are for the "sole purposes of UNEP's participation in GEF, pending the adoption approval of an agency-wide directive," an indication of the documents' unique and precedent-setting nature.

[27] "UNEP Administrative Note: Policy and Procedures Related to Public Availability of Documentary Information on GEF Operations."
[28] Public includes the scientific community; representatives of environmental, consumer, women's youth, indigenous peoples' educational and social and economic development associations or groups; and NGOs that may have an interest in or may be affected by a GEF/UNEP activity or decision.

148. Like UNEP, UNDP has adopted policies on the disclosure of public information and documentation. The policies on participation have specified a broader group than NGOs, highlighting the importance of civil society organizations[29] and attempting to engage smaller groups, such as community-based organizations, in UNDP's work. Its policy statement on this issue lists three principal objectives: encouraging policy dialogues among government, civil society organizations, and donors; supporting capacity-building needs of civil society organizations; and enhancing the capacity of UNDP offices to strengthen such partnerships. It is partially in recognition of its experiences with and emphasis on establishing partnerships with such groups that UNDP assumed responsibility for the SGP.

149. The World Bank's policies for involving stakeholders not in the public sector (particularly NGOs) in its projects fall into three categories: those relating to involving NGOs in project preparation, those relating to environmental assessments, and those relating to disclosure of public information. These policies have emerged in response to the increasing importance of NGOs in development activities and the need for the Bank to guide its staff to ensure early involvement of NGOs in all stages of Bank project processes.[30] The Bank has initiated annual meetings with the NGO–World Bank Committee and has instituted a policy that advocates that prospective borrowers use NGOs[31] wherever appropriate. In the environment sector, the Bank's Operational Directive 4.01 expects prospective borrowers to take the views of affected groups (including tribals and indigenous people) and local NGOs fully into account, especially in preparing environmental assessments.

150. World Bank projects that cover areas inhabited by indigenous societies are required to delineate an action plan to deal with indigenous communities' concerns. Countries are expected to hold consultations with affected groups in these environmental assessments of projects. Its 1994 policy on disclosure of information expands the range of documents that are to be made available through its Public Information Center or, in the case of the environmental information, in the client country at a public place that is accessible to affected groups and local NGOs. The policy for disclosure of information on the Bank's GEF operations goes beyond this and provides for more open access to GEF project-related information.

151. The GEF policy requires that projects monitor and keep a record of stakeholder consultations with major groups and local communities during project preparation. Although the Implementing Agencies regularly keep records of such consultations, the

---

[29] UNDP defines civil society organizations as including NGOs, people's organizations, women's and youth groups, grassroots movements and organizations of indigenous peoples, consumer and human rights groups, and so on.

[30] This policy note (OPN 10.05) was reissued as an Operational Directive in 1989 and was replaced in March 1997 by GP 14.70 with specific references to different groups, such as "private organizations that pursue activities to relieve suffering, promote the interest of the poor, protect the environment, provide basic social service, or undertake community development."

[31] The World Bank defines NGOs as "groups and institutions that are entirely or largely independent of government."

team notes that GEF's specific integration of this activity into its policy guidelines has elevated the policy significance of this practice.

Stakeholder Participation in GEF Projects

152. The study team examined project documents for more concrete indicators of plans for stakeholder participation. The indicators noted include the types of stakeholders identified, the provisions for consultation with stakeholders, the representative nature of the institutional frameworks that are set up, the extent to which NGO stakeholders play an executing role in projects, and the financial allocations that the projects make to support such activities.

153. The following types of stakeholders have been involved in pilot phase and GEF 1 projects (based on frequency of involvement and in terms of institutional capacity-building impact): academia, international NGO constituencies, national and local NGOs, and the private sector. GEF projects involving trust funds have generally been effective vehicles for securing broadly based participation of these different groups within the same project. They have also demonstrated flexibility in opening doors for private sector groups, such as the tourism industry. There may be a need for more detailed desegregation of stakeholders to ensure that the full range of players in the industries and activities involved in each focal area can be identified and effectively integrated early in the process.

154. The project documents place significant emphasis on consultations with NGOs and local communities, but there is a wide range of understanding of what "consultations" means. These could be as limited as pro forma "briefings" or as detailed as ongoing interactions and joint planning with NGOs. The latter is the desired option, as it emphasizes genuinely local representation in consultations as well as clarity on the expected outcomes of these consultations. A potential pitfall of such emphasis on consultations is that they may be viewed as an end in themselves, especially if there is no provision for feedback to the local communities. During the country visits, team members heard complaints from community members that that they did not receive any reports about the outcome of many consultations.

155. GEF projects have established a variety of institutional mechanisms to bring government and nongovernmental stakeholders together. The Russian Biodiversity Project, for example, established the joint International Expert Council on Protected Areas and the thirteen-member Lake Baikal Supervisory Committee, which consists of six nongovernmental representatives from the local, academic, scientific, social, and NGO communities. In the Mexico Protected Areas Project, in each of the ten protected areas that form the core of the project, technical advisory committees make provision for the active participation of stakeholders, such as indigenous communities.

156. The study team also examined reliance on nongovernmental stakeholders for the execution of GEF projects. Some projects use such groups to execute projects or as contractors or subcontractors. UNDP reports in its 1997 PIR that 84 percent of its full

GEF projects involve NGOs in one of two roles—project execution or policy/advisory—and has recently issued guidelines on NGO execution of projects. The large sums of money involved in GEF projects and the limited technical and administrative skills of local NGOs to absorb or manage such funds effectively may account for the limited role of nongovernmental stakeholders in this regard.

157. The study team found that this approach is more likely in the case of a trust fund than in other types of projects. For example, the three biodiversity projects in Brazil, Mexico, and Costa Rica were initiated by governments but eventually turned over to NGOs—Fundacion Getulio Vargas in Brazil, Mexican Fund for Nature Conservation, and the National Parks Foundation in Costa Rica—for implementation. This practice could yield many benefits, including institutional capacity building and improved working relationships between public and nongovernmental sectors.

158. GEF 1 projects appear to be making greater attempts to specify how statements about stakeholder participation will be followed through in projects. The team's review of work programs for GEF 1 projects shows significant discussion between the Implementing Agencies and the GEF Secretariat on the means of verifying statements in project documents regarding stakeholder participation. The Implementing Agencies provided clarifications and descriptions of how stakeholders will be identified, consulted, and otherwise involved in the project.

159. One indicator of the potential of provisions in project documents to achieve optimal participation is the level of budget resources allocated for consultations. In some projects, it is difficult to separate consultation activities from the public education and awareness components. (Indeed, some of these activities may overlap.) This was particularly true of some pilot phase projects. For example, the Russia Biodiversity Project is funded by a $25–$26 million GEF grant. It allocates $75,000 to support stakeholder work groups as part of the biodiversity policy support component (an amount that implies this is not as high a priority as other activities, especially when compared with the 11 percent allocations for public support and education and for institution strengthening). Although some stakeholders may benefit from these education activities, a limited budget focusing specifically on stakeholder issues is unlikely to secure more than just a one-time full participation exercise.

160. GEF 1 projects appear to be paying closer attention to these budget provisions, because adequate budget allocations can ensure that consultations are meaningful for the lifetime of projects. Some GEF 1 projects have allocated more than 50 percent of total project costs for local-level activities that involve community participation in planning, such as "microplanning" (India Ecodevelopment), "ecomanagement" (China Nature Reserves Management), and "area/village development activities" (Indonesia Kerinci Seblat). The UNDP 1997 PIR notes that the ecological zoning subproject of the larger pilot phase Regional Support for the Conservation and Sustainable Use of Natural Resources in the Amazon Project has allocated more than 25 percent of its budget to consultations and that 50 percent of staff time has been spent on stakeholder issues. It is important to note, however, that in many instances all public awareness components of

projects—training programs, workshops, publication of information, subcontracting, and so on—can be and are categorized as stakeholder participation.

E. Experiences with Stakeholder Participation by Focal Area

161. **Biological Diversity**. Stakeholder participation issues in biodiversity projects present a complex set of problems for project design and implementation, including: the inherent tension between traditional approaches to biodiversity conservation (planning and "policing" protected areas) and the survival and livelihood needs of local communities; the need to secure the collaboration of communities in "buffer zones" that might be established as part of reserve management; the need to promote a biodiversity conservation ethic that accommodates new management partnerships between protected area managers, the users of resources, and community groups; and the relatively limited experience and expertise within Implementing Agencies working on an interdisciplinary basis on each of these issues within the same project. Therefore, biodiversity projects often require long, painstaking processes to ensure stakeholders' participation and to reconcile it with biodiversity protection goals.

162. These lengthy processes may be one of the tradeoffs associated with all aspects of GEF project preparation; these processes have given GEF projects in some countries a reputation as complicated, repetitive, cumbersome, and excessively long. Nevertheless, these processes can have a positive impact on stakeholder participation. For example, the Biodiversity Conservation in Southeast Zimbabwe Project has identified five key stakeholder groups that are now developing proposals for possible participation in the project. The process of consultation with and among these groups is providing the basis for different (and sometimes conflicting) interests to be better defined.

163. Biodiversity projects may also require provisions for resettlement, land and property use rights, gender or other special groups' concerns, and complex social assessments. One factor that could improve the success of GEF projects is the strengthening by Implementing Agencies of methodologies for mainstreaming social and gender concerns specifically in environment projects, especially through increasing reliance by Implementing Agencies on the expertise of social scientists and the systematic documentation of experiences with social concerns in project implementation. The 1997 Project Implementation Review highlights the "lack of explicit treatment of gender issues in project implementation reviews."

164. ***Climate Change.*** Climate change projects are more likely to involve private sector stakeholders than biodiversity projects. Projects involving new energy technologies require more private sector stakeholder involvement at the design phase to secure their input regarding such issues as assumptions about market performance of technologies. A large and varied group of private and public sector organizations, including solar industries, parastatals, and public utilities, are involved in implementing the Photovoltaics for Households and Community Use project in Zimbabwe. The IFC-executed Small and Medium-Scale Enterprise Program has approved NGOs as an appropriate group of intermediaries.

165. ***International Waters.*** Due to their transboundary nature, international waters projects involve upstream policy-oriented activities that engage stakeholders in the technical and scientific communities as well as government policymakers. The projects often make provision for these stakeholders to be fully engaged in the preparation and implementation of these strategies. Few local or community-based stakeholders have been involved, although most of the projects identify NGO groups as potential partners.

166. One GEF 1 international waters project that is designed to engage NGOs is the Lake Victoria Environmental Management project. In Kenya, OSIENALA (Friends of Lake Victoria), a local NGO that acts as an intermediary for the smaller, less well-organized community groups in the villages surrounding the lake, was involved in early consultations with communities. However, since the government took over project coordination, such interactions have subsided. Critics claim that this shift is evidence of the government's reluctance to work with existing NGOs and that it is taking its time to set up its own "NGOs" to participate in this project. Team members visiting one of the communities on the Kenyan side of the lake found that neither community members nor local authorities had much knowledge of the specifics of the project and the potential role that they could play in it.

Conclusions

167. The study team found that the issuance of GEF guidelines on stakeholder participation in GEF-financed projects has been one of the significant accomplishments of GEF 1. They provide the basis for one of the most extensive and far-reaching policies on public involvement in, and disclosure of information on, projects.

168. The team found that GEF 1 project designs have involved detailed and comprehensive plans for public participation, especially in the biodiversity focal area. Most of these projects are in the early stages of implementation, but the team found that some projects are already including local stakeholders in key project activities. Projects involving trust funds in particular have provided innovative opportunities for different stakeholders to work together on the same project at policy and operational levels. In some cases, however, local communities have not been provided with feedback on consultations. The team finds, therefore, that careful monitoring and evaluation of progress in actual implementation of GEF guidelines and project provisions for stakeholder participation is needed.

Recommendations

169. The GEF Secretariat should work with implementing Agencies to develop quantitative and qualitative indicators of successful stakeholder involvement at different stages of the GEF project cycle, and to document best practices of stakeholder participation by focal area.

E. Impacts on Country Programs and Policies

170. The study team was asked to evaluate the impact of GEF projects on country programs and policies. The team considered how the projects have helped to create broader changes in the way in which recipient countries deal with issues related to the four focal areas.

171. As with the assessment of GEF's impact on awareness of global environmental issues, the team encountered difficulty in some cases in isolating GEF's contribution to changing policies and programs in recipient countries. Other activities and actors also have provided impetus for such changes. For example, many countries have been adopting measures to incorporate the results of the Rio process and Agenda 21 into national plans, policies, and programs. Bilateral and multilateral agencies are supporting many of these efforts. Thus, in some instances, the impacts of GEF projects are difficult to distinguish from those of other agencies, including those of the recipient government itself; in others, the relationship between the GEF project and the new policy or program is reasonably clear.

172. To analyze the impacts on policy and program of GEF projects, the team relied on the informed assessments of government officials and stakeholders in the countries visited as well as officials and assessments of Implementing Agencies. This analysis does not represent an exhaustive examination of such project impacts within the ten-country sample of projects. The study team did not attempt to include every example of projects that have impacts that are within the scope of the project's explicit objectives, such as new strategies or action plans or mechanisms for intragovernmental or international collaboration.

173. The study team found that GEF projects in the ten countries had five types of impacts on recipient government policies or programs: establishment of new mechanisms for intragovernmental coordination, higher priority given to a particular activity benefiting the global environment, new mechanism for regional or subregional collaboration on a global environmental issue, acceptance of greater stakeholder participation in projects, and development of a national strategy and action plan for a global environmental problem.

174. Some GEF projects were found to be directly responsible for helping countries establish new mechanisms for intragovernmental coordination. Egypt had no mechanism for coordinating its national policy toward climate change when the GEF climate change enabling activity was implemented. However, the chairman of the Egyptian Organization for Energy Conservation and Planning told the team that the steering committee for the environmental assessment, which meets every three months to assess progress, was going to become the national committee on climate change and would be the main vehicle for discussing possible Egyptian participation in joint implementation projects, for example. In Kenya, the study team learned that the Pilot Phase Institutional Support to Protect East African Biodiversity project, which was completed in December 1996, had established the first unit for biodiversity within the Ministry of Environment and Natural Resources intended to coordinate the activities of all government ministries relevant to the problem.

175. A second observed impact of GEF projects is the higher government priority given to an activity benefiting the global environment. Most of the examples of this found by the study team are from the climate focal area. The pilot phase China Issues and Options in GHG Emissions Control Project led to a new policy dialogue with the World Bank on energy efficiency and renewables, which in turn resulted in a new level of Chinese interest in investing in clean energy projects. According to officials of the Indian Renewable Energy Development Agency (IREDA), the India Biomethanation Project created a distinct shift in perception of the importance of creating energy from waste and led the government to spend $60 million in three years on that technology. The Mexico Efficient Lighting Project is cited as evidence of a government’s shift in priority relating to efficiency improvements. The Poland Coal-to-Gas Project is credited by some observers with having significantly increased awareness among government officials of the importance of coal-to-gas conversions. The pilot phase Mexico Protected Areas Program is credited by both Mexican environment ministry officials with having played a crucial role in convincing the Mexican government to significantly increase its budgetary outlays for protected areas, which previously had been woefully inadequate.

176. The third type of effect of GEF projects—new intergovernmental collaboration at regional or subregional levels on a global environment problem—was found in the GEF international waters projects project for Lake Victoria, which had as one of its objectives the establishment of new mechanisms to carry out such collaboration. The Lake Victoria Project has established a regional secretariat representing the governments of Kenya, Tanzania, and Uganda to harmonize water quality and monitoring standards for the lake. It is also facilitating the creation of the Lake Victoria Fisheries Organization to regulate

fishing more effectively. In this case, it is clear that the creation of these new institutions for international collaboration were stimulated by the GEF project.

177. The fourth type of impact of GEF projects has been to convince recipient governments to accept more extensive involvement of nongovernmental stakeholders than is usually normal in project development and/or implementation. For a variety of political, social, and cultural reasons, many recipient countries have not established collaborative relationships with civil society groups. At the same time, global environmental benefits in themselves do not tend to receive high priority in many countries unless they are linked to social and economic priorities, mainly poverty reduction. A potential benefit of the increased involvement of civil society groups is the likelihood of creating an appropriate forum for these different priorities to be combined within the context of securing global environment benefits. In the case of the India Ecodevelopment Project, for instance, the Ministry of Forestry adopted an approach to community participation in management of protected areas that it had resisted in the past.

178. A fifth policy impact—the development of a strategy and action plan—occurs most frequently in the biodiversity focal area, as many governments have sought GEF support to establish an overall biodiversity strategy. The China Biodiversity Conservation Action Plan, which resulted from a pilot phase Pre-Investment Facility project approved in March 1992 and was completed in 1994, has resulted in the development of several plans, for example, such as the agricultural biodiversity action plan, the National State Oceanic Administration's marine biodiversity action plan, and a mangroves action plan. These have led to project proposals, such as the wetlands management project (submitted for GEF funding through UNDP). It has also led to the funding of the GEF Nature Reserves Management project approved in 1995.

179. The changes that the study team found attributable in whole or in large part to GEF generally involve new ways of addressing or giving priority to global environmental issues.

Conclusions

180. Based on analysis of projects in the ten countries visited by the study team, the study team found a number of significant GEF project impacts on country policies and programs, including some going beyond immediate project objectives. Other actors clearly played some role in certain cases, but in other cases, the GEF can claim the credit. Given the relatively small size of GEF projects, the team found that these changes represent a positive achievement.

F. HANDLING OF POLICIES AND ACTIVITIES THAT COULD UNDERMINE PROJECT SUCCESS

181. Macroeconomic or sectoral policies and economic activities may undermine GEF projects either by creating perverse incentives that frustrate market penetration, as in the case of energy pricing, or by impinging physically on the project area, as in the cases of

building roads through protected areas, mining, unsustainable logging, or damaging tourism development. One of the challenges faced by the Implementing Agencies, therefore, is how to deal effectively with such policies and activities at each stage of the project cycle.

182. This can be done in several ways. Any such threat to the project needs to be identified early in project design, discussed with project proponents, and referred to in project documents. Assurances of actions to remove or prevent the threat need to be secured in negotiations on the project agreement. In addition, if the policies or activities do, in fact, appear to undermine project effectiveness during implementation, the Implementing Agency must take action through representations to the government and, if necessary, halt disbursements to bring about action to remedy the situation. Unless commitments to avoid or prevent undermining actions are written into the project document, such issues can be contentious.

183. Given the small size of its projects, GEF does not have the ability to leverage fundamental policy changes on issues in which the economic stakes are high domestically, particularly in countries with large economies. However, the Implementing Agency can insist that a specific activity in a particular area not interfere with the project. It may sometimes be desirable to proceed with the project in spite of the activity. But when the threat of perverse incentives or physically damaging activities is severe and when the Implementing Agency determines that the policy or activity in question cannot reasonably be expected to end, it may not be desirable to go ahead with project development.

184. The team looked into how the Implementing Agencies have dealt with projects in which government policy or sectoral activities constitute a significant problem. Based on the sixteen country studies as well as interviews with Implementing Agency task managers, regional coordinators, and thematic specialists, the team identified seven cases of projects now in implementation in which government policies or sectoral activities could pose significant threats to project success and on which the handling of the issue could be documented. This is just a sample of a much larger universe of projects in which this issue is relevant.

185. The study team found that Implementing Agencies have generally identified in project documents policy issues or sectoral activity that could pose significant risks to the project and have raised the issues with recipient governments during project design. In all seven case studies, the Implementing Agency included some mention of such threats in project documents. However, in five of the seven cases, the identification was either too general or incomplete. In two cases (Jordan Consolidation and Conservation of Azraq Wetlands and Dana Wildlands Project and Egypt Red Sea Coastal and Marine Resource Management Project), the Implementing Agency failed to identify a key problem. In the Jordan biodiversity conservation project, the problems of tourism, copper mining and grazing were identified, but the government's subsidies for grazing were not. Similarly, in the case of the Egypt Red Sea Coastal and Marine Resource Management project, the World Bank identified unregulated tourism, but did not identify government subsidies to

develop tourism, in the form of the sale of coastal land at bargain basement prices, as an issue that had to be addressed in the project preparation stage.

186. In both the Philippine Conservation of Priority Protected Areas Project and the Congo Wildlands Protection and Management Project, the problem was lack of specificity in identification of threats by the World Bank. In the Philippine case, the World Bank identified the threat in terms of the absence of gazetting rather than in terms of specific sectoral activities. That left open the possibility of differences in interpretation over what would be permitted within or near the project site. And in the Congo project, the World Bank correctly identified logging as a threat to the project, but only within the national park and not in adjoining areas. It also did not identify gold mining specifically as one of the activities that could disrupt the project, although it specified the requirement for gazetting priority project sites in the project brief.

187. The study team found that the Implementing Agency has usually failed to obtain adequate formal assurances from governments in project agreements about policies and activities that could affect project success. In only two of the seven case studies did the Implementing Agencies obtain formal assurances from the government that were adequate. In the case of India Ecodevelopment, the World Bank raised the problem of development activities that might impinge on project success—logging practices, road building, mining, cement manufacturing, and tea and teak plantations—during project development and insisted that the project agreement include assurances that the government would not permit such activities either in the project area or in areas adjoining it. In part as a result, the Indian Ministry of Environment and Forests drew up a list of twenty-nine development projects that had to be kept at a reasonable distance from the project sites. And, in the case of Indonesia Kerinci Seblat, the government agreed to preclude road construction or upgrading within the protected area until management and zoning plans were completed for the project area.

188. But in the Congo Wildlands case, the assurances given by the government in the grant agreement did not cover logging adjacent to but outside a priority reserve, nor did it specifically mention mining. In 1996 the Bank learned that the government had granted a fifteen-year renewable logging and processing permit on a concession close to one of the priority sites and granted a mining exploration permit within one of the priority sites. In the Philippines case, the World Bank made the implementation of legislation on a National Integrated Protected Areas System a condition for a sectoral adjustment loan to deal with the problem of economic activities that might impinge on the project's success. But the legislation was ambiguous on whether minerals or geothermal energy exploration activities are forbidden within the protected areas. The absence of specific agreements on the activities in question leaves uncertainty as to whether such activities will be allowed in the future. In the case of Zimbabwe Photovoltaics, the government gave UNDP assurances that tariffs on photovoltaic components for the project itself would be reduced, but not on those photovoltaic components beyond the project's duration. And in the Jordan Consolidation and Conservation Project and the Egypt Red Sea Coastal and Marine Resource Management cases, the government did not give UNDP formal assurances that grazing and tourist development land subsidies would not be provided.

189. In all but one case (India Ecodevelopment), some follow-up was needed in the implementation phase of the project with regard to policies or sectoral activities that present a risk to project success. In four of the six cases where it was needed, either the Implementing Agency or the project staff has taken steps that have brought about some reduction of the risk. In the Indonesia case, when the state government tried to put a new road through the protected area in violation of the project agreement, the Bank resisted it, threatening to halt fund disbursement. In the Congo case, the Bank considered the logging and mining concessions a violation of the grant agreement, even though the government argued that the grant agreement only covered logging concessions inside the priority sites and that mining was not mentioned as an undesirable activity. The World Bank acted in early 1997 to suspend disbursements on the project in large part because of these activities, although the suspension was technically based on the government's failure to fulfill financial obligations.[32] Disbursements were resumed after the government made financial restitution and agreed to an environmental assessment of the mining operation as a basis for determining its future and the logging company agreed to measures to ensure that it would not negatively affect conservation in the core reserve.[33]

190. In the Jordan case, the project staff itself negotiated an agreement with the government to obtain regulation of copper mining in the project area but was unable to stop mining completely. In the cases of the Zimbabwe Photovoltaics, UNDP discussed the tariffs on photovoltaic components in general with the government and has now obtained assurances that the tariffs will be lowered. However, the World Bank has not acted to get more explicit, formal assurances from the Philippine government on the interpretation of the protected areas system legislation. In the Egyptian case, the Bank

[32] See letter from Jean-Louis Sarbib, vice-president, Africa Region, to Nguila Moungana Nkombo, minister of the economy, finance, and planning (January 10, 1997) in GEF Secretariat files.
[33] Letter from Lars Vidaeus, executive coordinator, World Bank GEF Operations, to Mohammed T. El-Ashry, CEO and chairman, GEF (June 9, 1997) in GEF Secretariat files.

has not followed up on the government's subsidized sale of coastal land or tourism development, which has resulted in the allocation of more than 40 percent of the Red Sea coastline to tourism developers and speculators by mid-1997. This development appears to have undermined the prospects for project success, because it moots the development of a coastal and marine management plan that would guide the allocation of land for tourism and biodiversity protection.

Conclusions

191. The study team found that more than half the projects studied have had some problems in the handling of policies and activities that could have negative effects on project outcomes. In most cases, assurances from the government regarding the policy or activities in question were either not forthcoming or were not specific enough; in some cases, the identification was incomplete or lacking in specificity. Implementing Agencies have generally followed up where it was needed, in some cases threatening to threatening to halt disbursement, and these interventions have usually had a favorable impact on the situation. In one case, the chances of project success were clearly undermined, and in two others, the outcome is still not clear.

Recommendations

192. The GEF project submission format's description of project risks should call for identification of any specific policies or sectoral economic activities that could negatively affect project success, as well as the steps that need to be taken to reduce the risks to project success from those policies and activities.

193. The GEF should adopt a policy requiring that Implementing Agencies obtain clear, formal commitments from recipient country governments regarding policies and sectoral activities identified as increasing the risk of project failure before proceeding with project implementation.

G. FINANCIAL SUSTAINABILITY OF GEF PROJECTS

194. The GEF portfolio is still young and most projects are not yet completed, so it is premature to reach conclusions about the long-term sustainability of projects. Nevertheless, information provided by the Implementing Agencies, government officials, NGOs, and others provides a general picture of the post-project outlook for many projects.

195. The financial sustainability of a project—that is, its continuance or expansion beyond the disbursement of GEF funds—can be influenced by a number of factors: its ability to attract government and community buy-in, the cost of continuing the project, and the degree to which improvement of management skills, training, and general institutional development have been emphasized during the project. These are important determinants for all projects but appear to be especially important for those that have

little or no commercial potential. Conversely, the sustainability of near-commercial projects, such as some of the energy projects, largely depends on their ability to push (or pull) the market and, thus, to stimulate replication using private funds.

196. Projects involving capacity building appear to be among the most sustainable. The 1996 PIR highlights three projects as being successful in this regard—UNDP's Monitoring and Research Network for Ozone and Greenhouse Gases in the Southern Cone Project, the related Global Monitoring of Greenhouse Gases Including Ozone Project, and UNDP's Sustainable Development and Management of Biologically Diverse Coastal Resources Project in Belize. All three are institutional development types of projects, as opposed to investment projects. Although these may well help set the stage for environmentally sustainable development practices, they are also less risky than investment projects. For countries reluctant to commit resources to sustainable practices in energy, forestry, land use, and so forth, it may be both financially and politically easier to support these monitoring and institutional kinds of activities on a recurring basis.

197. In some cases, projects have needed a longer time frame than permitted to implement the project activities, demonstrate success, and achieve financial sustainability. For example, the Lake Victoria project may need five to seven years instead of the expected three to five years to resolve certain issues that impede its near-term implementation, such as establishing fully functional intragovernmental coordination mechanisms. Likewise, the necessary time frames for the Guyana Sustainable Forestry Project and the Papua New Guinea Biodiversity Program were underestimated. In cases in which time frames are insufficient, the GEF grants do not necessarily have to be increased, just disbursed over a longer period. In other cases, both a longer time frame and a larger GEF contribution may be needed. Such may be the case for the Zimbabwe biodiversity project.

Climate Change Projects

198. The projects that appear to be most sustainable are those that involve support for near-commercial practices, programs, or technologies. For near-commercial projects, post-GEF sustainability is defined by the projects' replicability. Thus, the sustainability of the project can be measured largely by its expansion into additional communities. Project sponsors expect the Brazil Energy Efficiency Project, for example, to be widely replicated.

199. Many of the energy projects under the Operational Programs (OP) 5 and 6 categories, such as the India Alternate Energy (wind power component), Poland Efficient Lighting, India Biomethanization (abattoir anaerobic digestion sub-project), and Mexico Efficient Lighting projects, involve near-commercial activities and have good prospects for replication. The India Alternate Energy project, which funded a modest wind energy demonstration, has helped facilitate an expansion of wind power well beyond what the GEF subsidy covered. The project helped stimulate subsequent investment roughly the equivalent of 800 megawatts of additional wind power capacity.

200. Other projects involve financial approaches that are explicitly designed to keep the project operating after GEF funds are fully expended. These include the World Bank's Brazil Energy Efficiency project, the Bank's Indonesia Solar Home System Project, and IFC's Hungary Energy Efficiency Cofinancing Project. In the Indonesian project, solar dealers will receive GEF grant funds, some of which they can invest in strengthening their businesses. The initial start-up cost will be high for the dealers, and the GEF grants will help pay for this higher price. By the time the GEF grant funds are disbursed, it is hoped that the start-up costs will have dropped enough for dealers to continue operating without subsidies.

201. Although some generalizations can be made about what kinds of projects are near-commercial, this will vary by country and market conditions. For example, solar photovoltaics appear to be increasingly commercial in a number of countries and the Indonesia Solar Home System project seems poised to implement a sustainable PV credit system, but GEF-supported PV efforts in India and Zimbabwe may face difficulties in continuing without GEF funds. In the India Alternate Energy Project, the greater financial sustainability of the wind power sub-projects compared with the PV sub-projects may be due to higher PV marketing costs, lower consumer awareness of PV, and more limited ability for beneficiaries to pay for PV technology.[34]

202. Most of the climate portfolio involves near-commercial projects, although some projects only hold the promise of demonstrating near-term improvements in a particular technology or practice, thereby reducing the time it takes to become commercial. The ability of these more innovative or risky projects (which fall within the OP7 category) to attract commercial financing is not as important as their contribution to improving the economics and increasing the knowledge base of a given technology or practice. This increases the chances of attracting new (noncommercial) funding for the project or its replication so that further advances can be made. Examples include the Brazil Biomass Gasification project and the upcoming India Solar Thermal hybrid project. So far, no such noncommercial GEF projects have been completed, so their sustainability remains uncertain.

203. The increased orientation of climate projects toward technology commercialization and market transformation and accompanying private sector financing increases the sustainability of the GEF climate portfolio. The trend toward private sector financial involvement is due partly to project sponsors' desire to ensure financial sustainability and partly to the need for this involvement to finance such near-commercial projects.

Biodiversity Projects

204. With few exceptions, projects in the biodiversity portfolio that do not have trust funds are unlikely to become financially sustainable without subsequent grants from a bilateral or multilateral donor or a government decision that continuing the activity is in

[34] Global Environment Facility, *Project Implementation Review 1996* (Washington, D.C.: 1997), p. 13.

its development interest. Projects that include commercial elements such as ecotourism or nontimber enterprises stand a greater chance of achieving financial sustainability because such elements can pay at least a portion of the recurrent costs. IFC's Small- and Medium-Scale Enterprises Project and Terra Capital Fund are GEF's main efforts to exploit commercial biodiversity opportunities.

205. Because grant-making agencies and organizations change over time, the need for most biodiversity projects to attract additional grant funds may not be sustainable in the long term. Hence, many such projects are seeking to establish trust funds. In the GEF pilot phase, six out of thirty biodiversity projects had GEF-funded trust funds. So far, seven projects in the operational phase have or anticipate having them. Trust funds provide ongoing funding because only the interest earnings of the fund are used. If well-managed, the fund will finance the project in perpetuity.

206. Some GEF Council members are concerned that capitalizing a trust fund involves a much larger commitment of GEF funds than simply paying for the near-term costs of a project. For example, a protected area project that might cost GEF $5 million over five years would require a trust fund of $20 million to yield $1 million annually (based on annual interest earnings at 5 percent). On the other hand, without a trust fund, many projects with recurrent costs are likely to either return to GEF for subsequent grants or disappear.

207. One indicator of a noncommercial project's likelihood of attracting future resources is the degree of political support generated by the project within the host government. A proportionately large government contribution can sometimes signify stronger support for the project's objectives and, thus, a willingness to support the project once GEF funds have been spent. For example, the Government of Indonesia has contributed $500,000 to supplement the $1 million from GEF for the Rhino Protection Project. This program is achieving more success than most other GEF projects in Indonesia and has received commitments for additional funds at the end of the GEF project cycle. A high proportion of government funding does not necessarily mean the government will pay recurring costs later, however. It does not even mean strong government support for all the project's aims. Although the Government of Indonesia is providing $13 million toward the $47 million Kerinci Seblat Park Project, the project has run into major problems, in part because of conflicting interests among different government agencies.

208. GEF project submissions are required to include a specific discussion of financial sustainability. Although many submissions give this topic only superficial attention, others contain plans for post-GEF financing. For example, the China energy conservation project included several domestic banks in project preparation activities to familiarize them with energy performance contracting and prepare them for eventual financial support of performance contracting once the project is completed. Similarly, the India solar thermal project is predicated on the state government of Rajasthan raising electricity tariffs so that the state electric utility will be able to collect enough ratepayer funds to pay for the solar-generated electricity when the GEF funds are fully spent. The Indonesia

COREMAP coral reef project anticipates strengthening legal structures to allow coastal communities to charge fishing user fees that would capitalize a fund to pay for reef maintenance.

209. In general, however, serious financial planning for project continuation in the post-GEF period appears uncommon. The team's review of seventeen investment project submissions in the ten focus countries found that financial sustainability was addressed in more than a cursory manner in just seven cases. Many of the submissions confuse sustainability and project success. Most list factors the sponsors hope will contribute to sustainability, but few discuss how recurrent costs will be met.

210. One indicator of sustainability is the extent to which project sponsors return to GEF for a second grant. Of projects approved during the pilot phase and now completed, the proportion applying for another grant is relatively high in the biodiversity focal area: six out of eight completed projects. Five of these are country-specific projects and one is a global project. In contrast, only five out of fifteen completed (or nearly completed) climate change projects have applied for a second grant. Of these, only one is a country-specific project. It should be noted, however, that in some cases, although it was not specifically agreed to at the outset, a follow-up grant was expected, as GEF financed the preparation of management plans or feasibility studies that would lead to implementation. This was the case, for example, with the biodiversity projects in Argentina and Viet Nam and the climate project in Brazil. In other cases, a second grant was sought because the project was expanding into new areas or involved more time than was originally anticipated. In nearly all cases, the second grant sought and awarded has been larger than the first one.

Conclusions

211. The study team found that the post-GEF sustainability of projects is likely to vary greatly from project to project. Financial sustainability in the near-commercial climate projects differs fundamentally from that in largely noncommercial biodiversity projects. The former depends largely on replicability by government or private investors, whereas the latter must be either self-financing through trust funds or obtain additional grant financing from donors or the government. The experience of pilot phase projects now completed indicates that biodiversity projects are more likely to have serious problems of financial sustainability than climate projects.

212. In some cases, unreasonably short project timetables have made it difficult to implement project activities, demonstrate success, and achieve financial sustainability. The GEF family has not always been realistic about the time needed to implement some projects, particularly in the biodiversity focal area.

Recommendations

213. The GEF Secretariat and Implementing Agencies should require that project proposals contain a more thorough assessment of options for achieving financial

sustainability.

214. The GEF Secretariat and Implementing Agencies should encourage the broader use of biodiversity trust funds to help ensure the funding of biodiversity projects in perpetuity. The Implementing Agencies should continue to seek a high rate of leveraging of other sources of trust fund capital.

215. The Implementing Agencies should provide for longer project implementation periods--for example, five to seven years instead of three of five years--in cases in which project sponsors can show that extra time will be necessary to implement the project and demonstrate its viability for future funders.