

@The Global Environmental Facility: Green Fund or Green Folly?

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In recognition of the need for new financial resources to be brought to bear to meet such global environmental threats as global warming, ozone depletion, loss of biodiversity, and pollution of international waters, the French government, with the support of Germany, proposed a Global Environmental Facility (GEF) in September 1989. In November 1990 the GEF was established as a three-year pilot program with an initial funding commitment of SDR 1 billion (about \$1.3 billion US) to focus on these four areas. Funding would be on a grant or concessional basis, additional to existing aid flows, and would involve broad-based multilateral participation.

A key premise of the GEF is that it would support activities to benefit the world-at-large that would not otherwise be supported by existing environmental or development programs. Thus it would fund projects that offer substantial global environmental benefits, but that are not justified economically unless part of the cost is offset by concessional assistance. Similarly, it would support projects that are economically justified without GEF funding, but which, if altered to bring about additional global environmental benefits, would no longer be economically viable.

It was also contemplated that the GEF would serve as the financial mechanism for a number of broad international environmental agreements, including the 1987 Montreal Protocol on Substances That Deplete the Ozone Layer and the recent conventions on climate change and biodiversity signed at the Rio Summit. Due largely to the concerns of developing countries that the GEF decision-making process is not sufficiently democratic and transparent, the Montreal Protocol financial mechanism has been kept outside the GEF, although it has links with the GEF. Both the climate and biodiversity conventions designate the GEF as the interim operational entity for their respective financial mechanisms.

The pilot phase ends at the end of 1993, and the GEF is currently seeking to have its mandate extended and made permanent. At Rio, several countries indicated they would be willing to support a continuance of the GEF only if it is significantly restructured to take into account the concerns that have been raised regarding among other things governance, management, participation, and access to information. Similarly, the climate change convention calls for restructuring the GEF to make it more accountable and to make its membership universal.

Non-governmental organizations (NGOs) have been most critical of the GEF, finding fault both with its projects and with its procedure. Because about 80% of GEF investment projects are linked to regular World Bank loans, NGOs are concerned that bad World Bank projects, from an environmental standpoint, may be "greenwashed" by

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attaching a GEF component. This appears to have happened with a number of GEF projects. NGOs are also dismayed that the recent trend in the international environmental area toward increased public participation and access to information has not been followed by the GEF.

The GEF Structure

The GEF is operated jointly - under a tripartite agreement - by the World Bank, the United Nations Development Programme (UNDP), and the United Nations Environment Programme (UNEP). The World Bank is the GEF administrator and is responsible for all investment projects. UNDP is responsible for pre-investment studies, technical assistance and projects, and a small grants program. UNEP provides environmental expertise and ensures project consistency with existing environmental treaties.

The GEF Chairman, who comes from the World Bank staff, administers the facility and fosters collaboration and cooperation between the implementing agencies. The Chairman is assisted by the GEF Administrator - also from the Bank - who oversees the facility and coordinates the work programs.

Delegates from donor countries - the "Participants" - meet twice a year to oversee the GEF's activities and review the projects. The Participants set terms and conditions for use of GEF funds and assess work programs developed by the implementing agencies.

An Implementation Committee (IC) composed of GEF operational and managerial staff from all three implementing agencies meets regularly to review policy, program, and project issues. It screens project proposals to determine eligibility for GEF assistance and identifies and reviews policy issues for the various "tranches" of projects.

A Scientific and Technical Advisory Panel (STAP) advises the three implementing agencies on technical issues including available technological options, technical criteria for project approval, and evaluation of performance reports.

The Project Cycle

While governments must endorse all projects in their countries, projects may be proposed by governments, the implementing agencies, NGOs, the private sector, and others. Normally proposals are submitted directly to the implementing agencies by governments, but the implementing agencies may also solicit proposals for projects they are interested in funding.

Projects administered by the World Bank - designated "investment projects" - are assigned to the appropriate World Bank Regional Environmental Chief. A GEF Initial Executive Project Summary (GEF-IEPS) is prepared by the Bank staff and, after internal and some outside review, submitted to Bank senior management. If management decides to proceed, the project is

(\$8.5 million). An additional \$7.8 million has been approved for feasibility studies by UNDP's Pre-Investment Facility (PRIF).

Restructuring the GEF

In its paper "The Pilot Phase and Beyond," the GEF discusses how it might be restructured to meet the needs of the conventions and to respond to concerns that have been raised about operation of the GEF in its pilot phase. The paper acknowledges the importance of "universal membership," and notes that the involvement of developing countries and NGOs is crucial to success of the GEF. It does not, however, address some key issues that have been raised in this regard. For example, the requirement that a country contribute SDR \$4 million to the fund to become a Participant prevents many developing countries from acquiring membership, but there is no indication that this requirement will be dropped. Participation by NGOs in the GEF has also been very restricted. Meetings of the Participants are closed to NGOs - in contrast to the climate change and biodiversity negotiations, and the meetings of the Montreal Protocol parties and Executive Committee, where NGOs may attend as observers.

One of the greatest sources of frustration for NGOs - and frequently for Participants as well - has been the difficulty in obtaining important information about projects. Participants and NGOs are presented with work programs early in the project cycle - before much of the analytical work has been done - and are not given the opportunity to continue to review projects as they evolve through the project cycle. Furthermore, many key documents are never made available to Participants or NGOs. For example, information about regular World Bank projects which have GEF components is generally not released by the Bank.

NGOs are also concerned that a thorough independent analysis of the GEF's operations during its pilot phase be completed before the GEF restructuring is undertaken and its funds replenished. While the need for such a review has been acknowledged by the GEF Chairman, there is little indication that it will be undertaken in time to allow Participants to respond and recommend required changes. Modalities for linkage to the conventions also needs to be addressed before the GEF takes on its final form. Unfortunately, this requires coordination between the GEF and the Conferences of the Parties to the conventions, which will probably not come into existence until after November 1993. Thus, it is important that the GEF have a flexible structure that can accommodate any and all changes the Conferences of the Parties deem necessary.

submitted to a technical panel for further review. Investment projects can be "freestanding," but in most cases are linked to ordinary Bank projects. Freestanding projects are limited to \$10 million, while linked (component) projects may receive up to \$30 million. These amounts may be increased through bilateral "cofinancing."

Projects administered by UNDP – designated "technical assistance projects" – come through the agency's field offices. They are reviewed by regional bureau staff, aided by independent technical experts. Technical assistance projects are all freestanding and, like freestanding investment projects, are limited to \$10 million in GEF funds, although they may also receive additional bilateral cofinancing.

Next proposals are submitted to the STAP for technical and scientific review, then to the IC to ensure projects meet established criteria, and finally to the PA, which approves the overall work program. Upon approval, projects enter the "preparation" phase (for World Bank investment projects) or "formulation" phase (for UNDP technical assistance projects), during which they undergo further development. For its investment projects the Bank prepares a GEF Final Executive Project Summary (GEF-FEPS) at the end of the preparation phase for clearance by Bank management and, following a field appraisal, by the appropriate Regional Vice President. Linked projects – i.e., components of regular Bank projects – must in addition be approved by the Bank's Executive Directors. UNDP's formulation process is similar to the Bank's preparation process, but takes place in the recipient country and may involve outside participation from NGOs and local people.

GEF Project Funding

The GEF is made up of three separate funds: the Global Environmental Trust Fund (GET) – the GEF's "core fund" – with roughly \$860 million committed by twenty five countries; \$300 million in coordinate bilateral financing arrangements (co-financing and parallel financing) with six countries (U.S., Japan, Australia, Belgium, Canada, and Switzerland); and a \$200 million fund administered by UNEP under the Montreal Protocol on Substances That Deplete the Ozone Layer. A rule-of-thumb is that 40-50% of these funds are for global warming, 30-40% to conserve biodiversity, and 20% is to protect international waters. All the money from the Montreal Protocol fund goes to protect the ozone layer.

As of October 31, 1992, the World Bank had approved nine investment projects totalling \$98.4 million. Of these, five are for preserving biodiversity (\$50 million), two are for global warming (\$5.8 million), and two are for protection of water resources (\$42.6 million). UNDP has approved twelve freestanding technical assistance projects totalling \$74.5 million, of which six are for global warming (\$36 million), five are for biodiversity (\$30 million), and one is for international waters