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THE GLOBAL ENVIRONMENT FACILITY: WHAT'S IN IT FOR DEVELOPING COUNTRIES?

The Global Environment Facility, to its supporters, is an important step in collaboration between international institutions (UNDP, UNEP and the World Bank) to finance and manage initiatives to safeguard the global environment. To its critics it is an inadequate response to the global environmental challenge and its reliance on existing international structures inherently limits its potential effectiveness. Not all developing countries are enthusiastic.

Over the next six months there will be an attempt to reconcile these positions at meetings of the GEF Participants in Washington in September and Paris and Geneva towards the end of 1993 before the three-year GEF pilot phase ends. On the agenda are restructuring and replenishment; but under 'restructuring' the claims for greater transparency and accountability are primarily questions about the scope of the facility and how its funding decisions should be determined. If agreement can be reached, a fund of up to $4bn could result.

In this Briefing Paper we first describe the purpose and functioning of the GEF and examine its record to date. We then review the proposed reforms and consider the major challenge to the GEF after the replenishment is complete.

Environment and Development: Going Global

Developed and developing countries are all likely to be affected by warming of the earth's atmosphere, stratospheric ozone depletion, and other global environmental issues. But faced with budgetary constraints and competing economic and social priorities, poorer countries find it difficult to justify the expenditure of scarce national resources on the frequently nebulous and certainly longer-term environmental problems affecting the world as a whole. Rather than spend limited funds on environmental investments that yield diffuse benefits across the globe, these governments may be tempted to leave protection of the global environment to others, particularly with respect to environmental problems such as climate change for which they hold the industrialised world largely responsible in the first place.

For example, in preparations for the Rio Conference and in negotiations on ozone depletion and climate change, developing countries have repeatedly made it clear that they expect to be compensated for the 'incremental costs' of global environmental efforts, i.e., expenditures undertaken to address global environmental objectives where the costs exceed the benefits in a purely national context. Non ozone-depleting chemicals are generally held to be more expensive than the chlorofluorocarbons they replace. More efficient power plants to reduce carbon dioxide emissions usually entail higher capital costs. Encouraging developing countries to undertake the additional expenditures to achieve global environmental benefits - consistent with their economic and developmental objectives - has therefore become a major international concern.

In September 1989, the governments of France and Germany proposed the establishment of a separate funding 'window' at the World Bank to help change the cost-benefit calculus for projects with global environmental benefits. According to the French and German proposal, traditional official development assistance - as carried out bilaterally and through the multilateral development banks - would continue to fund environmental programmes and projects that could be justified on a national basis. The GEF would fund projects with global benefits that would otherwise not be undertaken. As a recent GEF working paper suggests: 'In general, the GEF funds projects where domestic costs are greater than domestic benefits, but global benefits are greater than domestic cost.'

Nearly four years later, the GEF has been widely accepted as the major international mechanism for financing global environmental efforts. Participating governments or 'GEF Participants' are now working to restructure the GEF to address a number of problems experienced in its pilot phase. This restructuring is intended to help the GEF serve the needs of the recently concluded conventions on climate change and biodiversity. It is also intended to enable the GEF to play the role envisaged for it by Agenda 21, the international blue-print for action on environment and development adopted at the Earth Summit in Rio.

The GEF: Organisation and Finance

The Global Environment Facility provides grant financing for global environmental projects in four areas: warming of the earth's atmosphere, loss of biological diversity, pollution of international waters, and stratospheric ozone depletion. The facility is designed to assist lower- and middle-income countries with annual per capita income levels below $4,000.

Responsibility for implementing the GEF is shared by the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP) and the World Bank. This division of responsibility was designed to forestall the establishment of a new bureaucracy and it was felt that only modest institutional adjustments would be needed in each of the three implementing agencies. Within this tripartite structure, the agencies play distinct roles.

- UNDP is responsible for technical assistance, capacity building, and project preparation. Through its worldwide network of offices, it helps to identify projects and conducts preinvestment studies. It is also charged with running a small grants programme for NGOs and local groups.
- UNEP provides the secretariat for the Scientific and Technical Advisory Panel (STAP) as well as environmental expertise and advice on specific projects. Its role is to ensure that the policy framework for the GEF is consistent with conventions and related legal instruments and agreements.
- The World Bank administers the GEF, chairs the meetings of Participants, acts as the repository of the Trust Fund, and is responsible for implementing investment projects.

The three implementing agencies are supported by the GEF Secretariat headed by a Chairman, currently Mohamed El-Ashry, and the GEF Administrator, now Ian Johnson. Located at the World Bank, the Secretariat prepares documentation and reports, convenes semi-annual and special sessions of the GEF Participants, promotes coordination among the three implementing agencies, and ensures day-to-day operation of the Facility.

GEF projects currently must meet a number of criteria developed by the STAP in consultation with the GEF Participants. Projects are meant, for example, to be experimental and/or demonstrational, sustainable, cost-effective, and have clear

GEF Investment Projects Approved in 1992

Ghana
Coastal Wetlands Management Project
Biodiversity. Focus: migratory birds, coastal wetlands, unique and threatened ecosystems. $7.2m

Seychelles
Biodiversity Conservation and Marine Pollution Abatement
Biodiversity. Focus: small islands ecosystems, high endemism, feral animal control, fishing fleet pollution control. $1.8m

Mauritius
Sugar-Energy Technology Project
Global Warming. Focus: sugar-mill energy efficiency; technologies for sugar biomass energy production, handling and storage; technical staff training. $3m

Mexico
Protected Areas Program
Biodiversity. Focus: megadiversity, biological corridors, arid lands, forest coastal wetlands; support for the management of eighteen protected areas. $23m

Bolivia
Biodiversity Conservation Project
Biodiversity. Focus: protected areas management; education and training; demarcation, legislation and policy actions; indigenous people; knowledge systems for design of ecosystems management. $4.5m

Belarus
Forest Biodiversity
Biodiversity. Focus: unique forest species; relic stands; air pollution threat; gene banks; preservation. $1m

Egypt
Red Sea Control Zone Management
International Waters. Focus: ecotourism impact management; protection policy and incentives for sustainable use; building block for regional cooperation under Red Sea convention; coral reefs. $4.75m

Bhutan
Trust Fund for Environment and Conservation
Biodiversity. Focus: training; surveys; management plans; institutional development. $10m, with a further $10m sought from NGOs.

India
Alternative Energy
Global Warming. Focus: photovoltaic power; wind power; financing and policy innovation. $26m

China
Marine Environment Pollution Project
International Waters. Focus: modernisation of facilities for handling ships' wastes; establishment of conditions on international traffic, waste volumes and handling and disposal arrangements. $30m

Total of the above: $111.25m

Table 1: Contributions Pledged[†] to the GEF 1990-93 (US $m)

	Core Fund	Cofinance	Total
Algeria	5.80		5.80
Australia		21.67	21.67
Austria	38.99		38.99
Belgium	7.26	7.26	14.51
Brazil	5.80		5.80
Canada	7.98	11.96	19.94
China	5.80		5.80
Côte d'Ivoire	2.90		2.90
Denmark	23.58		23.58
Egypt	5.80		5.80
Finland	22.56		22.56
France	170.44		170.44
Germany	164.55		164.55
India	5.80		5.80
Italy	85.51		85.51
Japan	10.00	140.00	150.00
Mexico	5.80		5.80
Netherlands	54.77		54.77
Nigeria	5.80		5.80
Norway	27.94		27.94
Pakistan	5.80		5.80
Spain	14.51		14.51
Switzerland	43.62	14.42	58.05
Turkey	5.80		5.80
United Kingdom	69.62		69.62
United States	50.00*		
	(30.00)*	150.00	150.00
World Bank	41.44		41.44
TOTAL	837.87	345.31	1,183.18

† Pledged as at September 30, 1992.

* In 1992 the United States pledged $50m to the core fund. Congress reduced the Bush administration budget request to $30m for Fiscal Year 1993 and conditioned the appropriation on the GEF's restructuring. It may therefore be held over to the post-pilot phase. If the original $50m were included in the Core Fund, the total would rise to $887.87.

global benefits. In addition, they must not duplicate actions that could be supported under other funding programmes, although critics complain that GEF projects are often little different from traditional development projects with an environmental component. The Box above lists the investment projects which secured final approval in 1992. By mid-1993, 32 projects had been approved overall.

Funding

Funded at approximately $1.2 billion over the three-year pilot phase, the GEF is in reality an umbrella mechanism encompassing the Global Environmental Trust (GET) Fund and a series of co-financing arrangements. The GET constitutes the core fund to which all direct contributions are made. Pledges to the GET now total $838-$888m for the period 1990-93. This figure includes voluntary commitments from 15 industrialised nations, as well as a $5.8 million donation from 12 developing countries. France, Germany, and Italy are the three largest core fund contributors, with three-year total pledges of $170 million, $165 million, and $86 million, respectively with the UK next at nearly $70m. (See Table 1.)

Unlike Europe, the United States, Japan and four other countries have elected to participate either wholly or in part through co-financing or, in the case of the United States, parallel financing. Under the co-financing arrangement, which accounts for approximately $345 million in pledges to the GEF, a donor government selects a project already underway in the GEF project pipeline and then donates the funds directly to the recipient government in support of that particular project, thereby freeing core funds previously committed to that project for other projects.

Of the $888 million available to the core fund, over 80 per cent has now been committed, with biodiversity and global warming dominating the investment profile. (See Table 2.)

The GEF's Critics

Some participating governments and several environmental NGOs (such as the World Wide Fund for Nature) have repeatedly criticised the three implementing agencies, particularly the World Bank, for the lack of publicly available, complete, and timely documentation on GEF projects. Echoing frequent criticism of the World Bank's regular operations, critics argue that access to such information and greater transparency in the GEF project development cycle are essential to ensuring the involvement of local communities and other groups likely to be affected by the projects.

The charge has been that in the initial rush to demonstrate progress during the GEF's pilot phase, the World Bank and UNDP appeared at times to emphasise speed over project quality. While the implementing agencies slowed the pace of projects to respond to this concern, participating governments and NGOs continue to stress the need for more detailed technical review by outside experts on a project-by-project basis. Ironically, the GEF has also been criticised for having too long and complicated a project cycle. In addition, the Bank has been accused of using the GEF to resurrect projects that had not received sufficient support at some point in the Bank's regular review cycle or as environmental window-dressing for conventional World Bank projects.

At the GEF-NGO Consultation in Beijing in May 1993, climate change and biodiversity projects in Laos, Kenya, Ecuador, Mexico and the Philippines were among the specific items of criticism, and poor management and inadequate local participation among the general problems raised.

In addition to the criticisms described above, many developing countries have raised a number of their own concerns related to the GEF and its continued use as an international financing mechanism. A common developing country concern, for example, is that the GEF's narrow focus on climate change, biodiversity, and other distinctively global environmental issues diverts scarce international financial resources away from environmental issues of more immediate concern to them, including desertification or the provision of adequate sanitation and drinking water supplies. Other developing counties, including those over the $4000 annual income ceiling, are sceptical about devoting scarce international concessional flows to the Facility's core environmental aims.

Some countries have also objected to the prominent role of the World Bank, an organization they view as heavy-handed and systematically biased in favour of industrialised-country interests. Finally, many developing countries have argued for a mechanism with a more democratic procedure, such as that offered by the Montreal Protocol Fund, which balances developing and industrialised country representation on its Executive Committee.

Reforming From Within

Despite these criticisms the GEF has - with strong OECD donor government support - emerged as the major international mechanism for funding global environmental efforts. The climate change and biodiversity conventions, both adopted in Rio, designated a restructured GEF as an interim mechanism for financing developing-country participation in the activities of the conventions. In addition, Agenda 21 charges a restructured GEF with '[covering] the agreed incremental costs of relevant activities under Agenda 21, in particular for developing countries.' All three international agreements condition their endorsement of the GEF on a number of reforms. These reforms include assurances of universal participation in the GEF's activities, a more transparent and democratic administrative structure, the provision of timely, identifiable, and predictable funds, and/or the provision of new and additional funds.

GEF Participants are now working to restructure the GEF to respond to the problems identified in the pilot phase and to meet the conditions described above. The proposals being discussed thus cover three main areas: overall control (or 'participation'), scope, and links to the conventions.

Control

All the governments participating in the GEF negotiations agree that decisions within the restructured GEF should be taken by consensus wherever possible. In the event of consensus not being possible and a vote becoming necessary, governments have generally accepted the principle that the GEF's decision making structure should ensure balanced and equitable representation for developing countries while giving due weight to the financial contributions of donor countries.

Developing countries have generally favoured a double-majority voting mechanism modelled after the Montreal Protocol Fund, which provides an equal number of seats to developed and developing countries on the Fund's 14-nation Executive Committee and requires a majority vote of each bloc in order for decisions to pass. Their primary objective is to ensure that developing countries share control of the GEF.

Participating governments now seem to be moving toward a single-majority voting system with the total voting power determined according to some combination of basic membership votes (divided equally among all nations) and votes weighted by financial contribution. Critical decisions (e.g., related to fundraising) might require some type of special majority (e.g., 75 percent of total voting power). How the total voting power will be divided up between basic membership and contribution-weighted votes could be a fairly contentious issue in the negotiations ahead.

Participating governments have also generally agreed to the principle of universality, as prescribed in both Agenda 21 and the conventions, which would allow all interested governments to participate in the GEF's activities. While endorsing the principle of universal membership, Participants are considering a constituency system for representation in the GEF [similar to the Executive Director system used in World Bank operations] to avoid an unwieldy decision making process. According to this proposal, participating nations would be divided into 20 to 30 constituencies, with the means for ensuring a balanced expression of views within a constituency to be left to the particular countries involved. However, the World Bank ED system does not at present allow the EC to form a constituency and it combines some developing contries in anomalous groupings so it would not be suited to the GEF without some modification.

Scope

While the definition of global environmental benefits still needs to be worked out in greater detail, the GEF Participants have generally agreed, in light of the GEF's resource constraints, to limit the Facility's scope to the four areas already covered (climate change, biodiversity, international waters, and ozone depletion).

Land degradation issues, primarily desertification and deforestation, which are of particular concern to many developing countries, will be eligible for funding only if they can be related to the four focal areas.

Link to Conventions

Article 11 of the climate convention defines a financing mechanism for the 'provision of financial resources on a grant or concessional basis, including for the transfer of technology.' The mechanism is to 'function under the guidance of and be accountable to the Conference of the Parties [i.e., the group of nations that have ratified the climate convention], which shall decide on its policies, programme priorities and eligibility criteria related to this Convention.'

While the financing provisions of the biodiversity convention mirror much that is in the climate convention, the biodiversity convention vests more authority with the Conference of the Parties in relation to the GEF. Article 21, for example, provides that the financing mechanism 'shall function *under the authority*

Table 2: GEF Project Commitments by Geographic Region and Environmental Issue ($m)

	Africa	Asia	Arab States and Europe	Latin America and Caribbean	Global	Total	% of Total Commitments
Biodiversity	71.0	71.6	31.6	112.8	12.8	299.8	43
Global Warming	52.5	126.5	48.7	26.1	23.8	277.6	40
International Waters	16.0	38.0	45.9	14.0	2.6	116.5	16
Ozone	0.0	0.0	3.8	0.0	0.0	3.8	1
Total	139.5	236.1	130.0	152.9	39.2	697.7	100
% of Total Commitments	20	34	19	22	5	100	

Note: Project Commitments to March 1993
Source: Report by the Chairman to the GEF Participants' Meeting, December 3-5, 1992, in Abidjan, Côte d'Ivoire

and guidance of, and be accountable to, the Conference of the Parties' (emphasis added). Significantly, the USA will now become one of the Parties, following a decision on 22 April 1993 of President Clinton to sign, and seek ratification for, the Biodiversity Convention, reversing the policy of the Bush administration.

The GEF Participants and the preparatory bodies convened under the conventions are now attempting to define an appropriate and balanced division of responsibility between the GEF Participants' Assembly and the Conference of the Parties to the respective conventions. Although preliminary and non-binding on governments (and admittedly developed before the conventions had been adopted), a GEF working paper (endorsed by Participants) provides some indication how specific responsibilities could be divided. According to this paper, 'the primacy of the parties to an individual convention would be maintained with respect to policy and program, guidelines for project formulation, and eligibility criteria.' The Participants' Assembly would, among other things, oversee GEF implementation to ensure conformity with the policy and strategic direction provided by the conventions; direct the use of GEF funds; review and approve joint GEF work programs; provide general oversight and coordination among the three implementing agencies; and provide periodic reports to the conventions.

The newly-formed 53-member Commission on Sustainable Development (CSD) will also be in a position to review the GEF when monitoring the agreements reached at the UN Conference on Environment and Development.

Conclusion: Replenishment and Reform

While the commitment of new funds for the GEF is closely related to the restructuring negotiations, it is likely to be the last issue to be resolved as nations will be generally unwilling to commit resources until they are convinced that they like the product. A number of countries have, however, indicated strong support for a doubling or tripling of the GEF's funding from the pilot phase, which would result in a $2-4 billion 'GEF II' fund over the 1994-1996 phase of operations. At the Beijing Participants Meeting it was agreed that replenishment and restructuring should be concluded together in December 1993. Some developing countries, especially the poorer ones, had concerns that these sums would not be additional and that development aid would therefore be diverted. African countries are worried that contributions to the GEF will be made at their expense. Some of the richer Asian countries still maintain that environmental rules, regulations and expenditures may be in part designed to stem their rapid economic development.

The GEF still has some way to go if it is to meet the aspirations of the international community. In order to gain the acceptance of many developing countries and environmental NGOs, the GEF must, for example, improve its project preparation and review process, especially where local communities are likely to be affected. It will need to take the call for democratisation seriously in both voting and decision-taking structures and also in consultation on project implementation. It must work with the climate change and biodiversity conventions in defining a balanced and effective relationship between the respective governing bodies and in serving the objectives of the conventions. It must develop an appropriate and workable definition of the concept of incremental cost. It must also clarify the distinction - as well as the relationship - between national and global environmental benefits in a manner acceptable to all countries. But despite the challenges and criticisms, the GEF will remain for the foreseeable future the only substantial and internationally accepted mechanism to assist developing countries to meet global environmental obligations. An entirely new institution is not an immediate prospect - nor a desirable one - and even the harshest critics recognise that the GEF will need to be reformed, not replaced.

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