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To : Katie, McGinty
Asst. to the President

From : Bob Repetto, WRI BR

On : Future Orientation of the GEF

There are a number of issues regarding the GEF to be resolved:

What should be its governance structure, and its accountability to the authorities of the Climate and Biodiversity Treaties, for which it is the interim funding mechanism?

Should it continue to be the funding mechanism for the treaties?

Should its scope be restricted to that of the Treaties? of the initial 4 areas? of the entire Agenda 21?

Should it continue to operate predominantly as a funding window for World Bank projects and project components? If not, how should other implementing agencies, such as regional development banks, bilateral agencies, NGOs and private investors be brought in?

To what extent should GEF procedures and GEF-financed projects be more open to public and NGO participation and scrutiny? How should the GEF's pilot phase be evaluated?

Should the GEF's initial operating principle, to fund only the incremental cost of projects with global benefits, be retained?

WRI has hosted an international meeting to provide strategic thinking to the GEF on these issues, and participated in numerous NGO consultations. What follows is a summary of our thinking on certain of these issues, especially on the GEF's scope and operating principles, that is not available in other documents.

A. The Problem

The principle that the GEF would finance the incremental costs of globally cost-effective investments in the 4 designated areas worked in the pilot phase. It is not appropriate for future activities under the Conventions:

1. In the climate area, there is a huge backlog of investments <u>within</u> the "no regrets" boundary in LDCs, Eastern Europe and the CIS for which insufficient financing is available (high pay-off investments in energy efficiency, plant modernization, etc.). Given this capital constraint, it's uneconomic for the GEF to be seeking marginal investments not justified by national benefits and costs.

2. In the biodiversity area, interventions will be based largely on country plans and strategies. These typically include a mix of policy reforms (e.g, forestry concessions and agricultural pricing), institutional changes (e.g. land tenure issues), capacity building, and project investments (e.g.,protected areas and rural development). Biodiversity strategies resemble sector adjustment programs. Trying to distinguish the incremental cost of activities within country plans is artificial.

Also, there is considerable resistance among developing country governments, other development finance agencies, and NGOs to the idea that the GEF should be just another funding window for World Bank projects and project components. Broader participation is demanded.

B. The Direction to Move

The GEF will be more effective beyond the pilot phase if it facilitates a broader range of international capital transfers in support of the Conventions and within the 4 areas. It will mobilize far more capital, and will fill a key institutional gap no other agency is prepared to fill. It will deflect many of the objections to the GEF as it's now defined.

1. In the climate area, a crucial role for the GEF is to facilitate some form of international carbon trading. Joint implementation and offsets are bound to emerge in some form, because of the huge potential cost savings. The Nordics are pressing to get credit for financing CO_2 abatement in Eastern Europe. The Dutch are considering a fund to finance offset investments in LDCs. U.S. utilities are planting trees in Latin America. Tradable CO_2 permits and carbon taxes with credits for off-site carbon abatement are both under active discussion.

Any such development will require an international institution to a) identify potentially offsetting investments; b) quantify potential carbon abatement; c) facilitate investments, and d) monitor and certify implementation. There is now no such institutional mechanism. If the GEF evolves in this direction under the Convention, it could mobilize a far greater amount of capital, both private and bilateral, than it ever could through direct donor contributions, and at the same time greatly broaden participation. There is a very recent discussion paper prepared by Ken Newcombe in the GEF office of the World Bank, paralleling these ideas at greater length.

2. In the biodiversity area, the most important role for the GEF under a Treaty will be to <u>assemble</u> and coordinate resources in support of country biodiversity strategies. These resources will include technical assistance, conventional project aid, sector financial support, and, to some extent, private investment. Sources of funding and technical assistance will typically include bilaterals and regional development banks, as well as NGOs. Again, GEF could potentially mobilize substantially more resources than

it has to spend itself. while broadening participation substantially.

The crucial role for the GEF as the funding mechanism for the Biodiversity Treaty is to do what FAO failed to do as lead agency in the Tropical Forest Action Plan: namely, to help develop and support coherent country programs. Without coherent programs encompassing policy reforms and institutional changes as well as project investments, activities under the Biodiversity Treaty will degenerate -- as did the TFAP -- into financing for ineffectual isolated projects.

C. Implications

Most donor governments still think the GEF should be a circumscribed fund for marginal project finance, as in the pilot phase. Many recipient governments think the GEF should fund the entire "sustainable development" agenda. Considerable education will be needed before they see the potential of the broader intermediary role described above.

For the GEF to play this role, its link to World Bank projects must be de-emphasized, and other agencies must be brought in as project principals, not just as co-financers or implementing agencies. Private investments must be encouraged, for example. GEF staffing must be changed to reflect its role as an intermediary and coordinating agency.