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DEPARTMENT OF THE TREASURY
WASHINGTON

June 8, 1993

MEMORANDUM FOR THE DISTRIBUTION

FROM: Susan Levine
Deputy Assistant Secretary
International Development, Debt and Environment Policy

SUBJECT: Preparation for the G-7+ Informal Consultation

Treasury has created the following draft matrix which compares our positions on certain key GEF-related issues with those of the G-77 and the other donors. We will need to expand on the majority of the subjects covered by this matrix. As discussed, I would like to ask that certain agencies write up the following issues:

- AID-- Role of the Implementing Agencies
- DoS-- Constituencies
- BIC-- NGO Participation

I believe the most effective format would be a briefing paper of 1-2 pages in length. The paper should flesh out the details of the U.S. position, and its fundamental objectives. Where appropriate, please respond to the donors' cross-cutting concerns about cost-effectiveness, bureaucracy, duplication of effort, and legal difficulties. Most importantly, the overall tone of our approach to the issues should be to emphasize why we believe our approach will lead to better GEF projects and more effective leveraging of overall development assistance. Because of the sensitivity of the topic, please do not circulate your papers widely.

I look forward to seeing you at our next meeting on Wednesday.

DISTRIBUTION

AID	Tom Hourigan	647-5189	DoS	Stephanie Kinney	647-5947
BIC (NGO)	Chad Dobson	466-8189	EPA	Jamie Koehler	260-4470
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cc: Mark Rentschler
Matthew Hennescy
Dick Goodman (2-1956)

OEP David Doniger (395-1590)

Issue	U.S. Position	Other Donors' Position	G-77 Position	See Page
Secretariat	The Secretariat should be established by a resolution of the World Bank's Board. The Secretariat, although legally part of the World Bank, should have "functional independence" to enable it to enact its own operational policies without trump by the Bank's Directors or Governors. The Secretariat will answer to the Participants, and could be staffed by seconded individuals from governments or implementing agencies or through hiring dedicated staff.	The Secretariat should be established by the World Bank's Board. The current administrative arrangement, where the Bank is responsible for the functioning of the GEF Administrator's Office, should be continued. Greater independence can be accomplished by seconding staff; the Secretariat should not support its own staff.	The Participants' Assembly should establish a functional Secretariat. The Secretariat will answer to the Participants, and will be "clearly independent"– meaning that the three implementing agencies shall have a more or less equal role to play.	
Chairman	The Chairman of the GEF should be elected by the Participants.		The GEF Chairman should be elected by the Participants.	
Role of the PA	The PA would meet every 1-2 years. Its responsibilities would be roughly analogous to the role of the Board of Governors. Operational decisions should be delegated to an Executive Board, that could meet on a standing basis.	The current system of biennial meetings to approve the GEF work program should be continued.	The PA should meet once a year as the "supreme organ of the GEF and main forum for taking decisions." The PA would, inter alia, admit new members, allocate resources, and make decisions related to replenishment, relating to the CoPs, and GEF financing criteria. It should delegate certain functions, as yet unspecified, to an "Administrative Board."	
Role of a Management Board	The Executive Board should meet when necessary, although its members shall not receive compensation. The Executive Board should make most decisions related to the GEF, and should have the authority to approve individual projects.	A separate Executive Board should not be established. A number of the G-7 believe that an Executive Board invites micromanagement and bureaucratic build-up, and may lead to the donors' loss of control over the GEF.	The "Administrative Board" could meet on a biennial basis, and perform whatever tasks were delegated to it by the PA. Some members of the G-77 have called for it to approve individual projects, although this has not yet appeared publicly.	
Role of the Implementing Agencies	If an Executive Board is established, the role of Implementing Agencies should be downgraded. The Implementing Agencies could still maintain a special role in the GEF through seconding staff and supporting the GEF, but oversight functions will be vested with the Participants.	The Implementing Agencies should continue to hold their preeminent role, including project screening through the Implementing Committee.	The status of the World Bank, UNDP and UNEP should be equalized. The actual role of the Implementing Agencies, in relation to the Administrative Board or Participants' Assembly, is as yet undefined.	

Decision-Making	Decisions should be made based on a combination of membership and contribution weighted shares. However, the U.S. is prepared to revisit the Chairman's Option D. The essential thrust of the U.S. policy is that 2-3 of the major donors should be able to stop a faulty project, on the assumption that other policy changes can be pursued during replenishments.	Decisions should be made on a basis of membership and contribution-weighted shares. Some donors have expressed willingness to revisit the Chairman's Option D.	The G-77 support the Chairman's Option D.
NGO Participation	NGOs should be allowed at all times into meetings of the Participants' Assembly. NGOs may attend and participate in meetings of the Executive Board under guidelines to be developed. The right to move to closed Executive Session at the request of a Board member shall be respected.	The other donors have varying views on NGO participation in the PA. No provision is made for a separate Executive Board.	The G-77 support NGO participation, although the modality for that participation is as yet undefined.
Constituencies	All countries should be represented at PAs, although approximately 25 constituencies should be organized for the efficient functioning of the Executive Board. Countries should be free to choose their own constituencies based on whatever factors they deem relevant.	The other donors believe that constituencies should be established. No firm position on how countries should choose their constituencies is held.	The Administrative Board should have equitable geographic representation.
Access to Information	The U.S. believes the GEF should be fully transparent; the public and NGOs should have access to all documents of the GEF's projects and associated projects.	The other donors accept the general presumption of transparency, as reflected in Principle 1.08 of Beyond the Pilot Phase.	The G-77 accepts the general principle of transparency.

DEPARTMENT OF THE TREASURY
WASHINGTON

June 7, 1993

MEMORANDUM FOR THE DISTRIBUTION

FROM: Michael Kaplan

SUBJECT: CSD Discussion of the GEF

I am attaching with this memo the relevant paragraphs from the UN Secretary General's report to the United Nations Commission on Sustainable Development on "Initial Financial Commitments, Financial Flows and Arrangements to Give Effect to the Decisions of the United Nations Conference on Environment and Development." I would like to add this for discussion at our next inter-agency meeting on June 9, at 5:00.

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cc: Mark Rentschler
Matthew Hennesey
DAS Susan Levine (2-0658)
Dick Goodman (2-1956)

OEP David Doniger (395-1590)

and investments targeted to environmental protection and improvement, which constitute the second element of the strategy are being intensified in IDA's activities. Borrowers are assisted in preparing Environmental Action Plans through participative process to promote national consensus around the plans: EAP. is to be integrated into the policy dialogue and country assistance strategies. Environmental assessments are being carried out early in the project design cycle, and borrower are required to consult with groups and NGOs affected by the environmental impact of the project. Efforts are being made to improve data sheets and make them more uniform. In the area of forestry, forestry investments are required to be part of a borrower's strategy for sustainable use and conservation of forest resources, and commercial logging in primary moist tropical forests is no longer funded. The focus is now on assistance to governments for institution-building for sustainable forest management. New directives provide clearer guidance on projects involving indigenous people, involuntary resettlement and agricultural management, and policy papers are being issued regarding water resources, energy and various aspects of agriculture. The involvement of NGOs in the design and implementation of projects, particularly those with substantive environmental impact, is being substantially increased. The establishment of a small projects facility, to focus on environmental initiatives and on outreach to groups such as NGOs and micro-enterprises is being envisaged.

9. In the implementation of activities outlined above, the share of resources going to adjustment lending is not to exceed 30 per cent, so that the emphasis on poverty reduction and the protection of the natural resource base can be maintained. The importance of coordination of IDA activities with bilateral support and the Fund's Enhanced Structural Adjustment Facility is stressed.

II. The Global Environment Facility: Restructuring and Replenishment

10. The purpose of the GEF to "provide additional grant and concessional funding of the agreed incremental costs for achieving agreed global environmental benefits." It finances activities in four focal areas: global warming, biological diversity, ozone depletion and international waters. The first three of these four areas are covered by international conventions.

11. The GEF was established for a three-year pilot phase by resolution No. 91-5 of the Executive Directors of the IBRD (March 1991). Its establishment was subsequently endorsed by the Governing Councils of UNDP and UNEP (May 1991). Operating procedures were agreed by the executive heads of these three bodies, known as the Implementing Agencies (October 1991).

12. During its pilot phase, the GEF has been functioning under the collective policy guidance of its Participants, namely States that have contributed to the Facility or that have expressed the intention to do so. At each of their regular meetings, the GEF Participants review and broadly endorse successive "tranches" of a work programme prepared jointly by the Implementing Agencies and submitted to the meeting by its Chairman. In connection with this programme review, Participants may comment on specific projects in the work programme.

13. The GEF Participants are supported in their functions of policy guidance and programme review by a Scientific and Technical Advisory Panel (STAP), composed of 16 independent members. The STAP has drawn up criteria for eligibility and priorities for projects in the GEF work programme. The STAP also reviews individual projects submitted by the Implementing Agencies and advises on their conformity with its criteria and priorities.

14. Projects in the GEF work programme remain the responsibility of the respective Implementing Agencies. This responsibility is allocated according to an agreed division of labour by type of project. The three agencies, together with the GEF Administrator, make up the Implementation Committee, that approves the inclusion of projects in the GEF work programme.

15. The Chairman of the GEF Participants' meetings plays a key facilitating role in the GEF system, supported by the GEF Administrator and his staff.

16. The resources available to the three-year pilot phase of the GEF amounted to some US$ 880 million in the core fund and $350 million in bilateral financing arrangements - for a total of US$ 1,230 million. An initial guideline was given by the GEF Participants concerning the allocation of core funds among the four focal areas. The GEF work programme, as it stood in December 1992 on the submission of the fourth tranche of projects, contained 96 projects worth some US$ 700 million.

A. Restructuring of the GEF

17. Agenda 21, the Framework Convention on Climate Change, the Convention on Biodiversity and the document entitled "The Pilot Phase and Beyond", agreed by the GEF Participants all call for a restructuring of the GEF and recommend, regarding its governance, universal participation, a transparent and democratic system of decision-making, a broad, balanced and equitable representation of developing and developed countries in governance and guidance of the Facility, and a system guaranteeing a balanced and equitable representation of the interests of developing countries and giving

due weight to the funding efforts of donor countries. The primacy of each Convention with respect to decisions on policy and program priorities, eligibility criteria and guidelines for project formulation regarding activities in its respective area is recognized.

18. The process initiated by these policy orientations led to the formulation of comprehensive proposals which are to be discussed at the fifth meeting of Participants, held in Beijing, China on 26-28 June 1993.

19. At the center of the proposals is the goal of balancing the plurality of interests inherent in universal participation, as is the need to give due weight to donors' funding efforts, in a process that is transparent, balanced and equitable.

20. The main aspects of the restructuring concern:

(a) The establishment of a Participants Assembly (PA) and the modalities of its deliberations and decision-making;

(b) the formal links to be established between the COPs of the Conventions and the PA.

21. As in the past, subject to the outcome of the on-going independent evaluation of the pilot phase, the work of the PA will be facilitated by a Chair person supported by a secretariat composed of staff from all three implementing agencies. The PA will be assisted in its work by the advice of a Scientific and Technical Advisory Panel (STAP). The STAP will be restructured and reconstituted to broaden its cross-disciplinary capabilities. The Heads of the implementing agencies will meet periodically to review institutional strategy and discuss means to facilitate interagency collaboration. The Implementation Committee (IC), consisting of agency coordinators and other senior staff, will continue to focus on internal policy, program planning, and work program formulation. Projects will be executed by Governments, UN agencies, NGOs, the private sector, or partnerships among any of these parties.

22. The Participants Assembly (PA) will act as the governing body of the GEF. It will be restructured to accommodate universal participation with no pre-set "membership fee", and it will function under a constituency system aiming at efficient and effective deliberations. Decision-making in the PA will be primarily by consensus. An agreed voting system will be instituted in order to resolve issues on which consensus cannot be reached.

23. A number of principles have been agreed which are to guide the nature of decision-making in the PA. These include:

(i) Equitable and balanced representation

(ii) Transparent procedures

(iii) Simplicity and flexibility

(iv) Universal participation

24. The PA will be established on a constituency basis so as to facilitate deliberations. This will require agreement among groups of Participants. It is anticipated that some thirty constituencies will be formed. The following distribution is envisaged:

(i) at least 15 (50 %) of the constituencies would be represented by developing countries in the PA; and

(ii) the balance of representatives in the PA would be drawn from developed countries, countries with economies in transition, and other countries.

25. The following factors may be taken into account in identifying representatives of constituencies to participate in the PA of behalf of the constituencies:

(i) Regional and geographic balance as well as climate, biodiversity, resource endowment and economic structures;

(ii) Potential impact on the global environment.

(iii) Vulnerability to impacts of global change

(iv) The size of economies (GDP) and the level of funding made available to the GEF.

26. Participants Assembly meetings in which all countries will be expected to attend are also given consideration.

27. Decisions will, in principle, be taken by consensus. When consensus cannot be achieved, even after various actions that the GEF Chairperson may be authorized to pursue, it will be necessary to organize a vote.

28. Voting would be distinct from constituency membership. Regarding the voting system, in addition to options previously envisaged on which no consensus emerged, a new option is proposed

for consideration of the last restructuring meeting:

A double majority system, whereby decisions would require both a majority of all countries participating in the GEF and a majority based on all financial contributions to the GEF core fund. The majority could differ depending upon the type of decision to be voted upon.

B. Replenishment of the GEF

29. Most of the funding made available to the GEF for its pilot phase is expected to be fully committed by June 1994. Potential donors agreed at a meeting held in Rome in March 1993 to work towards completing replenishment negotiations by December 1993, provided that the GEF is appropriately restructured and the evaluation of the pilot phase completed.

30. The first formal replenishment meeting will take place in Beijing, China on 25 May 1993. Important aspects of the replenishment have yet to be resolved, in particular its size and the period over which the resources will be used. The objective of the new GEF programme is in large part to serve the Climate Change and Biodiversity Convention. There is therefore a need to coordinate its mandate and use of funds with entry into force of the conventions and meetings of the Conference (s) of the Parties (COPs) which are to decide on policies, programme priorities and eligibility criteria for their financial mechanism in relation to the conventions. The first meeting of the COPs is expected to occur in 1995.

31. A proposal submitted to the Beijing meeting of Participants recommended that the new programme (GEF II) begin in July 1994 and that its operations be divided into two stages.

32. The first stage would be a transitional stage, covering the period prior to the convening of the COPs sometime in 1995. During this stage, GEF commitment levels would remain at around the average for the Pilot Phase. Sometime after the conventions have entered into force, the GEF II would enter its second stage, when most of the funds would be committed. GEF operations would then be guided by the COPs. In terms of size, a range of SDR 2-3 billion, equivalent to US$ 2.8-4.2 billion, is currently proposed for consideration by donors. The time period would be three to five years, depending whether the replenishment is closer to SDR 2 or 3 billion.

33. Since the conventions will not yet be in force and the COPs will not yet have met, some flexibility will need to be built into the replenishment decisions to allow the GEF to respond to the priorities as they are set by the conventions.

34. This phasing would allow the GEF to maintain the momentum of the Pilot Phase, while enabling the bulk of the funds from the replenishment to be committed only after the COPs enter into force. At the same time, it would allow for the preliminary preparation of projects and activities before the GEF enters its second stage. Preparation of technical assistance and investment projects must begin well before Stage Two, in light of the intensive 12-18 month project preparation period. The initial funding decisions in GEF II will be taken on projects that have been prepared during the Pilot Phase. Project preparation will take into account any guidance emanating from the interim bodies of the conventions during the first stage of GEF II.

35. GEF II resources would continue to support the four focal areas currently funded by the Pilot Phase: global warming, biodiversity, international waters, and ozone depletion. To the extent that they relate to these four areas, land degradation issues, primarily desertification and deforestation, would be eligible for financing.

36. The replenishment of the GEF should enable it to:

- support the Climate Change and Biodiversity conventions, as well as, in a complementary role, the Montreal Protocol on Substances that Deplete the Ozone Layer;

- assist in building up developing country capacities to deal with policy and program matters arising out of their commitment to the conventions;
- play a continuing role in facilitating the introduction of new environmentally sound technologies in the developing world; and

- achieve the scale and management capacity to effectively contribute to the solution of the global environmental problems it is assigned to address.

37. GEF II would finance four broad types of activities based on objectives of the Biological Diversity and Climate Change conventions and obligations deriving from them, as well as from lessons from the Pilot Phase, accepted knowledge and scientific expertise from UNEP and advisory panels about how to effectively address the four global environmental problems, and pending guidance from the COPs. These would include:

Capacity building;

national studies, strategies, and inventories;

innovative projects; and

investment projects. In addition the Small Grants Programme could be used to support innovative approaches designed by local communities and non-governmental organizations.

38. Together, these four types of activities represent a comprehensive, efficient way to strengthen a country's capacity to develop and implement its strategy for meeting convention objectives. Some funds could also be allocated for applying relevant, new scientific research to GEF activities, particularly to improve the scientific underpinnings of GEF project selection and design.

39. The mix of these activities could vary across the global objectives. The bulk of the funds could be expected to be used to support the climate change and biodiversity objectives. For ozone layer protection, the GEF could fund capacity building efforts and investments only in signatory countries that are ineligible for funding from the Multilateral Fund for the Implementation of the Montreal Protocol. In the area of international waters, GEF II could provide some support to countries that are already committed, through existing global or regional agreements and initiatives, to improve management of this vital resource.

III. Official and private capital flows

40. The adequacy of external capital flows is a major external factor affecting the development prospects of developing countries. Official flows are an important supplement to private capital flows.

41. Although estimates of the flow of official development assistance (ODA) in 1993 are not yet available, no sharp break in the trend of recent years is expected, at least not yet. Under that trend, the total value of ODA has risen in dollar terms, reaching an estimated $60 billion in 1992. The amount has fluctuated, however, in real terms.

42. Underlying this long-run trend has been a pattern of flows from donor countries in the 1980s that may now be changing. Under that pattern, ODA from member countries of the Development Assistance Committee (DAC) of the Organisation for Economic Co-operation and Development grew by 2.4 percent a year on average, while concessional economic assistance by Arab donor countries fell, followed by declining flows from the former centrally planned economies as well. The capacity to provide ODA in the two latter groups is considered now to be quite limited. Aid from

USAID

U.S. AGENCY FOR
INTERNATIONAL
DEVELOPMENT

MEMORANDUM

June 9, 1993

TO: GEF Working Group

FROM: POL/IDP, Thomas F. Hourigan

SUBJECT: Ideas for GEF goals

In preparation for the planned meetings with the G7+ on GEF restructuring, I have listed some ideas on major goals that we would like to see addressed in the restructured GEF, and how the proposed US position may address these goals. **The over-riding goal is to increase the quality and effectiveness of GEF design and implementation of project and non-project assistance in order to assist countries to address the global environmental problems.**

Goal: **Ability to analyze project proposals from a variety of sources, choose the best projects, and utilize the most appropriate of a variety of executing agencies or mechanisms.**

Problems: Currently the GEF is constrained by the requirement that projects be funneled through the World Bank and UNDP, with choices of projects for presentation to the participants being determined by the Implementing Committee. This has had the following results:

- o The World Bank (and UNDP to a lesser extent) is generally constrained to working through government entities, which are often not the most flexible and appropriate executing agencies.
- o The Pilot GEF has been dominated by large grants as is normal for the World Bank. These are not necessarily the best way to fund certain activities, particularly biodiversity conservation.
- o The perception by developing countries, NGOs, and even UNDP & UNEP, is that the process is controlled and directed in order to maximize benefits to the Bank rather than maximizing project quality.
- o Lack of transparency is related to the GEF administration being tied to Bank information and operating procedures.

US Solution: Functionally Independent Secretariat.

- o Project proposals would be accepted from any source. The World Bank and UNDP would probably remain the major executors of projects - but any entity proposing a project would have to assure the necessary transparency in project design and implementation in order to to play.

- o Projects would be chosen based on merit, without the perception that they were driven by the agendas of implementing agencies.

- o The secretariat would not design projects itself, but along with the STAP and the Executive (Management) Board, would play a coordination and review role, probably also coordinating production of documentation and information. It is likely that more of the pre-proposal project development costs would have to be assumed by the agencies proposing projects - thereby resulting in net cost savings compared to the Pilot GEF.

- o An appropriate role for the current implementing agencies would be will need to be found (and is probably politically necessary). This might be to assure greater in-country coordination of GEF projects and the policy milieu (e.g. utilizing UNDP Res. Reps., and coordinating with Bank led NEAPs, etc.)

- o Should increase participation by local groups and NGOs.

Goal: **Accountability to the GEF Participants and donors.**

Problems: The Pilot GEF was basically on auto-pilot, with only broad policy guidance from the Participants.

- o The participants were not able to give projects the oversight needed, even though the projects are the "meat" of the GEF.

- o Participants saw only initial proposals (pre-selected by the Implementing Committee), and had no control over final project form.

- o The Implementing Agencies, as a result, were not responsive to Participant comments on projects.

US Solution: An Executive Board which can approve projects.

- o Provides government oversight over the most important aspect of the GEF, the projects. (Note: A US granting agency, e.g. NSF, would not approve even a $50,000 proposal based on the preliminary nature of the information provided in GEF briefs!)

- o Some form of oversight is required by our legislation.

- o Allows coordinated review of all GEF activities, which would not occur if projects were approved separately in each implementing agency.

- o Allows a smooth project development cycle (as opposed to semi-annual tranches)

- o May short-circuit G77 pressure to have a greater role by the more politicized CoPs of Conventions.

Goal: **Adequate technical review, incorporating social and other factors.**

US Solution: Executive board approval (see above) and a strengthened STAP.

Goal: **A voting structure that allows donors a voice commensurate with their contributions, and allows them to stop occasional projects that are problems.**

Option D, if it includes project approval, does this - so why fight it?

Goal: **Increased local participation - a necessary prerequisite for long term sustainability and ownership of GEF goals and projects.**

Problems: The Pilot GEF has not demonstrated great local participation in its projects to date.

- o This is a new area for the World Bank as well as for many participating Governments.

- o Large, centrally-designed World Bank projects have not proven very amenable to public participation.

- o Lack of availability of information at the host country level does not allow for local participation.

- o NGOs often have the most direct access to local communities, but have not been as well integrated into the GEF process as they could be.

US Solution: Opening up the executing authority through an independent secretariat and project review process (see above), and increased NGO participation and access to information in the host country. Transparency to participating governments, CoPs, NGOs, and recipient country beneficiaries. Includes document availability for both GEF and associated projects.