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MEMO TO KATIE AND DAVID FROM AIMÉE
RE: Subcommittee hearing on the status of the Global Environment Facility.
DATE: August 4, 1993

Members present:
Barney Frank, chairman
McCandless
Kennedy
Watt

Panel members:

- Susan Levine, Deputy Assistant Secretary for International Development, Debt and Environment Policy, Treasury Department.
- Glenn Prickett, Natural Resources Defense Council.
- Dr. Atiq Rahman, PhD, Bangladesh Centre for Advanced Studies.
- Craig G. MacFarland, Consultant in Tropical Natural Resources Mgmt.

I have attached the full testimony of the panel, while my notes will highlight the testimony, and comment on the discussion that followed.

In Representative Frank's opening statement he mentioned several key points:

- openness;
- dissemination of information;
- mechanisms for appeals;
- broad participation of all concerned parties, i.e., NGOs, locally affected peoples, etc., before, during and after project implementation;
- bring environmental issues more to the fore in general, as there is an increasing congruence of environmental and economic interests;
- Frank agrees with Representative Lahee's letter regarding his dissatisfaction with the GEF and the state of the proposals;

TESTIMONY

Deputy Assistant Secretary of Treasury, Susan Levine:

The GEF was set up to help fund projects dealing with climate change, ozone depletion, biodiversity protection, and the pollution of international oceans. It is the investment in the future environmental security of the United States, and becoming a major player in the GEF is key as it will exist, either with or without our participation.

The GEF is to fund the incremental cost to protect the global commons, by funding projects that countries would not support/fund on their own. The GEF is the linchpin to the Climate and Biodiversity Conventions, as there is no other viable mechanism. It should be, as another will take three more years and extra costs, etc. It would also look like a lack of support for our obligations under the Rio documents and unravel the post-Rio process. In addition, the GEF has an important role for the economy to promote new technologies and approaches and be a catalyst for larger opportunities. Influencing policies of the MDBs in regard to environmental technologies will create new markets for U.S. products and U.S. firms who want to be a part of it.

The interagency review on the GEF ended in May and in Beijing they discussed the GEF and agreed that several issues were very important:

- information disclosure;
- only the highest quality projects for implementing sustainable development would be considered for funding by the GEF;
- to use a variety of executing agencies including NGOs;
- need clear procedures for GEF and associated projects; and
- the participation of NGOs and affected people is mandatory, in all parts of the project cycle.

There are participants meetings in Washington in September, in Paris in November, and in Cartagena in December. The U.S. Administration's request for the GEF in 1994 is key for us to be taken seriously in the negotiations on the form of the GEF.

Dr. Atiq Rahman, Bangladesh:

The GEF is also the financial commitment of Agenda 21 whose goals are far wider than the conventions. There is also the ongoing negotiations on desertification, and the possible creation of a convention on poverty. He suggested we consider the following:

- project selection policies;
- information disclosure;
- transparency;
- location of the GEF; and
- NGO participation.

He said that we can't just address the consequences, but the causes, which is exactly what sustainable development is all about. In addition, poverty must be considered as it is the main cause of environmental deterioration. If the project causes poverty, it should not be considered. The "incremental benefits" that the GEF is to finance must be defined.

Regarding SINKS, we must look at how will we limit emissions; should carbon rights be able to be transferred, bought and sold?

The GEF offers the opportunity for a real mechanism to achieve sustainable development; however, the theory that spending large sums of money all at once will lead to great environment and development benefits/protection, is not necessarily true, and can in fact lead to the reverse.

The GEF mustn't be used to green existing Bank projects, but be a new creation.

Mr. MacFarland

The reduction of biodiversity loss cannot be imposed from the top down, but begin within. The choice is to reform the GEF, which he said cannot be done without destroying the Bank as a whole, or to seek alternative means. His experience is in Bolivia, Brazil, and Peru, and he felt that biodiversity is only possible if people are educated to make their own decisions.

He stated that what is needed are innovative, small, locally-oriented projects; the current GEF projects often are five to ten times the host-country's agency's budget, and it cannot absorb the money. The World Bank's policy on wildlands, while often good, is hardly ever implemented.

Glenn Prickett of NRDC also representing the Bank Information Center, Conservation International and Environmental Defense Fund:

The Problem with the GEF is that it needs to help countries deal with and stem their own problems. The GEF needs to help build capacity for countries to do so. In the selection/design process, the GEF must see local/global links so that projects are also in countries' best interests. There must also be enough flexibility in project design, selection to focus on demonstrating innovative approaches.

The GEF needs to do better at giving access to/consulting with affected people, groups, NGOs, for expertise and input. The GEF small grants program should be used to tap into small struggling organizations by helping with funding. The U.S. endorses that the GEF be functionally independent, with the leadership reporting directly to the countries, not through the implementing agencies. Member governments should also have at least the ability to decide on projects and access to information.

Glenn discussed two major concerns:

- with climate and biodiversity: under the conventions, the G-7 countries only have to fund global issues/benefits, but there are some relevant issues that may not have global relevance, but regional (such as global warming leading to water rise, and small island states being effected); and
- how the GEF is established. The World Bank does so currently, however, the 3 implementing agencies and the governments should have at least equal say.

The IFC is poised to be the implementer of the GEF, as it was with the forestry project in Ecuador, which was subsequently pulled. The IFC's environmental policies are very much weaker than those of the World Bank. If the IFC is the main implementing agency, the IFC has to comply with the World Bank Environmental Impact Assessment policy. Better information on IFC projects must also be made to the public; currently the IFC monthly project report is internal, and at least that should be made public.

DISCUSSION:

Frank:

Regarding the IFC question: there is no reason why the IFC is not to follow the WB policies. The IFC will soon present procedures for EIAs on environmentally significant projects. Why is there the EIA time minimum of 120 days? 60 days would work better for the private sector, and it was originally chosen somewhat arbitrarily for the Pelosi amendment. There is no reason why the time cannot be extended if there is need to look at the EIA and project in general more closely.

He suggested that the role of the World Bank be diminished, or restructure the World Bank's implementation of policy and include its role. Go through the United Nations or through country governments instead of using the WB. He thinks that we should not use the Bank.

Prickett:

The real gap is getting small projects to the ground. The World Bank should not be totally stripped because it has some good areas that it can be used for, such as large infrastructure projects.

The practical issue is that the Biodiversity Convention made the GEF the funding mechanism. It should, however, go beyond the implementing agencies to hire people to carry it out. The GEF may also provide feedback to the bank and help the environmental policies of the Bank. The GEF can have positive impact, but there is risk that the GEF could be swamped by the Bank. The GEF definitely should not be answerable to the Bank.

He suggested that the small grants program in the GEF be maximized, and small and medium-sized projects be encouraged, with large ones watched for appropriate ones to be considered.

Levine:

The GEF evaluation draft is due in September, with the final due in November. $820 million is available in the GEF, and $13 million has been dispersed, $780? committed.

Frank:

Asked for 12 project descriptions including implementation and how the incremental issue hinders the selection/design process. He stated that currently he is not pleased with what he has heard regarding the GEF, and hopes to hear changes proposed by the administration in the restructuring process. The full committee mark-up will be in mid-September, and in October it will go to the House floor.

STATEMENT OF

CRAIG G. MACFARLAND

CONSULTANT IN
TROPICAL NATURAL RESOURCES MANAGEMENT

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT, FINANCE, TRADE AND MONETARY POLICY

U.S. HOUSE OF REPRESENTATIVES

AUGUST 3, 1993

Introduction

Thank you, Mr. Chairman, for the opportunity to share my views on the Global Environmental Facility (GEF).

As a broadly experienced professional at the international level in the areas of biodiversity conservation and sustainable use and management of natural resources, I want to make five key points:

- The need to stem, indeed reverse, the trends in the destruction of the world's biological diversity is vital to the future of all life on this planet, including human welfare. It is probably the single greatest issue of the present and next centuries.

- This can only be accomplished by enabling societies, their citizens and their institutions to confront and solve their local environmental protection and developmental problems. Solutions to global problems must be built from the local level; they can not be imposed from the top "downwards".

- Such approaches will require truly innovative structures and mechanisms in order for international aid and efforts to support such changes. The GEF, as currently organized and operated, falls woefully short of providing such. Moreover, there are a multitude of sound reasons to doubt that the GEF can provide such innovation and leadership due to the institutional culture and inertia of its dominant institution, the World Bank.

- The basic choices are either to reform the existing GEF's structure and mechanisms in major ways, to make it flexible, responsive and effective in contributing to the solutions needed; or, to seek alternative means. It is extremely doubtful that the GEF could be reformed in a meaningful way, without reforming the World Bank as a whole, whereas other institutions with experience exist which could take on the GEF's objectives and tasks.

- The goals of global biodiversity conservation and improved human welfare based upon sustainable use of natural resources could best be addressed by taking advantage of a diversity of experienced institutions in the donor and recipient countries, as well as others at international level.

Background

I have been working and living full time in Latin America since 1969, focusing on what is now called conservation of biological diversity, conservation biology, and sustainable development. That work has involved close professional relationships with governments, NGOs, international and bilateral agencies and virtually all other actors in the international development and conservation fields. My curriculum vitae has been provided to the Subcommittee and further references can be supplied.

My knowledge of the GEF comes principally from working directly as a consultant on two GEF projects, both aimed at conservation of biodiversity: one for Mexico at the invitation of the World Bank, and the other for Ecuador, for which UNDP contracted me, but the work was closely conducted with both UNDP and World Bank staff. In addition, I have extensive contacts in Latin America and internationally and have received considerable input from reliable sources, both first and second hand, concerning the GEF biodiversity conservation projects for Bolivia, Brazil and Peru.

I have had no direct experience with the GEF in relation to its components on global climate, the ozone layer and international waters.

The Critical Need for Biodiversity Conservation

The critical need for conservation of global biological diversity hardly needs to be restated. It is becoming rapidly recognized worldwide as one of the keys to the planet's and human welfare, as demonstrated by the Convention on Biodiversity and Agenda 21 from the Rio de Janiero Conference on Development and Environment. The USA's stake in and responsibility towards that vital goal appears to be becoming more clearly recognized and acted upon by our government.

Building Global Biodiversity Conservation from the Ground Upwards

Conservation of biological diversity will be possible only to the extent that local citizens and institutions and, therefore, their societies, are empowered and strengthened to become part of the process of making wise decisions about their own futures. These processes of strengthening and empowerment must occur simultaneously at both local and national levels, before there can be any hope for global environmental and human welfare benefits. Some of the strategic components needed are:

- building constituencies for protection of biodiversity through clear local and national benefits in programs and projects;
- strengthening local and national technical capabilities;
- strengthening the required mix of institutions and organizations needed for healthy debate, resolution and execution of sound environmental and development actions (governments agencies, NGOs, citizens groups, resource user groups, the press, etc.);
- extensive public education programs to inform citizens and organizations about the choices ahead; and,
- transparency in all programs and projects, at local, national and international levels.

Policy, legislative and institutional structural reforms and similar actions will also be vital components in most countries, but such classical "top-down" approaches will be for naught if the other components are not given highest priority.

The Need for Innovative Structures and Mechanisms for International Support

The GEF as currently structured and operated appears to fall woefully short of meeting the needs for effective biological diversity conservation programs and projects. Some of the key reasons seem to be:

- An extremely cumbersome bureaucratic machinery, designed for processing large loan projects, not strategic, properly scaled, responsive, innovative projects at local and national levels; most of the GEF biodiversity projects for Latin American countries began being designed two or more years ago, yet not one is operational in-country, with GEF funds flowing, to my knowledge; country agencies and officials are frustrated and perplexed.
- Projects are totally out of scale to national and local absorptive capabilities; projects are mostly on the order of 5-10 times the existing budgets of the host country agencies over the life of the project, yet cover only a fraction of their portfolio of responsibilities, with all evidence indicating that they will never be able to absorb such;
- Virtually no GEF (World Bank mainly) capability to provide implementation guidance to the countries so that the projects can be brought on line;
- Almost no ability (World Bank mainly) to reach the level of public, resource user group and NGO participation in the process of project design, planning and implementation;
- An excessive emphasis on capital investment components ("things") instead of the critical ones of institutional strengthening, training, conflict resolution and consensus building processes, etc. ("people" components); the World bank is extremely weak on the latter.

This list adds up to a pattern representing an institutional culture, structure and procedures (mostly the dominant World Bank's in the GEF's case) evolved from making large loans for huge projects. It does not work for innovative, small scale ones. Could such a system, with the massive inertia which characterizes it, be reformed and streamlined to effectively implement the GEF's mandate for biological diversity conservation? My view is that such would be like stopping glaciers. As a simple example witness the 1986 World Bank policy on wildlands (national parks, reserves, etc.) for future bank project support. The policy sounded great at the time, but its implementation has been almost nil.

Alternatives

In most of the donor countries (participants) to the GEF there already exist several to many NGOs working at international level on biodiversity conservation programs and projects. Likewise some international agencies are doing the same, e.g. the World Heritage Convention (UNESCO is the Secretariat). Many of those have considerable, hard-earned experience and proven track records for appropriately scaled, effective project design, planning, and implementation with national and, often, local level government agencies, NGOs and other groups. They have recognized the problems mentioned in this document and are actively trying to improve their experience and delivery systems to enhance local and national empowerment and strengthening of institutions, processes and peoples. The same types of organizations exist in-country throughout Latin America and the Caribbean (and I suspect elsewhere, although my knowledge is more limited). My view is that at least the biodiversity component of GEF should be redesigned to use those existing agencies, organizations and groups at international, national and local levels, not continue with an unworkable and probably not reformable system. Or, at least, in round two why not give half of the money to the existing GEF (with as many reforms as possible) and half to those others and compare results after 5-10 years?

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STATEMENT OF

ATIQ RAHMAN, PhD

DIRECTOR, BANGLADESH CENTRE FOR ADVANCED STUDIES

COORDINATOR, CLIMATE ACTION NETWORK, SOUTH ASIA

COORDINATOR, GLOBAL FORUM ON ENVIRONMENT AND POVERTY

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE, AND MONETARY POLICY

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

AUGUST 3, 1993

Thank you Mr. Chairman, for this opportunity to share my views with your subcommittee on the Global Environment Facility (GEF).

I am the South Asia Coordinator of the Climate Action Network (CAN), a network of NGOs worldwide working on issues related to global climate change. CAN has been working closely in the climate convention negotiating process from the very beginning. CAN works through several regional focal points in North America, Europe, Africa, Latin America, South Asia and South East Asia. CAN's members undertake research, help develop CAN positions, and assist their respective governments on climate change issues.

I am also the coordinator of the Global Forum on Environment and Poverty (GFEP), an international forum composed of over 300 organizations and individuals worldwide. GFEP was formed at the Earth Summit, in June 1992, where it issued a Declaration on Environment and Poverty and a demand for a Poverty Convention.

My statement today addresses the GEF at two levels, and makes recommendations that the U.S. may wish to pursue at both levels:

- First, the role of the GEF in the context of the global agenda on environment and development agreed at the Earth Summit.

- Second, GEF as an organisation in the process of restructuring to meet its objectives of global environmental protection of the present and of the future.

THE ROLE OF THE U.S. IN ACHIEVING SUSTAINABLE DEVELOPMENT

In this new era, which can be characterized as post-UNCED (UN Conference on Environment and Development) and post-Cold War, the U.S. has emerged as the leader in a unipolar world. By signing the instruments of UNCED -- the Rio Declaration, Agenda 21, the climate convention and, more recently, the biodiversity convention -- the

U.S. has committed itself to the cause of sustainable development. By signing the biodiversity convention, the Clinton Administration has shown new global leadership. Further, by establishing the U.S. Commission on Sustainable Development in its early days, this administration has demonstrated its own commitment to achieving sustainable development at home. Finally, President Clinton, by recently declaring his administration's commitment to stabilize greenhouse gas emissions at 1990 levels by the year 2000 and to pursue future reductions, has again demonstrated long sought U.S. commitment.

Thus, in this present climate, U.S. leadership can be effective in making GEF a financial mechanism which can serve the needs of both the developed and developing countries in meeting their respective responsibilities towards a planet less threatened by environmental stress and towards development of all nations and communities of the world.

GEF'S RELATIONSHIP TO LARGER GLOBAL CONCERNS

GEF is an outcome of UNCED. It has been described as a financial mechanism by the climate convention and the biodiversity convention. It has to be emphasized that GEF has also been described as a financial mechanism of Agenda 21, whose scope is far wider than that of the two conventions. Further, in a rapidly changing world after UNCED, negotiations are underway toward a desertification convention. There is also a growing demand for a poverty convention in the follow-up to UNCED, where many of us recognized that UNCED was systematically avoiding the most critical issue that the planet and humankind face today: growing poverty. There is no doubt in our minds that there can be no sustainable development without alleviation of poverty.

James Gustave Speth, President Clinton's nominee and the new Administrator of UNDP in his acceptance statement on 15 June 1993 at the U.N. summed it up as follows: "The gravest challenges facing the developing world today are widespread poverty and environmental deterioration. The two are linked; they reinforce each other in a tragic downward spiral, and both are exacerbated by mounting population pressure. An estimated 13-18 million people die from poverty-related causes every year. That's the same human toll as 100 fully loaded 747s crashing daily. And poverty is growing."

RESTRUCTURING THE GEF

Mr. Chairman, it is in this context and reality that GEF is operating and undergoing restructuring. This is an opportunity to shape GEF as a financial mechanism for achieving sustainable development. But we have had many frustrations with GEF in its pilot phase: its selection of priorities, its implementation of projects, the location of GEF among three implementing agencies and their relative influence, the degree of association with existing World Bank projects, the GEF's information disclosure policy, and appropriate community and NGO participation.

LEVEL ONE: THE LARGER SUSTAINABLE DEVELOPMENT CONTEXT

1. Selection of Priority Areas

GEF has established four priority areas:

(a) Reducing greenhouse gas emissions,
(b) Protecting biodiversity,
(c) Reducing emissions of ozone depleting substances, and
(d) Reducing pollution of international waters.

In our opinion, this set of four is a very narrow definition of global environmental problems. Though these are appropriate and relevant issues, these are not considered to be global priorities by the vast majority of the world population, i.e., the poor living in developing countries.

The linkages between local or national on the one hand and global on the other have to be clearly understood. The cycle of increasing poverty leading to increasing population which has the potential of increasing consumption and consequent global climate and biodiversity impacts cannot be isolated. Consumption in the north, and also by the elite of the south, is the root cause of our global problems. If we treat only the consequences and not the cause, then future generations will charge us with paying only lip service to sustainable development. There is an increasing perception that when GEF mentions "global benefit," it probably implies really "northern benefits." GEF must serve the cause of the planet and not a small or selected portion of it. I would recommend a far deeper inquiry into local and global benefits before a restructured GEF gets its marching orders.

2. GEF and Poverty

Regarding priorities, we have made our position quite clear on one issue: the linkage between GEF projects and poverty. If any GEF project increases poverty we shall oppose it, irrespective of its "global environmental benefits." Only if it is poverty-neutral or reduces poverty, should it proceed to be judged on its contribution to global environmental benefits. In our opinion, the reduction of poverty is the most important global objective and the most important step toward achieving sustainable development.

3. Global-Local Complementarity

GEF projects, while selected for their global benefits, must also deliver local benefits. Otherwise the implementation of the project will be made complicated by local realities. In fact, there should be complementarity between local and global benefits. It is this synergistic relationship that is likely to be one of the forces for making good GEF projects effective. Thus local benefits must become a prerequisite for project selection. In most developing countries, GEF projects can also benefit poverty situations, if done with sensitivity and innovation.

4. GEF, Conventions, and "Incremental Costs"

The GEF must obtain its legitimacy from the conventions, in which the conferences of the parties are the ultimate decision makers. On the question of "incremental costs" the climate convention has been specific that its financial mechanism, operation of which is entrusted to the GEF on an interim basis, will cover "full agreed incremental costs." Attempts by the GEF to define incremental costs narrowly around "global benefits" should be publicly debated before action is taken. This formulation could rule out support for adaptation to climate change by vulnerable developing countries and communities, an area that GEF currently ignores. This is perceived by many in south as unfair.

5. Unitary Fund

In the discussions leading up to the formulation of GEF, some governments were totally adamant about a single financial mechanism for the various conventions, capable of disbursing large sums of money rapidly for so-called global benefits. Enormous efforts were made by several northern governments to stifle any attempt to have a multiplicity of financial mechanisms. Thus emerged GEF with all its limitations as the unitary mechanism. It has been enshrined as the financial mechanism for the climate and biodiversity conventions.

But what about future international agreements that do not pursue what the north has defined to be "global priorities." In the future, is the desertification convention -- which addresses an issue that the donor governments have resisted including among the GEF's priorities -- going to have a separate and independent financial mechanism? This would defeat the objective of a unitary fund. Similarly, will GEF be able to implement its role as a financial mechanism for Agenda 21 adequately? Are we able to create an institution that is sufficiently flexible to accommodate all these future needs? If not, we are probably not sowing the seeds for sustainable development. Thus GEF must be adequately flexible to attend to the future needs of Agenda 21, a desertification convention, or any other future convention regarding sustainable development, such as a poverty convention.

6. Joint Implementation

The climate convention provides for "joint implementation" of obligations by more than one country. Under rules yet to be established, a country -- or a company or even an individual within that country -- may be able to fund carbon-saving or carbon-storing activities and take credit for the resulting emissions reductions. This raises a number of difficult practical and ethical questions. Most significantly, how will limits on emissions -- alternatively seen as rights to emit -- be allocated among countries?

The two following principles may help in taking this discussion forward:

(a) All human beings are equal (enshrined in the U.N. charter and signed by all member states.)

(b) Global resources such as the atmosphere and the oceans belong to all human beings equally.

If these two principles are accepted, greenhouse gas emissions rights should be allocated on a per capita basis. Under this formula, industrialized countries will have exceeded their allocations. In order to maintain current emissions levels, they would have to purchase rights to emit from the developing countries, who have been frugal with their carbon rights. If in the not too distant future the global leadership can have the courage and the wisdom to adopt this framework, it would move the north-south debate from concepts of aid and charity toward true international cooperation, with mutual respect and dignity and the correct and legitimate share of the planetary resources that belong to all. This offers a real mechanism to achieve sustainable development.

This is a vision that we all must strive towards. At minimum, however, joint implementation must not move forward until the issue of emissions entitlements has been resolved.

LEVEL TWO: GEF STRUCTURE AND GOVERNANCE

1. The Dominance of the World Bank

The dominance of the GEF by the World Bank -- it was legally established by the World Bank's executive directors and many of its projects are linked to World Bank projects -- has significantly tarnished the image of GEF among NGOs and many governments. Though the World Bank is making serious efforts to integrate environment in its regular projects, its track record still falls far short of environmentally sound, sustainable development.

As we understand it, the Bank was given a dominant role on the theory that spending money quickly in large amounts to achieve global benefits would work. This premise has proven false. Recent experience has shown, time and again, that participatory development incorporating the opinions of affected communities is the most effective way of often achieving sustainable development. Though there is need for funds, large sums of money may sometimes be counterproductive. A more promising approach is the GEF small grants program, administered by UNDP, although the experience with this program to date is limited and somewhat erratic.

Thus, in GEF projects we fully support the four elements demanded by the parties to the climate convention:

a) Transparency
b) Democracy
c) Accountability

d) Maximum participation of local communities, NGOs and indigenous groups.

GEF funds must not be used to "green" World Bank or any other agencies' existing projects. Those projects in their own right must be sensitive to:

(a) climate change
(b) protection of biodiversity and
(c) poverty alleviation.

This is the spirit of UNCED, Agenda 21 and the climate and biodiversity conventions.

2. Toward an Independent GEF

The idea of a functionally independent secretariat of GEF as mooted by the G-77 and the U.S. at the Beijing meeting offers an opportunity for progress on the restructuring of GEF. The GEF leadership must be strong and independent of the three implementing agencies. As a new financial mechanism of the post-UNCED world, GEF must be sufficiently independent so as not to be encumbered by the near-dismal history of the projects and policies of some of its implementing agencies both in terms of environment and poverty alleviation.

Information disclosure and public participation, including participation of NGOs and local affected groups are two major areas of our concern that a future restructured GEF must address adequately. GEF must be subject to the conventions and GEF must follow the policies, programme priorities, and eligibility criteria established by the conventions for the GEF.

3. Establishing the Restructured GEF

GEF derives its legitimacy from the two conventions and has also been identified as the financial mechanism for global environmental activities under Agenda 21. Thus any attempt to establish the GEF solely through a resolution of the World Bank's executive directors will be rejected by many as illegitimate. The interests of all nations must be equally represented in the establishment of GEF. Other options should be explored, such as an inter-governmental agreement of the GEF participants, an inter-agency agreement of the implementing agencies, or a concurrent resolution of the governing bodies of the three agencies. The basic principle of equity between nations cannot be compromised.

Natural Resources
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STATEMENT OF

GLENN T. PRICKETT

SENIOR ASSOCIATE

INTERNATIONAL PROGRAM

NATURAL RESOURCES DEFENSE COUNCIL

ON BEHALF OF

BANK INFORMATION CENTER

CONSERVATION INTERNATIONAL

AND

ENVIRONMENTAL DEFENSE FUND

BEFORE THE

SUBCOMMITTEE ON INTERNATIONAL DEVELOPMENT,
FINANCE, TRADE AND MONETARY POLICY

COMMITTEE ON BANKING, FINANCE AND URBAN AFFAIRS

U.S. HOUSE OF REPRESENTATIVES

AUGUST 3, 1993

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Thank you, Mr. Chairman, for this opportunity to share with your subcommittee the views of the Natural Resources Defense Council, the Bank Information Center, Conservation International, and the Environmental Defense Fund on the Global Environment Facility (GEF). I also wish to address a related issue, the environmental procedures of the International Finance Corporation (IFC).

Our organizations have followed the development of the GEF with intense interest since its creation was first proposed in early 1990. Our interest in the GEF stems from two central and interrelated concerns. First, we seek to empower citizens and societies around the world to confront local environmental threats that pose significant risks to human welfare. Second, we seek to reverse humankind's growing, cumulative impacts on the planet's natural systems: the climate, the ozone layer, the oceans, and the Earth's wealth of biological diversity.

From this perspective, the GEF has been both a promising opportunity and a frustrating stumbling block. Promising, because it has raised the level of international debate on the need to address global environmental threats. Frustrating, because the GEF's approach to these global issues has not been designed to advance the more critical, underlying objective -- empowering citizens and societies to protect their environment.

Mr. Chairman, our organizations would like to see -- and would strongly support -- a vital international institution that advances both objectives. The GEF is mid-way through restructuring negotiations, launched to obtain new funding and to make it a suitable operating entity for the climate and biodiversity conventions. We want these negotiations to succeed in shaping a GEF that helps developing countries implement their global obligations through activities that strengthen their national environmental capabilities and commitments. My statement today includes general recommendations on needed GEF reforms and specific reactions to the U.S. negotiating position.

The status of the environmental procedures of the International Finance Corporation (IFC) is also highly relevant to the GEF and of significant concern to us. As an arm of the World Bank, the IFC is poised to implement GEF projects. Its environmental standards, however, fall short of the World Bank's. My statement concludes with recommendations for strengthening the IFC's environmental procedures.

REFORMING THE GEF: GLOBAL ENVIRONMENTAL PROTECTION REQUIRES STRONG NATIONAL CAPABILITIES AND COMMITMENTS

Our own situation underscores the importance of this point. The United States can best contribute to solving the global problems of climate change and biodiversity by acting decisively on national environmental challenges, such as protecting our remaining ancient forests and encouraging greater energy efficiency. As we have seen in recent months, such decisions will be made on the basis of local costs and local benefits -- not global interests. The local environmental benefits must be clear, and the policies must be well conceived to maximize local economic and social benefits -- or at least minimize losses. An informed and active citizenry must stand behind environmental policies to overcome the resistance of those with short-term, unsustainable interests.

All of this is obvious when we examine our own situation. It is no less true for other countries, especially those in the developing world and the former Soviet bloc, where economic development is the first priority. GEF projects, therefore, must be designed to deliver clear local, as well as global, environmental benefits if they are to be sustained over time. The GEF must also focus on strengthening local technical capabilities, building public support for environmental objectives, and expanding opportunities for such public support to influence decision-makers. These steps will be critical to implementing and sustaining the national policies and projects that will ultimately deliver global environmental benefits.

The current structure of the GEF does not allow it to build national capabilities and commitments as effectively as it should. The problem stems from the GEF's original mandate and from the character and capabilities of the GEF's implementing agencies. The restructured GEF should embody the following improvements:

1. **Recognize more explicitly the important links between global and local environmental objectives.**

The GEF's mandate charges it to treat global environmental issues as distinct from local ones. According to its founding agreement, "the GEF should support programs and activities for which benefits would accrue to the world at large while the country undertaking the measures would bear the cost. . . ." The GEF is intended only to cover the "incremental costs" of these global benefits, above what a country would pay to protect its own environmental interests.

Attempting to separate global from local benefits makes sense for political reasons; developing countries have demanded additional funds to deal with global issues outside their immediate interests, and donor countries insist that local environmental efforts should be funded from existing aid resources. However, the distinction makes little sense from a physical perspective and causes problems in formulating effective policies and programs.

For example, under a strict interpretation of the GEF's mandate, cost-effective energy efficiency improvements would not be eligible for GEF support, even though they are typically the cheapest means of reducing greenhouse gas emissions. According to the GEF's logic, such activities will proceed without GEF support, drawing on existing sources of capital. Unfortunately, in the real world, many cost-effective energy efficiency investments are not pursued, in some cases because the measure in question is not commercially proven and in others because of distortions in the market for energy services. The same is true for other environmental efforts. A conservation program may be in a country's interests -- as well as the planet's -- but it is often stymied by financial, technical, commercial, or political constraints.

The GEF should be in the business of encouraging such efforts to move forward, as they will likely be the most sustainable forms of "global" environmental initiatives that a country can undertake. In practice, the GEF has often done this, opting for a loose interpretation of its original mandate where a compelling case can be made that an activity which should proceed on the basis of local benefits would not do so without GEF support.

The restructured GEF should explicitly recognize the critical links between global and national benefits, particularly in the areas of biodiversity protection and climate change. The GEF should be encouraged to support activities that will ultimately bring about national as well as global benefits, but need additional grant funding to overcome technical, financial, commercial, or other barriers. This logic should also guide the interpretation of "incremental costs" under the climate and biodiversity conventions.

For biodiversity, in particular, it is very difficult, if not impossible, to calculate the "incremental costs" of achieving global, as opposed to local, benefits. While the costs of biodiversity protection can sometimes be established, the value of biodiversity's benefits -- and the distinction between local and global benefits -- remain illusive and poorly understood.

2. Leverage changes in the regular projects of the World Bank and UNDP

The GEF implementing agencies, particularly the World Bank and the U.N. Development Program (UNDP), have a far greater impact on climate change, biodiversity, and international waters through their regular, and much larger, project portfolios. Because solutions to global problems lie in national action, the Bank and UNDP must aggressively pursue global objectives in their regular projects.

First, the implementing agencies should establish policies on climate change, biodiversity, international waters, and ozone depletion to guide their non-GEF activities. To our knowledge, none of the implementing agencies has formal policies on any of these issues. In some cases, helpful policies exist, but are poorly implemented. For example, the World Bank's policy to protect wildlands represents an important contribution to biodiversity protection. The Bank must make greater efforts to ensure that it is routinely enforced. The Bank's recently adopted policy on energy efficiency should be also be a priority for implementation. It presents the best opportunity for the Bank to help moderate greenhouse gas emissions through cost-effective projects.

Second, the GEF should actively seek to reorient the Bank's and UNDP's regular portfolios in energy, agriculture, forestry, transportation, urban development, and other key sectors. As recommended above, the GEF should seek to encourage activities that may be in a country's own environmental or economic interests, but face financial, technical, commercial, or other constraints. Through demonstrating the viability of such activities, the GEF can encourage the Bank and UNDP to support similar activities through their regular operations.

3. **Promote policies that will generate global environmental benefits beyond those of individual GEF projects.**

The GEF and its implementing agencies will never have sufficient resources to achieve needed global environmental benefits through their own investments. They must seek to leverage additional activity. The demonstration value of GEF projects will be important, but the GEF should also seek to influence national policies in ways that can provide incentives for broad replication of those projects. A number of GEF projects have included support for the development of new legislation, policies, and standards. This should become a standard feature of projects in the restructured GEF.

4. Involve affected and interested communities, members of the public, and NGOs in GEF activities.

Environmental initiatives require broad public support to be sustained. Local communities must be in sympathy with objectives of a park protection program, for example, or the program will undoubtedly be undermined. Thus, successful biodiversity protection is an inherently participatory endeavor. At the political level, public support is critical to maintaining budgets for environmental programs and for adopting needed legislation or policy changes.

The GEF -- like all aid programs -- must improve its ability to work with affected communities, members of the public and non-governmental organizations (NGOs) in the field. Clear procedures are needed to guide staff in the field on how to solicit local views and how to engage communities and NGOs in the design and implementation of projects.

Informed public participation will depend on the free availability of detailed information on GEF and associated projects. The GEF should establish a uniform policy across the three implementing agencies that will guarantee public availability of detailed documentation on all GEF and associated projects at each stage of the project cycle.

5. Work with a broader range of institutions in the recipient countries and provide long-term funding in appropriate amounts.

The GEF's implementing agencies -- particularly the World Bank and UNDP, managers of most GEF projects -- need to work with a much broader range of executing agencies, particularly NGOs in the recipient countries. Neither the Bank nor UNDP has extensive expertise in the GEF focal areas. Much of the relevant expertise lies outside of governments. In the biodiversity area, for example, NGOs have done considerable work in assembling data bases on biological resources and in helping to set conservation priorities.

The GEF needs to make far greater efforts to tap into this expertise. While the GEF has worked with NGOs in some projects, in most cases collaboration has been limited to international NGOs or, in the recipient countries, to large, capital-city based NGOs. Meanwhile, our organizations work with many strong local institutions -- both governmental and non-governmental -- that have not been able to establish a working relationship with the GEF.

A number of strategies could help overcome this problem. First, the GEF's small grants program, managed by UNDP, should be significantly expanded. This program makes small grants to local NGOs through in-country focal points. Its initial activities have been poorly funded -- $10 million to date -- and slow to become operational. It represents a promising opportunity for the future.

Second, the Bank and UNDP should make a greater effort to identify and work with a broad range of NGOs in the recipient countries. The GEF implementing agencies should sponsor periodic, well publicized, public meetings in each country to solicit project ideas from both government agencies and NGOs. The agencies must also ensure that their internal procedures are sufficiently flexible to allow collaboration with smaller organizations that may lack the resources to participate in elaborate project design processes.

Finally, the donors should examine ways in which NGOs and government agencies might obtain funds without working through standard Bank and UNDP procedures. For example, a streamlined "medium-sized project window" might be established in one of the implementing agencies or in the GEF secretariat to make grants on the order of $1 million using more flexible procedures.

The GEF implementing agencies also have to become more sensitive in providing long-term support to small institutions in appropriate amounts. The GEF's own technical advisers have expressed concerns about this issue in a number of GEF projects, particularly in the biodiversity area. Large, one-time investments can overwhelm a small agency's absorptive capacity, distract it from existing priorities, and leave the agency without long-term funding for new initiatives. These problems can be overcome through more careful sizing of projects and also through the use of trust funds and endowments to provide for manageable, sustained funding.

THE U.S. POSITION IN THE GEF RESTRUCTURING NEGOTIATIONS

Our organizations have been pleased to see many of these recommendations incorporated in the Clinton Administration's position on the GEF. We are also grateful that the Administration has included an NGO representative on its delegation to the meetings of the GEF member governments, or "participants." I currently serve as that representative.

We generally endorse the Administration's position, particularly the following points:

- **A "functionally independent" secretariat.** The U.S. has proposed that the GEF secretariat be guided by a full time chief executive officer (CEO) who would report directly to the participants and not to any implementing agency. The secretariat, though housed in the World Bank, would thus become "functionally independent."

Our organizations agree that the GEF's leadership must be strong and independent of the three implementing agencies. This will be critical to instituting needed changes in the GEF's mandate and operating procedures. The secretariat should formulate policies for the GEF in certain critical areas, including information disclosure and public participation. It should review projects submitted by the implementing agencies to ensure consistency with GEF policies and with the policies, program priorities, and eligibility criteria established for the GEF by the conventions. It should determine which projects will be submitted to the participants for their consideration.

- **Governance.** The U.S. has proposed that a small, constituency-based management board represent the participants as the governing body of the GEF. This board would meet several times each year, set GEF policies, and approve projects on a streamlined basis.

Our organizations strongly endorse the proposal that the participants -- through a constituency based management board -- have authority to approve individual projects. This is critical to ensuring that the GEF funds only the highest quality projects. For this reason, a special majority of participants' votes -- for example two-thirds or three-quarters -- should be required for project approval.

- **A Wide Variety of Executing Agencies.** The U.S. has recommended that the GEF be able to work with a wide variety of environment and development organizations to execute projects, including NGOs.

This point corresponds to our recommendation above. We encourage the U.S. to explore options that would allow NGOs and other entities to obtain GEF funds through more streamlined procedures than those now employed by the World Bank and UNDP.

- **NGO Participation and Access to Information.** The U.S. position embodies the conditions established in the FY93 foreign operations appropriations act regarding public access to information and public and NGO participation. It also calls for NGO observer status at meetings of the constituency based management board and other participants' meetings.

While we strongly endorse these points, we recommend changes in other elements of the U.S. position:

- **Links to the Conventions.** The U.S. position states that the GEF should function as the operating entity of the financial mechanisms of the climate change and biodiversity conventions by funding the agreed incremental costs of measures that achieve agreed global environmental benefits.

Decisions on the future role of the GEF as an operating entity of the conventions' financial mechanisms must be made by the conferences of the parties of the conventions. The GEF restructuring negotiations must not preempt these decisions.

As described above, we are concerned about an overly strict interpretation of "incremental costs." This guidance should be interpreted flexibly to allow the GEF to fund activities that could be justified by national benefits but would not proceed without GEF funding due to technical, financial, commercial, or other barriers.

We are also concerned that this language implies a U.S. position that the financial mechanisms of the conventions are only obligated to fund activities that achieve global benefits. This could rule out funding under the climate convention, for example, for actions to prepare for and adapt to impacts of global warming that may be unavoidable and for which an individual developing country shoulders relatively little blame. The climate convention, meanwhile, establishes an explicit obligation for developed countries to assist developing countries that are particularly vulnerable to the impacts of climate change with adaptation. Similar issues regarding funding for global versus national benefits are likely to arise in the context of the biodiversity convention. The U.S. should clarify its position on this issue.

- **Establishment of the GEF.** The U.S. position states that the restructured GEF should be established by resolution of the World Bank's Executive Directors and be endorsed by the governing councils of UNDP and the U.N. Environment Program (UNEP).

The founding resolution of the GEF will establish its new structure. We believe that this document must be developed and approved in a manner that best represents the views of all participants and that establishes an equal partnership among the implementing agencies. A range of legal options could accomplish these goals more effectively than a resolution of the Bank's Executive Directors. The U.S. should reexamine its position in light of these options.

Finally, the U.S. position must remain sufficiently flexible to incorporate the findings of the evaluation of the GEF pilot phase currently underway.

IFC ENVIRONMENTAL PROCEDURES

The International Finance Corporation (IFC) -- an arm of the World Bank that invests in private companies -- is a potential implementor of GEF projects. Troublingly, the IFC's first attempt -- a forestry project in Ecuador -- came under heavy criticism from local communities in Ecuador and was subsequently abandoned.

This experience underscores the importance of clear procedures for environmental impact assessments (EIAs) of GEF projects and for public participation and access to information. Unfortunately, the IFC's policies in these areas are weaker than the World Bank's. While the IFC does require its borrowers to conduct EIAs on projects that will have significant impacts, it does not specify what issues these EIAs must address, nor does it require that they be released to the public. In general, as a matter of formal policy, IFC releases no written information on projects under preparation. Even one-paragraph descriptions in the IFC's monthly operational report are kept confidential.

The IFC is currently revising its environmental procedures at the direction of its Executive Directors, after they were asked to approve several environmentally controversial energy projects on the basis of incomplete environmental information. I have attached a letter to the IFC from NRDC and other organizations that contains our detailed recommendations for revising this policy.

Our central recommendations are:

- The IFC should comply with the World Bank's operational directive (OD) on environmental assessment and with other environmental and social ODs; draft environmental assessment reports and environmental analyses should be made publicly available 120 days before board consideration, as required under the Pelosi Amendment for U.S. approval;

- The IFC should require that all environmental issues identified during project preparation and appraisal be satisfactorily addressed at Board approval, not merely as a condition of disbursement; and

- The IFC should make information available on projects at every stage of the project cycle, including, at minimum, its monthly operational report.

CONCLUSION

Mr. Chairman, a restructured GEF could be one of the most significant, tangible outcomes of the Earth Summit. To advance the Earth Summit's agenda, however, it must do a far better job in strengthening national environmental capabilities and commitments. It must also proceed in the context of, and help to bring about, significant reforms in the regular programs and policies of its implementing agencies. We sincerely hope that these objectives can be met in the GEF restructuring negotiations and that our organizations will be able to endorse the restructured GEF.

NRDC

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February 24, 1993

BY FAX

Sir William Ryrie
Executive Vice President
International Finance Corporation
1818 H Street, N.W.
Washington, DC 20433

Dear Mr. Ryrie:

We write regarding the document entitled "Internal Procedure for Environmental Review of International Finance Corporation Projects" (hereinafter, "Procedure"), which we understand the Executive Directors will discuss on February 25. We are concerned that the document does not adequately address weaknesses in the IFC's earlier environmental procedure. We recommend that the IFC revise the document as described below.

I. PROCEDURE PROVIDES INADEQUATE GUIDANCE ON ENVIRONMENTAL ASSESSMENT.

The Procedure, like its predecessor, stipulates preparation of a "detailed Environmental Assessment (EA)" for projects that "may result in diverse and significant environmental impacts." (p. 3.) Nowhere, however, does the Procedure provide guidance on the necessary content or scope of analysis of an EA.

Policy guidance on this issue is critical. The EA provides timely information to IFC decision-makers, the project sponsor, and interested and affected citizens. If this information is incomplete, either important issues go unaddressed, the project is delayed, or both. This problem occurred last year in the Pangue Dam Project, where important areas of analysis including alternatives to the project and downstream impacts were not included in the EA. While supplemental analyses were commissioned after NRDC and other outside groups noted these deficiencies, the alternatives analysis was released for public comment only four weeks before Board consideration and the downstream impact analysis, to our knowledge, has yet to be completed.

International standards for environmental impact assessment have been articulated by the U.N. Environment Program (UNEP). ("Goals and Principles of Environmental Impact Assessment, Decision 14/25 of the Governing Council of UNEP, June 17, 1987.) These standards dictate, among other things, that:

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213 892-1500
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- Environmental impact assessment (EIA) should be conducted at an "early stage" and "examined impartially" prior to a decision to undertake or authorize an activity;

- An EIA include, among other things, (1) a description of the proposed activity, (2) a description of the potentially affected environment, (3) a description of "practical alternatives," (4) an assessment of the environmental impacts of the "proposed activity and alternatives, including the direct, indirect, cumulative, short-term, and long-term effects," (5) an identification of available mitigation measures, and (6) an identification of knowledge gaps and uncertainties; and that

- "Government agencies, members of the public, experts in relevant disciplines and interested groups" be allowed to comment on the environmental impact assessment.

The World Bank has adopted these standards in "Operational Directive 4.01: Environmental Assessment." We recommend that the Procedure be revised to require compliance with OD 4.01. If other IFC practices make compliance with a particular provision of OD 4.01 impossible, the Procedure should specify a substitute that satisfies the policy intent of the OD 4.01 provision in question. At minimum, the IFC Procedure should embody the UNEP Goals and Principles.

Compliance with Bank policy is particularly important in the areas of public consultation and information disclosure. OD 4.01 provides considerably more detailed guidance than the Procedure on the purpose, number, and timing of public consultations, including the need for consultation soon after a project's category is announced. (See OD 4.01, paras. 19-20.) The IFC should comply with these provisions.

The IFC should also comply with Bank policy on the related issue of information disclosure. First, the IFC should make its monthly operational report (MOR) -- which includes information necessary for early informed public consultation -- publicly available each month. Second, the IFC should comply with the agreement reached in the IDA-10 negotiations that:

> "once the borrower has made information publicly available in a borrowing country, the same information should also be made publicly available at Bank Headquarters and in field offices in the member countries. (IDA, Additions to IDA Resources: Tenth Replenishment, December 1992, p. 9.)

This would ensure that early descriptions of projects and associated environmental issues as well as draft EA reports are available in a timely manner to all interested parties.

II. PROCEDURE IS AMBIGUOUS ON THE APPLICABILITY OF OTHER WORLD BANK POLICIES, OPERATIONAL DIRECTIVES, AND GUIDELINES.

The Procedure states that IFC projects must be "consis[tent] with the spirit and intent of appropriate World Bank policies and guidelines." (p. 1.) As with Environmental Assessment, this does not provide adequate guidance. First, "spirit and intent" is an overly broad standard, particularly in the context of the Bank's detailed guidelines on acceptable pollution levels and natural resource management policies and practices. Second, the statement leaves out the Bank's Operational Directives which -- as in the case of Environmental Assessment -- can embody Bank policies that are not found elsewhere. This is the case, for example, with the Bank's Operational Directive on Indigenous Peoples.

We recommend that the Procedure be revised to stipulate that IFC projects comply with all relevant World Bank policies, operational directives, and guidelines. Again, where IFC practice makes compliance with a certain Bank provision procedurally impossible, the Procedure should specify a substitute that satisfies the policy intent of the Bank provision in question.

III. PROCEDURE ALLOWS ENVIRONMENTAL ISSUES TO REMAIN UNADDRESSED AT PROJECT APPROVAL.

Among the Procedure's stated aims is "to ensure that. . .no IFC funds are disbursed unless all environmental issues are satisfactorily addressed." (p. 1.) While this is a laudable goal, international standards -- as established in the UNEP Goals and Principles of EIA -- dictate that environmental issues be fully addressed before a project is approved.

Here again, experience last year with the Pangue Dam Project provides an important example. A number of Executive Directors expressed concern during Board consideration that the important issue of the project's downstream impacts had not been fully addressed.

The Procedure should require that all significant environmental issues and concerns be addressed before a project is presented to the Board. This should include full compliance with all relevant Bank policies, operational directives, and guidelines, as described above.

IV. ILLUSTRATIVE LIST OF "CATEGORY B" PROJECTS IS OVERLY BROAD AND MISLEADING.

The Procedure adopts the Bank's framework of screening projects into categories based on their potential environmental impacts. The Procedure also notes the importance of assigning categories on a case-by-case basis.

Unfortunately, however, the Procedure, like OD 4.01, contains an illustrative list of "Category B" projects that is overly broad and misleading. All of the projects listed as Category B in Appendix 1 could easily merit a full Environmental Assessment if they were undertaken in an environmentally sensitive area. This is especially likely to be the case for agriculture, tourism, oil and gas pipelines, and transmission lines. The Appendix, however, implies that these projects "are not normally required to prepare a detailed environmental assessment." This sends a misleading signal to project sponsors and IFC staff, notwithstanding the Procedure's admonition that categorization will be done on a case-by-case basis.

We recommend that the illustrative list of Category B projects be shortened and better qualified. Ambiguous distinctions between "large" and "small" and "major" and "small-scale" should be eliminated. Agribusiness and agricultural projects and oil and gas pipelines should be removed from the Category B list and the terms "large" and "major" should be stricken from the Category A list. Tourism and hotels should also be moved to the Category A list, based on the increasing recognition of tourism's links to and impacts on sensitive ecosystems and cultures. The sentence preceding the Category B list should be revised to read: "Provided they are not undertaken in environmentally sensitive areas, examples of projects in this category may include: . . . ."

V. PROCEDURE'S LIST OF "AREAS OF CONCERN" IS INCOMPLETE.

The Procedure's stipulated "areas of concern" for the environmental review process omits several important issues that are widely viewed as central to environmentally sustainable development. We recommend that the following be added to this list:

- Consideration of environmentally preferable alternatives;
- Efficient production, delivery, and use of energy;
- Pollution prevention and waste minimization; and
- Participation of the affected public in the design, review, and implementation of projects.

* * *

Thank you for considering our recommendations. We would be pleased to discuss them further with you or your staff.

Sincerely,

Glenn T. Prickett
Senior Associate
International Program

on behalf of:

James Barnes
Director, International Program
Friends of the Earth

Pope Barrow
Conservation Director
American Whitewater Affiliation

Barbara Bramble
Director, International Programs
National Wildlife Federation

Chad Dobson
Secretary
Bank Information Center

Cameron Duncan
MDB Program
Greenpeace

Stephen Gates
Executive Director
River Conservation International

Bruce Rich
Director, International Program
Environmental Defense Fund

cc: Executive Directors
Andreas Raczynski
Martyn Riddle
Mohamed El-Ashry
Robert Goodland

TREASURY NEWS

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STATEMENT BY SUSAN LEVINE
DEPUTY ASSISTANT SECRETARY FOR
INTERNATIONAL DEVELOPMENT, DEBT AND ENVIRONMENT POLICY
TREASURY DEPARTMENT
BEFORE THE
INTERNATIONAL DEVELOPMENT SUBCOMMITTEE
OF THE HOUSE COMMITTEE ON BANKING AND URBAN AFFAIRS

August 3, 1993

Introduction

Mr. Chairman. I appreciate the opportunity to testify before this Committee on the Global Environment Facility (GEF). The purpose of the GEF is to help combat four major threats to the global environment: climate change, the loss of biodiversity, ozone depletion, and the pollution of international waters. Addressing these four environmental threats is vital to the long-term interest of the United States. It is an investment in the future environmental security of our nation and the world.

This Administration has a strong commitment to the global environment. We have followed up on the Rio Earth Summit with concrete action and international leadership by signing the Biodiversity Convention and committing to reduce U.S. emissions of greenhouse gases to 1990 levels by the year 2000. Becoming a major player in the GEF is an essential element in the new approach this Administration is taking on international environmental issues.

I would like to note that the question is not whether there will be a GEF -- that decision has already been made. The question is whether or not the U.S. should be a part of the GEF.

The GEF is Important to America: Threats to the Global Environment

The GEF is in our national interest for the following reasons: It will help reduce the risk of global warming, a force that would severely impact global weather and our agricultural and other productive capacities. It will help combat the depletion of the ozone layer, protecting Americans and citizens of every nation from the harmful radiation that can cause skin cancer and reduce resistance to disease. It will help preserve biological diversity, our library of life, which provides our basic food needs, leads to cures to disease, and underpins the job-creating field of bio-technology. And it will safeguard the ecological integrity of our international waters, helping to put a stop to the degradation of coastal zones and the over-exploitation of marine resources.

By acting now, the GEF will help reduce the magnitude of these environmental impacts and help avoid more costly defensive expenditures and domestic controls that the U.S. might need to undertake in the future. Given the positive impact on U.S. national interests, it is in fact questionable whether a contribution to the GEF should be labeled "foreign assistance" as opposed to a domestic priority.

The GEF is a Cost-Effective Method for Addressing U.S. Interests

The GEF provides funding only for the "agreed incremental costs for achieving agreed global environmental benefits." This means that financing will be devoted only to those activities that benefit the global, as opposed to local, environment, and will only fund the costs of actions which, because benefits accrue globally and not locally, recipient countries would not undertake in their own interest.

Although the U.S. is committed to reducing the stress on the global environment, we cannot do it alone. Addressing global environmental issues requires the cooperation of both developed and developing countries. Unfortunately, the crush of poverty that exists in developing countries restricts their public expenditure to projects with national benefits. The benefits to a poor country from protecting the ozone layer, the climate system, biodiversity, and international waters are real, but difficult to quantify. These benefits are essential in the long-term, but pale in urgency in comparison with such critical needs as providing primary education and basic health care.

Here is where the GEF comes in. The GEF provides additional grant and concessional financing to allow developing countries to implement alternative projects that address the protection of the global environment. For a climate change example: Many developing countries will require new sources of electricity during the next decade, and fossil-fuel plants will often be the first choice for meeting this demand, even though the burning of fossil fuels emits carbon dioxide, contributing to the greenhouse effect. At some cost above a hypothetical first choice fossil-fuel plant, a developing country could purchase the latest energy-efficient technology, or perhaps install renewable energy sources. It is to provide the financing for that extra, or "incremental," cost between the first choice project and the lower carbon-emitting alternative that the GEF has been created.

Developing countries and conventional development banks will still be responsible for providing the financing for the cost of their first choice options towards the purchase of lower carbon-emitting alternatives. The GEF only pays the amount that is needed to avert the degradation of the global environment. In so doing, the GEF will facilitate further economic expansion in developing countries while addressing, in a pragmatic way, the global environmental hazards associated with unfettered growth.

The GEF is Important to U.S. Foreign Policy

The GEF is a linchpin of U.S. policy towards the climate change and biodiversity conventions. It has been designated on a probationary basis as the mechanism for fulfilling key financial obligations of developed country Parties to those agreements. There is no other viable mechanism that could satisfy the requirements of the conventions, and we are working hard so that the GEF becomes the conventions' permanent choice. If the GEF is not selected as a permanent mechanism, it will require several years, at substantial expense and on less favorable terms, to negotiate separate new financial institutions dedicated to the different conventions. The failure of the United States to support the GEF would be interpreted as a lack of support for U.S. obligations under the conventions. It could also unravel the international momentum for action engendered through the signing of these agreements. The failure to support the GEF would also leave the objectives of combatting ozone depletion and the pollution of international waters unmet.

The GEF Supports the American Economy: Opportunities for U.S. Business

We are working to structure a GEF that the United States can support, not only because of our environmental objectives, but because the GEF has important commercial potential for the United States. The GEF will introduce important new technologies and approaches in which the U.S. has a strong competitive advantage. These include renewable energy technologies, electricity demand management, pollution control techniques, and commercial applications from genetic resources, just to name a few. A successful GEF will provide a catalyst for much larger follow-on opportunities, in the form of direct investment, exports, and contracting services. Influencing the policies of the MDBs and the priorities of developing countries towards the integration of environment and development will create enormous new markets for environmental technologies. In fact, many U.S. companies are extremely interested in participating in the GEF projects. A number of U.S. firms, including ENRON, Ogden Energy and Environmental Services, Texaco, Bechtel, Brooklyn Union Gas, and Westvaco participated in a recent GEF seminar on business opportunities in the GEF.

Quite frankly, we must recognize that a restructured GEF will be a reality with or without the United States. All of the other major donors have contributed to the pilot phase of the GEF, giving it around $800 million dollars in resources. The U.S. is the only major country that has not contributed to the Core Fund. The same countries that have contributed to the Core Fund are prepared to establish a permanent Facility. We must move to ensure that in the longer term American firms will be well placed to export their technology and know-how as countries recognize the benefits of new approaches in sectors such as energy and transport.

The Administration's Objectives for GEF Restructuring

Earlier this year, the Treasury Department chaired a full inter-agency review of U.S. policy towards the GEF. In May, I led a U.S. delegation to international negotiations in Beijing. Our policy is currently focused on a few salient issues, including the GEF Secretariat, project approval, and information disclosure. We are convinced that the GEF must fund only the highest quality projects and that GEF policies must reflect the state of the art for implementing sustainable development. Its operations must be cost-effective and streamlined. It must have the flexibility to work effectively with a variety of executing agencies, including NGOs. We feel strongly that the GEF Participants should retain the ultimate authority over the GEF's policies and projects, and it is likely that others will accommodate us on this issue if we contribute to the GEF. The GEF must also be transparent and accountable to contributors and beneficiaries alike, and therefore must establish clear procedures ensuring that the Participants, NGOs, and the general public have access to information on GEF and associated projects throughout all phases of the project cycle. It must also establish clear procedures ensuring NGO participation and consultation with affected peoples throughout the project cycle.

While we all agree that more needs to be done to ensure participation by NGOs and affected peoples in the project cycle, NGOs are already involved in GEF projects. For example, the following NGOs are a sampling of those involved in the GEF: the International Union for the Conservation of Nature is involved in the appraisal of several projects including Wildlands Management in the Congo; World Wildlife Fund is also involved in several projects including Transfrontier Conservation Management in Mozambique; CARE is working on a Tropical Forest project in Cameroon; and the Nature Conservancy is involved with Mexican Biodiversity Conservation efforts. There are many more examples, including local NGOs and university teams.

The Importance of Strong U.S. Support for the GEF

The U.S. is playing an important role in the GEF restructuring negotiations. Treasury organized an informal meeting of several OECD countries in New York coinciding with the United Nations

Commission on Sustainable Development. The next steps include more informal consultations with the OECD and key developing countries, immediately followed by a Participants' meeting here in Washington in September. There will be a meeting in Paris in November, and the final negotiating session is scheduled for Cartagena, Colombia, in December.

The objectives I've outlined above for the GEF will not be achieved without effective U.S. policy leadership, backed by a significant U.S. contribution to the GEF. The existence of the GEF is a given; the question is whether the United States will be able to shape the organization to achieve our policy goals. The Administration's request for the GEF in FY 1994 is absolutely critical to our credibility and effective voice in this important environmental endeavor. We cannot continue to negotiate successfully if we remain the only major donor that has not contributed to the GEF Core Fund. We must contribute our fair share to be taken seriously.

I am very pleased that this Committee has not included conditions on GEF associated projects in its FY 1994 authorization bill. The objectives of this Committee are the bedrock of our policy, but our inability to contribute will continue to hamper our ability to achieve those goals. Our attempt to steer the policy debate without commensurate contribution is increasingly resented by donors and recipients alike. This Administration has engendered considerable international approval through its increased commitment to the global environment, but the lack of a U.S. financial commitment to the GEF is endangering this good will. An immediate U.S. contribution will greatly improve our ability to negotiate the transparent and participatory GEF we all seek.

I would now be happy to answer any questions that you might have regarding our views on the GEF, and this Administration's policy for achieving our mutually held objectives. Thank you, Mr. Chairman.