

Global Environment Facility (GEF)

FY2005 Appropriation	FY2006 Scheduled Request	FY2006 Arrears Request	FY2006 Total Request
\$106,640,000	\$107,500,000	\$0	\$107,500,000

For FY 2006, the Administration is requesting \$107.5 million to cover the fourth and final payment to the GEF under the third replenishment (GEF-3). Authorization for GEF replenishments is provided by prior legislation (P.L. 103-306).

The GEF helps developing countries address environmental challenges that may impact the U.S. and rest of the world. Launched in 1991, the GEF is an international financial institution that helps developing countries identify environmental measures that also support economic development, and then helps mainstream these dual-purpose initiatives into regular country development plans. Active engagement by the developing countries in this approach is essential to making enduring progress on environmental issues with global dimensions, while simultaneously making progress to reduce poverty and support sustainable development.

The GEF continues to work on the reform commitments contained in the GEF-3 replenishment agreement. However, progress on implementation has been uneven. There has been an improvement in the results measurement frameworks of new projects, although there needs to be better focus on country and GEF-wide institutional outcomes and more systematic reporting of those outcomes. A new independent evaluation function has been established and is now fully operational, and an independent external evaluation of GEF is underway. A more competitive system for implementing GEF projects has been put in place, although GEF needs to focus on further improvement in cost effectiveness and overall project management. The creation of a new private sector strategy, as agreed in GEF-3, is over two years behind schedule. Finally, the central GEF-3 replenishment reform -- the establishment of a performance-based allocation system -- has been repeatedly delayed and remains controversial with many member governments. These issues will continue to be pursued actively by the U.S. (See GEF-3 Policy Reform Section)

Key Facts

- The U.S. share in GEF is 20.86%, GEF's largest single shareholding.
- To date, the GEF has included nearly 1,600 investment and capacity-building projects in its work program, and has disbursed about \$2.4 billion in grants.
- In addition, under the GEF's small grant program (SGP), close to 5000 grants worth up to \$50,000 each have been provided to NGOs and community groups in over 70 countries. The total value of small grants approved since establishment of the program is \$219.3 million, and these small grants have leveraged an additional \$168.5 million in co-financing (both cash and in-kind).

- The U.S. contribution has helped catalyze over \$5.4 billion in GEF commitments to date. In turn, this funding has mobilized more than \$17 billion in commitments from other sources, including the private sector, international development banks and organizations, governments, NGOs, and bilateral agencies.
- The GEF's projects (on a cumulative basis) fall into seven categories:
 - Conserving biodiversity (36% of its portfolio)
 - Expanding clean energy production and efficient energy use (35%)
 - Cleaning up international waters and protecting fisheries (14%)
 - Phasing out ozone-depleting chemicals (3%)
 - Reducing persistent organic pollutants (POPs) (2%)
 - Promoting sustainable land use (1%)
 - Cross-cutting projects (8%)
- The GEF is playing a key role in addressing the impact of POPs on human life and the environment. These pollutants are an issue of particular concern in the northern United States, and President Bush signed the international agreement on POPs in May 2001. As a financial mechanism for the Convention to Combat Desertification, GEF is also increasing its work on land degradation, especially in Africa.
- The GEF specializes in two kinds of assistance:
 - It pilots innovative approaches to environmental challenges designed to be duplicated elsewhere and financed on a larger scale by non-GEF sources, including extensive follow-on private and public investment in similar projects.
 - It provides technical assistance and policy advice to build the country conditions needed to “mainstream” environmentally sound investments. It also helps neighboring countries collaborate better on trans-border environmental problems with wider regional implications.
- The GEF is, by its charter, highly focused in what it funds—providing assistance to only the parts of projects that demonstrate environmental benefits with global applications, including those that could affect Americans as well. Recipients pay for local benefits and thereby take greater responsibility for protecting their own environment.

Supporting U.S. Objectives

GEF-3 Policy Reform

- Progress on the GEF-3 replenishment commitments has been uneven:
 - The development of a *performance-based allocation* system is nearly two years behind its original target date (May 2003). Through this system, resources would be

provided to countries on the basis of potential global environmental benefits and relative country performance. Implementation has encountered operational problems and procedural delays, but analytic work is continuing, and a new target date for a decision on an operational framework has been set for June 2005. The nature of performance-based allocation systems is controversial among many GEF member countries.

- There have been some important steps towards the *measurement of results*, although more remains to be done before the GEF is able to systematically report on outcomes and impacts. New project proposals now incorporate specific results frameworks with time-bound and measurable results targets, although many existing projects still need to be retrofitted and more work needs to be done on baselines.
- The development of a *private sector strategy* is also behind schedule. This would enable the GEF to work more systematically with the private sector, which is important in the GEF's efforts to leverage maximum outside financial resources. A comprehensive evaluation of the GEF's current private sector engagement took longer than expected, and a new private sector strategy is not expected to be ready for Council consideration until December 2005.
- The *independent monitoring and evaluation function* is now operational. It has a clear, Council-approved mandate that emphasizes independence, an increased budget, and a new, more senior director who is deeply committed to independence and professionalism. The office responsible for this function is currently overseeing the first fully independent external review of the GEF.
- There is now a *more competitive system* among international organizations and development banks that implement GEF projects. In November 2003, the Council approved a system allowing regional development banks and specialized international institutions to compete with the three original implementing agencies (World Bank, UN Development Program and UN Environment Program) for access to project funds, with the goal of improving quality and reducing costs. Two regional development banks are already implementing projects under their direct access to GEF funds. However, there needs to be greater attention to overall project management, especially canceling or terminating projects that have not progressed. In addition, there needs to be greater discipline over GEF's corporate budget, particularly the allocations to the three original implementing agencies.

Incentive Contribution

- As part of its \$500 million pledge towards GEF-3, the U.S. made a contingent commitment of \$70 million to be provided in the fourth year of GEF-3, if the following performance measurements were achieved by the fall of 2004:
 - An operational performance-based allocation system is in place.

- Projects approved from the beginning of GEF-3 through the fall of 2004 must meet key performance measures, which are specified in the replenishment agreement. For example, projects approved to combat POPs must provide no less than 50 countries with assistance in the completion of national implementation plans that include an inventory of POPs stockpiles and set out an action plan for their reduction. In the area of biodiversity, projects approved must provide for at least 17 million additional hectares of land to be under improved management for conservation or protection. For climate change, projects approved must plan to avoid or sequester at least 200 million tons of greenhouse gas (carbon dioxide equivalent) emissions.
- The process targets for projects were met, and in many cases exceeded, although this does not mean that the expected outputs will be achieved. However, the GEF was unable to put in place an operational performance-based allocation system, the hallmark of the GEF-3 replenishment agreement. Therefore, the GEF did not meet the requirements for the \$70 million incentive contribution.

Program Assessment Rating Tool Evaluation

- The PART evaluation conducted by the US Office of Management and Budget gave GEF relatively strong scores in Management (89) and Purpose (80), but a substantially lower score in Planning (63). The evaluation stated that it is difficult to assess the overall performance of the GEF because it does not have adequate performance goals, baselines and timeframes to allow an assessment of how the GEF contributes to improving the global environment overall and within countries. As a result, the GEF received a very low score on Results/Accountability (17), and a conclusion of Results Not Demonstrated. The evaluation further noted that the GEF needs to pay greater attention to cost-effectiveness, that it should focus more on countries with the greatest potential global environmental benefits and the best policy performance, that it should adopt outcome rather than process targets, and that it needs more rigorous evaluations of project performance.
- The PARTS evaluation positively noted that the GEF is very focused on what it finances, and that project data are widely available to the public. It also noted encouraging developments from the GEF-3 agreement, especially results measurement at the project level, and the creation of an independent monitoring and evaluation function in the GEF.

Institutional Effectiveness

- The GEF is a small operation (41 staff people) in large part because its projects are implemented by the World Bank, the regional development banks and several specialized UN agencies, including: the UN Development Program, the UN Environment Program, the Food and Agriculture Organization, the UN Industrial Development Organization (for POPs projects), and the International Fund for Agricultural Development (for sustainable land management programs).
- The GEF cooperates closely with those institutions in project execution. Examples of recent projects include:

- Russia: \$6 million from the World Bank, \$30 million from the Russian Government and \$8 million from the GEF to improve fire management in a protected forest area of Russia and thereby reduce growing wild fire damage in this critical region.
- Philippines: \$36 million from the Asian Development Bank, \$13 million from the national and local governments, \$5 million from beneficiaries and \$9 million from the GEF to establish networks of marine protected areas and ultimately enhance marine biodiversity.
- Belize, Guatemala and Honduras: \$1.5 million from the Inter-American Development Bank, \$5.1 million from governments and others, and \$5.3 million from GEF to help reduce ship-based containments in the Gulf of Honduras.
- Africa: \$25 million from the World Bank and the UN Food and Agriculture Organization (FAO) and a \$25.6 million GEF grant to clean up current stockpiles of obsolete pesticides, including POPs, and prevent future accumulations throughout Africa.
- GEF projects are producing clear global environmental benefits:
 - 27 completed climate change projects are estimated to have helped avoid 224 million tons of CO2 emissions.
 - GEF support of regional efforts to restore the Danube River and the Black Sea has led to, among other things, the removal of an estimated 55 tons of phosphorus, 1200 tons of nitrogen, and 40,000 tons of sediment from the Danube River before it enters the Black Sea.
 - Through GEF assistance, countries in Eastern Europe, Central Asia and Russia have cut their use of chemicals that deplete the ozone layer by 90%.
 - GEF funding helped reverse the environmental decline of Africa's Lake Victoria and revive the damaged fishing industry.
- GEF resources serve to leverage additional financing from non-GEF sources, including recipient governments, other multilateral sources, NGOs, and the private sector. For example:
 - Thailand: A GEF energy efficiency project led the private sector to transform completely the fluorescent-light market in Thailand (with the market share of efficient light bulbs rising from 40% to 100% during the project, or 20 million light bulbs annually), and virtually transformed the market for efficient refrigerators, with the share of efficient refrigerators going from 12% to 96%. A similar project in Poland also transformed the market there, and other such projects are underway in several other countries.

- Conservation trusts: Roughly \$33 million in additional contributions have been raised as a result of GEF disbursements of \$46 million to six operating conservation trusts (in Bhutan, Mexico, Peru, South Africa, Uganda and Eastern Europe)
- The GEF sets high transparency standards.
 - NGOs have full observer status in GEF's Governing Council and can speak at all Council meetings.
 - All GEF Council documents are public and posted on GEF's Internet website (www.gefweb.org) at the same time they are provided to the Council.
 - The decisions and summaries of all Council meetings are drafted in open Council sessions, and made available to the public as soon as they are available to the Council.

Increasing Productivity

GEF operations directly increase productivity through activities such as renewable energy and energy efficiency projects as well as protection of biodiversity. For example:

- Romania: A GEF project is supporting investments to improve energy efficiency through development of a self-sustaining, market-based mechanism, thus increasing the productivity of the energy provided.
- Philippines: The GEF will support the use of renewable energy technologies to provide electricity to rural areas off the transmission grid, areas in which the lack of electricity has impeded income generation.
- Sri Lanka: A GEF project has resulted in more than 20,000 homes' having solar electricity, the creation of small-business opportunities, and better health and education for local residents.
- Mexico: Renewable energy systems have increased agricultural productivity and incomes of small farmers.
- Coral reefs: Off the coasts of Belize, Ghana and Indonesia, the GEF is helping to protect coral reefs, which are home to a rich biodiversity and support vital industries, including tourism, fisheries and agriculture.

Promoting U.S. Business

- The GEF expands markets for environmental technologies and services, where the U.S. has strong export competitiveness. About 40% of GEF contracts with private sector solar energy companies have gone to U.S. firms, and GEF projects will help expand markets for

solar equipment by 70% in the next few years. In addition, roughly 18% of all GEF procurement awards to donor countries go to U.S. firms. For example:

- Thailand: Replacement of 440 ozone-damaging building chillers with highly efficient, non-CFC chillers, abating 220 tons of ozone-depleting chemicals.
- Philippines: Development of geothermal fields to supply steam to provide fuel-free energy to supply 20% of total electricity in the country.

Promoting Democracy and Good Governance

- GEF operations systematically involve NGOs, local communities, and private firms in all stages of projects. For example:
 - Sri Lanka: A successful project to promote grid-connected and off-grid energy services using renewable energy technologies was prepared and implemented by the private sector and local communities. The active involvement of community-based organizations and micro-finance institutions has triggered exponential growth of the market for solar home systems and village hydro schemes.
 - India: Collaboration among private companies, government bodies, energy companies, and NGOs assisted the Indian government in developing small hydel (watermill) resources in the Himalayan and sub-Himalayan regions. The project is being replicated in other states.
 - Kenya: The small grants program is supporting the Greenbelt movement, whose leader earned a Nobel Prize. GEF funds are helping to add at least 500,000 indigenous trees to the Mount Kenya forest and train women's groups in raising indigenous seedlings.
 - Mongolia: Another small grants program has helped community-based environmental groups in remote areas of the country to become formally registered as NGOs and implement projects that address a range of environmental issues.