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## POLICY FRAMEWORK

This operational strategy has been developed to guide the Global Environmental Facility (GEF) in the preparation of country-driven initiatives in the GEF's four focal areas: biodiversity, climate change, international waters, and ozone layer depletion.<sup>1</sup> The issues of land degradation, primarily desertification and deforestation, as they relate to each focal area, are also addressed. This strategy will guide the GEF Secretariat and the three Implementing Agencies (the United Nations Development Programme, the United Nations Environment Programme, and the World Bank) in developing work programs, business plans, and budgets. It shall also guide the GEF Council in approving these activities.

This strategy incorporates guidance from the relevant Conventions for which the GEF serves as the interim financial mechanism: the Convention on Biological Diversity (CBD) and the Framework Convention on Climate Change (FCCC).<sup>2</sup> It also establishes operational guidance for international waters and ozone activities, the second being consistent with the Montreal Protocol on Substances that Deplete the Ozone Layer and its amendments. Preparation of the strategy drew on a broad consultative process.

The first chapter defines the mission of the GEF, along with the operational principles on which all activities will be based. It presents the strategic considerations of the GEF in fulfilling its mission and provides the framework that will sequence its actions. The chapter also indicates how the GEF will maintain the flexibility needed to respond to new developments and incorporate continuing guidance from the relevant Conventions and the GEF Council. Chapters two through five present the operational strategy specific to each of GEF's four focal areas: biological diversity, climate change, international waters and ozone layer depletion. A discussion of the activities concerning land degradation, primarily desertification and deforestation, as they relate to the focal areas, is integrated into the chapters.

### MISSION

The Global Environment Facility (GEF) is a mechanism for international cooperation for the purpose of providing new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the areas of biological diversity, climate change, international waters, and ozone layer depletion. Land degradation issues, primarily desertification and deforestation, as they relate to the four focal areas will also be addressed. In carrying out its mission, the GEF will adhere to key operational principles based on the two Conventions, the GEF Instrument, and Council decisions. These principles are summarized in box 1.1.

#### Box 1.1

##### Ten Operational Principles for Development and Implementation of the GEF's Work Program

1. For purposes of the financial mechanisms for the implementation of the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change, the GEF will function under the guidance of, and be accountable to, the Conference of the Parties (COPs).<sup>3</sup> For purposes of financing activities in the focal area of ozone layer depletion, GEF operational policies will be consistent with those of the Montreal Protocol on Substances that Deplete the Ozone Layer and its amendments.
2. The GEF will provide new, and additional, grant and concessional funding to meet the agreed

incremental costs of measures to achieve agreed global environmental benefits.

3. The GEF will ensure the cost-effectiveness of its activities to maximize global environmental benefits.

4. The GEF will fund projects that are country-driven and based on national priorities designed to support sustainable development, as identified within the context of national programs.

5. The GEF will maintain sufficient flexibility to respond to changing circumstances, including evolving guidance of the Conference of the Parties and experience gained from monitoring and evaluation activities.

6. GEF projects will provide for full disclosure of all nonconfidential information.

7. GEF projects will provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people.

8. GEF projects will conform to the eligibility requirements set forth in paragraph 9 of the GEF Instrument.

9. In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources.

10. The GEF will ensure that its programs and projects are monitored and evaluated on a regular basis.

### **STRATEGIC CONSIDERATIONS**

GEF activities will aim at maximizing agreed global environmental benefits in the areas of biological diversity, climate change, international waters, and ozone layer depletion. Land degradation issues, primarily desertification and deforestation, as they relate to the four focal areas will also be addressed by GEF activities, particularly in those countries in Africa experiencing serious drought and/or desertification, consistent with the GEF Instrument.<sup>4</sup> *The GEF will not finance activities in the areas of biodiversity and climate change that do not fully conform to the guidance from the relevant Conference of the Parties.*

GEF activities will be designed so as to:

- Be consistent with national and, where appropriate, regional initiatives.
- Strive to ensure sustainability of global environmental benefits.
- Reduce the risk caused by uncertainty.<sup>5</sup>
- Complement traditional development funding.
- Facilitate effective responses by other entities to address global environmental issues.
- Be environmentally, socially, and financially sustainable.
- Avoid transfer of negative environmental impacts between focal areas.

These strategic considerations are discussed below.

### *Be Consistent with National and, Where Appropriate, Regional Priorities*

GEF activities will be consistent with, and supportive of, the recipient countries' own actions for sustainable development. GEF programs and projects will be *country-driven* (see Document GEF/C.4/7, GEF Project Cycle), and will be linked with national sustainable development efforts. Public consultation and effective involvement of local communities and other stakeholders will enhance the quality, impact, relevance, and national ownership of GEF activities.

Regional programs and projects will be undertaken in all countries which endorse them, and GEF financing will only be provided to those eligible to receive GEF funding. The GEF will encourage and strengthen partnerships to address programs at the regional level. Global and interregional projects may be funded for eligible recipient countries or "for other activities promoting the purposes of the Facility."<sup>6</sup> Global programs and projects will be designed to facilitate national-level efforts to achieve global environmental benefits.

### *Ensure the Sustainability of Global Environmental Benefits*

GEF activities will be designed to support:

1. National policies providing adequate incentives for development paths that are sound, from a global environmental perspective, and contribute to the effective implementation of GEF operations.
2. Institutional arrangements that are supportive of global environmental protection.
3. Capacity building, human resource development, and skills that are necessary to achieve global environmental objectives.
4. Communications and outreach that promote better public understanding of the global environment, mobilize people and communities to protect the global environment, and build support for GEF's objectives, strategy, and programs.
5. Public participation and consultation with major groups (see paragraph 5 of the *Instrument for the Establishment of the Restructured Global Environment Facility*; see also *Agenda 21*, Section III, "Strengthening the Role of Major Groups"), local communities, and other stakeholders at appropriate stages of project development and implementation.

### *Reduce the Risk Caused by Uncertainty*

Although there is significant and continuously evolving knowledge relating to global environmental issues, scientific uncertainty is inevitably part of the context in which the operational strategy is set. As enunciated in Principle 15 of the Rio Declaration on Environment and Development, "lack of full scientific certainty shall not be used as a reason for postponing cost-effective measures to prevent environmental degradation."

Developing a diverse portfolio and seeking scientific and technological advice will be pursued to reduce the risks arising from scientific uncertainty. Other means to be pursued include working to increase and improve environmental information to support decision-making and action, and paying particular attention to monitoring and evaluation on a programmatic level, including dissemination of information on the results of these efforts, so as to improve subsequent activities.

A *diverse portfolio* will:

1. Involve a range of approaches which address the need for ongoing innovation, experimentation, demonstration, and replicability.

2. Finance programs and projects that address the underlying causes of global environmental deterioration, such as economic policy, legal and social issues, institutional weaknesses, and information barriers.
3. Finance actions that provide lessons beyond their immediate impact or provide long-term sustainable global benefits, such as reduction in costs of technologies or demonstration of alternative, environmentally sound, and viable approaches.
4. Finance actions that are cost-effective and catalyze complementary actions or have a multiplier effect.
5. Involve a range of project executors from the public, non-government, and private sectors.
6. Finance programs that advance the scientific and technical capacities in recipient countries to reduce global environmental threats.

In developing and managing the portfolio of activities, the GEF will seek the best available *scientific and technological advice*. Actions for which the causes, effects, and ameliorative activities are well established will be expedited. The scientific community, in particular the GEF's Scientific and Technical Advisory Panel (STAP), will be consulted routinely. Guidance from the Conference of the Parties to the Convention is expected to include advice and recommendations of the subsidiary scientific bodies of the Conventions.<sup>7</sup>

*Increased awareness of global environmental issues and improved environmental information* assist in effective decisionmaking and actions and are necessary first steps in identifying global benefits. Funding the collection and synthesis of usable information, and ensuring its dissemination among decisionmakers, scientists, and the general public are important parts of the GEF's operational strategy. The GEF will provide assistance for:

1. Enabling activities, including: inventories, compilation, and analysis of information; and appropriate capacity building, policy analysis, and strategies and action plans to help integrate global environmental objectives and national planning and decisionmaking. Such information also will help countries in preparing communications to the relevant Conventions and in developing useful intercountry or interregional information bases.
2. Capacity building for, among others, enabling activities, institutional strengthening, and targeted research, including analysis and application of relevant information.
3. Information dissemination and networking among, and within, countries to help inform decisionmaking on policies, institutional arrangements, investment choices, resource management, and the application of environmentally sound technologies. Systematic sharing and documentation of activities and experiences to protect the global environment is important in addressing the link between the global environment and national sustainable development programs.
4. Building public awareness in order to ensure public participation and consultation with stakeholders at appropriate stages of the project cycle.<sup>8</sup>

Monitoring and evaluation play an especially important role in the GEF for a number of reasons. First, the GEF's new and unique mission in the global environment requires it to develop strategies and projects whose designs, although scientifically based, may be more innovative or experimental than those of regular development projects. Second, the GEF is pioneering new institutional relationships among the Bretton Woods and United Nations agencies in partnership with the participant countries, international conventions, NGOs, and other organizations. Third, the emphasis in the early part of the GEF project cycle on "casting the net widely" and the dynamic process of developing operational programs place a

premium on continuous learning and improvement. As a consequence, the GEF will emphasize the quality of monitoring and evaluation systems and ensure that their findings are disseminated widely. In preparing operational programs consistent with the operational strategy, a project framework approach will be adopted that will allow the GEF to monitor and track progress in fulfilling its mission.

#### *Complement Traditional Development Funding*

The GEF provides new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits (see paragraph 2 of the *Instrument for the Establishment of the Restructured Global Environment Facility* and Document GEF/C.2/6/Rev.2, "Incremental Costs and Financing Modalities"). This principle, articulated in the Conventions on biological diversity and on climate change, and in the GEF Instrument, has two important ramifications with regard to financing:

1. GEF funding should be used only for incremental costs. Actions by individual countries to achieve sustainable development at the national level can be complemented and supplemented by other efforts aimed at securing global environmental benefits. Efforts to secure global environmental benefits may impose additional costs (i.e., incremental costs) on countries beyond the costs of achieving national development goals. In estimating incremental costs, the GEF will follow the approach approved by the Council.<sup>9</sup> In approving the approach to estimating incremental costs, the Council recognized the need for its flexible application, including the notion of "environmental reasonableness" as a guiding principle so as not to penalize progressive environmental action in recipient countries.
2. The GEF should ascertain that its resources are applied as new and additional funding, not substitutes for regular sources of development finance. The principle that GEF funds will be additional to the funds required for national sustainable development helps to ensure that scarce resources are not diverted from development financing and to maximize global impact of GEF resources. The GEF will not provide budgetary financing for the staff or activities of international organizations or other international bodies, to fulfill their own mandates, even those concerned with the global environment.

#### *Facilitate Effective Responses by Other Entities to Address Global Environmental Issues*

The GEF will promote and encourage actions to benefit the global environment beyond those it directly funds:

1. Through integration of GEF work programs with the regular programs of the three Implementing Agencies, GEF resources will complement the funds and assistance they provide to recipient countries. The Implementing Agencies will, in turn, finance and/or help mobilize financing to meet the non-incremental costs of GEF projects.
2. Through outreach to not only governments, but also to non-governmental organizations and the private sector, the GEF will encourage broad actions to protect the global environment.
3. The GEF will selectively promote projects that would normally be considered part of an "environmentally reasonable baseline". In such cases, the GEF may facilitate information dissemination, advice and other sources of financing.<sup>10</sup> For projects that provide either lessons beyond their immediate impact or long-term sustainable global benefits, the GEF will help the countries to reduce initial financial risks, remove barriers and meet transaction costs, or build markets to an extent that lowers future costs for further application of measures of the same type.

4. The GEF will actively encourage bilateral, regional, and other multilateral organizations and foundations to contribute to or cofinance activities to address global environmental objectives.
5. The GEF will leverage additional financing through collaboration with the private sector.<sup>11</sup>
6. The GEF will support innovative financing approaches to ensure that recurrent costs of funded activities are met without continued GEF support.<sup>12</sup>
7. The GEF will examine the role it might play in facilitating and promoting international cooperation, thereby leveraging GEF financing to address global environmental objectives in a multicountry and multiactor context.

#### *Be Environmentally, Socially, and Financially Sustainable*

The focus of GEF activities will concern long-term measures. Such measures, if they are to be part of a long-term solution, will have to be environmentally and socially sustainable, and not merely benign forms of current, but unsustainable, activities. Furthermore, the measures will need to be financially sustainable. Individual projects are financially sustainable if their design includes a means of ensuring a stable long-term source of funding for recurrent costs. Programs are financially sustainable if the initial GEF support reduces financial risk, overcomes transaction barriers, or builds markets to an extent that lowers future costs for measures of the same type.

#### *Avoid Transfer of Negative Environmental Impacts Between Focal Areas*

In preparing GEF projects, the Implementing Agencies will consider potential environmental effects in other focal areas. All efforts will be made to design projects that are consistent with the operational strategies of the other focal areas and avoid negative impacts in focal areas outside of the focus of the project.

### **PROGRAMMING OF GEF OPERATIONS**

In view of the GEF's limited resources and the finite capacities of recipient countries and Implementing Agencies to program activities at any given time, the GEF must structure and sequence activities to best achieve global environmental objectives. The sequencing of GEF tasks will be a dynamic process, shaped in part by the evolving nature of guidance from the relevant Conventions and the increased capacity for program development.

GEF operations will be programmed in three broad, interrelated categories:

- Operational programs
- Enabling activities
- Short-term response measures.

#### *Operational Programs*

An operational program is a conceptual and planning framework for the design, implementation, and coordination of a set of projects to achieve a global environmental objective in a particular focal area. It organizes the development of country-driven projects and ensures systematic coordination between the Implementing Agencies and other actors.

In the focal areas of biological diversity and climate change, operational programs will be developed in accordance with the program priorities approved by the Conference of the Parties to the Conventions.

International waters programs will be developed in accordance with the evolving program priorities determined by the Council. There will be no operational programs for the focal area concerning ozone layer depletion. Activities in this focal area will be focused on short-term response measures and enabling activities consistent with the Montreal Protocol on Substances that Deplete the Ozone Layer and its amendments. Country-driven project concepts and advice of the Scientific and Technical Advisory Panel (STAP) will also contribute to the identification and development of operational programs.

Each operational program will be described in a short reference document prepared by the GEF that takes into account the advice of STAP and builds on appropriate environmental, economic, and technical assessments and strategies. The operational program document will:

- (a) Clarify the program objectives (for example, specify a market, technology, type of measure, or site-specific ecosystem)
- (b) Relate the operational program to relevant Convention guidance where appropriate
- (c) Relate the operational program to relevant past and ongoing work of other organizations
- (d) Set out the likely scope of the activities in terms of geographical distribution, time frame, and financial requirements
- (e) Set out the means by which the Implementing Agencies will coordinate their efforts within the GEF and with their regular programs.
- (f) Describe the expected roles of investment, capacity building, enabling activities, technical assistance, and targeted research
- (g) How the sustainability and replicability of the measures supported will be ensured
- (h) Include assessment of cost effectiveness and incremental costs to maximize global environmental benefits
- (i) Describe how the program will be monitored and evaluated

The objectives of operational programs will be met through the development and implementation of projects in recipient countries. Operational programs will be matched with country-driven project opportunities and priorities. Many country-driven project opportunities in support of the objectives of an operational program are likely to be included in national strategies and action plans. As project ideas and concepts are initially explored, one consideration will be whether the project idea contributes to the objectives of an operational program.

Country-driven project concepts may emerge for which an immediate matching with a GEF operational program does not exist. These concepts will be explored further to determine whether they provide a basis for a new operational program. Flexibility will be an integral element of this strategy so that the GEF may learn from and be responsive to the strategic insights of recipient countries. The Council, the Conventions, and STAP will provide important guidance in the ongoing process of developing operational programs. Promising project concepts outside the framework of an operational program may be considered for support under short-term response measures. Consideration of individual project concepts outside the framework of an operational program will be guided principally by the urgency of action and cost-effectiveness in relation to the GEF's mission.

On the basis of guidance from the Conventions, extensive consultations, and technical and scientific review, 10 initial operational programs are proposed, see box 1.2. Chapters two through five provide further elaboration.

**Box 1.2**  
**INITIAL OPERATIONAL PROGRAMS**

- |                           |   |
|---------------------------|---|
| 1. Biodiversity:          | Arid and semi-arid ecosystems   |
| 2. Biodiversity:          | Coastal, marine, and freshwater ecosystems (including wetlands)                                   |
| 3. Biodiversity:          | Forest ecosystems   |
| 4. Biodiversity:          | Mountain ecosystems   |
| 5. Climate change:        | Removing barriers to energy conservation and energy efficiency                                    |
| 6. Climate change:        | Promoting the adoption of renewable energy by removing barriers and reducing implementation costs |
| 7. Climate change:        | Reducing the long-term costs of low greenhouse gas-emitting energy technologies                   |
| 8. International waters:  | Waterbody-based program   |
| 9. International waters:  | Integrated land and water Multiple Focal Area   |
| 10. International waters: | Contaminant-based program   |

Note: In the focal area of ozone layer depletion, all activities are discussed in the sections on enabling activities and short-term response measures.

### *Enabling Activities*

Enabling activities -- which include inventories, compilation of information, policy analysis, and strategies and action plans -- represent a basic building block of GEF assistance to countries. They either are a means of fulfilling essential communication requirements to a Convention, provide a basic and essential level of information to enable policy and strategic decisions to be made, or assist planning that identifies priority activities within a country. Countries thus enabled will have the ability to formulate and direct sectoral and economywide programs to address global environmental problems through a cost-effective approach within the context of national sustainable development efforts. Enabling activities will normally qualify for full cost funding when they are directly related to agreed global environmental benefits and consistent with the Convention's guidance.<sup>13</sup>

Enabling activities will include preparation of a plan, strategy, or program to fulfill commitments under a relevant Convention and preparation of a national communication to a relevant Convention, where appropriate.<sup>14</sup>

Operational guidelines and criteria will be developed for these enabling activities in order to clarify the basis of possible GEF support, its complementarity to past and ongoing support, and its focus on the task of preparing a particular strategy, plan, program, or communication. The guidelines will also set out the scope, sequence, depth, frequency, and cost norms for the envisaged components of such support.

### *Short-Term Response Measures*

Although the large majority of GEF activities will contribute directly to operational programs or enabling activities, some projects that are unrelated to either of these two categories will be of sufficiently high priority that they may be considered for financing. Such projects would not be expected to yield significant strategic or programmatic benefits as in the case of operational programs, but they would yield short-term benefits at a low cost. For example, climate change projects aimed *solely* at reducing the net emissions of greenhouse gases or urgent measures to conserve an extremely endangered species may be



considered under this category. Criteria for selection of short-term response measures in each focal area are included in chapters two through five.

## **CONCLUSION**

The Council will review a three-year business plan and an administrative budget on an annual basis. The business plan will provide information on existing operational programs, programs under development, and proposals for new programs. Proposals for new programs may emerge as a result of guidance from the relevant Conventions and the Council, new project concepts, or the advice of STAP. In exercising its oversight and policy functions, the Council will be fully informed of the activities of the Secretariat and the Implementing Agencies in developing and implementing the operational programs, enabling activities, and short-term response measures

<sup>1</sup> The *Instrument for the Establishment of the Restructured Global Environment Facility* states that the GEF will provide "grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas:

- biological diversity;
- climate change;
- international waters; and
- ozone layer depletion.

<sup>2</sup> Paragraph 6 of the *Instrument for the Establishment of the Restructured Global Environment Facility* provides that "the GEF shall be available to continue to serve for the purposes of the financial mechanism of [the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change] if it is requested to do so by their Conferences of the Parties." The first meeting of the Conference of the Parties to the Convention on Biological Diversity requested that the GEF "continue to serve as the institutional structure to operate the financial mechanism under the Convention on an interim basis." The first meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change requested that the GEF "continue, on an interim basis, to be the international entity entrusted with the operation of the financial mechanism."

<sup>3</sup> "Conferences of the Parties" refers to the Conference of the Parties established in Article 7 of the Convention on Biological Diversity and the Conference of the Parties established in Article 23 of the U.N. Framework Convention on Climate Change.

<sup>4</sup> Document GEF/C.3/8, endorsed by the Council at its third meeting, outlines GEF activities that are consistent with the objective of the UN Convention to Combat Desertification, and it provides useful thinking on integrating land degradation into GEF focal area activities.

<sup>5</sup> Risk occurs at four levels in the GEF portfolio:

- First, there is the normal commercial and technical risk associated with any development project. Such risks are addressed through appropriate project design, insurance, and guarantee schemes in the normal course of project development.
- Second, the recipient may experience an additional project risk as a result of opting for a measure that also protects the global environment. For example, there may be increased technical risk when a new renewable energy technology is used as a substitute for a familiar fossil-fuel technology. Such an additional risk is specifically attributable to the GEF involvement and should be addressed by appropriate project design (additional capacity building to manage new systems, recurrent disbursements made on monitored incremental costs, or reimbursement for the increased costs of insurance).
- Third, in some projects the expected global environmental benefits may not materialize or may not be incremental. For example, the GEF may pay the incremental costs of protecting a wetland from development activities in the expectation that this will provide cost-effective protection for the wetland's biodiversity, only to discover many years later that the project agreement had been breached and the wetland drained for an alternative economic use.
- Finally, the GEF runs a portfolio risk in that the measures it has adopted may not prove to be the best or most effective in meeting its overall objectives. For example, if all of the GEF's resources for climate change were devoted to one or two very specific technologies that were expected to reduce greenhouse gases very effectively in the long term, and these technologies failed to become financially self-sustaining as expected, the entire portfolio in climate change would have failed. This type of risk is best handled by having a diverse portfolio. There is a trade-off between the diversity of programs (which reduces portfolio risk) and the strategic concentration of resources within each program (where synergy and scale can increase the chances of market take-off for alternatives and their integration with sustainable development).

<sup>6</sup> Paragraph 9(b) of the *Instrument for the Establishment of the Restructured Global Environment Facility* states: "All other GEF grants shall be made available to eligible recipient countries and, where appropriate, for other activities promoting the purposes of the Facility in accordance with this paragraph and any additional eligibility criteria determined by

the Council". The Small Grants Programme is an example of a global program that is an "activity promoting the purposes of the Facility."

<sup>7</sup> The role of the Scientific and Technical Advisory Panel is defined in the STAP terms of reference approved by the Council, Document GEF/C.6/Inf.7, "STAP Terms of Reference".

<sup>8</sup> In light of Council guidance on this matter, the Secretariat will prepare for consideration by the Council at its meeting in April 1996 a proposal for a GEF policy on public involvement.

<sup>9</sup> This approach is described in Document GEF/C.2/6/Rev.2 as amended by the Council at its meeting in May 1995.

<sup>10</sup> Paragraph 9(c) of the Instrument provides that "GEF concessional financing in a form other than grants that is made available within the framework of the financial mechanism of the conventions referred to in paragraph 6 shall be in conformity with eligibility criteria decided by the Conference of the Parties of each convention, as provided under the arrangements or agreements referred to in paragraph 27. GEF concessional financing in a form other than grants may also be made available outside those frameworks on terms to be determined by the Council."

<sup>11</sup> See paragraph 28 of the Instrument. An information paper on how the GEF may best promote private sector activities was presented to the Council for comment in October 1995.

<sup>12</sup> A policy paper on financial policy, including financing modalities, will be considered by the Council in April 1996.

<sup>13</sup> The term 'enabling activities' has been defined in the context of the guidance to the GEF from the Conference of the Parties to the Framework Convention on Climate Change. The concept can usefully be extended to the biodiversity and ozone layer depletion focal areas.

<sup>14</sup> The scope of work in biodiversity and climate change will be in accordance with the guidance of the respective Conference of the Parties and will continue to evolve as such guidance is developed by the Parties