



Global Environment Facility

By Korinna Horta, Environmental Defense Fund

One of the major challenges faced by the international community is how to address environmental problems that, although created locally, have global consequences. Finding solutions to these problems requires cooperation between countries that have very different economic power and vastly different per capita rates of consumption of the earth's natural resources. As the world's foremost economic power, the U.S. stands out as the largest contributor to greenhouse gas emissions, which are responsible for climate change and considered to be the top global environmental problem. Given U.S. power and influence, no international agreement on reducing global environmental threats is likely to succeed without a strong commitment by Washington.

Key points

- Northern governments established the GEF to demonstrate environmental leadership to domestic constituencies and to preempt developing countries efforts to control the international environmental agenda at the 1992 UN Conference on Environment and Development (UNCED).
- The World Bank was given the central role in the GEF because of its perceived efficiency in handling large amounts of money.
- At UNCED, both the UN Climate Change and the Biodiversity Convention adopted the GEF as their interim funding mechanism.

To address the challenge of international environmental cooperation, the U.S. and other Northern donor nations established the Global Environment Facility (GEF) in 1991. Along with its developed-country partners, the U.S. was adamantly opposed to establishing the GEF as an independent organization. Instead, they opted to entrust the World Bank, the world's most influential development agency, with the management of the GEF. A resolution of the World Bank's Board of Executive Directors approved the GEF as a \$1 billion pilot program. The GEF's mission is to assist developing countries and countries with

economies in transition (former Soviet Union and Warsaw Pact nations) with implementing projects that lead to global environmental benefits in four areas: climate change, biodiversity conservation, protection of international waters, and protection of the ozone layer.

Once the GEF was formally established, the World Bank invited the United Nations Development Program (UNDP) and the United Nations Environment Program (UNEP) to join with the GEF in a tripartite structure. The UNDP is responsible for technical assistance projects and UNEP provides overall scientific guidance. The World Bank oversees GEF investment projects and the administration of the GEF trust fund. The UN agencies are junior partners in this tripartite structure in deference to the belief of the U.S. and its Northern allies that the World Bank can manage

the large amount of GEF funding more efficiently than the cooperating UN agencies.

Unlike the voting structure in the UN's General Assembly, where every country has one vote, voting shares in the World Bank (and initially in the GEF) are proportional to a nation's financial contribution. As a result, the U.S. and other wealthy industrial countries have preponderant influence in the GEF.

The establishment of the GEF prior to the 1992 United Nations Conference on Environment and Development (UNCED), commonly known as the Rio Earth Summit, effectively preempted alternative proposals for a "green fund," which some Southern governments were expected to present in Rio. Because they had no role in its creation, many Southern governments now feel ambivalent about the GEF, although they will accept whatever financial resources may be made available through the facility. At the Rio summit, Southern nations were presented with an already established GEF with a \$1 billion core fund, which donor governments promised to make available in addition to their ongoing development assistance programs.

The Rio summit produced a global action plan called Agenda 21. This ambitious plan to make development environmentally, socially, and economically sustainable stipulated that Northern nations had to increase their aid flow to the South. According to the plan, the North would provide \$141 billion annually in grants and low-interest loans in the 1993-2000 period to foster sustainable development. This aid would, among other things, facilitate the North-South transfer of environmental technologies. But the promise of Agenda 21, though initially hailed as a major advance in international environmental cooperation, has fallen short—mainly because it never received the backing of the United States. Other donor countries, pointing to the failure of the U.S. to take the lead and meet its share of Agenda 21 obligations, have also failed to increase their assistance to the South.

The creation of the GEF prior to the Rio Earth Summit allowed the U.S. and its G-7 partners to define global environmental problems as they perceived them and to establish the limits and scope of their responsibilities in assisting developing countries. Furthermore, the existence of the GEF has proved a convenient way for the G-7 nations to sidestep the more ambitious North-South funding plan outlined in Agenda 21.

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Numerous problems beset Washington's policy with respect to the GEF. These include the U.S. failure: (1) to pay its assessed contribution, (2) to insist on the implementation of environmental reforms by the World Bank and the GEF's Implementing Agencies (primarily the World Bank), and (3) to ratify the Kyoto Protocol of the UN Biodiversity Conservation convention and the Kyoto protocol of the Climate Change convention.

With support from its German counterparts, the French government launched the GEF proposal as a way of responding to growing domestic pressure to do something about the global environment. With less of a domestic constituency for international environmental efforts, the U.S. government was initially reluctant to accept the Franco-German proposal. The U.S. government knew that making a financial commitment to a new international entity would be fraught with difficulties given congressional reluctance to authorize funding to cover U.S. arrears with the UN. In addition, the administration was aware that any attempt to obtain replenishment funds for international financial institutions like the World Bank would be subject to extensive congressional questioning and delays.

Several key congressional members with seats on important oversight committees together with a few administration officials with years of experience trying to promote environmental reforms in World Bank operations believed that entrusting the World Bank with the management of a fund intended to protect the global environment was tantamount to putting the proverbial fox in charge of the chicken coop. In their view, the World Bank's massive lending to promote the energy sector and forestry without adequate environmental safeguards made the institution part of the problem in both the climate change and biodiversity areas. Consequently, these congressional members and administration officials felt that the World Bank should first demonstrate the ability to implement environmental reforms in its own operations before undertaking new environmental responsibilities.

But the initial U.S. reluctance to support the GEF was quickly overcome. With preparations for the 1992 UNCED event fully under way and more than one hundred heads of state expected at Rio, endorsement of the GEF was a convenient way of demonstrating environmental leadership. Because the size of the contributions of donor governments to the GEF is based on the size of a country's economy—a principle known as "burden-sharing"—the U.S. became the GEF's largest donor followed by Japan and Germany.

Congressional conditions on U.S. funding have helped bring about some reforms in the GEF, such as greater public access to information and broader participation by NGOs in both GEF policy discussions and project implementation. But the accumulation of arrears of the U.S. contribution has hampered determined action on the part of the U.S. to obtain more fundamental reforms. When other donor governments threaten to withhold their funding unless the U.S. pays its share, U.S. credibility is hurt. But to achieve further GEF reforms, Washington will need to fulfill its financial obligations.

The greatest problem thus far has been the failure of the implementing agencies (and especially the World Bank) to meet their promises of mainstreaming global environmental goals into their overall programs. The World Bank's annual lending portfolio of more than \$20 billion finances development projects that contribute to the very problems that the GEF seeks to address. What is more, the proposals advocated in the Country Assistance Strategies reports, which are the World Bank's blueprints for its development financing programs in individual borrowing countries, do not reflect any systematic consideration of the environmental implications of these strategies.

An additional problem for U.S. foreign policy—and a major irony—is that the GEF has been adopted, at least on an interim basis, as the financial mechanism for both the UN Biodiversity Conservation and Climate Change conventions (not yet ratified by the U.S.). As such, one of its principal tasks is to assist countries in implementing their obligations under the conventions.

Finally, U.S. foreign policy with regard to the GEF elicits charges of hypocrisy due to U.S. failure to take determined action at home to reduce the use of fossil fuels and to protect its old-growth forests. Meanwhile, the U.S. uses the GEF to call on other countries to prevent climate change and conserve biodiversity.

Key Problems

- There is a lack of political will to analyze and address the underlying causes driving the deterioration of the global environment, such as consumption, foreign debt, international trade, and ill-conceived concepts of development.
 - The World Bank has failed in mainstreaming the goals of the GEF into its much larger overall lending portfolio, which continues to contribute to the very problems the GEF seeks to address.
 - U.S. foreign policy with regard to the GEF elicits charges of hypocrisy due to U.S. failure to take determined action at home to reduce the use of fossil fuels and to protect its old-growth forests.
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In addition to focusing on reforms at both the macro level of policy decisions and the micro level of project implementation, a new U.S. foreign policy toward the GEF and global environmental issues should move to enhance Washington's credibility as an environmental leader by building bridges between the GEF and domestic environmental protection efforts.

Key Recommendations

- The U.S. must demonstrate commitment to addressing global environmental problems by reducing its contribution to creating these problems.
- The overall programs of the GEF implementing agencies, especially the World Bank, should be made consistent with protecting the global environment.
- A new U.S. foreign policy should work toward ensuring that GEF projects originate in and represent the priorities of the countries in which they are to be implemented.

At the macro level, an important first step for the U.S. would be to follow up the results of a 1998 evaluation study commissioned by the GEF. This study found that the GEF failed to mainstream global environmental goals. From its inception, the GEF promised to function as a Trojan Horse within the implementing agencies to ensure that their overall operations were consistent with GEF goals. In the case of the World Bank, this would mean, for example, a shift away from its substantial lending for fossil fuel development and toward funding for renewable energy.

Concerning agricultural lending, Washington should use its influence to make the World Bank recognize the central importance of supporting indigenous land rights and genuine land reform as issues closely related to biodiversity protection. To date, the World Bank has tended to fund agribusiness plantations, which invariably threaten biodiversity.

The blame for this failure to mainstream environmental goals lies with the governments that are represented in both the GEF and its implementing agencies. The U.S. and other major donor countries have not given adequate attention to incentive structures and other regulatory mechanisms that ensure that environmental awareness is incorporated in development planning. The U.S. should recognize, however, that many Southern countries vigorously oppose environmental mainstreaming, because it is regarded as another Northern-driven aid conditionality. They continue to view the GEF as a donor-dominated initiative that does little to address the development needs of their impoverished nations. Although it is the developing world of the South that is least prepared to endure the consequences of global environmental deterioration, environmental mainstreaming is often perceived as both an imposition and a threat to their development.

U.S. officials should work closely with their counterparts in both donor and developing countries to build a broad coalition that is powerful enough to ensure that the GEF implementing agencies will take environmental mainstreaming seriously. To persuade developing country governments to support these efforts, the rationale for the GEF and its program areas must explicitly link socioeconomic development to protection of the environment.

A strong commitment to promoting environmental mainstreaming would help reduce uncertainties about timely U.S. financial contributions to the GEF. More environmentalists, their congressional representatives, and the media would come to understand that U.S. involvement in the GEF is essential to global environmental protection and that the GEF should be fully funded.

Given the World Bank's growing role in either cofinancing or providing risk insurance for privately financed projects, a U.S. commitment to environmental mainstreaming at the bank could help set international environmental standards that private sector investments must meet before becoming eligible for public funding.

At the micro level, GEF projects often suffer from the same problems as regular development projects financed by the World Bank—they are often considered to be donor-driven with minimal input from institutions and groups in the country where they are being implemented. A new U.S. foreign policy should work toward ensuring that GEF projects originate in and represent the priorities of the countries in which they are to be implemented. Furthermore, the GEF's "incremental cost" criterion, which holds that the GEF can only finance "the incremental costs of measures needed to achieve global environmental benefits," should be downplayed and possibly abandoned. The incremental cost principle creates an unhealthy and methodologically questionable separation of global and local environmental benefits. Since the GEF pays only for the costs of a project's "global environmental benefit" and not for any other development benefits, it undermines a sense of ownership in the project country—a prerequisite for the long-term sustainability of environmental protection efforts once outside funding is no longer available.

Another major element of a new foreign policy should be the building of bridges to domestic environmental protection efforts by demonstrating a political commitment to reduce the U.S. contribution to global environmental deterioration. The delicate issue of the U.S. contribution to greenhouse gas emissions must be confronted head-on. Otherwise, the U.S. will be unable to convince the world that it is serious about addressing climate change, even if it meets its financial obligations to the GEF.

U.S. international environmental policy is not isolated from other aspects of Washington's role in international affairs. In the case of biodiversity loss, for example, the underlying forces driving deforestation—the cause of irreversible losses of many species—are in many cases the result of U.S. policies that prioritize debt repayment, promote export production, support undemocratic regimes, and back unsustainable development schemes. A new foreign environmental policy should recognize that the GEF can do little to address international environmental deterioration unless the political will can be mustered to address the underlying structural factors that contribute to unsustainable development.

Sources for More Information

Organizations

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World Bank
(web page concerning the GEF)
<http://www.worldbank.org/html/gef/gef.html>

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