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CONFIDENTIAL

March 10, 1994

Mr. Ernest Stern (EXC)
Mr. Sven Sandstrom (EXC)
Mr. Ibrahim F. I. Shihata (LEGVP)
Mr. Johannes F. Linn (FPRVP)
Ms. Paula Donovan (FRMDR)
Mr. Robert Picciotto (DGO)
Mr. Basil G. Kavalsky (EC4DR)
Mr. Alexander Shakow (EXTDR)

Re: Study on the Origins of the GEF

Please find attached an internal report commissioned by ENVGE on the origins of the GEF. The author had full access to Bank and other agencies' files, and conducted interviews with many of the key players. The report emerged from a simple exercise in documenting the early stages of the GEF. It nevertheless turned out to be a more interesting piece of work than we had anticipated. While the report does not purport to be a complete account, it provides some useful background to those involved in the GEF process.

No decision has yet been taken about circulating the paper more broadly than the current distribution list. Your comments on the draft and any advice on future distribution would be welcome.

Mohamed

Mohamed T. El-Ashry

Attachment

IJohnson:cp

3/11 cc: This page only to: File
Ian, Nick
MTE

CONFIDENTIAL

March 10, 1994

Mr. El-Ashry

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Mr. Alexander Shakow (EXTDR)

This is a very interesting report. With some sanitization it might be considered for wide distribution.
(R. PICCIOTTO)
3/11/94

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Attachment

IJohnson:cp

A L L - I N - 1   N O T E

DATE: 11-Mar-1994 03:48pm

TO: Mohamed T. El-Ashry (MOHAMED T. EL-ASHRY)

FROM: Nonna Ponferrada, EXC (NONNA PONFERRADA)

EXT.: 82004

SUBJECT: Report on the Origins of the GEF

Just a note to let you know that Mr. Stern had read an earlier version of this paper, which looked fine. He has no additional comments.

Draft
(Not for circulation)

CONFIDENTIAL

First Time Around:

Creating the Global Environment Facility

Helen Sjöberg

January 1994

Contents

Introduction

In the early 1990s, the Global Environment Facility was created to provide funding for global environmental concerns. It marked the culmination of a remarkable international process to find mechanisms through which tangible improvements in the global environment could be attained. General prospects for embarking on new international ventures seemed bleak. For some time, industrialized countries had argued that their budgetary constraints did not allow for increased foreign assistance. After a disappointing decade, developing countries were protective of scarce financial resources for economic development and suspicious of any attempt to attach new conditions to existing financial assistance. Disillusion with multilateral organizations was frequently voiced by North and South and a consensus held that, whatever the problems, the solution would not come in the form of new international organizations breeding new bureaucracy. Against this background, the mobilization of a sense of common purpose sufficient to launch a novel vehicle of international cooperation—and empower it with significant resources—was a considerable achievement.

The most important factor was an international agreement on a new and innovative, even lofty purpose: the GEF was to fund activities to address environmental concerns of a global nature. Underlying the agreement was a growing recognition that environmental degradation threatened global stability and that no single agency was equipped with the means to address these vital problems. Global environmental problems were simply beyond the reach of an international system based on the principle of national sovereignty. The GEF was an attempt to alleviate the environmental effects of this systemic "blindspot." The global mandate of the GEF helped it to pass through the bottlenecks associated with collective action.

Reaching an agreement was a complicated process. The global concept was not easily translated into practice. Global environmental problems are after all the result of actions taken within nations. They must be addressed at the level where they occur. This means that any attempt to improve the global environment must be embedded in national programs and executed locally. Nevertheless, national calculations are unlikely to incorporate adequately global needs that transcend borders. The distinction between national and global environmental concerns implies a dichotomy that does not always exist in practice. The global mandate of the GEF does not challenge this basic truth. Rather, it focuses on organizing the integration of environmental concerns across the spectrum from national to global. It is predicated on a division of labor by which environmental concerns at the national level would continue to be supported by regular development assistance. The GEF funds projects of benefit to the global environment that would not receive funding based on national calculations.

The essential aim of the GEF was to enable developing countries to contribute to the improvement of—or lessen the burden on—the global environment. For this reason, eligibility for GEF funds during the pilot phase was restricted to countries with a per capita income of $4,000 or less.[1] This reflected the recognition that industrialized countries bear the main historical responsibility for damage to the global environment. If their efforts to turn the tide were to be successful, they should also assist developing countries to address their growing impact on the global environment. This

1 This figure was based on 1989 income levels.

entailed a double challenge: GEF funds had to be additional to—and distinguishable from—both existing financial flows to developing countries and environmental projects undertaken to meet domestic priorities. The GEF would finance only the part of a project's costs that benefitted the global environment—the incremental cost.

A number of areas had been identified where additional and concessional financial resources were believed to yield significant global benefits. The crux was that practical experience was lacking. No one had previously been involved in funding operations for global environmental aims. It therefore made sense to start the GEF as a pilot program, allowing for an exploratory approach. The guiding light of the initial phase was to find cost-effective ways to maximize benefits to the world through a process of operational learning. Investments would take place in four areas of global interest: international waters, biodiversity, climate change, and—under the terms outlined in the Montreal Protocol—the layer of stratospheric ozone.

The lack of practical experience, combined with international resistance to creating a new cadre of international bureaucrats, made it appealing to draw on the professional experience of organizations already involved in environmental and financial activities in developing countries. Implementation of GEF projects was therefore entrusted to a troika consisting of UNDP, UNEP and the World Bank. These agencies would act in concert to provide a delivery system for global environmental projects. This institutional solution matched the exploratory nature of the GEF: it would provide an opportunity for expanded interagency cooperation.

The arrangement also underlined the importance of integrating global environmental concerns in the development process. From the outset, a large proportion of GEF projects was therefore expected to piggyback on development projects with nationally defined priorities, when these provided cost-effective opportunities for including components with global environmental benefits. Conversely, although GEF components were designed with the global environment in mind, the nature of the projects would also bring local benefits by transferring clean technology, protecting areas rich in species, building up institutions, and so on. In other words, while the aim of GEF projects was global, more localized environmental benefits could also be expected to follow.

There was nothing self-evident about the way the GEF was arranged; in theory it could have been designed in any number of ways. The debate continues over the possibility and desirability of distinguishing the incremental cost incurred for global benefits. A wealth of proposals was put forward prior to and after the establishment of the GEF. Yet only one arrangement was agreed and it took a specific form for reasons that can be uncovered. This paper attempts to trace this process: it looks at the build-up of international interest in providing increased financial resources for the environment, the preferences of the interested parties, the leadership required to move the proposal forward, and the political compromises that were struck in the process. In short, it aims to tell the story of how the GEF came about.

1 The Gathering Momentum for International Environmental Funds

From the mid-1980s until the establishment of the GEF, several international developments combined to produce an increasing interest in international mechanisms for environmental funding. The most pronounced trend was a growing awareness of transboundary environmental problems, accompanied by a recognition that measures to improve matters would be costly. The connection between environmental improvement and increased financial resources was not new; calls for increasing multilateral funding were voiced at the 1972 UN Conference on the Human Environment in Stockholm when the environment was first established as a legitimate concern on the international agenda. At that time, however, the prevailing perception was that the environment was best addressed at the national level, and multilateral funding received little attention. The modest financial endowment provided for UNEP, the first international organization for the environment, reflected this attitude. Environmental awareness by itself would not trigger substantial financial flows.

The debt crisis erupted in the early 1980s and international interest focused on financial flows for the rest of the decade. As commercial flows for economic development dried up, multilateral assistance became more central to the discussion. In 1985, for example, the so-called Baker Plan was the first of several well-publicized schemes to reschedule debts, and it pointed the way to an enhanced role for multilateral agencies. While the debt crisis remained to the fore, by the mid-1980s the environment was again becoming an issue—this time with a more international accent. The first international agreement on the ozone layer was signed in Vienna in 1985. Other issues that caught the public eye were the destruction of tropical rainforests, desertification, and transboundary pollution, especially in the form of acid rain. "Conservation" was a word that had gained currency during the energy crises of the 1970s; now it became the catchword for a growing group concerned with the environment.

It was not long before debt and environmental problems became creatively interconnected. In 1986 the notion of debt-for-nature swaps was put forward and quickly put to the test. In 1987 the Montreal Protocol which supported the Vienna Convention was concluded, providing the first platform for thinking about ways to finance the phasing out of CFCs. The Brundtland Report was another trigger for focusing on funding for the environment. The report soon came to be seen as the inspiration for any proposal for environmental financing.

The Brundtland Report—legitimizing proposals for environmental funding

The Brundtland Report underlined the seriousness of the state of the environment.[2] It placed environmental concerns in a wider setting of economic and developmental issues; it focused on the concept of sustainable development as the goal of future action; and it legitimized the consideration of financing for the environment. In the debate that followed, it became *de rigueur* to quote selected passages from *Our Common Future* to justify very diverse claims. For this reason, a brief investigation of the Brundtland recommendations is warranted.

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2 See *Our Common Future,* World Commission on Environment and Development, New York: Oxford University Press, 1987.

A close reading of the report reveals the institutional recommendations are sufficiently broad to be used in support of divergent positions. A strong and clear case is made for a "significant increase in financial support from international sources."[3] It further finds "an extensive institutional capacity to channel this support. This consists of the United Nations and its specialized agencies; the multilateral development banks, notably the World Bank; and other multilateral development co-operation organizations..."[4] The commission asserted that institutional capacity was already in existence, and further claimed to be "careful to base our recommendations on the realities of present institutions."[5] On the international scene, it proposed that the United Nations "should clearly be the locus for new institutional initiatives of a global character."[6] Yet the only specific institutional recommendation left the UN system aside; the report turned instead to the Bretton Woods system and suggested that "serious consideration should be given to the development of a special international banking programme or facility linked to the World Bank."[7] The mixed signals that can be read into these statements came to be used in defense of diverse positions once the debate on international channels for environmental funding started in earnest. For example, proposals which favored international banking for conservation purposes, but disapproved of World Bank involvement, quoted the parts of the recommendation that served their purposes and simply omitted references to the World Bank.

Another suggestion of the Brundtland Report that followed the debate on funding—and which admittedly was not based on "existing institutional realities"—was that alternative and "automatic" sources of revenue be contemplated. The commission noted that conflicting national interests prevented institutional change, and that both the will to cooperate and the will to provide development assistance had declined.[8] As a result, voluntary contributions were deemed "entirely discretionary and unpredictable,"[9] and alternative sources of funds—particularly revenues from the use of international commons and natural resources—were proposed. The commission acknowledged "that such proposals may not appear politically realistic at this point in time."[10] However, as we shall see, their advice to consider such measures was heeded.

There can be no doubt that the Brundtland Report inspired and legitimized the proposals for environmental financing mechanisms that followed. Over the next two years many proposals were put forward, varying widely in quality, purpose and political realism. Two proposals came to be of particular relevance: one from the World Resources Institute (WRI); the other from the World Bank.

The International Conservation Financing Program (ICFP)

For two years, the ICFP at the World Resources Institute served as a forum for ideas on environmental financing. The program brought together a broad range of organizations involved with the environment, development, and finance. It also included an ambitious effort to consult with

3 Ibid. p. 336.
4 Ibid.
5 Ibid. p. 343.
6 Ibid. p. 317.
7 Ibid. p. 338.
8 Ibid. p. 313.
9 Ibid. p. 341.
10 Ibid.

developing countries. The WRI Report, as the final ICFP product became known, serves as an indicator of how thinking progressed during these two years.

The ICFP came about as a result of the persistent efforts of Mr. Michael Sweatman, the Director of an NGO called the International Wilderness Leadership Foundation. Since the mid-1980s, Mr. Sweatman, a former banker, had called for a serious investigation into an international banking program to conserve biodiversity. He initially found a sympathetic ear in the Brundtland Commission—indeed, the Brundtland Report cites Mr. Sweatman as the source for their proposal—and then in the UNDP. In July 1987, after the publication of the Brundtland Report, a meeting was called by UNDP to explore possible support for a feasibility study along the lines proposed by Sweatman/Brundtland. A debt-for-nature swap by Conservation International had recently been publicized, and was quoted as an example of how environmental and financial aspects could be creatively merged. Interest was stirred at the well-attended meeting which endorsed an in-depth study on the subject.[11] The WRI offered to host the study under a contractual agreement with UNDP if other potential donor agencies agreed. Shortly thereafter, UNDP formally commissioned the WRI to undertake the study.

The concept of a feasibility study received further support at the Fourth World Wilderness Congress in September 1987. A resolution was passed in support of the WRI/UNDP study. This represented an early indication of the tension regarding the relation between environmental funding and the World Bank. The resolution predictably took note of the proposal for conservation banking in the Brundtland Report but omitted the reference to the World Bank. At the same time, it stressed that ICFP should "not encourage multilateral agencies such as the World Bank, etc. to opt out of their environmental responsibilities."[12] The tension between the realization that the World Bank had an important role to play in this context, and the desire to keep it from subsuming any initiative became central to most discussions on institutional arrangements for environmental funds.

In November 1987, the WRI produced a paper detailing the proposed study and began seeking further financial support. The proposal envisaged a fifteen-month process to study unmet financing needs, existing funding channels, and alternative responses—including both non-traditional ways to raise funds and possible private sector initiatives. The institutional options to be investigated included: (i) a new free-standing entity; (ii) a consortium of intergovernmental bodies; (iii) an entity adjunct to either the World Bank, UNEP, or the IUCN; and (iv) improvement of existing institutions. Though the study drew general support, funds were not forthcoming. The project was delayed and scaled down before nine sponsors had been found.[13]

In July 1988 the study was launched.[14] The WRI team was led by an economist, Mr. Robert Repetto, and the project was directed by Mr. Frederik van Bolhuis, a former commercial banker.

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11 Among the organizations represented at this meeting were USAID, CIDA, IUCN, WRI, UNEP, WWF-US, CI, the MacArthur Foundation, Pew Charitable Trust, and the World Bank.

12 See Resolution No. 3 of the Fourth World Wilderness Congress in Denver, Colorado, September 1987.

13 The sponsors consisted of UNDP, CIDA and the MacArthur Foundation, with smaller contributions by USAID, OAS, the Norwegian Agency for Development, Pew Charitable Trust and UNEP. The World Bank was approached but declined to financially support the study.

14 The original starting point had been set for September 1987.

Mr. Michael Sweatman was included as Senior Advisor. The team began by surrounding itself with an advisory panel of impressive geographic and institutional experts. The advisory panel, however, was just a small part of a far-reaching consultative process. The WRI team made a concerted effort to elicit views from developing countries, and a number of developing country representatives were on the advisory panel. More than 200 experts were contacted at various points during the study. All the major development organizations,[15] many environmental NGOs,[16] and several individuals from private investment banks contributed to making these exchanges meaningful.

In the spring of 1989, the WRI team held six workshops in developing countries to discuss a draft report. These workshops, attended by governments as well as NGOs,[17] revealed considerable divergence between the views of developing countries. A common thread, however, was the openness to initiatives for the environment, even though the primary concern was the flow of funds for economic development. In particular, developing countries welcomed assistance for institution building, national planning, data banks and education. Reflecting the composition of the workshops, the role of NGOs was frequently discussed and it was pointed out that these organizations often perform what are essentially government functions.

Two of the four proposals in the final ICFP Report were particularly relevant to the ensuing political debate. The flagship proposal was the creation of one or more International Environment Facilities (IEF). This concept was based on the perception that existing funds for conservation were scarce, poorly coordinated, and on terms which discouraged investment. The report suggested that a facility needed funds in the order of $3 billion over a five-year period to be effective. Taking note of the international consensus against the creation of new institutions, the report proposed that an IEF draw on existing organizations including "governments, bilateral agencies, multilateral banks, and others."[18] "For reasons of efficiency and cost-effectiveness," the final report argued, "the IEF's management would be hosted by a sponsoring organization, presumably a multilateral institution."[19]

The earlier draft discussed at the workshops had been more committal. It stated that "it would be desirable for IEF to be housed at one of its sponsor organizations, and the World Bank as the largest multilateral development institution would seem the natural candidate."[20] The contents of this draft were reported to the World Bank. Mr. Basil Kavalsky, Director of the Resource Mobilization Department at the World Bank, commented after a meeting at the WRI: "At the moment the proposal for the facility is set up so that while ostensibly it would permit interaction between all agencies in the environmental area, in practice the Bank would dominate it. Although it would have a staff of about 100, it would be located in the Bank and draw on the Bank for its overhead."[21]

15 The World Bank was represented by Mr. Alexander Shakow and Mr. Basil Kavalsky.

16 Among the NGOs on the advisory panel were the WWF (US and Japan), IUCN (Zimbabwe and Switzerland), Natural Resources Defense Council (US) and Fundación Natura (Ecuador).

17 Workshops were held in San José, Sao Paolo, Abidjan, Harare, New Delhi and Bangkok.

18 See "Natural Endowments: Financing Resource Conservation for Development," World Resources Institute, September 1989, p. x.

19 Ibid. p. 13.

20 "The International Conservation Financing Project," Working Paper, (WRI/UNDP, February 26, 1989) p. 37.

21 Memorandum from Mr. Basil Kavalsky, FRM, to Mr. Joe Wood, April 24, 1989.

He went on to say that "apparently a number of LDCs were very unhappy about this, yet equally unhappy about the alternative prospect of agencies such as IUCN or UNEP playing this role." Finally, he predicted that "there will be some problems with UNEP, and perhaps UNDP, which are project sponsors, on whether the Bank should be quite as central in the project as currently proposed." While the final WRI proposal was less explicit on which multilateral institution should sponsor the IEF, it is noteworthy that even ICFP for a time considered the World Bank the most likely candidate.

The proposals articulated in the IEF clearly inspired and informed the ideas of others, even though the IEF was not a direct forerunner to the GEF. The IEF resembles the GEF in that it was intended to be a large international fund for environmental purposes, but there are also significant differences. The IEF did not entail the global focus, the pilot design, or the four focal areas that became central characteristics of the GEF. The WRI had also presented a separate proposal for transboundary environmental problems. It suggested the creation of a Global Environment Trust Fund to slow down the accumulation of greenhouse gases and help maintain ecosystems in the developing world. This proposal also combined global problems with another fashionable idea: that of alternative sources of finance. The Montreal Protocol, for example, was viewed as an opportunity to present an argument for taxes on CFC production to finance substitution in developing countries. The proposal received little attention in a political climate not yet ready to endorse this type of financing.

Although none of the proposals of the WRI Report directly fulfilled the stated goal of "consensus that could guide concrete action," two of the proposals did prefigure what was to be. In developing these proposals, the ICFP had ambitiously and democratically consulted widely in a genuine effort to reach consensus. As a result, everyone in the environmental community had continually benefitted from its findings and ideas.[22] Unfortunately the interactiveness of the process also undermined the political impact of the report.

As momentum gathered around ideas for environmental financing, political considerations grew in importance. The process evolved from the realm of formulating ideas to that of strategic political thinking. The ICFP Report fell victim to the political considerations that had arisen by the time of its publication. In a sense, the impact of the feasibility study was overtaken by its own seeming feasibility. The WRI found its former partners involved in their own proposals—the long-awaited publication of the report did not produce much of a stir.

Options for the World Bank

Initial murmurs of interest at the World Bank in funding arrangements for the environment date back to 1986. But breathing life into ideas on environmental finance proved interlinked with politics from the very beginning. A number of people within the Bank responded quickly to the opportunities that opened up at the interface of environment and finance. This enthusiasm was not, however, shared by senior staff concerned with a more traditional agenda, and for some time proposals produced in the Bank were not aired publicly. The picture that emerges in a study of Bank attitudes towards environmental finance differs from the common portrayal of the World Bank as a rigid, monolithic

22 The ICFP process also represents an effective disclaimer of the notion that initiatives for environmental funding were sprung upon the environmental community without warning.

organization. It reveals instead a struggle between varying priorities in different parts of the Bank to produce a dynamic and sometimes conflictual process.

The World Bank discussion on financial mechanisms for the environment cannot be isolated from other developments occurring at the same time inside and outside the Bank. An internal reorganization in 1987 created a central Environment Department and Regional Environment Divisions in the Bank. This prompted an internal debate on the general role of the Bank in the environmental arena which was conducted in parallel with the more specific discussion on new sources for environmental finance. Similarly, the discussion on funding for the environment cannot be isolated from the ICFP proposals.[23] Two Bank directors were on the ICFP advisory panel, and the ICFP solicited comments from other staff members on successive drafts of their report.[24] Proposals produced within the Bank were also shared with staff at the WRI.[25]

The internal debate on environmental funding began in 1986 when some staff found it "apparent that the traditional project-by-project approach is an inadequate means of dealing with natural resource degradation." When UNDP started to show interest in the issue, some people within the World Bank argued it would be appropriate also for the Bank "to embark on a more ambitious program."[26] Their proposals included "that a natural resource and management fund be created in order to complete a series of country studies over the following five years."[27] One early proposal came from Ms. Maritta Koch-Weser in the Regional Environment Division for Latin America and the Caribbean, who found that not only was environmental and economic wealth unequally distributed on a global level, but even "within the group of developing countries, 'global' environmental responsibilities are very unevenly spread, leaving the lion's share of global responsibility for tropical forests and threatened ecosystems with a small group of core nations."[28] Influenced by her work in Brazil, she proposed the creation of a special fund based in the Bank for environmental lending on concessionary terms largely analogous to IDA, which would also be open to countries not normally eligible for IDA funding. The latter eligibility criterion would become a key characteristic of the GEF.

If some within the Bank embraced new opportunities, others immediately questioned the political implications of such proposals. One response to Ms. Koch-Weser, for example, argued that while

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23 In October 1988, for example, staff within the Environment Department concluded from an ICFP draft that the WRI was defining conservation too narrowly around biodiversity, and the Bank could fulfill "a need to consider financing questions relative to a wider range of actions addressing environmental degradation." See memorandum from John English, ENVEP, October 17, 1988.

24 See, for example, "Comments to the World Resources Institute's International Financing Project Preliminary Paper Financing Mechanism of September 10, 1988," by Mr. Stein Hansen, Consultant, ENV, September 26, 1988.

25 See, for example, memorandum from Mr. Frederik van Bolhuis to Mr. John Spears on the October 1988 paper entitled "Environmental Funding Options—October 1988," November 3, 1988.

26 Early proposals explicitly pointed to the involvement of other agencies in the environment, and references were made to the $600,000 the UNDP had received to conduct pilot studies in the environmental area.

27 Mr. N. Raphaeli and Mr. Jeremy Warford in a draft to Mr. Shahid Husain and Mr. V. Rajagopalan in April of 1986. The price tag of this first proposal would be $20 million with both UNDP and donor governments involved in addition to the World Bank.

28 Memorandum from Ms. Maritta Koch-Weser, LA1CO, November 6, 1987.

situations may well exist "where international environmental concerns and national development concerns were not entirely in concert" and the Bank might, in light of the "stirrings of environmental interest in various mechanisms, establish such a fund," the politically sensitive nature of such a fund "might attract support from the environmental movement and, in the process, help transform parts of the movement into a new constituency for international development. The question of timing and presentation is delicate....Environmental organizations in the industrial countries should feel that this is mainly their idea, and they should be the ones to press for it."[29] In other words, not everyone agreed the time was ripe for a Bank initiative on environmental funding.

The newly created Environment Department, however, was enthusiastic about a possible Bank initiative on environmental funding and did not intend to let the matter rest. In the spring of 1988, it was argued that ministers at the Development Committee meeting consider the issue of financing of environmental programs. The Environment Department invoked the Brundtland Report to gain support for the view that there was "a growing need for creative financing mechanisms."[30] Although high-level support within the Bank was lacking, the Environment Department went ahead and produced in June 1988 the first in a series of discussion drafts called "Environmental Funding Options—A World Bank Perspective."[31]

The papers aimed at investigating "whether funding mechanisms can be created so that it will be in the interest of LDCs to undertake such projects where industrial countries will reap a share of the long term benefits or where such benefits accrue to the country but cannot be quantified."[32] The October version included a Multilateral Environmental Facility connected to the Bank which would be financed with a 1 percent environmental tax on the Bank's operating income. This suggestion had disappeared in the final watered-down version of February 1989. Instead, it was suggested that the Bank consider:

> (a) the creation of an Environmental Grant Facility (EGF) connected with the Bank; (b) the creation of a Project Preparation Facility (EPPF), which would assist in the development and supervision of projects; in the first instance it may especially support projects for the conservation of biodiversity; (c) a clearinghouse function for channelling non-Bank resources to environmental projects in LDCs; and (d) establishment of a longer term International Environmental Action Plan, which would be molded in analogy to the Tropical Forest Action Plan.[33]

These proposals, like the WRI proposals of the same period, in some ways represent precursors to the GEF. They contain elements that influenced thinking at later stages. As a whole, however, these proposals do not include the components that became the hallmark of the GEF, such as the inclusion of other agencies, a distinct global focus, the areas for funding, and the pilot phase. They also gained less political support than the WRI proposals.

29 Memorandum from Mr. David Beckmann, SPRIE, to Ms. Maritta Koch-Weser, November 10, 1987.

30 SecM88-185, February 22, 1988.

31 These drafts were produced by Ms. Koch-Weser, Mr. Ernst Lutz, and Mr. Stein Hansen. Several drafts followed after June 1988; the last version is dated February 1989.

32 See "Environmental Funding Options—A World Bank Perspective," by Mr. Stein Hansen, Ms. Maritta Koch-Weser and Mr. Ernst Lutz, June 1988.

33 See "Environmental Funding Options," February 1989.

When rumors of the proposals reached senior management in the throes of IDA replenishment, the reaction was determined. Their concern was founded on the belief that expectations of a special fund for the environment, even within IDA, would reduce the amounts available for concessional development assistance. To avert such possibilities Mr. Ernest Stern, Senior Vice President of Finance, made his position clear:

> I understand that a paper is in preparation on funding for environmental activities....However, there is a general concern I want to emphasize. We are in the midst of difficult IDA discussions and, generally static, bilateral aid budgets face many pressures—IDA-9, the ESAF, Lome IV, IDB capital; ADB soft loan window. It would not be helpful if we started discussions with donors, even informally, on special funding for environmental activities before we have had a chance to review the proposals in the PC, and determine their priority and timing. At least some of the countries which might be supporters of special environmental funding are the same countries we have to rely upon to take a lead in support of substantive IDA replenishment."[34]

The note was submitted to concerned staff by the Acting Environment Director who laconically described it as "self-explanatory."[35]

The official policy to remain passive with respect to environmental finance was not appreciated in the Environment Department. The new Director, Mr. Kenneth Piddington, was not persuaded and committed himself to convincing management of the need for a stronger Bank lead on environmental issues. He was unhappy about the existing draft on "Funding Options" because he was "not sure if it is what is needed to alert Bank management to the issues and prepare them for the decisions that lie ahead." Aware of the sensitive nature of these issues for the duration of the IDA negotiations, as well as the importance of avoiding duplication of the ICFP, Mr. Piddington nevertheless believed "a Project Preparation Facility should be raised immediately, but in a way that makes it separate from the supply of funding. My assessment, which I have conveyed to senior management, is that such a fund will be in place by the early 90s and that even before that there will be a marked 'willingness to pay' for green projects on the part of the main industrialized countries."[36] Mr. Piddington viewed the official policy as counterproductive on the grounds that it carried a risk of reduction in IDA if the Bank did *not* act on an environmental fund:

> The dilemma for the Bank is that if we are seen to be taking our distance from the possibility of the new fund and do not respond to the inevitable suggestions (from WRI and others) that we be involved in administering it, the donors will subtract more than if they see us moving to a position where our comparative advantage...enables us to play a part in making the most effective use of whatever pool is established.[37]

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34 Letter from Mr. Ernest Stern to Mr. David Hopper, November 14, 1988.

35 Memorandum from Mr. Warford, ENVDR, to Mr. Spears and Ms. Pratt, same department, December 1, 1988.

36 Memorandum from Mr. Kenneth Piddington (ENVDR) to Mr. John English, Acting Division Chief, ENVPR, February 16, 1989.

37 Ibid.

Lacking internal support, the Environment Department made the most of outside pressure on the Bank to create room for initiatives. In February 1989, for example, Mr. Piddington called attention to a meeting on the Montreal Protocol where the discussion concerned "the possibility of Bank assistance to developing countries which might be placed at a disadvantage by the provisions of the Protocol."[38] Direct pressure from the outside came from a variety of sources. For example, Senator Timothy Wirth, after a Congressional trip to South America, wrote the President of the World Bank, Mr. Barber Conable:

> The World Bank can and must play a more vigorous role in identifying and promoting solutions to the debt-environment crisis...(We) are interested in your views on the creation of an International Environment Facility housed at the World Bank, as suggested by the World Resources Institute.[39]

In light of these and other requests for Bank views on various environmental funding initiatives, the no-discussion policy became untenable. Instead, staff were instructed to welcome environmental initiatives in general, be supportive of any technical assistance/equity funds for the development of feasibility studies, and approve of debt-for-equity swaps if both debtor and developing country government agreed. But staff were also cautioned that "a large earmarked fund such as 'the International Environment Facility' (involving $3 billion or more over a five-year period) may constitute a threat to the total amount of funds available for development. Bank staff should therefore take a neutral attitude and refrain from any advocacy. Staff should, however, stress that such a fund must be additional to monies allocated to established development facilities."[40]

Given a green light for technical assistance funds for the environment, Bank staff acted quickly. Within days the Operations Complex announced that grant funding would be provided to accelerate the preparation of projects or components which had environmental protection or rehabilitation as a primary objective. Funding would initially come from Japan in the form of a $5 million grant fund earmarked for environmental operations in IDA countries. Consultant trust funds from various other countries would also be used, and redeployment of the Bank's own grant funds would be considered.[41] The provision of an assortment of funds for environmental technical assistance was an approach that satisfied many. In fact, some donor countries and those parts of the Bank that were involved with technical assistance funds would initially resist other proposed means of environmental funding.

The Director of the Environment Department was not among those satisfied. In July 1989 Mr. Piddington suggested that Mr. Conable float the idea of a Bank-convened working group on environmental funding options with Mr. Mostapha Tolba, Executive Director of UNEP. Mr.

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38 Memorandum from Mr. Piddington (ENVDR) to Mr. V. Rajagopalan, Vice President (PRE) February 8, 1989.

39 A word of caution: these comments are from a draft letter. The final version was sent on February 13, 1989.

40 Memorandum from Ms. Marianne Haug to Mr. Ernest Stern, Mr. Moeen Qureshi, Mr. David Hopper, Mr. Kenneth Piddington Mr. Alexander Shakow, and Mr. Joe Wood, March 16, 1989.

41 See memorandum from Mr. Hans Vergin to Mr. Moeen Qureshi, March 28, 1989, and letter from Mr. Qureshi to Mr. Conable, March 29, 1989.

Piddington himself offered to "pursue the attitudes of the G7."[42] He considered the Bank's decision to remain passive on the issue of large-scale environmental funds had now "to some extent been overtaken by events." While technical assistance funds for environmental purposes represented a positive development, Mr. Piddington argued "the IDA Deputies themselves" showed an interest in "stronger environmental action in the context of development." The Bank should be putting itself in "a situation where [it] is not simply reacting to various initiatives, but is taking the lead in putting some of the practical considerations to governments—in a manner that the WRI Report fails to do." Mr. Piddington envisaged a working group which "would include people from other agencies such as UNDP and UNEP, as well as representatives of both donors and recipients." Pressure for action was increasing, Mr. Piddington noted: "Whether or not the WRI publication appears earlier than originally planned, the fact is that the proposals are known to everyone involved in the debate and there is already some jockeying by UNDP and others around the possible mechanism to administer new funds."[43]

Spring of 1989—a flood of proposals

The notion that a degree of competition was building up in the field of environmental funding is supported by the many proposals that were put forward during 1989 by both international organizations and governments. While there was considerable overlap in proposals from these two groups, differences in their contents can also be discerned. With the exception of UNEP, the international organizations interested in environmental initiatives were involved in development activities and approached proposals from this angle. Governments, on the other hand, were under pressure from a public concerned with global issues such as the depletion of the ozone layer and climate change. The political mobilization around international environmental issues was especially visible in Western Europe, and countries from the region expressed strong interest in new international mechanisms for the environment. The Vienna Convention/Montreal Protocol had provided a prototype for international agreements which, it was anticipated, would in time be followed by similar conventions in other areas. The ongoing efforts within the IPCC process further supported this belief. The anticipated system of conventions created a political void for initiatives which governments—particularly those pressured by an environmentally conscious public—were anxious to fill.

The build-up of political interest manifested itself in a host of conferences, declarations, and proposals by both governments and international organizations. The process culminated in a flood of initiatives in the spring of 1989. A brief description of a few proposals during the first six months of that year provides a flavor of the political interest that surrounded the international environment—in particular the atmosphere—at this time. In February the Swedish government suggested that the Economic Commission for Europe study the conditions for a European Environment Fund.[44] The purpose would be to reduce transboundary emissions, and funds were to be raised on a strict burden-sharing basis.[45] In March the French Prime Minister, in

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42 Memorandum from Mr. Kenneth Piddington to Mr. Alexander Shakow, Director, SPR, July 5, 1989.

43 Ibid.

44 A similar proposal was later put to the same forum by Poland.

45 See "Proposal made by the Delegation of Sweden to the Economic Commission for Europe," February 28, 1989. It was debated together with a Polish proposal in December 1989. Responses were not favorable—Germany argued, for example, that such a fund would be contrary to the polluter-pays principle—but a study was encouraged.

collaboration with his Norwegian and Dutch counterparts, held a meeting where an international authority to protect the atmosphere was proposed. The resulting Hague Declaration, signed by twenty-four governments, called upon the United Nations to strengthen existing institutions and establish a special authority to protect the atmosphere.[46] Governments were not the only ones interested in environmental funds. Referring to the interest in and need for environmental funds in Latin America, the President of the Inter-American Development Bank stated officially: "Personally, I would be very pleased to see this culminate in the establishment of an environmental fund in the Bank."[47] Mr. Mostapha Tolba, Executive Director of UNEP, called for a fund of "billions of dollars" to prevent global warming at the World Environment Day gathering in June. In July the environment received an unusual amount of attention at the G-7 meeting. France, Germany, Italy and Canada were reportedly in favor of establishing an international authority to protect the planet. Opposition came mainly from the United States and the United Kingdom. Prime Minister Margaret Thatcher—who had surprised the environmental community by expressing concern for depletion of the ozone layer and sponsoring a conference on the issue—declared in July that she was "fed up" with bureaucrats who, for lack of better ideas, proposed new authorities to deal with threats to the environment.[48]

In early September a proposal from India aroused interest. In his address to the summit for nonaligned countries in Belgrade, Prime Minister Rajiv Gandhi proposed a Planet Protection Fund under the aegis of the United Nations. The fund was "to protect the environment by developing or purchasing conservation-compatible technologies in critical areas." The technology would be provided free of charge and without restriction to all.members of the fund. To become members, countries would provide a fixed percentage of their GDP, and Mr. Gandhi suggested 0.1 percent as a realistic figure that would provide some $18 billion a year.[49] The Belgrade Declaration that resulted from the summit recommended that "the creation of a special international fund to promote international cooperation in the field of environment, to finance research and development of alternative technologies and to bring these technologies within easy reach of developing countries, should be seriously considered."[50] The declaration illustrates the growing interest of developing countries in the subject of environmental funding by the fall of 1989.

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46 See "Declaration de la Haye—sur la protection de l'atmosphere," March 11, 1989.

47 See News Release "Remarks by Enrique V. Iglesias, President of the Inter-American Development Bank, at the Second Consultative Meeting on the Environment," Washington, D.C., May 24, 1989.

48 Washington Post, "Environment to Take Center Stage at Summit," July 13, 1989.

49 See "Address by Prime Minister Rajiv Gandhi, India" at the Ninth Non-Aligned Summit in Belgrade, September 5, 1989.

50 See "Declaration on Environment" from the Ninth Non-Aligned Summit, Belgrade, September 7, 1989.

2 From Words into Action

September 1989 was a pivotal month in the history of the GEF. At the World Bank Development Committee meeting on September 25, the French Finance Minister forwarded a proposal which in effect would take precedence over all others. Before delving more deeply into the meaning and impact of this proposal, it is appropriate to review the positions of other relevant actors.

September 1989

Despite the impending release of the report, September turned out to be a difficult month for the WRI. The ICFP proposal had started with broad-based support, and throughout the program all major players in the environmental arena had contributed to and gained from the ambitious proposals. Now the WRI found itself with the finished product but no political support. UNDP, which had been the commissioner and main sponsor of the program, attempted to disassociate itself from the report.[51] The UNDP felt the recommendations of the report constrained its maneuverability.[52] The encounter of Mr. William Draper, the UNDP Administrator, with the final report was not, reportedly, a happy one. Needless to say, Mr. James Gustave Speth, the President of the WRI, was displeased when Mr. Draper declined to write the promised introduction to the report and a dispute erupted when the UNDP also attempted—but failed—to withhold its name from appearing on the cover of the report.[53] Mediation by staff from the organizations proved unsuccessful.[54] With its main sponsor trying to abandon ship, the WRI was left to fend for itself.

The WRI had already put together an informal working group with the aim of seeking channels for further action. The group, which convened for the first time on September 11, agreed the IEF proposal was not yet entirely "operational." A formal working group was needed to design a workable facility. The UNDP reluctantly agreed to put together such a group, but the impending rupture between the organizations was apparent even to outsiders. A World Bank participant at the meeting reported that the UNDP "was not overly keen to [convene the working group] and is clearly trying to distance itself from the project."[55] The group was nonetheless established and met a few

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51 Several reasons have been put forward to explain this. Obviously, UNDP wanted to increase its maneuverability in relation to other proposals. Some are of the view that freedom of action was particularly important in anticipation of a reorganized United Nations. Others think it more important that the NGOs would pressure the UNDP to "put its money where its mouth was." These reasons are not mutually exclusive, and Mr. Strong's explanation that the UNDP did not want to commit itself to specifics suffices for the purpose here.

52 In a draft of the intended introduction to the report, UNDP underlines that the WRI study is "to serve as one of many inputs into the emerging policy dialogue," and "UNDP has not endorsed and is certainly not advocating these proposals." It even states that the IEF "run counter to the integrated vision of development and environment mentioned earlier." See "Proposed Draft Letter from UNDP Administrator William H. Draper III introducing the WRI Report on Financing the Environmental Dimensions of Development," September, 1989.

53 Memorandum, September 20, 1989.

54 Memorandum from Mr. Frederik van Bolhuis to Mr. James Gustave Speth and Mr. Robert Repetto, September 20, 1989.

55 Memorandum from Mr. Basil Kavalsky, September 11, 1989. The meeting was hosted by Mr. Kirk Rodgers of the OAS. In addition to Mr. Kavalsky, the attendants included Mr. Steve McGaughey of IDB, Ms. Joan Martin-Brown of UNEP, Mr. Timothy Rothermel and Mr. Tom Cox of UNDP, and Mr. Robert Repetto and Mr. Frederik van Bolhuis of WRI.

times during the fall. As other proposals grew more viable, however, this effort became redundant and the meetings stopped.

The UNDP had plans of its own. While many find it unlikely the UNDP had the capacity to "go it alone" in hosting large-scale environmental funds, evidence exists that Mr. Draper had plans to seize the initiative. The Secretary General of the upcoming UNCED, Mr. Maurice Strong, was at the time a valuable Special Advisor to UNDP, and Mr. Draper engaged Mr. Strong to explore possible support for an expanded environmental role for the UNDP. Mr. Strong had already begun his efforts to organize the UNCED and could effectively explore opportunities on behalf of the UNDP.

Mr. Strong took on the role of advocating an integration of environmental aspects into UNDP's development functions. After visits to Sweden and the Netherlands, both known for their support of the UN system, Mr. Strong reported he had "told them of the high priority being accorded by the Administrator of UNDP to expanding the role of the UNDP in respect to sustainable development." He further explained, "I pointed out some of the initiatives he has already taken, including the commissioning of the WRI report, also of my own support for the Administrator's initiatives." He found that support for UNDP in this area was mixed. The Swedes, for example, "made it clear they would welcome this kind of leadership on the part of the UNDP. At the same time, they expressed some concerns about UNDP's capacities in the environmental field but seem willing to accept assurances that UNDP can develop its capacities and is taking steps to do so."[56] The Dutch, who were developing their own initiative for a Global Climate Fund, echoed the doubts regarding the capacity of the UNDP in the environmental area, but also expressed ambivalence towards the World Bank. They agreed with Mr. Strong, however, that "it would be best to have such needs met through a single new fund administered by UNDP rather than providing additional funds to each such agency."[57]

Mr. Strong summarized his views in a memorandum to Mr. Draper. His opinion was that the purpose of the UNDP initiative should be to become the primary vehicle within the UN system for the administration of new funds. To this end, he proposed forwarding the notion of a "sustainable development network," and/or a separate "special fund for sustainable development."[58] The fund could support such a network, provide technical assistance to developing countries, and assist in technology transfer, "e.g. making available to developing countries funds they require to meet the 'additional' costs of acquiring the most environmentally-sound technologies for particular applications."[59] Mr. Strong estimated that funds ultimately provided for this purpose could be very substantial, but envisaged "something in the order of $2.5 billion for the first five years."

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56 Memorandum from Mr. Strong, September 11, 1989, "Regarding: Visit to Sweden on behalf of UNDP, September 6, 1989."

57 Memorandum from Mr. Strong, September 11, 1989, "Regarding: Visit to The Hague, Netherlands, September 4, 1989."

58 Draft memorandum "Regarding: Development of UNDP strategy and Program in respect of Environment and Sustainable Development," from Mr. Strong to Mr. Draper, September 11, 1989.

59 Ibid.

Mr. Strong seems to have agreed with Mr. Piddington's assessment that increasing pressure made timing of the essence. "Indeed," Mr. Strong advised UNDP, "it is important that the proposal for the fund be developed expeditiously." Mr. Strong also seemed to share Mr. Piddington's view that an institutional struggle for funds was in the offing, and that such a struggle would be an affair between UNDP and the World Bank. Mr. Strong remarked that his proposal "in some respects is very close to UNDP's traditional mandate and may be a logical extension of it. It may also be argued by some that such funding might be more appropriately provided by the World Bank." He therefore concluded "that while the time is becoming ripe for a new funding initiative on the part of UNDP, the groundwork for it will have to be carefully laid in order to 'sell' it to the donor community. The developing countries will undoubtedly welcome such an initiative and will likely concern themselves more with its modalities and their sensitivity to any suggestion of 'conditionality' built into it."[60] As we shall see, Mr. Strong's analysis of the situation was correct, except that UNDP would not be the organization to seize the moment.

Staff at UNDP have described their sense that "one day we were in the driver's seat, the next we were happy to ride in the back."[61] Other observers doubted whether the UNDP had the required capacity and was ever in a position to take on the role envisaged by Mr. Strong. At one point, for example, Mr. Joseph Wheeler, Secretary General of the Development Assistance Committee of OECD, told Mr. Draper that UNDP would not be the right place for an environmental fund. Reportedly, Mr. Draper did not much appreciate this message.[62] Events, however, soon rendered the question of UNDP capacity irrelevant.

UNEP was in a similar situation. It too was interested in becoming the main venue for new environmental funds. As the only intergovernmental organization designed specifically for the environment, some people within UNEP considered it the rightful home for enlarged environmental funds. Such a fund, however, would inevitably have to be linked with development issues, and it was not widely believed that UNEP could develop this capacity. Evidence suggests there was little support among countries—poor or rich—for UNEP to take on an expanded role in the area of financing.[63] UNEP, even more than UNDP, was not perceived among key donors as having the right credentials to manage large sums of money. Therefore, when Mr. Tolba called for a spectacular fund for "not millions but billions of dollars" on Earth Day in June 1989, few took it seriously. What he had in mind on this occasion was a fund to combat global warming. According to a UNEP press release, "Norway has already offered to contribute some $100 million every year, and the Netherlands 250 million Dutch Guilders."[64] If UNEP was ever intended to manage these funds, it was unable to win the necessary support.

UNEP was in a relatively strong position when measures for the global environment were contemplated. Being the lead agency in developing international conventions, UNEP would be

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60 Ibid.

61 Personal communication to author by Mr. Timothy Rothermel and Mr. Tom Cox, summer of 1993.

62 Memorandum from Mr. Frederik van Bolhuis to Mr. James Gustave Speth, November 20, 1989.

63 Mr. Strong in his memoranda points out that neither Sweden nor the Netherlands would approve of expanding the mandate of UNEP into development. Similarly, the workshops held in developing countries by the WRI revealed these countries did not prefer UNEP as the manager of a large environmental fund.

64 Press Release 89/37 by UNEP. "UNEP Leader Advocates International Environment Fund."

difficult to ignore if funds were established for international environmental problems. The Montreal Protocol provided UNEP with a workable position. In August 1989 a meeting was held in Nairobi to discuss possible arrangements for assisting developing countries to comply with the terms of the Montreal Protocol. A study group was to examine the various possibilities for establishing some kind of trust fund, including those suggested by the WRI Report. The potential for funding CFC substitution was viewed as realistic and would become an important driving force in the debate. Discussions had also begun on a possible convention on climate change, and anticipation of future conventions was growing. Its role in developing international environmental agreements made UNEP a likely partner in any major fund for international environmental issues.

In the end, the support of governments proved essential. Few are better situated to depict the position at the time than Mr. Strong, who on September 11 provided the following overview on the subject of environmental financing:

> The political climate for taking initiatives is developing rapidly and will continue to evolve as plans for the 1992 conference take shape. A number of industrialized countries, of which Japan, the Netherlands and Sweden are prime examples, are prepared to be very forthcoming in supporting new environment-related funding of international cooperation. The United States is still highly resistant to initiatives that would involve significant new funding although there seems to be a growing acknowledgement of the principle that additional funding will have to be made available to developing countries to obtain their cooperation in dealing with global environmental concerns. Other major donor countries such as the U.K., the Federal Republic of Germany, France, and Canada have all indicated in varying degrees a recognition of the principle that additional environment-related funding will have to be provided to developing countries, but have not yet indicated an explicit willingness to commit themselves to any substantial new funding. The World Bank is currently preoccupied with mobilizing funds for IDA replenishment, and does not want to seek special funding for environmental purposes, at least until the IDA replenishment has been completed.[65]

The French proposal

In late September the Development Committee met at the World Bank. Management's position on environmental finance continued to dictate neutrality on the proposals of others, insistence on additionality, and a moratorium on any new initiatives prior to IDA completion. Then, so the story goes, the French government put on the table a proposal that in one fell swoop eclipsed all others and resulted in the GEF. As we will see, this view is a simplified version of events; in reality the process was more fragile and indeterminate. But the French did indeed make an extraordinary proposal that set in motion a process that led to the creation of the GEF. The French proposal resembled many others in its vagueness. But it stood out in one crucial respect: it was backed by an offer of real money.

The French proposal did not describe the fund in detail. It simply suggested that the Bank consider the establishment of a special environmental envelope which would "enhance the normal resources

65 Memorandum from Mr. Strong to Mr. Draper, September 11, 1989.

of the International Development Association."[66] The French idea was that SDR 1 to 1.1 billion would be the target, raised by voluntary contributions—and in addition to "normal " IDA resources. France wanted some flexibility for the donors to decide how funds should be used. The special envelope would in this respect resemble that of the Special Facility for Africa. France therefore suggested "that the President of the World Bank study how to establish this new facility and how to mobilize the donors, as soon as discussions on the 9th IDA replenishment have been completed."[67]

The French Finance Minister, Pierre Bérégovoy, described the proposal the next day:

> The industrial countries have key responsibilities for reducing the greenhouse effect and the spread of pollutant waste. Each country must mobilize its own resources, but France believes that the World Bank must also be provided with specific additional resources so it can encourage large-scale programs. I therefore suggested yesterday to the World Bank that it should study a special program for the environment, financed by voluntary contributions that would be additional to IDA's normal resources. The sum of SDR 1 billion would be required, and for its part France is ready to provide F 900 million over three years.[68]

The French offer of some $100 million before the specifics of the fund had been discussed was a bold and highly unusual move. A closer investigation of how the proposal was developed makes it appear no less remarkable. The idea came from the French Treasury, where Mr. Pierre Pissaloux was in charge of coordinating the French participation in the IPCC process. Surrounded by a team that included people from the Environment Ministry as well as the Ministry of Industry, he had developed the French proposal on funding mechanisms for the IPCC. During the course of this work, Mr. Pissaloux became convinced that a sizeable international fund for the environment would have to be anchored in an established financial institution. In contrast to the many grand visions on funding that were being aired at the time, he also believed a fund would have to be started on a relatively modest scale based on voluntary contributions.

Meanwhile, the French were interested in coming up with an international initiative that would allow them to reorient their approach to aid and the environment, and improve their relatively weak international reputation on environmental issues. France had sought to find an appropriate formula for environmental initiatives earlier in the year. In March Prime Minister Rocard had been active in developing the Hague Declaration, which proposed that a new international authority for the environment be established under the aegis of the United Nations. Like many other proposals that spring, the declaration had no direct effect on actions taken. In July the French President, Mr. Mitterand, had sought a "political push" at the G-7 meeting for rich countries to undertake measures to help poor countries with environmental protection. The specific proposals that were introduced—a project to control the Ganges and Brahmaputra rivers, and an international observatory for combat of Sahelian desertification—did not receive financial endorsement. Now it was the turn of the Finance Minister to make another attempt.

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66 Press Communique, Development Committee, Afternoon Session, September 25, 1989.

67 Ibid.

68 Statement to the Board of Governors at the Annual Meeting by Mr. Pierre Bérégovoy, Minister of State for Economy, Finance and the Budget, and Governor of the Fund for France, September 26, 1989.

The proposal was quietly developed by Mr. Pissaloux in the Ministry of the Treasury. No consultations were held with others, which caused some irritation among other French ministries involved with environmental issues who learned of the proposal only after its announcement. The fact that the proposal came from the Treasury is not insignificant. Money is not subject to the same budgetary constraints in this part of the government as in others, and it was therefore possible to back the proposal with significant funding, thus greatly enhancing its viability.

France was not alone in deciding the time was right for an initiative. At the same Development Committee meeting, they were joined by Germany who also proposed that the World Bank undertake a study of environmental financing, albeit without an offer of money. Germany had already provided for expanding its financial support of international environmental measures in the 1989 budget, and had on previous occasions sought to establish itself as the leader in this emerging field. It is fair to say that a friendly competition existed between countries interested in seeing a financial mechanism for the environment established, and Germany cannot have been entirely pleased as France once again displayed its verve for international initiatives.

In Germany, to a larger extent than in France, the green movement had made the environment an important electoral factor and successful international initiatives could be expected to be popular at home. The German Chancellor, Mr. Helmut Kohl, had earlier called for extensive talks on the subject at a meeting in Toronto in 1988, but had received a lukewarm response. So when the environment was discussed for the first time in a separate session at the G-7 meeting in July, German officials hailed it as a diplomatic victory for Mr. Kohl.[69]

Germany was considerably more cautious in its approach. In its opinion, proposals such as that made by India's Prime Minister, Mr. Rajiv Gandhi, merited close attention, but as the German Federal Minister Jurgen Warnke told the Development Committee, "The clearer the proposals on necessary action, the better the prospects of our governments coming up with the requisite funding....Before deciding on the volumes and mechanisms of funding, we need to be clearer about the sort of action that is required."[70] The key to the French success in this case lay in doing precisely the opposite.

There were also other differences between French and German thinking. In contrast to the generous gesture of France, which emphasized voluntary contributions and cofinancing arrangements, Germany wanted a more thorough and "proper burden-sharing arrangement." And while the French clearly had the World Bank in mind as the responsible agency, the Germans wanted to explore a wider approach "to be implemented within the existing organizational framework of development cooperation."[71] They recognized, however, that in such a scheme, "the World Bank's special qualifications in both [environment and development] would certainly point to a leading role for the largest international development agency, not least in handling the financial side."[72]

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69 Mr. Edward Cody, "Environment to Take Center Stage at Summit," Washington Post, July 13, 1989.

70 Lead statement by Federal Minister Jurgen Warnke on Development and Environment, to the Development Committee meeting, September 25, 1989.

71 Ibid.

72 Ibid.

Despite these differences the Germans loyally backed the French proposal and quickly indicated they could be expected to contribute an amount similar to that of the French. Discussions centered on the WRI Report had already contributed to persuading the German government to endorse a major environmental funding initiative.[73] German support gave France's proposal further credibility and was an important element in propelling the process forward.

The previous attempts by France, Germany, and other countries provide ample evidence that proposals by themselves are not sufficient to make things happen; most are dead letters. While the enormous interest subsequently aroused in the GEF may make some kind of arrangement seem inevitable in retrospect, it underestimates the difficulties involved in bringing a collective venture to fruition. Not only was timing of the essence, it was also necessary to find a formula that could be broadly supported by many—and which would make it possible to circumvent the specific aversions of a few powerful skeptics.

It was not apparent from the beginning that the French proposal would pass these tests. With hindsight, the French proposal made it through due to: (i) its vagueness, which made it inoffensive to skeptics while providing opportunities for creative leadership; and (ii) the upfront financial support which ensured the proposal would be taken seriously, and produced a critical mass for action.

The World Bank response

The French proposal presented the World Bank with an opportunity to play a leading role on the international environmental stage. It was not always obvious that the Bank would make the most of the offer. The proposal was initially for a special environmental envelope related to IDA, which implied the earmarking that management had repeatedly emphasized it wanted to avoid. This potential conflict was averted by France's suggestion that the study on establishing a facility begin only after the conclusion of the 9th replenishment of IDA. Even though IDA 9 was not directly affected, the Bank had previously argued that the mere anticipation of a significant environmental fund would detract from IDA financing. In the long run, a special facility along the lines proposed by the French could, as Mr. Kavalsky put it, "take the heart out of IDA."

There is no reason to doubt the lack of enthusiasm for large-scale environmental funds on the part of World Bank management at the time. However, there has also been speculation about some kind of collusion between the World Bank and France to capture the initiative in the field of environmental finance. In fact, the French proposal appears to have been prepared in the Treasury in some secrecy, much to the chagrin of officials from other ministries. The Bank was fairly slow to buy into the French proposal.

By the beginning of September, senior management was still unwilling to discuss significant environmental initiatives. Some staff remained content with the development of technical assistance funds for the environment. A few, like Mr. Piddington, strived to make the Bank take a more active stance on environmental funding. A working group that had put together some previous studies on environmental funding had still not set a course of action.

73 Personal communication to Mr. Frederik van Bolhuis by Mr. Hans Schipulle of the German Development Corporation Agency.

It was clear that outside pressure was building up for the Bank to display some leadership on this issue. On September 11, for example, the World Bank was criticized in the New York Times for being passive on environmental finance.[74] "The issue had come into sharp focus," the article explained, "with the disclosure by the Natural Resources Defense Council of a draft of a paper prepared by the Bank's staff to guide policy discussion....As the World Bank considers how to use its considerable leverage to help reduce the threat to global warming, environmentalists and politicians are complaining that it is not exerting strong leadership."[75]

The Bank was in contact with potential donors at the time, but there are no indications that they were discussing anything beyond the establishment of additional technical assistance funds for environmental project preparation. The Operations Complex clearly considered the Japanese fund an appropriate model for further expansion into environmental funding. On September 26—a day after the French offer was made in another World Bank building—the status of the contacts were reported. Canada had committed to providing $5 million of untied funding for World Bank environmental work.[76] The Netherlands had also agreed to contribute. The United States, the Nordics, Saudi Arabia, Kuwait, Italy, the United Kingdom and Australia had been contacted, and the Bank was awaiting their response. The only indication the Bank had of any French initiative was in the response they received when they made contact with France in the context of technical assistance funds; the reply stated that France was "considering its own funding arrangement."[77]

Bank staff responsible for technical assistance funds soon became alarmed by the French announcement. Mr. Kashiwaya, who had been instrumental in organizing these funds, expressed his concern and sought clarification.[78] Mr. Moeen Qureshi, Senior Vice President of Operations, wrote Mr. Barber Conable seeking assurance that any new initiative would not undermine the expansion of technical assistance funds for project preparation.[79]

The initial response from Mr. Ernest Stern, Senior Vice President of Finance, was to seek assurances that the French proposal would not disturb ongoing efforts in the Bank. After consultations with France, the Netherlands, Germany, and Canada—all of whom had in mind additional funds for the environment—Mr. Stern informed Mr. Conable there was agreement that IDA should be completed first and that any special funds for the environment would be additional. It was further agreed the Bank should continue to integrate environmental aspects into its regular operations, and "any mechanism used to mobilize environmental funds should be designed to foster integration and to minimize distorting effects of earmarking."[80]

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74 See New York Times, September 11, 1989.

75 It is curious the Natural Resources Defense Council (NRDC) was unhappy with the passive attitude of the Bank. At later stages, this organization has claimed the Bank practically jumped at the opportunity to capture funding for the environment. It is therefore noteworthy that at that time NRDC leaked papers to get action by the Bank underway, and criticized Bank thinking as giving "a shockingly short shrift" to issues such as the role of forests in global climate change.

76 Memorandum, October 23, 1989.

77 Letter from Mr. John R. Bowlin to Mr. Koji Kashiwaya, September 26, 1989.

78 Office Memorandum from Mr. Koji Kashiwaya to Mr. Moeen Qureshi, October 3, 1989.

79 Letter from Mr. Moeen Qureshi to Mr. Barber Conable, October 10, 1989.

80 Memorandum from Mr. Stern (FINSV) to Mr. Conable, September 29, 1989.

Mr. Stern reported there was no consensus among countries that the Bank was an appropriate home for the proposed fund. France and the Netherlands argued strongly against dispersing environmental funds between multiple UN agencies. They preferred the World Bank which they associated with an efficient use of funds. But while France had in mind a separate fund administered by IDA, the Netherlands wanted an environmental fund to be "part of IDA." Several countries were less than enthusiastic about an environmental fund in the Bank. Some did not see the rationale for a separate fund and others, such as the Nordic countries, wanted the United Nations involved.

Mr. Stern suggested to Mr. Conable the setting up of a small working group, including Mr. Kashiwaya and Mr. Piddington, to work out a Bank response to be advanced once the IDA replenishment was completed. The idea was to produce two Discussion Notes, one in close cooperation with the Environment Department to examine opportunities for environmental funding; the other to find alternative models for channeling finance in support of the environment. This process did not happen as planned. One reason was that the Discussion Note from the Environment Department never materialized. The Environment Department was not functioning effectively during the fall. Mr. Piddington, who had been a strong advocate of a Bank initiative, was absent due to an illness in the family and contributed only the occasional comment from New Zealand. The confusion in the Environment Department clearly lessened its influence at a crucial stage in formulating the response.

No consensus emerged during the fall on the purposes of an environmental fund. The most contentious issue was whether the best uses for a fund would be to integrate the additional resources into regular development work, as Mr. Piddington had long argued, or whether it should have a more specific focus, for example, on transboundary problems. When the first draft was produced in mid-October—by Mr. Alexander Shakow, Director of Sector Policy Research—thinking was not yet focused: the scope of activities, eligibility, and debt-for-nature swaps were important unresolved issues. Several types of activities and investment priorities were enumerated.[81] Another draft was put forward in mid-November by Mr. Thierry Baudon, Head of the Regional Environment Division for Europe, the Middle East and North Africa. This draft included a wide variety of activities, but concluded that "the best case for concessional finance can be made for investments whose benefits accrue to more than one country or, for that matter, to all of humanity."[82] A third paper for discussion came from Mr. Kavalsky's office. It linked the tension between integration into national programs and transboundary issues to level of income. For IDA countries, concessional finance could be motivated for all environmentally related activities, while in the case of middle-income IBRD countries, concessional funds had to be limited to transboundary environmental problems.[83]

Sporadic conversations with the French did not lead to a more coherent framework. They suggested a focus around their main priorities of energy efficiency, rational use of forestry, and substitutes for CFCs. The French noted that the IPCC working group had met in early October to develop a

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81 "Draft Outline for Proposed Paper on Requirements for Additional Environmental Funding," by Mr. Alexander Shakow, October 17, 1989.

82 "Earmarked Concessional Funding for the Environment: Concepts and Criteria for a World Bank Executed Action Program," written by Mr. Thierry Baudon, November 10, 1989.

83 Draft report entitled "Funding for the Environment," prepared by Mr. Basil Kavalsky, December 8, 1989, and slightly revised December 19, 1989.

framework and guiding principles on alternative responses to global warming. They believed such a convention would take a long time to negotiate, and that it would be desirable to have a fund for environmental purposes developed much sooner.[84] While their thinking was that only the poorest countries would be eligible for the fund, they were willing to consider the participation of IBRD countries as well.

On December 27, 1989, Mr. Stern addressed the President's Council. The IDA replenishment had been concluded in Kyoto on December 14, which allowed the Bank to devote its full attention to requests for a study of mechanisms for expanded environmental financing. The starting point for any such initiative, he argued, had to be additional funding for additional environmental programs, despite the fact that both types of additionality were "notoriously difficult to measure."[85] In a first departure from the French proposal, he stated it had become clear that "it may be neither desirable nor feasible to rely exclusively on co-financing," and that "a broader initial approach, including some core funding, may be appropriate." He suggested that a group consisting of himself, Mr. Kavalsky, Mr. Baudon, and Mr. Warford, Acting Director of the Environment Department, should visit France and other potential donors to sound them out on timing and links to the many other environmental initiatives under implementation or discussion.[86]

January through March 1990—laying the foundations for the GEF

The new year began with a number of fundamental issues unresolved. On January 2, Mr. Stern wrote a letter to Ms. Anne Le Lorier in the French Treasury listing several points for discussion at their upcoming meeting. He asked for the French view on a set of basic funding activities: strengthening of environmental institutions, capacity of recipient countries to develop environmental policies, and expanding environmental investments. He wanted to discuss global versus country focus, types of funding, and coordination mechanisms. He also sought guidance on whether the Bank or France should convene a donor's meeting, and whether other multilateral agencies should be invited. The letter illustrates the major uncertainties that still surrounded the proposal.

The Bank's soundings were fruitful. The bilateral discussions with France and other European countries yielded general support for the initiative and a donor meeting was called for March 15-16. This set in motion intense activity within the Bank to develop a viable proposal, taking into account the input from the bilateral consultations. The result was impressive: by February a Discussion Paper had been produced that contained the main elements of what was to become the GEF.[87]

First, the paper proposed a facility for distinctly global environmental purposes. The importance of global issues had been stressed many times before but no distinction had been made between global and national priorities. Although it had been noted earlier that theoretically a strong case could be made for concessional finance of transboundary environmental issues, the bilateral discussions in Europe had underlined that politically this was the most, perhaps only, viable approach. Mr. Kavalsky and Mr. Warford reported: "Our meetings confirm that the program will only be saleable

84 Memorandum from Ms. Mary Oakes Smith to Mr. Basil Kavalsky, October 12, 1989.
85 Memorandum from Mr. Stern to the President's Council, December 27, 1989.
86 Ibid.
87 See "Funding for the Global Environment," Discussion Paper, February 1990.

to potential donors on the basis of addressing global concerns, whether relating to the low income or the middle income countries."[88] All European countries had been supportive of a global focus. Some had made their strong preference for this purpose clear; the United Kingdom in particular was highly critical of formulations which did not allow for a separation of funding activities. Others, such as France, were willing to support non-global projects, at least initially.

The preference among European governments for a focus on global issues can be traced back to the high level of awareness of international environmental issues among their voters. Another factor in support of a design centered on global concerns was that developing countries emphasized that increased funds for environmental purposes had to be additional to existing flows and must not constitute a "green" conditionality. The additionality argument meant that the funds would have to be clearly distinguishable. This supported a focus separate from development assistance. Therefore, provided the additionality requirement could be adequately satisfied, concessional funds for global purposes could be expected to attract political support not only among European countries but also in the developing world.

The global focus of the February Discussion Draft was not universally appreciated. Within the World Bank, the Legal Department had not been consulted and quibbled thus: if the emphasis was to be on global purposes with benefits going also to countries not eligible for borrowing, it could not be assumed that "the Bank has the authority under its existing Articles of Agreement to undertake this activity."[89] Mr. Piddington—now back in Washington—also expressed his disappointment with this "untidy arrangement" and complained that "the paper has lost some of the logical force of the earlier versions, which succeeded in making the point that if donors want to see action on the global agenda, the only strategy is to influence the direction of local and regional actions which affect the agenda."[90]

Progress on a number of global environmental problems in other international fora supported the global design. The February Discussion Draft took note of these developments, and proposed four focal areas that could be defined as global interests. The layer of stratospheric ozone became the most obvious candidate for funding due to the status of the Montreal Protocol. The strengthening of the Protocol in the summer of 1989 had fuelled a debate on how developing countries could be assisted in complying with its provisions. A study commissioned by UNEP noted that "UNEP, UNDP, and the World Bank seem to be in a position to play a leading role in designing and implementing programs and projects under the Montreal Protocol."[91] Financing projects in support of the ozone layer was an excellent manifestation of the idea that concessional finance was needed to induce low-income countries to undertake investments in support of the global environment.

The issue of climate change had received top priority by the Governing Council of UNEP, and two IPCC meetings planned for 1990 were expected to result in negotiations for a convention. A number

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88 Memorandum from Mr. Basil Kavalsky and Mr. Jeremy Warford to Mr. Ernest Stern, January 12, 1990.

89 Memorandum from Mr. Stephen Silard to Mr. Ibrahim Shihata, February 12, 1990.

90 Memorandum from Mr. Kenneth Piddington to Mr. Joe Wood, February 12, 1990.

91 Study prepared by Mr. R. Schmidt, "International Financial And Other Mechanisms for Assistance to Developing Countries Under The Montreal Protocol," UNEP/Ozl. Pro. WG.II (2)/6, January 30, 1990.

of proposals for a financial arrangement to protect the atmosphere and combat climate change had been put forward by, among others, Norway, the Netherlands, France, Canada, and the WRI. The Discussion Draft noted that international consensus on climate change was less firm than in the case of ozone but the issue was impossible to overlook, given the international discussions already in progress, the strong commitment of some governments, an earlier request from the Development Committee to consider global warming, and of course, the global nature of the issue itself. The main obstacle was the reluctance of the US administration to acknowledge climate change as a problem requiring international action.

Biodiversity was another example where additional and concessional funds were required; in fact, conservation of biodiversity had been the most frequently cited problem in a number of earlier proposals, including the WRI Report. Considerable international attention had been devoted to the threats posed to tropical rainforests and other areas rich in species, but international work on a convention had not yet begun. Politically, biodiversity was the most controversial of the areas proposed. A number of important donor countries, including France, Japan and the United States, had at various times raised doubts about the global value of biodiversity.

International water resources became the fourth area. Consensus was lacking on an international framework for approaching shared water resources, but the Discussion Draft noted that the Regional Seas Programme established by UNEP had produced a series of sound plans which had had difficulties in attracting funds. The pollution of international waters was acknowledged as a serious environmental problem, and its global nature hard to overlook.

The institutional arrangement was a third important component of the February Discussion Draft. The French proposal had been made to the World Bank, with no mention of other institutions. In the bilateral discussions, the idea of a tripartite arrangement between UNDP, UNEP and the World Bank began to emerge. The main argument was that the focus on global environmental problems made a collaborative approach more appropriate. Some links with UNEP seemed inevitable if the facility was oriented towards financing international environmental problems. The emphasis on institution building and technical assistance by a number of potential donor countries made the comparative advantages of UNDP seem more attractive. This particular collaborative arrangement was not, of course, a new idea. It had appeared in a number of previous proposals. A recent study on financial mechanisms for the Montreal Protocol, for example, had stated that "rather than creating a new organization or solely expanding the role of one of the existing institutions, a joint or co-operative venture of the three lead agencies to which other institutions could be attached seems preferable."[92]

The tripartite arrangement was appealing also because several ministries were involved in the creation of the GEF. Traditionally, the main constituency of the World Bank is among people from the finance ministries. In this case the subject brought in environment ministries and ministries of foreign affairs. People from these departments were more used to the UN system, and their preferences often differed from those of their colleagues in the finance departments. Conversations

92 UNEP, Executive Summary of "Study on the role that new or existing institutions might play in meeting the objectives of the Montreal Protocol in developing countries." UNEP/OzL. Pro.WG.II (2)/6, January 30, 1990.

with delegations from different countries have revealed that almost without exception, they had difficulties coordinating their positions on the GEF since it required new domestic constellations. The collaborative arrangement was therefore reassuring to the different interests that existed within each delegation.

The tripartite arrangement clearly enhanced the political acceptability of the draft proposal for most potential donor countries. The Nordics, as already mentioned, were strongly in favor of the UN system. A number of other countries, including Germany, were attracted by the collaborative approach. It was clearly not the preferred solution within the Bank, but political realism prevailed. With hindsight, senior Bank officials who initially resisted the arrangement admit it was probably necessary for the GEF to be viable.

A final essential building block—added in the February Draft—was that the facility be established on a pilot basis. The importance of this formulation would become clear in the upcoming negotiations. While the February Discussion Draft contained the main elements of what was to become the GEF, it could not, of course, resolve all the problems that were to become contentious once formal negotiations began. Mr. Stern was aware of at least some of these difficulties when he addressed the Environmental Protection Agency in mid-February. He cautioned that "all this is at a very early stage" and warned that a recent campaign to include environmental aspects in IDA had caused a "major upheaval" among some developing country representatives.[93] "I don't think you can underestimate the political explosiveness of this issue in many of these quite important developing countries." He added that these countries felt a profound sense of unfairness and viewed environmental conditions as "another impediment that foreigners have put on them to keep them from growing." Any proposal had to be designed taking these concerns into account.

93 Quoted in "New Environmental Fund Proposed for World Bank," in World Bank Watch, February 26, 1990.

3 Negotiating an Agreement

Paris in springtime

Mr. Stern presided over a meeting of seventeen donor countries, as well as representatives of UNEP and UNDP, to discuss the World Bank proposal in Paris on March 15-16, 1990. He began by making the case that in the face of considerable uncertainty and risk associated with global environmental problems, "prudence would suggest that action should be taken in those areas where the cost of action is low relative to the potentially high cost of delay."[94] He emphasized that such action was the responsibility of industrialized countries. The purpose was to "to assist developing countries to achieve their development goals without adding to the already very serious problems of the global environment." To accomplish this, any funding mechanism would have to be additional in three senses: (i) donor contributions had to be additional to existing aid flows; (ii) World Bank efforts had to be additional to country based environmental work; and (iii) recipient countries could expect assistance from the GEF only for the additional—or incremental—cost that would be incurred in order to create global benefits. Mr. Stern cautioned this would not be easy: "We should not minimize the difficulty in developing a meaningful program to address global environmental objectives. Indeed, this is one of the aspects to be tested out operationally." In essence, Mr. Stern put to the government representatives a choice: either the global community could wait until a framework of conventions had been negotiated and ratified—a process that could take many years—or donors could make it possible to start gaining some operational learning experience on a pilot basis.

The response on the first day was not promising and a number of issues were raised. Governments were concerned about a funding mechanism substituting for conventions, in particular the Montreal Protocol. They wanted to know whether true additionality was really possible. The track record and staffing of the World Bank was questioned. Some representatives were worried that a global funding mechanism would detract from the ability of the Bank to deal with national environmental problems. While welcoming the tripartite arrangement, there was a need to know more details of how it would work. Some wanted the proposal to be more specific on how adequate opportunities for consultations with NGOs and developing country governments would occur. While all countries were interested in the nature of the funding required, some could only agree to a fund based on equitable burden-sharing, and others insisted on voluntary contributions. "On the first day," Mr. Kavalsky noted, "most delegations posed some or all of these questions."[95]

Early the second day, Mr. Stern managed to change the mood of the meeting. He tentatively concluded that on the basis of the comments made, he would simply have to report to the Development Committee that there was no consensus on what he saw as four key building blocks: concessional funding for global environmental objectives, provision of funds on a voluntary basis, a core fund with a minimum of SDR 1 billion, and World Bank management of the fund within the collaborative framework envisaged in the paper.[96] Delegates became more cooperative after an exasperated Mr. Stern asked them plainly, "Do you want this thing or not?"

94 See "Opening Statement: Meeting on Funding for the Environment," World Bank, SecM90-351, March 19, 1990.

95 Memorandum from Mr. Basil Kavalsky, March 21, 1990.

96 Ibid.

On the second day most countries welcomed not only the proposal but also the major role ascribed in it to the Bank. They explained they neither wanted a new institution, nor an effort to duplicate the Bank's capacity in handling investment projects. The collaborative framework was deemed a good basis, but one that needed further specification on how consultations with other parties would take place. The demand for strict burden-sharing by some countries was softened to an agreement on broad-based multilateral participation with significant contributions from major countries. Global conventions "could be incorporated into the facility as far as they related to its objectives."[97] The four building blocks as presented by Mr. Stern were largely accepted.

The meeting revealed a difference among countries on the level of detail they wanted resolved at the negotiating table. Some—mainly European—countries stressed the importance of getting the facility operational on a trial basis as soon as possible; they believed details could be worked out during the pilot phase. Others wanted to get it right from the start. The United States was clearly negative about the proposal, and made a two-track suggestion that was to cause Bank management some trouble. It suggested that the facility initially provide assistance only for actions under the Montreal Protocol, and wait for other conventions to be negotiated and ratified. With this issue unresolved, Mr. Stern concluded there were significant areas of agreement on which to report to the Development Committee in May.

Financing the Montreal Protocol?

In the period following the Paris meeting, the World Bank began to draw up a response to an eventual request for it to assume responsibility for administering a fund for the phasing out of CFCs. A policy had to be agreed prior to a meeting of the Working Group on Financial Mechanisms for the Montreal Protocol in Geneva on May 9-11, 1990. The Bank found itself in a dilemma. By calling the meeting on the GEF, it had signalled an interest in becoming a major player in the international environmental field. The Montreal Protocol request would "therefore be seen as a test of the Bank's potential role in a wider type of facility envisaged under our proposal."[98] Acceptance of this responsibility, Mr. Stern recognized, could be used as leverage in the negotiations for the GEF. European countries too would be disappointed if the Bank declined the offer, and the political cost to the GEF—and the Bank—could be dangerously high.

At the same time the Bank was not happy with the possibility that it could become the financial arm of the Montreal Protocol only. If the Bank accepted the anticipated offer—and the US dual-track proposal about the GEF prevailed—the Bank would find itself in the undesirable position of financing only the relatively small projects related to the Montreal Protocol. Few developing countries were significant producers of CFCs, and the program was too narrow to be consistent with the purpose of the GEF proposal.[99] In addition, the Protocol Secretariat and the Contracting Parties to the agreement would "add to the cost and potential delays in making the program operational."[100]

Mr. Moeen Qureshi from the Operations Complex concluded the scheme made "little economic or business sense" and was clearly against assuming the role.[101] The Legal Department suggested that

97 Ibid.

98 Memorandum from Mr. Ernest Stern to Mr. Barber Conable, April 4, 1990.

99 See "Statement to the Board On The Meeting On Global Environment Facility in Paris, March 15-16, 1990," by Mr. Stern, March 20, 1990.

100 Ibid.

101 Memorandum from Mr. Moeen Qureshi to Members of the President's Council, April 18, 1990.

Mr. Conable "make it clear that if the discussion on our Global Environment Facility does not yield a broad mandate, we would not be prepared to administer the financial mechanism for the first phase of the Montreal Protocol."[102] The matter was raised at a meeting of the President's Council on April 20, after which Mr. Conable concluded that the Bank should undertake the financial intermediation for the Montreal Protocol.[103] Mr. Conable then wrote Mr. Tolba conveying the Bank's willingness to play a supportive role but warning that projects might turn out to be so small that appraisal and supervision would need to be done by intermediaries in the developing countries.[104] The decision illustrates the Bank's growing commitment to becoming an active player on the international environmental scene at all levels.

Progress and problems in the summer of 1990

The Development Committee meeting in May 1990 was described by Mr. Conable as "quite a debate."[105] While most countries were generally supportive of the proposal, they took the opportunity to underline the priorities and preferences which would be repeated in greater detail in the negotiations to follow. This was true also of developing countries such as India and Ecuador which participated in formal discussions on the GEF for the first time. As expected, they strongly emphasized the need for additionality and concessionality in environmental funding.

The various forms of additionality were among the issues addressed in two Discussion Notes prepared for the next meeting on June 11-12. In principle, funds would have to be additional to funds provided for regular development assistance. This is a matter of budgetary allocation on the part of donor countries, and some countries tried to fulfill this requirement by making funds available from a different budgetary source. It was recognized, however, that true additionality would be difficult to assure in the long run. As Mr. Stern would later put it to the Bank Board, "This is an old question, of course, and a solution takes a combination of faith, art, and creative accounting."[106]

Another aspect of additionality that has become central to the GEF is the notion of providing funds only for the additional cost incurred to protect the global environment. This incremental cost principle, as it came to be known, had been put forward before, notably in the Hague Declaration. It was closely related to the issue of compensation to developing countries for devoting scarce resources to projects or components of projects that could not be economically justified within a national framework. It was clear from the outset that the notion of incremental cost did not lend itself to easy translation in practice; the problem of environmental cost-benefit analysis is exacerbated when costs are local, and benefits dispersed beyond borders.

The May Discussion Note warned that it would seldom be feasible to value environmental benefits in economic terms. It outlined instead a mixed approach for an allocation of resources which

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102 Memorandum from Mr. W. Paati Ofosu-Amaah to Mr. I.F.I. Shihata, Vice President and General Counsel, April 11, 1990. The issue was also discussed in a memorandum from Mr. Silard to Mr. Shihata, March 29, 1990, and in another memorandum from Mr. Stern to Mr. Conable, April 4, 1990.

103 Minutes of President's Council Meeting, April 20, 1990.

104 Letter from Mr. Conable to Mr. Tolba, April 30, 1990.

105 Letter from Mr. Conable to Mr. Strong, May 9, 1990.

106 Mr. Ernest Stern, Statement to the Board, March 20, 1990.

combined economic concepts such as cost-effectiveness with physical measures and more "subjective" judgments, such as those required in setting priorities between the four areas. Projects would be selected on the basis of providing "the highest ratio of benefits (measured in physical terms) per GEF dollar" in any given area.[107] The incremental cost would then constitute the financial resources needed to "raise the return to an acceptable level for the country."[108] This formulation, and the emphasis on a case-by-case evaluation, implied that at least initially the incremental cost would be determined through dialogue between the GEF and the country involved. In time, standard operating procedures would begin to evolve which, in combination with efforts to establish more rigorous evaluation methods, would determine future levels of incremental costs. The Discussion Note suggested the need to safeguard against a tendency to underestimate domestic benefits and exaggerate costs, and to introduce cut-off ratios "to ensure that an excessive price is not paid to achieve a given physical benefit."[109] At the June meeting, those countries which accepted the general rationale behind a separate facility for global concerns also accepted this pragmatic approach to incremental costs. To them, the absence of rigorous methods to estimate global costs and benefits was an argument for, not against, an approach that in the pilot phase could develop practical guidelines to adjudicate between projects based on a broad set of criteria.

The May Discussion Note also elaborated on the organizational arrangements and relations between the three agencies. A division of labor was established based on the respective strengths of the organizations. UNEP would ensure that the policy framework of GEF was consistent with the emerging conventions. It would also provide strategic, scientific and technological advice. The key role of UNDP was to be in the areas of technical assistance, institution building, and pre-investment studies, and its 112 field offices were viewed as an important advantage. The World Bank was assigned responsibility for day-to-day management, and in cooperation with the other agencies, for development of the work program. This arrangement was broadly approved at the June meeting but it was pointed out that further elaboration would be needed.[110]

When the discussion turned to funding modalities, US reluctance could no longer be glossed over. Along with Australia, the United States declared it would not contribute to a core fund. The June meeting ended with the realization that discussions could not proceed without addressing the issue of funding modalities in greater detail.

The US refusal to participate caused some concern among the Washington-based environmental NGOs. Several of these organizations were long-standing critics of the World Bank. They had disapproved first of the failure of the Bank to take a lead on global environmental issues,[111] and then—when the Bank became active in the field—its track record which, they said, made it unfit to

107 See "Funding for the Global Environment: (1) Framework for Program Design and Allocation Criteria, and (2) Organizational Arrangements and Governance," the World Bank, Discussion Notes, May, 1990, p. 14.

108 Ibid. p. 13.

109 Ibid. p. 14.

110 See "Statement on the Meeting on Funding for the Global Environment, Paris—June 11-12, 1990," delivered to the Executive Director's Meeting by Mr. Joseph Wood, June 21, 1990.

111 See "Pressure on World Bank to Save the World," in New York Times, Monday, September 11, 1989.

host an environmental fund.[112] In arguing that the World Bank include environmental reform in its regular operations, they found an unlikely ally in the Republican administration in the United States. Clearly disinclined to expand the scope of multilateral institutions, the administration agreed with NGOs that environmental concerns ought to be integrated into the development projects of the World Bank. However, when it came to expanded funding for some global purposes, most notably climate change, the underlying differences between the two groups came to the fore. The NGOs wanted financial resources for these purposes increased, but through some other institutional arrangement. The administration, on the other hand, rejected outright the idea of providing funds to combat climate change.

The prospect of US noncompliance caused the NGOs to lobby in favor of the GEF. In a letter written shortly after the June meeting, some of these organizations urged the US Secretary of the Treasury to voice concern about "statements by the US government officials that existing Bank resources are adequate to meet these global needs."[113] While still apprehensive about World Bank procedures, they supported the formation of the GEF. "Since this is a pilot program, and the projects are all expected to be 'good' i.e. environmentally beneficial ones, it is ideally suited to the introduction, and testing, of the possibilities for open and accountable project decisions."[114] The letter stated that this position had the support of NGOs in other countries as well.

The tripartite agreement

In a meeting of the Parties to the Montreal Protocol in June, a decision was made to establish an Interim Multilateral Fund with the purpose of financially and technically assisting developing countries to comply with the Protocol. The fund was established for a three-year period with funds amounting to $160 million. This was to be increased to $240 million if China and India signed the Protocol. Implementation would be handled jointly by UNEP, UNDP and the World Bank. The decision on the Interim Fund set in motion an interactive process whereby decisions affecting the Montreal Protocol influenced the GEF, and vice versa.

During the summer, the three agencies began the process of preparing the tripartite agreement. World Bank staff prepared a draft of a joint statement in which the heads of the three agencies would explain how they intended to cooperate on global environmental issues. They also prepared a Discussion Note on Proposed Funding Modalities for the meeting on the GEF in September. UNEP had little problem with either of the drafts.[115] UNDP was more concerned. In a letter written while he was attending the first Preparatory Committee for UNCED in Nairobi, Mr. Michael Gucovsky of the UNDP was "absolutely convinced that the World Bank, UNEP and UNDP have

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112 Letter to Mr. William K. Reilly, Administrator of USEPA from the Natural Resources Defense Council, signed by Mr. Glenn T. Prickett, Mr. David Wirth, and Mr. Eric Christensen on behalf of representatives of the Natural Wildlife Federation, Environmental Defense Fund, the Sierra Club, the National Audobon Society, and the Woods Hole Research Institute, March 9, 1990.

113 Letter to Mr. Nicholas F. Brady from Ms. Barbara Bramble of the National Wildlife Federation, Mr. Bruce M. Rich of the Environmental Defense Fund, Mr. James N. Barnes of Friends of the Earth/Environmental Policy Institute/Oceanic Society, Mr. Glenn T. Prickett of the Natural Resources Defense Council, Ms. Hope Babcock of the National Audobon Society, and Mr. Kiliparti Ramakrishna of the Woods Hole Research Center.

114 Ibid.

115 Fax from Mr. Yusuf J. Ahmad, Senior Executive to the President, to Mr. Basil Kavalsky, August 14, 1990.

not yet persuaded the developed and developing countries that we are engaged in a genuine effort of shared responsibility with respect to both the Interim Multilateral Fund, and the Global Environment Fund."[116] He felt the overall impression of the present draft conveyed an impression of "an IBRD Facility with UNEP and UNDP providing convenient 'window dressing'."[117] Successive drafts eventually produced an agreement which found approval among all three agencies.

The Joint Declaration on the Global Environment was signed in New York by the heads of the three agencies on September 17, 1990. It advocated the speedy launch of a fund. "Once such funding is agreed, then we will prepare a joint work programme to be undertaken with developing countries to address global environmental issues. The work programme will be submitted to donors and developing countries for review and will form the basis for actions to be pursued by each agency, according to its own procedures and governance, in this field."[118] Two days after this statement was issued, the first meeting of the Executive Committee of the Montreal Protocol took place in its city of origin. This meeting saw the establishment of the Interim Fund in formal legal terms, but neither the question of operations nor the role of the implementing agencies was spelled out in detail. The next meeting on financial mechanisms for the Montreal Protocol was set to take place in two to three months—after the two upcoming negotiations on the GEF. This created an opportunity for innovative institutional solutions on relating the Interim Multilateral Fund of the Montreal Protocol to the GEF.

The September meeting

The meeting on funding modalities took place in Washington, D.C., on September 22-23, 1990. The discussion was characterized by a need, emphasized by many participants, to get the facility underway as soon as possible. "Time is not with us," Mr. Stern said in his opening remarks, and this message was echoed by Mr. Strong, UNEP, UNDP and many government representatives, including those from developing countries. One of the most frequently cited reasons for urgency was the deteriorating state of the global environment itself. Another was the potential for gaining some practical experience before UNCED in 1992. In the negotiations, however, the most frequently stated reason for speed was to avoid a proliferation of funds. A final reason—implied in some statements at the negotiations but explicitly confirmed in personal conversations—was the desire to avoid a duplication of the time-consuming process that had characterized the establishment of the Interim Multilateral Fund for the Montreal Protocol.

The first issue on the financial agenda was the relation between the core fund, which had to be on a grant basis, and cofinancing arrangements either in the form of grants, or loans on highly concessional terms. On one side of the fence was the United States, unwilling to contribute to a core fund. This position was supported by Australia, and for different reasons, by Japan. On the other side were France, Germany, the Netherlands, and the Nordic countries, which argued that the whole idea was for funds to be provided to a core fund on a grant basis. Developing countries also preferred funds on a grant basis, but indicated they would also be open to highly concessional

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116 Fax from Mr. Michael Gucovsky to Mr. Basil Kavalsky, August 17, 1990.

117 Fax from Mr. Gucovsky to Mr. Kavalsky, August 20, 1990.

118 See "Joint Statement of the Heads of UNEP, UNDP and the World Bank on Co-operation with Developing Countries for Programs to Protect the Global Environment," New York, September 17, 1990.

lending arrangements. The United Kingdom made a strong case for all financing to be on grant terms, but felt that cofinancing on concessional terms should also be accepted. The Bank "put a very high premium on core financing,"[119] but realized a more flexible approach was necessary to get all the major countries on board. In the end it was agreed that cofinancing would be allowed, but only on a highly concessional and untied basis that could be programmed at an early stage in the operational cycle to make a reasonable allocation possible.

The November meeting

The final negotiations on the GEF took place in Paris on November 27-28, 1990. This meeting was attended by twenty-seven delegations, of which nine were from developing countries.[120] A Discussion Paper, entitled simply "The Global Environment Facility," had been prepared to sum up the state of previous meetings.[121] Mr. Stern opened the meeting by pointing to some sections of the text that had not been discussed previously. They concerned an elaboration of the tripartite agreement, a clarification regarding the relation to the Montreal Protocol, eligibility requirements, developing country contributions and representation, NGO participation, debt-for-nature swaps, and a cost-sharing arrangement. Mr. Kavalsky explained the terms of the tripartite agreement for the Interim Multilateral Fund for the Montreal Protocol, which had been signed by the three agencies on November 13. When Mr. Stern opened the floor for discussion, the US representative immediately offered to break the ice. "Do it gently," Mr. Stern pleaded, "it's early in the morning."

Everyone in attendance knew, of course, that the position taken by the United States would have a significant impact on the outcome of the meeting. The room was quiet, and Mr. Pat Coady, the US representative, commented that "the silence seems to indicate a certain interest." He had prepared a comprehensive statement and went on to describe how the United States had given careful consideration to the topic. He then turned to what everybody wanted to know: "As a result," Mr. Coady declared, "the United States is now prepared to support a global environmental facility." Before anyone had the time to feel relieved, however, he added the following conditions for US participation:

> It will and must be a pilot facility, whose goal would be to phase it out at the end of the three year period; a major purpose would be to incorporate global environmental concerns into the Bank's regular and on-going work. Funding for the facility would be used to enhance the concessionality of specific projects to the degree that incremental costs are incurred by borrowing countries to achieve global benefits, and it would be open only to countries that commit to appropriate environmental policies. Such a facility, with its clearly defined mandate and definite life-span, would not constitute a separate window for global environmental purposes.[122]

Mr. Coady then asked the World Bank to "allocate a significant portion of its net income for global

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[119] Concluding remarks by Mr. Stern, September 22, 1990.

[120] The developing countries at the meeting were Brazil, China, Cote d'Ivoire, India, Indonesia, Mexico, Morocco, Turkey and Zimbabwe.

[121] See "Funding for the Global Environment: The Global Environment Facility," the World Bank, Discussion Paper, November 1990.

[122] Statement by Mr. Coady as transcribed by the World Bank.

environmental purposes" and recommended that 15 to 20 percent of GEF resources come from this source.[123] He went on to list a number of more specific concerns regarding NGO participation, the composition of the proposed Scientific and Technical Advisory Panel (STAP), the areas for funding, the types of projects to be supported, and so on. Several people in attendance would later comment that the position advanced by the United States bore a striking resemblance to the preferences of some environmental interest groups. A few weeks earlier, some influential NGOs had suggested that the United States provide parallel financing through USAID. This turned out to be exactly the position advanced by the US delegation, conditional on the satisfactory resolution of its other concerns.[124] The contribution, it was pointed out, would be entirely voluntary and should not be interpreted as an acceptance of any burden-sharing arrangement. The funds would be provided in the form of grants and—though an amount was not specified—"the order of magnitude would make the United States a major contributor."

The US position on many of the issues listed above did not find support among a majority of countries. However, due to the potential financial contribution as well as the credibility gained by the participation of this powerful country, the United States was able to significantly influence the agenda of the meeting, and to a lesser degree, the outcome. The European countries that had initiated and supported the process from the start were clearly resentful of the US attitude and demands. Many of their comments during the following two days were addressed to the United States, and it would seem only the leadership exercised by Mr. Stern rescued the situation.

The different interpretations of what was meant by the pilot phase is a good example of Mr. Stern's ability to circumvent potential conflict. The notion of a pilot phase was strongly supported by all delegations, but for different reasons. Some countries took "pilot" to mean a temporary arrangement; others believed it had connotations of something initial to be followed by a permanent arrangement. The United States had made its participation conditional on an affirmation of the finite nature of the GEF. It received support for this position from Canada and Australia.[125] Other countries such as France and Germany clearly saw the pilot phase as a learning process intended to grow into a more mature instrument for addressing global problems. They were firmly against discussing a phase-out or termination of the GEF.

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123 This demand found no support among other countries.

124 See letter to Mr. Stephen Farrar, Special Assistant to the President for Policy Development at the Natural Resources Defense Council (on behalf also of Friends of the Earth, Environmental Policy Institute, the Oceanic Society, and the Sierra Club), October 31, 1990. This letter suggested the United States should contribute to the GEF in the form of parallel financing via USAID. With the exception of climate change, the concerns stated in this letter—energy, forestry, NGO participation, access to information—were all included in Mr. Coady's statement.

125 At the September meeting Australia had offered many reasons for its reluctance to participate. Among these was the argument that the pilot facility might take on a life of its own and become a full-blown institution. It argued that since global issues in the long run would have to be internalized on a country level, establishing a separate facility for global concerns could give the wrong signals. This reasoning was shared by the United States. Mr. Stern had responded to this concern by arguing that the facility was proposed precisely because the incremental cost was not internalized, and while this was desirable in the long run, at the moment the world was a long way from such a happy state. He also denied that the facility would have to become a permanent institution. As an example, he pointed to the Special Facility for Africa, which was established in response to severe drought, "executed, wound up and that was the end of that."

Mr. Stern successfully deflected the issue. The facility, he explained, "as it stands, automatically winds up at the end of the three year period. It is not today our intention at all to engage in replenishment exercises." Time would tell how things would turn out, but he did not want to preclude the possibility that "a global facility could become, in one fashion or another, not a permanent institution of a pilot nature, but eventually a receptacle of funding for other conventions which might be agreed upon." Implied in this latter remark was the notion of making the GEF an overarching facility to which conventions could "plug in."

In retrospect, it is noteworthy how late in the discussions the concept of making the GEF a "modular" receptacle for evolving conventions was clarified. Throughout the negotiations, references were made to the conventions and the UNCED process, but despite repeated questions from participants as to how the conventions would relate to the GEF, no clear vision was spelled out. Mr. Stern had used the concept of the three agencies acting as a financial "delivery system" for the Montreal Protocol as well as the GEF, but the relation between the two remained obscure. The papers preceding the November meeting simply described the relation of the GEF to the evolving framework of conventions as "complementary."

It was the draft of the legal resolution prepared for the November meeting that finally made the "modular" design of the GEF explicit. The necessary legal explications made it obvious that the Global Environment Facility was designed as an umbrella arrangement consisting of three distinct funds: the Global Environment Trust Fund (GET) for which funding was sought; the Global Environment Joint Financing Agreements, which formed a separate component for the cofinancing arrangements; and finally, the Ozone Layer Protection Trust Fund—under the guidance of the Montreal Protocol.

This concept resolved many of the problems countries had with the GEF's relation to the Interim Multilateral Fund of the Montreal Protocol whose existence both motivated and constrained the GEF negotiations. At the November meeting the two models caught up with each other, and the incorporation of the Interim Multilateral Fund as a separate component under the GEF umbrella came to be viewed by some as a possible model for future conventions. Others regarded the legal separation of the Interim Multilateral Fund from the GET as an undesirable step towards a proliferation of funds.

Developing country participation

The role of developing countries in the GEF was discussed and clarified at the final meeting. The November paper had proposed that eligibility be restricted to IBRD countries with a per capita income of $4,000 or less. It further suggested that participation in the governance arrangements be conditional on a minimum contribution of SDR 5 million payable over six years. The equitable representation of developing countries remained to be discussed.

Developing country representation at the meetings had grown to constitute a third of the participants at the September and November meetings. The representatives had expressed support for the GEF though they repeatedly emphasized the need to ensure that funds be additional and provided on a grant or highly concessional basis. The problem of representation of developing countries at the planned semi-annual meetings had not been worked out. Mr. Stern acknowledged that prior to the meeting, several attempts had been made to use Bank constituencies as well as other arrangements, but an ideal method had not been formulated. Germany and Norway suggested the development of a new, more objective system for the GEF but this was not picked up by Mr. Stern or others. The invited countries, Mr. Stern pointed out, were not chosen at random, but represented large countries from Africa, Latin America and Asia. If all invited countries pledged a contribution, the facility would consist of twenty-eight participants, of which ten would be developing countries.[126] While Mr. Stern claimed to be "ready to stipulate that this problem of developing country representation is insoluble," he suggested the three agencies apply themselves to devise some more or less formal constituency system in which a minimum of three countries from each of the three major regions were represented.

The principle that developing countries should make a contribution to the core fund was strongly supported by many delegations—mostly from industrialized countries, but also by China, India and Zimbabwe. It was argued that a contribution from all participants would encourage a spirit of partnership and commitment, and remove the distinction between donors and recipients. There was considerable flexibility on what the amount should be, and many suggested that SDR 5 million might be too high.[127] Assuming some such amount was established, it was believed that there would be little problem in finding the minimum of three participants from Asia and Latin America, but alternative solutions might have to be discussed in the case of Sub-Saharan Africa. A few developing countries were dissatisfied with the arrangement. Morocco pointed to a progressive deterioration in the terms offered through the GEF, from a core fund of grant contributions, to highly concessional arrangements, and now to "a kind of entrance fee."[128]

The suggested eligibility requirement of a per capita income of $4,000 or less caused little concern. It was close to the level of graduation from World Bank lending. (In the final document, eligibility was also made conditional on countries having a UNDP program in place.)

NGO participation

NGO participation had been an issue in the negotiations from the very start. As early as the first meeting in Paris, there was broad agreement that the mandate would require the involvement of NGOs in some capacity, especially in areas such as biodiversity where local participation was especially important. The question was not whether, but how they would be brought into the process. The November Discussion Draft summarized what had been agreed: NGOs could submit project proposals if approval of the relevant governments had been obtained; they could be designated to assess the impact of projects on local populations; and, in the area of biodiversity, they could implement projects. More broadly, their advice would be sought, as appropriate, on project design and implementation. In bracketed language, the Discussion Paper also suggested that resources could be "made available directly to intermediaries, NGOs, or private borrowers, with the agreement of the recipient government concerned."

Once again the United States was at one end of the spectrum of views. Mr. Coady argued that NGOs should be brought in, not only for activities related to projects, but also to contribute

126 Indonesia was invited to the meeting but did not attend.

127 In the final document the minimum contribution was lowered to SDR 4 million over three years.

128 Transcribed by the World Bank.

"meaningfully" in the formulation of the work program, and in policy work. This position was not shared by other representatives, some of whom complained privately that the US position practically replicated that of Washington-based environmental advocacy groups. Some countries such as the United Kingdom explicitly supported the notion of NGOs receiving funding, but most representatives were hesitant. The representative of France was the most skeptical about NGO involvement and strongly opposed the participation of NGOs in any decision-making process. These organizations, in France's view, represented the best and the worst of what could be done in the environmental area, and the chairman was urged to think long and hard about the characteristics and requirements NGOs had to fulfill in order to participate in GEF meetings. France's caution was supported by several developing countries, for example, Brazil and India, making it evident that government support for or against NGOs was not divided along North-South lines. Divisiveness on this issue—as in several other cases—meant that in the end the formulation of the Draft prevailed.

The pledging process
At the September meeting, countries had been asked to consider their contributions to the pilot phase. "On that subject matter," Mr. Stern had argued, "life is very simple. The government of France has given us a benchmark...[which] translates, roughly speaking, into SDR 40 million per year, and other contributions would be on a relative basis."[129] He stressed the arrangement was not intended to be on a strict burden-sharing basis, but indicated that countries who wished to participate would know from other pledging fora the approximate magnitude of their contributions, given the target of SDR 1 billion. "It may be that not everybody can join at the outset, or make the equivalent relative contribution at the outset, but these ranges can serve as a basis for the initial discussion." He emphasized that contributions were voluntary but exercised gentle pressure by holding up the French as an example.

When the November meeting turned to pledging, it was not known how successful this strategy would be. The United States had announced earlier that it could be a "major contributor" provided its many concerns were met, but it was not known what this would add up to. The room was tense when the pledging began. Austria was the first to take the floor and, like a number of countries that would follow, announced a contribution to the core fund on a grant basis. Austria calculated its contribution of SDR 26 million based on its adjusted IDA share and a 1 billion SDR target. The discussion then moved between disappointments, mainly from the Anglo-Saxon countries—a lower than expected contribution from the United Kingdom, and no figures at all from Canada, Australia, or New Zealand—to encouraging signs from Denmark, Finland, Sweden, the Netherlands and Switzerland, all of whom pledged to the core fund. Norway, Belgium and Italy were not in a position to indicate figures at the time, but shortly after the meeting Italy announced a significant contribution.

Germany formally reiterated its pledge to contribute to the core fund an amount similar to that of France. For its part, France reaffirmed its total contribution but also spoke of difficulties with the distribution of funds between the GEF and the Interim Fund for the Montreal Protocol. France had committed to the GEF before the Interim Fund was established and was not yet certain if some GEF funds would be allocated for this purpose. Japan had consistently explained it would be unable to

129 Transcribed by the World Bank.

contribute to the core fund; no one was therefore disappointed when the Japanese announced a contribution of approximately SDR 100 million in the form of untied concessional cofinancing, especially as they also agreed to try to commit a small portion to the core fund.

At the end of the meeting Mr. Stern summarized the official and unofficial estimates. In order to assess overall support, he and his team had held private consultations with countries that were not in a position to formally pledge their contributions. The indications received pointed to an approximate total of SDR 850 million, excluding contributions to the Montreal Protocol fund. Mr. Stern concluded that, assuming funds to the Montreal Protocol were in excess of SDR 100 million, the result was reasonably good in light of the goal of SDR 1 billion. The US contribution was still in doubt, however, and Mr. Stern warned that if the planned meeting with US officials should fail, the arrangement would encounter major problems. Another outstanding issue was the contribution of developing countries. The discussion had raised the possibility that the minimum contribution of SDR 5 million might have to be lowered. Developing countries had universally declined to pledge before this issue was resolved.

(By March 1991, the US contribution was assured at SDR 109.49 million in the form of parallel cofinancing.[130] At that time, seven developing countries had each made pledges of SDR 4 million; before the end of the year, they were joined by Turkey and Brazil.)

After the negotiations
When the delegations left the negotiating table to go home, they would not meet again until the first Participants Meeting in May 1991. Several issues remained unresolved, but only minor modifications were made in the document that was presented at the November meeting. It was left to the implementing agencies to resolve these issues, which in practice meant that negotiations were transferred from the delegations to the three agencies. The result of these "negotiations" would later be reviewed at the semi-annual Participants Meetings.[131]

The first meeting of the three agencies took place in December 1990. It was then decided that interagency cooperation would take place through an informal Implementation Committee (IC). The IC met three times before the first Participants meeting in May 1991. Since the agencies had different approaches to the unresolved issues, these sessions were variously described as "stormy" or "frank." The initial conflictual nature of the interaction between the agencies is reflected in the fact that the tripartite agreement was not signed by the heads of the agencies until October 1991. The STAP, which had been described only in a rudimentary form to Participants, was formed and met for the first time in April 1991, one month prior to the first Participants Meeting. On April 14, the Board of the World Bank approved the resolution establishing the GET. At their first meeting in May the Participants approved the final arrangements and the first tranche of the work program. The GEF was up and running.

130 By the March 31, 1991 estimate, a transfer of World Bank net income of SDR 34.56 million to the core fund was included to render a total GEF contribution of SDR 1 billion.

131 The role of the Participants Meetings, the Implementation Committee, the Secretariat, and the STAP were not clarified in the negotiations on the GEF; they evolved over time, and are viewed as part of the GEF pilot phase rather than the creation.

4 In Retrospect

When global environmental issues came to the fore, it was recognized that costly corrective and preventive measures were required. International readiness to increase the supply of funds was low, however, and the willingness to support new international agencies even lower. The perceived urgency of the issues was not sufficient to overcome the barriers to collective action: as a well-known theorist of international relations is fond of pointing out, in the international realm "necessities do not cause possibilities."[132]

The possibility in this particular case was initially provided by the French proposal. The offer of funds caused the proposal to be taken seriously, and challenged other countries to follow suit. The immediate reactions were mixed. This suggests the proposal ran the risk of being stillborn. France's decision to place the proposal in the hands of an agency capable of providing leadership seems to have been crucial. Despite its initial reluctance, the World Bank successfully engaged in an effort to develop the proposal in such a way as to mobilize the necessary political support.

The first conceptual development was to design the facility around a global purpose. European countries—in particular those obliged to show some initiative by an environmentally aware electorate—found it difficult to refuse their support. Funding for distinctly global problems also allowed funds to be distinguished from regular development assistance, which satisfied the requirement for additionality voiced by developing countries. An attempt to simply wrestle more money for integration of environmental aspects into regular development work would have been considerably less "charismatic," and a much more arduous task. In addition, the focus on global environmental problems made it possible to link funding arrangements to negotiations for conventions on international environmental issues, thereby creating a constructive dynamic.

Another important development was to make the GEF a pilot venture. In the face of political divisiveness, the pilot concept made it possible to avoid taking these differences head on. It allowed a number of potential controversies to be declared part of the experiment, left to be worked out in practice. One issue that was assigned "experimental status" was the methodology for estimating incremental costs. The belief was that operational practice would lead to the development of rules of thumb regarding what part of the total cost could reasonably be deemed incremental.

Another purpose of the pilot phase was to test the tripartite arrangement. This was an important factor in increasing the political acceptability of the facility because the different agencies appealed to different constituencies both among and within governments. The details of how the collaboration would work, however, were left to the implementing agencies themselves and kept away from the negotiating table.

The GEF was not an immaculate arrangement. The pilot design made its success and future survival dependent on a certain "demonstration effect." This in turn geared attention to projects with tangible results within the allotted time span, and made the development of long-term strategies difficult.

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132 See Kenneth N. Waltz, *Theory of International Politics* (Reading, Mass.: Addison-Wesley, 1979).

Moreover, the same strategy that made it possible to get the GEF off the ground also allowed a number of potentially conflictual issues to remain behind the veil of the exploratory approach. Some of these were to turn up later. But the creation of the GEF avoided the "tyranny of small decisions" that often waters down international agreements.[133] It was an uncommonly bold approach. The words of warning about the difficulty of the task were quickly forgotten and replaced by high expectations of what the facility could accomplish in three brief years.

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133 Ibid.