Working Title

# The Global Environmental Facility: A Green Band-aid Solution?

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**I. The Scenario**

Unless the international community has a death-wish, it should desire to conserve, preserve, and protect the global ecological systems with its essential natural life-support processes necessary to sustain its own survival. The accelerated loss biological diversity (or, biodiversity) has now captured the attention of those members of the international community who are involved in the implementation of ecological sustainable economic development and ecosystem conservation. It seems that the awareness and necessity of a global ecological Realpolitik is emerging, however feeble, that the international community, and in particularly the industrialized countries (ICs), have to assume political and financial responsibility for the costs of the preservation and maintenance of a global ecological infrastructure [Müller 1996, pp. 204].

In this sense, for many concerned global environmental citizens, the most significant result of he 1992 Rio Earth Summit was the creation of the **Global Environmental Facility** (GEF), an internationally funded multi-billion-dollar "green aid fund". The GEF was established by the major ICs in 1991 and formally set up by a World Bank resolution. The GEF is in charge with the financing of the preservation and protection of the "global environment" by transferring financial resources from ICs to developing countries (DCs) so that they are able to fulfill their commitments to the Rio environmental conventions.

The fact that almost one and a half decade have passed, the GEF can't affirmatively determine if it has succeeded in achieving its objectives, because it seems that it does not know what is success: a worrisome situation. The destruction of local and global ecosystems has not de-accelerated since Rio; climate change, biodiversity and habitat losses have not been rigorously addressed. It seems that GEF mirrors the lack of the global consensus of what ecological sustainable economic development truly represents. The international community has still not addressed the fundamental cause of environmental degradation and destruction, namely the prevailing neo-liberal paradigm of our existing socio-economic system that encourages excessive consumption in ICs, still pursues un-impeded economic growth as means to solve socio-economic problems, and creates un-manageable debt burdens and poverty in DCs.

This article addresses the theoretical concepts of global environmental externalities, the history, structure, and governance of GEF, and will focus on the dominant role of the World Bank with respect to GEF.

## II. Conceptualization of Global Environmental Externalities

### II.1 Conceptual Classification

The economic concepts of international externalities demand the creation of a system in which countries benefiting from environmental policies of others should compensate countries that are burdened with "net costs" from mitigating global/international externalities. Such a system – based on the beneficiary-pays-principle – can be justified on equity and efficiency principles, namely those who benefit from some else actions should share in the costs. In addition, such a compensation system is also efficient in achieving the goal of broad participation in environmental protection. In reality, however, these envisioned compensation payments will generally flow from ICs to DCs for various reasons: (i) DCs have probably higher opportunity costs for cost-effective abatement measures, particularly in climate change abatement and protection of biodiversity; (ii) the huge income disparities between ICs and DCs, which affect policy priorities and consumer preferences, imply a flow from ICs to DCs; and (iii) the historical reality indicates that ICs have over a long time period (unjustifiable) appropriated disproportionately large quantities of environmental resources and ecosystem services. This fact alone establishes an ethical obligation for compensation from ICs toward DCs. Managing global environmental resources and controlling global contamination demand comprehensive negotiated agreements among many countries. In the absence of a supranational government, poorly defined international property rights and laws, large impediments and obstacles have to be overcome to reach generally accepted agreements. These institutional deficiencies are compounded by scientific uncertainty and time lags – as in the case of climate change – and environmental resources which resist monetary valuation – as in cases of biodiversity [Müller 2000, pp. 12].

In the case of GEF, international environmental externalities may be categorized into dimensions for the purpose to aid analytical reasoning. The first dimension distinguishes

between unilateral and reciprocal externalities. The former would apply trans-frontier pollution, like e.g., an up-stream country contaminates the river which flows into a country down-stream, the latter would describe a situation in which two or more countries contaminate each other's environment or common property resource, such as the Baltic Sea in a regional setting, or climate change as a special case of reciprocal environmental externalities at the global level [Pearson 2000, pp. 344].

The conceptual distinction between unilateral and reciprocal externalities proves to be analytical helpful for designing policies and strategies to change the polluters' behavior. It seems that without severe international public pressure – moral suasion at the international level - , enforceable international law, transfer payments, and/or sanctions, there will be no or little reaction by the contaminating country to control unilateral pollution unless a substantial amount of environmental damages is inflicted on itself.[1]

In contrast, a situation with reciprocal environmental externalities where a commonly shared international environmental resource is degraded – e.g., climate change -, each polluting nations may find it in its own national interest to abate emissions.

The second aspect refers to the number of countries involved in multilateral negotiations,, e.g., climate change is a multi-nations case – a truly global scenario – while many trans-frontier pollution cases are only of bilateral nature. The theoretical literature on international institution building, negotiations, and provision of international environmental quality points out that small- and large number situations differ analytically [Sandler 1997, pp. 41]. Small-number situations may lead more to strategic behavior, and thus game-theoretic solutions may become more dominant, while large-number situations may give rise to free-rider problems.

## II.2 A Brief Description of the Model

The problems of controlling international environmental degradation are illustrated below in a simplified setting. The scenario described here embraces both aspects referred to above: unilateral environmental externalities and a large-number case, namely the case of the protection of biological diversity. In some industrialized countries there is the perception of biodiversity in the tropics as global biological resources and resources

[1] As in the case of china, even this does not seem to apply, e.g., poor air quality covers the major cities or terrifying safety standards exist in the mining industry.

under open access, and the host countries, i.e., the developing countries (DC), as both the beneficiaries and the custodians of these genetic pools for the international community. The implication of this perception is that the host countries are burdened with the responsibility, besides their national self-interest, to preserve the biodiversity under their national control, almost regardless of arising opportunity costs. The preservation of biodiversity is actually a matter of protecting entire habitats and extensive ecosystem regions, rather than individual species of flora and fauna. Preservation and protection of these large – ideally interrelated – ecosystems with their biodiversity generate desired beneficial global benefits/externalities [Swanson 1992, pp. 250]. Now, even if DCs and ICs would mutually gain from the preservation and conservation programs in DCs, complex problems of income, wealth, and resource (re-)distribution, equity and efficiency arise. Where global (beneficial or negative) ecological externalities are unidirectional, the country which is generating them tends, in absence of international agreements, to ignore these impacts on the international community. The deforestation and destruction of the tropical rainforests serve here as an example and is equated with the loss of biodiversity. If the "rights" to produce these adverse environmental externalities belong one country and/or a group of countries, than the international community has to respond by providing sufficiently strong incentives to the DCs, so that they are induced to change their conduct. The Convention on Biological Diversity (CBD) has incorporated these provisions in its articles. The crucial problem for mitigating global environmental damages is how to achieve a mutually accepted international level of ecological-economic optimality through international cooperation and negotiation.

In the CBD the ICs promised to provide "new and additional" funds and to meet the "agreed full incremental costs" resulting from DCs'-programs and activities to fulfill the convention's objectives. The "exact" amount of financial funds to cover the incurred "incremental costs", however, is an outcome of bilateral negotiations between the DCs and GEF. In addition, the CBD provides only conditional protection of biodiversity by explicitly recognizing that "… economic and social development and eradication of poverty are the first and overriding priorities of the DCs" (CBD, article 20).

In a conventional framework, a full cooperative outcome and a non-cooperative outcome of the conservation problem between ICs and DCs are illustrated in fig.1. For the sake of

simplicity, it is assumed that the DCs are supplying biodiversity in the form of protected areas of tropical rainforest, and ICs desire this provision and protection. Both sides have full information about the domestic and global costs of deforestation and the foregone benefits of economic development (i.e., the opportunity costs in conventional terms). With the assistance of the fig. 1 the factors can be identified which determine the extent of the "incremental costs" and the amount of the required compensation payments. The marginal benefits of economic development (MB) and the marginal costs of deforestation (MED) are illustrated on the vertical axis, while the quantity of destroyed rainforests (Q, measured e.g., in square kilometers per year) is shown on the horizontal axis (Müller, 1996: p. 200).

At least two categories of opportunity costs are considered by the DCs:

i) The opportunity costs of foregone economic development if deforestation is prevented. This type of opportunity of opportunity costs encompasses foregone revenues of industries that could have operated in this area of rainforests, such as cattle ranching, energy production, mining, and plantation agriculture.[2] It is plausible to assume that these MBs decrease with increasing size of deforestation, because soil productivity may decline with advanced deforestation, transportation costs tend to increase, etc.

ii) The MEDs occur when human activities trespassed the absorption capacity/ re-growth of ecosystems and convert rainforest habitats for the purpose of economic development. Ecological costs may appear in form of negative impacts on climate, reduced soil productivity, industrial pollution, etc.

$MED_{DC}$ are the marginal costs of DCs and $MED_{IC}$ are respectively those of the ICs.[3] E.g., the MED are zero at point $Q_{SY}$ , where the rate of deforestation $OQ_{SY}$ is identical with a sustainable yield level or re-growth of the forests.

In a static context, Fig. 1 shows the MB- and MED-curves and depicts different levels of deforestation:

[2] In reality, some of the foregone economic benefits are not to the full extent an economic loss for the DCs, since many of these companies are foreign owned and a large proportion of these benefits is expatriated [Swaney and Olson 1992].

[3] The MED-curve of ICs is not drawn separately.

i) At point $Q_{max}$, where MB = 0, the DCs maximize their short-run (ecologically) unconstrained economic benefits, i.e., the countries are indifferent to the existing environmental damages inflicted by the deforestation process.

ii) The intersection of MB- and MEC-curves of the DCs at point A illustrate the "optimal" level rate of deforestation, $Q_{DC}$ .This national "optimum, defined conventionally as Pareto-optimality, depicts a lower rate of deforestation ($Q_{DC} < Q_{max}$).

iii) The process of rainforest deforestation in the DCs generates international environmental damages (e.g., loss of biodiversity) and these inflicted costs on the ICs are shown as the difference between $MED_G$ and $MED_{DC}$ .The intersection of the $MED_G$ - curve with the MB-curve in point C represent the optimal global level of deforestation per time period, $Q_G$ . The $MED_G$ – curve is the vertical summation of national and international MED-curves.

If DCs have to be persuaded to limit their deforestation activities to the global "optimal" level, then it becomes apparent that the ICs have to compensate the DCs for the incurred "incremental costs". The term "incremental cost" appears both in the amended Montreal Protocol and in the framework Convention on Climate Change. The CBD, however, does not provide a definition of this term. Some economists define "…the 'extra' (or incremental) cost, [as] … the difference between the costs of *with* (or alternative case) and the *without* (or baseline case)" (King et al.,:1995, pp. 2). According to this definition, a DC incurs incremental costs by protecting a higher level of biodiversity than it is in its own national interest.[4] In Fig. 1, this represents a move from point A to point C and the associated costs of this move, the "added financial burden", should be allocated to the international community as a whole, so that the DCs, implementing conservation programs with international consequences, will not be left worse off economically.

The term of "incremental costs" remains conceptually and empirically unsatisfactory, unless according to the above definition, it refers only to the foregone economic benefits beyond the national "optimal" level of environmental protection (point A). E.g., the costs incurred by internalizing domestic environmental damages, a move such as from $Q_{max}$ to

[4] A detailed list of categories of incremental costs is provided by Biermann ( Biermann 1997, pp. 192).

$Q_{DC'}$, which implies foregone benefits of the triangle $Q_{max}\,Q_{DC}\,A''$, would not be considered as incremental costs! What are they?

The CBD, as the other protocols and conventions, is also silent on another issue: if and when a DC, which receives compensation, will also be required to pass on this compensation to the individuals who are affected by the country's conservation program. This is an issue of equity, but ignoring compensation payments to individuals who actually incur the costs may also pose a threat to the effectiveness and success of any such conservation policy.

If DCs have to lower their deforestation activities to the international "optimal" level, then it appears to be equitable that ICs have to make compensation payments at least equal to the amount of the triangle ACD. Efficiency and equity considerations require that the beneficiaries , i.e., the ICs, pay the incurring costs of maintaining the ecological infrastructure with all the environmental services and functions, option and existence values that the ICs derive from the protected rainforests. The "beneficiary-pays-principle" provides the ethical justification and/or obligation for these international payments. At point C, the international "optimal" level of deforestation, the total environmental damage costs for the ICs are depicted by the triangle $CDQ_{SY}$, i.e., their costs are reduced by the area of ABCD. At this location, the DCs' foregone development benefits are diminished by an amount $AQ_{DC}Q_{G}C$, or in comparison to point A, they suffer a net loss of economic benefits equal to the triangle ACD. This area represents the required minimum amount of compensation to be paid by the ICs to the DCs. Or, in terms of the CBD, this amount could be considered as the "additional incremental costs". The ICs, in contrast, have improved their welfare by an amount equal to the triangle ABC. Point C can be viewed as the "point of exploitation" of a bilateral monopoly, and it is difficult to predict what will be the outcome of the negotiated settlement.[5]

Returning to Fig. 1, it has to be stressed again that this graph shows the national and international environmental externalities associated with a given rate of deforestation only in a *static* context.

[5] Articles 20 and 21 of the CBD imply that the fund should only be used for clearly specified conservation projects, but there are numerous problems with GEF-projects support. (Müller 2000, pp. 64)

If DCs continue the deforestation process at a rate faster than the rate of re-growth (or, sustainable yield), e. g., where $Q_G$ is greater than $Q_{SY,}$ then environmental damages will start rising even sooner in the next period. Only at point $Q_{SY}$ where $MED_{DC}$ and $MED_{IC}$ are zero, the rate of deforestation is equal to re-growth, and the stock of rainforest – with it the biodiversity – remains constant. In sum, the problem is that the maximum level of deforestation, which is ecological sustainable (or, rainforest-ecosystem-safe), is not identical with the deforestation rate identified by the Pareto-efficiency criterion.

## III. GEF: A Brief Institutional Overview

The theoretical concept of global environmental externalities recommends to set up a system in which countries, receiving benefits from some other countries' environmental programs, can compensate those countries that are bearing the additional – or incremental - costs caused by their efforts to reduce national and international environmental damages. Such an institutional system can be justified on equity principles, namely the beneficiary-pays-principle, and on efficiency considerations to entice broad international participation for supporting international environmental agreements.

The GEF incorporates these features and is the international response to this global necessity.[6] GEF, designed as an international financial mechanism, was established in 1991 by most UN-member states, multilateral banks and institutions, representatives of the scientific community, private sector and NGOs. To implement a global environmental agenda, GEF provides (partial) grant funding to eligible nations for environmental projects that address danger to global environment in the following focal areas: biological diversity, climate change, international waters, land degradation, primarily desertification and deforestation, ozone layer depletion, and persistent organic pollutants.

GEF's activities are managed by a Secretariat, located in Washington, D.C. and implemented mainly by the World Bank, UNPD and UNEP. These UN-institutions are also considered as the Implementing Agencies (IAs). Other UN-institutions, such as the

[6] This article will provide only a very brief overview of GEF's administration, structure and financial mechanisms. See for more details e.g., the GEF web-site, www.undp.org/gef.

e.g., the African Development Bank, Asian Development Bank, FAO etc. are also involved in GEF's activities as so-called Expanded Executing Agencies.
GEF's projects can be initiated by governments, national institutions, local communities, NGOs, international scientific agencies, and even private sector companies of eligible countries. Once GEF is approached by a country with a project initiative, the IAs will then closely work together with the projector-initiator in the detailed project development with the purpose to get GEF-funding. Since its establishment, GEF has financially assisted more than 1000 projects in well over 140 countries. GEF's financial contribution to these projects amounts to approximately US $ 4 billion, with co-financing from other sources, approximately US $ 12billion were spent on environmental projects. In the latest replenishment of GEF, donor countries pledged nearly US $ 3 billion to support GEF's activities for another four year period.
GEF provides several options to receive financial assistance. **Full grants** refer to funding of projects costing over US $ 1 million, and have generally a five-year period of implementation. **Medium-sized grants** amount to (much) less than US $1 million, and the **Small grants program** refers to grants of less than US $ 50 000,- . Depending on the size of the project a complex project development process has to be negotiated. The list of questions below (Tab.1) serves as a very preliminary filter to determine in the most general terms whether a project satisfies the very elementary prerequisites for being eligible for GEF-funding. Assuming that the project will receive GEF-funding, the time span between its initiation and disbursement of GEF-monies can reach on average two years, while medium-sized projects may only need six months for approval.

## IV. GEF: A Green Band-aid Solution?

In 1987 the Brundtland Commission introduced and popularized the term environmental sustainable development as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (WCED: 1987, 43). While this definition is very inclusive, it is also very ambiguous and provides no operational guidance to anybody, including GEF. It seems that GEF is mainly concerned with transferring technologies from the ICs to DCs, accepting a quick technological or managerial fix rather than changing the fundamental causes of environmental damages.

GEF projects are designed as if there exists no socio-economic system responsible for these environmental damages, and, thus, ecosystems and biological diversity can be preserved through technological partnerships between national governments, industry and international capital. GEF's approach to environmental management appears to be "top down", concerned only with global environmental benefits and with isolated projects instead of implementing an international ecological infrastructure and attracting more local involvement.

### IV.1 GEF: Failure to Focus on the Main Causes of Environmental Destruction

GEF was established to correct some of the shortcomings of our the present socio-economic system, which is responsible for the environmental destruction, such as unsustainable harvesting of renewable resources, the need for just land reform and population policies, the control of the global and national market forces which lead to deforestation, habitat destruction, etc. Leaving the "full-world" problem aside for a moment, and only subject the "growth-poverty-cure-policy" propagated by the ICs and its institutions to a reality check, than the empirical evidence reveals that there is no "natural" sequence of events by which markets alone generate greater income equality and improved environmental quality as economies grow. **If** the world's and individual nations' income distribution and environmental quality have become more equal and/or improved in the past the decades, this would be convincing evidence that policies based on neoclassical prescriptions work to the benefit of all. It would provide DCs incentives to integrate their economies more completely into the world economy – a standard advice given to them by the World Bank, IMF and WTO, including their predominantly ICs' shareholder. Recent World Bank studies showed that the world inequality has widened, as documented in an increase in the Gini-coefficient of 62.5 in 1988 to 66.0 in 1993, or an annual increase in Gini-points of 0.6 (Milanovic, 2001:51). It seems that in the centre of the global economic system lies a distorted structure of trade, production, and financial facilities, which defines the role and the functioning of markets between ICs and DCs in the global economy. At the turn of this century the world population surpassed six billion of which approximately 5 billion people are living in "low and middle-income" countries.

The ICs, counting only for about 15 % of the world population, are controlling about 79 % of total global income, while the “rest”, 85 % of the world population, acquire a meager share of 21.5 % of global income (Chossudovsky, 1993: p. 39).

Thus, the evidence of intra- and inter-country experiences with “improvements” in the distribution of income and environmental quality seems to belie the neo-classical position that a general improvement of within-country income and environmental improvement is a “natural” by-product of economic growth, and trade, instead the parade of “income dwarfs” became longer, while the parade of “income-mega-giants” shortened (Pen, 1971: ch. 3).

GEF is only a part of this international setting, and, thus, it is not surprising that its Council does not challenge the often anti-environmental agenda of its donor governments, World Bank, IMF and/or WTO. The WTO supports an export-driven growth development model that puts immense pressure on the natural resources in DCs. Structural adjustment programs (SAP), imposed upon the DCs as conditions to have access to new financial assistance and debt restructuring programs, demand accelerated exports to generate foreign exchange to service foreign debts and , therefore put added pressure on the natural environment.

DCs still rely largely on their exports of natural resource commodities and environmental capacities timber, minerals, fish, etc. SAP-policy prescription fuel the process of accelerated resource extraction that is ecologically un-sustainable. Land degradation and desertification, soil erosion, habitat destruction, etc. are only a few of the long-term environmental consequences that can be directly liked to the imposition of SAPs. In addition, SAP induced public program cutbacks mean less funding for the development, implementation and monitoring of environmental programs as well as the phasing-out of food and agricultural subsidies that affect the most the poorest of the society.[7]

As intermediate conclusion, until a radical restructuring of the present socio-economic system and its political power structure is underway, GEF’s financial assistance is just a “green band-aid” or a “little bit of sugar to help the neo-liberal medicine go down” (Horta et al., 2003: p. 9).

[7] Furthermore, the DCs do not benefit form the whole amount of funding received. A large proportion of GEF funds do flow back to ICs in form of procurement contracts.

## IV.2 GEF's Inadequate Finances

How much financial assistance does the global community need for setting up and maintaining an ecological infrastructure as basis for human and other species' survival? At the Rio conference, an amount was mentioned of over US $600,- billion. In 1998 an UNDP-report advanced a number of US $40 billion per year for a time period of at least ten years would be necessary to provide elementary social services and adequate food supply, including clean water and safe sanitation, to every citizen of the earth (UNDP, 1998: p. 33). In view of this financial background, the size of GEF's funding is inadequate. The actual contributions, indexed for inflation, are barely stable and actually are diminishing with the addition of new focal areas. The third replenishment, time period 2003 – 2007, was considered by GEF communication deportment as "the highest replenishment ever". At their final meeting in August 2002, the participants agreed that the third replenishment will be US $ 2.924 billion, but actually it increased to US $ 2.970 billion, because some member countries pledged additional supplementary contributions. (GEF, 2002: p.3).The planning for the fourth replenishment started this year (GEF/R, 2005, p.1).

Given the annual rate of inflation in ICs of about 3%, the third replenishment is in real terms no improvement. Furthermore, when the expanded responsibility of GEF, namely two new focal areas –persistent organic pollutants and land degradation – were added, is considered, the available financial assistance per focal area is actually reduced. The new areas will share jointly about US $ 210,- million in new and additional contributions, provided the spending level for the other focal areas remains the same. In this context it has to be pointed out, that the Conventions have never assessed the necessary funding for protecting biological diversity, or preventing ozone layer depletion, or reducing climate change and/or eliminating persistent organic pollutants. If, according to an public attention seeking article by Constanza et al., the world's ecosystem services and natural capital contribute annually to our standard of living a value of approximately over US $ 33 trillion, than an amount of about US $ 2 billion over four years to maintain our global ecological infrastructure is – certainly – insufficient (Constanza, 1998: pp.3). .

### IV. 3 GEF's Inherent Flaws

From its inception, GEF has been subject to conflicting tensions and expectations that have led to dissatisfaction with its achievements and performance. The very term "performance" raises the question "performance of what and for whom"? The participation of multiple players, actors and agencies with often conflicting goals and agendas in competition for these very limited financial resources is a recipe for conflicts. Conflicting opinions arise partly as result of disagreements about strategies and responsibilities for environmental goals and management among ICs-donor governments, as well as among ICs and DCs. The language in GEF-documents does not help either. Key terms, such as country-driven, national priorities, innovation, public participation, cost-effectiveness, accountability to the conventions and the increment costs concept, may be political correct and find political acceptability, but it also will cause implementation difficulties.

For example, GEF has no effective independent monitoring and evaluation system operating to provide a constant flow of information about the lessons it may learn from the implementation process of projects. Consequently, the international community cannot assess the true impacts and achievements of GEF-activities with respect to achieving ecological sustainable economic development.

GEF set up only slowly a Monitoring and Evaluation unit (M&E), which is plagued by being under-staffed, under-funded and too restrictive in operation to become effective. The 1994 Independent Evaluation demanded the establishment of a "permanent mechanism in the Secretariat" for project evaluation and independent scientific input to guarantee that projects were well thought out, developed and information gathered to enhance future performance (GEF, 1993, p. 10). A more recent study states, that "the monitoring and evaluation budget has not been sufficient to facilitate the systematic incorporation of monitoring and evaluation components into all GEF projects. Instead, individual project performance is determined largely by the Implementing Agencies themselves" (GEF, 2002: p. 89).

### IV.4 The Mainstreaming Mission

Mainstreaming, or integrating ecological concerns and criteria into the non-GEF activities of the three IAs, is the "hidden" mission of GEF. With this mission in mind,

some ICs and other donors supported GEF and thought it can become an environmental "Trojan Horse" or "virus", i.e. as a means to incorporate or "mainstream" ecological criteria into all into all projects of the World Bank and other UN-implementing agencies (Horta et al, 2002, p. 15). So far, however, this virus seems to have little effect: the World Bank's non-GEF portfolio and industry specific projects continue to have detrimental environmental impacts on biological diversity, climate change, water levels, short: negative impacts on all ecosystems and biological diversity. Without truly incorporating "ecological sustainable economic development" as the new paradigm and operating principle in all World Bank's and other UN-agencies' activities, i.e., into energy, transport, infrastructure, agriculture and forestry loans, and all general country assistance strategies, GEF, with its limited funding capability, is nothing more than a "band-aid" solution for the international community. Thus, GEF has a poor track record in "greening" the activities of the IAs. The World Bank seems only to pay lip service to sustainable development and continues its ecological myopic practices through its lending portfolio.

An independent evaluation report (1994) concluded that the World Bank staff consider GEF as an appendix or sideline activity of the general World Bank financing activities, i.e., to make to appear "greener" regular World Bank projects (GEF, 1994: p. 59).

This opinion was echoed in an 1998 GEF Performance Study, " the Bank has not taken steps to create the staff incentives necessary to put global environmental concerns on par with traditional bank business; …and that it has not adequately addressed the impact on the global environment of its financing of fossil fuels power development.…the team found that the Bank has not yet undertaken programming based on global environmental objectives on any significant scale…"(GEF, 1998:, p. xiv). The 2002 GEF performance study even did not bother to assess GEF's mainstreaming mission, instead it was praising the activities of the IAs (GEF, 2002: p. 63). It seems that the World Bank cartoons the spirits of the international environmental agreements and conventions which it was obliged to respect and to implement.

"Co-financing", as a vehicle of resource mobilization, was intended to stretch the limited GEF resources. In reality, however, it seems that GEF has implicitly allowed the World Bank to "externalize" its own environmental costs, i.e., GEF grants were provided to

alleviate the costs of environmental damages caused by regular World Bank loans.[8] The fundamental problem with the concept of co-financing as practiced by the World Bank is that environmental issues are still treated as "add-on" components, and not as an integral part of any economic activity.

Several Word Bank's projects draw severe criticism from environmentalists in the past for failing of mainstreaming (Agrawal et al. 2001: 336). The Cameroon-Oil Pipeline project may serve here as an example. In Cameroon, the World Bank employs GEF to reduce the adverse environmental impacts of its own destructive project activities. GEF's limited funds were used to cover the costs for the protection of natural habitats lost through the construction of a pipeline. The irony is that the World Bank externalizes its environmental costs while continuing to sponsor mega-projects that both are detrimental to biological diversity and will undermine global environmental policies on climate change. During GEF's pilot phase, Cameroon received approximately U$ 6 million for the protection of several areas rich in biodiversity. In 2000, the World Bank approved and funded one of Africa's most ambitious development project, the Chad-Cameroon Oil and Pipeline project, with a price tag of about U$ 3.7 billion. This project, managed by Exxon, is constructing a 1000 kilometer-long pipeline through Cameroon, which is adversely impacting species-rich habitats. In addition, the pipeline also jeopardizes the livelihood of local communities and indigenous peoples along its location. This practice contravenes the World Bank's own policy on "Natural Habitats" which requires that the loss of biological habitats along the pipeline be off-set by creating protected habitats elsewhere. One of the sites selected was actually already an area selected by GEF, namely the Campo Ma'an National Park. In this case, the World Bank's used an already approved GEF project to avoid funding of environmental damages caused its own project, the construction of the pipeline, namely to establish another – new – protected habitat area (Horta et al., 2002: pp. 19).[9]

A reality check shows, that GEF's mainstreaming mission was unsuccessful: the World Bank continues to support projects in environmentally-sensitive areas such as forestry, mega-infrastructure, road construction large scale energy projects, etc. Unless the World

[8] For a very harsh critique of the World Bank, see Young, (Young, 1999: 243ff).

[9] Even with GEF funding the future of this National Park is not certain, due to high level of poaching and logging activities in the park (Kenya Times, 1993).

Bank, ICs and DCs become serious with implementing the goal of ecological sustainable economic development, GEF – and similar institutions like the Commission for Environmental Cooperation (CEC) - are only band-aid “solution” or merely a smokescreen diverting public attention away from the fundamental required – and so far not-forthcoming – reform of our present socio-economic system with its neo-liberalism agenda. If this would happen, than GEF and other environmental institutions would be redundant.

## V. Conclusion

GEF is a flawed mechanism for transferring funds from the ICs to DCs. Blaming GEF and /or even closing it, is not a solution. GEF only mirrors the hypocrisy of the international community. For GEF to have a substantive impact on the World Bank’s mainstream lending activities and the national development priorities of DCs, GEF has to become successful by changing the awareness of the international community that environmental concerns are essential components of economic development. It seems that GEF is not the institution that can propagate successfully the paradigm of “ecological sustainable economic development” – and therefore, it is doubtful, that this little tail can really waggling the global neo-liberal dog.

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