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**REGIONAL MARINE POLLUTION EMERGENCY RESPONSE CENTRE
FOR THE MEDITERRANEAN SEA (REMPEC)**

EURO-MEDITERRANEAN PARTNERSHIP



**EUROMED COOPERATION ON MARITIME SAFETY AND PREVENTION OF POLLUTION FROM SHIPS
(SAFEMED)**

EU-Funded MEDA Regional Project MED 2005/109-573

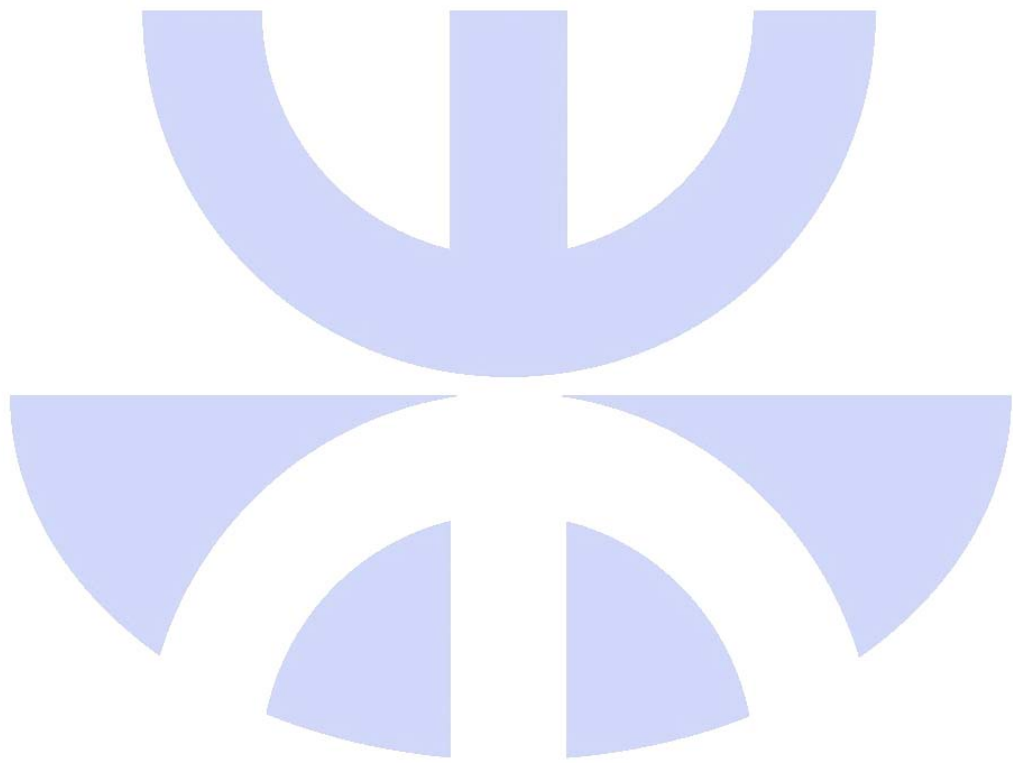
Possible Sources of Financing for Port Reception Facilities

FINAL REPORT

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Table of Contents

1	Introduction
2	Background
3	Project Scope and Costs
4	Institutional Setting and Cost Recovery
5	Possible Sources of Financing
5.1	European Investment Bank
5.1.1	Global Loans
5.1.2	Procedures
5.2	African Development Bank
5.2.1	Credit Lines
5.2.2	Procedures
5.3	Kuwait Fund for Arab Economic Development
5.3.1	Lines of Financing
5.4	Islamic Development Bank
5.4.1	ICD Direct Financing
5.4.2	ICD Lines of Financing
5.4.3	Procedures
5.5	Global Environment Fund
5.5.1	Eligibility Criteria
5.5.2	Project Cycle
6	Conclusions

Annexes and Tables

Table 1: Port Reception Costs

Table 2: Banks and Financial Institutions administering FEMIP Global Loans

Table 3: GEF Focal Points

Annex 1: Guidelines for Environmental Assessment of Projects (EIB)

Annex 2: Operational Guidelines for Preparation and Appraisal of Medium Sized Projects
(GEF document form website)

Annex 3: The Project Cycle at the European Investment Bank

1 Introduction

The current European Union (EU) financed MEDA regional project "Euromed cooperation on maritime safety and prevention of pollution from ships - SAFEMED" is being implemented by the Regional Marine Pollution Emergency Response Centre for the Mediterranean Sea (REMPEC) in ten Euromed Mediterranean Partners, namely Algeria, Egypt, Israel, Jordan, Lebanon, Morocco, Palestinian Authority, Syria, Tunisia, and Turkey. The project, whose primary objective is to mitigate the existing imbalance between the Mediterranean partners that are not members of the EU and those who are members, through promoting a coherent, effective and uniform implementation of the relevant international conventions and rules aimed at better protection of the marine environment in the Mediterranean region by preventing pollution from ships, provides for the recruitment of short term experts to implement the activities of the project.

The project is divided into eight activities, which are divided into sub tasks - preliminary tasks (P) and operational tasks (O).

The present consultancy was prepared within the framework of Activity 3: Protection of the marine environment and specifically Task 3.2P: identifying possible sources of financing for the establishment of port reception facilities for oil and garbage, and for related feasibility studies

2 Background

Port reception facilities are required by the International Convention for the Prevention of Pollution from Ships (MARPOL). The type and size of the facility depends on the ships visiting the port. Under the MARPOL Convention, the Mediterranean Sea is designated as a "Special Area" where discharge criteria are stricter than for other sea areas. Ports charge for the use of reception facilities and are often privately operated. An example of cost recovery is described in Article 8 of the EC Directive 2000/59 on reception facilities for ship generated waste and cargo residues. For the purposes of the present study, consideration is given only to port reception facilities required under Annex I (Regulations for prevention of pollution by oil) and Annex V (Regulations for prevention of pollution by garbage) of MARPOL.

3 Project Scope and Costs

The need for port reception facilities in the ten SAFEMED countries has been analysed by consultants mandated by REMPEC in 2004 within the framework of the EU-funded MEDA Project "Port reception facilities for collecting ship-generated garbage, bilge waters and oily wastes". The need for projects for oil discharge handling is widespread throughout the area and concerns some 16 or so ports. The total value of investments needed in these facilities is around Euro 22million. A typical project cost is in the range of Euro 1.1-1.7 million, depending on capacity, and comprises mainly investments in specialised equipment for filtering, separating and coagulating oily waste. In contrast, the consultants found there was little need for additional investment in garbage collection treatment, except for one port in Egypt and one port in Syria. The investment amounts are modest and are usually handled by local municipalities and often by the private sector. Table 1 shows a summary of the investment needs as estimated in 2004.¹

4 Institutional Setting and Cost Recovery

There are several models regarding ownership and operation of ports in general ranging from full state ownership to fully private facilities. However, there is a tendency towards two basic types. The most common is the "landlord" port where a public port authority (national, regional or local) owns and develops the basic infrastructure, while private operators provide cargo handling and other services and are responsible for investments in equipment. In other cases, port terminals may be entirely privately owned, particularly in the case of specialised facilities such as refineries and chemical plants.

¹ Details of equipment costs by port can be found in: REMPEC: Port Reception Facilities for Collecting Ship-Generated Garbage, Bilge Waters and Oily Wastes, Activity B: Optimum Solutions for Collecting, Treatment and Disposal of Relevant Ship-Generated Solid and Liquid Wastes: Final Report, April 2004, Tebodin Consultants

Because of the legal requirement to discharge waste in ports and not at sea, and the ability to charge for waste collection services, there is strong interest from the private sector in the related investments. However, it is recognised that fees need to be set at modest levels to encourage waste discharge in ports and hence part of the cost recovery be met from general port dues. The EC has defined a policy on cost recovery which recommends that at least 30% of the cost should be met from general port dues and be paid by all vessels, whether discharging in the port or not. In practice, there is a wide variation in charging systems, a factor which is not helped in the case of the Mediterranean Sea by the large number of countries concerned.

5 Possible Sources of Financing

Given the interest of the private sector in the area of port reception facilities, the range of financing sources is potentially very large, including the private sector programmes of the regional International Financial Institutions (IFIs), commercial bank financing, grant funding from the Global Environment Facility (GEF), sponsor contributions in cash and in kind, and in most cases a combination of several sources in a co financing scenario. Where facilities are managed by publicly owned ports, funding for reception facilities might be provided by one of the IFI's as part of a large loan covering port development in general. However, given the emphasis by the IFIs on private sector development, such a scenario is unlikely. Moreover, public sector development aid funding would not be possible on a stand alone basis given the small size of the individual projects.

The report will deal first with the private sector programmes managed by the regional IFIs, namely the European Investment Bank (EIB), African Development Bank (AfDB), The Kuwait Fund for Arab Economic Development, and the Islamic Development Bank (IsDB). Following that, the role of GEF in the funding of medium sized private sector projects is discussed.²

5.1 European Investment Bank

The European Investment Bank (EIB) is the bank of the member states of the European Union, with headquarters in Luxembourg. It is natural therefore that the bulk of its lending goes to projects located in the Union (loans worth Euro 42 billion out of a total of Euro 47 billion in 2005). This will continue to be the case as EIB envisages stronger growth in operations in the new Member States. Nevertheless, over the years the Bank has been called on to finance projects outside of the Union through mandates handed down by the European Council. The amounts, fields of application and terms of reference of these mandates vary markedly but in some cases, such as the Mediterranean, they have now become genuine development mandates with a well defined strategic approach, financial instruments and types of conditionality. In this way, the Bank's operations in the Mediterranean Partner Countries were brought together in 2002 under the Facility for Euro-Mediterranean Investment and Partnership (FEMIP).

FEMIP aims to help the Mediterranean partner countries meet the challenges of economic and social modernisation and enhances regional integration, particularly in the run up to a customs union with the EU by 2010. The current mandate for FEMIP runs until 31 January 2007 at which time a new five year mandate 2007-2012 will enter into force. FEMIP gives priority to financing private sector ventures but also supports the enabling environment for the development of private enterprise, such as infrastructure, investment in human capital and schemes targeting environmental protection. Total lending by FEMIP increased from Euro 1.6 billion in 2002 to Euro 2.2 billion in 2005, with about half of the total going to the private sector in 2005.

Within EIB, the FEMIP Department is located in the Directorate for Loan Operations outside of Europe and operations in the ten Safemed countries are managed through a Maghreb Division and a Near East Division. For assistance in project preparation, these divisions can call upon the Projects Directorate which has departments for infrastructure, industry, energy, telecommunications and waste management. EIB now has local liaison offices in Cairo, Rabat and Tunis.

² The consultants findings and recommendations regarding possible funding by GEF are based on information in the GEF website and have not been verified with GEF staff.

FEMIP's operations primarily involve three types of product:

- long term loans for individual, stand-alone projects with costs of more than Euro 25 Million
- indirect financing through Global loans providing short term loans for small-medium sized projects usually to the private sector or to local authorities
- technical assistance for preparation and implementation of projects

Port reception facilities clearly fall in the category of small projects which can be financed through the Global Loans, usually with private sector sponsors but in some cases the projects may involve local authorities. Moreover, given the important environmental aspects to these projects, they fall clearly within the FEMIP mandate.

5.1.1 Global Loans

Global Loans provided by the EIB are available in eight of the ten Safemed countries, the exceptions being Algeria and Israel. Global loans are lines of credit made available by EIB through local intermediary banks to small and medium sized private firms. The loans are actually made available as Apex loans at the country level with several local banks being able to participate. The EIB evaluates the ability of selected local banks to appraise projects and manage the portfolio. Financing can be in the form of loans or equity investments but under no circumstances can the FEMIP contribution exceed 50% of total project costs. Loan terms and conditions depend on the specific projects but generally do not exceed six to eight years. The intermediary bank on lends these funds and assumes the credit risk. The local bank is also responsible for monitoring project implementation, disbursements and repayments of the loan. FEMIP provides technical assistance to the local banks to help prepare, appraise and monitor projects.

A list of the banks and institutions administering FEMIP Global Loans in the Mediterranean Partner Countries is shown in Table 2.

5.1.2 Procedures

Potential project sponsors interested in being involved in port reception facilities are required to submit their proposals in detail to the relevant intermediary bank(s). In some cases the port authority itself may take the first steps as there may be a need to call for tenders given that the service to be provided by the private sector is essentially a public service. Once a private sector sponsor has been identified, the bank will provide some assistance in preparing the loan application such as detailed cost estimates, financial analysis showing cost recovery over the term of the loan and an environmental assessment according the FEMIP guidelines.

The requirements for the environmental assessment are shown in Annex 1. The assessment should meet local country requirements. A "fiche" should be provided which gives basic information about the project as well as more specific information related to environmental impact and proposed mitigation measures. The potential impact of the project should be considered in terms of the different phases of the project i.e. location, construction and use. For each of these phases the impact needs to be assessed in terms of the different parts of the environment eg. land, water, air, flora, fauna etc.

Procurement under a private sector project financed through an EIB Global loan is entirely the responsibility of the Borrower, the only requirement being that this be done efficiently.

5.2 African Development Bank

The African Development Bank (AfDB) is a regional, multilateral development bank whose shareholders include the 53 African countries and 24 non-African countries from the Americas, Asia and Europe. The Bank's primary objective is to promote the economic and social progress of its member countries, individually and jointly. The Bank was established in 1964 with headquarters in Abidjan, Cote d'Ivoire. However, due to the political situation in Cote d'Ivoire and the subsequent decision of the Governors' Consultative Committee, the Bank has been operating from the Temporary Relocation Agency in Tunis since February 2003. The Bank includes two main entities: the African Development Bank (ADB) which provides non-concessional loans to middle income countries; and the

African Development Fund (ADF) which provides concessional funding to low income countries. Four of the ten Safemed countries are AfDB countries of operation - Algeria, Egypt, Morocco, and Tunisia - and all are middle income countries.

The central goal of the Bank is to promote sustainable growth and reduce poverty in Africa through its investments in a broad range of projects and programmes. As such, the Bank provides loans to the public sector, to the private sector and invests in equity. It also offers technical assistance that provides institutional support. The Bank places particular emphasis on supporting regional cooperation and integration efforts and gives high priority to improving the environment. While giving ever increasing support to the private sector, the Bank does not neglect the need to support the enabling public infrastructure which is necessary for private initiative to develop. This is reflected in recent results where there is a major focus on infrastructure investment - in 2004 Bank (ADB) lending was Euro 1.3 billion of which over 40% was in infrastructure, mainly transport but also in water and power. Euro 140 million was invested in the private sector. Lending volumes are increasing at the rate of 4-5% per year.

The ADB window provides loans to clients on non-concessional terms in various currencies and at fixed or variable interest rates. The rate for fixed interest loans is based on the Bank's cost of borrowing and the variable rate is related to Libor. The terms of repayment for public sector loans are up to 20 years with a grace not exceeding five years and for the private sector repayment between five and 15 years including a two to three year grace period. Public sector loans are associated with a sovereign guarantee which enables interest margins to be kept low. However, the Bank has recently introduced non-sovereign public sector loans which are available to viable public sector entities on terms similar to clients on the private sector. This provides the Bank with more flexibility and responds to the reluctance of some Governments to give sovereign guarantees to their autonomous public enterprises.

The Bank's current strategy is to strengthen its operational programme by more effective diagnostic and country programming measures. In addition, the private sector will continue to be targeted, particularly through the provision of Credit Lines in the countries of operation. In terms of operational focus, the Bank clearly supports the MARPOL Convention regarding port reception facilities and the need to enforce regulations on disposal of ship wastes.

In theory public sector non-sovereign loans could be available to ports or to local authorities for port waste collection but in practice the projects would be small and given the constraint of a maximum of one third financing by ADB under these loans, the loan amounts would be too low for purposes of efficiency.

Investments in port reception facilities would be eligible mainly under ADB's Credit Lines available to the private sector through intermediary banks.

5.2.1 Credit Lines

ADB provides credit lines through intermediary banks which then on-lend to the private sector, the local bank assuming the project risk. ADB appraises the ability of the local bank to evaluate individual projects and to manage them effectively. The Bank only becomes involved in sub-loan approval when the intermediary bank is still in the public sector. The Bank provides technical assistance from its Trust Funds to help the local banks.

Such ADB credit lines are available in Egypt and in Tunisia. They are not available in Algeria and in Morocco the banking sector is considered to be too well developed to require credit line lending. In Egypt, there are ongoing credit lines with the National Bank of Egypt and the Egyptian Development Bank. When necessary these credit lines will be replenished. In Tunisia, there will be a new credit line established for the Societe Tunisienne de Banque in late 2006/early 2007 in the amount of USD 100 million. The existing credit line with Banque Nationale Agricole has been fully disbursed. There are also credit lines with two private banks in Tunisia, Amen Bank and Banque de Tunisie.

Under the credit lines, overall loan financing from all sources should not exceed 70% of total project costs, with the remainder being in equity. ADB's contribution to financing must itself not exceed one third of total project costs. Loan repayment terms can be up to 15 years but in practice most projects are between seven and ten years. Interest rates reflect country and project risk.

5.2.2 Procedures

Potential project sponsors for port reception facilities would need to contact the appropriate local intermediary bank in order to make an application for a loan. Possibly the port would need first to undertake a selection from several interested sponsors. The sponsor would need to provide a technical and financial analysis for his project as well as detailed cost estimates, which could be developed together with the local bank. An environmental assessment would also be needed identifying the positive and negative effects of the project. This analysis would need to conform to local country requirements.

5.3 Kuwait Fund for Arab Economic Development

The Kuwait Fund is owned by the State of Kuwait and was created with the aim of providing assistance to Arab and other developing countries in support of economic development and in promoting cooperation between the state of Kuwait and such countries. It has a capital of KD 2 billion (Euro 5.4 billion). By 2005, its cumulative lending reached KD 3.5 billion (Euro 9.7 billion) in some 675 loans, approximately Euro 14 million per loan. In 2005, the Fund provided financing for 24 operations with total loans of KD 197 million (Euro 537 million), equivalent to quite a high average of Euro 22 million per loan. The Fund has operated in more than 100 countries and currently funding goes about 50% to Arab states and 50% to non-Arab states. About 60% of its funding is in the form of financing in parallel with other lending institutions. The Fund provides technical assistance for project preparation and as of 2005 the total amount committed to this activity reached KD 93 million (Euro 253 million) in some 231 operations. The Fund also manages, in cooperation with the Arab Fund, a grant from the State of Kuwait to the Palestinian Authority. It also cooperates with the Islamic Development Bank in the implementation of the "Al-Aqsa Fund" for the Palestinian Authority. The Fund is also a contributor to several major international financial institutions such as the Arab Fund for Economic and Social Development, the African Development Bank, the African Development Fund, and the International Development Association (World Bank).

While the Fund has given high priority to infrastructure, particularly transport, it has now started to focus more on projects in the social sectors, such as education and health. The Fund may also provide funding to national development banks in the form of credit lines or lines of financing for on-lending to private sector clients. This is similar to many of the other lending institutions. These credit lines are relevant to private sector investments in port reception facilities. All Fund loans are either extended directly to the government concerned or with its guarantee.

5.3.1 Lines of Financing

As of 2005, the Kuwait Fund had provided KD 106 million (Euro 289 million) in some 16 loans to national development banks in 12 of its countries of operation. These banks have to be at least 50% state owned in order to qualify for funding. Such loans have been made to national development banks in five of the Safemed countries, namely Egypt with three loans totaling Euro 135 million, Jordan two loans totaling Euro 10 million, Morocco two loans totaling Euro 33 million, Syria one loan of Euro 20 million and Tunisia one loan of Euro 7 million. These amounts are significantly less than those under the credit lines provided in these countries by the EIB. Applications for funding from private sector sponsors would require that the sponsors provide a substantial part of the total project costs, generally in the range of half of the total in the form of equity contributions and other funds.

5.4 Islamic Development Bank

The Islamic Development Bank is owned by 56 countries and is headquartered in Jeddah, Saudi Arabia. It has a capital of about Euro 9 billion equivalent. The largest shareholders are Saudi Arabia, Kuwait, Libya, Iran, Egypt, Turkey and United Arab Emirates. The institution comprises five main entities: the Islamic Development Bank (IDB), the Islamic Corporation for the Development for the Private Sector (ICD), the Islamic Research and Training Institute (IRTI), the Islamic Corporation for the Insurance of Investment and Export Credit (ICIEC), and the Islamic Trade Financing

Corporation (ITFC). The Group was established in 1975, with IDB as the flagship, and the various entities were created at different times, each with its own objectives and operational procedures. For instance, ITFC was only recently created in June 2006. Despite this somewhat complex structure, the various entities share a common vision and mission, namely to foster economic and social development and social progress of member countries as well as Muslim communities in non-member countries, either individually or jointly in accordance with Islamic Law (Shari'ah). The Group also operates a number of special funds for specific purposes, including the "Al-Aqsa Fund" for the Palestinian authority, which it leads in cooperation with the Kuwait Fund.

The main entities involved in project finance are IDB and ICD, the former being historically involved in public sector projects but now also with large private sector projects, particularly in infrastructure, while ICD finances only private projects, but mainly smaller commercial projects handled by small and medium sized enterprises (SMEs). Total lending by the Group has reached some USD 40 billion in some 4700 operations, equivalent to USD 8 million per operation. Infrastructure has always accounted for the bulk of the lending with transport alone amounting to 19%. ICD has achieved USD 350 million of private sector lending in 67 projects, giving an average of USD 5 million per operation. In 2005/6 it lent USD 176 million in 26 projects, the average loan being USD 6.7 million.

Given the small size of port reception investments, these are mainly of interest to ICD, either through direct lending or through lines of financing. ICD was created in 1999 in order to address the needs of private sector development in Islamic countries. It has an authorised capital of USD 1 billion. Morocco and Turkey are not yet members of ICD.

The objectives are to identify opportunities in the private sector, provide a wide variety of financial services and products and mobilize additional resources for the private sector in Islamic countries. For project finance, there are two main alternatives: direct financing and lines of financing.

5.4.1 ICD Direct Financing

ICD can provide direct financing through equity participation and term loans in productive and viable projects in member countries. For "greenfield projects" ICD cannot finance more than 40% of project costs while for "expansion projects" the upper limit is 50%. Loan tenure is up to 8 years including a grace period and minimum loan size is USD 2 million. These limits imply that typical port reception projects, with oil discharge facilities in the range of USD 1.5-1.7 million, are likely to be too small to qualify for direct ICD financing. Only by a sponsor grouping projects together among several ports in a given country, could a project be created of sufficient size. There might be a case for such grouping in Algeria and Syria (see Table 1).

Where projects might qualify for direct lending, they would be financed in USD and in reference to the market in terms of interest rate, tenure and grace period. Guarantees for private sector projects vary from pure commercial bank guarantees to mortgage of project assets, guarantees from the mother company (where dealing with an affiliate), promissory notes from the sponsors, assignment of receivables etc.

5.4.2 ICD Lines of Financing

ICD extends lines of financing to commercial and national development financial institutions in its countries of operation. These lines represent a means to contribute in a cost effective manner in the financing of small and medium sized enterprises (SMEs) by on-lending the funds through the local institution. These are comparable to the global loans and credit lines of the other institutions. So far, ICD has only made one such loan in the Safemed countries, namely to Lebanon, and this has been subsequently cancelled. However, this does not mean that such loans could not be made available in the near future.

5.4.3 Procedures

Where projects in port reception investments might qualify for ICD funding, there are specific procedures to be followed. The sponsor would first have to submit a project description (new or expansion, project concept, time frame etc), preliminary cost estimates and financing plan (debt/equity), amount and purpose of financing requested for ICD, proposed collateral, and a feasibility study from a recognised source of expertise. After a three week review, ICD would request

additional information, undertake due diligence, including field visits. The total time frame up to Board Presentation could be from four to six months depending on the quality of the information. Similar procedures would be needed for a line of financing application to a local bank.

5.5 Global Environment Facility

The Global Environment Facility (GEF) is an international investment entity that invests in emerging markets with grants and concessional funding. GEF was established in 1991 in collaboration with the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank. GEF is supported by donor countries and the headquarters is located in Washington DC. In 2002, 32 donor countries pledged USD 3 billion to fund operations between 2002 and 2006. GEF projects are managed by GEF "Implementing Agencies" which include UNDP, UNEP, and the World Bank as well as several other international organisations known as "Executing Agencies." Each country also has a GEF representative known as a "Focal Point". A list of such Focal Points is shown in Table 3 for the Safemed countries.

GEF is the largest single source of funding for the global environment with 176 member countries. GEF has supported 1800 projects during 1991-2005 with funding amounting to USD 6 billion and total project costs of USD 24 billion. Thus for every USD 1 invested by GEF, there is some USD 3 invested by co financiers. GEF provides financing and management support to companies that contribute significantly to the environment, efficient use of energy, human health and the sustainable management of natural resources. The entity's investment focus is especially on companies whose business operations deliver measurable environmental improvements through deployment of improved environmental infrastructure, management and technology. Both public and private sector projects for port reception facilities fall into this category and because of their modest size can benefit from a special GEF programme for medium sized projects.

Given the growing support by governments and non-governmental organisations to expedite the implementation of smaller projects, the GEF Council, the main governing body, introduced in 1996 streamlined procedures for the processing and financing of medium sized projects. These projects are defined as those for which GEF financing does not exceed USD 1 million (approx Euro 800,000). Given the need for substantial sponsor contributions at least equal to the GEF financing, most of the projects in port reception facilities would qualify for GEF funding under this special programme. The simplified procedures for this special programme take into account the fact that medium sized projects do not require the same level of preparation and supervision as larger projects. The procedures are designed to encourage the submission of projects from a broad range of groups and individuals and which are consistent with the GEF thematic focal areas.

5.5.1 Eligibility Criteria

Priority areas for GEF are Biodiversity, Climate Change, International Waters, Land Degradation, the Ozone layer and Persistent Organic Pollutants. The achievement of global environmental benefits in "International Waters" is one of the key focal areas of GEF. Specifically, contaminant reduction in International Waters and the multicountry, transboundary actions necessary to sustain this reduction, is a key objective. Some USD 800 million was invested by GEF in projects involving International Waters, representing 14% of the total funding during 1991-2005. The total cost of these projects amounted to USD 2.2 billion. Several investments in port reception facilities have been undertaken in China, Latin America and the South Western Mediterranean Sea (Algeria, Morocco and Tunisia). So far these investments have been made under relatively large projects involving public sector port authorities. However, there is an opportunity to develop small scale private sector initiatives to which the GEF now gives high priority. In fact, GEF is striving to establish demonstration, pilot projects which support the MARPOL conventions and which can easily be replicated.

GEF will provide new, and additional, grant and concessional funding to meet the agreed incremental cost of measures to achieve global environmental benefits. GEF will not substitute for development aid available from the IFIs and is therefore more suited to smaller projects. This is particularly the case for the private sector where GEF grants can provide seed money to kick start private sector ventures, such as port reception facilities where not all of the cost recovery is achieved directly, with part of the revenue depending on cross subsidisation from other port revenue (see section 4).

As with all GEF financed projects, medium sized project proposals must be consistent with GEF's operational policies and The Operational Strategy (see Annex 2). First, the recipient country must be eligible for World Bank funding or be a recipient of UNDP technical assistance. Secondly, the country must identify the project area as one which is national priority. The project sponsor may be a government institution, a local community or the private sector. GEF have simplified the procedures of the project cycle to shorten the time needed for approval of medium sized projects. These steps are shown in detail in Annex 2 and are summarised below.³

5.5.2 Project Cycle

Prescreening: Project concepts must be submitted in accordance with a concept paper format and submitted to an Implementing Agency which can be a UNDP or UNEP field office or to the headquarters of the World Bank. This paper must confirm that the project is considered a priority by the relevant national operational Focal Point responsible for GEF programmes. The Focal Point must endorse the priority in writing to the Implementing Agency. A decision on project eligibility is usually made within a 15 day period after receipt of the concept paper.

Preparation: Once the project is accepted for further development, the sponsor is then responsible for preparation work for which GEF can make financing available through Project Development Facility (PDF) funding. Normally this funding is limited to USD 25,000. The presentation of the project must include an analysis of the incremental costs and benefits of the project. Benefits include avoided, corrective clean up costs as well as reduced insurance on shipping. A simple cost recovery financial analysis would also be needed. As mentioned above, all projects must include a significant contribution to costs by the sponsor in the form of equity, land, equipment, contributions in kind, staff time, including funding from possible commercial bank co financing etc. Projects which have co financing equal to or greater than the GEF contribution stand a better chance of approval. Given the size of the typical oil waste project, such co financing contributions would have to be at least 50% of project costs to meet GEF requirements.

Project Review/Approval: Once prepared, the project is submitted to the GEF Secretariat which distributes copies to the other Implementing Agencies for comment. Proposals for funding above USD 750,000 also require a technical review which again is normally completed in a 15 day period. The Secretariat then gives its recommendation either for approval or for revisions to the project, to the CEO 10 days after comments have been received and the technical review completed. This is followed by approval by GEF's Council and then finalisation of contract documents.

Additional Considerations: One aspect which is not covered specifically by the GEF guidelines is compliance with local procurement rules in each country concerned. It is possible there may be several potential sponsors interested in setting up a business and gaining access to grant funds. The originator of the project must ensure therefore that all potential interested parties are aware of the opportunity and where there is interest from several potential sponsors that a prequalification be undertaken.

Project execution is the responsibility of the sponsor with supervision provided by the Implementing Agency.

6 Conclusions

As small private sector operations, there are many different opportunities available to potential sponsors for the financing of port reception facilities. All of the major financial institutions interviewed, except the Arab Fund, have lines of credit available through development and commercial banks in their countries of operation. These lines of credit are available in all of the Safemed countries except Israel and Palestinian Authority, either from one of the financial institutions or from several. EIB has very wide coverage, involving seven countries (Table 2), while AfDB has good coverage in North Africa, except Morocco and Algeria. The Kuwait Fund also has lines of financing in Egypt, Jordan, Morocco, Syria, and Tunisia. Only IsDB does not have this type of funding available at the current time in the Safemed countries, but this could change. Some credit lines may also be open to viable local authorities which would be treated as private sector borrowers.

³ Note that GEF website indicates these guidelines are to be revised.

Many institutions also provide direct project finance for private sector projects but port reception projects are too small to finance in this way. Only where sponsors could group projects together, say among several ports in a given country, could the financing limits be met. In such cases, direct funding by IsDB might be possible given that the lower limit on direct private sector financing is set at a low level of only USD 2 million.

The requirements for financing either directly or through a credit line are generally similar. The criteria are applied by the local on-lending bank according to guidelines set by the lending institution. Generally, the sponsor must contribute in a significant way to the financing plan, usually in the range of at least half of the project costs. Also, debt financing as a whole should not exceed 70% of costs. Loan terms would be in reference to the market in terms of interest rates and loan tenure, the latter being in the range 7-10 years maximum, including grace period. Guarantees are also needed in the form of commercial bank guarantees, mortgage of assets, guarantees from mother companies, promissory notes from sponsors, assignment of receivables from firm contracts etc.

Of all the sources available, grant funding from the GEF seems to offer the best opportunity given the special procedures in place for "medium sized projects" requiring an upper limit of GEF funding not exceeding USD 1 million.⁴ Moreover, port reception investments fit very well into GEF's priority areas and mandate and small private sector projects in this area could act as pilot, demonstration operations. While GEF has already financed port reception projects, so far these have been relatively large investments in the public sector. Given the current emphasis of GEF on the private sector, there is no reason why small private sector port reception investments should not be partly financed by GEF grants. As with the credit line lending discussed above, GEF financing would also require substantial sponsor contributions as well as commercial bank co financing at least equivalent to some 50% of project costs. In this way, there are opportunities for GEF to co finance projects alongside the on-lending credit line resources of the local commercial and development banks.

GEF grants are available to both public and private sector entities wishing to establish and operate port reception facilities. The only other possibility for public sector funding of such projects would be to include them as part of large public sector port investment programmes which would be eligible for co financing by the development finance institutions. However, given that port reception projects make ideal investments for the private sector, public sector financing seems an unlikely alternative, unless it is to local authorities.

Finally, it is clear that for private sector port reception investments it is more difficult to find grant funding for project preparation work. While such funding is available from GEF, in limited amounts, the local commercial and development banks assume that the sponsor will at least come up with initial preparatory work on his project. Many of these banks themselves receive technical assistance in appraisal methods from the development institutions so, once a project is identified, the local bank can help move a project through the appraisal process.

⁴ Note that GEF guidelines for "medium sized projects" are to be revised.

Tables and Annexes

**Table 1: Port Reception Facilities - Oil and Garbage Discharge:
Estimated Costs – Euro million**

Country:	No of Ports:	Oil Discharge Projects Cost	Garbage Needs:
Algeria	3	3.90	--
Egypt	3	2.35	1 transfer station
Israel		1.10	--
Lebanon	2	2.50	--
Morocco	1	1.25	--
Syria	2 oil terminals	6.50	1 station
Tunisia	2	2.50	--
Turkey	3	2.80 – 5.0 ^{1/}	--
Total		22.90 – 25.10	

^{1/} costs from two different sources below.

Source: REMPEC Reports:

– Port Reception Facilities for Collecting Ship-Generated Garbage, Bilge Waters and Oily Wastes, Activity B: Optimum Solutions for Collecting, Treatment and Disposal of Relevant Ship-Generated Solid and Liquid Wastes, Final Report April 2004, Tebodin Consultants, Chapter 5: Proposed facilities, and

– Study concerning the Estimate of Costs of the Implementation of the Regional Strategy for Prevention of and Response to Marine Pollution from Ships in the Mediterranean, April 2005, Annex 5

Table 2: Banks and Financial Institutions administering FEMIP Global Loans in the Mediterranean Partner Countries

Egypt:

Concord International Investments
EFG-Hermes
Export Development of Egypt
Industrial Development Bank of Egypt
National bank of Egypt
Cairo-Amman Bank

Jordan:

Industrial Development Bank

Lebanon:

Bank of Beirut
Banque Audi
Banque de la Mediterranee
Banque Libano-Francaise Sal
BBAC- Bank of Beirut and Arab Countries
Byblos Bank Sal
Credit Libanais
First National Bank
Fransabank
Lebanese Canadian Bank
Societe Generale de Banque au Liban

Syria:

SME Fund

Morocco:

Casablanca Finance Group
Capital Invest
Moussahama (Societe de prises de participations et partenariat)
Maghreb Private Equity Fund- Macroinvest Finance Group
Fonds Sindibad
Acces Capital Atlantique
Fondation Zakoura pour le Micro-Credit
Association Al Amana pour la Promotion des Microentreprises

Tunisia:

Amen Bank
Amen Lease
Arab Tunisian Bank
Arab Tunisian Lease
Banque de l'Habitat
Banque de Tunisie
Banque de Tunisie et des Emirats d'Investissement
Banque du Sud
Banque Internationale Arabe de Tunisie
Banque Nationale Agricole
Banque Tuniso Koweitienne de Devloppement

Tunisia (cont.)

Compagnie Internationale de Leasing
Cotif Sicar
General Leasing
ID Sicar
Sicar Invest
Societe d'Investissement et de Developpement du Centre Ouest- SIDCO
Societe de Developpement et d'Investissement du nord ouest- SODINO SICAR
Societe de Developpement et d'Investissement du Sud - SODIS
Societe de Participation et de Promotion des Investissements (SPPI)
Societe Tunisienne de Banque
SODICAB
Tuninvest Finance Group
Union Bancaire pour le Commerce et l'Industrie SA
Univers Invest SICAR

Turkey:

T.C. Ziraat Bankasi
TSKB- Tukiye Sinai Kalkinma Bankasi (Industrial Development Bank of Turkey)
Tukiye Halk Bankasi A.S.
Turkiye Kalkinma Bankasi A.S.
Vakifbank

Source: European Investment Bank, as of 29 June 2005

Table 3: GEF Focal Points

Egypt:
M.S. Khalil
Egyptian Environment Affairs Agency
Cairo
Tel: 202 25 6445

Jordan:
K. Khدير
Ministry of Planning and International Cooperation
Amman
Tel: 962 6 4644466

Lebanon:
N. Khoury
Ministry of Environment
Antelias
Tel: 961 4 522222

Morocco:
T Balafreu
Directeur du Partenariat
Ministere de l'Amenagement du Territoire, de l'Eau et de l'Environnement
Rabat
Tel: 212 7772759

Palestinian Authority:
S. Jalala
Director General
Environment Quality Authority
Gaza
Fax: 970 8 283 9355

Syria:
I. Hassoun
Ministry of Local Administration and Environment
Damascus
Tel: 963 11 3316104

Turkey:
H. Z. Sarikaya
Ministry of Environment and Forestry
Ankara
Tel: 90 312 34 67 22

Source: GEF Annual Report 2004

Annex 1: Guidelines for Environmental Assessment of Project

These guidelines apply to all EIB projects including those submitted through Global Loans.

For each project a summary table or “fiche” should be prepared summarising basic information about the project as well as more specific information related to its environmental impact and proposed mitigation measures.

The potential impact of the project should be considered in terms of the different phases of the project I.e. location, construction and use.

For each of these phases the potential impact needs to be assessed on different parts of the environment, namely:

	Location	Construction	Use
○ Air			
○ Land			
○ Water			
○ Natural resources			
○ Nature (flora and fauna)			
○ Built environment			
○ People (health, safety, labour rights etc)			
○ Society (relocation, poverty, cultural heritage)			

In completing the table, a judgement is to be made as to:

- Whether there is an impact (positive or negative)
- If yes, a description of the impact, including possible mitigation measures
- Whether the overall project will have positive or negative effects on the environment

The overall assessment of the project should summarise the net environmental impact of the project over its life cycle, using the following rating system:

- Acceptable
- Acceptable with minor reservations (specify)
- Acceptable with major reservations (specify)

Annex 2: OPERATIONAL GUIDANCE FOR THE PREPARATION AND APPROVAL OF MEDIUM-SIZED PROJECTS

INTRODUCTION

1. The Global Environment Facility (GEF) is a financial mechanism for funding activities in recipient countries aimed at protecting the global environment.¹ Since the replenishment and restructuring of the Facility in March 1994, the GEF Council (which is the main governing body of the GEF) has adopted various policies and procedures, including the *GEF Operational Strategy 2*, to guide its actions and ensure its resources are used cost effectively to maximize global environmental benefits.

2. Given growing support by governments and non-governmental organizations (NGOs) to expedite the implementation of smaller projects, the GEF Council at its October 1996 meeting approved procedures to streamline the processing and financing of medium-sized project proposals. Medium-sized projects are defined as those for which GEF financing does not exceed US\$1 million.³ This takes into account the fact that medium-sized projects often do not require the same level of preparation and oversight as larger projects. The procedures are designed to encourage the submission from a broad range of groups and individuals of smaller projects which address the GEF thematic focal areas.

3. As with all GEF-financed activities, medium-sized project proposals must be consistent with the operational policies and principles of the GEF (see *box 1*), including the principles incorporated in the *Instrument for the Establishment of the Restructured GEF* (hereafter called the *Instrument*) and the Operational Strategy. In addition, all project proposals developed in accordance with these procedures will be consistent with the eligibility criteria of the *Instrument* and the Operational Strategy (see *box 2*).

4. The procedures for preparing and approving medium-sized project proposals are based upon the GEF project cycle approved by the Council. Certain steps have been simplified to shorten the time needed to complete the project cycle. These procedures apply to project proposals submitted by all potential executing agencies,⁴ including governments, national institutions, international organizations, local communities, nongovernmental organizations, academic institutions, and private sector entities. They also explain the role and responsibilities of the recipient governments, Implementing Agencies (United Nations Development Programme, United Nations Environment Programme, World Bank), the GEF Scientific and Technical Advisory Panel (STAP), the GEF Council, and the Chief Executive Officer (CEO)/Chairman.

Box 1

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

1. For purposes of the financial mechanisms for the implementation of the Convention on Biological Diversity and the United Nations Framework Convention on Climate Change, the GEF will function under the guidance of, and be accountable to the Conference of the Parties (COP).
2. The GEF will provide new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits.
3. The GEF will ensure the cost-effectiveness of its activities to maximize global environmental benefits.
4. The GEF will fund projects that are country-driven and based on national priorities designed to support sustainable development, as identified within the context of national programs.
5. The GEF will maintain sufficient flexibility to respond to changing circumstances, including evolving guidance of the COP and experiences gained from monitoring and evaluation activities.
6. GEF projects will provide for full disclosure of all nonconfidential information.
7. GEF projects will provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people.
8. GEF projects will conform to the eligibility requirements set forth in the GEF *Instrument*.
9. In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources.
10. The GEF will ensure that its programs and projects are monitored and evaluated on a regular basis.

GOAL AND OBJECTIVES

5. The goal of these procedures is to establish simplified, expedited procedures that promote high-quality projects requiring up to US\$1 million of GEF financing.

6. To fulfill this goal, the procedures are aimed at meeting the following objectives:

(a) ensuring that medium-sized projects are consistent with the GEF policies and Operational Strategy, including its operational programs and short-term measures, and are country-driven and based on national priorities;

(b) streamlining and simplifying project preparation and implementation processes, thereby making them "user-friendly" to a wide range of potential executing agencies;

and

(c) providing an appropriate and efficient level of accountability of project executors and Implementing Agencies to the Council.

PROCEDURES FOR DEVELOPING AND APPROVING MEDIUM-SIZED PROJECTS

7. The steps described below are sequential and assume that a project proposal has cleared each step before proceeding to the next one. It is recognized that preparation of a project proposal may be stopped at any of the steps (*see annex A*).

Step 1. Prescreening of project concepts

8. Any eligible entity or organization (See box 2) undertaking activities in an eligible country may submit a project concept to the GEF. The entity proposing the project concept may become the project's executing agency should the project be approved; it is also possible, however, that another entity (for example, a government agency) may execute the project.

9. Project concepts, which should be submitted in accordance with the concept paper format (see *the attached format*), should be sent directly to an Implementing Agency.⁵ The concept paper should include information as to the status of the national operational focal point endorsement, such as confirmation that the concept has been submitted to the focal point (see box 3) and is either awaiting endorsement or has been endorsed. Written endorsement must be submitted to the Implementing Agency before any GEF project preparation funds can be approved to develop further the concept.

10. Prior to submitting a concept to an Implementing Agency, the project proposer may seek the advice of the Secretariat for an initial review as to the consistency of the concept with GEF eligibility criteria and the Operational Strategy. An Implementing Agency may also wish to request the advice of the Secretariat as to the concept's eligibility before proceeding with its consideration of the idea. When a project concept has been submitted to the Secretariat for advice as to its initial eligibility, the Secretariat will respond within 15 working days as to whether the project concept is consistent with the *GEF Operational Strategy* and policies. Secretariat or Implementing Agency confirmation that the project meets eligibility criteria does not constitute approval of the concept for further development and GEF financing.

11. The proposer of a project concept may also solicit the good offices of the Secretariat in identifying the appropriate Implementing Agency to consider the project concept further.

Box 2 GEF Eligibility Criteria

Program eligibility

Consistent with the *Instrument*, eligible GEF projects include measures and activities to achieve global environmental benefits in one of the GEF focal areas (see *endnote 1*). The types of measures and activities eligible for GEF financing are detailed in the Operational Strategy. The operational programs provide more detailed information on the current programmatic objectives and goals of the GEF and provide guidance as to the type of initiatives that may usefully contribute to such goals. GEF financing should be for the incremental costs of such measures and activities.

Country eligibility

For projects financed under the financial mechanism of the Convention on Biological Diversity or the United Nations Framework Convention on Climate Change, activities are to be undertaken in a country that is eligible in accordance with criteria decided by the Conference of the Parties of each convention. At present, financing through the financial mechanism is available for developing country parties to the convention.

For projects outside the financial mechanisms of the conventions, the recipient country should be eligible to borrow from the World Bank or should be an eligible recipient of UNDP technical assistance through its Indicative Planning Figures. In addition, to receive GEF financing for activities in either the biological diversity or climate change focal areas, the recipient country must be a party to the convention concerned.

Eligible entities

Any entity, be it a government institution, non-governmental organization, a local community organization, academic institution, the private sector, or any other group, can submit a concept paper for and can execute a medium-sized project.

12. Medium-sized projects should not fund project preparation activities (See Box 4); enabling activities which already are subject to expedited approval procedures; and extensions of existing projects. Medium-sized projects also should not fund a series of smaller, related and/or complementary projects instead of one larger project.

13. If the GEF Secretariat considers that a medium-sized project raises a significant operational policy issues, for example, the use of a new financing modality, it may be necessary to draw that issue to the attention of the Council before a project is approved. In such cases, the project would be included in the next work program submitted to the Council for its approval.

14. Grants for medium-sized projects should normally be allocated for expenditures necessary to carry out in-country activities. They may include provisions for project-related administrative costs but funds should not be allocated for the executing agency's general administrative overhead, especially in the case of international organizations whose headquarters are located outside the project country.⁶

Box 3

Operational Focal Points

Most recipient countries have nominated an operational focal point with which the Implementing Agencies collaborate on GEF operational activities. The GEF operational focal point is responsible for:

- (a) acting as the principal contact point for all GEF activities in the country;
- (b) reviewing project ideas and concepts, endorsing their consistency with respect to the national programs and the country's participation in the climate change or biological diversity conventions, confirming their national priorities;
- (c) facilitating broad as well as project-related consultation; and
- (d) providing feedback on GEF activities.

Step 2. Preparation of project proposal

15. Once the Implementing Agency has informed the project proposer that the project concept is accepted for further development, the proposer is responsible for preparing and, if necessary, revising the project proposal. The Implementing Agency may assist the project proposer to develop the concept into a project proposal. If project preparation financing is required, the project proposer should submit a request for Block A PDF funding. Such project preparation financing may be provided by the Implementing Agency, consistent with PDF guidelines and procedures (see box 4 and Block A PDF form). Medium-sized project proposals are not expected to require project preparation financing beyond the Block A ceiling of US\$25,000. Project proposals should be prepared in accordance with the guidelines for the project proposal format (See *project brief format*).

16. Pursuant to the *Instrument*, every medium-sized project must include an analysis of the incremental costs of measures to achieve agreed global environmental benefits. In order to expedite processing of medium-sized projects, a rapid incremental cost assessment should be undertaken to determine GEF-financing for the project. In some cases (for example, a particularly complex project), a more detailed incremental costs analysis might be required before the project is approved. The Implementing Agency is available to assist in preparing the analysis.

17. All medium-sized projects should normally include co-financing, including in-kind contributions (such as donated land, equipment, staff time). Projects which provide for a minimum of co-financing commitment equal to or greater than the amount of GEF-financing are more likely to be approved expeditiously than projects with minimal or no co-financing. Projects with no co-financing would have to provide more detailed justification for GEF financing.

18. When a project proposal is ready for submission to an Implementing Agency, the operational focal point will need to endorse the proposal. Prompt review by the operational focal point of project proposals will help facilitate the approval process. The written endorsement of the national operational focal point (or, where a project is being implemented in more than one country, all the national operational focal points of the countries in which GEF-financed activities are undertaken) must be submitted to the Implementing Agency together with the project proposal.

Box 4
Block A Project Preparation and Development Facility (PDF)

Generally, Block A PDF funds are used at the very early stages of project or program identification. They finance in-country expenditures and normally are used for the development of specific project concepts leading to the preparation of an initial project brief or a draft project document.

Any entity, be it a government institution, non-governmental organization, the private sector, or any other group can submit a Block A PDF proposal for a medium-sized project. Project sponsors are encouraged, wherever possible, to provide some level of self-financing and co-financing, including in-kind contributions.

Proposals must be endorsed by the government (through its GEF operational focal point). Before submitting them to an Implementing Agency. The Implementing Agency approves Block A PDF funding. Approved Block A submissions are sent to the GEF Secretariat for information and should include a basic project description, executing agency, expected outputs, and budget amounts (see *Block A PDF format*).

Block A funding can cover:

- (a) local consultations, national hearings, and/or workshops to discuss specific project and/or program concepts, including translation into local languages, where appropriate, and the preparation of background papers that could facilitate discussion;
- (b) travel costs for local experts to visit neighbouring countries for consultations and discussions on potential transboundary projects;
- (c) consultancies to develop program and/or project options, including the preparation of terms of reference for feasibility studies, strategy papers, and, where possible, the preparation of such papers;
- (d) scientific, technical, and environmental reviews of proposed projects to ensure that they warrant further consideration; and
- (e) costs of external expertise, as appropriate.

Outputs of Block A grants could include:

- (a) preliminary/initial project briefs;
- (b) assessment of scientific, technical, environmental, and economic feasibility of the proposed activity, including its relevance for future funding;
- (c) preparation of specific documents such as terms of reference for further feasibility work, short strategic notes on programs and policies designed to facilitate in-country discussion, sectoral strategy notes or issues and options papers designed to facilitate informed decision-making in the country; and
- (d) documentation of in-country consultations on GEF programs and potential project options.

Step 3. Review of project proposal

19. Once the project proposal has been prepared, the Implementing Agency will submit it to the GEF Secretariat and will circulate copies of the project proposal for comment to the other Implementing Agencies, STAP7 and, for projects in the appropriate focal area, to the Convention Secretariats. Medium-sized project proposals up to and including US\$750,000 will not require a technical review by an expert from the STAP roster, but the project proposer, any Implementing Agency, or the Secretariat may request such a review if it thinks it beneficial. For proposals requesting GEF financing above \$750,000 a technical review by an expert from the STAP roster would be required.

20. The comment period will normally not exceed 15 working days. The Secretariat will prepare a consolidated list of all comments, and on the basis of the comments received, the Secretariat will recommend to the CEO that the project proposal be: (i) submitted for approval, (ii) returned for revision in light of the comments, or (iii) not be developed further. The Secretariat recommendation will be formulated within 10 working days of the close of the comment period.

21. The Implementing Agency to which the project proposal was submitted will be responsible for notifying the proposer of the recommendation resulting from the project proposal review.

22. For proposals that require revision, the Implementing Agency will promptly undertake the steps necessary to have the project proposal revised by its proposer. The Implementing Agency will be available, if so requested, to advise on the proposal's revision. The revised project proposal, if it responds sufficiently to the points raised in the request for revisions, will be submitted to the CEO through the Secretariat.

Step 4. Approval of the project proposal

23. The CEO will circulate the project proposal(s) to Council Members for review and comment within a 15-day period before approval. When circulating such proposals, the CEO will specifically confirm that the proposal is consistent with the Operational Strategy and other GEF requirements (see *annex B*). After the comment period, the CEO/Chairman of the GEF is authorized to approve proposals of up to US\$750,000 of GEF-financing.

24. Medium-sized proposals requiring more than US\$750,000 in financing will be included in the next available proposed work program submitted to the Council.

Step 5. Preparation of the final project document and other contractual arrangements

25. Once the project proposal has been approved, the Implementing Agency will promptly inform the executing agency and will immediately start working with that entity to finalize the project document and other contractual arrangements with a view to ensuring early implementation of project activities.

26. The project proposer is responsible for finalizing the project document in accordance with the requirements of the Implementing Agency. The Implementing Agency will work with the proposer to prepare any additional documentation required for final approval of the project and other contractual arrangements. The time between approval of the project proposal by the Council or the CEO and the approval of the final project document and other contractual arrangements by the Implementing Agency should normally not exceed eight weeks.

27. In order to facilitate early implementation of project activities, the Council has agreed that an Implementing Agency may include in the project proposal's budget a component, amounting to 15% of the total GEF financing, as an advance on project implementation, which could be available to ensure prompt initiation of on-the-ground project activities. The procedures for making these funds available will need to be determined by each Implementing Agency. The intention behind authorizing the Implementing Agencies to make available an early release of financing is to expedite project implementation.

Step 6. Project Implementation

28. The executing agency is responsible for the implementation of the project. The Implementing Agency is responsible for monitoring the implementation of the project, including the effectiveness of the executing agency in managing the project. The Implementing Agency will be accountable to the Council for the project's implementation consistent with GEF policies and procedures, including public involvement and monitoring and evaluation. The Implementing Agencies have agreed to expedite their procedures with a view to promoting rapid and efficient execution of the project. Information on the expedited internal procedures of the Implementing Agencies will be included in information materials on medium-sized projects, as it becomes available.

Endnotes

1 The *Instrument for the Establishment of the Restructured Global Environment Facility* provides that the GEF will provide grant and concessional financing to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas: biological diversity, climate change, international waters, and ozone layer depletion. The agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas are also eligible for funding.

The Convention on Biological Diversity and the United Nations Framework Convention on Climate Change have each designated the GEF to serve as its financial mechanism on an interim basis. The GEF is not the financial mechanism for the Montreal Protocol on Substances that Deplete the Ozone Layer, but the GEF's operational policies are consistent with those of the Montreal Protocol.

2 The Operational Strategy guides the preparation of country-driven initiatives in the GEF's focal areas. It explains the broad strategic considerations and sets out the programming of GEF operations. These include operational programs, enabling activities, and short-term response measures. An operational program is a conceptual and planning framework for the design, implementation, and coordination of a set of projects to achieve a global environmental objective in a particular focal area; it organizes the development of country-driven projects and ensures systematic coordination between the Implementing Agencies and other actors. The GEF has identified 10 initial operational programs cited below. Enabling activities are either a means of fulfilling essential communication requirements to a Convention, providing a basic level of information to enable policy and strategic decisions to be made, or assisting planning that identifies priority activities within a country. Short-term measures include projects which yield immediate benefits at a low cost.

The 10 operational programs are: BIODIVERSITY - 1. Arid and semi-arid ecosystems; 2. Coastal, marine and freshwater ecosystems (including wetlands); 3. Forest ecosystems; 4. Mountain ecosystems; CLIMATE CHANGE - 5. Removing barriers to energy conservation and energy efficiency; 6. Promoting the adoption of renewable energy by removing barriers and reducing implementation costs; 7. Reducing the long-term costs of low greenhouse gas-emitting energy technologies; INTERNATIONAL WATERS - 8. Waterbody-based program; 9. Integrated land and water Multiple Focal Area; and 10. Contaminant-based program.

3 The *Instrument* stipulates that the GEF provides grants and concessional funding. To date, most of the financing has been in the form of grants.

4 An "executing agency" is the entity which actually receives the GEF funding and implements the project on the ground. This can be a government body, an NGO, a local community organization, an academic or research institute, a private sector firm, or any other group undertaking the project activities in the country or countries. The term "executing agency" should not be confused with the project execution departments of the Implementing Agencies; however, such departments may also execute a project, if the project proposer, Implementing Agency, and other project stakeholders so decide.

5 Project proposers may submit their concept papers to: the country offices or headquarters of UNDP, the regional and outposted offices and headquarters of UNEP, or the headquarters of the World Bank. The Implementing Agencies will undertake to ensure that field office representatives are knowledgeable about GEF policies and programs so that they can provide guidance to project proposers on necessary steps to develop project concepts.

6 The Operational Strategy states that the GEF "should ascertain that its resources are applied as new and additional funding, not substitutes for regular sources of development finance. The principle that GEF funds will be additional to the funds required for national sustainable development helps to ensure that scarce resources are not diverted from development financing and to maximize global impact of GEF resources. The GEF will not provide budgetary financing for the staff or activities of international organizations or other international bodies, to fulfill their own mandates, even those concerned with the global environment."

7 STAP will undertake selected cluster analyses of medium-sized projects at least once a year and submit the results to the GEF Secretariat for inclusion in its annual report to the Council on medium-sized projects.

ANNEX A: TIME LINE

Dependent on proposer of project idea.

Dependent on proposer of project idea

15 working days for internal GEF review:
10 working days for preparing recommendation of Secretariat on basis of comments made during review period:
if revision required, time period will depend upon work undertaken by project proposer;
15 working days for Council Member review

STEPS

PRESCREENING OF PROJECT IDEAS

1. Project proposer drafts concept paper and seeks national operational focal point endorsement
2. Project concept submitted to Implementing Agency
3. Secretariat review for eligibility may be requested

PREPARATION OF PROJECT PROPOSAL

1. PDF Block A for funding may be provided
2. National operational focal point endorsement

REVIEW OF PROJECT PROPOSAL

1. Review of project proposal by GEF Secretariat, other Implementing Agencies, STAP, and appropriate Convention Secretariat. Comments submitted to Secretariat which is responsible for recommending further action to CEO
2. Review by STAP expert, if over US\$750,000. STAP selective review for projects under US\$750,000.
3. Implementing Agency to notify proposer of recommendation resulting from the review
4. If necessary, project proposer to undertake revision of project proposal to respond to comments made during review
5. Circulation to Council Members for review.

If proposal is up to US\$750,000, CEO can approve, if proposal is more than US\$750,000, timing of approval is dependent upon schedule for Council consideration of the work program.

APPROVAL OF PROJECT PROPOSAL

1. CEO authorized to approve project proposals requesting up to US\$750,000 in GEF financing. Proposals requesting more than US\$750,000 in GEF financing to be included in proposed work program for Council approval.

Eight weeks

PREPARATION OF FINAL PROJECT DOCUMENT AND FINAL APPROVAL OF PROJECT

1. Project proposer, with the assistance of one Implementing Agency, is responsible for preparation of final project document consistent with the Implementing Agency's internal procedures. The Implementing Agency is responsible for the final approval of the project document

Dependent on specific project: Annual and end-of-project reporting

PROJECT IMPLEMENTATION AND MONITORING AND EVALUATION

1. Project will be implemented by the executing agency
2. Implementing Agency will oversee management of the project

ANNEX B

The following GEF documents are recommended for project preparation and can be obtained from the Secretariat and the Implementing Agencies (please refer to the contact list in the medium-sized project information kit):

- The Instrument for the Establishment of the Restructured Global Environment Facility;
- The Operational Strategy and operational programs
- The GEF Project Cycle
- Public Involvement in GEF-financed Projects
- The Project Preparation and Development Facility (PDF)
- Incremental Cost Analysis

Annex 3: THE PROJECT CYCLE AT THE EUROPEAN INVESTMENT BANK