

DRAFT SUMMARY OF NEGOTIATIONS  
ON THE  
THIRD REPLENISHMENT OF THE GEF TRUST FUND

(NOTE: THIS SUMMARY OF NEGOTIATIONS REFLECTS THE AGREEMENT REACHED AT THE FINAL MEETING ON THE THIRD REPLENISHMENT OF THE GEF TRUST FUND THAT WAS HELD IN WASHINGTON, D.C. ON AUGUST 6-7, 2002. IT WILL BE FINALIZED IN EARLY SEPTEMBER FOR SUBMISSION TO THE GEF COUNCIL. THE FINAL TEXT WILL REFLECT ANY ADDITIONAL INFORMATION RECEIVED BY THE SECRETARIAT ON SUPPLEMENTAL CONTRIBUTIONS)

August 9, 2002

1. The Contributing Participants to the Third Replenishment (“the Participants”) agreed to this Summary of Negotiations for transmittal to the GEF Council, along with the attached documents: *Programming of Resources for the Third GEF Replenishment* (Annex A), Resolution No. \_\_\_\_, *The Global Environment Facility Trust Fund: Third Replenishment of Resources* (Annex B) and *Policy Recommendations for the Third GEF Replenishment Period* (Annex C). This Summary highlights the main agenda items that were considered during the replenishment meetings. It is not a comprehensive report of all the detailed discussions that took place during the negotiating process.

### **The Replenishment Process**

2. In May 2000, the GEF Council requested the World Bank, as Trustee of the GEF Trust Fund, in cooperation with the CEO/Chairman of the GEF, to initiate the third replenishment of the Trust Fund (“GEF-3”). Accordingly, the Trustee invited prospective GEF Contributing Participants to an initial meeting to plan the replenishment negotiations (October, 2000 in Washington, DC). The meeting welcomed the initiation of the GEF-3 replenishment process and noted the importance of the GEF as the leading multilateral funding mechanism for global environmental conventions. In addition, agreement was reached on the arrangements for participation in the replenishment discussions, the schedule of meetings<sup>1</sup> and the work plan for such discussions. Two key issues were considered of utmost importance for the GEF-3 discussions. The first was to maximize the focus and effectiveness of GEF operations. The second was to address outstanding arrears to previous GEF replenishments. It was agreed that GEF-3 replenishment discussions should include the following subjects: (i) programming of resources for GEF-3 and the replenishment target; (ii) burden sharing for GEF-3; (iii) the Second Overall Performance Study of the GEF (“OPS2”); and (iv) policy recommendations for GEF-3.

### **Programming of Resources under GEF-3 and the Replenishment Target**

3. Participants considered a proposal prepared by the GEF Secretariat for the programming of resources in the third replenishment period to cover GEF operations and activities for the four years FY03 through FY06, recognizing that the Council will guide the actual allocation of GEF resources through its consideration and approval of GEF strategic business plans<sup>2</sup>. A document on *Programming of Resources for the Third GEF Replenishment Period* is attached as Annex A to this Summary.

4. The Contributing Participants stressed the role of the GEF as the principal financial mechanism for the global environment and the importance and benefits of a single mechanism addressing the broad range of global environmental issues. Participants also recognized the growing demands being placed on the GEF, particularly in light of the conclusion of the

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<sup>1/</sup> The following replenishment meetings were held: May 7, 2001, Washington D.C.; October 11-12, 2001, Edinburgh; December 3-4, 2001, Washington, D.C.; February 27-28, 2002, Paris; May 13-14, 2002, Washington, D.C.; and August 6-7, 2002, Washington, D.C.

<sup>2</sup> See the Policy Recommendations on Strategic Planning, paragraphs 20-24 of Annex C of this document.

Stockholm Convention on Persistent Organic Pollutants and the proposal by the Council for the designation of land degradation and persistent organic pollutants as new GEF focal areas. In determining the size of the replenishment, these needs as well as the needs of existing focal areas were balanced against the realistic ability of donors to contribute.

5. Participants emphasized the need for the GEF to continuously seek to be more effective and efficient. The discussions on GEF programming identified a number of means to address this objective, including: improving country level performance; a new strategic approach to business planning; projection of outcomes and impacts together with clear indicators to measure performance; strengthened institutional arrangements to streamline project processing and to strengthen monitoring and evaluation; integration of global environmental issues into the mainstream development agenda; and increased co-financing.

### **Arrears at the Close of the GEF-2 Commitment Period**

6. At the outset of the replenishment process, the Participants expressed concern about the status of arrears by some Contributing Participants at the close of the GEF-2 commitment period. Participants urged that countries with outstanding arrears commit to a specific arrears clearance plan in the course of the replenishment negotiations.

### **Arrears Prevention under the GEF-3**

7. Participants discussed various options for preventing arrears under the GEF-3, including: (i) restrictions upon procurement of consultancy services; (ii) application of guidelines/criteria requiring procurement preference for consultancy services; (iii) limitation of voting rights; (iv) explanation in writing to the Council from the pertinent minister of a country in arrears setting out the reason for the arrears; and (v) continuation of the current pro rata provision.

8. Participants agreed that three means for preventing arrears would be applied under the GEF-3: (i) the pro rata provision that was in effect for the GEF-1 and the GEF-2 would continue; (ii) the introduction of a requirement that a Contributing Participant having continuing arrears or delays in unqualifying its contribution provide the Council with a written explanation from its Minister stating the reason for the arrears or delay and the steps being taken to resolve it.; and (iii) confirmation of the provision in the Instrument that voting rights accrue only for the actual contributions paid to the GEF.

### **GEF-3 Burden sharing Framework and Final Pledging**

9. The basic framework for burden sharing was agreed over the course of several meetings. Participants noted the imperative of maintaining fair and equitable burden sharing. The Participants agreed on the six-month averaging period for setting reference exchange rates (May 15, 2001 to November 15, 2001). These exchange rates are used to determine the national currency contributions to the GEF-3.

10. At their final meeting in August 2002, Participants agreed that the size of the Third Replenishment should be SDR 2,306.35 million (USD 2,922.84 million), taking into account the projected distribution of resources among the existing and proposed focal areas, including multisectoral projects, capacity building and other kinds of cross cutting activities that directly or indirectly relate to the focal areas. In view of existing and clearly identified needs for global environmental protection, a number of Participants indicated that their governments would consider making additional supplemental contributions so as to further raise the level of the GEF-3 replenishment.

11. The Participants approved the Replenishment Document, *The Global Environment Facility Trust Fund: Third Replenishment of Resources*, which is in the form of a World Bank resolution, to be endorsed by the GEF Council and submitted to the World Bank, as Trustee of the GEF Trust Fund, for adoption by the World Bank Executive Directors (see Annex B).

12. Pledged contributions to the GEF-3 are reflected in Attachment 1 to the Replenishment Document, *Global Environment Facility Trust Fund – Third Replenishment: Contributions*. These are comprised of basic and supplementary contributions amounting to SDR 1,687.26 million (USD 2,139.22 million ) and credit for accelerated encashments in the amount of SDR 64.09 million (USD 81.26 million). In addition, GEF-3 replenishment resources are comprised of carryover of previous GEF replenishment resources in the amount of SDR 450 million (USD 570 million), and projected investment income to be earned during the GEF-3 replenishment commitment period (FY2003 – FY2006) in the amount of SDR 105 million (USD 130 million).

### **Financial Issues for the GEF-3**

13. Participants noted that all Contributing Participants to the GEF-3 should make their best efforts to deposit their Instruments of Commitment or Qualified Instruments of Commitment by November 30, 2002. The Trustee will periodically inform the Council of the status of Instruments of Commitment and Qualified Instruments of Commitment deposited with the Trustee.

14. Participants agreed that contributions made without qualification shall be paid in four equal installments by November 30, 2002, November 30, 2003, November 30, 2004 and November 30, 2005, provided that GEF-3 becomes effective by October 31, 2002. Participants agreed, further, that Contributing Participants depositing Qualified Instruments of Commitment shall use their best efforts to unqualify sufficient amounts of their contributions to pay their installment amounts by these dates.

15. Participants agreed that payment may be made in cash upfront or by the deposit of non-negotiable, non-interest bearing demand notes or similar obligations to the account of the Trustee. Unless otherwise agreed with the Trustee, such notes, or similar obligations, will be encashed on an approximately pro rata basis among Contributing Participants. Encashments will be made in accordance with an encashment schedule agreed with the Trustee.

16. The Advance Contribution Scheme for the GEF-3 will become effective on the date when the Trustee has received Instruments of Commitment or Qualified Instruments of Commitment from Contributing Participants whose contributions aggregate not less than SDR 348 million (20% of the pledged contributions). The GEF-3 will become effective on the date when the Trustee has received Instruments of Commitment or Qualified Instruments of Commitment from Contributing Participants whose contributions aggregate not less than SDR 1,045 million (60% of the pledged contributions).

### **Assessment of GEF-2 Performance**

17. Participants noted the importance of looking at the progress that has been made in responding to the policy recommendations of the GEF-2, including the recommendations concerning mainstreaming of global environmental issues into the regular programs of the Implementing Agencies, country ownership and strengthened outreach. Participants also recognized the challenge of continuing to streamline GEF procedures, including the time lapse between the Council's approval of a work program and actual implementation of project activities on the ground.

18. During 2001, OPS2 was completed. The need for continued improvement in efficiency, effectiveness and streamlining of procedures, improved responsiveness of the GEF to country clients, greater acceptance of the GEF and strategic programming of resources was emphasized. In addition, the Contributing Participants recognized the increased absorptive capacity of recipient countries as well as the increased capacity of the GEF partners to deliver quality project assistance. The GEF should continue to strengthen its capacity to monitor and evaluate impacts and trends in order to ensure the quality of its operations.

### **Policy Recommendations for the GEF-3**

19. Participants agreed that the development of policy recommendations relating to strategic issues to be addressed by the Council during the GEF-3 period is an important part of the replenishment process, and that such recommendations should be formulated using the OPS2 as a basis as well as other reports emanating from the GEF monitoring and evaluation program during the second replenishment period. Participants advanced these recommendations with a view to increasing the GEF's emphasis on quality and results, to improving GEF's responsiveness to country needs and to the guidance of the global environmental conventions, and to making its processes more expeditious, streamlined and efficient so as to maximize impacts achieved with consideration of country performance through the resources of the third replenishment of the GEF. The policy recommendations for the GEF-3 are attached to this Summary (see Annex C).

### **Steps towards Concluding the Process of the Third GEF Replenishment**

20. The Participants requested the CEO/Chairman of the Facility to forward this Summary, including the Annexes attached to it, to the Council for consideration at its meeting in October 2002. The Council is invited to take note of the Summary and to endorse the Replenishment Document and the policy recommendations.

21. The Participants also invite the Council to request the CEO/Chairman of the Facility to transmit this Summary to the World Bank with a request that the World Bank Executive Directors be invited to adopt Annex B to this Summary, Resolution No. , *The Global Environment Facility Trust Fund: Third Replenishment of Resources*, thereby authorizing the World Bank, as Trustee of the GEF Trust Fund, to manage the resources made available under the GEF-3.

## ANNEX A: PROGRAMMING OF RESOURCES FOR THE THIRD GEF REPLENISHMENT<sup>3</sup>

### I. INTRODUCTION

1. On October 30, 2000, representatives from 32 current and potential GEF donor countries agreed on the schedule and timetable of events that would lead to a Third Replenishment of the Global Environment Facility (GEF-3). The timetable provided for an initial discussion in May 2001 with final discussion and agreement in February 2002. An initial proposal<sup>4</sup> for the programming of resources was discussed at the May 2001 meeting. While participants recognized at that time that it was then premature to reach agreement on a funding level for the Third Replenishment, the Secretariat and Trustee were asked to consider a range between \$2.5 billion and \$3.5 billion, including carryovers from GEF-2, when preparing a more detailed programming paper for the October 2001 meeting, without prejudice to other scenarios. The Meeting requested that this programming paper “better address the absorptive capacity of the countries together with the delivery capacity of the Implementing and Executing Agencies; look at GEF financing within the context of trends in financing for the global environment, including financing provided by bilaterals and the private sector; and separate resources required for operations from resources for administrative fees.”<sup>5</sup>

2. This paper is a proposal for programming resources in the Third Replenishment period, to cover GEF operations and activities for the four years FY03 through FY06. The background for this programming is the significant growth in both the absorptive capacity of countries and the delivery capacity of the Implementing Agencies and Executing Agencies; both absorptive and delivery capacity have grown to the extent that neither would be a general constraint on operations under any likely funding scenario. The absorptive capacity of countries has grown significantly, as evidenced by the growing engagement by countries in the processes of the international environmental conventions, the sectoral development programs and policies with which the GEF funding is associated, and the results of the Enabling Activities (as documented in recent evaluations). The delivery capacity of the agencies is evidenced in the growth of the GEF Pipeline. Absorptive and delivery capacity jointly determine the overall capacity of the GEF system, and this can be quantified on the basis of bottom-up projections of financially unconstrained demand in each focal area. This has been done for the *Program Status Reviews*, prepared in consultation with the Implementing Agencies, and the demand so estimated significantly exceeds the financial resources available under any of the scenarios presented here.

3. Initial estimates of GEF-3 resource requirements and the potential impact and implication of a number of operational developments were discussed in Section II of the *Programming of Resources* paper<sup>6</sup> presented in May 2001. Country demand and the absorptive capacity of countries to prepare and implement high quality projects addressing global environmental

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<sup>3</sup> The information in this annex was presented to the Replenishment meetings in documents GEF/R.3//15/Rev.1 and GEF/R.3/15/Add.1.

<sup>4</sup> *Programming of Resources for the Third GEF Replenishment*. GEF/R.3/6

<sup>5</sup> Para.14 of the Summary of the Co-Chairs.

<sup>6</sup> Ibid.

objectives were discussed in Section III of that paper; the delivery capacity of the GEF system to supply this country demand was considered in Section IV; and the broad implications of various replenishment scenarios on the work program were examined in Section V.

4. The current paper continues that programming on the basis of the revised scenarios. Section II sets out those funding scenarios. For each of the three funding scenarios, Section III proposes a balanced set of GEF commitments for each focal area to act as reference levels for the detailed programming. Section IV sets out the method of programming resources for each focal area within those indicative amounts. Because bottom-up projections of the resource needs for each focal area (based on the projects currently under preparation or conceptual development to fill identified program needs) exceed the resources available, Section V to Section XI reprogram the resources for focal areas according to stated portfolio development principles.

5. Once there is broad agreement on a particular funding scenario and on the portfolio development principles, the Secretariat would prepare the *Corporate Business Plan FY03-FY06* in consultation with the Implementing Agencies, for the December 2001 Council Meeting. Consistent with the proposed funding scenario and principles, and following the usual format, the business plan would set out for Council's consideration:

- a) Specific approaches for achieving and sustaining impact in each focal area;
- b) The institutional strategy for making maximum use of the comparative strengths of the three Implementing Agencies and the seven Executing Agencies that operate under expanded opportunities;
- c) Ways of strengthening country ownership; and
- d) Proposals for further increasing the financial and operational efficiency of the GEF system in accordance with policy decisions of the Council.

## II. FUNDING SCENARIOS

6. Three funding scenarios -- \$2.5 billion, \$3.0 billion, and \$3.5 billion in available resources -- are shown in Table 1. After allowance is made for new areas of activity in POPs, land degradation, and cross-cutting capacity building, each scenario would necessitate major adjustments in the management strategies for the pipelines and portfolios of the existing core areas of the GEF. The adjusted strategies would have to depend much more strongly on complementarity among GEF focal areas and between the GEF Trust Fund and potential new funds in the GEF (e.g., those for the UNFCCC) and to make maximum use of cofinancing.



**Table 1: Summary of GEF-3 Funding Scenarios**

	Scenario 1		Scenario 2		Scenario 3	
	\$ billion billion	SDR	\$ billion billion	SDR	\$ billion billion	SDR
Core operations <sup>a</sup>	2.00	1.58	2.50	1.97	3.00	2.37
Persistent Organic Pollutants <sup>b</sup>	0.25	0.20	0.25	0.20	0.25	0.20
Land degradation <sup>c</sup>	0.25	0.20	0.25	0.20	0.25	0.20
<b>Total GEF-3 Resource Requirements</b>	<b>2.50</b>	<b>1.98</b>	<b>3.00</b>	<b>2.37</b>	<b>3.50</b>	<b>2.76</b>
<i>Less: GEF-2 Funds carried over</i>	0.30	0.24	0.30	0.24	0.30	0.24
<b>Total GEF-3 New Funding Needs</b>	<b>2.20</b>	<b>1.74</b>	<b>2.70</b>	<b>2.13</b>	<b>3.20</b>	<b>2.52</b>

<sup>a</sup> Resource requirements for activities within the core focal areas (including land degradation within existing focal areas), cross-cutting capacity-building, and inclusive of all associated fees, core capacity-building, targeted and streamlined capacity-building of about 10 per cent of the allocation in the core focal areas, and core corporate services.

<sup>b</sup> Resource requirements are inclusive of all associated fees and capacity-building for POPs.

<sup>c</sup> Land degradation producing global environmental benefits outside core focal areas. Resource requirements are inclusive of all associated fees.

### III. REFERENCE FUNDING LEVELS

7. Indicative funding levels have been established for the core operations in the focal areas, consistent with the overall funding scenarios set out in Table 1, to serve as a reference point for programming. These funding levels, set out in Table 2, are based on the following requirements and assumptions:

- a) As requested at the May meeting on the Replenishment, agency fees have been separately identified. For programming purposes only,<sup>7</sup> fees have been estimated at 8 per cent of the project allocation in both core and each non-core focal areas;
- b) The approximate historical shares of biodiversity, climate change, and international waters focal areas in the total allocation are maintained. This is consistent with the current pipeline;
- c) There is an expansion of the multifocal allocation, because of the trend to integrated ecosystem management and the planned expansion of the Small Grants Program, but these activities also contribute to the core focal areas;

<sup>7</sup> The fee system will be reviewed in FY02.

- d) Provision has been made for land degradation should Council decide to include it as a focal area, but additional resources would be programmed as before for land degradation activities related to the other focal areas;
- e) The budget for corporate services has been maintained in real terms using an assumed 3 per cent annual inflation rate in US dollar terms; and
- f) Allocations for Persistent Organic Pollutants (POPs) and for cross-cutting capacity building (the new non-core areas) have been set at the levels presented in the last programming paper except in the case of the lowest funding scenario, where the cross-cutting capacity building would not be funded. The planning assumptions for these activities are described in Section IX and Section X.

8. Note that for Scenario 1, the nominal funding levels for biodiversity, climate change, and international waters would be lower in GEF-3 than in GEF-2. The increase in multifocal activities would not be large enough to offset these decreases.

**Table 2: Reference Funding Levels in GEF-2 and GEF-3 by Activity -- Revised**

	GEF-2 <sup>a</sup>		Scenario 1		Scenario 2		Scenario 3	
	\$ SDR		\$ SDR		\$ SDR		\$ SDR	
	billion		billion		billion		billion	
<b>Core operations</b> <sup>b,c</sup>								
Biodiversity	0.93	0.67	0.77	0.61	0.96	0.76	1.14	0.90
Climate Change	0.93	0.67	0.77	0.61	0.96	0.76	1.14	0.90
International Waters	0.38	0.28	0.31	0.24	0.43	0.34	0.57	0.45
Ozone Depletion	0.05	0.04	0.05	0.04	0.05	0.04	0.05	0.04
Corporate services <sup>d</sup>	0.09 <sup>e</sup>	0.07	0.10	0.08	0.10	0.08	0.10	0.08
<b>Core Operations</b>	<b>2.38</b>	<b>1.73</b>	<b>2.00</b>	<b>1.58</b>	<b>2.50</b>	<b>1.97</b>	<b>3.00</b>	<b>2.37</b>
<b>POPs</b>	<b>0</b>	<b>0</b>	<b>0.25</b>	<b>0.20</b>	<b>0.25</b>	<b>0.20</b>	<b>0.25</b>	<b>0.20</b>
<b>Land Degradation</b> <sup>f</sup>	<b>included</b>		<b>0.25</b>	<b>0.20</b>	<b>0.25</b>	<b>0.20</b>	<b>0.25</b>	<b>0.20</b>
<b>Total Resource Requirements</b>	<b>2.38</b>	<b>1.73</b>	<b>2.50</b>	<b>1.98</b>	<b>3.00</b>	<b>2.37</b>	<b>3.50</b>	<b>2.76</b>
<i>Less: GEF-2 Funds carried over</i>			0.30	0.24	0.30	0.24	0.30	0.24
<b>Total GEF-3 New Funding Needs</b>			<b>2.20</b>	<b>1.74</b>	<b>2.70</b>	<b>2.13</b>	<b>3.20</b>	<b>2.52</b>

<sup>a</sup> Estimated and for purposes of comparison only. Shares based on actuals only for FY99-FY01 and on projections for FY02.

<sup>b</sup> Resource requirements for activities (including land degradation) within the core focal areas, inclusive of capacity-building.

<sup>c</sup> Includes the Small Grants Program and OP#12.

<sup>d</sup> Non-project activities of the GEF units. These amounts are included in the GEF Corporate Budget.

<sup>e</sup> Note that the figures for FY99 corporate services and fees are notional because the fee system had not yet become operational. For purposes of comparison only, part of the Corporate Budget of \$39.255 million has been ascribed to fees. Note also that there was a one-time lump-sum payment of \$70.78m as part of the transition to a fee system. This amount covers future implementation costs of projects that had been approved in earlier years.

<sup>f</sup> Land degradation is a cross-cutting activity. In addition to the amount programmed, it is assumed that about \$250m would additionally be available for land degradation activities linked to biodiversity, climate change, and international waters.

#### IV. Programming Resources in the Focal Areas

##### **The current GEF Portfolio**

9. Each year, the GEF Secretariat assesses the portfolio in each focal area in consultation with the Implementing Agencies. These assessments are published as the *Program Status Reviews*, and they provide inputs for the preparation of the *Corporate Business Plan* and for the programming of future operations. This year, those assessments also benefited from in-depth program studies.<sup>8</sup> These comprise evaluations of the biodiversity, climate change, and international waters portfolios that had been prepared as technical inputs for the *Second Overall Performance Study of the GEF*. Other studies which have contributed to the assessment of GEF activities include an impact study on ozone depletion, evaluations of Enabling Activities, and a linkage study on land degradation.<sup>9</sup>

##### **Future needs**

10. There are portfolios for each Operational Program; for the Enabling Activities in biodiversity (including biosafety), climate change, and POPs; and for the short-term response measures in biodiversity and climate change. The requirements of each portfolio are thus specified by the relevant operational program or operational criteria. As set out in the sections that follow, by comparing the current portfolio with these requirements, it is possible to identify the program gaps and opportunities.

11. The identified program gaps and opportunities, together with recommendations of the program studies on refocusing certain operations, can be used to make initial bottom-up estimates of future funding requirements. The extent to which those requirements can actually be met in the next four years will in practice be influenced by five main factors:

- a) the existing pipeline (for the first one to two years because of the typical preparation times);
- b) country absorptive capacity;
- c) GEF delivery capacity;

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<sup>8</sup> At the Planning Meeting for the Third Replenishment (GEF-3) held on October 30, 2000 it had been agreed that progress of the GEF portfolio would be reviewed at the GEF-3 meeting in May 2001. At that meeting, the GEF Secretariat therefore submitted four reports assessing progress of the GEF portfolio, namely an overview report accompanied by program studies in each of three focal areas -- biodiversity, climate change, and international waters. *GEF Review of Implementation and Results* – Part 1 -- 2000 Project Implementation Review, GEF/C.17/8; Part 2 – Program Study on Biodiversity, GEF/C.17/Inf.4; Part 3 – Program Study on Climate Change, GEF/C.17/Inf.5; Part 4 – Program Study on International Waters, GEF/C.17/Inf. 6. (These reports were also submitted, under separate cover, to the GEF Council Meeting in May 2001.)

<sup>9</sup> *Study of Impacts of GEF Activities on Phase-Out of Ozone Depleting Substances* (Evaluation Report #1-00); *Review of Climate Change Enabling Activities* (Evaluation Report #2-00); *Interim Assessment of Biodiversity Enabling Activities* (Evaluation Report #2-99); and *GEF Land Degradation Linkage Study* (Working Paper 6, March 2001).

- d) availability of GEF resources and appropriate other funding sources such as bilateral development agencies and the private sector; and
- e) the need to maintain some flexibility in pipeline and portfolio management to accommodate future convention guidance.

12. These factors are addressed below in the focal areas. Absorptive capacity, for many of the large countries, is not an overall constraint because of the Enabling Activities and the efforts that have been made there to build capacity at country level. But for other countries – particularly the smaller countries, LDCs, and SIDs -- efforts to build capacity need to continue. Because of the efforts of the Implementing Agencies to increase their capacity in recent years and the expansion of opportunities for executing agencies on the basis of specific comparative strengths matching GEF business needs, delivery capacity has much increased and is not now a general constraint. These capacity factors are reflected in the resultant size of the GEF Pipeline, in the number of projects under preparation, and in the number of proposals that have been discussed upstream. Overall, GEF agencies will be able to deliver quality projects in the volumes implied by any of the scenarios and recipient countries will be able to absorb them effectively.

13. For more detailed programming, it would be necessary to adjust the pipeline and portfolio management strategy

- a) to reflect strategic targets for each GEF program that will be developed for the approval of Council, consistent with guidance from the relevant conventions;
- b) to balance the Work Program by focal area during the period;
- c) to match approvals with the expected resource flows; and
- d) to require financial packages that maximize cofinancing, particularly from bilateral development agencies, the private sector, and (in the case of climate change) special convention funds.

## V. BIODIVERSITY

14. The overall resource requirement for the biodiversity focal area is driven by the proportion of unmet program needs that can be financed, delivered, and absorbed in the period. The program needs, based on convention guidance on priorities, are the activity categories and geographical coverage set out in the Operational Programs (OPs). The OPs comprise four original ones that are based on ecosystem types and a relatively new one that responds to convention guidance by defining new requirements in the field of agrobiodiversity. In the next few years, further scientific work (such as the Millennium Ecosystem Assessment) and the expected additional convention guidance on dryland, forest, and mountain ecosystems and on other issues, could add to or at least refocus the existing definitions of needs.

15. Considerable progress in meeting the existing needs has already been made through the 446 projects in 123 countries that GEF has financed. A further 87 projects are under preparation. Two constraints on implementing projects to cover the unmet needs have been partially lifted. First, countries are now much more aware of biodiversity and the GEF through the Enabling Activities, capacity-building projects, and the Country Dialogue Workshops. Second, both the strengthened efforts of the Implementing Agencies and the Expanded Opportunities policy have brought additional delivery capacity to the GEF system. In addition to the three Implementing Agencies, the regional development banks and FAO will be able to fill some unmet program needs, particularly in the smaller countries.

16. The resource requirements to meet the remaining needs within the constraints of absorptive capacity and delivery capacity had initially been projected on the basis of the GEF Pipeline (which has implications for the next one to two years), upstream consultations with agencies on eligible concepts, and projected portfolio growth rates for the outer years. It is expected that the portfolio would grow in areas outside protected areas to encompass productive landscapes and seascapes. This alone should not result in larger GEF commitments because there would be an even greater role for cofinancing in such projects (to cover the associated sustainable development components) than there is for protected areas projects.

**Table 3: Resources Programmed for Biodiversity (\$m) -- Revised**

<b>Operational Program</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>Total</b>
#1 Arid and Semi-Arid	26	34	35	43	138
#2 Coastal, Marine, Freshwater	34	39	43	50	166
#3 Forest	38	46	51	58	193
#4 Mountain	23	26	29	33	111
#13 Agrobiodiversity	18	20	23	27	88
Targeted and streamlined capacity building <sup>a</sup>	20	20	20	20	80
Share of Cross-Cutting Capacity-Building	9	15	19	27	70
Share of Multi-Focal Area projects	20	22	24	24	90
Short Term Response Measures	2	2	2	2	8
Enabling Activities	4	4	4	4	16
<b>Total</b>	<b>194</b>	<b>228</b>	<b>250</b>	<b>288</b>	<b>960</b>
<u>Reference levels</u>					
Scenario 1					770
Scenario 2					<b>960</b>
Scenario 2					1140

<sup>a</sup> See section on capacity-building.

17. Such bottom-up projections are consistent with historical trends but would exceed the resources available, in a balanced work program, under any of the funding scenarios in Table 2. To remain in conformity with these scenarios therefore, the portfolio can be reprogrammed in the following way (see Table 3):

- a) Full provision will be made for enabling activities (which could also be subject to future guidance from the Convention on Biological Diversity);
- b) A set of strategic targets for the GEF program will be developed that, while fully consistent with COP guidance, would provide the basis for additional project criteria (including for cost-effectiveness and innovation) beyond the existing eligibility checks;
- c) Programmatic approaches would be employed with specific financial commitments made commensurate with progress indicators over longer periods of time; and

- d) Productive landscape projects with significant cofinancing would be emphasized relative to new protected area management projects.

## VI. CLIMATE CHANGE

18. The overall resource requirement for the climate change focal area is also driven by the proportion of unmet program needs that can be financed, delivered, and absorbed in the period. The program needs, based on convention guidance on priorities, are the activity categories set out in the Operational Programs (OPs). The OPs comprise two that cover the transformation of energy markets within countries -- namely, the removal of barriers to energy conservation and energy efficiency (OP#5) and the promotion of and removal of barriers to renewable energy (OP#6); one on sustainable transport (OP#11); and one that concerns the reduction of technology costs globally (OP#7).

- a) **Market coverage.** The resource needs of the first three OPs will depend on the balance of three main programming approaches: extending geographical coverage, adopting programmatic approaches, and stimulating the replication of successful demonstrations. Covering additional country or regional markets will require proportionately more resources. Programmatic approaches -- such as that for China for which the first phase has already been approved -- would require additional commitments that are large, although such commitments could be phased over many years in parallel with supporting country-level actions. Projects that are designed to stimulate the replication of successful demonstrations that GEF has already financed would be expected to reduce the costs of transforming energy markets and are expected to become more common with the maturing of the portfolio.
- b) **Technology programs.** The needs of OP#7 are more discrete. In order to reduce the cost of a specific technology (such as solar-thermal power generation or fuel cells for transport or stationary uses), GEF needs to make a multi-project commitment. Such a commitment would be based on an analysis of learning potential and the potential for future cost-reduction for the technology in question. In the next few years, further work by STAP will help clarify the cost-reduction potential of new and emerging low GHG-emitting technologies and guide further commitments in this OP.
- c) **New convention guidance.** Additional convention guidance could also add to or at least refocus the existing definitions of needs, particularly in relation to adaptation to climate change.

19. Considerable progress in meeting these needs has already been made through the 340 projects that GEF has so far financed -- and a further 61 projects are under preparation. Two constraints on implementing projects to cover the unmet needs have been partially lifted. First, countries are now much more aware of climate change issues and the GEF through the Enabling



Activities, capacity-building projects, and the Country Dialogue Workshops. Second, both the strengthened efforts of the Implementing Agencies and the Expanded Opportunities policy have brought additional capacity to prepare and implement energy projects. The four regional development banks bring specialist energy expertise to the GEF family, as well as particular emphases on the smaller countries where there has been a gap in the GEF portfolio. Both UNIDO and FAO have specialist skills in agricultural and industrial energy use respectively.

**Table 4: Resources Programmed for Climate Change (\$m) -- Revised**

<b>Operational Program</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>Total</b>
#5 Energy Efficiency	26	29	34	35	124
#6 Renewable Energy	62	70	76	82	290
#7 Low GHG Technology	35	26	27	27	115
#11 Sustainable Transport	19	25	31	36	111
Targeted and streamlined capacity building <sup>a</sup>	20	20	20	20	80
Share of Cross-Cutting Capacity-Building	9	15	19	27	70
Share of Multi-Focal Area projects	20	22	24	24	90
Short Term	10	10	12	12	44
Enabling Activities	8	9	9	10	36
<b>Total</b>	<b>209</b>	<b>226</b>	<b>252</b>	<b>273</b>	<b>960</b>
<u>Reference levels</u>					
Scenario 1					770
Scenario 2					<b>960</b>
Scenario 3					1140

<sup>a</sup> See section on capacity-building.

20. The resource requirements to meet the remaining needs of the climate change focal area -- given the current eligibility criteria, absorptive capacity, and delivery capacity -- have initially been projected on the basis of the GEF Pipeline (which has implications for the next one to two years); upstream consultations with agencies on eligible concepts; and projected portfolio growth rates for the outer years of the Replenishment period.

21. Such bottom-up projections are consistent with historical trends but would exceed the resources available, in a balanced work program, under any of the funding scenarios in Table 2.

To remain in conformity with these scenarios therefore, the portfolio can be reprogrammed in the following way (see Table 4):

- a) Full provision will be made for enabling activities (which could also be subject to future guidance from the COP of the UN Framework Convention on Climate Change);
- b) A set of strategic targets for the GEF program will be developed that, while fully consistent with COP guidance, would provide the basis for additional project criteria (including for cost-effectiveness and innovation) beyond the existing eligibility checks. This may involve limiting further commitments in the mature programs such as OP#5 and on short-term measures other than those that meet high cost-effectiveness criteria;
- c) A strategy to increase leverage and cofinancing from the private sector would be adopted;
- d) Programmatic approaches would be employed with specific financial commitments made commensurate with progress indicators over longer periods of time;
- e) Subprograms for technology cost-reductions under OP#7 will be proposed only if the available resources permit. (Such programmatic commitments could be large -- possibly up to \$200 million over several years per subprogram.) It is expected that decisions would be needed in the Replenishment period on whether or not to commit resources to new subprograms for, among possibly others, Integrated Gasification Combined Cycle and conjunctive PV-hydro technologies; and for extending existing subprograms for biomass generation and solar-thermal technologies; and
- f) The special funds for the UNFCCC (namely: the Special Climate Change Fund and the LDC Fund for eligible countries) will also be used to complement GEF resources in areas identified by the COP.

## VII. INTERNATIONAL WATERS

22. The overall resource requirement for the International Waters focal area is driven by the proportion of unmet program needs that can be financed, delivered, and absorbed in the period. The program needs are scoped out by the components of the three Operational Programs (OP#8-OP#10) and their geographical coverage as follows.

- a) **Waterbodies.** Two components: transboundary freshwater and large marine ecosystems.

- b) **Integrated Land and Water.** Three components: land degradation linkage, Small Island Developing States, and multiple focal area.
- c) **Contaminants.** Four components: global, technical support, land-based activity demonstrations, and ship-based contaminants.

23. Considerable progress in meeting the existing needs has already been made through the 57 projects -- 13 global in scope and the remainder covering four geographic regions --that GEF has financed. The main gaps and opportunities for further support are for large marine ecosystems, SIDS, land-based activity demonstrations, and freshwater basins with scarcity and use conflicts.

24. The resource requirements to meet the remaining needs within these constraints of absorptive capacity and delivery capacity had initially been projected on the basis of the current GEF Pipeline of 36 projects (which has implications for the next three to four years under constrained resources), upstream consultations with agencies on eligible concepts, and projected portfolio growth rates for the outer years. It is expected that new projects in the portfolio would shift away from large-scale planning exercises toward a more step-by-step catalytic approach focusing on policy, legal, and institutional reforms and innovative demonstration and replicable investments arising from broad Strategic Action Programs, consistent with an adaptive management approach.

**Table 5: Resources Programmed for International Waters (\$m) -- Revised**

<b>Operational Program</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>Total</b>
#8 Waterbodies	24	26	29	35	114
#9 Integrated Land and Water	24	26	29	35	114
#10 Contaminants	11	12	12	17	52
Targeted learning	5	5	5	5	20
Share of Cross-Cutting Capacity Building	9	13	16	22	60
Share of Multi-Focal Area projects	15	16	17	22	70
<b>Total</b>	<b>88</b>	<b>98</b>	<b>108</b>	<b>136</b>	<b>430</b>
<u>Reference levels</u>					
Scenario 1					310
Scenario 2					<b>430</b>
Scenario 2					570

25. Such bottom-up projections are consistent with historical trends but would exceed the resources available, in a balanced work program, under any of the funding scenarios in Table 2. To remain in conformity with these scenarios therefore, the portfolio can be reprogrammed in the following way (see Table 5):

- a) A set of strategic targets for the GEF program will be developed -- including sharpened focus on the most globally significant waterbodies, higher cofinancing, and greater demonstration value. This will result in some projects that are under preparation being either cancelled or restructured to require significantly higher cofinancing;
- b) GEF support would be sequenced to be commensurate with progress indicators and the strength of country and regional commitments;
- c) The concept of incremental cost (particularly as it applies to any large-scale follow up to the Strategic Action Programs) would be further clarified, significant and adequate baseline funding will be required from other sources, and the willingness of the private sector to engage in this follow up will be tested;
- d) The developing portfolio of projects that implement completed SAPs will be refocused more towards innovative demonstration and replicable schemes and to the policy, legal, and institutional reforms called for in the Operational Strategy;
- e) Project approvals will be sequenced over a longer time period than previously envisaged.

#### VIII. MULTI-FOCAL AREA PROJECTS

26. The main multifocal resource requirements are for the Small Grants Program (SGP) and for integrated ecosystem management.

##### **Small Grants Program**

27. The program needs are determined by the country coverage and activity categories.
- a) There are approximately 150 recipient countries in GEF, while SGP currently operates in only 55;
  - b) SGP is not yet active on POPs projects for which there is demand at country level; and
  - c) Several GEF projects separately fund community-based natural resource management components that could be handled by the SGP infrastructure.

28. The Small Grants Program has met with considerable success already, and is now funded on a continuing programmatic basis to provide continuity for the program's operations. The availability of resources would permit expansion to an additional five countries a year (implying annual growth of about 10 per cent). The annual requirements of the SGP are projected on this basis to grow to \$30 million for FY03 and to \$44 million for FY06. The Small Grants Program could however grow at twice this rate if further resources could be programmed to cover additional countries or activity areas (such as POPs).

### **Integrated Ecosystem Management Projects**

29. The GEF's Operational Program on Integrated Ecosystem Management (OP#12) was introduced in March 2000 and it represents a paradigm shift away from a single-sector approach to natural resource management towards a more integrated and cross-sectoral approach designed to achieve both sustainable development goals and global environment benefits.

30. Progress has already been made since the introduction of this OP about a year ago. Five full projects have been approved: two in Africa, two in Latin America and the Caribbean, and one in Asia. The GEF's contribution of nearly \$17 million leveraged an additional \$38.5 million in co-financing.

31. No gap analysis has yet been undertaken on OP#12 because it is a relatively new OP and the programming is still exploratory. The main emphasis has been on meeting the specific operational challenges of this new approach -- such as having a programmatic approach, a clearly defined management unit to integrate both the ecological and sustainable development activities, and benefits in more than one focal area.

32. Demand for OP#12 projects is growing significantly because project proponents, as observed during the past year, are increasingly opting for ecosystem-based approaches to natural resources management that are aimed at achieving both conservation and sustainable development benefits. Bottom-up demand has been estimated from the current GEF Pipeline comprising 16 projects (which has implications for the next one to two years), upstream consultations with agencies on eligible concepts, and projected portfolio growth rates for the outer years.

33. These bottom-up projections are consistent with historical trends but would exceed the resources available, in a balanced work program, under any of the funding scenarios in Table 2. To remain in conformity with these scenarios therefore, the portfolio will be reprogrammed to emphasize programmatic approaches, projects with high degrees of cofinancing because of the associated sustainable development components, and highly innovative approaches (see Table 6).

**Table 6: Resources Programmed for Multi-Focal Area Projects (\$m)**

<b>Operational Program</b>	<b>FY03</b>	<b>FY04</b>	<b>FY05</b>	<b>FY06</b>	<b>Total</b>
Small Grants Program (all OPs)	30	33	36	39	138
#12 Integrated Ecosystem Management	25	27	29	31	112
<b>Total</b>	<b>55</b>	<b>60</b>	<b>65</b>	<b>70</b>	<b>250</b>
<u>Reference levels</u>					
Scenario 1					200
Scenario 2					250
Scenario 3					350

**IX. LAND DEGRADATION**

34. Provision has been made for land degradation, should Council recommend that it be designated as a new focal area, but additional resources would be programmed as before for land degradation activities related to the other focal areas. Land degradation is a cross-cutting activity, so in addition to the amount programmed (\$250m), it is assumed that a further \$250m would be available for land degradation activities linked to biodiversity, climate change, and international waters.

**X. PERSISTENT ORGANIC POLLUTANTS**

35. In May 2001, a new convention, the Convention on Persistent Organic Pollutants (the Stockholm Convention), was adopted. The objective of the convention is to protect human health and the environment from persistent organic pollutants (POPs), and it is focused initially on twelve POPs.<sup>10</sup> The Convention designated the GEF as its interim financial mechanism. In anticipation of this designation, the GEF Council, in November 2000, endorsed draft elements of an Operational Program<sup>11</sup> which defines two categories of program needs:

- a) Enabling Activities, which will be eligible for full funding of agreed costs; and
- b) On-the-ground interventions aimed at implementing specific phase-out and remediation measures at national and/or regional levels, including targeted capacity building and investments, which will be eligible for funding on an incremental cost basis.

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1. <sup>10</sup> The twelve POPs covered by the Stockholm Convention can be grouped into the following three categories: (a) Pesticides—aldrin, chlordane, DDT, dieldrin, endrin, heptachlor, hexachlorobenzene (also an industrial chemical and unintended byproduct), mirex and toxaphene; (b) Industrial chemicals – PCBs (also unintended by-products); and (c) unintended by-products – dioxins and furans.

<sup>11</sup> “Draft Elements of an Operational Program for Reducing and Eliminating Releases of Persistent Organic Pollutants into the Environment” (GEF/C.16/6).

36. The overall resource requirement for POPs activities will be driven by these program needs and those that would be specified in detail by the Conference of the Parties (COP) to the Convention on Persistent Organic Pollutants, once the Convention enters into force. The Operational Program would then be fully developed and presented to Council for approval.

37. The following sequence for GEF assistance to eligible countries has been proposed:

- a) **Enabling Activities:** GEF would support the preparation of National Implementation Plans (NIPs) required by the Convention within two years of its entry into force. Each NIP would provide a framework for a country to develop and implement, in a systematic and participatory way, priority policy and regulatory reform, capacity building, and investment programs. The GEF will provide up to \$500,000 per country, under GEF's expedited approval procedures, for the preparation of NIPs.<sup>12</sup>
- b) **Policy reforms and investments:** The NIPs will form the basis for future GEF support on POPs. The GEF will provide funding, together with funds from other sources, for priority policy and regulatory reform, capacity building, and investment programs identified in a country's NIP.
- c) **Pilot projects:** While waiting for the NIPs to be ready for funding, the GEF will provide funding for a limited number of pilot projects to demonstrate innovative and cost-effective technologies and chemicals management practices on the disposal of stockpiles of obsolete POPs and alternatives to POPs. To ensure high quality pilot projects that have the potential for replication, the GEF Secretariat will seek input from the Scientific and Technical Advisory Panel (STAP) during the review of proposals at the pipeline entry stage.

38. Some progress in meeting these program needs had previously been made through OP#10. GEF had been providing assistance in this OP to countries for activities that demonstrate ways to address the issue of persistent toxic substances (PTS) -- including POPs, heavy metals, and organo-metallic compounds. Three further projects are also under preparation. The initial GEF support for the implementation of the Stockholm Convention - Enabling Activities -- will occur mostly in the GEF-2 period (in FY02) and about \$30 million of GEF funds may be required in the GEF-3 period.

39. To prepare for the future implementation of the convention and for the mobilization of additional resources for that purpose, two agencies with specific experience in the field of POPs have been brought into the GEF system through the policy on Expanded Opportunities. These are UNIDO in the industrial sector and FAO in the agricultural sector.

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<sup>12</sup> If the needs of a country for the preparation of its NIP exceed \$500,000, normal GEF processing rules for full projects will apply.

40. Although the GEF Assembly would have the opportunity in October 2002 to amend the Instrument to allow for a new focal area covering POPs projects, the Stockholm convention itself is not expected to enter into force for about two or three years. There is therefore only a very small pipeline of POPs projects so far, and thus the rate of financial commitment will be substantially lower for POPs than those for the core focal areas in GEF-3. Based on the rate of uptake of the initial Enabling Activities and experience with similar pollution-reduction projects, it is anticipated that about \$45 million will be needed to support the implementation of the first set of capacity building and investment activities emerging from NIPs in FY03. As more countries complete their NIPs, the annual funding requirement is expected to rise to \$80 million by FY06 (see Table 7).

**Table 7: Resources Programmed for Persistent Organic Pollutants (\$m)**

Operational Program	FY03	FY04	FY05	FY06	Total
#15 Persistent Organic Pollutants	45	60	65	80	250
<u>Reference levels</u>					
Scenario 1					250
Scenario 2					250
Scenario 3					250

#### XI. CROSS-CUTTING CAPACITY BUILDING

41. There has been growing demand from the parties of the Convention on Biological Diversity and of the UN Framework Convention on Climate Change for capacity building to implement those conventions and to address land degradation issues. In May 1999, the GEF Council responded by approving a strategic partnership between GEF and UNDP: the Capacity Development Initiative (CDI). This initiative included a comprehensive assessment of capacity building needs of countries undertaken on regional basis, and assessments of capacity building efforts of the GEF and of other bilateral and multilateral institutions. The outcome of the assessments is summarized in the report *Country Capacity Development Needs and Priorities: a Synthesis*.

42. GEF's proposed follow-up for capacity building builds upon the findings of the CDI assessment, taking into account (i) the decisions and guidance of the Parties to the Conventions for which the GEF serves as the financial mechanism; (ii) focused regional consultations with developing countries and countries with economies in transition; and (iii) the experience of the



GEF and other multilateral and bilateral agencies engaged in the field. If approved by Council, GEF would be able to enhance its support in the following ways<sup>13</sup>:

- a) **Cross-cutting, country-based, and foundational support:** This would include country self-assessment of capacity building needs to define and prioritize its requirements as the first step to a broad-based program of capacity building. It also includes decentralized funding for the special needs of least developed countries and small islands developing states, given their particular concerns for quick disbursement of funds for small projects that address basic capacity building needs. Technical support, at the national, regional and international level, would also be provided to assist and backstop national and regional expertise and institutions, develop and support scientific networks, promote regional cooperation and dialogue, exchange of experiences, and provide such other technical assistance as may be needed.
- b) **Targeted and streamlined capacity-building.** These would be supported as part of GEF's core activities. Targeted free-standing capacity building projects for global environment management would assist countries carry out commitments made through the Conventions (sector-specific, focal area, or even cross-focal). Streamlined regular GEF projects with capacity building elements would help broaden the scope of capacity building at the individual, institutional and systemic level, and to make it a more visible component of every project. Capacity building components in regular projects will also be enhanced.

43. As agreed by the Council at its May 2001 meeting, the activities of the self-assessment phase have begun. Guidelines are being developed for this and country requests would be considered on that basis. (For these activities, using a working basis of 100 countries, the estimated resource requirement in FY02 will be \$20 million.) A revised strategic elements and framework for GEF action would be presented to the Council at its April 2002 meeting.

44. After the completion of these country-level assessments, and subject to Council's approval of the revised strategic elements and framework, it is anticipated that the resources required for the other modalities would be funded under GEF-3. While these self-assessments would be instrumental in determining the initial level of country, cross-cutting, and foundational support, an average GEF commitment of between \$1 million and \$2 million per country is proposed during GEF-3. It is estimated that the total funding during GEF-3 would therefore be of the order of \$200 million. Approximately \$200 million more would be required for targeted and streamlined capacity-building support and for enhanced capacity building project components in the focal areas.

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<sup>13</sup> Discussed in greater detail in "*Elements of Strategic Collaboration and a Framework for GEF Action or Capacity Building for the Global Environment*" (GEF/C.17/6), which has been submitted to Council for the May 2001 meeting.

45. In the low scenario, it is proposed to finance capacity-building only in the core focal areas (including through the use of the convention funds) and not to finance any cross-cutting capacity-building.

**Table 8: Resources Programmed for Capacity Building (\$m)**

Operational Program	FY02	FY03	FY04	FY05	FY06	Total GEF3
Country CB Needs Self-Assessment	20	0	0	0	0	0
Country, cross-cutting, and foundational support		27	43	54	76	200
<u>Reference levels</u>						
Scenario 1						0
Scenario 2						200
Scenario 3						200

## ANNEX A: QUANTIFIED OUTCOMES ACHIEVABLE UNDER ALTERNATIVE FINANCIAL SCENARIOS

1. The outcomes that GEF can achieve as a result of activities it finances in the GEF-3 period will depend on the financial scenario selected and the strategy adopted. For a given strategy, higher financial commitments will lead to greater positive outcomes. It is important therefore to select indicators for quantifying projected future outcomes in order to help donors match the overall benefits of GEF support against the cost.

### Indicators

2. Indicators have been extensively studied by the general scientific community as well as specifically for the GEF. State-of-the-art indicators were then used to study the historical performance of the GEF portfolio as a foundation for the recently completed Second Overall Performance Study of the GEF. These impact studies have been published.<sup>14</sup>

3. Because GEF operates strategically by catalyzing action, GEF's impacts will be long term and programmatic rather than the simple summation of the immediate impacts directly achieved by each project in the portfolio.

- a) **Programmatic indicators.** The appropriate indicators are therefore programmatic (corresponding in fact to the objectives set out in the Operational Programs of the GEF) and will relate to outcomes achieved beyond the projects and beyond the four-year period within which they are financed. Outcome indicators need therefore to be distinguished not only from project indicators but also from process indicators, which are used to measure the degree of *progress* toward the outcome rather than the *attainment* of outcome.
- b) **Limits of Quantification.** While it is desirable to quantify outcomes, it is necessary to be realistic about the extent to which such quantification can be done reliably. There are two broad issues. First, as one moves away from project outputs (which one can control through activities that are funded) towards programmatic outcomes, the number of ancillary assumptions increases. For example, one can reliably quantify the GHG reduction of a group of particular renewable energy projects, but needs to make additional assumptions concerning the market and government

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<sup>14</sup> The program studies are in the four focal areas -- biodiversity, climate change, international waters, and ozone depletion. The relevant reports are: *GEF Review of Implementation and Results* -- Part1 -- 2000 Project Implementation Review, GEF/C.17/8; Part 2 -- Program Study on Biodiversity, GEF/C.17/Inf.4; Part 3 -- Program Study on Climate Change, GEF/C.17/Inf.5; Part 4 -- Program Study on International Waters, GEF/C.17/Inf. 6, and *Study of Impacts of GEF Activities on Phase-Out of Ozone Depleting Substances* (Evaluation Report #1-00). In addition a study was undertaken of the cross-focal area of land degradation in *GEF Land Degradation Linkage Study* (Working Paper 6, March 2001).

response to those projects in order to quantify the GHG reduction that will be the outcome of the market transformation to which these projects contribute. Second, many outcomes (particularly in biodiversity) cannot be measured in terms of a common unit. The number of species saved (for example) is not a meaningful representation of biodiversity value, which requires a deeper and more qualitative appreciation of the role of interacting species within an ecosystem and the loss of diversity elsewhere.

- c) **Proxy indicators.** To avoid the use of highly theoretical indicators of ultimate impact, it has been necessary to adopt the pragmatic use of *proxy* indicators, indicators of outcomes that stand in the place of the ultimate outcomes desired and which are strongly linked. Typically, the proxy indicator is one of coverage. For example, because the protection of natural habitat is critical to biodiversity conservation, an indicator of protected area coverage is a good proxy. Another is the coverage of target technologies whose commercialization will lead to sustained GHG reductions and which were themselves the objectives of the Operational Programs. Proxy indicators are not to be confused with process indicators.
  - d) **Iterative process.** The question of indicators is one of continuing scientific debate, so the use of the indicators below should be seen as part of the iterative process of international dialogue.
4. The following sections (i) propose indicators of outcome in each focal area, (ii) outline the strategic directions in the portfolio, and (iii) quantify broad targets of achievable outcomes corresponding to the alternative financial scenarios, projected on the basis of the experience in the GEF portfolio.

5. The following briefly describes the current GEF portfolio, the proposed strategic direction for GEF-3, and the indicators of coverage that will be used to quantify outcomes expected for various financial scenarios. The new strategic directions will apply to all financial scenarios; the differences between financial scenarios is the extent of coverage achievable (e.g., geographical or market extent, and numbers of technologies or methods employed or commercialized).

### **Biodiversity**

6. Up to now, the GEF's assistance to eligible countries for biodiversity focused on management interventions within protected areas and their buffer zones and strengthening the enabling environment in that context (policies, regulations, planning frameworks, etc.).

7. The new strategic direction will be towards sustainable use activities both within protected areas, their buffer zones, and the larger productive landscape and seascape, in support of biodiversity conservation. Sustainable use activities that support conservation

would be expanded to cover existing and additional protected areas. Conservation outcomes in productive landscapes and productive seascapes beyond formally protected conservation areas would also be targeted, in recognition of the scientific, ecological, and technical consensus that this is the only way to ensure long term conservation, that there is significant biodiversity of global importance outside protected areas, and that human activities outside protected areas can adversely impact biodiversity in protected areas.

8. To distinguish quantitatively the outcomes achievable under different financial scenarios, the following indicators would be used to target coverage: number of protected areas under effective management; area under protection; number of countries; area of production landscape/seascapes; and number of countries with effective enforcement mechanisms against illegal logging.

- a) **Coverage.** This is an important proxy indicator, because extending the area under protection is critical for ultimate conservation.
- b) **Cofinancing.** Measuring the effectiveness of conservation is also important, but is more of a challenge – a scorecard devised by IUCN and also applied by international organizations is one approach. For now, we have included cofinancing (an important indicator of commitment) as one proxy for effectiveness, but acknowledge that others will also be necessary.
- c) **Productive landscapes and seascapes.** Long-term biodiversity conservation can only be secured if the larger production landscapes, around protected areas (which are reservoirs of biodiversity) are managed at a landscape/ecosystem level. This can be achieved through effective corridors, biodiversity friendly practices in the larger landscape, and an effective institutional and enabling environment where biodiversity has been mainstreamed across the sectors. This is not an option, in fact, it is critical for ensuring sustained biodiversity benefits. Unless the institutional structures of a country are reinforced to mainstream biodiversity, they remain vulnerable (to alternative development options) and may become islands (in which case the biodiversity value may get eroded over time).

## **Climate Change**

9. In the first six years of GEF activities, GEF's assistance to eligible countries for climate change promoted enabling environments and foundational activities such as demonstration projects in energy efficiency and renewable energy. Since 1997, with the adoption of long-term operational programs, the GEF has embarked on over four years of new approaches to sustained market development. These approaches aim to achieve the institutional learning, cost reduction, market scale-up, and business infrastructure for large-scale replication and technological know-how dissemination. The fruits of these efforts are just emerging, demonstrated by indicators of both effectiveness and growth of long-term markets.

10. *Effectiveness.* The GEF has invested substantial “capital” in experience, learning, and replicable results. This “capital” makes the GEF increasingly effective in catalyzing private investment, government commitments to programs and policies, rural energy services, and expansion of technology markets. The GEF track record and credibility allow it increasingly to leverage more cofinancing, better facilitate investments and policies, and conduct market-transforming programs that inspire parallel and aligned actions. Experience also allows the GEF to facilitate replication and cross-learning of successful approaches from one country to another. The range of technologies supported also continues to grow—most recently with fuel cells, solar thermal power plants, efficient motors, and renewable energy for rural health, education, and income generation.

**Table A1: Biodiversity Targets**

Indicators	(FY91- FY01)	<u>Scenario I:</u> (FY02-FY06)	<u>Scenario II:</u> (FY02- FY06)	<u>Scenario III:</u> (FY02-FY06)
GEF Financing (GEF allocation in \$ billion)	1.52	0.70	0.80	0.95
Co-Financing (ratio)	1.5	2.0	2.3	3.0
<u>Global Coverage</u>				
No. of Protected Areas under improved management (cumulative total) <sup>15</sup>	671	30-80	80-180	180-330
Estimated Area Covered (million hectares)	889	50-100	100-200	200-300
No. of countries	106	20-30	30-40	40-50
<u>Productive Landscapes and Seascapes</u>				
Improved conservation of species, habitats, and ecosystems (area in million hectares) <sup>16</sup>	134	20-30	30-40	40-50
No. of countries with effective enforcement mechanisms against illegal logging	-	tbd	tbd	tbd
Improved protection of genetic materials in globally significant agriculture and food production sites (no. of countries)	16	5-10	10-15	15-20

11. *Growth of long-term markets.* Markets for the technology applications now supported have the potential to “take off” in the future with sufficient investments in: (i)

<sup>15</sup> The figures for area covered are under-estimated and excludes buffers. Global coverage for FY02-FY06 is based on available figures from the existing pipeline of 97 projects, in approximately 330-350 new and existing protected areas (PAs) with a total coverage ranging from 200 to 300 million hectares.

<sup>16</sup> The current coverage of production landscapes in the portfolio is approximately 20%, but these include sites within designated PAs, but which are for sustainable use (livelihoods).

institutional learning and scale-up that lowers costs; and (ii) accelerated diffusion to developing countries through capacity building, policy development, confidence building, financing mechanisms, and adaptation to specific country needs. These outcomes are much more likely to happen with concerted and sustained GEF support. With lower resource levels, GEF will have to ignore key technologies and replication opportunities. While growth of these markets in *developed* countries may be more assured in the long-run, long-term CO<sub>2</sub> emissions reductions on a global scale depend on the sustainable growth of these markets in *developing* countries.

12. Higher financial scenarios will generate increased scale-up and coverage of low-GHG emitting technologies and methods, as well as greater geographical coverage. To distinguish quantitatively the outcomes achievable under different financial scenarios, the following indicators would be used to target coverage: expansion of markets, investments in the relevant low GHG technologies and methods, increasing cofinancing, increasing cost-effectiveness of targeted technologies and methods, and (ultimately) the reduction in GHGs emitted – both the reductions resulting immediately from the GEF projects as well as those induced through long-term market change.

### **International Waters**

13. Up to now, GEF's assistance to eligible countries for international waters focused on foundational work on comprehensive approaches to the management of transboundary water bodies (freshwater and large marine ecosystems), including the preparation of regional management frameworks for joint action, capacity development, and demonstration of technologies and innovative management practices.

14. The new strategic thrust henceforth would be to catalyze implementation that builds on foundational work and thereby achieves measurable impacts on defined water bodies. The catalyzed implementation would be through the private sector, public-private partnerships, and increased public expenditure. GEF would facilitate efforts to implement agreed joint management actions by the riparian or littoral states in waterbodies that have received GEF assistance, on the basis of earlier demonstration projects (e.g., through resource mobilization efforts, transfer of technology, and M&E regimes related to the transboundary aspects). The targeted outcome, in terms of the actual coverage of important water bodies for which joint action has been undertaken or foundational support provided, will depend on the availability of resources in the period. Resources permitting, GEF would also be able to give greater attention to facilitating the management of scarce water resources -- an issue that has been identified as one of the most important potential sources of environmental conflict in the twenty-first century.

**Table A2: Climate Change Targets**

Indicators	1992-1997 Early foundations of the GEF	1998-2001 New approaches to sustained market development	<u>Scenario I:</u> <u>(FY02-FY06)</u> Continued market development at lower levels	<u>Scenario II:</u> <u>(FY02-FY06)</u> Continued market development	<u>Scenario III:</u> <u>(FY02-FY06)</u> Achievement of “take off” in market transformation
GEF financing (\$billion) <sup>a</sup>	0.47	0.56	0.65	0.85	1.05
<b><i>Effectiveness</i></b>					
Cofinancing (ratio to GEF financing)	4.4	5.4	5-6	6-7	6-10
Private-sector cofinancing (\$billion committed)	0.3	0.9	1.0-1.2	1.2-1.5	1.5-2.0
Market expansion (replication influenced by GEF)	0-3	1-10	1-10	1-10	1-20
Technology diversity (cumulative number main applications)	9	16	16	18	18 - 20
Cost-effectiveness (\$/ton C avoided for portfolio)	~4	~4	<4	<4	<4
<b><i>Growth of Long-Term Markets</i></b>					
Rural households (‘000s to receive energy services from projects, cumulative)	250	650	800-1000	1000-1200	1200-2000
Efficient lamps (million installed in projects, cumulative)	4.3	9	12	15	20
Power generation (MW renewable energy, facilitated by GEF, cumulative)	950	2,500	4,000	5,000	10,000
Annual investment (\$billion, renewable energy, developing countries)	0.5 - 1.0	1.0 - 1.5	2.0 – 4.0 by 2010	3.0-5.0 by 2010	5.0 – 10.0 by 2010
Avoided CO2 emissions (million tons, GEF projects during period) <sup>b</sup>	300-600	400-800	600-900	800-1200	1000-1500

<sup>a</sup> Programs for energy efficiency, renewable energy, and transport; excludes enabling activities.

<sup>b</sup> Lifetime emissions from facilitated investments; includes some replication, but large market scale-up from replication could double these numbers.



**Table A3: International Waters Targets**

Indicators	Foundational Work <sup>17</sup> of the GEF (FY91-FY00)	Scenario I: (FY02-FY06)	Scenario II: (FY02-FY06)	Scenario III: (FY02-FY06)
GEF Financing (\$billion)	0.463	0.250	0.300	0.400
Co-Financing (ratio):	2.0	3.0	3.0	3.0
<u>Global Coverage</u>				
No. of transboundary waterbodies with management framework of priority actions agreed by riparian countries	19 <sup>18</sup>	25-30	30-40	40-50
No. of countries	63	6-10	10-20	20-30
<u>Agreed Joint Management Actions</u>				
No. of countries with national policies, regulations, institutions, etc re-aligned to be consistent with agreed joint management actions	63 <sup>19</sup>	63-70	70-80	80-90
<u>Regional Cooperation</u>				
No. of regional bodies and management authorities with strengthened capacities	19	2-4	4-8	8-14
<u>Local Technological Development</u>				
No. of countries with demonstration technologies and management practices viable under local conditions	19	4-6	6-12	12-18

15. To distinguish quantitatively the outcomes achievable under different financial scenarios, the following indicators would be used to target coverage: number of transboundary waterbodies that have a management framework of priority actions agreed to at the highest levels of government in the riparian or littoral countries; national policies, regulations, institutions, etc. are re-aligned to be consistent to support the implementation of the agreed joint management framework; number of regional bodies and management authorities whose management capacity has been strengthened; availability of demonstration technologies and management practices viable under local conditions.

<sup>17</sup> GEF's foundational work on international waters focuses on comprehensive approaches to management of transboundary waterbodies, including preparation of regional management frameworks for joint action, capacity development, and demonstration of technologies and innovative management practices.

<sup>18</sup> Coverage includes 19 transboundary waterbodies – 5 lake basins, 6 river basins, 9 marine ecosystems.

<sup>19</sup> Covers 39 projects where countries are in the process of developing agreed joint management actions.

## Ozone Depletion

16. Up to now, GEF has very successfully assisted eligible countries to phase out ozone-depleting substances in the initial schedules of the Montreal Protocol.

17. The new strategic direction henceforth will be to reduce – and to the extent feasible, eliminate -- the remaining substances: methyl bromide and HCFCs.

18. The indicators for successful outcomes will be the declining emissions of these substances in the eligible countries in compliance with applicable Montreal Protocol commitment schedules.<sup>20</sup>

**Table A4: Ozone Depletion Targets**

Indicators	Scenario I, II, and III: (FY02-FY06)
GEF Financing (GEF allocation in \$ billion)	0.05
Co-Financing (ratio)	2.0
<u>Methyl Bromide</u> <sup>21</sup> (ODP t)	206 – 454
<u>HCFCs</u> <sup>22</sup> (ODP t)	Within the range 45 ( <i>minimum required by Protocol</i> ) and 363 (total phase-out)

## Persistent Organic Pollutants

19. Only enabling activities to prepare National Implementation Plans and some innovative demonstration projects have been funded so far.

20. The new strategic direction henceforth will be to assist eligible countries phase out the use of the (currently 12) scheduled substances, in conformity with guidance of the Stockholm convention on program priorities.

21. Because of the limited experience in the GEF portfolio and the start-up nature of GEF activities, firm targets for outcomes have not been developed. In the initial years, a number of process indicators and targets (corresponding to the start-up activities) would be used, as listed above.

<sup>20</sup> See GEF/C.18/Inf.6 *Ozone Layer Depletion: Future Commitments*

<sup>21</sup> Incremental costs for the phase-out range \$5 million to \$11 million.

<sup>22</sup> Incremental cost for the phase-out range from \$33 million to \$100 million. The Protocol currently requires only a 65% reduction in HCFC use by 2010, which would require reductions of 45.3 ODP t beyond reductions to date, at a cost of \$6 million to \$17 million.

**Table A5: POPs Targets**

Indicators	Scenario I, II, and III: (FY02-FY06)
GEF Financing (GEF allocation in \$ billion)	0.250
Co-Financing (ratio)	2.0
<u>Ambient Levels</u> Levels in various media, reductions in emissions and runoff, and declines in rates of use of scheduled substances (including obsolete POPs)	tbd
<u>Declines in POP Stockpiles</u>	The targeted impact from the Africa Stockpile Program alone would be the elimination of an estimated 150,000 tons of obsolete pesticides (30% to 40% of which are the among the twelve POPs covered by the convention).  Impact from other programs has still to be quantified.
<u>Technology Introductions</u> The number of alternative technologies successfully introduced. <sup>23</sup>	About 5 technological packages (field tested for viability and cost-effectiveness) in each of the listed categories.
<u>Process Indicators</u>	
Number of National Implementation Plans (NIPs)	About 100 countries
Number of countries strengthening policies, legislation, and institutions <sup>24</sup>	About 30-40 countries.

## Land Degradation

22. Up to now, GEF’s assistance to eligible countries has been for land degradation prevention and control in accordance with the *Instrument*, that is to meet “... the agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal areas...” Despite some progress in supporting land degradation prevention and control activities, countries continue to face

<sup>23</sup> Technologies include: environmentally safe destruction of obsolete stockpiles of POPs, including non-combustion technologies; technologies to prevent or minimize emissions of POPs as by-products of industrial processes; and development of alternatives to POPs – pesticides and industrial chemicals, including IPPM; site remediation through various means, including bioremediation; alternatives to DDT in Malaria -vector diseases control.

<sup>24</sup> In order to protect human health and the environment from POPs; eliminate the production, export, and use of most POPs; restrict to acceptable levels and/or replace the use of DDT for disease vector control; and phase out the use of PCBs.

challenges in developing eligible projects, including difficulties in defining linkages between land degradation and the focal areas; difficulties in applying the incremental cost principle; and limited in-country policy environment to support land degradation prevention and control. Enhancing GEF support for land degradation prevention and control would require an alternative approach that builds upon the experience of GEF-funded activities in land degradation and the findings and recommendations of an independent study. Designating land degradation as a GEF focal area would also provide a stronger impetus for the successful implementation of the United Nations Convention to Combat Desertification.

23. The new strategic direction, should the Council recommend and the GEF Assembly subsequently approve the designation of land degradation as a focal area, would be to support a holistic approach to land management that linked local sustainable development benefits with the targeted global environmental benefits, whether the latter fell within existing focal areas or whether they took the form of other reduced transborder impacts.

**Table A6: Land Degradation Targets**

Indicators	<u>Scenario I, II, and III</u> (FY02-FY06)
GEF Financing (GEF allocation in \$ billion)	0.250
Co-Financing (ratio)	2.0
Land area protected from degradation. <sup>25</sup>	About 10-20 million ha
Number of land degradation control plans (as an integral part of their sustainable development programs). <sup>26</sup>	About 50-65 countries

<sup>25</sup> The protection resulting in the conservation of habitats of global significance; sequestration of carbon, particularly through land rehabilitation measures; and reduction in carbon emission through sustainable agricultural practices that would help to minimize the use of fire to clear land.

<sup>26</sup> These plans would form the basis for priority measures to prevent/control land degradation and its resulting adverse impacts on the national, regional, and global environment as well as sustainable development.

**RESOLUTION NO. [    ]**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND:  
THIRD REPLENISHMENT OF RESOURCES**

**WHEREAS:**

(A) The participants contributing to the Global Environment Facility Trust Fund ("the GEF Trust Fund"), (jointly, "the Contributing Participants," each "a Contributing Participant") having considered the prospective financial requirements of the GEF Trust Fund, have concluded that additional resources should be made available to the GEF Trust Fund for new financing commitments for the period from July 1, 2002 to June 30, 2006 (the "Third Replenishment") and have agreed to ask their legislatures, where necessary, to authorize and approve the allocation of additional resources to the GEF Trust Fund in the amounts set out in Attachment 1 and according to the provisions set forth herein;

(B) The Council of the Global Environment Facility (the "GEF" or "Facility") (the "Council") having considered the Summary of The Negotiations on the Third Replenishment, including the policy recommendations made on the basis of the Second Overall Performance Study of the GEF, other reports emanating from the GEF monitoring and evaluation program during the prior replenishment period, and the views and proposals of the Participants, has requested the Executive Directors of the International Bank for Reconstruction and Development (the "World Bank") to authorize the World Bank as Trustee of the GEF Trust Fund to hold in trust and manage the resources made available for the Third Replenishment;

(C) It is desirable to administer any remaining funds from the second replenishment of the GEF Trust Fund authorized by the Instrument for the Establishment of the Restructured Global Environment Facility (the "Instrument") and approved by Resolution No. 98-2 of the World Bank, adopted on July 14, 1998 (the "Second Replenishment"), as part of this Third Replenishment;

(D) The World Bank, as provided for in Paragraph 8 and Annex B of the Instrument (adopted on May 24, 1994, pursuant to Resolution No. 94-2 of the Executive Directors of the World Bank), is Trustee of the GEF Trust Fund and, in that capacity, will hold in trust and manage the resources made available for the Third Replenishment.

NOW THEREFORE the Executive Directors of the World Bank hereby note with approval the replenishment of the GEF Trust Fund in the amounts and on the basis set forth herein and authorize the World Bank as Trustee of the GEF Trust Fund (the "Trustee") to manage the resources made available for the Third Replenishment as follows:

### **Contributions**

1. The Trustee is authorized to accept contributions to the GEF Trust Fund; (a) by way of grant from each Contributing Participant in the GEF Trust Fund in the amount specified for each Contributing Participant in Attachment 1; and (b) otherwise as provided herein.

### **Instruments of Commitment**

2. (a) Contributing Participants to the Third Replenishment shall deposit with the Trustee an instrument of commitment substantially in the form set out in Attachment 2 ("Instrument of Commitment"), subject to sub-paragraph 2(b).

(b) When a Contributing Participant agrees to pay a part of its contribution without qualification and the remainder is subject to enactment by its legislature of the necessary appropriation legislation, it shall deposit a qualified instrument of commitment in a form acceptable to the Trustee ("Qualified Instrument of Commitment"); such Contributing Participant undertakes to exercise its best efforts to obtain legislative approval for the installment amounts of its contribution by the payment dates set out in sub-paragraph 3(a) below.

(c) At every Council meeting, the Trustee will inform the Council of the status of Instruments of Commitment and Qualified Instruments of Commitment deposited with the Trustee.

### **Payments**

3. (a) Contributions to the GEF Trust Fund under sub-paragraph 1(a) that a Contributing Participant agrees to pay without qualification shall be paid to the Trustee in four equal installments by November 30, 2002, November 30, 2003, November 30, 2004 and November 30, 2005, except as indicated in footnote *f* to Attachment 1, provided that:

(i) The Trustee and a Contributing Participant may agree to earlier payment;

(ii) If the Third Replenishment shall not have become effective (as described in sub-paragraph 6(a) below) by October 31, 2002, payment of any installment which would otherwise have been due prior to the

Effective Date (as defined in sub-paragraph 6(a) below) shall become due thirty (30) days after the Effective Date;

(iii) Upon the written request of a Contributing Participant, the Trustee may agree to allow such Contributing Participant to postpone the payment of any installment, or part thereof, up to, but not beyond, June 30 of the calendar year following the year in which such installment is due. Payments made pursuant to any such agreement with the Trustee shall constitute timely payments; and

(iv) If any Contributing Participant shall deposit an Instrument of Commitment with the Trustee after the date on which any installment of the contribution is due, payment of any such installment(s) shall be made to the Trustee within thirty (30) days after the date of deposit of such Instrument.

(b) Contributions to the GEF Trust Fund under sub-paragraph 1(a) that a Contributing Participant agrees to make pursuant to a Qualified Instrument of Commitment shall be paid to the Trustee as follows:

(i) If any Contributing Participant deposits a Qualified Instrument of Commitment with the Trustee after the date on which any installment of the contribution would have been due under sub-paragraph 3(a) if the Contributing Participant had deposited an unqualified Instrument of Commitment, payment of any such installment(s), or part thereof, shall be made to the Trustee within thirty (30) days after the date of deposit of such Instrument to the extent that such Instrument has been unqualified.

(ii) If any Contributing Participant that has deposited a Qualified Instrument of Commitment, thereafter notifies the Trustee that an installment, or part thereof, is unqualified after the date when such installment would have been due under sub-paragraph 3(a) if the Contributing Participant had deposited an unqualified Instrument of Commitment, payment of such installment, or part thereof, shall be made within thirty (30) days of such notification.

(c) Payments under sub-paragraph 1(a) shall be made, at the option of each Contributing Participant, i) in cash or ii) through the deposit of notes or similar obligations (such as letters of credit) issued by the government of the Contributing Participant or the depository designated by the Contributing Participant, which shall be non-negotiable, non-interest bearing, and payable at their par value on demand to the account of the Trustee on the following terms:

(i) Subject to sub-paragraph 3(a)(iii), payment in cash may be made on terms agreed between the Contributing Participant and the Trustee that

shall be no less favorable to the GEF Trust Fund than payment made through the deposit of notes or similar obligations pursuant to sub-paragraph 3(c)(ii).

(ii) The Trustee shall encash notes or similar obligations on an approximately pro rata basis among Contributing Participants, at reasonable intervals as needed for disbursement and transfers referred to in paragraph 8, as determined by the Trustee. An indicative encashment schedule is set out in Attachment 3. At the written request of a Contributing Participant experiencing exceptionally difficult budgetary circumstances, the Trustee may permit postponement of encashment for i) up to two years in respect of a Contributing Participant that is also an eligible recipient under the GEF Trust Fund, and ii) up to forty five (45) days in respect of all other Contributing Participants.

(iii) At the request of a Contributing Participant, the Trustee may agree to encash notes or similar obligations on a basis other than a pro rata basis; provided that, subject to sub-paragraph 3(c)(iv), the schedule of encashment agreed for such notes or obligations shall be no less favorable to the GEF Trust Fund than the schedule that would apply according to the pro rata basis provided for under sub-paragraph 3(c)(ii).

(iv) If the sum total of a Contributing Participant's notes or similar obligations deposited with the Trustee is insufficient to meet the indicative encashment schedule referred to in sub-paragraph 3(c)(ii) (as such schedule may be amended from time to time), such Contributing Participant shall exercise its best efforts, subject to its domestic budgetary and legislative practices and requirements and any conditions indicated in footnote *f* to Attachment 1, to meet a schedule of encashment for the notes or similar obligations it thereafter deposits with the Trustee that would be no less favorable to the GEF Trust Fund than the schedule that would otherwise have applied according to the pro rata basis provided for under sub-paragraph 3(c)(ii).

(d) Sub-paragraph 3(c) does not apply to, or affect, the schedule for the payment of installments set out in sub-paragraph 3(a) or, in the case of a Contributing Participant that has deposited a Qualified Instrument of Commitment, the obligations undertaken pursuant to sub-paragraph 2(b). Further, nothing in sub-paragraph 3(c) authorizes the Trustee to increase a Contributing Participant's contribution or to impose financial penalties for any reason.

(e) Contributions to the GEF Trust Fund under sub-paragraph 1(b) shall be paid in accordance with the terms on which such contributions are accepted by the Trustee.



(f) The Trustee shall make regular reports to the Council on the status of Contributing Participants' contributions.

### **Timely Availability of Resources**

4. (a) If (i) a Contributing Participant does not make payment in accordance with sub-paragraph 3(a) or 3(b); or (ii) a Contributing Participant that has deposited a Qualified Instrument of Commitment, is unable, despite its best efforts undertaken in accordance with sub-paragraph 2(b), to obtain legislative approval to unqualify a sufficient amount of its contribution to meet the payment dates set out in sub-paragraph 3(a), and such delay continues for thirty (30) days, the Trustee shall notify the Contributing Participant of the delay. In doing so, the Trustee shall request the Contributing Participant to make payment promptly, or, as appropriate, to exercise its best efforts to obtain legislative approval to unqualify sufficient funds to make payment promptly. The Trustee shall also remind the Contributing Participant of the obligations it will incur under the further requirements of this sub-paragraph if the delay persists. If payment has not been made thirty (30) days before the date of the Council meeting following the date on which the delay was incurred, the responsible Minister of the Contributing Participant concerned shall provide the Chief Executive Officer/Chairperson of the Facility (the "CEO") with a written communication stating the reasons for the delay and the measures being taken to address it. The CEO shall forward any such communication to the Council, with a copy to the Trustee.

(b) As provided in sub-paragraph 25(c) of the Instrument, for the purpose of determining voting power in the event of a formal vote by the Council, a Contributing Participant's total contributions shall consist of the actual cumulative contributions made by a Contributing Participant to the GEF Trust Fund, including actual contributions made to the Third Replenishment, contributions made to the GET, and the grant equivalent of co-financing and parallel financing made under the GEF pilot program, or agreed with the Trustee before the effective date of the GEF Trust Fund.

### **Currency of Denomination and Payment**

5. (a) Contributing Participants shall denominate their contributions in Special Drawing Rights ("SDR"), or in a currency that is freely convertible, as determined by the Trustee, except that if a Contributing Participant's economy experienced a rate of inflation in excess of ten percent per annum on average in the period 1998 to 2000 as determined by the Trustee as of the date this Resolution is adopted, its contribution shall be denominated in SDR.

(b) Contributing Participants shall make payments in SDR, a currency used for the valuation of the SDR, or with the agreement of the Trustee, in another freely convertible currency. The Trustee may, in its discretion, freely exchange contributions received for any such currencies.

(c) Each Contributing Participant shall maintain, with respect to its currency paid to the Trustee and the currency of such Contributing Participant derived therefrom, the same convertibility as existed on the date on which this Resolution is adopted.

### **Effective Date**

6. (a) The Third Replenishment shall become effective on the date when Contributing Participants whose contributions aggregate not less than SDR 1,045 million shall have deposited with the Trustee Instruments of Commitment or Qualified Instruments of Commitment (the "Effective Date").

(b) The Trustee shall promptly notify all Contributing Participants when the Third Replenishment becomes effective.

(c) If the Third Replenishment does not become effective by March 31, 2003, the Trustee shall so inform the Contributing Participants and consult with them on possible steps to be taken to prevent any interruption of GEF financing. The Trustee, in collaboration with the CEO, will inform the Council of the results of such consultations, and seek the Council's guidance on the steps to be taken, including as may be necessary, the convening of a meeting of the Contributing Participants.

### **Advance Contributions**

7. (a) In order to avoid an interruption in the GEF's ability to make financing commitments pending the effectiveness of the Third Replenishment, and if the Trustee shall have received Instruments of Commitment or Qualified Instruments of Commitment from Contributing Participants whose contributions aggregate not less than SDR 348 million, the Trustee may deem, prior to the Effective Date, one quarter of the total amount of each contribution for which an Instrument of Commitment or Qualified Instrument of Commitment has been deposited with the Trustee as an advance contribution, unless the Contributing Participant specifies otherwise in its Instrument of Commitment or Qualified Instrument of Commitment.

(b) The Trustee shall specify when advance contributions pursuant to subparagraph 7(a) above are to be paid to the Trustee.

(c) The terms and conditions applicable to contributions to the Third Replenishment shall apply also to advance contributions until the Effective Date, when such contributions shall be deemed to constitute payment towards the amount due from each Contributing Participant for its contribution.

## **Commitment or Transfer Authority**

8. (a) Contributions shall become available for commitment by the Trustee, for disbursement or transfer as needed to cover the work program, the administrative budget of the GEF, and any other expenses approved by the Council under the Instrument, upon receipt of payment by the Trustee of the contributions set out in sub-paragraphs 1(a) and (b) except as provided in sub-paragraph 8(c) below.

(b) The Trustee shall promptly inform all Contributing Participants if a Contributing Participant that has deposited a Qualified Instrument of Commitment and whose contribution represents more than twenty (20) percent of the total amount of the resources to be contributed pursuant to the Third Replenishment has not unqualified at least forty three (43) percent of the total amount of its contribution by November 30, 2003, or thirty (30) days after the Effective Date, whichever is later, and at least sixty four and a half (64.5) percent of the total amount of its contribution by November 30, 2004, or thirty (30) days after the Effective Date, whichever is later, and the total amount thereof by November 30, 2005, or thirty (30) days after the Effective Date, whichever is later. Further, the Trustee shall promptly inform all Contributing Participants if the conditions indicated in footnote *f* to Attachment 1 have not been met by November 30, 2005, or thirty (30) days after the Effective Date, whichever is later.

(c) Within forty five (45) days of the dispatch of notice by the Trustee under sub-paragraph 8(b) above, each Contributing Participant receiving such notice may notify the Trustee in writing that the commitment by the Trustee, of the second, third or fourth installment, whichever is applicable, of such Contributing Participant's contribution shall be deferred while, and to the extent that, any part of the contribution referred to in sub-paragraph 8(b) remains qualified or subject to the conditions indicated in footnote *f* to Attachment 1; during such period, the Trustee shall make no commitments in respect of the resources to which the notice pertains unless the right of the Contributing Participant is waived pursuant to sub-paragraph 8(d) below.

(d) The right of a Contributing Participant under sub-paragraph 8(c) above may be waived in writing, and it shall be deemed waived if the Trustee does not receive, within the period specified in sub-paragraph 8(c), a written notice informing the Trustee pursuant to such sub-paragraph that the Contributing Participant has decided to defer a portion of its contribution.

(e) The Trustee, in collaboration with the CEO, shall consult with the Contributing Participants and seek the Council's advice on possible steps to be taken where, in its judgment: (i) there is a substantial likelihood that the total amount of the contributions referred to in sub-paragraph 8(b) above shall not be committed to the Trustee without qualification by June 30, 2006, or (ii) as a result of Contributing Participants exercising their rights under sub-paragraph 8(c), the Trustee is, or may shortly be, precluded from entering into new commitments for disbursement or transfer.

- (f) Commitment and transfer authority shall be increased by:
  - (i) The income earned on the investment of resources held in the GEF Trust Fund pending disbursement or transfer by the Trustee; and
  - (ii) Payments received by the Trustee as repayment, interest or charges on loans made by the GEF Trust Fund.
  
- (g) The Trustee may enter into agreements to provide financing from the GEF Trust Fund, conditional on the commitment of such financing becoming effective and binding on the GEF Trust Fund when resources become available for commitment by the Trustee.

### **Administration of the Second Replenishment Fund**

9. As of the Effective Date, any funds, receipts, assets and liabilities held by the Trustee under the Second Replenishment will be administered under the Third Replenishment.

**GLOBAL ENVIRONMENT FACILITY TRUST FUND  
THIRD REPLENISHMENT OF RESOURCES**

**Attachment 1**

**CONTRIBUTIONS  
(in millions)**

Contributing Participants	Calculated Basic Contributions		Supplemental Contributions		GEF-3 Total Contributions		
	(%)	SDR	SDR		(%)	SDR	National Currency g/
Australia	1.46%	27.60			1.46%	27.60	68.16
Austria	0.90%	17.01		<i>h/</i>	0.90%	17.01	24.38
Belgium	1.55%	29.30	3.67	<i>a/</i>	1.74%	32.97	41.98
Canada	4.28%	80.91			4.28%	80.91	158.94
China	-	4.00 <i>b/</i>	4.44	<i>a/ d/</i>	0.45%	8.44	78.71
Cote d'Ivoire	-	4.00 <i>b/</i>			0.21%	4.00	3,758.86
Czech Republic	-	4.00 <i>b/</i>	0.50	<i>a/</i>	0.24%	4.50	194.36
Denmark	1.30%	24.58			1.30%	24.58	262.18
Finland	1.00%	18.91			1.00%	18.91	27.08 <i>a/</i>
France	6.81%	128.84 <i>a/</i>			6.81%	128.84	164.00
Germany	11.00%	207.96			11.00%	207.96	297.92
Greece	0.05%	0.95	3.56	<i>a/ c/</i>	0.24%	4.50	5.73
India	-	4.00 <i>b/</i>	3.99	<i>a/ d/</i>	0.42%	7.99	426.39
Ireland	0.11%	2.08	2.42	<i>a/ c/</i>	0.24%	4.50	5.73
Italy	4.39%	82.99		<i>h/</i>	4.39%	82.99	118.90
Japan	17.63%	333.41 <i>a/</i>			17.63%	333.41	48,754.33
Korea	0.23%	4.35			0.23%	4.35	7,142.95 <i>a/</i>
Luxembourg	0.05%	0.95	3.05	<i>c/</i>	0.21%	4.00	5.73
Mexico	-	4.00 <i>b/</i>			0.21%	4.00	4.00 <i>a/</i>
Netherlands	3.30%	62.39			3.30%	62.39	89.38
New Zealand	0.12%	2.27	1.73	<i>c/</i>	0.21%	4.00	12.13
Nigeria	-	4.00 <i>b/</i>	0.50	<i>a/</i>	0.24%	4.50	4.00
Norway	1.06%	19.96		<i>h/</i>	1.06%	19.96	228.32
Pakistan	-	4.00 <i>b/</i>			0.21%	4.00	320.63
Portugal	0.12%	2.27	1.73	<i>c/</i>	0.21%	4.00	5.73
Slovenia	-	1.00	0.13	<i>a/</i>	0.06%	1.13	313.94
Spain	0.80%	15.12			0.80%	15.12	21.67
Sweden	2.62%	49.53			2.62%	49.53	664.67
Switzerland	2.43%	45.94			2.43%	45.94	99.07
Turkey	-	4.00 <i>b/</i>			0.21%	4.00	4.00
United Kingdom	6.92%	130.82 <i>a/</i>			6.92%	130.82	102.83
United States	20.86%	394.36			20.86%	394.36	500.00 <i>f/</i>
1. New Funding from Donors	88.99% **	1,715.50	25.72		92.10%	1,741.22	
2. Credit from Accelerated Encashments			10.13	<i>a/</i>	0.54%	10.13	
3. Investment Income <i>e/</i>						105.00	
4. Carryover of GEF Resources <i>j/</i>						450.00	
5. Total Resources to Cover GEF-3 Work Program (1 + 2 + 3 + 4)						2,306.35	

\*\* GEF basic shares, which are originally derived from the GEF-1 and were largely maintained in the GEF-2, do not add up to 100%.

*a/ Contributing Participants have the option of taking a discount or credit for acceleration of encashment and; (i) including such credit as part of their basic share; (ii) counting such credit as a supplemental contribution; or (iii) taking such discount against the national currency contribution. France, Japan, and the United Kingdom have opted to include the credit for accelerated encashment in their basic share. Belgium, China, Czech Republic, Greece, India, Ireland, Nigeria, and Slovenia have opted to include the credit for accelerated encashment as a supplemental contribution. Finland, Korea, and Mexico have opted to take a discount against their national currency contribution. Canada chose to accelerate encashment of its contribution but not to take either a discount or a credit.*

*b/ Represents the agreed minimum contribution level to the GEF-3.*

*c/ These Contributing Participants have agreed to adjust their contributions upward to the agreed minimum contribution level of SDR 4 million.*

*d/ China and India have indicated that they would contribute more than the agreed minimum contribution level of SDR 4 million.*

*e/ Represents projected investment income expected to be earned on resources projected to be held in the GEF Trust Fund over the GEF-3 commitment period (FY03 through FY06).*

*f/ In addition to four annual installments of USD 107.5 million, the United States will provide USD 70 million in the final year of the replenishment upon achievement of the performance measures outlined in Schedule 1 to this Table. The achievement of such measures will be determined by the Council on the basis of verification by the Independent Monitoring and Evaluation Unit, and taking into account any unforeseen events or circumstances that may prevent their achievement.*

*g/ Calculated by converting the SDR amount to the national currency using an average daily exchange rate over the period from May 15, 2001 to Nov 15, 2001, as agreed by the Contributing Participants at the May 7, 2001, GEF-3 replenishment meeting.*

*h/ For these Contributing Participants acceleration of encashments is under consideration.*

*j/ Represents the amount carried over to the GEF-3 pursuant to paragraph 9 of Resolution No. \_\_\_\_\_, valued on the basis of June 30, 2002 exchange rates.*

## Schedule 1 to Attachment 1

Performance measures to be achieved by Fall 2004 (as determined by the Council on the basis of verification by the Independent Monitoring and Evaluation Unit, and taking into account any unforeseen events or circumstances that may prevent their achievement):

- Performance-Based Allocation System: The GEF will have in place an operational performance-based allocation system, as agreed in the GEF-3 replenishment report.
- Persistent Organic Pollutants: No less than 50 countries will be provided assistance to prepare national implementation plans that include an inventory of POPs stockpiles and set out an action plan for their reduction.
- Biodiversity: Projects projected to place at least 17 million additional hectares of land under improved management for conservation or protection will be approved. In addition, projects will be approved to place under conservation no less than 7 million additional hectares of “productive” landscapes, including land around protected areas that are under productive use, but support habitats and ecosystems.
- Climate Change: Projects projected to avoid or sequester at least 200 million tons of greenhouse gas (carbon dioxide equivalent) emissions will be approved.
- International Waters: Projects will be approved to establish management frameworks (focused on environmental priorities) in riparian countries for no fewer than 2 new transboundary waterbodies.
- Ozone Depletion: Projects projected to phase out no fewer than 50 tons of Methyl Bromide and Hydrochlorofluorocarbons (HCFCs) will be approved.
- Land Degradation: Projects will be approved to protect no less than 3 million additional hectares of land area from degradation.

**Attachment 2**

**GLOBAL ENVIRONMENT FACILITY TRUST FUND  
THIRD REPLENISHMENT OF RESOURCES**

**INSTRUMENT OF COMMITMENT**

Reference is made to Resolution No. [ ] of the Executive Directors of the International Bank for Reconstruction and Development (the "World Bank") entitled "Global Environment Facility Trust Fund: Third Replenishment of Resources," which was adopted on [ ] (the "Resolution").

The Government of \_\_\_\_\_ hereby notifies the World Bank as Trustee of the Global Environment Facility Trust Fund, pursuant to paragraph 2 of the Resolution, that it will make the contribution authorized for it in Attachment 1 of the Resolution, in accordance with the terms of the Resolution, in the amount of \_\_\_\_\_.

\_\_\_\_\_  
(Date)

\_\_\_\_\_  
(Name, Title and Office)

**GLOBAL ENVIRONMENT FACILITY TRUST FUND  
THIRD REPLENISHMENT OF RESOURCES**

**INDICATIVE ENCASHMENT SCHEDULE**

<b>Fiscal Year</b>	<b>Percentage of Total Pledge</b>
2003	7.5
2004	10.0
2005	13.5
2006	12.5
2007	12.5
2008	12.0
2009	11.0
2010	9.0
2011	8.0
2012	<u>4.0</u>
<b>Total</b>	<b>100.0</b>



ANNEX C: POLICY RECOMMENDATIONS AGREED AS PART OF THE  
THIRD REPLENISHMENT OF THE GEF TRUST FUND

PREAMBLE

1. One of the greatest challenges in the next millennium is to ensure that future generations are able to sustain their lives on the planet. The GEF, as the leading multilateral funding mechanism dedicated to providing grant and concessional financing for global environmental protection, has produced significant results in effectively using its resources for global environmental protection and sustainable development.
2. Managing the global environment benefits all people since we live in an integrated and interdependent world. Sustainable development is essential to secure lasting poverty eradication and greater welfare for all people.
3. Participants in the negotiations for the Third Replenishment of the GEF Trust Fund reaffirm the GEF's overarching objectives, as enunciated in the *Instrument for the Establishment of the Restructured GEF*, of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve global environmental benefits within a framework of sustainable development.
4. Participants recognize that the last decade has been a period of significant global change and underscore the importance of the goals of the United Nations Millennium Declaration adopted by all 189 Member States of the United Nations on September 8, 2000. Amongst those goals, world leaders at the Summit agreed "to free all of humanity, and above all our children and grandchildren, from the threat of living on a planet irredeemably spoiled by human activities, and whose resources would no longer be sufficient for their needs." Participants affirm that the activities to be financed through the GEF Trust Fund will contribute to advancing the objectives and achievement of the Millennium goals and strengthen the implementation of Agenda 21.
5. Participants agree that in this context the third replenishment of the GEF Trust Fund is of critical importance.
6. Participants welcome the World Summit on Sustainable Development to be held in Johannesburg, South Africa, in August/September 2002, and recognize the significant contribution that the GEF has made to advancing the global environmental objectives of Agenda 21 adopted at the United Nations Conference on Environment and Development in 1992 and the message of continuing support that will be conveyed by the third replenishment of the GEF Trust Fund.
7. Participants note that the GEF is a novel multilateral entity that embodies partnerships at different levels and dimensions, facilitated by the GEF Council and Secretariat, and builds upon the comparative strengths of its different partners. The GEF is first a partnership between developed and developing country participants to achieve global environmental benefits. Another significant level of partnership is among the GEF Secretariat, STAP and the three

implementing agencies – UNDP, UNEP and the World Bank – which have made significant contributions to the evolution and success of the GEF. This partnership will increasingly include executing agencies with expanded opportunities.

8. Participants also recognize that the GEF is the only multi-convention financing facility in existence and is now the major source of funding specifically supporting the Convention on Biological Diversity and the UN Framework Convention on Climate Change. GEF is guided by the Conferences of the Parties to these conventions. The GEF is also a source of funding supporting the Stockholm Convention on Persistent Organic Pollutants and the UN Convention to Combat Desertification. In concluding the third replenishment of the GEF Trust Fund, Participants are fully cognizant of the additional tasks that the international community has collectively asked the GEF to assume in respect of existing focal areas as well as dealing with persistent organic pollutants, land degradation and a more systematic approach to capacity building. Participants seek to strengthen the GEF's ability to respond to its evolving challenges.

9. Participants agree that the GEF should continue to evolve and apply lessons learned. Drawing upon the analysis and recommendations from the Second Overall Performance Study of the GEF (OPS2) and other reports emanating from the GEF monitoring and evaluation program during the second replenishment period, and the views and proposals of the Participants, Participants recommend to the GEF Council that action be undertaken in the following strategic areas. Participants advance these recommendations with a view to increasing the GEF's emphasis on quality and results, to improving GEF's responsiveness to country needs and to the guidance of the global environmental conventions, and to making its processes more expeditious, streamlined and efficient so as to maximize impacts achieved with consideration of country performance through the resources of the third replenishment of the GEF.

#### IMPROVING COUNTRY LEVEL PERFORMANCE

10. Country ownership of GEF operations is essential to achieving sustainable results. GEF objectives and programs should therefore be integrated into national priorities, strategies and programs for sustainable development, based on policies and plans for each focal area in order to highlight their global relevance and to link contributions to all aspects of national sustainable development.

11. Meaningful country commitment, participation and ownership is a prerequisite to integration of global environmental concerns into national sustainable development planning. Focused efforts are required to achieve sound environmental policies and frameworks, greater country level understanding of the GEF, strengthening of operational focal points and close coordination at the country level, especially between GEF focal points and those of the conventions.

12. The rapid proliferation of actors representing the international community, multilateral institutions and environmental conventions require a special coordination effort. Undertaking action within a framework of national strategic and policy priorities is crucial for a coherent approach towards both environmentally and socio-economically sustainable development. In this

context, the work of the UN-system and the Bretton Woods institutions at the country level to increase interagency cooperation, for example the PRSP and UNDAF processes, is essential for mainstreaming global environmental considerations into the planning and implementation of poverty reduction strategies and sustainable development processes.

13. The GEF Secretariat and the Implementing Agencies have an important role to play in strengthening country ownership and participation. All activities of the GEF should be undertaken in a spirit of enhanced partnership, with a lead entity exercising its responsibility in a framework of continuous consultation and collaboration among other GEF entities.

14. Within a results oriented framework, Participants recognize that country commitment is integrally linked to the recommendations aimed at maximizing results and measuring performance discussed below. *Participants recommend that the GEF Implementing Agencies continue, in their dialogue with countries, to rigorously address the performance indicators related to expected success of a project at the country level, including country ownership, replicability, sustainability, public involvement, monitoring and evaluation, and co-financing. Such indicators should also address assessment of project results and global environmental impacts.* Where a need is identified for capacity building, removal of policy barriers or strengthening of other conditions that contribute to project success, such needs or barriers should be addressed first. *In addressing specific country needs, Participants recommend that the GEF, through country and regional dialogue workshops and the Implementing Agencies' country programming efforts, consult with the country on the range of operational tools and programming modalities that have been developed for accessing GEF assistance with a view to using the most appropriate tools to address the country needs and to enhance performance and effectiveness at the country level.* Such tools and modalities include the small grants program, enabling activities, medium sized projects, the programmatic approach and strategic partnerships.

15. Capacity building is essential to achieving results and improving performance at the country level. *Participants recommend that the GEF Secretariat and Implementing Agencies propose to the Council means to rationalize and coordinate activities in the field of enabling activities and capacity building to achieve effectiveness and efficiency.* One step should be to implement relevant guidance from the various global environmental conventions with the aim of realizing synergies and to ensure that the lessons of GEF evaluations are taken into account. *Participants also recommend that the GEF Secretariat and the Implementing Agencies give attention to the special needs of the least developed countries and small island developing states among them, particularly their needs for capacity building, consistent with recommendations aimed at maximizing results.*

16. *Participants request the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide.*

17. *In this connection, Participants request the GEF Secretariat to prepare, in consultation with the Council, a paper for Council review and decision at its meeting in May 2003. A draft paper that can be used as a basis of consultation should be circulated to Council Members by February 1, 2003. The paper should propose an allocation system, for which implementation should be initiated immediately after a Council decision in May 2003, based on the core principles of selectivity, accountability, and results.*

18. *The system should establish a framework for allocation to global environmental priorities and to countries based on performance. Such a system would provide for varied levels and types of support to countries based on transparent assessments of those elements of country capacity, policies and practices most applicable to successful implementation of GEF projects. This system should ensure that all member countries can be informed as to how allocation decisions are made.*

19. Stakeholder participation is an important aspect in efforts to create strong country ownership of GEF operations. *Participants recommend that the GEF Monitoring and Evaluation Unit, the Secretariat and the Implementing and Executing Agencies develop a common interagency approach on indicators to be used as practical guidelines for more systematic monitoring of such activities and document best practices of stakeholder participation.*

#### FRAMEWORK FOR MAXIMIZING SUSTAINABLE RESULTS

##### **Strategic planning**

20. Participants underscore that the mission of the GEF is to serve as a mechanism for international cooperation for the purpose of providing new and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits. The principle of incremental costs is closely linked to the goal of mainstreaming the global environment into sustainable development. *The GEF Secretariat and the Implementing Agencies should continue their efforts to develop simpler guidance and communication for recipient countries on the determination of incremental costs and global benefits, including dissemination of a framework for increasing recipient's involvement in the process of estimating these costs.*

21. The broadening mandate of the GEF together with the growing absorptive capacity of the countries and delivery capacity of the Implementing and Executing Agencies are resulting in a scarcity of financial resources. The demands for GEF resources significantly exceed the financial resources available through the GEF Trust Fund. Constraints in available resources necessitate further elaboration by the Council of global funding priorities. These priorities should be focused on maximizing impacts, taking into account country priorities, the balance within the focal areas of the GEF, the guidance from the Conferences of the Parties to the global conventions for which the GEF serves as the financial mechanism, and outcomes and results expected to be achieved. *To achieve this end, the GEF Secretariat and Implementing Agencies are requested to collaborate in presenting a new strategic approach to business planning for*

consideration by the Council at its meeting in May 2003. The strategic plan should be based on the performance allocation system that will also be discussed and approved by the Council in May 2003.

22. *The new strategic business plan should be a performance-based, three year plan, that includes priorities for action to maximize results and impacts on the ground and to fulfill the mission of the GEF to achieve global environmental benefits in its focal areas. The strategic business plan should provide an indicative financial planning framework, based on focal areas and program priorities, that provides reasonable predictability for the involvement of the GEF in the medium term, linked to indicators of strategic relevance, programmatic consistency, and expected outcomes. The strategic business plan should be reviewed and approved annually by the Council. Such review should take into account, among other things, changes that may emerge from country priorities, convention guidance and lessons learned from the GEF monitoring and evaluation activities.*

23. The GEF should regularly seek to update and clarify priorities identified by the global environmental conventions by strengthening its dialogue with the conventions based on results and outcomes achieved, lessons learned, and other information emanating from the GEF monitoring and evaluation activities.

24. *Participants recommend that the Council formulate stricter criteria for project and program quality, including criteria on co-financing, on the basis of monitoring and evaluation experience and lessons learned by the GEF. This will provide an important mechanism to allocate scarce resources to increasing demand for GEF projects and programs and will, therefore, support strategic business planning.*

### **Measuring Performance**

25. The GEF should increase its emphasis on quality and results. *The GEF Secretariat and Implementing and Executing Agencies should collaborate to ensure that strategic goals and priorities established in the strategic business plan are linked to programmatic and project performance indicators, including expected outcomes that can be monitored and measured with a view to assessing progress towards fulfilling such strategic goals. Indicators should be designed with a view to assessing global environmental impacts achieved from the GEF resources. All projects must include clear and monitorable indicators, plans for monitoring and supervision, and identification of risks and other factors designed to improve quality at entry and to maximize impact. There should be a transparent system for the monitoring of these indicators and outcomes and for informing the Council on an annual basis.*

26. A strengthened monitoring and evaluation function within the GEF is a necessary corollary to improved measurement of GEF outcomes and results. Recommendations addressing this function are presented below.

27. In addition to the strategic business plan and improved performance indicators, *Participants request that for each replenishment, projections of outcomes for the forthcoming*

replenishment period be provided so that countries better understand the outcomes and impacts expected to be achieved with the resources to be provided. Participants note that projected outcomes were prepared and considered for the current replenishment.<sup>27</sup> *The replenishment process should also be informed of the results and impacts achieved during the previous replenishment, such as through an independent overall performance study as was the case for GEF-3, and this information should be provided in advance of the replenishment process.*

### **Strengthening of Institutional Arrangements**

28. *It is recommended that the GEF institutional structure be strengthened to support a continued emphasis on quality and results, to ensure that new demands on the GEF are effectively addressed, and to streamline project processing procedures. The institutional structure should also be designed so as to ensure that Council decisions are carried out effectively and that regular reports are provided to the Council on the implementation of its decisions. Participants recognize that as the number of conventions, focal areas and executing agencies increase, and as resources are constrained, coordination is increasingly a greater challenge within the GEF system. Participants recommend that in seeking to address these objectives and challenges, the GEF continue to build upon the comparative advantages of each of its entities as well as of their partnership. The Council is requested to review and approve the agreed plan of the GEF Secretariat and Implementing Agencies to enhance their partnership and interactions by improving clarity in roles through specification of clear accountabilities and responsibilities.*

29. *Participants recommend that the Council agrees that current executing agencies designated under expanded opportunities that have demonstrated their capacity and comparative advantage in developing and managing GEF projects through a portfolio of GEF activities (the Asian Development Bank and the Inter-American Development Bank) should now benefit from direct access through the GEF Secretariat to the Council for GEF project funding. It is also recommended that Council review annually, beginning in May 2003, the experience of other executing agencies designated under expanded opportunities and consider whether additional agencies should benefit from such direct access based on having satisfactorily demonstrated to the Council their capacity and comparative advantage in the management of GEF project activities. It is further recommended that an in-depth examination of the performance of the executing agencies operating under expanded opportunities, including those with direct access, be carried out during the third replenishment period with the objective of recommending continuation and/or modification of the policy.*

### **Mainstreaming and Co-Financing**

30. *Integration of global environmental issues into the mainstream development agenda is a continuing challenge. The GEF Monitoring and Evaluation Unit and the Secretariat, in collaboration with the Implementing and Executing Agencies, should establish concrete*

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<sup>27</sup> See *Programming of Resources for the Third GEF Replenishment*, Annex A to the *Summary of Negotiations on the Third Replenishment of the GEF Trust Fund*.

*indicators to measure progress in mainstreaming. Participants requested the Implementing Agencies to submit annual status reports on their mainstreaming strategies to the Council.*

31. Increased co-financing is a key issue in GEF efforts to have a significant positive impact on the global environment. *Participants request recipient countries, the Implementing Agencies and Executing Agencies and other donors to generate additional resources to leverage GEF funding. Co-financing levels should be a key consideration in considering work program inclusion.*

32. *Participants recommend that the GEF establish a co-financing policy, with consistent criteria and reporting requirements as well as co-financing targets. Such targets should provide flexibility to take into account specific project situations. The amount of realized co-financing in a project or program should be monitored and compared to the amount of co-financing anticipated at the time of Council approval, and this indicator should be reported to the Council on a regular basis. Recalling the Council's request for a note on co-financing of GEF projects in May 2001, the Participants recommend that a proposed co-financing policy be prepared by the Secretariat, in consultation with the Implementing and Executing Agencies, for consideration by the Council at its meeting in October 2002.*

### **Private Sector**

33. The GEF should work with countries to create an enabling environment that will attract private sector as well as non-profit funding leading to global environmental benefits. Capacity building at the institutional and systemic level will be important in this respect. The GEF should seek to promote more extensive communication with, and engagement of, the private sector and non-profit organizations with a view to harnessing maximum resources to address global environmental concerns

34. Recognizing previous efforts to engage the private sector, *Participants recommend that the GEF Secretariat, in collaboration with the Implementing and Executing Agencies, develop a new strategy to better engage the private sector, taking into account previous practices and policies. Participants recommend that the GEF, in preparing the strategy, consult with private sector actors to identify perceived constraints to working with the GEF. Clear operational guidelines should be elaborated in order to define the scope of GEF collaboration with private sector activities. The strategy should address how project design and implementation could place greater emphasis on the development of an enabling environment and market-oriented strategies to enhance sustainability and replication. The strategy should be submitted to the Council in May 2003 and should provide for annual reporting to the Council on private sector engagement.*

### **STAP**

35. The important role of STAP as a scientific advisory body to the Council is recognized, and its ability to fulfill its strategic advice functions should be strengthened. There is a need to clarify and focus its role in project development and review, and to better define its role in the

monitoring and evaluation activities of the GEF. *Participants recommend that UNEP and the Secretariat, in consultation with the other Implementing Agencies and taking into account the views and recommendations of the STAP constituted during GEF-2 as well as the results of OPS2, present to the Council for its consideration proposals on the role of STAP.* Such proposals should include ways to strengthen the involvement of regional and national level scientific expertise in project development and design.

#### MONITORING AND EVALUATION

36. A strengthened monitoring and evaluation function within the GEF, built upon the monitoring and evaluation systems of the Implementing and Executing Agencies, is a necessary corollary to improved measurement of GEF outcomes and results. The establishment of a framework for monitoring and evaluation with clear indicators and the extension of monitoring and evaluation tasks to more strategic and programmatic issues should be integral components of the GEF monitoring and evaluation activities. The monitoring and evaluation framework should provide for the incorporation of the views of, and lessons emanating from, the recipient countries. Cross-learning within the GEF should be strengthened and accelerated so that GEF resources can be used more effectively.

37. *Participants recommend that a high priority be placed on strengthening monitoring and evaluation of GEF projects. Participants also recommend that the roles and responsibilities for monitoring and evaluation among the GEF Monitoring and Evaluation Unit, the Secretariat and the Implementing and Executing Agencies be reviewed by the Council together with recommendations aimed at developing a partnership approach to monitoring and evaluation responsibilities in order to increase complementarity.* Drawing upon its technical expertise, the GEF Secretariat and the Monitoring and Evaluation Unit should have a more participatory role in the Implementing and Executing Agencies' project implementation reviews with regard to determining progress toward achieving GEF objectives while recognizing that accountability for project monitoring and supervision of implementation lies with the Implementing and Executing Agencies. *More specifically, Participants recommend that the following actions be undertaken:*

- (a) *the GEF monitoring and evaluation unit, for purposes of evaluation, should be made independent, reporting directly to the Council, with its budget and work plan determined by the Council and its head proposed by the GEF CEO and appointed by the Council for a renewable term of five years;*
- (b) *a process for Council oversight of monitoring and evaluation should be established;*
- (c) *the GEF Secretariat and Implementing and Executing Agencies should establish a procedure to disseminate lessons learned and best practices emanating from the monitoring and evaluation activities;*



- (d) *a formal “feedback loop” should be established between evaluation findings and management activities to ensure more systematic use of the results and outputs of GEF projects for the improvement of planning and subsequent activities;*
- (e) *the GEF Secretariat and the Implementing and Executing Agencies are called upon to report annually to the Council on their response to relevant recommendations of OPS2 and the replenishment documents;*
- (f) *the monitoring and evaluation unit should establish more rigorous minimum standards for GEF-specific aspects of projects relating to GEF policies and strategies expected of monitoring and evaluation units of the Implementing and Executing Agencies;*
- (g) *as each of the Implementing and Executing Agencies has its own system for drawing lessons from operational experiences, the GEF monitoring and evaluation unit should facilitate more intensive interagency sharing of experiences relevant to the GEF;*
- (h) *all projects should include provisions for monitoring the impacts and outcomes of projects, and those existing projects which do not have such provisions and which have more than two years left in their implementation should be retrofitted to meet such monitoring standards;*
- (i) *the monitoring and evaluation unit should report annually to the Council on its work; and*
- (j) *the monitoring and evaluation unit should be provided access to all project documents of the Implementing and Executing Agencies relating to GEF-financed activities.*

38. *Taking into account the above two paragraphs, Participants recommend that the monitoring and evaluation unit prepare a note for consideration by the Council at its meeting in October 2002 on the terms of reference for the independent monitoring and evaluation unit.*