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# REPORT ON THE IMPLEMENTATION OF THE CO-FINANCING GUIDELINES

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**INTRODUCTION**

1. The Council, at its 54th meeting in June 2018 and having reviewed document GEF/C.54/10/Rev.01, *Updated Co-Financing Policy*[1], requested the Secretariat to "report to the Council at its next meeting on the implementation of the Co-Financing Guidelines[2], particularly regarding the calculations used to compute co-financing and investment mobilized"[3].

2. The Council's request was made in the context of its approval of an updated Co-Financing Policy, which introduces the concept of "investment mobilized" as co-financing that excludes recurrent expenditures. The policy also sets out a level of ambition for "the overall GEF portfolio to reach a ratio of co-financing to GEF project financing of at least 7:1, and for the portfolio of projects and programs approved in upper middle-income countries [UMIC][4] and high-income countries [HIC] that are not small island developing states [SIDS] or least developed countries [LDC][5] to reach a ratio of investment mobilized to GEF financing of at least 5:1".[6] To support the implementation of the policy, the Secretariat, in consultation with Agencies, has developed guidelines with detailed procedural steps and definitions related to documentation, monitoring, and reporting on co-financing and investment mobilized throughout the project cycle.

3. The first part of this paper presents details on the volume and distribution of co-financing and investment mobilized across the December 2018 Work Program[7]. The Second part looks more closely at the implementation of the Co-Financing Guidelines, particularly with regard to the identification of the sub-set of co-financing that meets the definition of investment mobilized.

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[1] (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.54.10.Rev_.01_Co-Financing_Policy.pdf)

[2] FI/GN/01 (http://www.thegef.org/sites/default/files/documents/Cofinancing_Guidelines.pdf)

[3] *Joint Summary of the Chairs, 54th GEF Council Meeting, June 24–26, 2018* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.54_Joint_Summary_of_the_Chairs_0.pdf)

[4] This paper uses the World Bank's Lending Groups for fiscal year 2019 (https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups).

[5] This paper uses the lists of LDCs and SIDS as defined by the United Nations as of November 2018 (https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf; and https://sustainabledevelopment.un.org/topics/sids/list).

[6] FI/PL/01 (http://www.thegef.org/sites/default/files/documents/Cofinancing_Policy.pdf)

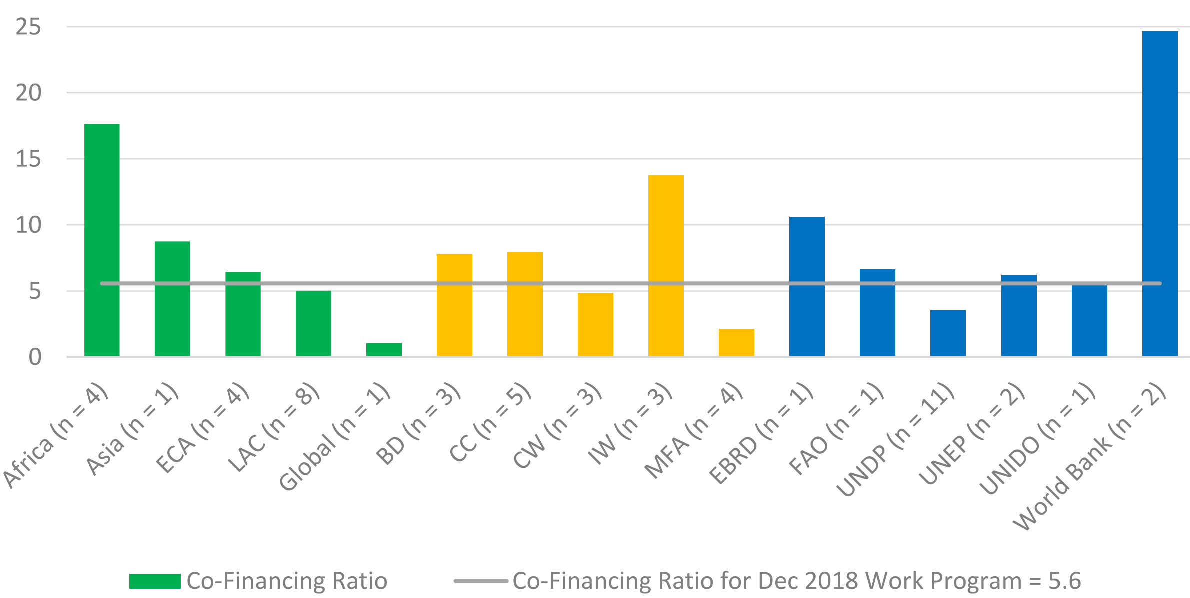
[7] GEF/C.55/10 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_WP%20Cver%20Note_11-27-18.pdf)

## CO-FINANCING AND INVESTMENT MOBILIZED IN THE DECEMBER 2018 WORK PROGRAM

4. **The December 2018 Work Program comprises 18 full-sized projects requesting US$147 million in GEF project financing from the GEF Trust Fund[8].** The projects included in the Work Program report some US$820 million in indicative co-financing, which amounts to some US$5.6 in co-financing for each dollar in GEF project financing. The Work Program spans all GEF regions and it contains projects in four different focal areas, as well as four multi-focal area projects. It includes projects implemented by six different Agencies.[9]

5. **Given the small size and unique nature of the Work Program, it is too early to discern trends for GEF-7, or to assess progress against the level of ambition set out in the Co-Financing Policy.** In particular, the Work Program is dominated by the first tranche of the GEF-7 Small Grants Programme (SGP), which requests US$62 million in GEF project financing (42% of the Work Program). The SGP project reports US$64 million in indicative co-financing, a ratio of 1:1. While the indicative co-financing ratio is consistent with previous SGP phases, it contributes to a lower-than-usual co-financing ratio for the proposed Work Program as a whole, and particularly for global, multi-focal area, and UNDP projects. On the other hand, projects in Africa, the international waters focal area, as well as projects implemented by the World Bank stand out for their high co-financing ratios. (Figure 1)

**Figure 1: Co-Financing Ratios by Region, Focal Area, and Agency** (ratio of indicative co-financing to GEF project financing)




[8] The Work Program includes one multi-trust fund project (GEF ID: 10083) requesting US$1.4 million from the GEF Trust Fund and US$4.6 million from the Least Developed Countries Fund (LDCF). Given that the Co-Financing Policy does not apply to the LDCF, this report includes only the GEF Trust Fund share of that multi-trust fund program, including the associated indicative co-financing that is attributable to the GEF Trust Fund.

[9] GEF/C.55/10 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_WP%20Cver%20Note_11-27-18.pdf)

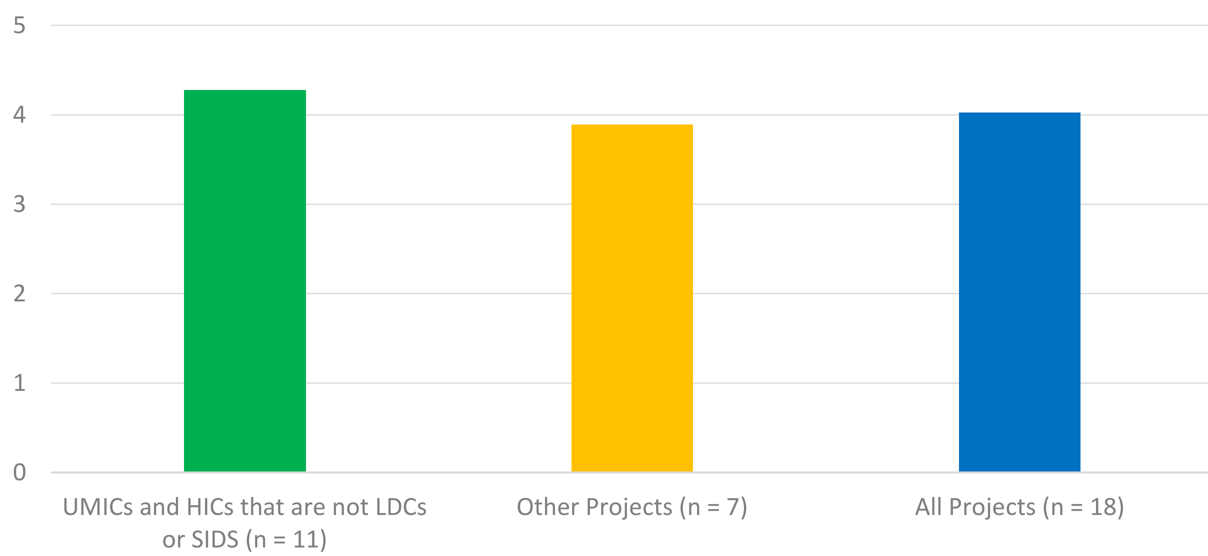
6. **Grants from GEF Agencies and recipient country governments make up nearly 60% of all indicative co-financing.** Recipient country governments – including national as well as sub-national entities – account for some 44% of the total indicative co-financing in the Work Program, followed by GEF Agencies at 36%. About 11% of all indicative co-financing is from the private sector. Among the different types of co-financing indicated, grants make up by far the largest share (66%), followed by in-kind contributions (22%). (Table 1)

**Table 1: Co-Financing by Source and Type** (share of total indicative co-financing)

| | Equity | Grant | Loan | In-Kind | All Types |
|---|---|---|---|---|---|
| Beneficiaries | | | | 2.8% | 2.8% |
| Civil Society Organization | | 0.3% | | 3.1% | 3.4% |
| Donor Agency | | 1.3% | | 0.7% | 2.0% |
| GEF Agency | | 29.4% | 6.1% | 0.3% | 35.9% |
| Other Source | 0.4% | | | 0.2% | 0.7% |
| Private Sector | 5.9% | 4.5% | | 0.4% | 10.9% |
| Recipient Country Government | | 30.1% | | 14.3% | 44.4% |
| All Sources | 6.4% | 65.7% | 6.1% | 21.9% | 100.0% |

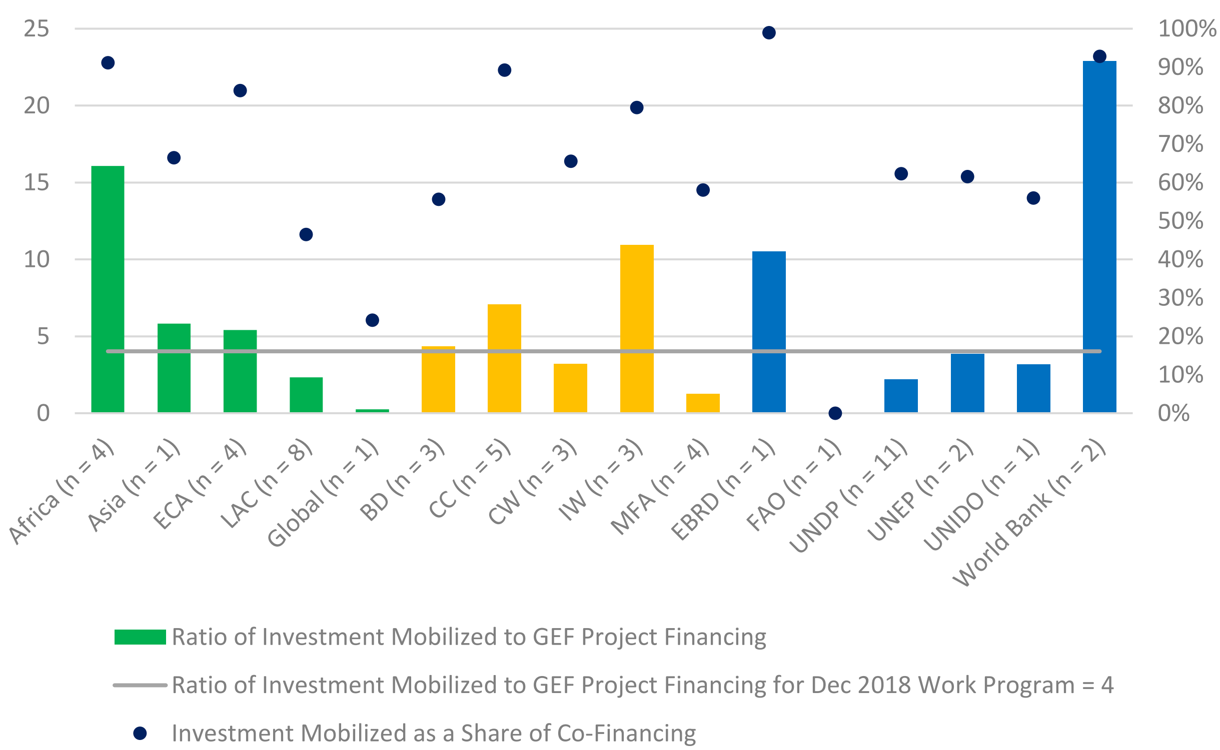
7. **More than 70% of all co-financing is classified as investment mobilized.** Of the 18 projects included in the December 2018 Work Program, 15 report a total of US$592 million in investment mobilized. This represents about 72% of all indicative co-financing. The remaining 28% (US$228 million) consists of co-financing in the form of recurrent expenditures. The ratio of investment mobilized to GEF project financing is 4.3:1 in UMICs and HICs that are not LDCs or SIDS, 3.9:1 for other projects, and 4:1 across the Work Program as a whole. (Figure 2)

**Figure 2: Ratio of Investment Mobilized to GEF Project Financing by Country Group**



8. **The ratios of investment mobilized to GEF project financing by region, focal area, and Agency mirror those for co-financing at large.** Projects in Africa account for 57% of all investment mobilized, with a ratio of some US$16 in investment mobilized for each dollar in GEF project financing. In other regions, the ratios vary from 5.8:1 in Asia to 2.3:1 in Latin America and the Caribbean. Projects in the international waters focal area report a high ratio (11:1) and disproportionate share of investment mobilized (41%), followed by climate change projects (7:1, 23%). The two multi-lateral development banks (MDB) with projects in the December 2018 Work Program – EBRD and the World Bank – account for about half of all investment mobilized. It is noteworthy that 89% of all co-financing towards climate change projects and 94% of co-financing towards MDB projects is classified as investment mobilized. In contrast, investment mobilized makes up 66% of co-financing towards chemicals and waste projects, 56% for biodiversity projects, and 59% for projects implemented by UN Agencies. (Figure 3)

**Figure 3: Ratios of Investment Mobilized to GEF Project Financing by Region, Focal Area, and Agency** (ratio of investment mobilized to GEF project financing [left axis]; investment mobilized as a share of all indicative co-financing [right axis])




9. **Grants from Agencies and governments account for more than 70% of all investment mobilized.** Overall, Agencies contribute the largest share of investment mobilized (49%), followed by recipient country governments (34%). The co-financing provided by GEF Agencies, other donor agencies, and the private sector is predominantly classified as investment mobilized, whereas nearly half of all co-financing from governments is in the form of recurrent

expenditures. Consistent with the distribution of co-financing at large, the majority of investment mobilized is in the form of grants (81%).

**Table 2: Investment Mobilized by Source and Type**
(share of total indicative investment mobilized)

| | Equity | Grant | Loan | In-Kind | All Types |
|---|---|---|---|---|---|
| Beneficiaries | | | | | 0.0% |
| Civil Society Organization | | 0.0% | | | 0.0% |
| Donor Agency | | 1.3% | | 0.9% | 2.2% |
| GEF Agency | | 40.5% | 8.4% | 0.1% | 49.0% |
| Other Source | 0.0% | | | 0.1% | 0.1% |
| Private Sector | 8.2% | 6.1% | | 0.3% | 14.5% |
| Recipient Country Government | | 33.2% | | 0.9% | 34.1% |
| All Sources | 8.2% | 81.1% | 8.4% | 2.2% | 100.0% |

10. **In accordance with the Co-Financing Policy, the Secretariat will report annually to the Council on trends and progress against the level of ambition for co-financing and investment mobilized.** As the GEF-7 portfolio grows and matures, the value of the portfolio-level data will increase and allow for a better understanding of performance against agreed targets.

### IMPLEMENTATION OF THE CO-FINANCING GUIDELINES

11. **In accordance with the Co-Financing Policy, all 18 projects in the December 2018 Work Program include indicative co-financing.** As noted above, 15 out of these 18 projects classify a share of their indicative co-financing as investment mobilized. The Co-Financing Policy provides that the Secretariat "does not impose minimum thresholds and/or specific types or sources of Co-Financing or Investment Mobilized in its review of individual projects and programs". Indeed, as evidenced by figures 1 and 3 above, co-financing ratios may vary considerably by region and focal area.

12. **Based on the limited sample of projects reviewed, co-financing is documented clearly and consistently.** Indicative co-financing data is presented across the fixed range of sources and types that are set out and defined in the Co-Financing Guidelines. Tables 1 and 2 above provide breakdowns of co-financing and investment mobilized by those sources and types.

13. **In line with the Co-Financing Guidelines, all 15 projects that are required to do so provide a description of how any investment mobilized was identified.** The descriptions provided by Agencies fall into three broad categories. First, a number of projects set out a general definition, based on which co-financing is classified as either investment mobilized or recurrent expenditures. Second, several projects provide a detailed description of the activities supported through each line item in the co-financing table. Third, some projects describe the process through which co-financing was classified as either investment mobilized or recurrent expenditures, including consultations with the entities that provide the co-financing.

14. **Given the indicative nature of the Co-Financing Information provided at the time of Work Program inclusion, it is too early to draw conclusions regarding the "calculations used to compute co-financing and investment mobilized" (see Paragraph 1 above). Still, the mapping of investment mobilized by source and type suggests a reasonable degree of convergence in approach and interpretation.** For example, while in-kind contributions represent an important share of all indicative co-financing (22%, see Table 1 above), they make up a very small share of investment mobilized (2%, see Table 2 above). This is fully in line with the definition of in-kind contributions set out in the Co-Financing Guidelines[10]. On the other hand, with minor exceptions, co-financing in the form of loans and equity is classified as investment mobilized. Of indicative co-financing in the form of grants, 89% is classified as investment mobilized.

15. **Overall, notwithstanding the need for further learning across the GEF Partnership, early evidence suggests that Agencies and other partners are implementing the Co-Financing Policy and Guidelines in line with expectations.** The Secretariat will continue to work with Agencies, focal points, and other stakeholders to raise awareness of the new rules, and to ensure that the co-financing information provided throughout the project cycle is consistent with the policy and guidelines. The Secretariat will also keep under review the Co-Financing Guidelines, should future evidence or implementation experience point to a need for further clarification.

[10] The Co-Financing Guidelines define in-kind contributions as "contributions in the form of goods or services other than money, including but not limited to salaries and wages, office space, and utilities".