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STRATEGIC POSITIONING FOR THE GEF

(Prepared by GEF Secretariat)

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INTRODUCTION

1. This document outlines the elements for the strategic positioning of the GEF for the sixth replenishment period (GEF-6) covering July 01, 2014 to June 30, 2018. The document first presents directions that have emerged from the long-term strategy development exercise underway (GEF2020). GEF2020 will provide the overall strategic directions the GEF may take in the longer run, with some of the first steps being feasible for implementation during GEF-6. Second, this document proposes possible ways of addressing issues that emerged during discussions at the first (Paris, April 2013) and second (New Delhi, September 2013) replenishment meetings: (i) differentiation in programming resources; (ii) improving the efficiency of the project cycle; (iii) enhancing engagement with the private sector; (iv) enhancing gender mainstreaming; and (v) strengthening the results-based management and knowledge management systems.

STRATEGIC CONTEXT

2. GEF2020 lays out the case for higher and more systemic impacts at scale and explores the means to achieve those goals. What follows are the key findings that emerged from the GEF2020 exercise so far.

3. **The earth's environmental challenges are intensifying**. Ecosystems are approaching their limits as growing human demands may be pushing them beyond their carrying capacity and stressing natural resilience mechanisms to the extent that abrupt changes can no longer be excluded. As a consequence, if measures to tackle the drivers of environmental degradation are delayed, the costs of facing them in the future will become prohibitively high or simply impossible to reverse. The pressure on resources is set to increase in the coming decades as a result of three global megatrends, viz., a 2 billion increase in global population by 2050, accompanied by a rapid increase in the global middle class by 3 billion in just the next two decades, almost all of whom are likely to live in cities. These megatrends influence various indirect drivers as the world needs to meet a doubling in demand for food, energy, human habitat, transportation, and others.

4. **Given these challenges, incremental gains in managing global environment will not suffice.** Articulating the causal chain from megatrends to the state of global environment can bring the mandate of the GEF into a sharper focus, and by adopting a stronger focus on the drivers that lead to unsustainable use of resources, the GEF will better be able to tackle the root causes of environmental degradation, which will be critical to slow and eventually reverse environmental trends. It would also help the GEF create synergies across several environmental domains, and enable GEF to enhance its contribution to countries' broader national development goals consistent with country-ownership and guidance from the multilateral environmental conventions.

5. **The landscape for global environmental financing is rapidly evolving.** While the last decade has seen an increasing number of public funds directed towards environmental financing, largely in the area of climate change, the volume of the funds do not match the scale of the problems to be tackled. Meanwhile, global private capital flows have dramatically increased providing significant opportunities for supporting the global environment through the establishment of appropriate policy frameworks and incentives.

6. **The GEF has a number of strengths upon which its future strategic positioning can be built.** Among the key strengths are: (i) more than two decades of experience of the GEF network in implementing projects that deliver global environmental benefits focusing on innovations; (ii) high degree of international legitimacy derived from its association with key multilateral environmental conventions; (iii) programs and projects reviewed and guided by a world-class Scientific and Technical Advisory Panel (STAP), and the results-on-the ground being continuously assessed by the independent Evaluation Office; (iv) an equitable governance structure; and (v) a strong and expanding network of implementing partners, civil society and indigenous peoples organizations, and the private sector.

7. **Ongoing international discussions on sustainable development also provide an opportunity for the GEF to deliver its contribution by firmly integrating the key dimensions of the environmental agenda** that for the past two decades have become increasingly fragmented and thus less relevant to the implementation of the sustainable development agenda. These international deliberations further recognized that the GEF remains unique among multilateral funding mechanisms in being able to more seamlessly integrate various interrelated and reinforcing environmental objectives in its quest to promote cost-efficiency and higher impact when using scarce resources. In order for this potential to materialize fully, a more integrated approach to resource programming is presented as a set of Integrated Approach pilots as an integral part of the *Programming Directions* Document.

8. **For each intervention, GEF must carefully select the most effective way to catalyze impact.** In addition to strengthening a "driver-focused approach," the GEF must also identify the most effective ways to enhance the impact of its interventions. GEF2020 suggest five complementary influencing models for the GEF, that are capable of tackling the common barriers we see in practice, including: (i) *transforming policy and regulatory environments* to support governments to put in place the policies, regulations and institutions that can change their own investment decisions, and provide individuals and companies operating at various levels – local, national, multinational – appropriate incentives to change their consumption and production choices; (ii) *demonstrating innovative approaches,* aimed at supporting the validation of a technology or approach, with the aim of helping unlock the market for a greener technology or create a beacon effect for the replication of the target technology or approach; (iii) *strengthening institutional capacity and decision-making processes* to improve information, participation, and accountability in public and private decisions that have a significant impact on the environment; (iv) *convening multi-stakeholder alliances* to develop and implement sustainable resource use practices or bring them to scale through multi-country political commitments; and finally (v) *de-risking and incrementally financing investments* that investors are not willing to accept or that local development benefits would not have the incentive to cover.

9. **The proposed GEF-6 programing takes into account these key messages from the GEF2020 exercise**. In particular, each of the focal area strategies makes efforts to tackle underlying drivers whenever appropriate, while it continues to address pressure points directly when urgent actions are needed. Focal area strategies also seek to exploit opportunities to help create enabling environments as important catalyzers. Furthermore, a set of Integrated Approaches is proposed to more effectively address key underlying drivers by creating joint upfront platforms among key stakeholders.

10. **The GEF partnership continues to evolve and be resilient**. The GEF partnership has expanded over the years, from three to 12 Agencies.[1] More regional and national agencies are expected to complete the accreditation process in 2014. In its role as a financial mechanism to the international environmental agreements, the GEF now serves five conventions. Civil society organizations and indigenous peoples, the private sector, and the scientific community will continue to play important roles in strengthening the partnership.

11. **Key policy elements in GEF-6 are geared towards higher impact**. Given the limited resources available to the GEF against mounting environmental challenges, it is essential that the programming approaches in GEF-6 are effectively and efficiently delivered by the GEF partnership. Effectiveness and efficiency of the partnership will be further enhanced by: (i) a differentiated approach to making resources available to recipient countries; (ii) further streamlining the project cycle to process projects more efficiently through different stages: (iii) developing and implementing an approach that mainstreams private sector engagement within the GEF, while at the same time maintains GEF's ability to develop targeted private sector engagements; (iv) developing and implementing an action plan for enhancing gender mainstreaming; and (v) strengthening of the results-based management and knowledge management systems.

DIFFERENTIATION

12. As the GEF partnership aims to achieve higher impacts, countries contribute in different ways, according to their particular country capacities and circumstances, to the generation of global environmental benefits. There are several approaches through which countries in different circumstances are encouraged to achieve the higher impacts, and there are modalities that are best tailored to the different capacities. Through these, it is expected that the partnership as a whole can produce higher impacts.

13. The various elements of differentiation could be further strengthened by employing the following three elements, individually or in combination: (i) updating the System for Transparent Allocation of Resources (STAR); (ii) seeking higher levels of co-financing; and (iii) emphasizing non-grant instruments. The first two elements reflect a differentiation approach by country, while the third element is a differentiation by source of financing – in this case, the private sector.

Updating the STAR

14. **Since GEF-4, a resource allocation system has guided countries' funding envelopes**. The overall objective of an allocation system for the GEF has not changed since it was first introduced in GEF-4 as the Resource Allocation Framework (RAF) following the policy recommendations for the Third Replenishment as, "… a system for allocating resources to countries in a transparent and consistent manner based on global environmental priorities and country capacity, policies and practices relevant to successful implementation of GEF projects."[2] The allocation system was updated to the System for Transparent Allocation of Resources (STAR) for GEF-5. Using this system, the GEF-5 resource envelopes for climate change,

[1] World Wildlife Fund – US, and Conservation International recently completed the accreditation process as GEF Project Agencies.
[2] GEF/C.27/Inf.8/Rev.1, 2005.

biodiversity, and land degradation are allocated to eligible countries. For an overview of the STAR, refer to Annex 1.

15. **The options presented in this document to modify the STAR are based on discussions that took place in the first and second replenishment meetings**. Specifically, at the second replenishment meeting in September 2013, several options were presented for the adjustments of the allocation system.[3] As stated in Paragraph 6 of the Summary of the Co-chairs:[4] "*Participants requested further analysis of the implications of adjustments to ceilings, floors, and per-capita income weights, or other indices in the STAR formula*." The Secretariat has therefore proceeded as requested with analyses along the following lines.

Increasing the Weight of the GDP per capita Index

16. In the current STAR model, the per capita GDP index is weighted to a value of -0.04. Increases in this value would lead to reallocation of resources towards countries with lower GDP per capita.

Increasing the Floor Allocations for each Focal Area

17. In the current STAR model, a minimum allocation amount or "floor" was set for each focal area: $2 million for climate change, $1.5 million for biodiversity, and $0.5 million for land degradation, leading to a cumulative floor of $4 million. This benefited many of the LDC and/or SIDS countries that would otherwise have had allocations below these levels.[5] Increases in floors would lead to reallocation of resources towards countries that receive smaller allocations.

Lowering the Ceilings for each Focal Area

18. In the current STAR model, a maximum allocation amount or "ceiling" was set for each focal area. This ceiling was expressed as a percentage of focal area allocations before the set asides were removed, and set at 11 percent for climate change and 10 percent for biodiversity and land degradation. Reductions in these values would lead to a reduction of resources to very high allocation countries.

19. Varying these parameters can generate a multitude of scenarios. Four such scenarios are presented for illustrative purposes in Table 1, which shows the parameters chosen for each scenario, the overall allocation results across country groups,[6] the individual allocations for the five countries that received the largest STAR allocations under GEF-5 and the total STAR allocations across all countries.[7] It is important to note that apart from the five countries for

[3] GEF/R.6/12, "*Strategic Positioning for the GEF*", Second Meeting for the Sixth Replenishment of the GEF Trust Fund, September 10-11, 2013

[4] *Summary of the Co-Chairs,* Second Meeting for the Sixth Replenishment Of Resources of the GEF Trust Fund, New Delhi, India, September 10-11, 2013

[5] For the 75 countries that are SIDS and/or LDC countries, 53 received the floor allocation in Climate Change, 23 received the floor allocation in Biodiversity, and 7 received the floor allocation in Land Degradation.

[6] Three mutually exclusive groupings are chosen for this presentation. The "SIDS/LDCs" are chosen due to their vulnerability. The "Top-5" Countries refer to the five countries that received the largest STAR allocations under GEF-5, who collectively account for 29 percent of the allocated resources. "Other Countries" refer to all the other countries that do not fit into either of these two groups.

[7] Under GEF-5, total allocations by focal area were as follows: $1360 million for Climate Change, $1210 for Biodiversity, and $405 for Land Degradation. When the 20 percent set asides were removed, the focal areas received

which individual allocations are presented, this table presents overall allocations by groups only. Within a group, changes in the parameters affect countries in different ways -- some may experience increases in their country allocations while others may experience decreases.

Scenario A

20. In Scenario A, the GDP per capita index weight has been doubled from -0.04 to -0.08, and the ceilings have been harmonized across all three focal areas, to a level of 10 percent. The floor levels for each focal area (and the resultant cumulative floor levels) remain unchanged. This simulation results in an overall increase to the SIDS/LDCs by 3.5 percent. The overall allocations to the “Other Countries” are reduced by 0.1 percent. Overall allocations to the Top-5 countries are reduced by 2.9 percent, though India receives an increase in its individual allocation.

Scenario B

21. In Scenario B, the ceilings have been reduced to 9.5 percent, and the GDP per capita index weight has been doubled to -0.08. The floor levels remain unchanged. This simulation results in an overall increase to the SIDS/LDCs by 3.7 percent. The overall allocations to the “Other Countries” are increased by 0.2 percent. Overall allocations to the Top-5 countries decrease by 3.6 percent, though India receives an increase.

Scenario C

22. In Scenario C, the ceilings have been reduced to 9 percent, and the GDP per capita index weight has been doubled to -0.08. The floor levels remain unchanged. This simulation results in an overall increase to the SIDS/LDCs by 3.8 percent. The overall allocations to the “Other Countries” are increased by 0.5 percent. Overall allocations to the Top-5 countries decrease by 4.2 percent, though India receives an increase.

Scenario D

23. In Scenario D, the floor levels are increased from $4 million to $6 million, and the ceilings have been reduced to 9.5 percent. The GDP per capita index weight remains unchanged. This simulation results in an increase in the overall allocations to the SIDS/LDCs by 9.9 percent and a decrease in the overall allocations of the “Other Countries” by 1 percent. Overall allocations to the Top-5 countries decrease by 7.3 percent. India also experiences a reduction together with the other countries of this group.

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the following amounts under the STAR: $1088 million for Climate Change, $968 for Biodiversity, and $324 for Land Degradation. This totals to $2380, which therefore represents the amounts allocated to countries for these three focal areas under the STAR model.

Table 1: STAR Scenario Results

COUNTRIES		Original STAR Model			Scenario A			Scenario B			Scenario C			Scenario D		
		Ceilings = 11% (CC), 10% (BD and LD) Cumulative Floors = 4 GDP Weight = -0.04			Ceilings = 10% Cumulative Floors = 4 GDP Weight = -0.08			Ceilings = 9.5% Cumulative Floors = 4 GDP Weight = -0.08			Ceilings = 9% Cumulative Floors = 4 GDP Weight = -0.08			Ceilings = 9.5% Cumulative Floors = 6 GDP Weight = -0.04		
		Number of Countries	Total STAR Allocation ($Million)	Share	Allocation ($ million)	Difference to Original	% Change to Original	Allocation ($ million)	Difference to Original	% Change to Original	Allocation ($ million)	Difference to Original	% Change to Original	Allocation ($ million)	Difference to Original	% Change to Original
SIDS/LDCs		**75**	**611**	**25.7%**	**633**	**22**	**3.5%**	**634**	**22**	**3.7%**	**635**	**23**	**3.8%**	**672**	**61**	**9.9%**
Other Countries		**64**	**1081**	**45.4%**	**1079**	**-1**	**-0.1%**	**1083**	**2**	**0.2%**	**1086**	**6**	**0.5%**	**1070**	**-10**	**-1.0%**
Top-5 Countries		**5**	**688**	**28.9%**	**668**	**-20**	**-2.9%**	**664**	**-25**	**-3.6%**	**659**	**-29**	**-4.2%**	**638**	**-50**	**-7.3%**
Top-5	*Mexico*	*1*	*98*	*4.1%*	*94*	*-4*	*-4.2%*	*94*	*-4*	*-3.9%*	*95*	*-3*	*-3.5%*	*93*	*-5*	*-5.0%*
	Russian Federation	*1*	*120*	*5.0%*	*115*	*-5*	*-4.0%*	*116*	*-4*	*-3.4%*	*116*	*-3*	*-2.8%*	*112*	*-8*	*-6.6%*
	Brazil	*1*	*129*	*5.4%*	*125*	*-4*	*-3.4%*	*125*	*-4*	*-3.1%*	*126*	*-4*	*-2.8%*	*123*	*-7*	*-5.1%*
	India	*1*	*129*	*5.4%*	*137*	*7*	*5.6%*	*137*	*8*	*6.2%*	*138*	*9*	*6.9%*	*121*	*-8*	*-6.5%*
	China	*1*	*212*	*8.9%*	*198*	*-14*	*-6.6%*	*191*	*-21*	*-9.9%*	*184*	*-28*	*-13.1%*	*189*	*-22*	*-10.6%*
TOTAL		**144**	**2380**	**100.0%**	**2380**			**2380**			**2380**			**2380**		

Conclusions

24. The SIDS/LDCs receive the highest overall increases in Scenario D; the allocation to this group increases by 9.9 percent. This is the only scenario that contains an increase in floor levels, while the GDP per capita index weighting remains at its original levels. By comparison, in scenario B increases in the GDP per capita weight while keeping the floor unchanged results in the total allocation for SIDS/LDCs increasing by only 3.7 percent. The main reason for this difference is that a relatively large number of SIDS/LDC benefits from the increases in the floor. Therefore, any change to the floor has a direct and targeted impact on a significant number of countries in this group. Changing the GDP per capita weight affects *all* countries, but given that there is a large variation of GDP per capita within the SIDS/LDC group, the overall impact is not significant.

25. Across scenarios A, B and C, where floor levels are held constant, changing ceiling levels and weight of GDP per capita index have the greatest impact on the Top-5 countries compared to other groups, and allocation to this group is progressively reduced. Lowering of ceilings by themselves affects only one country – China. Among the Top-5 countries, the effect of increasing weight of the GDP per capita index increases the allocation for India as a result of India's relatively low GDP per capita.

26. The allocations for "The Others' across all scenarios are less sensitive to changes in the parameters used in the simulations, with variations of one percent or less.

27. It is important to note that these simulations were undertaken with the original data and GEF-5 focal area envelopes that were used for deriving GEF-5 initial allocations. The Secretariat will be updating these datasets for GEF-6, for deriving allocations once the GEF-6 focal area allocations are finalized at the conclusion of the replenishment process. Therefore, the simulations presented here are for illustrative purposes only.

28. The Secretariat proposes to present a proposal for STAR modifications for consideration at the May 2014 Council meeting, reflecting the policy recommendations emerging from the replenishment discussions. When doing so, the Secretariat will take into account recommendation made by the STAR Mid-Term Evaluation presented at the November 2013 Council meeting.[8]

Co-financing

29. **The GEF has traditionally put a strong emphasis on leveraging resources for its projects through co-financing, for a number of reasons**. First, mobilization of co-financing is intended to generate new and additional resources to complement GEF's incremental project investments directed to achieving global environmental benefits. Second, co-financing is an indicator of the commitment of the providers of co-financing (national governments, the private sector, or others) towards the project accomplishing its stated objectives. Third, co-financing can help increase GEF project's impacts, and enhance their sustainability beyond the life of the project, sometimes by linking them to broader policy agendas focusing on sustainable development. Building on this tradition and practice, implementing systematic variances in the

[8] GEF/ME/C.45/04: *Mid-Term Evaluation of the System of Transparent Allocation of Resources*, 45th GEF Council, November 2013.

level of co-financing across countries can potentially become a vehicle to further enhance GEF's ability to generate global environmental benefits.

The Rationale for Focusing on Co-financing

30. **GEF's approach to co-financing is set out in the 2003 Council Paper "Co-financing."** In the Council Paper,[9] co-financing is defined relatively broadly as those project resources which "are committed by the GEF Agency itself or by other non-GEF sources and which are essential for meeting the GEF project objectives." Specifically, finance for baseline activities is included in the definition "only when such activities are essential for achieving the GEF objectives."[10]

31. **The 2003 Council Paper puts particular emphasis on efforts to "increase co-financing levels."** Referencing discussions that took place during the GEF-3 Replenishment Negotiations, the Council Paper noted that "increased co-financing is a key issue in GEF effort to have a significant positive impact on the global environment". It also noted that GEF-3 Replenishment Participants requested "recipient countries, the Implementing Agencies and Executing Agencies, and other donors to generate additional resources to leverage GEF funding and recommended that co-financing levels be a key consideration in considering Work Program inclusion."

32. **Repeated Overall Performance Studies have pointed to the gains for the GEF arising from co-financing.[11]** For example, the Evaluation Office's Annual Performance Report (APR) from 2009 concluded that "the GEF gains from mobilization of co-financing through efficiency gains, risk reduction, synergies, and greater flexibility in terms of the types of projects it may undertake." Similarly, OPS-4 noted that "the role of co-financing to gain additional global environmental benefits is important..."[12] Finally, the OPS-5 report refers to "the crucial role co-financing plays in ensuring a solid foundation for baseline funding, as well as contribution substantially to deliver global environmental benefits."

33. **At the same time, evaluations have also cautioned against co-financing becoming "an objective on to itself."** This caution is grounded in three observations, also repeatedly noted in past evaluations. The first, as noted e.g., in OPS-4, is the absence of unequivocal evaluative evidence of the relationship between co-financing levels and generation of global environmental evidence. The second, as further illustrated by the data below, is the very variability in co-financing ratios even within individual countries. Finally, as noted in OPS-5, the pursuit of higher co-financing ratios and the (potential) associated higher global environmental benefits must be weighed against "costs in terms of time and effort in mobilizing co-financing".

34. **A formal target for co-financing levels has so far not been adopted in the GEF.** OPS-5 has opened this discussion by highlighting pros and cons of seeking to increase co-financing

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[9] GEF/C.20/6/Rev.1

[10] It should be noted that there is no globally accepted definition of "co-financing". The 2003 Council Paper also discussed the broader issue of 'leverage", and defined *associated financing* as "finance for other activities that are related to the project…but which are not essential for the project's successful implementation. *Leveraged resources* are the additional resources—beyond those committed to the project itself—that are mobilized later as a direct result of the project; as such, leverage resources do not form part of the committed financing plan at the outset. A review of the GEF's approach to co-financing should include revisiting these various definitions.

[11] GEF/R.6/17, *Fifth Overall Performance Study of the GEF*.

[12] OPS-4 p 142.

through more specific targets. OPS-5 recommends that co-financing needs to be encouraged,[13] but argues that the objective should be on the "adequacy" of co-financing, instead of solely focusing on the on "maximization" of co-financing. In its conclusion, OPS5 notes that "realistic levels of co-financing should be established for groups of countries in specific circumstances."[14]

Summary of Co-financing Trends

35. **Against this background, the Secretariat has undertaken a quantitative analysis of GEF co-financing to date.** The main findings from this analysis are:

(a) Consistent with the 2003 Council Paper's emphasis, average co-financing ratios have increased over time, particularly since GEF-4;

(b) Average co-financing ratios mask very large underlying variations in ratios at the project level;

(c) The climate change focal area is by far the largest source of co-financing, through a combination of high co-financing ratios and a high share of the overall portfolio;

(d) The largest source of co-financing for GEF projects are national governments, followed by co-financing provided by GEF Agencies;

(e) Projects financed through multilateral development banks, generally, but not uniformly, have higher co-financing than projects financed through other agencies, in large part due to their ability to associate GEF funding with loans;

(f) Co-financing ratios are generally higher for higher-income countries, although differences between large group of middle-income countries (LMICs and UMICs) are small. Further, Co-financing for climate change projects account for a higher share of total co-financing in high-income countries compared to low income countries.

(g) Middle-income countries mobilize a significantly larger share of co-financing from their national governments and from the private sector compared to low income countries; and

(h) The top five GEF recipient countries (China, India, Brazil, the Russian Federation, and Mexico) generate a disproportionately large share of the GEF co-financing. Differences among the top five recipients in their co-financing are in part driven by the differences in composition of their project portfolio – focal area composition and blending of GEF projects with loans from multilateral development banks.

36. Details of the complete co-financing analysis are presented in Annex II. From the perspective of the prospects for a differentiated approach, presented below is the analysis with respect to countries.

[13] GEF/R.6/17, *Fifth Overall Performance Study of the GEF.*
[14] Ibid.

Co-financing by Country Groups

37. **Co-financing ratios are generally higher for higher-income countries, although differences between the large group of middle-income countries (LMICs and UMICs) are small**. The average co-financing ratio for full size projects in Low Income Countries (LIC) during GEF4-5 was 6. For Lower and Upper Middle Income Countries (LMICs and UMICs) it was around 7.9 and 8.1 respectively (Table 2). High Income Countries (HICs) had the highest average co-financing ratio of 12.1.[15] Project outliers are influential in all income categories, as shown by the consistently large difference between median and average co-financing ratios. Moreover, the median is remarkably stable across income groups (in the 4-4.5 range) with the exception of LICs where it is noticeably lower, at 3.3. This suggests that irrespective of income category, most GEF recipient countries have a large number of projects with only modest levels of co-financing in their portfolio.

Table 2: Co-financing Ratios by Country Income Groups, GEF-4, and GEF-5

				Co-financing Ratio		
Income Category	**Number of Projects**	**Total GEF Grant**	**Total Co-financing**	**Average**	**Median**	**Max**
HIC	47	251	3,024	12.1	4.5	41.8
UMIC	280	1,509	12,236	8.1	4.5	99.3
LMIC	193	883	6,942	7.9	4.1	90.5
LIC	91	338	2,033	6.0	3.3	54.1
Grand Total	**611**	**2,980**	**24,235**	**8.1**	**4.3**	**99.3**

Source: Secretariat calculations based on PMIS
Note: Income classifications follow the most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications

38. **The top-5 GEF recipient countries generate a disproportionately large share of total co-financing.** The five countries with the largest STAR allocations are China, India, Brazil, The Russian Federation and Mexico. While these top-5 GEF recipients programmed about 39 percent of all full size projects during GEF4 and GEF5, they generated about 52 percent of all co-financing. This reflects that these countries' co-financing levels during GEF4-5, with the exception of Brazil, were higher than the average co-financing ratios (Table 3). Among the top-5 recipient countries, the Russian federation has the highest co-financing ratio (14.9) followed by China at 13.6, while Brazil has the lowest co-financing ratio (5.4). At the same time, the data also show that the co-financing levels of individual projects vary considerably; as is the case for most countries, the median co-financing ratio is significantly lower than the average. Moreover, the ranking of countries in terms of co-financing ratio changes significantly depending on whether the average or the median is used. For example, while Brazil has the lowest average co-financing rate it has the highest median rate. Conversely, Mexico has the 3rd highest average co-financing ratio

[15] It should be noted that the group of HIC countries is quite small (only 11 countries) and highly diverse as it includes both a number of small, high-income, island states and very large economies like e.g. Russia and Chile.

(driven in large part by a single project with a co-financing rate of 99.3), while its median rate is the lowest.

Table 3: Co-financing Rations among Top-5 Recipient Countries, GEF-4 and GEF-5

Country	Number of Projects	Sum GEF Grant	Sum Co-financing	Co-financing ratio	Median	Max
China	59	403	5,481	13.6	6.2	88.9
India	31	238	2,049	8.6	4.8	33.0
Brazil	19	184	992	5.4	4.8	12.9
Russian Federation	25	173	2,589	14.9	4.7	41.8
Mexico	19	163	1,569	9.6	4.0	99.3
All countries	**611**	**2,980**	**24,235**	**8.1**	**4.3**	**99.3**

Source: Secretariat calculations based on PMIS
Note: Income classifications follow the most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications

39. **Differences in co-financing levels among top-5 countries are in part driven by differences in the composition of their project portfolio.** In particular, Brazil has a relatively high share of biodiversity projects in its portfolio (only 41 percent of its STAR allocation is for climate change, as compared to more than 70 percent for the three countries with the highest ratios), and since biodiversity projects across the board is associated with lower levels of co-financing, this reduces the overall measured co-financing ratio in Brazil. The extent to which GEF projects in the top-5 recipient countries are blended with MDB loans also has a major impact on the realized co-financing ratio. Overall, a slightly higher share (32 percent) of projects in the top-5 recipient countries are blended than in the GEF portfolio as a whole (26 percent, see above). The prevalence of free-standing projects in the biodiversity focal area is also much higher than those in climate change in the top-5 countries: of the 50 full size biodiversity projects that have been approved by Council in GEF4-5 to date, only 4 of them were blended with MDB loans. By contrast, of the 55 climate change projects approved during the same period, 31 of them were blended. Mexico is an illustration of how blended projects can play an exceptionally large role in determining the overall measured co-financing ratio: its three blended climate change projects account for 90 percent of Mexico's total mobilized co-financing during GEF4-5.

Table 4: Co-financing Ratios across Focal Areas in Freestanding and Blended Projects among Top-5 Recipient Countries, GEF-4 and GEF-5

		--- Free-standing projects ---			--------- Blended projects -------				
Country	**Focal Area**	**Number of Projects**	**Co-financing Ratio**	Share of Co-financing	**Number of Projects**	**Co-financing Ratio**	**Share of Co-financing**	**Share of blended**	**Total Co-financing Ratio**
China		**35**	**4.79**	16%	**24**	**21.3**	**84%**	**41%**	**13.6**
Of which	Biodiversity	16	4.94	28%	4	47.2	72%	20%	13.9
	Climate Change	7	5.74	10%	13	20.6	90%	65%	16.3
India		**21**	**5.00**	33%	**10**	**13.3**	**67%**	**32%**	**8.6**
Of which	Biodiversity	7	3.45	100%	0	na	0%	0%	3.5
	Climate Change	8	5.86	24%	7	15.9	76%	47%	11.2
Brazil		**16**	**5.21**	62%	**3**	**5.7**	**38%**	**16%**	**5.4**
Of which	Biodiversity	9	4.31	100%	0	na	0%	0%	4.3
	Climate Change	4	7.42	75%	1	12.9	25%	20%	8.3
Russian Federation		**17**	**6.12**	20%	**8**	**23.5**	**80%**	**32%**	**14.9**
Of which	Biodiversity	4	3.43	100%	0	na	0%	0%	3.4
	Climate Change	4	11.84	14%	7	22.3	86%	64%	19.8
Mexico		**15**	**4.61**	30%	**4**	**17.8**	**70%**	**21%**	**9.6**
Of which	Biodiversity	10	3.41	100%	0	na	0%	0%	3.4
	Climate Change	1	5.92	10%	3	38.8	90%	75%	24.7

Source: Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications

Conclusion

40. Over time, GEF has progressively been able to associate its projects with increasingly larger financing packages from other sources; the median co-financing ratio for full size projects has gradually increased to reach 4.6 in GEF-5. It is plausible that further gradual increases can be realized in the future, driven by large GEF recipient countries that have a significant impact on overall GEF co-financing levels, and by building on these countries' ability to mobilize resources in particular from national governments and the private sector. Against this background it may be useful for the GEF to consider in GEF-6 the introduction of explicit, but indicative, co-financing targets for selected countries, aimed at sustaining the increase in co-financing levels that has been seen in recent years. At the same time, it must be emphasized that co-financing ratios exhibit very high levels of variability both among projects in individual countries, and across countries and focal areas, cautioning against some rigid rules that may be challenging to implement effectively. In addition, the processing challenges noted in OPS-5 needs to be kept in mind.

Non-Grant Financing

41. **Ever since the GEF's early years, there has been continuing interest in exploring options for non-grant financing**. As noted in the paper presented at the second replenishment meeting in New Delhi, the Council has on several occasions explored the use of different forms of

GEF financing to achieve global environmental benefits, consistent with the principle of incremental cost financing. This section responds to the Replenishment participants' request for the Secretariat[16] to provide "further analysis of differentiated terms as well as where non-grant instruments might be operationalized, and quantitative assessments of the tradeoffs and potential consequences, drawing on experiences to date".

42. **Non-Grant Instruments can broadly be divided into three main categories**. The term "Non-grant instruments" in the GEF context refers to GEF projects in which GEF financing is used in financial products and mechanisms that make financing available to the final beneficiary on non-grant terms. It is important to note that the GEF has used non-grant instruments exclusively in connection with its engagement with the private sector. There exists a vast variety of non-grant instruments encompassing a large range of sophisticated, innovative financial instruments. For convenience, these instruments are often grouped into three main categories: (i) risk mitigation products; (ii) equity; and (iii) debt instruments (see Box 1):

Box 1: The Three Main Types of Non-Grant Instruments[17]

Risk mitigation products can be concessional in that they are not priced commensurate for the risk they cover. These products can help catalyze commercial providers of funding to support activities that may be perceived as too risky by commercial investors or lenders, and risk cover provided by commercial insurers may not be available or affordable. Risk mitigation instruments may also include partial credit guarantees, risk-sharing facilities (pari-passu or first-loss covers), structured debt funds, and securitizations.

Equity can be concessional if the provider of the concessional equity agrees to accept a lower return for the risk undertaken, or buys the equity at a less favorable price than commercial investors. Equity – because of its lower rank of security for the investor – can also leverage additional debt finance, by improving the equity-to-debt ratio for the project. Equity is concessional only to the extent that the investor requires a lower risk-adjusted rate of return, thus facilitating the sponsor to invest in projects that are riskier than commercial investors would normally consider for such an expected return.

Debt instruments. Debt finance can be concessional based on price (including interest rates and/or fees), tenor, subordination, repayment profile, and/or security. For example, concessional debt may involve interest rates that are below commercially available market rates for the given risk profile, and/or below-market interest rates combined with longer grace periods or tenors than available on the market.

Use of Non-Grant Instruments in GEF

43. **Since its inception, the GEF has deployed non-grant instruments in 82 projects**. GEF Secretariat maintains a database which records projects that are utilizing "non-grant instruments."[18] Since its inception, a total of 82 projects have been recorded as having utilized a "non-grant" instrument, for a total amount of $672 million. This is equivalent to about 6 percent of GEF's total programmed amount. While still low, the use of non-grant instrument since the GEF expanded through GEF3, when a record 27 projects utilizing non-grant instruments were

[16] Inputs from agencies, including through written responses to a short questionnaire sent out in October 2013 is gratefully acknowledged.
[17] See DFI *Guidance for Using Investment Concessional Finance in Private Sector Operations, March 12, 2013*
[18] GEF's use of non-grant instruments is based on Council decisions documented in GEF/C.32/7, The Use of Non-Grant Instruments in GEF Projects: Progress Report, November 2007, and C.33/12, Operational Policies and Guidance for the Use of Non-Grant Instruments, March 2008.

approved. Usage of non-grant instruments decreased sharply in GEF4 to a large extent could be attributed to the introduction of the Resource Allocation Framework at that time. Only six projects using non-grant instruments were approved in GEF-4.

44. **GEF-5 has seen an uptick in the use of non-grant instruments**. So far, 16 projects involving the use of non-grant instruments have been approved by Council, for a total amount of $159 million. Of the 16 GEF-5 projects, 12 have been funded from country allocations, while the remaining four have been funded from the Private Sector Set-aside. Projects using non-grant instruments generally have high co-financing ratios. A key reason for the higher co-financing ratios is that the projects utilizing non-grant instruments are very often designed exactly to leverage substantial capital, most often from the private sector, whether it is through providing funding for first losses in partial guarantee schemes, or providing equity to leverage other kinds of finance. For the 16 projects approved in GEF-5 to date, the average co-financing ratio is 18.5.

Table 5: Use of Non-grant Instruments across GEF Phases

Group	GEF Phase	Number of Projects	GEF Grant (M$)	Co-financing (M$)	Co-financing Ratio
Pilot to GEF - 3	Pilot Phase	3	16	7	0.5
	GEF - 1	8	103	391	3.8
	GEF - 2	22	134	775	5.8
	GEF - 3	27	178	1,054	5.9
Pilot to GEF - 3 Total		**60**	**432**	**2,227**	**5.2**
GEF- 4 and GEF - 5	GEF - 4	6	81	651	8.0
	GEF - 5	16	159	2,938	18.5
GEF - 4 and GEF - 5 Total		**22**	**240**	**3,589**	**14.9**
Grand Total		**82**	**672**	**5,816**	**8.7**

Source: Secretariat calculations based on PMIS

45. By far the largest share of projects involving use of non-grant instruments has been in the climate change mitigation focal area. In total, 69 of the 82 projects that have used non-grant instruments since the GEFs inception were climate change projects, accounting for 79 percent of GEF funding allocated for non-grant financing. Six projects have been in the biodiversity focal areas. In GEF-5 all 16 projects approved so far included climate change mitigation focal Area objectives; one project also includes biodiversity objectives.[19]

[19] Project #4959 with the IADB includes a $5 million GEF contribution to an equity fund investing in small businesses promoting bio-diversity through sustainable forestry, fishery, and eco-tourism.

Table 6: Non-grant Instruments by Focal Area

Focal Area	Number of Projects	GEF Grant (M$)	Co-financing (M$)	Co-financing Ratio
Biodiversity	6	25	87	3.5
Climate Change	69	531	4,944	9.3
International Waters	2	30	298	9.9
Multi Focal Area	5	86	487	5.7
Grand Total	82	672	5,816	8.7

Source: Secretariat calculations based on PMIS

Note: Data covers Pilot phase through GEF-5 to date.

46. **Debt instruments and risk mitigation products are the most frequently used non-grant instruments in the GEF.** Together these two types of instrument for a total 80 percent of all usages since inception. Of the 82 projects utilizing non-grant instruments to date, 33 were based on debt instruments, another 33 on risk mitigation products, while six were equity investments. Examples of the various instruments are provided in Box 2. Finally there have been 10 instances of projects using more than one type of non-grant instrument. It should be noted that there is no *a priori* advantage of using one form of non-grant instrument compared to another. Rather, each instrument aims to address a different underlying obstacle. For example, if the main barrier is high up-front costs of finance, then some sort of structured concessional debt instrument may be most appropriate. If, on the other hand, high perceived risk is the main barrier, a risk mitigation product may be more effective.

Table 7: Use of Non-grant Instrument Types

Non-grant Instrument Type	Number of Projects	GEF Grant ($ million)	Co-financing ($ million)	Co-financing Ratio
Debt Instruments	33	219	2,275	10.8
Equity	6	60	696	11.5
Risk Mitigation	33	298	2,488	8.3
Mixed	10	103	356	3.5
Total	**82**	**672**	**5,816**	**8.7**

Source: Secretariat calculations based on PMIS

Box 2: Examples of GEF Use of Non-grant Instruments

Risk Mitigation Products. GEF has a long history of working with IFC to establish appropriate risk-sharing facilities. Starting from a pilot funding from the GEF project with the IFC, the GEF and IFC eventually went on to launch 12 sustainable energy finance programs supported with concessional funding, and an additional three were established without the GEF. The total efforts includes engagements with 30 financial intermediaries resulting in over 20 risk sharing facilities, six credit lines, and one funded mezzanine facility. These facilities are expected to eventually support $1.4 billion of lending, of which $680 million has been achieved to date, on the basis of a total GEF investment of $70 million accompanied by IFC exposure of $302 million. One of the most successful examples of these risk-sharing facilities is the CHUEE[20] project, initiated by GEF and IFC in 2006. The GEF funding is used to partly fund a risk-sharing facility for Chinese local banks. Phase 1 and 2 of CHUEE used $16 million from the GEF and $40 million from IFC to take the first loss of lending from local banks to utility companies installing the energy efficient equipment, unleashing $800 million (as of 2012) investment. Phase 3 of CHUEE has just started, using $10 million of GEF funding[21], and could add another $100 million or more of leveraged financing.

Debt. Revolving funds are the most common type of debt instrument used in GEF projects—UNDP alone has implemented 14 non-grant projects with revolving loan fund; other agencies using revolving funds include the IADB, World Bank, UNEP, and UNIDO. The other common debt instrument is an MDB loan or credit-line, which can be used to provide whole-sale loans to local financial institutions for on-lending, or direct loans to private sector partners. Projects associated with MDB loans usually have much higher co-financing ratio than projects with revolving funds.

Equity. A recent example is the *Africa Renewable Equity Fund*, in which the GEF has provided US$4.5 million that is placed in the fund as Class A shares (with return capped at 4 percent); US$25 million is provided by other donors. By accepting a capped return, this tranche is expected to increase net returns to other investors by 2-3%, which will (1) increase the range of potentially investable projects by boosting the returns of the fund in circumstances where project returns might be lower than generally acceptable, and (2) mitigate the need in certain projects to seek more complex forms of donor or tariff support to make projects bankable, which often results in delays or project suspension which will primarily make equity investments in focused on SMEs. A potential investment of $4.5 million of GEF resources and $25 million of AfDB resources as seed funding to attract $150 million of funding from partners. The fund managers will actively pursue renewable energy projects across Africa with a focus on meeting the goals of *Sustainable Energy for All*. These equity investments are expected to attract significant additional private sector sources, primarily debt, for the actual projects, with a pipeline already worth half a billion ($470 million). Another example is IADB's MIF Public-Private Partnership Program, which is funded by a US$15 million GEF grant and expects to raise more than $260 million in targeted equity investments in funds to promote energy efficiency, renewable energy, and bio-diversity in Latin America. The investments will contribute to energy savings, new renewable energy supply, reduction of greenhouse gas (GHG) emissions, preservation of natural resources, protection of bio-diversity, and development of sustainable business models.. The IADB has identified three leading funds for negotiation. Each fund has identified a pipeline of investments in Latin America that will address selected program goals and has already attracted significant private sector investment interest. The GEF funding will be used along with IADB funding and other investor funding to help projects "get to close" and begin implementation.

47. **GEF has rarely implemented projects using non-grant instruments in Low Income Countries (LICs).** Only one project using non-grant instruments has been approved for a LIC (**Table 8**). For the other country income categories, the use of non-grant instruments is spread roughly evenly. It should be noted that there were a number of Global/Regional projects that covered countries with different income categories, and several of these projects specifically

[20] CHUEE *(Energy efficiency investments in China)*.

[21] The GEF funding for CHUEE Phase 3 comes from a 2003 GEF/IFC project called Environmental Business Finance Program (EBFP). This fund continues to recycle the GEF fund into additional investments.

targeted low income countries in Asia and Pacific, Africa, and Latin America, including several small island states.

Table 8: Use of Non-grant Instruments across Country Income Category

Income Category	Number of Projects	GEF Grant ($ million)	Co-financing ($ million)	Portfolio Co-financing Ratio
LIC	1	3	7	2.18
LMIC	20	100	898	8.94
UMIC	20	138	1,289	9.36
HIC	15	102	1,332	13.10
Global-Regional	26	329	2,289	6.96
Total	**82**	**672**	**5,816**	**8.65**

Source: Secretariat calculations based on PMIS

The Potential for Reflows from the Use of Non Grant Instruments

48. **GEF financing used in non-grant instruments may or may not generate reflows**. It should be noted that even if GEF project financing is used to create non-grant financial products and mechanisms, those non-grant financing products may not generate any reflows back to the GEF Trust Fund.

(a) No expectation of reflows. Non-grant mechanisms are designed to catalyze local private sector investment with the GEF grant funding being fully utilized by the Agency during the project duration. For example, with a performance grant, as the project investments are successfully completed and validated, the GEF grant is provided as a bonus/reward. With a revolving loan fund, loans can be extended until the fund is exhausted from the projects that are not successful

(b) Expectation of reflows. In these projects, the GEF funding is provided to the GEF Agency with an expectation that some of the funding will be recovered, perhaps with a return on investment that potentially can flow back to the GEF Trust Fund[22]. These can include Agency sponsored revolving loan funds, equity funds, risk-sharing facilities, or structured financing where the project investments may have a return on the investment. However, since none of the investment has a guaranteed return, even in these types of non-grant instruments may result in no reflows.

49. **Only 25 non-grant instrument projects to date have potential reflows to the GEF trust-fund.** There were 19 projects funded before the adoption of the RAF/STAR country

[22] It should be noted that until now there has been no consistent monitoring of reflows as the necessary information has not been available and work-flow processes are not integrated with PMIS.

allocation system, of which 10 were global/regional projects. Reflows are also expected for six global/regional projects in GEF-4 and GEF-5. This includes the GEF-4 Earth Fund, four GEF-5 PPPs funded through private sector set-aside funding, and one GEF-5 project funded the through Climate Change Mitigation set-aside. Eight of these projects are associated with loans, in which risk mitigation was used in seven projects. Of the 17 projects not associated with loans, the types of instruments used were evenly distributed among debt, equity, and mixed, with only a couple of projects using risk mitigation. Projects/programs with expectations of reflows are exclusively with the MDBs. In practice they have predominantly been with IFC and the private sector windows of other MDBs as these institutions have the capacity and standard practice to invest funds with the expectation of returns. MDBs have found it attractive to use the GEF grant funding in these mechanisms because it provides flexibility in application and can be used to address the specific risks and barriers in the project.

50. **Monitoring and management of reflow can be strengthened in the GEF**. It is critical to strengthen the specific procedures established by the Secretariat and the Trustee to track the flow of non-grant financing by the implementing agencies, and the possible corresponding reflows to the GEF Trust Fund. A strengthening of the monitoring and management of reflows would include: (i) a review and updating as needed by the Council of the GEF policies regarding the use of non-grant instruments, (ii) clear identification of the type of financing and non-grant financing instrument used in the project at the Council stage, (iii) obligation by the relevant GEF agency to report and eventually transfer principal repayments and any interest or investment income arising from the project[23]. At the same time, in view of the overall modest number of project employing non-grant instruments, the potential additional administrative burden of such monitoring and management needs to be considered before establishing an extensive monitoring system.

51. **To date, the GEF has not provided concessional financing in a form other than grants to sovereign governments.** The Instrument provides for both grants and concessional financing.[24] However, as noted in past Council Papers[25] grants have been considered the vehicle most appropriate for the protection of global public environmental goods, and as a complement to the financing provided by multilateral development banks.

Conclusion

52. Three main conclusions can be drawn from the summary of the GEF's experiences with non-grant instruments.

53. First, non-grant instruments are important elements in GEF's "tool box," and can be used advantageously in specific projects to attract private sector engagement. At the same time, non-grant instruments are not a panacea, and must be used only when the enabling environment and

[23] It should be noted that as is normal practice in Trust Fund arrangements, the GEF Agencies would have no liability for any non-payment of either principal or interest/investment income by a counterpart entity (whether public or private) in respect of a GEF project; any such risk is borne by the GEF Trust Fund. Similarly, the Trustee would not have any obligation to seek payments from implementing agencies.

[24] Instrument for the Establishment of the Restructured Global Environmental Facility, paragraph 2 and paragraph 9c.

[25] See, for example, *Operational Policies and Guidance for the Use of Non-Grant Instruments,* GEF/C.33/12.

project design are suitable, and a specific market failure needs to be addressed.[26] GEF's experience suggests that combining non-grant instruments with grants resources can often be effective, for example when technical assistance or advisory services are needed to help promote private sector engagement.

54. Second, through their potential for generating reflows, non-grant instruments can make, even if modest, a contribution to financial sustainability of GEF. It must be emphasized, though, that since these projects are inherently risky, reflows from these kinds of instruments will inevitably be uncertain and variable. It should also be noted there is a need to strengthen the GEF's current system for tracking reflows originating from the use of non-grant instruments.

55. Third, the experience from GEF-5 shows that the private sector set-aside has contributed substantially to the rebound in the use of non-grant instruments; forty percent of the GEF funding committed to non-grant projects in GEF-5 originated from the set-aside. More generally, the set-aside has enabled innovation in terms of use of specific instruments.

56. These factors create a convincing case for ensuring that sufficient resources for the use of non-grant instruments are allocated in GEF-6.

Overall Directions for Differentiation

57. In terms of furthering country differentiation, the Secretariat is of the view that adjustments to the allocation system provide the most feasible option in the short-run. The replenishment participants could make recommendations regarding the characteristics they want to see in the updated STAR, and request the Council to review proposals from the Secretariat.

58. Participants may wish to direct the GEF Council to explore ways and means of seeking higher co-financing, including elements of country differentiation, through the introduction of explicit, but possibly indicative, co-financing targets. Recognizing that co-financing ratios exhibit very high levels of variability, further clarity about the definitions and approaches to seeking co-financing would be desirable.

59. A greater emphasis on non-grant instruments in GEF-6 offers an opportunity to enhance thematic differentiation and leveraging the private sector in the GEF. A significant share of the GEF-6 private sector set-aside could be directed to be employed through non-grant instruments.

IMPROVING THE EFFICIENCY OF THE GEF PROJECT CYCLE

60. The project cycle has been reformed since the Evaluation Office undertook the *Joint Evaluation of GEF Activity Cycle and Modalities* in 2007, and presented an analysis of the time delays at various stages of the project cycle related to preparation and appraisal. Taking note of the findings of the evaluation, the Council approved a new project cycle procedure in June 2007, resulting in the current two-step process for full-sized projects with Council approval of brief Project Identification Forms (PIFs) initiating project preparation and CEO endorsement of the full project documents prior to Agency approval and start of implementation.

[26] Moreover, an important risk associated with the use of non-grant instruments is that they inadvertently may in fact create market distortions, rather than helping overcome market failures, which may lead to mis-allocation of resources.

61. One of the key elements of the reform was the establishment of business standards: 22 months for a project to progress from Council approval of PIF to CEO endorsement of the project document; this standard was further tightened to 18 months in GEF-5. In addition a business standard of 10 work days for the Secretariat to respond to PIF submissions and requests for CEO endorsement was also established.

62. However, as OPS5 analysis shows, the target for Council-approved projects to be CEO-endorsed within 18 months is not being met for more than half the projects in GEF-5 and does not show improvements compared to GEF-4. Table 9 (presented in OPS5) presents an analysis of the time lapses between the various decision points in the GEF project cycle.

Table 9: Time Taken during Different Stages of the Project Preparation Process

	Time by which X percent of projects reach the next stage					
GEF Replenishment Period	**GEF-5**			**GEF-4**		
Percentile	25%	50%	75%	25%	50%	75%
PIF Submission to CEO Endorsement (in months)	**22**	___	____	**22**	**28**	**43**
PIF submission to Council Approval (in months)	**2.8**	**6.3**	**17**	**4.3**	**7.6**	**13**
PIF submission to Clearance (in months)	1	*4.2*	*14.7*	*1*	*3.9*	*12.6*
Clearance to Council Approval (in months)	*1.6*	*1.7*	*1.9*	*1.9*	*2.2*	*3.4*
GEF Secretariat's response time to PIF Submission (in work days)	3	*8*	*13*	2	*6*	*12*
Council Approval to CEO Endorsement (in months)	**14.7**	**19.7**	___	**12.1**	**18.1**	**23.9**
Council Approval to 1st Endorsement Submission (in months)	*12.1*	*18*	___	*9.5*	*13.7*	*20.3*
First submission for Endorsement to actual Endorsement (in months)	*1.9*	*3.1*	*5.2*	*1.7*	*2.8*	*4.8*
GEF Secretariat's response time to CEO Endorsement submission requests (work days)	*6*	*10*	*15*	*7*	*11*	*22*

Source: Fifth Overall Performance Study of the GEF

63. The Secretariat and the Agencies share the concerns regarding these time lapses, and is committed to reverse any deterioration of project cycle performance.

64. Since November 2012, a set of eight streamlining measures are already under implementation, which includes the harmonization pilot with the World Bank. The Secretariat and Agencies are taking steps to expedite projects that are currently overdue for CEO endorsement, and are continuing to work together to identify further measures – definitions and approach to co-financing, approaches to global and regional projects, streamlining programmatic approaches,[27] documentation, etc. In this regard, the analysis provided by the evaluation (Table 9) is instrumental as it shows that a large part of the delay comes from the phase between Council approval and CEO endorsement. This helps the Secretariat and Agencies focus on the correct

[27] The Secretariat has also just concluded a review of current programmatic approach modalities in the GEF, with the aim of identifying opportunities for further simplification and streamlining of the programmatic approaches

places to be tackled and streamlining measures to be employed. The Secretariat will also explore with Agencies the feasibility of a joint portfolio management system to keep track of project/program progress through the partnership.

ENHANCING PRIVATE SECTOR ENGAGEMENT

65. **An effective engagement with the private sector has always been a high priority for the GEF.** As noted by the GEF Evaluation Office, the GEF's engagement with the private sector has been driven by the underlying rationale that in order to have long-term and substantive impact on the global environment, private enterprises- which are the dominant source of economic activity - must be encouraged to pursue commercially viable activities that also generate global environmental benefits. Consequently, the GEF has sought engagement with a broad array of private sector entities, ranging from multinational corporations (MNCs), through large domestic firms and financial institutions to micro, small and medium enterprises (SMEs).

66. **OPS-5 finds that GEF's engagement with the private sector has been largely successful.** OPS5 finds that "GEF funding for a combination of improvements, both with governments in regulatory and policy frameworks and financial intermediaries has led to market changes for private sector participation in environmentally friendly interventions." In terms of outcome ratings, the private sector focused portfolio assessed for OPS5 performing on par with the non-private sector portfolio (~80% of projects rated "moderately successful" or above). There are no measurable differences in ratings amongst those projects that used a non-grant modality as opposed to a grant modality. However, the Evaluation Office (EO) does report that the private sector portfolio (whether using non-grants or not) is comparatively more successful at addressing systemic environmental stresses that the average GEF portfolio—according to the EO's data 44 percent of projects focusing on private sector engagement has systemic impact, as opposed to 22 percent among the remaining GEF portfolio. Projects with private sector engagement are significantly more likely to lead to market change. 52 percent of private sector projects have led to market changes compared to only 21 percent of the remaining GEF portfolio. More broadly, OPS5 documents numerous instances of broader adoption of implementation strategies, technologies, approaches and/or structural arrangements including notable instances of scaling up and market change, particularly in the climate change focal area.

67. OPS5 also notes that GEF's ability to engage the private sector diminished during GEF-4 as a result of the resource allocation system (the RAF), and has only slightly rebounded in GEF-5.

Private Sector Engagement in GEF-6

68. In GEF-6, the GEF will further strengthen its engagement with the private sector by (i) *mainstreaming* the private sector in GEF programing and projects and (ii) further targeting the use of the private sector set-aside.

Mainstreaming GEF's Private Sector Engagement

69. **Building on the achievements to date, the GEF's engagement with the private sector will be structured around four specific intervention models**. (i) fostering enabling policy environments; (ii) pioneering risk mitigation and innovative financial products; (iii) forging corporate alliances; and (iv) providing capacity building and incubation.

(a) Fostering Enabling Policy Environments**.** The GEF has been instrumental in several countries in working with governments to establish policy and regulatory environments to facilitate private sector engagements, such as development of renewable feed-in-tariffs, identification of barriers and introduction of regulatory reforms to promote Energy Service Companies (ESCOs), support passage of environmental legislation, etc. There are numerous opportunities to support enabling policy environments across the focal area strategies, including the proposed Integrated Approach Pilots. For example, in Sustainable Forest Management, opportunities include the promotion of landscape restoration by addressing the lack of regulatory policy and enhancing awareness in partnership with all levels of industry. In Biodiversity, there are several opportunities including efforts to develop payment schemes for ecosystem services, including through water funds, which will rely on proper policy development and capacity building for private sector actors, and similar efforts in fostering the emergence of projects using the ABS framework.

(b) Pioneering Risk Mitigation and Innovative Financial Products**.** Working with investors to identify the real and perceived risks and establishing risk sharing facilities has been one of the pioneering contributions of the GEF in areas such as energy efficiency and renewable energy, handling of PCBs for safe disposal. Non grant instruments (debt instruments, risk mitigation products, and equity investments) have been particularly effective in such interventions. In GEF-6, opportunities within the programing strategies include for example risk reduction for clean energy and smart grid applications the Climate Change Mitigation. There may also be opportunities for promoting incremental financing/risk reduction financing for adoption of sustainable land management principles in the Land Degradation focal area through for example revolving loans for small holders or crop insurance related to the introduction of new crops;

(c) Forging Corporate Alliances**.** GEF-financed investments have worked with organizations and companies with global reach to encourage environmentally sustainable approaches in their buying practices, such as working with major coffee buyers to support efforts towards certified and sustainable coffee. Or source-certified cocoa. GEF investments have also worked with leading lighting manufacturers, has helped develop and promote polices to phase out in-efficient lighting and help countries transition to energy efficiency lighting, including CFLs and LEDs; there are considerable room to expand such approaches in the GEF-6 Climate Change focal area in support of corporate alliances to promote energy efficient alliances. Such interventions would also be supportive of the Sustainable Energy For All initiative. Corporate alliance also can be leveraged in the International Waters focal area, e.g., working with the private sector to promote innovative, market-based approaches fostering good fishing practices and fishery management on Large Marine Ecosystems (LMEs) and Areas Beyond National Jurisdiction (ABNJ).

(d) Providing Capacity building and Incubation**.** Capacity building for government and private sector often need to be combined to advance private sector engagement. GEF Agencies regularly combine technical assistance on energy efficiency project design and selection, allowing the private sector partner to invest their own equity and access credit lines (or loans) for efficiency projects. In the Chemical and Waste focal area opportunities exist for support the development of partnerships on green chemistry that can develop new products and processes that reduce harmful by-products and toxic waste-streams. In Land, opportunities exist to work with private sector partners to promote climate smart agriculture through capacity building for smallholders and SME;

70. **Mainstreaming opportunities within the programing strategies in GEF-6 would be underpinned by support at key points in the programing phase and project preparation.** OPS-5 points to the need to ensure that the GEF's engagement with the private sector needs to be dovetailed with efforts to increase country ownership, and notes that with an allocation system like STAR, a strong engagement with for-profit companies needs to be incorporated in national strategies and priorities, following guidance from the conventions. Against this background, in GEF-6 special emphasis would be put on:

(a) Fostering enhanced *awareness* on private sector engagement and "private sector" friendly project design in order to encourage countries to take private sector engagement into account in their priority setting and portfolio identification for GEF-6. This would include for example, enhanced support for the Operational Focal Points, discussion of private sector issues at National Dialogues, ECWs, and NPFEs, and sharing of best practices and design principles across agency field networks.

(b) Seeking to *facilitate* countries and agencies to integrate private sector engagement into projects, for example by reviewing the project cycle to identify possible expedited processing of projects with private sector engagement by removing barriers in current GEF policies such as operational focal point endorsement on a no-objection basis for concepts that involve the private sector.

(c) Improving *monitoring and knowledge sharing* on private sector success stories. As noted in OPS-5, there is room to improve the GEF Project Management Information System (PMIS) and explore possibilities to systematically gather evidence on elements of GEF's private sector engagement (although the risk of further increasing the reporting and monitoring burden in the GEF must be kept in mind). In addition, there are opportunities to strengthen the GEF's engagement with other organizations, such as for example World Bank Institute, Bloomberg New Energy Finance, Forest Trends' Ecosystems Marketplace and World Resources Institute, to regularly assess and report on current and potential private sector engagement.

Targeting the Private Sector Set-aside

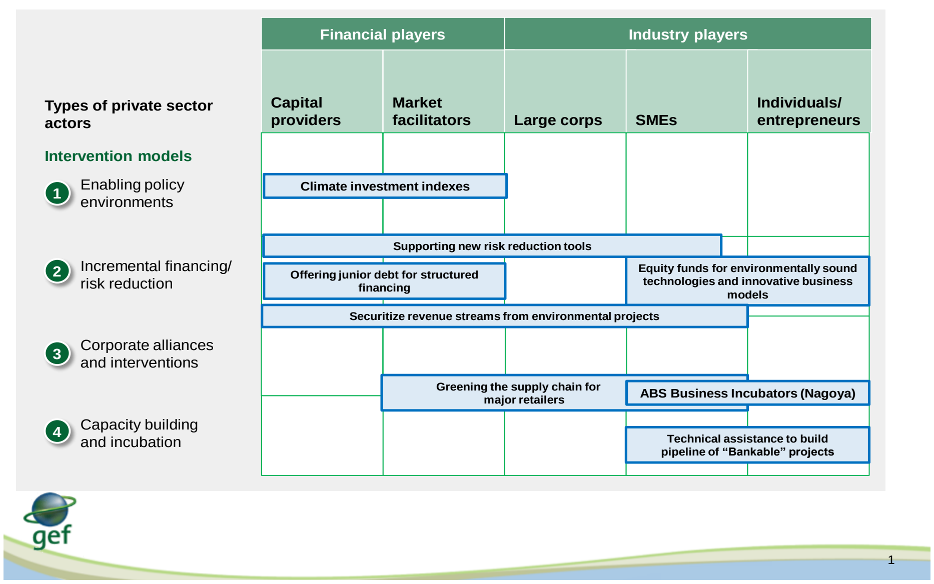
71. In order to maximize the impact of the private sector set-aside in GEF-6, it would be focused on two main activities:

72. First, as noted in the section on the GEF's use of non-grant instruments, a significant share of the private sector set-aside would be used for non-grant instruments. These include approaches that promote innovative non-grant instruments, such as equity funds, tapping into capital markets,

and structured financing and other risk reduction tools. It could also include ideas for promoting innovation using grants include targeted technical assistance to build pipelines of "bankable projects". The current modalities for implementing the private sector set-aside (GEF/C.42/Inf.08, *Operational Modalities for Public Private Partnership Programs*) would serve as the basis for the implementation of the GEF-6 private sector set-aside for the use of non-grant instruments. This will allow MDBs to begin development of proposals and submit early in GEF-6.

73. Second, the private sector set-aside will provide dedicated funding for two of the proposed integrated approach pilots: (i) Taking Deforestation out of the Commodities Supply Chain is predicated on the notion that engagement with the private sector across the full supply chain in key commodities will help address the fundamental drivers of deforestation. By working with private sector partners, this program will address both supply and demand barriers to uptake of sustainable practices for commodities. The program may also help institutional investors redirect investments from unsustainable to sustainable commodities; (ii) Rebuilding Global Fisheries recognizes the inability of markets to sustainably develop and manage open-access resources such as those found in the ocean. This program will strengthen institutions and catalyze transformation of the coastal fisheries sector by the adoption of sustainable fishing practices.

Figure 1: Areas for Potential Future Emphasis in GEF-6 Set-aside



ENHANCING GENDER MAINSTREAMING

74. **The GEF is committed to further engage in and systematically address gender mainstreaming during GEF-6**. The GEF has a long history of investing in local actions and

social inclusion to achieve global environmental objectives. Mainstreaming gender[28] through GEF programs and projects presents opportunities for further enhancing project value as well as advancing gender equality and women's empowerment. The GEF is committed to further engage in and systematically address gender mainstreaming during GEF-6, based on the *GEF Policy on Gender Mainstreaming*, which was adopted by the GEF Council in May 2011. The GEF aims to achieve global environmental benefits and sustainable development by addressing issues related to gender equality and women's empowerment. The GEF recognizes that gender equality is an important goal in the context of projects that it finances, because it advances both the GEF's goals for attaining global environmental benefits and the goals of gender equality and equity, and social inclusion.

75. **First comprehensive review of gender mainstreaming undertaken in 2008**. Before the *Policy on Gender Mainstreaming* was adopted, the *Public Involvement Policy* was the principal policy that guided GEF operations on gender mainstreaming. The *Public Involvement Policy* calls for public participation, including both women and men, in every step of the GEF project cycle and operations. In 2008, the GEF renewed its commitment on gender mainstreaming by conducting a first comprehensive review on gender mainstreaming in GEF projects through the *Mainstreaming Gender at the GEF.* [29] The document highlighted the link between gender equality and environmental sustainability; the scope, content, and depth of gender mainstreaming in GEF projects across all focal areas; and future steps to be considered to strengthen mainstreaming gender at the GEF.

76. **Significant progress has been achieved during GEF**-5. Informed by the recommendations made by the Fourth Overall Performance Study (OPS4) and other reviews, the GEF has made significant progress in establishing operational systems for gender mainstreaming in its operation during GEF-5. The key actions undertaken are summarized below:

(a) Adopted a *Policy on Gender Mainstreaming*. Developed and adopted a policy that clarifies GEF's commitment and minimum standards to promote gender equality through its operations. The *Policy* expresses the GEF's commitment to enhance the degree to which the GEF and its Agencies promote the goal of gender equality through GEF operations. The Policy also outlines several requirements for the GEF Secretariat and GEF Agencies on gender mainstreaming in GEF operations.

(b) Incorporated gender sensitive approaches and indicators in some focal area strategies, including international waters and climate change adaptation.

(c) Revised project templates and review criteria. Project templates include specific section to describe gender dimensions, benefits, and approaches. One of the project review criteria for GEF projects is to have appropriate gender consideration in project design and monitoring.

[28] Gender mainstreaming means bringing the experience, knowledge, and interests of women and men to bear on the development agenda. Within a project context, gender mainstreaming commonly includes: identifying gaps in equality through the use of sex-disaggregated data, developing strategies and policies to close the gaps, devoting resources and expertise for implementing such strategies, monitoring the results of implementation, and holding individuals and institutions accountable for outcomes that promote gender equality.

[29] 2008, GEF, Mainstreaming Gender at the GEF (http://www.thegef.org/gef/node/1548).

(d) Incorporated gender in the Results-Based Management (RBM). Two gender indicators, including staffing and gender analysis in projects, were incorporated in the RBM at the institutional level.

(e) Conducted annual monitoring review of gender related portfolio. Annual reviews of projects across focal areas are conducted to see how gender mainstreaming has been addressed and integrated in GEF projects through the Annual Monitoring Review.

(f) Designated gender focal point at the GEF Secretariat. A senior staff of GEF Secretariat has been designated to coordinate and implement the work related to gender mainstreaming internally and externally.

(g) Reviewed GEF Agencies on gender mainstreaming. Assessment was conducted among all ten of the existing GEF Agencies on whether they meet the minimum requirements of the *Policy on Gender Mainstreaming*. The report was discussed at the 45th GEF Council meeting in November 2013.

77. **Since the *Policy on Gender Mainstreaming* was adopted in 2011, there has been a notable shift and significant progress in the attention paid to gender and social concerns in GEF projects**. The GEF project templates and review criteria have been revised to describe socio-economic benefits and gender dimensions to be delivered by the project, and how it supports the achievement of global environmental benefits. As a result of these efforts, there has been an increased proportion of projects that mainstreamed gender in project design.[30] In particular, enabling activities' proposals, including ones for the development of National Biodiversity Strategy and Action Plan, have seen significant improvement in addressing gender dimensions in its activities.

78. **Most GEF Agencies are aligned with the *Policy on Gender Mainstreaming***. Recently, the GEF Secretariat undertook an assessment of the existing ten GEF Agencies on their compliance with *GEF Policy on Gender Mainstreaming*. This review shows that many have undertaken gender mainstreaming in a strategic manner (8 out of the 10 Agencies), and are able to show some success in strengthening gender elements in GEF projects.

79. **The GEF Secretariat has also been providing regular analysis and reporting on gender mainstreaming** among its projects through the Annual Monitoring Review (AMR) in FY11 and FY12. Portfolio of projects has been analyzed across all focal areas, while systematically reviewing gender specific information in the Project Implementation Reports, Mid-Term Evaluation Reports and Terminal Evaluation Reports. These reports have highlighted good practices across focal area projects in mainstreaming gender during project development and implementation. They have also provided important information on the progress and remaining challenges to further strengthen mainstreaming gender in GEF projects.

[30] 2013, GEF Evaluation Office, OPS5 Technical Document #16, *Sub-Study on the GEF's Policy on Gender Mainstreaming*.

Remaining Challenges and Gaps

80. **The GEF recognize the need to further strengthen gender mainstreaming in its operations**. While much progress has been achieved to integrate gender in GEF projects during the past few years, the Secretariat recognizes that increased efforts are required to further strengthen gender mainstreaming in GEF operations.

81. **Gender mainstreaming is uneven across focal areas**. The earlier reviews of GEF portfolio[31] revealed that integration of gender in GEF projects varies among focal areas and its programs and projects. The recent OPS5 technical review on gender mainstreaming notes that while 73 percent of the gender-relevant GEF projects have mainstreamed gender in design and implementation in different degrees, only 35 percent of them adequately addressed gender mainstreaming with specific gender sensitive approach and indicators. Among the focal areas, gender mainstreaming has been relatively strong in projects related to natural resources management, compared to other focal areas. The gender mainstreaming analysis[32] under the Annual Monitoring Reviews (AMR) of FY11 and FY12 also had similar findings even through the project samples were different. The analysis from the AMR FY12 found that about 38 percent of the projects under biodiversity and land degradation focal areas addressed some approach to mainstreaming gender in project implementation, while it was about 10-18 percent for other focal areas.

82. **Improvements necessary on gender-sensitive project design and indicators.** Earlier reviews of the portfolio recognized that projects proposals as well as implementation and evaluation reports submitted by Agencies often lack gender specific information due to absence of gender sensitive approach and indicators in project results framework. Only 13 percent of the GEF projects included gender sensitive monitoring and evaluation processes, including gender-sensitive indicators. [33] This makes it difficult to collect sex-disaggregated data and track progress made on the engagement and impact of the project activities towards both women and men. It was also recognized that the approach and information related to gender mainstreaming actions in GEF projects varies among and within the GEF Agency. According to the OPS5 technical review on gender mainstreaming, the GEF Agencies have considered gender in majority of the GEF projects that they manage, however, many of them (38 percent of the total projects that were reviewed) lacked specific gender approach, including gender sensitive actions and indicators in projects.

GEF-6 Gender Plan of Action

83. **GEF-6 Gender Plan of Action to be prepared by end of 2014**. During GEF-6, based on the *Policy on Gender Mainstreaming* and taking into consideration the findings from past related

[31] These analysis reviewed portfolio of project documents and monitoring and evaluation reports on description related to consideration and approaches on gender mainstreaming. This includes: gender analysis undertaken during project preparation and/or implementation; gender-sensitive project framework (i.e. project objective, outcomes, outputs, and activities that specifically target women and men) , including use of gender-disaggregated indicators; and project staffing (e.g. gender specialist, target to recruit more women staff, etc.).
[32] 2013, GEF, Annual Monitoring Review FY12 (GEF/C.44/05, May 21, 2013)
[33] 2008, GEF, Mainstreaming Gender at the GEF

reviews, including the OPS5 technical review on gender mainstreaming,[34] the Secretariat, in consultation with the GEF Agencies and other experts, will develop a *Gender Plan of Action* to further integrate gender consideration in GEF operations. In preparing the action plan, the GEF will be in contact with and learn from experiences and lessons from other international institutions, including the Rio Conventions, GEF Agencies, Climate Investment Funds, Green Climate Fund, and many others that have developed or are developing similar action plans. The *GEF Gender Plan of Action* will be prepared by end of 2014.

84. **Action Plan will build upon existing strategies and plans of GEF Agencies**. The *GEF Gender Plan of Action* will provide a concrete road map to implement the *GEF Policy on Gender Mainstreaming* during the coming years. An important element to be considered in identifying the actions is that they would need to be built on the existing and planned gender strategies and plans of the GEF Agencies and avoid duplication of efforts, and capacity of the GEF Secretariat in addressing them. Gender mainstreaming cannot be achieved in a vacuum and requires long term commitment and engagement, including awareness raising and capacity building of internal and external partners. The GEF will take a step-wise approach in achieving its goal and objectives on gender mainstreaming. Further, through the implementation of the action plan, the Secretariat and the GEF Agencies will further explore and learn how project results and progress related to gender could be better designed, implemented, and reported, particularly for those projects where gender mainstreaming is highly relevant.

Key Elements of the Gender Plan of Action

85. **Action Plan to be developed with an interagency working group**. The Secretariat will undertake a multi-stakeholder participatory process to identify and prioritize key actions going forward, and prepare the *Gender Plan of Action* to be endorsed by the GEF Council. The GEF plans to establish an interagency working group, consisted of GEF Agencies' gender focal point and other experts, to exchange ideas and practices to develop the *Gender Plan of Action*. Taking into account that each agency has its own gender policy, strategy, and/or action plan[35] with varying application to GEF projects, the Plan of Action will facilitate a systematic approach and provide practical guidance for the implementation of the GEF *Policy on Gender Mainstreaming*.

86. Based on initial inputs and consultation with the replenishment participants and GEF Agencies, below are several actions that have been identified as key elements to be further considered during the preparation of the action plan:

Mainstreaming Gender in GEF Project Cycle, including Gender Analysis, Gender Screening, and Gender Sensitive Indicators

87. Recognizing that each GEF Agency has a different gender policy, strategy, and/or action plan, the Secretariat, in collaboration with the Agencies, will clarify and facilitate a systematic, consistent approach and provide practical guidance for the implementation of the *GEF Policy on*

[34] 2013, GEF Evaluation Office, OPS5 Technical Document #16 Sub-Study on the GEF's Policy on Gender Mainstreaming

[35] In addition to agency-specific gender policies and strategies, there is also UN System-Wide Action Plan on Gender Equality and the Empowerment of Women (UN-SWAP), which all UN agencies are mandated to meet the performance standards.

Gender Mainstreaming in key steps of the GEF project cycle. This will specifically include application of gender analysis by the GEF Agencies at the project preparation phase; development of project frameworks with gender-sensitive outcomes and outputs; and gender-sensitive monitoring and evaluation for relevant projects.

88. Conducting gender analysis at the early stage of project preparation to determine the different roles, needs, and knowledge of women and men is recognized as a critical first step to set the baseline and develop appropriate project design with a gender sensitive approach. In GEF-6, appropriate gender analysis will be undertaken by the GEF Agencies as part of the socio-economic assessment during project preparation, and it will be reviewed before CEO endorsement.

89. Moreover, recognizing that not all projects require equal attention to gender issues depending on the GEF focal area and/or type of engagement, the GEF Agencies will assess and screen gender relevance of all GEF projects with a common categorization at entry. Building on the practices and experiences of various GEF Agencies (e.g., UNDP's Gender Marker, ADB's Gender Mainstreaming Categories, etc.) and other relevant partners, the Secretariat will prepare a simple and practical gender screening criteria and system at the project concept stage, in coordination with the GEF Agencies to avoid duplication of efforts but allow some level of consistency in approach. With a clearly defined categorization, this system could help clarify each GEF project's relevance, engagement, and contribution toward the achievement of gender equality. Once under implementation, projects under different categories would be tracked and reported against on an annual basis through the AMR, using information provided through the annual Project Implementation Reports and other tools. The Secretariat will also provide additional information and analysis through its portfolio monitoring and learning missions.

90. Further guidance will be provided on the use of gender sensitive indicators for all relevant projects. The adoption of gender-sensitive indicators and sex-disaggregated data within the project results framework is essential in monitoring progress overtime and to lead to measurable results. To develop and apply these tools, the Secretariat will build on and draw lessons from good practices and practical tools that are already used by the GEF Agencies and others for mainstreaming gender in their projects.

Mainstreaming Gender in GEF Program Strategies

91. Under GEF-6, the GEF will adopt a more comprehensive and programmatic approach toward gender mainstreaming across GEF programs and projects. While recognizing that the degree of relevance of gender dimensions in GEF projects differ depending on focal areas and specific programs, the GEF will place priority on identifying and focusing its efforts to strengthen gender mainstreaming in those programs and projects that could generate significant results and contribute to achieving the goals on gender equality and sustainable development.

92. Opportunities may include focusing on key programs and projects related to sustainable use of natural resources, such as agro-biodiversity, fisheries, and forest resources management under the biodiversity, land degradation, and international waters focal areas and integrated approaches. Within the climate change portfolio, renewable energy projects have historically generated positive benefits, particularly towards women. The chemicals portfolio has also generated noticeable impacts on the improvement of the health of women and children, through

active engagement of both women and men in awareness raising and capacity building activities as well as the eradication of exposure to these chemicals.

93. Gender sensitive approaches and activities have been incorporated in the GEF-6 focal area strategies and integrated approaches, along with the GEF core gender indicators at the corporate level (refer section below). All Focal Area projects will use and incorporate the core gender indicators, which will be monitored and aggregated at the Focal Area and Corporate levels. Based on these strategies and programs, the Secretariat, together with the GEF Agencies, will identify specific projects and opportunities where gender mainstreaming and empowerment of women could be further strengthened. By focusing its efforts towards those programs and projects that could potentially have significant improvement in project results through mainstreaming gender, the GEF intends to take a more systematic and programmatic approach in addressing gender issues under GEF-6.

Knowledge Management and Lessons Sharing on Gender Mainstreaming

94. The Secretariat will establish an interagency working group on gender mainstreaming among the gender focal points of the Secretariat, GEF Agencies, and other experts to further advance gender mainstreaming in GEF operations and projects. The working group will serve as a platform to ensure effective operational coordination, exchange of information and experience among the GEF focal points of the GEF Agencies in relation to the GEF portfolio. The working group is also intended to deliver and provide advice on specific actions identified under the *GEF Gender Plan of Action*. Considering that there are existing similar working groups among the gender focal points of the Multilateral Development Banks and UN agencies, appropriate coordination and synergy will be sought.

95. An interactive GEF webpage on gender mainstreaming will be developed to facilitate exchange of knowledge and lessons on gender mainstreaming activities derived from specific programs and projects. The Secretariat will also undertake portfolio reviews and learning missions, in coordination with the GEF Agencies and other partners, and strengthen its knowledge base and management on gender mainstreaming, while highlighting challenges and good practices among related projects.

96. These activities will also strengthen gender-mainstreaming capacities among the concerned GEF Secretariat staff to increase their understanding of gender mainstreaming, as well as socio-economic aspects in general. This is also expected to lead to effective investment in gender equality and women's empowerment issues as staff become more aware of and interested in gender responsive planning and budgeting. Relevant Secretariat staff will be encouraged to make use of various capacity development opportunities, including training, to increase their understanding on available tools and best practices on mainstreaming gender in projects.

97. Further, appropriate support and guidance will be provided to the GEF Operational Focal Points to enhance gender mainstreaming in country-level portfolio and project management. Knowledge and lessons sharing on gender mainstreaming will be facilitated with increased involvement of relevant institutions at the country-level to enhance GEF operation and projects.

Ensure GEF Agencies' Compliance with the GEF Policy on Gender Mainstreaming

98. GEF recently undertook an assessment of the GEF Agencies on the *GEF Policy on Gender Mainstreaming.* The assessment examined each Agency to see whether, and how, its policies are in compliance with the GEF policy. Eight of the ten GEF Agencies met all minimum requirements, and the two GEF Agencies that have not fully met the requirements of the GEF *Policy on Gender Mainstreaming* will implement a plan of action to ensure compliance with those provisions under the Policy.[36]

99. The assessment was conducted to examine the GEF Agencies' implementation capacity to apply relevant policies, procedures, standards, and guidelines to their projects, and track-record of their implementation experience. While most of the Agencies have met the minimum requirement, as recognized by the OPS5 technical study and other reviews, application of these standards vary among projects. With the development of a practical guidance on gender mainstreaming that would apply across GEF Agencies (as noted under item (a) above), it is expected that appropriate system and process at the GEF Agencies will be further strengthened to ensure that relevant GEF projects will include gender sufficiently and consistently for relevant projects.

100. For the new entities that apply for accreditation as a GEF Project Agency, the GEF accreditation criteria require that all applicants demonstrate consistency with the minimum requirements of the Policy with the same criteria as used to assess existing GEF Agencies.

Strengthen Results-based Management on Gender Mainstreaming

101. During GEF-6, the GEF will further strengthen GEF-wide accountability for gender mainstreaming by enhancing gender-specific performance targets at all levels: from corporate to project levels. At the corporate level, the GEF Results-based Management Framework will include a set of core Gender Indicators to examine concrete progress on gender related processes and outputs (refer below table). These Gender Indicators will be applied to all projects under the GEF focal area and integrated approaches, and monitored and aggregated at the focal area and corporate level.

102. At the project level, project results framework will include gender-sensitive indicators, and sex-disaggregated data, for relevant projects. This will be monitored, analyzed, and reported against on an annual basis through the Annual Monitoring Review (AMR) exercise, and assessed and evaluated through the Medium-term and Terminal Evaluations. Project Implementation Reports (PIR), Project Evaluation Reports, and other information from the GEF Agencies will provide important inputs to the analysis and reporting.

103. In order to facilitate comprehensive project design, reporting and analysis that are gender sensitive, the GEF will also review and mainstream gender in the Monitoring and Evaluation Policy. The GEF will incorporate a specific section on gender mainstreaming in the templates and/or guidelines for the Project Identification Form (PIF), CEO Endorsement Request Form,

[36] The two plans of action for UNIDO and UNEP have been discussed with the GEF Secretariat, and they will report on their progress in 2014.

Project Implementation Report, Mid-term Evaluation Report, Terminal Evaluation Report and other relevant documents.

104. Table 10 specifies the GEF Gender Indicators, against which GEF will be reporting during GEF-6:[37]

Table 10: Results Framework for Gender Mainstreaming in GEF Operations

Goal: Achieve global environmental benefits and sustainable development through gender equality and empowerment of women		
Objectives	**Gender Indicators**	**Source of Verification**
Project design fully integrates gender concerns	1. Percentage of projects that have conducted gender analysis during project preparation. 2. Percentage of projects that have incorporated gender sensitive project results framework, including specific gender sensitive actions, indicators, targets, and/or budget.	Project Document at CEO endorsement.
Project implementation ensures gender equitable participation in and benefit from project activities.	3. Share of women and men as direct beneficiaries of project. 4. Number of national/regional/global policies, legislations, plans, and strategies that incorporates gender dimensions (e.g. NBSAP, NAPA, TDA/SAP, etc.)	Project Implementation Reports, Mid-Term Evaluation Reports, and Terminal Evaluation Reports.
Project monitoring and evaluation give adequate attention to gender mainstreaming.	5. Percentage of Project Implementation Reports, Mid-term Evaluation Reports, and Terminal Evaluation Reports that incorporate gender equality/women's empowerment issues and assess results/progress.	Project Implementation Reports, Mid-Term Evaluation Reports, and Terminal Evaluation Reports.

STRENGTHENING RESULTS AND KNOWLEDGE MANAGEMENT

105. To effectively address global environmental degradation, the GEF needs a better evidence-base to assess effectiveness of approaches, and with a well-established knowledge base help drive those approaches forward. RBM can simply be defined as, "a management strategy focusing on performance and achievement of outputs, outcomes and impacts."[38] Results-based management and knowledge management are inextricably linked. In their development, results-based management will focus on *how and what results we need to measure*, while knowledge management will focus on *codifying and sharing those results and lessons*.

[37] These core gender indicators will be further reviewed and refined as necessary, in consultation with the Inter-agency Working Group, once it is established. Necessary adjustments may be made to the indicators based on initial implementation experiences. In addition to these quantitative indicators, efforts will be made to also identify appropriate qualitative indicators as relevant.
[38] OECD-DAC Glossary.

Further Development of the Results-based Management Framework

106. **A robust results-based management (RBM) is essential for GEF effectiveness.** The robustness of the GEF's RBM system will determine whether it is able to chart a course with its investments and build a strong portfolio that supports synergies across focal areas. At the core of the GEF's role as a financial mechanism is its ability to direct investments to projects that will achieve transformational impact, whether through setting strategy to inform project design, or through the project appraisal and selection processes. Because "catalyzing global action" is at the heart of the GEF's value proposition, it must better understand which approaches best address drivers of environmental degradation to wisely target scarce public money for global environmental benefits

107. **The GEF has made some progress in developing a RBM system**. A framework for RMB was approved by Council in 2007 (GEF/C.31/11). RBM was first implemented during GEF-4, incorporating monitoring and reporting at three levels: institutional (organization); programmatic (focal area); and project. Progressively, the GEF has built up its RBM capabilities: as a first step toward measuring progress, the GEF introduced tracking tools to systematically monitor key indicators at the project level in GEF-3 and GEF-4 for four of its focal areas. During GEF-5, the *Monitoring and Evaluation Policy* was revised in 2010. Greater emphasis was given to RBM, including establishment of monitoring baselines and ensuring project alignment with the results frameworks of the focal areas.

108. **Several good RBM practices have been institutionalized at the GEF, but more need to be done.** While RBM has been institutionalized to some degree throughout the GEF project cycle, and tools such as an *Annual Monitoring Report* give some insight into GEF results, there are several challenges preventing the GEF from utilizing RBM effectively. Perhaps most significantly, feedback loops to adequately inform the Secretariat and Agencies of project and portfolio results and lessons learned are not systematic, resulting in limited influence of the RBM system on future strategy setting and project or program design. Project and portfolio level indicators need to be more selectively chosen through a review of the existing tracking tools and complemented with additional RBM tools such as portfolio-level reviews to understand the causes for successes and failures at the portfolio level. There is a need for integrating GEF systems and automating the submission of all project data, implementation reports, tracking tools, mid-term reports, and evaluation reports.

Transforming Results Management to Scale up Impact

109. **The GEF will aim to operationalize three key elements of an enhanced RBM system:** (i) measure what matters: (ii) understand how GEF impact adds up; and (iii) close the feedback loop for lessons learned to influence policies and projects. In enhancing the RBM system, it is important to build one that reflects the networked structure of the GEF, and provides for the comparative roles of the Secretariat, the Agencies, the Scientific and Technical Advisory Panel, the Evaluation Office, and recipient countries.

110. <u>Measure what matters</u>. For effective RBM, it will be crucial for the GEF to focus on a very select handful of core indicators that can be measured in a uniform way, allowing for aggregation of these indicators at different levels – across countries, regions, programs and portfolios. A

focus on a few core indicators would help better understand GEF impact and thereby target scarce GEF resources more effectively.

111. These core indicators must also be the measures that matter, and have the most relevance to the GEF partnership, given mandate from the conventions and institutional goals. For example, the GEF has moved from measuring hectares of land under protection as a proxy for impact on biodiversity, as in GEF-5, to metrics with a more explicit focus on globally significant biodiversity, as in the GEF-6 biodiversity focal area strategy. This shift toward measuring the *right* things – things that the GEF needs to manage for – will be accelerated in GEF-6 and beyond. The results framework for the focal area strategies in GEF-6 as presented in the programming document have already taken the step towards being selective in choice of indicators.

112. The core indicators that will become the focus of GEF results management will also emphasize catalytic and transformational outcomes. Some of the current metrics that try to capture the GEF's catalytic role – for example, the co-financing ratio of GEF investments – are inadequate to capture the entire range of impacts, and may even sell GEF contributions short. Evidence suggests that some of the most catalytic GEF investments may not have had particularly high co-financing ratios.[39] Ensuring that substantive core indicators also measure the GEF's catalytic impact will be an RBM priority.

113. <u>Understand how the GEF impacts add up</u>. The GEF will develop monitoring capacity that allows for telling impact stories at a portfolio level, rather than relying on aggregation of quantitative indicators alone.

114. The current RBM system does not allow for adequate aggregation of results information at the portfolio level. To do this kind of analysis requires taking a step back, conducting a more in-depth ex-post analysis of select sets of projects within a portfolio to understand what worked, what did not, and more importantly, *why* – in ways that provide lessons learned to project and program managers.

115. While the GEF Evaluation Office conducts detailed evaluations of some projects, they are conducted mostly with a view to evaluating on a project-by-project basis. A qualitative, portfolio-level understanding of how our impact adds up needs to be developed in a coherent manner between the Evaluation Office and the GEF Secretariat, with an eye to how portfolio-level results information can best flow back to Secretariat and GEF Agency program managers.

116. <u>Close the feedback loop</u>. Despite recent improvements, today the GEF as a network does not have a robust system that analyses what is working and what is not at the portfolio level. The GEF's past performance seems not to have systematic influence on project design and the direction of GEF investment. Basic RBM processes and systems need strengthening to ensure that the feedback loop is closed, ensuring that the rich lessons from results inform the way the GEF programs in the future. For this to happen, a thorough revamping of the GEF Project Management Information System (PMIS) will be required to, among other tasks, facilitate automated collection of information from partners and allow GEF staff and stakeholders quick and easy access to results information. The GEF project cycle and review process will include measures to ensure that results information is employed in project development processes.

[39] E.g. Catalyzing Ocean Finance

117. Closing the feedback loop will require linking monitoring and evaluation capacity at the GEF more closely to results management. Under the current organizational arrangements, the Secretariat focuses on monitoring at the portfolio level while the Evaluation Office focuses on evaluation. Lessons from evaluation activities need to systematically provide feedback to the project and policy formulation processes at the Secretariat and the GEF Agencies.

118. **A robust RBM system would open new opportunities for the GEF**. When the GEF has closed the results feedback loop, and is measuring what matters most through its RBM system, two potentially game-changing opportunities arise, for which a robust RBM system is a prerequisite.

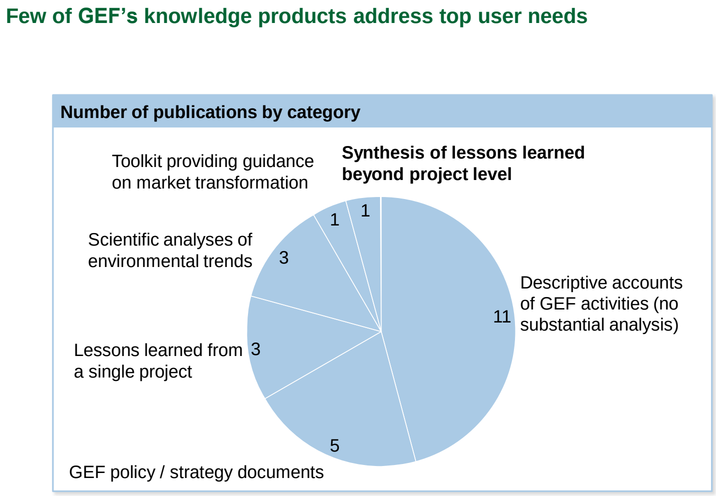
119. **RBM must be sharpened for the GEF to deliver value for money**. The above steps will help the GEF ensure that it is maximizing the impact of its investments across investments, fulfilling the GEF's catalytic and transformational role in environmental finance.

Building a Knowledge Management System

120. A better Knowledge Management (KM) system could enable to play a stronger catalytic role to arrest global environmental degradation. GEF has the potential to play a role as a knowledge facilitator, where the lessons learned through its investments can greatly multiply the GEF's impact by informing where other dollars flow. However, this is an area of the GEF that has been grossly underdeveloped in the 22 years of its existence. Knowledge activities undertaken by GEF have been so far limited with the exception of two activities – IW: LEARN and the Adaptation Learning Mechanism. Knowledge products emerging from the GEF network are not well-aligned with the most pressing identified user needs; nor do they align with user perceptions of where the GEF has a comparative advantage in knowledge – at the portfolio and global levels. Figure 2 exemplifies this through an analysis of GEF publications during 2012.

121. **Only few of GEFs knowledge products meet the users' expectations**. Few of the GEF's current knowledge products provide the insights that users find most distinctive of the GEF and even those that do are not having the impact they should due to constraints in the active dissemination and management of these products, as well as their packaging for specific users. From a knowledge systems perspective, there is limited systematic effort network-wide to capture lessons learned from project design and performance, other than through the quick analysis done in the context of the annual monitoring review undertaken by the Secretariat in collaboration with the agencies.

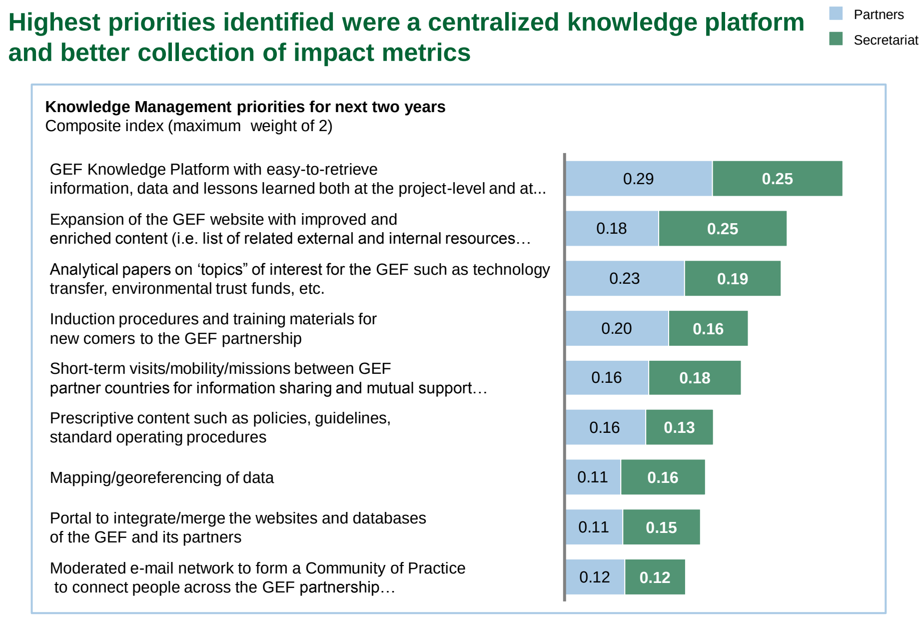
Figure 2: GEF Publications in 2012



122. **Many of the GEF's KM challenges are not new**. Responding to one of the policy recommendations emerging from negotiations for GEF-5 replenishment, the Secretariat submitted a Knowledge Management (KM) strategy as Council Information Document on June 2011. The strategy was prepared by the GEF Secretariat in consultation with the GEF Evaluation Office (GEFEO), the GEF Agencies, and Scientific and Technical Advisory Panel (STAP). The Knowledge Management Strategy identified some of these challenges and proposed a number of short-term measures to address some of them, though few of them were appropriately budgeted and implemented. The inability to meet these challenges has made it difficult for the GEF to leverage knowledge effectively. It is important to think more boldly about the role of knowledge for a catalytic and transformational GEF, and to make commitments in line with that ambition. The GEF has an opportunity to deliver on a distinct knowledge offer given its mandate and unique positioning.

123. **GEF needs to articulate what its distinctive knowledge offer should be.** The GEF Agencies already produce and disseminate knowledge on the projects they carry out in different ways. Given that there are many GEF partners with more immediate access to detailed on-the-ground information about lessons from projects, the GEF should articulate what the GEF's distinctive knowledge offer should be. The Knowledge Needs Assessment undertaken to prepare the KM strategy found GEF's distinctiveness to be at the portfolio and global levels, rather than at the granular project-by-project learning level. The assessment also found that users of GEF knowledge today demand that the GEF "grow the pool of publications harnessing and disseminating best practices, success stories, case studies and fact sheets." Figure 3 shows the highest priorities identified in the KM needs assessment.

Figure 3: Priorities Identified in the KM Needs Assessment



Source: GEF Knowledge Needs Assessment Draft Report, March 2012

Directions for the Future

124. **There are three main objectives for the development of GEF's future KM system.** As the knowledge capabilities are built from the ground-up, the system should be able to do the following: (i) identify clear examples of strategic investments in knowledge to help drive successful solutions to scale; (ii) active, solutions-oriented working knowledge partnerships with focus on tackling the drivers of environmental degradation; (iii) establish the GEF as a credible and influential voice on global environmental solutions.

125. Working Knowledge Partnerships. In sharpening its focus on underlying drivers of environmental degradation, the GEF Partnership has a critical opportunity for knowledge leadership. GEF-6 integrated programs provide a clear pathway to pilot such networks, targeting where they can be most valuable. Working knowledge partnerships can be developed in ways that build on the successful IW:Learn structure supported by the GEF, but will institute stronger links between the GEF Secretariat and the knowledge networks to allow for complete knowledge feedback loops. These partnerships will also have a narrower focus, targeting specific issues and knowledge users. For example, part of the GEF's food security program focuses on re-greening, agroforestry and sustainable intensification practices in African drylands, where knowledge sharing between practitioners has been identified as an underserved gap where the GEF should play a role by supporting such knowledge networks. These partnerships will be the key plank of the GEF knowledge offer, providing the means to both generate and disseminate lessons that are of the highest relevance to users.

126. Portfolio-level analysis. The second flagship knowledge offer will leverage the portfolio-level analysis highlighted in the Results-Based Management section of this strategy, leveraging

this knowledge to maximize impact. To address this felt knowledge need, the GEF will work with GEF Agency partners to generate and disseminate knowledge on the most scalable and transformational elements of their combined experience, presenting strong evidence on which types of interventions have had the most impact and why. This knowledge will be purposefully designed to influence investments beyond the GEF Partnership, with the potential to greatly scale up GEF impact. The GEF will also partner with leading academic and research institutions, tying them into the knowledge ecosystem to conduct rigorous analysis and to increase the dissemination of GEF lessons learned.

127. Frontiers of Environmental Change. The third flagship knowledge product that could be built up over a longer time horizon is the development of a world-leading piece of analysis focusing on the frontiers of environmental change. As the Millennium Ecosystem Assessment showed, the GEF has an important role to play in supporting and developing leading knowledge on tackling drivers of environmental degradation, and will leverage STAP and partner with other leading academics, among others, to produce such knowledge product every four years. This product will provide analysis and insight on future frontiers of environmental change, and will signal future areas of GEF focus. They will not aim to replicate efforts on the state of the global environment already undertaken, such as UNEP's GEO.

ANNEX I: AN OVERVIEW OF THE STAR

1. The STAR model allocates resources in three of the five focal areas of the GEF: climate change, biodiversity conservation, and land degradation. [40] Once the focal area envelopes have been agreed by the participants in the replenishment process, the STAR model divides these envelopes into indicative allocations for eligible countries. [41] The process can be divided into the following steps:

(a) Calculation of available focal area funds

(b) Calculation of country scores

(c) Calculation of preliminary country allocations

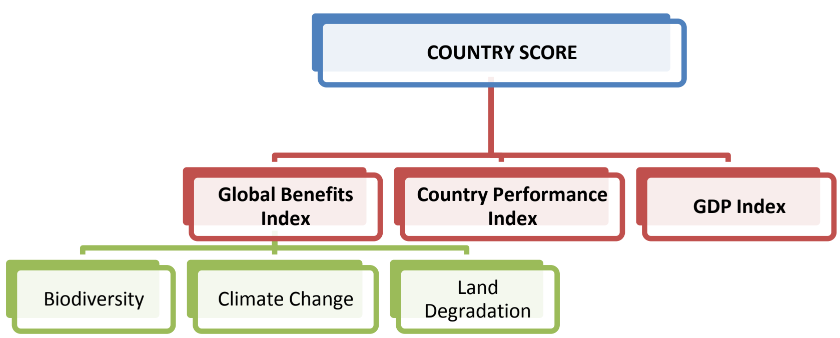
(d) Adjustment for floors and ceilings

(e) Calculation of final country allocations

(f) Categorization of post-allocation flexibilities

2. Before country allocations are made, 20 percent of the resources available to each of these three focal areas are removed or "set aside" for cross cutting programs such as global and regional projects, enabling activities and sustainable forest management. The 80 percent remaining to each focal area is then allocated among eligible countries.

Figure 4: Calculation of Country Scores



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[40] The other two focal areas – Chemicals and International Waters – were excluded because of limited availability of suitable indicators, and lack of adequate datasets.

[41] According to the GEF/P.3 Policy Paper on the STAR, for a country to be eligible for funding in a particular focal area, it has to (1) be a party to the relevant Convention and meet the eligibility criteria decided by the Conference of the Parties to that Convention, (2) not be a member of the European Union as of July 1st 2010, and (3) have had at least one national, GEF-financed project in the past five years.

3. The country score comprises three main elements[42](Figure 1). The Global Benefits Index (GBI) measures a country's relative share of GEF potential benefits that can be generated by a fixed amount of resource input into a focal area. A GBI is developed for each STAR focal area[43]. The Country Performance Index (CPI) measures a country's performance and capacity to deliver on these global benefits. Finally, the GDP per capita index[44] is an income criterion that is designed to slightly skew resources away from higher income countries towards lower income countries.

4. The country score is calculated as follows:

Country score = $GBI^{0.8} * CPI^{1.0} * GDP^{-0.04}$

5. The Country Share is calculated as follows:

Country Share = Country Score / Sum of Country Scores for all eligible countries

6. Each country share is then multiplied by the available focal area resources to determine the preliminary country allocation.

7. The STAR model outlines floors and ceilings for each of its focal areas within which all country allocations should fall (Table 11).

Table 11: Floors and Ceilings of the STAR Model

Focal Area	Floor ($ million)	Ceiling Percentage[45]
Climate Change	2.0	11%
Biodiversity	1.5	10%
Land Degradation	0.5	10%

8. When adjustments are made for floors and ceilings, there is a surplus or deficit relative to the original preliminary allocation. This is then allocated among countries using the country scores – countries therefore either all get an addition or a subtraction from their preliminary allocation. This process iterates until the full focal area amount (less set aside) has been allocated among countries, yielding the final country allocations.

9. The final step in the STAR model is the categorization of countries into their flexibility bands (Table 12).

[42] Each of these elements is itself a function of a series of indices, sub-indices, parameters and weights.
[43] The Land Degradation focal area was not included in the RAF model.
[44] The GDP index was not part of the original RAF model and is therefore one of the innovative elements of the STAR.
[45] Ceiling figures are obtained by applying these percentages to the total focal area envelope, i.e. before the 20 percent set asides are taken.

Table 12: STAR Flexibility Bands

Total Allocation X ($)	Allowed Marginal Adjustment ($)
X ≤ 7 million	unlimited
7 < X < 20 million	200 000
20 < X < 100 million	1 million
X > 100 million	2 million

10. If there is a total indicative country allocation that falls below a certain threshold, this country is allowed full flexibility to use its allocation within any of the focal areas inside the STAR. The threshold for flexibility under GEF-5 is $ 7 million. Countries above $ 7 million are allowed marginal shifts among focal areas.

ANNEX II: STATUS OF CO-FINANCING TO DATE

1. The Secretariat has undertaken an analysis of the historical experience with regard to co-financing at the GEF.

2. Consistent with the 2003 Council Paper's emphasis, average co-financing ratios have increased over time, in particular since GEF4. On average, GEF portfolio co-financing ratios[46] have improved steadily since GEF-1,[47] when the average recorded co-financing ratio for full-size projects was 3.5. On average, from the pilot phase through GEF-3, the average co-financing ratio was 5.3. In GEF-4 and GEF-5 the average co-financing ratio increased significantly, to an average of 8.1 for full-size projects. This trend is consistent with the directions set by the 2003 Council Paper, although it not clear that this was the only or the predominant force behind the increase in co-financing levels since then. A plausible hypothesis is that enhanced country ownership under the RAF/STAR allocation systems may also have contributed to this increase. In addition, improved recording—as directed by the 2003 Council Paper—and enhanced focus on mobilizing co-financing throughout the GEF partnership following the Council Paper, probably also contributed.[48]

Table 13: Full size Project Co-financing Ratios since the Pilot Phase

					Co-financing Ratio		
GEF Cycle	**GEF Phase**	**Number of Projects**	**Total GEF Project Grant**	**Total Co-financing**	**Average**	**Median**	**Max**
Pilot to GEF - 3	Pilot Phase	75	497	2,576	5.2	0.4	43.5
	GEF - 1	79	712	2,467	3.5	1.7	34.3
	GEF - 2	136	1,045	5,852	5.6	2.3	49.2
	GEF - 3	239	1,496	8,912	6.0	3.3	61.8
Pilot to GEF - 3 Total		**529**	**3,750**	**19,807**	**5.3**	**2.2**	**61.8**
GEF - 4 and GEF - 5	GEF - 4	338	1,522	12,858	8.4	3.5	99.3
	GEF - 5	273	1,458	11,377	7.8	4.6	88.9
GEF - 4 and GEF - 5 Total		**611**	**2,980**	**24,235**	**8.1**	**4.3**	**99.3**
Grand Total		**1,140**	**6,730**	**44,043**	**6.5**	**3.6**	**99.3**

Source: Secretariat calculations based on PMIS
Note: In order to focus the data analysis on information that is relevant to exploring possible differentiation across countries, this analysis is based on Full Size projects only (i.e., about 480 MSP, and about 800 EA were excluded

[46] The co-financing ratio is calculated by dividing the sum of co-financing by the sum of GEF project grants in the portfolio being analyzed (e.g. project cycle, focal area, income category, etc.)
[47] The Pilot Phase includes several projects with very large co-financing, primarily from World Bank loans, which increased the portfolio co-financing ratio significantly during this period
[48] The revised project cycle and associated templates that was introduced in 2007 also allowed a more systematic recording of co-financing. See for example GEF/C.41/inf.04, Guidelines for Project Finance, October 2011.

from the analysis. The SGP was also excluded). In addition, the analysis was narrowed to focus on the GEF Trust Fund only (i.e. excluding e.g. LDCF and SCCF). Moreover, given difficulties to appropriate co-financing in global/regional projects, the analysis includes only country level projects. The full GEF database contains 363 full-size global/regional projects. A quick review of the global/regional projects shows that average co-financing ratio for these projects is half that of other full-size projects, through there are notable variances by GEF phase, focal area, and agency. Finally, for comparability over time, the sample was confined to GEF-5 eligible countries only (i.e., projects in countries that were GEF eligible in earlier GEF-phases, but no longer are eligible, are not included in the analysis). These adjustments reduce the total sample to 1,140 full-size projects across all GEF-phases and focal areas for analysis; these 1,140 projects, however, account for about 96 percent of the total recorded co-financing during the GEF phases.

3. **Average co-financing ratios masks very large underlying variations in ratios at the project level.** To illustrate this variation, Table 13 presents both average and the median co-financing ratios. The median co-financing ratio also increases over time. However, the median ratios are significantly lower than the average ratios. This is an indication that the average co-financing ratio to a significant extent is driven by relatively few outlier projects with extraordinary high co-financing ratios. For example, during GEF4 and GEF5 the median co-financing ratio was 4.3, while the average co-financing ratio was almost twice as high, at 8.1. This difference is in part explained by the fact that the highest recorded co-financing ratio was 99.3.

4. **The Climate Change focal area is by far the largest source of co-financing in the GEF**, through a combination of high co-financing ratios and a high share of the overall portfolio. Co-financing ratios have increased over time across all focal areas. The International Waters (IW) portfolio has the highest average co-financing ratio among the focal areas (the average co-financing ratio in GEF4-5 to date is 20), as the demonstration projects funded under many IW programs mobilize significant amounts of government co-financing. The average co-financing in the climate change focal area has also been high. It has increased over time to reach 13.2 in GEF4-5. In dollar terms, more than half of the total co-financing mobilized by in GEF4-5 originated in the climate change focal area.[49] The observed co-financing ratios in climate change is due to the relatively higher share of catalytic investment projects, including some funded through the use of no-grant instruments (see section on non-grant instruments) that characterizes the GEF climate change portfolio. The Biodiversity Focal Area has more modest levels of co-financing, but has also seen the average ratio increase in GEF4-5 compared to earlier phases.

[49] This excludes the rapidly increasing share of multi-focal area projects, which also often has climate change components

Table 14: Co-financing by Focal Area

GEF Phase:	Pilot- GEF3		GEF4-5	
Focal Area	Share of Co-financing	Co-financing Ratio	Share of Co-financing	Co-financing Ratio
Biodiversity	22.8%	2.9	15.1%	4.7
Climate Change	60.1%	7.6	52.6%	13.2
International Waters	8.4%	9.3	4.9%	20.0
Land Degradation	3.8%	6.3	4.9%	7.3
Multi Focal Area	3.9%	4.6	17.2%	6.2
Ozone Depleting Substances	0.7%	1.2	0.1%	2.4
POPs	0.3%	1.0	5.3%	3.9
Total	**100%**	**5.3**	**100%**	**8.1**

Source: Secretariat calculations based on PMIS.
Note: Full size projects only; see note at Table 5.

5. **The main sources of co-financing for GEF projects are national governments.** Of the $24.2 billion that the GEF has mobilized in co-financing during GEF-4 and GEF-5 to date $10.4 billion has been provided by national governments, equivalent to about 43 percent of all co-financing. GEF agencies are the second highest provider of co-financing accounting for $6.3 billion during GEF4-5, or 26 percent of total co-financing in that period. The private sector is also an important source of co-financing, accounting for about 19 percent of co-financing of full-size GEF projects. The remaining co-financing is mobilized from bilateral and multilateral sources or from beneficiaries, foundations, and NGOs.

Table 15: Co-financing by Focal Area and Source – GEF-4 and GEF-5

(million US Dollars)

Focal Area	GEF Agency	National Govt.	Private Sector	Bilateral or multilateral donor	Other	Total
Biodiversity	634	2,279	119	306	311	**3,649**
Climate Change	3,387	4,371	3,755	551	674	**12,739**
International Waters	170	859	88	72	9	**1,199**
Land Degradation	432	408	22	131	194	**1,188**
Multi Focal Area	1,422	1,918	274	449	102	**4,165**
ODS + POPs	255	574	344	70	54	**1,296**
Total	**6,300**	**10,410**	**4,602**	**1,580**	**1,344**	**24,235**

Source: Secretariat calculations based on PMIS
Note: Full size projects only

6. **In large part due to their ability to associate GEF funding with loans, projects from Multilateral Development Banks (MDBs) generally, but not uniformly, have higher co-**

financing than projects from other agencies. Co-financing ratios vary significantly by GEF Agency. However, in general, the portfolios of the multi-lateral development banks (MDBs) have higher co-financing ratios due to projects with associated loans or other Trust Funds in their portfolio (Table 16). ADB, EBRD, and the World Bank have the highest co-financing ratios in that order; the World Bank contributes about half of all co-financing mobilized in the GEF. On average among MDBs about 60 percent of projects are blended.[50] The average co-financing ratio for blended projects is 14.3, while it is only 4.8 for non-blended projects. There is much less variation in co-financing ratios across agencies when considering freestanding projects.

Table 16: Co-financing by GEF Agency, GEF-4-5 only

				Of which:			*Co-financing ratio*	
GEF Agency	**Number of Projects**	**Cofinacing ratio**	**Share of total cofinancing**	**Blended**	**Not blended**	**Blended, % of all**	**Blended**	**Not blended**
FAO	35	4.2	2%	na		0%	na	4.2
UNDP	270	5.3	24%	14	256	5%	9.8	5.1
UNEP	39	3.3	2%	1	38	3%	5.5	3.3
UNIDO	61	4.8	5%	18	43	30%	7.1	4.1
ADB	21	29.7	9%	15	6	71%	35.7	8.4
AfDB	2	3.3	0%	2	na	100%	3.3	na
EBRD	6	13.3	3%	6	na	100%	13.3	na
IADB	27	5.3	3%	17	10	63%	5.2	5.3
IFAD	17	4.9	1%	11	6	65%	4.9	3.9
World Bank	133	12.0	49%	73	60	55%	16.0	4.9
Total	**611**	**8.13**	100%	**124**	**454**	**21%**	**14.3**	**4.8**

Source: Secretariat calculations based on PMIS
Note: Full size projects only; see note at Table 13.

Co-financing Differences Country Income Groups

7. **Co-financing ratios are generally higher for higher-income countries, although differences between the large group of middle-income countries (LMICs and UMICs) are small**. The average co-financing ratio for full size projects in Low Income Countries (LIC) during GEF4-5 was 6. For Lower and Upper Middle Income Countries (LMICs and UMICs) it

[50] "Blended" in the PMIS refers to the situation where the GEF project has an agency loan associated as co-financing. No distinction is made between projects that are "fully" blended, i.e. where the GEF project and the loan is processed fully as one project, or "partially" blended projects where the projects are processed separately, as the difference between the two is mostly about the process. Note also that the distinction between "blended" and "free-standing" ignores that even free-standing projects in certain circumstance can be critical for sustaining policy dialogue that may result in a loan at a later point in time; such programmatic view is easily lost when simply focusing on whether a GEF project is blended or freestanding. PMIS does not, however, enable such finer distinction to be made.

was around 7.9 and 8.1 respectively (Table 17). High Income Countries (HICs) had the highest average co-financing ratio of 12.1.[51] Project outliers are influential in all income categories, as shown by the consistently large difference between median and average co-financing ratios. Moreover, the median is remarkably stable across income groups (in the 4-4.5 range) with the exception of LICs where it is noticeably lower, at 3.3. This suggests that irrespective of income category, most GEF recipient countries have a large number of projects with only modest levels of co-financing in their portfolio.

Table 17: Co-financing Ratios by Country Income Groups, GEF-4 and GEF-5

				Co-financing Ratio		
Income Category	**Number of Projects**	**Total GEF Grant**	**Total Co-financing**	**Average**	**Median**	**Max**
HIC	47	251	3,024	12.1	4.5	41.8
UMIC	280	1,509	12,236	8.1	4.5	99.3
LMIC	193	883	6,942	7.9	4.1	90.5
LIC	91	338	2,033	6.0	3.3	54.1
Grand Total	**611**	**2,980**	**24,235**	**8.1**	**4.3**	**99.3**

Source: Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications

8. **Co-financing for climate change projects account for a higher share of total co-financing in high-income countries compared to low income countries**. Two factors explain this. First, the share of climate change projects in LIC's portfolio is lower than for middle income countries and HICs. Moreover, the average co-financing ratio for climate change projects is also lower for LIC's than it is for other countries. By contrast, co-financing mobilized in the land degradation focal are accounts for the largest share in LICs. As noted above, across the GEF portfolio of full size projects, climate change projects account for 43 percent of all co-financing. For LICs the share is significantly lower, at 25 percent, while it is highest for HICs at 76 percent (Table 18). The share is 55 percent and 45 percent, respectively, for UMICs and LMICs.

[51] It should be noted that the group of HIC countries is quite small (only 11 countries) and highly diverse as it includes both a number of small, high-income, island states and very large economies like e.g. Russia and Chile.

Table 18: Focal Area Contributions to Co-financing, by Country Income Groups, GEF-4 and GEF-5

	Biodiversity	Climate Change	International Waters	Land Degradation	Multi Focal Area	ODS	POPs	Total
HIC	6%	76%	0%	0%	16%	0%	1%	100%
UMIC	20%	55%	4%	2%	14%	0%	5%	100%
LMIC	9%	45%	11%	5%	21%	0%	9%	100%
LIC	20%	25%	0%	28%	25%	2%	0%	100%

Source: Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications.

9. **Middle income countries mobilize a significantly larger share of co-financing from their national governments and from the private sector than low-income countries do**. The distribution of the source of co-financing does not vary much between LMICs and UMICs. Close to half of all co-financing in these countries originates from the national government. By contrast, in LICs the share is only 27.3 percent, reflecting the higher availability of GEF-agency and other donor co-financing in this category. However, the data also show that the share of government-originated co-financing in HIC is lower than that in UMICs and LMICs. This is in part due to a significantly higher ratio of private sector co-financing in HICs, mainly driven by climate change projects: 29.6 percent, against slightly below 20 percent in LMICs and UMICs and only 5.4 percent in LICs—a clear indication of the challenges of mobilizing private sector financing in LICs compared to other groups.

Table 19: Source of Co-financing, by Country Income Groups, GEF-4 and GEF-5

	Government	GEF Agency	Private Sector	Donors	Others	Grand Total
HIC	29.0%	37.5%	29.6%	3.5%	0.5%	100.0%
UMIC	47.2%	21.9%	18.5%	5.0%	7.5%	100%
LMIC	46.2%	23.6%	19.3%	7.1%	3.9%	100%
LIC	27.3%	42.1%	5.4%	18.0%	7.1%	100%

Source: Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications.

Co-financing among the Largest GEF Recipients

10. **The top-5 GEF recipient countries generate a disproportionately large share of total co-financing.** The five countries with the largest STAR allocations are China, India, Brazil, The Russian Federation and Mexico. While these top-5 GEF recipients programmed in total about 39 percent of all full size projects during GEF4 and GEF5, they generated about 52 percent of all co-financing. This reflects that these countries' co-financing levels during GEF4-5, with the exception of Brazil, were higher than the average co-financing ratios (Table 20). Among the

top-5 recipient countries, the Russian federation has the highest co-financing ratio (14.9) followed by China at 13.6, while Brazil has the lowest co-financing ratio (5.4). At the same time, the data also show that the co-financing levels of individual projects vary considerably; as is the case for most countries, the median co-financing ratio is significantly lower than the average. Moreover, the ranking of countries in terms of co-financing ratio changes significantly depending on whether the average or the median is used. For example, while Brazil has the lowest average co-financing rate it has the highest median rate. Conversely, Mexico has the 3rd highest average co-financing ratio (driven in large part by a single project with a co-financing ratio of 99.3), while its median rate is the lowest.

Table 20: Co-financing Ratios among Top-5 Recipient Countries, GEF4-5

Country	Number of Projects	Sum GEF Grant	Sum Co-financing	Co-financing ratio	Median	Max
China	59	403	5,481	13.6	6.2	88.9
India	31	238	2,049	8.6	4.8	33.0
Brazil	19	184	992	5.4	4.8	12.9
Russian Federation	25	173	2,589	14.9	4.7	41.8
Mexico	19	163	1,569	9.6	4.0	99.3
All countries	**611**	**2,980**	**24,235**	**8.1**	**4.3**	**99.3**

Source: Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications.

11. **Differences in co-financing levels among top-5 countries are in part driven by differences in the composition of their project portfolio**. In particular, Brazil has a relatively high share of biodiversity projects in its portfolio (only 41 percent of its STAR allocation is for climate change, as compared to more than 70 percent for the three countries with the highest ratios), and since biodiversity projects across the board is associated with lower levels of co-financing, this reduces the overall measured co-financing ratio in Brazil. The extent to which GEF projects in the top-5 recipient countries are blended with MDB loans also has a major impact on the realized co-financing ratio. Overall, a slightly higher share (32 percent) of projects in the top-5 recipient countries are blended than in the GEF portfolio as a whole (26 percent, see above). The prevalence of free-standing projects in the biodiversity focal area is also much higher than those in climate change in the top-5 countries: of the 50 full size biodiversity projects that have been approved by Council in GEF4-5 to date, only 4 of them were blended with MDB loans. By contrast, of the 55 climate change projects approved during the same period, 31 of them were blended. Mexico is an illustration of how blended projects can play an exceptionally large role in determining the overall measured co-financing ratio: its three blended climate change projects account for 90 percent of Mexico's total mobilized co-financing during GEF4-5.

Table 21: Co-financing Ratios across Focal Areas in Freestanding and Blended Projects among Top-5 Recipient Countries, GEF4-5

		--- Free-standing projects ---			--------- Blended projects -------				
Country	**Focal Area**	**Number of Projects**	**Co-financing Ratio**	Share of Co-financing	**Number of Projects**	**Co-financing Ratio**	**Share of Co-financing**	**Share of blended**	**Total Co-financing Ratio**
China		**35**	**4.79**	16%	**24**	**21.3**	**84%**	**41%**	**13.6**
Of which	Biodiversity	16	4.94	28%	4	47.2	72%	20%	13.9
	Climate Change	7	5.74	10%	13	20.6	90%	65%	16.3
India		**21**	**5.00**	33%	**10**	**13.3**	**67%**	**32%**	**8.6**
Of which	Biodiversity	7	3.45	100%	0	na	0%	0%	3.5
	Climate Change	8	5.86	24%	7	15.9	76%	47%	11.2
Brazil		**16**	**5.21**	62%	**3**	**5.7**	**38%**	**16%**	**5.4**
Of which	Biodiversity	9	4.31	100%	0	na	0%	0%	4.3
	Climate Change	4	7.42	75%	1	12.9	25%	20%	8.3
Russian Federation		**17**	**6.12**	20%	**8**	**23.5**	**80%**	**32%**	**14.9**
Of which	Biodiversity	4	3.43	100%	0	na	0%	0%	3.4
	Climate Change	4	11.84	14%	7	22.3	86%	64%	19.8
Mexico		**15**	**4.61**	30%	**4**	**17.8**	**70%**	**21%**	**9.6**
Of which	Biodiversity	10	3.41	100%	0	na	0%	0%	3.4
	Climate Change	1	5.92	10%	3	38.8	90%	75%	24.7

Source: GEF Secretariat calculations based on PMIS
Note: Income classifications follow most recent World Bank data as accessed via http://data.worldbank.org/about/country-classifications.