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GEF Council  
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Agenda Item 8

## **GEF CORPORATE BUSINESS PLAN FY99-FY01**

#### **RECOMMENDED COUNCIL DECISION**

The Council reviewed document GEF/C.8/6, *GEF Corporate Business Plan FY99-01*. The Council requests the Secretariat and the Implementing Agencies to take into account its comments on the business plan when preparing the proposed FY99 budget for approval by the Council at its meeting in April 1998. The Council further requests the Secretariat to continue to work with the Implementing Agencies to develop and apply the improved cost accounting approach for preparing the FY99 budget and to explore opportunities for piloting the introduction of a fee-based system in FY99.



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## **GEF Corporate Business Plan FY99-FY01**

### **PART I: CORPORATE BUSINESS PLANNING**

1. The GEF Corporate Business Plan is a rolling three-year plan of operations for implementing the GEF Operational Strategy.<sup>1</sup> It is produced annually, and covers the GEF as a corporate entity by integrating the activities of its six constituent organizational units: the three Implementing Agencies (UNDP, UNEP, World Bank), the Scientific and Technical Advisory Panel (STAP), the Trustee, and the Secretariat.
2. In accordance with the Operational Strategy, each GEF activity either contributes to one of the Operational Programs or meets the operational criteria for Enabling Activities or Short Term Measures.<sup>2</sup> The Corporate Business Plan is therefore determined strategically by needs set out in these Operational Programs and by expected demand for Enabling Activities and short-term measures. The rate of operational delivery is subject to any capacity constraints on the Implementing Agencies and to the overall envelope of resources expected to be available to meet the projected needs over the planning period. The Plan covers programming for, and takes account of the inputs provided by, each of the Implementing Agencies.
3. Once reviewed by Council, the Corporate Business Plan becomes the basis the organizational units of GEF use for programming their operations and for the deploying staff and other resources. It is thus the major input to the annual GEF Corporate Budget, which is prepared six months later in the spring.<sup>3</sup>
4. In FY97 project portfolios were in transition because of the lead time required to adjust pipelines to the Operational Strategy. In FY98 programming and tracking had the full benefit of this strategic framework. For FY99 and subsequent years, even more detailed guidance is available in the form of the reference documents that have been prepared for each of the Operational Programs within which the bulk of GEF operations falls.

#### **PRINCIPLES USED IN GEF CORPORATE PLANNING**

5. In preparing a specific plan to implement the Operational Strategy, a number of general planning principles have been used.

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<sup>1</sup> Operational Strategy, Global Environment Facility, Washington, D.C. : February 1996

<sup>2</sup> The Operational Programs and the operational criteria defining the Enabling Activities and the Short Term Measures are revised periodically to respond corporately to the guidance of the two conventions the GEF serves, the Convention on Biological Diversity and the Framework Convention on Climate Change.

<sup>3</sup> At its May 1995 meeting, the Council approved a corporate business planning/budgeting approach involving a three-year business planning cycle and an annual budget as proposed in Council document GEF/C.4/4, *GEF Business Plan FY96-97 and Budget FY96*. According to this decision, at the second regular meeting of the Council each calendar year (October/November), a three-year rolling business plan would be presented to the Council, and following Council guidance on the work program, a detailed corporate budget would be prepared for the coming fiscal year and presented for Council review and approval at the first meeting of the following year (April/May).

### **Principle 1: Integration of planning**

6. The various planning processes of the GEF are integrated. The Operational Strategy established a number of Operational Programs, Enabling Activities and Short-Term Measures which will be developed and managed as GEF portfolios. The GEF Corporate Business Plan is a rolling three-year plan of operations for implementing the GEF Operational Strategy.<sup>4</sup> In turn, the Corporate Business Plan will serve as the major operational input into the annual GEF Corporate Budget.

### **Principle 2: Corporate identity**

7. Because the GEF consists of six organizational units, the Corporate Business Plan of the GEF will be developed corporately to facilitate Implementing Agency planning and Council decision-making, and to take advantage of the opportunities for cost-effective collaboration by the Implementing Agencies. At their meeting on June 19, 1996 the Heads of Agency agreed to promote closer Implementing Agency collaboration on GEF operations and to provide a semi-annual report on progress. Initially three areas were emphasized: client outreach, project pipeline development, and project implementation. This collaborative approach is reflected in Corporate Business Plans.

### **Principle 3: Cost-effectiveness**

8. Planning is based on the assumption of continued improvements in cost-effectiveness through: mainstreaming, leveraging, incremental cost financing, productivity gains, and partnership.

- a) *Mainstreaming.* Mainstreaming the global environment into the core work of the Implementing Agencies will be a high priority. This was confirmed by the Heads of the three Implementing Agencies during their annual GEF Heads of Agency meeting in June 1996, where mainstreaming the GEF into Implementing Agencies' own activities was a principal topic on the agenda. Among the recorded conclusions of that meeting, the Heads of Agencies emphasized their commitment to the integration of GEF activities and objectives in their own agencies' missions and called upon their senior managers to accord GEF activities the same management attention as those given to the Implementing Agencies' own activities.<sup>5</sup>
- b) *Leveraging.* Increasing attention will be given to associating GEF financing with others sources of finance, such as Implementing Agency resources (UNDP's Target for Resource Assignment from the Core, regular Bank loans and guarantees, and cofinance; and UNEP's programs) and to complementary sources.
- c) *Incremental cost financing.* Improved application of the incremental cost approach by the Implementing Agencies will lead to more efficient project design. Additional work by the Secretariat on "paradigm" cases and on direct cooperation between the Secretariat and the Implementing Agencies will improve the application of the incremental cost approach.

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<sup>4</sup> Operational Strategy, Global Environment Facility, Washington, D.C.: February 1996

<sup>5</sup> See Conclusions of GEF Heads of Agency Meeting, June 19, 1996, Washington, D.C., (GEF/C.8/Inf.6).

- d) *Productivity gains.* Improved operational efficiency through learning and improved administrative efficiency through the “streamlining” efforts in the Implementing Agencies and the Secretariat (e.g., on project review procedures) will lead to productivity gains.
- e) *Strategic partnership.* Long term partnerships, in the context of the Operational Programs, with Implementing Agencies, NGOs, bilaterals, and the private sector will reduce the overall costs of GEF business (although may increase the administrative costs). The Operational Programs would be the natural frameworks within which such partnerships could be developed over the next few years. In some cases, such as with units in the Implementing Agencies, it may be possible to enter partnerships in order to both mobilize greater cofinancing and reduce GEF processing costs. In other cases, including those with the private sector, it may be appropriate to explore partnerships that promote synergy through cooperative planning and the sharing of information and experiences, rather than through direct GEF financing.

#### **Principle 4: Steady, stable growth**

9. For the GEF Work Program to be sustainable, changes from year to year need to be as smooth as possible. This principle was introduced in the FY97 Budget Paper and supported by the Council as a long-term principle appropriate for operating a financial mechanism as a going concern. Steady, stable growth helps the Implementing Agencies deliver high quality projects to implement the Operational Strategy as both countries and Implementing Agencies gain experience with GEF and as information improves through national communications, plans, and strategies about country priorities. Subject to the capacity of the Implementing Agencies to deliver and the availability of resources, operations would be programmed over the planning period in a manner that reflects steady, stable growth.

#### **Principle 5: Realism**

10. Improved data and growing experience with planning and programming the past three years are helping develop more realistic projections in project numbers and financing requirements of projects. In previous years, delivery of projects had fallen far short of projections. More realistic assessments of capacity should now also facilitate budgeting as costs of project processing become more transparently linked to budget requests under the improved cost accounting approach currently being developed.

#### **Principle 6: Flexibility**

11. As convention guidance concerning policies, strategies, and program priorities develops and as new information becomes available, the GEF will continue to respond flexibly within the framework of its mandate. For example, the nature and volume of Enabling Activities over the next two or three years will be influenced by decisions of the Conferences of the Parties on the content and frequency of national communications and reports, strategies, and plans. The projections made in this Corporate Business Plan may then need to be adjusted accordingly. The GEF will position itself to respond flexibly to incorporate convention guidance, improvements in science and technical knowledge (including STAP advice), lessons learned, regional differences, and different approaches for focal areas or partners (e.g., the private sector, NGOs). The greatest flexibility will be needed in the two outer years (FY00 and FY01) where firm commitments have yet to be made.



## **SPECIAL ISSUES AND RECENT DEVELOPMENTS**

### **{ TC "SPECIAL ISSUES" \ F C \ L "2" }**

12. Several important external processes that are currently underway will affect the nature or volume of GEF operations in this Corporate Business Plan. The first is the negotiations on the GEF *Replenishment*, which will ultimately determine the level of resources available. The second is the *Study of GEF's Overall Performance*, which could point the way to better integration and more effective operations. The third is joint work with the Secretariat of the GEF and the Secretariat of the CBD on ways to operationalize the CBD objective on benefit-sharing. When these processes are complete, some adjustment of the Plan may be needed.

13. This Corporate Business Plan reflects the broad strategic conclusions reached at the GEF Retreat on September 17 and 18, 1997 that involved staff of the Secretariat, the Implementing Agencies, IFC, and STAP Secretariat. It is based on information provided by the Implementing Agencies and on the post-Retreat technical deliberations of the interagency Task Forces in each focal area and on budget issues. As discussed at the GEF Retreat, the Operational Programs (which form the core of this Corporate Business Plan) will be the basis for long-term planning.

14. This Corporate Business Plan also comes at a time after which there has been steady growth in country absorptive capacity and country-driven demand for GEF funding. The foundation for this growth has been laid through:

- a rapid increase in the number of countries eligible to receive finance through the financial mechanisms of the conventions, following the increase in ratification over the past four years;
- an increase in implementation capacity within each eligible country as a result of country Enabling Activities;
- the GEF Project Development Workshops, which have expanded awareness of the GEF within countries; and
- the increasing experience that countries have of the GEF through project development using Project Development Facility funds, as well as other sources.

## **PART II: STATUS OF THE PORTFOLIOS**

15. During the Pilot Phase and the first three years of permanent operation (FY95-FY97), the GEF built an overall portfolio worth \$1.6 billion overall and comprising 337 projects (including 107 Enabling Activities) in various stages of development.

16. This portfolio is set out by Implementing Agency in Table 1 and by focal area in Table 2 below. About 75 per cent of the authorized work program as of June 30, 1997 is in projects in the climate change and biodiversity focal areas. In financial terms, the World Bank accounts for the largest portion of the combined Pilot Phase and permanent operation portfolio (66 per cent), followed by UNDP (29 per cent) and UNEP (3 per cent). Joint projects

involving all three Implementing Agencies account for the remainder (2 per cent). While UNEP accounts for only about 3 percent of the financial volume for projects, a substantial part of its work program involves projects where UNEP is a partner in a UNDP- led or World Bank-led project. In addition, UNEP provides the STAP secretariat.

Table 1: Allocations by Implementing Agency, June 30, 1997+

<b>Agency</b>	<b>Pilot Phase (\$m)</b>	<b>GEF (2/95-6/97) (\$m)</b>	<b>Total (\$m)</b>
UNDP (29%)	256	220	476
UNEP (3%)	22	20	42
World Bank (66%)	452	613	1065
Joint IA projects* (2%)	0	30	30
Others**	3	0	3
<b>Total</b>	<b>733</b>	<b>883</b>	<b>1616</b>

+ Excluding PDFs \* From April '96 work program: 2 multifocal projects to be implemented by all IAs. \*\* PRINCE project managed by GEF Secretariat

Table 2: Projects including Enabling Activities by Focal Area, June 30, 1997+

<b>Focal Area</b>	<b>Pilot Phase</b>		<b>GEF (FY Feb 95 - Jun 97)</b>		<b>Total</b>	
	# Projects	(\$m)	# Projects	(\$m)	# Projects	(\$m)
Biodiversity (37%)	58	332	116	267	174	599
Climate Change (38%)	41	259	84	355	125	614
International Waters (11%)	12	118	7	62	19	180
Ozone (7%)	2	4	9	109	11	113
Multi-Focal (7%)	3	20	5	90	8	110
<b>Subtotal</b>	116	733	221	883	337	1616
<i>(of which Enabling Activities)*</i>			(107)	(22)	(107)	(22)

+ Excluding PDFs \*Expedited Enabling Activities in biodiversity and climate change approved by CEO

### **PART III: DEVELOPMENT OF STRATEGY**

17. Operational strategy and policies, including resource mobilization, are responses to external situations. Throughout FY99-FY01, activities to develop strategy will be influenced

by member country priorities expressed through the Council,<sup>6</sup> by convention guidance, and by scientific and technical advice. Activities related specifically to the next Replenishment and to preparations for the Second GEF Assembly are expected to begin towards the end of the Corporate Business Plan period in FY01.

### Council requirements

18. The Council, the prime decision-making body of the GEF, will continue to meet twice a year, at which time it may consider new policies or operational responses to convention guidance or new scientific and technical advice. Council may also wish to consider modifications to the Operational Strategy in response to operational evaluations, for example on the efficacy of dividing the biodiversity operational programs according to ecosystem type, on the attainment of programmatic goals in the climate change area, on the global benefits and structure of the programs in international waters, and on the support provided by Enabling Activities for future operations.

### Convention guidance

19. The GEF will interact with the various convention bodies related to its focal areas.
- a) The main interaction will be on *biodiversity* and *climate change* where GEF currently operates the financial mechanisms of the conventions, the Convention on Biological Diversity and the Framework Convention on Climate Change. For each convention, the Conference of the Parties meets approximately once a year, and the GEF will continue to be represented at such meetings, where it expects to receive guidance from time to time on program priorities and policies.
  - b) Given the GEF's limited mandate in *ozone depletion*, the GEF will be less involved with convention bodies here than that with those above. Also, given that the final activities for phasing out ozone-depleting substances are expected to be implemented in most of the eligible countries in the next few years, such involvement will in any case decrease. While the GEF will be represented at key meetings of the Conference of the Parties to the Montreal Protocol, especially when decisions are expected that affect the eligibility of countries or activities in this focal area, it is unlikely to attend meetings of the Executive Committee of the Multilateral Fund on a regular basis. Decisions of that body will however be scrutinized for their relevance to GEF operational policy.
  - c) Only on a case-by-case basis would the GEF attend meetings of other conventions, and then only as an observer. Under the present Operational Strategy, the GEF is not the financial mechanism for any of the various conventions related to *international waters* and no convention attendance is planned at this stage. The GEF will however observe selected meetings of the Convention to Combat Desertification, even though *land degradation* is not a focal area, because it has a number of projects that address land degradation in the context of the focal areas.
20. After meetings of the Conference of the Parties to one of the conventions, there are several follow-up activities. These typically include revising the operational criteria for the

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<sup>6</sup> Country priorities concerning their own development and convention commitments would be expressed elsewhere, e.g. in national communications and reports.

Enabling Activities that support the convention, revising the relevant Operational Programs, and drafting new policies and Operational Programs for Council consideration. Such follow-up activities require extensive consultation on operational matters with the Implementing Agencies. To facilitate this, more frequent and more regular meetings of the interagency technical task forces which will be held. Special efforts will also be made to integrate the work program of STAP into the overall GEF work program. This is to ensure that STAP's independent scientific and technical advice can be focused strategically and provided in timely way in support of GEF's externally driven policy and program development work.

21. Recent fruitful interactions with the Subsidiary Body on Scientific, Technical, and Technological Advice (SBSTTA) of the Convention on Biological Diversity concerning technical aspects of benefit-sharing and agrobiodiversity suggest that increasing attention should also be paid to the subsidiary bodies of the conventions. It is here that advice on future guidance to the GEF is formulated, so sharing knowledge on both the operational and the scientific-technical aspects of a new area of concern would help to ensure that subsequent guidance could be acted on expeditiously. Therefore greater GEF representation, more GEF project presentations, and expanded scientific outreach at the subsidiary bodies are planned. Because of this increased convention emphasis, the GEF may have correspondingly less interaction with less essential bodies.

#### **Scientific and technical advice**

22. Over the planning period, it is expected that the STAP work program will become more tightly integrated with the overall GEF work program for operations, policy development (including operational responses to any new convention guidance), and monitoring and evaluation. The main focus of STAP's work is to provide strategic advice to the GEF on scientific and technical issues at critical times when such advice can maximally influence the development of policy and new Operational Programs, maintenance of the Roster of Experts to help with project preparation, selective scientific and technical review of projects, advice on scientific indicators, mobilization of the wider scientific and technical community, and advice through the Research Committee on targeted research projects. STAP's work will be primarily demand driven, and responsive to requests from Council, the GEF Secretariat, and the Implementing Agencies.

23. In FY99, STAP would be requested

- a) to provide scientific and technical advice on the development of the new Operational Program on carbon sequestration, policy concerning the funding of fossil fuel based projects within the Operational Programs and as Short-Term Measures, sustainable use of biodiversity and removal of the root causes of biodiversity loss, GEF responses to recent convention guidance (such as that on agrobiodiversity and biosafety) or any new guidance from the Conferences of the Parties (such as on benefit-sharing in biodiversity or on adaptation to climate change);
- b) to participate in the GEFOP and the annual Project Implementation Review in order to advise the GEF Secretariat and Implementing Agencies on scientific and technical issues in the work program;

- c) to continue reviewing the use of the STAP Roster of Experts and developing the Roster; and
- d) to conduct selective reviews of a small number of projects, including ex-post evaluation of the strategic scientific and technical aspects of project implementation, in accordance with criteria approved by the Council.

#### **PART IV: DEVELOPMENT OF THE PORTFOLIOS**

24. This part presents the projected operations for the three-year period covering FY99-FY01 to develop the portfolios. The Operational Strategy will be implemented through twelve Operational Program portfolios, three portfolios of Enabling Activities, and three portfolios of Short-Term Measures, for each of which separate projections are made.

#### **PORTFOLIO DEVELOPMENT NEEDS**

25. GEF will program resources according to the needs of the portfolios. The projects in each portfolio are country-driven opportunities to meet the program priorities of the relevant convention (or, in the case of international waters, the program priorities that GEF has established for this focal area). See Table 3 for a list of the GEF Portfolios.

- a) *Operational Programs*. For each focal area other than ozone depletion, there are portfolios of projects to implement Operational Programs.<sup>7</sup> (In view of the time bound phase-out of ozone depleting substances, all actions are short term in nature.) GEF activities addressing land degradation fall within the existing Operational Programs,<sup>8</sup> as do projects on Targeted Research<sup>9</sup> and Medium-Sized projects.<sup>10</sup>
- b) *Enabling Activities*. For each focal area other than international waters,<sup>11</sup> there is a portfolio of Enabling Activities to help countries lay the groundwork for their responses to global environmental issues: in biodiversity, these help countries prepare national reports to the Convention on Biological Diversity; in climate change, national communications to the Framework Convention on Climate Change; and in ozone depletion, country programs to ensure compliance with the Montreal Protocol.
- c) *Short Term Measures*. For each focal area other than international waters, there is a portfolio of projects to meet country-driven priorities for short-term measures. In view of

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<sup>7</sup> *Operational Programs*, Global Environment Facility, Washington, D.C.: June 1997

<sup>8</sup> *A Framework for GEF Activities Concerning Land Degradation*, Global Environment Facility, Washington, D.C.: October 1996

<sup>9</sup> *Principles for GEF Financing of Targeted Research*, GEF/C.9/5. Note that targeted research projects are a type of project, and do not constitute a new Operational Program. Targeted research proposals, like capacity-building and investment activities, contribute towards and are justified in terms of the objectives of the Operational Programs. Reducing the long-term costs of low greenhouse gas-emitting energy technologies

<sup>10</sup> *Medium-Sized Projects*. GEF/C.8/5. August 29, 1996. Medium-sized projects are not a program in their own right; each such project must conform to the requirements of the Operational Program of which they are to constitute a part, or to the operational criteria for Short Term Measures as appropriate.

<sup>11</sup> In international waters, the Operational Programs include projects known as Strategic Action Programs. These include preparatory efforts (although have other elements as well) so that they have some of the character of Enabling Activities.

the strategic and cooperative nature of actions to protect international waters, no individual action can generate worthwhile short term benefits in the absence of complementary actions, so there is no portfolio of short-term measures.

The portfolio development needs of Operational Programs, Enabling Activities, and Short-Term Measures are driven by various considerations as follows:

Table 3. Portfolios

<b>Focal Area</b>	<b>Type of Activity</b>	<b>Portfolio</b>
<b>Biodiversity</b>	Operational Programs	OP#1: Arid and, Semi-arid ecosystems OP#2: Coastal, marine, and freshwater ecosystems (including wetlands) OP#3: Forest ecosystems OP#4: Mountain ecosystems
<b>Climate Change</b>	Enabling Activities Short-Term Measures Operational Programs	Biodiversity Enabling Activities Biodiversity Short-Term Measures OP#5: Removing barriers to energy conservation and energy efficiency OP#6: Promoting the adoption of renewable energy by removing barriers and reducing implementation costs OP#7: Reducing the long-term costs of low greenhouse gas-emitting energy technologies OP#11: Transport energy (Being developed) OP#12: Carbon sequestration (Being developed)
<b>International Waters</b>	Enabling Activities Short-Term Measures Operational Programs	Climate Change Enabling Activities Climate Change Short-Term Measures OP#8: Waterbody-based program OP#9: Integrated land and water multiple focal area
<b>Ozone Depletion</b>	Short-Term Measures Enabling Activities	OP#10: Contaminant-based program Projects Country Programs to identify and prepare eligible projects

### **Operational Programs**

26. The Operational Programs, which will continue to account for the great majority of the GEF resources, have internal logics that are related to the achievement of long term program priorities through the complementarity of their constituent projects. That means that unless overall resources are sufficient and committed in a timely manner, the overall programmatic

benefit may not materialize. Indicative levels of allocation are shown for each program.<sup>12</sup> If fewer resources are available, it may be necessary to delay the introduction of new Operational Programs or to abandon or reshape existing ones in order to avoid spreading the GEF resources so thinly that programmatic objectives are unattainable. (This is quite unlike the more experimental, but less strategic, Pilot Phase of GEF whose projects were freestanding.) As resources needed for the Operational Programs can now be channeled through both the regular grants pathway and the recently approved medium-sized grants pathway, it may be possible to use this increased flexibility to reach program goals earlier. However there is very little experience of medium-sized projects and it is not yet possible to estimate their impact accurately.

27. **Biodiversity.** In biodiversity there are four Operational Programs. Several new developments and trends will shape these portfolios in the next few years:

- a) *Sustainable development.* Currently, the biodiversity portfolios mainly contain conservation projects with a focus on extending and strengthening national and regional protected areas systems. Protected areas are the cornerstone of biodiversity conservation and there is still a need to provide support for significant but poorly protected areas. Medium-sized projects will assist this continuing effort. However, there is now an increasing need to strengthen biodiversity conservation through actions outside the conservation areas, in the productive landscape especially in the forestry, agriculture and fisheries sectors. Here, modifications to regular development assistance are likely to be needed. Maintaining this necessary effort will require a number of changes in the Implementing Agencies: supplementing ecological expertise with greater reliance on economic expertise; and a greater appreciation of the role of incremental cost financing in biodiversity protection which is essential if modifications to economic development are to be financed.<sup>13</sup>
- b) *Project size.* Average project size in biodiversity may change depending on the balance between two new trends. On the one hand, a major and long overdue shift in emphasis towards addressing root causes of biodiversity loss and promoting sustainable development should allow some *larger* projects to be developed. On the other hand, the medium-sized projects pathway opens up funding for relatively *smaller* projects. At this stage there is insufficient operational experience to judge what the overall effect of these two trends will be on average project size.
- c) *Convention guidance.* The Operational Programs have incorporated the recent guidance from the Third Meeting of the Conference of the Parties to the Convention on Biological Diversity. This, and any further guidance from the Conference of the Parties of the

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<sup>12</sup> *Operational Programs*, Global Environment Facility, Washington, D. C.: June 1997

<sup>13</sup> Conservation activities may sometimes be undertaken solely for global environmental reasons and can be financed in full by the GEF because the total cost is deemed incremental. This idea is encapsulated in the Streamlined Procedures for Incremental Cost Assessment. However, modifications to economic development can only be financed by GEF on a strictly incremental basis: the total cost of (say) agricultural development will be much larger than the incremental cost of pursuing agricultural development in a globally environmentally friendly way (say, by using integrated pest management to reduce the pollution threat to the ecosystem). An understanding of the incremental approach therefore opens the way for additional types of projects, with potentially large impacts and correspondingly larger funding requirements than typical for conservation projects.



Convention on Biological Diversity, may be a source of increased demand for funding. For example, following the recent guidance, special efforts will be made to protect biodiversity important to agriculture and, once joint policy work with the Secretariat of the Convention on Biological Diversity is complete, new projects for the fair and equitable sharing of the benefits of genetic resources will be developed.

- d) *Collaboration.* Collaborative efforts are being followed where this is likely to reduce overall costs or increase global environmental benefits. For example the UNDP is cooperating with UNEP in designing a regional conservation program for the Mesoamerican Biological Corridor, on the East Africa Rift valley Lakes PDF, as well as various biodiversity projects with land degradation activities. The World Bank is cooperating with UNDP on national conservation programs in Argentina, Syria, Madagascar, Morocco, and Jordan.

28. **Climate Change.** In climate change, there are three Operational Programs. Several new developments and trends will shape the portfolio in the next few years: the development of two new Operational Programs, the possibility of using the Operational Programs for a well-defined partnership with an Implementing Agency, a possible change in the distribution of typical project sizes, and possible increased interagency collaboration.

- a) *New programs.* Two Operational Programs are being developed for Council approval in FY98: Transport Energy (OP#11) and Carbon Sequestration (OP#12). Their implementation will be phased in during the plan period in accordance with the availability of resources.
- b) *Strategic partnership.* If the GEF is successful in its exploration of a strategic partnership with the World Bank or other financiers in support of a large-scale program of renewable energy investment, Operational Program #6 and Operational Program #7 would receive particular attention. For the seven promising technologies identified in Operational Program alone, the minimum critical funding mass is about \$300 million (three projects for each of the seven technologies, averaging about \$15 million per project).
- c) *Project size.* As in the case of biodiversity, the introduction of medium-sized projects will tend to reduce typical project size while large-scale projects in the energy sector will tend to increase it, with the overall effect not yet known.
- d) *Collaboration.* Collaboration is expected to increase. Already, the World Bank is designing investment operations to follow up UNDP-managed pilot programs, such as the Brazil Biomass Power Project, and is collaborating on assistance to China's energy conservation program.

29. **International Waters.** In International Waters there are three Operational Programs. The main trends are:

- a) *Increase in demand.* In accordance with the Operational Strategy, a deliberate approach is being followed in this focal area through the use of Block B preparation grants and small strategic projects to focus cooperating countries on priority transboundary water resource problems. Consequently, very few projects (7) have been submitted to Council in the first three years following restructuring. However, 25 PDF Block B grants involving over 80 recipient countries have been provided to build the pipeline of project proposals consistent with the three operational programs. The next four year period will produce the expected



demand in this focal area as groups of cooperating nations reach consensus in tackling the root causes of transboundary water problems and GEF is asked to fund the agreed incremental cost of priority interventions. As a result of this deliberate approach, the planned international waters projects in FY98 and FY99 will show a dramatic increase over earlier years. The strategic programming of resources was necessary to gain a representative number of different types of projects in different development regions with the funding available. As can be seen from Table 2 and Table 8, the FY95-FY99 the relative allocation for international waters (11per cent of the total) has remained below that in the Pilot Phase (16per cent).

- b) *Collaboration*. As a result of agreements at the Heads of Agency meeting on June 19, 1996 for the Implementing Agencies to collaborate, all the international waters portfolios are now being developed collaboratively. UNEP implements activities related to transboundary diagnostic analyses and regional cooperation at the policy level. The World Bank providing technical inputs on environmental threats and identifying priority investments. The Red Sea project is an example where all three Implementing Agencies are involved.

### **Enabling Activities**

30. There are three portfolios of Enabling Activities, one for each of the conventions GEF serves: the Convention on Biological Diversity and the Framework Convention on Climate Change, and another comprising country programs to identify and prepare eligible projects in the ozone depletion focal area. The operational criteria for these have recently been revised to reflect guidance of the Conference of the Parties.<sup>14</sup>

31. Enabling Activities are determined more by *external* demand than by internal portfolio considerations. This is because they are small-scale activities focused on the general awareness-raising, preparation of country plans, and communications and reports to the conventions. These are required by almost every country so Enabling Activities are made available to all eligible countries irrespective of programmatic impact.<sup>15</sup> The overall requirements for Enabling Activities reflect the following external considerations:

- the number of countries that are expected to have ratified the relevant convention,
- future convention guidance on what such activities should cover and whether this suggests new activities or provides more detail on activities already included in a general way, and
- the extent to which individual countries have already become enabled.

Where there is convention guidance to pursue a new area of activity for which there is little operational experience in the GEF (such as biosafety), the scope of the activity and its funding requirements may be difficult to estimate. In such cases, it may be possible to identify a few capacity-building projects on the same topic; then, through a process of structured learning and evaluation, the scope can be defined more precisely for possible general replication.

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<sup>14</sup> Operational Criteria for Enabling Activities: Biodiversity. GEF/C.7/Inf.11 Rev1

<sup>15</sup> Where larger activities are required in order to meet a programmatic objective, capacity-building on the same topic can be provided within the context of an Operational Program.

### Short-Term Measures

32. Short term measures reflect urgent country priorities that are highly cost-effective yet falling outside the Operational Programs; in the Operational Strategy it was expected that such measures would constitute only a small part of the overall GEF portfolio. There are three portfolios of short term measures: one for biodiversity, one for climate change, and one for operations in the ozone focal area (all the projects of which are short term in nature). There are two main factors affecting demand:

- a) *Maturation of Enabling Activities.* As the Enabling Activities reach maturity, country priorities will emerge in the national reports to the Convention on Biological Diversity and national communications to the Framework Convention on Climate Change.
- b) *Known scope for ozone operations.* Projecting the demand for short term measures is clearest in the ozone depletion focal area. The remaining work program is based on a knowledge of those economies in transition where there will be new phaseout projects, and the likely funding level of these projects is well-defined. Responding to the urgency of phasing out ozone-depleting substances, the GEF is planning to complete its activities in this focal area during the Corporate Business Plan period. Current projections suggest that the funding needed to do this will be about \$25 million to \$50 million. However, if any economies in transition acquire the status of recipient under the Multilateral Fund of the Montreal Protocol, the number of GEF eligible countries, and consequently the funding requirement, may be less than this.

### PROJECT DELIVERY CAPACITY OF THE IMPLEMENTING AGENCIES

33. The capacity of the GEF to deliver fulfill these portfolio needs will be a function of both the administrative resources made available and the cost-effectiveness of operations. In accordance with Principle 3 on cost-effectiveness, the following factors are expected to affect the delivery capacity over the planning period:

#### Mainstreaming

34. Following the September GEF Retreat, the Implementing Agencies will explore the use of the Operational Programs as the basis for their own long-term planning. This will further mainstream global environmental concerns and GEF processes into their regular operations. Such an Operational Program approach for regular operations will also facilitate the experimental introduction of strategic partnerships between GEF and Implementing Agencies (or units of the Implementing Agencies, such as focal area departments or regions) that will expedite delivery, decrease transaction costs, and increase leverage.

35. All the Implementing Agencies are committed to mainstreaming global environmental considerations into their regular work programs. As mainstreaming succeeds, there will be increasing evidence of institutional commitment to GEF projects and of more resources being committed to the Operational Programs by the Implementing Agencies. These increased resources would be committed both as direct cofinance for GEF activities (e.g., from UNDP's Target for Resource Assignment from the Core and cofinancing resources managed by UNDP; UNEP's regular programs; and World Bank loans) and as associated, complementary, and follow up activities (e.g., for energy conservation and renewable energy in those countries

where GEF has removed barriers, for sustainable development where GEF is funding removal of root causes of the loss of biodiversity of global significance, and for activities identified in Strategic Action Programs in International Waters). The Heads of Agency have agreed that GEF grant resources could catalyze creative packaging of finance for environment friendly technologies and activities and that this would call for fewer freestanding projects and more cofunded ones. To improve mainstreaming, the Implementing Agencies plan to intensify information dissemination and communication with their management and operational units to increase understanding about GEF's objectives and approach, and better integrate global environmental concerns into their work plans.

36. Within UNDP, efforts will be undertaken to integrate the new UNDP programming cycle with the GEF work program to produce more projects benefiting from joint financing by UNDP and other donors. The UNDP focus on Sustainable Human Development will provide baseline opportunities for GEF activities. In addition, UNDP will continue to mobilize partnerships for project development and execution with UN agencies, NGOs, and other organizations of the civil society.

37. Within UNEP, some GEF projects have already been tied to regular UNEP operations and during the Corporate Business Plan period it is expected that UNEP's GEF projects will build on UNEP's regular global and regional projects and will have significant in-kind staff contributions from UNEP's program and regional staff.

38. Within the Bank, global environmental concerns are increasingly being integrated into country assistance strategies and their underlying sectoral analyses. The Bank also is implementing its own program called "Global Overlays" which aims to test and refine analytical tools and methods for integrating global environmental externalities into planning through country sector studies. The Bank is undertaking this work with client countries and other partners in the international, bilateral, and NGO community to bring as much experience as possible to this challenge. The World Bank renewed its commitment to mainstreaming in its report "Our Global Environment," to which the World Bank President Mr. Wolfensohn referred at the United Nations General Assembly Special Session on the Environment (UNGASS) in June 1997.

### **Strategic partnership**

39. The Implementing Agencies and the Secretariat will strive to develop new strategic partnerships with other organizations with the capacity to deliver projects to implement the GEF Operational Strategy, in accordance with GEF policies and programs. Expanding partnerships with the Regional Development Banks, United Nations Specialized Agencies, and NGOs will enhance the delivery capacity of GEF as a whole. In particular, the Secretariat will explore strategic partnerships with the private sector and industry groups, where this may be more appropriate than direct GEF financial support because of the profit motive. It may, for example, be possible to promote synergy through cooperative planning, adjusting procurement guidelines to avoid discriminating against unique technologies, and sharing of information and experiences. In any case, more attention will be put on working through alternative modalities

and policies for engaging the private sector.

### **Leveraging**

40. The Secretariat will work closely with the Implementing Agencies on the issue of leveraging, which is closely related to mainstreaming. Leveraging ensures that the greatest global benefit is obtained with GEF resources and is achieved through programmatic benefits. Therefore, increasing attention will be paid to (i) preparing proposals that closely match the requirements of the Operational Programs, which have been devised to leverage outcomes through complementarity, removal of barriers to sustainable action, scale-induced cost reductions, securing institutional and country commitments by uniting global with local environmental benefits, and provision of support at critical turning points in the development path; (ii) improving the application of the incremental cost approach; and (iii) preparing and disseminating “best practice” cases for each Operational Program to facilitate project preparation. The Implementing Agencies will also individually strive to meet leverage targets during the Corporate Business Plan period.

### **Streamlining**

41. In FY97, GEF began streamlining its processes. Pursuant to Council decision and guidance from the conventions, expedited procedures for the approval and disbursement of financial resources for Enabling Activities were adopted.<sup>16</sup> Expedited procedures for processing medium sized projects<sup>17</sup> have also been developed and approved. The Secretariat, after consultation with the Implementing Agencies, issued streamlined procedures for the estimation of incremental cost, to encourage upstream conceptual discussions that will help avoid downstream delays on reaching agreement on specific incremental cost estimates, and to minimize the analytical work required in conceptually simple situations. The World Bank, after a major internal study, has also begun to streamline the processing of GEF projects. These initiatives, taken together, have potential for reducing transaction costs over time and increasing mainstreaming of GEF projects into Implementing Agency work plans. A task force led by a UNDP Senior Operational Manager has undertaken a study to harmonize the GEF and UNDP project cycles with a view to streamlining processes while meeting GEF requirements in a highly decentralized UNDP environment. Their recommendations will be implemented, starting FY98.

42. Effective streamlining cannot be done unit by unit within the GEF but must involve a thorough and integrated examination of the whole project cycle. In coming months, and following the discussions at the September GEF Retreat, both the requirements of the GEF Secretariat and the existing processes of the Implementing Agencies will be reviewed as a system to determine which steps are unnecessary or duplicative (and which can therefore be combined or eliminated) and which can be improved.

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<sup>16</sup> See Work Program Proposed for Council Approval, April 1996 Council Meeting, GEF/C.7/3, Secretariat Cover Note, pp. 5-7.

<sup>17</sup> See Proposal for Medium-Sized Projects, GEF/C.8/5 before the October 1996 Council meeting.

43. Streamlining through improved communication and better coordination of work between the Secretariat and the Implementing Agencies will further increase delivery capacity and reduce administrative costs. As part of such streamlining, the Secretariat will hold upstream discussions on the project pipeline with the Implementing Agencies; reach early agreements with Task Managers on those project aspects that are directly related to the overall Secretariat responsibility for ensuring conformity with the strategies, programs, and policies of the GEF and for the development of its portfolios. Upstream agreements, including confirmation of GEF funding eligibility based on project concepts, shorter communication channels, clearer definitions of the Secretariat's role in project review, clearer, more timely, and more operationally relevant policy guidance and greater use of the interagency Task Forces are expected to make downstream reviews of project proposals simpler and more predictable and make corrections much easier to make because it will be less necessary for the Secretariat to become involved in project details. Formats for pipeline discussions, upstream agreements on project concepts, change listings prior to work program inclusion and CEO endorsement, will all help streamlining.

#### **Organizational change**

44. Recent and any future institutional changes within the Implementing Agencies will also affect the cost-effectiveness of GEF operations. The change process in UNDP emphasizes an enhanced decentralized system. The GEF operations will benefit from this process should resources be invested in strengthening UNDP country offices' capacity to manage the GEF project cycle. The change process in the World Bank, which also emphasizes decentralization, as well as client orientation and shortened communication and approval processes generally, will manifest itself over the period of the Corporate Business Plan. It is expected that it will result in greater country-drivenness and reduced overhead costs.

#### **Efficient modalities**

45. Efficiency gains are expected in the modalities of GEF through learning and feedback from the Monitoring and Evaluation program.

- a) *Relative strengths.* It is expected that the Implementing Agencies will concentrate more in areas of their comparative advantage. For example, the Bank will reduce its role in the preparation of Enabling Activities from ten projects in FY98 to five in FY99, as originally projected in last year's Corporate Business Plan, and UNDP is expected to remain the major player here. Likewise, UNEP will not concentrate country implementation because the other Implementing Agencies have an advantage relative to UNEP of country presence through their resident missions. Rather, UNEP will concentrate on other areas where it has a relative advantage: scientific and technical analyses through targeted research, assessments and structured learning, relating national plans to global objectives through Enabling Activities and awareness-raising, and regional and transboundary projects.
- b) *Project size.* Larger projects, particularly those in climate change that are most easily scaled up, are proportionately less costly to implement and can help leverage more external resources. The GEF can facilitate the preparation of larger projects where appropriate, and without increasing the financial risk unduly, by further improving the application and monitoring of the incremental cost approach so these larger projects can be financed with confidence.

- c) *Flexible funding.* A number of flexible funding arrangements have the potential to reduce the transaction costs of the Implementing Agencies as a proportion the funds committed. Such arrangements include the use of trust funds, venture capital funds, projects with tranches or phases, global and regional projects, and umbrella projects.<sup>18</sup>
- d) *Replication and innovation.* There is an essential tension between replication and innovation. In the Operational Programs, it is explicitly assumed that once certain approaches have been demonstrated, there would be replication in other countries or sectors. In some cases, such as the Operational Program “Reducing the Long-Term Costs of Low Greenhouse Gas-Emitting Energy Technologies” (OP#7), a number of similar projects need to be incrementally funded by the GEF until their costs are reduced enough for further replication to be automatic. In others, such as the barrier removal programs, the same approach may need to be funded in many countries. In these cases the costs of implementing the replicated project will decline as a result of organizational learning. But there comes a point when further replication is expected to be financed outside the GEF or when it is necessary to await operational evaluations of existing projects before further replicating, and in these cases the Implementing Agencies will need to break new ground (i.e., work on less efficient modalities by choosing new technologies, new approaches, or new ecosystems) rather than process additional projects according to a well-tried “template.” This would add to their administrative costs but would be necessary for strategic reasons.

## AVAILABILITY OF RESOURCES

46. The development of the portfolios for the Operational Programs, the Enabling Activities, and the Short Term Measures over the three-year planning period requires about \$1.7 billion.<sup>19</sup> (See the Annex 1 for a summary of portfolio development needs for FY99-FY01.) To ensure efficient development of project delivery capacity, such resources would need to be made available in the smooth, stable growth pattern espoused as Principle 4 for Corporate Business Planning. This would result in an annual growth rate in work program allocations of 15 per cent, which also corresponds to previous Corporate Business Planning assumptions. If resources were to fall below this amount, a *qualitative* reassessment of the implementation of the Operational Strategy would be needed in order to avoid spreading the available resources so thinly that programmatic objectives were threatened.

## PROJECT PREPARATION

47. New projects will be prepared in portfolio development needs as set out above.

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<sup>18</sup> Some of these raise important policy issues, such as delegating Council authority, ensuring country-drivenness and programmatic fit, and providing incentives for sustainability. In particular, at its meeting in October 1996, the Council requested the Secretariat to prepare an issues note for its consideration on trust funds, including information on the lessons that are emerging from the funds that have been financed by the GEF. This paper would be used as the basis for the Council’s review of the issues, and its guidance in resolving the policy issues will determine the subsequent use of such funding arrangements.

<sup>19</sup> Note that for purposes of the Replenishment, portfolio needs for the *four* years FY99-FY02 are required.



## Indicators

48. The indicator used in this Corporate Business Plan for project preparation activities is the monetary *allocation* made in the Council-approved work programs.<sup>20</sup> This input indicator was used in previous Corporate Business Plans, and retaining it facilitates comparison with projections and data reported in previous years.

49. In future, as the Operational Programs mature, input and activity indicators will be supplemented by substantive output and outcome indicators. Projecting these as well will demonstrate the link between, on the one hand, financial inputs and proposed activities and, on the other hand, the expected project outputs and programmatic outcomes (such as biodiversity protected and overall greenhouse gas emissions reduced).

## Proposed allocations{ TC "Operational Activities" \f C \I "2" }

50. The proposed allocations below are consistent with the projected annual growth in allocations of 15 per cent and are in accordance with the portfolio development needs described above. For the FY99-FY01 planning period, the bulk of the allocations (about 92 percent) is proposed for activities within the Operational Programs in biodiversity, climate change, and international waters. Some short-term activities (about 6 percent for FY99) are proposed in the biodiversity, climate change, and ozone depletion focal areas, with a gradual winding down of ozone activities over the Corporate Business Plan period. Support for Enabling Activities (about 2 percent of the allocations proposed for FY99) would continue to be guided by the conventions with programming remaining as flexible as possible to accommodate new guidance in future years.

51. The aggregate work program is broken down by Implementing Agency for each of the three years in Table 4.

Table 4. Proposed Allocations by Implementing Agency, FY99-FY01 (\$ million)

	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>	<b>Total</b>
UNDP	150	172	197	519
UNEP	35	39	44	118
World Bank	300	350	400	1050
<b>Total</b>	<b>485</b>	<b>561</b>	<b>641</b>	<b>1687</b>

52. **Proposed allocations for FY99.** The proposed allocations for FY99 total approximately \$485 million, up 20 percent from the FY98 revised projections. Due to clearer pipelines and greater certainty about convention guidance for FY99, it is possible to anticipate the work program content and distribution. Table 5 and 6 show the proposed FY99 program

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<sup>20</sup> Commitments, which are made by the Implementing Agencies, could also serve as an input indicator. These would be very similar to allocations but would lag by the number of months it typically takes to finalize project preparation following Council approval.

by type of activity and focal area. Almost 92 percent of the outputs would be in Operational Programs, with the bulk of the program (82 per cent) in biodiversity and climate change. This proposed work program, combined with prior years, would produce a cumulative allocation by Implementing Agency of about 67 per cent through the World Bank, 27 per cent through UNDP, and 5 per cent through UNEP (see Table 7); by focal area the distribution would be approximately 34 per cent in biodiversity and 42 per cent in climate change, with international waters about 11 per cent, and ozone depletion about 8 per cent (see Table 8). By type of activity, the proposed FY99 work program would have activities within the Operational Programs continuing to grow in financial terms (e.g., about 17 per cent over FY98), with Enabling Activities reduced from FY98 levels, and Short-Term Measures increasing from FY98 levels (see Table 9).

Table 5. Proposed Allocations by Type of Activity, FY99 (\$million)

	<b>Operational Programs</b>	<b>Enabling Activities</b>	<b>Short-Term Measures</b>	<b>Total</b>
<b>UNDP</b>	137	8	5	150
<b>UNEP</b>	32	2	1	35
<b>World Bank</b>	277	1	22	300
<b>Total</b>	446	11	28	485
	92%	2%	6%	100%

Table 6. Proposed Allocations by Focal Area, FY99 (\$million)

<b>Agency</b>	<b>Biodiversity</b>	<b>Climate Change</b>	<b>International Waters*</b>	<b>Ozone Depletion</b>	<b>Multi Focal Area</b>	<b>Total</b>
UNDP	57	51	34	5	3	150
UNEP	10	3	20	1	1	35
World Bank	128	140	17	15	0	300
<b>Total</b>	<b>195</b>	<b>194</b>	<b>71</b>	<b>21</b>	<b>4</b>	<b>485</b>
	41%	41%	14%	4%	0%	100%

Includes Operational Programs, Enabling Activities (EA), and Short-Term Measures.

\* Includes biodiversity components (e.g., coastal and marine) designed into these International Waters activities.



Table 7. Estimated Cumulative Allocations by Implementing Agency, FY95-FY99 (\$million)

Agency	FY95- FY97	FY98 planned	FY99 proposed	Cumulative	
				Est. Total	%
UNDP	219	110	150	479	27%
UNEP	20	27	35	82	5%
World Bank	613	275	300	1188	67%
Joint IAs	31	0	0	31	1%
<b>Total</b>	<b>883</b>	<b>412</b>	<b>485</b>	<b>1780</b>	<b>100%</b>

Table 8: Estimated Cumulative Allocations by Focal Area, FY95-FY99 (\$million)

Focal Area	FY95- FY97	FY98 planned	FY99 proposed	Cumulative	
				Est. Total	%
<b>Biodiversity</b>	267	143	195	605	34%
<b>Climate Change</b>	355	199	194	748	42%
<b>International Waters</b>	62	63	71	196	11%
<b>Ozone Depletion</b>	109	7	21	137	8%
<b>Multi-Focal</b>	90	0	4	94	5%
<b>Total</b>	<b>883</b>	<b>412</b>	<b>485</b>	<b>1780</b>	<b>100%</b>

Table 9. Current Trends in Allocations by Type of Activity (\$ million)

	<b>FY97 (actual)</b>	<b>FY98 (revised)</b>	<b>FY99 (proposed)</b>
Operational Programs	357	380	446
Enabling Activities	22	17	11
Short-Term Measures	17	15	28
<b>Total</b>	<b>396</b>	<b>412</b>	<b>485</b>

53. **Operational Programs.** The FY99 proposed long-term operations in biodiversity, climate change, and international waters are approximately \$446 million. More than half of the proposed allocations would be for World Bank investment-related activities, 31 per cent for UNDP technical assistance projects, and 7 per cent for UNEP's projects. The Implementing Agencies' projected allocations are shown in Table 10. Climate change and biodiversity absorb most of the resources.

54. It is expected that during this Corporate Business Planning period, biodiversity, climate change, and international waters<sup>21</sup> operations will continue to grow. Over the near-term, climate change projects will probably absorb resources more rapidly than biodiversity projects because of the nature of climate change actions which are mostly technology-based, capable of absorbing larger sums, and relatively straight-forward to prepare and implement. In contrast, biodiversity projects will continue to outpace climate change in project numbers with a smaller average size due to issues of institutional complexity and absorptive capacity. It is expected that project numbers in biodiversity will continue to outpace substantially the numbers of climate change projects during this planning period, with volume of funds gradually growing in biodiversity as national strategies and plans progress and country priorities are more fully defined, and as greater emphasis is put on projects to remove root causes of biodiversity loss and sustainable development in the productive sectors of the economy.

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<sup>21</sup> In FY 99, the Secretariat and the Implementing Agencies will critically re-examine the priorities and projected allocations for this focal area in the light of country needs and an evaluation of efforts to date.

Table 10. Proposed Allocations to Operational Programs, FY99 (\$million)

<b>Operational Program</b>	<b>UNDP (31%)</b>	<b>UNEP (7%)</b>	<b>World Bank (62%)</b>	<b>Total (100%)</b>
1. Biodiversity: Arid and semi-arid ecosystems	11	6	28	45
2. Biodiversity: Coastal, marine, freshwater ecosystems	15	1	27	43
3. Biodiversity: Forest ecosystems	20	1	49	70
4. Biodiversity: Mountain ecosystems	6	1	18	25
<b>Subtotal:</b>	<b>52</b>	<b>9</b>	<b>122</b>	<b>183</b>
5. Climate Change: Removal of barriers to energy efficiency and energy conservation	12	1	66	79
6. Climate Change: Promoting the adoption of renewable energy	26	1	25	52
7. Climate Change: Reducing the long-term costs of low GHG-emitting technologies	10	0	47	57
11 Climate Change: Transport energy	0	0	0	0
12 Climate change: Carbon sequestration	0	0	0	0
<b>Subtotal:</b>	<b>48</b>	<b>2</b>	<b>138</b>	<b>188</b>
8. International Waters: Waterbody-based	18	5	10	33
9. International Waters: Integrated land and water and multiple focal area	9	10	0	19
10. International Waters: Contaminant-based	7	5	7	19
<b>Subtotal:</b>	<b>34</b>	<b>20</b>	<b>17</b>	<b>71</b>
<b>Multi Focal Area</b>	<b>3</b>	<b>1</b>	<b>0</b>	<b>4</b>
<b>Total</b>	<b>137</b>	<b>32</b>	<b>277</b>	<b>446</b>

Differences are due to rounding.

55. At their meeting in October 1996, the GEF Council meeting approved expedited procedures for processing medium-sized projects (less than \$1 million).<sup>22</sup> The Implementing Agencies have included demand for medium-sized projects in the projections above. UNDP, in particular, foresees a potential demand of up to \$15 million for such medium-size projects

<sup>22</sup> *Proposal for Medium-Sized Projects*. GEF/C.8/5

and UNEP foresees \$2 million to \$3 million in FY99. The Bank foresees that such type of projects may be appropriate for smaller-scale investment operations that are local and regional in scope.

56. **Enabling Activities.** For FY99, Enabling Activities for biodiversity and climate change are projected at about \$11 million (see Table 11). The bulk of these portfolios is being managed by UNDP due to the capacity building nature of Enabling Activities and due to UNDP's comparative advantage at the country level. Over the course of the Corporate Business Planning period, all Implementing Agencies project a gradual reduction in demand for support for Enabling Activities as national communications, plans, and strategies move forward, and countries begin to identify specific actions for longer-term GEF financing support. At the same time, there is flexibility to adjust to future guidance from the conventions in this area, with UNDP likely to take on the largest share of continuing work as noted above.

Table 11 Proposed Allocations to Enabling Activities, FY99 (\$million)

	<b>Biodiversity</b>	<b>Climate Change</b>	<b>International Waters</b>	<b>Ozone Depletion</b>	<b>Total</b>
<b>UNDP</b>	5	3	0	0	8
<b>UNEP</b>	1	1	0	0	2
<b>World Bank</b>	1	0	0	0	1
<b>Total</b>	7	4	0	0	11

57. **Short-Term Measures.** Short-Term Measures are expected to require about \$28 million during FY99, mostly related to ozone activities of the World Bank which are expected to be phased down during the course of the Corporate Business Plan. The planned allocation for ODS phaseout for FY99 is for the completion of the Bank's involvement in the Russia ODS phaseout program. Other short-term measures expected from the Bank are in biodiversity and climate change. UNDP envisions \$5 million worth of projects in ozone during FY99. Table 12 sets out the distribution of projected Short-Term Measures by Implementing Agency.

Table 12. Proposed Allocations to Short-Term Measures, FY99 (\$million)

<b>Agency</b>	<b>Biodiversity</b>	<b>Climate Change</b>	<b>International Waters</b>	<b>Ozone Depletion</b>	<b>Total</b>
<b>UNDP</b>	0	0	0	5	5
<b>UNEP</b>	0	0	0	1	1
<b>World Bank</b>	4	3	0	15	22
<b>Total</b>	4	3	0	21	28

## **PART V: MANAGEMENT OF THE PORTFOLIOS**

58. In accordance with the GEF Project Cycle, the operational work falls into two broad categories: project preparation and project implementation. Preparation, the in-country costs of which may be financed with Project Preparation and Development Facility Funds, includes all the activities prior to the inclusion of a proposal in the Council work program as well as the activities immediately afterward that lead to the commitment of funds by the Implementing Agency. Implementation includes all subsequent activities such as disbursement, supervision, and project monitoring and evaluation. In the early years of GEF, the bulk of activity was project preparation, and this was an adequate indication of overall activity levels and administrative cost requirements. Now, as the portfolio of projects under implementation has swelled, more attention to implementation is needed to give a balanced representation of overall operational activity.

59. The indicator for project implementation is the number of projects under supervision. In future years, further disaggregation of projects under implementation according to the project type and size may be reported as well, because the scale and nature of implementation activities varies.

60. The Implementing Agencies are also collaboratively implementing a number of projects and Enabling Activities. Examples of such collaboration are biodiversity activities within Operational Programs for Ecuador, Madagascar, and Honduras; biodiversity Enabling Activities for Kenya and Georgia; and international waters activities for Lake Victoria, the Black Sea, and the Danube River. UNDP and UNEP are also collaborating on ozone projects.

### **Project implementation and supervision**

61. A considerable increase is expected in the number of projects under supervision. The growth is the difference between the number of projects approved by the Implementing Agencies in the work plans in the year and the number of projects that are “closed” (fully implemented). In the case of the World Bank, the number of projects under supervision is expected to grow annually by between 10 to 15, as the average estimated time for an investment project to be implemented is 5 to 6 years. Medium sized projects are expected to take an average of 2.5 years to implement. Table 13 shows the number of regular projects under supervision, and Annex 2 details the GEF experience in disbursements and administrative costs.

Table 13. Projects under Implementation (number of regular operations)

	<b>FY98</b>	<b>FY99</b>	<b>FY00</b>	<b>FY01</b>
<b>UNDP</b>	54	78	108	145
<b>UNEP</b>	13	20	25	31
<b>World Bank</b>	75	90	102	117
<b>Total</b>	142	188	235	293

### **Corporate monitoring and evaluation**

{ TC "Monitoring and Evaluation." \f C \l "2" }62. FY99 will be the third year of the Monitoring and Evaluation (M&E) program in GEF. By then, the Secretariat will have strengthened its capacity. In the World Bank, monitoring is being done by operating departments based on guidelines for global environmental monitoring issued by the GEF Coordination Unit, and evaluation through implementation reports is done by operating departments, and selective project audits are done by the Operations Evaluation Department. In other Implementing Agencies, monitoring and evaluation will partly be carried out by the specialized monitoring and evaluation departments and partly by the GEF Coordination Units, which will also have upgraded their skills in this area. The Secretariat and the Implementing Agencies will improve M&E systems and guidelines, promote the use of the logical framework, and refine their indicators and databases. A more systematic way for disseminating lessons, best practice, and project paradigms will be developed. Specific M&E outputs will include reports, dissemination, and feedback.

63. In the following two years of the Corporate Business Plan period (FY00-FY01), M&E systems will continue to be upgraded in the Secretariat, the Implementing Agencies, and the executing agencies, including those in recipient country departments where appropriate. This will be based on, among other things, new insights gained through M&E and related activities, such as STAP's work; new evaluation tools and indicators; improved databases; and greater access for GEF partners to M&E findings. Special efforts will be made to integrate M&E into the project cycle and to make the performance measures and indicators consistent across the Implementing Agencies.

64. The Secretariat's M&E activities will be based on the framework paper.<sup>23</sup> In addition to developing M&E systems and the preparation of the annual Project Implementation Reviews, the Secretariat will carry out a number of evaluations, some of which address issues of a cross-cutting nature or at the program level. A biodiversity program evaluation and an evaluation of project preparation, both foreshadowed in the framework paper, are scheduled for completion in 1999. Other evaluations considered later in the planning period include program evaluations in climate change and international waters, an evaluation of capacity and institution building, and an evaluation of NGO participation and stakeholder involvement. These Secretariat evaluations will be carried out in consultation with, and -- as appropriate --

<sup>23</sup> Framework and Work Program for GEF's Monitoring, Evaluation and Dissemination Activities, GEF/C.8/4/Rev.1, April 1, 1997

with the participation of, the Implementing Agencies, executing agencies, recipient countries, various stakeholder groups, STAP, and NGOs.<sup>24</sup>

65. The Implementing Agencies, working at the GEF project level, will collaborate with the Secretariat in support of the goals and principles of the GEF Monitoring and Evaluation Program established by Council and in conformity with GEF-wide policies on M&E . Specifically, they will continue to develop and implement their own monitoring and evaluation guidelines; to revise and update them periodically to conform with the GEF project cycle and the Operational Programs; to apply their guidelines effectively and to assess their effectiveness; to streamline their procedures wherever possible; and to disseminate lessons. The Implementing Agencies will also follow up on actions identified in the annual GEF Project Implementation Reviews, which will help to mainstream GEF operations, increase client responsiveness, and improve project designs.

## **PART VI: CORPORATE INSTITUTIONAL DEVELOPMENT AND OUTREACH**

66. The GEF still needs to develop institutionally, by further integrating the operations of its organizational units and building a corporate identity and image, and to reach out to the wider community in structured and coherent way. There are two main thrusts: corporate institutional development, and corporate information dissemination and communications.

### **Corporate institutional development**

67. The Secretariat and the Implementing Agencies have started a number of activities to improve internal communication, to streamline processing, and to develop and train staff in a common way.

68. **Internal communication.** Following the successful GEF Retreat on September 17-18, 1997, retreats will be held more frequently and regularly, possibly once a year. In addition a broader program of information dissemination and communications internal to the Implementing Agencies will be undertaken during this Corporate Business Planning period both to inform operational staff and their managers and to ensure that country officers play a critical role in advising their counterparts and equipping them with adequate knowledge of the GEF. Special efforts will be made collaboratively between the Secretariat and Implementing Agencies during the Corporate Business Planning period, and particularly in FY99, to disseminate information better, to provide training on GEF objectives and processes, including the application of logical frameworks in GEF programming, to operational staff and their management in the Implementing Agencies. Short (one or two page) summaries will be developed of good project design features, of innovative or unique approaches, and of paradigm cases to illustrate the requirements of the Operational Programs.

69. **Process integration.** There are several initiatives.

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<sup>24</sup> Participation improves learning, follow up, and dissemination.

- a) There will be integrated efforts to streamline the GEF project preparation and approval process with a thorough *corporate* approach to reducing process steps and shortening communication channels (see earlier discussion).
- b) The shared GEF database will be further developed as a reliable single-source database on GEF project status, and its use integrated into project processing to increase reliability and decrease reliance on paper-based systems.
- c) The STAP work program will be better integrated into the Secretariat policy work program.
- d) The requirement for incremental cost estimation can be integrated better into project design. Experience with reviews of Implementing Agency estimates and policy work shows that the essential process is to design projects that make a difference to the global environment (i.e., produce global environmental benefits that would not occur as the result of efforts undertaken in the national interest alone) and that when projects are well designed and fit the Operational Programs, the incremental cost estimation can be made rapidly and well. Three steps have recently been taken to integrate incremental cost estimation. First, incremental thinking has now been incorporated into project formats, and is consistent with the logical framework approach. Second, the upstream consultation on project concepts should help Implementing Agencies avoid making too many design commitments before considerations of incrementality are taken into account. Third, paradigm cases illustrating good project design are now being prepared to help Task Managers integrate incremental cost estimation into design, rather than leave it as a separate analytical requirement that is often attempted too late in the project preparation process.

70. **Staff and institutional incentives.** Part of the effort to bring greater coherence to GEF activities and make GEF more cost-effective, is to align internal incentives with the objectives of GEF. At present, many incentives run counter. Two examples: (i) There are few incentives to detect overestimates in incremental costs, at either the country or the Implementing Agency level. (ii) The special requirements and objectives of GEF operations increase transaction costs, which may deter Task Managers from accepting GEF assignments. The small size of GEF projects relative to other World Bank loans, may deter Bank Task Managers. Streamlining the GEF project cycle and new forms of partnership and fee structures will be examined to determine how best to align incentives. Incentives may be needed for inter-agency collaboration in project development and implementation as well, given the higher transaction costs.

71. **Staff development and training.** The level of understanding of GEF policies and practices at the staff level is mixed. This issue is further exacerbated by the fact that clients within some countries continue to have a poor understanding of the GEF. This is a serious issue since frontline operational staff need the necessary tools to communicate effectively with country clients in order to explain the GEF and identify high quality global environmental projects. Clearer definition of the roles and performance criteria at the project and portfolio level will serve as a basis for a corporate training program. UNDP has itself initiated a series of training activities for sustainable development officers in their country offices with a view to increasing their knowledge and understanding of GEF policies and practices.



72. **Staff secondment, rotation, and turnover.** One way of reinforcing a corporate identity among the staff working in the GEF is staff interchange. Staff could be seconded from one unit of the GEF family to another, rotated to new tasks within their unit, or encouraged to return to regular operations where their experience of GEF would be useful.

#### **Corporate information dissemination and communications**

73. The work program for information dissemination and communications will take up new opportunities and fill recently revealed gaps in the communication strategy. FY97 and FY98 so far have been remarkable for the large number of major global environmental events, the most prominent being the Rio+ 5 Conference and the United Nations General Assembly Special Session on Environment and Sustainable Development. The GEF Secretariat was represented at a high level at all these events and mounted displays at key ones. Although, as planned, these appearances raised awareness of the GEF's mandate, they simultaneously revealed how poorly the GEF is known to government decision-makers and to other significant stakeholders in its member countries.

74. **Corporate image and coordinated outreach.** The strength of the GEF is that it works through the three Implementing Agencies, but there is a continued need to ensure that the messages communicated are truly corporate. Because of GEF's multi-agency structure, many who have heard of the GEF think of it as a part of the World Bank or of UNDP, an impression reinforced by conflicting imperatives between the Implementing Agencies' GEF roles and their parent agency roles. The Corporate Business Plan for FY98-FY00 described a number of initiatives to build a corporate image and to coordinate outreach, and these will be continued and extended as necessary. These activities include the GEF publications program, greater use of Implementing Agency field presence, coordinated GEF representation at external meetings, presentation of corporate viewpoints by all GEF staff at external meetings, greater mobilization of the scientific and technical community, greater use of electronic information and communication systems.

75. **In-country support.** In addition, increased attention will be paid to the needs in recipient countries. First, countries will be strengthened by access to the GEF information systems and to clearinghouse mechanisms such as that provided for in the Enabling Activities. Second, the Operational Focal Points may need strengthening through meeting other stakeholders. Third, local expertise would be used wherever possible to promote understanding of GEF requirements. Fourth, the in-country Project Development Workshops undertaken by the Implementing Agencies under the coordination of UNDP will be evaluated to determine their effectiveness in providing officials from government, NGOs, and the Implementing Agencies country staff with basic information and training on how to develop, execute, and monitor GEF projects. Future training approaches will be based on the results of that evaluation. Fifth, the possibility of disseminating key documents in local languages will be examined where this is likely to be cost-effective and necessary.

{ Tc "Special Programs And Initiatives" \F C \L "1" }

**PART VII: CORPORATE BUDGET ISSUES{ TC "PART II -- BUDGET ISSUES AND IMPLICATIONS"  
\F C \L "1" }**

76. The preceding plan, covering the next three years, is a sound basis for GEF activities to implement the Operational Strategy. If this corporate plan is approved by Council, the next step in GEF's integrated planning would be to link this Corporate Business Plan to the FY99 budget request to Council at its meeting next spring. To make this link, the Secretariat and the Implementing Agencies recognize that in addition to an agreed Corporate Business Plan other inputs will be needed. These other inputs are: the way expected changes in the nature or delivery of GEF operations will affect costs; further experience with the new three-tier GEF cost accounting system for providing a more transparent technical basis for describing and comparing those costs across organizational units and in relation to the activities planned; and proposed common financing policies, including the possible adoption of a fee-based system. In the coming months, the Secretariat and the Implementing Agencies will continue to work on these issues, and the results will be reflected in the FY99 budget request. This part describes the issues in more detail and the progress to date.

### **COST DRIVERS**

77. The annual work program levels cannot be finally committed in the absence of an understanding of the administrative resources available. It will be a big challenge to the GEF organizational units during the Corporate Business Plan period to balance two countervailing sets of factors affecting the link between operations and costs: substantial factors that will tend to increase the resource requirements for carrying out GEF activities, and cost efficiency measures in the way GEF does its business.

#### **Resource requirements**

78. The following will need to be analyzed for their potential to increase resource requirements:
- a) growth in project preparation, implementation, and supervision;
  - b) the introduction of medium-sized projects which are both new and smaller than the average for regular projects;
  - c) the special emphasis on stakeholder participation, which is exhibited more in GEF activities than in the regular activities of the Implementing Agencies;
  - d) additional guidance from the conventions, especially when it raises complex operational or scientific and technical issues;
  - e) possible new Operational Programs;
  - f) demand for greater dissemination efforts to member countries; and
  - g) the initial stages of widening partnerships with Implementing Agency oversight roles.

#### **Cost efficiency measures**

79. The requirement to reduce costs will be addressed through further cost efficiency measures such as
- a) mainstreaming;
  - b) streamlining the project cycle;
  - c) productivity improvements;
  - d) Implementing Agency collaboration;

- e) additional opportunities to contain or reduce unit costs from learning;
- f) the use of more efficient modalities; and
- g) cost savings through the incentives and reduced transaction costs of partnerships based on a new fee structure.

## **COST ACCOUNTING**

80. It will be necessary to have a cost accounting system for GEF that provides a consistent, transparent technical basis for understanding and presenting costs and for ensuring accountability across the GEF organizational units. This section describes the status of work underway, at the request of the Council, to improve the GEF accounting system.

81. A study completed by Price Waterhouse in February 1996 recommended that an accounting system be established within the GEF that would overcome a serious gap: non-comparability of costs across the Implementing Agencies. At its 1996 Spring Meeting, the Council agreed with the proposal to introduce changes to overcome this problem and that during FY97 the recommended actions be introduced on a pilot basis. It was hoped that FY97 an improved budget reporting system would be developed with a view to linking budgets to the planned activities and expected outputs. The system's goal over time would be to define output, activity, and efficiency targets more clearly for each GEF unit, as well as distinguish pure project costs from administrative overhead.

### **Technical issues of measuring and linking costs**

82. The challenges are to *measure* administrative costs, to *link* them to activities of the GEF organizational units according to activity type, and ultimately (in combination with other relevant costs) to link them to project outputs and programmatic outcomes as well. A number of activities are underway to resolve Implementing Agency differences in capturing costs, to link costs to activities, project outputs, and programmatic outcomes.

### **Review of Implementing Agency experience with the GEF three-tier cost accounting system**

83. Price Waterhouse has reviewed the experience of the Implementing Agencies with the one-year pilot program on the three-tier cost accounting system. (See Annex 3.) The three-tier system recognizes direct project costs, those linked to a particular project; indirect costs, associated with projects more generally; and administrative overheads. The general reaction of the Implementing Agencies has been positive, but as with any new system, there are "teething" problems for the institutions to overcome. There are merits in linking budgets to activities, but some improvements are needed especially if this system is to underlie the introduction of a fee-based system.

### **Performance based budgeting**

84. A performance-based transparent budgetary process would permit appropriate comparisons to be made across Implementing Agencies and help avoid distorting incentives for project preparation. Some of the cost accounting issues to be addressed are:

- a) *Project costs.* How project and administrative costs are to be distinguished, given the different cost reporting systems across Implementing Agencies. Some coordination costs may be included as project components when outside expertise is used but may on other occasions be recorded as administrative costs when coordination happens to be provided by Implementing Agency staff.
- b) *Institutional change.* How changes in coefficients are to be tracked in a period of rapid institutional reform. For example, changes in the World Bank to shorten communication and approval processes generally and to bring staff closer to clients are expected to reduce administrative costs over time.
- c) *Leveraging and mainstreaming.* How administrative costs can be fairly apportioned between the GEF and the Implementing Agency when there is considerable associated project financing. Clearly the costs of administration include a “baseline” amount that should not be ascribed to the GEF.
- d) *Executing Agencies and Procurement Agents.* How the administrative costs of Executing Agencies (including, among others, specialized agencies of the United Nations and regional bodies) and Procurement Agents can be recognized so as to present a fair comparison where alternative administrative arrangements can be used in project execution.

## FINANCIAL POLICY ISSUES

### Common policies

85. Finally there is a need to develop a corporate treatment of:
- a) *Approvals.* How should administrative costs be approved? Should the direct and/or the indirect project administrative costs be approved at the time the allocation is made to the project, or should these be budgeted annually on the basis of planned activities (perhaps with the option of subsequent reconciliations against actuals)? How would this approval be integrated with the use of funds previously approved for project preparation by the Implementing Agency (PDF A) or by the CEO (PDF B)?
  - b) *Cost categories.* Uniform cost categories through the Implementing Agencies are needed to ensure that costs are budgeted transparently. For example, some monitoring and evaluation costs should be included as a project expense while others as legitimate expenses of overall program management. Common distinctions need to be made across Implementing Agencies concerning the use of administrative resources, PDF funds, project funds, and cofinanced project preparation and implementation costs.
  - c) *Contingencies.* How should these be budgeted, authorized, reported, and reconciled?
  - d) *Overheads.* Overheads for Executing Agencies need to be standardized across Implementing Agencies but differentiated according to the type of Executing Agency (e.g., when the Executing Agency is a recipient country government agency, a different approach may be needed from the one used for international agencies).
  - e) *Provisioning.* How should the costs of future supervision operations be provisioned? One way is for the GEF as a whole to set aside funds to meet future commitments of this sort, another is for such funds to be budgeted for individual projects at the time of project approval.

Standard definitions, reporting formats, and clear policies for administrative costs will be needed to implement an appropriate and uniform approach.

### **Introducing a common fee-based system**

86. The Price Waterhouse study also outlined the advantages of a fee-based system (instead of the present cost-based system) once the cost accounting system had yielded improved data and once the range of activities and their average costs were better understood. Some of the issues of using a fee-based system are:

- a) *Dissimilar outputs.* How to recognize the essential cost differences between projects from different Implementing Agencies, different geographical areas, and different focal areas; different types of activity, such as investment, capacity-building, and targeted research; and different degrees of innovation and risk. Too many distinctions may reduce the fee-based system to the earlier one, without introducing the stretch goals and incentives to search for cost-effective solutions.
- b) *Innovation.* How to ensure that when innovative or risky projects are desired to meet strategic objectives, the additional administrative costs are recognized in order to avoid a disincentive for such operations.
- c) *Replication.* Likewise, when it is necessary to replicate a proven operation, how to ensure that the reduction in administrative costs (expected as a result of learning) are to be taken into account.
- d) *Introducing fee contracting.* On the basis of the above, a number of alternative ways to introduce a fee based structure can be considered: pilot arrangements, including partnership agreements with Implementing Agencies. However, the incentive structure would need to be carefully evaluated.

**ANNEX 1: PORTFOLIO DEVELOPMENT NEEDS**

Focal Area Activity	Program Status	Projected Programmatic Thrusts	FY99 ne ; (mill
<p><b>Biodiversity</b> <b>Enabling Activities</b></p>	<p>Approximately 80 countries have applied for support.</p> <p>Some retrofitting may be needed based on the new guidance from COP-3.</p>	<p>Remaining 60 may apply to the next few months. IA's will include new guidance from COP-3 in those that have not applied.</p> <p>Retrofitting EAs with additional elements as a result of new guidance.</p>	8
<p><b>Operational Program 1</b> Arid and semi-arid ecosystems</p>	<p>A Council policy note and STAP workshop have completed elaboration of project preparation guidelines resulting in over 30 concepts to be developed into some 15 projects over the next three years.</p>	<p>Establish or strengthen systems of sustainable use of biological resources:</p> <ul style="list-style-type: none"> <li>(a) Tropical Grassland and Savannah/Woodland Savannah;</li> <li>(b) Warm Desert and Semi Desert;</li> <li>(c) Temperate Grasslands;</li> <li>(d) Tundra Communities; and</li> <li>(e) Cold Desert</li> </ul>	10
<p><b>Operational Program 2</b> Coastal, marine, and freshwater ecosystems (including wetlands).</p>	<p>Following the Jakarta mandate on 5 areas of action: integrated coastal zone management, coastal/marine protected areas, sustainable use of coastal and marine resources, mariculture and control of alien species, currently focusing on three of them.</p> <p>Investment assisting in protecting key coastal/marine global sites (e.g., Belize, Caribbean Mexico, Egypt's Red Sea) or key wetlands (e.g., Ghana, Danube River, etc.) or assisting in restoring or rehabilitating degraded Island systems (e.g. Mauritius).</p>	<p>Marine expert group jointly with other NGO to work with four countries in different regions to assist in the implementation of the marine protected areas program.</p> <p>On conservation, protection will be sought of globally important sites (e.g., Indonesia, Paraguay, western Indian Ocean etc.)</p> <p>Seeking pilot integration of the five themes of the guidance in some of the critical spots</p> <p>Sustainable use and control of alien species, and integrated coastal zone management will be pursued in areas of high biological richness.</p>	10

Focal Area Activity	Program Status	Projected Programmatic Thrusts	FY99 ne : (mill
		<p>Focusing on some of the largest wetlands, i.e., China, Pantanal in Brazil, etc.) and consider this in the CBD/SBSTTA next meeting (Sept. 97) which is likely to lead to some specific guidance on freshwater ecosystems for GEF next year.</p> <p>Activities that demonstrate methods and technology to control land degradation effects on these ecosystems.</p>	
<p><b>Operational Program 3</b> Forest ecosystems</p>	<p>Investment is focusing on protection of key biodiversity regions, from Amazonia to the Congo basin and South-east Asia. Some projects (e.g., Mexico biodiversity or Brazil's) include dryland and temperate forest conservation.</p> <p>A few investments focusing on research (Guyana) for sustainable use of forest resources.</p>	<p>Further emphasis on protected areas systems, and increasing emphasis on sustainable use including addressing non-timber secondary forest products, pilot sustainable forest management around globally important sites, pilot livelihood community activities in key buffer zones, conservation of temperate and dryland forest systems, and integration of biodiversity conservation principles in the forest and agricultural sectors of the economy.</p> <p>Focus on systems of protected areas and diminishing fragmentation through corridors.</p> <p>To address underlying causes of biodiversity loss, IAs will focus on mainstreaming biodiversity conservation and sustainable use into sectoral development especially, in the forestry, agriculture and fisheries sectors.</p> <p>Seeking to prevent deforestation and promote sustainable use and sustainable management of forests, thus combating land degradation.</p>	10
<p><b>Operational Program 4</b> Mountain ecosystems</p>	<p>This program received insufficient attention to date, through only three projects, although some mountain ecosystem are included in forest projects (OP#3).</p>	<p>Conservation of mountain ecosystems and integrated land use, thus combating land degradation.</p> <p>Significant attention will be given to increase the representation of mountain ecosystem in the biodiversity portfolios.</p>	11

<b>Focal Area Activity</b>	<b>Program Status</b>	<b>Projected Programmatic Thrusts</b>	<b>FY99 ne : (mill</b>
<b>Multi Program</b>	A significant number of projects have been included here due to: multi-ecosystem projects or countries submitting projects for multiple areas. GEFSEC will work with IAs during the next year in identifying those projects whose components can be assigned to the various OPs.	Category likely to stay given that countries are likely to continue to submit project proposals addressing systems of conservation areas for support. Whenever possible, the ecosystems under support will be identified.	
<b>Short-Term Response Measures</b>	Only one approved to date.	Category should be kept in order to maintain flexibility needed in urgent situations, or receipt of new scientific data or a promising opportunity.	4
<b>Total Biodiversity</b>			7:



Focal Area Activity	Program Status	Projected Programmatic Thrusts	FY99-F need \$
<p><b>Climate Change</b> <b>Enabling Activities</b></p>	<p>GEF is supporting enabling activities in over 90 non-Annex I parties. These activities are expected to identify a large number of projects for GEF financing.</p>	<p>About 40 enabling activities proposals for initial national communications are at various stages of preparation in IA pipelines.</p> <p>It is expected that GEF will also be requested to support subsequent national communications from non-Annex I parties. Current COP guidance asks the GEF to take into account that the preparation of national communications is an on-going process.</p>	80
<p><b>Operational Program 5</b> Removing barriers to energy conservation and energy efficiency</p>	<p>Demand side management of energy use (ESCOs), measures to enhance the energy efficiency of industry and household equipment, and the removal of barriers to heat/electricity co-generation have been the primary focus of GEF interventions.</p> <p>A wide range of institutional, regulatory and information barriers primarily at the country level are addressed by these projects</p>	<p>Significant barriers to energy efficiency have been identified in a majority of recipient countries, therefore requests are likely to rise continuously.</p> <p>Processing and absorption capacities are expected to be limiting factors in programming GEF resources.</p> <p>Conservation of trees and natural vegetation, thus combating land degradation.</p>	100
<p><b>Operational Program 6</b> Promoting the adoption of renewable energy by removing barriers and reducing implementation costs.</p>	<p>Most projects have tended to be in the following applications: Renewable Energy Technologies for rural electricity supply; and use of wastes for energy generation.</p>	<p>Future projects will emphasize in addition barrier removal to storage systems and wind energy for pumping.</p> <p>Development of alternative energy sources to conserve natural vegetation, thus combating land degradation.</p>	150
<p><b>Operational Program 7</b> Reducing the long-term costs of low greenhouse gas-emitting energy technologies.</p>	<p>Projects underway in biomass integrated gasification/gas turbines, parabolic solar troughs and fuel cells.</p>	<p>OP calls for several repeat projects to achieve programmatic cost-reduction benefits.</p>	210

Focal Area Activity	Program Status	Projected Programmatic Thrusts	FY99-F need \$
		Future projects in advanced biomass to liquid fuel conversion, and electric grid-connected renewables.	
<b>Multi Program</b>	IFC's Renewable Energies and Energy Efficiency project, both Operational Programs #5 and #6.	Multi-Program projects to be discouraged.	
<b>Short-Term Response Measures</b>	<p>The majority of projects are pilot phase demonstration activities with a high cost effectiveness and high replication potential.</p> <p>Recent project submissions indicate that gas recovery activities in the mining sector are easily justifiable as short term response measures.</p>	<p>This future growth of this portfolio will continue to be driven by opportunities to abate Green House Gas at a cost of less than \$10 per tone of carbon.</p> <p>Gas recovery projects in the mining sector may become a dominating element of this portfolio, because of their high cost effectiveness.</p> <p>Experience gained from these projects will be valuable to development of future operational programs.</p>	30
<b>Operational Program 11</b> Transportation		Program under development, will be submitted to Council in November 1997. Major element should concern alternative modes of urban transport, stressing upstream analysis to leverage GEF financing.	90
<b>Operational Program 12</b> Carbon Sequestration		The new operational program to be developed; will be presented to Council in April 1998.	60
<b>Total Climate Change</b>			720

Focal Area Activity	Program Status	Projected Programmatic Thrusts	FY99-FY01 needs \$
<b>International Waters</b> <b>Operational Program 8</b> Waterbody-based program	9 projects completing preparation with Block B grants representing Africa, Asia, Latin America, Middle East, and Eastern Europe.	<p>With completion of strategic and preparation work, implementation of up to 12 proposals may be achieved focusing on a key transboundary water problem in each case.</p> <p>Best management practices for non-point source control of land-based pollution in degraded watersheds, thus combating land degradation.</p>	90
<b>Operational Program 9</b> Integrated land and water Multiple Focal Area	7 projects in preparation with PDF Block B grants. 3 project proposals address land degradation and one Small Island Developing States.	<p>Implementation of proposals related to SIDS land degradation, and protection of coastal zones is initiated.</p> <p>Rehabilitation of priority damaged catchments, adoption of sustainable land use systems, and integration of water resources management and land management practices.</p>	80
<b>Operational Program 10</b> Contaminant-based program	4 of 5 pilot phase projects complete or about complete. Low priority now on traditional ship/oil projects except for pollution prevention technology demonstrations.	OP priorities are global toxic substances and land-based activities.	50
<b>Other (Pilot Phase)</b>	5 pilot phase projects are not consistent with OPs; all are still active.	No future programming outside OPs.	
<b>Total International Waters</b>			220
<b>Ozone</b>			
<b>Short-Term Response Measures</b>	<p>Country wide ODS phase out in one step to enable compliance of GEF recipients with the MP is the primary objective of GEF projects belonging to this portfolio.</p> <p>Of the 16 recipients eligible in the focal area 9 are already included in the GEF work program.</p>	<p>The remaining 7 eligible countries not yet included in the GEF work program are expected to be added shortly.</p> <p>The allocation of GEF resources to ozone country programs may be completed by the end of GEFII.</p>	27

<b>Multi-focal</b>	<p>Activities under multi-focal programs, such as other Small Grants Programme, and Environment Trust Funds were not apportioned to the respective focal areas.</p> <p>With increased definition of the strategic thrust of the focal areas, no significant activities are foreseen in this area.</p>	t.b.d.
<b>TOTAL</b>	<b>1687</b>	



## ANNEX 2: DISBURSEMENTS AND ADMINISTRATIVE COSTS

### A Note on the Experience todate with GEF Disbursements and Administrative Costs

This note has been prepared in response to Council questions at the time of its budget deliberations during its May 1997 meeting. Council Members expressed interest in comparing the trends in administrative costs with those in disbursements, which, until the portfolio is more mature, could be a proxy for the expected GEF impact on the ground.

Table 1 presents the trends in administrative expenditures for the period FY 91-FY97 (for the latter year estimated figures). These expenditures of the Implementing Agencies and Secretariat include both project-related expenditures for preparation and supervision and strictly overhead expenditures. Taking the first full year FY92 as a base, the compounded annual growth rate of total GEF administrative costs over next five years amounted to about 15 per cent. This reflected lower compounded annual growth rates in UNDP (14 per cent), UNEP (13 per cent), and the World Bank (10 per cent), and a higher rate the GEF Secretariat (35 per cent), reflecting: (i) its broader responsibilities when the GEF Administrator's Office was restructured into the GEF Secretariat in 1994, and (ii) the creation of the GEF Monitoring and Evaluation function. The 10-14 per cent compounded growth rate in the Implementing Agencies' administrative costs accompanied a sharp growth in the size of the GEF's operations. As a result the ratio of administrative expenditures to the annually approved work programs dropped into the single digits (8.4 per cent in FY97).

**Table 1: GEF Administrative Expenditures FY1991-97 (US\$ m)**

	<b>FY91</b>	<b>FY92</b>	<b>FY93</b>	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>
<b>UNDP</b>	0.50	3.40	5.10	4.50	5.30	5.60	6.60
<b>UNEP</b>	0.20	1.10	1.50	1.50	1.50	1.30	2.00
<b>World Bank</b>	2.40	9.90	9.70	13.00	13.60	14.60	16.00
<b>Secretariat</b>	0.20	1.40	2.30	3.40	4.30	5.50	6.50
<b>GEF Total<sup>1</sup></b>	<b>3.20</b>	<b>15.90</b>	<b>18.50</b>	<b>22.40</b>	<b>26.40</b>	<b>28.40</b>	<b>32.90</b>

Table 2 presents the disbursement trends for each of the implementing agencies and the GEF as a whole. Disbursements lag the start up expenditures of GEF operations by an interval that is required for project implementation. Thus FY 91 shows none, and FY92 very limited, disbursements. Taking FY 93 as the first regular disbursement year, the compounded annual increase in disbursements amounted to some 52 per cent for FY93-97. This reflected a compounded growth rate of close to 80 per cent for FY93-96, and a 5 per

cent slowdown in FY97 to \$141 million. The disbursement growth profile of the UNDP, UNEP, and the Bank was rather similar. UNDP's faster start in FY92/93 is reflected in a lower growth rate than the Bank during FY94-96.

**Table 2: GEF Project Disbursements FY 1991-97 (US\$ m)**

	<b>FY91</b>	<b>FY92</b>	<b>FY93</b>	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>
<b>UNDP</b>	0.00	4.00	12.30	39.10	47.30	58.50	54.50
<b>UNEP</b>	0.00	0.15	1.41	4.16	4.48	6.45	4.71
<b>World Bank</b>	0.00	0.60	12.70	16.70	41.60	88.20	82.00
<b>GEF Total</b>	<b>0.00</b>	<b>4.75</b>	<b>26.41</b>	<b>59.96</b>	<b>93.38</b>	<b>153.15</b>	<b>141.21</b>

The agencies have identified several factors which have caused the leveling off in FY97. **UNDP** sees the leveling off of disbursements in FY 97 as a temporary phenomenon due to the fact that the pilot phase projects are reaching their low disbursements tails, while the subsequent projects are still before their middle, high-disbursing phase. Future disbursements are expected to resume their growth, reaching about \$75 million in FY98 and \$90 million in FY 99. UNEP attributes the decline in disbursements in FY97 to maturing of a number of pilot phase projects, a decline in commitments in FY96, and the fact that enabling activities added to the portfolio in FY97 tend to be of smaller size. FY98 and 99 disbursements are projected to increase to \$15 millions and \$19 millions, respectively. World Bank analysis attributes the FY97 reduction in disbursements to the erratic impact of large projects with a "lumpy" disbursement file (i.e., with disbursements which come in large, discrete, portions). Sixteen projects with lumpy disbursements showed a drop from \$56 million in FY96 to \$35 million in FY 97, while the remaining 52 projects in the Bank GEF portfolio continued to show steady growth in disbursements. For FY98&99 the Bank expects some pick up in disbursements from the pace of the last quarter of FY97, resulting in a projected annual rate of \$80-90 million, although lumpy projects will continue to cause erratic variations around this trend.

Progress in GEF disbursements is normally tracked by looking at the ratio of cumulative disbursements to cumulative commitments. Table 3 shows steady progress in this ratio from 0.05 in FY92 to 0.40 in FY96, and slower progress in FY97 to 0.43.

**Table 3: Ratio of Cumulative Project Disbursements to Cumulative Project Commitments FY1991-97**

	<b>FY91</b>	<b>FY92</b>	<b>FY93</b>	<b>FY94</b>	<b>FY95</b>	<b>FY96</b>	<b>FY97</b>
<b>UNDP</b>	NA	0.10	0.13	0.26	0.41	0.57	0.62
<b>UNEP</b>	NA	0.03	0.16	0.38	0.48	0.63	0.61
<b>World Bank</b>	NA	0.01	0.09	0.11	0.17	0.30	0.33
<b>GEF Total</b>	<b>NA</b>	<b>0.05</b>	<b>0.11</b>	<b>0.18</b>	<b>0.26</b>	<b>0.40</b>	<b>0.43</b>

In the interpretation of Table 3 it should be pointed out that interagency comparison suffers from differences in each agency's definitions of what constitutes a disbursement, which derive from their standard accounting practices. UNEP uses a pure field disbursement definition, which is generally the case for the Bank, and partially the case for UNDP. UNDP operates on an accrual system of accounting in which, in addition to cash disbursements, obligations are reported as part of project expenditures. The exception concerns projects executed by national governments (which constitute close to half the current UNDP GEF portfolio) and project execution - related staff entitlements, which are accounted for on the basis of cash disbursements only. UNEP reports a disbursement definition which strictly refers to cash disbursements by its executing agencies. The World Bank GEF disbursements are generally made on an expense reimbursement basis. The exception concerns Bank funding of GEF trust funds or umbrella funds, which to date make up a small part of the overall portfolio. Another factor which affects the agency disbursement profile is the typical duration of their projects. The typically longer length of investment projects tends to lower the Bank's annual disbursement rates.

This short review of the GEF disbursement experience, against the background of administrative costs growth rates, suggests:

- progress has been made in increasing the flow of funds to the beneficiaries in the field, but
- a leveling off in FY97 as pilot phase projects mature and GEF 1 projects are beginning to disburse; and
- some factors have been identified that should further a renewed growth in disbursements.

Further refinement of this comparison of expenditure trends will be undertaken in conjunction with the linking of the 3-tier cost accounting system with performance measures such as disbursement levels. This accounting system was introduced as a pilot in FY97 (see also Annex 3).



## **ANNEX 3: REVIEW OF THE THREE-TIER SYSTEM**

### **A Note Prepared by Price Waterhouse**

1. During FY97, the Implementing Agencies implemented a time sheet system that records and tracks the time spent by employees of the Implementing Agencies associated with the GEF using a three-tier system. The three tiers in this system are direct project costs, indirect projects costs, and administrative overhead (also referred to as corporate budget).<sup>25</sup>

2. The feedback from the Implementing Agencies regarding the new system and three-tier approach is generally positive. The system is viewed as an innovative tool and is expected to prove useful and valuable towards the goal of improving the transparency between budgets and the related outputs. In certain cases, the preliminary data from the systems is validating expectations relating to where time is spent on project and administrative costs. This system is viewed to be integral in determining the variables and coefficients for an effective fee-based system.

3. The initial implementation of the three-tier system varied significantly among the Implementing Agencies. This process was straightforward for the World Bank, as these employees already completed time sheets on a regular basis. The World Bank's time sheet system is primarily automated and, as a result, the implementation required minor reprogramming to reflect the new budgeting tiers and did not involve significant employment practice changes.

4. The process was more challenging for UNDP and UNEP, as the implementation required establishing time sheet systems which only affected the employees involved with the GEF. Since not all employees at UNDP and UNEP are included in this new system, there was concern at these agencies that employees were uncertain of the purpose of the system and why it did or did not affect them. However, UNEP indicated that other units, not associated with GEF, have voluntarily adopted similar time tracking systems. The completion of the time sheets is seen by some members of the Implementing Agencies as cumbersome and time consuming and the collection of the time sheet data and ultimate usability is viewed as difficult without appropriate software support.

5. All three of the Implementing Agencies concluded that the results from this first year are preliminary and may not contain the validity required for significant project assessment, due to inconsistent application of the cost tiers and sub-categories during the initial stages of implementation. The Implementing Agencies were also in general agreement that the category of indirect program costs is somewhat unclear and, therefore, may not be utilized consistently. As a result, the Implementing Agencies believed that the delineation of which costs are

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<sup>25</sup> Note added by the Secretariat: In the GEF, "Corporate Budget" refers to all three categories collectively.

program direct, program indirect and administration should be reviewed frequently to ensure consistent application.

6. The feedback from the Implementing Agencies included the following concerns relating to progress towards the implementation of a fee-based system:

- Determining an appropriate uniform fee mechanism, with the required level of differentiation for projects and regional diversity, without creating a system that is primarily exception-based.
- Determining a mechanism to appropriately allocate the administrative and indirect project costs.
- Ensuring that appropriate incentives are provided to facilitate innovative projects when desirable and discourage reinvention for proven operations.
- Creating the flexibility required within the budget system to allow for inter-agency collaborative work and to capture costs incurred at a sub-contract level.
- Determining the suitability and mechanism for facilitating the project approval process to include the cost for the entire project (e.g. future monitoring) and the associated administration.
- Capturing the actual time expended for projects and administrative tasks, given the time tracking system constraint which normalizes actual hours worked into 40 hour standard. As a result, actual hours are not reflected in the cost analysis and to achieve this knowledge some groups capture the data manually.

7. This report represents a summarization of the responses from the Implementing Agencies as indicated above and does not constitute an audit of financial statements in accordance with generally accepted auditing standards. This report is intended solely for the information and use of the Global Environment Facility and should not be used for any other purpose.