Global Environment Facility

GEF

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GEF Council
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Agenda Item 8

DIRECTIONS FOR CORPORATE BUSINESS PLAN FY03-FY05

Recommended Council Decision

Council is invited to review document GEF/C.18/5 with a view to commenting and advising on the approach so as to guide the preparation of a proposed business plan for consideration at the Council meeting in May 2002.

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1. The GEF Business Plan is a rolling three-year plan of operations for implementing the GEF Operational Strategy.[a] It is produced annually, and covers the activities of the GEF Secretariat and the Monitoring and Evaluation Unit, the three Implementing Agencies (UNDP, UNEP, and World Bank) and selected Executing Agencies, the Scientific and Technical Advisory Panel (STAP), and the Trustee. Two processes that will affect the GEF Business Plan are currently ongoing: the Second Overall Performance Study of the GEF (OPS2) and the Third Replenishment (GEF-3). Both of these will provide inputs to the Council's deliberations on policy recommendations covering the structure and operations of the GEF in the period FY03-FY06, and the replenishment will determine the level of resources available for activities in that period. It is expected that these processes will be complete early in the year 2002 and that by the May 2002 meeting Council will therefore have the basis to agree upon a business plan for FY03-FY05. It is already clear though that the policy recommendations under review and the range of available resources under discussion ($2.5 billion to $3.5 billion) will require changes to the principles under which business planning is done.

I PRINCIPLES USED FOR BUSINESS PLANNING 1997 TO 2000

2. The principles that had earlier underlain business planning (and budgeting) are described in the Annex. These principles are: integration of planning; corporate identity; cost-effectiveness; steady, stable growth; realism; and flexibility. Some of these principles need to be revised in the light of OPS2 comments in order to maximize impacts and results, and others strengthened in accordance with their original intent.

3. The principle of "steady, stable growth" had been adopted to provide the agencies with a stable planning framework for programming their staff and resources over the time periods needed for project preparation. Inevitably, to prevent an uncertain "stop-go" approach to operations around the time of replenishments, this required planning preparatory operations on the basis of resources expected but not yet agreed in future replenishments. (*Commitments* of course are only made on the basis of resources available to the Trustee at the time the commitments are made.) Projected growth of about 15 per cent annually had been consistent with the resources pledged in GEF-2, with historically observed growth, and with both absorptive and delivery capacity. The GEF Pipeline is a reflection of this rate of growth. It is clear however that the range of available resources under discussion for GEF-3 ($2.5 billion to $3.5 billion) will not permit this rate of growth in the core focal areas (biodiversity, climate change, and international waters) and in some financial scenarios may require real reductions. Hence an alternative principle that provides agencies with predictability of resources while maximizing impacts will be needed.

4. Application of the principle of "realism" has led to the development of a formal GEF Pipeline from which improved projections of future resource needs can be made. However, two challenges remain. The first is to ensure that the Business Plan drives the *programming* the agreed operations across all agencies instead of just reflecting the summed *projections* of individual agency pipelines. This

[a] *Operational Strategy*, Global Environment Facility, Washington, D.C. : February 1996

would automatically ensure the desired work program balance. The other is to improve the pipeline projections through programming resource requirements and Council presentation dates at the time of Pipeline entry.

5. The principle of maintaining "flexibility" needs to be strengthened by ensuring that total pipelined resources allow for the programming of resources to meet future needs at short notice. The size of the GEF Pipeline needs to be kept under review given that convention guidance will be received throughout the GEF-3 period. "Corporate identity" needs to be strengthened in the light of OPS2 comments on coordination at country level, and especially now that there are ten agencies preparing GEF projects.

II. ISSUES TO BE ADDRESSED IN THE BUSINESS PLAN

6. The context for each GEF Business Plan is the set of threats to the global environment and the challenges these pose for the GEF. The Business Plan describes how the GEF can position itself to address the threats and meet the challenges, consistent with convention guidance. GEF plans to do this by

(a) Achieving and sustaining maximum positive impact in response to convention guidance on program priorities, eligibility, and policies;

(b) Strengthening the country ownership of the activities it supports;

(c) Deepening the commitment of its agencies and expanding partnership;

(d) Maintaining and improving institutional effectiveness; and

(e) Managing the available resources effectively.

7. In the next Business Plan, it will be necessary to set out the way this would be done operationally by responding in particular to policy decisions emerging out of the OPS2 and Third Replenishment processes. It is anticipated that proposed principles and strategic direction of the GEF Business Plan would mainly be evaluated according to the following criteria:

(a) Responsiveness to convention guidance and flexibility to respond to new guidance;

(b) Coordination at country level to ensure country ownership and to reflect national priorities;

(c) Predictability of resources available through the agencies;

(d) Quantification of outcomes and of strategic programming targets for the given financial scenario;

(e) Management of the GEF Pipeline and the balance and cost-effectiveness of work programs within available resources.

III. STRATEGIC PROGRAMMING

8. In order to respond to Council-agreed strategic directions and quantified targets, the principle of "steady, stable growth" will have to be replaced by a principle of "strategic programming." The proposed modality is set out in Part I of GEF/C.18/10 *Note on overall structure, processes, and procedures of the GEF*.

9. In applying the principle of strategic programming above, GEF would take stock of:

(a) OPS2 recommendations;

(b) Policy recommendations of the Replenishment process;

(c) The expected level of resources available in the GEF-3 period compared to the increased demand for GEF resources which will necessitate sharpening the strategic focus. Programming driven by strategic targets for the GEF as a whole, implementation monitored programmatically. (Existing project eligibility requirements no longer enough; programming driven by summation of agency programs unable to guarantee even country coordination let alone meeting the targets).

10. The financial scenarios under discussion are set out in GEF/R.3/15 Rev *Programming of Resources for the Third GEF Replenishment*. The annex to this note sets out the indicators and proposed targets corresponding to the programming of resources under each of the three scenarios. Once a scenario has been agreed, the strategic programming approach above would be applied to programming of resources for the first three years of the replenishment period, namely FY03-FY05.

11. In the Business Plan FY03-FY05, GEF will adopt new strategic directions, building on the strong foundations laid by the past strategy. The main new emphases will be:

(a) New threats to the global environment. POPs and land degradation.

(b) Replication, technology transfer, and dissemination. Heretofore, GEF has concentrated on building a solid foundation and demonstrating individual innovative approaches within its focal areas. The time has come, if GEF is to fulfill its catalytic promise, to build on the existing foundation by selectively facilitating the replication of proven approaches, transferring technology and knowledge of proven techniques, and by creating, opening, and transforming markets for new technologies and approaches demonstrated.

(c) Synergy and innovative market mechanisms. Where cost-effective, GEF will blend the experience gained in its various focal area activities to prepare projects that yield multiple benefits across focal areas and link more strongly the *global* benefits to the production and equitable sharing of *local* benefits– such as the sustainable use of biodiversity and productive landscape, poverty-alleviation, environmental security, health, clean water, and energy services.

IV. NEXT STEPS

12. The *GEF Business Plan FY03-FY05* would be prepared for presentation at the May 2002 Council Meeting. It would be prepared on the basis of the strategic programming, taking into account the resources expected to be available in GEF-3 and the policy recommendations emerging out of the Replenishment and OPS2 processes. The GEF Budget for FY03 would be presented at the same time, consistent with the Business Plan.

ANNEX A: PRINCIPLES PREVIOUSLY USED IN *GEF* CORPORATE PLANNING, 1997-2000

1. In 1997, a set of principles was set out for preparing both the business plan and the budget.[a]

Principle 1: Integration of planning

2. The various planning processes of the GEF are integrated. The *GEF Operational Strategy*[b] established a number of Operational Programs, Enabling Activities and Short-Term Measures that will be developed and managed as GEF programs. The *GEF Corporate Business Plan* is a rolling three-year plan of operations for implementing this strategy. In turn, the *GEF Corporate Budget* is based on the substance of the business plan. Other specific work plans -- such as those for the Secretariat, for monitoring and evaluation, and for STAP -- are based on the concerns and issues articulated in the business plan.

Principle 2: Corporate identity

3. Because the business plan is concerned with meeting the substantive needs of each program of the GEF, the primary unit of analysis is the program. The corporate goals are identified *first* -- as a basis for the planning by each of the six organizational units; for determining the scope for executing agencies to engage in project development, preparation, and supervision of GEF activities; and for Council decision-making.

Principle 3: Cost-effectiveness

4. Planning is based on the assumption of continued improvements in cost-effectiveness, including actions set out in the *Action Plan on Follow Up to the Overall Performance Study*[c] on integration, leveraging, incremental cost financing, streamlining, and partnership.

(a) *Integration*. Integrating the global environment into the core work of the Implementing Agencies is a high priority.[d]

(b) *Leveraging*. Increasing attention[e] is given to associating GEF financing with others sources of finance, such as Implementing Agency resources (UNDP's *Target for Resource Assignment from the Core* and other resources managed by UNDP; regular Bank loans and guarantees, and cofinance; and UNEP's programs) and to complementary sources.[f]

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[a] See *GEF Corporate Business Plan FY99-FY-01*, GEF/C.10/4 and subsequent business plans.

[b] *Operational Strategy*, Global Environment Facility, Washington, D.C.: February 1996

[c] This was the first Overall Performance Study of the GEF (OPS1).

[d] Following the recommendation in the Overall Performance Study of the GEF on this issue by each Implementing Agency for Council consideration. See papers GEF/C.12/7, 8, 9. For earlier commitments, see Conclusions *of GEF Heads of Agency Meeting*, June 19, l996, Washington, D.C., (GEF/C.8/Inf.6).

[e] Following the recommendation in the Overall Performance Study of the GEF on this issue Section II D: "Leveraging Additional Resources."

[f] The *Operational Report on GEF Programs* contains preliminary information on leveraging, but it is recognized that further work also needs to be done to refine the definition of leveraging, as recommended in the OPS1 study.

(c) *Incremental cost financing*. The Implementing Agencies improve the application of the incremental cost approach to make project design and the use of GEF resources more effective. The Secretariat has reported progress on the cooperative development of simpler guidance on incremental cost.[g]

(d) *Streamlining*. Improved operational efficiency through learning and improved administrative efficiency will raise productivity and lower costs. The Council has approved additional streamlining.[h]

(e) *Partnership*. Long term partnerships, in the context of the Operational Programs, with Implementing Agencies, NGOs, bilateral agencies, the private sector, and other potential executing agencies will expand the delivery capacity of GEF. The reduced transaction costs of programming in a more strategic way and the competition from expanded participation can be expected to reduce the unit costs of implementation. The Operational Programs would be the natural frameworks within which such partnerships could be developed over the next few years.

Principle 4: Steady, stable growth

5. 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 was believed to help 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.

Principle 5: Realism

6. Improved data and growing experience with planning and programming had helped to develop more realistic projections in project numbers and in the financing requirements of projects. In previous years, overall delivery of GEF projects had fallen 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

7. The GEF positions itself to respond flexibly to incorporate convention guidance, improvements in science and technical knowledge (including STAP advice), and lessons learned, through the M&E process.

[g] GEF/C.12/Inf.4

[h] GEF/C.16/5 and GEF/C.12/12