



Global Environment Facility

GEF/C.19/10
April 17, 2002

GEF Council
May 15-17, 2002
Agenda Item 11

GEF BUSINESS PLAN FY03-05

Recommended Council Decision

The Council, having reviewed *GEF Business Plan FY03-FY05*, GEF/C.19/10:

- (i) Approves the business plan, including the proposed strategic priorities and the agency performance criteria, subject to comments made at the meeting and to Council's decisions concerning the *Action Plan to Implement the Recommendations of the Second Overall the Second Overall Performance Study of the GEF and the Policy Recommendations for the Third GEF Replenishment*; and
- (ii) Requests the Secretariat, the Implementing Agencies, and the Executing Agencies to take into account the business plan and Council's decisions on other agenda items in carrying out GEF activities.

Table of Contents

Introduction	1
The independent Second Overall Performance Study of the GEF	2
Development of a GEF response to OPS2.....	2
The GEF Business Plan.....	3
I. Maximizing and Sustaining Impact	5
A. Strategic Priorities	7
Identifying strategic priorities.....	7
Rationalizing the Operational Programs	8
B. Indicative Financial Commitments	8
C. Performance Indicators and Targets for the Focal Areas	8
D. Programming Procedures	8
II. Strengthening Country Ownership and Country Level Performance	10
Country level capacity and coordination.....	11
Country drivenness.....	12
National priorities.....	12
Endorsements	12
Country dialogue.....	13
National Reports, Communications, Strategies, and Action Plans.....	13
Country-level performance criteria for project success	14
Raising country performance and absorptive capacity.....	14
III. Deepening Agency Commitment and Partnership	16
Comparative Advantage	16
Streamlining	17
Cofinancing and leverage.....	18
Mainstreaming and complementarity	20
Partnership with the private sector	20
Report on Agency Commitment.....	20
IV. Maintaining Institutional Effectiveness	22
Institutional Efficiency.....	22
Financial Efficiency.....	23
Operational Efficiency.....	25
Adaptive Management	26
Responsiveness to Partners	27
Annex A: Strategic Priorities.....	A1
Annex B: Indicative Financial Envelopes by Priority.....	B1

Annex C: Performance Indicators and Targets for the Focal Areas C1

Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBD	Convention on Biological Diversity
CCD	Convention on Combating Desertification
CDI	Capacity Development Initiative (of the GEF)
EA	Executing agency acting under the policy of expanded opportunities
EBRD	European bank for Reconstruction and Development
FAO	Food and Agriculture Organization of the United Nations
IA	Implementing Agency
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
LDCs	Least Developed Countries
M&E	Monitoring and evaluation
MSP	Medium Size Project (of the GEF)
OP	Operational Program (of the GEF)
OPS2	Second Overall Performance Study of the Global Environment Facility
PIR	Project Implementation Review (of the GEF)
POPs	Persistent organic pollutants
PRC	Project Review Criteria (of the GEF)
SAP	Strategic Action Program (in international waters)
SIDs	Small Island Developing State
SMPR	Secretariat-Managed Project Review (of the GEF)
TDA	Transboundary diagnostic analysis (in international waters)
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WSSD	World Summit on Sustainable Development (Johannesburg, Aug-Sept 2002)

INTRODUCTION

1. Over the business planning period FY03-FY05, as it implements its Operational Strategy to meet the challenges to the global environment, the GEF will strive to retain its pre-eminent place in the global environmental and sustainable development agenda and debate.
 - (a) By May 2002, donors hope to conclude the Third Replenishment of the GEF Trust Fund, which will empower GEF to play a leading role.
 - (b) In late August and early September 2002, the World Summit on Sustainable Development and the renewal of the Earth Summit commitments will take place in Johannesburg. GEF will be singularly prominent at the summit because of its major role as a funding source, the synergies between Agenda 21 and GEF activities, the support GEF gave the Secretariat of the Commission of Sustainable Development for preparing the summit, the series of roundtables GEF sponsored in support of the summit's objectives, and GEF's ability to respond decisively -- within its own mandate -- to reconfirmed commitments and new directions emerging out of the summit.
 - (c) In October 2002, the Second GEF Assembly will convene in China, at which time participants will have the opportunity to strengthen the role and structure of the GEF to meet these expanding responsibilities.
2. GEF already has a broader mandate. This emanated from:
 - (a) Guidance of the Conventions;
 - (b) New conventions and protocols addressing global environmental concerns which have requested the GEF to serve as their financial mechanism (in the case of the Stockholm Convention on Persistent Organic Pollutants) or financially promote their objectives (in the case of the Convention on Combating Desertification);
 - (c) Responsibility to manage newly established funds of the UN Framework Convention on Climate Change; and
 - (d) Significant growth in both the absorptive capacity of the countries and the delivery capacity of the Implementing Agencies and Executing Agencies.
3. The business plan shows how these imminent challenges and new responsibilities are to be addressed. To do so it was first necessary to assess GEF's ten years of experience since the establishment of its pilot phase – its impacts and results, its strengths and weaknesses. Therefore Council had commissioned an independent Second Overall Performance Study of the GEF (OPS2).

The independent Second Overall Performance Study of the GEF

4. Over the last decade, the GEF, with the concerted efforts of its Implementing Agencies, has made significant impacts in the improvement of the global environment as documented in OPS2. But a number of concerns have also been raised (responsiveness to its clients, operational delays, the need for greater clarity on roles, cost-effectiveness, etc.). It is worth noting that while OPS2 generally concludes that “the GEF has been able to produce very significant project results aimed at improving global environmental problems” and that “the GEF is moving in the right direction and therefore deserves continuing support for its operational programs and activities,” some of the findings of OPS2 echo concerns regarding GEF responsiveness, slow implementation and disbursement, cost effectiveness and country drivenness raised by the GEF Council and developing countries at the Conferences of the Parties to the conventions and in other forums. Such concerns continue to be evident in recent decisions and declarations such as those of the seventh session of the Conference of the Parties to the UNFCCC in November 2001 as well as the African Regional Preparatory Meeting for WSSD in October 2001.

Development of a GEF response to OPS2

5. The scope, conclusions and recommendations of OPS2 are broad and overarching, and they will require detailed consideration by the Council with a view to preparing a comprehensive response strategy over the next few months for review by the GEF Assembly. It is further recognized that the GEF Assembly, which will be meeting in October 2002, has the authority, on the recommendation of the Council, to approve structural changes to the GEF and amendments to the Instrument.¹

6. In preparation for that, Council considered in December 2001 the document GEF/C.18/8, *Overall Structure, Processes and Procedures of the GEF*, which Council had requested in May 2001. Council requested that it be revised in the light of Council comments and agreed that the response would be provided on structure and on business planning. These responses build on an agreement between senior staff of the Secretariat and the Implementing Agencies reached in February 19, 2002, clarifying the roles of the partners in the GEF system in order to streamline processes and enhance accountability, transparency, and responsibility.

- (a) One response covers the legal or structural changes needed for GEF to fulfill its mandate, GEF/C.19/14, *Proposed Amendments to the GEF Instrument*. It focuses on those issues arising from OPS2 that may require such action by the Assembly. It also sets out the steps needed to ensure the autonomous institutional authority of the GEF and the independent authority of the GEF Council and Secretariat to act on behalf

¹ Paragraph 34 of the Instrument provides: “Amendment or termination of the present Instrument may be approved by consensus by the Assembly upon the recommendation of the Council, after taking into account the views of the Implementing Agencies and the Trustee, and shall become effective after adoption by the Implementing Agencies and Trustee in accordance with their respective rules and procedural requirement. This paragraph shall apply to the amendment of any annex to this Instrument unless the annex concerned provides otherwise.”

of the GEF. A companion document on roles is GEF/C.19/8 *Clarifying the Roles and Responsibilities of the GEF Entities*.

- (b) The other response is the *GEF Business Plan FY03-FY03*. This covers the first three years of the GEF-3 period. The business plan develops more fully the new approach: programming according to agreed strategic priorities. This approach will maximize the impacts and results from GEF-financed activities in light of Convention guidance, country priorities, and available resources while providing greater predictability and transparency to the allocation of resources.

The GEF Business Plan

7. The GEF Business Plan is a rolling three-year plan of operations for implementing the *Operational Strategy*.² It is produced annually, and covers the activities of the GEF Secretariat and the Monitoring & Evaluation Unit, the three Implementing Agencies (UNDP, UNEP, and World Bank), executing agencies acting under the policy of expanded opportunities (Executing Agencies), the Scientific and Technical Advisory Panel (STAP), and the Trustee.

8. The business plan for FY03-FY05 responds to the recommendations of the Second Overall Performance Study of the GEF (OPS2)³ and the policy recommendations emerging from the replenishment process.⁴ The business plan will be revised in the light of Council decisions on those recommendations. Both the recommendations of OPS2 and the level of resources likely to be committed under GEF-3 required changes to the principles under which business planning is done; specifically the earlier principle of “steady, stable growth” has been replaced by the concept of programming according to strategic priorities which is set out in more detail in Section I below.⁵

9. The business plan uses a conservative estimate of financial resource availability, at the lower end of the range of resources that donors are discussing for the Third Replenishment (GEF-3). For planning purposes, a financial scenario mid way between Scenario I and Scenario II has been adopted.⁶ Under this assumption, \$2.75 billion of new resources would be available in the GEF-3 period. After allowing for corporate costs and some growth throughout the period, the amount currently programmable for projects in the business plan period (FY03-FY05, the first three years of the GEF-3 replenishment period) is expected to be about \$1.85 billion. The programmed amounts will be adjusted when the actual replenishment target has been agreed.

² *Operational Strategy*, Global Environment Facility, Washington, D.C. : February 1996

³ *Focusing on the Global Environment: The First Decade of the GEF – Second Overall Performance Study (OPS2)*. Global Environment Facility, Washington, D.C. : January 2002

⁴ *Preliminary Action Plan and Timetable to Follow Up the Recommendations of the Second Overall Performance Study of the GEF and the Policy Recommendations of the Third Replenishment*, GEF/C.19/9.

⁵ In December 2001, Council reviewed document GEF/C.18/8, *Overall Structure, Processes, and Procedures of the GEF*, and agreed that the part concerning strategic programming for maximizing results and impacts be addressed in this business plan.

⁶ *Programming of Resources for the Third GEF Replenishment*, GEF/R.3/15/Add.1

I. MAXIMIZING AND SUSTAINING IMPACT

10. Until now, GEF has programmed resources on the basis of IA submissions of proposals that the Secretariat had reviewed for eligibility in accordance with the *Project Review Criteria*. This form of programming now needs to be strengthened in order to encourage impact through catalytic action at the programmatic level; to make optimum use of financial resources that are expected to become increasingly scarce relative to the potential demand; to target more sharply the convention priorities, and to respond better to each country's highest priorities.

11. Catalytic action. Encouraging impact at the programmatic level by catalyzing action, follow-up, and replication in a learning-based environment would strengthen the current practice. (Currently impact is targeted mainly project-by-project,⁷ through review criteria that require projects to describe past lessons and to provide for future replication.) As the catalyst for global environmental action, GEF must program and coordinate different types of action -- through setting priorities, using the strengths of different agencies, and adopting a variety of collaborative arrangements. The partner agencies (principally the three Implementing Agencies, but supplemented by seven Executing Agencies with specific capacities) need to play different but coordinated roles according to their comparative strengths -- whether these roles be in creating enabling environments, providing technical assistance, investing in sustainable development, or in some other specialized area (see Section III). As a learning-based institution, GEF needs to maximize the opportunities for structured learning -- through monitoring and evaluation, feedback into subsequent operations, and by encouraging key stakeholders to share experiences at various stages of the project cycle.

12. Predictable allocation of scarce resources. The broadening mandate of the GEF and the growing absorptive capacity of the countries and delivery capacity of the Implementing Agencies and the Executing Agencies are resulting in a scarcity of financial resources. The demand for GEF resources significantly exceeds the financial resources available through the GEF Trust Fund. Constraints in available resources necessitate further elaboration of global funding priorities, in order to ensure the cost-effectiveness of GEF activities to maximize global environmental benefits.⁸ GEF needs to program resources in a way that provides reasonable predictability for the involvement of GEF in the three-year business-planning period. This has been accomplished at an aggregate level in the four-year replenishment planning exercise for various financial scenarios,⁹ and can be refined as the priorities are further refined.

13. Sharp targeting of convention priorities. Targeting convention priorities more sharply with appropriate allocations, and balancing resource allocations among equally important convention priorities would strengthen the current practice. (The current practice ensures consistency with

⁷ There have only been a few deliberate exercises already to program a group of related activities in order to maximize learning or impact -- these exceptions being for fuel cell buses, solar-thermal power stations, a number of international waters projects focused on particular water bodies, and the occasional programmatic approach at the country level.

⁸ Operational Principle No. 3, Box 1.1, *Operational Strategy*

⁹ *Programming of Resources for the Third GEF Replenishment*, GEF/R.3/15 Rev.1 and Inf.1

convention priorities by requiring projects to accord with a GEF Operational Program that reflects convention guidance.) GEF is the financial mechanism of the Convention on Biological Diversity and the United Nations Convention on Climate Change, and will function under the guidance of, and be accountable to, the Conferences of the Parties.¹⁰ GEF is also expected to operate the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants. GEF's ability to meet the requirements of these conventions – and indeed to provide effective support on any other global environmental issues such as land degradation – clearly depends on its ability to focus financial resources on these priorities sharply to maximize and sustain the impacts desired. GEF needs to be strategic and goal-oriented while remaining flexible enough to program resources to meet the evolving needs of those conventions and to program for synergies across the various conventions it serves. Also, as a financial mechanism, GEF is accountable to its donors and other stakeholders to define in advance the outcomes it expects to achieve through programming the financial resources that are mobilized for such purposes.

14. Responsiveness to national priorities. Targeting the highest national priorities more formally would strengthen current procedures. (Current procedures require that projects be endorsed by the country operational focal point.) GEF is expected to address environmental issues that are global in nature while being responsive to the national priorities¹¹ of its universally open membership.

15. To meet the challenges above, it is proposed to adopt a three-year performance-based financial planning framework comprising:

- (a) Strategic priorities -- intended to maximize results and impacts on the ground and to fulfill the mission of the GEF to achieve global environmental benefits in its focal areas;
- (b) Indicative financial commitments for each priority -- intended to provide reasonable predictability for the involvement of the GEF over the three-year period;
- (c) Performance indicators and targets -- covering strategic relevance, programmatic consistency, and expected outcome;
- (d) Programming procedures.

16. The framework will be reviewed annually in the context of the business plan to take into account changes that may emerge from national priorities and convention guidance.

¹⁰ Operational Principle No. 1 *ibid.*

¹¹ Operational Principle No. 4, *ibid.*

A. Strategic Priorities

Identifying strategic priorities

17. Strategic priorities (see Annex A) have been proposed on the basis of Program priorities of the Conventions (identified in guidance issued by Conferences of the Parties):

- (a) National priorities (identified through Country Dialogue and in national reports and national communications); and
- (b) Portfolio gaps and niches for innovation that need to be explored (identified in the Program Status Reviews, the Project Performance Reports/ Project Implementation Reviews).
- (c) Updating and refining strategic priorities.

18. GEF will regularly update and clarify priorities identified by the global environmental conventions by strengthening its dialogue with the conventions based on results and outcomes achieved, lessons learned, and other information emanating from the GEF monitoring and evaluation activities. In response to Recommendation 5 and Recommendation 6 of OPS2, the CEO will invite the Secretariats of the Convention on Biological Diversity, the United Nations Framework Convention on Climate Change, and the Stockholm Convention on Persistent Organic Pollutants to

- (a) Collaborate in consolidating guidance on existing priorities; and
- (b) Facilitate the preparation of policy documents that seek the guidance of the COPs on new priorities. In this dialogue, the CEO will urge the need to adopt a cautious approach to funding new rounds of enabling activities.

19. In response to Recommendation 1 of OPS2, the Interagency Task Forces will be the main vehicle for consultation among the Secretariat, the IAs, and concerned EAs on the strategic priorities, performance indicators and M&E feedback, and programming in accordance with the priorities. In response to Recommendation 8, the Interagency Task Forces will examine the use of transboundary diagnostic analyses (TDAs) and other types of scientific analysis as the foundations for the strategic priorities (May 2003). The Task Forces may also wish to determine whether to include selected eminent scientists in their establishment and refining of strategic priorities.

20. The M&E unit will continue to assess Enabling Activities for their effectiveness in responding to convention guidance and to country needs, including the use of national reports, national communications, and national action programs within the strategic frameworks for a country's national sustainable development program and for GEF's programming and project preparation activities.

21. Under the Capacity Development Initiative, the overall capacity needs would be assessed. The next report of the CDI will address the issue of rationalizing Enabling Activities (October 2002).

Rationalizing the Operational Programs

22. For the next business plan, the Secretariat and the Implementing Agencies will review the experience of programming in this way, and in the light of that experience consider any need for rationalizing the number and objectives of the Operational Programs. This review would be presented in the *GEF Business Plan FY04-FY06* (May 2003).

B. Indicative Financial Commitments

23. The indicative financial envelopes are shown in Annex B. Some resources are unprogrammed to provide the flexibility needed to respond to future priorities of the conventions and for other eligible activities.

C. Performance Indicators and Targets for the Focal Areas

24. The proposed performance indicators are given in Annex C. The culture of the GEF should continue to emphasize quality and results. Although the indicators are currently for the focal areas overall, they will be further refined for the specific strategic priorities. Linking strategic priorities to performance indicators will ensure that results and outcomes are monitored to measure progress in meeting these priorities.

25. For subsequent replenishments, the outcomes for the forthcoming replenishment period will be projected so that countries can better understand the impacts likely to be achieved with the resources under consideration. The replenishment process will also be informed of the results and impacts achieved during the preceding replenishment period.

D. Programming Procedures

26. Programming according to strategic priorities differs procedurally from current practice in several ways.

- (a) *Focus on specific priorities.* Priorities will evolve. In some cases, targeted research may be needed to sharpen the scope of the strategic priorities, and would be identified corporately for this purpose in consultation with STAP and approved in accordance with the agreed procedures.¹² The Secretariat will review each new project concept to ensure not only that it is eligible according to the *Project Review Criteria* but that it addresses a strategic priority and that it can be accommodated within the indicative financial envelope for that priority. The CEO will approve Medium Sized Projects on this basis as well.

¹² See para.19, *GEF Project Cycle*, GEF/C.16/Inf.7.

- (b) *Portfolio considerations.* In addition to reviewing projects for their individual GEF eligibility, it will also be necessary to take account of the overall portfolio, i.e., to take account of the *representativeness* of the portfolio, to *fill gaps*, and to *avoid duplication*, and to ensure that projects are programmed to benefit from the “*feedback loop*” of lessons from earlier projects in order to maximize learning and replication. Projects would need to be designed to generate scientific, technical, and operational lessons in order to provide a sound basis for future replication. This requires specific “replication” outputs that are additional to the outputs needed merely to sustain the project’s immediate environmental benefits. These additional outputs include scientific and technical assessments, outreach and training material, and special documentation to aid replication.¹³ *Stocktaking*, a monitoring and evaluation function, would then be needed to provide a comparative assessment of these demonstration projects and to identify best practices so that a sound foundation can be laid for the future replication of successful approaches.
- (c) *Replication.* Replication projects are those that *facilitate* the replication of the successful approaches – these are not duplications of the original but qualitatively different: transfer of lessons, methods, and technology; targeted capacity building; replication scoping studies; twinning arrangements etc.
- (d) *Emphasis on capacity building.* Capacity building will be essential for both sustainability and replication. Capacity building projects, based on capacity self-needs assessments and providing the groundwork in specific countries to assist replication of successful approaches, will be based on national priorities. The GEF’s focus on capacity building will continue to grow, following the Council’s decision in May 2001 on *Elements of Strategic Collaboration and a Framework for GEF Action for Capacity Building for the Global Environment*. On the basis of early results and experiences from country self-assessments of needs (funded by GEF); further consultations and feedback from the conventions, other bilateral and multilateral organizations, other stakeholders, and the NGO community; and the outcome of the World Summit on Sustainable Development, the Secretariat will prepare a revised paper on long term GEF support for capacity building for Council’s consideration in May 2003.

27. The Secretariat will program projects and activities in consultation with the partner agencies in order to increase the predictability of resources as much as possible. The Secretariat, on the basis of information provided by the Trustee, will first propose (and periodically revise if the financial situation so requires) the levels of resource commitment for each scheduled Work Program in the business plan period, and project the levels of approvals expected under expedited procedures. The partner agencies will then review the concepts they have in the GEF Pipeline to identify (i) those that already meet one or other of the strategic priorities; (ii) those that could be modified during preparation to meet a strategic

¹³ This is already required in the Project Review Criteria of the GEF Project Cycle.

priority; and (iii) those that, while still eligible, are not priorities. Following such a review, they will then propose operational plans that would help meet the identified strategic priorities through concepts already in the pipeline or ones yet to be developed.

28. The Secretariat will review the operational plans of the agencies. In close consultation with the IAs and EAs, the Secretariat will then program and periodically update the submission of project proposals according to strategic priorities over the business plan period, taking account of:

- (a) The expected resource request for each proposal;
- (b) The expected completion date for the preparation phase of each proposal;
- (c) Any need to build in learning and feedback from other projects; and
- (d) The indicative financial envelope (over the business plan period) for that strategic priority.

29. The business plan period will be a transitional one in which the pipeline and work program will focus ever more sharply on the strategic priorities. Because the projects in the pipeline for FY03 submission are in a very advanced state of preparation, and have benefited from considerable country dialogue and mainstreaming, there will be somewhat less opportunity to re-focus them than projects scheduled for later years.

II. STRENGTHENING COUNTRY OWNERSHIP AND COUNTRY LEVEL PERFORMANCE

30. Country ownership of GEF operations is essential to achieving sustainable results, and continued improvements in country level performance is the key to maximizing positive global environmental impacts. GEF funds only those projects that country-driven and based on national priorities designed to support sustainable development, as identified in the context of national programs.¹⁴ GEF projects provide for consultation with, and participation as appropriate of, the beneficiaries and affected groups of people.¹⁵ All GEF programs should be integrated into national priorities, strategies, and programs for sustainable development, based on policies and plans for each focal area in order to highlight their global relevance and to link contributions to all aspects of national sustainable development.

31. GEF's performance at the country level remains the key to its operational success in meeting strategic priorities. In recognition of this, GEF:

- (a) Provides support at the country level for coordination and development of capacity to enhance project performance;
- (b) Finances projects to address national priorities;

¹⁴ Operational principle No. 4, Box 1.1, *Operational Strategy*.

¹⁵ Operational principle No. 7, *ibid*.

- (c) Ensures that its projects meet country-level performance criteria for likely success and involve a broad range of stakeholders; and
- (d) Uses a variety of modalities to match the absorptive capacity of the widest range of countries.

32. As a result, there has been a steady increase in country ownership, country absorptive capacity, country level performance, and -- as a consequence -- country-driven demand for GEF funding.

Country level capacity and coordination

33. As recommended by OPS2 (Recommendation 4), GEF will continue to support the capacity development of operational focal point structures and the national GEF coordinating structures. These efforts promote ownership of GEF operations and help countries integrate GEF operations into national priorities, strategies, and programs for sustainable development.¹⁶ The Secretariat plans, agrees, and coordinates any Council-approved program of GEF support for political and/or national focal points, while an IA through its country office would be responsible for delivering the support at country level. Likewise, the Secretariat plans, agrees, and coordinates any Council-approved program for GEF secretarial support for constituency coordination meetings at the request of Council members. At the regional or constituency level, an IA through its country office would help organize the meetings in consultation with the political focal points concerned.

34. Capacity building is essential to achieving results and improving performance at the country level. GEF will continue to program capacity needs self-assessments and the resulting Enabling Activities or capacity building projects needed to strengthen capacity at the country level (see Section II.) Enabling Activities that GEF has financed with respect to the conventions on biodiversity, climate change, and persistent organic pollutants result in national reports, communications, strategies, and action plans. These in turn lay the groundwork for a consideration of the actions needed to fulfill commitments to those conventions, including actions that are eligible for GEF support.

35. In continuing support in this area, GEF will take into account Recommendation 5 of OPS2 that such activities must be assessed for their effectiveness in responding to convention guidance and to country needs. The next report to Council on the Capacity Development Initiative (CDI) will propose to Council a way of rationalizing and coordinating Enabling Activities and capacity building to achieve effectiveness and efficiency. One step could be to implement relevant guidance from the various global

¹⁶ The GEF Secretariat has organized a Good Practices in Country Level Coordination Workshop in Senegal, June 2002, for operational focal points from Africa, and will hold other regionally based workshops of the same sort. Participating countries at an earlier workshop held in March 2000 felt that the dissemination of good practice was fundamental to improving country level coordination and requested the GEF Secretariat to organize more of this type of workshop. The reported experiences are being widely disseminated, including at the Country Dialogue Workshops.

environmental conventions with the aim of realizing synergies and to ensure that the lessons of GEF evaluations are taken into account.

36. OPS2 also recommended that GEF Council explore the feasibility of each country reporting directly to the appropriate convention on the effectiveness and results of GEF's country-relevant support for both enabling activities and projects. Recipient countries may wish to include in their reporting to the Conventions information on the assistance they have received from the GEF and on the impacts and results of such assistance.

Country drivenness

37. The operational strategy requires that GEF-funded projects be country-driven and the *Project Review Criteria* (PRC) therefore include indicators for this, such as: counterpart funding, reports prepared for CBD and FCCC, completion of Enabling Activities funded by GEF, and experience in GEF project preparation. In the interest of cost-effectiveness, the PRC also include criteria for coordination of any proposed project and the other activities of GEF Implementing Agencies and Executing Agencies in the country.

38. To further strengthen country-drivenness:

- (a) Multi-country proposals will be used to address transborder ecosystems or watersheds, or to share intra-regional experiences as a way of strengthening country capacity. Strong indicators of country-drivenness and commitment would be necessary in addition to the endorsement of the individual countries concerned;
- (b) Global projects will be identified corporately to help address the GEF strategic priorities, which in turn respond operationally to the guidance of the conventions;
- (c) The GEF Secretariat and Implementing Agencies will develop a common interagency approach on indicators to be used as practical guidelines for more systematic monitoring of such activities and document best practices of stakeholder participation. This would respond to Recommendation 9 of OPS2.

National priorities

39. The country operational focal point, with the help of the national coordinating structures: identifies national priorities; ensures consistency with national priorities for conventions and coordination with national focal points for the conventions; and ensures GEF projects conform to national priorities and country strategies. GEF's own understanding of these national priorities comes from project endorsements, country dialogue, and national reports and communications.

Endorsements

40. Country endorsements ensure that projects are national priorities, and so the PRC include the minimal requirement that the country endorse the project as a national priority.

Country dialogue

41. Country dialogue is the key to strengthening and enriching the understanding by the Secretariat and the agencies of each country's national priorities.

42. The GEF Secretariat coordinates a continued program of national, subregional and regional dialogue workshops, and will chair an interagency Steering Committee for these workshops. UNDP, acting through a strategic partnership, will organize these workshops at national level with a specific national focal point, including the necessary multi-stakeholder consultations. So far, dialogue workshops have taken place in, or have been scheduled for, more than fifty countries.

43. All the IAs will continue their country consultations at the workshops and elsewhere, on mainstreaming GEF operations within overall country programming and on sector policies.

44. Dialogue workshops typically cover

- (a) National strategies and priorities;
- (b) Coordination between the different authorities in the country at national and local level - in particular those who are also the focal points for the Convention on Biological Diversity, United Nations Framework Convention on Climate Change, and Stockholm Convention on Persistent Organic Pollutants;
- (c) Awareness at country level of the GEF -- including awareness of the Project Cycle, strategic priorities, policies, and procedures;
- (d) Dissemination of lessons learned; and
- (e) Country ownership of project ideas -- including the capacity to involve key stakeholders in the development of concepts and policies, and the creation of a continuing relationship with the GEF.

National Reports, Communications, Strategies, and Action Plans

45. To improve understanding of national priorities, the GEF and the Implementing Agencies will continue to review the national reports made available by developing countries to the Convention on Biological Diversity (CBD), the national communications made available by non-Annex I countries to the United Nations Framework Convention on Climate Change (UNFCCC), the National Implementation Plans under the Stockholm Convention on Persistent Organic Pollutants, the Biosafety Frameworks, and land degradation strategies.

Country-level performance criteria for project success

46. The *Project Review Criteria* include indicators of likely project success, including country factors. Key criteria at the country level that are related to expected successful performance include:

- (a) *Sustainability* (including financial sustainability) – a description of the approach to ensuring continuation of project benefits after the completion of the project, including the generation of revenue;
- (b) *Stakeholder involvement* – a stakeholder participation plan to strengthen project performance by engaging key stakeholders in project decision making, implementation, and evaluation, including the special needs of vulnerable groups;
- (c) *Incorporation of country lessons* – a description of how the project design has incorporated lessons from previous implementation experience in the country. The Project Implementation Reviews and impact studies often raise issues specific to particular locales or markets, and these are taken into account in reviewing project proposals. In many countries there have now been several GEF projects, so an increasing proportion of new GEF project proposals address sectors for which there is already country experience (including experience documented in independent terminal evaluations).
- (d) *Cofinancing* – appropriate baseline support from the country, including that financed through development assistance loans.¹⁷

47. By programming in accordance with strategic priorities related to global environmental objectives (Section I), GEF would actually create new opportunities for those countries that can provide the cofinancing and make the commitments required to address the priority. For example, the strategic priority for wind power creates specific country opportunities for countries that combine appropriate wind regimes, country capacity, and industry and market environment. The strategic priority for grid-connected power does so for those with supportive sectoral policies.

Raising country performance and absorptive capacity

48. The Secretariat will take the lead in establishing performance indicators related to expected success of the project at the country level, including country ownership, replicability, sustainability, public involvement, monitoring and evaluation and co-financing. The Implementing Agencies will continue, in their consultations with countries, to address these performance indicators rigorously.

¹⁷ See also *Cofinancing*, GEF/C.19/Inf.8

Where a need is identified for capacity building, removal of policy barriers or strengthening of other conditions that contribute to project success, such needs or barriers should be addressed first.

49. In addressing specific country needs, the Implementing Agencies will consult with the country on the range of operational tools and programming modalities that have been developed for accessing GEF assistance with a view to using the most appropriate tools to address the country needs and to enhance performance and effectiveness at the country level. Such tools and modalities include: the small grants program, enabling activities, medium sized projects, the programmatic approach, and strategic partnerships.

50. GEF can use a variety of project types and national execution arrangements, and this flexibility helps to raise country performance and absorptive capacity and to match GEF support to the absorptive capacity so that the widest range of country circumstances can be accommodated. Projects can vary by type:

- (a) *Support to build an enabling environment and build capacity.* This support explicitly targets the capacity development needs of countries. This will build on, among other things, the country's self-assessment of its capacity needs, which is funded under the GEF Capacity Development Initiative. The GEF Secretariat and the Implementing Agencies will give attention to the special needs of the Least Developed Countries (LDCs) and Small Island Developing states (SIDs).
- (b) *Support for policy reform.* GEF investment and technical assistance projects can help countries improve sector performance in areas related to global environmental objectives. For example, some projects are designed to create alternative livelihoods that are sustainable and some to remove barriers to the creation, opening, or transformation of self-sustaining markets. The barriers addressed may include the unintended consequences of policies or the lack of capacity, technology, or information. Once such barriers are removed, country performance and absorptive capacity increase, and in some focal areas major investment can then be expected from the private sector.

51. Project size may also be an important determinant of project success:

- (a) *Small Grants.* The highly successful GEF Small Grants Program, currently operating in 60 countries, is an ideal way to build performance of the smaller countries and those without much previous experience with GEF. Consequently, this program would be expanded to cover all SIDs and LDCs, with an expansion of at least five countries per year planned during the next three years.
- (b) *Medium Size Projects.* MSPs also provide an ideal tool to provide funds expeditiously to countries that have limited GEF experience or limited absorptive capacity, and provide a means of increasing country capacity to deal with global environmental issues.

- (c) *Full Size Projects.* These are typically used to address major challenges and deliver key global environmental benefits in situations where it is possible to implement larger projects. In biodiversity and climate change focal areas, some of these projects may be short-term measures to address immediate issues.
- (d) *Programmatic Approaches.* Some countries propose to make the very substantial commitments and investments that are needed to address major global environmental issues. Through programmatic approaches, GEF will be able to provide commensurate levels of support.

III. DEEPENING AGENCY COMMITMENT AND PARTNERSHIP

52. The GEF is an innovative and catalytic multilateral entity that embodies partnerships at different levels and dimensions, facilitated by the GEF Council and Secretariat. GEF strives to maintain the cost-effectiveness of its activities to maximize global environmental benefits,¹⁸ and will therefore build upon the comparative strengths of these different partners and will streamline its internal procedures for engaging them. But GEF also emphasizes its catalytic role and the leverage of additional financing from other sources.¹⁹ It will therefore urge its partners to maximize their cofinancing of GEF activities and their leverage of additional resources, their mainstreaming of global environmental objectives into regular work programs, and their continued collaboration with other potential partners including (notably) the private sector.

Comparative Advantage

53. The GEF Instrument recognized the key roles that the Implementing Agencies would play in their respective areas of competence, and identified the areas of particular emphasis.²⁰ These comparative advantages have evolved with experience.

54. The Council also expanded the opportunities for seven executing agencies to work with the GEF. (The particular executing agencies that have been accepted by the Council to operate under the policy of expanded opportunities are referred to as “Executing Agencies.”) The Executing Agencies comprise the four major regional development banks (the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, and the Inter-American Development Bank) and three specialized agencies (the International Fund for Agricultural Development -- IFAD, the Food and Agriculture Organization of the United Nations -- FAO, and the United Nations Industrial Development Organization -- UNIDO). The expanded opportunities created do not entail any monopoly.

¹⁸ Operational Principle No. 3. See Box 1.1, *Operational Strategy*.

¹⁹ Operational Principle No. 9, *ibid*.

²⁰ *Instrument for the Establishment of the Restructured Global Environment Facility*, Annex D.

55. These agencies have been granted, and will retain, expanded opportunities²¹ to work directly with the GEF on the basis of criteria²² covering the strategic match, capacity, and complementarity. The cooperation is driven by

- (a) An identified business need which the agency can fill by acting within its comparative advantage;
- (b) The capacity of the agency in areas of relevance to the GEF, which is assessed by -- among things -- previous successful GEF experience and a due diligence study; and
- (c) The potential of the agency to build global environmental concerns into its regular work program and leverage commitments from its partners.

56. The comparative advantages of the seven agencies with respect to current business needs are briefly described in Table 1. The comparative advantage of these agencies in relation to identified business needs may change over time and will be kept under review. This is because business needs will be affected by the evolution and maturation of the GEF portfolio and by the identification of gaps and emerging program priorities.

57. Resources will be programmed by strategic priorities (see Section I). The Implementing Agencies have the major role in programming such resources in conformity with the strategic priorities and their own comparative advantage. The Executing Agencies would also be called upon to identify and implement projects within their comparative advantage provided such projects fill an identified business need or where they mobilize significant cofinancing.

Streamlining

58. The Secretariat manages relations with the Implementing Agencies and the Executing Agencies. The Secretariat and the Implementing Agencies meet periodically to review the project cycle and project processing procedures with a view to streamlining them consistent with the policies of the GEF. In November 2000, Council approved a number of changes that had been so proposed,²³ and in May 2001 Council approved procedures to expedite the first tranche of GEF financing for PDF grants, Enabling Activities, and Medium-Sized Projects.

59. Recognizing that improving the clarity in roles through specification of clear accountabilities and responsibilities will greatly help streamlining, the CEO and senior staff of the Implementing Agencies and Secretariat met on February 19, 2002 to do so. They agreed on a number of operational clarifications

²¹ Other executing agencies, as well as these EAs operating outside of the criteria for direct access, may execute GEF projects through an IA and for which an IA remains accountable.

²² *Criteria for the Expansion of Opportunities for Executing Agencies*. GEF/C.17/13, May 2001.

²³ *Driving for Results in the GEF: Streamlining and Balancing Project Cycle Management*. GEF/C.16/5. November 2000.

concerning country coordination and programming, GEF policy and program development, programmatic approaches, monitoring & evaluation, and communications and information dissemination.

Table 1: Comparative Advantages

Agency	Comparative Advantages
Implementing Agencies	Particular emphasis (see Instrument)
UNDP	Capacity building and technical assistance projects at the country or multi-country level.
UNEP	Catalyzing the development of scientific and technical analysis and advancing environmental management on a regional or global basis, in complementarity with UNEP's own programs.
World Bank	Investment projects at the country or multi-country level, mobilizing private sector resources, and policy dialogue and policy reforms in various economic sectors.
Executing Agencies	Comparative advantage in relation to specific business needs
Regional Development Banks	Investment projects at the country or multi-country level and mobilizing private sector resources within their respective regions.
FAO	Persistent organic pollutants in the agriculture sector
IFAD	Land degradation, with emphasis on smaller countries – such as those in Africa – through community-based natural resource management and poverty alleviation and national execution arrangements.
UNIDO	Persistent organic pollutants in the industrial sector

Cofinancing and leverage

60. Co-financing and leverage are essential to GEF efforts to have a significant positive impact on the global environment, and the Implementing Agencies and Executing Agencies have a key

responsibility in providing or generating the additional resources. The GEF monitoring and evaluation unit, in collaboration with the Implementing Agencies, will establish specific indicators to measure progress in mainstreaming and co-financing. The amount of realized co-financing will be monitored and compared to the amount of co-financing anticipated at the time of Council approval.

61. Cofinancing is important because it:

- (a) Expands the resources available to finance global environmental objectives;
- (b) Indicates the strength of the commitment of the Implementing Agencies and Executing Agencies (as well as that of counterparts and beneficiaries); and
- (c) Provides a link to sustainable development, builds country and counterpart commitment, promotes ownership, and secures shared accountability.

62. Cofinancing data is recorded for each project at the time it is submitted for approval and is described in the *Operational Report on GEF Programs*. Cumulative cofinancing is reported to Council in the Secretariat's cover notes to each Work Program. However, there have been a number of issues concerning the consistency of definition, reporting, and policy concerning cofinancing and the Secretariat was requested in May 2001 to prepare a note on cofinancing, reviewing among other things the cofinancing policies already in place and highlighting the issues that need to be clarified or addressed. The Second Overall Performance Study of the GEF (OPS2) also reviewed cofinancing and recommended more rigorous criteria for cofinancing and for monitoring both cofinancing and the leverage through replication.

63. Cofinancing ratios will be considered for use in conjunction with other factors to determine the strategic priority of project proposals, and this should act as a strong incentive to all parties. The Implementing Agencies and the Secretariat are therefore developing common definitions and reporting formats for cofinancing and leverage to facilitate transparent comparisons and consistent reporting. This reporting will be done at least annually in the business plan.

64. This transparency will also assist the formulation and refinement of responses addressing the following issues:

- (a) *Adequacy of cofinancing and leverage*. OPS2 describes the cofinance as "quite modest" and recommends stronger project design criteria;
- (b) *Stability of commitment*. OPS2 reports on the difference between planned and actual cofinance, a matter which is borne out in recent project experience;
- (c) *Monitoring of cofinancing and leverage*. The amount of realized co-financing could be monitored and compared to the amount of co-financing anticipated at the time of Council approval.

- (d) *Strategic priorities.* Cofinancing as a determinant of strategic priority of project proposals and of commitments within programmatic approaches.

Mainstreaming and complementarity

65. The initial commitment of the Implementing Agencies to the GEF had been in developing their GEF activities in areas of their institutional comparative advantage, as provided for in the *Instrument*. The issue for the Implementing Agencies in the years since the restructuring in 1994 became one of deepening those commitments by integrating their GEF activities into their regular work programs and taking global environmental considerations into account in those programs. Progress on these issues has been reported to Council by the Implementing Agencies. Given the magnitude of the resources required for the global environment, the Implementing Agencies and the Executing Agencies will need to continue mainstreaming and deepening their commitment to the GEF.

Partnership with the private sector

66. The GEF works with countries to create an enabling environment that will attract private sector activities leading to global environmental benefits. Capacity building at the institutional and systemic level will be important in this respect. The GEF will also seek to promote more extensive communication with, and engagement of, the private sector with a view to harnessing maximum resources to address global environmental concerns.

67. The GEF Secretariat, in collaboration with the Implementing Agencies and Executing Agencies, will develop a new strategy to engage the private sector better, taking into account previous practices and policies.²⁴ GEF, in preparing the strategy, will consult with private sector actors to identify perceived constraints to working with the GEF. Clear operational guidelines would be elaborated in order to define the scope of GEF collaboration with private sector activities. The strategy would address how project design and implementation can place greater emphasis on the development of an enabling environment and market-oriented strategies to enhance sustainability and replication. There would be annual reporting to the Council on private sector engagement.

Report on Agency Commitment

68. In the previous business plan (for FY02-FY04) a number of indicators were established for describing the deepening commitments of the Implementing Agencies. These will be used for reporting in the *GEF Business Plan FY04-FY06*. Note that the indicators are to facilitate common reporting, and no targets have yet been established. Some of the indicators are qualitative, and most indicators will also be progressively refined on the basis of experience. Targets will be established on the basis of experience in May 2003.

Table 2: Agency Performance Criteria

Indicator	Source of Measurement or Determination
<u>Mobilization of resources</u>	
Indicators of commitment and adequacy of resources	
Direct cofinance of GEF projects ²⁵	Agency's GEF portfolio
Leverage of additional project funding for global environmental benefits and of relevant policy changes	Agency's GEF and regular portfolio
<u>Mainstreaming and partnership</u>	
Indicators of catalytic action	
Replication of successful GEF projects; follow up to the recommendations and opportunities from GEF projects; incorporation of global environmental priorities in non-GEF financed activities	Regular work program
Adoption of policies incorporating global environmental considerations in their regular work program	Published policies
Depth and diversity of collaboration with executing agencies, including NGOs	GEF portfolio
Extent to which agency focused on the use of institutional comparative advantage	Portfolio analysis, and stated comparative advantage
Partnership with other Implementing Agencies or Executing Agencies	Joint projects in the GEF portfolio; PIR; Consultations
<u>Institutional structure and capacity</u>	
Indicators of operational effectiveness and efficiency	
Implementation performance	PIR and other evaluation reports; project and program indicators; SMPRs
Provision of corporate services (IAs only)	
Internal dissemination of GEF policies and procedures (e.g., through participation in GEF Familiarization Seminars, internal training on GEF, or other support systems)	Agency and Secretariat reports
Program incentives and budgetary systems to promote GEF activities and other global environmental action	Budget system; internal allocation of GEF fees and corporate budget allocations (if any)

²⁴ See previous paper on modalities *Engaging the Private Sector in GEF Activities*, GEF/C.13/Inf.5 May 1999 and the paper *Funds and Trust Funds*, GEF/C.12/Inf.5 October 1998 addressing a number of issues raised by Council on the use of funds.

²⁵ See *Cofinancing* GEF/C.19/Inf.8 for relevant definitions of cofinance and leverage related to essential baseline support and global environmental objectives.

IV. MAINTAINING INSTITUTIONAL EFFECTIVENESS

69. As the foundation for global environmental action and as a new model for international cooperation, GEF commits itself to continuously improving the effectiveness and efficiency of its own organization, relationships, and operations. To maintain its institutional effectiveness, GEF will continuously improve:

- (a) *Institutional efficiency* by adjusting its structure as necessary to meet evolving challenges and mandates, by clarifying roles and responsibilities of the constituent GEF units, and by maintaining staff capacity commensurate with its roles and responsibilities;
- (b) *Financial efficiency* by improving the application of the principle of incremental cost financing, refining and applying the fee-based system, and managing the corporate budget;
- (c) *Operational efficiency* by streamlining its operations;
- (d) *Adaptive management* by driving for results -- systematically monitoring and evaluating its operations and incorporating lessons into future operations; and
- (e) *Partner responsiveness* by sharing more data and information with its partners and helping to coordinate financing.

Institutional Efficiency

Structure

70. The Second Overall Performance Study (OPS2) recommended²⁶ that to support GEF's evolution to a quality-oriented and results-oriented institutional culture and to ensure that new demands on the GEF are effectively addressed, the institutional structure of the GEF be strengthened and that, towards this end, the GEF Council consider a review of options to strengthen GEF's institutional structure, including providing it with a separate legal status. Senior staff of the Secretariat and the IAs met on February 19, 2002 and agreed on clarified roles and responsibilities of the GEF units. The Secretariat, in consultation with the IAs and in the light of Council guidance on the issue, has prepared a paper on the structure of GEF.²⁷

Capacity

²⁶ Recommendation 14 (Chapter 7), *Report of the Second Overall Performance Study of the Global Environment Facility*

²⁷ See *Clarifying the Roles and Responsibilities of the GEF Entities*, GEF/C.19/8; and *Proposed Amendments to the GEF Instrument*, GEF/C.19/14

71. OPS2 also recommended that the GEF Council commit to strengthening the professional resources and management capacities of the GEF Secretariat in the following key areas:

- (a) Establishing a separate unit (Country Support Team) that possesses adequate regional knowledge, language capacity, and the competence to provide the national operational focal points, in close collaboration with the implementing agencies and the executing agencies, with effective, prompt policy and procedural guidance;
- (b) Strengthening its capacity to develop and communicate operational modalities that can effectively engage the private sector, including the recruitment of relevant private sector expertise and arrangement of secondments from the implementing agencies/IFC or the external private sector;
- (c) Requesting a special human resources planning exercise, including work programming and budget implications, of the proposed and expanding functions of the GEF Secretariat to give the GEF Council more precise recommendations regarding staffing needs;
- (d) Contracting an external management review of current management systems and future management needs in the GEF Secretariat.

72. An initial human resource planning exercise was commissioned. The recommendations of this study are reported to this Council meeting.²⁸

Financial Efficiency

Incremental cost

73. Essential to the overall financial efficiency of the GEF in obtaining global environmental benefits is the principle that GEF finances only the incremental costs of an agreed activity. In response to the findings of OPS2,²⁹ and in consultation with the Implementing Agencies and Executing Agencies, the Secretariat will:

- (a) Develop simpler guidance and communication for recipient country officials on the determination of incremental costs and global environmental benefits;
- (b) Draft a framework for reaching agreement with countries on incremental cost. Among other things, such a framework would ascertain the involvement of beneficiaries and appropriate cost sharing; and

²⁸ *Capacity and Organizational Efficiency Study of the GEF Secretariat*, Personnel Decisions International, GEF/C.19/Inf.5

²⁹ Recommendation 7, Chapter 6. *op. cit.*

- (c) Assist the IAs and EAs to pilot this approach in a few countries (beginning June 2003).

The fee-based system

74. The fee-based system is an important enhancement of the financial management of GEF. The system took effect from July 1, 1999, replacing an earlier system of administrative budget allocations that had to be negotiated annually with each Implementing Agency for its management of the project cycle for a planned work program of GEF projects. The fee-based system represents an important step forward by:

- (a) Providing appropriate incentives to agencies for the preparation and implementation of GEF projects;
- (b) Stabilizing overall operating costs;
- (c) Reducing internal transaction costs;
- (d) Establishing a common framework for the participation in the GEF of new agencies with different costing and budgeting systems; and
- (e) Improving budget predictability.

75. In the implementation of the fee-based system, a flat-fee structure was developed on the principle that an Implementing Agency would recover its project implementation costs by fully accomplishing the planned numbers of each GEF project-type, in a typical annual work program. The experience of applying this fee structure during FY00 showed that the fee-based system can be further strengthened by establishing and agreeing upon:

- (a) Definitions of appropriate standard project-types that would facilitate their definitive categorization for fee application purposes; taking into account that projects may encompass investment and technical assistance elements in varying combinations; and
- (b) A more direct and relevant relationship between a project's grant, complexity, duration, and its corresponding fee -- thus providing more appropriate signals for cost and portfolio management.

76. In December 2001, the firm of Deloitte Touche was engaged to review independently the experience of the fee system with the agencies and to recommend any changes that would further enhance the fee-based system in line with its stated objectives of transparency, simplicity and objectivity, cost efficiency, and enhanced financial management effectiveness. The experience so far is that the fee-based system has progressed towards these objectives. The findings and recommendations

of the fee review are before Council.³⁰ The fee system will continue to evolve both to reflect operational experience in the initial phase of its application and to further maximize the benefits that the system is delivering.

Corporate services

77. GEF units³¹ now budget for their provision of corporate services (i.e., non-project direct). Corporate budgets for GEF units are substantiated in terms of the corporate services required for carrying out the overall policy agenda. The corporate services do not include any project or project coordination costs, as these are covered by the fee system. The categories of corporate service, which have been discussed extensively in previous Corporate Business Plans and Corporate Budget documents, currently cover:

- (a) Institutional Relations (e.g., work with other institutions required for the GEF mandate);
- (b) Policy and Program Development and Coordination (e.g., assistance through the interagency task forces on the Program Status Reviews, inputs and consultation on policy papers prepared for Council, and support for STAP; but not coordination of agency GEF programs or mainstreaming);
- (c) Outreach/Knowledge Management/External Relations (e.g., contributions to coordinated GEF outreach at project workshops, exhibitions, meetings and other opportunities; contributions to GEF publications);
- (d) Management & Finance (e.g., assistance with developing the fee system and establishing the corporate aspects of the project-tracking and management information systems of GEF; but not project management and coordination that is covered by fees);
- (e) Monitoring & Evaluation (e.g., assistance with developing GEF indicators and on the impact studies; but not individual project supervision and monitoring that is covered by fees).

Operational Efficiency

78. OPS2 recommended³² that the GEF should manage delivery of global environmental benefits by initiating an institution-wide shift from an approval culture to one that emphasizes quality and results. This should be achieved through a partnership approach that expands the use of interagency task forces to address program and policy issues and adopts broader teamwork practices to support project implementation and evaluation.

³⁰ *Consultant's Report on an Independent Review of the Fee-Based System*, GEF/C.19/12

³¹ The six organizational units are: the GEF Secretariat (including the M&E team), the three Implementing Agencies, STAP, and the Trustee.

³² Recommendation 1 (Chapter 7). *op. cit.*

Streamlining the project cycle

79. On June 8 and 9, 2000, senior staff of the GEF and the Implementing Agencies met to decide on, among other things, steps to streamline internal processing. Some of those decisions³³ had been implemented immediately, such as those on Implementing Agency accountability for the quality of documentation for Work Program inclusion and streamlined Secretariat reviews of PDF-B requests. Council decisions affecting the GEF project cycle³⁴ were also consolidated,³⁵ and the Project Review Criteria were updated and revised to reflect those decisions.

80. In continuing their work on streamlining the internal procedures of the project cycle, the Secretariat and the IAs will also specifically work on ways to delegate initial technical reviews according to the agreed *Project Review Criteria* to the proposing agencies. In accordance with an earlier understanding of the Council (see discussion on Agenda Item 8, *Joint Summary*, Council Meeting May 9-11, 2001), these technical reviews would be reported in accordance with a uniform project format that would provide information on matters of concern to Council as a way of streamlining the project documentation to be reviewed.

81. Further updating of the GEF Project Cycle paper and the associated *Project Review Criteria* will be needed to incorporate the relevant Council decisions and understandings since June 2000 -- including any decisions taken in response to the recommendations of OPS2 -- and to incorporate additional streamlining of the internal procedures. The results of this work will be submitted to Council in May 2003.

Country best practices

82. Recipient countries are also invited to consider the best practices in country coordination that are reported by countries in regional workshops for that purpose.

Adaptive Management

³³ See *Driving for Results in the GEF: Streamlining and Balancing Project Cycle Management*, GEF/C.16/5.

³⁴ The GEF Project Cycle paper was redrafted to incorporate all the understandings and Council decisions between the date of its original publication and the date of that revision. Those decisions and understandings concerned the Operational Strategy, the Project Preparation and Development Facility, Medium-Sized Projects including the recently revised limits to delegated authority, targeted research, the role of GEFOP, the GEF Pipeline, the selective delegation of the review prior to CEO endorsement, the expansion of opportunities for selected executing agencies, and country involvement in incremental cost negotiations.

³⁵ *GEF Project Cycle*, GEF/C.16/Inf.7. This updating is in accordance with Council's agreement, when approving the project cycle in 1995, "that the project cycle should be updated as necessary by the Secretariat to reflect any additional policies approved by the Council."

83. GEF is a learning-based institution: its operational principles require it to ensure that its programs and projects are monitored and evaluated on a regular basis, to maintain sufficient flexibility to respond to experience gained from monitoring and evaluation, and to emphasize its catalytic role.³⁶

84. Over the business plan period, the M&E unit will focus on

- (a) *Evaluations and impact studies*, to support and feed into the independent Third Overall Performance Study of GEF;
- (b) *Special studies* to provide advice to management on a range of key issues such as private sector modalities, cofinancing and leverage, financing instruments for biodiversity, the functioning of the NGO network, processing of MSPs, and the human impacts of projects. In particular, The M&E unit will review the current private sector approaches (December 2002). In consultation with the IAs and EAs and with private sector actors, the Secretariat will identify perceived constraints to the private sector working with the GEF and prepare a new strategy to better engage the private sector, taking into account previous evaluated practices and policies (May 2003);
- (c) *Project Implementation Reviews*, complemented by the Secretariat-Managed Project Reviews in coordination with IAs and EAs, to support the shift from an approvals culture to one based on quality of implementation and output;
- (d) *Knowledge management systems*, to disseminate findings and to provide formal feedback to the programming process. Evaluation findings will become part of a formal “feedback loop” that will help Interagency Task Forces program project proposals to best address strategic priorities (July 2002) and in-country project officers and field staff to share field experience; and
- (e) *Monitoring and evaluation systems*, including indicators for the strategic priorities within the focal areas and M&E standards and guidelines for the agencies.

Responsiveness to Partners

85. GEF is a bold international experiment. Its unique structure and the diverse, open, and transparent partnerships that it is pioneering require many new management techniques. Modern information (particularly web-based) technologies can underpin this structure and these partnerships in ways never before possible, and it is now absolutely vital for GEF to develop and integrate its information systems in such a way as to support its partners, global mandate, unique international structure, and specific strategic priorities.

Outreach and Communications

³⁶ See Box 1.1, *Operational Strategy*, p.2. Operational principles 10, 5, and 9 respectively.

86. The Second GEF Assembly (October 2002) and support for the World Summit on Sustainable Development (September 2002) and the series of roundtables that feed into both, have generated considerable demands for outreach and communication services. In the period after these events, the broad thrust of outreach and communication strategy will focus on information in support of

- (a) *Countries* (e.g., material prepared for Country Dialogue Workshops and material supplied to country focal points to assist national and constituency coordination efforts);
- (b) *Conventions* and other forums of international cooperation (e.g., displays and other information on GEF);
- (c) *Programming and field staff*, by providing feedback on lessons learned through the M&E efforts, including good practice material and summaries of focal area and cross-cutting portfolios;
- (d) *Partner agencies* (e.g., holding two GEF Staff Familiarization Workshops per year for new staff in GEF units and EAs);
- (e) *Other stakeholders* (e.g., local communities, non-government organizations, the private sector, and academic institutions) through information sharing and collaboration.

87. Two continuing corporate themes will be:

- (a) *Rationalization*. Rationalization of the GEF outreach material -- including that of IAs, EAs, STAP, M&E and the Secretariat. It was agreed by senior staff of the Secretariat and IAs at a meeting on February 19, 2002, that the Secretariat would now take the lead in promoting GEF awareness and visibility; undertaking outreach for convention meetings, NGOs, private sector; and managing GEF-wide relationships with NGOs, the private sector, bilateral development cooperation agencies etc. The IAs and EAs would retain the lead in disseminating project level information, including lessons learned.
- (b) *Acknowledgment*. Preparation of clear guidelines to gain more consistent acknowledgement of GEF financing in project activities. These would be incorporated in the effort to identify implementation tasks and establish service norms.

Coordination of Financing for Global Environmental Projects

88. GEF will facilitate a coordinated approach to financing global environmental protection. As described earlier, it will do this by strengthening cofinancing of its own projects and working on programmatic approaches where countries are willing to make such commitments. But it will also help coordinate financing by providing its member countries, clients, external partners, and other interested stakeholders with an easy, unified way to access operational and financial data on global environmental

activities. By making environment-related portfolio and project data much more readily available and accessible, this information management strategy will help

- (a) Identify opportunities for project and programmatic collaboration, cooperation, and cofinancing;
- (b) Provide input for investment planning in environment protection; and
- (c) Facilitate financial and portfolio research and dialogue on global environmental issues.

89. By FY02, the GEF had already established the Project Management Information System, which provides access to GEF project-related information and data through the GEF's website (<http://www.gefweb.org>). GEF then started to work with the convention secretariats and development agencies to coordinate databases and information dissemination strategies. GEF has also identified additional partners and their mutual interests and benefits through workshops on information sharing. In the FY03-FY05 Business Plan period, GEF will complete the development and implementation of an information management strategy, in consultation and collaboration with the Convention Secretariats and development agencies. In particular, information on concepts in the GEF Pipeline, GEF projects being implemented, GEF programs, and performance indicators will now be supplemented by available data on similar projects funded by other development organizations and agencies.

ANNEX A: STRATEGIC PRIORITIES

Biodiversity

A1. Up to now, the GEF's assistance to eligible countries for biodiversity focused on management interventions within protected areas and their buffer zones and strengthening the enabling environment in that context (policies, regulations, planning frameworks, institutional capacity building).

A2. Within the Operational Programs, the strategic priorities will be

- (a) **Sustainable use activities** both within protected areas and their buffer zones, in support of biodiversity conservation. Sustainable use activities that support conservation would be expanded to cover existing and additional protected areas; and
- (b) **Conservation in productive landscapes and productive seascapes** beyond formally protected conservation areas and their buffer zones, in recognition of the scientific, ecological, and technical consensus that this is the only way to ensure long term conservation, that there is significant biodiversity of global importance outside protected areas, and that human activities outside protected areas can adversely impact biodiversity in protected areas.

A3. The interagency task force, with support of STAP, will refine these strategic priorities annually as an input to the business plan. In some cases, corporately identified global projects or targeted research projects may be needed to identify more fully, refine, or establish the scope of the testable principles and approaches underlying these priorities. The subject of such projects could include: the use of corridors; sectoral integration; various innovative financing modalities, market mechanisms, and incentive measures; integrated ecosystem management tools; linkage to agriculture, livelihoods, other local needs; the carrying capacity of old and "new" use activities based on the natural productivity or renewability of the resources in question, as well as research on the inherent resilience or vulnerability of biologically diverse systems to both periodic and cumulative stress; and poverty alleviation.

A4. Projects in the GEF Pipeline will demonstrate or facilitate the replication of alternative principles and approaches underlying these priorities. Projects would include:

- (a) *Country-based projects* showing these principles and approaches. Programming will attempt full representation of the possibilities, filling gaps in the portfolio, and avoiding duplication of demonstrated approaches. It will be necessary to identify the range of globally significant biodiversity sites within a mix of ecosystems and multiple uses, and the range of ways of integrating protected areas with the surrounding production landscapes and seascapes (e.g., those in OP#12 integrated ecosystems management, OP#13 agricultural biodiversity, and the impacts on biodiversity of adaptation to climate change and spread of POPs). There would be further representative demonstrations of

integrated ecosystem management, to promote the shift towards the sustainable development activities in broader production landscapes and seascapes that support conservation. There will be more demonstrations of the ways to integrate and mainstream biodiversity conservation into national sustainable development by adopting intersectoral approaches consistent with country priorities and mobilizing long-term and sustainable funding mechanisms. Stocktaking evaluations will identify best practices -- such an evaluation of Trust Funds has already been completed;

- (b) *Replication.* GEF will support the regional facilitation of the replication of best practices by others. This would be achieved through training, regional sharing of experiences, etc., and pursued in order to catalyze maximum adoption and impact.
- (c) *Capacity building.* Because replication depends on an enabling environment, GEF will assist in-country capacity building. GEF will support partners in government, local groups, and the private sector through existing IA and EA programs for developing enabling policies and social and economic programs to address the root causes of biodiversity loss. There will also be improved responsiveness to issues and problems at the local level, such as creating appropriate enabling policies and incentives for conserving biodiversity, strengthening capacities, and addressing local needs through support for sustainable use and livelihoods. GEF technical assistance and projects will support incentive mechanisms for governments and local communities to conserve biodiversity (e.g., market mechanisms and certification); appropriate livelihoods such as organic agriculture, sustainable fishing and forestry; property rights and common property resource management; fiscal, price and other financial incentives to induce innovation, local ownership, and increased participation of the private sector.

Climate Change

A5. In the first six years of GEF activities, GEF's assistance to eligible countries for climate change promoted enabling environments and foundational activities such as demonstration projects in energy efficiency and renewable energy. Since 1997, with the adoption of long-term operational programs, the GEF has embarked on over four years of new approaches to sustained market development. These approaches aim to achieve the institutional learning, cost reduction, market scale-up, and business infrastructure for large-scale replication and technological know-how dissemination. The fruits of these efforts are just emerging, demonstrated by the effectiveness and growth of long-term markets.

A6. Within the Operational Programs, the strategic priorities will be:

- (a) **Market transformation for energy efficient products (OP#5).** Market transformation programs would facilitate supply and demand of energy-efficient products and promote know-how transfer, with priority on mass-market products such as refrigerators, lights, and motors.

- (b) **Increased financing availability (OP#5/OP#6).** An important element would be increasing the availability of financing for energy efficiency and renewable energy investments, enterprises and intermediaries, with priority on leveraged private finance (e.g., with contingent financing) and mechanisms to aggregate small investments, such as ESCOs and guarantee facilities;
- (c) **Power sector regulatory frameworks and policies for grid-based renewable energy (OP#6).** This will include generation from wind, biomass, and small hydro -- with priority on power sector regulatory frameworks and policies that provide fair and competitive grid access to renewable energy producers.
- (d) **Productive uses of renewable energy in agriculture, water, education, telecommunications, and rural industry (OP#6).** This will include rural electricity for productive uses and social benefits, with priority on applications of renewable energy in agriculture, education, water, telecommunications, and enterprise development. Sustainable models for joining renewable energy to income generation will be demonstrated so that they can be replicated;
- (e) **Global market aggregation and national innovation for advanced renewable energy technologies (OP#7).** This will include photovoltaic, solar thermal power, biomass gasification, and fuel cell technologies -- with priority on private firms and utilities, but will exclude capital-intensive demonstrations.
- (f) **Modal shifts in urban transport and clean vehicle and fuel technologies (OP#11).** Priority will be for public transit, non-motorized transport, freight transport, fuel cells, and bio-fuels. Capital-intensive demonstrations will be excluded.

A7. The interagency task force, with support of STAP, will refine these strategic priorities annually as an input to the business plan. In some cases, corporately identified global projects or targeted research projects may be needed to identify, refine, or establish the scope of testable ways to address these strategic priorities. Global or targeted research projects could include regional scoping studies on specific technology applications (such as the ongoing study on opportunities for wind power); learning curves; various innovative financing modalities, market mechanisms, and incentive measures; public-private partnerships, market aggregation and sharing of market development risks, and linkage to industrial and agricultural development, air pollution reduction, other local needs, and alleviation of energy poverty.

A8. Projects in the GEF Pipeline will demonstrate or facilitate the replication of alternative principles and approaches underlying these priorities. Projects would include:

- (a) *Country-based projects* showing the above approaches. Programming would strive for full representation of the possibilities, filling gaps in the portfolio, and avoiding duplication of approaches. One priority that is still a major portfolio gap is for

demonstrating productive uses of renewable energy in agricultural and industrial applications, and in rural areas.³⁷ Another priority is for GEF to assist governments to incorporate clean energy into power sector regulatory frameworks. A recent GEF portfolio review found that the GEF has proven quite capable of facilitating important regulatory frameworks support supportive of grid-connected renewable energy. Some specific technologies (such as wind power) and some specific financing modalities (such as contingent financing, incremental risk financing, the financing of alternative feasibility studies, and the development of public-private partnerships) require additional demonstration. Stocktaking evaluations of these demonstration projects will then be needed in order to identify best practices. From the GEF portfolio, a “toolkit” would be identified of market transformation approaches, together with appropriate collaborative and education activities, promote adoption and replication of market transformation programs in many more developing countries. The toolkit would include electric utility programs, public education, marketing, training and standards, financing mechanisms, targeted subsidies, and market aggregation. Along with the toolkit, detailed market research in each country would help define effective approaches tailored to each national circumstance.

- (b) *Replication.* GEF will support scale-up and replication programs. This is now possible for energy-efficient products, and such activities would now be the main focus of OP#5, because GEF support has already demonstrated market transformation for many energy-efficient products and has already achieved significant CO2 emissions reductions very cost-effectively—to less than \$1 per ton of carbon. A recent GEF portfolio review found that existing GEF projects demonstrate a variety of successful approaches to market transformation, including energy-efficient-product standards and codes, utility DSM programs, voluntary agreements with the private sector, competitively-allocated and limited subsidies that lead to sustained market volume and lower prices, and low-cost loans and performance guarantees in enticing investment in more efficient technologies. In addition, experience from GEF market transformation projects is clearly catalyzing similar activities locally and in other countries. This would be achieved regional facilitation of the replication of best practices by others, through capacity-building, training, regional sharing of experiences, etc., and pursued in order to catalyze maximum adoption and impact. (Similar approaches would be adopted for renewable energy when the demonstrations and evaluations are at a similar level. GEF could help develop public-private market facilitation organizations to support the growth of particular renewable energy markets. Such industry associations could provide networking, partner matching, information dissemination, market research, technology

³⁷ Such uses include: in agriculture (water pumping, drip irrigation, crop drying, electric livestock fences), health (drinking water, "telemedicine", vaccine refrigeration, medical equipment power), education (distance education, internet, school lighting, computer training), commercial services (personal telephony, commercial communications), and small industry (craft tools, retail lighting, sewing, grinding, freezing).

promotion, user education, business-deal identification and facilitation, training and technical assistance, consulting services, financing, and policy advocacy or advice.)

- (c) *Capacity building.* Because replication depends on an enabling environment, GEF will assist in-country capacity building.

A9. Recent and expected guidance from the Conference of the Parties to the United Nations Convention on Climate Change will require some flexibility in resource programming. Guidance to the financial mechanism approved at COP 7 included several provisions related to adaptation. The implementation of these provisions was partly addressed at a STAP workshop and will be addressed in a separate paper under preparation by the Secretariat. Some adaptation provisions were also included in guidance for national communications and for the new funds, and remain subject to further consideration at COP 8 and thereafter. Support for second national communications will be shaped by a decision on new guidance at COP 8 (if the COP 7 decision is implemented). Resources are also expected to be available for National Adaptation Plans of Action (NAPAs) from one of the two new voluntary funds,³⁸ the Least Developed Countries Fund; guidelines to implement the fund, as well as the necessary administrative arrangements, will be presented to the Council in May 2002. The donors supporting the second voluntary convention fund, the Special Climate Change Fund, have pledged \$410 million a year by 2005. Thus little if any funding is likely to be available in the next two fiscal years, and the extent to which the commitment will result in additional resources remains unclear (e.g., contributions to the climate change focal area from donor governments are included). The Secretariat will further define its possible approach to implementing the new funds in a paper for the May 2002 Council meeting.

International Waters

A10. Up to now, GEF's assistance to eligible countries for international waters focused on foundational work for comprehensive approaches to addressing transboundary water concerns, including: the formulation of science-based frameworks for joint action on strategic priorities, capacity development for regional as well as country institutions, and demonstration of technologies and innovative management measures.

A11. Now that many countries have identified the required actions to meet transboundary water concerns and given that significant foundational work has been completed and many approaches have been demonstrated, the strategic priorities for GEF support will be to **facilitate implementation**.

A12. The interagency task force, with support of STAP, will refine this strategic priority annually as an input to the Business Plan. Projects in the GEF Pipeline will be required to facilitate the implementation of Strategic Action Programs. Implementation would require

³⁸ See *Arrangements for the Establishment of the New Climate Change Funds*, GEF/C.19/6

- (a) The full range of policy and legal measures;
- (b) Institutional reforms;
- (c) Resource mobilization for the required investments, particularly from private sector;
- (d) Mainstreaming the required actions into national development programs and into the regular programs of the GEF agencies;
- (e) Technology transfer; and
- (f) Arrangements for monitoring and evaluating the transboundary aspects.

GEF will facilitate the efforts by the riparian and littoral states for waterbodies that have received earlier GEF assistance so that they would be able to implement the agreed strategic actions.

Ozone Depletion

A13. Up to now, GEF has very successfully assisted eligible countries to phase out most ozone-depleting substances in the initial schedules of the Montreal Protocol. The strategic priority will be to reduce – and to the extent feasible, eliminate -- the remaining substances (primarily methyl bromide and HCFCs), consistent with priorities of the Montreal Protocol.

Persistent Organic Pollutants

A14. Only enabling activities to prepare National Implementation Plans and some innovative demonstration projects have been funded so far. The strategic priority will be to assist eligible countries phase out the use and/or reduce the release of the (currently 12) scheduled substances, in conformity with guidance on program priorities provided by the intergovernmental negotiating committee, and subsequently the Conference of Parties, for Stockholm convention.

A15. The interagency task force, with support of STAP, will refine these strategic priorities annually as an input to the Business Plan, with targeted research laying the groundwork if needed. (Targeted research would be needed including on biomarkers and on the behavior, fate, and exposure pathways of POPs in tropical areas.) Projects in the GEF Pipeline will demonstrate alternative principles and approaches to eliminating scheduled POPs, these will be evaluated, and GEF will then facilitate the replication of successful approaches.

Land Degradation

A16. Up to now, GEF's assistance to eligible countries has been for land degradation prevention and control in accordance with the *Instrument*, that is to meet "... the agreed incremental costs of activities concerning land degradation, primarily desertification and deforestation, as they relate to the four focal

areas...” Despite some progress in supporting land degradation prevention and control activities, countries continue to face challenges in developing eligible projects, including difficulties in defining linkages between land degradation and the focal areas; difficulties in applying the incremental cost principle; and limited in-country policy environment to support land degradation prevention and control. Enhancing GEF support for land degradation prevention and control would require an alternative approach that builds upon the experience of GEF-funded activities in land degradation and the findings and recommendations of an independent study.

A17. Should the Council recommend and the GEF Assembly subsequently approve the designation of land degradation as a focal area, the strategic priority for land degradation within the Operational Programs will be to support **holistic land management**. Such an approach would link local sustainable development benefits with the targeted global environmental benefits, whether the latter fell within existing focal areas or whether they took the form of other reduced transborder or downstream impacts. Emphasis in the latter case will be on preventing the land/water interactions that lead to reductions in water quality and environmental flows downstream.

A18. The interagency task force, with support of STAP, will refine these strategic priorities annually as an input to the Business Plan, with targeted research laying the groundwork where needed. Projects in the GEF Pipeline will demonstrate alternative principles and approaches to holistic land management, these will be evaluated, and GEF will then facilitate the replication of successful approaches.

ANNEX B: INDICATIVE FINANCIAL ENVELOPES BY PRIORITY

Focal Area/Strategic Priority	Expected Commitment Level ³⁹ \$ m for FY03-FY05
Biodiversity	
Enabling Activities	11
Sustainable use activities	203
Conservation in productive landscapes/seascapes	203
Other eligible projects	203
	620
Climate Change	
Enabling Activities	25
Market transformation, energy efficient products	85
Increased financing availability	85
Power sector frameworks, grid-based RE	85
Productive uses of renewable energy	85
Global market aggregation, national innovation for RE	85
Modal shifts and clean vehicle & fuel technologies	85
Other eligible projects	85
	620
International Waters	
Facilitation of implementation	190
Other eligible projects	40
	230
Ozone Depletion	
Phase-out of methyl bromide and HCFCs	40
Persistent Organic Pollutants	
Phase-out of scheduled POPs ⁴⁰	170
Land Degradation	
Holistic land management	100
Other eligible projects	70
	170
TOTAL	1850

³⁹ The commitments in each strategic priority above include targeted and streamlined capacity building, shares of crosscutting capacity building, and shares in multi-focal area projects. Additional land degradation activities may also be programmed consistent with the strategic priorities in other focal areas.

⁴⁰ In addition, approximately \$0.05 billion had previously been allocated for projects on POPs and other persistent toxic substances within the International Waters focal area. These projects included full-size projects, medium-sized projects, PDF-Bs, and most notably POPs enabling activities for about 50 countries, using existing resources as requested by Council.

ANNEX C: PERFORMANCE INDICATORS AND TARGETS FOR THE FOCAL AREAS

Indicators

C1. Indicators have been extensively studied by the general scientific community as well as specifically for the GEF. State-of-the-art indicators were then used to study the historical performance of the GEF portfolio as a foundation for the recently completed Second Overall Performance Study of the GEF. These impact studies have been published.⁴¹

C2. Because GEF operates strategically by catalyzing action, GEF's impacts will be long term and programmatic rather than the simple summation of the immediate impacts directly achieved by each project in the portfolio.

- (a) **Programmatic indicators.** The appropriate indicators are therefore programmatic (corresponding in fact to the objectives set out in the Operational Programs of the GEF) and will relate to outcomes achieved beyond the projects and beyond the four-year period within which they are financed. Outcome indicators need therefore to be distinguished not only from project indicators but also from process indicators, which are used to measure the degree of *progress* toward the outcome rather than the *attainment* of outcome.
- (b) **Limits of Quantification.** While it is desirable to quantify outcomes, it is necessary to be realistic about the extent to which such quantification can be done reliably. There are two broad issues. First, as one moves away from project outputs (which one can control through activities that are funded) towards programmatic outcomes, the number of ancillary assumptions increases. For example, one can reliably quantify the GHG reduction of a group of particular renewable energy projects, but needs to make additional assumptions concerning the market and government response to those projects in order to quantify the GHG reduction that will be the outcome of the market transformation to which these projects contribute. Second, many outcomes (particularly in biodiversity) cannot be measured in terms of a common unit. The number of species saved (for example) is not a meaningful representation of biodiversity value, which requires a deeper and more qualitative appreciation of the role of interacting species within an ecosystem and the loss of diversity elsewhere.

⁴¹ The program studies are in the four focal areas -- biodiversity, climate change, international waters, and ozone depletion. The relevant reports are: *GEF Review of Implementation and Results – Part1 – 2000 Project Implementation Review*, GEF/C.17/8; Part 2 – *Program Study on Biodiversity*, GEF/C.17/Inf.4; Part 3 – *Program Study on Climate Change*, GEF/C.17/Inf.5; Part 4 – *Program Study on International Waters*, GEF/C.17/Inf. 6, and *Study of Impacts of GEF Activities on Phase-Out of Ozone Depleting Substances* (Evaluation Report #1-00). In addition a study was undertaken of the cross-focal area of land degradation in *GEF Land Degradation Linkage Study* (Working Paper 6, March 2001).

- (c) **Proxy indicators.** At the same time, to avoid the use of highly theoretical indicators of ultimate impact, it has been necessary to adopt the pragmatic use of *proxy* indicators: indicators of outcomes that stand in the place of the ultimate outcomes desired and which are strongly linked. Typically, the proxy indicator is one of coverage. For example, because the protection of natural habitat is critical to biodiversity conservation, an indicator of protected area coverage is a good proxy. Another is the coverage of target technologies, the commercialization of which will lead to sustained GHG reductions, and which were the objectives of the Operational Programs. Proxy indicators are not to be confused with process indicators.
- (d) **Iterative process.** The question of indicators is one of continuing scientific debate, so the use of the indicators below should be seen as part of the iterative process of international dialogue. These indicators are for the focal areas; more specific indicators for the strategic priorities will also be developed.

Biodiversity Performance Indicators and Targets

C3. The indicators in the following table will be used to track impacts in this focal area. Work will continue to develop indicators of outcomes in relation to global biodiversity conservation, including measures of management and cost effectiveness and responsiveness to local needs and concerns (e.g., livelihoods, capacities, equity, access).

Table C1: Biodiversity Targets

Indicators	FY91-FY02	FY03-FY05
GEF Financing (GEF allocation in \$ billion)	1.52	0.80
Co-Financing (average ratio)	1.5	2.3
Global Coverage		
Number of Protected Areas supported (new or established) ⁴²	~ 800	80-180
Improved management of protected areas	-	<i>tbd</i>
Area protected for conservation (million hectares) ⁴³	>114	-
Countries	106	30-40
Other measures of support		
Countries with effective enforcement mechanisms against unsustainable practices (e.g., illegal logging, unsustainable fishing)	-	<i>tbd</i>

⁴² Global coverage of protected areas for FY03-FY05 is based on available figures from the existing pipeline of 97 projects; in approximately 330-350 new and existing protected areas (PAs) with a total coverage ranging from 200 to 300 million hectares.

⁴³ Estimates range from 114 million hectares, based on available information on protected area size (160 protected areas) to over 800 million hectares including the buffer zone, production landscapes and seascapes, and regional area coverage (e.g., Mesoamerica corridor, Congo forest, Caucasus mountain range, Mekong River delta). The estimates exclude global projects, which have large demonstration sites.

Countries with developed practices for the protection of genetic materials in globally significant agriculture and food production sites	16	10-15
---	----	-------

Climate Change Performance Indicators and Targets

C4. The indicators in the following table will be used to track impacts in this focal area.

Table C2: Climate Change Targets

Indicators	FY92- FY97 Early foundations of the GEF	FY98-FY01 New approaches to sustained market development	FY03-FY05 Continued market development
GEF financing (\$ billion) ^a	0.47	0.56	0.85
Cofinancing (ratio to GEF financing)	4.4	5.4	6-7
Private-sector cofinancing (\$billion committed)	0.3	0.9	1.2-1.5
Market expansion (replication influenced by GEF)	0-3	1-10	1-10
Technology diversity (cumulative number main applications)	9	16	18
Cost-effectiveness (\$/ton C avoided for portfolio)	~4	~4	<4
Rural households (‘000s to receive energy services from projects, cumulative)	250	650	1000-1200
Efficient lamps (Million installed in projects, cumulative)	4.3	9	15
Power generation (MW renewable energy, facilitated by GEF, cumulative)	950	2,500	5,000
Annual investment (\$ billion, renewable energy, developing countries)	0.5 - 1.0	1.0 - 1.5	3.0-5.0 By 2010
Avoided CO2 emissions (million tons, GEF projects during period) ^b	300-600	400-800	800-1200

^a Programs for energy efficiency, renewable energy, and transport; excludes enabling activities.

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

International Waters Performance Indicators and Targets

C5. The indicators in the following table will be used to track impacts in this focal area.

Table C3: International Waters Targets

Indicators (for the period)	FY91-FY02 Foundational Work ⁴⁴ of the GEF	FY03-FY05
GEF Financing (\$ billion)	0.527	0.300
Co-Financing (average ratio):	1.5	2.0
<u>Global Coverage</u>		
Transboundary waterbodies with management framework of priority actions agreed by riparian countries	22 ⁴⁵	5 - 6
Countries	91	
<u>Agreed Joint Management Actions</u>		
Representative transboundary waterbodies with implementation support catalyzed with GEF resources	7 ⁴⁶	5 - 6
Countries with national policies, regulations, institutions, etc re-aligned with agreed joint management actions	45	
<u>Regional Cooperation</u>		
Regional bodies and management institutions established or strengthened in capacity	21	8 - 9
<u>Demonstrations of Technology Development or Transfer</u>		
Projects with technologies and management measures demonstrated under local conditions	22	4 - 5
Countries with demonstration technologies and management practices viable under local conditions	73	

⁴⁴ GEF's foundational work on international waters focuses on testing ways of catalyzing country-driven action for science-based management of transboundary waterbodies, including formulation of management frameworks for joint action, capacity development, and demonstration of technologies and innovative management measures.

⁴⁵ Coverage includes 22 transboundary waterbodies – 5 lake basins, 7 river basins, 1 aquifer basin, 9 marine ecosystems.

⁴⁶ Mostly minor levels of catalytic action as countries implement their action programs; only the Danube/Black Sea Basin Partnership tests an extensive programmatic approach to implementation.

Ozone Depletion Performance Indicators and Targets

C6. The indicators for successful outcomes will be the declining emissions of these substances in the eligible countries in compliance with applicable Montreal Protocol commitment schedules.⁴⁷

Table C4: Ozone Depletion Targets

Indicators	FY02-FY06
GEF Financing (GEF allocation in \$ billion)	0.05
Co-Financing (ratio)	2.0
Methyl Bromide ⁴⁸ (ODP t)	206 – 454
HCFCs ⁴⁹ (ODP t)	Within the range; 45 (minimum required by Protocol) and 363 (total phase-out)

Persistent Organic Pollutants Performance Indicators and Targets

C7. Because of the limited experience in the GEF portfolio and the start-up nature of GEF activities, firm targets for outcomes have not been developed. In the initial years, a number of process indicators and targets (corresponding to the start-up activities) would be used, as listed below.

⁴⁷ See GEF/C.18/Inf.6 *Ozone Layer Depletion: Future Commitments*

⁴⁸ Incremental costs for the phase-out range \$5 million to \$11 million.

⁴⁹ Incremental cost for the phase-out ranges from \$33 million to \$100 million. The Protocol currently requires only a 65% reduction in HCFC use by 2010, which would require reductions of 45.3 ODP t beyond reductions to date, at a cost of \$6 million to \$17 million.

Table C5: POPs Targets

Indicators	FY03-FY05
GEF Financing (GEF allocation in \$ billion)	0.250
Co-Financing (ratio)	1.5
<u>Process Indicators</u>	
Completion of National Implementation Plans (NIPs)	All countries eligible for GEF support
Strengthened policies, legislation, and institutions ⁵⁰	All countries eligible for GEF support
Countries initiating implementation of priority policy and legislative reforms and other priority capacity building needs as indicated in the NIP	20 - 30
Regional centers strengthened or created to support implementation of the convention and capacity building	5 - 10
<u>Stress Reduction Measures</u>	
Technologies demonstrated ⁵¹ ,	6 - 10
POPs reduction programs, identified as priorities in TDAs and adopted in SAPs for international water bodies	6 - 10
Stockpiled obsolete pesticides destroyed or under destruction. Programs would also prevent their further accumulation. Priority on Africa and LDCs.	20,000 tons
Sustainable alternatives to DDT	All countries requesting DDT exemptions (still relying on vector control)
<u>Ambient Levels</u>	
Levels in various media, reductions in emissions and runoff, and declines in rates of use of scheduled substances (including obsolete POPs)	tbd

⁵⁰ In order to protect human health and the environment from POPs; eliminate the production, export, and use of most POPs; restrict to acceptable levels and/or replace the use of DDT for disease vector control; and phase out the use of PCBs.

⁵¹ Technologies include: the environmentally safe destruction of obsolete stockpiles of POPs; site remediation through various means, including bioremediation; means to prevent or minimize emissions of POPs as by-products of industrial processes; and development of alternatives to POPs – pesticides and industrial chemicals, including IPPM.

Land Degradation Performance Indicators and Targets

C8. The indicators in the following table will be used to track impacts in this focal area.

Table C6: Land Degradation Targets

Indicators	FY03-FY05
GEF Financing (GEF allocation in \$ billion)	0.250
Co-Financing (ratio)	2.0
Land area protected from degradation. ⁵²	About 10-20 million ha.
Number of land degradation control plans (under implementation as an integral part of their sustainable development programs). ⁵³	About 50-65 countries

⁵² This comprises: the protection resulting in the conservation of habitats of global significance; sequestration of carbon, particularly through land rehabilitation measures; and reduction in carbon emission through sustainable agricultural practices that would help to minimize the use of fire to clear land.

⁵³ These plans would form the basis for priority measures to prevent/control land degradation and its resulting adverse impacts on the national, regional, and global environment as well as sustainable development.