



**GEF**

# **Global Environment Facility**

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GEF Council  
May 14-16, 2003

Agenda Item 10

**GEF BUSINESS PLAN FY04-06**

### Recommended Council Decision

The Council, having reviewed the *GEF Business Plan FY04-06*, welcomes the plan's strategic approach to planning so as to enhance impacts of GEF-supported activities. The Council approves the business plan, subject to comments made by the Council at the meeting, as a basis for programming of GEF resources, taking into account other related decisions of the Council, including its decision on the programming of resources for enhanced performance. The Council requests the GEF Secretariat to prepare a proposed GEF Business Plan FY05-07 for Council review and approval at its meeting in November 2003.

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## 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)
NIP	National Implementation Plan (of the Stockholm Convention on Persistent Organic Pollutants)
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)
SGP	Small Grants Program (of the GEF)
SIDs	Small Island Developing States
SMPR	Secretariat-Managed Project Review (of the GEF)
TDA	Transboundary Diagnostic Analysis (in international waters)
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WB	World Bank
WSSD	World Summit on Sustainable Development (Johannesburg, Aug-Sept 2002)

## INTRODUCTION

1. In the three decades since the Stockholm Conference on the Environment, the international community has made remarkable progress in understanding and dealing with environmental issues as an integral part of socioeconomic development. “Sustainable Development” has entered the lexicon imbued with a meaning that expresses the aspiration of human beings to achieve a better quality of life for the present and the future without undermining the very basis of our existence on this planet. While the world has seen unprecedented changes in social, economic, political, technological, and environmental conditions, this has been accompanied by concerted efforts at the national and international levels towards sustainable development. National policies, legislations and institutions have been developed and implemented; several international agreements covering environmental issues of global significance have also been reached.

2. The GEF, an international partnership, is part of this global aspiration towards sustainable development. During its first decade, the GEF has provided nearly \$4.2 billion in funding for more than 1000 projects in 140 developing countries. An independent evaluation<sup>1</sup> found that “GEF-supported projects have been able to produce significant results that address important global environmental problems.” Acting as a catalyst, the GEF has been able to help countries make progress on the sustainable development agenda. Nevertheless, the challenge remains large as several parts of the global ecosystem faces increasing pressure from growing demands being placed upon it.

3. The net loss in global forest area during the 1990s was about 94 million hectares (2.4 percent of total forests).<sup>2</sup> Global biodiversity is being lost at a rate surpassing the natural extinction rate succumbing to pressures from land conversion, pollution, the introduction of exotic species, and poor ecosystem management; it is estimated that 24 percent (1130) of mammals and 12 percent (1183) of bird species are globally threatened.<sup>3</sup> Global climate change caused by increasing emissions of CO<sub>2</sub> and other greenhouse gases, as well as land-use changes produces additional stress on ecosystems, and human health. Freshwater and coastal and marine ecosystems are facing intensified pressure from population growth, rapid urbanization and industrialization. Land, the basis of food production, is facing increasing degradation from unsustainable soil and water management practices and deforestation. It is estimated that in the 1980s about 10 million hectares of irrigated land were being abandoned annually.

4. In the face of this daunting challenge, the GEF, as it stands at the threshold of its second decade, is poised to build upon lessons learned and partnerships built during its first decade, to facilitate and catalyze actions towards global environmental sustainability. The proposed Business Plan is an expression of this intention not only to continue and build on past good work of the GEF, but also to strive for higher levels of partnership, effectiveness, efficiency, and impact.

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<sup>1</sup> First Decade of the GEF: Second Overall Performance Study, January 2002.

<sup>2</sup> *Global Environment Outlook 3*, UNEP, 2002

<sup>3</sup> Ibid.

## The GEF Business Plan

5. The GEF Business Plan is a rolling three-year plan of operations based on the mandate of the GEF derived from: (i) the GEF Instrument; (ii) the various global environmental conventions; and (iii) decisions and policy directions of the GEF Council.<sup>4</sup> The Business Plan is usually reviewed and approved by the Council during its Fall meeting, and sets the stage for review and approval of the annual GEF Corporate Budget presented to the Council at the following Spring meeting.

6. The Second Overall Performance Study (OPS2), and the Policy Recommendations of the Third Replenishment recommended that the GEF undertake strategic business planning to enhance impacts of GEF-supported activities. The last Business Plan, for the period FY03-05, with elements of strategic business planning, was reviewed by the Council at the May 2002 meeting. Given that the framework for strategic planning was linked to several issues then under discussion at the Council and the replenishment process, the Council requested that a revised plan be submitted for review at the May 2003 meeting.

7. The proposed GEF Business Plan, for the period FY04-06, consists of four main pillars:

- (a) Strategic Business Planning, to direct resources towards enhancing impacts on the ground;
- (b) Strengthening Country Ownership and Enhancing Country Performance;
- (c) Building on the Partnership and Performance of the GEF Agencies; and
- (d) Maintaining Institutional Effectiveness.

8. This Business Plan, for the period FY04-06, focuses mainly on the first pillar -- framework for strategic business planning in the GEF -- but also describes briefly the status of activities (and related decisions required) regarding the other three pillars.<sup>5</sup> After Council review and approval of this business plan, including the strategic planning framework, it is proposed that a Business Plan, for the period, FY05-07, with all the four pillars, be presented to the Council for review and approval during the November 2003 meeting. This will bring the Business Plan back to its appropriate position in the GEF planning cycle to precede the preparation of the Corporate Budget for Spring 2004.

9. The Business Plan for the period FY04-06 will cover the major part of the Third Replenishment Period (FY03-06). In August 2002, and subsequently, the Contributing Participants agreed that the size of the Third Replenishment should be SDR 2.365 billion (USD 3.0 billion).<sup>6</sup> The business plan also takes into account: (i) the Beijing Declaration of the Second

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

<sup>5</sup> The Business Plan is to be read along with GEF/C.21/Inf.11, *GEF Strategic Planning: Directions and Targets*, which contains the technical information regarding the strategic planning framework as they pertain to the different focal areas of the GEF.

<sup>6</sup> These are comprised of basic and supplementary contributions amounting to SDR 1,746 million (USD 2,215 million), credit for accelerated encashments in the amount of SDR 67 million (USD 85 million), carryover of (contd.)

GEF Assembly; (ii) the Policy Recommendations Agreed as part of the Third Replenishment of the GEF Trust Fund, endorsed by the Council; (iii) the recommendations of the Second Overall Performance of the GEF; and (iv) the WSSD Plan of Action.

### **Beijing Declaration of the Second GEF Assembly**

10. The Second GEF Assembly met in Beijing during October 16-18, 2002, and issued the Beijing Declaration containing a set of recommendations to strengthen the GEF to respond to evolving challenges, which included, inter-alia:

- (a) Expanded mandate, designating land degradation, primarily desertification and deforestation, and persistent organic pollutants as new focal areas;
- (b) Enhancement of GEF activities at the country level, consistent with national priorities and national sustainable development strategies and poverty reduction strategies;
- (c) Capacity building in recipient countries, to be identified and addressed in a systematic manner, with medium-sized projects playing an important role in capacity building, particularly in Least Developed Countries and Small Island Developing States; and
- (d) Strategic Business Planning, to enhance allocation of scarce GEF resources to high priority areas within and among focal areas, taking into account national priorities, with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices.

### **Policy Recommendations of the Third Replenishment**

11. Participants in the Third Replenishment process developed a set of policy recommendations, endorsed by the Council, relating to strategic issues to be addressed during the GEF-3 period (FY03-06).<sup>7</sup> These recommendations were formulated taking into account the Second Overall Performance Study as well as other reports emanating from the GEF Monitoring and Evaluation Program.<sup>8</sup> One of the key recommendations relates directly to strategic business planning (see Box 1).

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previous GEF replenishment resources in the amount of SDR 450 million (USD 570 million), and projected investment income to be earned during the GEF-3 replenishment commitment period (FY03-06) in the amount of SDR 105 million (USD 130 million).

<sup>7</sup> GEF/C.20/4, *Summary of Negotiations on the Third Replenishment of the GEF Trust Fund*, Annex C.

<sup>8</sup> The details of these policy recommendations and proposed follow-up can be found in the document GEF/C.21/Inf.4, *Action Plan to respond to the Recommendations of the Second GEF Assembly, the Policy Recommendations of the Third Replenishment, the Second Overall Performance Study of the GEF, and the World Summit on Sustainable Development*.

### **Box 1: Strategic Business Planning**

The new strategic business plan should be a performance-based, three-year plan that includes priorities for action 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. The strategic business plan should provide an indicative financial planning framework, based on focal areas and program priorities, that provides reasonable predictability for the involvement of the GEF in the medium term, linked to indicators of strategic relevance, programmatic consistency, and expected outcomes. The strategic business plan should be reviewed and approved annually by the Council. Such review should take into account, among other things, changes that may emerge from country priorities, convention guidance and lessons learned from monitoring and evaluation activities.

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Source: Policy Recommendations Agreed as part of the Third Replenishment of the GEF Trust Fund

### **World Summit on Sustainable Development (WSSD)**

12. In late August and early September 2002, The World Summit on Sustainable Development (WSSD) convened in Johannesburg. The Summit further emphasized the critical linkages between social development, economic growth, and environmental protection towards the goal of sustainable development. The WSSD Plan of Implementation contains a number of priority areas of relevance to the GEF's mandate.

13. The WSSD *Plan of Implementation* welcomed “ the successful and substantial third replenishment of the GEF, which will enable it to address the funding requirements of new focal areas and existing ones and continue to be responsive to the needs and concerns of its recipient countries, in particular developing countries, and further encourage GEF to leverage additional funds from key public and private organizations, improve the management of funds through more speedy and streamlined procedures, and simplify its project cycle.”<sup>9</sup>

### **GEF Council Decisions**

14. The concept of strategic business planning was first raised in the December 2001 Council Meeting in the context of Part I of GEF/C.18/10, *Note on Overall Structure, Processes, and Procedures of the GEF*, in which it was suggested that the earlier business planning principle of “steady, stable growth” be replaced by the concept of programming according to strategic priorities towards predictable and targeted allocation of scarce financial resources. The Council agreed that the section on strategic programming be addressed in the Corporate Business Plan for FY03-05 for consideration at the May 2002 Council meeting.

15. At the May 2002 meeting, Council reviewed GEF/C.19/10, *GEF Business Plan FY03-05*, and welcomed the effort to develop a strategic plan. The Council, recognizing that the business plan is linked to a number of issues then under consideration by the Council as well as the replenishment process, recommended that a revised plan be submitted for its review and approval at the May 2003 Council meeting, taking into account comments made by Council Members together with Council deliberations and decisions at the meeting and the October 2002 Council meeting on matters that would affect the plan.

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<sup>9</sup> WSSD Plan of Implementation, paragraph 81, under Chapter IX on Means of Implementation.



## STRATEGIC BUSINESS PLANNING

16. Strategic Business Planning is an approach that directs application of GEF resources in a manner that catalyzes actions towards maximizing global environmental impacts. There are two major imperatives that drive GEF's strategic business planning. First, as a learning-based institution, the GEF, even as it advances into its second decade, should look back, to take stock of and factor in the rich implementation experience emerging from the portfolio. Second, in recent years, as demand for GEF support, for a variety of reasons, began surpassing the financial resources available to the GEF Trust Fund, there has been an increasing need to match demand for and supply of GEF resources, employing factors beyond simple eligibility criteria.<sup>10</sup>

17. Focusing GEF resources strategically is to improve responsiveness to the relevant conventions<sup>11</sup> and national priorities of the recipient countries, towards maximizing impacts on the ground. The Strategic Business Planning Framework involves four elements:

- (a) Developing strategic priorities in each of the six focal areas of the GEF;
- (b) Projecting levels of financing for each priority;
- (c) Assigning targets and indicators for each priority, and developing appropriate monitoring and evaluating systems; and
- (d) Developing programming procedures.

This framework will be reviewed and employed on an annual basis while preparing the GEF Business Plan.

### Strategic Priorities

18. Strategic Priorities reflect the major themes or approaches under which resources would be programmed within each of the focal areas. These priorities, consistent with the Operational Programs, guidance from the conventions, and country priorities in each focal area, reflect a sharpening of approach as follows:

- (a) Lessons from the portfolio. The Second Overall Performance Study, and other reports and studies from the GEF Monitoring and Evaluation Unit have provided a lot of insight regarding experience with project implementation and impacts at both the project and program level that needs to be reflected in the future

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<sup>10</sup> The GEF has programmed resources on the basis of submission of proposals from the Implementing Agencies and Executing Agencies that the Secretariat has reviewed for eligibility in accordance with Project Review Criteria. Under this approach, projects submitted for GEF support were approved when they met the eligibility criteria.

<sup>11</sup> GEF is the financial mechanism of the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC), and functions under the guidance of, and is accountable to, the Conferences of the Parties of these Conventions. In addition, GEF, on an interim basis, pending entry into force of the Convention, operates the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants, and it has been agreed that the GEF may be available as a financial mechanism to the Convention to Combat Desertification (CCD).

portfolio. In addition, there is a rich body of experience with non-GEF supported efforts towards global sustainability. These lessons also provide guidance on how to target convention guidance and national priorities more closely, and achieve results on the ground.

- (b) Sequencing of response to Convention priorities. The current practice ensures that GEF projects are consistent with Convention priorities by requiring projects to conform to the criteria of an Operational Program that reflects Convention guidance. GEF needs to progress to an approach where response to Convention guidance needs to be strategically sequenced while maintaining the flexibility to program resources to meet the evolving needs of the Conventions and to program for synergies across the various Conventions.
- (c) Responsiveness to national priorities. Targeting the highest national priorities more actively through national reports, assessments, strategies, plans, and dialogue, in addition to relying upon country focal point endorsement.
- (d) Incorporation of scientific and technical advice. Identifying the priority interventions, consistent with scientific knowledge, through the work of the Scientific and Technical Advisory Panel (STAP), to reduce global environmental risks.
- (e) Portfolio gaps. Identifying gaps in the GEF portfolio and niches for innovation that need to be explored.

These strategic priorities have been developed by the Focal Area Interagency Task Forces, comprised of staff from the Secretariat, the Implementation Agencies, and STAP members. These strategic priorities are not mutually exclusive; many projects will address more than one strategic priority in a focal area; some may address multiple focal areas.

### *Capacity Building*

19. Capacity building is a strategic priority of the GEF that cuts across all focal areas. The GEF Secretariat, in consultation with the Implementing and Executing Agencies, is developing a strategic framework to give greater focus to capacity building in the GEF. The issue of capacity building has become a major priority within the global conventions, the GEF and the international community. Recent events such as the WSSD and the Second GEF Assembly reaffirmed the priority of building the capacity of developing countries.

20. In May, 1999, the GEF Council, aware of the growing importance being assigned by the conventions to capacity building as well as the fragmentation of efforts to address this need, approved the 18-month Capacity Development Initiative (CDI) as a strategic partnership between the GEF Secretariat and UNDP, for the preparation of a comprehensive approach for developing the capacities needed at the country level to meet the challenges of global environmental action.

21. The CDI was undertaken to: (i) make a broad assessment of capacity building needs of developing countries and countries with economies in transition; (ii) take stock of earlier and ongoing efforts to assist national capacity building; and (iii) prepare a strategy and a GEF-

specific action plan to provide enhanced and sustained assistance for the purpose. The CDI was undertaken in a highly consultative manner, based on national inputs, regional expertise, contributions by NGOs and bilateral/multilateral agencies, and the discussions of the global conventions on climate change, biological diversity, and desertification.<sup>12</sup>

22. Several key principles to guide the process of capacity building emerged during the assessment phase of the CDI. These include: (i) the importance of building on existing capacities; (ii) the need for countries to prioritize their actions in implementing global conventions to which they are Parties; (iii) the critical importance of national ownership in ensuring that built capacities are sustained; (iv) the need to adjust capacity building programs to individual countries; and (v) the necessity of coordination and linkage with ongoing efforts, and integration with other sustainable development initiatives.

23. Capacity building activities will be operated in a country-centered manner, exploiting opportunities for enhanced decision making at the country level and expedited project delivery whenever possible. The strategy will also seek to build on synergies with Implementing and Executing Agencies' regular capacity development activities. The four elements of the emerging strategy are:

- (a) Capacity building elements in investment projects. Regular GEF investment projects will continue as a major source of financing for capacity building by targeting capacities necessary to achieve project objectives and goals. Capacity building within investment projects will also be expanded to include not only the needs of the national agency/institutions/individuals mainly responsible for project implementation or benefiting from it, but other such actors whose involvement is indirect, yet important, in the overall context. Capacity building financing within investment projects will be separately identified so that the total GEF financing allocated to capacity building can be monitored.
- (b) Targeted capacity building within the focal areas. Each of the six focal areas of the GEF includes capacity building either as a strategic priority or as activities supported within their strategic priorities. Targeted, freestanding capacity building projects will primarily be designed as medium sized projects. Targeted capacity building within the focal areas will seek to enhance the GEF's responsiveness to the guidance of the conventions.
- (c) Enabling activities. Enabling activities will be more strictly defined as activities necessary to assist countries to meet their reporting requirements under the conventions. These will be supported within the context of capacity development work ongoing in a country. Within a broader program for capacity building it will be possible to undertake enabling activities for reporting requirements. Capacity building aimed at enabling countries to implement the conventions will be addressed under the modality described in (d) of this paragraph.

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<sup>12</sup> The findings of the CDI and the actions proposed were presented in the paper GEF/C.17/6/Rev1, Elements of Strategic Collaboration and a Framework for GEF Action for Capacity Building for the Global Environment.

- (d) Crosscutting capacity building projects will support capacity building activities outside the scope of any one focal area but common to achieving the goals of all focal areas. Such activities will include: (i) foundational capacity building, to establish the basic capacity of a country to meet its global environmental goals, including follow-up to the National Capacity Self Assessments (NCSAs); and (ii) support to those countries that need to enhance their performance to access GEF funds.

In developing capacity building projects, countries are expected to draw from the national capacity needs self-assessment that GEF will continue to support. It is anticipated that across the entire GEF portfolio, approximately 25 percent of GEF resources will be directed towards capacity building over the plan period. Targets and indicators will be established when the details of the strategy are developed and submitted for Council review and decision during November 2003. Refer to **Table 1** for financial resources projected for capacity building activities during the FY04-05 period.

**Table 1. Financial Resources projected for Capacity Building**

Elements of Capacity Building Strategy	Millions of US Dollars		
	FY03 (actual)	FY04	FY05
Capacity Building in Investment Projects (estimated funding under strategic priorities)	20	30	50
Targeted Capacity Building in Focal Areas (funded under strategic priorities)	69	80	91
Enabling Activities (climate change & biodiversity)	5	33	35
Cross-cutting Capacity Building	6	50	58
<b>Total</b>	<b>100</b>	<b>193</b>	<b>234</b>

Note: Resources for “Capacity Building in Investment Projects” and “Targeted Capacity Building in Focal Areas” are provided for under the strategic priorities in the focal areas, presented in Table 2.

### *Biodiversity*

24. During the last decade, the emphasis in the GEF biodiversity portfolio has been on financing protected areas with smaller, but growing, engagement with sustainable use, mainstreaming and private sector initiatives. As GEF moves into its second decade, and while recognizing that protected areas are the cornerstones of conservation, it is proposed that biodiversity conservation be mainstreamed increasingly by emphasizing growing support for conservation beyond protected areas. Such an approach would place greater emphasis on sustainability of results and the potential for replication, and move beyond a projects-based emphasis to approaches that systematically target country enabling environments and long-term institutional building. The proposed strategic priorities are:

- (a) *Catalyzing Sustainability of Protected Areas* – to conserve biodiversity through the expansion, consolidation, and rationalization of national protected area systems;
- (b) *Mainstreaming Biodiversity in Production Landscapes and Sectors* – to integrate biodiversity conservation in agriculture, forestry, fisheries, tourism and other production systems and sectors;

- (c) *Capacity Building* - for the Implementation of the Cartagena Protocol on Biosafety; and
- (d) *Generation and Dissemination of Best Practices* - for addressing current and emerging biodiversity Issues.

### *Climate Change*

25. In the climate change focal area, GEF-support during the first decade has focused largely on mitigation. The portfolio has tried and tested a range of project approaches and interventions, with an emphasis on the long-term, but also with some short-term measures. As the second decade begins, it is proposed that there be an acceleration in the shift from technology-based towards market-based approaches, emphasizing policies and institutions towards enhancing sustainable development benefits; in addition, activities in climate change will begin to include support for vulnerability assessment and adaptation. The proposed strategic priorities, including means of achieving them, are:

- (a) *Transformation of Markets for High Volume Products and Processes* - to catalyze both demand and supply sides with relatively small resource input, resulting in a significant and lasting market penetration or transformation;
- (b) *Increased Access to Local Sources of Financing for Renewable Energy and Energy Efficiency* - to provide capital for investment in (near-) commercial energy efficient equipment, energy conservation or renewable energy technologies for modern energy services;
- (c) *Power Sector Policy Frameworks Supportive of Renewable Energy and Energy Efficiency* – to incorporate clean energy into energy policy frameworks;
- (d) *Productive Uses of Renewable Energy* – to provide income generation and other essential social services;
- (e) *Global Market Aggregation and National Innovation for Emerging Technologies* – to support the reduction of cost in the long run of emerging clean energy technologies; and
- (f) *Modal Shifts in Urban Transport and Clean Vehicle/Fuel Technologies* – to emphasize public transit (such as bus rapid transit), non-motorized transport (such as bicycles and pedestrian areas), and non-technology measures (such as traffic demand management and economic incentives).

### *International Waters*

26. Activities supported in the international waters focal area will place greater emphasis on implementation while expanding coverage of GEF assistance to other transboundary water bodies. The strategic priorities listed below represent an evolution of the international waters program.

- (a) *Catalyze Financial Resource Mobilization* - to implement stress reduction measures and policy/legal/institutional reforms agreed through TDA-SAP or equivalent processes.
- (b) *Expand Global Coverage to Other Transboundary Waterbodies* - to undertake crosscutting and foundational capacity building needed to facilitate initial multicountry collaboration and complement this with targeted learning.
- (c) *Undertake Innovative Demonstrations* – to reduce contaminants and address water scarcity issues.

### *Ozone*

27. The GEF has successfully achieved its initial goal – helped all GEF eligible countries meet their ODS-phase out obligations according to Annexes A and B of the Montreal Protocol regime. Efforts in the current business planning period will focus on the provision of support to eight recipient countries for reduction of Methylbromide consumption to enable compliance with the *Copenhagen Amendment of the Montreal Protocol*.

### *Persistent Organic Pollutants*

28. The strategic priorities are based on the objectives and requirements of the Stockholm Convention on POPs<sup>13</sup> and the need to foster innovative approaches to integrated management of chemicals. The Convention has not yet entered into force and there is limited experience in its implementation. As a consequence, the strategic priorities may need to be revised in the future on the basis of further experience gained in executing projects and on the basis of guidance from the Convention.

- (a) *Targeted Capacity Building* - for the development of national implementation plans (NIPs), capacity building for LDCs, awareness raising, and dissemination of best practice;
- (b) *Implementation of Policy/Regulatory Reforms and Investments* - to support investments that emerge from NIPs or other priority setting exercises; and
- (c) *Demonstration and Promotion of Innovative and Cost-effective Technologies and Practices* - for disposal of products, phase-out of PCBs, alternatives to DDT, alternatives to other POPs.<sup>14</sup>

29. Consistent with the amendment to the GEF Instrument adopted by the GEF Assembly in Beijing, funding for the phase-out of chemicals other than POPs will need to be addressed as such phase-out relates to the other focal areas.

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<sup>13</sup> The Convention is yet to enter into force awaiting ratification by a minimum of 50 countries; 121 countries have signed the convention.

<sup>14</sup> Subject to specific exemptions under the Stockholm Convention, and practices with multi-focal area benefits such as integrated pest management.

## *Sustainable Land Management*

30. Until now, the GEF has focused on land degradation issues as they relate to achieving objectives in the GEF focal areas of biodiversity, climate change and international waters. With the introduction of sustainable land management as a focal area, GEF support will provide primary focus on land management as a means to achieve global environmental and sustainable development benefits. The priorities for sustainable land management are consistent with the objectives of the UN Convention to Combat Desertification, lessons and innovations on sustainable land management from GEF and non-GEF projects, and those emerging from the scientific and technical communities.<sup>15</sup>

(a) *Targeted Capacity Building*, particularly in LDCs – for mainstreaming of sustainable land management into national development priority frameworks, policy and regulatory reforms, and institutional strengthening.

(b) *Implementation of Innovative and/or Indigenous on-the-ground Investments*.

## **Projected Levels of Financing**

31. Based on the programming guidelines prepared for the Third Replenishment discussions, projected levels of financing have been prepared for each of the strategic priorities for the FY04-05 period. In addition to capacity building and the six focal areas, financial projections have also been provided for activities in the following thematic areas: (i) integrated approach to ecosystem management;<sup>16</sup> and (ii) Small Grants Program.<sup>17</sup> The projected levels of financing under each of the focal/thematic areas can be found in **Table 2**.

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<sup>15</sup> Further definition of strategic priorities in sustainable land management will be based on the review and approval of the proposed operational program by the Council.

<sup>16</sup> Activities funded under this theme, besides meeting the criteria of Operational program 12, will have to meet the strategic priorities in at least two of the focal areas.

<sup>17</sup> In response to recommendation from the Second GEF Assembly “to seek to expand the SGP to more countries and in particular to Least Developed Countries and Small Island Developing States,” it is proposed that the SGP expand at a faster rate with a target of 10 new participating countries each year during the business plan period.

**Table 2. Strategic Priorities and Projected Levels of Financing**

Strategic Priorities	Millions of US Dollars		
	FY03 (actual)	FY04	FY05
<b>Capacity Building</b>			
Enabling Activities (climate change & biodiversity)	5	33	35
Cross-cutting Capacity Building	6	50	58
<b>Total</b>	<b>11</b>	<b>83</b>	<b>93</b>

Note: Refer to Table 1 for total estimated levels of financing projected for all capacity building activities, including “Capacity Building in Investment Projects” and “Targeted Capacity Building in Focal Areas” both of which are provided for under the strategic priorities in the focal areas.

<b>Biodiversity</b>			
Catalyzing Sustainability of Protected Areas	80	90	90
Mainstreaming Biodiversity in Production Landscapes and Sectors	52	73	82
Capacity Building for the Implementation of the Cartagena Protocol on Biosafety	1	19	25
Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues	12	13	15
<b>Total</b>	<b>145</b>	<b>195</b>	<b>212</b>

<b>Climate Change</b>			
Transformation of Markets for high volume products and processes	28	25	25
Increased Access to Local Sources of Financing for Renewable Energy and Energy Efficiency	16	30	38
Power Sector Policy Frameworks supportive of Renewable Energy and Energy Efficiency	48	40	40
Productive Uses of Renewable Energy	20	35	40
Global Market Aggregation and National Innovation for Emerging Technologies	0	30	35
Modal Shifts in Urban Transport and Clean Vehicle/Fuel Technologies	20	20	39
Short-term measures	0	5	5
<b>Total</b>	<b>132</b>	<b>185</b>	<b>222</b>

<b>International Waters</b>			
Catalyze Financial Resources for implementation of agreed actions	46	45	30
Expand Global Coverage with Capacity Building Foundational Work	21	28	30
Undertake innovative demonstrations for reducing contaminants and addressing water scarcity	15	26	19
<b>Total</b>	<b>82</b>	<b>99</b>	<b>79</b>

<b>Ozone – Methyl Bromide Reduction</b>	<b>-</b>	<b>12</b>	<b>-</b>
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<b>Persistent Organic Pollutants</b>			
Targeted Capacity Building	42	8	6
Implementation of Policy/Regulatory Reforms and Investments	27	3	10
Demonstration of Innovative and Cost-effective Technologies	16	9	14
<b>Total</b>	<b>85</b>	<b>20</b>	<b>30</b>

<b>Sustainable Land Management</b>			
Targeted Capacity Building	5	25	30
Implementation of Innovative and Indigenous Sustainable Land Management Practices	5	40	55
<b>Total</b>	<b>10</b>	<b>65</b>	<b>85</b>

<b>Integrated Approach to Ecosystem Management</b>	<b>47</b>	<b>30</b>	<b>25</b>
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<b>Small Grants Program</b>	<b>30</b>	<b>54</b>	<b>69</b>
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Note: the above allocations include IA/EA fees for project cycle management services.



32. While financing levels have been projected for the period FY04-05, it is important to note that the projections are more defined across the strategic priorities during the first year of the plan (FY04) as they are based on clearer expectations regarding projects from the pipeline to be submitted for workprogram inclusion; for the later year of the plan (FY05), the financial projections are intended to be flexible across strategic priorities and years, but maintained broadly within the respective focal areas and themes. These projections<sup>18</sup> will be reviewed every year and adjustments made based on emerging program priorities,<sup>19</sup> the realities of the project pipeline, and mainstreaming opportunities in the agencies.

### **Performance Targets and Monitoring and Evaluation**

33. In the continuing effort to emphasize a results-based culture, performance targets have been established within each focal area for each of the strategic priorities for the GEF-3 period. Indicators for these targets have been based on the indicators that have been developed or are under development under the Monitoring and Evaluation Unit. Progress towards these targets will be measured in terms of indicators for objectives and outputs established by projects during the planning period. Contained within these indicators are the performance measures to be achieved by Fall 2004 as per the agreements at the Third Replenishment. Details of strategic priorities, projected levels of financing, performance targets and indicators can be found in GEF/C.21/Inf.11, *GEF Strategic Planning: Directions and Targets*.

### **Programming Procedures**

34. Programming employing strategic priorities will differ from current practice as follows. The Secretariat will review each new project concept to ensure that: (i) it is eligible according to the *Project Review Criteria*; (ii) it addresses<sup>20</sup> a strategic priority; and (iii) it can be accommodated within the projected level of financing for that priority. Only projects that meet all three criteria will be recommended to the CEO for inclusion in the Work Program. The CEO will approve medium-sized projects on this basis as well.

35. The Secretariat will program projects in consultation with partner agencies in an attempt to improve the predictability of resources. The Secretariat, on the basis of information provided by the Trustee, will first propose (and revise if the financial situation so requires) the levels of resource availability for each scheduled Work Program in the business plan period, and project the levels of approvals expected under expedited procedures.

36. The agencies will undertake their own business planning and prepare plans for their respective areas of engagement with the GEF, taking into account the overall business plan for the GEF. The Secretariat, prior to start of each fiscal year, will lead an annual pipeline management exercise, through the inter-agency task forces, to review the plans of the agencies and to program and update the submission of project proposals according to strategic priorities over the business plan period taking into account:

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<sup>18</sup> Across strategic priorities within focal areas, and also across the different focal areas.

<sup>19</sup> To accommodate guidance from the Conventions and decisions of the Council.

<sup>20</sup> With portfolio representativeness, filling gaps, and avoiding duplication.

- (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;
- (d) The projected level of financing for that strategic priority; and
- (e) Mainstreaming opportunities in the agencies.

37. These rolling programming procedures are designed not only to project overall GEF engagement over the business planning period, but also to provide the agencies with a degree of predictability in accessing GEF resources that they require to effectively implement their respective business and operational plans.

38. Performance-based allocation. GEF project allocations will be made taking into consideration country performance. For details about the proposed approach, refer to GEF/C.21/8, *Programming for Resources for Enhanced Performance and Results at the Country Level*.

39. Dealing with transition. This business plan is a transitional one that is dealing with a project pipeline that was developed prior to the adoption of the strategic business planning approach. Projects in the pipeline still meet the objectives of the GEF, are consistent with the operational programs, have benefited from considerable country dialogue and mainstreaming, and significant resources have been devoted to their preparation. It is expected that these projects will be submitted for Council approval during the early years of this planning period (i.e., FY04-05). Projects submitted for approval in the later period of the Business Plan (FY05-06) are expected to largely include projects clearly prepared under the guidance of strategic priorities and should consist, with few exceptions, of new entrants into the project pipeline.

#### **OTHER ELEMENTS THAT SUPPORT THE STRATEGIC PLANNING FRAMEWORK**

40. The GEF Business Plan, FY05-07, to be presented to the Council in November 2003, will contain full descriptions of all the four elements of the business plan. This section provides a brief status update on three elements: (i) strengthening country ownership; (ii) building on the partnership and performance of GEF Agencies; and (iii) maintaining institutional effectiveness.

#### **Strengthening Country Ownership**

41. Focal points and constituency coordination. Pending a Council decision on new proposals to strengthen focal points and support Council members, the GEF will continue to provide support to focal points and Council members that so request in accordance with the decision approved by the Council in May 1999. An analysis of the support provided to date is presented in document GEF/C.21/Inf.12, *Review of GEF Assistance to National Focal Points*, and resources necessary to continue this support in FY04 have been requested in the GEF Corporate Budget.

42. Country dialogue. An independent evaluation of the country dialogue workshops was completed in October 2002; in addition, each workshop was evaluated through a combination of

written questionnaires completed by participants, observations from resource persons from the GEF and its implementing agencies, and conversations between the project and the GEF focal points. All of the above observations recommend that the dialogue workshops should expand and continue to evolve based upon feedback from host countries and the strategic evolution of the GEF.<sup>21</sup> UNDP has prepared, in partnership with the GEF Secretariat and the other Implementing Agencies, a new project proposal for a National Consultative Dialogue Initiative. Under this proposal, the first phase of the project will be focused on constituency-based, sub regional workshops to immediately engage all countries in understanding the strategic priorities and operational modalities of the GEF and also to solicit countries views on the design and scope of country level consultations during the second phase of the project. It is proposed that up to 45 national consultative dialogues are organized during the second phase of the project.

43. Capacity needs self-assessment and enabling activities. GEF will continue to support capacity needs self-assessments as a basis for identifying country needs and priorities for capacity building to address global environmental issues at the country-level. GEF will also continue to support enabling activities addressed at meeting the reporting requirements of the global environmental conventions.

### **Building on the Partnership and Performance of GEF Agencies**

44. The GEF will continue to build on the partnership, facilitated by the GEF Council and the Secretariat, with the three Implementing Agencies and the seven Executing Agencies<sup>22</sup> accepted by the Council to operate under the policy of expanded opportunities.

45. Comparative advantage. The GEF Instrument (para 22) refers to the need for the Implementing Agencies to operate “within their respective areas of competence.” The Executing Agencies have been granted opportunities to work directly with the GEF on the basis of criteria covering the strategic match, capacity and complementarity. The comparative advantage of the GEF agencies with regard to the current business needs have been described in the last Business Plan.

46. Streamlining. At the May 2002 meeting, Council reviewed GEF/C.19/8, *Clarifying the Roles and Responsibilities of GEF Entities*. After taking note of the agreement among the GEF Secretariat and the Implementing Agencies regarding lead responsibilities for institutional roles and functions within the GEF, the Council requested, “the Secretariat to amend the note to take into account future decisions on matters that would influence the matrix (such as the role of the executing agencies and the monitoring and evaluation unit) and to present the revised note to the Council for endorsement at its meeting in May 2003.”<sup>23</sup> An information document,

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<sup>21</sup> OPS2 also noted the effectiveness of the country dialogue workshops.

<sup>22</sup> 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).

<sup>23</sup> Para 20, Joint Summary of Chairs, GEF Council Meeting, May 2002.

GEF/C.21/Inf.5, *Institutional Roles and Functions within the GEF*, has been included for this Council meeting.

47. Co-financing and leverage. In May 2001, Council requested a note on cofinancing of GEF projects. In the *Policy Recommendations agreed as part of the Third Replenishment of the GEF Trust Fund*<sup>24</sup> in August 2002, the Participants in the Third GEF Replenishment also recommended that a co-financing policy be prepared by the Secretariat, in consultation with the Implementing and Executing Agencies, for consideration by the Council at its meeting in October 2002. A paper was prepared in response to those requests, and submitted to the Council for review at that meeting. After review, Council requested the Secretariat to revise the paper taking into account the comments made and to submit the revised paper to Council for its review and approval in May 2003. The revised paper, GEF/C.20/6/Rev.1, *Co-financing*, is before the Council at this meeting.

48. Mainstreaming and complementarity. 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*. Progress on these issues has been reported to Council by the Implementing Agencies.

49. Partnership with the private sector. The Monitoring and Evaluation Unit is undertaking a Review of GEF Engagement with the Private Sector. An interim report from this review, GEF/C.21/Inf.8, has been provided to the Council; a final report will be prepared by June 2003, and submitted to the Council for discussion during the November 2003 meeting. Based on the findings of this review, and other experiences regarding work with the private sector, the GEF Secretariat, in collaboration with the Implementing Agencies and Executing Agencies, is preparing a new strategy to engage the private sector better.<sup>25</sup> Some of the elements of this emerging strategy are described in GEF/C.21/Inf.9, *Preliminary Strategy on GEF's Engagement with the Private Sector*, submitted to this Council meeting as an information document. GEF, in developing and implementing this strategy, will consult with private sector actors to identify perceived constraints to working with the GEF. The full strategy would be submitted for Council review and approval at the November 2003 meeting.

50. Report on agency commitment. In the previous business plans (for FY02-04, and FY03-05) a number of indicators were established for describing the deepening commitments of the Implementing Agencies. 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. Reporting on these indicators, for an initial selected set of Agencies, is proposed for the November 2003 meeting. It is proposed that targets be established on the basis of experience in November 2003.

51. Coordination with other partners for financing of global environmental projects. GEF will facilitate a coordinated approach to financing global environmental protection. Besides

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<sup>24</sup> See GEF/R.3/37.

<sup>25</sup> 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.

strengthening co-financing, 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.

## **Maintaining Institutional Effectiveness**

52. 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 on a number of fronts – institutional efficiency, financial efficiency, operational efficiency, incorporation of cutting-edge scientific and technical knowledge, drive for results, and communications with partners.

### *Institutional Efficiency*

53. The Second Overall Performance Study (OPS2) recommended<sup>26</sup> that the GEF Council consider a review of options to strengthen GEF's institutional structure, including providing it with a separate legal status. GEF/C.19/8.Add.1, *Administrative Arrangements to Enhance the Functional Independence and Effectiveness of the GEF Secretariat*, was discussed by the Council in May 2002. The Council fully supported the administrative arrangements and understanding presented in the paper. These arrangements will be implemented during this business plan period. Further, following the recommendation of OPS2, a special human resources planning exercise, and approval of the Council, the professional resources and management capacities of the GEF Secretariat have been strengthened in strategic planning, operations coordination, and country support.

### *Financial Efficiency*

54. Fee-based system. The fee-based system is an important enhancement of the financial management of GEF that took effect from July 1, 1999. GEF/C.20/5, *An Interim Report on a Revision of the Fee structure*, was discussed at the October 2002 meeting. The Council requested the GEF Secretariat, in consultation with the Implementing Agencies, to prepare a proposal for a revised fee structure for Council review and approval at its meeting in May 2003. The details of the revised fee-system are contained in GEF/C.21/10, *A Proposal for a Revised Fee Structure*, before the Council for discussion.

55. Corporate services. GEF units<sup>27</sup> 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. Details of the corporate services and associated budgets can be found in GEF/C.21/11, *GEF Corporate Budget FY04*.

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

<sup>27</sup> The six organizational units are: the GEF Secretariat (including the M&E unit), the three Implementing Agencies, STAP, and the Trustee.

### *Operational Efficiency*

56. OPS2 recommended<sup>28</sup> 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.

57. Streamlining the project cycle. 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 November 2003.

58. Re-location of the STAP Secretariat. Beginning June 2002, the STAP Secretariat has been re-located to the UNEP Regional Office in Washington D.C. This provides opportunities for closer cooperation between the GEF Secretariat and the STAP Secretariat, and the means to bring STAP's input early on into the policy development work at the GEF.

### *Drive for Results*

59. 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.<sup>29</sup> Under the Policy Recommendations at the Third Replenishment of the GEF Trust Fund, agreed to by the Council, it was recommended that the Monitoring and Evaluation (M&E) Unit be strengthened and made independent (GEF/C.20/7). The Terms of Reference for an independent M&E is presented in GEF/C.21/12. The workprogram of the Monitoring and Evaluation Unit is presented in GEF/C.21/13.

### *Communications*

60. The GEF's unique structure and the diverse, open, and transparent partnerships that it is pioneering require many new management techniques. Free flow of information, in both directions, between the GEF and its partners is essential to nurturing these partnerships. A Communications Strategy will be developed by November 2003, and implemented as a Corporate GEF-wide strategy, in collaboration with the Implementing Agencies.<sup>30</sup> This strategy will bring coherence to the activities currently being undertaken by the Secretariat and the Implementing Agencies. The Communications Strategy will support countries, conventions, programming and field staff, partner agencies, other stakeholders.

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<sup>28</sup> Recommendation 1 (Chapter 7). *op. cit.*

<sup>29</sup> See Box 1.1, *Operational Strategy*, p.2. Operational principles 10, 5, and 9 respectively.

<sup>30</sup> Budgeting for Communications will be provided as a corporate budget, with shares to be provided to the Implementing Agencies for their participation in clearly identified and agreed roles in implementing the strategy.