



# Global Environment Facility

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GEF Council  
November 17-19, 2004

Agenda Item 13

## GEF BUSINESS PLAN FY05-06

**Recommended Council Decision**

The Council, having reviewed the *GEF Business Plan FY05-06*, document GEF/C.24/9/Rev.1, takes note of the information on the performance in FY03-04 and the strategy for managing the pipeline of projects for the remainder of GEF-3 and into GEF-4.

## **Executive Summary**

The Council reviews the GEF business plan during its second meeting of each calendar year. The business plan used to be presented as a rolling three-year plan of operations. The Council at the November 2003 meeting discussed the last business plan, covering the FY05-07 period.

Beginning with this business plan, a new approach is being introduced, in which the GEF business plan will run in parallel and be concomitant with the programming document prepared for each GEF Trust Fund replenishment. At the second Council meeting of each year, the Secretariat in consultation with the Implementing Agencies, will prepare an annual business plan that is a retrospective of the fiscal years that have concluded in the replenishment period and a prospective of the fiscal years remaining in the replenishment period.

This Business Plan, FY05-06, reports on the FY03-04 period and looks ahead at the challenges and issues in the FY05-06 period.

During the FY03-04 period, \$1.4 billion of GEF resources, nearly half the resources programmed for the GEF-3 period, were committed.

Looking ahead to the FY05-06 period, there are programming challenges at two levels. First, while the projected total demand for GEF resources is about \$1.75 billion, the level of resources projected to be available in the GEF Trust fund is about \$1.68 billion, resulting in a potential shortfall of \$70 million. Second, while some focal areas have headroom, others are overprogrammed. The Secretariat and the Implementing Agencies, in consultation with recipient countries, will manage the programming intensively in next 18 months to deal with the potential imbalances in a minimally disruptive fashion.

Finally, there are some emerging management issues associated with concepts that are being entered into the pipeline during GEF-3, but which may only be ready for work program inclusion in GEF-4. These projects are being entered into the pipeline with the understanding that they need to be reviewed in GEF-4 for consistency with: (i) any resource allocation framework that may be in place, and (ii) any strategies/policies that may be agreed as part of the GEF-4 replenishment discussion, subject to any transitional arrangements agreed to by the Council.

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## **INTRODUCTION**

1. The business plan is usually reviewed and approved by the Council during its second meeting each calendar year. The Council at the November 2003 meeting discussed the last business plan, covering the FY05-07 period.

### **Business Plan – Historical Approach**

2. The GEF business plans have been presented as rolling three-year plans 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>1</sup>

3. In the past two years, the business plan has consisted of two major elements: (i) a strategic planning framework for programming resources across focal areas and strategic priorities across a three-year planning horizon; and (ii) a description of corporate activities<sup>2</sup> to be undertaken by the GEF in support of the strategic planning framework.

### **New Approach to Business Planning**

4. Beginning with this business plan, a new approach to resource planning cycle is introduced with the following features:

#### *Parallelism with the GEF Replenishment Cycle*

5. The business plan will run in parallel and be concomitant with the programming document prepared for each GEF Trust Fund replenishment. The resource programming document prepared for each replenishment will serve as the master business plan for the entire replenishment period.

#### *Annual Reporting*

6. At the second Council meeting of each calendar year, the Secretariat, in consultation with the Implementing Agencies, will prepare an annual business plan that will: (i) report on the actual resource commitment and targets achieved for the fiscal years that have concluded in the replenishment period; (ii) set out the resource programming projections for the fiscal years remaining in the replenishment period; and (iii) discuss potential issues associated with demand for, and supply of, GEF resources in these years.

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

<sup>2</sup> Corporate activities cover the following areas -- Strengthening country ownership and enhancing country performance, Building on the partnership and performance of GEF entities, and Maintaining institutional effectiveness – and are undertaken by the GEF Secretariat, Implementing Agencies, STAP, and the Office of Monitoring and Evaluation.

### *GEF-pipeline projections*

7. For periods extending beyond a replenishment period, information from the GEF pipeline will be presented as an indicator of potential demand for resources in the next replenishment period.

### *Corporate Activities in the GEF Budget document*

8. Corporate activities supporting the business planning will be more appropriately described in the corporate budget proposal submitted for Council approval at its first meeting in each calendar year. Such an approach ensures that the justifications for the corporate budget are described transparently and serve to justify the budget request.

### **BUSINESS PLAN, FY05-06**

9. To initiate the new approach, this business plan runs in parallel with the GEF-3 replenishment period (FY03-06),<sup>3</sup> and: (i) reports on the actual programming achieved in the fiscal years 2003 and 2004; and (ii) describes the resource programming issues and challenges facing the GEF during the FY05-06 period. The Secretariat, in collaboration with the Implementing Agencies and the inter-agency focal area task forces, is beginning preparations for the programming document to be submitted to negotiations on the Fourth Replenishment of the GEF Trust Fund. The draft programming document will be presented for Council review at its June 2005 meeting.

### **Strategic Planning Framework**

10. The strategic planning framework, introduced in the FY04-06 Business Plan, is an approach that directs application of GEF resources in a manner that catalyzes actions towards maximizing global environmental impacts. The strategic business planning framework involved four elements: (i) developing strategic priorities in each of the six focal areas of the GEF; (ii) projecting levels of financing for each priority; (iii) assigning targets and indicators for each priority, and developing appropriate monitoring and evaluating systems; and (iv) developing programming procedures. This framework is reviewed and employed on an annual basis while preparing the GEF business plan.

### **Strategic Priorities**

11. Strategic priorities reflect the major themes or approaches under which resources are programmed within each of the focal areas. These priorities, consistent with the Operational

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<sup>3</sup> 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). 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 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).

Programs, guidance from the conventions, and country priorities in each focal area, reflect a sharpening to: (i) incorporate lessons from the portfolio as identified under the work of the GEF Office of Monitoring and Evaluation and the Implementing and Executing Agencies; (ii) Sequence responses to Convention priorities to meet the evolving needs of the Conventions and to program for synergies across the various conventions; (iii) respond to national priorities; (iv) incorporate scientific and technical advice; and (iv) fill portfolio gaps.

12. The focal area interagency task forces, comprised of staff from the Secretariat, the Implementation Agencies, and STAP members, have developed these strategic priorities. These strategic priorities are not mutually exclusive; many projects address more than one strategic priority in a focal area; some may address multiple focal areas.

13. The strategic priorities in the GEF focal areas remain the same as described in the GEF/C.21/10, *GEF Business Plan, FY04-06*, and the accompanying information document, GEF/C.21/Inf.11, *GEF Strategic Planning: Directions and Targets*. In addition, a new strategic priority, *Piloting an Operational Approach to Adaptation*, was included in the climate change focal area in response to guidance from the United Nations Framework Convention on Climate Change, and noted by the Council at the November 2003 meeting. Annex 1 lists the strategic priorities.

### **Strategic Priorities and Resource Envelopes**

14. The earlier business plans, covering the FY04-06 and FY05-07 periods, programmed resources across the different strategic priorities of the GEF. Strategic priorities present a useful screen for emphasizing themes within GEF focal areas. Some focal areas have been fairly successful in managing the portfolio in accordance with the resource envelopes allocated against the strategic priorities, while in several focal areas this approach has not proven to be practical. On the other hand, the focal area resource envelopes have been helpful guides for programming and can be employed with the flexibility that is necessary for GEF programming and operations. Taking this experience into account, going forward, strategic priorities will be employed as a review screen, in addition to the project review criteria, and not associated with strict resource envelopes in the business plan.<sup>4</sup>

### **Resource Programming**

15. Based on the programming guidelines prepared for the third replenishment discussions, resource-programming targets were established for each focal area (and strategic priorities) for the FY03-06 period in the business plan prepared for the FY04-06 period. These targets were subjected to minor adjustments, including accommodation of the strategic priority on adaptation, in the business plan prepared for the FY05-07 period.

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<sup>4</sup> Focal areas may choose to allocated indicative envelopes to strategic priorities over a replenishment period as an operational approach to programming.

16. **Table 1** presents a picture of the resource-programming situation at the GEF in the middle of the GEF-3 period (two fiscal years completed, and two remaining).

- (a) Columns 1 and 2 contain the actual amounts of GEF resources that have been committed during the 2003 and 2004 fiscal years – this includes grants associated with all projects (including the embedded PDF resources) that have been approved by the Council/CEO, and the actual corporate budget and special initiative resources that have been spent;
- (b) Column 3 contains the total resources that have been committed during the FY03-04 period;
- (c) Columns 4 and 5 contain projections of resources associated with projects that are in the GEF pipeline and expected to be submitted for Council/CEO approval during the 2005 and 2006 fiscal years respectively;
- (d) Column 6 is the total amount of resource demand projected during the FY05-06 period;
- (e) Column 7 is the total demand for resources against each focal area during the third replenishment (FY03-06) period; and
- (f) Column 8 is the resource envelope against each focal area that was included in the last (FY05-07) business plan covering the third replenishment period (FY03-06).
- (g) The bottom row contains projections regarding resources available through the GEF Trust Fund during FY05-06 period. These projections are based on the best-case scenario that all donors will pay their future planned installments for GEF-3.<sup>5</sup>

## **PERFORMANCE AND CHALLENGES**

17. Table 1 (page 8) provides a comprehensive picture looking back and planning forward for the third replenishment period, and provides an opportunity to make some broad assessments of past performance, and identify future challenges.

### **Performance in FY03-04**

18. As shown in Table 1, nearly \$1.4 billion of GEF resources, or nearly half of the total for GEF-3 have been committed during the FY03-04 period. Other features worth noting are:

- (a) Commitments increased by 20 percent between FY03 and FY04.

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<sup>5</sup> These projections include resources accrued due to favorable exchange rates.



- (b) The biodiversity and climate change focal areas account for approximately a 25 percent share each of the total commitments, followed by the International Waters focal area, which committed about 16 percent of the resources.
- (c) The sustainable land management focal area, which had no commitments in FY03, increased commitments to \$ 61 million in FY04 and rapidly developed a pipeline that is now projected to use all of its targeted GEF-3 resources.
- (d) Several other focal areas have limited headroom. Under this situation, projects that are being entered into the pipeline in GEF-3 can only be approved by the Council/CEO in GEF-4. It is important to maintain some resource headroom so that new concepts have the possibility of entering the pipeline in a replenishment period and be prepared for Council approval during the same replenishment period. The pipeline needs to be managed more strategically in all the focal areas to prevent front-loading and locking-in of a replenishment period resources during the first couple of years of the same replenishment period.<sup>6</sup>
- (e) The Small Grants program has been able to meet the challenge of acceleration requested by the Council – doubling the number of countries entering the program every year.<sup>7</sup>

19. Performance targets were established within each focal area for the GEF-3 period (FY03-06). Progress towards these targets is to be measured in terms of indicators for objectives and outputs established by projects during the planning period. Contained within these indicators<sup>8</sup> are the performance measures to be achieved by Fall 2004 on which part of the U.S contribution is contingent. A report on the achievement of the Fall 2004 targets has been submitted to the Council for this meeting (GEF/C.24/3).

### **Programming Challenges in FY05-06**

20. An examination of the table reveals several challenges in programming for the two fiscal years remaining in the third replenishment period:

- (a) The total amount of resource demand is expected to be about \$1.75 billion, while the total amount of resources projected to be available in the GEF Trust Fund is \$ 1.68 billion, indicating a potential shortfall of \$ 70 million.<sup>9</sup> However, experience has shown that about 30 percent of projected operations each year slip

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<sup>6</sup> Pipeline management should ensure that there will be room for new concepts to enter the pipeline and go to the Council throughout the four year replenishment period, so as to avoid the transaction costs, missed opportunities and loss of credibility that results from “stop and go” programming.

<sup>7</sup> The SGP has moved to a track where 10 new countries are being added to the program every year.

<sup>8</sup> Details of performance targets and indicators can be found in GEF/C.21/Inf.11, *GEF Strategic Planning: Directions and Targets*.

<sup>9</sup> A more significantly negative scenario is where the potential gap increases to \$140 million.

or are dropped. Therefore, supply and demand should be balanced over the remaining two years, assuming the best-case funding scenario.

- (b) There are mismatches in demand for and supply of resources between FY05 and FY06. Given the historical slip/drop rates, a number of projects will probably will be delayed to FY06 and beyond; and
- (c) Some focal areas/strategic priorities are overprogrammed, while others have headroom for accepting projects. Some limited flexibility for reallocation of resources between focal areas (with regard to the FY03-06 envelopes) may be required.

21. The Secretariat and the Implementing/Executing Agencies, in consultation with recipient countries, will deal with the programming challenges in the work programs and approvals during the course of FY04-05 by taking the following steps:

- (a) employing more frequent updates of projections for resources for work program inclusion, and phasing the preparation of those projects;
- (b) reviewing and cleaning the pipeline of concepts that have not advanced over the last several years;
- (c) reviewing projects that were approved for workprogram inclusion, and considering dropping those that have a low probability of progressing towards CEO endorsement; and
- (d) considering minor reallocation between focal areas to respond to the demands as they emerge.

#### **PROGRAMMING ISSUES TO BE CONSIDERED IN GEF-4**

22. As the GEF transits from GEF-3 to GEF-4, there are implications for projects that are entering the pipeline under current policies and framework, but which may not be ready for work program inclusion until GEF-4.

#### **Management of GEF Pipeline**

23. All concepts for GEF projects have to be reviewed and entered into the GEF pipeline prior to further preparation and Council review for work program inclusion. There could be significant time lags between a project entering the pipeline and being submitted for work program inclusion. As a result, a number of projects currently being entered into the pipeline during GEF-3 will only be ready for work program inclusion in GEF-4. In addition, in some focal areas, where resources are scarce, concepts have been entered into the pipeline with the understanding that they will only be submitted for work program inclusion during the GEF-4 period. As shown in Table 2, nearly \$300 million worth of concepts currently entered in the GEF-3 pipeline are expected to be ready for work program inclusion in GEF-4, not including

projects from GEF-3 that may slip to GEF-4 because of difficulties in preparation or resource constraints.

24. For those projects entering the pipeline during GEF-3, but which will not be ready for Council/CEO approval until GEF-4 period, it is understood that they will be subject to any policies and/or priorities emerging from the policy recommendations agreed to as part of the fourth replenishment. These projects would also be subjected to any policies associated with a resource allocation framework for the GEF (see below).

### **Implications of the GEF Resource Allocation Framework**

25. The Council has discussed the development of a GEF resource allocation framework at meetings over the last two years (May 2003, November 2003, May 2004), and at a seminar in Paris in September 2004.

26. The implementation of this business plan and future business planning of the GEF will need to be fully responsive to any final Council decision on a resource allocation framework. The current plan does not reflect these implications, pending Council discussions and decisions on this topic. Concepts approved for entry into the pipeline during the GEF-3 period for potential work program inclusion when a resource allocation framework is in place will need to be reviewed for consistency with policies associated with the framework, subject to any transitional arrangements agreed to by the Council.

**Table 1. GEF Business Plan, FY05-06: Resource Programming**

Focal Areas/Themes of Programming for GEF-3	Millions of US Dollars							
	Column 1	Column 2	Column 3	Column 4	Column 5	Column 6	Column 7	Column 8
	FY03 (actual)	FY04 (actual)	Total (FY03-04)	FY05	FY06	Total FY05-06	TOTAL FY03-06	Overall FY03-06 Envelope
Capacity Building	45	95	140	16	1	17	157	196
Biodiversity	161	223	384	428	122	551	934	784
Climate Change	187	163	350	267	179	446	795	764
International waters	91	131	222	128	103	231	453	398
Ozone - Methyl Bromide Reduction	2	6	8	5	1	6	14	12
Persistent Organic Pollutants	34	7	41	60	23	84	125	213
Sustainable Land Management	0	61	61	103	83	185	246	250
Integrated Approach to Ecosystem Management	51	15	65	62	6	67	133	112
Small Grants Program	28	32	60	49	62	111	171	170
Total -- Focal Areas and Themes	599	733	1332	1117	581	1698	3030	2900
Special Initiatives	2	0	2	3	1	3	5	
Corporate Budget	25	22	47	25	26	51	97	100
<b>GRAND TOTAL</b>	<b>625</b>	<b>755</b>	<b>1380</b>	<b>1145</b>	<b>607</b>	<b>1752</b>	<b>3132</b>	<b>3000</b>
<b>Projections regarding Availability of Resources</b>				<b>944</b>	<b>737</b>	<b>1681</b>		

**Table 2: Projections from the GEF Pipeline for Projects expected for Council approval in GEF-4**

<b>Focal Areas/Themes of Programming for GEF-3</b>	Millions of US Dollars			
	<b>FY07</b>	<b>FY08</b>	<b>FY09</b>	<b>TOTAL</b>
Capacity Building				
Biodiversity	66			66
Climate Change	13			13
International waters	115	33	27	175
Ozone - Methyl Bromide Reduction				
Persistent Organic Pollutants	22			22
Sustainable Land Management	23			23
Integrated Approach to Ecosystem Management				
Small Grants Program				
<b>Total -- Focal Areas and Themes</b>	<b>239</b>	<b>32</b>	<b>27</b>	<b>299</b>

## GEF STRATEGIC PRIORITIES

<b>Capacity Building</b>
Enabling Activities (biodiversity, climate change, and PoPs)
Cross-cutting Capacity Building
<b>Biodiversity</b>
Catalyzing Sustainability of Protected Areas
Mainstreaming Biodiversity in Production Landscapes and Sectors
Capacity Building for Implementation of the Cartagena Protocol on Biosafety
Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues
<b>Climate Change</b>
Transformation of Markets for High Volume Products and Processes
Increased Access to Local Sources of Financing for Renewable Energy and Energy Efficiency
Power Sector Policy Frameworks supportive of Renewable Energy and Energy Efficiency
Productive Uses of Renewable Energy
Global Market Aggregation and National Innovation of Emerging Technologies
Modal Shifts in Urban Transport and Clean Vehicle/Fuel Technologies
Adaptation
Short-term Measures
<b>International Waters</b>
Catalyze Financial Resources for implementation of agreed actions
Expand global coverage with capacity building foundational work
Undertake Innovative Demonstrations for reducing contaminants and addressing water scarcity
<b>Ozone - Methyl Bromide Reduction</b>
<b>Persistent Organic Pollutants</b>
Targeted Capacity Building
Implementation of policy/regulatory reforms and investments
Demonstration of innovative and cost-effective technologies & practices
<b>Sustainable Land Management</b>
Capacity Building
Implementation of innovative and indigenous sustainable land management practices
<b>Integrated Approach to Ecosystem Management</b>
<b>Small Grants Program</b>