



Global Environment Facility

GEF/C.31/7
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GEF Council
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Agenda Item 13

GEF PROJECT CYCLE

Recommended Council Decision

The Council reviewed the *GEF Project Cycle* (GEF/C.31/7) and approves the revised project cycle for immediate application. The Council notes that the project cycle ensures (a) Council oversight of the implementation of GEF focal area strategies and programs, (b) GEF CEO executive authority to determine the composition of the work programs, including clearance of all concepts entering the work program, and cost effective use of GEF resources; and (c) Council review of final project documents prior to GEF CEO endorsement.

The Council requests the Secretariat, in consultation with the GEF agencies, the Trustee and the Evaluation Office, to prepare an operational manual to support the implementation of the project cycle and to facilitate access to GEF resources.

Executive Summary

1. The GEF Evaluation Office conducted an evaluation of the GEF project cycle in 2006, which concluded that: (a) the GEF activity cycle is not effective, nor efficient, and that the situation has grown worse over time; nor is it cost-effective; and (b) GEF modalities have not made full use of trends towards new forms of collaboration that serve to foster ownership and promote flexibility, efficiency and results.
2. At its meeting in December 2006, after taking note of these conclusions, the GEF Council agreed that no gains would be achieved by streamlining the current project cycle at the margins. The Council requested the Secretariat, in consultation with all the GEF entities, to present for Council review in June 2007 options for a new project cycle, with the objective of processing a proposal from identification to start of implementation in less than 22 months without compromising project quality or undermining financial accountability. In particular, the Council decided that such a proposal should address measures to: (a) focus the project identification phase on establishing project eligibility, resource availability, country endorsement and agreed agency comparative advantage; (b) move the work program from being project-based to being program-based in line with GEF strategies and policies; (c) allow projects to be endorsed by the CEO on a rolling basis; and (iv) expedite the project cycle.
3. This paper proposes a new GEF project cycle that is based on Council's guidance to the Secretariat, GEF Evaluation Office recommendations, as well as the CEO's proposals for reforming the GEF as outlined in the five-point Sustainability Compact presented to the Council in December 2006. The proposed new GEF project cycle consists of the following steps involving the Secretariat, the CEO, and the GEF Council in the project cycles of the Implementing and Executing Agencies:
 - (a) Council approval of the work program, consisting of project concepts (PIFs) cleared by the CEO;
 - (b) CEO endorsement following Council review of fully-prepared projects; and
 - (c) Secretariat monitoring of portfolio performance during implementation, and evaluation oversight of the GEF Evaluation Office
4. The GEF will establish a target for average elapsed time of 22 months from PIF approval to endorsement by the CEO. Besides reducing the number of steps in the project cycle, the revised cycle aims to reduce the documentation requirements by sharply focusing the Secretariat reviews of the PIF and the project document on those criteria that are critical to achieving the objectives for which a GEF grant is provided. Other criteria that reflect the GEF operational principles, such as sustainability, replicability, stakeholder involvement, co-financing commitment, scientific and technical innovation, are better, and more realistically monitored during project implementation through the annual project implementation reporting and review process as outlined in the Results-based Management Framework. Such an approach reflects a shift from an "approvals" culture to a "results-management" culture.

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Introduction

1. The GEF Evaluation Office conducted an evaluation of the GEF project cycle in 2006, which concluded that: (a) the GEF activity cycle is not effective, nor efficient, and that the situation has grown worse over time; nor is it cost-effective; and (b) GEF modalities have not made full use of trends towards new forms of collaboration that serve to foster ownership and promote flexibility, efficiency and results.
2. At its meeting in December 2006, after taking note of these conclusions, the GEF Council agreed that no gains would be achieved by streamlining the current project cycle at the margins. The Council requested the Secretariat, in consultation with all the GEF entities, to present for Council review in June 2007 options for a new project cycle, with the objective of processing a proposal from identification to start of implementation in less than 22 months without compromising project quality or undermining financial accountability. In particular, the Council decided that such a proposal should address measures to: (a) focus the project identification phase on establishing project eligibility, resource availability, country endorsement and agreed agency comparative advantage; (b) move the work program from being project-based to being program-based in line with GEF strategies and policies; (c) allow projects to be endorsed by the CEO on a rolling basis; and (d) expedite the project cycle.
3. This paper proposes a new GEF project cycle that is based on Council's guidance to the Secretariat, GEF Evaluation Office recommendations, as well as the CEO's proposals for reforming the GEF as outlined in the five-point Sustainability Compact presented to the Council in December 2006. The proposed new project cycle is based on four key principles:
 - (a) First, the GEF project cycle must be consistent with the GEF Instrument, which establishes two of the steps in the GEF project cycle: (i) Council review and approval of the work program (para. 20(c) of the GEF Instrument); and (ii) CEO endorsement of GEF projects before final approval (para. 30 of the GEF Instrument).
 - (b) Second, the GEF CEO has executive authority in the GEF project cycle to: (i) ensure, in consultation with the GEF Implementing Agencies, the implementation of the operational policies adopted by the Council, (para. 21(c) of the GEF Instrument); (ii) determine the content of a joint work program for the GEF among the GEF Implementing Agencies (para. 29 of the GEF Instrument); and (iii) ensure the accountability of the GEF agencies to the Council for the quality and cost-effectiveness of their GEF-financed projects;
 - (c) Third, the GEF Secretariat's review of project concepts at an early stage in project processing is essential for operational efficiency, resource predictability, and strategic coherence of the GEF pipeline; and
 - (d) Fourth, the GEF Council should enhance its strategic oversight of portfolio development, accompanied by stronger reporting from the results-based management system during and after implementation.

4. The GEF will establish a target for elapsed time not to exceed 22 months from PIF approval to endorsement by the CEO. The new project cycle seeks to achieve this by: (a) reducing the number of GEF project processing steps; and (b) focusing documentation requirements on criteria that are harmonized with the standard procedures of the agencies, so that GEF project processing can more closely match the agencies' mainstream business standards.

5. This paper outlines the proposed changes to the GEF project cycle. The GEF Secretariat, in consultation with GEF agencies, Trustee, and STAP, will prepare an operations manual, containing operational guidelines to assist project proponents to access GEF resources.¹

Proposed GEF project cycle²

6. The first step in the GEF project cycle will be the GEF CEO's review of the project concept documented in a Project Identification Form (the "PIF"). PIFs, not to exceed four pages, and endorsed by the country operational focal point,³ will be submitted by the agencies to the GEF Secretariat for review on a monthly basis. PIFs will be circulated among all GEF agencies, STAP, and relevant Convention Secretariats for comments within five business days of circulation. Thereafter, the GEF Secretariat will have another five business days to complete its review of PIF submissions. The review of a PIF will focus on the following elements:

- (a) country eligibility;
- (b) consistency with GEF strategic objectives and strategic programs;
- (c) comparative advantage of the GEF agency submitting the PIF;
- (d) estimated cost of the project, including expected co-financing;
- (e) consistency of the GEF grant request with resources available in the focal area and Resource Allocation Framework allocations;
- (f) milestones and understandings for further project preparation.

7. Once the Secretariat has completed review, the CEO will consider the PIF for inclusion in a work program.⁴ PIFs cleared for work program inclusion will be eligible for a GEF project preparation grant (the "PPG"),⁵ if needed. PPG requests will be approved by the GEF CEO on the basis of a project preparation budget request, based on financing for the actual incremental costs of project preparation (para. 40, Joint Summary of Chairs, December 2006 Council meeting).⁶ If the agreed milestones and understandings in the PIF and PPG approval letters are

¹ Including policies with regard to co-financing, monitoring and evaluation, and project cancellation.

² The proposed GEF project cycle described in this paper applies to full sized, medium-sized and enabling activities projects, unless indicated otherwise.

³ PIFs need to be endorsed by the country operational focal points. If resources are requested from the biodiversity or climate change focal areas, operational focal points should explicitly endorse the indicative project amount, including fees, requested from allocations available to the country under the GEF Resource Allocation Framework. Endorsement is required only once in the project cycle when a concept is submitted for PIF review. However, operational focal points may reserve the right to review and endorse a project prior to submission to the Secretariat for CEO endorsement.

⁴ Refer to Annex 1 for a template of the CEO transmittal letter of PIF clearance.

⁵ PPG requests may be submitted simultaneously with PIFs.

⁶ The GEF CEO may also approve a agency fee advance of 10% of the PPG grant amount.

not achieved, the CEO will consult with the recipient country and concerned agency, and may agree to revised milestones and understandings or decide to cancel the project concept from the GEF pipeline and recommend to the agency that the associated PPG be cancelled.

Council Approval of the Work Program

8. The second step in the GEF project cycle will be approval of the work program by the GEF Council. The Council will review four work programs every year – one at each Council meeting, and two intersessionally, with decision by mail on a no-objection basis, between Council meetings. The CEO will constitute the work program from PIFs cleared since the last work program, taking into account the level of resources available in the GEF Trust Fund. The individual PIFs, with estimated GEF grant amounts, will be annexed to the work program document and will be posted on the GEF website: (a) 4 weeks in advance of a Council meeting for a work program to be discussed at a Council meeting;⁷ or (b) 4-weeks in advance of a decision date for an Intersessional work program.

9. The work program document will focus on policy and strategic issues for Council consideration and describe the overall programmatic coherence of the concepts presented in the following terms:

- (a) their collective contributions to the GEF strategic objectives and programs;
- (b) their focal area and geographic balance, including a cumulative assessment of previous work programs;
- (c) their innovative elements, as well as replication potential;
- (d) the key assumptions and risks in the further development of the portfolio; and
- (e) the resource programming implications.

10. In approving the work program, the Council will provide guidance to the Secretariat and the agencies on the strategic directions and programming framework for the GEF. In addition, Council may agree to remove specific concepts from the work program reviewed at a Council Meeting. For an intersessional work program, if one or more Council Members object to the work program or a particular concept, the work program or the concept will be deferred to the next regular meeting of the Council.

11. Council Approval of Umbrella Programs. Umbrella programs for GEF funding will only be submitted to Council at its meetings, not inter-sessionally. Documentation for an umbrella program presented to the Council in a work program will identify all the projects to be financed under the program and, if possible, will present the PIFs for the concepts. When it is not possible to present a PIF at the time of work program approval of the program, the umbrella program document will establish a timeline within which the PIFs of all concepts need to be reviewed by the Secretariat and approved by the CEO. All approved PIFs will be posted on the GEF website.

⁷ Any comments on concepts included in a work program should be provided within ten business days of approval of the work program.

CEO Endorsement

12. The third step in the GEF project cycle will be the GEF CEO's endorsement of the projects before such projects are approved by the agencies. The final GEF grant amount is confirmed by the CEO at this point. The agencies will transmit for CEO endorsement the same documentation that they submit for approval by their respective internal approving authorities. The project proposals will be reviewed by the Secretariat for compliance with the following conditions for endorsement:

- (a) High likelihood that the project as designed will deliver its outcomes and will generate appropriate global environmental benefits that are consistent with focal area strategies, with an adequate explanation for any changes in expected global benefits since PIF approval.
- (b) GEF funds are used cost-effectively, including through the review of project budgets, including project cost tables for project components, project management, and consultants;
- (c) Compliance with GEF's M&E policy;
- (d) Project preparation grant has been used in a cost effective way, as explained in the project preparation grant status report.

13. The Secretariat will have ten business days to review submissions for endorsement. The Secretariat will thereafter circulate among Council Members, for a four-week review period, all the project proposals that the GEF CEO determines have complied with the conditions for endorsement. In the absence of objections by at least four Council Members, the GEF CEO will endorse the project proposal for final approval by the agency concerned.⁸ However, if at least four Council Members request that a project be reviewed at a Council meeting because in their view the project is not consistent with the Instrument or GEF policies and procedures, the CEO will submit the project document to the next Council meeting, and will only endorse the project for final approval by the Implementing (or Executing) Agency if the Council finds that the project is consistent with the Instrument and GEF policies and procedures (paragraph 30 of the GEF Instrument).

14. CEO Endorsement of Medium-sized Projects. Medium-Sized Projects (up to \$1 million in GEF financing) will be circulated for a two-week period to the Council for comments prior to CEO endorsement.

15. CEO Endorsement of Enabling Activities under expedited procedures. Enabling activities under expedited procedures (up to \$500,000 in GEF financing) will be endorsed by the CEO and the project document posted on the GEF website.

16. The Secretariat will ask agencies to revise proposals that it deems not to be in compliance with the specified conditions for endorsement and resubmit them for review, with another 10-day

⁸ Subject to milestones which, if not met, may lead to the GEF CEO to consult with the agency about revising them or recommend cancellations, termination or suspension of the project.

review period being applicable. The CEO may also determine, in consultation with the country and the agency concerned, to stop further project preparation and cancel the project from the GEF pipeline.

17. The GEF agency fee will be approved at the time of the GEF CEO's endorsement.⁹

18. CEO endorsement of Projects in Umbrella Programs. Projects included in a umbrella program will follow the procedures described above for CEO endorsement, depending upon the size of the GEF request in the individual projects. In addition, for projects requesting up to \$500,000, the CEO may delegate the endorsement to the GEF agency, establishing requirements for frequent stock-taking of agency approvals.

19. Allocation and Commitment of Funds. For full-sized projects, the Trustee will allocate funds towards the concepts (all project costs) listed in the work program once the work program is approved by the Council. However, the Trustee will commit these funds to the respective agency only after CEO endorsement, based on the amount endorsed by the CEO. Fees for full-sized projects will be allocated and committed upon approval by the CEO. In the case of other projects and activities for which the CEO has delegated authority (endorsement of medium-sized projects, endorsement of enabling activities under expedited procedures, approvals of project preparation grants), the Trustee will allocate funds towards projects or activities (all project/activity costs and related agency fees) and commit to the respective agency after CEO endorsement/approval. In all cases, transfer of funds to agencies will be made after commitment by the Trustee and necessary agency approvals, and follow the procedures agreed between the agencies and the Trustee.

Implementation Supervision, Monitoring and Final Evaluation

20. The fourth step in the GEF project cycle will consist of implementation supervision, monitoring and final evaluation. Streamlining the GEF project approval process will be accompanied by more robust result verification mechanisms. As part of its monitoring responsibilities, the Secretariat will conduct an Annual Monitoring Review, which will be based on the submission of Project Implementation Reports by the agencies. The key issues to be monitored will include: implementation progress, focal area strategic objectives' performance indicators, projects at risk, actions to achieve sustainability and replicability, stakeholder involvement, and co-financing status.

21. The agencies will be required to submit the final evaluation reports to the GEF Evaluation Office. In addition, the GEF Evaluation Office will also assess the adequacy of the M&E system in the GEF, including compliance with the GEF M&E Policy.

Management of the Project Cycle

22. The Secretariat, in consultation with the countries, and in collaboration with the GEF agencies will actively manage the project cycle as described in GEF/C.30/3, *Selection, Pipeline Management, Approval of Sub-projects, and Cancellation Policy*. Additional criteria to guide

⁹ The fee at CEO endorsement will be net of any fees approved at the time of PPG approval by the CEO.

these decisions, as requested by the Council at the December 2006 meeting, are suggested in Annex 2.

Conclusion

23. The proposed project cycle ensures that three critical requirements are met: (a) Council guidance on the implementation of GEF focal area strategies and programs; (b) GEF CEO oversight of the composition of the work program, including clearance of the concepts, and cost-effective use of GEF resources; and (c) Council review of final project documents at the time of the GEF CEO's endorsement.

Annex 1. Template of CEO Transmittal Letter of PIF Clearance

[Date]

GEF Executive Coordinator
Implementing/Executing Agency

Dear _____:

After reviewing the Project Identification Form (the “PIF”) submitted for [name of project], I am pleased to clear the PIF for work program inclusion, authorizing you to begin preparation of the project proposal [taking into account the attached comments made by the GEF Secretariat]. Clearance of the PIF is based on the project concept’s eligibility for GEF funding and conformity with GEF strategies. However, the final GEF grant amount will be confirmed at the time of GEF CEO endorsement, on the basis of the Secretariat’s review of the final project document’s consistency with GEF policies and procedures, including the cost-effectiveness of the financing plan.

This PIF will be posted on the GEF website for review by Council Members. The Secretariat will also include the PIF in the next work program [scheduled for discussion at the Council Meeting on ____][to be distributed to Council Members for approval by mail on ____]. Council Members will have the opportunity to provide comments on the project proposal up to [date].

Should Council Members raise significant policy or strategic concerns about the concept, the Secretariat will undertake consultations with the beneficiary country and your agency about revisions to address the Council Members’ concerns or whether to cancel the project proposal from the GEF pipeline and to recommend that the associated PPG be cancelled.

It is our expectation that your agency will submit a final project document for endorsement no later than _____. You are requested to inform the Secretariat as early as possible if this timeline cannot be met. We will then consult with the beneficiary country and your agency prior to reaching a decision on whether to establish new milestones or to cancel the concept from the GEF pipeline.

Sincerely,

GEF CEO

Cc: Country Operational Focal Point

* Date to be suggested by the agency for GEF CEO consideration.

Annex 2. Criteria for Cancellation or Suspension or Termination of Projects

During Project Preparation	During Project Implementation
<p>1. Not meeting the agreed pipeline management elapsed time benchmarks, i.e. milestones at the time of PIF approval, unless agreed to revised milestone dates at a later stage. Milestones include the following:</p> <ul style="list-style-type: none"> • Project submission for work program inclusion • Project submission for CEO endorsement • Grant Agreement by GEF Agency 	<p>1. Not meeting the agreed milestones at the time of CEO endorsement, unless agreed to a revised milestone dates at a later stage. The milestone during the implementation include the following:</p> <ul style="list-style-type: none"> • Mid-term implementation status report (no later than six months of the mid-term evaluation mission); • Project Completion date.
<p>2. Not meeting the agreed project review criteria for GEF projects during the proposal reviews.</p>	<p>2. Poor implementation performance leading to a conclusion that the project can no longer meet its objectives. Poor implementation performance may be interpreted from, inter alia:</p> <ul style="list-style-type: none"> • Project Implementation Report (PIR); • Mid-term Evaluation Report (MER); • Record on the disbursement of funds; • Other monitoring reports and activities by the GEF Secretariat, Agencies, and others.
<p>3. Criteria during the implementation of the PPG may include:</p> <ul style="list-style-type: none"> • Changes in GEF focal area strategic priorities; • Changes in country national priorities; • The issue that the project was planned to address (e.g. threats, barriers removal, etc.) is removed or no more relevant; • Corruption or fraudulent practices were detected during the procurement of a contract, and the grantee/borrower has failed to take action acceptable to the GEF to remedy the situation. 	<p>3. Corruption or fraudulent practices were detected during the procurement of a contract, and that the grantee/borrower has failed to take action acceptable to the GEF to remedy the situation.</p>
	<p>4. The issue that the project was planned to address (e.g. threats, barrier removal, etc.) are removed or no more relevant.</p>
	<p>5. Changes in country national priorities.</p>
	<p>6. Any other criteria established under the concerned GEF Agency policy and/or rules on project cancellation or suspension.</p>