Global Environment Facility

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Agenda Item 17

OPTIONS FOR ENHANCED FINANCIAL SUPPORT TO SELECTED GEF-4 PROGRAMS

Recommended Council Decision

The Council, having reviewed the document, *Options for Enhanced Financial Support to Selected GEF-4 Programs* (GEF/C.35/10), considers **Option C – the establishment of one new programmatic trust fund for the three selected Council endorsed Programs to be operated by the GEF for the remainder of GEF-4 -** as the most cost-effective and viable option for enhancing the financial support to these three GEF-4 Programs. This new programmatic trust fund will have a sunset clause, which coincides with the approval/endorsement of the last project under the three Programs. The Council tasks the GEF Secretariat (and requests the Trustee) to make the necessary arrangements to operationalize Option C and requests a progress report at the Council meeting in November 2009.

EXECUTIVE SUMMARY

1. In November 2008, the GEF Council discussed the decision paper "*GEF Trust Fund for Programs*" (GEF/C.34/7), which sought the establishment of a trust fund for capturing additional donor funding for specific GEF-supported Programmatic Approaches. The Council requested the Secretariat to prepare a revised document, exploring options other than the creation of a trust fund, and to circulate, for a decision by mail, a proposal for meeting the co-financing needs of the Programmatic Approaches, in February 2009. After receiving comments from Council Members, it was decided that the document be revised further to reflect the comments and to resubmit to Council the revised paper, *Options for Enhanced Financial Support to Selected GEF-4 Programs* (GEF/C.35/10) for Council decision in the June Council meeting.

2. Raising additional funding for GEF Programs is a central and strategic goal for the GEF, especially for Programs involving countries with low capacities and a poor track-record of attracting project co-financing from various sources. The Council is requested to review this document in terms of a short-term solution for selected GEF-4 approved Programs, in particular the Pacific Alliance for Sustainability (PAS), the Strategic Program for Sustainable Forest Management in the Congo Basin (CBSP) and Strategic Program in West Africa (SPWA). These three Programs are led by the World Bank and/or UNIDO.

3. The need for finding options for providing enhanced financial support to selected GEF-4 Programs is rooted in the following challenges:

- Co-financing needs for selected Programs have not been met, and there is currently no option to deliver co-financing for GEF Programs at a programmatic level, despite the mechanism for capturing project-level co-financing being in place at the GEF Agency level. Specifically for GEF-4, the following three Programs[1] led by the World Bank and/or UNIDO, are facing such problems: PAS, CBSP and SPWA; and
- Costs incurred to undertake task essential to the designing and realization of high quality results at the programmatic level are currently not being fully reimbursed to the Lead Agency, or the Secretariat.

4. The paper discusses three options:

(a) Business-as-usual (status quo).

(b) Establishment of a Program-related trust fund by the GEF Lead Agency for each Program.

(c) Establishment of one new programmatic trust fund for the three selected Programs to be operated by the GEF for the remainder of GEF-4.

[1] Each of these Programs is implemented through a number of small projects, for which the required co-financing may be in the range of $300,000 to $800,000. Some donors have shown interest in providing additional, earmarked funding to one or more of these designated Programs.

5 Each option is described in terms of its main features, the extent to which it will facilitate effective Programmatic Approaches, cost recovery options for the GEF Secretariat and the GEF Agency(ies) leading the GEF Programs; and costs associated with the operationalization of the option.

INTRODUCTION

Background

1. In November 2008, the GEF Council discussed the decision paper "*GEF Trust Fund for Programs*" (GEF/C.34/7), which sought the establishment of a trust fund for capturing additional donor funding for specific GEF-supported Programmatic Approaches.

2. The Council took note of the suggestion for establishing a GEF trust fund for Programs (GTFP) and invited the Secretariat to revise the document to respond to the questions raised by the Council about the proposed GTFP, including exploring options other than the creation of a trust fund, and to circulate, for a decision by mail, a proposal for meeting the co-financing needs of the Programmatic Approaches, in February 2009.

3. The GEF Secretariat received numerous comments from Council Members during the Council meeting. Additional comments were received by mail from the Council Member from Australia and New Zealand requesting a pragmatic solution for supporting a specific GEF Program approved during GEF-4, namely the *Pacific Alliance for Sustainability* (PAS). It was pointed out that the engagement with Agencies and countries at the project level for these Programs was not cost-effective. Because the project amounts were relatively small, the desired co-financing was as well, a more strategic option for providing co-financing to these projects was warranted. A decision was taken to resubmit the paper for Council decision in its June meeting.

4. Raising additional funding for GEF Programs is a central and strategic issue for the GEF, especially for countries with low capacities and a poor track-record of attracting project co-financing from various sources. A more long-term solution for capturing co-financing for GEF Programs in general will be part of the replenishment discussion for GEF-5. Hence, **Council is requested to review this document in terms of a short-term solution for three GEF-4 approved Programs, (a) the *Pacific Alliance for Sustainability* (PAS), (b) the *Strategic Program for Sustainable Forest Management in the Congo Basin* (CBSP), and (c) *Strategic Program in West Africa* (SPWA).** These three Programs are led by the World Bank and/or UNIDO.

5. The proposed options continue the assumption in the April 2008 approved Council paper *From Projects to Programs: Clarifying the Programmatic Approach in the GEF Portfolio* (GEF/C.33/6) that the GEF Programmatic Approach provides a valuable modality for enhanced partnership building, increased synergies among focal area objectives and improved results from the catalytic use of GEF funds. The paper here builds on, and makes reference to, this Council paper.

6. During the fourth replenishment period, the GEF Council has already approved 18 Programmatic Approaches. Based on the ongoing experience with designing and implementing these Programmatic Approaches, the following opportunities and challenges can be summarized:

7. *Opportunities*: The increased support to Programmatic Approaches has significantly raised the visibility of the GEF at the country and regional levels. This is especially true for

Programs in regions and countries that have low institutional capacities and a poor track-record of attracting project-level co-financing to cover costs for activities generating national/local benefits. Programs are designed with close collaboration between the country (-ies), GEF Agencies and other stakeholders and with an active involvement of the GEF Secretariat providing strategic and policy guidance. On several occasions, countries have expressed an increased sense of ownership for their programs/projects and increased appreciation for such regional efforts that address global environmental challenges in the context of national development goals. Moreover, donors and other interested parties have praised the open dialogue prior to, and during, the Program design process. In most cases, these partners have expressed their interest in providing additional co-financing in form of grants to the Programs.[2]

8. *Challenges*: With the new opportunities arising from the Programmatic Approaches, there are also challenges associated with them. Two main sources have been identified.

- Co-financing needs for selected Programs have not been met, and there is currently no option to deliver co-financing for GEF Programs at a programmatic level, despite the mechanism for capturing project-level co-financing being in place at the GEF Agency level. Specifically for GEF-4, the following three Programs[3] led by the World Bank and UNIDO, are facing such problems: PAS, CBSP and SPWA; and
- Costs incurred to undertake task essential to the designing and realization of high quality results at the programmatic level are currently not being fully reimbursed to the Lead Agency, or the Secretariat.

9. The GEF Secretariat has increasingly provided policy and strategic advisory services towards helping the design process of GEF-4 Programs, and has helped to convene the parties and stimulate the formation of Programs, in response to an identified opportunity or a gap.

10. The GEF Lead Agency has to carry out specific tasks at the Program level, in addition to any project-related function, such as:

- Overall design of the Program and building of strategic alliances between GEF and non-GEF agencies to work under the programmatic framework;
- Oversight of the progress of Program implementation;
- Implementation of results-based management M&E at the Program level (and is therefore held accountable as the Lead Agency vis-à-vis GEF); and
- Fostering knowledge management and synergies among projects under the Program and with other relevant interventions (GEF as well as non-GEF).

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2 "Co-financing can be either part of the underlying project as on-going interventions or new and additional funding secured for the project. Co-financing can be considered as incremental if it achieves GEBs, thus allowing the GEF to share or (co-fund) the incremental costs" of a proposal with other partners. *Operational Guidelines for the Application of the Incremental Cost Principle* (GEF/C.31/12).

3 Each of these Programs is implemented through a number of small projects, for which the required co-financing may be in the range of $300,000 to $800,000.

11. Costs related to the tasks conducted by the GEF Lead Agency and the GEF Secretariat vary by Program. Currently, there is neither a consistent procedure nor a coherent mechanism in place to recover the costs associated with these additional services. For possible financing options supporting GEF Programs that may be viable beyond GEF-4, there is also a need for additional research on the feasibility of the options in the current setup of the GEF Trust Fund. Questions arise also on the potential cost-recovery options for all GEF Agencies relative to the projects being designed and implemented under the Program and other GEF stakeholders such as STAP for scientific advice to the Programs. These needs are not addressed in this paper, but will be discussed in the context of the negotiations for the 5th replenishment of the GEF.

12. In addition to the need for co-financing to support Program level tasks, some Programs also need additional co-financing at the project level. While some Programs (China, India) have attracted considerable co-financing at the project level, other Programs, working mainly with LDCs and SIDS, have a rather poor track-record of attracting donor co-financing at the individual project level. Some donors have, however, expressed interest in providing co-financing to these countries at the Program level to be used for projects under the Program. Donors have pointed out that negotiations at the individual project level are not cost-effective. Furthermore, poor national capacities to absorb additional financial contributions are considered a severe bottleneck to donors willing to provide co-financing.

13. In light of these challenges, this paper proposes to consider three options to enhance the financial support to the three identified GEF-4 Programs.[4] It will describe the features of each option and discuss how the above listed challenges can be addressed. Some of the options have potential to be further developed as longer-term modalities for providing co-financing to GEF Programs beyond GEF-4. This issue will also be taken up in the context of GEF-5 replenishment negotiations.

Options for Capturing Additional Financial Resources for Selected GEF-4 Programs

14. In this section, three options for capturing additional financial resources for supporting the PAS, CBSP and SPWA in particular, are discussed:

- Business-as-usual (status quo).
- Establishment of a Program-related trust fund by the GEF Lead Agency for the Program.
- Establishment of one new programmatic trust fund for the three selected GEF Programs to be operated by the GEF.

15. For each option, the discussion will focus on the following:

- Description of the options;
- Cost recovery possibilities for GEF Secretariat and GEF Agency leading the Program;

[4] See Annex A for the three Programs for the additional support by donors.

- Costs associated with the operationalization of the options.

16. For each option, a recommendation is formulated for Council consideration. Annex B summarizes the three options in a matrix format with respect to their application to the PAS, CBSP and SPWA Programs.

17. For each of the options covered, it is pointed out that the World Bank and/or UNIDO as the GEF Lead Agencies for the three Programs have the comparative advantage[5] for handling the key features of the three Programs. The Program Framework Document (PFD) for each Program describes, among other items, the overall objective of the Program, its value added, the Program results framework and the institutional arrangements. The PFD also indicates a target amount of GEF financial resources by focal area, which will be disbursed through individual projects under the Program. In an annex to the PFD, the anticipated projects under the Program are all listed with a short description of the relevant GEF Agency, the GEF funding and the anticipated co-financing.

[5] *Comparative Advantages of the GEF Agencies* (GEF/C.31/5;GEF/C.31/5Corr.1)

Option A - Business-as-usual (Status Quo)

18. Description. Option A proposes no changes to the current approach for providing support to GEF Programs. Donors and other stakeholder interested in co-financing the three Programs would need to engage at the individual project level with the World Bank and/or UNIDO as the Lead Agencies implementing the projects.

19. Cost Recovery. The GEF Secretariat is increasingly involved in setting up GEF Programs by providing guidance on policy and strategic issues. GEF Secretariat staff members travel to meetings in the country or region where the Program is contemplated. Under Option A, costs incurring to the GEF Secretariat with these new tasks would continue to be covered through the GEF Corporate Budget, under the budget line “Operational Travel.” This cost recovery modality is inadequate since these additional tasks have not been budgeted for, and could affect the delivery of other tasks financed under this budget line. In addition, the GEF Secretariat believes that there is need for more transparency in front of Council on its activities related to Programs.

20. The main additional costs linked to the development and implementation of any GEF Program at the GEF Agency level is with the GEF Lead Agency, as described in paragraph 10. These additional costs are currently not covered in a consistent and systematic way. From the experience of the 18 Programs approved in GEF-4, some GEF Lead Agencies have received preparatory funding (PPG) for Program development. In other cases, the GEF Lead Agency has submitted an MSP to cover the costs of the overall Program coordination, programmatic results monitoring, and knowledge management. GEF Agencies tasked with leading a GEF Program have voiced their concern that the current inconsistent approach to cost-recovery is not fully viable, particularly considering the organizational move to an increased focus on Programmatic Approaches.

21. For the PAS, CBSP and SPWA specifically, cost recovery for the GEF Secretariat has been managed through the GEF Corporate Budget, line item “Operational Travel.” For the two GEF Lead Agencies for the PAS, SPWA and CBSP, no acceptable cost-recovery options have been identified to date.

22. Costs Associated with the Operationalization of the Option. Since Option A describes the status quo, there are no additional costs involved with operationalizing it.

23. Recommendation to Council. This option is not being recommended by the GEF Secretariat since it does not address any of the challenges identified above. Donors will need to engage for purposes of co-financing at the project level and not at the programmatic level, despite their stated preference to the contrary.

24. If Council nevertheless decides to take up Option A, the GEF Secretariat recommends support for a budget line “GEF Support to Programs” in the GEF-4 Secretariat Corporate Budget as part of the GEF Business Plan for FY10. This change will provide a transparent system for recovering costs associated with developing GEF Programs. Under this option, the GEF Secretariat will request the GEF Council to increase the GEF Secretariat Corporate Budget in the GEF Business Plan for FY10.

Option B - Establishment of a Program-related Trust Fund by the GEF Lead Agency for each Program

25. Description. Option B proposes the establishment of a Program trust fund for each Program at the level of the GEF Lead Agency. Donors and other stakeholder interested in co-financing a Program need to engage at the Program level with the GEF Lead Agency. The GEF Lead Agency would set up the trust fund within its own institutional rules and procedures. The purpose of the trust fund would be the support of the specific Program, for which that GEF Agency is the GEF Lead Agency. Other GEF Agencies implementing projects under the Program would be able to access the donor funds held in the specific Program trust fund. In order to avoid total centralization of decision making and funding process to the Lead Agency/ies alone, a Program-specific Steering Committee will be established for each trust fund. The decision on what projects will be supported, and with how much money, would rest with the Program-specific Steering Committee. The GEF Secretariat would be one member, GEF Agencies implementing projects under the Program, donors and other stakeholders (e.g. STAP, NGOs) involved in the Program could also potentially be members.

26. For the GEF Council-approved Programs of PAS, CBSP and SPWA, this option suggests that the WB and/or UNIDO (WB as the GEF Lead Agency for two Programs plus the Biodiversity Component under SPWA and UNIDO as the GEF Lead Agency for the Energy Component under the SPWA) would establish a programmatic trust fund for each Program/or sub-component of a Program, according to WB and/or UNIDO's rules and procedures. Four trust funds would, therefore, be established.

27. The trust funds would have a sunset clause. The trust funds would be closed when all agreed projects under each of the Programs have been CEO approved/endorsed.

28. Cost Recovery. As in Option A, costs incurring to the GEF Secretariat, associated with the tasks of policy and strategic guidance to the Program could continue to be covered by the GEF Corporate Budget, under budget line "Operational Travel." Alternatively, the World Bank and/or UNIDO, as the GEF Lead Agencies, in agreement with the donor, could include a clause in any or all of the trust fund agreements that would allow the GEF Secretariat to recover costs related to its Program-related tasks.

29. The GEF Lead Agency could continue covering costs associated with its Program-related tasks through preparatory funding (PPG) for Program development and funding through an MSP for the overall Program coordination, programmatic results monitoring, and knowledge management. Alternatively, with the agreement of the donor, the trust fund established by the GEF Lead Agency could cover any Program-related tasks provided by the GEF Lead Agency.

30. Costs Associated with the Operationalization of the Option. The GEF Lead Agencies would have to cover the costs associated with the operationalization of Option B. Details of associated costs will be finalized upon Council approval of this Option and when donors and GEF Lead Agencies agree on the detailed tasks to be undertaken. For the purpose of this paper and as a reference, an example of the order of magnitude of cost is provided by the World Bank. The costs for setting up a trust fund within the World Bank as the GEF Agency are as follows:

$35,000 set up charge and 5% value of any donor funds to be charged for setting up a specific trust fund (for an average donor fund of $2.5 million per trust fund, the set up charge would be $160,000 per trust fund, leading to a total set up charge of this option at $640,000)[6]. This level of costing is relevant only for a trust fund that would handle funds and disburse, without requisite oversight, to another GEF Agency.

31. These costs would need to be covered by the donor sources capitalizing the trust fund, and would therefore constitute associated administrative costs.

32. Recommendation to Council. This option provides a focused opportunity for donors to financially support the three GEF Programs. In these three Programs, four separate trust funds (SPWA has two subcomponents) and four separate Program-specific Steering Committees would need to be established. Due to the high cost of this option (see footnote #6), as well as the cumbersome decision making process of the Steering Committees, it is not being recommended by the GEF Secretariat. Furthermore, the four trust funds may or may not provide cost recovery for the GEF Secretariat, depending on the negotiation between the Lead Agency and the donor. If these trust funds will not provide such recovery, there would be a request to the GEF Council to increase the GEF Secretariat Corporate Budget in the GEF Business Plan for FY10.

[6] Set up charge per trust fund is $35,000 and 5% of $2.5 million for a total of $160,000 per trust fund, or $640,000 for four trust funds.

Option C - Establishment of one New Trust Fund for GEF Program Support Operated by the GEF

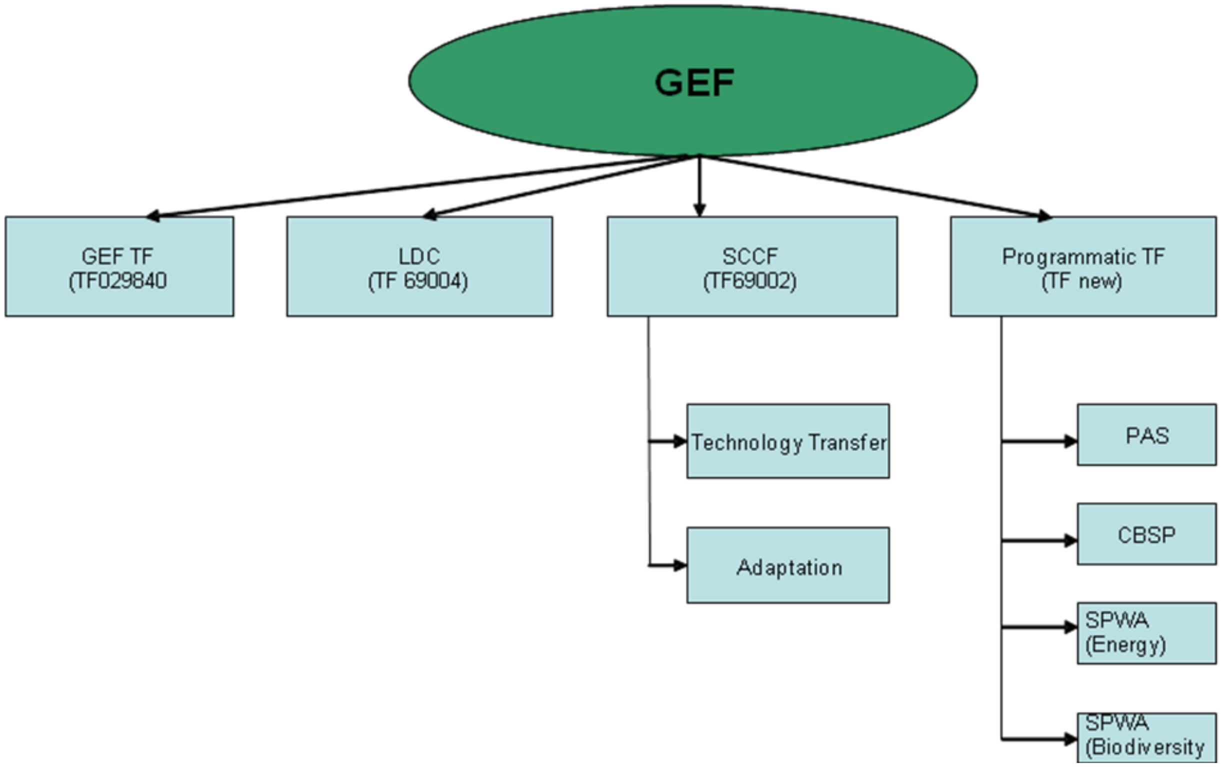
33. Description. Option C proposes the establishment of a single new programmatic trust fund for the PAS, CBSP and the SPWA. It would have its own legal arrangement that would be different from the GEF Trust Fund.

34. Resources could be provided by any donor on a rolling basis and a donor could direct its contribution to one or more established Program subaccounts (associated with one of the three specific GEF approved Programs). In the donor agreement, donors could define eligibility criteria for accessing those funds that are separate from the GEF Trust Fund eligibility criteria. Hence there is more flexibility in accessing additional funds for the support to GEF Programs.

35. Under this option, the new trust fund will be managed by the GEF Secretariat which will be responsible for mobilizing additional cash-only co-financing from donors that have expressed interest in the three Programs. The Council would delegate the authority for the approval of co-funding for projects and other activities based on the resources in this new trust fund to the GEF CEO.

36. Financial management of the new programmatic trust fund including the investment of liquid assets and disbursement of funds to GEF Agencies, will rest with the GEF Trustee. The GEF Trustee would dedicate the new programmatic trust fund to the purpose of capturing additional co-financing from donors to provide enhanced financial support to the three selected GEF-4 Programs. The GEF Trustee would commit funds to Agencies for specified projects under the Programs and other activities based on written communications of the GEF CEO and in accordance with Financial Procedures Agreements to be entered into between the Trustee and the Agencies.

37. Structure. The framework for setting up this option is illustrated below. It will operate in a manner similar to the Special Climate Change Fund (SCCF).



38. As shown above, the new programmatic trust fund would contain four "sub-accounts," one each for the PAS and CBSP and two for the SPWA. Donor contributions paid into a sub-account could be co-mingled with each other for the purposes of approvals, commitments and disbursements for operations and activities under that sub-account.

39. The new programmatic trust fund would have a sunset clause. It would be closed when all agreed projects under the Programs have been CEO approved/endorsed.

40. The World Bank as the GEF Lead Agency of the three Programs and UNIDO as Lead Agency for a subcomponent under the SPWA Program would be able to request funds from the new programmatic trust fund to cover costs associated with the overall management of the Programs and other Program-related activities.

41. The World Bank and UNIDO would continue to be responsible to report back on results to the GEF Secretariat which in turn would provide a comprehensive report on the use of resources and associated results to the donors. The GEF Secretariat would track the allocation of resources over time to projects under eligible GEF Programs, and report back to the donors.

42. <u>Cost Recovery.</u> The GEF, in agreement with the donor(s), and in collaboration with Trustee would include a clause in the legal agreement related to the administration of this new programmatic trust fund that would allow the GEF Secretariat and GEF Lead Agency (ies) to recover costs related to its Program-related tasks.

43. Costs Associated with the Operationalization of the Option. There are costs associated with the establishment of a new programmatic trust fund. These costs will be charged by the GEF Trustee (World Bank) to the new programmatic trust fund. Similar to the GEF Secretariat, as the GEF Lead Agencies for the three Programs, World Bank and UNIDO, may be able to recover costs associated with the Program-related tasks of lead agencies, as described earlier. Based on the cost reference provided by the World Bank, it is suggested that the World Bank as the GEF Lead Agency can apply a maximum 5% of the increment of the Program amount (GEF financing) for Program management to cover related costs through the new programmatic trust fund.

44. Ongoing costs to manage the programmatic trust fund would be based on governance arrangements of the new programmatic trust fund, the number of estimated transactions per year, the average annual balance of the trust fund, as well as the requirements for any potential non-standard services.

45. The set up of a new customized trust fund with the World Bank acting as Trustee would be in the range of $50,000 to $150,000, depending on the number of unique features that must be developed in the trust fund structure and the number of Agencies participating.[7] The annual charge for this new programmatic trust fund, based on what is currently known about the proposed structure of this new trust fund, would be in a range from $150,000 to $300,000. As noted in the previous paragraph, actual costs would need to be established based on the governance structure of the new trust fund, the number of agencies participating, the average annual balance of the trust fund, and the actual duties and range of activities to be carried out by the Trustee.

46. Council needs to consider that the costs involved in setting up and managing such a trust fund may be justifiable compared to the variable and varied costs of the other options that involve direct negotiation between a donor and a GEF Agency for a project co-financing under a Program (Option A). Any separate negotiations can also attract high costs that may be invisible to Council but are significant for that donor. Hence, the efficiency of Option C should be considered by potential donors, compared to the costs of their individual negotiations with GEF Agencies.

47. Recommendation to Council. This option provides an attractive and cost-effective short-term solution for supporting the three identified programs - PAS, CBSP and SPWA. The establishment of one new programmatic trust fund only for supporting the three selected programs is a more efficient arrangement than Option B, under which four separate trust fund arrangements at the GEF Lead Agencies level were contemplated. If these Programs receive continued support in GEF-5 (and beyond), the GEF Secretariat could discuss with the donors how to continue financial support in the context of changes consistent with the emerging strategy for GEF-5 and beyond (i.e. in the mid and long-term).

[7] One advantage of Option C over Option B is the set up cost of one single trust fund in Option C ($50,000-150,000) against the set up cost of four trust fund accounts in Option B ($640,000) which is at least four times more.

CONCLUSION

48. As the three options have been described, it is clear that some of them will not be able to meet all the identified Program needs.

49. Option A does not fully address the needs for the donor to have simple means to support a GEF Program implemented through a range of projects with moderate funding demands.

50. Option B suggests the establishment of a trust fund for each selected GEF-4 Program, with an additional trust fund for an energy component under SPWA led by UNIDO. Since the World Bank and UNDO are the GEF Lead Agencies for the three selected GEF-4 Programs, and since an additional component is led by UNIDO, four separate trust funds would need to be established by the World Bank and UNIDO with costs involved for the setup and the management of the resources. Option B partially offers the means for a donor to support a GEF Program implemented through a range of projects, but leaves the large variance between GEF Agencies on costs and modalities of any trust fund and how they would engage with the other GEF Agencies implementing projects under the Program. Each of these Programs is implemented through a number of small projects, for which co-financing may be in the range of $300,000 to $800,000. In these cases, it is difficult and relatively expensive for a donor to engage at the project level and enter a contract with the individual GEF Agencies implementing the projects. Moreover, as discussed in para. 30, the set up cost for Option B for the four trust funds at $640,000 is enormous and not cost-effective (as opposed to $50,000-$150,000 for Option C).

51. Option C proposes the establishment of one single trust fund which will cover the support to all three GEF-4 Programs. Option C should appear attractive to donors as it provides the opportunity to donate a lump sum in support of a Program. Costs are shared equally across all donors to the trust fund and thus efficiencies may be gained. The GEF Trustee would make use of existing procedures, to the extent possible, to commit and transfer funds to GEF Agencies. Separate legal agreements would need to be entered into between the Trustee and the Agencies. However, the procedures and reporting structure that exist for the GEF trust fund would be able to be maintained.

52. In any of the options discussed above, it is recommended that the GEF Council paper *From Projects to Programs: Clarifying the Programmatic Approach in the GEF Portfolio* (GEF/C.33/6) be amended to include a section on cost recovery for the GEF Lead Agency and the GEF Secretariat.

Annex A

Selected Programmatic Approaches Approved by Council in GEF-4

Program Name	Date Endorsed by Council	Lead Agency	Number of Projects under the Program
GEF Pacific Alliance for Sustainability (PAS)	April 2008	World Bank	16
GEF Strategic Program for West Africa: Energy and Biodiversity (SPWA)	November 2008	UNIDO (Energy component) World Bank (Biodiversity component)	Energy: 27 Biodiversity:21
Strategic Program for Sustainable Forest Management in the Congo Basin (CBSP)	November 2008	World Bank	13

Annex B

Summary of Options for an Enhanced Financial Support to Selected GEF-4 Programs

	Option A **Business-as-usual (status quo)**	**Option B** **Establishment of a program-related Trust Fund by the GEF Lead Agency for the program.**	**Option C** **Establishment of a new ProgrammaticTrust Fund for GEF program support operated by the GEF**
Description	No changes to the current approach for the support to GEF programs. Donors and other stakeholders interested in co-financing a program would need to engage at the individual project level with the GEF Agency implementing the project.	Donors and other stakeholders interested in co-financing the program need to engage at the program level with the GEF Lead Agency. The GEF Lead Agency would set up a program-specific trust fund within its own institutional rules and procedures. The creation of a Program-specific Steering Committee will oversee the use of the funds under the trust fund.	The Trust Fund would have its own legal arrangement that will be different from the GEF Trust Fund but would be managed by the GEF Secretariat. Resources could be provided by any donor on a rolling basis. The GEF Trustee would set up a new programmatic trust fund dedicated to capture and provide additional financial support to GEF programs. Council would need to delegate the authority on use of the resources in this fund to the GEF CEO.
Cost recovery options for GEF Secretariat and GEF Lead Agency	• <u>GEF Secretariat</u>: costs linked to Program development are currently covered under the Corporate Budget, line item "Operational Travel" which also finances other GEF Secretariat tasks. Budget line does not meet demand for resources, incl. Program development; • <u>GEF Lead Agency:</u> modalities for cost recovery are inconsistent across different Programs; some Programs do not provide opportunities for cost recovery at all.	• <u>GEF Secretariat</u>: (i) continue to recover costs under "Operational Travel" in the Corporate Budget; or (ii) through agreement with donors allowing recovery of costs through the Program trust fund managed by the GEF Lead Agency • <u>GEF Lead Agency</u>: (i) continue with the current modality of recovery through a PPG or MSP; or (ii) through an agreement with donors to recover costs through the trust fund.	• GEF Secretariat: In agreement with the donor(s), the legal agreement related to the new trust fund might allow the GEF Secretariat to cover costs associated with its Program-related tasks. These costs should not exceed 5% of the increment of the Program amount. • The GEF Lead Agency: in requesting funds from the Trust Fund, it may also recover costs associated with the Program-related tasks of a GEF Lead Agency.
Costs associated with the operationalization of the option	No additional cost since it is "business-as-usual".	Costs for setting up a trust fund vary widely among the GEF Agencies. In agreement with the donor(s), these cost may be recovered through donor funding capitalizing the trust fund and	The one-time set up of a new programmatic trust fund with the World Bank acting as Trustee is estimated would be in the range of $50,000 to $150,000 depending on the number of unique

		would therefore constitute relevant administrative costs. Four separate trust funds would need to be established with costs associated for the setup of each and annual charges. Since the World Bank is the GEF Lead Agency for two of the three Programs, plus one sub-account under the SPWA, the World Bank would set up three separate Trust Funds with setup costs and annual charges described under Option B.	features that must be developed in the trust fund structure and the number of Agencies participating. The annual charge for this trust fund, based on what is currently known about the proposed structure of this trust fund, would be in a range from \$150,000 to \$300,000. Actual costs would need to be established based on the governance structure of the trust fund, the number of Agencies participating, the average annual balance of the trust fund, and the actual duties and range of activities to be carried out by the Trustee.
Recommendation to Council	This option is not being recommended since it does not address any of the challenges associated with the development and support of GEF Programs.	This option provides a focused opportunity for donors to financially support GEF Programs. Council would request the GEF Lead Agency to set up a Program specific trust fund if donors have expressed interest in providing additional financing to the Program. Council needs to consider, however, the various rules and wide range of costs involved in setting up a trust fund in the GEF Agencies. Council also needs to consider the cost-efficiency of this option because of the costs involved in setting up four separate trust funds in two GEF Agencies.	This option provides a programmatic short-term solution for supporting selected GEF-4 Programs already approved by Council. For GEF-4, the three GEF programs (PAS, CBSP and SPWA) were identified for support under the trust fund. The option is cost-effective since the costs involved in setting up the trust fund are one-time costs covering the three selected GEF-4 Programs. The option is also considered an attractive long-term opportunity for donors to financially support GEF programs in general.

Annex C

Comments Received from GEF Agencies and Council Members on the Draft Version of the Council Paper

1. GEF Agencies were invited to comment on a draft version of the Council paper *Options for Enhanced Financial Support to Selected GEF-4 Programs*. In January 2009, the GEF Secretariat called for an interagency meeting for further discussing these comments. During the meeting, the GEF CEO clarified that the purpose of the paper is to explore a mechanism for obtaining funds to support some few selected GEF-4 Programs. It was clarified that some donors had expressed interest in providing resources for this additional support. The discussion in the paper should therefore focus on co-financing to the programmatic approaches that had been approved by Council, through the proposed options[8].

2. Overall, the GEF Agencies supported the presentation of the options and appreciated the clarity of the paper to describe the mechanism for capturing additional funds to support programmatic approaches. The following issues related to the options were raised by a number of Agency representatives:

- Cost recovery issue: the options discussed only the cost recovery for Lead Agencies and GEFSEC. How about cost recovery for other Agencies participating in the programmatic approaches that incurred additional cost? Cost recovery should include other agencies as well. Furthermore, one should look at cost recovery that is not trust fund based.
- Risk associated with each option should be discussed.
- More information on pros and cons of each option.
- The question of operationalization of the options, in particular, option D, on how to operationalize in GEFSEC?
- Suggestion to include a table that lists all the programmatic approaches and the Lead Agencies.

3. With respect to Option B: a number of Agencies confirmed their ability to set up a Trust Fund within their institutions and do not consider this as a complex issue. Some have in fact undertaken a similar approach in the existing programmatic approaches under implementation.

[8] The first draft of the paper provided four options but these were narrowed down to three options in the final paper. The original 4 options were: Option A: Business-as-usual; Option B: Establishment of a Program-related Trust Fund by the GEF Lead Agency for the Program; Option C: Establishment of a Program related Account inside the GEF Trust Fund; and Option D: Establishment of a new Trust Fund for GEF Program support operated by the GEF. Option C was later determined as not feasible by the Trustee and was taken out for further consideration.

4. The GEF CEO also clarified in the meeting a number of queries with respect to setting up of a Trust Fund account:

- The options discussed in the paper are clearly for the remainder of GEF-4 and only for a few of the programmatic approaches approved in GEF-4 especially PAS, West Africa and Congo (a table will be included in the paper to list the full list of PAs and the few selected programmatic approaches (PAs) that may receive additional funding from donors and the current lead agencies for these PAs).
- The paper intends to present a simple mechanism so that GEF can capture the funding that may be made available to the GEF, to help small project with small amounts of co-financing, e.g., $300,000 to $500,000 per project, in a cost-effective way for the donors, rather than negotiating and signing a host of separate agreements with each project.
- GEF is now waiting for a decision from Council on an agreement of a proper setup for using the funding (e.g. Italy has offered Euros 950,000 to support the PAs). As the solution should be simple and be limited to GEF-4, GEF does not see these actions will in any way affect the GEF Instrument.
- The options will focus on cost recovery for GEF Lead Agencies and the GEF Secretariat, not for other GEF Agencies, since other GEF Agencies will implement a project under a program as usual. The donor's additional funding is to fill mainly the gap of inadequate resources for the additional functions in the coordination and monitoring of programs undertaken by the GEF Lead Agencies and the GEF Secretariat.
- When providing additional funding, donors will decide which program they want to support.

5. Additional written comments were later received from the Trustee, the GEF Agencies and from Council Member representing Australia and New Zealand and were incorporated into the final text. These comments are included below for reference:

UNDP

6. UNDP explained a mechanism called a Multi-donor Trust Fund (MDTF). An MDTF is an individually-designed funding instrument through which donors pool resources, facilitating UN Agencies, and non-UN entities that have a similar international character and financial rules and regulations, such as the World Bank or the Regional Development Banks, to work and deliver in close coordination and collaboration. See: http://www.undp.org/mdtf/overview.shtml for more information.

7. If UNDP was appointed as the "Administrative Agent" for the fund by the other GEF agencies UNDP would receive the funds from donors, transfer them to the other Agencies, and prepare a consolidated report on the use of the funds based on reports provided by the Agencies. 1% is normally charged to the funds to cover these costs.

UNEP

8. Taking into account that this paper should not only discuss such trust funds but should also elaborate on other options, UNEP did not find it appropriate do deal with this issue by way of correspondence that only focuses on trust funds, and would rather suggest that GEF Secretariat calls a teleconference that will allow a more in-depth discussion including a discussion on other options. As a quick response to the request by the GEF Secretariat, UNEP informed that from the DGEF point of view there are no single answers to the questions but that a flexible approach will be needed, taking into account the particularities of every single case.

World Bank

9. The World Bank welcomed the possibility of raising additional funds for programs with the following additional comments:

10. There may be many reasons behind why "programs working mainly with LDCs and SIDS have a rather poor track-record of attracting donor co-financing at the individual project level", as said in Paragraph 15. For example, are "Poor national capacities to manage additional financial contributions" likely to remain an issue when the program co-financing is provided to each project? As reasons are not discussed, it is difficult to assess how a program TF will address such problems, and we limit ourselves to comment on the operational aspect of the Options paper.

11. World Banks concerns relate to the operationalization of the Trust fund under option C. While it is recognized that the Council paper is not expected to cover this in detail, WB would hope that some of the implementation challenges can be addressed with the concerned GEF Agencies before options are fixed. For example:

- "The GEF Lead Agency of a program would be able to request funds from the new Trust Fund to cover costs associated with the overall management of the program and other program-related activities." Paragraph 35. Would the Agency request to the Trustee as per regular procedures together with requests for other parts of the program?
- "The donor will direct its contribution into one of the program windows (associated with specific GEF approved programs) indicated above" (and GEF Secretariat and Trustee will disburse to Agencies and to GEF Secretariat). It may be relatively challenging to keep track of income/ disbursement and available funds from many sub-funds. How will transparency for the requesters be ensured?
- Paragraph 39 and 40 on Cost Recovery. WB welcomes the possibility of cost recovery. Regarding "The GEF, in agreement with the donor(s), would include a clause in the legal agreement related to the administration of this new Trust Fund that would allow the GEF Secretariat to recover

costs related to its program-related tasks. The GEF Lead Agency in accessing the funds from the new Trust Fund may recover costs associated with the program-related tasks of a lead agency, as described earlier. These costs do not need to be incremental in nature", will these be actual costs? Specified or negotiated amounts, percentage, ex-ante or reimbursement?

- Paragraph 48: WB welcomes the fact that "Deliberations in the program steering committee would guide the use of the funds", and would request more information what responsibilities the Steering Committee and lead Agency would have, given the "criteria by donors" and management of the TF itself.

12. Paragraph 44 states that "Such [cost] estimates, however, discounts the costs of any options that involve direct negotiation between a donor and a GEF Agency for any project. [..] Hence, the viability of this option should be considered by potential donors, compared to the costs of their individual negotiations with GEF Agencies." This seems to imply that the program TF would de facto replace co-financing discussions between donors and the Agencies on projects under a program. Is this the case? If so, will the GEF lighten the requirements for project co-financing for such programs/projects, since donor funds will be sought at program levels?

<u>Comments received from Council Member for Australia and New Zealand</u>

13. Thank you very much for the opportunity to comment on the second draft of the Options for enhanced financial support to program approaches paper. I'm sorry I couldn't get these comments to you earlier this morning my time, which would have been Thursday afternoon your time - we got pulled into an urgent meeting. We've inserted a number of comments and text suggestions in the paper.

14. Our intention in providing these comments is to try to help clarify the paper's analysis and presentation of options, so that it is easier for Council members to take a positive view of the options and to make a decision about which option they prefer. In providing these comments, we are in no way signaling either Australia or New Zealand's preference for one option or another.

15. Our main concerns, reflected in our comments in-text, are:

- That there be a stronger indication of why the selection of an approach for delivering financing to a program is important from the perspective of programming outcomes. i.e., that the purpose of programmatic approaches is to manage programs in a coherent way that delivers broader results and to provide funding to projects under that program which may not on their own attract co-financing. This sense of purpose should inform our thinking on which is the best finance-delivery option. While not needing to repeat all the detail provided in the Projects to Programs paper, it may be worth more clearly indicating the link.

- That it is difficult to compare the merits of the Options B and C in terms of how they will enable relevant, efficient and effective programmatic approaches. The paper states that C is the GEF Sec's preferred option and suggests that this is so on the basis of both costs and approach. However, there also appears to be value in B in terms of programming outcomes. Neither option is well enough described in the paper to allow an informed decision on which presents the most sound option. If the decision will be significantly informed by a comparison of costs, then it is very difficult to do this at present, based on the information provided in the paper. Is it possible to give a sense of the real cost differences between B and C - i.e., what are the real differences between the fees entailed in Table 1 for B and those involved in the account set up and annual charges in C?

- The structure of delivery under each option is not clear. It would be useful to more clearly explain the different entities involved in each option - i.e., GEF Sec, Lead Agency, Program Steering Committee - and the role they would play. It is not clear at the moment why there is a PSC in B and not in other options (what role is the PSC intended to play in any option?) and the role of a Lead Agency under C is very unclear. If the Sec is playing the major role in funding distribution under C, what meaningful role is provided for the lead agency and what implications are there for the quality of program-level outcomes?

- It should also be very clear for Council members that the selection of an option is for GEF-4 only. While discussions re GEF-5 may lead to the consideration and adoption of a similar approach under GEF-5, that is in no way inevitable based on the decision for GEF-4. I think you will have a hard time getting Council members to agree to anything if they think it sets a precedent.