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Agenda Item 14

BROADENING OF THE GEF PARTNERSHIP UNDER PARAGRAPH 28 OF THE GEF INSTRUMENT: KEY POLICY ISSUES

Recommended Council Decision

The Council, having reviewed Document GEF/C.39/7/Rev.1, *Broadening of the GEF Partnership under Paragraph 28 of the Instrument: Key Policy Issues*, thanks the members of the Council Subcommittee on Paragraph 28 and the experts who served on the Task Force.

The Council agrees that the GEF shall launch a pilot on accrediting new agencies under Paragraph 28 of the Instrument. Reflecting the GEF's interest in promoting country ownership and drivenness, priority shall be given to the accreditation of national institutions. Criteria to choose the Agencies that will be part of the pilot will be developed by the Secretariat, in consultation with the existing Council Subcommittee, for approval by Council at its spring 2011 meeting.

New agencies accredited to the GEF shall be referred to as GEF Project Agencies. The status of the ten GEF Agencies (the original three Implementing and seven additional Executing Agencies) shall remain unchanged, but if new rules are developed and applied to accredited GEF Project Agencies, then they shall also be applied to the existing GEF Agencies, as appropriate, in order to maintain a level playing field.

The Council requests the Secretariat to prepare, in consultation with the existing Council Subcommittee, a revised set of Value-Added Review Criteria to be presented to the spring 2011 Council.

EXECUTIVE SUMMARY

1. The present paper represents the first part of the Secretariat's revised proposal for broadening the GEF partnership under paragraph 28 of the GEF Instrument, which constituted an important part of the reform agenda during the Fifth Replenishment period. The paper sets forth the Secretariat's proposals for the basic policies that the GEF will follow during GEF-5 to broaden the range of entities that are able to work directly with the GEF Secretariat and the GEF Trustee in assisting countries to develop and implement projects. Document GEF/C.39/8/Rev.2, *Accreditation Procedure for GEF Project Agencies*, represents the other part of the GEF Secretariat's proposal on this issue.

2. The Secretariat consulted with a six-member Council Subcommittee, the GEF Trustee, and a three-member task force of experts in drafting this proposal. The proposal first discusses the benefits of a broader partnership, which include enhanced country ownership, increased choice for developing countries regarding the agencies with which they choose to work, and the ability of new partner agencies to bring unique skills, capabilities, and other assets to the GEF. It discusses how broadening of the GEF partnership to include national institutions will help the GEF to deliver on the measures agreed under the *Paris Declaration on Development Effectiveness* and the *Accra Agenda for Action*.

3. The proposal recommends that new institutions accredited under Paragraph 28 be called GEF Project Agencies. Together with the current ten GEF Agencies, these institutions will be referred to as GEF Partner Agencies. Only the current 10 GEF Agencies will be compensated for their corporate activities.

4. The paper proposes general rules and criteria for the accreditation of GEF Project Agencies, including the following: all applicants will follow the same accreditation procedure, applications will require the endorsement of at least one GEF Operational Focal Point, applicants will need to meet all the GEF Fiduciary Standards for accreditation, and they will need to pay an accreditation fee. Post accreditation rules will also apply to GEF Project Agencies, including that GEF Project Agencies will only be eligible to implement projects in countries and/or regions where they have presence.

5. The document proposes that the GEF will accredit up to 10 new Project Agencies during GEF-5, and that the GEF will give priority to the accreditation of national institutions. As such, the GEF will aim to accredit at least five national institutions as Project Agencies during the GEF-5 period.

6. The document proposes a process and criteria for assessing the value-added of each applicant to the GEF partnership. It discusses how to apply the criteria to different types of GEF Project Agencies, such as national institutions, nongovernmental organizations, and bilateral development agencies. The document discusses whether the GEF could adopt the modality used by the Multilateral Fund for the Implementation of the Montreal Protocol for counting bilateral development agency projects as contributions to its Trust Fund. An annex is provided that provides background and an analysis on this modality.

7. The Secretariat recommends that the Evaluation Office conduct an evaluation on the implementation of this reform, which should be initiated two years after the first five new GEF Project Agencies have been accredited.

Table of Contents

INTRODUCTION

1. The Policy Recommendations for the Fifth Replenishment of the GEF Trust Fund (GEF-5), under the title of Broadening *of the GEF Partnership,* requested that “the GEF Secretariat, in collaboration with the GEF Trustee, prepare a proposal for Council review in June 2010 to allow additional agencies referred to in paragraph 28 of the Instrument to cooperate with the Secretariat and Trustee directly, subject to Council approval, and in accordance with national priorities, to assist recipient countries in preparing and implementing GEF-financed projects. The proposal should include analysis of the pros and cons for each type of institution and detail the modalities for the engagement of such institutions.”[1]

2. The Council, at its June 2010 meeting, reviewed the Secretariat’s proposal for an expansion of the partnership. While the Council supported the overall objective of the proposal, as it will enhance country ownership and provide recipient countries with greater choice of Agencies, the Council felt that further deliberation was needed and therefore requested the Secretariat to present a more developed document for discussion at the November 2010 Council meeting. Towards this end, the Council established a Subcommittee of the Council, chaired by the CEO and including six Council Members, to advise on the development of eligibility criteria for potential partners. [2] The Council also requested the Secretariat, in cooperation with the Trustee, to establish a Task Force comprised of up to four qualified independent experts from appropriate disciplines to further develop an accreditation procedure.

3. The Secretariat convened the two groups and received their advice on revising the proposal. The revised proposal is presented through two documents. The present document discusses key policy issues on the broadening of the GEF partnership for Council consideration, including Value-added criteria that applicants will need to meet in order to be approved by the GEF Council prior to undergoing review by the Accreditation Panel. The accompanying document, GEF/C.39/8/Rev.2, *Accreditation Procedure for GEF Project Agencies,* describes the proposed accreditation procedure that all applicants will need to undergo to be accredited as new GEF Agencies – to be called GEF Project Agencies.

4. Entities that apply for GEF Project Agency status will need to undergo a three-stage process consisting of: (1) a Value-added Review to assess whether they will provide good strategic fit with the GEF and add value to the partnership, based on criteria agreed by the Council; (2) a GEF Accreditation Panel Review, which will assess each applicant’s capacity to implement and/or execute GEF projects, and meet GEF Fiduciary Standards, including criteria on environmental and social safeguard standards as proposed in Document GEF/C.39/8/Rev.2; and (3) Negotiation and Approval of the Memorandum of Understanding and Financial Procedures Agreement. Applicants will pay an accreditation fee to cover the cost of the Accreditation Panel Review.

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[1] See Document GEF/C.37/3, *Summary of Negotiations Fifth Replenishment of the GEF Trust Fund*, pp 108.

[2] The Subcommittee included three Members from recipient constituencies and three from non-recipient constituencies.

BACKGROUND

5. The current ten GEF Agencies have played key roles, within their areas of comparative advantage, in helping recipient countries develop, implement, and manage GEF projects. They have also contributed valuable advice on the formulation of GEF-wide policies. GEF needs to continue to ensure that its policies and procedures develop in line with accepted international practices in terms of aid effectiveness. In particular, the GEF needs to remain abreast of trends for greater country ownership and greater use of country systems as called for in the *Paris Declaration on Aid Effectiveness* and the *Accra Agenda for Action*.

6. New international financing mechanisms are increasingly relying upon the use of recipient countries' own systems to program and manage international assistance. The Global Fund to Fight AIDs, Tuberculosis, and Malaria (GFATM) and the Adaptation Fund of the Kyoto Protocol (AF) have both developed systems that allow for a central trust fund to provide resources directly to national institutions that meet approved standards, rather than relying solely on separate multilateral institutions.

7. Consideration of additional entities in the GEF partnership is not new. The GEF relied on paragraph 28 when the number of GEF Agencies was expanded from three to ten under its policy on "expanded opportunities" in the early part of this decade. The GEF's experience with this Policy on Expanded Opportunities has been positive overall. An evaluation undertaken by the GEF Evaluation Office found that all the GEF Executing Agencies have relevant mandates and possess technical capabilities to work on relevant matters.[3] Further, the evaluation concluded that the quality of the Executing Agency projects is on par with international quality standards and that the ability of Executing Agencies to source and ensure co-financing for GEF initiatives to that of Implementing Agencies.

Box 1. Paragraph 28 of the GEF Instrument

The Secretariat and the Implementing Agencies under the guidance of the Council shall cooperate with other international organizations to promote achievement of the purposes of the GEF. The Implementing Agencies may make arrangements for GEF project preparation and execution by multilateral development banks, specialized agencies and program of the United Nations, other international organizations, bilateral development agencies, national institutions, non-governmental organizations, private sector entities and academic institutions, taking into account their comparative advantage in efficient and cost-effective project execution. Such arrangements shall be made in accordance with national priorities. Pursuant to paragraph 20(f), the Council may request the Secretariat to make similar arrangements in accordance with national priorities. In the event of disagreements among the Implementing Agencies or between an Implementing Agency and any entity concerning project preparation or execution, an Implementing Agency or any entity referred to in this paragraph may request the Secretariat to seek to resolve such disagreements.

[3] GEF/ME/C.30/4, *Evaluation of the Experience of Executing Agencies under Expanded Opportunities in the G*EF.

BENEFITS OF A BROADER PARTNERSHIP

8. The benefits of allowing direct access to a greater range of entities are similar to the benefits seen during the GEF's experience with the Policy on Expanded Opportunities, when the seven additional agencies were created. The inclusion of agencies with different strengths and capabilities will add value to the GEF network, including by providing recipient countries with greater choice in terms of the agencies with which to work. The "pros and cons" of broadening access to each type of agency were articulated in the June 2010 Council paper. In general, broadening the GEF partnership will bring the following benefits:

(a) Unique skills, capabilities, and other assets (e.g. enhanced co-financing) that will strengthen GEF's ability to accomplish its mission;

(b) In-country experience, local knowledge, and new networks that current GEF Agencies might not have;

(c) Greater cost-effectiveness, since the GEF will only have to fund the management costs of one entity for a given project rather than pay both the GEF Implementing Agency fee and the portion of the project management budget supported by the GEF grant;

(d) Significantly enhance country ownership of accredited national institutions of recipient countries, as called for by the *Paris Declaration on Development Effectiveness*;

(e) Promotion of the agreed measures of the *Accra Agenda for Action*, whereby donors agreed to greater use of "good quality country systems." Because the GEF will be disbursing funding directly to national agencies, it will inherently rely upon country systems for evaluation, procurement, financial management, safeguard policies and systems, anti-corruption and fraud, and internal controls; and

(f) Direct engagement with regional entities, which will enable the GEF to build these organizations' capacities in terms of managing resources and projects.

9. Accreditation of a GEF Project Agency will make the agency eligible for project funding from all three trust funds managed by the GEF – the GEF Trust Fund, the Special Climate Change Fund (SCCF), and the Least Developed Countries Fund (LDCF).

TWO TYPES OF GEF AGENCIES

10. There will be two types of GEF agencies – the current ten *GEF Agencies* and *GEF Project Agencies*. GEF Project Agencies will be those that are accredited under the accreditation procedure described by Document GEF/C.39/8/Rev.2.

11. The GEF Agencies will continue to be entitled to engage with the GEF Secretariat on corporate activities, particularly the formulation of GEF-wide policies through the GEF Focal Area Task Forces,[4] as well as the GEF Network Meetings.[5] The ten GEF Agencies will continue

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[4] The Task Forces are chaired by the focal area Team Leaders at the Secretariat and include focal area specialists from the Secretariat and the relevant GEF Agencies.

to receive compensation for corporate activities, which is currently delivered through a 1% corporate activity fee assessed on their GEF project grants. GEF Project Agencies, however, will not be eligible for corporate activity fees.

12. In terms of project activities, there will be no distinctions between GEF Agencies and GEF Project Agencies. Collectively all entities entitled to receive GEF resources directly will be referred to as GEF Partner Agencies.

GENERAL RULES AND CRITERIA FOR ACCREDITATION OF GEF PROJECT AGENCIES

13. The Secretariat recommends that the following general rules apply to the accreditation of new GEF Project Agencies:

(a) The same accreditation procedure will apply to all applicants;

(b) All applications must include the endorsement of at least one GEF Operational Focal Point;

(c) Each applicant will undergo a Value-added Review, which will need to be approved by the GEF Council prior to undergoing the Accreditation Panel Review:

(d) Applicants will need to meet all the GEF Fiduciary Standards, as well as environmental and social safeguard criteria; and

(e) Applicants will pay a fee sufficient to cover the cost of the Accreditation Panel Review.

Additional Provisions for GEF Project Agencies

14. The Secretariat recommends that the following post-accreditation rules apply to GEF Project Agencies:

(a) For single country projects, GEF Project Agencies will only be eligible to implement and/or execute projects in countries where they have a presence;

(b) For regional projects, GEF Project Agencies will only be eligible to implement and/or execute projects in regions where they have a presence; and

(c) All external communications on GEF co-financed projects will need to clearly identify the project as a GEF project. This will be stipulated in the MOUs with all GEF Project Agencies and the GEF Secretariat will renegotiate MOUs with the ten GEF Agencies to include this rule.

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[5] The GEF Network Meetings, chaired by the GEF Secretariat and comprised of representatives of the GEF Agencies, the Trustee, the Evaluation Office, and the Science and Technical Advisory Panel (STAP), are held once every two weeks to discuss strategy, policy, and administrative issues.

APPROACH TO BROADENING AGENCIES IN GEF-5

15. The Secretariat recommends that during GEF-5, new agencies be accredited to the GEF in a staged approach as summarized below. This will allow the GEF to gain experience with the accreditation of new agencies. The approach is as follows:

(a) The GEF will accredit up to 10 new GEF Project Agencies during GEF-5 and provide Council with a progress report on an annual basis;

(b) Priority will be given to the accreditation of national institutions, and the GEF will aim for at least five of the new Project Agencies to be national institutions; and

(c) To guard against potential conflicts of interest, the Council Member representing the country of either a bilateral development agency or national institution seeking accreditation as a GEF Project Agency will not intervene at Council meetings where the application for accreditation is being considered by the Council. Similarly, when accredited bilateral development agencies or national institutions bring projects to the Council for approval, the Council Member representing the host government of the agency will not intervene in the discussion. The Council Member will also refrain from contacting the GEF Secretariat or Council Members to influence decision making in either of these regards.

VALUE-ADDED REVIEW

16. Because there are potentially thousands of entities that could apply to be accredited as GEF Project Agencies, it will be important for the GEF to put in place a system to review applicants to ensure that the GEF only accredits institutions that bring an added value to the GEF partnership in terms of meeting its objectives.

17. There are three options for how the Value-added Review should be conducted. In all three cases the GEF Council will make the final decision on whether an applicant should be approved to move forward to the Stage 2: Accreditation Panel Review, which is described in Document GEF/C.39/8/Rev.2.

(a) The Secretariat performs the Value-added Review and submits recommendations to the GEF Council for approval.

(b) The Secretariat performs the Value-added Review, in consultation with a Council subcommittee, and submits recommendations to the GEF Council for approval.

(c) A Council subcommittee performs the Value-added Review and submits recommendations to the GEF Council for approval.

18. The Task Force and the Secretariat both recommend option one because it most clearly separates roles and authorities between the Secretariat and Council. Namely, the Secretariat will review Stage 1 Applications according to Council-agreed criteria, and the Council will make final decisions. Inserting a Council subcommittee in the review process will make the separation

of roles less clear, could risk the perception of political interests biasing the review process, and will raise questions relating to subcommittee composition, representation, and size. Options two and three will give the Council an operational or execution role, which is not intended and will also present additional administrative difficulties for the Secretariat, given the need to service the meetings of the subcommittee. On this basis, paragraphs 28 through 30 reflect option 1.

19. The Secretariat will review the initial application according to the Value-added Review Criteria proposed below. The review will be largely qualitative, and given the diversity in types of applicant entities, applicants will not need to meet all criteria. In some instances, an applicant could be admitted based on its contribution to only one or very few criteria.

20. The Secretariat will assess whether the entity will add value to the GEF partnership based on its experience, skills, and other merits. Applicants will need to demonstrate that they have expertise relevant to, or can significantly contribute to, the GEF in one of the GEF's focal areas or sectors.[6]

21. The Secretariat will summarize its review findings in a report, which will be forwarded to the GEF Council for decision, on whether the applicant should move forward to Stage 2: Accreditation Panel Review. The Secretariat will notify the applicant of the Council's decision.

Value-Added Review Criteria

22. The Secretariat and Council will use the following criteria for the Value-added Review and approval of applicants:

(a) <u>Relevance to the GEF:</u> How is the applicant's mission relevant to the GEF? What experience has the applicant had in implementing or executing GEF or similar projects, including those funded by the LDCF and the SCCF? At what scale will the applicant be able to engage with the GEF? What other relevant project experience does the applicant have in implementing or executing projects related to the global environment or projects relating to climate change adaptation? What clear environmental results can the applicant demonstrate?

(b) <u>Specialized Expertise & Potential to Fill Gaps</u>: Does the applicant have recognized expertise in one or more of the GEF focal areas or with regard to climate change adaptation? Will the applicant be motivated to bring to the GEF their expertise and knowledge if they had direct access to GEF funds? How might the applicant be able to help the GEF implement projects in sectors, regions, or countries in which existing GEF Agencies have had difficulty implementing projects, for example because of their small size or in a niche field of a GEF area?

(c) <u>Enhancement of Country Ownership</u>: Will accepting the applicant help the GEF to deliver on the principles of the *Paris Declaration on Aid Effectiveness*, in particular that donor agencies enhance country ownership? Will implementation of GEF projects by the applicant provide national governments with a greater stake in project management, thereby enhancing outcome sustainability? How

[6] GEF work-related areas include the Least Developed Countries Fund (LDCF) or Special Climate Change Fund (SCCF) focal areas.

will the implementation of GEF projects by the applicant help ensure that GEF funding is aligned with country priorities for the generation of global environmental benefits, including as contained in country strategies.

(d) Capacity Building and Strengthening of Country Systems: How will accepting the applicant provide a means to strengthen country systems and allow a recipient to take on higher levels of responsibility to lead and manage GEF projects and programs? How will it help countries improve their country systems further? How will it deliver on the commitment of the *Accra Agenda for Action* on use of "good quality country systems"?

(e) Enhanced Efficiency: Will accepting the applicant streamline the implementation and/or execution of important GEF projects or in other ways enhance their efficiency?

(f) Leveraging of Greater Co-financing: Will accepting the applicant allow the GEF to leverage co-financing, because, for example, the applicant will be able to leverage its own capital base or stimulate co-financing from partners? Will the applicant be motivated to increase its co-financing of GEF projects?

(g) Mainstreaming of Global Environmental Benefits: To what extent have global environmental issues been mainstreamed into the operations of the applicant? Will direct engagement with the GEF help mainstream global environmental concerns into its operations?

(h) Regional and Sub-regional Capacity Building: Will the applicant better position the GEF to build capacity at the regional and sub-regional levels?

(i) Networks/Contacts: Does the applicant have networks of experts and in-country collaborators, such as CSOs, that current GEF Agencies might not otherwise have, which might benefit the GEF?

(j) Other benefits to the GEF: Does the applicant bring other benefits to the GEF not identified in any of the above criteria?

MODULATION FOR DIFFERENT TYPES OF GEF PROJECT AGENCIES

23. Recognizing the inherent differences between different types of applicants, there will need to be some modulation of the Value-added Review Criteria to particular classes of entities. Some criteria will be more important for some types of entities than for others. Below is a listing of how the criteria could be modulated to the following types of entities: national institutions, nongovernmental organizations, regional organizations, other international organizations, and bilateral development agencies.

National Institutions

24. As part the Value-added Review, national institutions will need to demonstrate an ability to meet the following criteria:

(a) That they implement and/or execute projects in their countries as a core part of their business. (Normally, national institutions primarily engaged in policy formulation will not be eligible for accreditation as GEF Project Agencies.);

(b) That they have a track record of implementing or executing projects at a scale (i) similar to previous GEF projects in the country, and (ii) similar to the initial project identified in the Focal Point endorsement letter;

(c) That they are able to bring sufficient co-financing to the project so that the GEF is not the main source of financing; and

(d) That they have experience relevant to the GEF and its work.

Nongovernmental Organizations

25. As part of the Value-added Review, nongovernmental organizations will also need to meet the following qualifications to be accredited:

(a) Previous execution of GEF projects under a GEF Agency;

(b) Ability to bring concrete benefits to the GEF, such as specialized expertise, strong regional, global, or national networks of nongovernmental organizations, co-financing capacity, etc.;

(c) Strong expertise and capacity in areas relevant to the GEF; and

(d) Demonstrated ability to mobilize co-financing for GEF projects.

(e) During the Accreditation Panel Review, an NGO applicant will need to need to demonstrate particular strong prior performance in managing projects.

Regional Organizations

26. As part of the Value-added Review, regional organizations will also need to meet the following qualifications to be accredited:

(a) Previous execution of GEF projects under a GEF Agency; and

(b) Strong regional networks at the regional level, including with governments, non-governmental organizations, and scientists relevant to the work of the GEF.

Other International Organizations

27. During the Value-added Review, other international organizations, including United Nations specialized agencies and programs, will need to demonstrate the following:

(a) Ability to mobilize sufficient co-financing for projects;

(b) That their implementation or execution of GEF projects will not overlap with projects of existing GEF Partner Agencies;

(c) How they will bring additional specialized experience to the GEF beyond that available through the current GEF Partner Agencies;

(d) Greater ability to deliver global environmental benefits in the institution's area of focus than current GEF Partner Agencies; and

(e) Consistent with criteria 22 (a) above, demonstrate an ability to engage on global environmental and/or climate adaptation projects at a sufficient scale to merit accreditation.

Bilateral Development Agencies

28. In the case of accreditation of bilateral agencies, the GEF Secretariat recommends that the following rules apply post accreditation:

(a) Fees for Bilateral Agency Projects: The Secretariat recommends that bilateral agencies not receive agency fees. They will need to meet costs for project implementation with their own resources.

(b) Ceilings on GEF Project Grants: The bilateral agencies from a GEF participant country accredited as GEF Project Agencies will collectively be limited to project approvals of up to 10% of their government's pledged contribution to the GEF Trust Fund during a given replenishment period. Once the ceiling is met, no more proposals will be processed from bilateral Project Agencies from that country.

(c) Comparative Advantage & Position in Recipient Country: Each PIF presented by a bilateral agency is required to provide a compelling justification for why the bilateral agency, and not another GEF Partner Agency, will offer a clear comparative advantage in implementing the particular project. Each bilateral GEF Project Agency will need to demonstrate that it plays a predominant role in the recipient country in terms of providing assistance in the focal area/issue area in which the GEF project is to be undertaken. For example, a project might be part of a larger effort that the bilateral agency is already undertaking with the GEF, so that the bilateral agency will be able to show that allowing it to implement the GEF component will lead to the greater efficiency by not introducing a redundant agency into the project, exacting transaction and project management costs for little or even negative benefit.

(d) Co-financing: To ensure that inviting bilateral agencies to function as GEF Project Agencies will not undermine GEF access to these agencies as a source of co-financing, the GEF would establish a floor for co-financing of six to one that the bilateral agency will bring to the project.

29. As discussed in the June 2010 Council Meeting, an additional option to enhance the engagement of bilateral agencies in the GEF will be to agree that bilateral agency projects could count as a contribution to the GEF Trust Fund, in a manner similar to the current practice at the Multilateral Fund of the Montreal Protocol (MLF), which is described further in Annex 1.[7] This arrangement would not require bilateral agencies to be accredited as GEF Project Agencies prior to submitting projects for approval by the GEF Council. Rather, a bilateral project would count as a contribution to the GEF Trust Fund once it was approved by the GEF Council up to 10% of their government's pledged contribution to the GEF Trust Fund during a given replenishment period.

30. The Secretariat believes that this modality presents greater difficulties than accreditation of bilateral agencies. First, because bilateral agencies under this modality would not need to be

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[7] Bilateral contributions will need to be counted in the GEF pipeline in a way that guarantees the predictability of resources for recipient countries. If bilateral assistance projects did not materialize during a given replenishment, the donor participant would have to provide the amount of the shortfall directly to the GEF Trust Fund. It is important to note that the funding constituted by such bilateral agency implemented projects will not actually enter into the GEF Trust Fund but will still be accounted for as a donor contribution and will, where relevant, be counted towards the STAR allocation of the respective recipient country.

accredited, and they would not need to demonstrate high fiduciary standards, they would enjoy a competitive advantage vis-à-vis other types of agencies that would need to be accredited as GEF Project Agencies. Second, the GEF Instrument would need to be amended to allow for contributions of this nature, the next opportunity for which will be the next GEF Assembly in 2014. This would cause a substantial further delay.

MONITORING AND EVALUATION

31. It will be important for the GEF to be able to evaluate the success of this reform. Solid monitoring and a robust evaluation of the results of this new policy will be critical to learning from the process and adjusting it over time, as appropriate. The Council requests that the GEF Evaluation Office conduct an evaluation on the outcome of this reform. The Evaluation Office should initiate this evaluation two years after the first five new agencies have been accredited.

ANNEX 1: BACKGROUND AND ANALYSIS ON THE MULTILATERAL FUND FOR THE IMPLEMENTATION OF THE MONTREAL PROTOCOL

Introduction

1. The structure of Multilateral Fund for the Implementation of the Montréal Protocol (hereafter referred to as the MLF) was agreed to at the 1990 Meeting of the Parties to the Montreal Protocol. It was established as an interim mechanism in 1991 and as a permanent mechanism in 1993. Its structure has not changed in any important respect since then. The MLF operates under the authority of the Parties to the Montréal Protocol. Its operations are overseen by an Executive Committee comprising seven Article 5 and seven Non-Article 5 Parties.[8]

2. The MLF delivers its financial and technical assistance through two modalities. First, it provides financing to four multilateral agencies - the World Bank, UNEP, UNDP, and UNIDO - for the implementation of projects in recipient countries. Second, through its *bilateral cooperation* or modality, activities and projects funded and implemented by bilateral development agencies are considered as contributions to the MLF, provided that certain conditions are met.

Summary of Key Guidelines and Procedures for Bilateral Assistance Projects

3. All bilateral assistance activities or projects have to be approved by the MLF Executive Committee. They are required to meet the same rules as MLF Implementing Agency projects. For bilateral assistance activities/projects to be considered as contributions to the MLF, they must comply with the following criteria:

    (a) Be within a ceiling of 20% of a the donor’s total pledged contributions;

    (b) Be "strictly related to compliance with the provisions of the Protocol;"

    (c) Provide additional resources; and

    (d) Meet agreed incremental costs.

4. There are some additional guidelines and procedures for bilateral assistance projects that should be taken note of, including:

    (a) Bilateral (and regional) activities and projects must meet agreed guidelines for cost assessment. As such, the donor must provide a detailed account of how the assistance conforms to incremental costs and how the bilateral project does not exceed the maximum cost criteria agreed for certain types of ozone depleting substances (ODS);

[8] Article 5 Parties are those parties classified as developing counties and whose annual per capita consumption of ozone depleting substances are below the limits set in Article 5 of the Montreal Protocol. Non-Article 5 Parties include those countries classified as developing countries and several countries with economies in transition.

(b) Since 1999, the Executive Committee has required donors wishing to contribute bilateral assistance to submit annual work/ business plans for their planned bilateral cooperation. Donors are also required to submit annual progress reports on these work/business plans;

(c) The MLF Secretariat assesses all proposals for bilateral assistance against agreed project eligibility criteria and makes recommendations to the Executive Committee;

(d) Intersessional approval of bilateral activities of less than $2 million is allowed, based on a no-objection basis, but this process is rarely used;

(e) Countries intending to make bilateral assistance contributions need to indicate this in writing to the MLF Secretariat, specifying the year to which it should be credited. They must demonstrate how the bilateral assistance is additional, that it relates strictly to the Montreal Protocol, and that it covers incremental costs;

(f) Donor countries must submit documentation for the assessment of their bilateral contributions that identifies the beneficiary countries, including timetables and budgets, and indicate whether agreement has been reached with the beneficiary country. This documentation must also explain the relationship of the bilateral assistance with beneficiary country's ODS country program;

(g) Each bilateral assistance project must identify a Focal Point who will handle communications with the Secretariat on reviewing, managing, and reporting on the project;

(h) Bilateral agencies are required to consult with the MLF Secretariat and the implementing agencies on their activities. Generally, this is done through an annual business planning meeting among the implementing agencies, bilateral agencies, and MLF Secretariat; and

(i) No overruns of the 20% limits on bilateral financing is allowed. If a country reaches its 20% limit, consideration of further bilateral projects is deferred until the next replenishment period.

Analysis of Bilateral Assistance Contributions to the Multilateral Fund

5. Since the MLF's inception, bilateral assistance activities have accounted for $132.3 million or 4.9% of total contributions to the MLF to date, which have totaled $2.7 billion. As of May 31, 2010, 23 out of 51 donor countries to the MLF had made bilateral assistance contributions to the Multilateral Fund. Relevant data on bilateral assistance contributions to the MLF are included in Tables 1 and 2 below. We can note the following about bilateral assistance contributions to date:

(a) Bilateral assistance, as a percentage of total pledges, rose from 1.9% in the 1991-1993 period, to a high of 10.2% in the 2003 – 2005 period. It has since dropped down to the range of 2.1% to 2.2% in 2009 and 2010;

(b) Since 2008, nine countries have contributed through bilateral assistance: Canada, Czech Republic, France, Germany, Israel, Italy, Japan, Spain, and Switzerland;

(c) Germany is the largest contributor of bilateral assistance, which between 1991 and 2010, contributed $43.5 million as bilateral assistance, or 19% of its total agreed contributions of $227 million; and

(d) Other countries that have contributed substantial resources through bilateral assistance include: Canada, France, Italy, Japan, Spain, and the United States. The United States does not appear to have made bilateral assistance contributions since 2004. Sweden has also stopped using this modality.

6. GEF Secretariat staff attempted to determine whether there is any relationship between a country's pledging behavior and the ability to contribute through bilateral assistance. From the data available to the Secretariat, it was not possible to draw a correlation. GEF Secretariat contacts knowledgeable about the MLF (including current and former MLF Secretariat staff) stated that they did not believe there was any relationship. They have explained that because replenishment levels are set according to a technical needs analysis performed independently of the donors, it will be unlikely for there to be a relationship between replenishment levels and bilateral assistance.

TRUST FUND FOR THE MULTILATERAL FUND FOR THE
IMPLEMENTATION OF THE MONTREAL PROTOCOL

Table 1: Comparison of Total Pledges and Bilateral Assistance; 1991 - 2010

(US$ million; As of May 31, 2010)

Description	**1991-93**	**1994-96**	**1997-99**	**2000-02**	**2003-05**	**2006-08**	**2009**	**2010**	**Total 1991-1010**
Total Pledged Contributions	$234.9	$424.8	$472.6	$440	$474	$368	$133.3	$133.1	$2,680.8
Bilateral Assistance	$4.4	$11.9	$21.7	$21.3	$48.2	$19.1	$2.8	$2.98	$132.3
Bilateral as % of Total Pledges	1.9%	2.8%	4.6%	4.8%	10.2%	5.2%	2.1%	2.2%	4.9%
Additional Information									
Total Payments	$210.7	$393.5	$434.3	$429.3	$465.6	$357.7	$128.5	$66.1	$2,485.5
Payments as a Percent of Pledges	89.67%	92.61%	91.90%	97.57%	98.22%	97.19%	96.33%	49.62%	92.71%

Table 2: Pledges and Bilateral Assistance by Donor (as of May 31, 2010)

MLF Party	**Agreed Contributions**	***As % of Total Contributions***	**Bilateral Assistance**	***Bilateral as % of Party's Total Contribution***
Andorra	$21,816	0.00%	0	0.00%
Australia	50,993,246	1.90%	1,271,907	2.50%
Austria	28,385,051	1.10%	131,790	0.50%
Azerbaijan	885,741	0.00%	0	0.00%
Belarus	2,725,273	0.10%	0	0.00%
Belgium	35,169,914	1.30%	0	0.00%
Bulgaria	1,217,575	0.00%	0	0.00%
Canada	94,492,348	3.50%	10,340,732	10.90%
Cyprus	486,621	0.00%	0	0.00%
Czech Republic	7,608,455	0.30%	248,020	3.30%
Denmark	23,170,196	0.90%	161,053	0.70%
Estonia	244,963	0.00%	0	0.00%
Finland	18,231,475	0.70%	451,870	2.50%
France	204,964,091	7.60%	14,701,335	7.20%
Germany	299,477,339	11.20%	43,552,254	14.50%
Greece	14,512,794	0.50%	0	0.00%
Hungary	4,914,611	0.20%	46,494	0.90%
Iceland	1,047,658	0.00%	0	0.00%
Ireland	8,688,807	0.30%	0	0.00%
Israel	10,889,585	0.40%	152,462	1.40%
Italy	160,336,772	6.00%	14,869,108	9.30%
Japan	530,189,232	19.80%	16,970,167	3.20%
Kuwait	286,549	0.00%	0	0.00%
Latvia	450,832	0.00%	0	0.00%
Liechtenstein	257,652	0.00%	0	0.00%
Lithuania	688,510	0.00%	0	0.00%
Luxembourg	2,349,379	0.10%	0	0.00%
Malta	153,269	0.00%	0	0.00%
Monaco	182,818	0.00%	0	0.00%
Netherlands	54,000,822	2.00%	0	0.00%
New Zealand	7,699,207	0.30%	0	0.00%
Norway	20,282,421	0.80%	0	0.00%

MLF Party	**Agreed Contributions**	***As % of Total Contributions***	**Bilateral Assistance**	***Bilateral as % of Party's Total Contribution***
Panama	16,915	0.00%	0	0.00%
Poland	9,147,011	0.30%	113,000	1.20%
Portugal	12,067,605	0.50%	101,700	0.80%
Romania	326,748	0.00%	0	0.00%
Russian Federation	103,131,225	3.80%	0	0.00%
Singapore	531,221	0.00%	71,976	13.50%
Slovak Republic	2,314,569	0.10%	16,523	0.70%
Slovenia	1,250,000	0.00%	0	0.00%
South Africa	3,793,691	0.10%	30,000	0.80%
Spain	79,439,939	3.00%	3,211,844	4.00%
Sweden	35,920,365	1.30%	1,828,377	5.10%
Switzerland	39,171,325	1.50%	1,913,230	4.90%
Tajikistan	104,885	0.00%	0	0.00%
Turkmenistan	293,245	0.00%	0	0.00%
Ukraine	9,144,846	0.30%	0	0.00%
United Arab Emirate	559,639	0.00%	0	0.00%
United Kingdom	179,344,061	6.70%	565,000	0.30%
United States of America	618,598,275	23.10%	21,567,191	3.50%
Uzbekistan	677,654	0.00%	0	0.00%
TOTAL	**2,680,838,242**	**100.00%**	**132,316,032**	**4.90%**