GEF/C.50/07
May 16, 2016

50th GEF Council Meeting
June 7 – 9, 2016
Washington, D.C.

Agenda Item 08

FUTURE DIRECTIONS ON ACCREDITATION – A FOLLOW-UP

Recommended Council Decision

The Council, having reviewed document GEF/C.50/07, *Future Directions on Accreditation – A Follow-Up,* took note of the conclusions and analysis carried out by the Secretariat and decided to reassess, at the beginning of the seventh replenishment period of the GEF Trust Fund (GEF-7), whether to launch a process to accredit a limited number of additional Agencies to fill any emerging strategic gaps.

EXECUTIVE SUMMARY

The GEF Council, at its 49th meeting in October 2015, requested that the Secretariat undertake further work on the issues described in the Council paper *Future Directions on Accreditation* (GEF/C.49/04), including **"an analysis of the geographic and thematic gaps that may exist within the Partnership and of the effectiveness of the current structure of the GEF Partnership, with recommendations to be presented at the next Council meeting in June 2016."**

The October 2015 Council paper, which set out three main, possible future directions on accreditation: (1) no additional Agencies are accredited, (2) additional Agencies are accredited but only with a limited strategic expansion in numbers, and (3) a broad-based expansion with a major increase in numbers. The paper further identified four key issues of relevance for a decision on whether to accredit additional Agencies, including regional and thematic coverage, competition, system efficiency and Agency engagement.

This paper presents further analysis of these key issues and arrives at the following main findings:

(a) **There do not appear to be major geographic gaps in the GEF Partnership in terms of the number of Agencies supporting each country, and countries' ability to utilize their GEF funding allocations.** Countries across all regions and types are able to access the GEF funds allocated to them. Ninety-one per cent of recipient countries currently work with two or more Agencies and 76 per cent of countries work with three or more Agencies. Agency concentration levels have declined as more Agencies have entered the GEF Partnership. (paragraphs 6–13)

(b) **There are no major thematic gaps in the GEF Partnership in terms of the availability of technical skills.** Four out of five focal areas have seen projects and programs implemented by eleven or more Agencies, while chemicals and waste benefits from the engagement of five Agencies. (paragraphs 14–17)

(c) **Available evidence suggests that an expanded Partnership could entail greater transaction costs through accreditation, onboarding and communication across a larger network.** (paragraphs 19–25)

(d) **The GEF Partnership has the range of capabilities needed to meet the GEF's strategic aspirations, such as an ability to manage integrated, multi-stakeholder programs, foster innovation, and mobilize private financing.** Looking forward, a key question is whether the business model is optimizing the deployment of these capabilities. (paragraphs 26–36).

(e) **A further expansion of the GEF Partnership could risk eroding the level and quality of engagement among partners.** The GEF Partnership relies on intensive engagement among its various stakeholders. A close Partnership has so far been a critical success factor in delivering on the strategic directions set out as part of

GEF-6; and is essential to meeting the aspirations of the GEF2020 Vision. (paragraphs 37–39)

Based on this analysis, two main conclusions might be made. First, current evidence does not point to a need for new accreditation so soon after the near-doubling of the number of Agencies. Second, perhaps more than the number of Agencies, further reflection is necessary on the extent to which the business model optimizes the strong capabilities of the GEF Partnership.

On the second conclusion, key issues raised include: whether the GEF has optimized its potential to support integrated programs in addition to projects, whether there are sufficient incentives for multiple benefits across focal areas in GEF-supported projects and programs, and the extent to which GEF modalities can fit the business models and mainstreaming needs of development finance institutions.

It should be recognized that most data presented in this paper does not reflect the effects of the most recent expansion of the GEF Partnership. The accreditation of eight GEF Project Agencies may shift the baseline towards greater geographic and thematic coverage, but also further increase competition and transaction costs for various stakeholders engaging in the GEF Partnership.

In light of the above conclusions, the Secretariat recommends that the Council reassess, at the beginning of the seventh replenishment period of the GEF Trust Fund (GEF-7), whether to launch a process to accredit a limited number of additional Agencies to fill any emerging strategic gaps.

TABLE OF CONTENTS

INTRODUCTION

1. The GEF Council, at its 49th meeting in October 2015, requested that the Secretariat undertake further work on the issues described in the Council paper *Future Directions on Accreditation* (GEF/C.49/04), including **"an analysis of the geographic and thematic gaps that may exist within the Partnership and of the effectiveness of the current structure of the GEF Partnership, with recommendations to be presented at the next Council meeting in June 2016."**

2. **This paper seeks to build on (and not repeat) the October 2015 paper.** The latter set out three main, possible future directions on accreditation: (1) no additional Agencies are accredited, (2) additional Agencies are accredited but only with a limited strategic expansion in numbers, and (3) a broad-based expansion with a major increase in numbers. That paper further identified four key issues of relevance for a decision on whether to accredit additional Agencies; including regional and thematic coverage, competition, system efficiency and Agency engagement.

3. With a view to informing dialogue and a potential decision on future directions on accreditation, this paper presents new analysis of the key issues identified. The paper is complementary to the *Evaluation of the Expansion of the GEF Partnership – First Phase (*GEF/ME/C.50/06), carried out by the Independent Evaluation Office (IEO).

4. **This paper is divided into two main sections consistent with the Council's request:** (i) geographic and thematic coverage and (ii) the efficiency and effectiveness of the GEF Partnership; followed by conclusions and recommendations.

PART I: GEOGRAPHIC AND THEMATIC COVERAGE

5. This part of the paper explores whether there are significant geographic or thematic gaps in the GEF Partnership that might call for the accreditation of additional Agencies.

Geographic coverage

Main message: There do not appear to be major geographic gaps in the GEF Partnership in terms of the number of Agencies supporting each country, and countries' ability to utilize their GEF funding allocations. Countries across all regions and types are able to access the GEF funds allocated to them. Ninety-one per cent of recipient countries currently work with two or more Agencies and 76 per cent of countries work with three or more Agencies. Agency concentration levels have declined as more Agencies have entered the GEF Partnership.

6. **The analysis below looks at whether existing data suggest any geographic gaps in the GEF partnership** – i.e. whether the newly expanded network of 18 Agencies serves adequately the different regions and types of countries where the GEF operates. Specifically, it asks (i) whether countries in different regions and situations fully utilize the GEF funds allocated to them; (ii) whether countries of all types and regions have sufficient choice of Agencies to meet their needs; and (iii) how Agency concentration has evolved across different regions and groups of countries as the Partnership has expanded.

7. **With respect to the utilization of GEF funds, countries across all regions and types are able to access the GEF funds allocated to them.** For example, while least developed countries (LDCs) and small island developing States (SIDS) experienced some challenges in programming their allocations during GEF-4, utilization rates in both groups of countries exceeded 90 per cent in GEF-5. Similarly, fragile states[1] were able to successfully utilize their allocations in GEF-5, with an average utilization rate of 90 per cent (see figures 1–3 below):

[1] In accordance with World Bank's Harmonized list of fragile situations FY16: http://pubdocs.worldbank.org/pubdocs/publicdoc/2015/7/700521437416355449/FCSlist-FY16-Final-712015.pdf

Figure 1: Allocation vs. utilization of GEF funds in LDCs in GEF-4 and 5

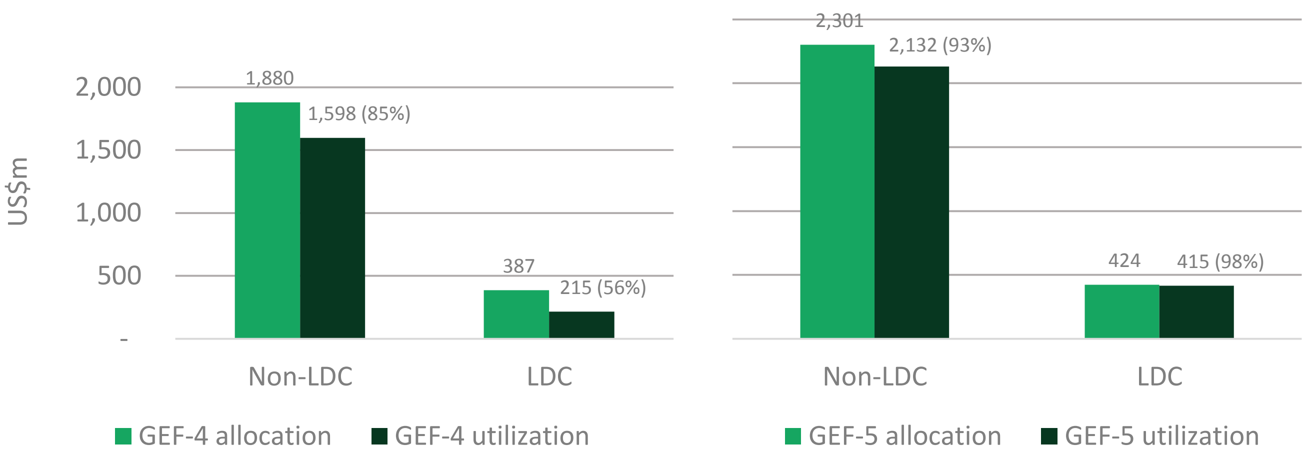


Figure 2: Allocation vs. utilization of GEF funds in SIDS in GEF-4 and 5

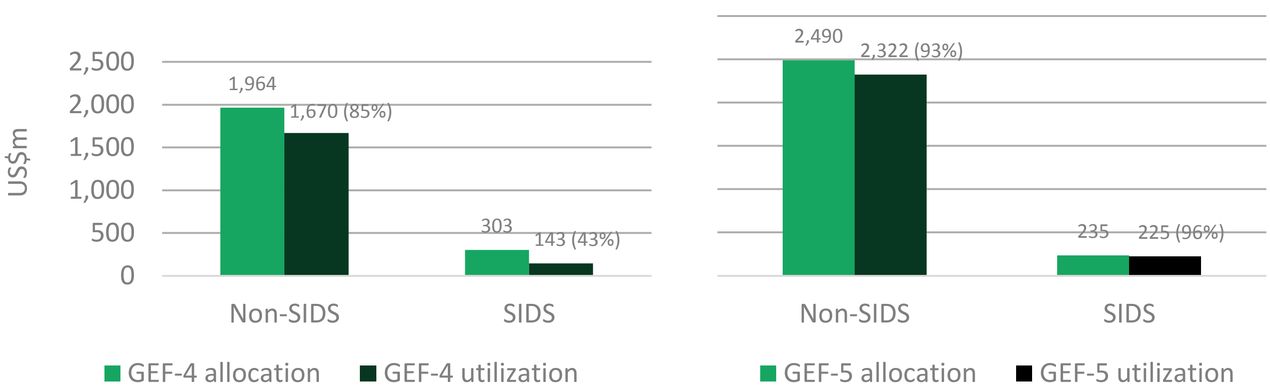
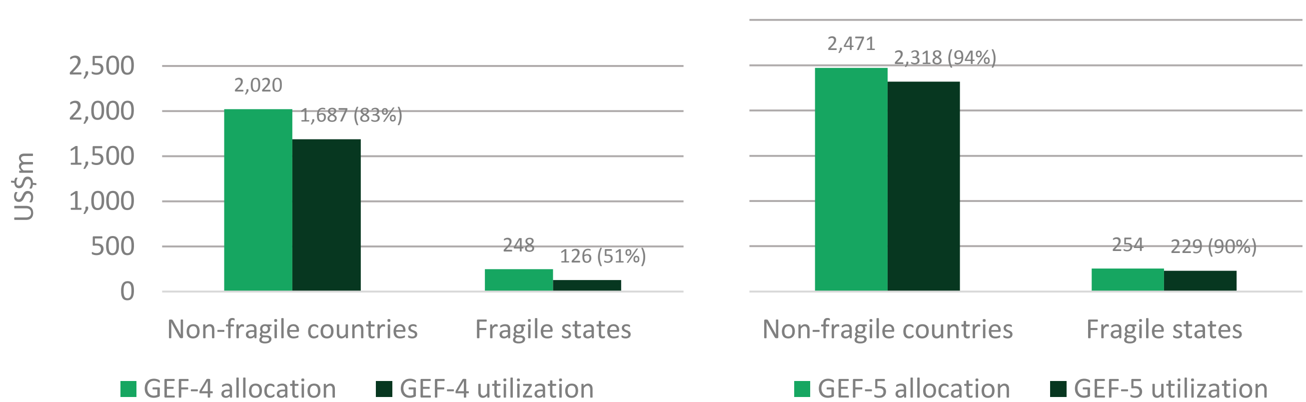
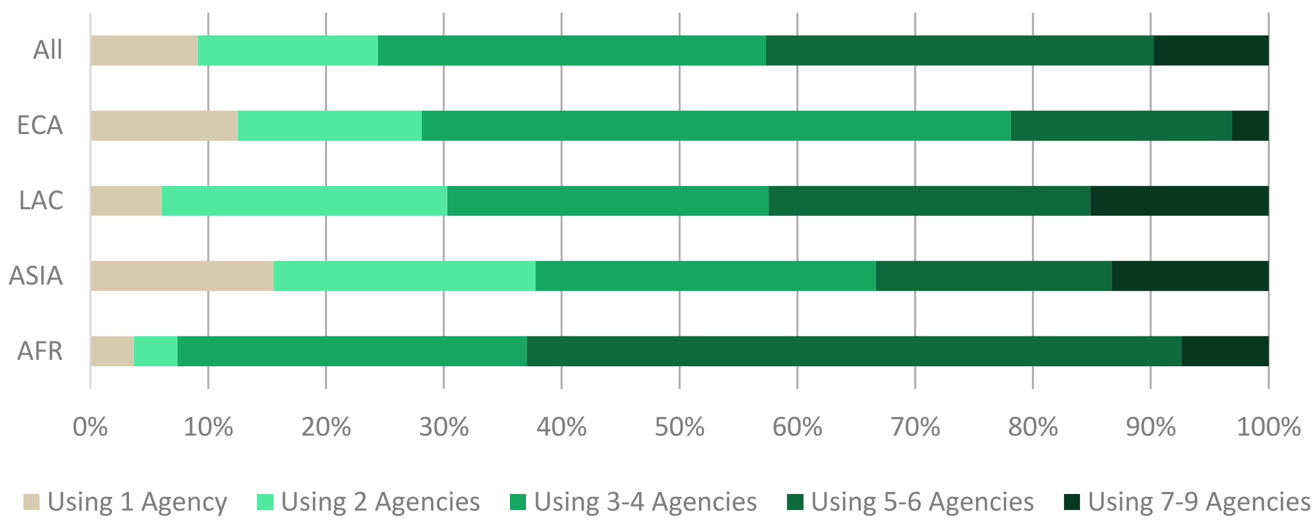


Figure 3: Allocation vs. utilization of GEF funds in fragile states in GEF-4 and 5



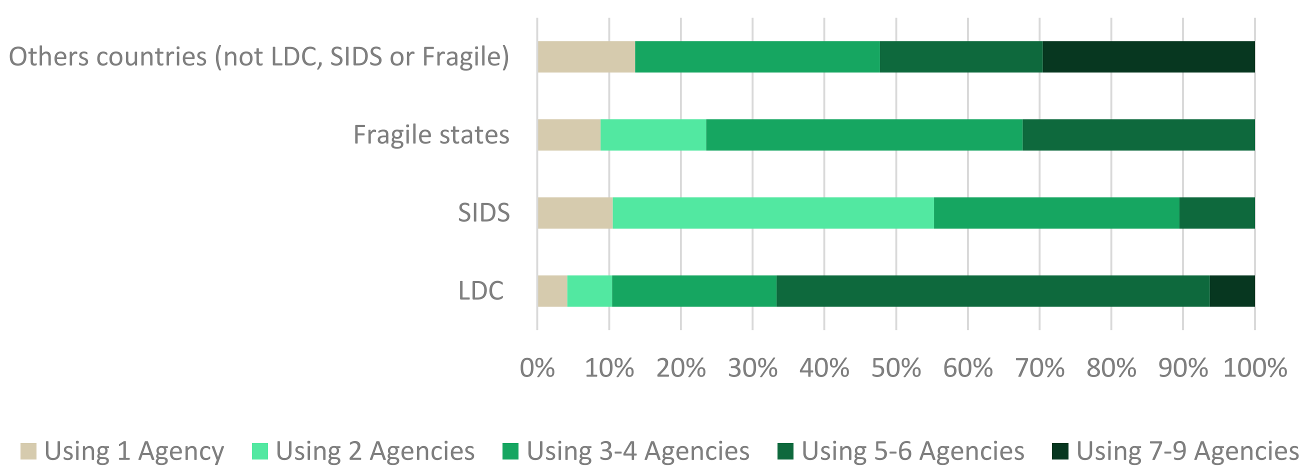
8.	As for whether all countries of all types and regions have sufficient choice of Agencies to meet their needs**, a relevant data point is that 91 per cent of countries currently work with two or more Agencies and 76 per cent of countries work with three or more Agencies** (see Figure 4 below).

Figure 4: Share of countries in groups by number of Agencies used – GEF-3 to GEF-6 (December 2015)



9.	While SIDS and fragile states tend to rely on fewer Agencies than recipient countries on average, 89 per cent of SIDS and 91 per cent of fragile states still use two or more Agencies (see Figure 5 below).

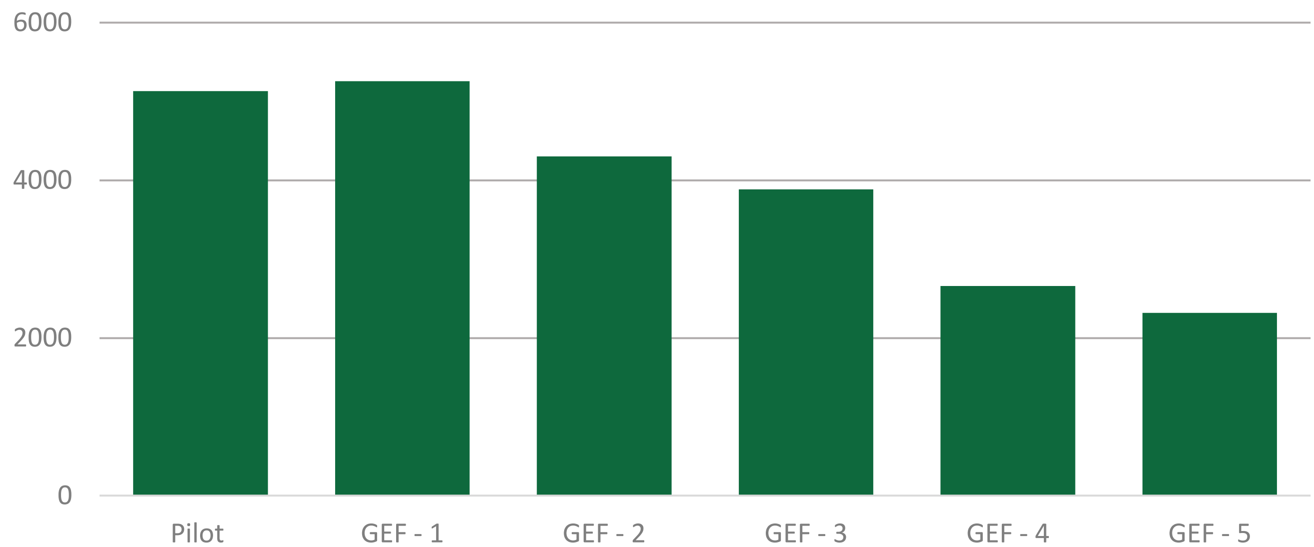
Figure 5: Share of LDC, SIDS, and fragile states in groups by Agency count (December 2015)



10. The above data reflects the status of GEF programming as at December 2015. **With the April and June 2016 Work Programs, however, two additional Project Agencies will participate in GEF programming in SIDS, and three additional Agencies will become active in fragile states.**

11. **As more Agencies have entered the GEF Partnership, concentration levels have declined and competition for resources has increased.** Figure 6 illustrates this decline using the Herfindahl-Hirschman Index (HHI) [2], a widely used measure of market concentration.

Figure 6: Agency concentration – the Herfindahl-Hirschman Index



12. **This trend of declining Agency concentration is evident across regions and groups of countries, although the level of concentration varies from one region and group to another.** The relatively higher levels of concentration in SIDS and high-income countries[3] may be a result of the relatively smaller GEF funding portfolios in these countries. Table 1 below present HHI data by various categories of countries, and Figure 7 presents a frequency distribution of Agency concentration showing the differences between country classifications.

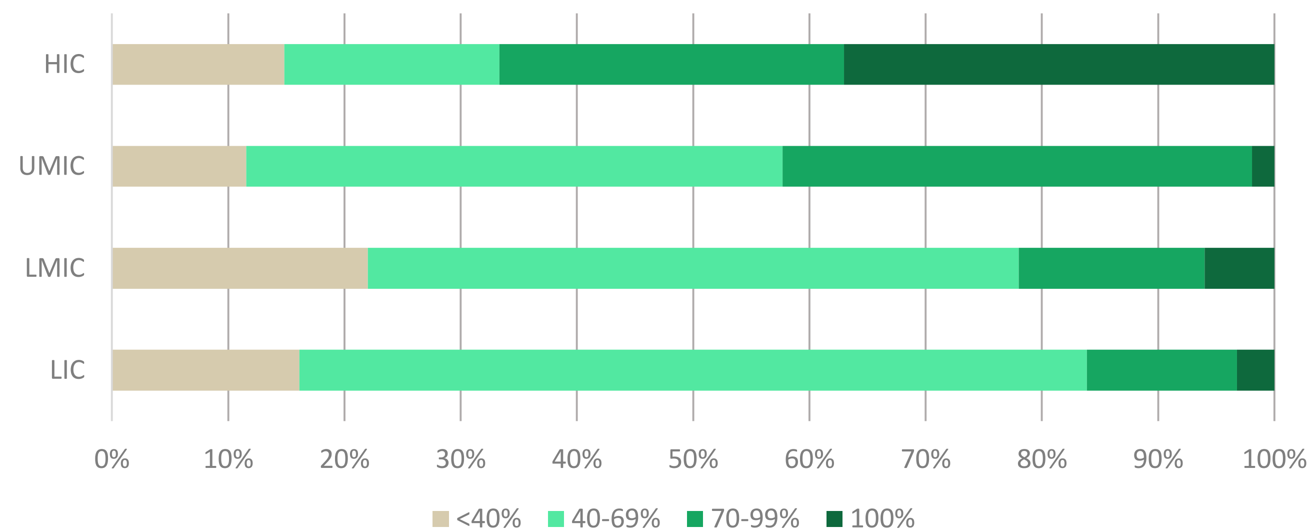
[2] The Herfindahl-Hirschman Index (HHI) is a widely used measure of market concentration. It ranges in value from 0 to 10,000, with values close to 0 representing nearly perfect competition, and values close to 10,000 representing monopolies.

[3] Of 27 HIC that receive GEF funding from GEF-3 to GEF-6, 6 are also SIDs (Antigua & Barbuda, Bahamas, Barbados, Seychelles, St, Kitts and Nevis, and Trinidad and Tobago). Non-SIDS HICs are Argentina, Bahrain, Chile, Croatia, Czech Republic, Equatorial Guinea, Estonia, Hungary, Kuwait, Latvia, Lithuania, Malta, Oman, Poland, Republic of Korea, Russian Federation, Saudi Arabia, Slovak Republic, Slovenia, Uruguay, and Venezuela. Of these, only 12 were still receiving STAR allocations in GEF-6.

Table 1: Agency concentration by regions and groups of countries by replenishment phase

	Pilot	GEF - 1	GEF - 2	GEF - 3	GEF - 4	GEF - 5	
SIDS	5423	4351	5001	3916	5434	4155	
LDCs	5246	4956	6596	4510	2969	2553	
AFR	6866	4739	5710	4126	2846	2376	
ASIA	5581	6213	4757	4199	2519	2641	
ECA	6126	7550	5457	4248	3661	2101	
LAC	5688	5226	4939	5073	2479	2156	
LICs	5002	5725	7194	4465	2783	2644	
LMICs	6633	6676	5644	4655	2874	2493	
UMICs	6277	6214	4864	5280	2858	2710	
HICs	7390	7637	5085	4542	3518	1510	

Figure 7: Share of countries by Agency concentration[4] and income group (December 2015)



13. **Where countries rely on a single Agency for their programming and implementation support needs, that Agency is either UNDP (in 67 per cent of cases) or UNEP (in 33 per cent of cases).** Overall, UNDP stands out as the Agency with the widest geographic reach, including in regions and groups of

[4] Agency concentration is defined here as the dominant Agency's approved GEF funding in a given country as a share of total approved GEF funding in the country from GEF-3 to GEF-6.

countries where Agency concentration is higher than in recipient countries on average. (see figures 8–9 below)

Figure 8: Agency concentration in SIDS – GEF-3 to GEF-6 (December 2015)

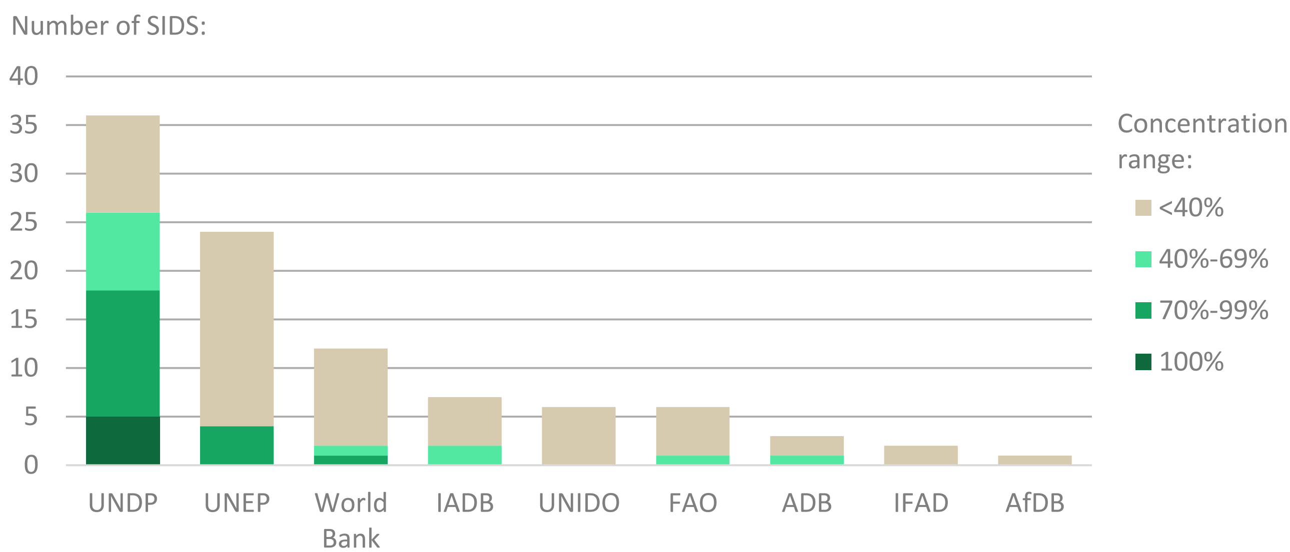
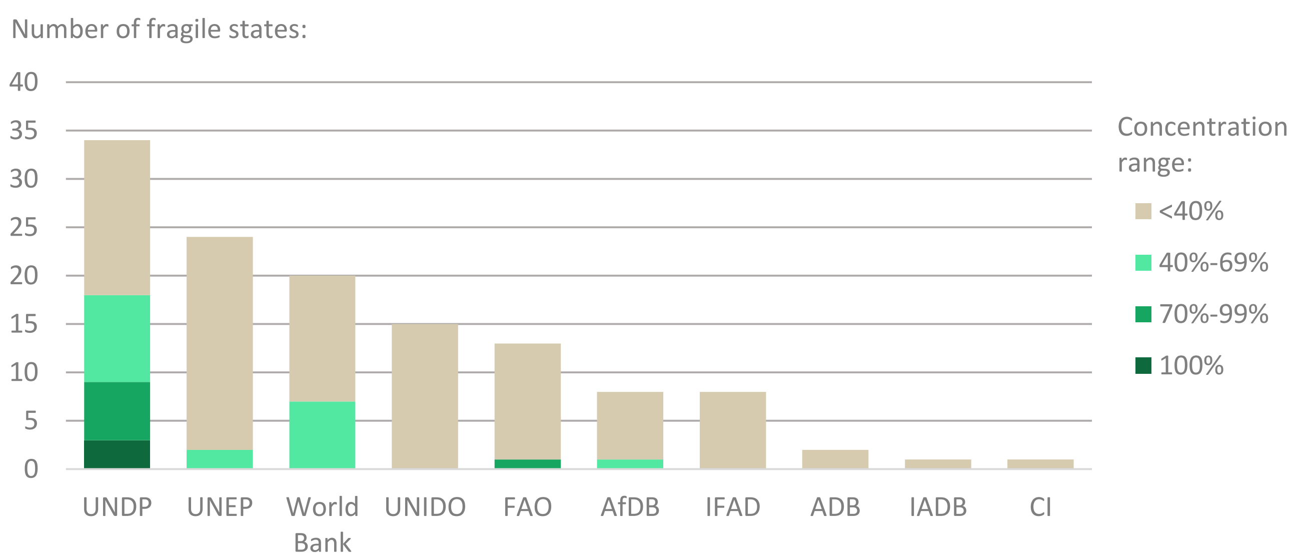


Figure 9: Agency concentration in fragile states – GEF-3 to GEF-6 (December 2015)



Thematic Coverage

Main message: There are no major thematic gaps in the GEF Partnership in terms of the availability of technical skills. Four out of five focal areas have seen projects and programs implemented by eleven or more Agencies, while chemicals and waste benefits from the engagement of five Agencies.

14. This section aims to assess whether there are significant thematic and technical gaps in the GEF Partnership, i.e. whether the newly expanded network of 18 Agencies provides adequate coverage across key thematic areas, using the focal areas as a reference point for the required technical skills.

15. **Four out of five focal areas have seen projects and programs implemented by eleven or more Agencies, while chemicals and waste benefits from the engagement of five Agencies, with technical skills being deployed fairly evenly across focal areas.** As a proxy for where GEF Agencies are deploying their technical skills, Table 2 presents information on which Agency has drawn on which focal area funding, up to and including the June 2016 Work Program. Over the lifetime of the GEF, Agencies have actively deployed their technical skills quite broadly across focal areas. This has continued in GEF-6, where so far seven Agencies have been involved in four or more focal areas.

Table 2: Deployment of Agencies across focal areas (up to and including June 2016 WP)

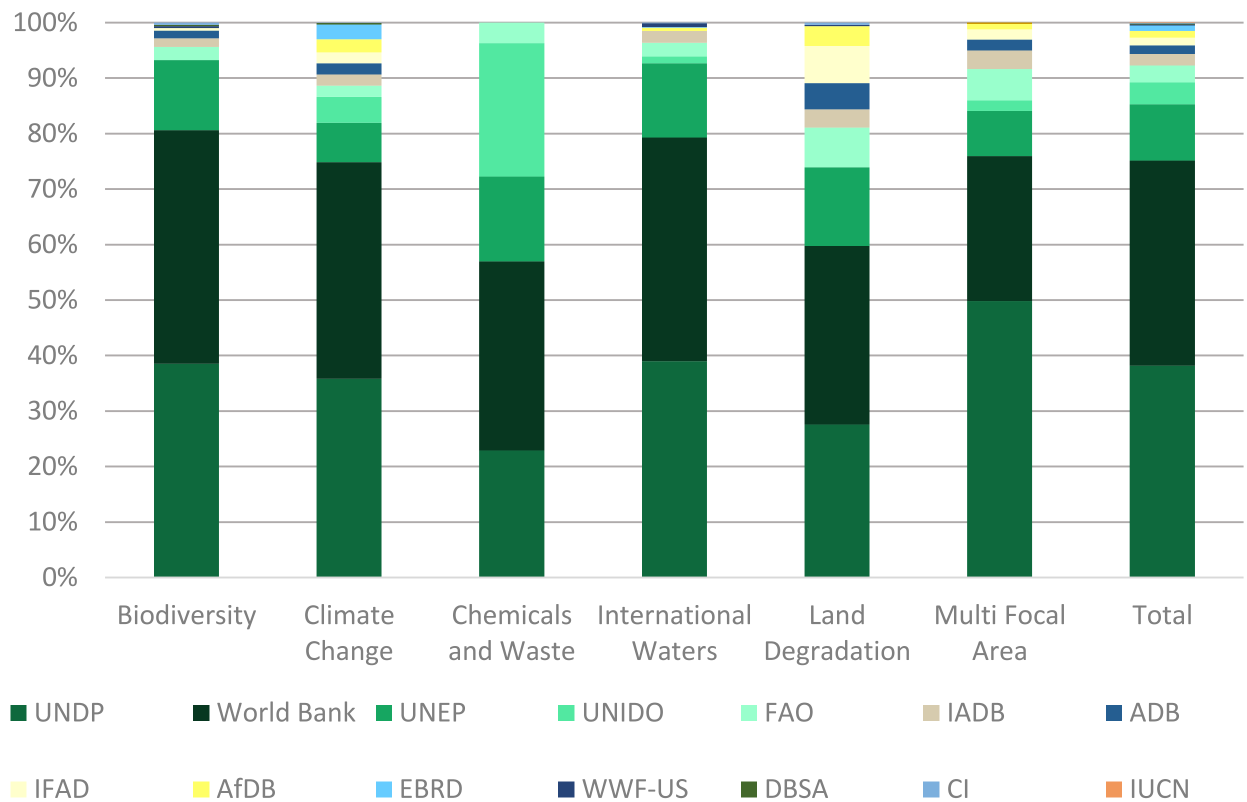
	CLIMATE CHANGE	BIODIVERSITY	LAND DEGRADATION	INT'L WATERS	CHEMICALS & WASTE
UNDP	Yes	Yes	Yes	Yes	Yes
UNEP	Yes	Yes	Yes	Yes	Yes
WB	Yes	Yes	Yes	Yes	Yes
ADB	Yes	Yes	Yes	No	No
AFDB	Yes	Yes	Yes	Yes	No
EBRD	Yes	No	No	Yes	No
FAO	Yes	Yes	Yes	Yes	Yes
IADB	Yes	Yes	Yes	Yes	No
IFAD	Yes	Yes	Yes	No	No
UNIDO	Yes	No	No	Yes	Yes
BOAD	Yes	No	No	No	No
CI	Yes	Yes	Yes	Yes	No
DBSA	Yes	Yes	No	No	No
FUNBIO	No	Yes	No	No	No
IUCN	No	Yes	Yes	Yes	No
WWF-US	No	Yes	Yes	Yes	No
NO%	19%	19%	31%	31%	69%
YES%	81%	81%	69%	69%	31%

16. **The table above is not yet representative of the expected technical contribution of the new Project Agencies.** This is because, of the eight newly accredited GEF Project Agencies, only six had seen at least one project approved as at May 2016, inclusive of the proposed June 2016 Work Program. At

this point, these Agencies had worked across four different focal areas as well as multi-focal area projects and programs, with most projects focusing on biodiversity (35 per cent), followed by multi-focal area projects (32 per cent) and climate change (22 per cent).

17. **Moreover, no GEF focal area appears to be disproportionately dominated by any particular Agency** (see Figure 10 below). As a result, it appears that a number of Agencies have the technical capabilities to respond to recipient countries' needs regardless of the area of work.

Figure 10: Share of cumulative funding approvals by focal area and Agency (December 2015)



PART II: THE EFFICIENCY AND THE EFFECTIVENESS OF THE GEF PARTNERSHIP

18. Part I above suggested that there currently do not appear to be major geographic or thematic gaps in the GEF Partnership. This second part takes a broader look at the efficiency and effectiveness of the current structure of the GEF Partnership, exploring the potential need for and impacts of accrediting additional Agencies.

Efficiency

> *Main message: Available evidence suggests that an expanded Partnership could entail greater transaction costs through accreditation, onboarding and communication across a larger network*

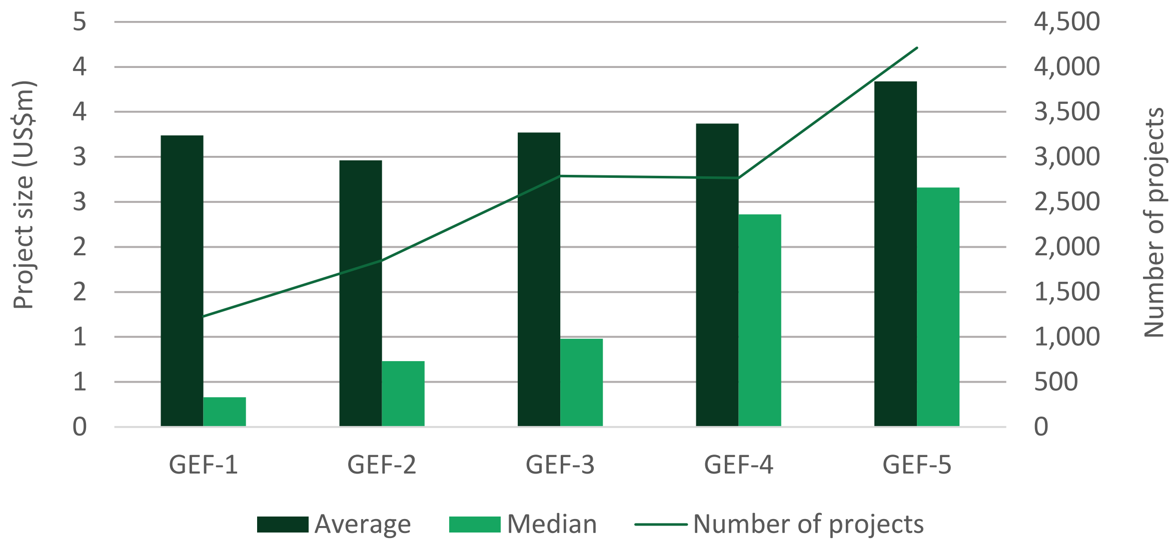
19. **This section considers how an expansion of the GEF Partnership might affect efficiency in delivering GEF financing.** It explores the potential costs and benefits of accrediting additional Agencies, based in part on the experience of the latest expansion.

20. **Expanding the GEF Partnership could bring about greater choice of Agency, and a more efficient deployment of Agencies based on their particular strengths and comparative advantages.** The above analysis clearly points to increasing competition and choice across all regions and groups of countries. It also suggests that Agencies' have tended to work across multiple focal areas, rather than focusing on more narrowly defined areas of strength. It is likely that competition has led to greater responsiveness by Agencies to meet the needs defined by partner Governments. In contrast, because overhead costs such as fees are fixed as a share of funding, greater competition has not driven down such costs in the system.

21. **A larger Partnership entails greater management efforts – as pointed out by IEO** *(Fifth Overall Performance Study*). The Council, the Secretariat, IEO and STAP have so far sought to engage with all Agencies, but the costs of these interactions have increased as the Partnership has expanded, and there may be a limit beyond which meaningful engagement is no longer cost effective or even feasible. The importance of such engagement through a partnership business model is explored further below (paragraphs 37–39).

22. **One potentially relevant indicator on system efficiency is the number of projects and average project size.** As shown in Figure 11, the addition of new Agencies does not appear to have reduced average project size, although the overall growth in GEF financing has mostly translated into more projects rather than larger projects. As stated in the October 2015 paper, this is relevant to system efficiency as each additional project imposes at least some additional transaction costs at the system level – a portfolio of many small projects will typically have higher administrative costs than the opposite.

Figure 11: Average size of GEF project grants at approval (US$m), and total number of projects by replenishment phase



23. **The costs of accrediting eight GEF Project Agencies were substantial.** With respect to the direct costs associated with expanding the GEF Partnership, IEO, in its 2015 *Evaluation of the Accreditation Process for Expansion of the GEF Partnership* (GEF/ME/C.48/Inf.03), found that the process of accrediting new GEF Project Agencies had been costlier than expected, for the applicants as well as to the GEF, and the cost incurred by the GEF had been substantially higher than that recovered through fees. The total cost of the accreditation process to the GEF was estimated at US$1.53 million, of which US$608,000 was recovered through fees paid by the applicants. At the time of the evaluation, the total expenditure for the five applicants that had cleared the second stage of the accreditation process had reached some US$2.3 million.

24. **Onboarding new GEF Project Agencies also entails costs through training as well as upstream consultations on the development of project proposals.** However, on the part of the GEF Secretariat, these costs have been manageable, while data are not available on the part of Project Agencies who will have incurred benefits from such investments, too. Following the accreditation of the first Project Agencies in 2013, the GEF Secretariat has carried out three missions to visit newly accredited Agencies, and it has organized three dedicated training sessions for new Agencies. In addition, the GEF Project Agencies have benefited from introduction seminars and expanded constituency workshops. A large share of the costs associated with these activities have been borne by the new Agencies and the costs to the Secretariat have not been significant compared with the costs of the accreditation process itself.

25. **It is too soon after the recent round of accreditations to discern any impact in terms of the current – and limited – indicators of system efficiency in the GEF Partnership**. For example, on indicators such as the average time elapsed from Council approval to CEO endorsement, the time required for project review and revision, or the average time from CEO endorsement to first

disbursement. As suggested in OPS5, the main driver behind these indicators is likely to have more to do with GEF-wide policies and procedures than the number of Agencies.

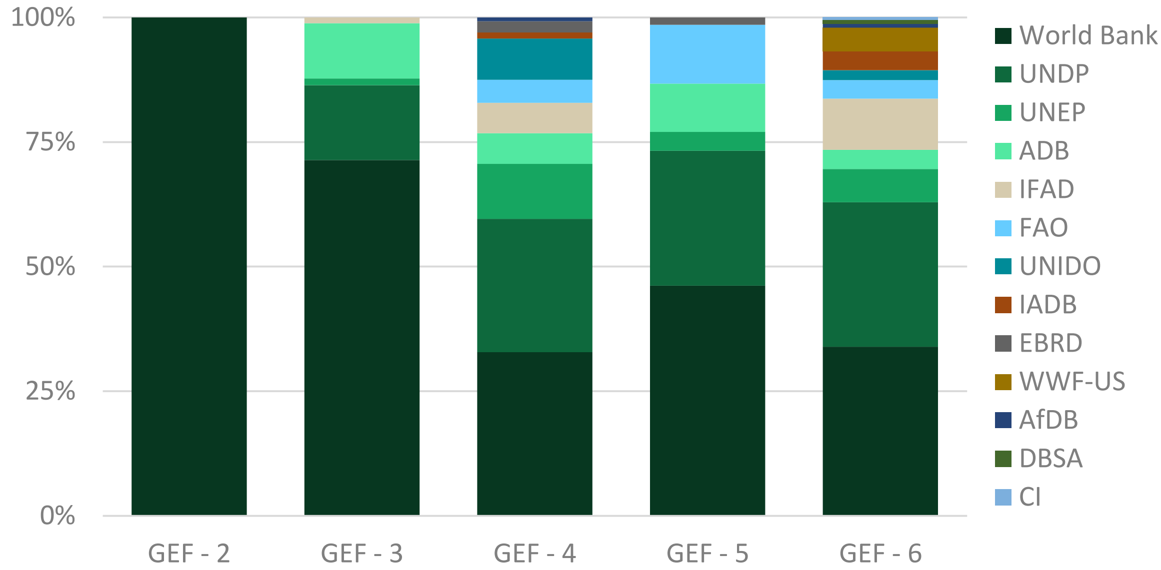
Effectiveness

> *Main message: The GEF Partnership has the range of capabilities needed to meet the GEF's strategic aspirations, such as an ability to manage integrated, multi-stakeholder programs, foster innovation, and mobilize private financing. Looking forward, a key question is whether the business model is optimizing the deployment of these capabilities.*

26. **GEF2020 sets out a vision for the GEF to become a champion of the global environment.** To achieve this vision a number of strategic priorities are proposed, including addressing the drivers of environmental degradation, delivering integrated solutions and supporting innovative and scalable activities. Using these and other strategic priorities as a reference, this section assesses whether the GEF Partnership holds the broader capabilities required to deliver on the GEF's strategic aspirations, and how the structure and functions of the Partnership could affect how well these capabilities are deployed. Specifically, this section considers a number of suggested capabilities as follows: *managing multi-stakeholder programs that seek systemic impacts; delivering integrated solutions; supporting innovation; private sector engagement; leveraging large-scale development investments; and supporting smaller-scale activities, such as community-based and civil society-executed activities.*

27. **A number of Agencies are actively engaged in <u>managing multi-stakeholder programs that seek systemic impacts.</u>** Currently 13 Agencies have engaged in programmatic approaches, and ten Agencies have led them. The World Bank, followed by UNDP, has made the greatest use of programmatic approaches in GEF-6 as well as in past replenishment phases (see Figure 12 below).

Figure 12: Agency shares of GEF program funding (February 25, 2016)



28. **In terms of the GEF business model, programs represented a variable share of GEF funding: 12 per cent in GEF-5 and 36 per cent in GEF-4.** A number of major programs were approved at the beginning of GEF-6, amounting to some 40 percent of all funding approvals as of April 2016, which suggests an increase from GEF-5. Still, the Agencies' capability to manage programs is probably not fully utilized. The upcoming IEO evaluations in 2017 of the programmatic approaches and the Integrated Approach Pilot (IAP) programs may yield more lessons on the strengths of the GEF Partnership in these domains – including an assessment of the impact of the changes introduced to the Programmatic Approach modality in October 2014.

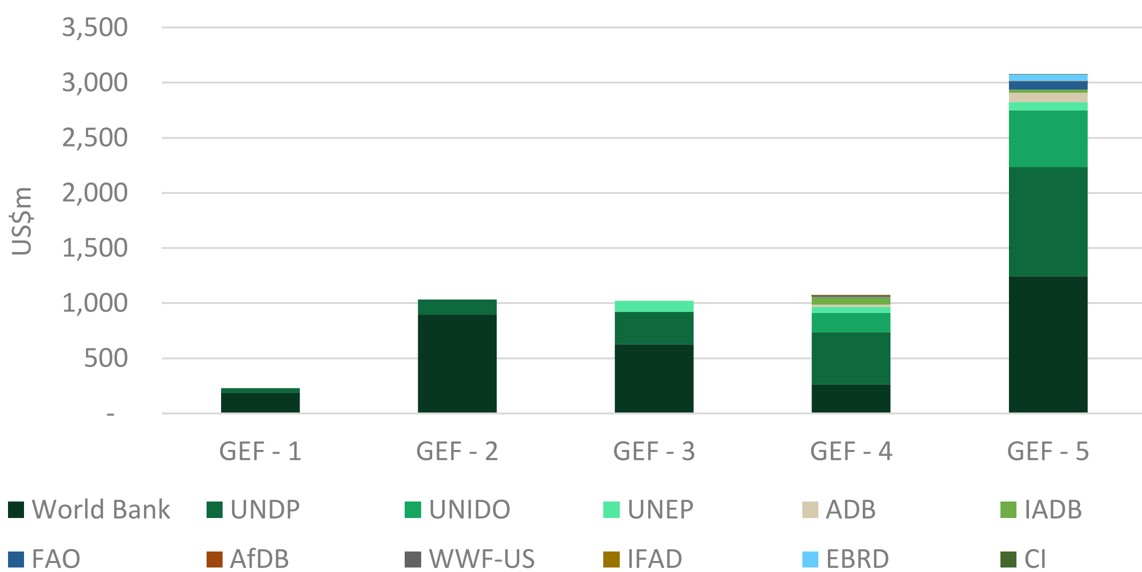
29. **Agencies have also demonstrated a capability to deliver integrated solutions to complex and interconnected global environmental challenges.** As at April 25, 2016, thirteen Agencies were supporting multi-focal area programming, which suggests that Agencies generally possess a breadth of expertise (see also Paragraph 17 above). Further, recent experience in programs approved in GEF-6 demonstrates how Agencies have worked together to complement their skills sets. For example, 12 out of 18 Agencies are currently involved in the three IAPs and each IAP is led by a different Agency. Eight Agencies are also involved in three other major, thematic programs on coastal fisheries, illegal wildlife trade and sustainable landscapes in the Amazon.

30. **Looking forward, there is perhaps scope for the GEF to incentivize more integration through its funding.** Consideration might be given to whether the GEF's business model optimizes the Partnership's capability to deliver integrated solutions that tackle the drivers of environmental degradation. There are inadequate measures of the level of integration in GEF-supported projects and programs with which to assess this. Key issues include, for example, the balance of incentives between compartmentalization and integration – such as in the programming and division of STAR allocations between focal areas. Again, IEO may provide useful insights in the near future through its 2017 evaluation of the multiple benefits of GEF support.

31. **Agencies have demonstrated a capability to support <u>innovative and scalable activities.</u>** Past evaluations suggest that a variety of Agencies have successfully demonstrated or piloted new technologies, practices and approaches that have – over time and with support towards enabling environments – resulted in broader adoption and impact at scale. For example, in its impact evaluation of the GEF's investments in climate change mitigation in four large recipient countries (GEF/ME/C.45/1, Annual Report on Impact), IEO finds that both the World Bank and UNDP – two of the three GEF Agencies for which the longer-term impacts of GEF support could be assessed – had implemented projects and programs that had successfully demonstrated new technologies and approaches and ultimately achieved broader adoption, including market transformation. The 2014 Annual Monitoring Review (GEF/C.48/03), in turn, which considers mid-term reviews and terminal evaluations of projects that were under implementation in FY14, presents examples of projects implemented by five different GEF Agencies that successfully fostered innovation across different focal areas. An important challenge and opportunity for the GEF Partnership is to foster collective learning from these early GEF investments with a view to identifying key success factors and good practices, and to translate those into improved project and program design.

32. **The Partnership has demonstrated its capability to work with the <u>private sector.</u>** Among the 14 Agencies that had seen projects and programs approved as at April 25, 2016, 12 (or 86 per cent) managed projects and programs with co-financing from the private sector – one proxy for their ability to mobilize private financing (see Figure 14). The World Bank had secured the largest share of private sector co-financing, followed by UNDP and UNIDO.

Figure 14: Private sector co-financing by Agency



33. **However, there may be opportunities to make greater use of Agencies' capabilities for private sector engagement.** The fluctuations in private co-financing from one replenishment phase to another suggest that the GEF Partnership may be able to leverage more substantial private financing (see

Figure 14 above). Aside from co-financing there is little data available that indicates the extent to which GEF financing is directly leveraging private investment decisions. OPS5 identified a private sector portfolio of 290 projects out of a cohort of 3,000 approved projects (10 per cent) with $1.4 billion in GEF grants and $317 million in non-grant investment. While this portfolio may not represent the indirect ways in which the GEF can affect private sector decision-making, it is also probably not commensurate with the role that private, for-profit companies and private finance will need to play in reversing some of the major adverse, global environmental trends. Beyond direct financial leverage, OPS5 suggests that there is a need for the GEF Partnership to deepen its engagement with the private sector. It suggests that stronger multi-stakeholder engagement across the GEF Partnership – including governments, Agencies and the Secretariat – is needed to foster a more productive relationship with the private sector.

34. **The Partnership has strong capability to <u>leverage large-scale development investments.</u>** This is critical for the GEF to operate at the scale required to promote the integration environmental sustainability into development and other financing avenues. Engagement with large development finance institutions within and beyond the GEF Partnership is one indicator of the GEF's ability to shift major investments towards greater sustainability. Among the current 18 Agencies, nine are considered development finance institutions and seven of these have seen at least one project approved. The full impact of the recent accreditation of institutions such as BOAD, CAF and DBSA is yet to be felt.

35. **However, in terms of the current business model of the GEF, there is perhaps more potential for this capability to be leveraged.** The share of the development finance institutions of GEF funding approvals has declined considerably over time (see Figure 15 below). The figure below suggests a major shift from GEF-3 to GEF-4 in the relative share of financing between the development banks and UN Agencies[5]. This corresponds closely to the introduction of country allocations under the Resource Allocation Framework (RAF). The data for GEF-6 is preliminary, and reflects an initial boost to MDB participation from their major role in managing the Programs approved at the start of this replenishment period. Co-financing amounts represent one proxy for the extent to which GEF investments are leveraging wider investment projects – Figure 16 shows the difference between the two types of Agencies over time in terms of their ability to secure co-financing.

[5] For the purposes of this analysis UN Agencies include FAO, UNDP, UNEP and UNIDO. The development finance institutions (MDBs and IFIs) include ADB, AfDB, EBRD, IABD, IFAD and WB. New GEF Project Agencies include CI, IUCN, and WWF-US.

Figure 15: Share of GEF funding approvals by Agency group and replenishment phase
(up to and including the June 2016 Work Program)

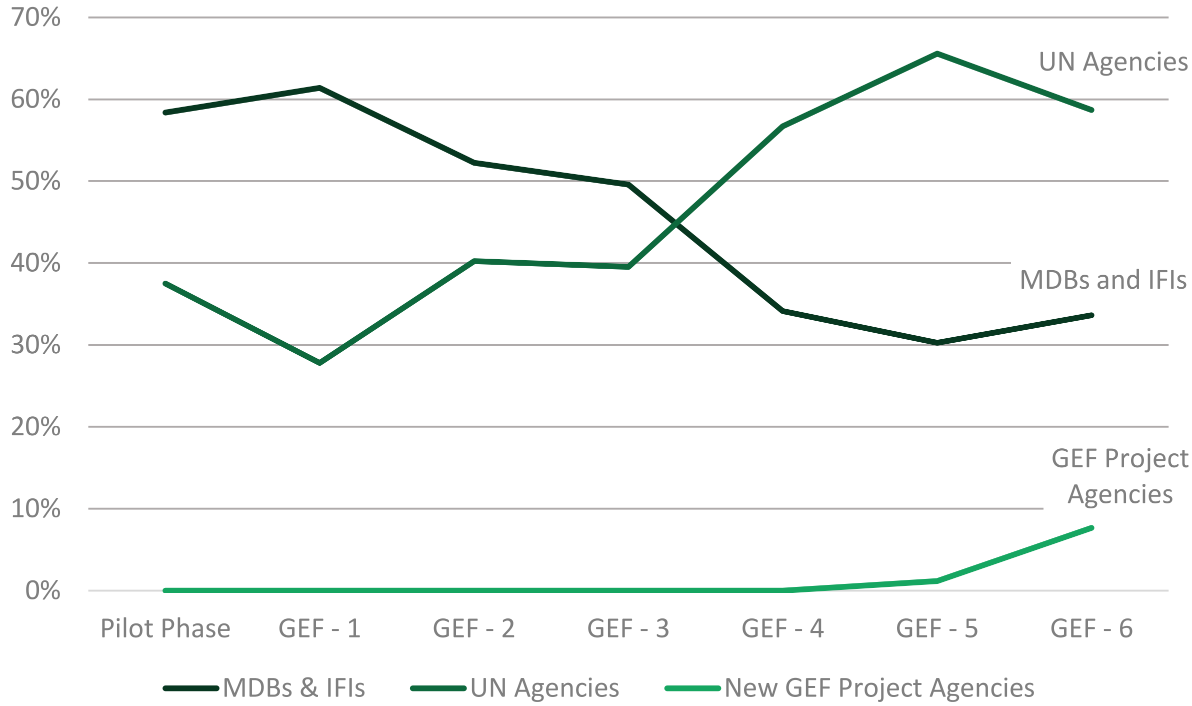
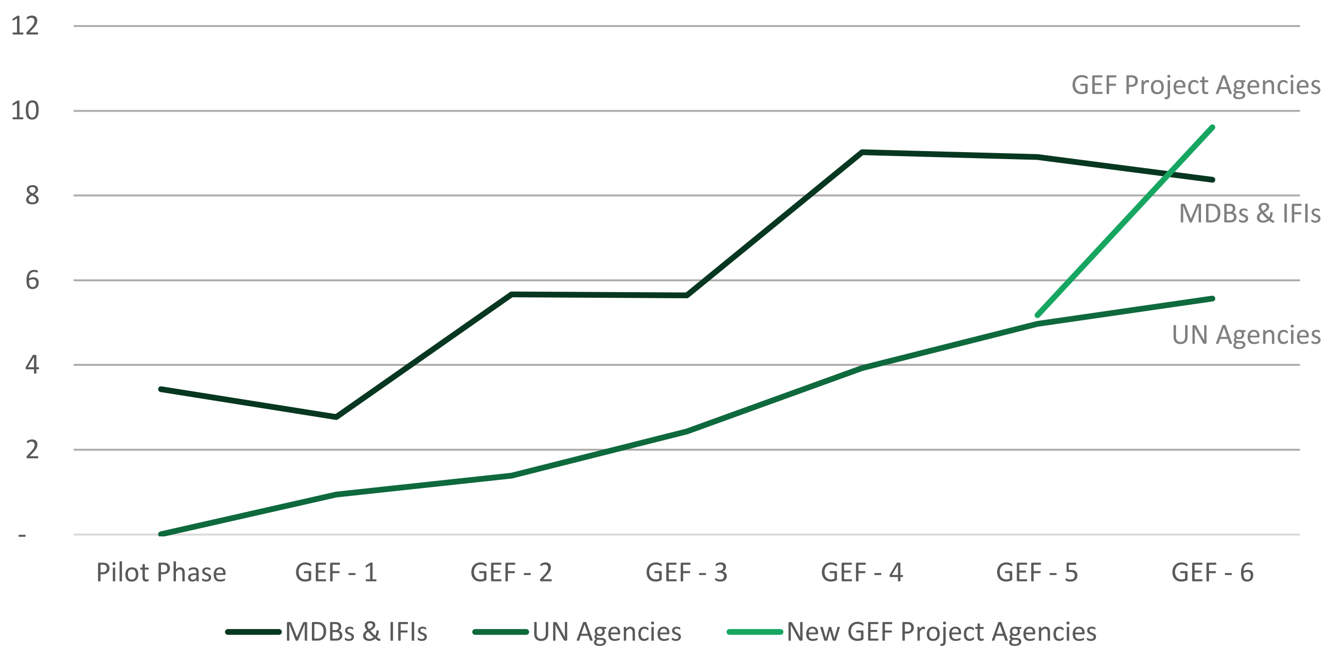
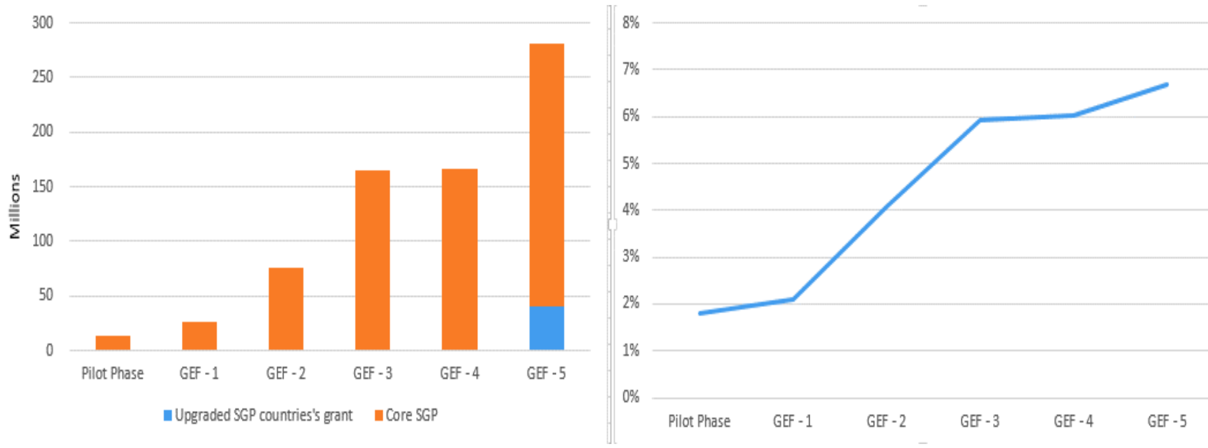


Figure 16: Co-financing ratios by Agency group and replenishment phase
(US$ of co-financing/US$ of GEF project grant, December 2015)



36. **Another relevant capability is to meet the demand from recipient countries and stakeholders to support smaller-scale activities with GEF financing, such as community-based and civil society - executed activities.** This is currently accommodated in the GEF business model through the Small Grants Program as well as a streamlined approval process for medium-sized projects and enabling activities. While twelve of the 15 Agencies with approved projects and programs have also engaged in small projects, the portfolios of three Agencies in particular are dominated by projects of less than US$1 million, namely UNDP, UNEP and UNIDO (see Figure 17 below).

Figure 17: Small Grants Program – funding levels and share of GEF financing



Engagement across the GEF Partnership

> *Main message: A further expansion of the GEF Partnership could risk eroding the level and quality of engagement among partners. The GEF Partnership relies on intensive engagement among its various stakeholders. A close Partnership has so far been a critical success factor in delivering on the strategic directions set out as part of GEF-6; and is essential to meeting the aspirations of the GEF2020 Vision.*

37. **The GEF Partnership relies on intensive engagement among its various stakeholders.** Beyond individual projects and programs, GEF Agencies participate in the development, implementation and review of GEF strategies, policies, guidelines and procedures; as well as corporate results-based management, knowledge management and communication activities. Thanks to their expertise and in-house capacity that extend far beyond GEF-financed activities, GEF Agencies have played a central role in informing and supporting corporate activities. These close relationships foster commitment, strategic alignment and predictability, and help reduce transaction costs.

38. **A close Partnership has so far been a critical success factor in delivering on the strategic directions set out as part of GEF-6; and is essential to meeting the aspirations of the GEF2020 Vision.** Addressing the drivers of environmental degradation and promoting integrated solutions has required an unprecedented level of collaboration between Agencies, countries, the GEF Secretariat and STAP. As

noted above (Paragraph 31), the major programs approved in GEF-6 to date have relied on large coalitions of Agencies, as well as executing partners outside the GEF Partnership. These efforts benefit from past experience of key GEF programs, where diverse collaborative platforms have played an essential role, including for example the Sahel and West Africa Program in Support of the Great Green Wall Initiative and the Coral Triangle Initiative on Coral Reefs, Fisheries, and Food Security.

39. **If the Partnership grows further, however, it may become increasingly difficult for some partners to maintain this high level of engagement.** As set out in the October 2015 paper, a partnership of a relatively few entities is quite different from a challenge-fund type model of many more implementing entities. In the Secretariat's view, the ambitions of the 2020 Vision are best achieved through a close partnership of committed Agencies with a high stake in its success, as compared to a broad-based network that resembles a foundation. For the Agencies, a key question is whether the GEF can continue to offer sufficient incentives to maintain a 'critical mass' of internal capacity and expertise, and thereby enable effective engagement in the Partnership. This is closely related to the overall size of the funds available.

CONCLUSIONS

40. **The above analysis makes the following key findings:**

(a) There do not appear to be major geographic gaps in the GEF Partnership in terms of the number of Agencies supporting each country, and countries' ability to utilize their GEF funding allocations.

(b) There are no major thematic gaps in the GEF Partnership in terms of the availability of technical skills.

(c) The GEF Partnership has the range of capabilities needed to meet the GEF's strategic aspirations, such as an ability to manage integrated, multi-stakeholder programs, foster innovation, and mobilize private financing.

(d) Available evidence suggests that an expanded Partnership could entail greater transaction costs through accreditation, onboarding and communication across a larger network.

(e) A further expansion of the GEF Partnership could risk eroding the level and quality of engagement among partners.

41. **Based on this analysis, two main conclusions might be made.** First, current evidence does not point to a need for new accreditation so soon after the near-doubling of the number of Agencies. Second, perhaps more than the number of Agencies, further reflection is necessary on the extent to which the business model optimizes the strong capabilities of the GEF Partnership.

42. On the second conclusion, key issues raised include: whether the GEF has optimized its potential to support integrated programs in addition to projects, whether there are sufficient incentives for multiple benefits across focal areas in GEF-supported projects and programs, and the extent to which GEF modalities can fit the business models and mainstreaming needs of development finance institutions.

43. **It should be recognized that most data presented in this paper do not reflect the effects of the most recent expansion of the GEF Partnership.** The accreditation of eight GEF Project Agencies may shift the baseline towards greater geographic and thematic coverage, but also further increase competition and transaction costs for various stakeholders engaging in the GEF Partnership.

RECOMMENDATION

44. In light of the above conclusions, the Secretariat recommends that the Council reassess, at the beginning of the seventh replenishment period of the GEF Trust Fund (GEF-7), whether to launch a process to accredit a limited number of additional Agencies to fill any emerging strategic gaps.