GEF/C.54/08
June 1, 2018

54th GEF Council Meeting
June 24—26, 2018
Da Nang, Viet Nam

Agenda Item 07

STRENGTHENING THE GEF PARTNERSHIP

Recommended Council Decision

The Council, having reviewed document GEF/C.54/08, *Strengthening the GEF Partnership* takes note of the analysis carried out by the Secretariat.

With a view to promoting a level playing field for all GEF Partner Agencies, the Council approves the following policy measures, effective on July 1, 2018:

(i) removal of the ceiling on the size of individual GEF projects for the GEF Project Agencies; and

(ii) removal of the 20% ceiling for the share of GEF financing of a GEF Project Agency's total portfolio.

The Council takes note of the GEF-7 policy recommendation on the application of a ceiling of 30% on the GEF's share of an Agency's portfolio, applicable to all Agencies. The Council requests that the Secretariat, in collaboration with all Agencies, present complete and up-to-date information on the GEF's share of each Agency's portfolio, and a suggested way forward regarding the 30% ceiling, at the 55th Council meeting in the Fall of 2018.

The Council further takes note of the GEF-7 policy recommendation requesting the Secretariat continue to monitor the geographic and thematic coverage, as well as the effectiveness, efficiency and engagement of the GEF Partnership, and report on its findings at the 57th Council meeting in the Fall of 2019.

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INTRODUCTION

1. Participants to the seventh replenishment of the GEF Trust Fund (GEF-7) considered various aspects of the performance and the effectiveness of the GEF Partnership and "agree[d] that a broad and diverse Partnership of [Agencies] is a key asset of the GEF".[1]

2. Pursuant to the GEF-7 policy recommendations, this document sets out recommended policy measures to strengthen the GEF Partnership by harmonizing the rules and requirements for all Agencies. In addition, the document summarizes the outcomes of the GEF-7 replenishment discussions on the issue of accreditation. Annex I provides a complete analysis of the geographic and thematic coverage, as well as the effectiveness, efficiency and engagement of the GEF Partnership.

HARMONIZING THE RULES AND REQUIREMENTS FOR ALL AGENCIES

3. Participants to the replenishment agreed that "the GEF should ensure a level playing field for all Agencies" and that "the rules and requirements for the new GEF Project Agencies should be harmonized with those that apply to other Agencies". To achieve this, Participants requested that the Secretariat, in consultation with Agencies, "present for Council consideration a proposal for updating relevant GEF policies and procedures, including the application across all Agencies of a ceiling of 30%, i.e. the total GEF financing for projects and programs that an Agency has under implementation shall not make up more than 30% of the total financing for projects and programs that the Agency has under implementation".[2]

4. This part of the paper analyzes the current rules and requirements applied specifically to the GEF Project Agencies, and recommends policy measures to harmonize the rules and requirements for all Agencies.

Analysis of Current Policy and Ways Forward

5. Participants to the GEF-7 replenishment "acknowledge[d] the contributions made by the new GEF Project Agencies, and [took] note with appreciation of those Agencies' growing engagement in GEF operations"[3]. Currently, however, the GEF Project Agencies – but not other Agencies – are subject to the following restrictions agreed as part of the accreditation process:

   (a) <u>Ceiling on the size of individual GEF grants:</u> The Council, in its decision to launch the accreditation pilot in 2011, decided that "the GEF will not approve GEF grants for GEF Project Agencies greater than the largest project the agency had implemented (or executed)". The ceiling was designed to prevent a GEF Project

[1] GEF/C.54/19, Summary of the Negotiations of the Seventh Replenishment of the GEF Trust Fund
[2] Ibid.
[3] Ibid.

Agency from taking on “GEF projects that it cannot handle”.[4] To ensure compliance with this rule, each funding proposal from a GEF Project Agency includes a certification that provides the size of the largest project that the Agency has implemented or executed.

(b) 20% ceiling on the GEF’s share of a GEF Project Agency’s portfolio: In addition to the ceiling on the size of individual GEF grants, the Council decided in 2011 that “at any time, total GEF grants under implementation cannot make up more than 20% of the total projects that the [GEF Project Agency] has under implementation”. This provision was intended to guard against the GEF Project Agencies becoming “overly dependent on GEF financing”.[5] As is the case with the ceiling on the size of individual projects, the GEF Project Agencies certify their compliance in conjunction with each new funding proposal.

6. In practice, given the typical size of GEF projects, the ceiling on the size of individual GEF grants has not had any impact on the financing sought by or approved for any of the GEF Project Agencies (Table 1). Indeed, the ceiling does not appear to provide any benefits that would justify the cost of the certification procedure currently in place to enforce it.

Table 1: Largest projects and largest GEF projects across the eight GEF Project Agencies

	Value of Largest Project Implemented (mUS$)	Largest Amount of GEF Project Financing for a Stand-Alone Project (mUS$)
BOAD	60.0	15.9
CAF	600.0	9.7
CI	121.2	9.8
DBSA	262.0	15.0
FECO	440.0	1.8
FUNBIO	54.0	13.4
IUCN	50.1	8.3
WWF-US	65.5	12.7

7. Unlike the ceiling on the size of individual GEF grants, the ceiling on the GEF’s share of a GEF Project Agency’s portfolio is becoming a tangible restriction on some GEF Project Agencies’ engagement with the GEF. According to preliminary data as of December 31, 2017, the GEF accounted for more than 13% of the total active portfolios of two GEF Project Agencies. Given that these Agencies’ GEF portfolios remain comparatively young and their GEF projects are likely to remain active for some years to come, they could soon reach the 20% ceiling. (Table 2)

[4] GEF/C.40/09, *Broadening the GEF Partnership under Paragraph 28 of the GEF Instrument* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.40.09_Broadening_the_GEF_Partnership.04_26_11_1.pdf)
[5] Ibid.

Table 2: GEF's share of GEF Project Agencies' total active portfolios (as of December 31, 2017)

	Active GEF Portfolio (mUS$)[6]	Total Active Portfolio (mUS$)[7]	The GEF's Share of the Agency's Total Active Portfolio
BOAD	21	2,809[8]	0.7%
CAF	20	32,561	0.1%
CI	76	863	8.8%
DBSA	44	12,057	0.4%
FECO	2	1,456	0.1%
Funbio	15	447	3.4%
IUCN	74	478	15.5%
WWF-US	63	465	13.4%

8. As for the other ten Agencies, preliminary data suggests that the GEF accounts for more than 30% of the total active portfolio of one Agency, and one other Agency has a GEF share just below 30% (Table 3). The Secretariat and Agencies have encountered some difficulties in obtaining reliable and comparable data, however. Unlike the GEF Project Agencies, which have been subject to the 20% ceiling since their accreditation, the other Agencies have not been systematically assessed for the GEF's share of their portfolios. In working with the Agencies to collect the data, the Secretariat discovered issues related to definitions, timing and comparability that could not be fully addressed within the available time. Accordingly, the data presented in Table 3 could benefit from further work. Moreover, it found that some Agencies' GEF portfolios included large numbers of projects that had been operationally completed, but not financially closed according to the Trustee's records, thus needlessly inflating the value of those Agencies' active portfolios.

Table 3: GEF's share of other Agencies active portfolios (as of December 31, 2017)

	Active GEF Portfolio (mUS$)	Total Active Portfolio (mUS$)	The GEF's Share of the Agency's Total Active Portfolio
ADB	178	95,200	0.2%
AfDB	295	115,000	0.3%
EBRD	135	6,058	2.2%
FAO	686	5,171	13.3%

[6] For the purposes of this paper, an Agency's active GEF portfolio was defined as the cumulative value of all GEF projects and programs that have received Council or CEO Approval, excluding cancelled and financially closed projects and programs.

[7] For the purposes of this paper, an Agency's total active portfolio was defined as the cumulative value of all approved projects from all funding sources, excluding financially closed and cancelled projects and programs.

[8] Total loans portfolio to member countries (non-commercial sector) and to the commercial sector as of June 30, 2017, *Statutory Auditor Review Report on Interim Financial Information at 30 June 2017* (https://www.boad.org/wp-content/uploads/2016/10/Liasse-%C3%A9tats-financiers-30-06-2017-V-ENG.pdf)

	Active GEF Portfolio (mUS$)	Total Active Portfolio (mUS$)	The GEF's Share of the Agency's Total Active Portfolio
IADB	317	53,360	0.6%
IFAD	225	20,574	1.1%
UNEP	1,843	4,680	39.4%
UNIDO	686	2,332	29.4%
UNDP	4,142	31,930	13.0%
World Bank	1,796	230,000	0.8%

9. It should be noted that the preliminary data gathered by the Secretariat shows a different picture from what is presented in OPS6 (Table 4). This is in part due to a difference in methodology. Whereas the Secretariat considered the GEF's share of Agencies' stock of approved projects, the analysis presented in OPS6 considered annual flows, namely Agencies' annual GEF work programs as a share of their annual expenditures[9], suggesting somewhat lower GEF shares across all Agencies.

Table 4: OPS6 data on scale of Agency operations and share of GEF funding[10]

	Estimated scale of Agency's annual work program	Estimated share of GEF funding in Agency expenditure/budget (%)
MDBs		
AfDB	$5–$7 billion	1.0
ADB	$20–$22 billion	0.1
EBRD	$11–$12 billion	0.5
IADB	$10–$12 billion	0.2
World Bank	$50 billion	0.5
UN Agencies		
FAO	$1 billion	10.0
IFAD	$1 billion	5.0
UNDP	$4.3 billion	10.0
UNEP	$0.5–$0.8 billion	30.0
UNIDO	$0.35 billion	25.0

10. Within this situation, in order for the Council to make an informed decision on the application of the 30% ceiling recommended as part of the GEF-7 replenishment process, it may

[9] See Table 2.2 in Global Environment Facility Independent Evaluation Office (GEF IEO), *OPS6 Final Report: The GEF in the Changing Environmental Finance Landscape*. Washington, DC: GEF IEO, 2018 (http://www.gefieo.org/sites/default/files/ieo/evaluations/files/ops6-report_1.pdf)
[10] Ibid.

wish to wait for better data to fully understand the possible implications, and to consider the appropriate way forward. The Secretariat will provide the Council with complete and up to date information, together with analysis of the implications of the ceiling and suggest a way forward at its next meeting in the Fall of 2018. In the meantime, the Council may wish to lift the 20% ceiling currently applied to the GEF Project Agencies. Given the stated intention of the Participants to achieve a level playing field for all Agencies, it would seem appropriate to remove any differentiated rules that could deny some Agencies room to grow, particularly at this crucial time when Agencies embark on consultations with countries and other stakeholders on GEF-7 programming.

Recommended Policy Measures

11. With a view to ensuring a level playing field for all Agencies and, specifically, to harmonize the rules and requirements for the new GEF Project Agencies with those that apply to other Agencies, the Secretariat recommends the following:

(a) Remove the ceiling on the size of individual GEF projects for the GEF Project Agencies: As described in Paragraph 6 above, this ceiling has not proven useful. It is therefore recommended that the ceiling be removed to avoid unnecessary transaction costs arising from Agencies' certification, and the Secretariat's review of projects against this rule.

(b) Remove the 20% ceiling on the share of GEF financing of a GEF Project Agency's total portfolio: This would level the playing field as those Agencies begin planning for GEF-7 programming, until such time that a way forward on the 30% ceiling is decided (see below).

(c) Decide on a way forward regarding the 30% ceiling at the next Council meeting in the Fall of 2018, based on better data: The Secretariat, in collaboration with all Agencies, will present complete and up-to-date information on the GEF's share of each Agency's portfolio, along with a suggested way forward regarding the 30% ceiling.

Date of Effectiveness

12. If approved by the Council, it is recommended that the proposed policy measures described in sub-paragraphs 10a and 10b above be implemented across all new GEF projects and programs submitted by GEF Project Agencies on or after July 1, 2018.

ACCREDITATION

13. This part of the paper summarizes the outcomes of the GEF-7 replenishment discussions on the issue of accreditation.

14. Participants to the GEF-7 replenishment agreed that "the current network of 18 Agencies has enabled an effective delivery of GEF support across all regions and focal areas

[and] requested that the Secretariat continue to monitor the geographic and thematic coverage, as well as the effectiveness, efficiency and engagement of the GEF Partnership, and report to the Council on its findings"[11]. These policy recommendations draw on previous Council discussions, the findings, conclusions and recommendations of OPS6, as well as the Secretariat's analysis on coverage, effectiveness and efficiency of the GEF's network of 18 Agencies.

15. OPS6 finds that the expansion of the GEF Partnership – initially from three to ten Agencies in 1999–2006, and then from ten to 18 Agencies in 2013–15 – has resulted in greater choice for countries, and improved access to diverse capabilities. At the same time, OPS6 finds that increased competition among a larger number of Agencies, coupled with the introduction of country allocations, has at times been counterproductive. Moreover, OPS6 suggests that the expansion of the Partnership has resulted in some cost increases, such as the cost for countries and the Secretariat to manage relations across a larger number of Agencies. [12]

16. The Secretariat presented additional findings on the geographic and thematic coverage of the Partnership at the second replenishment meeting in October 2017[13]. Annex I contains a complete analysis of the Partnership against five criteria that were endorsed by the Council in June 2016[14]. As requested by the Participants to the replenishment, the Secretariat will continue to monitor the geographic and thematic coverage, as well as the effectiveness, efficiency and engagement of the GEF Partnership, and report to the Council on its findings at the 57th Council meeting in the Fall of 2019.

[11] GEF/C.54/19, Summary of the Negotiations of the Seventh Replenishment of the GEF Trust Fund

[12] Global Environment Facility Independent Evaluation Office (GEF IEO), *OPS6 Report: The GEF in the Changing Environmental Finance Landscape*, Washington, DC: GEF IEO, 2017 (http://www.gefieo.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

[13] See pp. 161–168 in GEF/R.7/06, Programming Directions and Policy Agenda (http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20and%20Policy%20Agenda%2C%20Second%20Replenishment%20Mee.._.pdf)

[14] The Council at its 50th meeting in June 2016, and having reviewed document GEF/C.50/07, *Future Directions on Accreditation – A Follow-Up*; decided to "reassess, at the end of the sixth replenishment period of the GEF Trust Fund (GEF-6), whether to launch a process to accredit a limited number of additional Agencies". The Council agreed that such an assessment take into account the criteria set out in the Secretariat's paper, including: (i) geographic coverage, (ii) thematic coverage, (iii) efficiency, (iv) effectiveness, and (v) the level and quality of engagement across the GEF Partnership.

ANNEX I: DETAILED ANALYSIS ON THE COVERAGE, EFFICIENCY, EFFECTIVENESS AND ENGAGEMENT OF THE GEF PARTNERSHIP

1. Consistent with the analysis presented in the June 2016 Council paper, *Future Directions on Accreditation – A Follow-Up*[15], as well as at the second meeting of the GEF-7 replenishment[16], the analysis presented here considers five dimensions of the performance of the GEF's network of 18 Agencies: (i) geographic coverage, (ii) thematic coverage, (iii) efficiency, (iv) effectiveness, and (v) the level and quality of engagement across the GEF Partnership.

Geographic Coverage

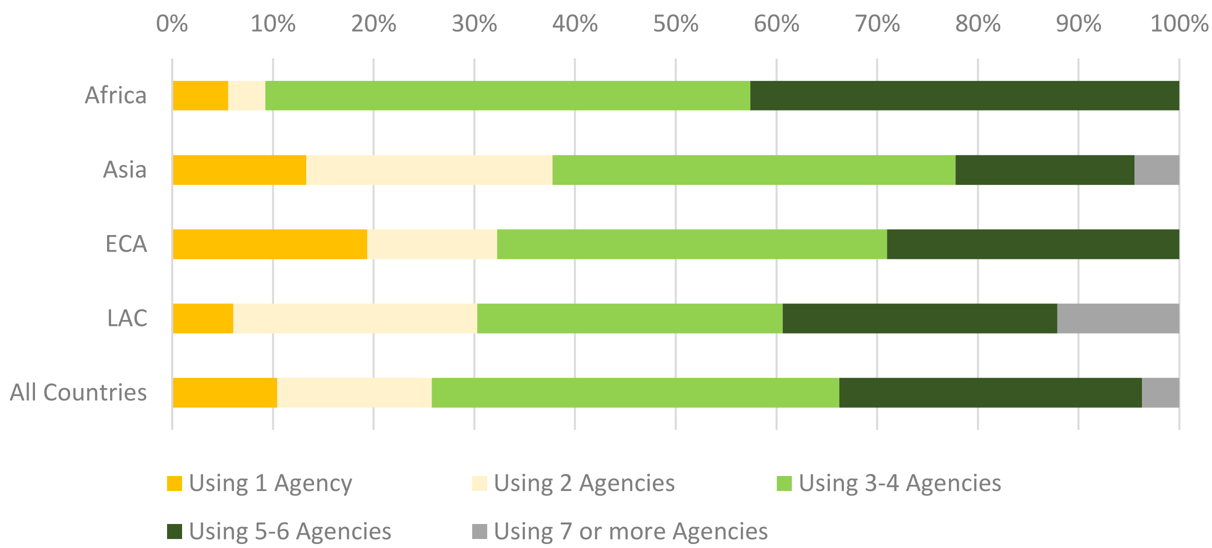
2. In keeping with previous findings, the latest evidence confirms that the current network of 18 Agencies provides robust coverage across all GEF regions and different types of countries. That coverage has improved as the Partnership has expanded, and it may continue to improve as the GEF Project Agencies – accredited in 2013–2015 – take on a greater share of GEF programming.

3. As of April 2018, in all regions at least 60% of countries had used at least three different Agencies since GEF-3, and at least 80% of countries had used at least two different Agencies. While a somewhat larger share (19%) of countries in Europe and Central Asia (ECA) had relied on just one Agency to access GEF support, several of those countries had graduated from GEF recipient status through membership in the European Union, and as result they had benefited from fewer projects during the GEF-3–GEF-6 time frame. (Figure 1)

[15] GEF/C.50/07 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.50.07_Accreditation_0_0.pdf)

[16] See pp. 161–168 in GEF/R.7/06, *Programming Directions and Policy Agenda* (http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20Programming%20Directions%20and%20Policy%20Agenda%2C%20Second%20Replenishment%20Mee..._.pdf)

Figure 1: The current network of 18 Agencies provides robust coverage across all regions
(share of countries in groups by number of Agencies used from GEF-3 to GEF-6, based on CEO Endorsed/ Approved national and single-Agency projects as of April 2018)



4. Consistent with the findings presented in June 2016, and at the second replenishment meeting in October 2017, the current Partnership offers considerable choice between different Agencies, including in countries that face challenging circumstances. As of April 2018, more than 90% of least developed countries (LDC)[17] and 77% of fragile situations[18] had used at least three different Agencies for GEF programming since GEF-3. In contrast, small island developing states (SIDS)[19], particularly in the Pacific and in the Caribbean, have seen lower levels of coverage from GEF-3 to GEF-6 relative to other groups of countries (see figures 2 and 3).

[17] This paper is based on the list of LDCs as at March 2018. (https://www.un.org/development/desa/dpad/wp-content/uploads/sites/45/publication/ldc_list.pdf)
[18] This paper uses the World Bank's Harmonized List of Fragile Situations for fiscal year 2018 (FY 18) (http://pubdocs.worldbank.org/en/189701503418416651/FY18FCSLIST-Final-July-2017.pdf)
[19] (https://sustainabledevelopment.un.org/topics/sids/list)

Figure 2: The current Partnership offers considerable choice for most countries, including LDCs and Fragile Situations, while SIDS continue to stand out as the group of countries that have access to the smallest number of Agencies (share of countries in groups by number of Agencies used from GEF-3 to GEF-6, based on CEO Endorsed/ Approved national and single-Agency projects as of April 2018)

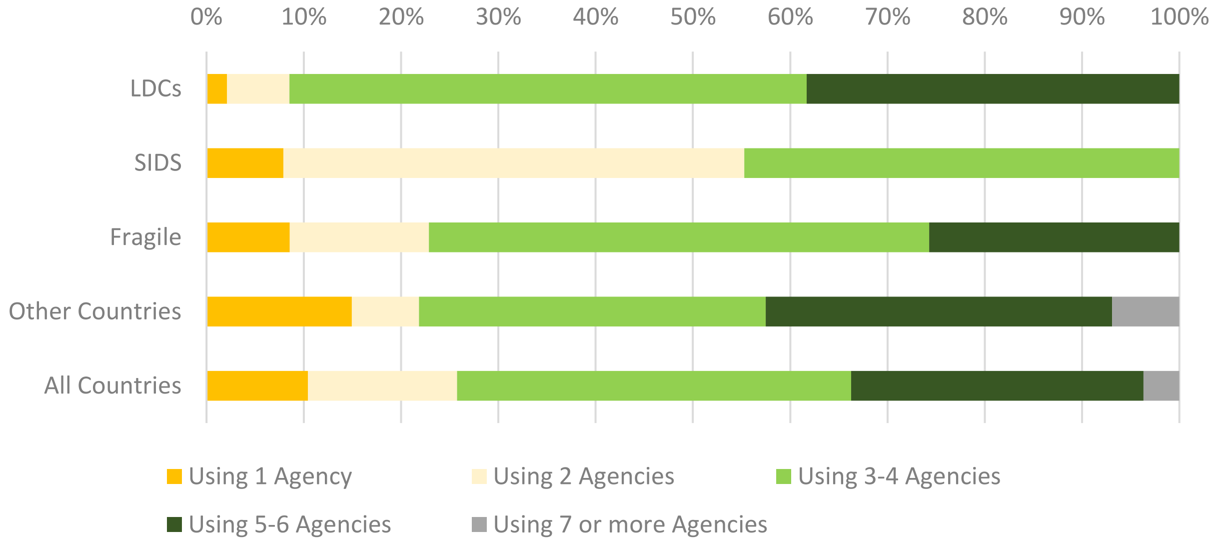
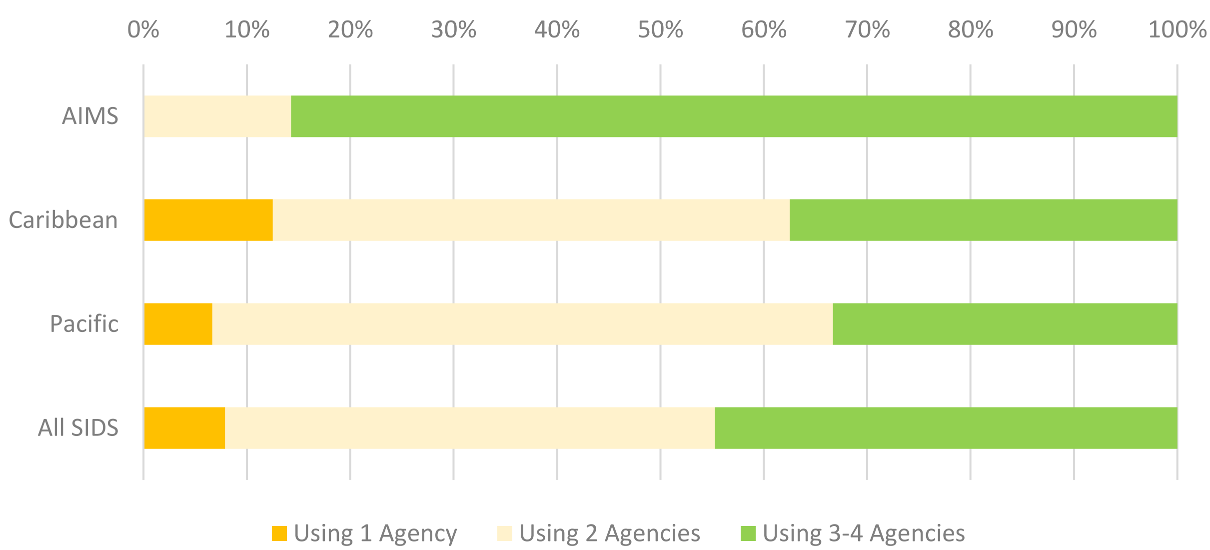


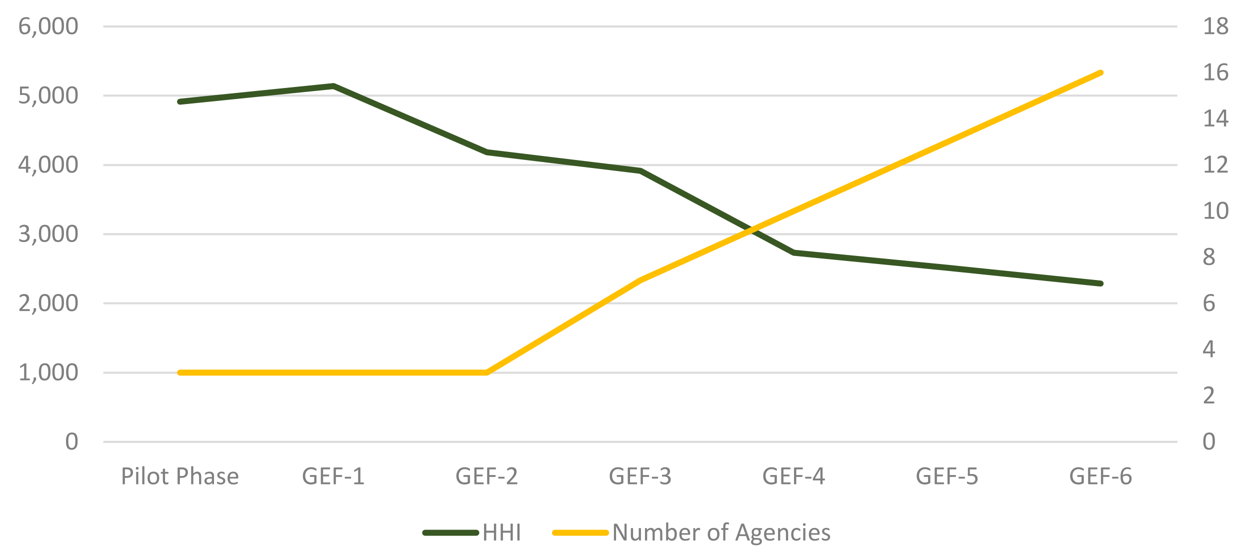
Figure 3: Pacific and Caribbean SIDS have access to the smallest numbers of Agencies (share of countries in groups by number of Agencies used from GEF-3 to GEF-6, based on CEO Endorsed/ Approved national and single-Agency projects as of April 2018)



5. The concentration of GEF resources among Agencies has declined almost continuously since the inception of the GEF. As more Agencies have entered the GEF Partnership, concentration levels have declined and competition for resources has increased. Figure 4

illustrates this trend using the Herfindahl-Hirschman Index (HHI)[20], a widely-used measure of market concentration.

Figure 4: As more Agencies have joined the GEF Partnership, market concentration has declined (market concentration measured using the Herfindahl-Hirschman Index [HHI, left axis], and the number of Agencies with at least one approved single-Agency project [right axis], based on CEO Endorsed/ Approved single-Agency projects as of April 2018)



6. The decline in market concentration is evident across regions and groups of countries. Some variation is found due to differences across regions and country types, however. Regions and groups of countries with smaller allocations and fewer eligible recipient countries, such as ECA, SIDS and Fragile Situations, tend to have somewhat higher rates of market concentration than other countries. These regions and groups have also seen greater shifts in market concentration from one replenishment cycle to another. (Table 1)

[20] 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.

Table 1: The decline in market concentration is evident across different regions and groups of countries (market concentration measured using HHI, and the number of Agencies with at least one approved single-Agency project, based on CEO Endorsed/ Approved single-Agency projects as of April 2018)

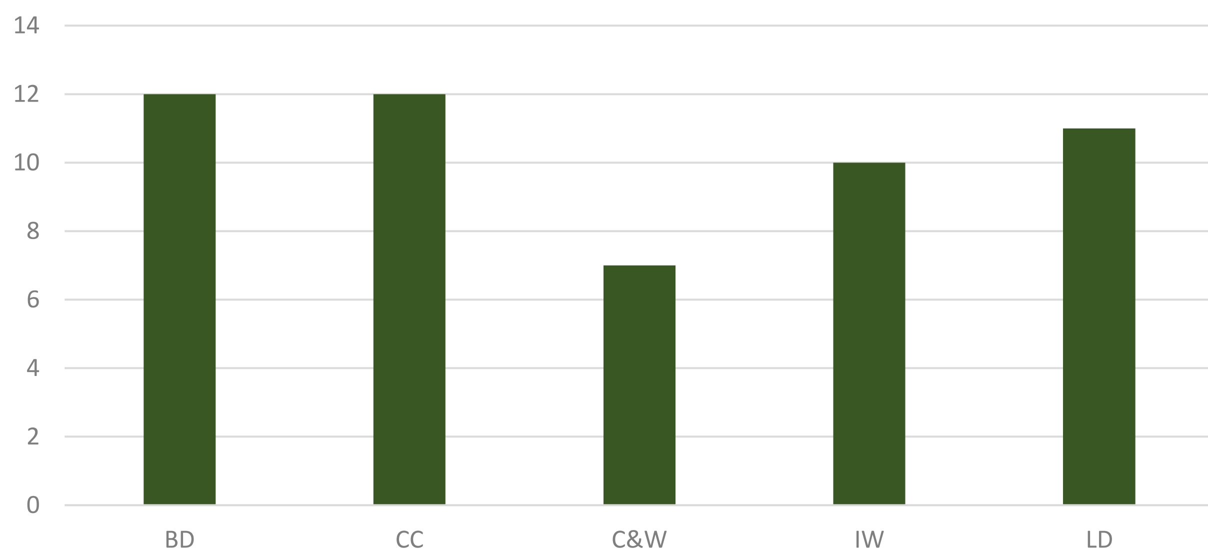
		Pilot Phase	GEF-1	GEF-2	GEF-3	GEF-4	GEF-5	GEF-6	Trend
Africa	HHI	6,424	4,940	5,820	4,213	3,059	2,482	2,003	
	No. of Agencies	2	3	4	5	6	10	10	
Asia	HHI	5,244	5,398	4,633	4,367	2,351	2,694	2,541	
	No. of Agencies	2	3	5	6	7	8	8	
ECA	HHI	6,126	8,055	5,449	4,182	4,428	2,746	4,372	
	No. of Agencies	2	3	4	5	5	6	7	
LAC	HHI	5,638	5,373	4,945	4,953	2,484	2,379	2,040	
	No. of Agencies	2	3	4	6	7	9	9	
LDCs	HHI	5,404	4,722	5,972	4,541	2,852	2,497	2,270	
	No. of Agencies	2	3	4	6	8	10	12	
SIDS	HHI	5,423	4,074	6,867	4,378	5,435	4,301	3,763	
	No. of Agencies	2	3	3	4	6	7	7	
Fragile Situations	HHI	5,029	8,745	3,790	4,916	2,398	2,627	3,448	
	No. of Agencies	2	3	4	6	7	7	10	
All Countries	HHI	4,912	5,139	4,182	3,916	2,733	2,516	2,286	
	No. of Agencies	3	3	3	7	10	13	16	

7. In summary, evidence as of April 2018 does not suggest any major gaps in terms of the geographic coverage of the current network of 18 Agencies. While coverage varies across regions and groups of countries, the GEF Partnership continues to enable all countries to access GEF financing, and trends since inception point to a steady decline in market concentration as the number of Agencies has increased.

Thematic Coverage

8. In addition to providing broad geographic coverage, the latest data suggests that the GEF Partnership continues to provide the depth and breadth of capabilities required to serve the GEF's mandate. In four out of five focal areas, at least ten different Agencies have had at least one CEO endorsed or approved single-focal area project since GEF-3. Chemicals and waste (CW) is a partial exception, with just seven Agencies, but the number has increased in recent years. Indeed, three of the eight new GEF Project Agencies have participated in CW programming in GEF-6. (Figure 5)

Figure 5: Agency participation is high across focal areas, with the partial exception of chemicals and waste (number of Agencies with at least one CEO Endorsed/ Approved, single-focal area, single-Agency projects in GEF-3–GEF-6, as of April 2018)



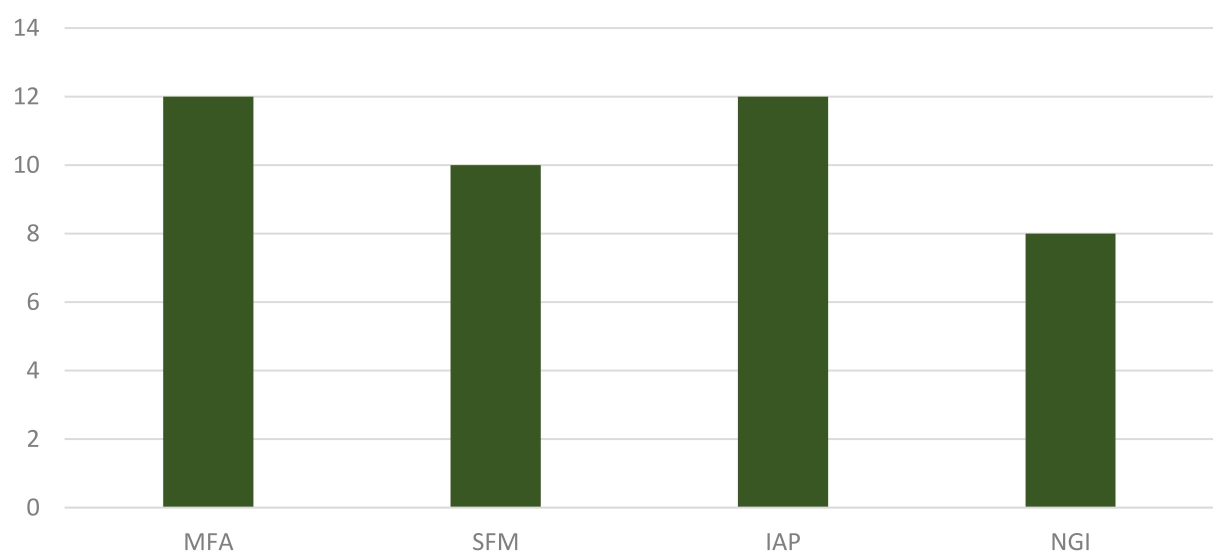
9. Over time, each focal area has benefited from increasing Agency participation, with a corresponding decline in market concentration. While relatively fewer Agencies have participated in CW programming, the focal area has seen a balanced distribution across Agencies, with steadily decreasing market concentration since GEF-3. (Table 2)

Table 2: Over time, each focal area has benefited from increasing Agency participation, with a corresponding decline in market concentration (market concentration measured using HHI, and the number of Agencies with at least one approved single-Agency, single-focal area project, based on CEO Endorsed/ Approved single-Agency projects as of April 2018)

		Pilot Phase	GEF-1	GEF-2	GEF-3	GEF-4	GEF-5	GEF-6	Trend
BD	HHI	5,186	4,680	4,310	3,631	3,239	3,268	1,850	
	No. of Agencies	3	3	3	6	7	9	10	
CC	HHI	4,819	5,268	5,358	5,278	2,667	2,412	2,053	
	No. of Agencies	3	3	4	4	10	9	10	
CW	HHI	4,819	5,268	5,358	5,278	2,667	2,412	2,053	
	No. of Agencies	2	1	4	4	5	5	6	
IW	HHI	5,068	4,865	3,467	5,009	3,743	2,737	3,528	
	No. of Agencies	2	3	3	4	5	7	6	
LD	HHI				2,913	3,039	2,454	2,321	
	No. of Agencies				5	6	7	7	

10. Above and beyond the five focal areas, the current network of 18 Agencies has provided robust coverage of various thematic and cross-cutting priorities. Since GEF-3, twelve different Agencies have obtained CEO Endorsement/ Approval of at least one multi-focal area (MFA) project. Ten Agencies have participated in sustainable forest management (SFM) programming since GEF-5, and eight different Agencies have deployed GEF non-grant instruments (NGI) during that same period. In addition, twelve different Agencies participate in the three, GEF-6 Integrated Approach Pilot (IAP) programs on commodities, food security and sustainable cities. (Figure 6)

Figure 6: The current network of 18 Agencies has provided robust coverage of key thematic and cross-cutting priorities (From left to right, as of April 2018: (1) number of Agencies with at least one CEO Endorsed/ Approved, single-Agency MFA project in GEF-3–GEF-6; (2) number of Agencies with at least one CEO Endorsed/ Approved SFM project in GEF-5–GEF-6; (3) number of Agencies participating in GEF-6 IAPs; and (4) number of Agencies participating in NGI projects in GEF-5 and GEF-6.)



Efficiency

11. As discussed in the June 2016 Council paper and in OPS6, a larger number of Agencies has contributed towards greater choice for countries, and improved access to diverse capabilities. At the same time, an expanding Partnership may introduce costs and inefficiencies. Some of these costs are directly associated with the process to accredit additional Agencies, as described in the 2015 *Evaluation of the Accreditation Process for Expansion of the GEF Partnership*[21]. In addition, OPS6 indicates that the expansion of the Partnership has resulted in

[21] GEF/ME/C.48/Inf.03 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.ME_.C.48.Inf_.03_Eval_Accr_Process_4.pdf)

cost increases resulting from an increased need for guidance and consultation as new Agencies familiarize themselves with GEF policies and procedures; as well as an increased need for oversight, coordination and communication by the Council, the Secretariat, IEO and STAP across a larger network of Agencies[22].

12. Importantly, with an expanding Partnership, Agencies face increasing competition for GEF financing. Such competition may result in a more efficient delivery of GEF resources by incentivizing Agencies to become more responsive, and by allowing countries to choose the Agencies that are best equipped to serve their needs. At the same time, the potential efficiency gains from competition are moderated by the fact that the GEF operates with a fixed fee structure.

13. As highlighted in OPS6, competition may also contribute towards increasing transaction costs and fragmentation. With each replenishment phase since GEF-3, the increase in the number of participating Agencies has outpaced growth in funding approvals, leaving the average Agency with access to fewer GEF resources. In addition, project size has plateaued. Evidence as of April 2016 suggests that the median size of GEF projects has remained stable around US$2 million since GEF-4, even as funding approvals increased by 26% from GEF-4 to GEF-5. (Table 3 and Figure 7)

Table 3: GEF financing is spread across a large number of countries and projects, and the number of Agencies has grown with each replenishment cycle since GEF-1 (data based on CEO Endorsed/ Approved projects as of April 2018)

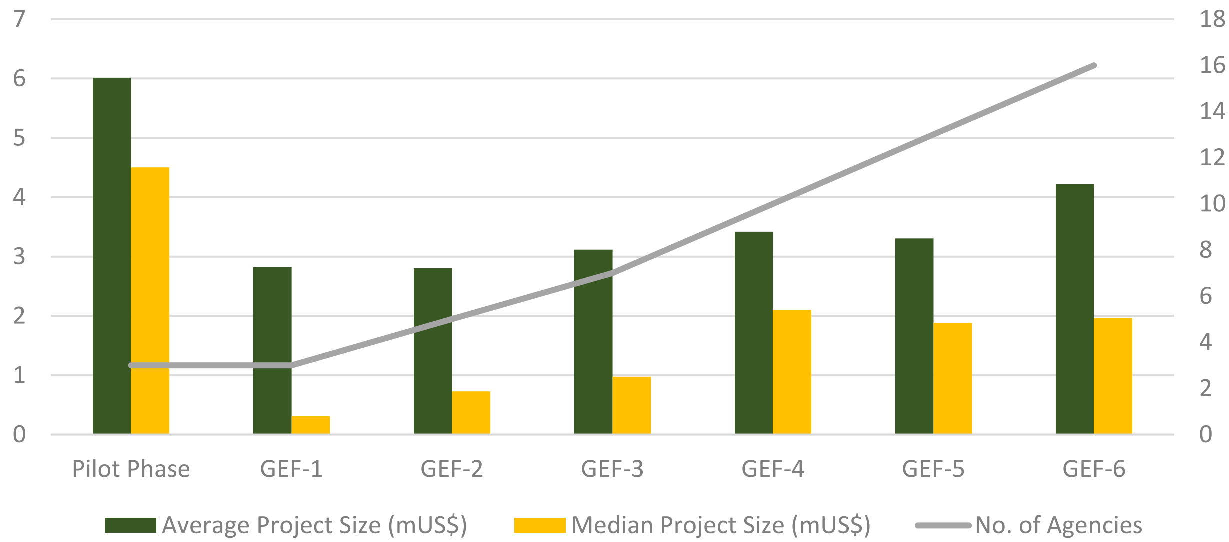
	Pilot Phase	GEF-1	GEF-2	GEF-3	GEF-4	GEF-5	GEF-6[23]
No. of Agencies[24]	3	3	5	7	10	13	16
No. of Countries	61	133	139	154	128	147	115
No. of Projects	113	367	599	826	715	931	434
Total Funding Approvals (mUS$)	680	1,036	1,681	2,572	2,443	3,076	1,832
Average Project Size (mUS$)	6.02	2.82	2.81	3.11	3.42	3.30	4.22
Median Project Size (mUS$)	4.50	0.31	0.73	0.97	2.10	1.88	1.96

[22] Global Environment Facility Independent Evaluation Office (GEF IEO), *OPS6 Report: The GEF in the Changing Environmental Finance Landscape*, Washington, DC: GEF IEO, 2017 (http://www.gefieo.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

[23] These figures reflect CEO Endorsed/ Approved projects as of April 2018. Accordingly, they exclude full-sized projects that have received Council Approval but not CEO Endorsement.

[24] Number of Agencies with at least one CEO Endorsed/ Approved, single-Agency project.

Figure 7: The median size of GEF projects has remained stable around US$2m since GEF-4
(average and median size of CEO Endorsed/ Approved projects by replenishment phase in mUS$, and number of Agencies with at least one CEO Endorsed/ Approved project, as of April 2018)

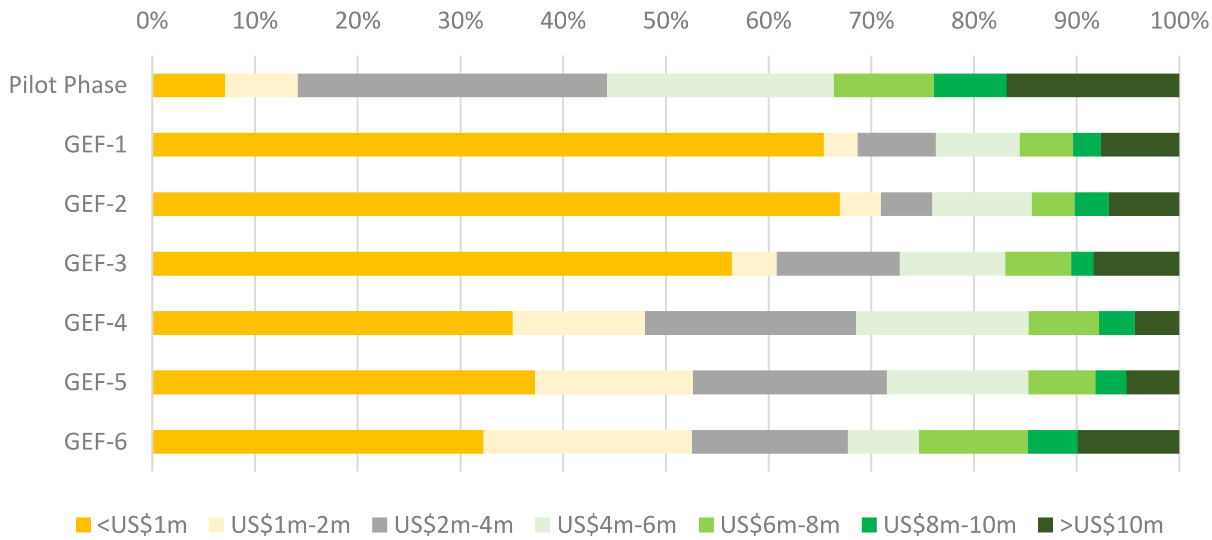


14. Like the median project size, the distribution of projects by size has remained largely unchanged since GEF-4. Between 30% and 40% of all projects amount to less than US$1 million in GEF project financing, about 70% amount to less than US$4 million, and fewer than ten per cent of projects amount to US$10 million or more. (Figure 8) The size distribution of GEF projects suggests that the GEF may not be able to take full advantage of economies of scale. Moreover, according to OPS6 survey respondents the relatively small size of GEF projects has made it less attractive to the multi-lateral development banks (MDB) and international finance institutions (IFI)[25]. OPS6 reports that "[p]reparation and supervision costs being largely independent of project size, the Agencies assert that the GEF's administrative fee of 9 percent requires projects of $8–$10 million to break even". [26]

[25] This group of Agencies includes ADB, AfDB, BOAD, CAF, DBSA, EBRD, IDB, IFAD and the World Bank.

[26] Global Environment Facility Independent Evaluation Office (GEF IEO), *OPS6 Report: The GEF in the Changing Environmental Finance Landscape*, Washington, DC: GEF IEO, 2017 (http://www.gefieo.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

Figure 8: The distribution of GEF projects by size has remained largely unchanged since the introduction of country allocations in GEF-4 (% of total number of CEO Endorsed/ Approved projects by volume of GEF project financing and replenishment phase, as of April 2018)



15. Based on available data, the costs and benefits of expanding the GEF Partnership cannot be readily quantified. Still, it seems clear that any future expansion should be weighed carefully against the potential efficiency gains arising from greater competition; and the potential costs of introducing more Agencies to an increasingly competitive marketplace, where GEF financing remains fragmented across a large number of small projects, and MDBs and IFIs are finding it increasingly challenging to engage.

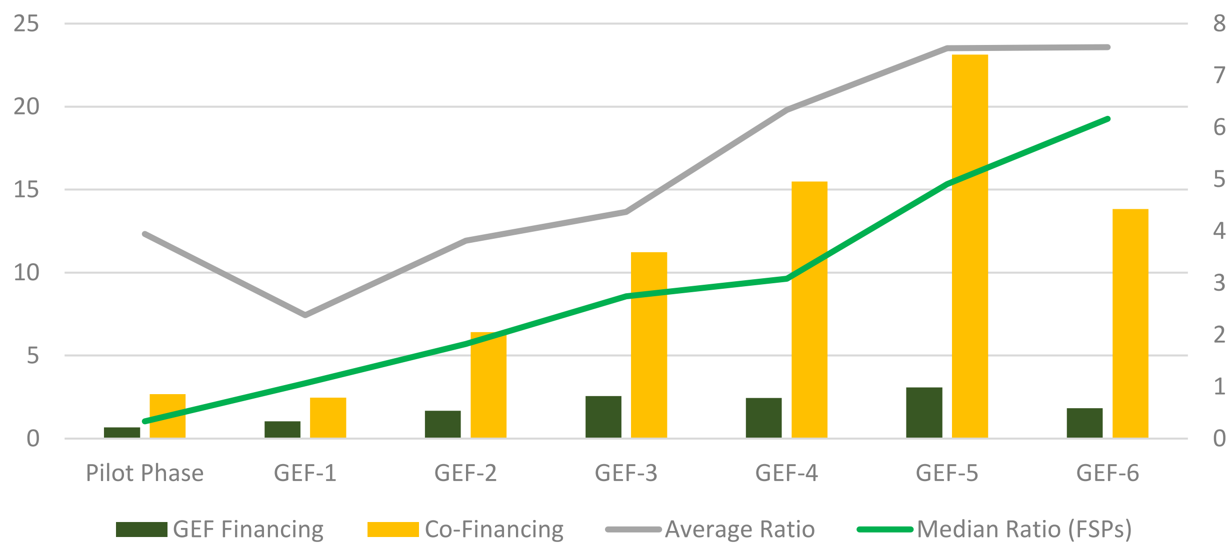
Effectiveness

16. The degree to which the GEF can fulfill its mission and deliver global environmental benefits is ultimately a function of the effectiveness of the GEF Partnership. OPS6 provides an exhaustive account of the GEF's performance and progress towards impact, concluding that "the GEF has a strong track record in delivering overall good project performance, being catalytic, and driving transformational change" [27]. Rather than attempting to update the recent findings and conclusions of OPS6, this section analyzes the latest data across three key metrics that may be indicative of the broader effectiveness of the GEF Partnership: (i) co-financing, (ii) mobilized private financing, and (iii) expected contributions towards global environmental benefits.

[27] Global Environment Facility Independent Evaluation Office (GEF IEO), *OPS6 Report: The GEF in the Changing Environmental Finance Landscape*, Washington, DC: GEF IEO, 2017 (http://www.gefieo.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

17. The current network of 18 Agencies continues to deliver high levels of co-financing. As of April 2018, GEF-6 projects that had received CEO Endorsement/ Approval had mobilized US$7.5 in confirmed co-financing for each dollar of GEF financing. While outliers can have a major impact on average co-financing ratios, the median ratio for full-sized projects (FSP) has increased steadily with each replenishment phase, exceeding 6 to 1 in GEF-6 to date, up from 5 to 1 in GEF-5. (Figure 9)

Figure 9: The GEF Partnership continues to deliver high levels of co-financing (GEF project financing and confirmed co-financing at CEO Endorsement/Approval by replenishment phase in US$bn [left axis], and ratio of co-financing to GEF financing [right axis], as of April 2018)



18. Co-financing ratios have increased across all Agencies, but MDBs and IFIs continue to account for a disproportional share. OPS6 argues that the decline in MDB engagement is a concern for the GEF given that the MDBs bring in most of the co-financing associated with GEF projects. Indeed, even as their overall share of GEF programming has declined, the MDBs and IFIs have continued to provide the largest share of co-financing. MDBs and IFIs accounted for a third of GEF project financing towards GEF-6 projects that had received CEO Endorsement/ Approval as of April 2018, but 51% of confirmed co-financing. Accordingly, any further expansion of the GEF Partnership should be examined in terms of the GEF's continued ability harness the unique strengths of the MDBs and IFIs. (Table 4)

Table 4: MDBs' and IFIs' share of GEF programming has declined, but their projects continue to account for a disproportionate share of co-financing (GEF project financing and confirmed co-financing in single-Agency projects by Agency group and replenishment phase, in mUS$ as of April 2018)

		GEF Financing	% of GEF Financing	Co-Financing	% of Co-Financing	Average Co-Financing Ratio	Median Co-Financing Ratio (FSPs)
Pilot Phase	MDBs/IFIs	378	58%	2,214	94%	5.9	0.5
	UN Agencies	270	42%	142	6%	0.5	0.2
	Other Agencies	0		0			
GEF-1	MDBs/IFIs	589	65%	1,831	84%	3.1	2.1
	UN Agencies	321	35%	343	16%	1.1	1.0
	Other Agencies	0		0			
GEF-2	MDBs/IFIs	835	54%	5,032	82%	6.0	2.7
	UN Agencies	718	46%	1,113	18%	1.5	1.3
	Other Agencies	0		0			
GEF-3	MDBs/IFIs	1,255	55%	7,642	73%	6.1	3.3
	UN Agencies	1,045	45%	2,856	27%	2.7	2.2
	Other Agencies	0		0			
GEF-4	MDBs/IFIs	810	37%	8,307	60%	10.3	4.5
	UN Agencies	1,391	63%	5,462	40%	3.9	2.8
	Other Agencies	0		0			
GEF-5	MDBs/IFIs	831	28%	9,557	44%	11.5	5.2
	UN Agencies	2,118	71%	11,911	55%	5.6	4.8
	Other Agencies	36	1%	221	1%	6.2	7.2
GEF-6	MDBs/IFIs	570	33%	6,525	51%	11.4	6.8
	UN Agencies	1,067	62%	5,892	46%	5.5	6.1
	Other Agencies	72	4%	340	3%	4.7	4.8

19. Since GEF-5, the GEF Partnership has mobilized at least one dollar of private financing for each dollar of GEF project financing (Figure 10), with an increasing share of such private financing mobilized through non-grant instruments (NGI) (Figure 11). Evidence suggests that several Agencies have the capabilities required to mobilize private financing with a view to achieving global environmental benefits at scale, and – as indicated above – eight different Agencies have deployed GEF NGIs (Figure 6). As of April 2018, 14 out of 16 Agencies with at least one CEO Endorsed/ Approved, single-Agency project had been able to mobilize at least some private financing. In terms of volumes, however, UNDP, the World Bank and UNIDO accounted for some 85% of all mobilized private financing during this period, suggesting considerable concentration in the GEF's private sector portfolio. (Figure 12)

Figure 10: In GEF-5 and GEF-6, the Partnership has mobilized at least one dollar of private financing for each dollar of GEF project financing (GEF project financing and confirmed private sector co-financing at CEO Endorsement/Approval by replenishment phase in mUS$ [left axis], and ratio of private co-financing to GEF financing [right axis], as of April 2018)

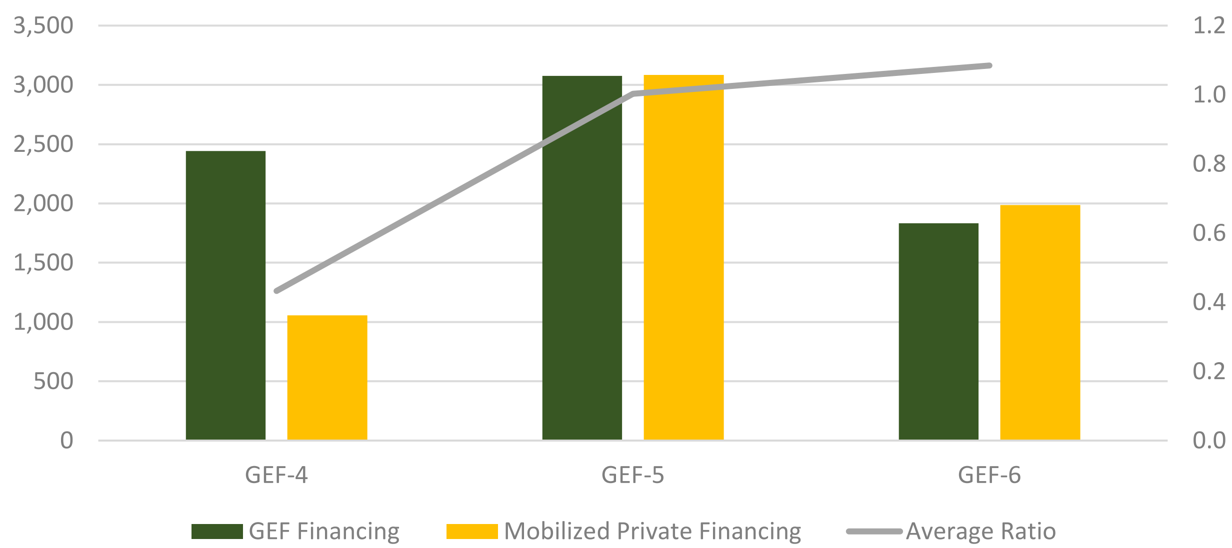


Figure 11: From GEF-5 to GEF-6 non-grant instruments have delivered an increasing share of all private finance mobilized (GEF NGI financing and confirmed private sector co-financing at CEO Endorsement/Approval by replenishment phase in mUS$ [left axis], and ratio of private co-financing to GEF financing [right axis], as of April 2018)

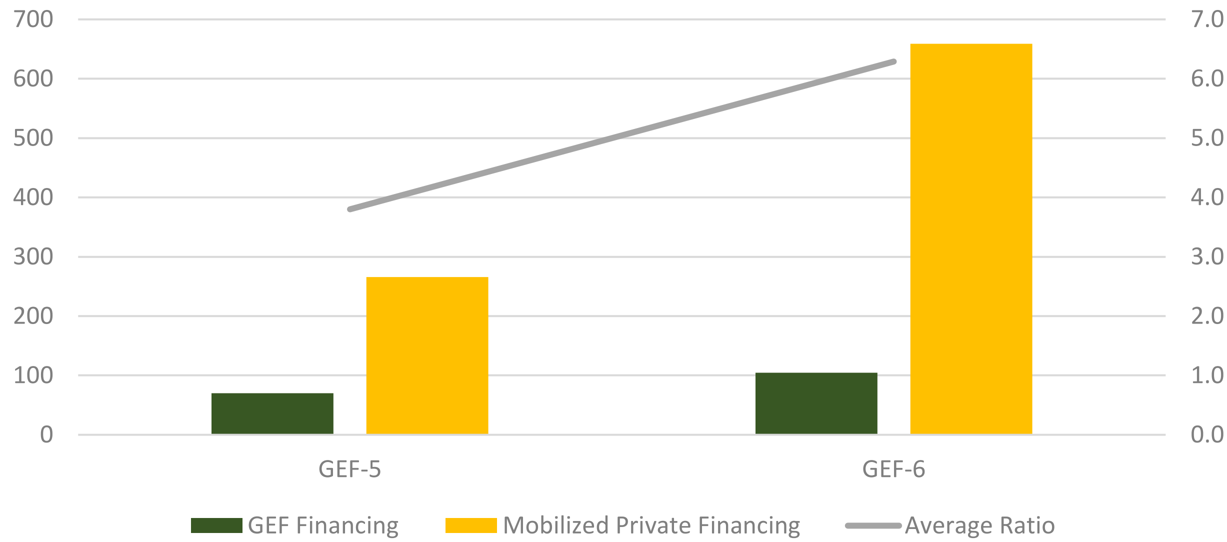
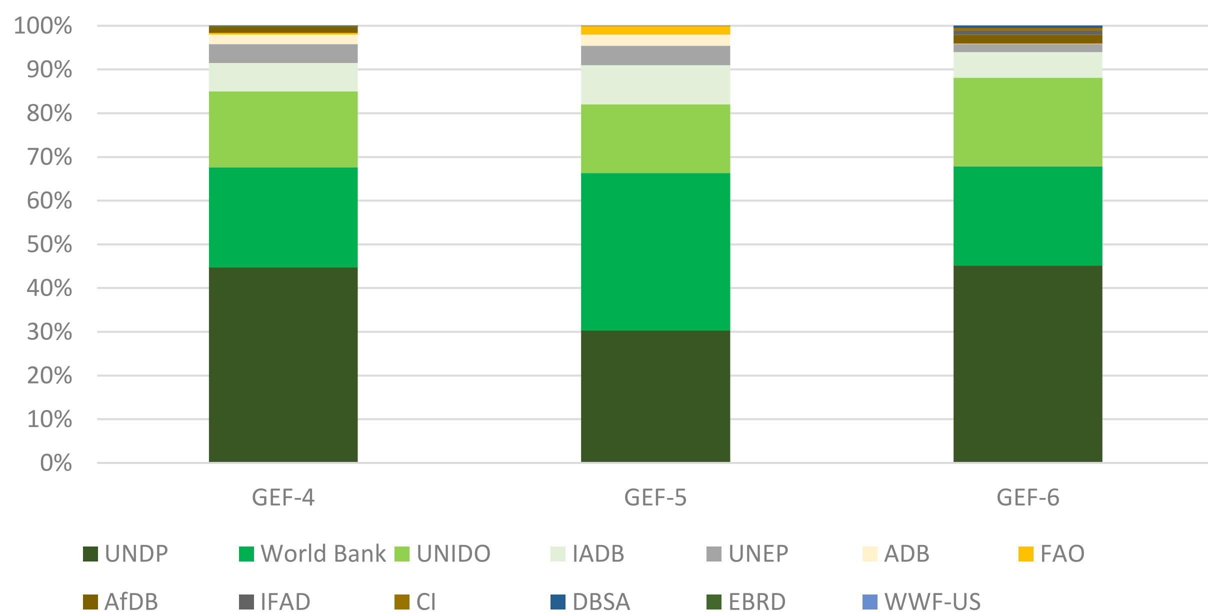


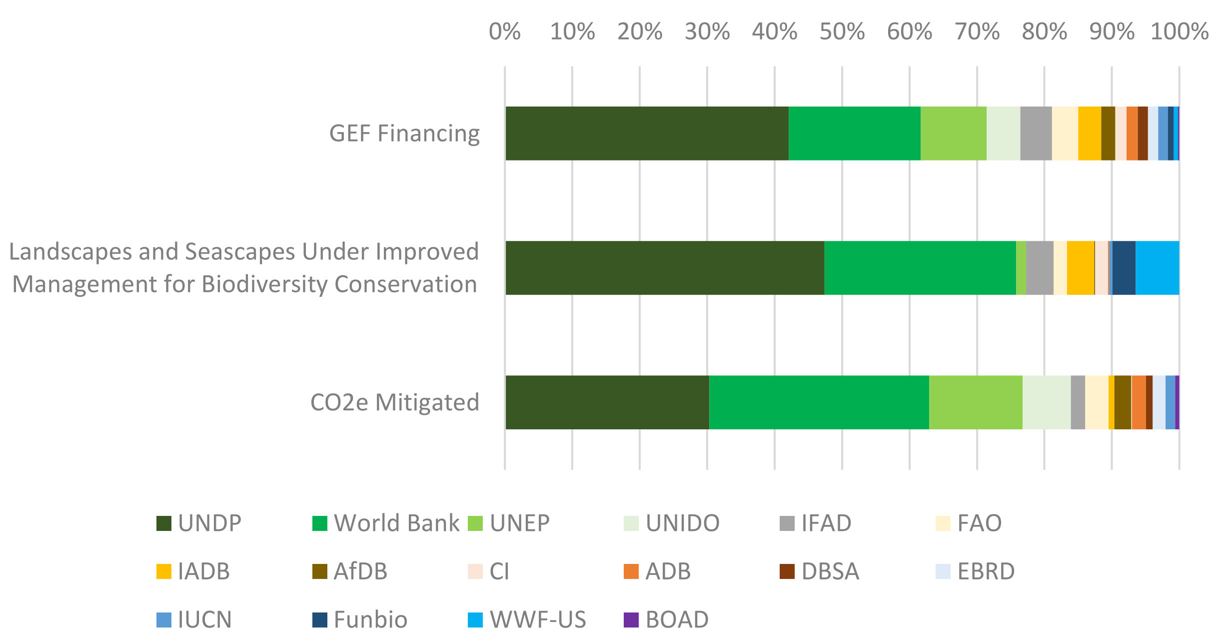
Figure 12: The vast majority of Agencies have been able to mobilize at least some private financing since GEF-4, although just three Agencies accounted for 85% of all the private financing mobilized during this period (share of mobilized private financing by Agency and replenishment phase, based on CEO Endorsed/ Approved singe-Agency projects as of April 2018)



20. As recognized in OPS6 and the GEF-7 Programming Directions and Policy Recommendations, there is scope to strengthen the GEF's ability to engage with the private sector, including in terms of its ability to mobilize private financing. As of April 2018, private financing had been mobilized in just 22% of all CEO Endorsed/ Approved GEF-6 projects, compared with 25% in GEF-4 and 23% in GEF-5. As with co-financing in general, it is not clear that an expansion of the GEF Partnership would make the GEF better placed to work with the private sector. Instead, there may be a need to deploy more effectively the capabilities that are already available across the current network of Agencies.

21. Co-financing, including private financing, are ultimately sought for the purpose of achieving global environmental benefits (GEB). As of April 2018, the GEF was on track to meet or exceed most of the agreed GEF-6 targets for GEBs. The expected GEBs of GEF-6 projects reflect contributions from all Agencies, broadly in line with each Agency's share of GEF-6 programming, as well as the thematic focus of each Agency's GEF-6 portfolio. For example, the three leading Agencies – UNDP, the World Bank and UN Environment (UNEP) – accounted for 71% of GEF project financing, 77% of the expected area of landscapes and seascapes under improved management for biodiversity conservation, and 77% of expected greenhouse gas emissions mitigated. (Figure 13)

Figure 13: The GEF's expected contributions towards global environmental benefits in GEF-6 can be attributed to the collective efforts of all Agencies, with a distribution that broadly reflects each Agency's share of programming (share of GEF project financing and expected global environmental benefits at CEO Endorsement/ Approval, excluding projects in the chemicals and waste and international waters focal areas, as of April 2018)



22. In summary, a snapshot of the latest data on co-financing, mobilized private financing and progress towards GEBs supports the conclusion made two years ago, i.e. that the GEF Partnership continues to demonstrate the capabilities required to meet the strategic aspirations of the GEF. Moreover, while there are multiple opportunities to further enhance the effectiveness of the GEF – as discussed extensively in OPS6 and during the GEF-7 replenishment process – many such opportunities could likely be seized through a better deployment of the capabilities already present across the GEF Partnership, rather than through an expansion of that Partnership.

Level and Quality of Engagement Across the Partnership

23. Beyond the geographic and thematic coverage, and the efficiency and effectiveness of the GEF's current network of 18 Agencies, the June 2016 Council paper emphasized the level and quality of engagement across the GEF Partnership as a key consideration in assessing the potential advantages and disadvantages of further accreditation[28]. As noted at the time, the Partnership relies on intensive engagement among its various stakeholders. In addition to overseeing the implementation of GEF projects and programs, 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. These contributions have been made possible by a close Partnership with frequent communication between the Secretariat and Agencies, and among the Agencies themselves. These close relationships, in turn, have fostered commitment, strategic alignment and predictability, thereby reducing transaction costs.

24. Recent experiences illustrate how the GEF has been able to continuously leverage its close Partnership. Just over the last two years, since the June 2016 Council meeting, the Secretariat has organized two inter-Agency retreats – each spanning two days – that have brought together the majority of Agencies for in-person discussions on key issues of mutual interest, from new policies and emerging programming directions to the development of an upgraded IT infrastructure for the GEF. These retreats have been held in addition to regular inter-Agency discussions in conjunction with Council meetings. In addition, the Agencies have played an important role throughout the GEF-7 replenishment process, starting with technical advisory group meetings in February 2017. Similarly, Agencies have played an active role in the multi-stakeholder working groups that have led efforts on the GEF project cycle, gender, stakeholder engagement, as well as environmental and social safeguards.

25. If the Partnership grows further, it may become increasingly difficult to sustain such a high level of engagement. At the same time, the Secretariat remains of the view that the implementation of the GEF-7 programming directions and policy recommendations will require even greater collaboration and coordination across the Partnership.

[28] GEF/C.50/07, *Future Directions on Accreditation – A Follow-Up* (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.50.07_Accreditation_0_0.pdf)

Conclusions

26. In conclusion, the analysis presented above does not point to a need to accredit additional Agencies at this time. The current network of 18 Agencies offers robust coverage of regions, different types of countries, and the GEF's different areas of work. That coverage is likely to improve further as the most recently accredited GEF Project Agencies take on a larger role. Thanks to the current Partnership, the GEF remains effective overall, and the Agencies display the range of capabilities required to fulfill the GEF's mission, and to implement its strategy going forward. Indeed, against a backdrop of greater competition for scarce GEF resources, and the advantages of continued, close engagement across the Partnership, current evidence suggests that the potential disadvantages of a further expansion would outweigh the potential advantages.