

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

Agenda Item 7

UPDATED CO-FINANCING POLICY

Recommended Council Decision

The Council, having reviewed document GEF/C.54/10/Rev.01, *Updated Co-Financing Policy* approves the Policy contained in Annex I to the document, which supersedes the Co-Financing Policy of May 2014 (Council document GEF/C.46/09).

The Council requests the Secretariat to report to the Council at its next meeting on the implementation of the Co-Financing Guidelines, particularly regarding the calculations used to compute co-financing and investment mobilized.

The Council requests the Secretariat to monitor the implementation of the Policy and report on progress, results and lessons learned at the 59th Council meeting in the Fall of 2020.

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INTRODUCTION

1. Pursuant to the policy recommendations agreed by the Participants to the seventh replenishment of the GEF Trust Fund (GEF-7), this document presents for Council consideration an updated *Co-Financing Policy* (Annex I) that would supersede the current policy that was approved in 2014¹.

BACKGROUND

2. Co-financing has been an important feature of GEF projects and programs since its inception. The first Overall Performance Study in 1996 found that “GEF grants have leveraged additional funding for global environmental benefits from both Implementing Agencies and other funding sources”².

3. The GEF’s first co-financing policy was adopted in 2003³, following the Policy Recommendations agreed by the Participants to the third replenishment of the GEF Trust Fund (GEF-3)⁴. The 2003 policy⁵ defined co-financing as “resources that are committed by the GEF [A]gency itself or by other non-GEF sources and which are essential for meeting the GEF project objectives”. The policy also established a basic typology of sources and types of co-financing, along with requirements for monitoring and reporting on co-financing at the project, program and portfolio levels.

4. Reflecting the findings, conclusions and recommendations of the *Fifth Overall Performance Study* (OPSS)⁶, Participants to the sixth replenishment (GEF-6) recommended that the Secretariat review the 2003 co-financing policy with a view to clarifying definitions and approaches, establishing a level of ambition for the overall GEF portfolio to reach a ratio of US\$6 in co-financing for each dollar in GEF financing, and creating “expectations for greater co-financing for upper middle-income countries that are not SIDS”⁷. Following that

¹ FI/PL/01, *Co-Financing Policy* (http://www.thegef.org/sites/default/files/documents/Co-financing_Policy-2014_0.pdf)

² *Study of the Overall Performance of the Global Environment Facility* (<http://www.gefio.org/sites/default/files/ieo/evaluations/ops1.pdf>)

³ *Joint Summary of the Chairs, GEF Council Meeting, May 14—16, 2003* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.21.JointSummary_5.pdf)

⁴ GEF/C.20/Misc.1, *Draft Summary of Negotiations of the Third Replenishment of the GEF Trust Fund* (http://www.thegef.org/sites/default/files/council-meeting-documents/C.20.NegotiationsSummary_5.pdf)

⁵ GEF/C.20/06/Rev.01, *Cofinancing* (http://www.thegef.org/sites/default/files/council-meeting-documents/GEF_C20_6_rev1_4.pdf)

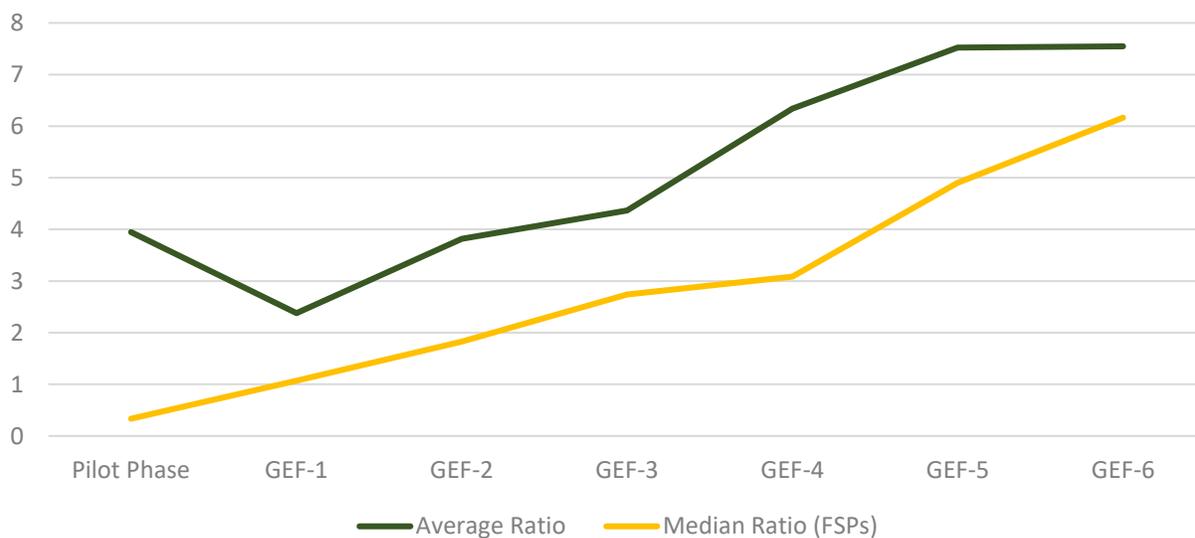
⁶ (<http://www.gefio.org/sites/default/files/ieo/evaluations/ops5-final-report-eng.pdf>)

⁷ GEF/C.46/07/Rev.01, *Summary of the Negotiations of the Sixth Replenishment of the GEF Trust Fund* (http://www.thegef.org/sites/default/files/council-meeting-documents/GEF.C.46.07.Rev_01_Summary_of_the_Negotiations_of_the_Sixth_Replenishment_of_the_GEF_Trust_Fund_May_22_2014_2.pdf)

recommendation, the Council approved a new co-financing policy at its 46th meeting in May 2014⁸.

5. As of April 2018, co-financing commitments for GEF-6 projects exceeded the target set by the 2014 *Co-Financing Policy*. GEF-6 projects that had received CEO Endorsement/ Approval had mobilized US\$7.5 in confirmed co-financing for each dollar of GEF financing. It should be noted, however, that outliers – i.e. a limited number of projects with very high levels of co-financing – have a significant impact on average co-financing ratios: the median co-financing ratio for full-sized projects (FSP) is therefore somewhat lower than the portfolio average, at around 6:1, but it has also increased steadily with each replenishment phase. (Figure 1)

Figure 1: 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)



6. There is considerable variation in co-financing ratios across projects and programs. The *Sixth Comprehensive Evaluation of the GEF (OPS6)*⁹ finds that projects implemented by multi-lateral development banks (MDB), projects in large recipient countries, as well as projects in the climate change and international waters focal areas have tended to mobilize considerably higher levels of co-financing compared with other Agencies, focal areas and countries (Table 1).

⁸ *Joint Summary of the Chairs, 46th GEF Council Meeting, May 25–27, 2014*

(http://www.thegef.org/sites/default/files/council-meeting-documents/Joint_Summary_of_the_Chairs_46th_GEF_Council_Meeting_1.pdf)

⁹ (http://www.gefio.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

Table 1: Projects and Programs in the Climate Change and International Waters Focal Areas Have Mobilized the Highest Levels of Co-Financing (GEF Project Financing and Co-Financing by Focal Area and Replenishment Phase, CEO Endorsed/Approved projects as of April 20, 2018)

	GEF-4		GEF-5		GEF-6	
	Average Ratio	Median Ratio (FSPs)	Average Ratio	Median Ratio (FSPs)	Average Ratio	Median Ratio (FSPs)
Biodiversity	3.9	2.8	4.7	4.9	5.0	6.5
Chemicals and Waste	2.3	2.0	4.9	4.3	4.4	5.9
Climate Change	10.7	5.0	12.9	6.5	12.1	8.3
International Waters	9.1	3.8	15.3	6.3	10.8	9.6
Land Degradation	7.0	3.5	5.4	4.5	5.8	5.9
Multi-Focal	4.2	3.2	4.6	4.0	6.9	5.3
All Projects	6.3	3.1	7.5	4.9	7.5	6.2

7. OPS6 also finds that promised co-financing generally materializes during implementation. On average, 126% of expected co-financing was materialized at completion, and 69% of projects delivered at least 90% of the co-financing promised at approval.

GEF-7 POLICY RECOMMENDATIONS

8. Participants to the seventh replenishment of the GEF Trust Fund (GEF-7) agreed that “further refinement of the Co-Financing Policy is desirable to seek greater public and private investments in measures to achieve global environmental benefits” and requested the Secretariat to develop, for Council consideration, an updated co-financing policy and associated guidelines¹⁰.

9. Participants recommended that the updated policy include the following elements:

Definitions: As per the 2014 Co-Financing Policy, co-financing means ‘resources that are additional to the GEF grant and that are provided by the GEF Partner Agency itself and/or by other non-GEF sources that support the implementation of the GEF-financed project and the achievement of its objectives’. Investment mobilized means the sub-set of co-financing that excludes recurrent expenditures.

Level of Ambition: Against the background of the positive performance in GEF-6, the ambition for the overall GEF portfolio is increased to a co-financing ratio of at least 7:1. The ratio of investment mobilized to GEF financing is monitored

¹⁰ GEF/C.54/19/Rev.02, *Summary of the Negotiations of the Seventh Replenishment of the GEF Trust Fund* (<http://www.thegef.org/council-meetings/gef-54th-council-meeting>)

across all countries. For the portfolio of projects and programs approved in countries that are subject to 'expectations for greater co-financing' as per the 2014 Co-Financing Policy¹¹, the GEF aims to reach a ratio of investment mobilized to GEF financing of at least 5:1. Countries with the capacity to do so are encouraged to seek even higher levels of co-financing and investment mobilized. It is noted, however, that, over time, all countries should seek to mobilize greater investments.

Monitoring and Reporting: The Secretariat will report annually on estimated and realized co-financing and investment mobilized at the portfolio and recipient country level¹².

10. Participants further emphasized that “no minimum thresholds and/or specific co-financing or investment sources should be imposed in the review of individual projects or Work Programs”. Finally, “[r]ecognizing that investment mobilized is a new concept in the GEF, Participants [emphasized] the importance of clear, operational definitions, and recommend that the Council review, at the mid-point of GEF-7, experiences of the implementation of the updated Policy and associated Guidelines with a view to drawing lessons and informing future deliberations on ways to optimize the use of GEF resources in different countries”¹³.

OVERVIEW OF THE PROPOSED POLICY

11. Consistent with the agreed GEF-7 Policy Recommendations, the proposed updated policy contained in Annex I introduces the following changes to the current 2014 policy:

- (a) introduces the concept of “investment mobilized”, defined as the sub-set of co-financing that excludes recurrent expenditures;
- (b) raises the level of ambition for the overall GEF portfolio to reach a co-financing ratio of 7:1, and for the portfolio of projects and programs approved in upper-middle income countries (UMIC) and high-income countries (HIC) that are not small island developing states (SIDS) or least developed countries (LDC) to reach a ratio of investment mobilized to GEF financing of at least 5:1; and
- (c) sets out clearer requirements for Agencies and the Secretariat to document, monitor and report on co-financing and investment mobilized at the project, program and portfolio levels.

12. Additional changes have been introduced to enhance overall clarity and to ensure coherence with other recent GEF policies and guidelines.

¹¹ FI/PL/01, *Co-Financing Policy* (http://www.thegef.org/sites/default/files/documents/Co-financing_Policy-2014_0.pdf).

¹² GEF/C.54/19/Rev.02, *Summary of the Negotiations of the Seventh Replenishment of the GEF Trust Fund* (<http://www.thegef.org/council-meetings/gef-54th-council-meeting>)

¹³ Ibid.

13. To support the effective implementation of the proposed policy, co-financing guidelines are presented separately for Council information.

EFFECTIVENESS AND IMPLEMENTATION

14. The Secretariat proposes that the updated Co-Financing Policy come into effect on July 1, 2018 and that it be applied to all new GEF-financed activities submitted on or after the date of effectiveness. For GEF-financed activities under implementation, the Secretariat proposes that the Policy be applied to mid-term reviews and terminal evaluations submitted after one year from the date of effectiveness.

15. If the updated policy is approved, the Secretariat will begin reporting on expected co-financing and investment mobilized at project approval at the next Council meeting, in the Fall of 2018. For realized co-financing and investment mobilized at mid-term and project completion, the Secretariat will begin reporting to the Council at its Fall 2019 meeting, based on available mid-term reviews and terminal evaluations.

16. In line with the GEF-7 policy recommendations, the Secretariat will gather evidence on progress, results and lessons learned, and report its findings to the Council at its 59th meeting in the Fall of 2020. This would support the Council's review of the implementation of the updated Policy and associated Guidelines with a view to informing future deliberations on ways to optimize the use of GEF resources in different countries.

ANNEX I: CO-FINANCING POLICY

Definitions

Agency Fee means the financing provided to a GEF Partner Agency in connection with a GEF project or program

CEO Approval means the approval of a fully developed Medium-Sized Project or Enabling Activity by the GEF CEO

CEO Endorsement means the endorsement of a fully developed Full-Sized Project by the GEF CEO

Co-Financing means financing that is additional to GEF Project Financing, and that supports the implementation of a GEF-financed project or program and the achievement of its objective(s)

Enabling Activity means a project for the preparation of a plan, strategy or report to fulfill commitments under a Convention

Full-Sized Project means a project with GEF Project Financing exceeding US\$2 million

GEF Partner Agency means an agency eligible to request and receive GEF resources directly for the design, implementation, and supervision of GEF projects and programs

GEF Project Financing means a grant or concessional financing provided from any GEF-managed trust fund to support the implementation of any Full-Sized Project, Medium-Sized Project, Enabling Activity or Program, excluding Co-Financing, Agency Fees and Project Preparation Grants

Investment Mobilized means Co-Financing that excludes recurrent expenditures

Medium-Sized Project means a project with GEF Project Financing of up to US\$2 million

Program Framework Document means the document that sets forth the concept of a program that is proposed for GEF financing

Project Identification Form means the document that sets forth the concept of a Full-Sized Project or Medium-Sized Project that is requesting GEF financing

Work Program means a group of Full-Sized Projects and/ or Programmatic Approaches that is presented for Council approval in a Council meeting

Introduction

1. Co-Financing contributes to the effectiveness, impacts and sustainability of GEF projects and programs, particularly by enabling the GEF to achieve longer-lasting and larger-scale global environmental benefits, and by strengthening partnerships with recipient country governments, multilateral, bilateral and national financing institutions, the private sector, and civil society.
2. This Policy sets out the definitions, level of ambition and requirements for Co-Financing in GEF projects and programs with a view to mobilizing greater public and private investments in measures to achieve global environmental benefits.

Application

3. This Policy applies to the Secretariat and all GEF Partner Agencies (hereafter “Agencies”). The Policy applies to all projects and programs financed with resources from the GEF Trust Fund.

Level of Ambition

4. This Policy sets out an ambition for the overall GEF portfolio to reach a ratio of Co-Financing to GEF Project Financing of at least 7:1, and for the portfolio of projects and programs approved in Upper-Middle Income Countries and High-Income Countries¹⁴ that are not Small Island Developing States or Least Developed Countries¹⁵ to reach a ratio of Investment Mobilized to GEF financing of at least 5:1. Countries with the capacity to do so are encouraged to seek even higher levels of Co-Financing and Investment Mobilized. Over time, all countries should seek to mobilize greater investments.
5. The Secretariat does not impose minimum thresholds and/or specific types or sources of Co-Financing or Investment Mobilized in its review of individual projects and programs.

Policy Requirements

6. This Policy sets out mandatory requirements for Co-Financing throughout the GEF project and program cycles, as well as for portfolio monitoring and reporting by the Secretariat.
7. Co-Financing is required for all GEF-financed Full-Sized Projects, Medium-Sized Projects and programs. Co-Financing is encouraged for all Enabling Activities.

Co-Financing in GEF-Financed Projects and Programs

¹⁴ As per the World Bank Country and Lending Groups

¹⁵ As defined by the United Nations

8. Agencies, in collaboration with recipient countries and executing partners, identify, document, monitor and report on amounts, sources and types of Co-Financing for all GEF-financed projects and programs for which Co-Financing is available.
9. In Project Identification Forms and Program Framework Documents submitted for Work Program entry or CEO Approval, Agencies provide indicative information regarding the expected amounts, sources and types of Co-Financing, and the sub-set of such Co-Financing that meets the definition of Investment Mobilized.
10. At CEO Endorsement/ Approval, Agencies provide confirmed information regarding the expected amounts, sources and types of Co-Financing and Investment Mobilized, with appropriate supporting evidence.
11. Agencies ensure that any Co-Financing identified in Program Framework Documents, Project Identification Forms or requests for CEO Endorsement/ Approval has not been previously identified or reported as Co-Financing towards another GEF-financed project or program.
12. The Secretariat, in its review of Program Framework Documents, Project Identification Forms and Requests for CEO Endorsement/ Approval, assesses whether the indicative and confirmed, expected amounts, sources and types of Co-Financing and Investment Mobilized are adequately documented and consistent with the requirements of this Policy.
13. Agencies may propose, on an exceptional basis, Full-Sized Projects or Medium-Sized Projects without Co-Financing in response to an emergency or other unforeseen circumstance. In such cases Agencies justify why Co-Financing is not available and not necessary to achieve the objectives of the project.
14. For Full-Sized Projects and Medium-Sized Projects proposed for Work Program entry or CEO Endorsement/ Approval without Co-Financing, the Secretariat assesses whether adequate justification is provided to support an exception as described in Paragraph 13 above.
15. Agencies provide information on the actual amounts, sources and types of Co-Financing and Investment Mobilized in their mid-term reviews and terminal evaluations.
16. The Secretariat updates and maintains publicly available and easily accessible project and program templates and guidelines to support the effective implementation of the requirements set out in paragraphs 7—15 above.

Portfolio Monitoring and Reporting

17. The Secretariat collects data and information on expected and actual Co-Financing and Investment Mobilized across all GEF-financed projects and programs and reports annually to the Council on trends and progress against the level of ambition indicated in Paragraph 4 above.

Review of This Policy

18. The Council decides on the review and revision of this Policy.

Effectiveness

19. The Policy will come into effect on July 1, 2018, and will remain in effect until amended or superseded by the Council. The Policy applies to all new GEF-financed projects and programs submitted on or after the date of effectiveness. For GEF-financed projects and programs under implementation, the Policy applies to all annual project implementation reports as well as mid-term reviews and terminal evaluations submitted after one year of the date of effectiveness.

References and Related Documents

- Co-Financing Guidelines (forthcoming)
- Project and Program Cycle Policy (OP/PL/01)
- Guidelines on the Project and Program Cycle Policy (GEF/C.52/Inf.06)