

**ANNEX B: POLICY RECOMMENDATIONS FOR THE SEVENTH REPLENISHMENT OF THE
GEF TRUST FUND**

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INTRODUCTION

1. This document presents draft GEF-7 policy recommendations for Participants' consideration.
2. The policy recommendations are aimed at enhancing the effectiveness and efficiency of the GEF. The recommendations take into account the GEF's evolving operating environment and the latest guidance provided by the Conferences of the Parties to the Multilateral Environmental Agreements that the GEF serves, while drawing on science, evaluative evidence, and experience over 26 years of operations. Specifically, the policy recommendations draw on the analysis presented in the GEF-7 Policy Agenda¹⁰⁴, and the findings, conclusions and recommendations of the *Sixth Comprehensive Evaluation of the GEF (OPS6)*¹⁰⁵ and associated evaluations and studies; while responding to the views expressed by Participants and Observers over the course of the replenishment process, and aiming to support the effective implementation of the proposed GEF-7 programming directions.
3. The draft policy recommendations address the following, eleven areas:
 - resource allocation;
 - optimizing the use of GEF resources in different countries;
 - results;
 - partnership;
 - governance;
 - private sector engagement;
 - operational efficiency and transparency;
 - improved management of data and information;
 - gender equality and women's empowerment;
 - knowledge management; and
 - responsible investment strategy.

¹⁰⁴ GEF/R.7/10, *GEF-7 Policy Agenda: Analysis in Support of the Proposed GEF-7 Policy Recommendations* (http://www.thegef.org/sites/default/files/council-meeting-documents/GEF-7%20-%20Policy%20Agenda%20-%20GEF_R.7_10.pdf)

¹⁰⁵ 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.gefio.org/sites/default/files/ieo/evaluations/files/ops6-report-eng_1.pdf)

POLICY RECOMMENDATIONS

4. Participants reaffirm the unique and critical role of the GEF in promoting global environmental benefits, and its continued, high relevance to member countries and the multilateral environmental agreements it serves.
5. Participants note with concern the deterioration of the Earth's environment and agree that there is a need to address the drivers of such deterioration.
6. Participants recognize the GEF's solid track record of performance in terms of efficiency and effectiveness, and that the GEF has successfully supported initiatives with large-scale and long-lasting benefits for the global environment.
7. Participants therefore recommend that the GEF, in partnership with members, Agencies and other stakeholders, in keeping with its core mandate and guidance provided by the Conferences of the Parties to the Multilateral Environmental Agreements it serves, and the principles of country ownership and country drivenness, aims to catalyze a transformation of the systems that drive the deterioration of the global environment. Participants note that the work done through the GEF also contributes to the achievement of the Sustainable Development Goals.

Resource Allocation

8. Participants agree that a system of country allocations represents a key strength of the GEF. Country allocations have contributed towards greater predictability, transparency, and country ownership in the allocation and programming of resources.
9. Participants further agree that the allocation of resources across the biodiversity, climate change, and land degradation focal areas should evolve reflecting emerging priorities and the GEF's unique comparative advantage.
10. Participants recognize the needs of all GEF recipient countries, particularly those of least developed countries and small island developing states.
11. Participants also recognize that the System for Transparent Allocation of Resources (STAR) should support the GEF's increasing emphasis on addressing the drivers of environmental deterioration and integrated programming to achieve higher global environmental benefits across multiple focal areas.
12. Participants request that the Secretariat, in its proposal to the Council for updating STAR, include the following:
 - adjustments to the minimum allocation floors to reflect the allocation of resources across the biodiversity, climate change and land degradation focal areas, while retaining the aggregate allocation floors at their current levels; and

- an increase in the weight of the GDP per capita index to -0.12; and
- a proposal to increase the marginal adjustments across focal areas for recipient countries with STAR country allocations exceeding US\$7 million, while ensuring that no more than 30% of total STAR country allocations is subject to flexibility.

13. Participants further request that the Secretariat strengthen its efforts to track and periodically report to the Council on the programming of funds and expected and achieved global environmental benefits in each of its focal areas: climate change, including on the share of GEF funding contributing to climate change mitigation and/or adaptation; biodiversity; combating desertification; improved POPs management; improved mercury management; and ozone-related programming in a given year.

14. Participants also recommend that the Council review, at the end of GEF-7, experiences of the increase in flexibility with a view to informing future deliberations on the matter.

Optimizing the use of GEF resources in different countries

15. Participants reiterate their support for the objectives of the 2014 *Co-financing Policy* (FI/PL/01), i.e., for the GEF to attain adequate levels of co-financing as a means to: (a) enhance the effectiveness and sustainability of the GEF in achieving global environmental benefits; and (b) strengthen partnerships with recipient country governments, multilateral and bilateral financing entities, the private sector, and civil society.

16. Participants agree that further refinement of the *Co-Financing Policy* is desirable to seek greater public and private investments in measures to achieve global environmental benefits.

17. To this end, Participants request that the Secretariat develop, for Council consideration, an updated co-financing policy and associated guidelines, including the following:

18. **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.

19. **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 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 Policy*, 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.

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

21. Participants emphasize, consistent with the current Co-Financing Policy, that no minimum thresholds and/or specific co-financing or investment sources should be imposed in the review of individual projects or Work Programs.

22. Recognizing that investment mobilized is a new concept in the GEF, Participants further emphasize 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.

Results

23. Participants affirm that the GEF's effectiveness in fulfilling its mandate is ultimately determined by the global environmental benefits delivered through the activities it funds.

24. Participants welcome the improvements made in the GEF's ability to capture and report on results at the project, program, and portfolio levels.

25. Participants emphasize that continuous improvement is required for the GEF to fully harness data and information on results for evidence-based decision-making and learning. This includes ensuring that sufficient quality assurance and reporting systems are in place at the program and portfolio levels.

26. Participants request that the Secretariat, in consultation with Agencies, and taking into account the findings, conclusions, and recommendations of OPS6, present for Council consideration an updated results architecture, with a view to promoting:

- simplification, with fewer, more relevant indicators and more streamlined reporting on project and program -level results;
- clear technical definitions and methodological guidance to facilitate more consistent, higher-quality monitoring and reporting across the GEF Partnership;
- enhanced availability, accessibility, and timeliness of data and information on results for accountability, learning, and decision-making;
- the capture and monitoring of relevant socio-economic co-benefits; and
- a gender-responsive approach.

27. Participants also request that the Secretariat, in consultation with Agencies, present for Council consideration concrete measures to be undertaken in the design, monitoring, and evaluation of projects and programs that would allow for increased sustainability, including financial sustainability, of the activities funded by the GEF.

Partnership

28. Participants agree that a broad and diverse Partnership of Implementing Agencies is a key asset of the GEF.
29. Participants acknowledge the contributions made by the new GEF Project Agencies, and take note with appreciation of those Agencies' growing engagement in GEF operations.
30. Participants agree that the GEF should ensure a level playing field for all Agencies and, to this end, agree that the rules and requirements for the new, GEF Project Agencies should be harmonized with those that apply to other Agencies.
31. To achieve the objective outlined in paragraph 27, Participants request 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.
32. Participants also request that the Secretariat develop updated guidelines on the comparative advantages of the Agencies in order to facilitate the selection process at country level.
33. Participants agree that the current network of 18 Agencies has enabled an effective delivery of GEF support across all regions and focal areas.
34. Participants further underscore that Agencies should continue to engage in GEF programming in line with country priorities, and in partnership with local communities and civil society.
35. Participants request 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.
36. Participants request that the Secretariat develop a set of fit-for-purpose business standards to improve coordination and workflow between the Agencies and the Secretariat, with the aim of improving overall accountability, transparency, and efficiency.
37. Participants also request that the on-going review of the minimum fiduciary standards take into account international standards related to anti-money laundering and counter terrorism finance and that the Secretariat in collaboration with the Trustee propose any updates to the minimum fiduciary standards, as necessary, for Council consideration.
38. Participants welcome the Secretariat's work to update the GEF policies on environmental and social safeguards and fiduciary standards for Council consideration, and

underscore the Agencies' accountability for the appropriate use of GEF funds, including any adverse effects on recipients and any adverse gender-related impacts.

Governance

39. Participants welcome the finding of OPS6 that the GEF Partnership is effectively governed overall, but note with concern that challenges remain related to matters of representation, efficiency, accountability, and transparency, including the independence of the Council Chair.

40. Participants recommend that the GEF Council establish an ad-hoc working group to follow up on the findings of OPS6 with regard to the governance of the GEF Partnership and to make recommendations for consideration by Council to further improve efficiency, accountability, and transparency.

Private Sector Engagement

41. Participants underscore that a broader and deeper engagement with the private sector, particularly small and medium enterprises in developing countries, is important for success in GEF-7, and that the GEF's private sector engagement should encompass improvements in enabling environments, dialogue, and partnership with the private sector, as well as leverage of private sector financing.

42. Participants agree that the GEF should continue to strengthen its engagement with the private sector, using appropriate financial instruments and intervention models, ensuring additionality, accountability, and country ownership.

43. Participants recommend that the GEF further develop the use of non-grant instruments that demonstrate the greatest potential to leverage private sector financing and investment for higher impact, drawing on lessons learned from the successful GEF-6 non-grant instruments pilot.

44. Participants request that the Secretariat, taking into account the findings, conclusions and recommendations of OPS6, present for Council consideration a proposal for a strategy on private sector engagement for global environmental benefits, aiming to increase resource mobilization and catalyzing private sector investments, partnering with the private sector for market transformation, improving enabling environments in recipient countries, and identifying appropriate ways to draw on the capabilities of Agencies' and other partners. In this respect, Participants further recommend that a private sector advisory group is established. The group will, *inter alia*, provide input and advice on the proposed strategy and outreach to private sector partners.

45. Participants further recommend that the Secretariat strengthen awareness, knowledge and capacity among its own staff to engage with the private sector.

Operational Efficiency and Transparency

46. Participants welcome the progress made in reducing the time elapsed from project approval to submission for CEO Endorsement/Approval.

47. Participants recognize that there is further scope to accelerate the preparation and implementation of GEF projects and programs. Moreover, Participants agree that there is a need to enhance the flow of data and information on operational progress and financing throughout the GEF project cycle to enable stronger oversight and transparency.

48. Participants request that the Secretariat, in consultation with Agencies, identify and present for Council consideration a proposal with additional policy measures to enhance the operational efficiency and transparency of the GEF, taking into account the comparative advantages of the respective Agencies.

Improved Management of Data and Information

49. Participants note with concern the conclusions of OPS6 on issues related to the GEF's information management system, and welcome the progress made towards addressing those issues.

50. Participants request that the Secretariat prioritize efforts to complete the new GEF Portal in time for the onset of GEF-7, equipped with a streamlined work flow across the GEF Partnership and more efficient processing of projects, programs, and reporting; resulting in more accessible, more timely, and higher quality data and information on GEF financing, operations, and results, and enabling the Secretariat to begin publishing data and information on GEF financing and results to the International Aid Transparency Initiative (IATI) Registry by June 2019.

Gender Equality and Women's Empowerment

51. Participants recognize the improvements made in gender mainstreaming across GEF projects and programs, including the growing share of projects that carry out gender analyses, and the increasing use of gender-responsive results frameworks and indicators.

52. Participants also note the limitations pointed out in OPS6, and welcome the new *GEF Policy on Gender Equality*¹⁰⁶, which promotes a gender-responsive approach, as a critical step towards addressing those limitations.

53. To ensure continued progress and improved results, Participants request that the Secretariat complete, as soon as possible, guidelines and other procedural steps to support the effective implementation of the new policy, and that it prepare for Council consideration a strategy on gender for GEF-7, supported by a time-bound action plan. The strategy and action

¹⁰⁶ GEF/C.53/04 (http://www.thegef.org/sites/default/files/council-meeting-documents/EN_GEF.C.53.04_Gender_Policy.pdf)

plan should include, *inter alia*, a practical approach to gender mainstreaming in the project cycle; and address capacity development needs across the GEF Partnership; monitoring and reporting on progress and outcomes related to gender equality and the empowerment of women and girls; as well as knowledge management and learning related to gender.

54. In developing and implementing the strategy and action plan, Participants recommend that the Secretariat continue to work closely with the GEF Gender Partnership.

Knowledge Management

55. Participants agree that knowledge is a critical asset of the GEF Partnership.

56. Participants also note with appreciation the steps taken to build the GEF's knowledge management systems and practices in GEF-6, as well as the increasing attention to learning and knowledge exchange in GEF projects and programs, notably the integrated approach pilot programs, and in outreach to recipient countries.

57. With a view to building on and consolidating the advances made in GEF-6, Participants request that the Secretariat implement and make active use of IT-based solutions to capture, analyze, and share lessons learned and best practice from GEF projects and programs, in collaboration with GEF partners; and report on such efforts to the Council. Participants also encourage efforts to foster peer learning and South-South exchange across GEF projects and programs.

Responsible Investment Strategy

58. Recognizing the GEF's unique role and mandate in the global environment architecture and the increased emphasis on integration and sustainability in GEF-7, Participants request the Trustee to develop options for a responsible investment strategy for the financial management of the GEF funds held in trust, for consideration by the Council and consistent with international best practice for environmental, social and governance (ESG) standards.

Figure 1. Timeline for Implementing the GEF-7 Policy Recommendations

Date	Action
June 2018	<ul style="list-style-type: none"> • Proposal for updating STAR • Updated policy on co-financing • Updated results architecture for GEF-7 • GEF-7 strategy and action plan on gender • GEF Portal operational • Terms of reference for the ad-hoc working group on governance issues • Terms of reference for the Private Sector Advisory Group • Proposal for the harmonization of rules and requirements for all Agencies • Identification of issues related to anti-money laundering and counter terrorism finance in the minimum fiduciary standards, and any updates to address these
November 2018	<ul style="list-style-type: none"> • Strategy on private sector engagement • Measures to enhance operational efficiency and transparency • Measures to enhance the sustainability of the activities funded by the GEF • Options for a responsible investment strategy • Fit-for-purpose business standards to improve coordination and workflow between the Agencies and the Secretariat, with the aim of improving overall accountability, transparency, and efficiency
By June 2019	<ul style="list-style-type: none"> • First publication of data on GEF financing and results to the IATI Registry
November 2019	<ul style="list-style-type: none"> • Report on the monitoring of Agency coverage
By November 2020	<ul style="list-style-type: none"> • Review of experiences of the implementation of the updated policy on co-financing
By November 2021	<ul style="list-style-type: none"> • Review of experiences of the increase in flexibility