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GEF CORPORATE BUSINESS PLAN FY00-FY02

RECOMMENDED COUNCIL DECISION

The Council reviewed document GEF/C.12/11, *GEF Corporate Business Plan FY00 - FY02*. The Council requests the Secretariat and the Implementing Agencies to take into account its decisions on other agenda items and its comments on the business plan when they carry out GEF activities and when they propose the FY00 budget for approval by the Council at its meeting in May 1999. The Council further requests the Secretariat to continue to work with the Implementing Agencies to introduce a comprehensive fee-based system.

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I: CORPORATE BUSINESS PLANNING

1. The GEF Corporate Business Plan is a rolling three-year plan of operations for implementing the GEF Operational Strategy.[1] It is produced annually, and covers the GEF as a corporate entity by integrating the activities of its six constituent organizational units: the three Implementing Agencies (UNDP, UNEP, World Bank), the Scientific and Technical Advisory Panel (STAP), the Trustee, and the Secretariat. It also describes an expanded role for executing agencies in implementing the activities of GEF.

2. In accordance with the Operational Strategy, each GEF activity either contributes to one of the Operational Programs or meets the operational criteria for Enabling Activities or Short Term Measures.[2] The Corporate Business Plan is therefore determined strategically by needs set out in these Operational Programs and by expected demand for Enabling Activities and Short-Term Measures. The rate of operational delivery is subject to (i) the overall envelope of resources expected to be available to meet the projected country-driven demand over the planning period, and (ii) the current capacity of the GEF to deliver quality projects and its potential capacity under the assumption that expanded opportunities are provided to executing agencies. The Plan takes into account the inputs of the Implementing Agencies, including inputs that have been provided through the focal area Task Forces that have reviewed the status of the programs.

3. Once reviewed by Council, the Corporate Business Plan becomes the basis for the organizational units of GEF for programming their operations and for deploying staff and other resources. It is thus the major input to the annual GEF Corporate Budget, which is prepared six months later in the spring. [3]

4. In FY97 project portfolios were in transition because of the lead time required to adjust pipelines to the Operational Strategy. In FY98 programming and tracking had the full benefit of this strategic framework and of the reference documents on each of the Operational Programs.[4]

PRINCIPLES USED IN *GEF* CORPORATE PLANNING

5. As in previous years, a number of general planning principles have been used to prepare the Corporate Business Plan as a specific plan to implement the Operational Strategy:

Principle 1: Integration of planning

6. The various planning processes of the GEF are integrated. The *GEF Operational Strategy*[5] established a number of Operational Programs, Enabling Activities and Short-Term Measures which will be developed and managed as GEF programs. The *GEF Corporate Business Plan* is a rolling three-year plan of operations for implementing this strategy. In turn, the *GEF Corporate Budget* will

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[1] *Operational Strategy*, Global Environment Facility, Washington, D.C. : February 1996

[2] The Operational Programs and the operational criteria defining the Enabling Activities and the Short Term Measures are revised periodically to respond corporately to the guidance of the two conventions the GEF serves, the Convention on Biological Diversity and the Framework Convention on Climate Change.

[3] At its May l995 meeting, the Council approved a corporate business planning/budgeting approach involving a three-year business planning cycle and an annual budget as proposed in Council document GEF/C.4/4, *GEF Business Plan FY96-97 and Budget FY96*. According to this decision, at the second regular meeting of the Council each calendar year (October/November), a three-year rolling business plan would be presented to the Council, and following Council guidance on the work program, a detailed corporate budget would be prepared for the coming fiscal year and presented for Council review and approval at the first meeting of the following year (April/May).

[4] *GEF Operational Programs*, Global Environment Facility, Washington, D.C. : June 1997.

[5] *Operational Strategy*, Global Environment Facility, Washington, D.C.: February 1996

be based on the substance of the business plan. Other specific work plans -- such as those for the Secretariat, for monitoring and evaluation, and for STAP -- will be based on the concerns and issues articulated in the business plan.

Principle 2: Corporate identity

7. Because the business plan is concerned with meeting the substantive needs of each program of the GEF, the primary unit of analysis is the program. The corporate goals have been identified first as a basis for the planning by each of the six organizational units and for Council decision-making. For the first time, expanded scope for executing agencies to engage in project development, preparation, and supervision of GEF activities is also discussed.

Principle 3: Cost-effectiveness

8. Planning is based on the assumption of continued improvements in cost-effectiveness, including actions set out in the *Action Plan on Follow-Up to the Overall Performance Study* on integration, leveraging, incremental cost financing, streamlining, and partnership.

a) *Integration*. Integrating the global environment into the core work of the Implementing Agencies will be a high priority. Following the GEF Council Meeting in New Delhi in March 1998, the CEO wrote to the heads of the three Implementing Agencies inviting their organizations to prepare action plans for integration. These are presented separately by each Implementing Agency for Council consideration.[6]
b) *Leveraging*. Following the recommendation in *the Overall Performance Study of the GEF* on this issue,[7] increasing attention will be given to associating GEF financing with others sources of finance, such as Implementing Agency resources (UNDP's *Target for Resource Assignment from the Core* and other resources managed by UNDP, regular Bank loans and guarantees, and cofinance; and UNEP's programs) and to complementary sources. The Operational Report on GEF Programs contains preliminary information on leveraging, but it is recognized that further work also needs to be done to refine the definition of leveraging, as recommended in the study.
c) *Incremental cost financing*. Improved application of the incremental cost approach by the Implementing Agencies will lead to more efficient project design and more effective use of GEF resources. The Secretariat has reported progress on the cooperative development of simpler guidance on incremental cost.[8]
d) *Streamlining*. The Secretariat and the Implementing Agencies have proposed further "streamlining" in the GEF project cycle.[9] Many of these are being put into practice now; others require Council approval. Improved operational efficiency through learning and improved administrative efficiency will raise productivity and lower costs.
e) *Partnership*. Long term partnerships, in the context of the Operational Programs, with Implementing Agencies, NGOs, bilateral agencies, the private sector, and other potential executing agencies will expand the delivery capacity of GEF. The reduced transaction costs of programming in a more strategic way and the competition from expanded participation can be expected to reduce the unit costs of implementation. The Operational Programs would be the natural frameworks within which such partnerships could be developed over the next few years. In some cases, such as with units in the Implementing Agencies, it may be possible to enter partnerships in order to both mobilize greater cofinancing and reduce GEF processing costs. In other cases, including

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[6] Papers GEF/C.12/7, 8, 9. For earlier commitments, see *Conclusions of GEF Heads of Agency Meeting*, June 19, l996, Washington, D.C., (GEF/C.8/Inf.6).
[7] Section II D: "Leveraging Additional Resources."
[8] GEF/C.12/Inf.4
[9] GEF/C.12/12

those with the private sector, it may be appropriate to explore partnerships that promote synergy through cooperative planning and the sharing of information and experiences, rather than through direct GEF financing. Partnerships will be a key element in any plan to stabilize the GEF administrative budget, an objective set by the last Council meeting.

Principle 4: Steady, stable growth

9. For the GEF Work Program to be sustainable, changes from year to year need to be as smooth as possible. This principle was introduced in the FY97 Budget Paper and supported by the Council as a long-term principle appropriate for operating a financial mechanism as a going concern. Steady, stable growth was believed to help the Implementing Agencies deliver high quality projects to implement the Operational Strategy as both countries and Implementing Agencies gain experience with GEF and as information improves through national communications, plans, and strategies about country priorities. Steady, stable growth has not been possible, as delivery is currently flat. However the planning has proceeded on the basis that there is growth in country demand and that delivery capacity can expand to match it if GEF expands the opportunities for executing agencies to implement GEF activities. A steady, stable expansion can be accomplished this way without compromising quality or policy consistency and without overstretching administrative capacity to absorb new agencies.

Principle 5: Realism

10. Improved data and growing experience with planning and programming the past three years are helping develop more realistic projections in project numbers and financing requirements of projects. In previous years, overall delivery of GEF projects had fallen short of projections. More realistic assessments of capacity should now also facilitate budgeting as costs of project processing become more transparently linked to budget requests under the improved cost accounting approach currently being developed. In this year's business plan, the previous projections, current pipelines, and actuals are included to provide feedback on the realism of past projections.

Principle 6: Flexibility

11. As convention guidance concerning policies, strategies, and program priorities develops and as new information becomes available, the GEF will continue to respond flexibly within the framework of its mandate. For example, the nature and volume of Enabling Activities over the next two or three years will be influenced by decisions of the Conferences of the Parties on the content and frequency of national communications and reports, strategies, and plans. The projections made in this business plan may then need to be adjusted accordingly. The GEF will position itself to respond flexibly to incorporate convention guidance, improvements in science and technical knowledge (including STAP advice), lessons learned, regional differences, and different approaches for focal areas or partners (e.g., the private sector, NGOs). Many full-size projects programmed for presentation to Council in FY99 or FY00 are now in the Implementing Agencies' pipelines (i.e., currently under preparation), so that the main scope for flexibility in this type of project will be in business plan's two outer years (FY01 and FY02) where firm commitments have yet to be made.

SPECIAL ISSUES AND RECENT DEVELOPMENTS

12. The most significant recent developments were:

- the Third Meeting of the Conference of the Parties to the United Nations Framework Convention on Climate Change, and the adoption of the Kyoto Protocol, in December 1997;
- the successful completion of the GEF *Replenishment* ;
- the *Study of GEF's Overall Performance*, and policy recommendations adopted by Council in March 1998;

- the First GEF Assembly, meeting in New Delhi in April 1998, which issued *the New Delhi Statement*; and
- the Fourth Meeting of the Conference of the Parties to the Convention on Biological Diversity, in Bratislava in May 1998.

13. This Corporate Business Plan reflects

- guidance from the Conventions and general provision for new guidance expected to emerge from the Conventions;
- the broad strategic directions in the *Action Plan on Follow-Up to the Overall Performance Study of the GEF;*[10]
- the specific proposals before Council responding to the policy recommendations adopted by Council in March 1998, viz. *GEF Outreach Strategy*, *Country Level Coordination*, strategies for integrating the global environment into the work of the Implementing Agencies, the proposed policy on project execution, *Expanded Opportunities for Executing Agencies*, *Streamlining the Project Cycle*, and *Opportunities and Modalities for Working with the Private Sector;*
- two new operational programs under development for transport and carbon sequestration; and
- new developments in the international waters focal area.

14. The next few years should also see steady growth in country absorptive capacity and country-driven demand for GEF funding. The foundation for this growth will be laid through:

- a rapid increase in the number of: National Reports prepared for the Convention on Biological Diversity, National Communications to the Framework Convention on Climate Change that are nearing completion, countries eligible to receive finance through the financial mechanisms of the conventions as a result of ratifications over the past five years;
- identification of priorities for implementation within each eligible country as a result of GEF-funded Enabling Activities;
- the GEF Country Workshops, proposed in the current Work Program, to expand familiarity with GEF and project development techniques within eligible countries; and
- the increasing experience that countries have of the GEF through project development using Project Development Facility funds, as well as other sources.

[10] GEF/C.12/4

II: Status and Development of the Programs

Achieving Impact

15. The mission of the GEF is stated in the Operational Strategy: "The Global Environment Facility is a mechanism for international cooperation for the purpose of providing new, and additional, grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the areas of biodiversity, climate change, international waters, and ozone layer depletion. Land degradation issues, as they relate to the four focal areas, will also be addressed." The impact of the GEF in deploying its resources will be determined by the extent to which agreed global environmental benefits have been achieved.

16. The work programs of the Implementing Agencies are therefore focused directly on achieving such impacts through their projects. The work program of the Secretariat, with the monitoring and evaluation unit, is to establish coordination and management frameworks with achievable targets for impact, to build capacity in the GEF system to carry out this mission, and to help GEF member countries and organizations build support for this mission. The Trustee's role is to build the financial capacity to continue the mission, and STAP's is to help achieve the targets by maintaining the scientific and technical quality of the GEF activities.

17. In view of the GEF's limited resources and the finite capacities of recipient countries and Implementing Agencies to program activities at any given time, the GEF Operational Strategy[11] required that activities be structured and sequenced in order to achieve the maximum global environmental benefits. Three categories of activities were defined: Operational Programs, Enabling Activities, and Short-Term Response Measures.[12] The logical frameworks[13] of the Operational Programs were further developed and operational criteria[14] for the Enabling Activities were developed in 1996 and updated in 1997 in the light of operational experience and convention guidance. The criteria for Short-Term Response Measures were set out in the strategy itself.

GEF Programs

18. To achieve impact, GEF activities are currently focused in fifteen programs: ten Operational Programs, Enabling Activities in biodiversity and in climate change; and Short-Tem Response Measures in biodiversity, climate change, and ozone depletion. Two more Operational Programs (one on transport energy and one on carbon sequestration) are under development and subject to Council's agreement on the main elements. Table 3 lists the programs.

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[11] *GEF Operational Strategy*, Global Environment Facility, Washington, D.C.: October 1995

[12] *Ibid*. Chapter 1

[13] *GEF Operational Programs*, Global Environment Facility, Washington, D.C.: June 1997

[14] *Operational Criteria for Enabling Activities: Climate Change*, GEF/C.7/Inf.10 Rev.1 October 3, 1997; *Operational Criteria for Enabling Activities: Biodiversity*, GEF/C.7/Inf.11 Rev.1 October 3, 1997

Table 1. GEF Programs

Focal Area	Type of Activity		Portfolio
Biodiversity	Operational Programs	OP#1	Arid and, Semi-arid ecosystems
		OP#2	Coastal, marine, and freshwater ecosystems
		OP#3	Forest ecosystems
		OP#4	Mountain ecosystems
	Enabling Activities	EA-B	Biodiversity Enabling Activities
	Short-Term Measures	STRM-B	Biodiversity Short-Term Measures
Climate Change	Operational Programs	OP#5	Removing barriers to energy conservation and energy efficiency
		OP#6	Promoting the adoption of renewable energy by removing barriers and reducing implementation costs
		OP#7	Reducing the long-term costs of low greenhouse gas-emitting energy technologies
		OP#11	Transport energy (Being developed)
		OP#12	Carbon sequestration (Being developed)
	Enabling Activities	EA-CC	Climate Change Enabling Activities
	Short-Term Measures	STRM-CC	Climate Change Short-Term Measures
International Waters	Operational Programs	OP#8	Waterbody-based program
		OP#9	Integrated land and water multiple focal area
		OP#10	Contaminant-based program
Ozone Depletion	Short-Term Measures	ST-O3	Projects, and Country Programs to identify and prepare eligible projects

19. The projects in each program are country-driven opportunities to meet the program priorities of the relevant convention (or, in the case of international waters, the program priorities that GEF has established for this focal area).

a) *Operational Programs*. For each focal area other than ozone depletion, there are Operational Programs. (In view of the time-bound phase-out of ozone depleting substances, all actions are short-term in nature.)

b) *Enabling Activities*. For each focal area other than international waters, [15] there is a program of Enabling Activities to help countries lay the groundwork for their responses to global environmental issues: in biodiversity, these help countries prepare national reports to the Convention on Biological Diversity; in climate change, national communications to the Framework Convention on Climate Change.

[15] In international waters, the Operational Programs include projects known as Strategic Action Programs. These include preparatory efforts (although have other elements as well) so that they have some of the character of Enabling Activities.

c) *Short Term Measures*. For each focal area other than international waters, there is a program to meet country-driven priorities for short-term response measures. In view of the strategic and cooperative nature of actions to protect international waters, no individual action can generate worthwhile short term benefits in the absence of complementary actions, so there is no portfolio of short-term measures.

GEF projects that include activities addressing land degradation,[16] Targeted Research,[17] or agricultural biodiversity, and medium-sized projects,[18] all fall within the existing programs and are not separate programs.

MONITORING PROGRESS

20. The Secretariat, in consultation with the Implementing Agencies, is monitoring progress in the programs, in accordance with the criteria that were established for each. The first review of the programs began in February 1998 and was conducted through the focal area Task Forces that comprise representatives of the three Implementing Agencies and a chair from the Secretariat. Recognizing the early state of program implementation, the purpose of the ongoing review was

- to record progress in meeting stated objectives;
- to identify current gaps;
- to record the current pipeline;
- to identify strategic and operational policy issues.
- to estimate areas of country driven demand within the programs; and
- to match program gaps with country demand in order to manage the pipeline effectively.

21. The results of this review are used in the Corporate Business Plan to project program resource requirements over the business planning period, to identify the types of operations which need to be emphasized for GEF to achieve programmatic impact, and to identify necessary elements in the complementary work programs of the other GEF units.

Frameworks for monitoring progress and evaluating impact

22. The Operational Programs are based on a program logical framework: projects produce outputs; the outputs of many complementary projects (whether GEF financed or otherwise) lead to the expected outcomes; and these outcomes address the program objectives. Success at each stage can be monitored, and examples of the monitoring and evaluation methodologies and tools needed to do so have been described in the program documents.[19]

23. Two specific steps are being taken to improve programmatic performance:

- GEF-wide and program-level monitoring frameworks, and performance indicators will be developed by the monitoring and evaluation unit in conjunction with the Task Forces by the end of FY99; and

[16] *A Framework for GEF Activities Concerning Land Degradation*, Global Environment Facility, Washington, D.C.: October 1996

[17] *Principles for GEF Financing of Targeted Research*, GEF/C.9/5. Note that targeted research projects are a type of project, and do not constitute a new Operational Program. Targeted research proposals, like capacity-building and investment activities, contribute towards and are justified in terms of the objectives of the Operational Programs.

[18] *Medium-Sized Projects*. GEF/C.8/5. August 29,1996. Medium-sized projects constitute a pathway with particular processing steps, but are not a **program** in their own right. Each medium-sized project must conform to the requirements of the program of which it constitutes a part.

[19] *Operational Programs*, Global Environment Facility, Washington, D.C.: June 1997

- project preparation (such as that funded by PDF resources) will henceforth demonstrate clearly how the project will contribute to the desired programmatic impact, e.g., baseline assessments, the complementarity of other efforts in addressing the root causes of biodiversity loss in the specific ecosystem, the complementarity of other efforts in removing barriers and in financing follow-up investments in specific energy markets, and the extent to which costs of a target technology will be lowered as the result of the project.

BIODIVERSITY

24. The relative resource allocations of the four Operational Programs are expected to change over the next few years as a result of new guidance from the Convention on Biological Diversity (CBD). This shift of emphasis will result from additional criteria for Enabling Activities to reflect CBD priorities and the priorities that countries themselves will place on meeting their own commitments through accessing GEF resources in the Operational Programs. It is also expected that projects fulfilling the third CBD objective (on benefit-sharing) will start to take their place alongside projects on the other two objectives (on conservation and sustainable use).

25. Each Operational Program operationalizes priorities already established by the CBD. Major emphasis would continue to be placed on addressing biodiversity conservation and land degradation issues. There are opportunities for closer collaboration and partnerships, including one between the GEF and the CCD Secretariat and/or Global Mechanism would further enhance OP#1 activities, particularly those related to land degradation. A major expansion of effort is anticipated in coastal, marine and freshwater ecosystems (OP#2) as countries access GEF resources to meet their goals as emphasized through the guidance at COP-4 on inland waters, and for the Jakarta Mandate. Major efforts are also underway to protect and sustainably manage forest ecosystems (OP#3), and these will be increased as emphasized by guidance from COP-4. Fewer projects have been processed in mountain ecosystems (OP#4), but this is because many mountain projects are often classified under the primary ecosystem (e.g., a forest ecosystem in a mountain area is classified as a forest ecosystem).

26. Each OP describes the scope of the activities that would be funded. The key assumptions were that the portfolio would cover a diversity of habitats and that successful outcomes would be replicated elsewhere of the experience and learning gained. For programmatic success, it is therefore important (i) to cover the defined scope of each program; (ii) to evaluate outcomes; and (iii) to disseminate experience.

27. Because the portfolios are still being developed, there are obviously a number of gaps (elements of the scope for which projects have not yet been prepared). These gaps have been identified and special attention should be given to identifying country-driven opportunities. To do this, the National Reports of recipient countries to the CBD will be analyzed for information about such opportunities. So far, 80 National Reports have been prepared for the CBD, the majority supported by GEF Enabling Activities. Some of these include National Biodiversity Strategy and Action Plans.[20]

28. There is an urgent need to develop frameworks for the monitoring and evaluation of each Operational Program, including indicators at the ecosystem and overall program level, and this will be part of the Work Program for the monitoring and evaluation unit in FY99. Attention will also be given

[20] Of these, 20 are available in English, French or Spanish: Belize, Chad, Colombia, Congo, Eritrea, Estonia, Fiji, Lebanon, Madagascar, Malaysia, Marshall Islands, Mexico, Poland, Qatar, Senegal, Trinidad & Tobago, Uganda, Ukraine, Uruguay, and Zambia.

to the issue of dissemination, to assist with the replication of GEF-financed demonstration projects in other countries. The preparation of "best practice" material and its dissemination would be a part of this approach.

OP#1: Arid and semi-arid zone ecosystems

29. Cumulative resource allocation for OP#1 as of June 1998 was $83 million for 14 projects and five PDFs. Consistent with priorities of the Operational Program, resources have been programmed to place primary emphasis on conservation and sustainable use of threatened endemic biodiversity in arid and semi arid areas of Africa (63 per cent of the allocation so far) and Mediterranean-type ecosystems (22 per cent). Projects currently support activities in savanna/woodland areas (9 projects), semi-desert areas (5), temperate grassland (3), and tropical grassland (2). Many of the activities in this OP cover the desertification. The main operational challenge for FY00-FY02 is to continue to support eligible country-driven initiatives and to make special efforts to identify opportunities for action in ecosystems where there are major gaps in the coverage of projects -- the warm desert, tundra, and cold desert ecosystems.

OP#2: Coastal, marine, and freshwater ecosystems

30. The cumulative allocation for OP#2, coastal, marine and freshwater ecosystem, as of June 1998 was $ 131.35 million for 25 projects and 10 PDF Bs. Projects currently support all three ecosystem types although that for coastal and marine has been greater than that for freshwater ecosystem. All projects include institutional strengthening, and most include components of sectoral integration, sustainable use, and removal of root causes in the productive landscape. The major gaps are freshwater generally, temperate wetland, and inland waters. Following the recent guidance of the COP-4 on freshwater, it is expected that this gap will be addressed.

31. This OP has a strong pipeline, which would come to fruition in the work program over the next two years (FY99 and FY00). This coupled with the recent guidance at COP-4 on inland waters is likely to result in new country demand to address these priorities. Countries were also encouraged to seek assistance for protecting Ramsar sites. As national priorities for freshwater and the marine program of work get reflected in country requests for assistance, the demand for resources in this OP is expected to increase. The scope for synergy with the international waters focal area would also be enhanced because the guidance on inland waters emphasized the importance for transboundary concerns to be addressed.

32. Small Island Developing States (SIDs) and Least Developed Countries (LDCs) are also convention priorities reflected in OP#2.[21] While there are three projects already for SIDs (Dominican Republic, Seychelles, and Comoros), operational priority will be given to identifying and processing further activities in SIDs and LDCs.

OP#3: Forest ecosystems

33. Implementation of the program is proceeding satisfactorily. Resource allocation has been above expectations, at about $312 million including the Pilot Phase, and it is the largest OP within the biodiversity focal area and has a strong pipeline.

34. Most of the focus of the Program has been in tropical humid forests, with some projects including parts of dry topical and temperate broad leave forests and very few in coniferous forests. This focus has been appropriate given threats, largest share of biodiversity in terms of species diversity,

[21] *Joint Summary of the Chairs*, GEF Council Meeting, November 4-6, 1997, paragraph 29 (g).

urgency of action, and country-driven requests. However, there is scope within the program for activities that include a larger representation of the above forest types, particularly in developing countries. Greater attention is needed on projects that assess natural disturbances, address the impact of alien invasive species, focus on agro-biodiversity in forests, and assist planning and on-the-ground implementation by indigenous people.

35. Emphasis may be needed to accommodate the COP-4's Program of Work on forest biodiversity which focuses on the research, cooperation and development of technologies necessary for the conservation, sustainable use and benefit sharing of forest biological diversity of all types of forests in the program elements and priority areas already identified. The GEF is analyzing the guidance with a view to operationalizing it as quickly as possible.

36. Among key strategic issues needing attention, the role of the GEF in sustainable forest management is key. In accordance with the OP, GEF would support sustainable forest uses. The one current exception would be sustainable logging, because the scientific debate on that matter is still ongoing. So far, the relevance of sustainable logging to conservation objectives remains very much open to question, and the GEF will need to consider seek advice from STAP. In the meantime, projects on sustainable logging will not be supported by GEF. In any case, at this time it may be premature to expect a major concurrent resource commitment by the World Bank for forests. This is because the Bank is now reviewing its forest policy and the Bank's Operations Evaluation Department is reviewing the Bank's record on forest lending.

OP#4: Mountain ecosystems

37. Implementation of the program is proceeding satisfactorily and the resource allocation of about $49 million has been within the expected range. A strong pipeline is being developed. It includes elements of other biodiversity OPs as mountains include arid and semi-arid ecosystems, forests, freshwater lakes, and wetlands and are also headwater suppliers of most of the world's freshwater bodies.

38. The Operational Strategy[22] called for addressing conservation and sustainable use of biodiversity areas under increasing human pressure and imminent threat of degradation, including the Mesoamerican, Andean, East African, and Himalayas regions, and the mountainous regions of the Indochina peninsula and tropical Islands. The Program has begun covering these areas. However gaps remain in all except the Mesoamerican region, which is jointly addressed in the Forest OP. Thematically, greater attention is needed on projects that assess natural disturbances, address the impact of alien invasive species, focus on agro-biodiversity in mountain ecosystems, address land tenure reform, and assist planning and on-the-ground implementation by indigenous people.

Biodiversity Enabling Activities

39. By the end of July 1998, Enabling Activities for 114 countries had been approved and another 8 were in an advanced stage in the Implementing Agencies' pipelines. Interested countries among the few eligible ones that have not yet been covered are expected to apply in FY99. Clearinghouse Mechanism components have been approved for 45 countries and the rest are likewise expected to apply in FY99. Proposals are also expected in FY99 for "add-on" Enabling Activities to cover new elements approved by the COP and incorporated in the GEF Operational Criteria. As with the biosafety proposals, it is expected that there would be a few pilot programs in the new areas first, to build operational experience and develop cost norms, to facilitate more general application.

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[22] *Operational Strategy*, page 17.

40. In the business planning period, the main gap will be in these new areas. The main pilot projects are expected in FY00 and FY01. Some requests for Enabling Activities within this wider scope are expected to be made in FY01, with the larger number being made in FY02.

Biodiversity short term response measures

41. The Operational Strategy recognizes several key reasons for short term measures, including: responding to an urgent need; seizing a promising country-driven opportunity in a timely manner; and securing a low cost opportunity to conserve biodiversity, or one with significant co-funding. There has been little financing allocated to short-term measures; for FY98 they constituted less than 5 per cent of the total biodiversity portfolio. The main challenge here is to ensure that these short term responses are built upon by projects to address the root causes of the problem in a systematic and responsible manner.

CLIMATE CHANGE

42. The main factors influencing the development of the portfolios will be

- the influence of new mechanisms for climate change support, such as the "clean development mechanism" and other carbon funds;
- the introduction of contingent financing to encourage economically attractive energy conservation, energy efficiency, and renewable energy projects;
- the development of a strategic partnership with the World Bank to leverage support for renewable energy and to provide support on a programmatic basis;
- management of OP#7 to ensure that available funds are concentrated in such a way that programmatic benefits are reasonably assured; and
- the phasing in of the two new programs in transport and carbon sequestration.

OP#5: Removal of barriers to energy efficiency and energy conservation

43. The resources allocated within this program have been below the previously expected $50 million to $100 million per year. The main imbalance appears to be in the type of project financed: currently generic demand-side management (DSM) programs account for two thirds of the portfolio, and there has been a tendency for project types that win GEF approval to be repeated in other countries (e.g., the proposals for energy service companies, or "ESCOs"). The main challenges in FY00-FY02 will be to facilitate replication of successful GEF projects using non-GEF resources, rather than to repeat finance projects that have already been well demonstrated, and to apply the most innovative financing modalities where appropriate.

44. *Replication*. First, there is a need to build on the solid work so far by encouraging dissemination of results and replication by others. This OP, more than any other, is based on the assumption that after catalytic GEF action, a highly rewarding market will open. Once this has been demonstrated, it would be clearly in the national interest of the country (and other similar countries) to replicate the activity, and this would be clearly justified without GEF support. It is expected then that the nature of GEF support would shift over time from the initial demonstrations of barrier removal to dissemination with some assistance with replication (including IA support from their regular programs and facilitated donor support).

45. *Innovative financing modalities*. Second, because the investments made possible by "barrier removal" are expected to be highly attractive financially, it may be possible to shift support from barrier removal activities such as technical assistance to contingent finance of the investments. This would be highly cost-effective, because GEF would not need to make financial transfers in the most

common situations (where projects prove to be self-liquidating); lead to a more accurate assessment of incremental costs because these would be measured after the activity has been implemented rather than estimated in advance; and highly catalytic, because countries would be freed of the risk that a new technique will impose additional costs on their development. Contingent GEF support in the form of guarantees would encourage commercial financiers to make the necessary capital investments in new energy conservation methods even though these are higher in cost than the alternative less efficient methods. In most cases GEF funds could either be recovered or reinvested through revolving funds in similar activities. Wider application of such approaches (e.g., contingent loans, contingent grants, and partial risk guarantees) would leverage even more private sources by being tailored to the specific market perceptions. The Secretariat is currently working with the World Bank to analyze this modality and will assist the Implementing Agencies in developing for Council consideration specific project proposals incorporating contingent financing.

OP#6: Promoting the adoption of renewable energy by removing barriers and reducing implementation costs

46. The resources allocated to this program have been lower than the expected average commitment of $100 million to $150 million for five to ten years ($29 million in FY97; $45 million in FY98). About half the resources have gone to Asia, where the World Bank has been very active in promoting renewable energy. Efforts will now also be made to replicate this positive approach to other regions. This program has promoted a wide variety of renewable energy technologies ranging from low-temperature solar thermal; biomass; geothermal; wind, hydro, and photovoltaic power for rural electricity supply; and grid-connected wind farms and photovoltaics.

47. It has been difficult on occasions to design projects that will have the intended programmatic impact, because it is necessary to identify all the main market barriers and to provide assurance that they will all be removed – either through the GEF project or through complementary efforts. Discussions are now underway with the World Bank to develop for Council consideration, strategic partnerships with requesting countries to transform entire markets for renewable energy. The first proposals, which would set the details of this modality, are expected in April 1999. If approved, the main challenge in FY00-FY02 for this Operational Program would be to develop and build such integrated strategic partnerships on country and Implementing Agency commitments. These are expected to accelerate the rate of GEF resource transfers to quality market-transforming projects, thereby greatly increasing programmatic impact.

OP#7: Reducing the long-term costs of low greenhouse gas-emitting technologies

48. The allocations to this program had been expected to be about $100 million in FY97 and to double in five to ten years. At present the rate is lower, $41 million in FY97 and only project preparation funding in FY98, although the Implementing Agencies anticipate that their pipeline will grow to about $200 million for the next three years.

49. The projects in current portfolio are in Brazil and India, while projects for China, Egypt, Jordan, Morocco, and Kazakhstan are expected to enter the pipelines shortly. Projects have been approved for biomass gasification and for solar-thermal power generation. Fuel cell bus projects are being prepared for four cities in Mexico, Egypt, Brazil, and India, and preparation has already taken place in China. This still leaves some gaps – technologies in the approved scope of this program for which no proposals have been received. These gaps are: grid-connected photovoltaic power, biomass feedstock for liquid conversion processes, large-scale grid-connected wind-power, fuel cells for distributed combined heat and power, and fossil-fuel gasification and power technologies.

50. The main operational challenge in FY00 to FY02 though is neither to increase the rate of allocation as such nor to fill the technology "gaps", but to ensure a critical mass for whatever technologies are supported (i.e., to ensure that there will be enough projects of a given type to have the cost-reducing impact that is the rationale for this program). This portfolio issue will now be addressed in the project preparation phase of new projects (to outline the portfolio assumptions for cost reductions of the specific technology); through a more active search for country-driven opportunities in these technologies that can be supported by GEF, other donors, or the regular work programs of the Implementing Agencies; and through sequencing GEF support to ensure that diversifying the scope of technologies does not come at the expense of obtaining a critical mass for the technologies already supported.

51. There is also a challenge to financial planning, because the investments in OP#7 are few but costly. The projected allocations from year to year are therefore quite lumpy. Even implementation creates challenges such as projecting disbursements and scheduling GEF encashments. For example, if three quick disbursing projects of $40 million apiece experience delays, $120 million in disbursements could be shifted between financial years.

Climate change enabling activities

52. One hundred and thirteen countries have been supported with climate change Enabling Activities so far, and the first round of these activities should be fully covered by the end of FY99. There are no add-on projects, and currently no additional guidance from the COP of the UNFCCC. Further guidance is not expected before the COP-4 in Buenos Aires in November 1998.

53. From COP-4, there may be guidance for a new round of Enabling Activities, which could be operationalized in project proposals in FY00. These are not expected to require allocations larger than the average for the first round. It is not yet known whether guidance will be provided for emission factor assessments or to support technology dissemination centers. If guidance is provided on the latter, project requests would be expected from a few eligible recipient countries with the capacity and interest to provide such assistance with dissemination.

Short term response measures in climate change

54 Unlike projects in the Operational Programs, short term projects are not reviewed on their likely programmatic impacts but as individual low risk priority projects expected that are expected to be extremely cost-effective.[23] It was also anticipated that such projects would remain a relatively modest proportion of the portfolio, and in fact they constituted only 16 per cent of the climate change portfolio in February 1998.[24]

55. The main challenge has been to demonstrate that the proposals were the country's "highest priority for funding," in the absence of a National Communication to the FCCC. Now that some such reports have been submitted, this may be easier. Otherwise, other indicators of country ownership will need to be rigorously applied (see *Country Level Coordination*[25]).

INTERNATIONAL WATERS

56. In each of the Operational Programs of this focal area, the intended scope of demonstration projects has been outlined. The scope was set out in terms of activity type, development region, and root cause. By the end of FY00, much of this scope of OP#8 and OP#9 will have been covered: much

[23] *Operational Strategy*, page 38.
[24] See *Operational Report on GEF Programs*, Global Environment Facility, Washington, D.C.: October 1998.
[25] *Country level Coordination*, GEF/C.12/6

of the variety of ecosystems and the regional balance sought in these programs will have been achieved through initial projects to assist collaborating countries in identifying top priority transboundary concerns as well as expected baseline and additional actions in different sectors needed to address those top priorities. Consistent with the Operational Strategy, follow-up projects are needed to support the agreed incremental cost of measures to address these transboundary priorities for groups of countries willing to implement expected baseline activities, and these projects are expected to dominate FY01, 02, and probably FY03.

57. Although some gaps exist with the lack of projects addressing transboundary groundwater systems and overfishing, funding limitations mean that very few new starts beyond the initial groups of projects can be supported in OP#8 and OP#9. New starts not currently in the pipeline would be expected to address gaps, to have important biodiversity implications, or to address land degradation concerns. Entry into work programs may have to be sequenced to accommodate available resources.

58. Follow up activities to the initial strategic projects financed by GEF will generally involve the mobilization of considerable resources, from the World Bank, the private sector, and others as well as expected baseline policy and institutional reforms. The ability of the Strategic Action Programs in OP#8 and OP#9 to facilitate these investments and policy reforms is not yet known. A key assumption had also been that there would be close cooperation among the Implementing Agencies, which bring complementary strengths to international waters projects: technical assistance and capacity-building, scientific understanding and monitoring, and financial resource mobilization. Collaboration is expected to increase as the strategic projects mature and as the GEF International Waters Task Force plays a more active role in encouraging collaboration among Implementing Agencies and their regular programs. For example, a Strategic Partnership is under formulation with UNDP and the World Bank for a series of policy reforms, technical assistance, and investments for Black Sea/Danube basin countries focusing on the top priority transboundary issue of nutrient pollution reduction in the agricultural, municipal, and industrial sectors. While not included in Table 2 for projected program resource requirements, the strategic partnership may be ready for submission to Council by FY00. The intent is to follow-up on the UNDP pilot phase projects for the linked Danube and Black Sea basins as GEF's transboundary contribution to the Global Program of Action for land-based activities affecting marine Waters and to restore coastal marine biodiversity related to the Jakarta Mandate.

59. New priorities are emerging in the international waters focal area that had not been reflected in the Operational Programs or in the projected resource requirements. In particular, an international convention on persistent organic pollutants is expected to be negotiated over the next few years. A few pilot projects, testing out different types of responses, have been launched within OP#10 to lay the future foundation for preventing the release of identified POPs and for ameliorating polluted environments. However, the resource requirements of an overall and concerted effort to eliminate POPs are beyond the present scope and projected resource allocations for the Operational Programs.

OP#8: Waterbodies

60. It is expected that by the end of FY00 there will be 21 projects in this program, and that the program objectives of initiating strategic projects in different types of ecosystems and of having at least one transboundary freshwater basin project and one large marine ecosystem project in each of the five development regions will be almost achieved. There is a good distribution: 8 freshwater basin and 13 marine ecosystem projects with at least one large marine ecosystem and one freshwater basin project in each of the five regions other than Middle-East North Africa (which has two marine ecosystems). Major gaps include transboundary groundwater systems and overfishing of marine ecosystems

although the latter is starting to be addressed through a major component of the *South Pacific Strategic Action Program Implementation* project.

OP#9: Integrated Land and Water

61. It is expected that by the end of FY00 there will be 14 projects in this program, and that the program objectives in terms of variety of projects and geographic distribution would be met if the projected activities over FY00 – FY02 materialize. As planned, there have been activities in land degradation (four projects so far), Small Island Developing States (one), and in multiple focal areas – primarily biodiversity (eight); the focus has been kept in Africa (over half the projects have been there); and projects have been developed for threatened marine waters.

62. As with OP#8, limited new starts can be accommodated in order to follow up on initial strategic projects. What remains are (i) to provide sufficient resources to follow up on initial strategic projects; (ii) to assess the usefulness of the Strategic Action Program (SAP) in facilitating interagency and intercountry collaboration, in leveraging Implementing Agency and donor funds, and as a logical framework; and (iii) to derive lessons in workable mechanisms to improve community, NGO, stakeholder, and international participation. Additional resources are needed given the attention to the issue of freshwater in the CSD in April 1998, and its focus in 1999, and the emergency situation in many dryland regions.

OP#10: Contaminants

63. It is anticipated that by the end of FY00, there should be four projects in ship-related contaminants and four in global contaminants – including high priority projects addressing ballast water, mercury, and destructive shrimp trawling, the Asian Marine Electronic Highway, and several pilot projects on persistent organic pollutants (POPs). The *IW LEARN* project should also be operational; this is a pilot project to enable recipients of GEF assistance for international waters activities to collaborate and exchange experiences via the Internet, so that they can disseminate best practices and information and participate in structured learning facilitated by the Implementing Agencies.

64. Significant activities covering three of the four objectives (components) would then be in place. One major gap will remain related to demonstrating strategies for addressing land-based activities that degrade marine waters through the development of pilot projects in each of the five development regions. Although there is an urgent need to respond to the Global Plan of Action, only one country has responded rapidly to this opportunity for pilot projects (Brazil – Sao Francisco basin).

OZONE DEPLETION

65. GEF has allocated about $114 million to cover the incremental costs of phasing out ozone depleting substances in 12 countries with economies in transition. In FY99, it is expected that about $35 million would be allocated, of which $25 million would be for the final tranche of assistance to Russia.

66. In the business planning period, there would then be only four potentially eligible countries in which phaseout activities would be needed: Armenia, Kazakhstan, Kyrgyzstan, and Tadjikistan. Approximately $10 million may be required for these final phaseout activities. This is contingent however on the countries ratifying the Montreal Protocol and the London Amendment and on their not being reclassified as countries operating under Article 5 of the Montreal Protocol (in which case they would be eligible for assistance from the Multilateral Fund of the Montreal Protocol rather than GEF).

MULTIFOCAL AREA

67. In general, each project must be justified separately according to the criteria of each program it targets, and all project components should be fully justified under one program or another. The small projected allocation for multifocal area refers to the *GEF Small Grants Programme*, which will have a procedure for ensuring that the relevant program criteria will apply to each individual subproject, *GEF Country Workshops*, and some broad assessments.

PROJECTED GROWTH IN ALLOCATIONS

68. Overall allocations have been projected to grow at about 15 per cent per year overall, consistent with expansion in delivery capacity in the Implementing Agencies and the expanded opportunities provided to executing agencies. However, growth will vary considerably according to program, project size, and organization. There is likely to be major expansion in biodiversity and climate change projects; a temporary increase in international waters projects in FY99 as projects under preparation mature; and after major commitments in FY99, a very large decline in ozone projects as the countries eligible within the GEF strategy complete their actions to phase out ozone-depleting substances over the next few years. Some expansion is expected in Small Grants (SGs), as a result of a gradual increase in both the number of countries participating in the *GEF Small Grants Programme* and an expansion in the number of activities within each country. A major expansion is underway in medium-sized projects (MSPs) as countries and organizations become more familiar with GEF requirements.[26] Enabling Activities will increase if "second round" reports are prepared for the conventions and new elements are incorporated as a result of convention guidance. Agency shares are expected to remain the same relative to each other, to which would be added any allocations passing through executing agencies that implement GEF projects. (See Table 2 for the projected allocations.)

Data and Information Sources for Table 2.

a. GEF Corporate Business Plan FY98-FY00
b. Secretariat database
c. GEF Corporate Business Plan FY99-FY01
d. Pipelines of the Implementing Agencies and estimated additional
e. Annex 1, GEF Corporate Business Plan FY99-FY01
f. Program Manager estimates

[26] See GEF/C.12/Inf. 7

Table 2: Projected Program Resource Requirements

Program	Previously Projected FY98	Actual FY98	Cumulative June 30, 1998	Previously Projected FY99	Currently Estimated FY99	Previously Projected FY99-FY01	FY00	FY01	FY02	Currently Projected FY00-FY02
Notes	*a*	*b*	*b*	*c*	*d*	*e*	*f*	*f*	*f*	
OP#1	23	42.76	82.99	45	20	160	40	45	50	135
OP#2	34	21.18	131.75	43	20	160	60	65	70	195
OP#3	59	60.21	311.01	70	70	160	60	70	75	205
OP#4	21	13.45	49.25	25	15	120	15	20	25	60
EA-B	13	9.68	39.86	7	7	80	15	20	25	60
STRM-B	5	5.38	159.44	4	4	40	5	5	10	20
Biodiversity	**155**	**152.65**	**775.28**	**194**	**136**	**720**	**195**	**225**	**255**	**675**
OP#5	39	42.91	187.07	79	40	100	55	55	55	165
OP#6	112	60.23	280.31	52	40	150	60	70	80	210
OP#7	48	0.33	102.79	57	33	210	35	35	35	105
OP#11	0	0.00	0.00	0	0	90	0	25	45	70
OP#12	0	0.00	0.00	0	0	60	0	15	35	50
EA-CC	9	11.67	68.34	4	3	80	15	20	25	60
STRM-CC	8	21.39	114.56	3	3	30	4	6	5	15
Climate Change	**216**	**136.53**	**753.08**	**195**	**119**	**720**	**169**	**226**	**280**	**675**
OP#8	18	24.32	115.34	33	20	90	40	35	30	105
OP#9	29	24.54	49.36	19	50	80	35	25	25	85
OP#10	31	7.36	77.34	19	25	50	15	15	20	50
International Waters	**78**	**56.22**	**242.04**	**71**	**95**	**220**	**90**	**75**	**75**	**240**
Ozone	**23**	**13.33**	**114.43**	**21**	**35**	**27**	**6**	**4**	**0**	**10**
Multifocal	**3**	**3.93**	**65.01**	**4**	**35**	**0**	**20**	**25**	**30**	**75**
TOTAL	**475**	**362.67**	**1,948.85**	**485**	**420**	**1687**	**480**	**555**	**640**	**1675**

III: PROGRAM MANAGEMENT

69. The Secretariat reviews project proposals against operational criteria reflecting the Operational Strategy, GEF policies, and the requirements of the various Operational Programs. The programs themselves also contain a number of key assumptions that need to be monitored and risks that need to be managed at the portfolio level. The major assumptions concern scope and replication. A number of specific steps can be taken to manage the programs in order to maximize the programmatic benefits.

GATHERING, ANALYZING, AND DISSEMINATING PROGRAM INFORMATION

70. Information is now recorded on project proposals according to the essential GEF parameters (eligibility, incremental cost and financing modality, specific requirements of the relevant program, sustainability and replication, coordination etc.) *The Program Status Reviews*, undertaken by the Secretariat in consultation with the Implementing Agencies through the Task Forces, help monitor the development of the portfolios for each program according to the objectives, expected outcomes, and project outputs set out in the Operational Strategy. On the basis of the Program Status Review, Implementing Agencies are requested to assist by matching the identified program gaps with country driven opportunities (e.g., the national priorities recorded in National Reports to the CBD or National Communications to the FCCC) in order to help shape the pipeline.

MANAGING SCOPE AND REPLICATION

71. The main way to manage a program is through shaping the pipeline to reflect the objectives of the program concerning scope and replication.

Scope

72. The first key assumption in each Operational Program is that the program objective will be achieved in a variety of specific circumstances (e.g., specific ecosystem types identified by the CBD as priorities, particular energy sectors or markets, targeted technologies). Where portfolio gaps have been identified relative to the program scope, there are clearly opportunities for a greater number of projects (as for instance in OP#2 for marine and coastal biodiversity).

Replication

73. The second key assumption is that successful outcomes of GEF activities will be replicated elsewhere on the basis of the experience and learning gained. Where GEF has already adequately demonstrated a type of activity, the main focus of further GEF activity should be to concentrate on disseminating lessons learned or on facilitating the financing by others of any repeat activities.

74. The Secretariat reviews project proposals according to criteria that relate to its mandate on: country eligibility; program fit; financing modality and incremental cost; coordination and collaboration; and responsiveness to comments of the Council, Council members, other Implementing Agency, Project Implementation Review, STAP, and previous Bilateral Review Meetings. In relation to program fit, more attention will be paid to "portfolio balance" at the time of pipeline entry[27] by

[27] A project enters the pipeline each time an Implementing Agency has approved a PDF-A for preparing a project; the CEO approves a PDF-B for preparing the project; an Implementing Agency prepares a GEF project with non-PDF funds; a project concept has been cleared for further development at a Bilateral Review meeting; or an Implementing Agency has received from an eligible country an endorsed request and either (i) the proposal has passed the agency's initial screening, or (ii) the Implementing Agency has not responded to the country operational focal point within two weeks of the receiving their request. A given project exits the pipeline if it is included in a Council-approved Work Program; deemed not eligible on the basis of the pre-screening of the Implementing

encouraging additional proposals to fulfill the assumptions made in the programs on scope and replication.

75. The implementing Agencies will endeavor to facilitate replication of successful GEF activities by disseminating experience and best practice and by coordinating with other donors -- rather than through seeking repeat GEF financing of the same activities. It is recognized that during the transition to a more focused programming, there will be some repeat projects that are already in the pipelines. On the basis of pipeline information[28] provided by the Implementing Agencies though, this transitional period is unlikely to extend much into FY00 because few of the pipeline projects have preparation times greater than a year.

76. The monitoring and evaluation unit will take stock of worldwide experience on replication and dissemination in FY00. The assumptions about replication and dissemination are strategically very important in all GEF Operational Programs. They will soon become operationally important too, because assistance for dissemination has been debated by the SBSTA of the FCCC, because GEF may be requested to expand its support for biodiversity clearinghouse activities, and because there is as yet no clear consensus on which form of dissemination is most effective given the rapidly evolving technologies for dissemination.

ADDRESSING THE PROGRAM ASSUMPTIONS AND RISKS

77. Each Operational Program sets out a number of assumptions and risks. In order to clarify these assumptions and address these (or other newly emerging) risks, additional actions may be needed from one of the GEF units: policy work from the Secretariat; a stocktaking, review, or evaluation from the monitoring and evaluation unit in the Secretariat; scientific and technical advice from STAP; or country-driven Targeted Research though one of the Implementing Agencies. Currently, several such program assumptions and risks are of concern and will be addressed this way.

Enabling Activities

78. The monitoring and evaluation unit will carry out a study of experience in Enabling Activities in biodiversity in FY99. A similar study will be done later in the business planning period on the Enabling Activities in climate change.

Operational Programs

79. Frameworks and indicators for monitoring the operational programs will be developed, and the crucial strategic assumptions underlying the programs will be evaluated either by management review or by formal evaluation from the monitoring and evaluation unit as appropriate. Such assumptions include:

- specific assumptions on scope and replication in each program;
- the usefulness of the ecosystem approach for biodiversity programming;
- the usefulness of the barrier removal concept for programming action in the climate change focal area;
- the feasibility of achieving significant cost reductions in targeted technologies;
- the ability of investment funds to yield global environmental benefits cost-effectively;

Agency, for reasons stated in a reply to the originator and operational focal point; withdrawn by the Implementing Agency, for stated reasons; removed as a result of a decision taken at a Bilateral Review meeting by the Secretariat.

[28] *Operational Report on GEF Programs*, October 1998.

- the ability of Strategic Action Programs in the international waters focal area to: (i) identify country driven transboundary priorities; (ii) identify the baseline and additional actions to address those priorities; and (iii) leverage implementing agency collaboration and partnerships to fund priority policy and institutional reforms as well as investments;
- the need for and the achievement of interagency collaboration and whether such collaboration has raised, or could have raised, the quality of GEF projects commensurate with the additional costs.

Sustainability

80. The sustainability of the action funded by GEF is a concern common to many programs. In project reviews, a number of sustainability tests has been applied to proposals:

a) the extent of participation, commitment, and cofinancing by key community groups, government agencies, other donors and the Implementing Agency;
b) the degree to which the levels of GEF support decline over time, to the point where activities of the same type are sustainable without further GEF support (e.g., through declining costs, being integrated into other sustainable activities, or becoming commercially viable); and
c) the design of mechanisms to provide long term financing for recurrent costs (e.g., through the establishment of a viable financial mechanism of user charges, the generation of sustainable revenue, the development of a constituency with interests in preserving the activity, government commitment to cover baseline expenditures, and the provision of a trust fund.) Details of this operational experience will be shared among the GEF units.

Adapting Pilot Phase Projects

81. After the adoption of the Operational Strategy in October 1995, there was a period of transition during which the criteria for project proposals were phased in. Projects already approved under the Pilot Phase of GEF (1991-1994) were re-classified into the new programs, wherever this was possible, with a view to managing the programs for maximum programmatic impact. One way to enhance programmatic benefits further would be to build on successful Pilot Phase projects by providing supplementary support to make them conform more closely with the program criteria subsequently introduced.

IV: QUALITY MANAGEMENT

82. For GEF to fulfill its deepening potential and achieve maximum impact, it has to remain at the cutting edge, innovative, flexible, and responsive to the needs of its recipient countries, as well as being a catalyst for other executing agencies and institutions, and for their efforts on the global environment. Even while the level of effort must increase, the overall quality of GEF activities has to be constantly enhanced. To manage quality, three broad approaches must be put in place:

- Country ownership of projects to protect the global environment must be strengthened to accelerate that protection while guaranteeing quality at entry;
- The resulting increased country demand must be matched by expanding project delivery capacity without compromising the quality of project design and implementation;
- The quality of the entire integrated GEF system must be improved continuously through feedback, learning, incorporation of best practice wheresoever derived, and scientific and technical advice.

COUNTRY DEMAND

83. GEF activities should be country-driven and efforts should be strengthened to achieve country ownership of projects. This will improve the quality of the proposals and commitment to them, thereby improving the sustainability and likely impact of the activities.

84. The paper *Country Ownership of GEF Projects*, contains an action plan to strengthen country-level coordination and promote genuine country ownership of GEF-financed activities.

DELIVERY CAPACITY

85. As the GEF business continues to grow, and in order to be responsive to increasing demands, GEF should:

- expand the opportunities for executing agencies to participate in the work of GEF;
- share best practice and ideas through collaboration and partnership;
- leverage additional resources wherever possible; and
- streamline its procedures, thereby releasing additional capacity within existing agencies and the GEF system.

86. The Implementing Agencies are deepening their involvement by incorporating global environmental objectives into the regular work programs. The Implementing Agencies have each prepared a report outlining their commitments to this.[29]

87. The opportunities for executing agencies to execute or collaborate on GEF projects are being expanded, and two further options for significantly deepening this involvement have been proposed in the paper, *Expanding the Opportunities for Executing Agencies*.[30] Such opportunities would act as a catalyst to bring about longer term coordinated efforts with other funders for capacity building and training as well. GEF would be able to draw upon a wider pool of operational experience and incorporate the lessons of others; partners of the GEF would gain wider access to the lessons of GEF's experience; and all would be better able to stimulate the transfer and adoption of new technologies and measures.

[29] GEF/C.12/4, GEF/C.12/5, GEF/C.12/6

[30] GEF/C.12/10

88. Through strategic partnerships with the Implementing Agencies on the basis of long term and shared commitments, it is hoped that additional resources can be made available to global environment protection. The GEF has been exploring such a partnership with the World Bank to promote renewable energy, and it is likely that a proposal can be prepared for Council consideration in May 1999.

89. Leverage, through requiring significant baseline financing and commitment to follow up investment, is an essential element in the operational programs.

90. Significant progress has been made on streamlining the GEF system, and some additional options have been identified in the paper Streamlining the Project Cycle.[31] Streamlining the project cycle is undertaken as a way to make project preparation simpler, more transparent, and more nationally driven. Specific steps have been taken on the issue of incremental cost, as reported in Progress on Incremental Costs,[32] and on medium-sized projects, on the basis of the review Experience with Medium Sized Project Procedures.[33]

LEARNING AND ADAPTATION

91. GEF is a learning entity and will strengthen its monitoring and evaluation functions, its internal feedback mechanisms, and its incorporation of scientific and technical advice.

Program management and feedback

92. The Secretariat has collected best practice illustrations of important GEF requirements. These have been derived from its reviews of projects proposed for the work program, from the Project Implementation Reviews, and from the experiences shared by Council members in their technical comments. There is now an accumulating body of operational knowledge on what project design features best promote the GEF requirements, which is being organized to facilitate not only improved reviews but also improved project design.

Scientific and technical advice

93. STAP is designing its work program around the strategic needs of the GEF for timely scientific and technical advice. At its next meeting in New York in September 1998, STAP Working Groups will have intensive interactions with the GEF Task Forces in each focal area, to increase mutual awareness of both the operational and scientific aspects of GEF programs. STAP would identify new and emerging scientific and technical issues and address scientific and technical uncertainties. STAP is also considering a major effort to mobilize the scientific community, particularly in developing countries.

Monitoring and evaluation

94. The monitoring and evaluation work program is based on the agreed framework[34] which sets out the activities, as well as the division of roles and responsibilities between GEFSEC and the Implementing Agencies. There are three objectives: to provide a basis for assessing results, to provide materials on lessons, and to facilitate the use of monitoring and evaluation systems.

95. *Providing a basis for assessing results.* The first objective is to provide a sound basis for assessing the results of GEF's programs and activities. This includes developing performance

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[31] GEF/C.12/9
[32] GEF/C.12/Inf.4
[33] GEF/C.12/Inf.7
[34] GEF C.8/4Rev.1

indicators and GEF monitoring and evaluation standards, preparing guidelines and good practice resource materials, and undertaking the annual Project Implementation Review. The Implementing Agencies and a number of other donors and agencies have already made considerable efforts to identify indicators to measure results at the project level in GEF's focal areas. The Secretariat and monitoring and evaluation task in this respect will mainly consist of disseminating resource material, harmonizing and ascertaining the adequate use of indicators for projects. The GEF monitoring and evaluation unit, together with interagency task forces and STAP, will concentrate mainly on the development and dissemination of GEF-wide program level indicators. This will be used as a basis for program level planning and evaluations, as well as the next evaluation of GEF's overall performance (circa 2002).

96. *Providing materials on lessons learned and good practice.* The second objective is to provide GEF policy makers and managers with timely, objective and high-quality information – in easily applied formats - on lessons learned and good practice.

97. The work of the Secretariat monitoring and evaluation unit will consist of a number of program, thematic, and cross-cutting evaluations. In the business plan period, this will comprise evaluations of a GEF focal area, an operational program or specific modality of support, experience with country ownership, the role of NGOs or the private sector, GEF's project development and preparation procedures and innovation/replication of GEF programs. Whereas the Implementing Agencies will be expected to participate in the above activities, they will have a special responsibility for reviews and evaluations at the project level. The monitoring and evaluation unit will also make efforts to disseminate and promote extended use of lessons learned from project evaluations.

98. Dissemination and feed-back from project and other evaluations to ascertain that lessons are put to good use, is an integrated part of the monitoring and evaluation program. This includes translation, circulation to internal and external audiences, production of user-friendly formats like GEF Lessons Notes, electronic distribution, extended use of website and linkages with organizations and networks. Furthermore, the feed-back of evaluation findings into GEF policies and procedures as well as planning and programming efforts will be ascertained.

99. *Facilitating the use of monitoring and evaluation systems*. The third objective is to facilitate better integration and extended use of monitoring and evaluation-systems in GEF entities. On the basis of the new monitoring and evaluation standards, guidelines and resource materials the monitoring and evaluation unit will promote their extended use in all phases of project cycle management. This entails more systematic objective-oriented planning systems based on the Logical Framework Approach and the integration of monitoring and evaluation systems for results measurements into projects and programs.

100. This includes activities like the support to training in the use of the Logical Framework Approach; cooperative evaluations between the GEF Secretariat, the Implementing Agencies and STAP; cooperation on the preparation, implementation and finalizations of evaluations at project and program levels; exchange and multiple use of lessons learned and extra efforts to involve a large number of GEF staff members in various monitoring and evaluation activities.

V. FINANCIAL MANAGEMENT

101. The major initiatives concerning financial management are the introduction of the fee-based system and the stabilization of the administrative budget. Financial reporting systems will also need to be adjusted to accommodate any changes in financial management approved in future.

102. The use of a fee-based system is expected to produce a number of benefits for the GEF:

- *Transparency*. The identification of project costs and administrative overheads will improve transparency. Financing all administrative costs by explicit fees, approved at the time the project is approved, would make the reporting of these costs in particular very transparent.
- *Accountability*. Linking fees and project allocations with outputs would enhance accountability and equitability.
- *Predictability*. Approval of fees for the whole project cycle would result in predictability and stability in the flow of funds.
- *Competition*. A common fee structure will help signal to Implementing Agencies and executing agencies areas of comparative strength. By focusing on these areas, costs would be reduced. At present only medium-sized projects and Enabling Activities are subject to competition, but if opportunities for executing agencies are also expanded,[35] competition in the administration of the project cycle for full-size investment and technical assistance projects will also be possible.
- *Participation*. The use of common fees will facilitate expanded participation of executing agencies by providing cost norms under which such participation would be financed. It would not be necessary to negotiate administrative budgets or to comprehend the details of internal budgetary mechanisms.
- *Cost efficiency*. The increased transparency, competition, and participation would together, over time, lead to the stabilization of the administrative budget without jeopardizing quality of GEF projects.

FEE-BASED APPROACHES

Common activity-based accounting

103. Improvements in the GEF accounting and budgeting systems lay the groundwork for a fee-based system. A study by Price Waterhouse commissioned by the Secretariat recommended in February 1996 that an accounting system be established within the GEF that would overcome a serious gap: non-comparability of costs across the Implementing Agencies. At its 1996 Spring Meeting, the Council agreed to introduce common three-tier cost accounting system to overcome this problem. This system recognizes three tiers of costs: direct project costs, those linked to a particular project; indirect costs, associated with projects more generally; and administrative overheads.

104. In FY97 that three-tier cost accounting system was piloted and a year later Price Waterhouse reviewed the experience of the Implementing Agencies with it. There were some "teething" problems for the Implementing Agencies to overcome, but their general reaction was positive.

Corporate budgeting

105. It was also hoped that budgeting would also be improved, specifically by linking budgets to planned activities and expected outputs. Such a system's goal over time would be to define output, activity, and efficiency targets more clearly for each GEF unit, as well as to distinguish pure project costs from administrative overhead.

[35] See GEF/C.12/10

106. The GEF Corporate Budget FY99 was therefore built on this three-tier approach. It also went one step further and based the budget proposal for the first time on coefficients of effort that, while they characterized each type of project and each phase of the GEF project cycle, were *common* to all three Implementing Agencies. Complementing this use of common rather than IA-specific coefficients of effort, a uniform corporate staff week rate was also used for budgeting. The use of this *corporate* rate, in conjunction with *corporate* coefficients, was for budgeting purposes and did not prejudge the basis on which the Implementing Agencies would make internal transfers to their operational divisions nor undertake their internal accounting. It did, however, represent an important milestone in the transition to a system based on common fees for common services.

Issues in Introducing a Fee-Based System

107. In the transition from a budget based on common coefficients to a system based on common fees, a number of alternative approaches are possible.

- The fees could be applied to all Implementing Agencies or to only one or two. The advantage of opting for all is that it promotes transparency and competition, so that each agency can manage its participation on its relative strengths. It also provides a basis for expanding opportunities to executing agencies on an equal and transparent basis. The advantage of introducing it selectively, is that it provides time for each agency to adapt at its own pace.
- The fees could be applied to all project types or only to some. The advantage of applying them to all is that the benefits would be spread more widely and that it would avoid having to operate and report on two parallel financial systems. The advantage of applying it to only one is that some activities (such as enabling activities) are simpler than others to process and budget for and it would be easier to establish a standard fee for them.
- The fees could be approved for different phases of the project cycle or for total project processing. The former may be more realistic and provide appropriate incentives for complex multi-year projects, whereas the latter may be more suited to simpler projects.
- The fees could cover one or more of the cost categories in the budget or the project allocation.
- The fee system could be introduced gradually or comprehensively.

Principles for a fee-based system

108. Because of the value of the fee system for competition, expanded participation, and budget stabilization, it is proposed that the system be made fully operational as soon as practicable, recognizing the different circumstances in the Implementing Agencies. The GEF Corporate Budget FY00, to be submitted for Council approval at its meeting in May 1999, would establish the fees and detailed modalities.

109. To simplify the accounting, increase transparency on administrative costs, maximize flexibility in implementation arrangements, and provide a basis for expanded participation of executing agencies, fees would cover *all* the administrative costs of the project, wherever incurred. That is, the fee would include costs which are currently covered by tier 3 of the three-tier budget (project direct costs of the Implementing Agency) and the costs of project execution (executing agency fees, procurement costs, management costs of offshore executing agencies etc.) Because it is not possible to associate overheads or indirect costs to individual projects, these costs would be financed from the GEF Corporate Budget.

PROPOSALS FOR A FEE-BASED SYSTEM

110. Discussions would continue with the three Implementing Agencies through the Inter-Agency Budget Committee to assess fully the implications of introducing a fee system on the above principles.

The committee would work out the details and ensure a smooth transition within each Implementing Agency. The following proposal, as well as variants and alternatives, will be discussed:

Approval of fees

111. Under this proposal, fees would be approved in the following manner:

- Council, when approving the GEF Corporate Budget each year, would approve the structure of fees that would apply to those grants that the CEO is empowered to authorize, namely: Enabling Activities under expedited procedures, medium-sized projects for which the allocation is less than $750,000, and PDF-Bs. The CEO would then approve payment of individual fees for these projects at the time the grant is approved.
- Council would approve the fee for those project proposals that are submitted for Council approval. The proposed fee structure, level, disbursement, and recipients would be transparently reported on the project brief and would cover all administrative costs. The approved fee for project development (Phase I of the GEF project cycle) would be approved at the time the PDF is approved by the CEO. The fees for the remaining phases would be approved at the time of Council approval. The fee for project preparation (Phase II) would be available to the Implementing Agency at the time of Council approval; fees for implementation (Phase III) and evaluation (Phase IV) would be disbursed according to an approved schedule after the Implementing Agency has approved the project (i.e., following CEO endorsement).
- Fees are not payable to Implementing Agencies with respect to the administration of PDF-As, as these are very upstream and such costs would be considered as "project indirect."

Fees for executing agencies

112. Fees approved for any executing agency working directly through the Secretariat under procedures approved by Council would be on the basis of a Memorandum of Understanding or other suitable instrument approved by Council. Fees assigned by an Implementing Agency to an executing agency for a project for which the Implementing Agency is accountable to Council, would be on a basis satisfactory to both parties.

Phasing in the fee-based system

113. It is proposed that the fee-base system would be phased in by the end of FY01. Implementing Agencies have different preferred timetables; the World Bank preferring comprehensive introduction in FY00 but others a more phased approach.

- **FY99**. New medium-sized projects and expedited enabling activities could be processed on a fee basis in the remainder of FY99. Payment of a single fee would be approved at the time of CEO approval for immediate disbursement to cover all phases of the project cycle. The amount of the fee would be based on the coefficients used for the project direct costs of these activities in the approved FY99 GEF Corporate Budget. The line item for the project direct costs of these project types in the Implementing Agency budgets for FY99 would therefore be deleted. For the same volume of business, this action would be budget neutral, except that the Implementing Agencies would bear any financial risk associated with projects prepared but not approved. The total volume of business would be monitored so that the sum of the budget and the cumulative fees paid out in FY99 would not exceed the CEO's authority to amend the budget.
- **FY00.** It is proposed to continue with the fee system for medium-sized projects and expedited Enabling Activities and to extend the system to any strategic partnerships with the Implementing Agencies and to executing agencies under the expanded opportunities. In the FY00 budget, a proposal would be made to Council with respect to retroactively convert to the fee-based system all the previously approved medium-sized projects and expedited Enabling Activities that are still under implementation. This proposal would, in effect, explicitly provision fees for the remaining

future supervision costs of these projects. (This amount is currently provisioned, but is subject to annual budget approvals.)

- **FY01**. In FY01, the fee system would be extended to all projects, including those previously approved and still under implementation. The budget for FY01 would thus be the first in which no project direct costs would be included in the GEF Corporate Budget.
- **FY02**. An evaluation of the fee-based system would be undertaken.

BUDGET STABILIZATION

114. The introduction of the fee-based system is expected to reduce administrative costs over time through competition among Implementing Agencies. Where executing agencies are provided with expanded opportunities,[36] the fee-based system will help stabilize the GEF Corporate Budget. Two options for expanding such opportunities were described in the paper *Expanded Opportunities for Executing Agencies*, and each has different budget implications. (See the chart.) Note that the options are not exclusive; in fact either or both of them can be simultaneously put into practice in different ratios. However, to isolate their budget implications, each is assumed in the chart to be the sole option implemented during the business planning period FY00-FY02.[37] The implications of mixed options can be found by interpolation.

115. Under the three scenarios presented below, the budgets for FY02 ***assume existing trends and cost coefficients***. Note that the Implementing Agencies expect that some cost savings are possible, and that their cost coefficients will be reduced over time, resulting in a slower growth in the budgets for each option than projected here for comparative purposes.

116. The project allocations are expected to grow from the currently projected $420 million in FY99 to about $640 million in FY02.[38] The budgets for FY96 and FY99 are included as reference points for judging the trend and the impact on the budget of the two options. The business-as-usual ("BAU") budget for FY02 budget, which assumes existing trends and cost coefficients, is $54.2 million in real (FY99 dollar) terms. The World Bank believes that, while the absolute budget amount will depend on a number of factors -- such as the exact mix of operations and management action to increase efficiency further – there will be continued upward pressure on the administrative budget under the proposed growth scenario,
and that as a consequence budget stabilization will mean a slowing down on work program expansion to what can be achieved within the limits of their achievable efficiencies.

117. The scenarios for the two options assume for comparative purposes that the entire growth in allocation in FY02 beyond the FY99 level (i.e., $220 million) is accounted for by projects in which responsibility is

- shared between an Implementing Agency and an executing agency, with the Implementing Agency retaining full accountability to Council, in which case the GEF administrative budget would be $43.8 million in FY02, or
- fully assumed by an executing agency directly accountable to Council, in which case the GEF administrative budget would be $40.3 million in FY02.

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36 See *Expanded Opportunities for Executing Agencies*, GEF/C.12/10.

37 All costs are estimated in real terms and quoted in FY99 dollar amounts to assist comparison with the FY99 budget.

38 See Table 2.

Note that these reductions in the GEF budget are mainly the result of offsetting fees ($12.3 million) paid to non-GEF entities (the executing agencies that would assume some of the project cycle management normally undertaken by the Implementing Agencies) as well as by management efficiencies.

FINANCIAL REPORTING

118. The Secretariat, the Implementing Agencies, and the Trustee cooperate on financial reporting.

Tracking allocations and commitments

119. The Secretariat tracks allocations and, on the basis of information from the Implementing Agencies, the commitments to projects.

- Under the fee based system, tracking commitments to future administrative costs will become easier because these would be approved explicitly.
- Under the options for expanding opportunities to executing agencies, there would be more agencies to track but this would not make the task more complex.

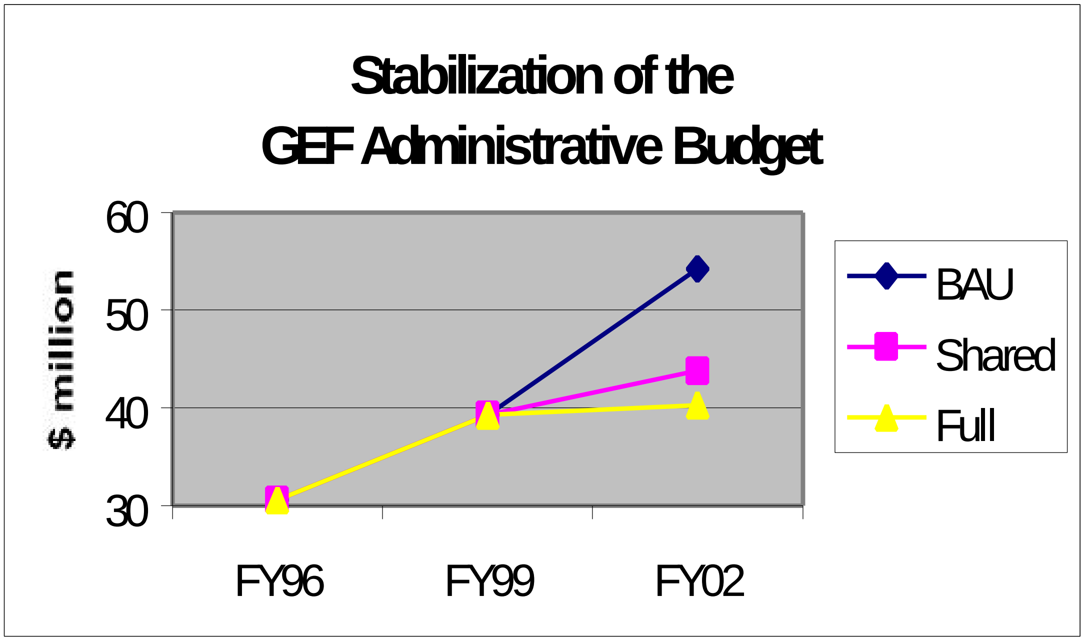
Provisioning

120. The Trustee provisions funds for commitments.

- Under the fee-based system, this would be clearer because all future administrative costs would be explicitly approved at the time of project approval.
- Under the options for expanding opportunities for executing agencies, provisioning would not be more complex.
- As mentioned above, a proposal would be made to Council with respect to retroactively converting to the fee-based system all the previously approved projects that are still under implementation. This proposal would, in effect, explicitly provision fees for the remaining future supervision costs of these projects. (This amount is currently provisioned, but is subject to annual budget approvals.)

Disbursement projections

121. The Secretariat and the Implementing Agencies prepare disbursement projections to aid the Trustee in scheduling encashments. Where some executing agencies assume direct accountability to Council, this task would be proportionately larger.


Stabilization of the
GEF Administrative Budget
$ million
60
50
40
30
FY96
FY99
FY02
BAU
Shared
Full