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ISSUES FOR THE STRATEGIC POSITIONING OF THE GEF

(prepared by the GEF Agencies)

EXECUTIVE SUMMARY

Since 1992 when the GEF partnership was established, the severity and urgency of the global environmental challenges have grown to take on a central role in development. Among the financial mechanisms addressing these problems, the GEF partnership plays a unique role in bringing together the combined strengths of both the UN development network and the multilateral development banks, and aiming for an integrated approach to the environmental goals of a number of multilateral environmental agreements (MEAs).

The GEF was designed as a network facility and a partnership between UNDP, UNEP and the World Bank, and now includes a Council, a Secretariat, a Scientific and Technical Advisory Panel, an Evaluation Office and seven Executing Agencies. This innovative design remains relevant to today's multi-dimensional context. The Agencies believe that the vision of the GEF as a network institution is sound, as the need for partnering and networking is more important than ever in an interconnected world. We remain committed to the GEF and its principles.

Combined, the Agencies offer an unparalleled range of services to countries that a separate GEF could never have offered without a huge capital investment, annual operating costs, and many years of hard work to build up comparable systems and experience. The GEF network is well poised to meet the challenge of significant scale-up in delivery in a fast and cost-effective manner.

Moving into GEF-5, the challenge for the GEF is to better use its established partnership, while enhancing the efficiency and effectiveness of the GEF system through:

- Re-affirming the role of the GEF as a mechanism for promoting synergies between the MEAs and better defining its niche amongst the other global funding mechanisms and institutions for the environment.
- Re-affirming the GEF as a decentralized partnership bringing together the UN and International Financial Institutions, who in turn bring in a wide array of additional partners.
- Drawing upon the accumulated competencies of the GEF Agencies in the elaboration of strategic, policy and programmatic guidance to the GEF Council in a transparent and inclusive manner.
- Cementing country programming as a participatory process led by national governments for integrating environment and development planning, without additional workload or parallel programming at the national level.
- Providing countries with faster and easier access to GEF resources by fundamentally reforming the GEF project cycle to use the Agency cycles, using Agencies' diverse and innovative delivery modalities and making programmatic approaches country-driven.
- Eliminating duplication between the roles of the GEF Secretariat and the Agencies by expanding the role of the GEF Secretariat in providing support to Council to make strategic policy choices and affirming its role as a neutral facilitator in the partnership.
- Ensuring accountability in the GEF partnership by segregation of duties among entities.
- Strengthening country ownership in the governance of the GEF through balanced country representation and inclusiveness of representatives of all GEF stakeholders.
- Building on the strong learning capacity within the GEF Agencies and country involvement, move towards results-oriented mechanisms framed by clear accountability criteria, and a coordinated knowledge management strategy for the global environment.

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PREFACE

1. In March 2009, during the first meeting on the fifth replenishment of the Global Environment Facility (GEF-5), the GEF Secretariat presented a paper on strategic positioning of the GEF. As part of their review of the paper, the replenishment participants requested that an Inter-Agency paper be presented on the issues raised, for the second replenishment meeting.

2. This document provides the views of the ten GEF Agencies in response to the Council's request, setting the framework for an integrated vision of GEF-5 in the context of today's global environmental challenges[1]. The Agencies have brought to the paper their commitment to the GEF as a strategic partnership for the global environment, drawing on the knowledge and experience gleaned from their 17 years of experience working with the GEF in close partnership with countries, for which they have generated of nearly 30 billion US$ in co-financing to GEF work, committed thousands of staff in hundreds of offices around the world, and supported countries in implementing a broad array of projects and programs on the global environment.

I. BACKGROUND AND CONTEXT

3. The GEF[2] was an experiment in multilateral funding that brought together a unique partnership of existing Agencies and new and additional Official Development Assistance (ODA) to support countries in their implementation of Multilateral Environmental Agreements (MEAs). By all accounts, this experiment has been successful. The independent GEF Evaluation Office in particular has reported on significant results achieved by the GEF[3].

4. Much has changed since the early 1990s when the GEF was established. There is now stronger public discourse on environmental issues at both the global and national levels, and awareness of the inextricable relationship between the two levels. Global environmental challenges have not lessened, but rather have become more urgent. Today, there is unabated demand for natural resources driven by increasing populations; extinction rates of species of 100 to 10,000 times baseline rates; and 60% of all ecosystem services are being degraded or used unsustainably. Climate change has captured the world's attention as the overarching environmental issue. The scale and cost of achieving global environmental goals have become clearer; the costs of not taking sufficient action early on are estimated by the Stern Review as up to 20% of GDP. Significantly, the links between environmental problems and constraints on development have become starkly clear. Not only are many, if not most, of the environmental problems linked to poverty and economic constraints, but the effects of environmental changes particularly affect the poor and most vulnerable.

5. The nature of global environmental problems has become more challenging. In biodiversity conservation, much remains to be achieved in terms of stabilizing ecosystem change, reducing biodiversity loss, lifting barriers to payments for ecosystem services, addressing drivers of ecosystem change, managing invasive alien species, and addressing

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[1] The Agencies will provide specific comments on the revised Draft GEF-5 Programming; and Draft Policy, Institutional Reforms and Governance documents in a separate note.

2 The term "GEF" is defined to include all the entities engaged officially with the GEF, namely the: GEF Secretariat, GEF Trust Fund, GEF Agencies, GEF Evaluation Office, and GEF Scientific and Technical Advisory Panel.

[3] Evaluation Office, OPS3, OPS4.

equitable sharing of benefits. In the area of international waters, conflicts, overuse of water and fisheries, and pollution remain. The international community has only started to scratch the surface of land degradation problems, in order to mainstream sustainable agriculture, manage land use change, promote healthy soils, and restore degraded lands and forests. Considerable work remains for full substitution for existing Persistent Organic Pollutants (POPs) and Ozoen Depleting Substances (ODS) as well as other chemicals of global concern, or reducing their consumption and production, and in disposal of stockpiles. In the arena of climate change, the risk of a point of no return has been projected by the IPCC. Climate change will exacerbate all of the above problems and require massive adaptation efforts.

6. At the same time, new environmental issues are emerging. Prospects for world-wide shortage of fresh water are increasing, and urbanization is expected to become a major driver of loss of global public goods. Environmental science and early warning assessments are highlighting possible future crises, such as oceanic dead zones and black carbon. Emerging conventions (e.g. mercury) will also require concerted global action.

7. To deal with this increasingly critical and complex array of inter-linked problems, it has become clear that an effective structure for global response and management is crucial. In the global discourse on international environmental governance, there is dissatisfaction with the "status quo", with an accompanying recognition of the need for strengthened United Nations (UN) and Multilateral Development Bank (MDB) coherence, and positive environmental influence on the economic pillar of sustainable development[4].

8. The UN Joint Inspection Unit has stated that "the current framework of international environmental governance is weakened by institutional fragmentation and specialization and the lack of a holistic approach to environmental issues and sustainable development"[5]. The coordination and cohesion among the many MEAs is poor or they are in conflict with one another[6]. Country parties have expressed their frustrations about insufficient funding for environmental challenges. The developing countries and the G20 have called for better representation of recipient countries in governing bodies of international organizations and multilateral funds[7].

9. Different options for the reform of the global environmental governance framework have been put forward, including creating a new World Environment Organization and strengthening the existing institutional framework[8]. In future, the GEF could serve as the financing mechanism for additional global environmental conventions, where greater coherence can be achieved.

Founding principles of the GEF

10. The GEF was established as a multilateral fund[9] to provide "new and additional funding for achieving global environmental benefits" related to the MEAs. The GEF is a "mechanism for

[4] UNEP 2008. International Environmental Governance, Background Paper for Heads of Agencies Meeting, 26th October 2008.
[5] Management review of environmental governance within the United Nations system, UN Joint Inspection Unit 2008, JIU/REP/2008/3.
[6] JIU/REP/2008/3, UN Joint Inspection Unit 2008.
[7] G20 Summit statement, 2008.
[8] JIU/REP/2008/3, UN Joint Inspection Unit 2008.
[9] GEF Instrument Paragraphs 4,6,8,15-20.

international cooperation"[10] founded on a set of clear principles, including the key notion of providing "agreed incremental costs of measures to achieve agreed global environmental benefits". The principle of burden sharing reflects the notion that the development pathway of industrialized nations has had negative environmental impacts on global public goods.

11. The GEF was established by building on existing institutions, to capture cost-effectiveness, avoid fragmentation, and benefit from the regular programming, leveraging and field presence and networks of existing multilateral agencies. The collaboration and partnership among the UN and Bretton Woods institutions was, at the time, unique and innovative as a mechanism for international cooperation to address global environmental concerns[11]. The mainstreaming of the global environment challenges into the core activities of these organizations has helped to simultaneously gain both national and global benefits.

II. VISION: GEF'S ROLE IN 2010-2014 AND BEYOND

12. In this time of financial crisis, ODA for the environment as a whole has fallen[12]. Markets continue to under-value and under-invest in environmental services. Most developing country governments today are not able to ensure sufficient funding for global environmental issues and look to the GEF Trust Fund to help them fill that gap. There is no other multilateral mechanism purely dedicated to the global environment. In a world with increasing competing demands, the need to be cost-effective with the limited resources available to tackle vast and compelling environmental challenges still remains, and points to the need to capitalize on all existing capacities and expertise at GEF's disposal. While designing the GEF as a network mechanism and facility was an innovation in the 1990s, it was also visionary in anticipating the multi-dimensional, multi-convention and multi-stakeholder context we now observe. The GEF Instrument and the principles upon which it is founded continue to be very relevant to today's context.

13. The challenges to the global environment sketched out above are not something that one institution can take on alone. The need for partnering and networking remains; indeed, it is more important than ever in a world where the environmental threats, needs, actors and funds have grown in intensity and scope[13]. Given this, "it is clear that the GEF on its own cannot achieve the impact it seeks or has been expected to achieve. It has to be a partner that encourages others to contribute and take over implementation which ultimately leads to the impacts sought"[14].

14. In the financial architecture for the global environment, the GEF partnership with the GEF Trust Fund has two vital roles to play. First, the GEF has a unique niche for achieving global environment benefits with co-benefits for national environmental and developmental goals. Second, the GEF has a mandate to be catalytic and to leverage both ODA and market forces, in line with the GEF Operational Principle 9[15].

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[10] GEF Instrument, Paragraphs 2,3,28 and Annex D.
[11] GEF Instrument, paragraph 2.
[12] OECD Environmental Outlook to 2030. OECD 2008. Paris
[13] Climate change, especially, requires unprecedented global cooperation (Development and Climate Change Strategic Framework, World Bank, DC2008-09).
[14] OPS4 Interim report, May 2009.
[15] GEF Operational Strategy, 1995.

15. The partnership allows the GEF to bring together various stakeholders that include beneficiaries, communities, NGOs, government and international organizations to achieve global environmental benefits, while contributing to each stakeholder's goals. Combining the strengths and mandates of all its entities, the GEF network is well placed to address the gaps in the current global financial architecture within the context of the MEAs, based on the principles in the GEF Operational Strategy (1995), particularly:

a. *Early warning* - being one step ahead of the curve in assessing problems and solutions, managing risks and investing in tools and innovations that normally would not be funded.

b. *Enabling* - foundational activities such as developing capacities, mainstreaming environment and assisting countries to meet their obligations to the MEAs.

c. *Demonstration* - investing in state-of-the-art or indigenous technologies, methodologies and approaches to demonstrate their effectiveness and impact, and replicate lessons.

d. *Lifting barriers* - encouraging markets to take additional risks of investing in environmentally safe technologies, and promoting replication of proven technologies and approaches.

e. *Transformation* - promoting societal changes in patterns of consumption and production, promoting emerging markets for environmental goods and services.

f. *Regional and global cooperation* – supporting the resolution of transboundary problems and the management of the global commons.

g. *Synergies* - facilitating integrated, coordinated approaches to environmental problems, and among the conventions.

h. *Learning* - enhancing systematic knowledge creation and application of best practices, informed by a long-term vision or knowledge of future environmental challenges.

i. *Catalyzing* - the overall result of undertaking these activities is that the GEF catalyzes both the commitment of additional funds and the continuation, up-scaling and dissemination of the results it has obtained.

16. Developing countries vary in their needs and priorities and therefore need access to a variety of types of support for different purposes. A catalytic mechanism that builds on a diverse set of existing institutions with complementary mandates and capacities will be able to strengthen the financial architecture for sustainable development, and customize support to countries.

17. The GEF as a networked facility brings to countries an enormous range of instruments and resources through the entities in the network, attained without a huge capital investment, serious annual operating costs, or work to build up the necessary systems and experience. The networked nature of the GEF ensures increased capacity to leverage co-financing to address global environmental concerns, mainstream environmental challenges into national and sectoral development policies and plans, address strategic operational needs, including in new and emerging areas, and respond to country driven priorities and requirements of the conventions[16].

[16] GEF/C.22/12 Review of the Experience of the Executing Agencies.

In addition, in the networked GEF countries benefit from the combined field presence and operational networks of the GEF Agencies in more than 160 countries.

III. EFFECTIVENESS

18. The OPS4 interim report concluded that the GEF is fully able to deliver results, achievements and progress towards impact when projects are implemented. Nevertheless, there is room for improvement related to convention guidance, country ownership and drivenness, mainstreaming global environment goals into country and other programming, linkages between local, regional and global levels, and managing for results.

Synergies among MEAs and Accountability to the Conventions

19. In line with its first operational principle to be accountable to the Conventions, the GEF has assisted countries to meet their obligations to the MEAs, build capacities and effect policy change. However, it has been recommended to "make such guidance [from the Conventions] strategic, coherent, and prioritized to guide programming and project development…"[17]. Both OPS 3 and the CBD point to weaknesses in "guidance back to the conventions" and recommended better reporting on GEF projects. Lessons from GEF projects could be a helpful input into MEA decision-making.

20. The GEF Partnership could help the GEF become more responsive to Convention Conference of the Parties (COP) guidance, by:

a. providing predictable, sufficient, and full-cost financing for enabling activities[18] with practical incentives for capturing synergies between focal areas;
b. investing in consultative processes at both national and global levels to ensure the quality of, and more systematic use of these enabling activities, and for better coordination with development programming;
c. undertaking comprehensive system-wide tracking and reporting of portfolio results to the COPs, through a yearly inter-agency process coordinated by the GEF Secretariat, which would allow the COPs to monitor impacts and financial flows;
d. including Convention representation as non-voting members of the Council for greater accountability.

21. As the governing body for the financial mechanism for several Conventions, the GEF Council has a role in balancing the needs from the Parties to the Conventions with the expectations from both donors and recipients for greater results and impact. Yet, the Evaluation Office finds that proposals for greater collaboration, synthetic action and better coordination between MEAs have so far not demonstrated tangible results[19]. This needs to be addressed both at the international environmental governance level and at country level by the GEF Focal Points and the various Convention focal points.

[17] Third Review of the Effectiveness of the Financial Mechanism of the Convention on Biological Diversity.
[18] "Enabling Activities" is a generic term that includes: national reports to conventions, assessments, action plans, and other programming obligations as required by the conventions.
[19] OPS4 interim report.

Country-owned and country-driven programming

22. The GEF has always emphasized country-owned and country-driven programming. From a *substantive* perspective, GEF projects have always been aligned with national priorities, as this is a GEF requirement underpinning national ownership. Programming is normally led by governments (both at global level at the COPs, and at national level), with them bringing in civil society and other stakeholders and GEF Agencies. For GEF-related participatory national programming to be effective, it should: (a) allow for coherent inter-sectoral programming and alignment with country development assistance strategies; (b) avoid additional burden of parallel programming at the national level; (b) be based on flexible and clear allocations from the RAF; and (c) facilitate subsequent reasoned and responsive project development.

23. There is undoubtedly a need to improve responsiveness to countries for access to GEF resources, defined as providing countries with what they want, and quickly. Responsiveness to the GEF recipient countries will mean some trade-off with corporate prerequisites, and more bottom-up programming, since participatory national consultations will naturally identify a broad range of priorities. The Resource Allocation Framework (RAF) pipeline negotiations brought out more strongly the inherent trade-offs between the criteria of global environmental benefits and country-specific sustainability needs. Unless such trade-offs are addressed, country programming will risk being affected by this disconnect, resulting in delays and frustration over lack of access[20].

24. GEF programming has recently taken a step away from enhanced integration and mainstreaming into development programming, because the partnership is no longer working effectively at the strategic planning level. In preparation for GEF-5, technical experts of the Agencies have not been invited to contribute their expertise and experience to the development of focal area strategies, RAF criteria and arrangements and GEF business planning. When the Agencies and countries do not participate in establishing overarching GEF priorities, it is less likely that these priorities dovetail with other programming or with practical realities on the ground.

25. National committees to support the GEF Operational Focal Points, and programs such as the National Dialogue Initiative (NDI) and Country Support Programme (CSP), have been established to improve national level coordination. These – and proposed GEF-5 reforms – mainly aim to build capacity to access GEF funding. For better impact and mainstreaming into core development programming, the GEF may wish to consider a system of capacity building which helps countries to enhance necessary institutional level capacities, systems and processes to integrate GEF programming into national or sectoral programming in line with the Paris Declaration. Resident GEF Agencies in collaboration with others would take the lead in implementing such an approved system, with GEF Secretariat helping to convey Council decisions on eligibility and strategy.

26. The Agencies have existing mechanisms for coordination at the country level that involve national stakeholders and the donor community. The multilateral development banks (MDBs) are well positioned to help countries to bring the GEF into the realm of Finance, Economics and

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[20] RAF MTR.

Sector Development Ministries; and can increase linkage and engagement with the private sector. For their part, the UN Agencies can assist countries to bring GEF into the realm of the technical ministries and network of other national and local stakeholders. GEF programming with World Bank Country Assistance Strategy (CAS) and Poverty Reduction Strategy Papers (PRSPs), the UN Development Assistance Framework (UNDAF) and similar national programming mechanisms employed by the regional development banks[21] represents opportunities to mainstream global environmental assistance in national development assistance. Some Agencies have already moved in this direction.

27. Development of country programs takes time and effort. The breadth of consultations on national priorities tends to be similar regardless of allocation size. Flexibility in overarching strategic focal area priorities commensurate with allocations may address the strain on smaller countries[22]. Unless country programs are accompanied by reduced obligations for project preparation, they risk further delaying access to funds through projects.

Global and regional programming

28. Country programming alone will not address issues of regional and global scope. Given the strategic nature of such cooperation, the GEF Council should establish clear rules and strategic priorities for use of global and regional funds. The GEF Secretariat should facilitate a process with the GEF Agencies and the GEF Scientific and Technical Advisory Panel (STAP) to extract lessons from past regional and global programming, and thereby help define transparent priorities for regional and global projects and programs.

29. The GEF should ensure that adequate funds and incentives are available to resolve transboundary problems and manage the global commons[23], in a way that minimizes trade-offs with national needs. Under GEF-4, the RAF became a disincentive to transboundary programming, exacerbated by an absence of policy direction, high transaction costs, and low incentives for multi-country cooperation. The set-asides under the RAF were insufficient to meet demand for global and regional projects[24]. The GEF has a particular role in promoting regional and global cooperation of worldwide scope, such as projects that generate global knowledge, transform global markets, transfer technology, or address common regional concerns.

Programmatic approaches

30. The potential value of a programmatic approach lies in: (a) increased coherence, effectiveness and predictability; (b) efficiency in reduced transaction costs through delegation, and decentralization; and (c) increased country ownership[25]. The piloting of programmatic approaches seems to have worked for some thematic subjects, such as flexible programming tools that are monitored with a sub-set of focal area indicators; and country level programmatic approaches have delivered greater coherence in influencing sector-wide challenges. These provide lessons on which to build. In the GEF Agencies' experience, programmatic approaches

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[21] AsDB, AfDB, IADB, EBRD.
[22] RAF MTR.
[23] GEF Instrument p.8-9, annex D.
[24] RAF MTR. GEF Evaluation Office. 2008
[25] GEF/C.33/7,From Projects to Programs: Clarifying the Programmatic Approach in the GEF Portfolio.

do not seem to work as well if they consist of a set of disparate projects. There is no conclusive evidence as yet of *substantive* improvements in effectiveness from any of these pilots and a fuller independent evaluation would be useful[26].

31. The GEF-4 programs were, for the most part, not suggested by countries. Programmatic approaches at the national level should be derived from country demand and reflect joint planning and transparency, and in such cases, originate from a national plan rather than a separate Program Framework Document for GEF funding. Regional or transboundary programs should be derived from global or regional priorities and plans.

32. Process-wise, the programmatic approaches are complex in terms of additional programming steps, and do not, in themselves, expedite projects and access to funds[27]. The Agencies fully agree with simplification of the programmatic approach. Success factors include: sufficient lead time to build consensus in planning; delegated authority for projects; realistic budgeting; the opportunity of a larger program with components, rather than distinct projects each with their own PIF; and easier triggers for tranches or components. Many countries already have program approaches with donors and GEF Agencies, which support the spirit of the Paris Declaration on harmonization and aid coordination.

33. In summary, caution must be exercised in managing the risk of ‘multiple’ layers of GEF programming without sufficient regard to each other. Countries and GEF partners are expected to ensure consistency in programming, within a complex array of programming layers: different country RAF allocations, programming for corporate targets for focal area allocations and strategic goals, bringing in programmatic approaches, and sub-funds such as Technology Transfer, and ultimately project development, as well as global and regional programming, SGP, private sector etc. There is ample room for inconsistencies and added transaction costs with consequences for responsiveness and effectiveness.

Private sector collaboration

34. Private sector collaboration in GEF activities can contribute to enhanced effectiveness when based on realistic expectations. Any strategy should differentiate between the goal of resource mobilization (through contribution to the GEF Trust Fund, or new financial mechanisms) and the goal of providing support to the private sector (through project co-financing, with projects targeting lifting barriers, technology transfer incentives, or new delivery modalities for channeling funds, such as the Earth Fund). Most often the GEF’s target group in the private sector is companies seeking GEF funding or support to pursue projects that promote global environmental benefits.

35. The Agencies engage the private sector at the project level, where there is common interest of co-financing in a time-bound project with mutual benefits. To secure private and public sector engagement, modalities of intervention - such as non-grant instruments - may be necessary, but not sufficient. Other success factors in attracting the interest of private sector companies include delegation of authority, simple processes, predictability, cost effectiveness, confidentiality, transparency of guidelines and processes, and rapid project approval. The

[26] RAF MTR.
[27] RAF MTR.

Agencies support the current GEF Earth Fund as a mechanism for Agencies to support private sector initiatives with GEF funding. There is, however, room for improvement of this mechanism, most notably to further clarify (a) the guidelines for Agencies to submit Platform proposals, (b) the definition of “Platform Managing Agency”, and (c) the purpose and role of the advisory Board of the GEF Earth Fund.

36. The current structure of the GEF Earth Fund “has addressed some of the longstanding issues with the project cycle in the GEF through a delegated structure that allows sub-projects to be approved by Agencies”[28]. Many of the Agencies[29] have private sector groups and initiatives, which are an untapped source for GEF's private sector engagement. Assuming there would continue to be access for private sector through the traditional GEF channels, a more simplified project cycle is imperative. Private sector, as well as public sector and non-governmental organizations, should be able to access GEF funding with a straightforward project approval process and cycle.

Results-based management

37. Responsiveness to countries also means delivering good quality results. OPS4 indicates that in principle the GEF is well poised to be a learning institution, but that the “GEF does not have a knowledge management strategy and encounters serious challenges in this area”. With a solid portfolio and experience now developed, the time is ripe for the GEF to move towards results-oriented mechanisms with accountability criteria. Reporting should be adequately used for the key M&E functions of learning, decision-making and accountability.

38. The OPS4 also notes that the GEF Agencies have strong learning capacity within their own portfolio. Agency capacity and presence in the field, with all of the monitoring tools available, are major strengths and present opportunities for cost-effectiveness in knowledge sharing. Agencies are ready to further commit to bringing their experience and lessons learned to a coordinated knowledge management strategy for the global environment. This could include: (a) a new program on knowledge management for the GEF partnership, engaging national level stakeholders across projects; (b) moving the annual implementation reviews beyond reporting to learning; and (c) active use of focal area task forces for bridging GEF priorities and lessons while lowering the barriers to innovation and experimentation in the GEF.

IV. EFFICIENCY

39. Responsiveness to country needs also means delivering quickly what is needed. Once a country has decided on a project and reached agreement with an Agency, the stakeholders want project results urgently. Responsiveness in access to funds can be differentiated as access to funds through project approval and access to funds once the approved project is under implementation. The GEF is fully able to deliver when projects are finally approved and implemented[30]. It is generally the first barrier that generates legitimate complaints from recipients, in terms of both approval of initial concept (PIF) and subsequent endorsement of the full project document.

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[28] Strategic positioning, GEF Secretariat, March 2008.
[29] Including AsDB, EBRD, IADB, UNIDO, UNEP, and WB,
[30] GEF EO, OPS4.

The project cycle

40. The revision of the project cycle was a step in the right direction but has not been effective in reducing time sufficiently to meet expectations of country partners, and has been unintentionally further hampered by other reforms. While the simplification was promising at first, the cycle continues to be a source of great concern[31]. The increased call for responsiveness has come about as a result of various changes in GEF-4, including (a) the RAF group allocation and the lack of transparency in how decisions were made by the GEF Secretariat; (b) programmatic approaches that were not sufficiently country-driven; and (c) overruling countries' choice of Agency for a project; etc.[32]. A streamlining of the project cycle would address the underlying barriers to low or slow access to funds by countries.

41. The GEF Agencies have the capacity to upscale portfolio development rapidly if the funding is sufficient, predictable and available. They bring additional partners and agencies where relevant. In line with the Paris and Accra Declarations of harmonization, the Agencies have streamlined their project cycles, and continue to do so, while strengthening performance monitoring mechanisms. For non-GEF projects, Agencies can program rapidly.

42. Rather than incrementally tinkering with the project cycle, a different approach to programming and the project cycle is recommended, which could fully integrate GEF assistance into the core of MDB and UN development assistance programming. The GEF Agencies should be allowed to use their own project cycles and approval procedures, with simple results-based portfolio monitoring from the Secretariat[33]. The Council should hold the Agencies accountable for major outcomes and results.

43. Simplification can be considered on levels of process, forms and modalities. A cycle reform should consistently incorporate the process from inception to end, and be synchronized with other GEF, national or Agency polices. The key principles related to current barriers to access include:

a. Aligning project cycle policy with the broader development model, country needs, and GEF strategic objectives, which in turn implies seeking consistency in overarching policies and procedures of the focal areas, the RAF, country programming and the programmatic approaches with the project cycle;
b. Embedding a risk-based model of internal controls in project cycle policy and procedures that differentiates between small and large investments (EA, MSP, FSP), as well as complexity;
c. Addressing fragmentation of projects by "umbrella projects" at country level;
d. Re-balancing attention and resources from preparation/approval to implementation and monitoring stages;
e. Addressing specific bottlenecks and scope creep in concept approval and project endorsement;

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[31] GEF EO, OPS4.
[32] RAF MTR.
[33] For example, as currently done in the MLF.

f. Having the GEF Secretariat exercise its coordination role by establishing the long-planned operational electronic data base system; and

g. Having the Agencies keep all parties better informed on the status of proposals, pending an operational electronic system for the GEF pipeline.

Direct access

44. The GEF Agencies support the principle of direct access. Development assistance is based on the tenet that developing countries will become self-sustaining and take charge of their economic and development trajectory. The demand for direct access by some countries has arisen to a large extent from frustrations with slow (or no) access to RAF allocations over the last years, over long dissatisfaction with the GEF project cycle and its non-transparency and unpredictability, coupled with a sense of growing ownership for decision-making. The key issue is the ability to provide support in a faster and more responsive manner.

45. Most of the Agencies disburse directly to government entities and other partners under different mechanisms. Many bilateral and multilateral donors have moved into budget support, basket funding, public policy lending and similar efforts to create enabling environments and sustainable systemic improvements[34]. The MDBs have an array of lending instruments, from traditional investments to very flexible instruments, such as policy based, multi-phase, conditional credit lines, or additional financing which can complement different modalities of GEF interventions. Some of these are not currently applied to GEF funding as they are prohibited by GEF rules. UN Agencies have national execution and similar modalities that provide direct access. It would have been, or would be, costly to recreate this network diversity of delivery mechanisms (local, national, regional, global, private, NGO, etc.) into one organization.

46. The Agencies' proposals on project cycle simplification outlined above will lift barriers related to the project cycle, eligibility, resource allocation, and transparency, thus enabling far more direct access to the majority of recipients. The countries with capacity to comply with the GEF fiduciary standards, eligibility requirements, design quality, appraisal, co-financing and other administrative and financial management needs, and the various GEF forms and milestones, can also be included in this new simplified system.

47. It would be pertinent for lessons of piloting direct access under the Adaptation Fund to guide eventual direct access for the GEF Trust Fund, especially in terms of the somewhat simpler cycle and templates proposed for the Adaptation Fund.

Additional GEF Agencies

48. The current Agencies welcome new GEF agencies that could bring additional comparative advantage and expertise to the GEF portfolio and where such expansion is cost-effective for the network. The recipient countries and the GEF now have access to a broadened expertise based on comparative advantages of the ten different Agencies and helped to enhance and diversify mainstreaming into different sectors and regions. Any new Agency will encounter, however, the same difficulties as the current Agencies in reducing cycle time when accessing

[34] OPS4 interim report.

funds directly from the GEF[35]. When faced with the same structural underlying issues as existing Agencies, it is not realistic to assume that new agencies to the partnership can provide faster or better access.

49. As OPS3 pointed out, with the addition of seven new Agencies the GEF is reaching the limits of what can be done in a network institution. Steadily increasing the number of GEF Agencies increases transaction costs in consultation and work programming, to all the partners in different ways, especially to the corporate functions of the Secretariat, the Trustee and Evaluation Office.

50. Adding new Agencies can help to diversify mainstreaming into different sectors and regions provided the GEF Trust Fund is extensive enough. Lessons from the Executing Agency expansion indicate that long-term commitment by Agencies to commit their own resources is needed in order to develop a sufficient level of portfolio. The process of certification and justification of fiduciary standards is also demanding and long[36].

51. Being a GEF partner comes at a high cost, and no Agency receives full cost recovery for its services. The Agencies have always seen the GEF as a strategic commitment to a partnership for the global environment that brings tangible, but also non-tangible benefits both to beneficiaries and to each organization. From a financial point of view, and with the current project cycle and partnership involvement, the Agencies put more into the GEF than they receive back, through co-financing and subsidization from core resources[37]. New agencies must be able to provide, for each project, time and labor of task managers and specialists, including coordination, time of staff in diverse fiduciary offices (co-financing, finance to manage all of the financial transactions, procurement to ensure compliance with competition and due diligence policies, human resources for project staff etc.); use of the legal department for contract agreements with GEF beneficiaries; environmental social and safeguard assessments; all of the resources in country offices for monitoring and supervision and support; the time and labor of project review committees; extensive negotiation with the GEF Secretariat, compliance with numerous templates for PIF, CEO endorsement, PPG request, PPG reporting, request for extension of milestones or cancellations, submission of endorsement letters and co-financing justification, and extensive reporting[38].

52. The proposal on tendering for project proposals by the GEF and the recipient countries for project implementing entities on a competitive basis, may seem appealing for cost-effectiveness. The current GEF Agencies, however, do not have the legal right or the mandate to "bid" for project tenders; nor would *other* UN Agencies or Banks**.** Such a system would therefore change the composition of service providers to the GEF, and thus the nature of the related GEF portfolio and compliance with GEF principles and standards. This would be a move away from using comparative advantage within a partnership as a basis for deciding on

[35] Evaluation of the GEF activity cycle (2006).
[36] Evaluation of experience of the executing agencies with the GEF, 2006.
[37] Agencies must be financially able and willing to pre-invest funds in the heavy project preparation phase, given the reduction of project development funds, payment of fees only at CEO endorsement, and replacement of the corporate budget with a 1% addition on the fee.
[38] It also includes the Agencies' time and resources invested in contributing to GEF corporate activities, participating in meetings and sub-regional National Dialogue workshops, contributing to Council documents, among many more activities.

implementation arrangements. Such tenders might be appropriate to attract consulting firms or NGOs, with appropriate legal status and fiduciary standards, and who could build in the costs for a smaller one-off individual GEF project into the bid; and where partnerships with the countries are not needed after project completion.

V. IMPLICATIONS FOR REFORM

54. Reform is not needed for reform's sake, as was pointed out by some replenishment participants in Paris. "Reform seeks to improve the system as it stands, without altering the fundamentals of the system"[39]. The Agencies believe that the GEF needs evolution, not revolution. The OPS4 interim report concludes that the Implementing Agencies together with the GEF Secretariat have shaped the GEF into what could potentially become a world-class international organization. The advantages of the partnership are not likely to continue, if basic tenets of participation, transparency, predictability, inclusiveness and mutual support are *dis*continued.

Implications for the Partnership

55. The GEF is a "mechanism for international cooperation"[40], and accomplishes its goals through multiple stakeholders. The Instrument establishes the GEF as a decentralized network. OPS-3 affirmed that this institutional form is appropriate for the GEF to meet its mandate and operations[41]. The partnership brings a number of advantages that cannot be recreated in a new institutional setting and that can be enhanced and strengthened in GEF-5:

a. **Technical and policy expertise:** The GEF can take full advantage of the network by drawing on the Agencies' expertise in setting the policy, strategy and operational direction of the GEF, through a transparent process for consideration and approval by Council, facilitated and supported by the GEF Secretariat.

b. **Mainstreaming the global environment and leveraging of funds:** The Agencies increase the capacity of GEF to leverage co-financing to address global environmental concerns, mainstream environmental challenges into national and sectoral development policies and plans, address strategic operational needs including in new and emerging areas, and respond to country driven priorities and requirements of the conventions[42].

c. **Complementary support:** The unique partnership and cooperation among MDBs and UN institutions allows development of, as the GEF Secretariat mentions, "a GEF-wide portfolio that is balanced between technical assistance, investment, and scientific assessment to maximize impact" for country choice[43].

d. **Operational and logistical support:** The operational expertise and various instruments of the Agencies could be more fully utilized by the GEF for dynamic management of a responsive project cycle. GEF Agencies should continue to administer system-wide projects

[39] Definition, Wikipedia, May 2008.
[40] GEF Instrument Para. 2,3,28, Annex D.
[41] GEF Evaluation Office. OPS-3. Chapter 7.1.2.
[42] GEF/C.22/12 Review of the Experience of the Executing Agencies.
[43] Strategic positioning, March 2009.

and core programs for greater efficiency, especially where system-wide coherence, field outreach to many countries and other common support are required.

e. **Access to policy discussions and fora in various sectors:** The GEF Agencies facilitate some of the world's most important international fora for intergovernmental consultation, building consensus and setting standards in areas related to environmental management. GEF participation in these discussions brings higher visibility and access to key national policymakers.

f. **Access to a network of field and centralized offices and support:** The GEF benefits from the combined field presence and operational networks of the GEF Agencies at the national and regional levels, with staff on the ground in more than 160 countries.

Roles and responsibilities

56. The partnership structure as embedded in the Instrument and complementary policies is well designed to ensure accountability through segregation of duties and avoiding conflict of interest. Each entity has specific responsibilities as well as oversight of *other* parts of the system.

57. The GEF Secretariat was established to service the GEF Council. The OPS-3 recommended that the GEF Secretariat should focus on its core functions of coordinating the network of "management, information and policy". These functions also involve coordination of communication and outreach related to GEF projects and programs, in collaboration with GEF stakeholders[44].

58. Three years later, OPS-4 observed that the GEF partnership seems to be at a crossroads, and raises the question whether "a new basis for a continuation of the current instrument will be found". In this period, a series of operational changes has gradually increased the functions of the GEF Secretariat.

59. First, this has led to duplication of tasks between the work of the GEF Secretariat and Agencies, which would increase further with the proposed GEF-5 reforms. This increases both transaction and actual costs to the GEF system, as reflected in the proposed increase in FY10 corporate budget of 21.7 percent for the Secretariat. The duplication applies to all stages of the project cycle, including country programming, project and program development and resource mobilization, project and program management and implementation, and M&E (e.g. undertaking project supervision missions), in addition to the Secretariat's regular functions of review and approval. Agency concerns relate to, among other things, the implementation of corporate programs, developing programmatic approaches" and PIFs (and "pre-PIFs"); managing the Earth Fund and the Technology Transfer program. The GEF Secretariat is requesting cost recovery for their tasks for programmatic approaches and project monitoring in addition to the corporate budget for the Secretariat's business tasks[45]. The Agencies undertake these activities without a GEF corporate budget, within project fees, and/or using their own corporate resources. See Table 1.

[44] GEF Evaluation Office. OPS-3.

[45] FY10 Business Plan; Earth Fund; Options for Enhanced Financial support to selected GEF-4 programs.

Table 1. Current duplication of roles between GEF Secretariat and Agencies

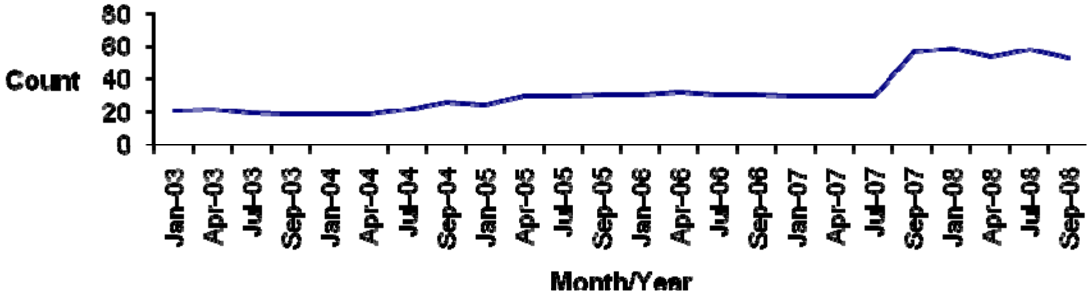
Function	GEF Agencies (with countries)	GEF Secretariat	
		At beginning of GEF	Currently
In country policy dialogue and advocacy	X		X
Project and program development	X		X
Funds mobilization and fiduciary management	X		(X) Proposed
Project and program implementation /execution	(X) with countries		(X) Proposed
Project and program implementation support	X		(X) Proposed
Project and program monitoring, reporting, evaluation	X		(X) Proposed
Portfolio level monitoring, reporting, evaluation	X	X	X
Knowledge generation, codification, and dissemination	X	X	X
Coordinate formulation of and oversee joint work program		X	X
Service Council and Assembly and implement decisions		X	X
Coordinate with other international bodies		X	X

60. Second, such duplication reduces overall accountability. There is inadequate segregation of these many duties within the small Secretariat to avoid conflict of interest. The mid-term review of the RAF noted that "The new role of the Secretariat in the design of programs and the inception of projects has caused some confusion among stakeholders [.. with] questions about who is ultimately going to be accountable for ensuring access of funds by countries"[46]. Within the Agencies, such systems - as certified by the assessment of fiduciary standards - are long established.

61. Third, this duplication has resulted in increased costs to the GEF Secretariat. The number of staff in the GEF Secretariat and GEF EO has more than doubled since 2007 (see Figure 1 on next page). At the same time, it has not led to full empowerment of the countries to choose which Agency to work with as their choice can be overturned by the GEF Secretariat[47].

[46] GEF EO, RAF MTR, 2008.
[47] GEF EO, RAF MTR 2008.

Figure 1: Staffing of the GEF Secretariat and EO (number of staff[48])



62. The creation of dual management lines, when the Secretariat is involved in project design or steering committees of projects and programs, results in pressure on the Agencies to act in conflict with their own fiduciary standards. When approval and appraisal of design has been undertaken internally, this will likely make subsequent unbiased oversight and monitoring of programs difficult.

63. The Secretariat's involvement in programmatic approaches has specifically brought out conflicts of interest in terms of resource mobilization. As required by the GEF, the Agencies must be empowered to mobilize co-financing for projects, without competition with the resource mobilization proposed by the Secretariat for the related programs. Implicitly such double functions shifts the GEF co-financing policy, and may well result in unhealthy competition for both ODA and private sector resources[49].

64. The ability to act as a neutral facilitator in a partnership should be a key strength of the Secretariat function. To maintain the legal separation of duties in GEF's accountability framework, there is ample room for more active utilization of the capacities, systems and networks of the Agencies in support of the GEF mandate, and for the Secretariat to support the Council in policy and strategy development bridging practical and political aspects, monitoring at portfolio level, partnership coordination and facilitating a country dialogue that strengthens the GEF partnership.

65. International cooperation is more likely to function effectively in the setting of a partnership with a common purpose and legal arrangements, rather than *outside* of a partnership. Such cooperation does not depend on the legal status, size or mandate of any one partner, but on the readiness for dialogue, and acceptance of common goals but different approaches to achieving that goal. That potential has been demonstrated by the GEF network and should be capitalized on further for the global environmental benefits.

[48] Drawn from GEF Secretariat staff lists in Weekly Bulletin. Only includes core staff.
[49] Based on GEF/C.35/10, "Options for Enhanced Financial Support to Selected GEF-4 Programs" and the proposals in the "Draft GEF Policy, Institutional, and Governance Reforms".

Governance structures and accountability

66. The OPS-3 remarked that the challenge of a network institution is to achieve a balance between control and empowerment without becoming a hierarchical institution. Partners must have the capacity for empowerment and ability to exercise it, for example by Focal Points in signing off on projects or contributing to Council deliberations.

67. The GEF Council was established in 1994 at a time when the major MEAs were new and parties had limited experience with the instruments of global environmental governance. The growth of understanding, capacities and awareness that has taken place since then point to a greater inclusiveness of all major stakeholders in a cohesive GEF governance system to secure ownership and alliances around environmental goods and services.

68. Lessons from other institutional arrangements could bring enhanced empowerment, for example by making the replenishment process more inclusive, revisiting constituency representation to address issues of donor/recipient relationship in the GEF; securing continuity and separation of duties by Council co-chairs by electing one member from the North and one from the South for a 1-2 year term, with the CEO as Secretary to the Council; and ensuring full partnership participation.

69. As a comprehensive partnership, the GEF should reflect active participation of the partners in its governing structures, with a non-voting representative (rather than observers), from each of the Conventions, an NGO representative, the private sector and from the Agencies. For better coordination, one or more Agencies may be asked to lead on behalf of the ten Agencies when a topic is in their area of competence[50]. Agencies could, for example, have one non-voting seat representing the IFIs and one for the UN System. UNEP's special role as the lead authority on global environmental issues could also imply a non-voting seat. Direct dialogue in the Council would allow implementation of the Instrument which stipulates that the Implementing Agencies "shall be accountable to the Council for their GEF-financed activities"[51].

70. More inclusiveness and equity of all concerned parties, from the Assembly and the Replenishment through the system, may address concerns that unilateral decisions are made by the GEF on critical issues without sufficient consultation.

71. The Agencies remain committed to a strong GEF as the premier global source of funding for global environmental solutions, and value the opportunity to help move the GEF forward as a strengthened network facility into an appropriate role in the emerging environmental architecture. Together, the Agencies would welcome an opportunity to elaborate further on the proposed suggestions and reforms.

[50] The World Bank and UNDP already play in-country coordinating roles. The UN is developing its own mechanisms to increase cooperation and reduce overlap between the UN Agencies through the One UN initiative.
[51] Instrument (paragraph 22). Presumably so would the Executing Agencies on a level playing field.