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CORPORATE BUSINESS PLAN FY01-FY03

Recommended Council Decision

The Council, having reviewed the *GEF Corporate Business Plan FY01-03* (document GEF/C.14/9), approves the business plan subject to comments made at the meeting. The Council requests the Secretariat and the Implementing Agencies to take into account the business plan and its decisions on other agenda items in carrying out GEF activities and in preparing the proposed FY01 budget for approval by the Council at its meeting in May 2000.

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I. THE CHALLENGE AHEAD

1. Over the business planning period FY01-03, as it implements its Operational Strategy to meet the challenges to the global environment, the GEF will concentrate its efforts in five areas. First and foremost, GEF will strive to achieve positive and **measurable impact** on the global environment through the actions it finances. Second, since sustained, measurable impact will depend critically on the involvement and commitment of the countries where actions take place, GEF will assist countries to strengthen their **ownership** of actions and to link them to their sustainable development priorities. Third, the GEF will deepen the **commitment** of its own Implementing Agencies to the global environment. Fourth, GEF will broaden **partnership** with a wide range of organizations in order to expand the opportunities for additional financial resources and assistance to gain the needed impact. Fifth, as a model for international cooperation, GEF itself will strive to continuously improve its **institutional effectiveness** and efficiency of its organization, relationships, and operations.

THREATS TO THE GLOBAL ENVIRONMENT

2. Entering the new millennium, the world still faces many environmental problems at the national, regional, and global levels. Although there are numerous success stories, lasting change will require concerted action by the international community. GEF will do its part in assisting its member countries and partner organizations to catalyze such action, and will set an example as an efficient, cost effective, adaptable institutional model in the new century.

3. Although primary threats to the environment are generally known, some facts bear repeating. In the late 1990s, 25 percent of mammal species and 11 percent of bird species are at risk of extinction, while still more are threatened by habitat loss and the introduction of exotic species. Eighty percent of the forests that originally covered the earth have been cleared or degraded, and 39 percent of the remaining natural forests are at risk. The food crop diversity developed during centuries of domestication is being reversed by a growing reliance on genetically uniform crops. Global emissions of greenhouse gases have increased dramatically this century, resulting in the highest concentration of such gases in the atmosphere for 160,000 years. These environmental changes threaten world health, food security, and the overall stability of global biogeochemical processes and could increase the severity or frequency of natural disasters. The health of international waters is being affected by climate change, pollution, and overfishing, potentially threatening more than half of the world's reefs and imperiling marine resources. One bright spot is the slowing of stratospheric ozone depletion, a trend to which GEF has contributed in the economies in transition. By 2050, the ozone layer is expected to recover to pre-1980 levels.¹

4. At their foundation, these global trends are the simple product of everyday actions and individual decisions in communities around the world. These threats can be managed – and positive impacts made – where there is cooperation, partnership, and commitment.

¹ *Global Environmental Outlook 2000: UNEP's Millennium Report on the Environment*, United Nations Environment Programme, London: 1999.

As one example, CFC production, which had more than doubled in some countries between 1986 and 1996, is declining markedly in the economies in transition where GEF has financed phase-out-actions.

POSITIONING THE GEF TO ADDRESS THESE THREATS

5. It is envisioned that by the close of the three-year business planning period GEF would have achieved the following goals in the five areas of concentrated effort:

Impact

6. GEF would be on its way to achieving an unambiguous and widely acknowledged positive impact in its focal areas. In the ozone focal area, the first evidence of impact has already been quantified.² Progress made in the other Operational Programs is presented in the program status reviews.³ To maximize impact, GEF will now:

- (a) continue to focus proposals within Operational Programs. This focus is ensured both through transparent project review criteria designed to align GEF activities with its strategy, programs, and policies and through interagency reviews of each program's status to determine where special or renewed emphasis is needed;
- (b) measure the progress in its operations and its impact on the global environment by progressively applying the program-level indicators recently developed;
- (c) build sustainability into project design and promote lasting capacity development. GEF has entered a strategic partnership with UNDP to determine how best the latter can be done;
- (d) replicate successful innovations, with increasing emphasis on designing components to facilitate replication and sharing lessons and data with other organizations;
- (e) pioneer multi-year programmatic support to implement focused, cost-effective national plans in the focal area.

Ownership

7. Countries would have clear ownership of GEF, through projects and programs that are country-driven and based on national priorities to support sustainable development, and through improved capacity for sustainable development and environmental protection. The sustainability of the global environment agenda can only be assured by country ownership. Therefore:

- (a) As a basis for understanding national priorities, the GEF Secretariat and the Implementing Agencies will continue to review the national reports submitted by developing countries to the Convention on Biological Diversity and the national communications to the Framework Convention on Climate

² *Status of Montreal Protocol Implementation in Countries with Economies in Transition*, Draft Interim Report, Dr. Sebastian Oberthur, Ecologic Centre for International and European Environmental Research, Berlin: June 1999.

³ *Program Status Reviews*, GEF/C.14/Inf.5

Change. This study will aid understanding of the relative priorities expressed by countries within the context of their overall development and gauge the efficacy of GEF operational programs in linking global objectives to those priorities.

- (b) A dialogue is being established and, in some cases, strengthened with GEF's country partners. Country Dialogue Workshops will be the instrument for initiating more effective dialogue, and at least 50 national and regional workshops will be facilitated.
- (c) Given that human and institutional capacity is also the critical underpinning for sustainable national efforts, GEF in partnership with UNDP launched a Capacity Development Initiative.
- (d) GEF is also improving the development of indicators of country-drivenness and their application to project proposals. With the availability of such indicators, outreach and communications can be structured around the monitorable elements of ownership.

Commitment

8. Implementing Agencies would have deepened their commitment to the global environment through their own programs and activities. Implementing Agencies will deepen their commitments to global environment protection through collaborating in accordance with their relative strengths, incorporating global environmental considerations into their regular work programs, increasing support for complementary action and cofinancing, entering strategic partnerships with GEF, and helping to expand opportunities for other international organizations to execute or jointly manage the implementation of GEF projects.

Partnership

9. GEF would have catalyzed significant action in international and country-based partner organizations, had successful innovative projects replicated by others, and leveraged large and increasing levels of resources for global environmental action.

10. The GEF partnership initiative to expand opportunities for RDBs is moving forward following the Council's approval of a new policy in May 1999. Whereas from 1991–1999, the GEF approved three RDB-submitted projects, an additional 11 concepts have entered the GEF Pipeline in the last three months. By the end of FY01, GEF will endeavor to have established a streamlined and fully effective procedure for using the four major RDBs (African Development Bank, Asian Development Bank, European Bank for Reconstruction and Development, Inter-American Development Bank) to prepare and help implement GEF projects in their eligible member countries, in coordination with other GEF partners. Current indications are that RDBs will enable GEF to expand its delivery capacity for quality projects to meet country-driven demand growing at 15 per cent annually. By the end of FY02, a further four or five other executing agencies -- including international organizations, Bilateral Development Assistance Agencies, and NGOs -- would have been engaged effectively in a partnership for project execution. The expansion of opportunities for executing agencies and the full

implementation of the fee-based system will together allow GEF identify and use the relative strengths of all its partners. Such targeting of strengths will allow the Implementing Agencies to strike a good balance between direct project cycle management and brokerage of partnerships among diverse actors.

11. GEF also is pursuing a group of activities that it expects to lead to greater complementarity of action. Since October 1999, GEF publishes the pipeline, and expects this to assist in its efforts to replicate successful projects and leverage best practices.

Institutional Effectiveness

12. GEF would have further improved its effectiveness and efficiency. GEF will:

- (a) ensure that GEF activities are highly cost-effective, while remaining flexible enough to respond to changing circumstances, convention guidance, and an accumulated body of best practices;
- (b) streamline its project cycle; and
- (c) monitor and reposition its operations as necessary to fulfill its mandate.

Unfortunately, uncertainty about GEF funding by its donors continues.

13. GEF will continuously improve its financial efficiency. A major achievement has been the newly approved fee-based system, unique in budgeting for international institutions, and a major challenge will be making it operational. This system is crucial to reducing transaction costs, making transparent international comparisons, facilitating internal cost reviews, and identifying true comparative advantages and relative strengths of GEF partner agencies. The fee-based system will assist GEF deal transparently with seven agencies with diverse accounting practices. Benchmarking and internal cost reviews that will guide recommendations for fees and structures likely to yield efficiencies, as agencies begin to concentrate on activities where they have a revealed strength. Implementation services will be clearly defined. The remaining budgets for the GEF units' corporate services will be based on identified and monitorable services (e.g., policy work, contributions to monitoring and evaluation).

14. GEF will streamline and its procedures and improve partner support.

- (a) GEF and the Implementing Agencies will continue to review the Project Cycle to identify and recommend additional streamlining. Project implementation lessons will be systematically incorporated into reviews of GEF programs, and they in turn will shape the work programs of the Implementing Agencies, the monitoring and evaluation unit, STAP, the corporate outreach and communications program, and the policy work program of the Secretariat.
- (b) The development of data systems that help track GEF projects and commitments has become critical, due to the large maturing portfolio, the need to streamline document exchange and review through electronic systems, the use of new financing modalities, the gradual expansion of opportunities to executing agencies, and the need to share more timely information on the pipeline and Work Program with member countries,

Council, and external organizations such as bilateral development assistance agencies

15. GEF will also remain agile by following trends in the global environment (tracked by UNEP according to global indicators under the strategic partnership to be developed in the near future) and associated developments in the international arena. Currently the GEF Secretariat is following ongoing negotiations and discussions regarding a potential international agreement on persistent organic pollutants (POPs), the Kyoto Protocol and Clean Development Mechanism, and other proposed carbon trading schemes.

II. ACHIEVING AND SUSTAINING IMPACT

16. GEF will strive to achieve and to measure positive and sustained impact on the global environment through the actions it finances and those it catalyzes. To do this, GEF will continue to focus its activities programmatically, build sustainability and replicability into project design, promote replication, and manage programs.

17. Over the next three years, progress and impact will be monitored according to program indicators that have been developed under the leadership of the monitoring and evaluation team, and will be reported annually in the Program Status Reviews. The role of monitoring and evaluation will remain central to this whole effort.

Table 1. GEF Programs

Focal Area	Type of Activity		PORTFOLIO
Biodiversity Climate Change	Operational Programs	OP#1 OP#2 OP#3 OP#4 OP#12	Arid and Semi-arid ecosystems Coastal, marine, and freshwater ecosystems Forest ecosystems Mountain ecosystems Integrated Ecosystem Management
	Enabling Activities	EA-B	Biodiversity Enabling Activities
	Short-Term Measures	STRM-B	Biodiversity Short-Term Measures
	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	Promoting environmentally sustainable transport
	Enabling Activities	EA-CC	Climate Change Enabling Activities
	Short-Term Measures	STRM-CC	Climate Change Short-Term Measures
	Operational Programs	OP#8	Waterbody-based program
International Waters		OP#9	Integrated ecosystem and resource management
Ozone Depletion	Short-Term Measures	OP#10 ST-O3	Contaminant-based program Projects, and Country Programs to identify and prepare eligible projects

PROGRAM FOCUS

Project Cycle

18. Focusing project proposals on the programmatic criteria of GEF is necessary to achieve long term global environmental benefits cost-effectively. To further facilitate this, GEF, in consultation with the Implementing Agencies, is consolidating the Project Cycle into a single document and is elaborating its project review criteria to assist project preparation. Special emphasis would be placed on designing sustainability into the project from the beginning. Table 1 lists the programs. (GEF projects that include activities addressing land degradation,⁴ Targeted Research,⁵ or agricultural biodiversity, and medium-sized projects,⁶ all fall within the existing programs and are not separate programs.)

Program Status Reviews

19. The Secretariat, in consultation with the Implementing Agencies, monitors annually the progress in the programs, in accordance with the criteria that were established for each. The purpose of these Program Status Reviews⁷ is to record progress in meeting stated objectives; identify current gaps; identify strategic and operational policy issues; estimate areas of emerging country-driven demand within the programs; and match program gaps with country demand in order to stimulate responsive pipeline development. The results of these reviews are used to project program resource requirements over the business planning period; to identify the types of operations that 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.

Multi-Year Programming Support

20. As experience has been gained in the operations of the GEF, it has become clear that there are clear advantages to seeking the development of an integrated set of project activities through a focused programmatic approach. Such an approach would be fully consistent with the ten operational principles for development and implementation of the GEF's work program approved in the GEF Operational Strategy. It would provide phased and sustained support for the implementation of a multi-year (medium to long-term) program that serves to better integrate global environmental objectives into national strategies and plans (e.g. biodiversity strategy and action plan or a sustainable energy

⁴ *A Framework for GEF Activities Concerning Land Degradation*, Global Environment Facility, Washington, D.C.: October 1996

⁵ *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.

⁶ *Medium-Sized Projects*. GEF/C.8/5. August 29, 1996. Medium-sized projects constitute a pathway with particular processing steps, but do not constitute a **program** in their own right. Each medium-sized project must conform to the requirements of the program of which it constitutes a part.

⁷ *Program Status Reviews*, GEF/C.14/Inf.5.

plan). In applying such an approach, it would be essential to work closely in partnership with the country counterparts, relevant donors and development agencies. GEF funding at a programmatic level, whilst fully consistent with the incremental cost principles, would emphasize the co-financing and leveraging aspects of program funding. GEF funding would capture the global benefits of the proposed plan (or program). A programmatic focus would emphasize:

- (a) the achievement of agreed development and global environmental outcomes as a result of the program;
- (b) agreed objectives, triggers, and indicators of outcomes/impacts for each phase of the program;
- (c) sequencing of GEF disbursements for phased support of the program based on identified milestones in achieving the program's objectives; and
- (d) a monitoring and evaluation system.

21. GEF would also pioneer multi-year programmatic support to implement focused, cost-effective national plans for

- (a) protecting biodiversity;
- (b) linking GHG reduction to efforts to improve urban air quality;
- (c) promoting renewable energy;
- (d) integrating the management of land and water resources;
- (e) reducing the pollution and over-exploitation of international watersheds and water bodies.

Specific proposals would be prepared for Council consideration.

SUSTAINABILITY

22. The sustainability of actions funded by GEF is a concern common to many programs. In the course of project reviews, various indicators of sustainability have been identified:

- (a) the extent of participation, commitment, and cofinancing by key community groups, government agencies, other donors, and the Implementing Agency;
- (b) the decline in grant support needed per unit of activity. Over time, project incremental costs should decline to the point where new projects of that type are 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, generation of sustainable revenue, development of a constituency with interests in preserving the activity, government commitment to cover baseline expenditures, and provision of a trust fund.) Details of this operational experience will be shared among the GEF units.

REPLICATION

23. The Implementing Agencies will pay greater attention to identifying the likely potential for the project's replication and to the necessary demonstration, monitoring, and technology transfer components of the project. Replication is an important issue, fundamental to the GEF Operational Strategy, and the M&E team will carry out a special evaluation of it in FY01.

24. GEF Secretariat will also seek partners to apply the GEF experience. For example, successful experience in conservation management could be accessed regionally so that GEF support for new sites would not need to be a direct repetition of earlier work. In climate change, a study would be commissioned as part of the GEF-UNEP Strategic Partnership and partly funded by KfW, to assess the global market potential for PV-hydro applications. There may be a large, unexploited, and low-cost potential for promoting photovoltaics. The study would seek to identify potential sites and utilities where the approach in the IFC/GEF CEPALCO project could be replicated and where total PV-hydro investments of at least 500 MW can be assured over the next five to seven years. The GEF could then assist with further feasibility work at promising sites, while seeking to secure project financing from the appropriate country, multilateral, and bilateral sources.

25. As the portfolios mature, a greater proportion of eligible country-driven proposals will need to draw on the lessons and experience of earlier successful GEF projects. The GEF Secretariat will work with Implementing Agencies to design appropriate GEF-financed elements for the technology transfer, and to facilitate adequate overall financing for the projects. The Implementing Agencies would endeavor to facilitate replication of successful GEF activities by both disseminating experience and best practices and coordinating with other donors. The Corporate Business Plan for FY00-FY02 recognized that, during the transition to a more focused programming strategy, some repeat projects will move from the GEF Pipeline to the Work Program. However, on the basis of information⁸ provided by the Implementing Agencies, this transitional period is unlikely to extend much into FY00 because few of the pipeline projects have preparation times greater than a year.

IMPACT MEASUREMENT AND DISSEMINATION

Global Trends

26. As a complement to its work on Global Environmental Knowledge Management and its measurements of trends at the regional level, UNEP proposes to collaborate with the GEF on an activity to measure global environmental trends (i.e., species loss, deforestation, climate change, and ozone depletion) using global-level indicators identified by the GEF. In this way, the GEF can determine and improve its efficacy in meeting Operational Program objectives, as well as its essential responsiveness to global-level problems.

Program Impact

27. GEF's monitoring and evaluation unit is developing program-level indicators for both its biodiversity and climate change activities, with indicators for international waters projects to follow. Because program-level indicators are used to measure and communicate progress toward strategic objectives, this task is a high priority. The indicators will answer questions about what we expect GEF's operational programs to

⁸ See Implementing Agency pipelines in *Operational Report on GEF Programs*, October 1998.

achieve, how we will know whether the intended goals have been reached, and how much associated progress has been made. The work on programmatic indicators will be completed by the end of FY00, and these indicators (as well as project and process indicators) will be applied in all future Program Status reviews to measure progress and impact.

Review of Strategic Assumptions

28. As program indicators for monitoring the operational programs are being developed, 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:

- (a) specific assumptions on scope and replication in each program;
- (b) the usefulness of the ecosystem approach for biodiversity programming;
- (c) the usefulness of the barrier removal concept for programming action in the climate change focal area;
- (d) the efficacy of delegated authority mechanisms such as funds, financial intermediation, and umbrella projects;
- (e) the feasibility of achieving significant cost reductions in targeted technologies;
- (f) the ability of investment funds to yield global environmental benefits cost-effectively;
- (g) 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;
- (h) the need for and achievement of interagency collaboration and whether such collaboration has raised, or could have raised, the quality of GEF projects commensurate with the additional costs.

BIODIVERSITY

29. Biodiversity is a major focal area for the GEF, with about 40 per cent of the allocations. The major focus of attention is currently the threats to forest ecosystems – almost half the biodiversity allocations have gone to forest ecosystems. Major new issues concern coral bleaching (to address which a number of new country driven proposals are under preparation and a coordinated World Bank-UNEP approach to research is under way) and alien species. GEF is also closely following the progress in the implementation of the Barbados Program of Action of Small Island Developing States, and strengthening this process through several initiatives and projects (in the Southern Pacific, Caribbean, and Indian Ocean), addressing their priority concerns of coastal ecosystem protection. In its dialogue with SIDs, GEF stresses the need for closer partnership through the Country Dialogue Workshops, for strategic multi-focal demonstrations, and for an enhanced role for focal points in the prioritization of GEF eligible projects.

Logging

30 The major operational issue concerns logging. GEF supports programs in sustainable forest management, but this does not include any logging in primary forests. The issue of whether GEF should support sustainable logging in secondary forests could influence operations in the new Operational Program, *Integrated Ecosystem Management*. In response to this issue, the GEF Secretariat, in collaboration with STAP and the Centre for International Research in Forestry (CIFOR), is undertaking a review of the state of knowledge on biodiversity conservation in logged forests. The results of this study would provide a technical basis for operational guidance on this issue.

Sustainability

31. The M&E team has recently completed a thematic review, “Achieving Sustainability of Biodiversity Conservation.” In addition, Program Managers have been reviewing various design features that have been proposed in GEF projects to ensure that the activities remain financially sustainable. A number of approaches have been followed: cofinancing to indicate commitment of key stakeholders, trust funds to cover recurrent costs, revenue generation, engagement of the private sector, and user fees. These lessons and insights will be fed back into project reviews.

Program Support

32. In coming years, there is likely to be increasing emphasis on multi-year programmatic support for country-driven biodiversity conservation programs. In these approaches, GEF would be requested to provide multi-year support for heavily cofinanced program that would be monitored against programmatic indicators. Such approaches should help to provide cost-effective sustainable conservation; country programs have worked well in the ozone focal area, and programmatic approaches have also been proposed in renewable energy and for reducing nutrient and pollutant flows into international waterways. There would also be emphasis on integrated land and water management, especially in Africa.

CLIMATE CHANGE

Overall Delivery Capacity

33. One major overall issue in the climate change focal area continues to be overall delivery capacity. Large commitments to individual projects employing new technology have tended to amplify the variability of the investment program. Although the World Bank has committed itself to a Strategic Partnership with the GEF on renewable energy (with possible Bank commitments of several hundreds of millions of dollars annually), it is now experiencing a contraction in the volume of its traditional project transactions in the energy portfolio and this may affect opportunities for GEF cofinancing. Offsetting this trend though are the recently expanded opportunities for RDBs -- coupled with the RDBs’ more traditional project-based portfolio in energy, these new opportunities should expand delivery capacity to meet country demand for GEF assistance in climate change.

Overall Demand

34. A second major operational issue is the maturation of existing portfolios. GEF pioneers innovative approaches and will facilitate replication, so the demand for financing is expected to shift from direct demonstration to replication of approaches that have been well demonstrated. Certain energy efficiency and landfill projects are now in this category. Demand for financing may increase in other areas though due to

- (a) the gradual opening up of the new investment areas (such as fuel cells for stationary applications);
- (b) the need to build capacity to absorb the technology and approaches successfully demonstrated elsewhere;
- (c) new operational programs (such as Operational Program #11 in transport); and
- (d) technical assessments (such as for wind and photovoltaics), that would help define new areas of assistance. UNEP is well placed to undertake these assessments.⁹ The assessments and the application methodologies developed would be fed into the clearinghouse mechanism established under the UNEP-GEF Strategic Partnership for the use of the agencies undertaking the follow up country based work.

Barrier Removal

35. The main operations in this focal area are the barrier removal projects for the promotion of energy efficiency and energy conservation measures and renewable energy technologies as ways to reduce greenhouse gas emissions. The GEF approach is indirect: creating, opening, and transforming markets for these measures and technologies by removing “barriers” to their adoption. It is potentially very powerful, because it can leverage considerable funding in follow up investments that do not require GEF funds. By removing barriers, it opens the way for – but does not distort the market for – private sector investors. The main operational challenges therefore are to monitor these follow-on investments, to sustain the markets, to facilitate the replication good examples elsewhere, and to continue to test new approaches.

36. Two changes of emphasis in these barrier removal projects are foreshadowed. Instead of directly duplicating earlier GEF examples, GEF projects are likely to be designed to facilitate their replication by financing the transfer of technology and lessons from them, through twinning and other arrangements, and to lay the ground work for their own replication elsewhere. One candidate for such replication is the ESCO approach. The second change is likely to be the financing modality. Where the main “barrier” to the adoption of a “win-win” technique is perceived risk, GEF can expand the number of operations and obtain major GHG reductions very cost effectively by guaranteeing to cover incremental costs that are realized (i.e., through contingent grants, guarantee mechanisms etc.).

⁹ See Annex D, paragraph 11 (b) of the *Instrument*. UNEP has the primary responsibility in catalyzing the development of scientific and technical analysis.

Renewable Energy

37. In the promotion of renewable energy specifically, the main issue is the need to be more receptive to opportunities for income-generating renewable energy, such as plants that supply or stabilize the grid, as this is where the major opportunities for reducing greenhouse gases lie. To date, off-grid photovoltaic power has been heavily emphasized. Although this will clearly remain an important option for meeting national priorities for rural development and poverty reduction, other technologies (such as biomass and wind) will begin to receive greater attention.

38. Operational Program #7 aims to reduce the long-term costs of low GHG-emitting technologies. For this approach to succeed, the costs of the technology must decline for future users, as a result of learning. Ideally, the lessons and data generated by each plant would be used as inputs for the design of subsequent ones. This has not proved to be easy. For example, there are four approved or planned solar thermal power plants with incremental costs in the order of \$50 million each. Although submitted at different times, authorization and implementation delays have resulted in a bunching of implementation that may prevent this. In future, the right balance between sequencing projects out (to ensure that this learning can take place) and bunching them (to achieve needed critical mass) needs to be determined.

Clean Coal

39. A second issue for this program is the impact of clean coal, or Integrated Gasification and Combined Cycle (IGCC) technology. Advances in IGCC and supercritical coal combustion reduce the emission of GHGs in the short term through energy efficiency. But in the longer term they make it more difficult for renewable energy technologies to compete, because the fossil fuel baseline is by then more cost-effective than it would have been otherwise (and the incremental costs for renewable energy is thus higher). Trends in competitive fossil fuel technologies will be monitored as an input to designing programs of renewable energy technology support.

INTERNATIONAL WATERS

40. GEF operations can address the degradation of the quality of transboundary water resources from land-based sources of pollution (toxic substances, nutrients, sediments and so forth). GEF can also address the degradation of physical habitat (wetlands, mangroves, coral reefs etc.) caused by inappropriate management, the introduction of non-indigenous species, and the over-exploitation of resources (such as overfishing and excessive water abstraction).

Persistent Organic Pollutants

41. GEF is carefully following the international negotiations on a protocol to phase out persistent organic pollutants. Two projects are already exploring the dimensions of this, and the Work Program before Council includes a UNEP project for a regionally-based assessment of persistent toxic substances. Phase out projects can be designed that are consistent with the existing program (OP#10) and incremental cost criteria are likely to be relatively easy to apply (as the situation is conceptually similar to the phase out of ozone-depleting substances). The main challenge for the GEF however will be to obtain as well as mobilize additional resources commensurate with the likely country demand for assistance once the program priorities are agreed.

Programmatic Approaches

42. Building on the success of initial activities in the Black Sea and Danube Basin, UNDP, UNEP, the World Bank, and EBRD are now joining in a coordinated effort to demonstrate ways to reduce nutrient discharges, the main threat to the Basin's ecosystems, through cleaner production techniques in industry, wetland restoration, reforms in agricultural practices, tertiary water treatment, and policy and legal reforms. Such a programmatic approach is intended to mobilize private sector investment, increase coordination of effort, and reduce GEF transaction costs.

43. At this point in the implementation of the strategy, it is important to take stock of the underlying assumptions. The Monitoring and Evaluation team is undertaking a review of multi-country implementation mechanisms, with special reference to international waters, as GEF project preparation in this focal area has experienced difficulties and delays.

OZONE DEPLETION

44. It became apparent, in 1994, that few countries with economies in transition would be able to meet the schedules of the Montreal Protocol for phasing out ozone depleting substances. Shortly afterwards, GEF began operations in this focal area and allocated about \$120 million to cover the costs of the phase out in 14 such. More than 90 per cent of their total consumption of these substances in has since been phased out. A recent study¹⁰ concluded that GEF -- through its Implementing Agencies UNDO, UNEP and the World Bank -- played a crucial role in this phase-out. It achieved this not only by providing much needed financial assistance, but also by making available technical expertise, by supporting learning and dissemination of project lessons within each country in a regional context, and by helping establish appropriate legal frameworks. Although implementation has progressed more slowly than expected, most projects are now close to completion and all operations would be complete by the end of the year 2000. Many of the remaining actions needed are likely to be commercially feasible (such as conversions of chillers and commercial refrigeration sectors), but where the necessary action is perceived to be risky, GEF would provide contingent financing.

¹⁰ For an evaluation of impact, see *Study of Impacts of GEF Ozone Activities*, GEF/C.14/Inf.4

45. Lessons learned in this focal area would be taken into account in other focal areas. The lessons include that:

- (a) the support for overall country programs complemented by sector approaches;¹¹
- (b) the focus on national priorities and the complementary national endeavors;
- (c) the integration of country, legal, economic, institutional, technical, and other issues were effective and cost-effective;
- (d) regional coordination of policy development on transboundary environmental issues, and regional exchange of experience on common environmental issues; and
- (e) the ability to address issues in an integrated way in more than one focal area (in this case, ozone depletion and climate change).

LAND DEGRADATION

46. The linkages between land degradation activities and the GEF focal areas are set out in a separate paper before Council.¹²

CAPACITY DEVELOPMENT

47. To ensure sustainability of global environmental action, GEF will promote capacity development in recipient countries at the levels of the individual, institutions and systems. In collaboration with the other Implementing Agencies, and the secretariats for the Convention on Biological Diversity and the Framework Convention on Climate Change, UNDP and the GEF Secretariat developed terms of reference for the Capacity Development Initiative: a UNDP-GEF Strategic Partnership approved by the Council in May 1999. An 18-month process of intensive consultations with countries and their experts, bilateral and multilateral agencies, the GEF family, RDBs, and NGOs, the CDI will result in a strategy and action plan for strengthening national capacities to manage the global environment. Terms of reference for the initiative have been circulated to Council, and implementation will commence once they are approved.

48. The current GEF Operational Programs, Enabling Activities, and Biodiversity and Climate Change Planning Support Programs all support capacity development in various ways. The present question is whether the experience gained warrants a more comprehensive, programmatic approach that would lead to more strategic impacts at the country level. Such a programmatic approach to capacity development will facilitate a process that emanates from within the country, is firmly rooted in country needs, and engages the active leadership, participation, and ownership by the country.

49. The CDI would be divided into three stages: assessment, strategy development, and development of action plans for biodiversity and climate change, including land degradation as it relates to the two focal areas. The continual incorporation of new information, inputs from recipient countries, guidance from the Conferences of the Parties, and lessons learned makes the CDI an iterative process that demands information

¹¹ See the proposed programmatic approach in *Report on Incremental Costs*, GEF/C.14/5.

¹² See *Clarifying the Linkages between Land Degradation and the GEF Focal Areas*, GEF/C.14/4.

sharing amongst all participants. Development of the strategy and action plans will proceed on the basis of exchange of information, views and emerging consensus, proposing a strategic approach for the international community to strengthen capacities for biodiversity, climate change, and land degradation as it relates to the two focal areas, while the action plans will highlight concrete measures that can be taken by the GEF as one actor contributing to that strategic approach.

50. By creating a better understanding of the needs for capacity development and past experience, the GEF envisions a process that will lead to a strategic approach to capacity development firmly rooted in the present reality of developing countries. The result will be a clearer understanding of the role for a new, comprehensive GEF capacity development intervention that assists countries in developing individual, entity, and system-level capacities for advancing global environmental objectives consistent with the objectives of the Conventions on Biological Diversity and Climate Change.

III. STRENGTHENING COUNTRY OWNERSHIP

51. GEF will assist countries to strengthen their ownership of global environmental action and to link such action to their national priorities, because success will depend critically on the involvement and commitment of the countries where such action takes place.

52. Over the next three years, GEF will:

- (a) Establish the basis for continuing dialogue through:
 - (i) Country Dialogue Workshops in 50 countries;
 - (ii) Increased awareness and coordination within countries catalyzed by the operational focal point and assisted by services provided through Implementing Agency field offices;
 - (iii) Improved understanding of country needs and priorities as well as knowledge of how to effectively respond to those needs; and
 - (iv) Strategy and action plans, and initial activities prepared pursuant to those plans, to strengthen country capacity to address global environmental challenges.
- (b) Develop, and apply in project reviews, indicators of country-drivenness.
- (c) Improve and expand understanding of the GEF (its objectives, policies and procedures) and open channels of communication with a broad range of stakeholders in all participating countries, thus increasing the number and diversity of actors contributing to GEF-financed activities.

53. There is already steady increase in country ownership, country absorptive capacity, and consequent country-driven demand for GEF funding. This increased ownership is affirmed by:

- (a) counterpart funding for GEF projects – increasingly from local communities and NGOs as well -- and other associated country commitments such as land set aside for protection;
- (b) the rapidly increasing number of National Reports prepared for the Convention on Biological Diversity, of nearly complete National Communications to the Framework Convention on Climate Change, and of countries eligible to receive finance through the financial mechanisms of the conventions as a result of ratifications over the past five years;
- (c) the identification of priorities for implementation within each eligible country as a result of GEF-funded Enabling Activities;
- (d) the increasing experience that countries have of the GEF through project development using Project Development Facility funds, as well as other sources, and
- (e) the increasing levels of cofinancing for GEF activities from a variety of country stakeholders.

54. To strengthen this ownership, GEF will support critical country processes and build general awareness at country level. GEF will enter a dialogue with its recipient member countries to understand their national priorities and communicate its own strategy, policies, programs, and procedures. This dialogue will assist the efficient programming of GEF resources and help link global environmental action to local benefits. GEF will also support constituencies and focal points, and ensure that project proposals are truly country-driven.

COUNTRY DIALOGUE

55. The GEF has commenced a dialogue with a number of member countries, initiated at their request, e.g., as preparation for multi-year programming support. In October 1998, the GEF Council approved a specific instrument that can be used in many cases to begin the dialogue more formally: the GEF Country Dialogue Workshops, administered by UNDP on behalf of the GEF family. These workshops will stimulate dialogue with key national stakeholders with a view to strengthening country level coordination, raising awareness of country needs and priorities, and enhancing GEF project preparation capacities in GEF recipient countries. The three-year project has resources to cover approximately 50 workshops, mostly at the national level, but with sufficient flexibility to take advantage of cost-effective regional and sub-regional opportunities as well. The project also has resources to ensure that the workshop materials are made available to all countries (in print and electronically) in order to facilitate broader dissemination of information and engagement with other stakeholders. The Secretariat, the three Implementing Agencies, and the relevant Regional Development Bank will have the opportunity to participate in the workshops. The Program Coordinator has commenced work and is currently developing the training workshop modules. The first workshops will take place in early 2000.

56. GEF will follow up each workshop by monitoring the results and will seek opportunities to promote an ongoing dialogue, thus ensuring that the workshop results further enhance country capacity to identify, propose, prepare, and implement GEF-financed activities. The role of the GEF Operational Focal Point will be crucial not only in organizing the workshop but in carrying on the dialogue, particularly with stakeholders at the country level. It is therefore very timely that the Council approved in May 1999 administrative resources for the focal points (political and operational) to strengthen country-level coordination activities. The availability of information will be improved by channeling through the GEF Web site information on country accounts and other data relevant to continuing the initial dialogue. Furthermore, a planned newsletter will further support focal points in the exchange of results, ideas, and proposals to improve overall awareness of possibilities to work with the GEF through its Implementing Agencies. Likewise, the Implementing Agencies will be encouraged to work with countries to develop project proposals responding to the priorities and needs identified at the workshop by country participants.

FOCAL POINT SUPPORT

57. The GEF focal points (political and operational) continue to have the main responsibility for overseeing a country's interaction with the GEF. Council at its meeting

in May 1999 approved resources to strengthen the focal points, thereby directly promoting better country level coordination, through services to be provided by the field/regional offices of UNDP or the World Bank or by UNEP.

58. GEF Secretariat, in consultation with Implementing Agencies, alerted all focal points to this opportunity and requested them to indicate the field office they wished to work with. Focal point support, available for such activities as information access and dissemination, communication, and consultation with interested stakeholders concerning GEF project activities, will aim to complement GEF's other efforts to assist focal points in working better with the GEF. The Secretariat will work with countries and Implementing Agencies to ensure delivery of this assistance, which, by communicating and consulting with interested stakeholders, may also benefit the Operational Focal Points in preparing the Country Dialogue Workshops. Furthermore, this support will likely strengthen follow-up efforts in those countries that have hosted workshops.

CONSTITUENCY SUPPORT

59. The Council also approved at its May 1999 meeting resources to support Council Members in their outreach with countries participating in their constituencies. Resources have been allocated to promote such activities as information access and dissemination, communication, and consultation and will be provided as services through a field or regional office of one of the Implementing Agencies. The Council Members have been requested to identify with which of the Implementing Agency field offices they wish to work. This support enables the Council Members of recipient countries to more effectively inform constituency members about GEF policies and programs. Such improvements should lead to a more efficient exchange of information in preparing the position of the constituency for GEF Council meetings.

60. To learn lessons and identify models for best practices on country-level coordination, a survey was carried out between July and September 1998 on the functioning of political and operational focal points in recipient countries. It yielded a high rate of response and some very interesting examples of how countries have addressed the coordination issue. Preliminary results of the survey were before the Council at its October 1998 meeting.¹³

61. To fully understand these best practices and highlight elements for dissemination, the Secretariat will organize a workshop in early 2000. Opportunities presented by the Country Dialogue Workshops will also be fully utilized, both to gather further information on best practices and to disseminate information about them as it becomes available.

COUNTRY DRIVENNESS

62. To ensure that project proposals are truly country driven, and as recommended in the *Study of GEF's Overall Performance*, the Secretariat has begun work

¹³ GEF/ C.12/ Inf. 17.

- (a) to develop quantitative and qualitative indicators of country drivenness, including stakeholder involvement, at different stages of the project cycle;
- (b) to document best practices of stakeholder participation in GEF projects; and
- (c) to incorporate the requirement for country involvement in incremental cost negotiations into the Project Cycle. Specifically, the Implementing Agency and in-country project sponsors, designers, and local executing agencies should work collaboratively both to estimate incremental costs and come to agreement on the financing. Special modules under preparation for the Country Dialogue Workshops will also provide an opportunity to discuss the incremental cost approach to a broad-based national audience and to build country capacity, thereby enhancing participation in the estimation and negotiation process.

IV. DEEPENING THE COMMITMENT TO *GEF*

63. The initial commitment of the Implementing Agencies to the GEF had been in developing their GEF activities in areas of their institutional comparative advantage, as recorded in the *Instrument*. The issue for the Implementing Agencies in the years since the restructuring in 1994 became one of deepening those commitments by integrating their GEF activities into their regular work programs and taking global environmental considerations into account in those programs. Progress on these issues has been reported to Council by the Implementing Agencies.¹⁴

INDICATORS

64. Given the magnitude of the resources required for the global environment, the Implementing Agencies will need to deepen their commitment to the GEF. Indicators that would express the depth of such commitment in future would include:

- (a) Direct cofinancing of GEF projects, leverage and mobilization of cofinancing for GEF projects, foundational support for GEF projects from the regular work program, replicate on their own successful GEF innovations, follow up to the recommendations and opportunities from GEF projects in the regular work program, policies incorporating global environmental considerations in the regular work program, and a regular program non-GEF financed activities linked to global environmental priorities – all of which increase impact;
- (b) Stewardship of partner agencies for joint management of the project cycle, expanded opportunities for executing agencies, and collaboration with other Implementing Agencies – all of which expand partnership;
- (c) Use of institutional comparative advantage in GEF activities, participation in strategic partnerships with GEF, staff familiarization efforts, extent to which knowledge of GEF and the global environment is spread through the operational units, and staff incentives and budgetary measures to promote global environmental action – all of which promote institutional effectiveness of GEF.

COMPARATIVE ADVANTAGE AND COMPLEMENTARITY

65. Relative strengths of the Implementing Agencies were identified in the *Instrument*.

- (a) The relative strengths of UNDP were identified as capacity building (including institutional strengthening), technical assistance, and pre-investment studies. UNDP's strengths are in its country presence, its neutrality, and its brokering capacity.
- (b) UNEP plays the primary role in catalyzing the development of scientific and technical analysis and in advancing environmental management in GEF-financed activities. UNEP provides guidance on relating GEF-financed activities to global, regional, and national environmental assessments; policy frameworks and plans; and international environmental agreements. UNEP provides the secretariat for STAP.

¹⁴ The latest report is the one from the World Bank, *World Bank Group Environment Strategy and Mainstreaming the Global Environment*, GEF/C.14/3.

- (c) The World Bank plays the primary role in investment, but also undertakes a number of technical assistance projects. The World Bank also has major country presence, with many staff now resident in the field.

66. Many projects have benefited from a collaboration among the agencies that was based on their complementary strengths. Occasionally though, competition occurred for the same project, or the degree of interagency collaboration required was costly and time-consuming particularly for the institutionally complex projects in international waters or projects involving land degradation measures. UNEP has taken the lead in streamlining the process by clearly defining the complementarity of its regular work program to the GEF and the complementarity of its unique mandate as an international organization in charge of the environment. UNEP's interventions in the GEF will thus be in accordance with the Action Plan on Complementarity.

67. Both UNDP and the World Bank provide technical assistance on biodiversity. In the biodiversity focal area in particular, UNDP-implemented projects and World Bank-implemented projects are very similar in type and complexity. One issue that the fee-based system should help resolve is the comparative advantage of these Implementing Agencies in technical assistance (as the fees would now be negotiated transparently on the basis of the product whereas administrative budgets in the past had been designed to cover actual agency costs).

68. Most country-based activities in biodiversity, whether implemented by UNDP or the World Bank, is still focused on protected areas. The World Bank – with its comparative advantage in regular investment operations in agriculture, fisheries, forestry, and industry -- has much unexploited opportunity to support biodiversity protection by addressing the economic root causes of its loss in the surrounding areas as well. GEF has supported country case studies to identify root causes of biodiversity loss, and will now encourage operations that incorporate global environmental concerns into the regular development portfolio.

COMMITMENT TO GLOBAL ENVIRONMENTAL OBJECTIVES

69. Deepening the institutional commitment of the operational partners has been under discussion for some time. It involves the core commitments of the agency to incorporate global environmental objectives in its regular work program, to co-finance GEF projects they implement, to replicate or follow up on successful GEF projects, and to leverage other action. The Implementing Agencies report to Council periodically on this.

Core Commitments

70. These commitments will show that proposed GEF projects would build on, benefit from, or be complemented by activities in the regular work program of the agency.

- (a) In the case of UNDP, which implements the majority of enabling activities and many technical assistance projects, one challenge ahead is to understand the true capacity development needs of GEF recipient countries, given their various convention commitments and existing capacities. The Capacity Development Initiative, a strategic partnership with the GEF, will help define

these, and results of this partnership will help shape and further enhance UNDP's contribution in the GEF. It will also be important to understand the way UNDP's general comparative advantage in capacity building is manifested in specific regular activities on which their GEF project proposals would build.

- (b) In its paper, *Action Plan on UNEP-GEF Complementarity* (UNEP/GC.20/44), UNEP set out an action plan for its work within GEF, which has been endorsed by both the UNEP Governing Council and the GEF Council.
- (c) It will be important to clarify the commitment of the World Bank to such GEF-relevant areas as forests and climate change. Council expressed a specific concern over the decline in World Bank-GEF climate projects.¹⁵ There had been an expectation of a rise in such activity, following the mainstreaming efforts reported in May 1999 and the renewable energy partnership with GEF. Yet, at the same time, the World Bank is increasingly orienting its regular energy sector activities along a poverty-focused strategy. This strategy emphasizes poverty alleviation through policy adjustment and investment, rather than via a traditional emphasis on input/output and loan dollar volumes. The implications of these directions for future World Bank/GEF financing need to be assessed but will depend importantly on how well the objectives of the GEF operational programs match those of the World Bank strategies. The recently approved sector strategy on energy and the environment¹⁶ indeed implies a level of World Bank/GEF activity in the energy sector (10 projects over three years) that is about a third of the recently projected level and well below recent performance.
- (d) In the World Bank Group, there has always been a high level of understanding of GEF activities within IBRD, as evidenced by the fact that GEF projects are administered by the regional units and are often associated with regular operations in many sectors. The IFC has chosen to administer its GEF operations from a central unit and to engage external managers in order to push knowledge of the GEF and global concerns directly into the private sector.

Co-Funding

71. Cofinancing is always important for resource mobilization, but cofinancing from the Implementing Agency is especially important as an indicator of institutional commitment to shared project goals and therefore of likely success and the sustainability of the project outcomes. As reported in previous Work Programs, cofinancing from UNDP has been particularly weak, but UNDP is now committed to increasing its cofinancing ratios.¹⁷

¹⁵ *Joint Summary of the Chairs*, GEF Council Meeting, May 1999.

¹⁶ *Fuel for Thought: Environmental Strategy for the Energy Sector*, Sector Strategy paper, World Bank, June 29, 1999.

¹⁷ *Mainstreaming Global Environmental Issues: Report of UNDP to the GEF Council*, GEF/C.12/4.

Follow Up

72. An important programmatic goal has been follow up. The Secretariat will seek an assurance from the Implementing Agencies, at the time of project submission, that it would program appropriate follow up. Such follow up would include preparation and financing of the activities recommended by an Enabling Activity or technical assistance, and of activities needed to ensure that a demonstration project had its intended impact.

Leverage and Partnering

73. Given the amount of action needed, other institutions would also need to commit resources for the global environmental objectives. UNDP, given its constraints in directly cofinancing GEF projects, is committed to coordinate UN agency investments for synergy with GEF, to ensure that the baseline is effectively financed, to leverage funding from multilateral and bilateral organizations, to leverage cost-sharing from recipient countries and NGOs, and to negotiate private sector investments. RDBs in particular can complement UNDP: their investment operations provide specific contexts for UNDP's capacity building efforts and their regular work programs finance baseline activities.

STRATEGIC PARTNERSHIPS WITH GEF

74. Strategic partnerships between GEF and its Implementing Agencies¹⁸ can further deepen the partnership. These partnerships typically involve a more flexible and programmatic approach to projects than the project-by-project approach of the Project Cycle. Progress on these will be separately reported: UNDP will report progress on the GEF Small Grants Programme using programmatic indicators when an advance replenishment is sought, the proposal for the Capacity Development Initiative and for initial activities under the UNEP partnership went to Council for approval on a no-objection basis. The first country programs, the basis for the GEF-World Bank Renewable Energy Partnership, would be included in Work Programs submitted to Council Meetings.

STEWARDSHIP

75. Implementing Agencies have been working with Regional Development Banks to share project cycle management for GEF projects. Progress after the first year of operation of the new policy would be reported to Council in May 2000. Initial progress is encouraging: eleven RDB proposals have been cleared for entry to the GEF Pipeline. Discussions are still underway with the Trustee to streamline the transfer of funds to RDBs for project preparation and for maintaining appropriate accountability to Council. UNDP has been particularly active in assisting the RDBs, having accepted to implement nine of the eleven proposals. The World Bank will implement the other two. UNEP will play an increasingly active role in mobilizing the scientific and technical community in support of global environmental objectives and the preparation of GEF projects. This

¹⁸ See *Strategic Partnerships with GEF Implementing Agencies*, GEF/C.13/9

work will build on STAP work with ICSU and others and would be carried out through the strategic partnership in close coordination with the Country Dialogue Workshops.

V. EXPANDING THE PARTNERSHIP

76. GEF will develop partnerships with the wide range of organizations in order to expand the capacity of the international system to supply the needed resources and assistance for such an immense undertaking. To remain institutionally sustainable, GEF must catalyze international action. This section describes the approach for mobilizing the international system (using the relative strengths of each partner agency to leverage such additional action), current issues, and GEF's institutional strategy. The GEF Implementing Agencies have made impressive efforts to expand opportunities for executing agencies within the GEF. They have worked with NGOs, RDBs, bilateral development cooperation agencies, agencies of the United Nations system, and others.¹⁹

77. By the beginning of FY01, the Secretariat, Trustee, and Implementing Agencies will have procedures for working with four Regional Development Banks to co-manage the project cycle for selected GEF projects, and by the end of FY01 at least ten such projects including at least one from each RDB will have been presented to Council for its consideration. Over the next three years, GEF will establish operational dialogue with interested bilateral development cooperation agencies; expand opportunities for international organizations, bilateral agencies, and NGOs on project execution; and systematically explore new partners and modalities for engaging the private sector.

REGIONAL DEVELOPMENT BANKS

General Issues

78. As partner agencies of the GEF, four Regional Development Banks (RDBs) can prepare and share their implementation of GEF projects on behalf of their eligible member countries. These RDBs expand the capacity of GEF to deliver high-quality projects, increase the diversity of ideas so central to the GEF's catalytic strategy for protecting the global environment, and help mobilize complementary financing.

79. The RDBs have special expertise and regular work programs on which GEF can build. With their regular work programs on energy, the RDBs share the major strength of having a context in which to provide GEF support for alternative energy technologies, currently a weak spot in GEF's delivery capacity. All RDBs should also be able to work within their regular programs of natural resource management to support the identification and elimination of the root causes of biodiversity loss, supplementing the existing GEF focus on protected area management. In particular:

- (a) The Asian Development Bank (AsDB), for example, has considerable capacity in the energy and transport sectors with a variety of projects that have potential for GEF involvement. It prepares a number of urban environment and air pollution projects that can help integrate GHG mitigation, including a regional air quality protocol with UNEP for the ASEAN countries. In addition to a growing pipeline of biodiversity conservation and sustainable use projects across Asia, AsDB has several coastal resource management projects that could be adapted to protect coral

¹⁹ See *Expanded Opportunities for Executing Agencies*, GEF/C.13/3

reefs, wetlands, and marine biodiversity in South East Asia. The AsDB also supports innovative agriculture, poverty reduction and land management programs, with potential for land degradation control activities. The AsDB emphasizes sub-regional cooperative programs often with global environmental dimensions, such as its initiatives in the Greater Mekong Sub-region and South China Sea.

- (b) The European Bank for Reconstruction and Development (EBRD) has strengths in support for the private sector, privatization, and clean production techniques. It could provide incremental risk financing coverage, support joint ventures and market development, offer alternative bankable feasibility studies for renewable energy technology and clean production techniques that reduce transboundary water pollution, and innovate in other ways to supplement the funds-based approaches already well represented in the GEF portfolio. Through EBRD, GEF could influence the privatization of industries and municipalities and build on regular programs for treating industrial waste and reducing agricultural runoff in watersheds with significant transboundary pollution issues. Areas of activity include the Caspian Sea, the Baltic Sea, and the Black Sea and Danube Basin where GEF has initiated a coordinated process. EBRD could work with small and medium-sized private enterprises to adopt certification schemes for sustainable management and biodiversity protection. EBRD's help on privatizing and refurbishing power systems in the former Soviet Union and Central Asia would provide a useful base for assessing those areas' longer term prospects for alternative energy technologies, particularly geothermal power and wind.
- (c) The African Development Bank (AfDB) is strengthening its regular environmental operations in Africa and its private sector department, and will identify possible GEF synergies.
- (d) As noted in the Program Status Review for biodiversity, although GEF programs call for innovative examples of using indigenous knowledge, there is not yet a strong portfolio in this. The Inter-American Development Bank (IDB), in addition to its regular program supporting energy and protecting the environment and international waters, has an Indigenous Peoples Unit that can work with member countries to pioneer such an effort. This activity would strengthen GEF's programs and its responsiveness to member countries' demands. IDB also has special expertise in the region on disaster preparation and relief efforts. Although GEF cannot provide disaster relief as such, for which there are other and more appropriate sources of finance, it could assist countries in adopting renewable energy as part of a more robust power distribution system that is less susceptible to outages from natural disasters than traditional, large, grid-based infrastructure. It could also help mitigate the impact of future hurricanes in Central America and El Niño recurrences by protecting international watersheds from the land degradation that leads to substantial transboundary siltation.

80. The RDBs often have country relations that are either especially close or have a particular focus. As part of its network of resident missions in member countries, the

AsDB maintains a South Pacific Regional Office and has special relations with the South Pacific Regional Environment Programme, on which additional GEF assistance to the Small Island Developing States (SIDs) of the region could be built. Likewise, the IDB's relations with Caribbean countries will help to develop a more robust pipeline of support for SIDs in their region. The IDB maintains country offices in all its borrowing member states, and is especially active in the smaller and poorer countries.

81. The RDBs can help GEF leverage additional funds, both for project preparation and project implementation. The major resources will be ordinary capital to support necessary foundational work or baseline cofinancing for GEF projects. The RDBs also operate a large number of Trust Funds (thirty, in the case of IDB alone) that can support complementary activities such as capacity building. The IDB operates both the Multilateral Investment Fund, which could provide complementary support for private sector initiatives, and the Sustainable Markets for Sustainable Energy project with bilateral support, which could provide baseline support for GEF market-opening initiatives under OP#6. Unusually for a multilateral development bank, AsDB has access to substantial grant resources for both project preparation and technical assistance (through the Technical Assistance Special Fund and the Japan Special Fund).

82. The RDBs thus offer significant opportunities for the GEF to boost capacity and responsiveness, diversify approaches, and leverage resources. AsDB and IDB have had previous experience with the GEF, and all four RDBs have participated in the GEF Staff Familiarization Seminars. Since May 1999, RDBs have prepared high quality proposals responsive to GEF policies and programs, and eleven RDB project proposals have entered the GEF pipeline. However, there are currently two major challenges to ensuring that the policy on expanded opportunities for the RDBs is implemented smoothly. The first is enabling the timely transfer of resources to RDBs for approved PDF-Bs, a matter still under discussion among the RDBs, the Secretariat, and the Trustee but likely to be resolved soon. The second is aligning each RDB project in the pipeline with an Implementing Agency that offers to be accountable to Council for project implementation and to manage the added complexity of that process. The requirement for Implementing Agency arrangements to be agreed upon at the time of PDF-B approvals may constrain the ability of RDBs to fully capture GEF opportunities in their pipelines.

BILATERAL DEVELOPMENT AGENCIES

Co-financing

83. The Operational Strategy requires GEF to be catalytic, and each Operational Program is built on the assumption that limited GEF resources will be used to demonstrate innovative approaches throughout the scope of the program. Leverage of resources and replications using other sources of finance are essential for the goals of the program to be met. Part of GEF's program management function is to facilitate leverage through its projects and replication by demonstrating innovative approaches and by transferring lessons and best practice to others. Bilateral Development Assistance Agencies offer significant opportunities for the GEF to achieve leverage and replication.

84. The Operational Report on GEF Programs demonstrates how Implementing Agencies seek cofinancing through their normal channels. To further strengthen this process, the Secretariat now publishes the GEF Pipeline so that project concepts are publicly available no later than one Council Meeting prior to the occasion at which the Council would be asked to approve the project as part of a Work Program. The advance information assists bilateral agencies and others to identify appropriate cofinancing opportunities well in advance.

Execution of GEF Projects

85. GEF encourages Implementing Agencies to share with bilateral agencies the project cycle management for selected GEF projects to transfer their experience of preparing and implementing projects that protect the global environment. The World Bank has completed negotiations with KfW to permit the latter to implement GEF projects for which the World Bank would be accountable. KfW would implement the full project, India: Solar Thermal, and to be followed by others under discussion. All Implementing Agencies would be encouraged to use bilateral agencies when appropriate.

Coordination and Complementarity

86. In each Operational Program, it is assumed that a range of development partners will undertake operations that are mutually reinforcing. For example, in biodiversity, all major root causes of biodiversity loss in a given ecosystem need to be addressed; in climate change, market-opening activities should be pursued to remove all the significant barriers to the adoption of win/win renewable energy technologies. Such goals require proponents of GEF activities to coordinate and share data with several organizations. To streamline this process, GEF will seek information from bilateral agencies on ongoing and proposed activities that fall within the GEF Operational Programs. While previously this has been done opportunistically, GEF now will formally compare its portfolios with those of the bilateral agencies in accordance with the recommendations of the Overall Performance Study of the GEF. Thus, GEF invites the Secretariats of the CBD and FCCC to do this jointly and the Development Assistance Committee of the OECD to facilitate it.

Replication

87. Where a specific innovative approach has been identified, GEF will try to facilitate replication. The first example is the use of photovoltaics in conjunction with hydro storage, being developed in the IFC/GEF *Philippines: CEPALCO* project. GEF, through the strategic partnership with UNEP and jointly with KfW, will study the replication potential of this strategy in the World Bank Group, RDB, and bilateral agency portfolios. Other areas for replication are methods of protected area management that can be shared in the Latin America region.

Cooperation

88. From time to time, GEF would share lessons and experience with interested bilateral agencies. In the last year, GEF has received advice on the costs of implementing projects, enabling the GEF to begin benchmarking its fees under the new cost-accounting system.

PRIVATE SECTOR

89. If the GEF is to leverage significant action and ensure the financial sustainability of its actions, it will be essential to engage the private sector. Many GEF projects, particularly in climate change, do in fact involve the private sector in obvious ways –

- (a) directly through procurement; or
- (b) indirectly by creating, opening, or transforming markets (e.g., in energy efficiency or renewable energy technology) or by creating the conditions under which innovative approaches pioneered by GEF become commercially viable.

90. Some projects provide GEF funds to the private sector as well. This has largely been through the IFC-executed private sector investment funds and other forms of financial intermediation or delegated approval authority. These approaches have the advantage of enabling quick responses to private sector interest but like many new approaches present important operational challenges that need to be monitored during implementation and factored into new project designs.²⁰ One challenge is to ensure that subprojects approved under such arrangements fully reflect the GEF programmatic and incremental cost criteria. This is especially challenging when, as in some cases, there are long chains of communication from GEF through the Implementing Agency, the Executing Agency, and Management Agency (sometimes offshore) to the ultimate client and it will be desirable to evaluate success in this regard. Another challenge is contain costs: administrative costs for private sector investment funds have been very high, partly due to the need to deal flexibly with a wide range of project types. Finally, it is a complex matter to ensure country-drivenness (in the sense of adhering to national priorities) for the range of projects and countries covered under the same fund.

91. To provide a much more strategic focus for private sector participation in GEF, and to address the concerns above, the GEF Secretariat will

- (a) review the use of private sector investment funds, financial intermediaries, and delegated approval authority;
- (b) explore new modalities; and
- (c) expand opportunities for new executing agencies that can bring a diversity of experience and proposals to GEF (in particular, EBRD).

Modalities

92. At its last meeting, Council discussed a range of financial modalities that could match the requirements of the private sector and the GEF.²¹ These modalities included the barrier removal and investment fund modalities above, as well as the financing of alternative feasibility studies, contingent finance and other guarantee instruments, and public-private partnerships. Additional effort is needed to pursue the full diversity of modalities and actors, and in particular to work with individual corporations rather than to continue relying heavily on funds, financial intermediation, umbrella projects, and other forms of delegated authority. GEF has had discussions with EBRD, the Asian

²⁰ See *Funds and Trust Funds*, GEF/C.12/Inf.5.

²¹ *Engaging the Private Sector in GEF Activities*, GEF/C.13/Inf.5

Development Bank, UNDP, UNEP, IFC, and the World Bank Private Sector Department and will systematically pursue such modalities.

Recipient Country Private Sector

93. GEF will also renew its efforts to identify opportunities to work with and develop private sector operations in the recipient countries, and report more fully on its operations there. (There are many interesting examples of private sector participation in individual project components that are not explicitly reported in the *Operational Report on GEF Programs*.) Work has also begun on the strategy review of private sector investment funds to identify emerging lessons and best practice.

International Private Sector

94. GEF will also investigate broader and more creative opportunities to work with the international private sector. One way would build on current work on corporate governance to develop international standards for corporate activities affecting the global environment. If successful, this could be entirely paid for by the private sector and have a powerful leveraging effect on private sector actions without having to spend GEF resources on the international private sector itself. Various models could be used, ranging from ISO9000 to the World Commission on Dams. A second way would further explore the strategic partnership concept (originally proposed to operate through individual country programs for renewable energy). Private firms could be invited to join open partnerships by the country to help define key issues and develop a program of action. GEF assistance could still be limited to working with the country to remove barriers identified by the private sector and others, yet the private sector would help define the problem and propose a solution from the start. As the partnership would be open, no non-competitive advantages would be conferred on participants. Preliminary inquiries indicate that both options would be welcomed by the private sector.

NGOs

95. The GEF-NGO partnership is unparalleled in any other multilateral financial institution. NGOs participate in the GEF in four broad areas of activities: (a) biannual GEF-NGO consultative meetings, (ii) policy-related consultations and workshops, (iii) project conception, preparation and execution; and (iv) outreach and communication.

96. The NGO community brings unique strengths to its partnership with the GEF. NGOs contribute to the GEF processes the diverse views and perspectives of the stakeholders they represent. Often, NGOs have a much greater knowledge of the local challenges of integrating global environmental concerns into sustainable development. Sharing this knowledge with the GEF can greatly enhance the effectiveness of GEF activities. In policy-related consultations, an NGO perspective enriches the information on which a sound policy can be formulated. Also, NGOs often have more flexibility in their procedures and thus are better able to adapt to local conditions and needs. This can give NGOs a comparative advantage in project execution, allowing them to fill gaps in project execution. This is especially evident in the medium sized projects and the small grants program. Finally, NGOs are an effective and essential partner in promoting

awareness of the GEF and in ensuring public involvement and broad stakeholder participation in a project's conception, preparation and execution.

97. More than 360 NGOs have been accredited to the GEF. Many are in regular contact with the GEF, and GEF materials are disseminated to them on a regular basis.

During the business plan period, the GEF will:

- (a) continuously seek to expand the number of NGOs accredited to the GEF and to improve the dissemination of information to them through an improved database and systems for electronic dissemination;
- (b) galvanize NGO support to broaden the impacts of the GEF outreach and communication strategy;
- (c) actively involve NGOs in the Country Dialogue Workshops, thus providing an important opportunity to reinforce their contributions at the country level;
- (d) continue to strengthen the role of NGOs in project development and implementation, especially as executing agencies under the small grants program and the medium sized projects, and ensure their role in public involvement and broad stakeholder participation in all project development and implementation;
- (e) use the recently established NGO newsletter to keep the NGOs regularly informed of GEF activities and to facilitate communication among NGOs; and
- (f) contribute to national, regional and global NGO forums to deepen the GEF-NGO partnership.

VI. MAINTAINING INSTITUTIONAL EFFECTIVENESS

98 As the foundation for global environmental action and as a new model for international cooperation, GEF commits itself to continuously improving the effectiveness and efficiency of its own organization, relationships, and operations. To maintain its institutional effectiveness, GEF will continuously improve:

- (a) financial efficiency through application of the fee-based system and management of the corporate budget;
- (b) operational efficiency by streamlining its operations by systematically monitoring and evaluating its operations; and
- (c) partner responsiveness by sharing more data and information.

FINANCIAL EFFICIENCY

99. At its May 1999 Meeting, the GEF Council approved the introduction and use of a fee-based system to cover and reimburse the project implementation costs incurred by an Implementing Agency in respect of GEF projects, to take effect from July 1, 1999.

Stabilization of Project Implementation Costs

100. Under the fee-based system, following Council or CEO approval of a project (as appropriate), the IA would be provided with a fee that:

- (a) is intended to cover the entire life-time implementation costs of that project, even in the case of a multi-year project; and
- (b) is based on a flat-fee structure that recognizes the four standard GEF project-types (Investment *or* Technical Assistance *or* Medium-Size *or* Expedited Enabling Activity).

101 This flat-fee establishes a fixed baseline implementation costs for each project-type; with some flexibility to adjust for certain recognized and substantiated project-variables through case-by-case review. Consequently, it is possible to determine, at the outset, the total costs of implementing a project portfolio, which facilitates making the necessary provision against available funds. For each annual Corporate Budget during the Business Plan period, the fee-based system will facilitate the transparent and ready determination of the total IA fees required for the implementation of the projects being submitted for approval by Council/CEO.

102 Additionally, the fee-based system supports a transparent and methodical computation of project implementation costs as the flat-fee is a function of the staffweek cost of an IA's project staff (the fully-loaded cost of a project staff for a week); and a project's staffweek coefficient (the total number of staffweeks required to deliver a project - covering project development, preparation, supervision and evaluation). This enables any changes in project implementation performance and costs to be directly reflected in the fee provided to the IAs.

Benchmarking of GEF's of Project Cost Management Practices

103. In the first half of FY00, a benchmarking review of GEF's project cost management practices, including its project implementation costs, was carried out against a number of external comparator organizations.²² The key issues and concerns reviewed and discussed confirmed that GEF's project cost management practices were more methodical, rigorous, and demanding than those of most of the comparator organizations. During the Business Plan period, GEFSec and the IAs will further strengthen GEF's financial management practices by reviewing and implementing, as appropriate, the lessons learnt from the review.

Monitoring according to Standardized Corporate Management Activities

104. From FY00, the primary business and operational activities of the GEF corporate units have been standardized for enhanced management, monitoring and reporting of the utilization of their budgeted resources. Corporate budgets for GEF units are now substantiated in terms of the following corporate management activities:

- (a) Institutional Relations
- (b) Policy and Program Development/Coordination
- (c) Outreach/Knowledge Management/External Relations
- (d) Management & Finance
- (e) Monitoring & Evaluation

Through the Business Plan period, this activity breakdown will enable a more meaningful analysis of the allocated budget; and, therefore, facilitate more effective management of GEF resource demand and utilization.

Staff Resource and Activity Monitoring

105. In line with the enhancement of their financial management practices, UNDP-GEF and UNEP-GEF Coordination Units have implemented time-reporting systems for their staff activities, both corporate management and project-direct, in order to better monitor and manage the delivery and cost of their corporate services. WB-GEF staff resources already so report their activities in line with its parent agency's institutional practices. Through the Business Plan period, the staff-activity time-data collected will be analyzed; and, the implications of the outcome upon the annual Corporate Budget and the IA fee structure will be reviewed and taken into account, if subsequent adjustments are deemed relevant. This ongoing activity-based cost management will enable the establishment of more relevant and meaningful relationships between resource input, cost-expenditures and work program output and deliverables.

²² See *Progress Report on Benchmarking GEF Fees*, GEF/C.14/Inf.4

OPERATIONAL EFFICIENCY

Streamlining

106. GEF will continue to streamline its operations to increase impact and reduce costs. Proposals for streamlining will be prepared in consultation with the Implementing Agencies and would be based on an analysis of existing procedures. In preparation for such a consideration, the Secretariat is updating the project cycle document to incorporate subsequent Council-approved changes concerning MSPs, targeted research, the role of GEFOP, selective delegation to the Secretariat of the endorsement review, expansion of opportunities to RDBs, country involvement in incremental cost estimation, and the preparation and publication of the pipeline. This updating is in accordance with Council's agreement, when approving the project cycle in 1995, "that the project cycle should be updated as necessary by the Secretariat to reflect any additional policies approved by the Council."

MONITORING AND EVALUATION

107. The monitoring and evaluation function of GEF is central to achieving and measuring impact. As with other corporate functions in the GEF, M&E tasks are defined and distributed according to the principle that they add value to existing activities and are integrated in the corporate GEF.

- (a) *Additionality.* Monitoring and evaluation systems exist in the Implementing Agencies; the role of the GEFSec Monitoring and Evaluation team is to ensure that the policies and standards of the GEF are consistently met and that the specific aspects of the GEF (e.g., programmatic impact, replication, and incrementality) are monitored and evaluated on a GEF-wide basis. The work of the M&E team is also distinct from but complementary to that of STAP, which has a specific scientific and technical remit.
- (b) *Integration.* Priorities for M&E work emerge from the corporate GEF, i.e., from emerging issues identified in Program Status Reviews by the Secretariat in consultation with the Implementing Agencies, as well as from their own independent evaluations. Some monitoring is built into projects, some carried out by Implementing Agencies as part of their management of the project cycle, and some is undertaken jointly by the M&E unit and the Implementing Agencies. Lessons are integrated into project review criteria applied by the Secretariat to new proposals submitted for entry to the pipeline.

108. There will be three main areas of M&E activity²³ in the FY01-FY03 business-planning period:

²³ The overall policies, framework, and scope of GEF Monitoring and Evaluation (M&E) activities were set out in GEF/C.8/4Rev. 1.

Monitoring and Evaluation Systems, Standards, and Guidelines

109. GEF monitoring and evaluation standards, guidelines, and good practice resource materials will be completed in FY01. This work has been guided by the Council decision at the May 1999 meeting that all GEF projects were to have project completion, evaluation, or assessment reports and that these reports were to be publicly accessible.

110. An important part of the M&E standards and guidelines work in this period will continue to be the identification, testing, and use of indicators for the operational programs. The first phase of the work on indicators for climate change operational programs was already completed in November 1999, and the indicators will be pilot-tested over the last six months of FY00 before the final selection. The first phase of work on indicators for biodiversity operational programs is nearing completion. This work has been carried out by Task Forces composed of staff from the GEF Secretariat and the Implementing Agencies, guided on scientific and technical matters by STAP, and assisted by international consultants. Substantial work will now commence on identifying project level indicators for international waters. It is important that the Implementing Agencies follow up in all focal areas by identifying project indicators at the project design stage. Starting now, and continuing through FY01-FY03, progress on this will be monitored on an annual basis. It is envisaged that there will be further discussions and testing of the validity and reliability of the selected indicators throughout the period, and that they will be systematically incorporated in the Program Status Reviews and in other reviews and evaluations.

111. Staff working on all aspects of the GEF project cycle -- in the Secretariat, the Implementing Agencies, the Executing Agencies, and counterpart agencies -- need to be involved in the preparation and extended use of M&E systems. The logical framework approach now used in project design will facilitate broad participation at the project level. The Secretariat and the Implementing Agencies will continue to work closely to develop and refine the M&E systems, to evaluate projects and programs, and to share lessons and best practice.

Reviews and Evaluations

112. Timely, objective, high quality reviews and evaluations will improve planning, program management, and project design. This will require a high degree of participation and systematic feedback. In the business plan period there would be annual Project Implementation Reviews (PIRs); occasional program, thematic, and crosscutting evaluations; and an overall study of GEF accomplishments. Staff from the monitoring and evaluation team, external consultants, or a combination of the two -- depending on the issues under scrutiny and the particular context -- will carry out these reviews and evaluations.

113. The annual PIR will comprise all GEF projects under implementation. It will be complemented by selective thematic reviews, in which issues of special concern in the four focal areas will be studied in more depth. In addition, GEF experience will be compared and contrasted to other experience in order to validate and widen the relevance of the GEF findings. The PIR will now be timed to provide inputs to the Program Status

Reviews, upon which the Corporate Business Plan (and subsequently the Corporate Budget and STAP Work Program) would be based.

114. The annual evaluation program will focus on GEF's operational principles and policies, topics requested by Council, and emergent issues that the Secretariat and the Implementing Agencies identify in the Program Status Reviews. Increasingly, as the portfolio matures, issues of impact will be analyzed. A systematic coverage of all the important issues will be planned to feed into an envisaged evaluation of GEF's overall accomplishments towards the end of this replenishment period.

Extended Dissemination and Outreach

115. Feedback on lessons learned and good practice material has till now mostly centered on institutions and persons involved in GEF programs and projects. As GEF partnerships are extended and number of participants in the countries increase, e.g. as a result of the Country Dialogue Workshops, the M&E outreach strategy will reflect the extended need for the dissemination of results and lessons learned. This will guide the required work on translations, production of user-friendly materials, extended use of hardcover and electronic distribution materials, including website and two-way linkages with organizations and networks.

OUTREACH, KNOWLEDGE MANAGEMENT, AND EXTERNAL RELATIONS

116 GEFSec, with IA collaboration and participation, plans to continue to implement its strategy and action plan for greater outreach and communication to improve the communication flow between the GEF and its multiple stakeholders through a series of country-level outreach activities reinforced by multilingual learning material, the best use of print and electronic technologies, media coverage and supportive events at the local, regional and international levels. It is expected that the comprehensive strategy will serve to integrate the diverse initiatives that have been undertaken to date, and that those involved in implementing the strategy will seek to incorporate the lessons learned from earlier activities during the progressive implementation of the strategy.

117. Activities will include provision of GEF displays and special workshops at convention meetings, audio visual program of television and radio broadcasts, enhanced media relations and delivery of a quarterly NGO newsletter. In the business plan period, the GEFSec and Implementing Agencies will explore the feasibility of developing other publications and material in its continuing efforts to reach the broadest possible audience.

Impact

118. Outreach and communication are essential elements in achieving and sustaining impact.

- (a) Each new project now budgets for its own communication component and project staff will be encouraged to participate in outreach within country and internationally and to prepare materials, including videos, for the general public and media;
- (b) As the focus of projects within each operational program shifts from demonstration to dissemination of lessons learned and facilitation of

replication, there will be a need for increased outreach on project lessons. Much of the operational information to be disseminated will be concerned with technology or scientific and technical issues specific to a focal area. Dissemination of this information will be enhanced by specific projects or project activities aimed at facilitating replication of lessons learned in earlier GEF-financed activities;

- (c) To give GEF stakeholders easy access to information on lessons learned, the redesigned GEF web page will have the capacity for both static information and interactive sessions. For those who may not yet have the technological facility, hard copy material will continue to be disseminated.

Country Ownership

119. Outreach and communications are also essential tools in building awareness and support at country level.

- (a) Material will be developed for the country dialogue workshops, including user-friendly versions of principal policy documents;
- (b) Focal points will be supplied with essential documents and material;
- (c) GEF's output of general outreach material will reflect similar styles and themes as those produced for the country dialogue workshops, particularly the emphases on simplicity of language and consistency of format.

Institutional Effectiveness

120. To improve institutional effectiveness, the GEF Secretariat

- (a) Will organize a Staff Familiarization Seminar twice a year. This is to acquaint new staff with GEF strategy, policy, programs, and procedures;
- (b) Building upon the redesigned GEF web site and the provision of services to country focal points through an Implementing Agency field office, move towards making electronic publication as the primary form of information dissemination, with hard copy publication supplementing it where electronic access is inadequate;
- (c) Rationalize the GEF family of publications. Through the country dialogue workshop project, an inventory of all publications is being prepared, and with the Implementing Agencies, we are reviewing the GEF family publications with a view to agreeing on a coordinated and cost-effective approach to future publications; and
- (d) Through clear guidelines, gain more consistent acknowledgement of GEF financing in ongoing project activities.

RESPONSIVENESS TO INFORMATION NEEDS OF PARTNERS

121. GEF is a bold international experiment. Its unique structure and the diverse, open, and transparent partnerships that it is pioneering require many new management techniques. Modern information (particularly Web-based) technologies can underpin this structure and these partnerships in ways never before possible, and it is now absolutely vital for GEF to develop and integrate its information systems in such a way as to support its partners, global mandate, unique international structure, and specific strategic priorities.

122. The GEF differs from traditional, more inwardly focused institutions in that it works for sustainable impact by consciously developing the capacity of its main partners – the recipient member countries; it works through and supports a wide variety of other external partnerships all over the world; and it operates in complete transparency, disclosing all non-confidential information.

Specific Information Needs of Partners

123. In the light of the strategic objectives for GEF's next Corporate Business Plan period (FY01 – FY03), GEF must use its management and information systems to strengthen:

- (a) the capacity of its recipient member countries to access and share information on the global environment, the GEF and GEF operations, and operations of partner organizations working to implement environmental conventions through GEF activities (e.g., conservation and sustainable use of biodiversity and promotion of energy efficiency and renewable energy technologies);
- (b) the ability of Bilateral Development Cooperation Agencies to exchange information with GEF on global environment operations; to compare portfolios, impacts, and lessons with each other and GEF; to replicate successful GEF projects in their regular programs; to work with GEF Implementing Agencies on managing the project cycle; to obtain timely, comprehensive upstream information on project concepts in order to coordinate related efforts, explore cofinancing, and share technical views;
- (c) the ability of the secretariats of two international environmental conventions to add and link their documents and other relevant information to the database of their financial mechanism (GEF) and vice versa;
- (d) the ability of the Implementing Agencies, the Regional Development Banks, NGOs, other executing agencies, and operational partners to exchange operational reports and data, thereby streamlining operations and further expanding the opportunities for organizations to participate in the operational work of GEF;
- (e) the ability of member countries to track the progress of their GEF projects through the Project Cycle, and to track financial data on projections, allocations, commitments, procurement, and disbursements; to obtain data on GEF projects, to undertake portfolio searches according to the GEF project review criteria (sustainability, replicability, public involvement etc.), and
- (f) the access of the public worldwide to GEF reports, project pipelines, lessons notes, database, and information on the global environment.

Current Situation

124. This major upgrading would build on current efforts. Currently, GEF maintains and publishes a project pipeline and the Operational Report on GEF Programs; has a separate desktop database to support internal reviews; provides limited support, including initial internet access, for operational focal points and constituencies; and services a task force that defines data needs. It is now redesigning its Web site for friendlier access throughout the world, and will commence a major partnership with UNDP – the Capacity Development Initiative – to assess the overall capacity needs of its recipient member

countries for global environment action. The six GEF units use individual systems, and the Secretariat uses the management and information systems of the World Bank for internal purposes (staff and Secretariat budget administration).

125. The external systems should reflect the unique GEF criteria and operational environment of the Secretariat and its multiple external constituencies, and cannot be based on a single platform provided by any one of its constituent agencies (such as the World Bank) for their own operations. The current GEF project systems are using desktop software; this severely constrains integration, leads to instability under heavy traffic, and cannot be accessed adequately by external partners.

126. A comprehensive, integrated, robust, secure, and user-friendly management and information system will be developed as a one-time special initiative to meet the above objectives.

VII. MANAGING RESOURCES

127. This section discusses the resource management impact and implications for the FY01-FY03 Business Plan period in terms of the projected budgetary requirements for the planned project portfolio work program and related corporate management functions.

PROJECTED WORK PROGRAM GROWTH IN *GEF* ALLOCATIONS

128 Overall GEF allocations have been projected to grow at about 15 per cent per year overall, consistent with expansion in country demand and in delivery capacity in the Implementing Agencies supplemented by executing agencies. However, this growth will vary considerably between programs, projects and organizations as a result of:

- (a) steady expansion in the biodiversity and major growth in delivery in climate change projects;
- (b) a change in the funding profile in international waters as earlier work matures and new priorities emerge;
- (c) a steep decline in ozone projects as eligible countries within the GEF strategy complete the phasing-out ozone-depleting substances over the next few years;
- (d) some expansion in small grant projects resulting from gradual increases in the countries participating in the *GEF Small Grants Programme* and in the activities within each country;
- (e) a major expansion in medium-sized projects (MSPs) as countries and organizations become more familiar with GEF requirements²⁴ pertaining to such; and
- (f) continued demand for Enabling Activities as countries request additional assistance for the priorities identified by the Conferences of the Parties for the Conventions (COPs).

129. The estimated overall resources required to support these growth projections in GEF's work program, over the Business Plan period, are summarized in the following table. The proportions of the Work Program attributable to the Implementing Agencies may be affected by shifts in their regular work program priorities and by the extent to which they develop operational partnerships with RDBs and other executing agencies. The trend is expected to be clearer in May 2000, when the last FY00 Work Program would be submitted and Secretariat would review progress on expanded opportunities.

²⁴ See GEF/C.12/Inf. 7

Table 2: Projected Program Resource Requirements

Program	FY98 ^a Projected	FY98 ^b Actual	FY99 ^c Projected	FY99 ^b Actual	Cumul. to 6/30/1999	FY00 ^c Projected	FY01 ^e Projected	FY02 ^e Projected	FY03 ^e Projected
Biodiversity									
OP#1	23	42	20	32		40			
OP#2	34	21	20	68		60			
OP#3	59	60	70	72		60			
OP#4	21	13	15	16		15			
OP#12	N/A	N/A	N/A	N/A	N/A	0			
EA-B	13	9	7	5		15			
STRM-B	5	5	4	0		5			
	155	150	136	193		195	225	250	300
Climate Change									
OP#5	39	43	40	40		55			
OP#6	112	59	40	3		60			
OP#7	48	0	33	48		35			
OP#11	N/A	N/A	0	N/A		0			
EA-CC	9	12	3	6		15			
STRM-CC	8	21	3	9		4			
	216	135	119	136		169	225	250	300
International Waters									
OP#8	18	22	20	47		40			
OP#9	29	25	50	38		35			
OP#10	31	7	25	32		15			
OP#11	N/A	N/A	N/A	N/A	N/A				
	78	54	95	116		90	100	100	100
Ozone Multifocal	23	13	35	35		6	5	0	0
	3	4	35	37		20	25	30	30
TOTAL	475	355	420	518		480 [600 ^d]	580	630	730

a. GEF Corporate Business Plan FY98-FY00

b. Secretariat database

c. GEF Corporate Business Plan FY00-FY02.

d. GEF Corporate Budget FY00. Implementing Agencies had projected sharply higher totals for FY00.

e. Trend based on demand growing at 15 per cent p.a., biodiversity and climate shares historical shares, and international waters and ozone based on expected pipeline.

WORK PROGRAM IMPLICATIONS

130 The following factors are will drive growth of the GEF work program and its resource requirements.

Project Portfolio Growth

131 There are currently 621 projects under implementation. The GEF-funded work program will continue to increase as a result of increased country demand, and matching

growth in supply capacity is expected from the expanded opportunities provided to executing agencies. There is a major shift to MSPs.

Strategic Partnerships and Programmatic Approaches

132. During the Business Plan period, UNDP's and UNEP's GEF Coordination Unit will manage and coordinate the development and implementation of activities funded under the GEF Strategic Partnership initiatives. These activities tend to be of a long-term nature and are expected to evolve over time. A number of specific activities that respond to GEF corporate demand is under discussion between UNEP/GEF and GEF Secretariat. Several of these activities are pilot, start-up or planning tasks. The World Bank's immediate priority is to develop specific proposals for the World Bank-GEF partnership on renewable energy and on land-water linkages (together with UNDP and UNEP). The Implementing Agencies and GEF Secretariat also proposes to explore possible programmatic approaches in the areas of biodiversity conservation and international waters protection.

Expanded Opportunities for Executing Agencies

133. The expanded opportunities initiative envisages substantive collaboration between the three Implementing Agencies and other development/executing agencies, including four regional development banks (i.e., AfDB, AsDB, IADB, EBRD). UNEP-GEF has initiated added efforts, pursuant to its Action Plan on Complementarity, to establish partnerships with multilateral banks, NGOs, specialized agencies, private sector organizations, environment convention secretariats, scientific organizations and STAP. The World Bank will seek to expand its collaborative arrangements with regional development banks, and other multilateral and bilateral donor agencies on implementation and execution of GEF projects. Such collaboration opportunities, while ultimately country-driven in nature, will be promoted through regular project pipeline consultations between the Bank's regional operational units and the potential GEF executing agencies. Bank collaboration with other donors on GEF projects will need to be an integral part of the Bank's assistance dialogue with the recipient country.

CORPORATE MANAGEMENT FUNCTIONS AND ACTIVITIES

134. The GEF FY00 Corporate Budget established a reference service level for the corporate management activities to be delivered by the six GEF corporate units – the three Implementing Agencies' GEF-Coordination Units, STAP Secretariat, Trustee and GEF Secretariat – and the related budgetary resources required. Resource requirements will be influenced by the changing nature of work including efficiency gains achieved through GEF streamlining and the respective Implementing Agency's parent organization. Corporate initiatives, such as the fee-based budget system, expanded opportunities for executing agencies and the strategic partnerships, will either contribute to or be offset by the efficiency gains from streamlined GEF operations, processes and systems.

135. The three major work program implications -- project portfolio growth, strategic

partnership, and expanded opportunities -- will influence the corporate management functions and activities necessary to support their effective and efficient implementation. Workloads will be monitored in order to gauge this effect.

Institutional Relations

136. For the Business Plan period, the six GEF Units will continue to (a) participate in Assembly, Council meetings, Conventions, related seminars/forums/consultations, GEF Interagency Task Forces and consultations; (b) prepare all necessary inputs and documents related to GEF governance, operations, policy, and strategies; and (c) report to Council, as required.

Policy and Program Development and Coordination

137. GEF Secretariat will continue to provide policy leadership in the development of a high quality portfolio of projects in line with the strategic focus of the operational three-year Business Plan. Efforts currently underway on incorporating global environmental objectives into regular work programs will continue. GEF Secretariat and the IAs will take steps to expand partnerships activities, cooperate through Interagency Task Forces and other forums, and work closely with STAP.

138. The GEF Coordination Units of the Implementing Agencies will assist in:

- (a) screening project concepts and proposals and advising project proponents on GEF eligibility, policies, and procedures;
- (b) monitoring, supervising, and reviewing the Implementing Agencies' GEF-financed portfolio;
- (c) participating in GEF interagency task forces (e.g., standing task forces related to the GEF focal areas) and ad hoc operational issues working groups (e.g., on incremental cost and project cycle);
- (d) incorporating global environmental objectives into Implementing Agencies' regular work programs, including effective dissemination of GEF policies and procedures within their respective organizations;
- (e) coordinating dialogue on GEF matters within their agencies and with the GEF Secretariat;
- (f) coordinating the efforts of their agencies in broadening and deepening collaboration with Regional Development Banks and other executing agencies and partners, including negotiating formal frameworks with such partners;
- (g) developing with and implementing their respective strategic partnership initiatives and ensuring that they are sufficiently anchored in the relevant operational units within their agencies. Experience to-date already suggests that these operational initiatives demand substantive ongoing staff involvement and attention.

139. STAP maintains a roster of experts, which is important for the expanding project portfolio and which needs to keep up with the new areas of GEF operations (e.g., transport, integrated ecosystem management) and be made available to the new executing agencies. STAP also has an important role in strategy and policy through selective

project reviews and reviews of critical scientific and technical issues identified in the Program Status Reviews as having major operational significance (currently such issues include sustainable logging, sustainability, and technology learning curves). Contributions to special policy studies may be needed in addition to regular STAP workshops. Building an effective bridge to UNEP's regular work program will be a special challenge in the next year.

Outreach, Knowledge Management, and External Relations

140. GEF Secretariat, with Implementing Agencies' collaboration and participation, plans to continue implementing its strategy and action plan for greater outreach and communication.²⁵ UNDP will develop and deliver at its headquarters Focal Point Training; organize Resident Representative Cluster meetings; and develop its UNDP/GEF web-site with a link to the redesigned GEF web site. UNEP will develop a cohesive and coherent approach to communications and information dissemination in order to increase the level of awareness of the role of UNEP within the GEF, as well as to ensure better quality information on program and project performance. The World Bank will actively support the implementation of the various elements of GEF outreach and dissemination. All Implementing Agencies are contributing to the preparation and organization of the Country Dialogue Workshops as well as country focal point activities, at the request of individual countries.

Management and Finance

141. GEF Secretariat and the Implementing Agencies' GEF Coordination Units are responsible for managing their respective work programs, allocated funds and budgetary resources; administering their human resources; developing and implementing common financial management policies and practices; seeking appropriate legal advice and comment; and reporting, as required, to Council and Trustee. During the Business Plan period, GEF Secretariat and the Implementing Agencies' GEF Coordination Units plan to collaboratively enhance and refine the fee-based system; continue enhancement of corporate financial management; develop performance indicators; commission an independent review of selected GEF projects; implement a project and financial database; and operationalize the strategic partnerships, expanded opportunities, and other initiatives approved by Council.

Monitoring and Evaluation

142 The GEF Secretariat Monitoring and Evaluation Unit will focus on developing and incorporating monitoring and evaluation systems for GEF's project portfolio, including program and project performance indicators, evaluations, and dissemination. The Implementing Agencies continue to be responsible for overall monitoring and evaluation of their respective project portfolios while their GEF Coordination Units support and participate in the corporate monitoring and evaluation activities and coordinate

²⁵ As recommended in the Study of GEF's Overall Performance as well as in the Statement of the Assembly; and as approved in the FY00 Corporate Budget.

contributions to the annual Project Implementation Review. The corporate M&E work includes program-level monitoring (annual); development of program indicators; participation in “thematic reviews” and other cross-cutting evaluation studies (3-5 new studies are anticipated per year); participation in Steering Committees; development and dissemination in-house of portfolio lessons. Experience over the last few years indicates that the overall monitoring and evaluation work program has grown substantially, and will continue to assume an increasingly larger share of GEF Coordination Units’ activities and resources. During the Business Plan period, efforts will be made to ensure that future monitoring and evaluation work programs provide true value-added to the corporate objective of deriving and disseminating lessons learnt; and, that it is firmly anchored in GEF’s Business Plan strategies.

ANNEX I. CORPORATE BUSINESS PLANNING

1. The GEF Corporate Business Plan is a rolling three-year plan of operations for implementing the GEF Operational Strategy.²⁶ 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.²⁷ 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 (a) the overall envelope of resources expected to be available to meet the projected country-driven demand over the planning period, and (b) 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.²⁸
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.²⁹

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:

²⁶ *Operational Strategy*, Global Environment Facility, Washington, D.C. : February 1996

²⁷ 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.

²⁸ At its May 1995 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).

²⁹ *GEF Operational Programs*, Global Environment Facility, Washington, D.C. : June 1997.

Principle 1: Integration of planning

6. The various planning processes of the GEF are integrated. The *GEF Operational Strategy*³⁰ 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 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.³¹
- (b) *Leveraging.* Following the recommendation in *the Overall Performance Study of the GEF* on this issue,³² increasing attention will be given to associating GEF financing with others sources of finance, such as Implementing Agency resources (UNDP's *Target for (c) 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

³⁰ *Operational Strategy*, Global Environment Facility, Washington, D.C.: February 1996

³¹ Papers GEF/C.12/7, 8, 9. For earlier commitments, see *Conclusions of GEF Heads of Agency Meeting*, June 19, 1996, Washington, D.C., (GEF/C.8/Inf.6).

³² Section II D: "Leveraging Additional Resources."

also needs to be done to refine the definition of leveraging, as recommended in the study.

- (d) *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.³³
- (e) *Streamlining.* The Secretariat and the Implementing Agencies have proposed further “streamlining” in the GEF project cycle.³⁴ 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.
- (f) *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 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.

³³ GEF/C.12/Inf.4

³⁴ GEF/C.12/12

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.

12. The Corporate Business Plan reflects:
- (a) guidance from the Conferences of the Parties to each of the conventions that GEF serves and the flexibility needed to respond to new guidance expected to emerge from those bodies; and
 - (b) the broad strategic directions in the *Action Plan on Follow-Up to the Overall Performance Study of the GEF*.³⁵

³⁵ GEF/C.12/4