



Global Environment Facility

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Agenda Item 6

MANAGEMENT RESPONSE TO THE 2006 GEF ANNUAL PERFORMANCE REPORT

**(Prepared by the Secretariat in consultation with the GEF Implementing and
Executing Agencies)**

Recommended Council Decision

Please see the recommended decision in document GEF/ME/C.31/2, *Annual Performance Report 2006*.

Executive Summary

1. We welcome the GEF Annual Performance Report (APR) 2006, prepared by the GEF Evaluation Office. The 2006 APR report provides an assessment of: (i) project outcomes and sustainability; (ii) delays in project completion; (iii) materialization of co- financing; and (iv) quality of the M&E arrangements at the point of CEO endorsement. This year's APR also looks for the first time at the quality of supervision of GEF projects by the three Implementing Agencies.

2. We welcome the report's conclusion that completed GEF projects remain on target to achieve the 75% satisfactory outcomes as agreed upon in the GEF-4 replenishment agreement. According to the report, out of the completed GEF projects submitted in FY 2006, 84 percent were rated moderately satisfactory (MS) or above in achievement of outcomes, moreover, of the total investment in the rated projects (\$254 million), 88 percent (\$224 million) was allocated to projects that were rated MS or above.

3. We are pleased that the materialization of co-financing is on track. For terminal evaluations submitted in FY06, the average rate of reported materialization was 114 percent of the promised co-financing.

4. We are also pleased with the finding that 78 percent of projects were rated moderately satisfactory (MS) or above on quality of monitoring. We are encouraged that the 2006 PIR showed some improvement over 2005 with evidence that IA managers had begun to ask staff to justify ratings that seemed inconsistent with reported problems. We do however, agree that there is scope for improvements on appropriate indicators and baseline data, as well as for better quality at entry for funding of M&E. We believe that the development of strategic programming for GEF-4 focal area strategies and their associated indicators (GEF/C.31/10) will allow the agencies to make further improvements in this area.

5. In terms of sustainability, 65 percent of projects were rated moderately likely (ML) or above in sustainability outcomes. Of the total investment in the rated projects (\$218 million), 60 percent (\$131 million) was invested in projects that were rated ML or above in sustainability. It would be helpful if the Evaluation Office could provide recommendations for improving on the 65 percent satisfactory ratings for sustainability of outcomes through an examination of whether there is potential for improvement through GEF program strategies, project design, financing plans, or supervision.

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INTRODUCTION

1. We welcome the GEF Annual Performance Report (APR) 2006, prepared by the GEF Evaluation Office. The 2006 APR report provides an assessment of: (i) project outcomes and sustainability; (ii) delays in project completion; (iii) materialization of co- financing; and (iv) quality of the M&E arrangements at the point of CEO endorsement. This year's APR also looks for the first time at the quality of supervision of GEF projects by the three Implementing Agencies.

2. According to the report, the assessment of project outcomes, project sustainability and delays in project completion relies on an analysis of 66 projects, for which the terminal evaluations were submitted by the Implementing Agencies to the Evaluation Office in FY 2006. For assessment of the materialization of co-financing, all the 182 terminal evaluations submitted since January 2001 were considered. Of these, 118 (65%) terminal evaluations provided information on actual materialization of co- financing. The assessment of quality of the M&E arrangements at the point of CEO endorsement is based on the 74 full size projects that were CEO endorsed in FY 2005.

3. The report acknowledges that the findings presented have several limitations due to the fact that they are based on the terminal evaluation reviews, which are in turn based on information provided by the Implementing Agency terminal evaluation reports. Nevertheless, the discussion of the issues assessed in the APR 2006 provides a series of useful insights that can contribute to portfolio management at the GEF.

RESULTS

4. We welcome the report's conclusion that completed GEF projects remain on target to achieve the 75% satisfactory outcomes as agreed upon in the GEF-4 replenishment agreement. According to the report, out of the completed GEF projects submitted in FY 2006, 84 percent were rated moderately satisfactory (MS) or above in achievement of outcomes, moreover, of the total investment in the rated projects (\$254 million), 88 percent (\$224 million) was allocated to projects that were rated MS or above.

5. In terms of sustainability, 65 percent of projects were rated moderately likely (ML) or above in sustainability outcomes. Of the total investment in the rated projects (\$218 million), 60 percent (\$131 million) was invested in projects that were rated ML or above in sustainability. It would be helpful if the Evaluation Office could provide recommendations for improving on the 65 percent satisfactory ratings for sustainability of outcomes through an examination of whether there is potential for improvement through GEF program strategies, project design, financing plans, or supervision.

6. We also welcome the additional analysis undertaken by the Evaluation Office to assess the extent projects that were rated MS or above in achievement of outcomes were also ML or above in sustainability of outcomes. Of the rated projects from the FY 2006 cohort, 61 percent were rated MS or above in outcomes and ML or above in sustainability.

PROCESSES

7. We are pleased **the materialization of co-financing is on track**. For terminal evaluations submitted in FY06, the average rate of reported materialization was 114 percent of the promised co-financing.

8. For this report, the Evaluation Office carried out a pilot assessment of project supervision by Implementing Agencies. We are concerned with the conclusion that **“UNEP does not adequately supervise two thirds of the sampled projects, although improvements have been achieved after the appointment of a portfolio manager.** However, it should be noted that the assessment also found that **“Fiduciary requirements are generally met.”** In relation to this assessment, UNEP has noted the following:

“During the past year UNEP has taken a number of steps to both take stock of issues related to project supervision and also to improve its systems for GEF project implementation oversight. UNEP therefore welcomes the GEF Pilot Assessment as it provides an additional independent view of current project supervision practices and a baseline against which the organization will be able to measure progress towards the improvement of quality of project supervision in the future.”

9. We are concerned with the conclusion that portfolio monitoring by the GEF agencies tends to rate projects fully satisfactory despite important problems noted in the monitoring information on the same projects. According to the report, there is a marked tendency to rate projects fully satisfactory despite problems reported in areas such as implementation delays, government commitment, or long-term sustainability.

10. This assessment was carried as part of the pilot assessment of supervisions. For the 55 PIRs reviewed from 2005 and 2006, only three had been flagged in PIR ratings as MU or lower (grant value \$10 million). The desk review identified another 19 projects (grant value \$85.8 million), which could be considered at risk based on issues described in the narrative section of the PIRs, as well as reported performance of project components. It is however, encouraging that the 2006 PIR showed some improvement over 2005 with evidence that IA managers had begun to ask staff to justify ratings that seemed inconsistent with reported problems.

MONITORING AND EVALUATION

11. We are pleased with the finding that 78 percent of projects were rated MS or above on quality of monitoring. We agree that there is scope for improvements on appropriate indicators and baseline data, as well as for better quality at entry for funding of M&E. We believe that the development of strategic programming for GEF-4 focal area strategies and their associated indicators (GEF/C.31/10) will allow the agencies to make further improvements in this area.

12. We are concerned with the Evaluation Office’s conclusion that a substantial proportion of terminal evaluation reports do not adequately cover issues such as sustainability, co-financing, and M&E. Out of 66 terminal evaluation reports submitted in FY 2006 30 percent did not provide sufficient information on project monitoring, 18 percent did not provide sufficient

information on sustainability outcomes, and 29 percent did not provide information on the materialization of co-financing.

13. In considering the three issues that have been raised, it would have been helpful if the APR had stated clearly the standards or criteria that were used to determine the adequacy of information for rating sustainability.

OTHER FINDINGS

14. The World Bank would like to provide specific responses to section of the APR document as follows:

- (a) It is important to provide an accurate description of the status of "blended" IBRD/IDA-GEF operations (page 36, para 1). GEF projects are not recorded as IBRD/IDA operations; rather, they are considered supplements of "parent" IBRD/IDA projects. All GEF projects, whether blended or not, are part of a distinct GEF product line and are coded accordingly with separate project identification numbers. The systems issues identified in the report are complex; they relate primarily to concerns by the Bank's Quality Assurance Group about double-counting the "parent" IBRD/IDA operation in its portfolio assessments.
- (b) The World Bank has been proactive in restructuring or canceling "non-performing projects" unlike the characterization in APR (page 40, para. 1, and page 44, para. 1). There is a specific indicator of portfolio performance for this purpose, called the proactivity index, which is monitored for all Bank operations, including GEF grants. Furthermore, over the past decade, the Bank has dropped or cancelled more than \$300 million worth of GEF grants -- not including dozens of projects with partial cancellations. Refer to GEF/C.28/Inf.14, "Summary of IBRD Project and IA Fee Cancellations" reported to Council in June 2006.

RECOMMENDATIONS

Recommendation 1: UNDP and UNEP need to involve social and institutional expertise in project supervision where appropriate.

15. UNDP notes this recommendation and the findings on which it is based. While UNDP already involves social and institutional expertise in project supervision, UNDP will examine how it can further strengthen this.

16. UNEP acknowledges that social and institutional expertise is important for adequate supervision of specific projects. As such, UNEP will include guidance on this issue in the section of project supervision standards of its GEF Operations Manual.

17. Conclusion 4 of the APR 2006 report indicates that at present only the World Bank has a formal system for screening projects for potential unintended social or environmental impacts, which would need to be mitigated and supervised during implementation. UNEP would like to

clarify that potential negative social or environmental effects are routinely considered in the formal project design review process (i.e., in the project quality-at-entry checklist), however, because UNEP's projects do not generally involve development interventions on the ground, the application of complex social and environmental safeguards such as those required for World Bank projects are not warranted. UNEP management is, none-the-less willing to consider additional cost-effective measures to identify and mitigate these risks.

Recommendation 2: Special attention is required to ensure continued and improved supervision of its GEF portfolio through ensuring adequate funding from project fees.

18. The Results-based Management Framework (RBM) that is presented for Council discussion, will provide the platform for the Secretariat to develop tools to monitor the portfolio, in coordination with the GEF agencies. While developing these tools, care will be taken to ensure that they do not duplicate, but rather build on, the monitoring activities undertaken by the agencies.

19. The agencies will ensure that the appropriate level of resources received from fees are directed toward supervision of projects.¹

Recommendation 3: UNEP should develop a structural approach to supervision of its GEF portfolio

20. UNEP notes that the above recommendation is in line with UNEP's management approach to strengthen overall project supervision. UNEP is therefore pleased to report on the following changes it has put in place over the last year to improve the overall supervision of its GEF portfolio:

- (a) UNEP has undertaken an intensive exercise of improving human resource capacity for the supervision of its GEF project portfolio. This has included the strengthening of its human resource capacity in POPs, climate change and international waters by recruiting senior professionals in FY 2006, which would show improvement in project supervision in the next fiscal year. Management has also taken the decision to further strengthen UNEP's international waters and biodiversity teams and will soon conclude new recruitments to further develop the capacity for each of the teams where additional human resource needs have been identified.

¹ It is important to note that agency fees cover the full life cycle of the projects -- preparation, supervision, and evaluation phases. In addition, while the fees are indeed provided on a project-basis, the agencies manage the application of resources received from the fee on a portfolio-basis, redirecting resources towards projects in their respective portfolios that require more due-diligence efforts, on the basis of factors such as country and sector context, project complexity, and other institutional operational practices and budget guidelines.

- (b) UNEP has also been developing standard processes to instill a more structured approach to project implementation supervision as follows. UNEP developed and applied an enhanced GEF Project Implementation Review (PIR) process (piloted in GEF FY06). The organization improved the design and has started implementation of several tools to meet the requirements of the GEF M&E Policy set in place during the previous year. A Project-at-Risk system was developed and piloted from GEF FY 05 for the implementation review of all its GEF projects. This will provide the tool for alerting management of problem projects so that corrective actions can be undertaken rapidly. UNEP has carried out an analysis of the staff time required for overseeing different types of GEF projects. This analysis is being used to more evenly balance the workload to ensure adequate human resources assigned to project supervision.
- (c) UNEP is also institutionalizing a process of annual project quality of supervision reviews which will be conducted by UNEP's portfolio manager in consultation with UNEP's Evaluation and Oversight Unit. Minimum standards for the oversight of GEF projects are being put in place which these annual reviews will focus on. Starting with the June 07 work programme, UNEP's GEF projects once endorsed by the CEO, will include project supervision plans to be put in place before UNEP proceeds with implementation. These plans will establish project supervision tasks and their costings. A GEF Operations Manual is under development with an expected completion date of August 2007. The manual includes a section devoted to project supervision and will include the standards for both financial/fiduciary and substantive aspects of project supervision and a description of the associated processes. It will also include standards to take into consideration social and institutional issues where these issues may affect project implementation quality. The manual will be shared with the GEF Evaluation Office for an ex ante review of UNEP's proposed GEF project management and supervision standards. This will be used to facilitate training of staff responsible for providing GEF project implementation supervision to ensure a more uniform approach.

21. Although UNEP is improving its project supervision practices as noted above, UNEP makes the following observations concerning the findings of the Evaluation Office Pilot Assessment:

- (a) The Pilot Assessment found that UNEP has satisfactory standards concerning Supervision of Fiduciary/ Safeguard aspects. This finding, i.e. thirteen (13) projects out of 16 in the sample were rated moderately satisfactory or above (82% of projects scored 3 or above in the 6 points scale where six is the lowest rating).
- (b) There are a number of factual errors in the Pilot Assessment which affect the ratings of individual projects. These could have been corrected if agencies had been given the opportunity to review the details of the APR findings in draft form. For example, one project was rated 6 for "Realism of Project Performance Rating" while that project had been rated by UNEP's Project Implementation Review (PIR) as being a project at risk (substantial risk rating) and had also been

rated in the same PIR as “Moderately Unsatisfactory” for progress towards development objectives, demonstrating the realism in UNEP’s project performance rating. Another example is that several projects that had just begun implementation by June 04 were given a poor score for “Overall implementation performance **prior** to period under review.” In a few cases, the EO consultants made mistakes in what they recorded during the interviews with UNEP task managers. For example, in a UNEP project reviewed, the GEF evaluation states that there was no training provided to the project staff yet this was done and is included in the documentation provided to the evaluators.

- (c) Concerning candor in Agency PIR rating it should be noted that two UNEP projects in the pilot assessment sample have now terminal evaluations which were submitted to the Evaluation Office. The independent evaluation ratings are broadly consistent with the PIR rating provided by the Task Managers, while the Evaluation Office assessment concludes that the Task Managers had significantly over-rated performance in the PIR.
- (d) For future exercises it is suggested that a clear explanation of the factors considered in the supervision assessment are given and comments to support the ratings are disclosed. This would help the agencies understand the basis for the rating and help them to identify ways in which project supervision can be improved.”

Recommendation 4: All GEF agencies will need to ensure that terminal evaluation reports include adequate information on sustainability of outcomes, quality of M&E systems and reporting on co-financing.

22. Evaluation reports prepared for GEF-financed projects are expected to meet the minimum requirement 3 of the GEF Monitoring and Evaluation Policy. In line with these requirements, agencies will ensure that terminal evaluation reports include information on sustainability of outcomes, quality of M&E systems, and assessment of co-financing realized. However, we would appreciate more guidance from the Evaluation Office to identify concrete steps to be taken to improve the quality and level of information presented in terminal evaluation reports.

23. We welcome the Performance and Outcomes Matrix (scorecard) presented by the Evaluation office and look forward to receiving the matrix in next year’s APR.