OPS4 Technical Document # 8:

The Mobilization and Management of GEF Resources

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The Mobilization and Management of GEF Resources
(technical background paper OPS-4)

Contents

I. Methodology

1) The overall approach is analysis based, with triangulation of evidence, but also drawing on perceptions and opinions in order to Identify current issues in the forefront of decision makers minds on which evidence is required.

2) In addition to the limited information generated from the questionnaire[1], the sources of information drawn upon included:

a) Funding trend analysis;
b) GEF Council and Replenishment documents;
c) Information on other agencies, both from published material and personal communications (references to such material have been included where appropriate); and

[1] With respect to resources the questionnaire received 40 valid responses from representatives of governments, 28 from representatives of GEF Agencies and 3 from members of the GEF Secretariat.

d) Interviews with a sample of donors, the GEF Agencies, the Trustee and the GEF Secretariat.

3) Many elements of the OPS-4 Resources cluster have a high degree of inter-face with the Performance cluster and the work on GEF Governance and some have implications for the GEF's Role.

II. Resourcing the GEF

2.1 Trends in Environment Assistance

Sources and Data for this section:
Data relies largely on the OECD DAC's Creditor Reporting System (CRS). In addition to direct extract of data from the OECD QWIDS Query Wizard for International Development Statistics, which was used for disbursement data from 2002-07, three intermediate sources were utilised which relied on the Commitments data (Commitments data especially at the detailed level is much more irregular than disbursement data as it reflects the date at which the commitment was made. Also disbursements overall and, it seems particularly in the environment sectors, run at a lower level than commitments):

- Aid Architecture - An Overview of the Main Trends in Official Development Assistance Flows - An Update: May 2008, The World Bank Group Concessional Finance and Global Partnerships Vice presidency (for general information on aid flows);
- OECD Environmental Outlook to 2030, OECD 2008 (this provided a picture of trends in environment ODA commitments from 1990 to 2005. However it used a rather unsatisfactory breakdown for its categories and the base data was not available);
- Forthcoming World Bank publication - The Architecture of Aid for the Environment, A Ten-Year Perspective, draft June 2009. This provided a comprehensive analysis for the ten years 1998-07 and included some additional WB data. It has been used extensively as a source of data and analysis. This forthcoming publication uses the following grouping of OECD-DAC reporting categories for "**Core Environment**" which is considered broadly satisfactory: General environment protection**:** Environmental policy, administration and management; Biodiversity; Biosphere protection; Flood prevention/control; Environmental research; Site preservation; Environmental education/training. Water resources management**:** Water resources policy, administration and management; River development; Waste management/disposal; Water resources protection. Agriculture**:** Agricultural land resources; Agricultural extension; Agrarian reform; Plant/post-harvest protection and pest control; Forestry: Forestry development; Forestry policy, administration and management; Forestry research; Forestry services; Forestry education/training; Fuelwood/charcoal. Fishery development**.** Energy**:** Power generation/renewable resources; Wind power; Solar energy; Geothermal energy; Biomass; Energy research; Ocean power. Other multi-sector: Urban development and management.
- For multilateral organizations – information was drawn primarily from published annual reports, strategy documents and evaluations.

Trends in Development Funding

4) Funding for the environment and for the GEF itself needs to be considered in the overall context of trends in development funding. After a protracted decline during the 1990s, net ODA disbursements grew steadily between 1997 and 2005, but slipped in 2006 and 2007. The recent decline reflects the end of exceptionally high debt relief in the period since 2002. As a result of an overall consensus reached within OECD-DAC in the late 1970s, there has been a marked increase of bilateral ODA being provided as grants from less than 60 percent in 1975 to almost 90 percent in 2006. More recently, there has also been an increase in the use of grants by multilateral organizations.

5) Since the late 1990s, ODA for development including the environment (excluding debt relief, administrative costs of donors, and emergency assistance) grew at a slower pace than total ODA. Only in 2005 and 2006 did ODA for development programmes begin to exceed its 1992 level. The share of the social sectors in total sector allocable ODA to low-income countries has grown from 36 percent in the early

1990s to 57 percent in 2002–2006. Since 1990 there has been an overall shift from infrastructure and production to social sectors and currently over half of all sector allocable ODA goes to the social sectors. This is particularly marked for Sub-Saharan Africa, where they now account for over 60 percent of all sector allocable ODA. Within the social sector, assistance for health has significantly increased and in the period 2002–2006, accounted for a sixth of all sector allocable ODA to Low-income Countries. In contrast, infrastructure ODA for Low income Countries—and especially for Sub-Saharan Africa—has declined in relative terms. The share of ODA in the productive sectors fell markedly, with that for agriculture declining from about 13 percent in 1992–1996 to about 6.9 percent in 2000–2006. Since then it has risen with the food crisis but data on actual disbursements is not available[2].

6) These trends towards the social sectors are now being reversed with the current economic and food crises, but this fluctuation in donor priorities is illustrative of the competition which support to the environment in general and the GEF must face in resourcing.

Assistance for the Environment

7) There are no reliable overall figures on assistance for the environment and there are definitional issues[3] but **reference to OECD data shows an increase in delivery for assistance to the environment and related areas and for core environment assistance as percentages of ODA peaking in the period 1994-97, following UNCED in June 1992 (i.e. the period of GEF 1). Since then it has not shown a clear trend in the last decade, averaging 8.6 percent over the ten year period 1998 -2007 with some evidence of a decline from 2003 onwards, which is now probably being reversed with an emphasis on climate change.** Definitional issues in this discussion cannot however be ignored and figures for disbursements as a percentage of total ODA are less than those for percentage of total commitments. Assistance levels as a percentage of the total flattened out and if a precise definition of core environment ODA is taken, there was a growth of 50 percent in commitments at constant prices between 1998 and 2007 reaching US$ 7.2 billion in 2007 (in line with the recent expansion in ODA). Water and sanitation grew more rapidly and reached US$ 4.9 billion in 2007.

8) Core environment aid (average for the decade 1998-2007) has been dominated by Japan (16%), Germany (9%), the United States (9%), France (6%) and the Netherlands (6%) among bilateral donors and IDA (14%) and the European Commission (9%) among multilateral organizations. These seven players accounted for two thirds of total core environment aid and with the exception of the USA, they all increased their environment aid in the past decade. The share of multilateral aid for core environment oscillated around the average of 31 percent for the period 1998-2007. This is in line with the average multilateral share of 32 percent for all sector allocable aid. This does not take account of environment aid channelled through multilateral agencies (for example World Bank and UNDP trust funds), which is reported as bilateral aid in line with the DAC convention that non-core contributions to multilateral agencies earmarked for specific regions or purposes are reported as bilateral aid.

9) Climate change is now gaining dominance in environment funding. Core environment aid for renewable energy climbed from 3.4 percent of sector allocable ODA in 1998 to 13.6 percent in 2007. The top five providers of ODA for climate change mitigation over the past three years have been Japan (46%), Germany (24%), European Commission (9%), France (9%) and Denmark (5%), together accounting for 93% of the total. The main beneficiaries of this aid were India (15%), China (11%), Turkey (9%), Indonesia (9%), Vietnam (4%), Egypt (4%), Tunisia (3%), Morocco (3%), and Azerbaijan (3%). Overall commitments for renewable energy from all donors by region are summarised in Table 1. It can be seen that assistance for renewable energy is concentrated in Asia where relatively poor countries with the greatest growing contribution to green house gas emissions are to be found.

[2] Largely extracted from Aid Architecture - An Overview of the Main Trends in Official Development Assistance Flows - An Update: May 2008, The World Bank Group Concessional Finance and Global Partnerships Vice presidency

[3] This report has used the OECD basic data sets but the time series as reported by the OECD Environment Outlook could not be brought into line with later figures extracted directly from the data base. The OECD Outlook definitions are also questionable. Water supply and urban and rural development are not normally regarded as environment. On the other hand both forestry and fisheries assistance is generally closely related to the environment *stricto sensu*. Nevertheless for the OECD definitions have been retained throughout.

10) **Bilateral commitments from OECD donors for ODA with a principal objective addressing mitigation of climate change increased by 185 percent[4] in the period 1998/2000 to 2005/07**. The uneven picture provided by commitments as distinct from disbursements is illustrated by multilaterals which provided no aid for power generation by renewable sources in 1998 to 2001, or in 2004, but in 2006 and 2007 they accounted for nearly two thirds of aid to this sector. It is significant in this context, that in its position for the Copenhagen Climate Change negotiations, the UK has suggested capping the proportion of each country's ODA for climate change at ten percent, in order to preserve the necessary emphasis on poverty alleviation and almost all donors are agreed on the need for separate additional mechanisms to resource climate change mitigation and adaptation.

Table 1: Regional distribution of renewable energy commitments (1998-2007)	
Asia	43.6%
Sub-saharan Africa	23.5%
North Africa & NE	18.2%
Americas	10.4%
Europe	1.5%
Oceana	0.6%
Unspecified	2.2%
Source: OECD-DAC	

11) Bilateral ODA for **biodiversity and desertification** grew by 63 percent and 65 percent respectively in the period 1998/2000 to 2005-07. Multilaterals provided just 24 percent of aid to forestry, with nearly all aid for forestry policy provided by bilateral donors. Their share of general environment protection was also low at 22 percent, with bilaterals providing nearly all the aid for biosphere protection, environmental research and training. In contrast, multilateral agencies provided 40 percent of aid for fishery development and 33 percent of that for agriculture, including land degradation.

12) **Public-private partnerships** are a new phenomenon that emerged in the mid 1990s when global programmes started to be deliberately set up outside the UN system. The trend in NGOs is illustrated by IUCN, which has a total income of about US$ 400 million expected for the GEF4 replenishment period. It saw an increase of direct government donor funding of some 30 percent between the GEF second replenishment period and the fourth and its income from donors is continuing to rise. Most of the big environmental NGOs, such as WWF and Green Peace are networks of national or even sub-national organizations and the totality of their funding is not easy to calculate. The US World Wild Life Fund has seen a more spectacular increase in overall funding of some 100 percent in the same period but government grants and contracts only amount to some 13 percent of its total revenues for 2008 of US$ 196.5 million, reflecting another trend which has been the upsurge in private donations, especially in the USA.[5]

13) There has been a **trend by donors to utilise an increasing range of development partners**. The GEF itself forms part of this trend towards a proliferation of primarily governmental multilateral funds and agencies, most specialised in a particular sector or theme. There are now at least 230 of significance, outnumbering the developing countries they were created to assist. In the environmental sector 25 have been listed excluding the UN specialised agencies and NGOs. About six percent of all ODA to developing countries has been provided through NGOs and public-private partnerships and this is similar for the environment (see Table 2). The important point to note in this context is 94 percent of assistance for the environment has been flowing through governmental channels.

Table 2: Proportion of environment commitments disbursed by category of agency (where the donor specified this in reporting to OECD-DAC 2006-7)	
Public sector	86.9%
NGOs & Civil Society	5.7%
Public Partnerships and Networks	0.3%
Other Multilateral Institutions	1.9%
UN Agencies, Funds and Commissions	3.4%
European Institutions	0.0%
World Bank Group (does not appear to include GEF perhaps because of commitment year)	1.0%
Regional Banks	0.8%
Source: OECD-DAC	

[4] In constant US$

[5] Source: Annual reports of IUCN and WWF USA

14) As fully recognised by the Paris and Accra declarations multiple and fragmented aid channels impose an additional strain on already weak implementation capacities in low-income countries with different donors, including the GEF, applying their own unique processes for initiating, implementing, and monitoring projects.

2.2 Resources for the GEF and its Partner Agencies

Funding for environment work through the GEF agencies

15) Table 3: provides a comparison of the percentage overall commitments of major multilaterals to the provision of ODA for the environment as defined in the first part of this report with their total sector ODA. It should be noted that this excludes their financing through trust funds, including the GEF and refers only to that part of their portfolios classified as ODA. The IFIs which stand out most markedly as emphasising the environment are the Asian Development Fund of the Asian Development Bank and to some extent the Inter-American Development Bank special fund. The other major multilaterals except IDA, based on their reporting to the OECD DAC have all contributed less to the environment than their contribution to total ODA. In as far as can be determined this pattern is also reflected in the non-concessional lending of the IFIs. In general the pattern of their commitments for the environment have displayed the same overall trend as that for overall development assistance, with an upswing following UNCED in 1992, then a downturn with evidence of a reversal now driven by the emphasis on climate change.

Table 3: Percentage of ODA from Major Multilateral Organizations Financing the Environment (excluding GEF) 2005-07

	Percentage Total Sector ODA	Percentage of ODA to the environment
AfDB - African Development Fund	12.3%	8.20%
ADB - Asian Development Fund	12.0%	21.40%
World Bank – IDA	59.8%	61.30%
Inter-American Development Bank - IDB Special Fund	3.6%	4.10%
International Fund for Agricultural Development (IFAD)	3.7%	1.40%
UN Development Programme (UNDP)	3.6%	2.70%
UN Children's Fund (UNICEF)	5.0%	0.90%

Source OECD-DAC

16) All the GEF agency IFIs with the exception of IFAD are currently place a special emphasis on climate change and nearly all have special initiatives for this. Funding by governmental donors of environmental issues through mechanisms other than the GEF itself was noted for all the GEF focal areas but was most marked for climate change where the World Bank sponsored Climate Funds received pledges of US$ 6,141 million (equivalent) in September 2008[6], for projects to be implemented through the World Bank and the regional development banks. This compares with pledges to GEF-4 of US$ 1,854 million (at June 2009 book values).

17) **World Bank Group:** Funding through the World Bank group[7] is now the single largest source of environmentally related support through IDA, IBRD loans, and trust funds. IDA recorded a fall in core environment aid over the decade 1998-2007, as measured using three year averages. Its commitments fell from US$1.1 billion in 1995-97 to US$0.7 billion in 2005-07. This in part reflects the IDA replenishment cycle, with its commitments varying between US$63 million in 2,000 to US$1.6 billion in 2002, but IDA is still by far the largest multilateral contributor to environment ODA (see Table 3). In addition to concessional lending to IDA and blend countries of US$600—700 million, IBRD commitments of non-concessional loans have averaged around US$1.4 billion annually over the past five years. World Bank lending commitments for the environment have averaged nine percent of total Bank lending during FY04-08. Annually,

[6] Australia (US$ 127 million); France (US$ 300 million); Germany (US$ 813 million); Japan (US$ 1,200 million); Netherlands (US$ 50 million); Norway (US$ 50 million); Sweden (US$ 92 million) Switzerland (US$ 20 million); UK (US$ 1,488 million) and USA (US$ 2,000 million).

[7] Forthcoming World Bank publication The Architecture of Aid for the Environment, A Ten-Year Perspective, draft June 2009

environmental lending commitments averaged US$1.97 billion with 75 projects approved annually. In FY08, environment related commitments peaked at US$2.66 billion.

18) In the last five fiscal years IBRD countries accounted for an average of US$1.39 billion of mainly non-concessional lending, or about 70% of the Bank's environmental lending, with a majority going to the East Asia Pacific and Latin America and Caribbean region. IDA countries accounted for an average of US$490 million, or 26% of total environment related lending, mostly directed to the Sub-Saharan Africa region. The bulk of IBRD environment lending was directed to Water Resources Management and Pollution Management and Environmental Health. Water Resources Management plays an even larger role in lending to IDA countries, averaging 30% during FY04-08, growing to a share of 45% in FY08. The recent WB evaluation of environment and natural resource management[8] found for the period 1990 to 2007, the total of WB group environment funding was distributed: pollution management and environmental health 25%; water resource management 21%; environmental policy and institutions 18%; climate change 15%; land administration/management 9%; biodiversity 8% and other 4%. The big change in recent funding is the much greater emphasis on climate change. In addition to the Climate Change funds referred to above, the share of Climate Change lending surged to 40% (US$ 700 million) of environment lending in FY08, up from an average of 8% in the preceding four fiscal years.

19) World Bank initiatives and cooperation in partnerships outside of the climate change and energy sectors are relatively modest and mostly concentrate on forests and biodiversity. In one of these, the Ecosystem Partnership Fund, the GEF itself is a substantial contributor. Many of the GEF agencies cooperate in a technical partnership to support the objectives of the United Nations Convention to Combat Desertification. Total WB trust fund disbursements in support of the environment for FY 08, excluding the GEF, were of the order of US$ 100 million.

20) **UNDP:** In the case of UNDP, the GEF accounted for four percent of the Programme's total income for 2007-2008[9]. Environment is a priority area and the recent Evaluation of the Role and Contribution of UNDP in Environment and Energy reported that in the four years 2004-2007, UNDP directly contributed US$113 million for the environment as compared with over US$400 million from the GEF and the Montreal Protocol and some US$30-40 million from bilateral donors. In 2007 US$92.1 million was pledged by Japan for work in climate change. However, the GEF remains substantially the most important contributor to UNDP's environmental work, in contrast to the situation in the World Bank. Climate change now features as a priority on the UNDP website, but overall in the period 2004-06 biodiversity was apparently the area receiving highest priority. Sustainable energy had played an increasing role in country offices' environment portfolios (70 percent of country offices reported having programmes[10]).

Table 4: Proportions of environmental support by UNDP 2004-07	
Conservation and sustainable use of biodiversity	28%
Sustainable development strategies	28%
Access to sustainable energy	20%
Water governance	11%
Land management and desertification	5%
Ozone and POPs	7%
Other	1%
Source: Evaluation of the Role and Contribution of UNDP in Environment and Energy (includes GEF)	

21) **UNEP:** Support to UNEP's core financing in its Environment Fund has shown modest growth from US$ 110 million in 2002-03 to US$ 125 million in 2006-07 but to US$ 88.9 million in 2008 (US4 178 million for the biennium). In the period 2000-2007, the GEF has accounted for almost a quarter of UNEP's total expenditure.

[8] Supporting Environmental Sustainability: An Evaluation of World Bank Group Experience, 1990-2007 published 2008
[9] Calculated from UNDP Annual Financial Reports 2007 &2008
[10] Evaluation of the Role and Contribution of UNDP in Environment and Energy

Table 5: UNEP Funding 2002-07 (US$ million)			
	2002-03	**2004-05**	**2006-07**
Total expenditure	375	510	542
Environment Fund	110 (29%)	126 (25%)	125 (23%)
GEF	80 (22%)	121 (24%)	125 (23%)
Other trust funds, etc	185 (49%)	263 (51%)	292 (54%)
Source: Private communication			

22) **FAO & UNIDO**: The programmes and resource mobilisation efforts of the other UN GEF agencies, address their areas of mandate and competence (UNIDO: POPS, ozone depleting substances and aspects of energy; and FAO: pesticide POPS, agro-biodiversity, forests, fisheries and aspects of land and water management). Environment may appear as an organizational goal, as it does in FAO where it represents one of three.

23) **Asian Development Bank:** The ADB strategy 2020 focuses on poverty reduction through inclusive growth, environmentally sustainable growth and regional integration and formed the basis for agreement on the 9th Replenishment in May 2008. A climate change coordination unit was set-up in the Regional and sustainable Development Department in 2008 and a clean energy financing facility has been established, financed by bilateral donors. ADBs own net income for 2008 was transferred for climate change and a Future Carbon Fund was established.

24) With emphasis on climate change new commitments from the Asian Development Bank Group (concessional and non-concessional) for the environment re-attained their 1995 level only in 2008 at US$ 2607 million, 23% of the total. Between 2007 and 2008 the value of loans for energy projects (not all climate change) went from 14% to 23% and grants from 4% to 32% of the total with over US$ 1000 million for clean energy with an emphasis on transport and urban investment.

25) **Inter-American Development Bank (IDB):** Sustainable energy and climate change appears as one priority focus among five and a sustainable energy and climate change initiative (SECCI) has been launched with a fund financed by bilateral donors and IDB. Within climate change the priorities are expansion of renewable energy including biofuels and wind power, promoting efficient energy use and adaptation. A sustainable energy and climate change unit was established in 2009. Total lending and grants from the IDB group for the financial year 2008/09 in climate change were US$ 1.1 billion, some 10% of the total (this included US$ 500 million for policy based lending). In addition to climate change in 2008 some 3.5% of total loan and guarantee commitments (US$ 394 million) were reported as going for the environment as compared with an average over the 1961-2008 period of 2.3%. In IDB environment policy documentation greater use of the GEF receives a mention among the several under-utilised financial instruments available.

26) **The African Development Bank** has 14 sectors in which it divides its work. One of these is environment and another is Climate Change and Mitigation. The 2008-2012 Medium-Term strategy identifies climate change as a cross-cutting issue to be mainstreamed. The environment policy with emphasis on sustainable development was approved in 2004. A clean energy investment framework was approved in March 2008 and the Clean Energy Access and Adaptation Facility for Africa was established. GEF is identified specifically as a partner for environment but for climate change the World Bank is singled out. No non-concessional loans were made for the environment in 2008 (excluding climate change) and over the period 1996-2007 the percentage specifically to the environment was 0.3%. Loans and grants (concessional from the African Development Fund specific to the environment were 4.2% of the total in 2008, but negligible over the total period 1996-2007.

27) **The European Bank for Reconstruction and Development (EBRD)** records very limited ODA as most of its lending does not qualify. It has had an environmental mandate since its inception which is defined to not only include the environment *per se*, but also worker health and safety and community issues. An annual sustainability report is published. In 2006 the EBRD launched a sustainable energy initiative and €2.7 billion (approximately US$ 3.9 billion) was committed in the period 2006-2008. Over the period 2006-2008

investments in sustainable energy rose from 15% of commitments to just under 20%. Concentration is on industry, the power sector, municipal infrastructure development and developing the carbon market. The EBRD committed 23% of its overall lending to the environment €2.51 billion –approximately US$ 3.3 billion) over the two year period 2007-08). As is evident from the above the great majority of this was for climate change with only about 4% being directly targeted towards other environmental issues.

28) **The International Fund for Agricultural Development (IFAD)** lists as one of its six objectives "ensuring that poor people have better access to, and the skills and organization they need to take advantage of – natural resources, especially secure access to land and water, and improved natural resource management and conservation practices." IFAD hosts the Global Mechanism to Combat Desertification (UNCCD) and within this context has given recent attention to the effects of climate change on land resources. The environment separately from natural resource use is not considered in the 2008 Annual Report and among partnerships the GEF is not mentioned.

29) As is evident from the above discussion the GEF is a desirable, but not essential, partner to the newer agencies. It is essential to UNEP where it accounts for over 20 percent of total expenditures. In UNDP it remains the major source of funding for environmental work, whereas in the World Bank this is less and less the case.

30) The **Convention Secretariats** do not as yet have significant funding in addition to that for their direct services as secretariat to the Conventions. They are increasingly however, asserting their role in capacity building at the request of the Parties[11].

Funding Directly to the GEF

31) The GEF itself in terms of actual receipts has had a US$ budget which fell for GEF 2 and has steadily declined in purchasing power since GEF 1 (see Table 6 below). Funding for the GEF has also declined as a proportion of sector allocable ODA (the best estimates that could be made based on OECD data indicated that the GEF fell from nearly 0.7 percent of sector allocable ODA in the first and second replenishment periods to 0.38 percent for the first year of GEF 4). In terms of proportion of ODA core environment assistance, the GEF has also declined markedly. Although weaknesses in the data make it more difficult to state by how much, the decline appears to be some 35 percent between the first and fourth replenishments.

32) GEF funding in national budget negotiations is generally treated by treasuries as development assistance, although the GEF is not necessarily all funded under the budget of the Departments responsible for ODA. Formerly, funding to the GEF did technically represent additionality to total donor aid, for the purposes of reporting to the OECD DAC, as only 77 percent of contributions to the GEF were by definition recorded as ODA. However, the reality was recently recognised with the ODA percentage for GEF contributions being increased to 96 percent for the purposes of OECD-DAC reporting. <u>Very little, if any funding to the GEF can thus be regarded as truly incremental</u>.

33) Two funds were established by the Parties to the United Nations Framework Convention on Climate Change in 2007 with the secretariats provided by the GEF (the Least Developed Countries Fund and the Special Climate Change Fund). By November 2008, they had received total pledges of US$ 279 million (all from OECD donors).

34) **Donor rationale for the expanded use of alternative partners and funding channels to the GEF**: One characteristic of much of the funding discussed above has been a greater degree of direct targeting by the donors, while still utilising an intermediary, rather than acting bilaterally. This extends from the funding of individual projects to the more generalised funds, still around a specific topic, including the World Bank Climate Investment Funds. In other words, donors were able to adopt greater targeting in line with their

[11] e.g. Towards a Resource Mobilization Strategy for the Secretariat of the Convention on Biological Diversity, UNEP/CBD/COP/9/INF/22 30, April 2008

own priorities. The further reasons for an expanded use of alternative partners, rather than increasing funding to the GEF was discussed with donors. Donors naturally differ in their positions but many have explained that they consider:

a) The GEF provides a valid mechanism for pilot work in support of the achievement of the goals of the Conventions, but when it comes to up-scaling through significant investment, the GEF provides limited value added while representing an additional step in the funding and implementation chain; and

b) They have formed their own assessments of agencies comparative strengths in different areas and note that the World Bank is the biggest single actor in the area of environment in general and climate change in particular and has the mechanisms in place to fully integrate its support into national policies. They further note that the development banks have the greatest experience of direct investment.

Table 6: GEF Replenishments and Trends in Development Assistance [a/]

	Pilot phase	**Replenishment 1**	**Replenishment 2**	**Replenishment 3**	**Replenishment 4**
GEF US$ million receipts per replenishment from donors (June 2009) [b/]	843	2,012	1,687	2,095	2,169 [c/]
Purchasing power of GEF receipts deflated by OECD DAC US deflator Replenishment 1 = 100		100	78	90	83
Total commitments for sector allocable official development assistance from all sources (US$ million) [d/]	1990-93	1994-97	1998-2001	2002-05	2006-07
	304725	302595	280529	416132	283278
Funding through the GEF as a % of sector allocable official development assistance from all sources [e/]	0.28%	0.67%	0.60%	0.50%	0.38% [f/]
Funding through the GEF as a % of core environment assistance from all sources [g/]	8.0%	11.7%	8.9%	9.3%	7.6% [f/]

Notes to the Table:

a/ It seems that ODA levels have begun to decline in 2009 and will fall further in 2010 but firm data is not available.
b/ Receipts have been converted to US$ at the rate prevailing against the SDR at the time of the Replenishment, they thus do not reflect actual receipts to the GEF in US$ at the time of encashment. The receipts do not include reserved contributions which are encashable subject to payment of arrears by other major donors
c/ Assumes the present trend in deposits continues for the remaining year of GEF 4
d/ Source OECD-DAC QWIDS
e/ There are difficulties in ascribing GEF commitments to particular OECD calendar years. The actual date of deposit of the instrument of commitment varies between donors and the date of report to the OECD-DAC can also vary
f/ In terms of comparability with the data presented for the previous Replenishments, the assumption is made that Sector allocable ODA will run at its 2006-07 level for 2008-09. Also however, the GEF Instruments of Commitment were deposited in late 2006 and in 2007 so OECD-DAC reporting fell in those two years (deposits are completed for GEF-4 in 2010)
g/ This should be regarded as a trend only, as data 1990-97 not fully compatible with that 1998-2007

Arrears

35) Arrears remain a problem for the GEF, principally because the US had, as of June 2009, major outstanding arrears dating back to GEF-2&3 (US$ 167 million). In this regard the situation in the GEF paralleled that in many other funds (the US did largely settle its arrears with the UN system through a negotiation process in 1999 but by 2009 arrears stood at over US$ 1 billion to the UN itself). Several other

donors[12] to the GEF have deferred their contributions, with reference to the burden sharing formula (see below) and as a lever to get arrears paid. Italy also had not deposited its Instrument of Commitment or made any contributions for GEF-4. **In total, arrears which have been outstanding for some time, deferred contributions and unfulfilled pledges as of June 2009, amounted to some 18 percent of the resources originally projected for GEF-4**. There is no obvious solution to this issue as those in arrears are already subject to the scrutiny of their peers and the data is in published documents. There is an incentive to early payment. As part of its reform process FAO governing bodies decided that arrears and late payments should appear prominently on its website and such a move could slightly increase the pressure, in that it can help feed national constituencies pressurising their governments to meet their obligations.

Expanding the sources of funding for the GEF[13]

36) In responses to the questionnaire some three quarters of the respondents from governments and the GEF agencies and all those from the GEF secretariat considered that the GEF should diversify its sources of funding.

37) **Extending governmental donations:** There has been an overall decrease in the number of middle income countries (entitled to receive funding from the GEF) which also contribute to the GEF—from twelve during GEF-1, down to eight in GEF-4 (China, India, Mexico, Nigeria[10], Pakistan[14], Slovenia, South Africa, and Turkey). These countries, for the most part, pledged a minimum share of SDR 4 million (about US$ 6 million), with China and India providing additional amounts over the minimum. Countries notably absent from the current list of donors to the GEF, include, existing IDA donors—Barbados, Brazil, Cyprus, Egypt, Estonia, Hungary, Iceland, Israel, Kuwait, Latvia, Poland, Russia, Saudi Arabia, Singapore, and the Slovak Republic. Thailand, which contributes to the Global Fund, is not yet a donor to the GEF as well as several other upper middle income countries with relatively large economies, such as Venezuela, Chile, Argentina, and Malaysia. There could thus be scope for increasing the number of middle-income country donors and the level of funding by some of them from the present basic SDR 4 million input. However, many of these countries contribution on any burden sharing scale related to GDP would be small. It may also be noted that the European Commission is now among the three largest donors to the environment but, although there has been some recent relaxation, it is precluded by its statutes from making contributions not tied to specific programmes and this makes it a more appropriate partner to the GEF through co-financing than direct contributions.

38) **Attracting Resources by use of multiple funds and targeted funding:** Earmarking is possible in some Bank-administered trust funds such as the Consultative Group for International Agricultural Research (CGIAR). There was very little support from donors or Council members interviewed for the suggestion of supplementary GEF funding targeted to particular geographical areas. Also, although many donors were of the view that the GEF should not develop a series of additional funds to directly support work in specific focal areas, they did agree that in practice the opportunity to target funds provided by other institutions could be a factor in the capacity of those institutions to raise funds. If the GEF were to develop in this way it probably could raise more funds overall but this would also detract from the core funding and dilute the agreed policy directions and splits across focal areas. This is particularly the case for Climate Change mitigation to which many donors now attached an absolute priority. The possibilities for adjusting substantially the proportions to the Focal Areas of the GEF did not seem to most donors, a realistic option, neither did it seem possible to increase the focus on key countries for global benefits. Thus, although all argued against a proliferation of funds and channels for environmental assistance and several argued that they would like to see a reconstituted GEF eventually emerge, with much greater capacity to be the multilateral funder of environmental assistance for global benefits, they also stated that in their view this was not a realistic option and it would, in the view of this group, necessitate the "GEF family" emerging as

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[12] Austria US$ eq. 6 million, France US$ eq. 60 million, Germany US$ eq. 19 million and Japan US$ eq. 160 million

[13] Information relating to the World Bank Group has been extracted from: Memorandum to the Executive Directors, Operational Framework for Accepting Unsolicited Private Donations to IDA, May 12 2008. Other Elements of the discussion draw on the FAO Evaluation of its TeleFood Programme which included analysis of the experience of other agencies and NGOs, September 2006

[14] Nigeria and Pakistan have not yet deposited their Instrument of Commitment for GEF-4 or any funds

the main vehicle for multilateral funds in the environment sector and this would require that:

a) The GEF Agencies play a more prominent and coherent role in the GEF as a partnership and vis-à-vis the GEF Secretariat and the Council; and
b) The GEF secretariat develop a facilitating coordination function and provide the secretariat for a family of funds with existing GEF at the core.

39) These overall findings were born out by the questionnaire responses, where only a quarter of government responses positively supported GEF accepting funds targeted to particular groups of countries, and a minority considered that GEF should accept funding against particular Conventions, although here views were more equally divided. These judgements were shared by the respondents from the GEF agencies but not by those from the GEF secretariat who were all in favour of such targeted fund raising.

40) **Experience of non-governmental funding**: There is currently no legal barrier to receipt of funds from non-governmental donors to the GEF but there is also no provision for such donors to play a formal role in GEF decision making through the Council or the Replenishment meetings.

41) The World Bank has policy for acceptance of donations from Foundations and other private entities. However, cumulative donations from non-governmental sources were only US$ 20 million between 1985 and 1997. In the five year period 2003-2007, non-governmental donations to trust funds increased to US$577 million but only 16 percent of this was for Bank executed Trust Funds and of the remainder the majority went to one single trust fund, that for the Global Fund to Fight AIDS, Tuberculosis and Malaria. Overall 95 percent of private donations came from Foundations, of which the Gates Foundation provided 86 percent; Corporations accounted for three percent; and NGOs the remaining two percent (for Financial Year 2007 the number of NGO donors had declined to two). Experience with different donors has varied with some donors, notably the Gates Foundation, requiring adherence to their particular legal requirements in addition to the Bank's own documentation and process.

42) The increase in private sector partnerships led the Bank to update its operational policy on trust funds in 1997 to allow for the acceptance of private sector trust funds under the conditions that:
a) The Bank retains decision-making authority over the use of the funds;
b) The funds advance recipient country interests and the Bank's policy and institutional objectives;
c) No special advantages or benefits accrue to the donor (for example, the trust fund does not directly benefit donor business interests, or provide exclusive information to the donor); and
d) There is full public disclosure of donors and donations.

43) IDA received two donations from the private sector in October 2007. The Bank is now further developing its overall strategy for acceptance of private sector funding. Contributions by non-members cannot confer rights of membership or decision making in IDA which is reserved to sovereign nations. There is no earmarking in IDA which has a rule-based system for allocating resources among IDA recipient countries.

44) Most of the UN agencies have some arrangement for private donations, but only in the case of UNICEF are these a significant source of funds and they confer no voice in decision making. In UNICEF, they are backed by a long tradition and a large resource mobilisation machine, both in UNICEF itself, and through national organizations. Other agencies such as the World Food Programme have provision for direct private and corporate donation on their websites. The experience has been that charismatic agencies such as UNICEF and WFP receive the greatest number of donations when there is a very evident humanitarian crisis such as the Indian Ocean Tsunami.

45) Significant private fund raising requires a dedicated machine to this purpose. In the 1960s and early 1970s, NGOs were a source of income for the UN system through programmes such as the Freedom from Hunger Campaign but NGOs established through this framework have gradually developed their own

persona and are no longer significant contributors. UNICEF continues to have national organizations devoted to raising resources and the possibility to donate nationally is a considerable factor as most countries will not permit tax deductions against charities or foundations not registered in that country. Foundations have been and continue to be a minor source of funds for individual projects in many organizations but these are targeted to individual interventions. The UN Foundation, established under US law, primarily to support selected programmes of the UN system has received donations of US$43–44 million per year in the last two fiscal years. Cooperation with the private sector has declined in importance as fears have grown of conflict of interest and of industries pushing inappropriate policies which favour their products[15].

46) Some UN agencies, for example FAO have experienced opposition from NGOs to what they see as competitive fund raising and governments can be sensitive to these arguments. Other development NGOs can see leverage in collaborating with the UN system, but in such cases they need to also gain a proportion of the funds raised for their own projects in the spirit of partnership.

47) **Combining advocacy and fund raising:** Repeat giving constitutes a major source of income for many of the world's charities. The possibility to link donors with groups of projects or programmes is considered fundamental if the organization is to establish a continuing relationship with individual donors rather than a one-off approach to giving. The linking of donors and projects or programmes which they support not only facilitates fund raising but increases the public awareness of the issues the Organization is addressing and helps sensitise public sentiment. It is of note that events such as galas and rock concerts do not significantly increase name or cause recognition but the establishment of long term relationships with individual donors and the establishment of national committees, etc. does.

48) **Cost efficiency:** The administrative costs related to managing donations including for donor screening, negotiating donation agreements and reporting are likely to vary considerably from donor to donor. For instance, donors with which an organization has an existing relationship have lower screening costs than new donors. The extent to which any special reporting or procedural provisions are accepted there will be major differences. NGOs, foundations and UN organizations such as UNESCO only guarantee up to 80 percent of funds raised going to programmes and many state 70 percent or less. Analysis of small individual donation programmes and community events shows that they generate between US$2 and US$3 for every US$1 spent. In UNICEF the costs of fund raising by national organizations are not well documented. Seven percent of the UN Foundation's income is spent on fund raising and administration. Professional fund raisers make charges on funds raised of up to 20 or even 30 percent.

49) **Reputational Risk:** The great majority of intergovernmental organizations accepting private funds have provisions to guard against reputational risk. These naturally include entities or individuals that have engaged in criminal activities and corruption and generally exclude industries such as arms, tobacco and gambling, or that involve harmful labour practices, cause damage to the environment, or pose risks related to conflict of interest (see below). Thus UNICEF and WHO do not accept funding from corporations engaged in the manufacture of alcoholic beverages and infant formula. FAO and WHO have restrictions on food industry financing and FAO restricts funding from the pesticide industry. In this context the GEF would need to pay particular attention to environmental issues. Some organizations forbid the use of their logo (e.g. the World Bank), others require their clearance for its use. Most organizations require to be consulted on any use of their name or reference to the donation in publicity material by the donor.

50) **Conflict of interest and unfair advantage:** Also the great majority of inter-governmental organizations have provisions to ensure that there is no access to information, preferences or opportunity for influence in contracting by the organization or recipients of grants and loans. Some organizations exclude funding from any entity which has a current business relationship with the Organization[16].

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[15] e.g. the FAO industry cooperative programme which was wound-up in the 1970s and the steady rolling back of industry funding in the WHO/FAO work in food safety and nutritional standards.

[16] e.g. FAO

51) A number of factors indicate that non-governmental sources would be an unlikely channel for a significant increase in GEF funding, except through partnership arrangements such as the GEF Earth Fund:

a) Firstly, there are a number of extremely charismatic and effective international NGOs active in the environmental arena, including IUCN and WWF, referred to above and also Green Peace;
b) Secondly, the experience from elsewhere needs to be placed in perspective. Probably the most successful fund in terms of resource mobilization has been the Global Fund for HIV-AIDS, Tuberculosis and Malaria and of its US$ 14 billion receipts to date 95 percent have come from Governments and non-governmental entities are represented on the Board and have a strong voice in decision making. This is also the case for the Global Alliance for Vaccines and Immunizations (GAVI), which includes industry representatives as well as foundations; and
c) Thirdly, new funds such as the Bill and Melinda Gates Foundation are now tending to directly fund programmes of individual agencies without working through intermediaries (Although in the case of Gates, they contribute substantially to the Global Fund).

52) **Non-conventional financing:** Various non-conventional sources of funding may become available as a result of the climate change negotiations, but it is premature to discuss if these have any potential role to play in the direct financing of the GEF.

2.3 Role of the GEF in Fund Mobilisation for the Environment

53) **The GEF Instrument:** The GEF was established to provide new and additional grant and concessional funding to meet the incremental costs of measures to achieve agreed global environmental benefits in the GEF focal areas[17]. In its fulfilment of this the GEF operates as the, or a, financial mechanism for the environmental Conventions with the exception of the Montreal Protocol ..... "In such respects, the GEF shall function under the guidance of, and be accountable to, the Conferences of Parties (of the Conventions) which shall decide on policies, programme priorities and eligibility criteria for the purposes of the Conventions"[18]

54) **The Conventions** refer to this and to the Parties financial obligations with varying degrees of specificity. For example the United Nations Framework Convention on Climate Change states, "A mechanism for the provision of financial resources on a grant or concessional basis, including for the transfer of technology, is hereby defined. It shall function under the guidance of and be accountable to the Conference of the Parties, which shall decide on its policies, programme priorities and eligibility criteria related to this Convention." .... "The Global Environment Facility ... shall be the international entity entrusted with the operation of the financial mechanism on an interim basis".... "the entity or entities entrusted with the operation of the financial mechanism shall agree upon arrangements to give effect to the above paragraphs, which shall include: ...... Determination in a predictable and identifiable manner of the amount of funding necessary and available for the implementation of this Convention."[19]

55) Further, it is clear that the Conventions do not regard the GEF's role in fund mobilisation as restricted to funding through the GEF itself, but also as a mobiliser of complementary funding from diverse sources. For example the CBD stated at COP9 (2008): "The Parties conducted an in-depth review of the availability of financial resources and adopted a strategy for resource mobilization in support of the achievement of the Convention's three objectives. ... They also agreed to develop measurable targets and/or indicators addressing all relevant funding sources within the framework of the strategy for resource mobilization. ... The COP urges the GEF to continue to mobilize co-financing and other modes of financing for its projects related to the implementation of the Convention, and requests the GEF to continue to leverage financial resources to support the Convention's objectives." The UNFCCC stated at COP13 (2008): "The GEF should leverage private sector investments: to ensure that sufficient financial resources are

[17] GEF Instrument Basic Provisions Article 2
[18] GEF Instrument Basic Provisions Article 6
[19] UN Framework Convention on Climate Change Articles 11 & 21.

provided to meet the agreed full costs incurred by developing Parties on national reports ... and to continue to ensure that financial resources are provided to meet the agreed full costs incurred by developing country Parties in complying with their obligations under Article 12, paragraph 1 of the Convention.

56) **In summary, funding for the environment has shown an overall decline as a proportion of development assistance. Contrary to the spirit of the Conventions, assistance for environmental public goods has not been incremental to ODA. ODA for the environment along with that for other sectors is utilising an increasing number of partners and channels which increases transaction costs and overstretches implementation capacity in developing countries. The private sector has emerged as an important new source of funds, particularly in the health sector but its importance can be over emphasised and it forms a small part of total aid flows. The Climate change negotiations may well lead to additional financial mechanisms in terms of some forms of global taxation. At the same time it is clear that donors will maintain sector and geographical targeting in their assistance, including within the environment portfolio. There is a gap in the global governance architecture to facilitate coherent expansion of financing for the environment as a whole.**

2.4 The GEF Financial Resourcing Formula and Overall Financial Resources Management for the GEF

The Replenishment Process

57) The replenishment process takes place though a series of meetings convened by the Trustee (World Bank) and actively supported by the GEF Secretariat, with the CEO who acts as co-chair having an important voice in proposing the agenda. All donor governments contributing the minimum amount of SDR 4 million to the previous replenishment have attended the recent meetings, together with observers from the GEF agencies, who have no speaking rights unless invited by the Chair. Representatives of the Conventions are also invited to attend meetings but recently often have not always done so. Both previous Replenishments and the current process have been formative in overall determination of GEF strategy but all decisions/recommendations are ratified by the GEF Council/and or Assembly.

58) The practice for GEF Replenishment is not fully in line with the GEF Instrument and normal practice for World Bank Trust Funds. The Instrument states that the Trustee is responsible for Resource Mobilisation. This is interpreted by the Trustee to refer to the organisation of the Replenishment meetings and in practice the GEF CEO and secretariat have undertaken the mobilisation function. Normal practice for World Bank trust funds is for the donors to request the papers and agenda to be discussed. In addition to this in the GEF, the CEO has tabled additional papers for discussion during the current Replenishment.

59) **The period of the replenishment** is four years. In this it differs from IDA and most of the IFIs, set at three years. It has been suggested by the GEF Secretariat that it could be helpful to reduce the duration of the replenishment cycle from the current four years. The UN specialised agencies fix their core budgets every two years. However, donors showed little interest in shortening a cycle to which everyone has now become accustomed and some consider that it is easier for them to make the arguments at the political level for support to the GEF if this does not happen too frequently. They argue that four years is sufficiently short to be responsive to international developments and provides a firm period over which the GEF can plan with assurance of funding. There are of course significant indirect costs in the replenishment process for donors, the trustee and secretariat and these do not vary significantly with the size of the replenishment.

60) **Participation in Replenishment Discussions:** At the second GEF-5 replenishment meeting in June 2009, following a recommendation of the OPS-4 Interim evaluation report, it was agreed that the Secretariat and the Trustee would prepare a proposal for the participation of non-donor recipient country representatives in the replenishment meetings, and circulate it to the contributing participants for decision in advance of the third meeting. It was further agreed in principle, that two NGO representatives would be selected by the GEF NGO Network, comprising one from a recipient country NGO and one from a non-

recipient country NGO. They would attend the replenishment meetings as observers and the selected NGO observers would be permitted to attend all sessions, except financing sessions such as burden-sharing, pledging, or other discussions as determined by the Chair.

61) These developments will bring the GEF much more closely in-line with current governance practice elsewhere. In the UN system the mandatory contributions to the budget are discussed by the Governing Bodies which have representation of both developed and developing countries. NGO observers and observers from other international organizations are also present in formal sessions and are often permitted to speak. Since IDA13, replenishment meetings have included representatives of recipient countries. At the last replenishment in 2007 (IDA 15), nine borrower representatives were invited to participate representing the six IDA recipient regions in which there are currently 78 borrower countries. This practice is mirrored in most, but not all, of the regional development banks. In IFAD, 12 recipient countries participated as full members of the last replenishment discussion, plus three observers. The replenishment meetings for major WB Trust Funds appear to generally involve only donors.

62) As noted above, the GEF operates as the, or a, financial mechanism for the environmental; conventions with the exception of the Montreal Protocol ..... and "In such respects, the GEF shall function under the guidance of, and be accountable to, the Conferences of Parties (of the Conventions) which shall decide on policies, programme priorities and eligibility criteria for the purposes of the conventions"[20]. Given the fundamental role the Replenishment has in GEF policy formulation, albeit that this is then further discussed by the Council/Assembly, the fact that Convention representatives do not choose to attend all Replenishment meetings and then as observers, speaking only at the invitation of the Chair appears a significant lacuna. Other organizations, such as the Global Fund, without the same architecture and lines of responsibility as the GEF, include stakeholders in their discussions. It is possible that the distance developing between the GEF and the Conventions it serves is contributing to a tendency in the Conventions to explore possibilities for alternative funding arrangements. Recent Replenishment and Council discussions rejected GEF secretariat proposals for improving interaction with the Conventions as too heavy but the principle remains important.

63) The GEF architecture is that of a partnership with the agencies, but as the agencies have increased in number and the assertiveness of the GEF secretariat has grown, the role of the agencies in policy discussions has declined. They are currently present as non-speaking observers at the Replenishment and have been invited to present papers on their views. Issues in efficiency of resource application and the respective roles of the Trustee, GEF secretariat and agencies are returned to below. In the existing architecture, the agencies are the interface of the GEF with countries and projects and this has implications for their role in the Replenishment discussion.

64) Another concern is that of efficiency, both in direct costs to the GEF and indirect costs in terms of the calls on participants' time and travel. The larger and more representative the Replenishment meeting becomes, the more time it will take and the greater tendency it will have to repeat discussions held in the Council.

65) Some donors stated during interviews that for the maximum commitment of donor resources to the GEF, in practical terms weight had to be given to their voice both on GEF strategy and resourcing. All donors noted that the extent of their confidence in the GEF could not entirely be divorced from the extent of their control over it, some noting that where democratic principles of one country one vote were the norm, as in the UN system, many donors favoured contributions to trust funds over those to core funding. It is probable that the extent of their control was a factor for at least some donors in their decision on levels of contribution to the World Bank Climate Investment Funds.

[20] GEF Instrument Basic Provisions Article 6

Resource Management Overview

66) The present system for pledge, commitment and receipt of funds by the Trustee on behalf of the GEF is very well set out in the Trustee Paper for the first GEF-5 Replenishment meeting "Review of the GEF Trust Fund: Contributions, Funding Availability and Financial Risk". It is however, a complex system and is summarised briefly here, particularly highlighting the areas which lead to misunderstandings and in some cases a lack of transparency. The GEF adheres to normal World Bank trust fund procedures, which have some flexibility, particularly when they are in support of entities with an institutional identity such as the GEF and the Global Fund to Fight AIDS Tuberculosis and Malaria. The discussion below highlights those few areas where any difficulties or ambiguities have arisen.

67) Pledged sources of receipts to the GEF from a replenishment:

a) Once every four years each donor pledges in the Replenishment to provide an agreed amount of resources to the GEF. This is specified in SDR but is converted into national currency[21] at a recent (6-7 month) average of the rate of exchange against their national currency. The actual pledge is thus in national currency. This does not become a binding commitment until the contributor deposits an Instrument of Commitment with the Trustee for their pledge (in many cases this requires a decision of their national parliament). The same approach is followed for IDA.

b) The payment to the GEF is then made in two forms, where payments are divided equally into four annual contributions over the period of the Replenishment. For those donors which pay in cash, this constitutes four equal cash payments and the process is relatively straight forward[22]. However, there is the option of also paying by promissory notes denominated in the national currency and these are redeemed on a schedule over a ten year period because this is considered to be the length of the GEF project disbursement for the Replenishment. In other words, the promissory notes for GEF-4 could be deposited in 2009 and redeemed in 2016 according to a published encashment schedule. However, the promissory notes do not have a fixed encashment date on them and can be redeemed at any time by the Trustee if required (this has not ever happened). In this the GEF arrangements are also similar to those for IDA and in the case of both the GEF and IDA there has been no experience of donors failing to honour promissory notes.

68) Other sources of income considered available, added to the Replenishment total, and thus funds considered available for programming are:

a) Predicted investment income from resources on deposit by the Trustee;
b) Arrears resulting from non-payment during previous Replenishment cycles and deferred contributions pledged conditional to the settlement of arrears; and
c) Any unallocated resources from the previous Replenishment.

69) This exposes the resources of the GEF to potential shortfalls on the agreed level of replenishment in US$ and on the amount which countries expect to have available for programming:

a) National authorities may not immediately agree to the pledge and may not deposit the Instrument of Commitment with the Trustee (this is currently the case for three contributors to GEF-4[23]);
b) Countries may not honour their commitments. In June 2009 over the total life of the GEF some US$ 178[24] million was in arrears and a number of other donors had made payment of part of their contributions subject to the settlement of those arrears;
c) The national currency in which the contribution is denominated may be worth less in US$ at the time that cash is paid over to the Trustee, or the promissory note is honoured, than it was at the time

[21] Those very few contributors with high rates of inflation (over 10%) have the contribution fixed in SDRs.
[22] There is a formula whereby discounting is applied for payments ahead of the encashment schedule and these discounts are either receivable by the donor, or recorded as a supplementary contribution, or included in the basic contribution.
[23] Italy, Nigeria and Pakistan
[24] Of the arrears and long outstanding promissory notes 95% derive from the USA, which did not gain Congressional agreement for its pledged level of contributions.

that the pledge was recorded but it may also be worth more. This discrepancy is likely to increase over the period of the replenishment and is highest for long duration promissory notes. As there has been an overall weakening of the US$ against other currencies over the last ten years, to date there has been a gain, but the recent strengthening of the US$ may mean that this is not the case for the totality of GEF-4[25] (managing currency risk is discussed further below);

d) The investments may not realise the level of income expected or they may realise more (historically they have consistently realised more, including for GEF-4, despite the market collapse[26]);

e) The arrears may not be paid, indeed it is unlikely that they will be fully paid in full in the immediate future;

f) The Trustee operates a reserve to guard against uncertainties. This was US$40 million and is now being operated at US$45 million. It does not appear as a commitment to be programmed for; and

g) Overhead costs of the GEF Secretariat, GEF Evaluation Office and Trustee may rise above the planned level during the course of a Replenishment Cycle, reducing the amount available to countries but this is unlikely to be significant over a replenishment cycle within the overall GEF budget envelope, as the resources are only 3.5 percent of the total.

70) Funds become available for reprogramming from: i) Funds set-aside by the GEF secretariat for PIFs which are never approved as full projects; ii) cancellations of approved projects which do not start; iii) reduced budgets of projects; and iv) projects which are completed without spending the total allocated budget. By May 2009 cumulative project cancellations represented seven percent of approved budgets and it was opined by the GEF secretariat that some ten percent of PIFs do not reach the final project approval stage.

Setting the Replenishment Level

71) The level of the Replenishment is essentially a political decision and the experience from the international system suggests that donors' willingness to fund budgets is largely a function of historical precedent, their overall confidence in the institution, and the priority they address to the issues addressed by that institution. One factor which contributes to donors' confidence in institutions is the justification they provide for their requested budget level. For example in the UN system, WHO is generally considered to provide a good results-based statement of its funding needs and this is regarded as a contributing factor in that Organization's relative success in resource mobilisation. Similarly IFAD's recent Replenishment is believed to have benefited from such underpinning.

72) The GEF has difficulties in this regard. In the questionnaire responses, about half of the governmental respondents believed that the GEF communicated the basis for its funding targets well but this was not a view shared by the agency respondents. The GEF has fundamental problems in developing a funding requirement on a programme basis. The basic agreement on the proportionate split of resources between focal areas and the principles in the RAF relating assistance levels to environmental challenge are important. Although open to improvement the GEF has developed a results-base framework, including relative prioritisation in resource allocation within focal areas as well as between them. But the guidance from the Conventions tends to be shopping lists, rather than clear priorities and there is not a country level pipeline, programme basis or an analysis of absorption capacities. Proposals for the Replenishment do not differentiate the GEF's role in countries at different levels of development. Also the GEF agencies have not proactively assisted the GEF secretariat in developing evidence-based target setting and the secretariat has not sought such assistance.

73) **Burden sharing formula:** Traditional OECD donors have operated a burden-sharing formula for their contributions to the GEF. In this it parallels IDA, the UN system, IFAD and other IFIs. However, the burden sharing formula is based on the burden shares for IDA-10 at the time of the GEF first replenishment

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[25] As of March 11 2009 the total exchange rate divergence from the figure employed for replenishment was GEF-1: -0.4%; GEF-2 +2.6%; GEF-3 +10.7% and GEF-4 +3.1%. However, for GEF-3: 12.9% of the total was subject to continuing currency fluctuation and for GEF-4: 60%.

[26] Investment income is a function not only of the investment's performance but also of the amount on deposit which varies with the rates of disbursement and the extent to which donors pay in cash or with promissory notes and if they honour promissory notes early which also occurs.

(1994) which in the case of IDA has since been substantially adjusted. There is nothing to prevent donors making additional contributions over and above their burden shares in the formula and for the fourth replenishment almost all did (the exceptions being Italy, Norway, Switzerland and the USA). This was an increase on the proportion doing so for the third replenishment.

Table 7: Comparison of GEF Contributions by Contributor with Burden Sharing and Total Contributions in the UN and its Specialised Agencies, IDA and UNDP

GEF Contributors	Percentage of Pledged Contributions GEF 4th Replenishment	Percentage of pledged contributions 3rd Replenishment	increase or decrease in percentage share from 3rd to 4th replenishment	Percentage of GEF Burden Share 4th Replenishment	Approximate share of Bilateral Aid Commitments to Core Environment 2005-07 (including GEF contribution)	Proportionate share of GEF Burden sharing Group in UN scale of Contributions	GEF contributors proportionate Contribution to IDA Basic Share - Last Replenishment (2007)	GEF contributors proportionate Contribution to IDA Total Contributions - Last Replenishment (2007)	GEF contributors proportionate Contribution to UNDP Core Budget 2007
Australia	2.0%	1.6%	0.4%	1.6%	1.3%	2.1%	2.3%	2.1%	0.6%
Austria	1.4%	1.0%	0.4%	1.0%	0.4%	1.0%	2.0%	2.0%	0.6%
Belgium	2.7%	1.9%	0.9%	1.7%	0.9%	1.3%	2.0%	2.0%	1.6%
Canada	5.7%	4.6%	1.2%	4.8%	1.5%	3.5%	5.1%	5.0%	5.1%
China	0.5%	0.5%	0.0%	0.0%	-	0.0%	0.1%	0.1%	0.3%
Cote d'Ivoire	0.0%	0.2%	-0.2%	0.0%	-	0.0%	0.0%	0.0%	0.0%
Czech Rep.	0.3%	0.3%	0.0%	0.0%	-	0.0%	0.1%	0.1%	0.0%
Denmark	2.2%	1.6%	0.6%	1.5%	3.6%	0.9%	1.4%	1.4%	6.3%
Finland	1.8%	1.2%	0.6%	1.1%	1.6%	0.7%	1.2%	1.2%	1.9%
France	8.2%	7.3%	1.0%	7.6%	8.2%	7.4%	8.3%	8.1%	3.3%
Germany	12.8%	11.7%	1.2%	12.3%	14.0%	10.1%	9.1%	9.3%	4.1%
Greece	0.3%	0.3%	0.1%	0.1%	0.2%	0.7%	0.3%	0.3%	0.0%
India	0.4%	0.4%	0.0%	0.0%	-		0.0%	0.0%	0.4%
Ireland	0.3%	0.3%	0.1%	0.1%	0.3%	0.5%	0.5%	0.6%	2.7%
Italy	4.7%	4.7%	0.0%	4.9%	1.7%	6.0%	4.9%	4.8%	2.1%
Japan	13.3%	18.7%	-5.5%	19.8%	28.4%	19.5%	11.9%	12.2%	6.8%
Korea, Rep.	0.3%	0.2%	0.0%	0.3%	-	2.5%	1.2%	1.2%	0.0%
Luxembourg	0.3%	0.2%	0.0%	0.1%	0.1%	0.1%	0.2%	0.2%	0.2%
Mexico	0.3%	0.2%	0.0%	0.0%	-	0%	0.1%	0.1%	0.1%
Netherlands	4.8%	3.5%	1.3%	3.7%	8.2%	2.2%	3.8%	3.8%	11.3%
New Zealand	0.3%	0.2%	0.0%	0.1%	-	0.3%	0.2%	0.2%	0.5%
Nigeria	0.3%	0.3%	0.0%		-		0.0%	0.0%	0.0%
Norway	1.5%	1.1%	0.4%	1.6%	4.0%	0.9%	1.9%	1.9%	11.9%
Pakistan	0.3%	0.2%	0.0%	0.0%	-	0%	0.0%	0.0%	0.0%
Portugal	0.3%	0.2%	0.1%	0.1%	0.1%	0.6%	0.3%	0.3%	0.2%
Slovenia	0.3%	0.1%	0.2%	0.0%	-	0.1%	0.0%	0.0%	0.0%
South Africa	0.3%	0.0%	0.3%	0.0%	-	0%	0.1%	0.1%	0.0%
Spain	1.2%	0.9%	0.3%	1.1%	4.4%	3.5%	3.8%	4.0%	5.5%
Sweden	4.9%	3.2%	1.7%	2.9%	4.7%	1.3%	3.8%	3.7%	10.9%
Switzerland	3.0%	2.6%	0.5%	2.5%	1.0%	1.4%	2.7%	2.6%	3.9%
Turkey	0.3%	0.2%	0.0%	0.0%	-	0%	0.1%	0.1%	0.1%
United Kingdom	11.0%	8.5%	2.6%	7.7%	4.7%	7.8%	18.3%	17.8%	9.9%
USA	14.0%	22.1%	-8.3%	23.4%	10.7%	25.6%	14.3%	14.8%	9.7%
	100.0%	100.0%		100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

74) A comparison has been undertaken of GEF sources of funding and shares of contributions with those for other organizations (the UN assessment scale, IDA and UNDP – see Table 7). In terms of priorities for their bilateral programmes for core environment, Canada, Italy[27], Switzerland and UK contributed substantially more to the GEF than in their proportionate share of total bilateral contributions, Japan, the

[27] Italy has not however as yet deposited its Instrument of Commitment for GEF-4 or any funds

Netherlands, Norway and Spain, substantially less. Between IDA and the UNDP core budget there are very significant differences in the proportions of contributions made by different donors. This reflects the divergent donor priorities and in UNDP the concept of a burden sharing formula is also not present (which may contribute to greater adjustments from year to year in the proportions of funds provided by different donors). Calculation of the UN scale of assessed (mandatory) contributions combines countries GNP, population, and per capita income levels in what is probably the most objectively based of the calculations for burden sharing. Among the major donors to the GEF, only the burden shares of Italy and Spain fall significantly below their proportions in the UN scale. Some of the smaller developed countries are however, significantly lower and the contributions of middle income countries are largely either inexistent or below their UN levels. When it comes however, to total contributions to the GEF fourth replenishment, the USA and Japan contribute very much less than their ratios on UN assessed contributions and the proportionate shares of Italy and Spain remain relatively lower. In this context it is pertinent to note that some developing countries have argued that an objective scale of contributions for the GEF would combine the factors taken account of in the UN assessed scale of contributions with indices of countries reliance on environmental services and contribution to environmental degradation.

75) In discussion with donors, there was found to be general dissatisfaction with the burden sharing formula. Some regarded the formula in its current form as having little relevance or deterring countries from contributing as much as they might otherwise do. Other donors considered the formula to have value in negotiating with their own parliaments (much as with UN assessed contributions, once a level of replenishment for the GEF has been negotiated, they could present their parliaments with a bill which is not open to discussion). Some of this group which favour retention of the burden sharing formula consider that relative shares should now be renegotiated, while others have argued that flawed as it is, a renegotiation prior to general agreements on Climate Change would be premature. All agree that attempts to negotiate a totally objective basis for GEF contributions would not be productive.

Currency risk

76) The recent volatility in the currency markets and a relative strengthening of the US$ has precipitated greater concern with the foreign exchange rate risks to which the GEF is exposed. During GEF-4 donor receivables appreciated by some ten percent in US$ (US$ 240 million) in the period August 2006 to mid 2008 but have been decreasing since, with the appreciation of the US$. The change in the value of receivables varied between five percent and eleven percent throughout the period February 2002 to February 2008 and was mostly under ten percent and was in a direction positive to the GEF, i.e. a net decline in the value of the US$ versus other currencies. In the second half of 2008 the volatility rose to slightly over 25 percent but has since fallen back. It is unlikely that as the financial crisis abates this level of volatility will persist but it may not immediately return to the previous relative stability[28].

Table 8: Percentage of total contributions to GEF-4 subject to currency risk	
2007	62%
2008	55%
2009	46%
2010	36%
2011	26%
2012	19%
2013	11%
2014	7%
2015	3%
2016	1%

77) In GEF-4 some 62 percent of pledges are in currencies other than the US$. Of these some are settled in annual cash instalments over the four years of the replenishment cycle but 76 percent of non-US$ pledges to GEF-4 have been met through the deposit of promissory notes. As can be seen from Table 8 the percentage of resources subject to currency risk steadily declines as cash is received and those payments defined in promissory notes for non-US$ currencies are encashed in line with the schedule which extends from 2007 to 2016 with the great majority of the resources called by 2012. However, the likelihood that there will be a significant increase or decrease in the value of the US$ vis-à-vis other currencies increases over time.

[28] WB Trustee Paper to the GEF 5 June 2009 Replenishment Meeting: Foreign Exchange Risk – Options for the GEF Trust Fund

78) In its paper Foreign Exchange Risk - Options for the GEF Trust Fund (May 2009) the Trustee explored three basic options:

a) Hedging currency risk (buying forward or option to buy forward);
b) Maintaining an expanded reserve against currency risk; and
c) Matching the currency of contributions and commitments.

79) Hedging was utilised in the past by IDA but the cost of this was contained as the World Bank was in a position to employ its own capital as a guarantee within the transactions, an option which is not currently present due to the much greater call on the Bank's lending in the present financial crisis. It has also been utilised by other organizations such as FAO but short-term. The GEF is not in a position to hedge on its own and the World Bank would be required to act on its behalf. It is understood that the World Bank is presently exploring the possibilities for hedging in the totality of its trust fund portfolio, but that this must be done in such a way that the costs do not fall disproportionately between trust funds.

80) Current costs of hedging are extremely high indeed due to the volatility in the markets. Assuming a return to previous market conditions, which are also conditions of reduced risk, the Trustee found that flexible forward purchasing could cost between 2.5 percent and 4.5 percent of the transaction volume. Assuming the less flexible, less costly hedging this would have amounted to US$ 75-90 million to secure GEF-4 donor pledges or some 2.4–2.9 percent of the replenishment. This also assumes that the World Bank would act as guarantor utilising its credit rating, which would be a Board decision, probably with reservations expressed by the Trustee secretariat and possibly the external auditor.

81) Hedging does not thus appear attractive for the GEF unless, or until, the World Bank develops a proposal for the totality of its Trust Fund portfolio.

82) Of the GEF reserve which has currently been set at US$45 million is to guard against currency risks on committed GEF resources for projects. This represents about one percent of total current commitments. It could be further expanded to guard against all currency risk, guaranteeing the programme level. All funds set aside in this way are of course not available for disbursement. At the moment the Reserve is not clearly separated from GEF's total resources available for grants and is not identified in the Replenishment. In this it differs from IDA where the level of the Reserve is clear in the Replenishment statement. In the IFIs capital reserve ratios are required as in commercial banks. In the UN system extensive use is made of reserve funds defined in their statutes for clearly defined purposes and with requirements defined for their replenishment either by calls for funds from members or transfer from the working budget. Audit scrutiny of adequacy is the norm in the UN system with respect to reserve funds and the IFIs with respect to capital requirements.

83) The final option put forward by the Trustee was to define the GEF Replenishment in several currencies and pass a mix of currencies on to the Agencies and thus possibly to the grantees. This was not regarded as a viable option by the Trustee as multiple currencies would be confusing and would pose accounting problems for the Agencies[29] and grantees. A variation on this would be to denominate the GEF Budget and its projects in IMF Special Drawing Rights (SDRs). This currency mix based on a representative basket could be expected to track the overall movement in the currency markets better than the US$. However, it would pose huge accounting and transaction problems as SDRs are a unit of account, not a currency and are not traded.

84) <u>Absent from this discussion has been the currency risk to the grantees</u> who may find the purchasing power of the US$ budget considerably greater or less at the end of a six year project period than at the beginning. Many projects may not complete implementation until 8-9 years after they were designed. In fact, until very recently, the purchasing power of the US$ in the international markets has consistently

[29] The IFIs can generally account in multiple currencies. The UN agencies employ a single functional currency, generally the US$. The UN agencies do handle Euro accounts, especially for the European Commission but not without difficulties.

declined. World Bank operated projects include a budget line for currency variance but this does not seem to be the case with the GEF UN agencies.

85) The Council has decided that prudent management requires that the GEF should not agree for projects to be developed from PIFs for more funds than are currently on deposit. This is <u>not</u> a requirement of the Trustee but of the Council. The requirement of the Trustee is that more funds should not be committed to projects which have been CEO endorsed (and thus a legal commitment) than the total on deposit (cash and promissory notes). This practice does not reduce the overall amounts available as long as the GEF has a more or less steady income and expenditure stream. However, if the GEF were to have a major resource increase as many envisage for GEF-5, it would act as a drag on the rate at which it could raise expenditures (given that only a quarter of the GEF's contributions for a replenishment cycle are received in any one year).

86) This system has given rise to widespread misunderstandings and a degree of mistrust by recipient countries. These result from misunderstandings on the total Replenishment figure available for programming, the RAF with its indication of funds available for programming by countries and regions and the complexity of resource management, which is fully understood by few.

III. Managing GEF Financial and Human Resources for Accountable Performance

3.1 Efficiency in Resource Use and the Functional Distribution of Responsibilities between Countries, the GEF Agencies and the Secretariat

87) While two thirds of government respondents to the questionnaire believed the GEF was efficient in managing resources, only one third of agency or secretariat respondents shared this view.

88) The GEF forms a partnership in which it is recognised that the respective roles of national governments, the GEF agencies, secretariat and trustee should capitalise on their respective strengths. With the development of the GEF, including the assertion of countries central responsibility for national programmes, expansion of the number of agencies with direct access, and greater initiative by the GEF secretariat, roles have been shifting. At the same time, the environmental challenges which the GEF is addressing have been expanding in their complexity and urgency. As discussed in other components of OPS-4, functional relationships, responsibilities and capacities have evolved with considerable benefits but also considerable tensions, blurring of roles and weakening of the bods of partnership.

Fund Disbursement to Grantees and Questions of "Direct Access"

89) Developing countries, as with all assistance, need to be in the driving seat for their national programmes, rather than the donors or agencies, but the concept of direct access has been ill-defined and it needs to be accepted that there is a fundamental difference between access to funds raised from some form of global taxation (e.g. in climate change) and access to donor funds. A distraction in this discussion has been whether countries can adequately fulfil GEF fiduciary standards (see below). These standards are designed for international organizations. It would be prohibitively expensive to verify similar standards in individual countries and in some countries where strong oversight is not provided by the Ministry of Finance, they would probably have to be verified for each implementer. No source of funds bilateral or international, even commercial, provides totally unsupervised funding (unless in the case of loans this is very fully secured). While not pretending that relationships are without problems, the GEF agencies can provide appropriate levels of support and oversight at each stage of the project cycle based on an understanding of national capacities and track records (for example the World Bank in its standard practices may leave project preparation entirely in the hands of a country but will always undertake project appraisal).

90) Currently countries request projects from the GEF through a GEF agency which presents a proposal (PIF) to the GEF CEO and Council. Upon approval in principle, the agency develops the project with the

country and then presents it for final approval. The agency then implements the project on behalf of the GEF including responsibility for fund management. Many but not all grantee countries have expressed dissatisfaction with this approach and the GEF must be almost unique among sources of funds in having no mechanism for a country to approach its CEO directly for funding. The fact that a country cannot do this undermines its ability to determine its own priorities with respect to the GEF. This having been said, some of the interest in grantee countries appears to arise from a desire of environment departments to bypass the central planning authorities, ministry of finance, etc. It is thus essential that communication channels are clear.

91) The main question is how once a proposal, however preliminary, has been cleared for further development, that development takes place. All the GEF agencies have the capacity to assist countries through the entire project cycle and to provide oversight. The GEF secretariat does not have this capacity, does not have a country presence, and would be duplicating the capacity of the agencies if it were to develop it. In many cases the GEF agencies are also instrumental in securing the co-financing relationships required by the GEF.

The GEF Secretariat, Evaluation Office and Trustee

92) The GEF secretariat with 50 professional staff is organizationally split into the Office of the CEO (5 professionals plus the CEO); External Affairs dealing .with communications, country relations, etc. (8 professionals); Operations and Business Strategy. This unit, together with external affairs, services GEF governance and develops operational policies and overall strategy as well as handling general operational matters (11 professionals). Two subject matter units are divided in responsibilities along the lines of the focal areas and cover Natural Resources (13 professionals) and Climate and Chemicals (12 professionals).

93) The **Evaluation Office** currently has 10 professional staff. The peer review noted that as far as budget and staffing is concerned, the Office functions at a comparable level as similar offices in other international organizations. Its budget is presented separately to the Council, but is considered to be part of the core administrative budget of the GEF.

94) The **Trustee** follows Bank rules and procedures and consequently has no GEF dedicated staff, although some professionals in the Trust Fund Department de facto spend most of their time on the GEF. The administrative budget of the Trustee is based on a management fee and forms part of the core administrative budget of the GEF.

Capacities of the GEF Agencies

(see also above Funding for environment work through the GEF agencies)

95) **The World Bank:** The Bank's technical capacity on the environment is located within the Sustainable Development Department which also includes important environment interfaces such as: energy, agriculture and rural development, transport and water. Advisors are also located in the seven Regional Departments and there are officers based in some of the country offices, often covering more than one country. There are no GEF dedicated staff and GEF work is integrated with other World Bank work on the environment and sectors such as energy and forms part of the portfolio of cooperation at individual country level. The coordination function is assigned at Director level in the Environment unit, together with management of the budget derived from GEF fees. Cost recording is at the individual project level for staff time, etc. against the GEF fee income and staff are employed on normal Bank terms.

96) In the GEF Coordination unit, in addition to the Executive Coordinator (about half-time on GEF matters), five persons work part-time on GEF issues (a Senior Operations Officer, an Operations Officer, an Assistant, an Operations Analyst and one Resource Management Officer. The seven regional coordinators split their time on GEF and other Bank-related activities, depending on their portfolio, and time covered for the GEF may range from 20 to about 38 staff weeks in a year. The thematic specialists (currently five) cover about 5 to 10 staff weeks yearly for GEF corporate activities. In line with World Bank policies, no staff are working for projects or covered by project budget lines.

97) The World Bank applies its own procedures for the preparation and implementation of GEF projects following GEF approval of the PIF. For those projects where GEF funding is integrated with other World Bank funding, reporting is also integrated. National authorities implement the projects charging project operations, consultancies, contracts, etc. to the projects in the normal way. This results in savings for both the countries and the World Bank in transaction costs and duplication of procedures. The only down-side to this is that the GEF components may not be separately assessed for their effectiveness and impacts.

98) The strengths of the World Bank, in addition to its competence in managing investment, lies in the strength and breadth of its environmental expertise around the globe and its country focus. It has an important country presence and is often recognised as the lead partner for government in setting overall development assistance priorities through such instruments as Poverty Reduction Strategies (PRS) and spearheading major assistance programmes, including sector assistance (SAPs). This is especially the case in IDA countries.

99) **The Regional development banks** operate in many ways similar to the World Bank and also have an important country presence in their respective regions.

100) **UNDP**'s GEF Coordination unit is currently the largest of four divisions in the Environment and Energy Group which is located in the Bureau of Development Policy. While the names of the divisions and their sizes have changed over time, this structure has remained the same since the start of the GEF in 1992. Both the Environment and Energy Group and the GEF team are headed by D2 level staff. The GEF team is divided both by region and by specialization, with most GEF team technical staff having post graduate degrees in environmental subjects. The regional teams are located in the UNDP Regional Service Centres for each of UNDP's five regions. Within each regional team are one or more regional technical advisors covering each of the GEF focal areas. One of the senior technical specialists in each region is designated as Regional Team Leader. Regional Technical Advisors report directly to a global Principal Technical Advisor (one per focal area). So as well as being divided into regional teams, the UNDP/GEF team is matrixed into Focal Area teams with regional technical advisors from the same Focal Area supporting each other across the regions. Every UNDP country office has at minimum one Environment Focal Point who is usually a specialist in some environmental field.

Table 9: UNDP staffing for GEF work	**Number of staff**	**Grade Level**	**Proportion of Time allocated to GEF work**
GEF Executive Coordinator	1	D2	50%
Deputy Executive Coordinator	1	P6/D1	100%
Principal/Senior Technical Advisor	6	P5-P6	70%
Regional Technical Advisor/Specialist	50	P4-P5	20-90%
Other technical/professional staff	5	P3-P5	50%-100%
Finance and Administration	15	P5-G5	50-100%
Other Support staff	25	G5-G7	50%-100%

101) Globally UNDP has more than 5,000 staff members. It is estimated that more than 20 percent of these spend some or all of their time on GEF work. In a country office with a large environment portfolio there may be up to 30 full and part-time staff in the environment team, generally nationals but also sometimes including international staff. Most staff working on GEF projects serve on annual renewable contracts, though a few are on temporary contracts. On rare occasions UNDP may use UNOPS to contract GEF team staff.

102) UNDP does not have a project level cost recording system for the GEF fees and costs are allocated pro-rata against that income. Currently the formula for fee distribution is 30% to the country office, 40% to the regional team, 10% to the UNDP/GEF central unit, and 20% to UNDP central services for the provision of legal, human resources, and other administrative and logistical support. In line with UNDP's cost recovery policy, the costs of staff time are met from the GEF fee budget, though the extent to which the costs of any individual staff member are charged to the GEF fee depends on the percentage of their time which is allocated to GEF work with some 100 percent dedicated to GEF and others less (e.g. administrative

or financial staff in a country office, may spend only five percent of their time on GEF work).

103) GEF funded projects follow standard UNDP procedures to which additional GEF specific requirements, such as project level rather than programme level evaluations, are added. In addition to the usual implementation and oversight support to projects by UNDP country offices, additional technical support and GEF specific oversight/supervision of projects, particularly during the project development stage, is supplied by the Regional Technical Advisors. Project implementation or execution, including all contracting and procurement, is normally carried out by the national government, supported by the UNDP country office. UNOPS is used for project implementation/execution in the case of regional projects and for countries where national execution is not possible.

104) UNDP supports the UN Resident Coordinator system, which is driving towards greater coherence in UN system cooperation. The Resident Coordinator's counterpart is normally the ministry responsible for finance and or planning and she/he chairs the overall UN coordination effort together with the responsible government department. This often extends into wider government aid coordination, especially in LDCs and Lower Middle Income Countries, with task forces or sub-committees on various sectors and Millennium Development Goals (MDGs).

105) **UNEP** maintains a separate Division of GEF Coordination, headed at D2 level, funded from the GEF fees. This division prepares projects and exercises technical and financial project oversight, ensuring compliance with GEF minimum fiduciary and monitoring and evaluation standards. It provides strategic, policy and operational inputs to the GEF and also hosts the STAP. The division has a total of 38 professional and 18 support staff, all charged against the GEF fees and is organized into Focal Area Teams (Biodiversity, Biosafety and Land Degradation; Climate Change Mitigation and Adaptation; International Waters and Chemicals) and a Finance Team. A quarter of the staff are posted outside of Nairobi, primarily in UNEP Regional Offices. UNEP does not have an individual project cost recording system for application of fees and allocates fees based on a 40:60 percent split between preparation and implementation at the portfolio level, and is moving towards a "focal area" cost centre approach.

106) In order to prevent conflict of interest between UNEP's role as a GEF implementing agency and direct project operational (execution) functions, there is a financial, legal and accountability firewall between the UNEP GEF Coordination Division and the rest of UNEP. The substantive technical divisions house substantial environment expertise and do provide technical and execution services to selected GEF projects, charged against the project budgets (project operations, consultancies, contracts, etc.). About 25 percent of UNEP's GEF projects are executed (contracted) by UNEP divisions and collaborating centres, while the remainder are executed/contracted to external specialized technical partners or to national governments (about 30 percent of the portfolio is directly executed by governments).

107) As an organization, UNEP employs some 500 professional staff, of which one third are located in Nairobi. UNEP maintains five regional offices and four liaison offices in developing regions but does not have a presence in most developing countries. The Programme's strength lies in its technical expertise and its role as the centre point for discussion and global governance of global policy and strategy for the environment and its coordination role vis-á-vis the environmental Conventions.

108) **UNIDO, FAO and IFAD** have coordination officers for GEF (in FAO's case two full-time professionals in the case of UNIDO and IFAD one each). Project preparation and implementation follows the standard organizational procedures, except in so far as the specific requirements of the GEF must be met for PIFs, Project Documents, evaluation and audit. FAO maintains a country presence in the great majority of developing countries. In UNIDO's case this is very partial and IFAD's country level presence is limited to a few national liaison officers.

Drawing on comparative strengths

109) In addition to the evaluation elsewhere in OPS-4 of project performance, the discussion above of the agencies documents their comparative strengths, in addition to supporting countries in technical cooperation and investment project execution:

a) In terms of technical capacity, UNDP alone has some 60 technical environmental specialists, the World Bank a similar number and UNEP a total professional staffing of 500, all on the environment, while the UN specialised agencies have large number of professional staff in their specific technical areas (e.g. FAO has over 150 professional staff working on fisheries and forestry). These figures compare with a GEF secretariat professional staff of 50;

b) UNEP is the existing global focal point for environmental governance and normative work on the environment. The UN specialised agencies also contribute these strengths in their respective technical areas;

c) Most of the GEF agencies have strong country presences and in the cases of the World Bank and the UN Resident Coordinator, privileged access to government and a leadership role in development assistance. Regrettably, as evidenced elsewhere in OPS-4, this strength has been drawn on to support the work of the GEF only to a very limited extent.

110) The first part of this report presented evidence that the proliferation of agencies active in support of developing countries has increased transaction costs, lowered the net amount of donor resources which reach countries and placed unnecessary pressures on scarce national capacities. The World Bank comes closest to applying its standard procedures for GEF projects. In others varying extents of additional reporting and evaluation have been required by the GEF. While weaknesses in some the agencies' processes are clear, this may not always be an efficient use of resources for developing countries which must meet the additional requirements and those of the international organizations[30].

111) In the international system, each fund established and designed to work through other existing agencies, has gradually developed its own separate capacities. The recent evaluation of the Global Fund to Fight AIDS, Tuberculosis and Malaria[31] documented and regretted the extent of this for that organization. The UN Secretary-General's High-level Panel on UN System-wide Coherence in the areas of development, humanitarian assistance and the environment attempted to put the genie back in the bottle for the UN system where UNDP had moved from being a fund to an agency. The CGIAR system is now being revamped in order to achieve greater coherence, including in centralised core funding. Among the Rome based food agencies, IFAD was intended to rely largely on the capacity of other agencies but now handles the totality of the project cycle itself and is moving towards creating a country presence. The WFP which shared services with FAO, established its own. There are now efforts to increase shared services between these three Rome based agencies but this is proving extraordinarily difficult due to bureaucratic resistance and practical considerations such as completely different IT platforms in each agency. This trend towards the GEF secretariat becoming a doer, rather than a facilitator is already evident in the GEF:

a) The country based strength of the agencies is not being provided coherently to assist national focal points and planning authorities in developing their programmes. The lead for this cannot be provided by the GEF secretariat, which is not in the countries and does not have the country based or technical knowledge present in the agencies. At the same time the agencies have not moved to collaboratively develop coherent support to country led processes to address environmental issues;

b) All of the agencies consider that the GEF secretariat is not adequately drawing on, and the agencies are not adequately providing, support to a GEF secretariat lead role in developing policy for

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[30] An example is the individual evaluation of medium sized projects which agencies such as FAO, IFAD and WFP are quite consciously moving beyond as a cost-effective learning or management tool.

[31] The Five-Year Evaluation of the Global Fund to Fight AIDS, Tuberculosis and Malaria – Synthesis of Study Areas 1,2 &3, MACRO International Inc., March 2009

consideration by the GEF Council. The necessity to demonstrate that the GEF is not providing a cross-subsidy to other aspects of the Programme's work has led to UNEP creating a completely separate section which cannot not draw on the technical services of the rest of the organization for project preparation or for normative inputs to the GEF, against payment and this reduces its theoretical comparative advantage. If the GEF is not able to draw fully for technical support on the staff of UNEP, in particular but the agencies in general, their comparative advantages will be severely reduced;

c) Particularly at the project and programme formulation stage, there has been a lack of delegation by the GEF secretariat and Council to the agencies and this may have contributed to the length of the formulation process (see the OPS-4 analysis of the PIF process). The GEF Council does not approve projects in principle (PIF) and then rely on agency boards to provide final approval); and

d) A clear monitoring framework and criteria has not been developed, or the capacity provided for the GEF secretariat, to monitor and report on the performance of the agencies in fulfilling their project development, support and implementation roles, as distinct from intervening in the actual execution of those roles.

112) A further efficiency issue relates to the number of GEF agencies. About half the government respondents to the questionnaire considered that there should be further diversification in the GEF Agencies. The larger the number of agencies, the more difficult it becomes for them to act as a coherent coordinated group in supporting countries. Also costs for both the agencies and verification mechanisms in meeting fiduciary standards and other monitoring requirements rise. The costs for the GEF secretariat increase in monitoring and maintaining relations with the various agencies. There is a cost to the Trustee in ensuring that data flows into financial systems are compatible from the various agencies. Perhaps most importantly, the larger the number of agencies, the less interest that agency has in the GEF and the more the GEF becomes just another source of funds. The returns to diversification in terms of additional specialist comparative advantages also diminish.

Efficiency in resource use and the functional distribution of responsibilities between the GEF Secretariat and the Trustee

113) Similar considerations apply to the functions of the Trustee. There is a high degree of donor satisfaction with the performance of the Trustee and experience from elsewhere indicates that donor confidence in the GEF is partially dependent upon the Trustee preserving its role. The recent evaluation of the Global Fund[32] noted "The World Bank, though designated as the Global Fund fiduciary in the Framework Document establishing the Global Fund, was seen as somewhat unenthusiastic about taking on the responsibility, inflexible with respect to its financial regulations, and uncertain of the Global Fund's potential longevity". Nevertheless, donors have continued to insist upon the World Bank providing the treasury function for the Global Fund, even though all other functions are now performed directly by the Fund itself. It is highly unlikely that an independent GEF or even an alternative agency could bring the degree of professionalism, IT system resources and credibility to the Trustee functions which are provided by the World Bank.

114) In one respect the GEF Instrument does not reflect the current relationships between the Trustee and the GEF CEO in replenishment and resource mobilisation. De facto, joint responsibility is taken for the actual Replenishment process and resource mobilisation has become a responsibility of the CEO.

115) Although the other services provided by the World Bank such as legal, human resources and administrative support are less unique than the financial trustee function, the evidence from the Rome based food agencies, and elsewhere, is that the separate establishment or contracting in of such services, proves more costly than sharing. Thus the Geneva based UN agencies have developed some common services. The GEF is also a more attractive employer, in that the staff are World Bank employees with all the safeguards and opportunities this provides. The GEF is in fact free-riding on certain benefits such as the

[32] The Five-Year Evaluation of the Global Fund to Fight AIDS, Tuberculosis and Malaria – Synthesis of Study Areas 1,2 &3, MACRO International Inc., March 2009

reserves it would be necessary to establish for redundancy as a free standing employer, investment costs in areas such as IT systems and World Bank contracted prices for travel, etc.

116) The problem has been that, as with the Rome based agencies, the Global Fund, etc., an element in the gradual push towards total independence and duplication of support services and functions has been a tendency of the "parent" institutions to allow the new institution the flexibility and independence to effectively perform its role and answer to its constituency. This is something which needs to be avoided in the case of the GEF. The World Bank has in the past shown itself flexible in adapting its level of involvement in institutional relationships such as the Consultative Group for International Agricultural Research (CGIAR) and the Global Fund but tensions still emerge both on matters of substance and on adaptation of procedures.

3.2 Application of Fiduciary and Management Standards and Performance Monitoring

Fiduciary Standards

117) The approval by the GEF in June 2007 of comprehensive fiduciary standards for agencies was a pioneering step in the international community, both in clarifying what standards agencies were expected to fulfil and in generally reflecting best practice.

118) No stakeholders have questioned the basic intent of the fiduciary standards but it has been observed that they put together a number of areas which would not normally be regarded as fiduciary (e.g. project appraisal and evaluation). They also became prescriptive in some regards, such as audit, where the letter of the requirements were based on World Bank and US practice, rather than a wider acknowledgement of best practice. Thus, the independent report prepared for the GEF Council in June 2009[33] reflected a more flexible interpretation of the letter of the fiduciary standards in such areas as project appraisal processes and the audit standards to be adhered to (the UN system is adopting IPSAS[34] which was not referenced in the standards and the necessity for the external auditor to be a commercial firm rather than the public government auditors normally used in the UN system). The report also noted, among other considerations:

a) variances in the interpretation from agency to agency on what should be required to meet the standards; and that
b) some standards specifically cited the applicability to processes related strictly to GEF funds while others applied more broadly to the organization as a whole and agencies questioned the relevance of these requirements beyond those processes which impact GEF funds.

In addition agencies have questioned the cost of reporting on adherence to the fiduciary standards for those agencies which only have a small amount of GEF business.

119) Based on these considerations it was recommended that the GEF Council revisit the set of established minimum fiduciary standards to provide further clarity, guidance or refinement, without comprising the intent of sound fiduciary management practices. This recommendation was not followed up on by the Council in its June discussion.

120) It is desirable that the GEF further develop an extended set of fiduciary <u>and management</u> standards for agencies, which may be less detailed than the current fiduciary standards in some respects as to the practice to be followed, but be specific on the results to be achieved, providing a basis for performance and compliance monitoring. In some cases they may merely reference other standards such as those for evaluation developed by the OECD-DAC and UN Evaluation Group (UNEG) which are being constantly improved and updated.

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[33] Summary Report, Compliance of the GEF Agencies on the Implementation of Minimum Fiduciary Standards, Price Waterhouse Coopers, May 15th 2009

[34] IPSAS – International Public Sector Accounting Standards

Application of results-based management in the GEF Secretariat

121) The GEF has adopted results-based management principles for its programme but not for its secretariat. Application of a results-based framework to national administrations dates back to the 1980s, where there has been an evolution from setting output targets to defining service results. This evolution has been an intensive learning process, in which it has become clear that: an over reliance on meeting service targets can distort the balance in service provision; excessive numbers of targets and indicators lead to a lack of focus and excessive monitoring costs (and/or a failure of monitoring); and incentives both institutional and individual (including HR performance assessment) must be linked to the corporate goals. Defining RBM for service and administrative functions in the international system has come much later.

122) WHO, and very recently FAO, have now put such systems in place, while UNDP is doing so. These define a very limited number of service level goals with the emphasis on efficiency and service level improvements which are broken down to the unit and function level and naturally contribute to the achievement of the strategic goals of the organization.

123) It is too early to assess the performance of these RBM systems but purely designing the goals and indicators has contributed to a more careful assessment of organization in relation to function, prioritisation of service improvements and the development of a service culture and a greater focus on results in oversight.

2.3 Incentives and the Adequacy of the Reimbursement Formula and Fee structure for the GEF Agencies and Countries

124) A functional analysis of respective strengths and roles within the GEF and a performance based system of payment for services has not been undertaken or considered in the GEF, rather the system has evolved. Following some six years of discussion, studies and adaptations, the management fee structure for the GEF agencies was modified in December 2006, when the GEF Council decided that the agencies would receive a flat fee of ten percent on all categories of projects to cover their project management and other functions. This followed a period of transition during which a flat fee of nine percent had been applied to medium and large scale projects, plus a corporate budget of approximately US$ 3 million per year paid to each of the three implementing agencies (UNDP, UNEP, WB) to cover project development and support to GEF work on policy, strategy, etc. Prior to this there was some rule basis for fees but also considerable negotiation on a project by project basis. Studies documented the divergences in costs across types of project and agency, but after prolonged discussion a flat fee structure was considered to parallel that used in many agencies and to have the virtues of transparency and simplicity with low transaction costs. It was also desired to drive down the cost of management through efficiency savings. Project preparation and audit are charged in addition and the small grants programme managed by UNDP through OPS is treated separately from this formula. The Council decision was worded: "

a) the corporate budget of the Implementing Agencies will be eliminated as of FY08;
b) the project cycle management fee for all GEF Implementing and Executing Agencies will be increased from 9 percent to 10 percent, with a cap that will ensure that no agency receives more administrative support than under the current system of fees and corporate budget. This increased fee will be applied immediately to projects managed by the Executing Agencies. For projects managed by the Implementing Agencies, the 10 percent fee will be applied beginning in FY08 when the corporate budget for the Implementing Agencies will be eliminated. The total fee amount for any Implementing Agency in a fiscal year will be capped at what it would have received under the present system of a 9 percent fee plus $3 million in the corporate budget".

125) Table 10 summarises the fees actually paid to the GEF agencies in the six year period FY00-FY005 (prior to the introduction of the current fully percentage based system). Overall the picture is not surprising, in that higher fee rates were paid on enabling activities (under US$0.5 million) and medium-sized projects (under US$1 million) than on full-sized projects. The overall differences between the agencies

may reflect a higher level of project supervision provided by the World Bank. However, there are anomalies, in particular the low payments to UNEP on medium-sized and full-size projects.

Table 10: Average Agency Fees by Project Type FY00-FY05					
Agency	**Average project size US$ million**	**Average % fee paid FY00-FY05**		**Average project size US$ million**	**Average % fee paid FY00-FY05**
Enabling Activities			**Full-sized projects**		
UNEP	0.3	14.0%	UNEP	6.2	6.6%
UNIDO	0.5	11.6%	UNIDO	4.1	9.4%
Average UNEP & UN specialised agencies	0.3	13.1%	Average UNEP & UN specialised agencies	6.1	6.7%
UNDP	0.2	14.5%	UNDP	6.7	8.4%
World Bank	0.3	15.8%	World Bank	9.7	9.5%
Average IFIs	0.3	15.8%	Average IFIs	9.5	9.4%
Total all agencies	0.2	14.0%	Total all agencies	7.9	8.8%
Medium Sized Projects			**All projects**		
UNEP	0.8	6.6%	UNEP	1.6	8.9%
Average UNEP & UN specialised agencies	0.8	6.6%	UNIDO	0.6	11.1%
UNDP	0.9	16.8%	Average UNEP & UN specialised agencies	1.4	9.1%
World Bank	0.8	17.8%	UNDP	2.0	9.4%
Average IFIs	0.8	17.9%	World Bank	6.0	9.8%
Total all agencies	0.8	17.5%	Average IFIs	6.0	9.8%
			Total all agencies	2.8	9.6%
Source: Calculated from GEF/C.23/8/Rev.1 Proposal for Revising the Fee System, April 29, 2005					

TABLE 11: Comparison of Fees/Overheads on Projects	**Fee/overhead * Percentage**
United Nations	13.00%
Conservation International	13.20%
National Wildlife Federation	15.30%
Environment Defense Fund	17.20%
World Wildlife Fund	17.30%
Friends of the Earth	18.40%
Source: United Nations and Combined Federal Campaign 2003 US Office of Personnel Management For some organizations, the numbers shown are the percentage of fundraising and administrative costs as a percentage of total revenue, rather than fees. These are not strictly comparable	

126) Table 11 provides some data on overhead costs and fees in comparator organizations. Such data can be misleading, as costs vary with what is internalised or externalised in the project overhead cost/fee or charged directly to the project budget. In the UN system 13 percent fee many UN specialised agencies, include human resource recruitment, contracting and purchasing, as well as some technical support. Evaluation is normally excluded but audit is included. The picture is different in the UN funds and programmes which externalise more of these costs. In the GEF only evaluation and some technical support is internalised and the other costs appear separately but the technical support is generally greater than that offered by the UN system within the overhead fee. Another difference between the way in which UN agency fees are applied and the GEF formula is that where as the GEF fee is paid up-front to cover a project of up to six years duration, in the UN agencies such fees are linked to disbursements. What is however clear is that the GEF ten percent, of which nine percent is intended to cover management costs of projects, is not *prima facia* excessive.

Table 12: Average size of projects by agency cumulative to June 2008 US$ million	Average size of projects
Overall average	3.73
World Bank	7.04
UNDP	2.36
UNEP	1.47
ADB	5.21
UNIDO	1.37
IFAD	4.56
IADB	3.67
EBRD	9.28
FAO	3.55
Average for IFIs	6.89
Average for specialized agencies	1.45
Calculated from Table 1.1 GEF Annual Monitoring Report FY 2008 GEF/C.35/Inf.3 May 2009	

127) Although the current GEF fee formula has the virtue of simplicity, it has had a variable impact on the different agencies. As can be seen from Table 12, cumulatively the average size of a GEF World Bank project is US$ 7.04 million and that for the IFIs as a group 6.89 million. The World Bank and other IFIs generally

manage these projects as part of larger interventions of which a substantial part of the funding comes from their own resources. The UNDP has an average project size of US$ 2.36 million and has to actively seek co-financing to a much greater extent than the IFIs, as do UNEP with an average project size of US$ 1.47 million, and the UN specialized agencies with average project sizes of US$ 1.45.

128) In addition to the size distribution of projects, this split is also reflected in projects by type (see Table 13) with UNEP and to some extent UNDP being concentrated on medium-sized projects and enabling activities by number but projects by value still being concentrated more towards the full size category, albeit with a smaller average size than the World Bank. The World Bank and IFIs in general, have a small minority of projects by both number and value which are not large scale. UNIDO has been very strongly concentrated on enabling activities. The fact that smaller projects have higher management overheads was documented for the GEF Evaluation Office review of the Small Grants Programme and is generally accepted.

129) This picture is in line with the roles defined in the original GEF instrument where UNDP was to have a primary role in capacity building, UNEP in technical analysis and developing approaches to environmental management and the World Bank in investment. Thus, UNDP, UNEP and the specialised agencies have been much more concentrated on technical assistance which has a greater managerial requirement. They have also tended to have more regional projects, which once again have greater managerial complexities.

Table 13: Distribution of projects by type for agencies (cumulative to June 2008)

Agency	Full Size Projects (over US$ 1 million)		Medium Size Projects (under US$ 1 million)		Enabling Activities (under US$ 0.5 million)	
	Percentage of projects by number	Percentage of projects by value	Percentage of projects by number	Percentage of projects by value	Percentage of projects by number	Percentage of projects by value
World Bank	72%	97%	21%	2%	7%	0%
UNDP	34%	88%	17%	6%	49%	6%
UNEP	19%	68%	26%	14%	56%	19%
UNIDO	15%	1%	4%	3%	81%	33%
IFIs total	73%	97%	21%	2%	7%	0%

Calculated from Table 1.1 GEF Annual Monitoring Report FY 2008 GEF/C.35/Inf.3 May 2009

130) As discussed above in the context of an increase in country execution with oversight provided by the agencies, the current formula makes no provision for a light supervisory role, as distinct from full project support, dependent upon national capacities and needs.

131) A further element, which can be overlooked in this discussion, is the technical support which the agencies are expected and it is desirable to provide to the GEF secretariat. This varies with the competencies and potential of the agencies and is reflected in the statements of comparative advantage referred to above. It was previously covered to some extent in the flat contribution of US$ 3 million per agency. This was addressed under the new system, only by adding one percent to the project management fee, but this took no account of the volume of work each agency would be expected to do, in addition to projects. In particular UNEP possesses normative environment expertise, as do the UN specialised agencies in their particular fields, although this is not drawn on as much as would be desirable by the GEF (partly because it is not a priority for the GEF Council and secretariat and partly because in UNEP a firewall has been created between the GEF operating unit and the rest of the organization). If such roles are to be enhanced, for example in relation to support to the focal point and planning authorities by UNDP and the WB with their country presence or articulation of the requirements or response to the Conventions by UNEP, it cannot necessarily be absorbed in the present fee structure.

132) Overall the impact of switching from a corporate budget contribution of US$ 3 million per year, per agency was much greater on UNEP than UNDP or the World Bank. In FY 2008 the application of the old formula of nine percent of project costs plus US$ 3 million contribution to the corporate budget would have resulted in UNEP receiving about 14 percent of the project allocation, while UNDP would have

received slightly more than ten percent and the World Bank slightly less. The result of the current fee structure has been that while the World Bank and other IFIs find the compensation quite adequate and UNDP is covering its costs (but with little margin for flexible action and technical backstopping), UNEP and the UN specialised agencies find that their total costs are not being met.

133) Focal points are being expected to play an increasing role in overall programme development, the formulation of individual projects and monitoring implementation on behalf of the national authorities, roles for which they currently receive no support from the GEF. Dependent upon the role GEF Focal Points or other national authorities are being asked to play the fee structure needs to support them in this.