OPS5

FIFTH OVERALL PERFORMANCE STUDY OF THE GEF

CO-FINANCING

OPS5 Technical Document #21

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GLOBAL ENVIRONMENT FACILITY

OPS5 Technical document # 21:
Co-Financing

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1.Overview

Co-financing is generally considered to be important for mobilizing resources for achievement of GEF objectives. The GEF Council has articulated its importance on several occasions and the GEF Secretariat has often portrayed it as an indicator of the additional resources that GEF has been able to attract towards achievement of global environmental benefits. Given its importance, co-financing has been addressed in all of the Overall Performance Studies of the GEF.

There is wide consensus among the Overall Performance Studies that co-financing is beneficial for GEF projects. However, there is skepticism on the extent to which co-financing helps in generating additional resources for generation of global environmental benefits. All of the Studies, except OPS-2, called for moderation in the zeal to seek higher levels of co-financing so that achievement of a high co-financing ratio does not become an objective on to itself. OPS-2 on the other hand opined that GEF should seek higher levels of co-financing.

The Third Replenishment of the GEF Trust Fund took note of the OPS-2 findings that recommended that the GEF Secretariat prepare a co-financing policy in consultation with the GEF agencies. In its June 2003 meeting, the GEF Council approved the definitions, policies and practices recommended in the paper on "Co-financing" (GEF/C.20/6/Rev.1). The paper defines co-financing as "…*project resources that are committed by the GEF agency itself or by other non-GEF sources and which are essential for meeting the GEF project objectives*." Consistent with the recommendations of the OPS-2, the paper puts considerable emphasis on the need for agencies to 'maximize' co-financing. For past decade or so the paper has been a reference point for the GEF partnership for discussions on co-financing. While the policy guidance for maximizing co-financing has been in place for a decade, it was from 2006 onwards that the GEF Secretariat had made increased efforts to operationalize the approach.

APR 2009 presented a detailed analysis of GEF's approach to co-financing and concluded that "*the GEF gains from mobilization of co-financing through efficiency gains, risk reduction, synergies, and greater flexibility in terms of the types of projects it may undertake.*" It, however, also cautioned that singular focus on achieving high co-financing ratios may be counter-productive as this would create disincentives for undertaking projects where potential for global environmental benefits is high but have low co-financing ratios.

This sub-study builds on the Evaluation Office's past work on co-financing. Its purpose is to provide inputs to OPS-5 on this topic. The sub-study seeks to assess utility of co-financing, trends, factors influencing these trends, and issues and concerns related to the present GEF approach to co-financing. It also discusses issues that need to be considered to refine the GEF approach to co-financing. The key findings of this sub-study are:

Utility

- There is general consensus among the key stakeholders in GEF partnership that co-financing is useful as it helps in bringing more resources to GEF projects, increases country ownership, and increases the likelihood that the follow up activities for a given GEF project receive support of the national stakeholders.

- Analysis of the overlap between concepts related to incremental costs and co-financing shows that mobilization of sufficient co-financing for a project may help in ensuring that GEF supports only the incremental costs of a given project.

- The GEF partnership often incurs costs in terms of time, effort, and risks in mobilizing co-financing. To assess net utility of co-financing these need to be taken into account.

Trends

- From GEF-3 to GEF-4 the ratio of promised co-financing at approval vis-à-vis GEF grant for GEF's global portfolio increased from 4.3 to 6.3. This ratio remained at 6.3 during GEF-5 period (up to June 30th 2013). The increase from GEF-3 to GEF-4 is also evident across projects from different focal areas, country categories and funding modalities. When trends in median ratios are assessed, it become clear that from GEF-4 to GEF-5 there was a substantial increase in the median ratio. This indicates that although the overall portfolio ratio was the same, during GEF-5 the project proponents of an "average" GEF project had to mobilize relatively more co-financing than during GEF-4.
- For full size projects in nominal terms the recipient country governments – including various ministries, departments, and agencies, at different tiers of government – are the main contributors to co-financing, followed by GEF agencies, and then by private sector sources. The order of these co-financing sources remained the same from GEF-3 to GEF-5. During this period governments contributed 34% to 45% of co-financing, GEF Agencies contributed 24% to 29%, and the private sector 15% to 16%. Bilateral accounted for 4% to 7% and NGO contributions were at most 2% of the total.
- Reported data on completed projects shows that compared to projects completed during earlier periods, the level of materialization of co-financing is higher for OPS-5 cohort of completed projects (APR 2012). On average, the reported materialization for the OPS-5 cohort was 147 percent of the amount promised at CEO Endorsement. This is considerably higher than 98 percent materialization for OPS-4 cohort, and 92 percent for projects that had been completed earlier. Thus, overall it seems that co-financing commitments are being met and performance on this front is improving.

Factors influencing trends

- Attention given to co-financing during the PIF reviews and project appraisal is the main driver of increase in co-financing ratios. From GEF-4 onwards, level of attention given by the Secretariat to ensuring higher level of co-financing in GEF projects seems to have increased. Compared to 33 percent of FSPs during GEF-3 period, PIF submissions for 43 percent of FSPs during GEF-4 and 75 percent during GEF-5 received comments related to co-financing. Of the 54 PIF submissions for full size projects that were rejected during GEF-5, in 60 percent of the cases low level of co-financing appears to have been a major reason for it. PIF rejections because of lower levels of co-financing are more likely for recipient countries that are in an upper middle or high income bracket.
- The GEF project portfolio has evolved in the past 20 years, especially so for newer focal areas such as Chemicals. From projects that focused primarily on providing support for an enabling environment and building a foundation for future work, the emphasis has shifted to supporting projects that entail demonstrations and other activities where there is a more direct linkage of supported activities with national and local benefits. In such instances some increase in co-financing ratios is natural and even essential.
- The level of co-financing that recipient countries may contribute may be dependent on state of its economic development, size of its economy, and other factors. Although circumstances in individual countries differ, in the past twenty years there has been a steady increase in the economic abilities of recipient countries. This, therefore, leads to a shift in the baseline

expectations and provides additional rationale for seeking somewhat greater levels of co-financing say compared to GEF-1 or GEF-2 periods. While increased level of economic development in recipient countries is likely to be one of the drivers, the data does not support a firm inference that this has been a major factor.

Issues and Concerns

- Lack of transparency in application of co-financing related requirements has emerged as a major barrier and a source of frustration for several stakeholders in the GEF partnership. GEF agencies and Operational Focal Points (OFPs) feel that lack of transparency in GEF requirements on the level of co-financing expected for projects is a major flaw in the GEF approach. This, they feel, leads to a high level of arbitrariness in how GEF Secretariat applies co-financing requirements.
- Several stakeholders in the GEF partnership feel that focus on high co-financing ratios has reached a stage where it is counter-productive. In many situations activities and/or financing, where the executing agency has little control or oversight in programming and/or execution, are being portrayed and accepted as co-financing. Alternatively, in several other instances it is adding to the time taken in project preparation. Low attention to country context in assessment of co-financing, they believe, has led to increasing level of projects being proposed in areas where there are already considerable amount of ongoing activities. Further, there are fewer incentives to work on new emerging concerns for which co-financing may be difficult to obtain quickly.
- Increased expectations on co-financing ratios also place some agencies at a disadvantage. For example among implementing agencies, compared to development banks UN organizations such as UNDP, UNEP and FAO may be at a disadvantage. Similarly, within recipient countries NGOs and CBOs have reported that focus on co-financing places them at a disadvantage in terms of being able to function as an executing agency as they have limited capacities to contribute co-financing.

There is a need to increase the level of transparency in application of the GEF approach to co-financing. While the rationale for a graduated approach to seeking co-financing based on project design, share of global environmental benefits in project benefit mix, incremental costs, and country circumstances is strong, there is little guidance on expected level of co-financing for different types of projects. In absence of clear guidance, there are differences in the manner in which the co-financing related requirements are applied by the GEF Secretariat. Consequently, the Secretariat's application of the co-financing related requirements is perceived as non-transparent by other stakeholders in the partnership, especially partners in the recipient countries. Lack of guidance on this topic also leads to information asymmetry – as the project proponents are not sure what the Secretariat is looking for – which causes delays during the project preparation phase especially for countries and for agencies that have less experience with preparation of GEF projects.

There is a need for re-calibration of the GEF approach to co-financing. Given the benefits of co-financing, it indeed needs to be encouraged. However, instead of 'maximization' the project appraisal process needs to be geared towards ensuring 'adequacy' of co-financing. Where co-financing commitments indicated in the project proposals are low, consideration needs to be given to other mitigating factors such as importance of non-monetized technical contributions by partner institutions, recipient country's assurances on targeted policy change, likely country commitment for follow up activities, etc., which may not be counted as co-financing but may have greater relevance to what a GEF project may intend to achieve.

2. Key Questions

The sub-study on co-financing addressed the following questions:

- What is the utility of co-financing?
- What are the co-financing related trends are observed in the GEF's portfolio?
- What are the key drivers of the co-financing related trends?
- What are the effects of co-financing related trends, especially on the project cycle?
- What are the areas where the GEF approach to co-financing needs to be improved?

Methodology

3.1 Quantitative Analysis

The focus of the quantitative analysis is to determine: the trends in co-financing in terms of promised co-financing, and materialization of promised co-financing; and, assessing the extent to which co-financing related concerns are addressed in the Secretariat's review of PIFs and of CEO endorsement related submissions.

The cut-off date for data used for assessment of trends in promised co-financing is 30th of June 2013. For the assessment of trends on promised co-financing the evaluation team has used the co-financing dataset prepared by the GEF Secretariat[1]. The evaluation team verified the Secretariat data on co-financing and found it to be reliable. All the approved projects funded through the trust funds administered by the GEF were taken into account. While projects canceled without any utilization of GEF grant were excluded from the analysis those that were canceled after at least partial utilization of GEF grant were included in the analysis.

For analysis on materialization of co-financing, the terminal evaluation report dataset was used. It includes APR cohorts up to FY 2012, which have been reported on in APR2012.

Table 1: Coverage of projects for review of the Secretariat's comments

	GEF-3	GEF-4	GEF-5	All Periods
Number of FSPs*	726	558	398	1682
Project sampled (random sample)	143	143	398	684
Project dropped from survey because of missing documents	14	5	0	19
Projects with PIFs submissions covered in the review**	123	134	392	649
Endorsed projects covered in the review***	86	98	100	284

*Up to June 2012; **excludes projects under programmatic approach but includes projects that were dropped at PIF review stage; ***Cut off up to August 31st 2013 and includes projects under programmatic approach.

The assessment of Secretariat's review of PIF and CEO endorsement related submissions involved a survey of the documents available at the PMIS. For this analysis the proposals for all the FSPs from GEF-3 to GEF-5 period for which the first PIF submission had been made on or before June 30th 2012 were covered. Table 1 presents that sampling approach adopted to cover the projects. In all 649 proposals with PIF submissions from GEF-3, GEF4 and GEF-5 periods were covered through the survey. This also includes proposals that were eventually rejected or dropped. This approach was adopted because, in addition to assessing the reviews for the projects that were eventually approved, the aim was also to

[1] The dataset is based on the information in PMIS. The Secretariat also carried out additional work to clean and make improvement in the information downloaded from the PMIS. In order to reduce duplication of effort, the Evaluation Office has used this information after verifying the data for projects (listed in table 1) that it had included in its assessment of the reviews conducted by the Secretariat.

assess the extent co-financing was one of the factors that led to rejection or dropping of proposals. Of the projects for which the first PIF submission had been done before 30th of June 2012, those that had been sampled and had been CEO endorsed by August 31st 2013 were covered for review of the Secretariat's comments on submissions related to CEO endorsement.

An online survey was administered from May to July 2013 to gather information on stakeholder perspective on project cycle related issues. In all 79 unique respondents representing Operational Focal Points (15 respondents), GEF implementing agencies (29 respondents), GEF executing agencies (17 respondents), and Civil Society Organizations (18 respondents) participated in the online survey.

3.2 Qualitative analysis

GEF evaluations that address co-financing related issues were reviewed to synthesize the information on co-financing that had already been reported. These evaluations include Overall Performance Studies (OPS) of GEF, APRs, Country Portfolio Evaluations (CPEs), etc. GEF Council papers on co-financing, GEF Secretariat publications, and Council decisions related to co-financing were also reviewed.

Qualitative analysis draws on the information gathered through focus groups during Expanded Constituency Workshops (ECWs); interviews of the key stakeholders such as agency staff, OFPs, Civil Society Organizations (CSOs), etc. during country visits to Burkina Faso, Cambodia, Colombia, Congo, Congo D.R., Ethiopia, Gambia, Georgia, Guinea, Indonesia, Jordan, Maldives, Mexico, Mozambique, Nepal, Nicaragua, Philippines, Rwanda, Swaziland, Thailand, and Turkey. The GEF Secretariat and agency staff was also interviewed to gather information on their perspectives on issues related to the co-financing.

Qualitative analysis also takes note of proposals that took a long time during the approval process due to co-financing related concerns. The respective project managers in the agencies were contacted to get their perspective on why these projects got delayed. The program managers at the GEF Secretariat were also interviewed to get their perspective on the reasons for delay.

3.3 Limitations

For OPS-5 several online surveys were undertaken. To lessen the burden on GEF stakeholders that were being asked to participate in several of these surveys, the online survey for performance related issues – which also covered co-financing related concerns – was administered to a more contained set of respondents and with relatively few questions on project cycle. Broadly, only stakeholders in countries that were covered through field visits and agency staff that had been contacted for interviews were covered through online survey. Had the survey been administered to a wider set of potential respondents, it is likely to have let to greater participation in the survey. Similarly, more questions on this topic would have facilitated better understanding of stakeholder perceptions.

It is difficult to assess the effect of co-financing on project cycle in quantitative terms. There are several confounding variables that make it difficult to interpret results using correlation/regression based approaches. The sub-study has made an attempt to mitigate these concerns by using proxy indicators such as the extent the Secretariat comments on co-financing related concerns, the extent these comments focus on increasing the level of co-financing, and role increased emphasis on co-financing may have on rejection, dropping, or cancellation of projects. While on a project to project basis this does not help in determination of the instances where the emphasis co-financing may have been over and above what may be desirable, it does help in identification of some of the portfolio level patterns.

3.Findings and Conclusions

4.1 Utility of co-financing

Stakeholder Perceptions on utility of co-financing

There is a broad consensus in the GEF partnership that co-financing is useful in enhancing GEF's ability to generate global environmental benefits. Eighty three percent of the respondents of the online survey strongly agreed (15%) or agreed (68%) to the statement that co-financing enhances GEF's ability to generate global environmental benefits (table 2). Ninety percent of the respondents strongly agreed (27%) or agreed (63%) to the statement that co-financing requirements facilitate linking of GEF activities with other similar activities to benefit from synergies (table 2). Similarly, 77 percent of the respondents strongly agreed (19%) or agreed (58%) to the statement that Co-financing increases likelihood that follow up activities would receive (or continue to receive) support from other partners after completion of the GEF (table 3) project. More so than other respondents, the executing agency staff felt that this was indeed the case.

Table 2: Perceived Utility of Co-financing

Statement	Co-financing enhances GEF's ability to generate global environmental benefits.					
Level of agreement	Strongly Agree	Agree	Disagree	Strongly Disagree	Unable to assess	Total (n)
Operational focal point/OFP staff	7% (1)	53% (8)	20% (3)	13% (2)	7% (1)	100% (15)
Implementing agency staff	11% (3)	74% (20)	11% (3)	4% (1)	0% (0)	100% (27)
Executing agency staff	29% (5)	71% (12)	0% (0)	0% (0)	0% (0)	100% (17)
All respondents	15% (9)	68% (40)	10% (6)	5% (3)	2% (1)	100% (59)
Statement	Co-financing requirements facilitate linking of GEF activities with other similar activities to benefit from synergies					
Level of agreement	Strongly Agree	Agree	Disagree	Strongly Disagree	Unable to assess	Total
Operational focal point/OFP staff	27% (4)	60% (9)	13% (2)	0% (0)	0% (0)	100% (15)
Implementing agency staff	11% (3)	74% (20)	11% (3)	0% (0)	4% (1)	100% (27)
Executing agency staff	53% (9)	47% (8)	0% (0)	0% (0)	0% (0)	100% (17)
All respondents	27% (16)	63% (37)	8% (5)	0% (0)	2% (1)	100% (59)
Statement	Co-financing increases likelihood that follow up activities would receive (or continue to receive) support from other partners after completion of GEF project					
Level of agreement	Strongly Agree	Agree	Disagree	Strongly Disagree	Unable to assess	Total
Operational focal point/OFP staff	7% (1)	60% (9)	7% (1)	7% (1)	20% (3)	100% (15)
Implementing agency staff	11% (3)	67% (18)	11% (3)	0% (0)	11% (3)	100% (27)
Executing agency staff	35% (6)	53% (9)	12% (2)	0% (0)	0% (0)	100% (17)
NGOs/CBOs	26% (5)	47% (9)	11% (2)	0% (0)	16% (3)	100% (19)
All respondents	19% (15)	58% (45)	10% (8)	1% (1)	12% (9)	100% (78)
Source: online survey						

During interviews the issue of utility of co-financing was explored further. The key stakeholders in the recipient countries felt that while mobilization of co-financing is important, the value it adds to a GEF project is not linear. Most respondents felt that after a point, the cost of mobilizing co-financing and the risks associated with non-materialization of co-financing commitments outweigh the benefits. This is consistent with the analysis on co-financing presented in APR 2009, where both utility and limitations of co-financing were explored in detail.

Co-financing and Incremental Costs

The Co-financing paper (GEF/C.20/6/Rev.1) does not cover the overlap between co-financing and incremental costs in detail. It has a footnote (footnote 10) that indicates that attracting higher levels of co-financing might lead to changes in project selection, design, scale and scope, and that irrespective of a high co-financing ratio GEF will finance only the incremental costs. The Council working paper on "Operational Guidelines for the Application of the Incremental Cost Principle" (GEF/C.31/12) describes five steps for determining incremental costs. Its fifth step focuses on the role that co-financing may play. The paper clarifies that GEF funding will remain limited to covering only the incremental costs (or a part of it), whereas the baseline costs that are reflected in the project design and budget need to be met exclusively through co-financing.

During the project appraisal process the Secretariat is expected to also review a proposal from the prism of incremental costs. It has to ensure that given a project's design, scope, scale, and the context in which it will be implemented, the promised co-financing adequately covers the baseline costs reflected in a project's budget. This means that the extent to which co-financing is expected will differ from project to project based on the variables that affect incremental costs. Where adequate co-financing is ensured, it – by extension – also ensures that GEF is not providing funding for a project beyond a level it should.

Cost of Co-financing

The discourse on co-financing in the documents published by the Secretariat has generally been unidirectional – higher the co-financing the better it is. The discussion tends to ignore the economic costs of co-financing. APR2009 indicated that there are "costs involved in mobilizing co-financing that need to be taken into account" when assessing the benefits of co-financing. Information gathered through interviews indicates that project proponents have to spend time and effort in identifying and mobilizing co-financing. In many instances, where the project proponents are asked to increase the level of co-financing promised in PIFs or in CEO endorsement requests, it leads to delays in project preparation and may contribute to lower effectiveness of projects in situations where timeliness is at a premium. In some situations non-materialization of co-financing commitment of an original co-financing partner may lead to delays because agencies have to find other sources of co-financing. In a few situations this may warrant restructuring or even cancellation of a project. These costs need to be factored in when assessing net utility of the additional dollar mobilized through co-financing vis-à-vis benefits of that additional dollar.

4.2 Trends in Co-financing

Trends in promised co-financing

Table 3 presents the changes in ratio of promised co-financing vis-à-vis GEF funding across various GEF replenishment periods. There was some drop in the co-financing ratios after the pilot phase but after that there has been an increasing trend. From GEF-3 to GEF-4 the co-financing ratio of GEF's global portfolio increased from 4.3 to 6.3. It has maintained this high level during GEF-5 period (up to June 30th 2013). Increasing trend in co-financing is evident in all types of project modalities (table 3).

Table 3: Co-financing Ratio during different GEF Periods

	Pilot Phase	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
Overall	4.0	2.5	4.1	4.3	6.3	6.3
FSP	4.2	2.7	4.5	4.7	6.7	6.6
MSP	__	1.8	2.6	3.0	3.3	4.0
EA	0.2	0.1	0.3	0.2	0.6	1.1

Table 4 presents the median of co-financing ratios of GEF projects across different GEF replenishment periods. It reinforces the finding that from GEF-3 to GEF-4 levels of co-financing expected from projects increased and that this increased further during GEF-5 period. The increase in the median ratios from GEF-3 to GEF-5 has been steeper than the increase in the portfolio average, i.e. more than 200% increase in the median ratio compared to 47% in the portfolio ratio. Even though the portfolio ratio was more or less the same during GEF-4 and GEF-5, the median ratios for GEF-5 are considerably higher. Which shows that for GEF-5 a high ratio is due to a general increase in co-financing ratios across the projects and not because of outliers. It also indicates that during GEF-5 proponents of an "average" (middle of the road) project had to mobilize co-financing that was not only substantially higher than the level expected during the Pilot Phase to GEF-3 period, but also higher than the level expected during GEF-4.

Table 4: The median of the co-financing ratio of GEF projects

	Pilot Phase	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
Overall	0.3	0.0	0.6	1.1	2.7	3.7
FSP	0.4	1.1	1.8	2.8	3.1	4.5
MSP	__	1.2	1.1	1.3	1.7	2.6
EA	0.1	0.0	0.0	0.1	0.2	1.1

Table 5 presents co-financing ratios by focal area. There are considerable variations in the co-financing ratios among the focal areas. In terms of increase in ratios at the portfolio level from GEF-3 to GEF-4 (and GEF-5) all focal areas have shown an increase in the co-financing ratios (table 5). Some of the focal areas do show a marginal drop in the portfolio ratios during GEF-5. However, median co-financing ratios of the focal areas continued to increase during the GEF-5 period as well (table 6) .The increase is especially noticeable for Chemicals (PoPs) and international waters projects (table 6).

Table 5: Co-financing ratio by focal area

	Pilot	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
Biodiversity	0.6	2.2	2.7	3.6	3.9	4.5
Climate Change	11.0	4.7	7.8	6.4	10.1	9.4
International Waters	1.2	1.4	1.9	6.2	9.2	8.6
Land Degradation	__	__	__	5.4	7.0	5.7
Ozone Depletion	0.4	.8	1.8	0.6	2.5	2.4
Chemicals	__	__	0.6	1.1	2.5	4.7
Multi Focal Area	0.3	1.1	2.4	2.4	4.2	4.5
LDCF	__	__	__	0.4	4.6	5.0
SCCF	__	__	__	4.5	6.7	11.4
NPIF	__	__	__	__	__	3.0

Table 6: Median co-financing ratio of projects by focal area

	Pilot	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
Biodiversity	0.3	1.0	1.3	1.8	2.3	4.3
Climate Change	0.9	1.7	2.1	3.5	3.8	5.2
International Waters	0.3	1.0	1.2	1.9	3.1	5.8
Land Degradation	__	__	__	3.0	3.0	4.5
Ozone Depletion	0.4	0.6	0.1	0.7	0.7	2.3
Chemicals	__	__	1.0	1.1	2.0	4.0
Multi Focal Area	0.3	1.1	1.0	1.6	2.7	3.4
LDCF	__	__	__	0.4	2.3	3.9
SCCF	__	__	__	1.7	3.5	7.1
NPIF	__	__	__	__	__	2.4

The co-financing ratios for the countries in special circumstances including LDC, SIDS, Land Locked, HIPC, and Fragile countries have increased (Table 7). Although the median co-financing ratios are lower than the average based ratio, the increase in the median ratios from GEF-3 to GEF-4 and GEF-5 period is steeper than for the average ratios (Table 7 and 8). The median ratios for countries with special circumstances have closely tracked the overall global portfolio median. Thus, it may be inferred that increased co-financing expectations were applied more or less uniformly and that even projects that are from countries with special circumstances might have had to meet high co-financing expectations.

Table 7: Co-financing Ratio across countries with special circumstances (for FSPs)

	Pilot	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
LDC	0.5	3.8	5.8	4.8	4.8	5.8
SIDS	2.7	4.9	2.6	3.2	3.5	5.4
LLDC	1.9	2.0	4.9	4.7	5.2	5.4
HIPC	0.6	3.7	5.7	6.0	5.5	5.7
Fragile	2.4	1.1	2.6	4.0	5.2	5.3
Global portfolio ratio	4.0	2.5	4.1	4.3	6.3	6.3

Table 8: Median of co-financing ratios for countries with special circumstances (for FSPs)

	Pilot	*GEF1*	*GEF2*	*GEF3*	*GEF4*	*GEF5*
LDC	0.2	1.6	1.8	2.4	2.6	4.0
SIDS	0.3	0.4	1.1	2.1	2.5	4.0
LLDC	0.6	1.1	1.3	2.3	2.7	4.1
HIPC	0.4	1.6	2.1	3.5	2.9	4.0
Fragile	0.2	0.4	1.3	2.0	2.6	3.9
Global portfolio median ratio	0.3	0.0	0.6	1.1	2.7	3.7

Table 9 presents the trends in co-financing ratios – both mean and median – for the GEF implementing agencies. The analysis shows that for UNDP, UNEP and World Bank, that have been implementing GEF projects since the Pilot Phase, the co-financing ratios have increased significantly. It also shows that financial institutions tend to implement projects that provide higher co-financing ratios. The main reason for it is that GEF projects implemented by the financial institutions often have a loan, financed by the respective financial institution, built into it.

Table 9: Trends in co-financing ratios of GEF agencies (median given in parentheses)

	Pilot	GEF-1	GEF-2	GEF-3	GEF-4	GEF-5
ADB	— —	— —	11.15 (11.15)	5.50 (2.79)	18.84 (15.08)	24.87 (30.07)
AfDB	— —	— —	— —	— —	5.22 (3.27)	7.55 (5.26)
EBRD	— —	— —	— —	— —	15.26 (14.48)	7.98 (7.06)
FAO	— —	— —	— —	1.57 (1.57)	3.27 (2.20)	4.32 (4.01)
IADB	— —	— —	— —	6.92 (5.32)	6.86 (3.85)	6.27 (4.89)
IFAD	— —	— —	— —	3.07 (1.96)	4.07 (3.42)	4.09 (3.47)
UNDP	0.58 (.19)	1.61 (0.94)	1.95 (1.29)	2.89 (2.18)	4.55 (2.90)	4.61 (4.44)
UNEP	0.05 (.05)	1.05 (1.03)	1.31 (1.08)	3.37 (1.25)	2.62 (1.38)	3.94 (3.15)
UNIDO	— —	— —	— —	1.60 (1.46)	4.27 (2.78)	4.66 (4.02)
World Bank	6.25 (0.62)	3.30 (2.25)	6.15 (1.92)	5.85 (2.81)	10.12 (3.34)	11.25 (5.41)

(Ratios are based on MSPs and FSPs)

For full size projects the recipient country governments – including various ministries, departments, and agencies, at different tiers of government – are the main contributors of co-financing, followed by GEF agencies, and then by private sector sources. The order of the share of these co-financing sources remained the same from GEF-3 to GEF-5 (table 10). During this period governments contributed 34% to 45% of co-financing, GEF Agencies contributed 24% to 29%, and the private sector 15% to 16%. Bilateral accounted for 4% to 7% and NGO contributions were at most 2% of the total.

Table 10: Sources of Cofinancing for GEF funded Full Size Projects

GEF Phase	Beneficiaries	Bilateral	Foundation	GEF Agency	Government	Multilateral	NGO	Others	Private Sector
Pilot Phase	0.00%	13.23%	0.02%	26.43%	17.07%	3.64%	0.22%	3.29%	36.11%
GEF - 1	0.00%	4.81%	0.27%	20.68%	16.54%	7.06%	1.09%	13.08%	36.48%
GEF - 2	0.00%	3.89%	0.25%	21.39%	29.02%	6.02%	1.48%	13.73%	24.21%
GEF - 3	0.47%	6.70%	0.22%	26.19%	34.40%	9.33%	2.27%	4.26%	16.16%
GEF - 4	0.26%	4.20%	0.28%	23.74%	45.43%	5.98%	1.95%	3.53%	14.63%
GEF - 5	0.00%	5.64%	0.11%	29.24%	37.87%	5.74%	2.09%	3.83%	15.48%
Total	**0.16%**	**5.55%**	**0.20%**	**25.60%**	**36.22%**	**6.51%**	**1.88%**	**5.46%**	**18.42%**

Trends in co-financing reported materialization of co-financing

GEF Evaluation Office has been tracking reported materialization of co-financing for completed projects based on the information provided in the terminal evaluation reports. Table 11 displays both the median ratio and ratio of aggregate promised co-financing to aggregate GEF grant, as well as the median and ratio of the aggregate of actual co-financing to aggregate GEF grant, by APR year. The figure clearly shows a general increasing trend in the level of promised and realized co-financing to GEF funding among APR cohorts from 2005-2012. When assessed in four-year APR cohorts, the change in co-financing is considerable. The amount of total promised co-financing to the total GEF grant has risen from 2.0 dollars of promised co-financing per dollar of GEF grant for the OPS4 cohort, to 2.8 dollars of promised co-financing per dollar of GEF grant for the OPS5 cohort – an increase of 40 percent. An even more dramatic rise is seen in the total amount of realized co-financing to the total GEF grant between OPS cohorts. This metric has risen from 2.0 dollars of realized co-financing per dollar of GEF grant in the OPS4 cohort, to 4 dollars of realized co-financing per dollar of GEF grant in the OPS5 cohort – a 100 percent increase.

Table 11: Median and total ratio of promised co-financing to GEF funding, by APR year.

	APR Year								OPS Cohorts		Total
	2005	2006	2007	2008	2009	2010	2011	2012	OPS-4	OPS-5	2005-12
Number of projects with data on promised co-financing	41	66	41	62	55	46	102	78	210	281	491
Median ratio of promised co-financing per dollar of GEF funding	1	1.3	1.4	1.2	1.4	1.6	1.8	1.9	1.2	1.6	1.4
Ratio of total* promised co-financing to total GEF funding	1.5	2.2	2.6	1.9	2.3	2.2	2.9	3.1	2.0	2.8	2.4
Number of projects with data on realized co-financing	23	47	39	53	55	41	97	71	162	264	426
Median ratio of realized co-financing per dollar of GEF funding	1.1	1.1	1.3	1.2	1.6	1.7	2.0	1.8	1.2	1.8	1.6
Ratio of total* realized co-financing to total GEF funding	1.6	2.4	1.9	2.2	3.0	3.0	5.0	3.7	2.0	4.0	3.2

* Note, total promised co-financing and total realized co-financing is computed as the total amount of promised or realized co-financing over the total amount of GEF funding for an APR year cohort, OPS cohort, or for all APR 2005-12 projects.

Perhaps more important than the absolute amount of promised or realized co-financing within APR year cohorts is the percentage of promised co-financing realized, as this gives an indication of the degree to which project financing needs anticipated in project design documents have been met. As shown in table 12 there has been a substantial increase in the percent of promised co-financing realized from FY 2005 to

FY 2012. For the OPS4 cohort, a little over 90 percent of promised co-financing materialized. For the OPS5 cohort, more than 140 percent of promised co-financing materialized – an increase of 55 percent. At the same time, the increase in the median ratio of actual to promised co-financing is far less dramatic – from 1 to 1.1 – indicating that a few outlying projects are responsible for generating large amounts of additional co-financing.

Table 12. Promised and realized co-financing for APR 2005-2008, 2009-2012, and 2005-2012 cohorts.

	APR 2005-2008	*APR 2009-2012*	*APR 2005-2012*
Number of completed projects	210	281	491
Total GEF funding (millions USD)	988.7	1,070.3	2,058.9
Total promised co-financing (millions USD)	1,970.1	2,952.9	4,923
Median ratio promised co-financing to GEF grant	1.2	1.6	1.4
Ratio of total promised co-financing to total GEF grant	2.0	2.8	2.4
Total projects with data on actual (realized) co-financing	162	264	426
Total realized co-financing† (millions USD)	1,425.6	4,008.3	5,433.8
Median ratio of realized co-financing to GEF grant	1.2	1.8	1.6
Ratio of total realized co-financing to total GEF grant ††	2.0	4.0	3.2
Median ratio of realized to promised co-financing††	1.0	1.1	1.0
Ratio of total realized to total promised co-financing††	0.9	1.4	1.3

† note – total realized co-financing is likely higher than reported figure as data is missing on 65 projects within the APR 2005-12 cohort; †† note – ratios include only projects for which data on realized co-financing is available.

Source: APR 2012

Based on the data available for completed projects it may be concluded that in general promised co-financing for the GEF projects does materialize and that the more recent cohorts of completed projects tend to have better reported materialization rates.

4.3 Factors influencing the Trends

Attention to co-financing in Secretariat's reviews

The work undertaken by the GEF EO on project cycle for full size projects shows that from GEF-4 to GEF-5 the percentage of project proposals for which two or more resubmissions were required has increased both during the PIF review stage and during the review of request for CEO endorsement. Survey of the GEF Secretariat's review of PIF submissions and of CEO endorsement requests shows that attention to co-financing has increased significantly. Information gathered through stakeholder interviews indicates that Secretariat's insistence on co-financing is a major driver of the increase in co-financing ratios.

Incidence of comments on co-financing

Table 13 shows that incidence of co-financing related comments in Secretariat's review of PIFs and CEO of endorsement requests has increased from GEF-3 to GEF-5. This is especially evident in reviews of PIF submissions for GEF-5 wherein 75 percent of the projects had at least one PIF submission that received co-financing related comments compared to 33 percent for GEF-3 and 43 percent for GEF-4. While there is a substantial increase in incidence of comments during the review stage for CEO endorsement requests from GEF-3 to GEF-4, the difference from GEF-4 to GEF-5 is not significant. This is understandable because in the present project cycle the concerns related to sufficiency of co-financing tend to be addressed during the PIF review stage.

Table 13: Incidence of co-financing relate comments in Secretariats review of PIF submissions for FSPs

	GEF-3	GEF-4	GEF-5
PIF submission			
At least one or more submissions with co-finance comments	33%	43%	75%
At least two or more submissions with co-finance comments	7%	9%	30%
At least three or more submissions with co-finance comments	2%	1%	7%
CEO Endorsement Requests			
At least one or more submissions with co-finance comments	19%	51%	52%
At least two or more submissions with co-finance comments	5%	13%	7%
At least three or more submissions with co-finance comments	0%	3%	1%

Concerns raised in the comments

The co-financing related comments made by the Secretariat on PIF and CEO endorsement request submission were categorized based on the typology of the concerns being raised. Table 14 presents incidence and distribution of the comments during the PIF submission stage. The percentage of projects for which the Secretariat requested an increase in level of co-financing increased slightly from GEF-3 (13 percent) to GEF-4 (19 percent) and more substantially from GEF-4 to GEF-5 (52 percent). A similar pattern is evident for request for more information on co-financing. Among the submissions, those for GEF-5 were more likely to receive comments requesting more co-financing. Even though information on confirmation of co-financing is not expected at the PIF submission stage (as a PIF is only expected to provide indicative co-financing figures), for 16 percent of the projects – and 16 percent of submissions that received co-financing related comments – the agencies and project proponents were requested to address confirmation of co-financing.

Table 14: Incidence and categorization of Secretariat's co-financing relate comments on PIFs

	GEF-3		GEF-4		GEF-5	
Types of concerns addressed in the Secretariat's PIF review comments	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments
Any comment on co-financing	33%	11%	43%	28%	75%	48%
More co-finance	13%	42%	19%	41%	52%	66%
More information on co-financing	17%	48%	17%	33%	39%	43%
Co-financing in Project Components	1%	2%	1%	3%	3%	3%
Confirmation of co-financing	8%	21%	6%	12%	16%	16%
Errors/ inconsistencies	9%	21%	5%	12%	21%	23%

Table 15 presents incidence and distribution of co-financing related comments made on CEO endorsement requests. Among the submissions that received comments on co-financing, from GEF-3 to GEF-5 there is some decline in the incidence of comments that seek confirmation of co-financing, the percentage of projects for which such comments are made has increased. Overall, while there has been an increase in incidence of co-financing related comments at CEO endorsement stage from GEF-3 to GEF-4, the level of attention at this stage seems to have stabilized in GEF-5.

Table 15: Incidence of co-financing relate comments in Secretariats review of request for CEO Endorsement

	GEF-3		GEF-4		GEF-5	
Types of concerns addressed in the Secretariat's review of CEO endorsement requests	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments	Percentage of projects that received comments	As percentage of submissions that got co-financing related comments
Any comment on cofinancing	19%	14%	51%	30%	52%	31%
More co-finance	6%	25%	13%	27%	12%	22%
More information on co-financing	7%	30%	17%	27%	10%	16%
Co-financing in Project Components	0%	0%	2%	3%	0%	0%
Confirmation of co-financing	14%	70%	30%	51%	30%	57%
Errors and inconsistencies	8%	40%	15%	27%	18%	31%

Co-financing and PIF rejection or withdrawal

Table 16 presents an assessment of the extent to which co-financing related concerns are a major cause for dropping or rejection of PIFs. It clearly shows that co-financing has now become a major reason why PIF are being dropped by the agencies or rejected by the GEF mid-way in the project cycle. Projects in high income and upper-middle income countries had the highest proportion of rejections for co-finance issues (about 10% of the submissions rejected). Projects in low income countries were the only category with zero rejections for co-finance issues. This indicates that the reviewers at the Secretariat may be keeping in mind the level of economic development in a recipient country when taking the decision to reject a project proposal based on low co-financing. However, there is lack of adequate evidence to suggest or to confirm that this distinction is made when requesting resubmission and modifications on account of lower co-financing.

Table 16: Cofinancing and Dropping or Rejection of PIF

	GEF-3	GEF-4	GEF-5*
FSPs listed in PMIS	726	558	398
FSPs (randomly) sampled	143	143	398
Dropped or rejected PIF in the simple	16	21	54
PIFs where co-financing was a major reason for rejection/withdrawal	2 (13%)	4 (19%)	32 (60%)

PIF submissions up to June 30th 2012

Evolution of GEF project portfolio

The analytical work undertaken for OPS-4 showed that share of projects that involve demonstration of new technologies and support for broader adoption of promoted technologies had increased from the Pilot Phase to GEF-4 both in terms of number of projects and GEF funding. On the other hand share of projects that focused on creating an enabling environment had decreased. Since activities that focus on demonstration and broader adoption of technologies – along with generation of global environmental benefits – are perceived to be more directly linked with national and local benefits, incremental costs related perspective makes a higher co-financing ratio imperative. No additional work was undertaken to for this sub-study to assess evolution of the GEF portfolio from an incremental costs perspective. However, information gathered from interviews indicates that type of projects undertaken in some of the newer focal areas, especially Chemicals, have changed. The Chemicals activities funded by GEF during GEF-5 were more likely to involve technology demonstration and support for broader adoption. In past three replenishment periods the share of the activities funded through other GEF administered trust funds, especially LDCF and SCCF, has increased. Although the co-financing ratios have been increasing for these trust funds as well, the ratios are still lower than for activities supported through the GET. This has the effect of lowering the overall co-financing ratio for the GEF portfolio (which includes all the GEF administered trust funds). Although determination of the extent of evolution of GEF portfolio remains an area for future work, it's clear that at best this factor explains only a small part of the dramatic increase in co-financing ratios of GEF portfolio.

Increased level of economic development in recipient countries

It is generally perceived that ability of countries to contribute co-financing depends upon the level of economic development and size of the economy. Although circumstances of individual countries differ, in past 20 years there has been an overall increase in the economic abilities of the recipient countries. Table 17 presents the average growth rates of some regions and country categories. It shows that although growth rates differ across country categories, all country categories have registered growth during the 2000-2012 period. This economic growth has resulted in rising incomes in countries, which has made it difficult to identify incremental costs of operating in some of the countries. While some of the countries such as Poland requested to be excluded from the list of recipient countries, others were graduated from GEF funding because they had gained membership of the European Union. Most of the countries, however, remain eligible for GEF support. For such countries, given an improvement in their overall economic status, seeking somewhat greater level of co-financing compared to earlier periods has an incremental costs based explanation. Analysis of co-financing data for recipient countries shows that the median co-financing ratio for full size projects are fairly similar in different country that have substantially different per capita income levels and differ in terms of size of the economy. This is indicative that, while rising income levels may be playing a role in increased co-financing it is unlikely to be a key driver of the significant increase in the co-financing ratios.

Table 17: Average annual growth rate in different country categories

Country category	Average annual GDP growth rates, 2000-2012
East Asia & Pacific (developing only)	7.90%
Europe & Central Asia (developing only)	4.02%
Sub-Saharan Africa (developing only)	1.93%
Middle East & North Africa (developing only)	2.34%
Latin America & Caribbean (developing only)	1.98%
South Asia	4.95%
Least developed countries: UN classification	3.44%
Low & middle income	4.46%
Upper middle income	5.06%
High income: non-OECD	4.09%
Heavily indebted poor countries (HIPC)	1.86%
Pacific island small states	0.40%
Small states	2.50%
Caribbean small states	2.32%

Data from the World Bank DataBank downloaded in October 2013.

4.4 Issues and Concerns

Concerns related to lack of transparency

Lack of transparency in application of co-financing related requirements during the project appraisal process was identified as a major concern by almost all OFPs and implementing and executing agencies that were interviewed for this sub-study. The fact that Secretariat is yet to specify the ratios that it expects for different types of projects was reported as a major flaw of the GEF approach. Respondents felt that there is a high level of arbitrariness in how GEF applies its co-financing requirements. They felt that although agency staff and consultants that have been working on GEF projects for a long time have a good sense of the required co-financing ratios, in an environment where co-financing expectations are escalating such experience based projection of required co-financing may not hold during the project appraisal process. At the extreme end, a few respondents felt that the last GEF Secretariat management used the high co-financing requirement as a disguise for rejecting proposals that it does not like for other reasons. The respondents emphasized the need for GEF to make the ratios that it expects from different types of projects to be made more explicit. They also emphasized the need for GEF to take into account the country context so that countries that have fewer resources to provide as co-financing do not face an excessive barrier in accessing GEF funding.

Several respondents from recipient countries felt that there is lack of consistency among GEF implementing agencies in the manner in which they apply the co-financing definition. In general the agencies that are financial institutions were reported to be stringent in terms of what they define as and are willing to consider as co-financing. UN agencies on the other hand were reported to be more flexible. A few respondents also felt that more stringent application of definition of co-financing by financial institutions may be because of their stringent accounting procedures and also because the GEF grant may be used to make their loans more acceptable. Thus, they claim, that stringent application of co-financing related rules might also be informed by institutional interests. While merits of the claim are not clear, what is clear is that in absence of clear definitions of co-financing there will be considerable variations across agencies in how they apply the co-financing definition. Thus, a more clear definition of what may be counted as co-financing is needed.

Effects of focus on co-financing

There was considerable unanimity in responses of GEF stakeholders in recipient countries that focus on high co-financing ratios had reached a stage where it is counter-productive, i.e. at the margins costs might be outweighing the benefits. It was reported that countries and agencies, in many situations, are responding to this focus by including those activities as co-financing, where the executing agency has little control or oversight in programming and/or execution. Alternatively, in several other instances it is leading to a long drawn out project preparation process wherein too much time is spent in looking for new sources of co-financing. Expectation of a high co-financing ratio regardless of the country context, they believe, has led to a situation where projects are being proposed in areas where there are already considerable amount of ongoing activities and there are fewer incentives to work on new emerging concerns for which co-financing may be difficult to obtain quickly. Compared to UN agencies, the staff of financial institutions was less likely to report difficulties in mobilizing co-financing commitments. Civil society organizations especially felt that high co-financing requirements were a barrier to their participation in execution of GEF projects. However, they were appreciative of the lower co-financing requirements for the SGP. They believe that this flexibility has facilitated in their being able to access GEF resources through the SGP.

As shown in table 9 GEF projects implemented by development banks tend to have higher co-financing ratios than UN development agencies because many of the projects implemented by the banks tend to have a loan built in to it. Escalating expectations on co-financing places the UN agencies at a disadvantage because they are not able to mobilize co-financing to the extent the banks may. Similarly, within countries NGOs and CBOs have reported that focus on co-financing places them at a disadvantage in terms of being able to function as an executing agency as they have limited capacities to contribute co-financing.

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