

Review of the Comparative Advantage, Financing, and Governance of the GEF Partnership



This study looks at the GEF's comparative advantage, the adequacy of donor funding, and the overall health of the GEF partnership.

FINDINGS

Comparative Advantage of the GEF Financial mechanism of conventions.

The GEF's comparative advantage derives primarily from its mandate as the financial mechanism for a number of multilateral environmental agreements (MEAs)/conventions as well as its broad thematic coverage of environmental issues, in line with the Sustainable Development Goals (SDGs). This relates directly to the GEF Instrument. Across the partnership, there is a high degree of commitment to ensuring that the GEF remains true to its mandate stemming from the MEAs, while at the same time encouraging innovation in the pursuit of global environmental benefits in line with evolving global priorities.

Support for integrated programs.

There is much support across the GEF partnership for the GEF 2020 focus on addressing the drivers of environmental degradation and the integrative principle underpinning the integrated approach pilots (IAPs) developed in GEF-6. While there is widespread support, in principle, for the impact programs (IPs) taking

shape for GEF-7, there is also significant concern about their breadth and the pace at which they are being developed, given that lessons learned regarding IAP effectiveness and impact are as yet unavailable. Conventions, Agencies, and national partners seek to ensure that the IPs a priori support countries' ability to make progress on their global environmental commitments while also addressing deep-rooted underlying factors.

Adequacy of Donor Funding/Financing

Modest resources. The GEF's resources are modest relative to current global environmental needs, the number of GEF Agencies, and the scale of environmental finance now being offered by other institutions such as the Green Climate Fund (GCF) and the Climate Investment Funds (CIF). GEF-6 resources amounted to some \$4.43 billion for the 2014–18 replenishment cycle. At the 2015 Paris climate talks, the world agreed to continue aspiring to a \$100 billion target for climate finance until 2025. Within such an overall context of climate finance scarcity relative to global need, GEF respondents across

PURPOSE AND METHODS: This evaluation addresses three key components of the Sixth Comprehensive Evaluation of the Global Environment Facility (GEF) (OPS6): the comparative advantage of the GEF as a funding channel, the adequacy of donor funding/financing, and the current governance structure and health of the expanded partnership of the GEF.

This brief includes early findings and draws on 120 responses to a web-based survey, and interviews with internal and external stakeholders.

WEB PAGE: <http://www.gefio.org/evaluations/comparative-advantage-financing-and-governance-gef-partnership>

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ABOUT US: The Independent Evaluation Office (IEO) of the GEF has a central role in ensuring the independent evaluation function within the GEF. www.gefio.org

the partnership are concerned both at the modesty of donor funding, and the overall shrinking of donor commitments in an increasingly competitive environment.

The overall shortage of funding is affected by the increased number of GEF Agencies, resulting in lower levels of funding per Agency than prior to the expansion. GEF resources are modest in comparison to those available to other environmental trust funds, such as the GCF and the CIF. And these funds are larger than the GEF. In an effort to heighten their collective effectiveness, the pursuit of collaborative relationships is supported by 80 percent of survey respondents across the GEF.

Donor commitments. Overall, donors have mostly delivered on their financial commitments to the GEF, as promised and on time. According to the most recent GEF Trust Fund Financial Report: Summary of Financial Information as of September 30, 2016, 99 percent of GEF-6 pledges have been met, with small arrears from prior GEF replenishments still lingering. As stated by many stakeholders across the GEF, meeting donor commitments, and doing so on time, is important to maintaining widespread confidence in the institutional mechanism overall, given the general environment of a funding scarcity.

Despite the delivery of pledged commitments, the GEF encountered shortfalls in available financial resources due to foreign exchange volatility. While such volatility is a normal and daily feature of capital markets, the GEF has no financial mechanism in place for managing such

risk. This has had detrimental effects on the amount of funding available for GEF-6 projects, with implications for both countries and Agencies, which plan based on donor commitments.

Cofinancing policy. The GEF has initiated a cofinancing policy intent on maximizing its mobilization of financial and other resources. The new policy has maintained an aspirational ratio of 6:1 cofinancing overall for the GEF portfolio. This ratio was to be applied at a macro portfolio level, but was sometimes applied to individual projects. It is generally recognized that multilateral development banks (MDBs) are able to pursue larger projects with higher transactions, allowing them to raise higher levels of cofinancing overall. Yet the average size of GEF projects is too small to be attractive to MDBs, with obvious cofinancing implications. Only 15 percent of survey respondents agree that the size of GEF projects is attractive for MDBs.

The GEF as a provider of catalytic finance. The GEF is considered moderately effective as an enabling and sometimes catalytic financing organization, though mainly at the project level. However, there is a widespread and shared understanding that the GEF is not as effectively playing the catalytic role it assumed in early replenishments, for several reasons. The environmental finance landscape has changed, and the GEF is no longer exclusive in its finance offerings. The GEF has spread its funds thin among many more Agencies without a corresponding increase in funding. The

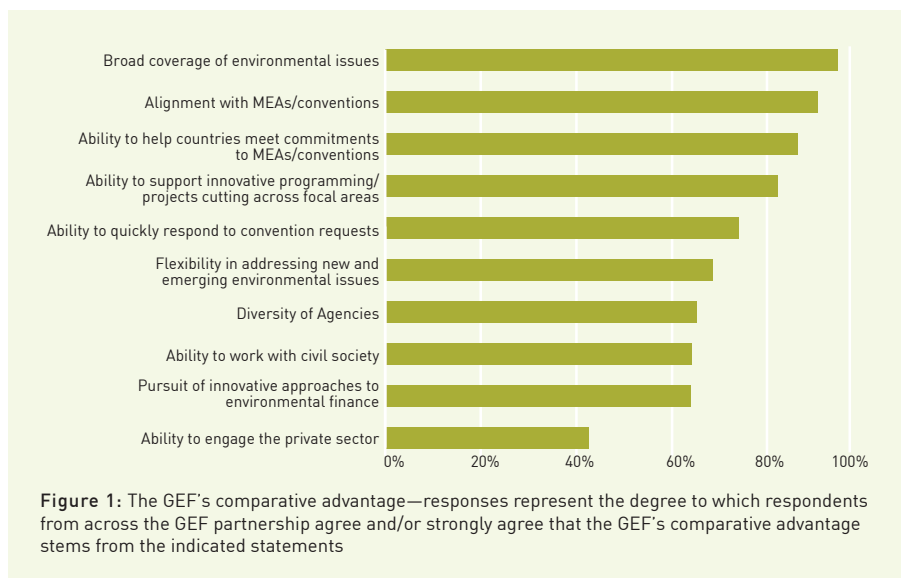
current small size of projects on average is less able to facilitate both cofinancing and innovation. Based on survey results, there is widespread support for the GEF to play an important role in experimentation, innovation, and demonstration. There are mixed perspectives on the role of the GEF in supporting replication and scaling-up, given the need for large-scale resources.

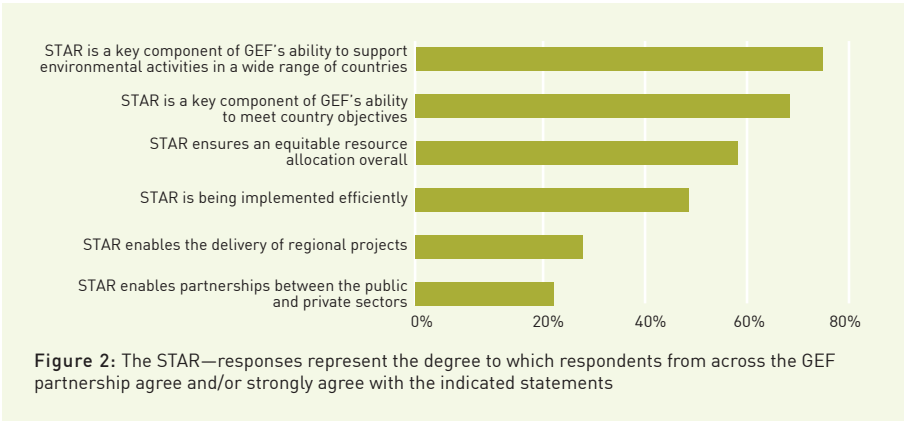
Private sector financing. There is general agreement across the partnership that to overcome the paucity of financing, the GEF needs to thoroughly explore non-traditional donors, including the private sector.

Broader private sector engagement at the project level is also seen as desirable. However, the GEF has had limited success in engaging the private sector. Factors identified as constraining the GEF's ability to engage with the private sector include the size of project funding, the limited availability of information on the offerings and capacities of the GEF, and processes/mechanisms by which to attract private sector financing to the different focal areas. Further, the GEF project cycle is viewed as mismatched with private sector time frames.

The STAR

GEF partners have strong opinions both for and against the System for Transparent Allocation of Resources (STAR) allocation system. On the positive side, the STAR provides some GEF resources to all countries. This has increased country ownership, enhanced transparency in resource allocation, and improved project preparation by providing a secure resource base from which to proceed with project concepts. Some also view this more predictable and bottom-up approach as one of the GEF's comparative advantages vis-à-vis the GCF. There is a general consensus that the STAR has discouraged and perhaps diminished the GEF's engagement with the private sector and in regional projects, notwithstanding the set-asides for nongrant instruments and international waters outside the STAR allocation. Most partners would like to consider modifications such as allowing more fungibility in utilizing STAR allocations among focal areas, and greater encouragement to countries to use their STAR allocations for mutually beneficial regional projects.





Partnership and Governance

Expansion of the partnership. The increase in the number—and diversity—of Agencies to 18 is generally considered to be positive across the GEF partnership, drawing in new ideas, energy, and capacity. However, the STAR and small scale of GEF resources allocated to many countries have contributed to a competitive culture among Agencies. The incentives tend to favor the United Nations (UN) Agencies with on-the-ground presence, which are unable to bring in as much cofinancing from their own resources. This also makes it very difficult to develop regional projects. Some see the increased diversity in the GEF Agencies as creating the potential for Agencies to work together by capitalizing on possible synergies from this diversity. There is some evidence that this is happening in the context of the three IAPs in GEF-6.

Responsiveness to conventions.

Overall, partners consider the GEF to be responsive to the requests of the conventions. About 74 percent of survey respondents considered the GEF's ability to quickly respond to convention requests as an important element of its comparative advantage. However, there are diverging opinions among the partners in this regard. The GEF Secretariat considers the partnership to be highly responsive, with 90.4 percent of Secretariat respondents complimenting the GEF's ability to quickly respond to convention requests—for example, in quickly establishing the Capacity Building Initiative for Transparency (CBIT). The operational focal points (87.1 percent) and Council members (81.1 percent) largely share this perspective. However, this view was shared by a third of the conventions, which indicated

that there is room for the GEF to respond quickly to the conventions.

Changes in policies and practices.

New policies and practices introduced in GEF-6 have had beneficial effects on the efficiency of project programming. The consolidation of the project cycle into one document has been appreciated. The cancellation policy has created incentives for projects to be prepared expeditiously for Chief Executive Officer (CEO) endorsement, noting that not a single project has been canceled since the introduction of the policy, and only two have received waivers.

The World Bank and the GEF Secretariat now have four years' experience with the WBG-GEF harmonization pilot that was introduced in November 2012. GEF program managers participate in World Bank decision meetings at the concept and approval stages, and also in quality enhancement reviews. The World Bank also frequently arranges for pre-meetings before decision meetings to allow more time for discussion. In turn, the Bank provides the Council and the Secretariat with its own documentation at both the Council approval and CEO endorsement stages, as opposed to using the GEF templates. Both sides have now become accustomed to this way of aligning the World Bank and GEF project cycles and see benefits in maintaining things as they are. There is no movement to change things, except the suggestion to remove the word "pilot," and no appetite to extend this to other Agencies.

The Role of the STAP. The GEF Scientific and Technical Advisory Panel (STAP) plays an important role in reviewing all full-size projects at the concept stage when being considered for Council approval. It also provides strategic advice to the GEF

Council regarding contemporary issues of the global environment, and operational advice to the GEF Secretariat and GEF Agencies in preparing and reviewing projects and programs. One STAP panel member has been assigned to each of the three IAPs. Two-thirds of survey respondents felt that the STAP provides high-quality knowledge-based guidance to the GEF.

However, interviewees felt there were more, and so far unrealized, opportunities for the STAP to play a stronger unifying role in the partnership by building stronger relations with scientific and technical counterparts at the GEF Secretariat, across the Agencies, and within the conventions to ensure their work is complementary and valuable across the partnership. The STAP is hosted by the United Nations Environment Programme (UNEP) and reports regularly to the Council, but the GEF does not have a Council-approved policy on science. Such a policy could empower the STAP to enhance its contribution to the GEF partnership.

The overall health of the partnership has improved. Overall, there have been some improvements in the health of the partnership since the Fifth Overall Performance Study of the GEF (OPSS)—health being defined as "the extent to which the structure of the partnership and the quality and relevance of interactions between the partners enable the GEF partnership to effectively and efficiently deliver global environmental benefits through its support."

The expansion in the number of Agencies has brought potential along with

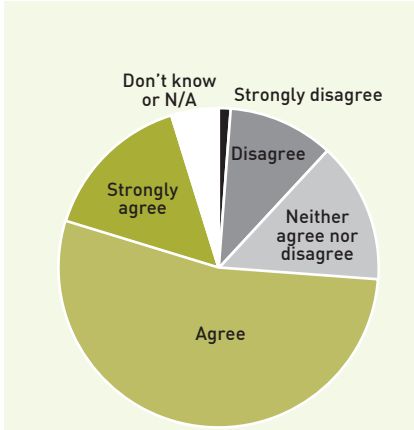


Figure 3: Overall, the GEF is effectively governed

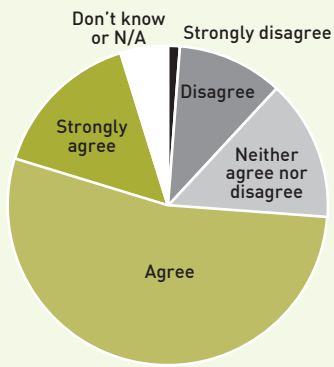


Figure 4: The GEF Secretariat provides appropriate strategic leadership

challenges. The STAR and competition among Agencies have both positive and negative aspects. Partners have praised the new cancellation policy and the consolidation of project cycle policies into one document. Many partners would like to see more effective cooperation among the Agencies, drawing upon their respective comparative advantages as MDBs, UN Agencies, and international nongovernmental organizations. Some of this is happening in the context of the IAPs. Partners have also expressed a clear desire for more transparency in programming decisions, and project review and selection, and the initial preparation of the future IPs. The technical advisory

group meetings were a step in the right direction. The STAP continues to play an important role in reviewing projects, and stakeholders pointed to an opportunity for the STAP to play a unifying role in the partnership in building stronger relations with scientific and technical counterparts. The CSO Network continues to be relevant and is delivering results. It is currently in the process of redefining its vision and strengthening its governance. Overall, nearly 70 percent of survey respondents said that the GEF partnership was effectively governed and that the GEF Secretariat was providing appropriate strategic leadership. ■