

GLOBAL
PROGRAM
REVIEW

The World Bank Group's
Partnership with the
Global Environment Facility
Volume 1: Main Report



Global Program Review

The World Bank Group's Partnership with the Global Environment Facility

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Country, Corporate and Global Evaluations

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Acronyms and Abbreviations

ADB	Asian Development Bank
AfDB	African Development Bank
AFR	Africa Region (World Bank)
BFC	Blended Finance Committee (IFC)
BP	Bank Procedure (World Bank)
CAS	Country Assistance Strategy
CEO	Chief Executive Officer
CEPF	Critical Ecosystem Partnership Fund (a global partnership program)
CFPMI	Multilateral Trusteehip and Innovative Financing Department (World Bank)
CFPVP	Concessional Finance and Global Partnerships Vice Presidency (World Bank)
CGIAR	Consultative Group on International Agricultural Research
CIF	Climate Investment Fund
COP	Conference of the Parties (Environmental Conventions)
CPF	Climate Policy and Finance Department (World Bank)
CPFIA	Climate Policy and Finance Department as Implementing Agency
DPO	Development Policy Operation (World Bank)
EAP	East Asia and Pacific Region (World Bank)
EBFP	Environment Business Finance Program (IFC)
EBRD	European Bank for Reconstruction and Development
ECA	Europe and Central Asia Region (World Bank)
ENRM	Environment and Natural Resources Management (World Bank)
FAO	Food and Agriculture Organization of the United Nations
FSP	Full-Sized Project
FY	Fiscal Year
GEF	Global Environment Facility
GEF EO	GEF Evaluation Office
GEF OP	GEF Operations Committee
GPR	Global Program Review
GRPP	Global and/or Regional Partnership Program
IAASTD	International Assessment of Agricultural Knowledge, Science, and Technology for Development
IBRD	International Bank for Reconstruction and Development
ICR	Implementation Completion and Results Report (World Bank)
IDA	International Development Association
IDB	Inter-American Development Bank
IEG	Independent Evaluation Group
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IRC	Investment Review Committee
ISR	Implementation Status and Results Report (World Bank)
LAC	Latin America and the Caribbean Region (World Bank)
LDCF	Least Developed Countries Fund for Climate Change
MBC	Mesoamerican Biological Corridor
MDB	Multilateral Development Bank
MDGs	Millennium Development Goals

MFMP	Multilateral Fund for the Implementation of the Montreal Protocol
MIGA	Multilateral Investment Guarantee Association
MNA	Middle East and North Africa Region (World Bank)
MP	Montreal Protocol on Substances that Deplete the Ozone Layer
MSP	Medium-Sized Project
NGO	Nongovernmental Organization
OD	Operational Directive (World Bank)
OECD/DAC	Organisation for Economic Co-Operation and Development / Development Assistance Committee
OED	Operations Evaluation Development (renamed IEG in 2006)
OP	Operational Policy (World Bank)
OPS	Overall Performance Study (GEF)
PAD	Project Appraisal Document (World Bank)
PCR	Project Completion Report (IFC)
PIF	Project Identification Form (GEF)
PMIS	Project Management Information System (GEF)
POPs	Persistent Organic Pollutants
PPAR	Project Performance Assessment Report (IEG)
PPP	Public-Private Partnership
PPPI	Public-Private Partnership Initiative
PRSP	Poverty Reduction Strategy Paper
PV	Photovoltaic
RAF	Resource Allocation Framework (GEF)
RDBs	Regional Development Banks
RDO	Risk to Development Outcome
SAR	South Asia Region (World Bank)
SCCF	Special Climate Change Fund
SME	Small and Medium Enterprise
STAP	Scientific and Technical Advisory Panel (GEF)
STAR	System for Transparent Allocation of Resources (GEF)
TA	Technical Assistance
TTL	Task Team Leader (World Bank)
UNDP	United Nations Development Program
UNEP	United Nations Environment Program
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
XPSR	Expanded Project Supervision Report (IFC)

Fiscal Year of the Global Environment Facility and the World Bank Group

From July 1 – June 30

GEF Phases

GEF Phase	Replenishment Period	Advance Contribution Scheme Effectiveness	Replenishment Closing Date
Pilot Phase	April 11, 1991 to June 30, 1994	Not applicable	Not applicable
GEF-1	July 1, 1994 to June 30, 1998	June 27, 1994	October 16, 1998
GEF-2	July 1, 1998 to June 30, 2002	October 16, 1998	February 4, 2003
GEF-3	July 1, 2002 to June 30, 2006	February 4, 2003	November 30, 2006
GEF-4	July 1, 2006 to June 30, 2010	November 30, 2006	July 19, 2010
GEF-5	July 1, 2010 to June 30, 2014	November 2, 2010	N/A
GEF-6	July 1, 2014 to June 30, 2018	N/A	N/A

Acknowledgments

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IEG has previously prepared reviews of three global/regional environmental programs involving a partnership between the World Bank Group and the Global Environment Facility (GEF): the Critical Ecosystem Partnership Fund; the International Assessment of Agricultural Knowledge, Science and Technology for Development; and the Mesoamerican Biological Corridor. This is the first time that the Independent Evaluation Group (IEG) has reviewed the partnership between the Bank Group and the GEF as a whole.

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The draft report was peer-reviewed by Warren Evans, former Director of the World Bank's Environment Department; Alan Miller, Principal Project Officer in the Climate Business Department of the International Finance Corporation (IFC); Athena Ronquillo-Ballesteros, Project Manager of the International Financial Flows and Environment Project in the World Resources Institute; and Aaron Zazueta, Chief Evaluation Officer in the GEF Evaluation Office.

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Program at a Glance: The Global Environment Facility

Start date	<p>March 14, 1991, for the Pilot Phase. The World Bank Group's Executive Board formally established the Global Environment Trust Fund as part of the Global Environment Facility.</p> <p>March 1994, for the Restructured GEF. GEF Participants formally approved the founding charter of the GEF — <i>The Instrument for the Establishment of the Restructured Global Environment Facility</i>.</p>
Purpose	<p>To provide new and additional grant and concessional funding to developing and transition countries to meet the incremental costs of measures to achieve agreed global environmental benefits in initially four and later six focal areas: (a) biological diversity; (b) climate change mitigation and adaptation; (c) international waters; (d) land degradation, primarily desertification and deforestation; (e) ozone layer depletion; and (f) persistent organic pollutants. (Focal area policies were also developed for climate change adaptation and sustainable forest management in GEF-5.)</p>
Major activities	<p>Generally speaking, the GEF supports scientific and technical analysis, capacity building programs, technical assistance projects, and investment projects.</p> <p>Operationally speaking, the GEF has categorized its activities into five types:</p> <ul style="list-style-type: none"> • Full-Sized Projects are more than \$2 million (formerly \$1 million) in size. • Medium-Sized Projects are up to \$2 million (formerly \$1 million) in size. • Enabling Activities help countries prepare national inventories, strategies, action plans, and reports under global environmental conventions. • Programmatic Approaches usually comprise several projects that are linked through common objectives aimed to foster increased horizontal and vertical integration of global environmental issues into a country's or countries' development agenda. • Small Grants of up to \$50,000 support non-governmental and community organizations implementing community-based projects in the GEF focal areas. <p>The GEF also operates two programs to help developing and transition countries adapt to climate change — the Least Developed Countries Fund for Climate Change (LDCF) and the Special Climate Change Fund (SCCF) — and provides secretariat and evaluation services for a third — the Adaptation Fund:</p> <ul style="list-style-type: none"> • The LDCF (established 2001) focuses on the 48 least developed countries • The SCCF (2001) helps developing countries more broadly • The Adaptation Fund (2008) is financed by a 2 percent share of the proceeds of the Certified Emissions Reductions issued by the Clean Development Mechanism under the Kyoto Protocol. <p>Since January 2012, the GEF Secretariat and the UNFCCC Secretariat have been collaborating to operate the Interim Secretariat of the Green Climate Fund (GCF).</p> <p>The GEF also operates the Nagoya Protocol Implementation Fund (2011) to help implement of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization.</p>

World Bank Group roles	<p>In addition to being one of the founding partners of the GEF, the World Bank plays three major roles in the GEF:</p> <ul style="list-style-type: none"> (a) as the Trustee of the GEF and related trust funds (b) as one of the original three Implementing Agencies of GEF-financed projects (c) providing administrative support services as host of the GEF Secretariat. <p>The World Bank also attends GEF Council meetings as invited observers (representing the Bank as the Trustee and as an Implementing Agency) and participates in GEF resource mobilization as the co-chair, along with the GEF Chief Executive Officer (CEO), of the quadrennial replenishment process.</p> <p>The IFC also implements private-sector GEF projects as an Executing Agency under the World Bank.</p>
Donor contributions	<p>Forty countries contributed \$13.0 billion to the GEF Trust Fund as of June 30, 2013. The top eight countries (United States, Japan, Germany, France, United Kingdom, Canada, Netherlands, and Italy) have contributed more than 75 percent of the resources.</p> <p>Twenty-five countries have contributed \$682 million to the LDCF and 15 countries have contributed \$249 million to the SCCF as of June 30, 2013.</p>
Location	The World Bank Group, Washington, DC.
Website	www.thegef.org
Governance and management	<p>The GEF is governed by an Assembly and a Council. The GEF Assembly, which meets every three to four years, is attended by high-level government delegations of all 182 GEF member countries. The GEF Council, which meets semi-annually, is the main governing body, with primary responsibility for developing, adopting, and evaluating GEF strategies, policies, programs, and projects.</p> <p>The Assembly and Council are accountable to the Conference of the Parties (COPs) of the conventions for which the GEF serves as a financial mechanism and which decide on the policies, program priorities, and eligibility criteria for the purposes of the conventions.</p> <p>Although the GEF Secretariat is located inside the World Bank, it is functionally independent of the Bank. The CEO and Chairperson of the Council, who heads the Secretariat, reports only to the GEF Council and Assembly.</p> <p>A Scientific and Technical Advisory Panel, which is hosted by the United Nations Environment Program (UNEP), provides strategic scientific and technical advice to the GEF Council on its strategies and programs.</p> <p>The GEF Agencies, who develop project proposals and supervise approved projects, are directly accountable to the Council for their GEF-financed activities, although there is no direct line mechanism.</p> <p>GEF Focal Points, appointed by each member country, help coordinate GEF matters at the country level, endorse GEF projects, liaise with the GEF Secretariat and Agencies, and represent their countries on the GEF Council.</p> <p>The World Bank, as Trustee of the GEF and related trust funds, reports directly to the GEF Council.</p> <p>The GEF Evaluation Office is an independent evaluation office, whose Director reports directly to the Council.</p>
Latest program-level evaluation	<p>GEF Evaluation Office, 2010, <i>Progress Toward Impact: Fourth Overall Performance Study of the Global Environment Facility</i>. (An earlier version, which was discussed in the GEF Replenishment and Assembly, was published in 2009.)</p>

Key Bank Staff Responsible during Period under Review

Position	Person	Period
Manager, Climate Policy and Finance as Implementing Agency (CPFIA) Formerly the Global Environment Coordination Division, and the GEF/MP Coordination Team	Ken Newcombe Lars Vidaeus Steve Gorman Karin Shepardson	1994–1995 1995–2001 2001–2010 September 2010 – present
Director, Environment Department (ENV) Renamed Climate Policy and Finance (CPF) Department in 2012	Kenneth Piddington Andrew Steer Ian Johnson Robert Watson Kristalina Georgieva Warren Evans Mary Barton-Dock Karin Kemper	1990–1994 1994–1996 1997 August 1997 – December 1999 2000–2004 Oct 2004 – March 2011 April 2011 – June 2013 July 2013 – present
Vice President, Environmentally and Socially Sustainable Development Network (ESSD) Vice President, Sustainable Development Network (SDN)	Ismail Serageldin Ian Johnson Katherine Sierra Inger Andersen Rachel Kyte	1993–1998 1998–2005 January 2006 – June 2010 July 2010 – September 2011 September 2011 – present
Director, Multilateral Trusteeship and Innovative Financing Department (CFPMI)	Susan McAdams	July 2007 – present
Vice President, Resource Management and Cofinancing Vice President, Concessional Finance and Global Partnerships	Motoo Musakabe Geoffrey Lamb Philippe le Houerou Axel van Trotsenburg Joachim von Amsberg	1997–2003 April 2003 – May 2006 May 2006 – August 2009 August 2009 – January 2013 February 2013 – present
Position	Person	Period
Chief Executive Officer, GEF	Mohamed El-Ashry Leonard Good Monique Barbut Naoko Ishii	1994 – 2003 2003 – 2006 2006 – 2012 2012 – present
Director, GEF Evaluation Office	Robert van den Berg	September 2004 – present

Glossary

Additional Costs	Costs necessary to implement adaptation measures that would not be necessary in the absence of climate change
Blended Projects	Projects that are financed by both the GEF and the World Bank. Fully blended projects are processed as one project so that there is only one set of project documents and one decision at each stage of the project cycle (apart from the negotiation stage). Partially blended projects are processed somewhat or completely separately, so that there are two separate sets of project documents at some or all stages in the project cycle, one for each project. Stand-alone GEF projects are generally not associated with any other World Bank project in terms of processing.
Co-Financing	The GEF 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.” These include non-GEF resources that contribute directly or indirectly to GEF objectives, either by: <ul style="list-style-type: none"> • Financing that is directly contributing to GEF project objectives; or • Financing for baseline activities, i.e., activities in the absence of a GEF contribution, however essential for reaching GEF project objectives.
Global Environment Benefit	Outcomes that have direct or indirect positive impacts on global environmental sustainability in the Focal Areas of the GEF.
GEF Agencies	These comprise the original three Implementing Agencies (United Nations Development Program (UNDP), UNEP, and the World Bank,) and the seven Executing Agencies (Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Food and Agriculture Organization (FAO), Inter-American Development Bank (IDB), International Fund for Agricultural Development (IFAD), and the United Nations Industrial Development Organization (UNIDO) that have direct access to GEF funding and undertake corporate activities in the GEF partnership.
GEF Coordination Unit	The anchor unit within the World Bank responsible for the overall coordination of the World Bank Group’s GEF programming and portfolio. The unit is responsible for managing the World Bank Group’s GEF corporate program, institutional relations, Bank Group-GEF project policies and procedures, budget management, monitoring and evaluation, etc.
GEF Focal Point	Liaison between the GEF Secretariat and the GEF Agencies at the country level. Focal Points are located in the country governments. Operational Focal Points are responsible for integrating GEF activities at the country level and endorsing GEF project proposals, and Political Focal Points for representing their country on issues related to GEF governance at the GEF Council and Assembly.
GEF Program Manager	Environmental Specialists located in the GEF Secretariat and responsible for reviewing project proposals submitted to the GEF by the GEF Agencies in accordance with GEF policies and operational strategies.
GEF Project Agencies	Agencies that will be granted direct access to GEF resources upon accreditation by the GEF.
GEF Regional Coordinators	Staff located in the World Bank Regional Vice Presidencies and in IFC and responsible for providing technical and procedural support to the project teams of World Bank-implemented GEF projects, for managing the GEF resources allocated to the Bank’s Regions, and for monitoring portfolio performance. They are part of the Bank Group’s GEF Coordination Team.

Incremental Costs	Costs necessary to transform a project with national benefits into one with global, environmental benefits.
Independent Evaluation	An evaluation that is carried out by entities and persons free from the control of those involved in policy making, management, or implementation of program activities. This entails organizational and behavioral independence, protection from outside interference, and avoidance of conflicts of interest.
Indicator	A quantitative or qualitative factor or variable that provides a simple and reliable means to measure achievement, to reflect the changes connected to an intervention, or to help assess the performance of a development actor.
Leveraging	The GEF defines leveraging as “the additional resources — beyond those committed to the project itself — that are mobilized later as a direct result of the project, e.g., for further replication or through programmatic influence. As such, leveraged resources do not form part of the committed financing plan at the outset and so they are not defined as ‘cofinance’.” Leverage is nevertheless a very important indicator of GEF’s catalytic effect.
Monitoring	The continuous assessment of progress achieved during program implementation in order to track compliance with a plan, to identify reasons for noncompliance, and to take necessary actions to improve performance. Monitoring is usually the responsibility of program management and operational staff. An effective monitoring system provides the information required for scheduled reporting to the governing body on the use of resources and the progress of activities as well as information on outputs and outcomes that contributes to future evaluations.
Programmatic Approach	The Programmatic Approach supplements the project-based approach at the GEF. This consists of a set of projects that are strategically linked through a common goal, which can be implemented at the country, regional, or global levels.
Project Identification Form	Template for the submission of projects to be filled and submitted by the Agencies to the GEF for review and Council approval.
Public-Private Partnership	This generally refers to a public service or project that is funded and operated through a partnership between a public-sector entity and one or more private-sector companies. It typically involves a contract between the public-sector entity and the private company(ies) to provide the public service.
RAF/STAR	The Resource Allocation Framework (applied in 2006) and the System for Transparent Allocation of Resources (applied in 2010) are procedures for the allocation of GEF resources based on indicators reflecting countries’ potential and performance in achieving Global Environment Benefits.
Stakeholders	Parties who are interested in or affected, either positively or negatively, by a development intervention. Stakeholders are often referred to as “principal” and “other,” or “direct” and “indirect.” While other or indirect stakeholders — such as taxpayers in both donor and beneficiary countries, visitors to a beneficiary country, and other indirect beneficiaries — may have interests as well, these are not ordinarily considered in evaluations unless a principal stakeholder acts as their proxy.
Thematic Specialists	Specialists in GEF-related domains located within the GEF Coordination Unit. The thematic specialists provide technical support to the World Bank’s Regional and IFC teams in the preparation of GEF-funded World Bank and IFC projects.

Source: For evaluation terms, IEG and Organisation for Economic Co-Operation and Development/Development Assistance Committee (OECD/DAC), *Sourcebook for Evaluating Global and Regional Partnership Programs: Indicative Principles and Standards* (World Bank, 2007). For GEF terms, the GEF website, the World Bank’s GEF Coordination Unit website (last access: 5/28/2013), GEF 2003, *Co-financing* (GEF/C.20/6/Rev.1), and GEF Evaluation Office 2006, *Evaluation of Incremental Cost Assessment* (Evaluation Report No. 34).

Executive Summary

1. This Global Program Review has been prepared, first and foremost, for the World Bank Group's Executive Board to facilitate an informed discussion about the Bank Group's past, current, and future partnership with the GEF. Its principal purposes are **(a) to help improve the relevance and effectiveness of the Bank Group's partnership with the GEF, and (b) to draw lessons for the Bank Group's partnership with the GEF and other large global partnership programs.**
2. The World Bank was a principal founding partner of the GEF in its Pilot Phase in 1991, and of the restructured GEF in 1994. The Bank plays three different roles in the GEF: (a) as Trustee of the GEF and related trust funds, (b) as Implementing Agency, including the implementation of private-sector GEF projects by the IFC, and (c) as the host organization of the functionally independent GEF Secretariat.
3. Focusing primarily on the role of the Bank as an Implementing Agency, this Review documents how the partnership that the GEF and the World Bank Group established in the early 1990s has evolved over time, offers explanations for observed changes, and draws a number of lessons.
4. The Review addresses the following issues in accordance with the outline and methodology in the Approach Paper that was issued in August 2012 (IEG 2012, p. 7):
 - The mutual relevance of the World Bank Group and the GEF
 - Inter-organizational coordination along the World Bank Group-GEF project cycle
 - The introduction of the GEF's resource allocation systems in 2006 and 2010
 - The evolution and effectiveness of the Bank Group's GEF portfolio
 - Catalytic approaches in the Bank Group-GEF Partnership: Co-financing, blending, and mainstreaming
 - The World Bank's corporate activities as a GEF Implementing Agency.

Mutual Relevance of the World Bank Group and the GEF

5. The mandates and strategies of the World Bank Group and the GEF have been highly compatible and mutually relevant both in the past and today.
6. The GEF's focus on global environmental benefits complements the World Bank's own environmental priorities. The GEF had an important and explicit role in the Bank's 2001 environment strategy, complementing the Bank's own investment projects. For the GEF, the World Bank continues to exhibit relevant comparative advantages as principal provider and mobilizer of investment projects and related expertise, covering all GEF focal areas. The concept of *green growth*, on which the Bank's 2012 environment strategy is based, further strengthens the case for environmental interventions under the Bank's poverty-focused mandate. The Bank considers the GEF as a crucial contributor to innovative and risk-sharing approaches, and the GEF perceives the Bank as having a key comparative advantage in leveraging GEF funding to generate global environmental benefits in large projects.

7. While the IFC and GEF mandates and strategies are less explicitly harmonized, there is strong mutual relevance between the GEF's general interest in involving the private sector in its work and the IFC's private sector-focused and sustainability mandate.

8. In spite of the high compatibility and mutual relevance of the two partners' mandates and strategies, the relevance of the design of the Bank Group-GEF partnership has diminished significantly, driven by a series of key developments, which are discussed in the following sections:

- The number of GEF Agencies with direct access to the GEF and related trust funds has increased and funding alternatives to the GEF have emerged in the climate change field;
- The GEF's project cycle and administrative fees to the GEF Agencies have been reformed repeatedly; and
- New resource allocation systems were introduced in 2006 and 2010.

9. These developments have, over time, decreased the effectiveness of Bank Group-GEF collaboration and call for re-assessment of the underlying operational policies as described below.

Key Developments and Their Impacts on the Relevance and Effectiveness of the Partnership

INCREASING NUMBER OF GEF AGENCIES AND THE EMERGENCE OF FUNDING ALTERNATIVES

10. In the 1990s, access to the GEF Trust Fund and the implementation of GEF projects was largely limited to the original three Implementing Agencies: UNDP, UNEP, and the World Bank. Since then, the GEF Council decided at various points in time to expand access to GEF resources by including additional international organizations, and more recently, national organizations and agencies into the group eligible to access GEF funds for executing environmental projects in recipient member countries. The Council's expectation was that "the inclusion of more Executing Agencies with direct access should result in higher quality projects, lower fees, a more efficient use of GEF resources, and enhanced coherence and coordination of the GEF mechanism" (GEF 2003a, p. 12). The GEF's *Third and Fourth Overall Performance Studies (OPS3 and OPS4)* both found evidence of increased competition among Implementing and Executing Agencies, which was pushing Agencies to cross the line into other Agencies' areas of competency.

11. For the World Bank, this translated into the loss of its *de facto* sole provider status for investment projects and related expertise to the GEF, and put the Bank into the position of having to compete for funding. In parallel, the emergence of several carbon finance funds and facilities in the World Bank, capitalized with \$2.9 billion as of December 2012 and the availability of funding from the *Climate Investment Funds*, with pledges of \$7.2 billion and contributions of \$6.1 billion as of December 2012, opened additional options for financing environmental projects for the World Bank and IFC in the climate change field. Although the GEF has accounted for 24 percent of all World Bank environment-related projects, it has only

accounted for 4 percent of the Bank's environment-related financing since 1992 (5 percent when excluding development policy operations).

INTER-ORGANIZATIONAL COORDINATION ALONG THE WORLD BANK-GEF PROJECT CYCLE AND ADMINISTRATIVE FEE REFORMS

12. World Bank-GEF projects follow a dual project cycle. Within the Bank, they follow procedures for investment projects that have been adapted to the GEF. In parallel, GEF projects follow a second, GEF-specific project cycle that is managed by the Bank's GEF Coordination Team in liaison with GEF Program Managers of the respective focal areas.

13. The reason for this second project cycle is that the GEF Agencies are accountable to the GEF Council for project planning and implementation, and through the GEF Council to the Conferences of Parties of the conventions for which the GEF serves as the financial mechanism. Mandatory work program-level approval by the GEF Council and project-level endorsement by the GEF CEO have been enshrined in the GEF Instrument from the beginning of the restructured GEF.

14. However, the GEF Council and Secretariat have, over time, required more and more standardized project-related information across all Agencies. While Bank procedures have not changed significantly, the GEF has struggled with and significantly modified its project cycle on several occasions before fundamentally redesigning it in 2007, followed by further modifications and recent streamlining.

15. In 2007, a joint evaluation of the project cycle by the GEF Evaluation Office, in collaboration with the evaluation offices of the 10 GEF Agencies, concluded that the GEF's project cycle was neither effective nor efficient and that the situation had grown worse over time. At that time, a GEF-3 project required an average of 3.7 years to progress through the cycle from concept to effectiveness. Over subsequent years, World Bank GEF-4 projects have shown no signs of increased processing speed, which is somewhat surprising since a major project-cycle reform was undertaken early in GEF-4 with the objective of increasing the processing speed.

16. Overall, from GEF-3 to GEF-5, World Bank-implemented GEF projects generally progressed more slowly through the cycle than other World Bank environment-related projects, especially during the GEF-4 period, and World Bank projects blended with GEF projects required significantly more time than other World Bank environment-related projects.

17. A number of factors seem to have contributed to World Bank-GEF project-cycle inefficiencies. First, while the *de jure* accountability of Bank Group management for GEF-financed activities has been established, the GEF CEO and Program Managers exert a not so clearly defined *de facto* authority, ultimately toward individual World Bank Team Task Leaders (TTLs), in a gray area between only assessing the eligibility of received project proposals and actively co-designing World Bank-implemented GEF projects — i.e., making suggestions to render projects GEF-eligible. This creates ambiguity in the respective roles and responsibilities of the GEF CEO, GEF Program Managers, the Bank's GEF Coordination Team, and TTLs of GEF projects in the Bank.

18. Second, fees for GEF project administration — first introduced in 1999 and repeatedly reformed — are felt to be at unsustainably low levels by the World Bank and other Agencies. Serious disagreements between the GEF and its Agencies culminated in 2012 when the GEF Agencies presented a list of dire consequences associated with “cuts below financially sustainable levels for several Agency programs” if fee reforms were not accompanied by a commensurate reduction in project-cycle requirements. On the other hand, the GEF expected its Agencies to “to find new ways of doing business that improve efficiency without undermining effectiveness” (GEF 2012b, p. 2). There seems to be no shared understanding on whether today’s Agency fees cover all Agency costs, and on whether they actually should. While interviewees in the World Bank felt that the Bank had been sufficiently transparent about its GEF-related costs, interviewees in the GEF felt that the Agencies had not provided sufficient evidence for claiming incomplete cost recovery.

19. Third, World Bank staff have found the GEF project cycle to be frontloaded relative to the World Bank’s project cycle, since the GEF’s Project Identification Form requires more information than normally expected at the concept stage of Bank-supported investment projects.

20. Fourth, the overall volume and detail of GEF project-cycle documentation requirements have risen over time.

21. These controversies and the prolonged operational difficulties in managing the combined World Bank-GEF project cycles have also had a significant negative impact on World Bank-GEF professional and personal relationships:

- GEF Secretariat staff and the former GEF CEO showed reduced trust in the World Bank’s ability to generate “good” GEF projects.
- At the same time, World Bank staff felt that many GEF-specific project-cycle steps should be abandoned or radically simplified.
- Within the World Bank, the attractiveness of GEF projects deteriorated: 78 percent of the surveyed TTLs felt that the dollar amount of GEF project grants was not worth the effort that needed to be invested in project preparation and 72 percent felt that project preparation funds for GEF projects were insufficient.
- On a personal level, several interviewees indicated that the collegial working relationships that had existed between the GEF Secretariat and Bank staff in the 1990s and early 2000s turned frosty after that, and that the sense of trust and accountability in the partnership broke down.

22. Recently, the GEF and the World Bank have piloted a major simplification of the World Bank-GEF project cycle that, if successful, is likely to reduce project cycle-related technical inefficiencies such as the slow processing speed and duplication of work along the combined World Bank-GEF project cycle. The initial experience with this pilot suggests that inter-agency coordination has become smoother and allowed for more constructive exchanges among the partners on individual projects, although some disagreements on GEF information requirements continue to exist. The simplification pilot does not, however, address the underlying reasons that drove the GEF’s project cycle into increasing degrees of review intensity, nor has it reconciled the loss of personal and professional trust. While the project simplification pilot can represent an important part of a comprehensive solution, the

underlying reasons — such as the GEF’s accountability requirements — need to be addressed as well or past project cycle-related issues are likely to resurface in the future.

INTRODUCTION OF GEF RESOURCE ALLOCATION MODALITIES

23. The GEF introduced a new *Resource Allocation Framework (RAF)* in 2006 for the fourth replenishment phase of the GEF (GEF-4). Motivated by demands for a more explicit performance-based resource allocation system in comparison with the previous “calls for proposals” system, the RAF allocated GEF Trust Fund resources to countries or groups of countries in the two most important focal areas — biodiversity and climate change — based on potential environmental benefits and the countries’ governmental, public sector, and past project performance. Subsequently in 2010, in time for GEF-5, the RAF was superseded by the *System for Transparent Allocation of Resources (STAR)* — based largely on the same principles, but designed to overcome some of the design flaws that had emerged in the RAF, for example, by allowing some flexibility of fund allocation by each recipient country among focal areas.

24. The introduction of the RAF and the STAR had significant impacts on how both the World Bank and IFC collaborated with the GEF. Some country allocations were too small for World Bank-GEF projects. The RAF and STAR systems also increased the project decision-making authority of the GEF Focal Points, who are predominantly located in the countries’ Environment Ministries, rather than in the Finance Ministries and technical sectoral ministries with whom the Bank usually works as principal counterparts.

25. Interviewed World Bank staff felt that these effects reduced the Bank’s access to GEF funding. A mid-term review of the RAF also found that the RAF had contributed to a significant decrease in the World Bank’s monetary share of GEF projects (from more than half to 32 percent) and a corresponding increase in the share of UNDP from 23 to 43 percent.

26. Regarding IFC, the introduction of the RAF made it very difficult for IFC to accommodate private-sector requirements for rapid processing speed with GEF approval procedures. Partly to mitigate this risk to private-sector involvement in the GEF, the GEF proposed a Public-Private Partnership Fund in 2005, and set aside \$50 million in 2007, outside the RAF, to create the *GEF Earth Fund* with delegated authority to IFC and other Agencies to prepare and approve projects more quickly in line with private-sector expectations. This delegated authority within the IFC Earth Fund helped the IFC to use GEF funds to finance private-sector projects together with co-financing from IFC, which could not have taken place if the projects had had to go through the GEF’s project cycle. Unfortunately, the creation of the Earth Fund does not appear to have been very successful in this regard because of design weaknesses, a lack of partnership with the private sector at the Platform level, and a slower than expected pace of deployment. As a result the Public-Private Partnership program was re-designed in 2011 for GEF-5 and a project-by-project CEO endorsement requirement was re-introduced.

27. Interviewed and surveyed World Bank and IFC staff strongly felt that the increased decision-making authority of GEF Focal Points under the RAF disadvantaged the allocation of GEF funding to private-sector projects — an opinion not however shared by the Focal Points themselves. The introduction of the RAF also appears to have reduced the overall use

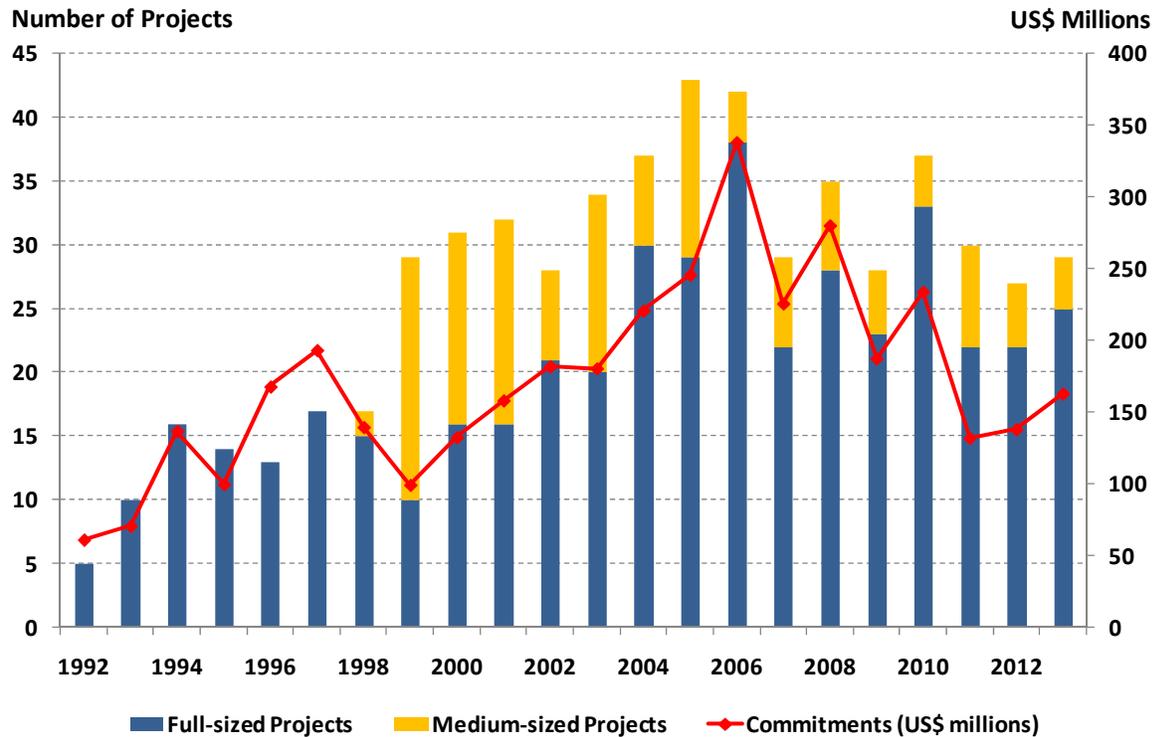
of non-grant instruments by the GEF that are typically used to incentivize private-sector involvement in GEF projects.

Evolution and Effectiveness of the World Bank Group's GEF Portfolio

PORTFOLIO EVOLUTION

28. Apart from being a principal founding partner of the GEF, the World Bank has been, in financial terms, the most important Implementing Agency of the GEF. Up to the end of June 2013, the World Bank's Board approved 445 Full- and 138 Medium-Sized Projects with total GEF nominal commitments of \$3.8 billion (or \$4.8 billion in 2012 U.S. dollars, after adjusting for inflation) (Figure S-1). This accounted for 41 percent of all GEF commitments approved by the GEF Council during this period.

Figure S-1. World Bank-Implemented GEF Projects by Fiscal Year of World Bank Approval



Source: World Bank Business Warehouse, GEF Council Project List.

29. Biodiversity and climate change have accounted for 70 percent of World Bank-implemented GEF projects and 69 percent of project commitments. Regionally, Sub-Saharan Africa has received the largest number of GEF projects (29 percent), while Latin America and the Caribbean have received the largest volume of commitments (24 percent), which represent similar proportions for the World Bank as a whole.

30. The relative and absolute magnitude of World Bank-GEF collaboration has fallen in recent years. In relative terms, the World Bank share of GEF Council approvals fell from an average of 60 percent for projects initiated in the Pilot Phase, GEF-1, and GEF-2 to 46 percent in GEF-3, to 33 percent in GEF-4, and to 23 percent during the first three years of GEF-5. In absolute terms, the volume of World Bank's Board approvals of GEF projects peaked in 2006 at \$338 million, and declined irregularly after that to about \$150 million in 2012 and 2013.

31. GEF commitments for IFC-implemented projects have totaled \$309 million up to 2013. The IFC portfolio is sharply focused (66 percent) on climate change (energy efficiency and renewable energy), and to a lesser extent on biodiversity (10 percent). Multi-focal area projects (also largely climate change and biodiversity) represent 23 percent of commitments. The evolution of this portfolio has been irregular over time, ranging from years without any commitments to more than \$60 million in 2007. There have been no new GEF commitments to IFC-approved projects since 2008.

PROJECT EFFECTIVENESS AND SUSTAINABILITY

32. The World Bank and IEG have so far rated 198 closed, Full-Sized Projects, covering mostly projects originating from the GEF Pilot Phase, and GEF-1 through GEF-3.

33. Among the three focal areas with sufficient projects for statistical analysis, international waters have achieved the most satisfactory outcomes (averaging 84 percent) compared to biodiversity and climate change projects (averaging 66 and 69 percent, respectively). Among the three major Sector Boards to which GEF projects have been mapped, energy and environment projects have performed somewhat better than agriculture and rural development projects. Among the four regions with the largest number of projects, those in Europe and Central Asia, and in Latin America and the Caribbean had the most satisfactory outcomes (averaging 78 and 77 percent, respectively), followed by East Asia and the Pacific (62 percent), and Sub-Saharan Africa (54 percent).

34. The average performance of World Bank-implemented GEF projects has declined over time according to most rating criteria. This decline has been particularly notable for the overall outcome ratings — from 79 percent satisfactory for projects approved from FY1992–95, to 72 percent satisfactory for projects approved from FY1996–99, to 68 percent from FY2000–03, and to 60 percent from FY2004–07. This decline in the average outcome rating of GEF-supported projects is more uniform than that for other environment-related projects and for all World Bank projects approved during the same time periods, which only declined in the last period (approved from FY2004–07) after improving during the previous two four-year periods.

35. Among its major product lines, IFC's energy efficiency projects have been the most successful. The energy efficiency finance programs have become a major ongoing product line. Now called Sustainable Energy Finance, this product line helps financial institutions to develop new business lines dedicated to energy efficiency, water efficiency, and renewable financing in emerging markets. The results of GEF-funded renewable energy projects implemented by IFC have been less satisfactory because they usually have to compete against subsidized fossil-fuel energy supplies. Both the technology itself and the related

institutional arrangements take time to develop successfully in the case of new technologies like wind farms, solar home systems, photovoltaics (PVs), and fuel cells. Both IFC and GEF viewed IFC's biodiversity projects as research and development products and incubators for financially risky approaches to be tested and replicated if successful. Although these have generally been less successful in achieving their particular objectives of developing commercial markets for selected biodiversity services, their lower outcome ratings may reflect the naturally higher failure rate of high-risk ventures.

Catalytic Approaches in the Bank Group-GEF Partnership

36. The GEF, in concert with its Agencies, has attempted in several ways to act as a catalyst to generate global environmental benefits that go beyond those directly related to the project financing from its trust funds. This includes catalytic effects both within GEF Agencies and in the projects themselves.

CO-FINANCING

37. The GEF Council and the GEF Secretariat have put a high emphasis on co-financing and other leveraged resources. Co-financing volumes and ratios are part of the GEF's performance reporting, serve as benchmarks in project review, and are used for target-setting in the planning of future work programs. However, the GEF Evaluation Office has found a lack of evidence to support all the claims associated with co-financing.

38. Essentially, two major claims are inherent in the GEF's Council-approved definition of co-financing: (a) that co-financing mobilizes new resources in addition to building on ongoing activities, and (b) that these resources are essential for generating additional global environmental benefits.

39. Evidence suggests that the two claims are only partially fulfilled in the context of the GEF. First, while some important new resources probably are mobilized and translate into additional global environmental benefits, this appears not to be the case for all the co-financing that is claimed to be mobilized. Especially those projects with large co-financing volumes have a high probability of being implemented even in the absence of a GEF contribution and of not focusing, directly or indirectly, on global environmental benefits.

40. Second, reported co-financing figures may reflect some interpretational freedom in the definition of co-financing. It is notoriously difficult to establish causality and to determine whether or not resources are essential for achieving GEF objectives.

41. Third, overall co-financing volumes and ratios are strongly driven by a small number of highly co-financed projects. When looking more closely at projects with a co-financing ratio higher than 10 to 1, it becomes clear that the World Bank as Implementing Agency is primarily driving the average ratio of co-financing at the GEF. The overall ratio of 4.5 to 1 falls to 3.1 to 1 if all World Bank projects (including GEF Pilot Phase projects) are removed from the portfolio and only other Agencies are considered.

42. Together, these three observations make reported co-financing figures unreliable and volatile: a small number of highly co-financed projects — with a high probability of not representing co-financing in the GEF’s sense — largely drive reported co-financing numbers. This unreliability is exacerbated by the interpretational freedom in defining co-financing and by the fact that the GEF Secretariat does not verify co-financing figures reported by the Agencies. However, the GEF Secretariat does compare the reported committed with the reported realized amounts, and the GEF Evaluation Office has evaluated co-financing on several occasions.

INNOVATION, DEMONSTRATION, AND REPLICATION

43. In addition to increasing project or project-related financing volumes through co-financing and leveraged resources, the World Bank Group and the GEF have also engaged in introducing and demonstrating innovative approaches for global environmental sustainability.

44. Bank staff have emphasized the role that GEF funding has played in projects related to national policy development, innovation, and the initiation of new business lines in the environment sector and Bank management considers the GEF to have made crucial contributions to innovative and risk-sharing approaches when providing incentives to the piloting and demonstration of new technologies and approaches. About half of the GEF Program Managers surveyed felt that the World Bank had a comparative advantage in testing innovative ideas and approaches for scale up or in expanding the reach and scale of approaches tested.

45. A cursory review of available analysis on the GEF’s innovation, demonstration, and replication effects revealed most evidence for climate change mitigation projects, several examples for biodiversity conservation projects, and scattered examples for projects in other focal areas.

BLENDED AND ASSOCIATED PROJECTS

46. In line with its emphasis on co-financing, the GEF has also shown a keen interest in associating its funds with World Bank investment projects. In the World Bank, from 1992 to 2009, project association was firmly embedded in operational policy that expected free-standing projects to occur only “on an exceptional basis.” However, today in the Bank, there seems to be little strategic or policy guidance on associated versus free-standing projects and the choice to associate GEF grants with Bank investment projects seems mostly driven by managerial cost-effectiveness considerations.

47. Within the World Bank, the association of GEF funding with World Bank projects is described by the degree of blending. However, this terminology only approximates the GEF’s concepts of project association and co-financing.

48. In contrast to early intentions, the share of GEF projects blended with World Bank operations has never dominated the World Bank-GEF project portfolio: the share of blended FSP projects has fluctuated around 29 percent of projects and 35 percent of funding, and was below one-third for the last three years.

49. In interviews, the existence of freestanding projects was justified by a “blending over time-argument.” In some cases, freestanding GEF projects of an innovative character have

likely triggered follow-on investments catering to GEF purposes, and in other cases, GEF grants have provided the best chance to initiate or keep alive a World Bank country dialogue on environmental matters.

AGENCY MAINSTREAMING

50. Closely connected to, but extending beyond World Bank-GEF project blending is the aim of mainstreaming global environmental objectives into the regular activities and objectives of the World Bank Group and other GEF Agencies. Agency mainstreaming can occur at the strategic level, by incorporating global environmental objectives into Agency strategy as, for example, in the Bank Group's 2001 environmental strategy. Agency mainstreaming can also occur at an operational level, driven by strategy and/or by GEF financing of World Bank-implemented projects.

51. Agency mainstreaming represents a common objective among other global partnership programs and was high on the GEF Council's agenda in the late 1990s. Over time, the Bank Group has firmly integrated global environmental objectives into its corporate strategies. This was most clearly visible in the 2001 corporate environmental strategy and has remained an implicit objective in the successor 2012 strategy. This integration of environmental objectives into Bank Group corporate strategies can be considered a mainstreaming success, although the GEF has not been the only causal factor.

52. Closer to operations, on the level of the Bank Group's Country Assistance Strategies (CASs), mainstreaming is less obvious. Biodiversity, for example, was mentioned in about 50 percent or more of all CASs from 1994 onwards, but earlier evidence suggested that the GEF had only "accounted for the relatively small overall increase in the average annual level of World Bank lending for biodiversity since fiscal 1993" (GEF 1998b, p. 40). Climate change, on the contrary, has been mentioned increasingly, growing from being virtually absent in CASs in the 1990s to being almost omnipresent in CASs written since 2010. However, as with biodiversity, the question of causality is difficult to settle. The World Bank Group, like other agencies, can now access an increasing number of donor trust funds outside the GEF, including carbon finance and the Climate Investment Funds, to finance projects in climate change mitigation and adaptation.

53. Mentions of the GEF, itself, in CASs have risen over time. Since 2005, the GEF has generally been mentioned five or more times on average in 60 percent of all new CASs. However, the direct influence of the Bank Group's corporate environmental strategies on environmental aspects in CASs appears moderate and the direct influence of GEF strategies minor. Mainstreaming of global environmental priorities into the consciousness of key World Bank sector and client staff seems more important for successful mainstreaming into CASs.

54. IFC's GEF work has led to considerable mainstreaming for energy efficiency and clean energy projects. These project types were pioneered with GEF funding and have subsequently been developed into important IFC business lines. Mainstreaming in the biodiversity focal area has proven more difficult as it remains challenging to identify viable business cases.

The World Bank’s Corporate Activities as a GEF Implementing Agency

55. The World Bank’s recorded expenditures on corporate activities have declined since 2007 along with the decline in Council approvals of World Bank-implemented projects, while the portfolio management and reporting workload has risen in line with the increased GEF project-cycle documentation requirements. Weak and inconsistent information systems across the partnership have also hindered efficient portfolio management and reporting. Partly as a consequence of these trends, the Bank has become more reactive than pro-active in shaping its portfolio of GEF projects in line with the comparative advantages of both partners.

56. The World Bank routinely collaborated with the GEF Secretariat and the other Implementing Agencies in preparing various policy and strategic documents in the 1990s and early 2000s. As the GEF Secretariat has grown over time, its own role in the preparation of GEF policy and strategic documents has become increasingly dominant, while that of the World Bank and the other GEF Agencies has become less collaborative and more consultative. Today, the situation has evolved into one in which the Agencies largely review and comment on documents produced by the GEF Secretariat, and produce reports at the specific requests of the GEF Council and of the Participants at the GEF Replenishments.

57. But this is also a sign of a less than effective partnership, particularly when it comes to outreach and knowledge sharing activities. The partners — and the broader development community — could benefit from a more effective partnership in this area. But neither party seems to be willing to work more collaboratively in this area, given the other strains in the partnership. Both partners’ acknowledgement of the tensions between “functional independence” and the GEF’s embedded legal context in the World Bank that affords many benefits to the GEF Secretariat could enhance their ability to work more collaboratively.

58. The World Bank and the GEF have put in place practices and procedures over time to manage and mitigate the potential conflicts of interests arising from the Bank’s multiple roles in the GEF. However, no hosting agreement between the GEF and the Bank seems to exist that clarifies the rights and responsibilities of each partner, which has meant that issues have been addressed and resolved as they came up.

Lessons Learned

59. The mandates and strategies of the World Bank Group and the GEF have been and remain highly compatible and mutually relevant today. The Bank Group considers the GEF as a crucial contributor to innovative and risk-sharing approaches, and the GEF perceives the Bank as having a key comparative advantage in leveraging GEF funding to generate global environmental benefits in large projects. However, the series of key developments described above has significantly diminished the relevance of the design and the effectiveness of the partnership over the last decade. This Global Program Review provides a number of lessons (a) for improving the relevance and effectiveness of the Bank Group-GEF partnership, and (b) for the Bank Group’s partnerships with other large global partnership programs.

FOR THE RELEVANCE AND EFFECTIVENESS OF THE WORLD BANK GROUP-GEF PARTNERSHIP

60. **Competition versus partnership.** The Bank Group-GEF partnership needs to acknowledge that the concept of inter-Agency competition has introduced incentives — such as the desire to protect comparative advantages and to preserve GEF funding shares — that push the earlier close partnership somewhat towards an arms-length “contractor-contractee relationship” that is difficult to reconcile with the original paradigm of collaboration and complementarity on which the GEF was founded. This has also led to a redefinition of roles, with the GEF Secretariat playing a more active role in project identification and conceptualization, and to ensuing project-cycle issues. Either conditions for a close partnership need to be (re-)established, or the roles and responsibilities of the Bank Group as GEF Agency need to be redefined.

61. **Project-cycle management and administrative fees.** For implementing GEF projects, superimposing GEF-specific, ex-ante quality assurance mechanisms onto the World Bank’s and IFC’s already elaborate project cycles and quality assurance has not paid off. A new arrangement needs to be found that makes fuller use of existing World Bank and IFC quality assurance mechanisms and, at the same time, guaranteeing high-quality projects also according to GEF standards, and providing the GEF Participants with the required degree of accountability. In spite of analytical work done on the adequacy of fees, there seems to be no shared understanding on whether today’s Agency fees cover all Agency costs, and, more importantly, on whether they actually should.

62. **Resource allocation.** The difficulties of the World Bank, and especially of IFC, in working under the GEF’s resource allocation systems need to be acknowledged and addressed, and options to mitigate or circumvent those difficulties need to be explored.

63. **Blending and innovation.** An exclusive focus on blending World Bank and GEF funding is likely to overly limit the positive effects the GEF can have — in line with its objective of acting as a catalyst — on the World Bank and on recipient countries. Further research on past catalytic effects of Bank-implemented GEF projects beyond the evidence presented in this report needs to guide the selection of future projects of this kind.

64. **Adapting the Bank Group-GEF partnership to evolving realities.** The central lesson learned from this Review is the need to update the principal partnership arrangements between the World Bank Group and the GEF to reflect the realities in which both partners operate. This implies recalibrating and specifying partnership objectives to mutually agreed levels, and then establishing procedures for implementation that honor respective institutional and operational strengths and constraints. In particular, the following points need to be addressed (some of which relate to earlier lessons) as part of a comprehensive solution to current partnership issues:

- Establish agreement between the Bank Group and the GEF on a shared project cycle that makes full use of the World Bank and IFC quality assurance mechanisms, while guaranteeing high-quality projects also according to GEF standards and providing GEF Participants with the required degree of accountability, for example through

increased delegation of responsibilities accompanied by mutually appropriate checks and balances.

- Establish a shared understanding on costs incurred by the World Bank and IFC for the implementation of GEF projects and come to agreement between the Bank Group and the GEF on whether all or what share of these costs should be covered by the GEF and related trust funds.
- Come to agreement on what type of partnership is mutually desired between the Bank Group and the GEF in the future and either (re-)establish conditions for a close partnership based on collaboration and complementarity or redefine the roles and responsibilities of the Bank Group as GEF Agency.
- Acknowledge and address the difficulties of the World Bank, and especially of IFC, in working under the GEF's resource allocation systems and examine options to mitigate or circumvent these difficulties.
- Clarify mutual expectations for blending World Bank with GEF funding and investigate options for legitimizing innovation, demonstration, and replication as selection criteria for freestanding projects.

FOR THE WORLD BANK GROUP'S PARTNERSHIPS WITH LARGE GRPPS IN GENERAL

65. **The World Bank as Implementing Agency for Large Global and Regional Partnership Programs (GRPPs).** When considering a project implementation role in large GRPPs, the World Bank needs to reach an explicit initial agreement on the division of labor along shared project cycles and on accountability mechanisms for project implementation quality, and to establish a mechanism for regularly reviewing and updating these arrangements in the light of the evolution of external and of internal conditions in the Bank Group and the GRPP. Then the effects of gradual evolution on the partners and the partnership need to be closely monitored and followed up.

66. **Co-financing.** For GRPPs financing country-level technical assistance or investments, strong attention on and ambitious targets for co-financing figures may not have the desired effect of maximizing contributions for the purposes of the GRPP, but simply lead instead to maximization of reported co-financing figures that exaggerate both the additional amounts generated and the level of resources actually devoted to the GRPP's purposes. To mitigate this risk, GRPPs need to ensure that reported co-financing figures are clearly defined, measured, and verified.

67. **Host arrangements.** Achieving a good working relationship between the Bank as host organization and the GRPP secretariat that balances the benefits and costs of being located in the Bank takes effort, trust, and accountability on both sides. While it is impossible to codify everything in writing, greater clarity could help to build such trust and accountability, as well as avoid misunderstandings, so that the partners could enjoy working together again as partners rather than contractors. The findings of this Review support IEG's recommendation that the Bank should develop a formal policy for hosting the management units of GRPPs located in the Bank (IEG 2011, p. xxi), since the Bank will undoubtedly continue to host many GRPPs in the future.

Secretariat Management Comments: The Global Environment Facility

October 16, 2013

Committee on Development Effectiveness (CODE)
The World Bank

Dear Members of CODE,

I would first like to thank the World Bank's Independent Evaluation Group (IEG) for undertaking the review, and appreciate the opportunity given to the GEF Secretariat to submit this statement to you.

Relevance of the Partnership

We are in broad agreement with the analysis in the IEG report regarding the evolution of the World Bank-GEF partnership. We are pleased with the report's conclusion that, "the mandates and strategies of the World Bank Group and the GEF have been highly compatible and mutually relevant both in the past and today," and that, "the GEF's focus on global environmental benefits complements the World Bank's own environmental priorities." We think that this compatibility and relevance provides good basis for revitalization of the Bank-GEF partnership as the GEF continues to evolve. We remain committed to identifying areas of complementarity between the GEF and the World Bank, and to strengthening the partnership.

Changes at the GEF

The IEG Report rightly points to a number of significant changes that have taken place during the more than two decades of GEF's existence—changes that have significantly shaped the World Bank-GEF partnership. Many of these changes have occurred in the context of successive replenishment negotiations during which participants have sought to ensure that the institution remains responsive and relevant to the global environmental conventions, as the global financial architecture and terms of engagement in development partnerships have evolved. The report in particular notes the following changes:

Increase in number of agencies. One of the key changes, as identified in the report, has been the increase in the number of agencies that implement GEF-financed projects. While the Bank was one among three in the 1990s, there are 12 agencies as of today, including two international NGOs. Additional agencies, particularly some national agencies, may become GEF agencies in the near future. This trend has naturally changed the Bank's role in the partnership over time.

Resource allocation system. We agree with the IEG report's finding that the introduction of the RAF (and subsequently the STAR) has had significant impacts on how both the Bank and the IFC collaborate with the GEF, in part because some country allocations were too small for Bank GEF projects, and in part because the RAF and STAR system increased the

programming authority of the GEF country operational focal points, who are predominantly located in the countries' environment ministries, rather than in the finance ministries or technical sectoral ministries with which the Bank usually works as principal counterparts. We note in particular the challenges faced by IFC to accommodate private-sector requirements for rapid processing. At the same time, as recent evaluations by the GEF Evaluation Office show, the allocation system is broadly supported by both donors and recipients as a means to enhance country ownership.

Project cycle. As noted in the IEG report and also in several Evaluation Office studies and Council documents, the GEF project cycle has been subject to many changes and attempts to streamline over the years. While some progress has been made, more needs to be done (see section below). Among several issues related to the Bank-GEF project cycle, the IEG Report notes that “the GEF CEO and Program managers exert a not so clearly defined de facto authority.” In this regard, we would like to add to the IEG’s perspective that the GEF Council has clearly identified (in its decision from June 2007) the GEF Secretariat’s responsibility vis-à-vis the GEF Council regarding the review of proposals, including, inter alia, alignment with GEF’s strategic objectives and strategic programs, consistent with the GEF CEO’s authority to determine the composition of the work programs, including clearance of all concepts entering the work program, and cost-effective use of GEF resources.

Looking Forward

As mentioned above, we strongly share the IEG’s finding that the Bank and the GEF remain relevant to each other and are committed to strengthening the partnership. In this regard, we welcome the IEG’s identification of lessons learned for improving the relevance and effectiveness of the Bank-GEF partnership. Efforts are already underway on a number of issues, some of which directly respond to the five points raised by the IEG report as key to strengthening the partnership, as follows:

Shared project cycle. As noted in the IEG report, in January 2013, in coordination with the Bank’s GEF Coordination Unit, we initiated a pilot to harmonize the project cycles between the Bank and the GEF. While the pilot aims to address the concern of the Bank to reduce the burden of project processing to be compatible with the reduced fee policy, the intention is also to go beyond this cost-saving objective. One of the results of the pilot, as noted in the report, is that it allows the Bank and the GEF teams to interact more quickly, early in a project cycle, thus improving project quality in meeting all Bank and GEF objectives without introducing repetitive or redundant review steps. We are pleased to note IEG’s finding that the coordination seems to have become smoother with reduced back and forth interactions and faster GEF and Bank response times. Another result is that it exposes more Bank staff to the GEF directly and helps develop coordinated opportunities to align Bank and GEF strategies. While we are encouraged by these early results, given that the pilot has been underway for less than a year, it is too early to provide a comprehensive assessment.

Shared understanding of costs. In June 2012, the GEF Council established a revised fee policy and clarified that fees are to cover both project cycle management costs and corporate services. While the elements included in project cycle management are clearly defined, there is indeed the need to reach a shared understanding of elements covered under corporate

services, as the report noted. An inter-agency working group is currently discussing clarification of the elements under corporate services.

Acknowledge and address difficulties with programming under the allocation system. We appreciate the IEG's careful assessment of the implications of the introduction of a resource allocation system at the GEF for the Bank-GEF partnership. In the context of the GEF programming exercises that we undertake with countries, such as through the National Portfolio Formulation Exercises (NPFES), we will explore avenues to reduce fragmentation of country allocations and incentives for enhancing private sector engagement and CSO participation. We are also seeking ways that such programming exercises can engender national policy dialogues toward promoting green growth through innovation, demonstration and scaling-up.

We also have the opportunity to build on our experience with the Bank in developing programmatic frameworks that respond to the resource fragmentation brought about through the allocation system, for example through the SIP/Terra Africa and the Great Green Wall initiative, thereby significantly augmenting the attractiveness of the resource packages the GEF could make available for programming by the Bank.

Clarify mutual expectations of funding and project selection criteria. We agree that an exclusive focus on blending World Bank and GEF funding is not helpful to realizing the full benefits of the GEF-World Bank partnership. Our approach should be only of assessing whether and how a GEF-financed operation implemented through the World Bank, with or without Bank resources, can foster innovation, provide a demonstration effect, support policy dialogue, etc., as we aim for replication and scaling-up.

Agreement on type of partnership desired. From the GEF's perspective, providing large investment co-finance along with GEF grant finance is just one of the strengths of the Bank. We value the partnership with the Bank on a broad front, including for its leadership role in policy dialogue, promotion of innovation, scaling up, knowledge management, and capacity to convene multiple partners in the cause of the global environment. There are immediate avenues to revitalize the partnership. We are currently engaged in negotiations for GEF-6 replenishment in which we are proposing to create a thematic platform for a few key global environmental issues. It is our hope that implementing agencies such as the World Bank will play a lead role in several of these programs.

We would like to thank the World Bank management and staff, particularly those engaged in GEF operations, for collaborating with the GEF on the way forward.

Sincerely,

Naoko Ishii
CEO and Chairperson
Global Environment Facility

Management Comments: The World Bank Group

Management broadly supports the IEG's Global Program Review (Review) findings and in-depth assessment of the experience of the World Bank Group (WBG) as an Implementing Agency (IA) for the Global Environment Facility (GEF).

Management finds the Review to be very timely, as the GEF partnership is at a crucial point with negotiations of the 6th GEF Replenishment currently underway. The Review represents an independent external perspective and an opportunity to contribute constructively to the debate on the GEF strategic direction, policy recommendations for the future, deepening of existing reforms, and resolution of operational challenges.

Management notes the unique nature of the GEF as a Global Partnership Program (GPP). Not only is this one of the oldest and most prominent global partnerships of the WBG, but the GEF partnership is much broader than the GEF Secretariat and the Bank, including two other founding Implementing Agencies (UNDP and UNEP), other agencies, conventions, civil society, a scientific panel and an independent evaluation office. For lessons to be meaningfully used and applied, the Bank would encourage IEG to present lessons they have derived for discussion with the broader GEF partnership.

Management particularly appreciates that the Review focuses on overarching and fundamental policy questions related to the governance of the GEF partnership, and would welcome a full and open discussion of the lessons with the GEF Council.

While the Bank Trusteeship and IA roles of the GEF are similar in many ways to those the Bank plays in other GPPs supported by Financial Intermediary Funds (FIFs), the functional independence of the GEF Secretariat within the Bank is unique, based on the GEF Instrument which was approved by a Resolution of the Board of Executive Directors of the Bank (including subsequent amendments). Hence, the Bank's experience with hosting the GEF Secretariat is not universally applicable to other global partnership programs. In particular, the Review shows the challenges of managing change over time within a multi-entity long-term partnership. For example, the Review finds that the expansion in the number of agencies executing GEF projects has had a significant impact.

Moreover, the Review has accurately identified the more detailed operational or policy issues that have impacted the nature of the WBG-GEF partnership. Management agrees with the need for fuller use of the Bank's quality assurance mechanisms. The current streamlining 'pilot' with the GEF is promising and should be nurtured and deepened by the two parties, and also dovetailed with the current Bank reforms. The Bank agrees with the need to mitigate difficulties in resource allocation systems and the fragmentation of funding for the global environment.

Management also notes that the Review confirms that strong mutual relevance between IFC and GEF, particularly in the area of climate change on private sector focused sustainability issues. It would be advisable for GEF to tap into IFC's expertise in working with the private sector, particularly in light of the growing interest for GEF-6 to increase use of non-grant instruments.

While IEG did not aim to evaluate the financial situation of the GEF-WBG Program, the Review notes the discrepancies in perception on the principle of full cost recovery. Management would refer to the fact that under current trust fund policies, agreed with the Bank's Board of Executive Directors, the Bank has a policy of seeking full cost recovery for trust funded programs and projects. Management therefore suggests that a strategic discussion is needed on the extent to which GEF-WBG Program fees should cover Implementing Agency costs, and on Board views on options for a sustainable business model for the GEF-WBG Program in the current context.

Finally, the opportunity to comment on this Review provides a chance to recognize the contribution of the WBG and the GEF to the global, regional and national efforts to support sustainable development and the protection of global public goods. As the Review notes, the World Bank is a principal founding partner in the GEF. Management appreciates the acknowledgement of the positive mutual relevance and significant contribution that the GEF has made in mainstreaming the protection of global public goods across the developing world and within the WBG and the WBG's "leveraging to generate global environmental benefits in large projects." The assessment made of the evolution of the relevance and effectiveness of the WBG's partnership with the GEF invites the possibility for a more deliberate strategic dialogue on the future.

Chairperson's Summary: Subcommittee of the Committee on Development Effectiveness

(Meeting of November 1, 2013)

The Sub-Committee (SC) of the Committee on Development Effectiveness (CODE) considered an Independent Evaluation Group's (IEG) Global Program Review – The World Bank Group's Partnership with the Global Environmental Facility (CODE2013-0039) and the Draft Management Response (CODE2013-0042).

The Committee welcomed IEG's timely review in the context of the new World Bank Group (WBG) Strategy and the forthcoming GEF 6 Replenishment. Members broadly supported the lessons learned and findings generated by the IEG review and agreed that they could help the WBG enhance the impact and effectiveness of its partnership agenda. The Committee observed that the scope of the review is in line with the Approach Paper approved in August 2012 (CODE2012-0012/2) and they appreciated IEG's clarification that the report did not present any recommendations related to internal GEF policies. Some Members encouraged IEG to share the lessons learned with the GEF and other Implementing Agencies.

Members recognized the uniqueness of the functional independence of the GEF Secretariat within the Bank, which to a certain extent sets the GEF apart from other global partnerships that the Bank engages in.

Members appreciated the most recent effort to harmonize project cycles between the GEF and the Bank, and commended Management's efforts to rely on the Bank's quality assurance mechanisms in GEF programs going forward, as well as more effective mitigation of difficulties in resource allocation systems and management of fragmentation in financing for the global environment. Some Members encouraged Management to explore ways to further involve the IFC in GEF programs, particularly in the area of climate change and sustainability issues in the private sector.

Most Members acknowledged the importance of cost recovery from a policy standpoint of the Bank as an Implementing Agency, and encouraged the Bank and the GEF, to further their collaboration in finding a balanced approach that is mutually acceptable.

1. Introduction, Purpose, and Methodology

Purpose of the Review

1.1 This Global Program Review (GPR) has been prepared, first and foremost, for the World Bank Group’s Executive Board to facilitate an informed discussion about the Bank Group’s past, current, and future partnership with the Global Environment Facility (GEF). Its principal purposes are **(a) to help improve the relevance and effectiveness of the Bank Group’s partnership with the GEF, and (b) to draw lessons for the Bank Group’s partnership with the GEF and other large global partnership programs.**

1.2 Since the Millennium Declaration in 2000, the Bank Group has become involved in a growing number of large partnership programs that pool donor resources to finance country-level investments to help countries achieve specific Millennium Development Goals (MDGs), that have inclusive governance structures, and that subscribe to the 2005 Paris Declaration on Aid Effectiveness. Examples include the Global Alliance for Vaccines and Immunization (established 2000), the Global Fund to Fight AIDS, Tuberculosis and Malaria (2002), the Global Partnership for Education (2002), the Climate Investment Funds (2008), and the Global Agriculture and Food Security Program (2010).

1.3 While the GEF predates all the above programs by a decade or more — having been established in March 1991 by resolution of the Bank Group’s Executive Board — and while it was established for reasons other than to achieve specific MDGs, it is today representative of this class of global partnership programs. It also provides a longer period of time over which to review the experience of and draw lessons from the Bank Group’s participation in such programs.

Scope of the Review

1.4 In addition to being one of the founding partners of the GEF, the World Bank plays three major roles in the GEF: (a) as the Trustee of the GEF and related trust funds; (b) as one of the original three Implementing Agencies of GEF-financed projects; and (c) as host¹ of the GEF Secretariat — providing a range of administrative support services, such as human resources, communications, and legal services. The World Bank also attends GEF Council meetings as invited observers (representing the Bank as the Trustee and as an Implementing Agency) and participates in GEF resource mobilization as the co-chair, along with the GEF Chief Executive Officer (CEO), of the quadrennial replenishment process. The International

1. The GEF is one of about 50 global and regional partnership programs (GRPPs) whose management units are located inside the Bank (IEG 2011c, p. 4). Unlike the other programs, however, the GEF Secretariat is “functionally independent” of the World Bank while being “supported administratively” by the Bank. The CEO and Chairperson of the Council, who heads the Secretariat, reports only to the GEF Council and Assembly, not to a line manager in the Bank. IEG’s use of the word “host” in this context is not intended to imply a particular legal or administrative arrangement. This is simply the most widely used generic term to describe this general situation of GRPP management units being located in existing international organizations like the World Bank.

Finance Corporation (IFC) also implements private-sector GEF projects as an Executing Agency under the World Bank.²

1.5 This Review focuses primarily on the World Bank's role as Implementing Agency of GEF-financed projects. It does not assess the Bank's performance as Trustee or provider of administrative services as host of the GEF Secretariat.

1.6 Reviewing the Bank's experience as an Implementing Agency includes the relevance of the World Bank and IFC to the GEF and vice versa, the efficiency of Bank Group-GEF coordination, the outcomes of Bank Group-implemented GEF-financed projects (including IFC and regional projects), and the linkages between GEF-supported activities and the Bank's country and regional operations. The desirability of effective operational linkages between global programs and the Bank's country operations has been one of the most consistent themes in the Bank's strategic documents since 2000. Therefore, it is informative to learn how this has been working in practice in the case of the GEF, since the GEF was designed to have such linkages from the outset.

1.7 The Review examines the Bank Group's experience with the GEF's allocation of resources among countries and focal areas, and with the GEF's approaches to incremental cost analysis, co-financing, and leveraging. It also assesses how the World Bank has fulfilled its corporate roles as an Implementing Agency, assesses factors that facilitate or hamper the fulfillment of these roles, and reviews how potential conflicts of interest have been managed among the multiple roles that the World Bank plays in the GEF.

1.8 The Review does not compare the World Bank's experience with the other nine Implementing and Executing Agencies,³ now referred to collectively as the GEF Agencies. Nor does it assess the effectiveness of GEF corporate structures, such as the Council, the Secretariat, and the GEF Evaluation Office.

Organization of the Review

1.9 This main volume of the Review has one primarily descriptive chapter, six substantive chapters, and a conclusion. Chapter 2 describes the origin and evolution of the GEF from 1991 to the present, focusing on those aspects that have the most relevance to the World Bank as Implementing Agency.

2. The "World Bank" refers to the International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA). The "World Bank Group" includes the IFC, the Multilateral Investment Guarantee Association (MIGA), and the International Center for the Settlement of Investment Disputes (ICSID). Strictly speaking, only the IBRD is the Trustee and the Implementing Agency of the GEF, while IBRD, IDA, and IFC all supervise some GEF-financed projects under the umbrella of the IBRD as Implementing Agency.

3. The nine other GEF Agencies are the Asian Development Bank (ADB), the African Development Bank (AfDB), the European Bank for Reconstruction and Development (EBRD), the Food and Agriculture Organization of the United Nations (FAO), the Inter-American Development Bank (IDB), the International Fund for Agricultural Development (IFAD), the United Nations Development Program (UNDP), the United Nations Environment Program (UNEP), and the United Nations Industrial Development Organization (UNIDO).

1.10 The main body of the report — Chapters 3 through 8 — is organized around the eight principal evaluation questions of this Review (IEG 2012, p. 7) as follows:

- How relevant are the World Bank and the IFC to the GEF?⁴ (Chapter 3)
- How relevant is the GEF to the World Bank Group and its clients? (Chapter 3)
- How efficient has been the inter-organizational coordination between the World Bank, IFC, and the GEF in terms of time, capacity, and resource usage along the entire cycle of GEF-financed projects and other modalities? (Chapter 4)
- How are GEF projects intended to be linked to the Bank Group’s country and operational programming and how effective have these linkages been? (Chapters 3, 4, 5, and 7)
- How effective have been GEF’s country, regional, and private-sector projects implemented by the World Bank Group and how could effectiveness be improved?⁵ (Chapter 5)
- What has been the experience of the Bank Group partnership with the GEF with regards to co-financing, blending, leveraging, incremental cost, and mainstreaming? (Chapter 6)
- What has been the experience of the Bank Group partnership with the GEF with regard to the GEF’s resource allocation modalities, including the GEF’s Resource Allocation Framework (RAF) and subsequently the System for Transparent Allocation of Resources (STAR)? (Chapter 7)
- What has been the World Bank’s performance in relation to the corporate activities of Implementing Agencies as defined by the GEF?⁶ (Chapter 8)

1.11 Chapter 9 is a conclusion that presents the major lessons of this Review for the Bank Group-GEF partnership and by extension for the Bank Group’s involvement in other large partnership programs.

1.12 Volume 2 contains a series of appendixes of supporting material. Volume 3 contains the results of the four electronic surveys that were conducted for this Review.

Methodology

1.13 Information collection for this Review was based on the following:

- Document review of the GEF, World Bank, and IFC strategies and operations in the environment sector, including the evolving strategies of all three organizations over

4. “This question is restricted to the World Bank Group and the GEF. The relevance of the Bank Group to the GEF will not be compared to that of other GEF Agencies” (IEG 2012, p. 8).

5. “This will not involve in-country verification of project performance but will draw on existing project reviews and evaluations (ICRs, ICR Reviews, Project Performance Assessment Reports (PPARs), Project Completion Reports (PCRs), Expanded Project Supervision Reports (XPSRs), Project Evaluation Summaries (PESs), etc.), and interviews with Bank Group and GEF staff, and possibly also with GEF Focal Points and other in-country stakeholders” (IEG 2012, p. 8).

6. “This question will not assess the performance of the World Bank as Trustee or as provider of administrative support services” (IEF 2012, p. 9).

time, and the role of the environment sector in the Bank Group's country partnership strategies.

- Portfolio review of World Bank and IFC-implemented GEF projects and relevant Bank Group environment sector operations.
- Document review of GEF Evaluation Office reports and IEG evaluations of Bank Group environment activities.
- Structured interviews with current and former GEF and Bank Group staff, including previous and current CEOs, members of the Scientific and Technical Advisory Panel, and with staff in other GEF Agencies involved in GEF operations.
- Electronic surveys of (a) GEF Focal Points, (b) GEF Program Managers, (c) Task Team Leaders of World Bank environment projects, and (d) World Bank Country Economists and Task Team Leaders of Country Partnership Strategies.

1.14 This primary information has been analyzed using the following methodologies:

- Synthesis of a coherent, time-ordered sequence of policy information for the GEF and the World Bank Group from existing documentation (such as goals, objectives, and project-cycle guidance).
- Assessment of gaps/overlaps and matches/mismatches in the GEF's and the Bank Group's goals and objectives, and processes for project cycles and programmatic approaches.
- Spreadsheet analysis of project portfolio attributes (and their evolution) and of survey results.
- Qualitative analysis (category building, trend identification) of non-standardized interviews and answers to open-ended survey questions.
- Synthesis, appraisal, and triangulation of GPR findings, hypothesis building, and testing.
- Feedback analysis: factual or logical errors, and inclusion of new data.

1.15 The Review takes account of the findings of the most recently completed evaluation of the GEF, namely, the Fourth Overall Performance Study of the GEF (GEF Evaluation Office, 2010a) that was completed by the GEF Evaluation Office in 2009 for the fifth replenishment of the GEF in 2010. It also draws upon other evaluative material on the GEF produced by the GEF Evaluation Office and others. The Review seeks to add value beyond what is contained in previous evaluations, while drawing upon IEG's experience in reviewing the Bank Group's partnership with a growing number of global partnership programs. For instance, the GEF Evaluation Office tends to take an *all Agency* perspective of the GEF's relationships with its 10 GEF Agencies, rather than a Bank Group-specific perspective. This Review also updates previous findings based on more current data and stakeholder perceptions, and reports on key developments since the evaluations were completed, including the progress in implementing the recommendations of the evaluations.

1.16 The Review did not involve in-country verification of project performance, but drew on existing project reviews and evaluations (ICRs, ICR Reviews, PPARs, PCRs, XPSRs, PESs, etc.), and interviews with current and former Bank Group and GEF staff.

2. Evolution of the GEF and its Partnership with the World Bank Group

2.1 This Review spans a period of 22 years, from the creation of the GEF as a pilot program in 1991 to the present day. During this period, the GEF has undergone a significant evolution in its structure, policies, and relations with its partners. In parallel, the World Bank Group has also undergone its own evolution in terms of incorporating environmental objectives and concerns into its policies and operations. Since these parallel and often intertwined evolutions need to be appreciated in order to understand the Bank Group-GEF partnership, this chapter briefly describes the creation, restructuring, and evolution of the restructured GEF since the early 1990s, covering several important trends that have shaped the Bank Group-GEF partnership over time. Appendix A of Volume 2 of this report gives a more detailed account of the GEF's creation and early years and provides a sense of the context and the forces at work at that time. At the end of the chapter, a number of conclusions are drawn.

Initial Establishment and Restructuring

2.2 The GEF was initially established by the World Bank, UNDP, and UNEP in 1991 as a pilot program “to assist in the protection of the global environment and promote thereby environmentally sound and sustainable economic development” (GEF 2011a p. 11). The GEF was restructured in 1994 as an independent financial mechanism to provide grants and concessional funding to developing and transition countries to meet the incremental costs of measures to achieve agreed global environmental benefits in selected focal areas.

2.3 Negotiations for both the Pilot Phase in 1991 and the restructuring in 1994 were complex. In the context of a growing sense of urgency for addressing global environmental issues, the idea of a *World Conservation Bank* was floated from the mid-1980s onwards and was the subject of a flurry of proposals in the years after the landmark *Brundtland Report* included this idea in 1987. In 1989, the French Finance Minister to the Development Committee of the World Bank and International Monetary Fund put forward a proposal, solidly backed up by some \$100 million, which eventually led to the establishment of the GEF in its Pilot Phase.

2.4 The World Bank was considered a natural partner for its unmatched investment-related expertise, capacities, and reach. It was also hoped that the core business of the World Bank would be “greened” through working with the GEF. At the same time, however, the World Bank was considered the “favorite global villain for opinion-leaders in the environmental Nongovernmental Organization (NGO) community and Third World,” as Peter Sand famously put it (Sand 1999, p. 227). This reputation was caused, among other things, by the handling of social and environmental matters in the controversial Brazilian Polonoroeste highway and Indian Narmada dam projects.

2.5 In this context, the World Bank's aptness for a leading role in any international financial environmental mechanism was seen ambivalently from the outside. As one documenter put it: “The tension between the realization that the World Bank had an important role to play in this context, and the desire to keep it from subsuming any initiative, became central to most discussions on institutional arrangements for environmental funds” (Sjöberg 1994, p. 5).

2.6 These tensions became visible during negotiations for the restructured facility in 1992–94:

- The G77 and China pushed for a new *Green Fund* with only an arms-length relationship with the World Bank as well as for separate, autonomous funds for each of the emerging global environmental conventions. This fund was to go beyond the focus of the GEF Pilot Phase on global environmental benefits and their related incremental costs. Developing countries and the two UN Implementing Agencies also advocated a UN-style, one-country-one-vote governance arrangement. Most developing countries, NGOs, some Organisation for Economic Co-Operation and Development (OECD) countries with strong ties to the UN system, and the UN Implementing Agencies wanted to avoid a continuation of the dominant legal role of the World Bank as in the Pilot Phase and favored a setup in which the governing body of the GEF would be able to enter into direct agreements with the conventions.
- On the other side, OECD countries and the World Bank argued that no new entities should be created for the sake of cost-effectiveness and efficiency, that one organization should be used to implement all global environmental conventions, and that the restructured GEF should continue the global environmental focus that the GEF had had during its Pilot Phase. This group favored a Bretton Woods-style governance structure, reflecting the relative contributions of members. On legal status, most OECD countries and the World Bank preferred to establish the restructured GEF in essentially the same fashion as the pilot, by a resolution of the World Bank’s Board, arguing that this would be the most cost-effective and efficient way and that the creation of any new legal entity should be avoided.

2.7 The restructured GEF was established in 1994 with a hybrid governance structure, embodying features of both the UN and Bretton Woods institutions, and with accountabilities both to its Assembly and Council as well as to the Conferences of Parties of the conventions for which it serves as the financial instrument.

2.8 From 1994 onwards, the GEF has operated within the parameters of the GEF Instrument (GEF 1994a) which has remained remarkably stable over time. This has been amended on three occasions, during the quadrennial Assembly meetings in 2002, 2006, and 2012:

- In 2002, two additional focal areas were added to the GEF Instrument and the changes became effective in 2003 after the Assembly resolution was adopted by the three Implementing Agencies.
- In 2006, effective 2007, Council meeting venues other than the GEF Secretariat location were rendered possible.
- In 2010, effective 2011, the GEF CEO’s term was increased from 3 to 4 years, the requirement that the CEO be appointed by the Council “on the joint recommendation of the Implementing Agencies” was removed, and the GEF’s availability “to serve as a financial mechanism of the United Nations Convention to Combat Desertification in Countries Experiencing Serious Drought and/or Desertification” was added.

2.9 These changes to the GEF’s primary policy document did not — by themselves — have a significant impact on the partnership of the GEF with its Implementing Agencies.

Only the loss of co-sponsorship for CEO nominations can be interpreted as a loss of influence of the Implementing Agencies on the level of fundamental policy.

2.10 However, within this stable basic policy framework, the GEF grew, diversified, and made important changes to its operational policies:

- The number of GEF Agencies with direct access to the GEF Trust Fund increased (described below);
- Administrative fees to the GEF Agencies were reformed (described below);
- IFC (and other Agencies) were delegated project-level decision-making authority under the Earth Fund (described below);
- The GEF project cycle was repeatedly reformed (described in Chapter 4); and
- New resource allocation systems were introduced in 2006 and 2010 (described in Chapter 7).

2.11 These developments, in turn, resulted in significant and mostly negative impacts on the World Bank Group-GEF partnership, as will become apparent throughout this report. Instead of providing an overall chronology (see Annex B of Volume 2 of this report for a timeline), developments in the GEF are described along the above points, with the exception of the project-cycle reforms and the introduction of resource allocation systems which are treated in detail in Chapters 4 and 7.

Agency Numbers and Direct Access

2.12 Over time, the number of GEF Agencies increased. In the years after restructuring, access to the GEF Trust Fund and implementation of GEF projects was largely limited to the three Implementing Agencies: UNDP, UNEP, and the World Bank.

2.13 The GEF Instrument, however, allowed for two channels for project preparation and implementation by other organizations:

- It allowed Implementing Agencies to make arrangements for GEF project preparation and execution with a wide range of organizations;⁷ and
- It allowed the GEF Secretariat itself to make similar arrangements if requested by the GEF Council.⁸

2.14 Until 2002, the GEF offered “expanded opportunities” to additional organizations, termed “Executing Agencies” through the first channel. However, progress was slow as

7. “The Implementing Agencies may make arrangements for GEF project preparation and execution by multilateral development banks, specialized agencies and programs of the United Nations, other international organizations, bilateral development agencies, national institutions, nongovernmental organizations, private sector entities, and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution. Such arrangements shall be made in accordance with national priorities” (GEF 2011a, p. 21).

8. “The Council may request the Secretariat to make similar arrangements in accordance with national priorities” (GEF 2011a, p. 21).

stated in a 1999 GEF Secretariat paper on the involvement of Regional Development Banks (RDBs) (GEF 1999a, p. 2):

“RDB’s efforts to become involved in GEF activities have not yet been very successful. By the end of FY1998, only two of the four major RDBs (Asian Development Bank and the Inter-American Development Bank) had participated in GEF activities. Total allocations through RDBs since inception of the GEF have amounted to about \$25 million, about 1 percent of total GEF allocations.”

2.15 One reason was that the first channel posed an accountability problem to the Implementing Agencies. In view of the full accountability of Implementing Agencies to the GEF Council for their GEF-financed activities (GEF 2011a, Article 22), arrangements were sought for accountability management when sharing responsibilities for project preparation and implementation with Executing Agencies. Raised by the World Bank, discussions about accountability became a recurring theme in Council meetings throughout the 1990s. In a 2000 Council meeting, the requirement of full Implementing Agency accountability for the work implemented through a specified set of Executing Agencies was limited to the due diligence process by Implementing Agencies (GEF 2000a, p. 4).

2.16 In parallel, the process of granting *direct access* to the GEF Trust Fund to Executing Agencies began. In 2000, the Council confirmed that Executing Agencies were granted direct access, without mediation of an Implementing Agency, to project development facility grants by means of the second above-mentioned channel. In 2002, the Council stated that the GEF Instrument allowed it to approve arrangements granting Executing Agencies “expanded access” directly to GEF funds and, later in the same year, the Council accorded direct access to GEF resources for the implementation of GEF projects to two Executing Agencies: the ADB and the IDB. In 2003, direct access was extended to all Executing Agencies acting under the *Expanded Opportunities* policy when acting within their agreed scope for GEF operations (GEF 2003a, p. 6). The Council expressed its “expectation that the inclusion of more Executing Agencies with direct access should result in higher quality projects, lower fees, a more efficient use of GEF resources, and enhanced coherence and coordination of the GEF mechanism” (GEF 2003a, p. 12).

2.17 In 2010, a further increase in the number of GEF Agencies was envisaged. The Council agreed to launch a pilot on accrediting a new class of GEF Agencies, *GEF Project Agencies*, and put a priority on the recruitment of national institutions (GEF 2010b, p. 4). In 2012 (GEF 2012a, p. 15), the Council advanced 10 new GEF Project Agencies to the second level of the accreditation process.⁹

2.18 Finally, in 2010, the Council approved a new and different direct access policy that granted eligible recipient countries direct access to GEF resources for two types of activities: *GEF National Portfolio Formulation Exercises* and the preparation of convention reports.

9. The Development Bank of Southern Africa, Fundo Brasileiro para a Biodiversidade- Brazil, Foreign Economic Cooperation Office – China (FECO), National Environment Fund – Peru, VTB Bank – Russian Federation (VTB), Banco de Desarrollo de America Latina, Banque Ouest Africaine de Développement, World Wildlife Fund, Inc., Conservation International, International Union for the Conservation of Nature and the, International Federation of the Red Cross and Red Crescent Societies.

This form of direct access was qualitatively different from earlier forms since it established a direct donor-recipient relationship between the GEF and recipient countries that was not mediated by Implementing or Executing Agencies.

2.19 Over time, the increased number of GEF Agencies is both a cause and a symptom of profound change in the GEF: from the foundational paradigm of inter-Agency collaboration based on complementarity of comparative advantages towards a market-based model for project implementation based on inter-Agency competition.

2.20 In 2005, the Third Overall Performance Study (OPS3) found evidence of such competition among Implementing Agencies: “competition for projects and resources was forcing Implementing Agencies to look ever wider for projects and investigate new lines of business to support their sustained growth, even when those projects crossed over into the comparative advantage of one of the other Implementing Agencies.” This was illustrated by “a number of projects for which it was not possible for OPS3 to discern from the characteristics of the project why a particular Implementing Agency was the implementer of record” (GEF Evaluation Office 2005a, p. 191).

2.21 Five years later, OPS4 describes this development as “increasing emphasis on competition for resources among Implementing and Executing Agencies; in contrast, the origins of collaboration in the GEF were based on an agreed-upon division of labor founded on comparative advantages,” and lists this as one reason for additional stress among GEF partners (GEF Evaluation Office 2010a, p. 188).

Reforms of Administrative Fees

2.22 After restructuring, each of the original three Implementing Agencies received an annual budget allocation that was intended to cover both (a) each Agency’s direct costs for managing its current and planned projects for that year only, and (b) the indirect costs of corporate support activities not attributable to individual projects (GEF 2002a, p. 2).

2.23 In 1999, the Council approved the introduction of a fee-based system based on a “Proposal for a Fee-Based System for Funding GEF Project Implementation” (GEF 1999b, GEF 1999d). This new system brought about two major changes:

- Different flat fees for four project modalities (investment projects, technical assistance, Medium-Sized Projects (MSPs), and Enabling Activities) replaced previous project-direct costs;¹⁰ and
- A switch from annual reimbursement for project management costs to an upfront one-time payment for all project-cycle related costs during the entire anticipated lifetime of each project. In fiscal year 2000, the three Implementing Agencies received a one-time payment of \$70.8 million to compensate them for future project management costs of projects that had already been approved in previous years. However, the Implementing Agencies continued to be reimbursed for their non-project-related, corporate activities on an annual basis.

10. Excluding project preparation costs that could be funded separately.

2.24 In 2002, this fee system was reviewed, noting, among other things, that fees had often been increased, upon request, by a fee premium (GEF 2002a, p. 15). The administrative fees of about half of all Full-Sized Projects (FSPs) had been adjusted and their average percentage of grant value had grown from 8.2 to 10.0 percent in 2 years. The Council expressed its “serious concern over the continuing rise of project management fees” and agreed to reverse this trend (GEF 2002b, p. 6).

2.25 After 3 years of review and discussion, the Council agreed on further fee reforms in 2005, introducing a flat fee of 9 percent of the GEF grant value for all project modalities, including project preparation, and abolishing fee premiums (GEF 2005a, p. 10).

2.26 Then in 2006, the Council decided to eliminate the corporate budget of Implementing Agencies effective FY2008 and, in compensation, to raise the administrative fee from 9 percent to 10 percent of the GEF grant value (GEF 2006a, p. 7). This translated into a nominal 1 percent fee for corporate activities, now specified in more detail, that were to be undertaken not only by the original three Implementing Agencies but also by the additional seven Executing Agencies (GEF 2006b, appendix 2, p. 11).

2.27 In 2012, after further external and internal review (GEF 2011c, GEF 2011b, and GEF 2012b), the Council reduced the fee to 9.5 percent for projects up to \$10 million and 9 percent for projects above that threshold (GEF 2012a, p. 14), while 6 months later introducing measures to streamline the project cycle (including the pilot project cycle with the World Bank). The 8 percent Agency fees approved in July 2010 for projects under the Programmatic Approach, involving delegated approval of project concepts, remained unchanged (GEF 2010d, p. 11 and GEF 2010e, p. 3).

2.28 Over time, fee reforms have led to increasing tensions between the GEF and its Agencies. In 2012, the GEF Agencies remarked that the proposed fee structure would “result in cuts below financially sustainable levels for several Agency programs” and warned that without “a commensurate reduction in the transaction costs of the GEF and fundamental streamlining of operations” the following consequences could be expected (GEF 2012b, p. 8):

- Weakening the ability of some Agencies to meet fiduciary and other GEF standards;
- Weakening the organization, effectiveness, and transparency of the GEF Partnership;
- No longer leveraging technical or strategic expertise and mandates in GEF Agencies;
- Weakening mainstreaming global environmental issues into key multi-lateral agency programs in line with the Accra Agenda for harmonization;
- Reducing responsiveness to requested capacity building of countries, and engagement with smaller projects; and
- Reducing quality of GEF projects and programs.

2.29 The GEF Secretariat did not share these concerns and the GEF Council was of the opinion that “these [the above] risks are easily manageable and can be mitigated. The GEF Agencies have to find new ways of doing business that improve efficiency without undermining effectiveness” (GEF 2012b, p. 2).

2.30 This fee reduction — which some consider a low point in the partnership — led the Council to recommend that a Working Group be established to propose “streamlining measures in the project cycle and cost savings in implementing services provided by Agencies at least commensurate with the approved fee structure” (GEF 2012a, p. 15). The agreed upon project-cycle simplification measures are described in more detail in Chapter 4 of this Review.

2.31 The last fee reduction also caused the partners to compare the costs of preparing and supervising GEF projects with the fees. A GEF fee review that was based on project costs as reported by GEF Agencies concluded that smaller projects exhibited larger relative project preparation costs and that for projects under \$5 million, those costs would exceed 10 percent of the project budget (GEF 2011c, p. 24). The World Bank considers \$5 million the “bottom threshold” for GEF grants implemented by the Bank, while the “break-even” fee threshold is seen to be closer to \$8 million.¹¹

2.32 Interestingly, this concern seems to be reflected in the evolution of the World Bank’s GEF portfolio in terms of project size. According to the GEF’s Project Management and Information System (PMIS), the share of Council approved World Bank projects with size \$5 million or more has increased from 39 percent during GEF-4 to 75 percent in GEF-5, of which more than half are \$8 million or larger.

2.33 It is beyond the scope of this report to explore the adequacy of Agency fees over time, the drivers behind the GEF’s fee reforms, or the World Bank’s discontent with the Agency fees. The underlying causes of perceived issues have likely been effectiveness and efficiency considerations — cost recovery in the World Bank, and trying to reduce administrative costs in the GEF and recipient countries. There has also been no documented agreement on whether Agency fees and corporate budgets were ever intended to cover full Agency costs. Several interviewees argued that Agencies should contribute to these costs because of the mainstreaming and other benefits derived from being a GEF Agency.

The Earth Fund and IFC Delegated Authority

2.34 The GEF provided a certain amount of flexibility for IFC in executing GEF projects, starting with the approval of the Small and Medium Enterprise (SME) program in 1995. An agreement between the GEF and the World Bank’s Board permitted the IFC to utilize its own rules and procedures for the administration of its GEF projects in order to meet the needs of private-sector partners who expected a shorter project processing cycle (IFC, 1995b). However, two developments prompted the GEF and IFC to search for ways to exempt IFC even more from the full suite of GEF project-cycle requirements:

- IFC encountered increasing difficulties in matching the flexibility and responsiveness requirements of its private-sector clients with GEF project-cycle realities, as described in more detail in Chapter 4.
- The GEF Secretariat and IFC anticipated that IFC’s abilities to generate GEF projects would be diminished by the introduction of the new Resource Allocation Framework

11. Information compiled for a meeting of the GEF Fee Working Group and provided by the Bank’s GEF Coordination Unit.

in 2006, which increased the role of recipient countries in allocating GEF resources, as described in Chapter 7.

2.35 Pre-empting and reacting to these changes, the GEF began to review its approach to the private sector. At a 2005 meeting, the GEF Council reviewed a proposal for a Public-Private Partnership (PPP) Fund in the context of the “GEF Strategy to Enhance Engagement with the Private Sector” (GEF 2005c) and supported the development of a concrete proposal in another meeting in 2006 (GEF 2006e). In 2007, the Council set aside \$50 million, outside the Resource Allocation Framework, for creating the *GEF Earth Fund*.

2.36 The GEF Earth Fund aimed to facilitate engagement with the private sector to promote projects, technologies, and business models that would contribute to the protection of the global environment. The Earth Fund consisted of several Agency-specific “Platforms.” While the GEF Council would approve each Platform, the responsible Agency would approve individual projects under each Platform. The Council approved the first operational Platform — the IFC Earth Fund for \$30 million — in May 2008 to target climate change and biodiversity. Funding for the latter focal area was reallocated to the climate change area in March 2011 at the request of IFC, based on the existing demand (IFC 2011c, Ernst & Young 2012, p. 11).

2.37 Over time, as shown in Table 1, the GEF Council authorized four additional Platforms with \$5 million each: the World Bank/Conservation International Platform, the UNEP Market Transformation for Efficient Lighting Platform, the UNEP/Rainforest Alliance Greening the Cocoa Industry Platform, and the IDB/The Nature Conservancy Public-Private Funding Mechanisms for Watershed Protection Platform.¹²

Table 1. Development and Approval of Earth Fund and Its Platforms

2006	2007	2008	2009	2010
GEF Strategy to enhance engagement with the private sector reviewed by GEF Council	GEF Public-Private Partnership Initiative (PPPI) approved by Council as a full-size project (later to become the Earth Fund)	<ul style="list-style-type: none"> • Earth Fund approved by Council and endorsed by CEO as a full-size project • IFC Earth Fund platform approved by Council and endorsed by CEO 	<ul style="list-style-type: none"> • Earth Fund Board procedures approved by Council • UNEP Lighting Project moved from GEF Trust Fund, approved by Council, and endorsed by CEO as Earth Fund Platform • World Bank – Conservation International platform approved by Council 	<ul style="list-style-type: none"> • World Bank – Conservation International platform endorsed by CEO • UNEP Rainforest Alliance platform approved by Council • IDB – Nature Conservancy platform approved by Council and endorsed by CEO

Source: Review of the Global Environment Facility Earth Fund, GEF Evaluation Office 2011, p. 11

2.38 IFC, on behalf of the World Bank, has provided trustee services to all Earth Fund Platforms in addition to managing the principal \$30 million IFC Earth Fund Platform (GEF 2009a). When the overall IFC Earth Fund was approved, IFC received delegated authority from

12. Apart from the Earth Fund platforms, the GEF private-sector projects implemented by Agencies other than IFC used non-grant instruments. Most of the non-grant projects are implemented by UNDP (some of which in partnership with UNEP, IDB, ADB and IBRD) and IBRD/UNEP. However, only five of these projects are implemented directly with the private sector. The other projects provide indirect financing via public institutions.

the GEF to approve IFC Earth Fund projects unilaterally, along with GEF Secretariat involvement at the investment committee level, thereby exempting IFC Earth Fund projects from GEF project-cycle requirements, increasing flexibility, and speeding up the decision-making process. “In keeping with the GEF Council’s desire to be more responsive to the private sector, the IFC Earth Fund Platform Investment Review Committee (IRC) will have full authority on all projects funded under the IFC Earth Fund Platform” (World Bank 2008a, p. 11).

2.39 This delegated authority was described in more detail as follows:

“The IFC Earth Fund Platform will employ IFCs standard rigorous policies and procedures with regard to project review, project appraisal, and project approval and supervision. The IFC will appoint an IFC Earth Fund Platform Program Manager and relevant staff to coordinate and manage the activities under the IFC Earth Fund Platform. The IFC will institute an IRC for the purpose of reviewing, advising on, and approving projects under the IFC Earth Fund Platform. The IRC acts as the entity which has the accountability to process and approve projects under the IFC Earth Fund Platform and all investments under the IFC Earth Fund Platform will be approved by an IRC... The IFC will manage the IFC Earth Fund Platform with a team ensuring that all GEF and IFC criteria are met prior to approval of projects within the IFC Earth Fund portfolio. Disbursements to projects under the IFC Earth Fund Platform will not be made without approval of the IRC, and will not be done unless the criteria for funding (including minimum GEF leverage 1:3) are met” (World Bank 2008a, p. 13).

2.40 Following this policy, the IFC Blended Finance Unit took responsibility for Earth Fund management and established a Blended Finance Committee (BFC) for reviewing, advising on, and approving projects. A representative of the GEF Secretariat participated in BFC meetings as an observer.

2.41 The concept of delegated authority had appeared earlier, for the first time, when the GEF CEO endorsed the IFC Environment Business Finance Program (EBFP) in 2004. This program emerged from an earlier program, the GEF SME program, which financed small and medium-sized businesses via financial intermediaries. Unlike earlier programs, IFC rolled out the EBFP on a country-by-country basis, and provided technical assistance as well as financing to financial intermediaries participating in the EBFP. IFC was given the authority to approve activities of less than \$0.5 million within the program, although it was also required to consult with a Scientific and Technical Advisory Panel and seek endorsement by the GEF Focal Points.

2.42 Both the GEF Evaluation Office and the IFC have conducted evaluations of the Earth Fund — the former in 2010 as a contribution to the new 2011 GEF private-sector strategy and the latter in 2012 at mid-term. The former focused on the relevance and the efficiency of the whole Earth Fund to the GEF, and the latter on assessing the achievements of IFC’s Earth Fund Platform at mid-term. Both found (a) a slower than expected pace of deployment, (b) an absence of clear rules of engagement between the IFC as trustee of the entire \$50 million Earth Fund and the IFC as manager of the \$30 million IFC component, and (c) a number of weaknesses in the Earth Fund governance and management structure. The GEF Evaluation Office evaluation found that the Earth Fund did not achieve its purpose and did not create a real partnership with the private sector at the Platform level. The evaluation recommended revising

the Earth Fund for its second phase to redefine its objectives, to clarify access, and to strengthen Earth Fund management (GEF Evaluation Office 2010c, p. 1). The evaluation of the IFC Earth Fund found that all four key indicators designed for the IFC Earth Fund mid-term were achieved, however, at least two of these indicators were partially confirmed: there was no market assessment (as it was designed) to show replication effect, and it only addressed environmental problems in one focal area (climate change).

2.43 The IFC evaluation gave positive marks to IFC's implementation with regard to the quality of the management and effectiveness of the existing portfolio. But both evaluations found that this modality for engaging the private sector was not as effective as intended, mainly because of the ineffective design of the Earth Fund:

- The private-sector role was not clearly identified, and the Fund never became a partnership with the private sector. “Rather than being co-owned or operated with private-sector organizations, the platforms were owned and operated by GEF Agencies” (GEF Evaluation Office, 2010, Evaluation of Earth Fund, p. 3).
- The Fund governance and management structure had a number of weaknesses, including a lack of clarity on the delegated authority issue and on the roles of GEF and IFC.
- The Earth Fund turned into a granting mechanism rather than deploying non-grant instruments because of the absence of a clear definition of ownership, allocations, risks, and returns. The GEF evaluation found that the Earth Fund lost one of its defining features — namely, its PPP characteristic — when it changed its name from the original PPPI (Public-Private Partnership Initiative) to the Earth Fund, which no longer emphasized the PPP modality.

2.44 The GEF Council adopted a revised private-sector strategy in 2011 that, while continuing to set aside funds for PPPs, contained two changes with relevance for IFC-GEF collaboration (GEF 2011e):

- In contrast to the Earth Fund platforms administered by IFC, each Multilateral Development Bank (MDB) partner would manage its own PPP program; and
- A project-by-project approval requirement by the GEF CEO was reintroduced.

2.45 IFC-GEF project coordination arrangements are explained in more detail in Chapter 4, the evolution of GEF private-sector strategies is summarized in Appendix C1, and the effects of the introduction of GEF resource allocation systems are presented in Chapter 7.

Conclusions

2.46 The restructured GEF was established in 1994 with a hybrid governance structure, embodying features of both the UN and Bretton Woods institutions, and with accountabilities both to its Assembly and Council as well as to the Conferences of Parties of the conventions for which it serves as the financial instrument.

2.47 The World Bank has been a principal founding partner in the GEF. However, during negotiations for the pilot and the restructured facility, its role was seen ambivalently by

developing and some developed countries, and by UN agencies: the acknowledged importance of involving the World Bank in the GEF was mixed with fears of World Bank dominance of the GEF.

2.48 The GEF's foundational policy document, the GEF Instrument, has remained remarkably stable over time. However, gradual modifications in the GEF's operational policies have, over time, built up to important cumulative changes that have put significant stress on the Bank Group-GEF partnership:

- The stepwise opening of the GEF to an increasing number of Agencies with direct access to the GEF Trust Fund has contributed to increasing inter-Agency competition for GEF resources within and beyond their comparative advantages. Overall, in the Bank Group-GEF partnership, the element of increased competition seems to contradict the initial understanding of complementarity among Agencies.
- Gradual reforms of administrative fees for GEF Agencies have, cumulatively, led to serious disagreements between the GEF and its Agencies on the subjects of sustainability and cost-effectiveness of the Agencies' project-related and corporate work. Likely, effectiveness and efficiency considerations were underlying causes for this: cost recovery in the World Bank and reduction of costs for administration by the GEF and by recipient countries. In spite of analytical work done on the adequacy of fees, there seems to be no shared understanding on whether today's Agency fees cover all Agency costs, and, more importantly, on whether they actually should. While interviewees in the World Bank felt that the Bank had been sufficiently transparent about its GEF-related costs, interviewees in the GEF felt that the Agencies had not provided sufficient evidence for claiming incomplete cost recovery.
- For IFC, as described above and in Chapter 4, operating under delegated authority in GEF-4 at first increased the flexibility and speediness of the GEF-IFC projects, allowing IFC to better match the requirements of its private-sector clients. However, project-by-project approval processes were reintroduced in GEF-5 PPP arrangements.

2.49 Two additional developments with significant impacts on the Bank Group-GEF partnership were not discussed in this chapter but will be analyzed later in this report:

- In Chapter 4, the World Bank-GEF project cycle is analyzed. Several inter-organizational issues along this project cycle have seriously eroded collaborative efficiency and effectiveness, and rendered inter-organizational relations increasingly frosty.
- In Chapter 7, the effects of the introduction of GEF resource allocation systems are described. These new resource allocation modalities made it more difficult for the World Bank and IFC to generate GEF projects of a meaningful size that were financially viable for them.

3. Mutual Relevance

3.1 This chapter assesses the mutual relevance of the GEF and the World Bank Group. It addresses the following two questions, each in one section of this chapter:

- How relevant are the World Bank's and IFC's mandates, their environmental strategies, and their operational policies to the GEF?
- How relevant are the GEF's purpose, its program and focal area strategies, and its operating principles to the World Bank Group?

3.2 The assessment is based on a comparison of GEF purpose, principles, and strategies and their evolution over time which are summarized in Appendix C1 of Volume 2 of this report with the environmental dimensions in the mandates, policies, and strategies of the World Bank and IFC, summarized in Appendix C2 of Volume 2.

Relevance of the World Bank Group to the GEF

3.3 The relevance of the World Bank and the IFC from the perspective of the GEF are assessed in the following terms:

- How complete is the coverage of GEF focal areas by the World Bank and IFC?
- How compatible are the mandates, operational policies, and strategies of the World Bank and IFC to those of the GEF? To what extent do these provide the necessary policy space and harmonization for implementation of GEF projects by the World Bank and IFC?
- To what degree do the World Bank and IFC play up to the comparative advantages described in GEF policies?

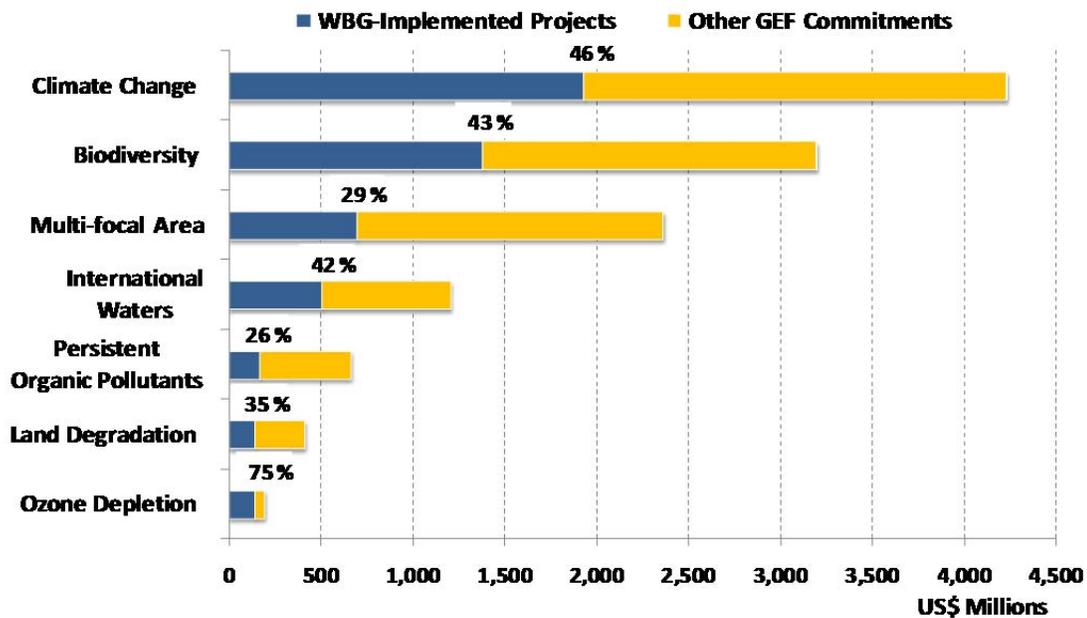
3.4 Extending this assessment to comparing the relevance of the World Bank Group with that of other GEF Agencies, while undoubtedly interesting, is beyond the scope of this Review.

THEMATIC COVERAGE OF GEF FOCAL AREAS

3.5 The first corporate environment strategy of the World Bank, issued in 2001, specifies strategic priorities for the Bank in each of the six GEF focal areas (World Bank 2001a, Appendix I) and a GEF Council guidance paper on the roles and comparative advantages of GEF Agencies, issued in 2007, lists the World Bank as a provider of investment projects in each of the six GEF focal areas (GEF 2007b).

3.6 This comprehensive coverage is also visible in the Bank Group's project portfolio. Figure 1 shows the Bank Group's monetary share of FSPs and MSPs in each focal area since the GEF's inception until the end of FY2013. The Bank Group has accounted for 41 percent of all GEF approvals, from a low of 26 percent of GEF commitments relating to persistent organic pollutants to a high of 75 percent of commitments relating to ozone depletion.

Figure 1. Share of Total GEF Commitments Implemented by the World Bank Group, by GEF Focal Area, Fiscal Years 1992–2013



Source: GEF Project Management and Information System. These shares are based on GEF Council Approvals of Full-Sized Projects, Medium-Sized Projects, and Enabling Activities, and includes projects implemented by both the World Bank and IFC.

3.7 IFC was only active in the climate change and biodiversity focal areas. GEF contributions to IFC-implemented projects amounted to \$309 million from 1994 to 2013, of which 66 percent was for climate change, 10 percent for biodiversity, and the remainder for multi-focal area projects (mostly climate change and a few biodiversity activities). The IFC did not finance any projects in the GEF focal areas before the GEF was established.

COMPATIBILITY OF WORLD BANK GROUP MANDATES, STRATEGIES, AND OPERATIONAL POLICIES WITH THOSE OF THE GEF

3.8 **Mandates.** The World Bank’s overall mandate is reducing poverty. However, beginning in the 1980s, this mandate has been increasingly interpreted to also allow for activities with environmental purposes that go beyond the original “do-no-harm” environmental safeguard approach that the Bank adopted in the 1970s.

3.9 In legal terms, the World Bank has accepted that investments for environmental purposes are in line with its Articles of Agreement, namely (a) that investments for environmental purposes can be considered “for productive purposes” as required in Article 1, Section 1 of the IBRD Articles of Agreement, (b) that environmental considerations can legitimately be taken into account for project assessments, and (c) that these are in line with Article IV, Section 10 which forbids political (non-economic) considerations for IBRD decision-making (IBRD 1989 and IBRD 2012, and Freestone 2013, p. 9).

3.10 Over recent years, the concepts of “green economy” and “green growth” have influenced how environmental aspects are interpreted to be part of the World Bank’s

poverty-oriented mandate. These concepts are not new — the idea of integrating environment into economic thinking can be traced back to the 1970s (Runnalls 2011, p. 1) — but put a renewed emphasis on proper valuation of natural assets and on full-cost accounting of environmental (and social) costs as a basis for sustainable development (Pearce et al 1989). UNEP defines a green economy as one that results in “improved human wellbeing and social equity, while significantly reducing environmental risks and ecological scarcities” (UNEP 2010, p. 5, and UNEP 2011, p. 16).

3.11 The World Bank Group built its 2012 corporate environmental strategy firmly on these concepts. Adoption of the green growth paradigm by the Bank Group translates into not only the possibility of but also the need for environmental interventions under the Bank Group’s poverty-focused mandate, therefore strengthening the relevance of this mandate from the perspective of the GEF.

3.12 It should be noted, however, that several World Bank staff interviewed for this report felt that the green growth concept remained somewhat elusive, focusing on win-win scenarios and saying little about or arguing away existing trade-offs between poverty eradication and environmental conservation in the present and future. This view is also shared by some external experts.¹³ In fact, one of the principal green economy publications, the 2010 UNEP report *Towards a Green Economy — Pathways to Sustainable Development and Poverty Eradication*, itself, remains somewhat elusive on the subject of trade-offs. On the one hand, it considers an “inescapable trade-off between environmental sustainability and economic progress” to represent a prevalent myth and claims that there “is now substantial evidence that the greening of economies neither inhibits wealth creation nor employment opportunities” (UNEP 2011, p. 16). However, on the other hand, it states that a green economy approach “will not automatically address all poverty issues” and that a “pro-poor orientation must be superimposed on any green economy initiative” (Ibid, p. 20).

3.13 In practical terms, the compatibility of the World Bank’s mandate with environmental projects is evidenced by the overall growth of the World Bank’s environmental project portfolio. While this declined in the 1990s to a low of \$1.04 billion of commitments in 2002, this has since increased by about 13 percent a year in nominal terms to an average of \$5.5 billion during the financial crisis years of 2009–11, and then declining to \$3.03 billion in 2013 (see Figure 25 in Chapter 5).

3.14 IFC’s mission is to promote sustainable private-sector investment in developing countries, thereby helping to reduce poverty and improve people’s lives. As a part of the Bank Group, IFC has interpreted this mission as including environmental sustainability since the IFC Board endorsed IFC’s commitment to the concept of sustainability in its Strategic Directions paper in May 2001 (IFC 2001). Here, IFC expressed its readiness to “move beyond its ‘do no harm’ and safeguards approach on environmental and social issues to a more explicit ‘adding value’ approach” — that is, to focus on how the private sector could create financial value out of environmental value. (See Appendix C2, pp. 33–34, for more information on this strategic shift in IFC’s approach to environmental financing, and the

13. See, for example, the 2012 World Bank Policy Research Working Paper “Is Green Growth Good for the Poor” (Dercon 2012).

subsequent evolution of its “Sustainability Framework”.) In 2008, IFC began supporting more project financing oriented to climate change mitigation (and also to some extent adaptation) as part of its corporate mandate and commitment to address climate change.

3.15 **Strategies.** In terms of strategic compatibility, the World Bank Group’s environmental strategies at the global, regional and sectoral levels have defined broad areas for environmental interventions that largely encompass the GEF’s strategies. (The World Bank Group’s environmental strategies are described in more detail in Appendix C2 of Volume 2 of this report, and the GEF’s strategies in Appendix C1 of that same volume.)

3.16 From the perspective of the GEF, few if any GEF strategies are in conflict with or go beyond World Bank Group strategies. As described in more detail later in this chapter, the 2001 World Bank corporate environment strategy *Making Sustainable Commitments – An Environment Strategy for the World Bank* (World Bank 2001a) defined a specific role for the GEF across its focal areas and within its focus on the global environment. The 2012 successor strategy, *Toward a Green, Clean, and Resilient World for All – A World Bank Group Environment Strategy 2012–2022* (World Bank Group 2012) defined a less specific role for the GEF but continued to cover GEF focal area strategies. In practical implementation, this is evidenced by the substantial coverage of all GEF focal areas by World Bank-implemented GEF projects (Figure 1). Similarly, IFC’s Performance Standards and Sustainability Framework do not seem to conflict with the GEF’s private-sector strategies, both of which are described in Appendixes C2 and C1 of Volume 2 of this report, respectively.

3.17 However, the GEF’s sharp focus on achieving global environmental benefits in a number of focal areas has had some adverse effect on the relevance of the GEF to the World Bank — a matter that is discussed in the second part of this chapter which takes a World Bank perspective on the mutual relevance of the two organizations.

3.18 **Operational policies.** In terms of operational policy, with the adoption of the GEF Instrument in 1994 and of subsequent amendments by the Bank’s Executive Board, the Bank has accepted accountability to the GEF Council “for the implementation of the operational policies, strategies, and decisions of the Council” (GEF 1994a), and incorporated GEF-specific policies and procedures into its own Operational Manual to reflect requirements additional to standard policies for World Bank investment lending.

3.19 Within the Bank, Operational Directive 9.01 from 1992 to July 2009, and Operational Policy 10.20 subsequently, have established that, apart from stated exceptions, GEF projects are subject to standard World Bank operational policies (World Bank Archived: Operational Manual). In other words, the Bank prepares and supervises GEF projects just like any other World Bank project, apart from stated exceptions.

3.20 In some cases, World Bank operational policies reinforce GEF operational principles. For example, Operational Policy 10.04 prescribes economic analysis, usually conducted as cost-benefit analysis, for all investment projects and therefore also for GEF projects. The policy explicitly mandates assessment of global externalities for “projects or project components [that] are financed by the Global Environment Facility” (World Bank Operational Manual 10.04, p. 3).

As a policy, this reinforces the GEF's operational principle on cost-effectiveness.¹⁴ Another example is the Bank's disclosure policies¹⁵ that are consistent with the GEF's requirement in the GEF Instrument "for full disclosure of all non-confidential information" (GEF 2011a, p. 12).

3.21 As a part of the World Bank Group, and as an Executing Agency under the World Bank, the IFC has also accepted accountability to the GEF Council "for the implementation of the operational policies, strategies, and decisions of the Council."

3.22 In general, IFC's Investment Guidelines (IFC 2007a) do not specify procedures for working with the GEF. Before the Earth Fund arrangements were accepted in 2007, IFC could largely use its own rules and procedures for administration of GEF projects, but was formally subject to full GEF project-cycle requirements (see Chapter 4 for more details). After 2008, under the Earth Fund arrangements, IFC managed new projects based on the delegated authority of the GEF (see Chapter 2 for further details).

3.23 While not in conflict with World Bank and IFC policies, several GEF policy changes that are described in other parts of this report have, however, significantly influenced the Bank Group-GEF partnership over time:

- The stepwise increase of the number of GEF Agencies has increased inter-Agency competition (discussed in Chapter 2);
- Several reforms of fee policies have led to serious disagreements between the GEF and the World Bank about adequate levels for administrative expenses (Chapter 2);
- Changes in project-cycle policies and their application impacted the processing of GEF projects through the combined World Bank-GEF and IFC-GEF project cycles (Chapter 4); and
- The introduction of two generations of GEF resource allocation systems have rendered the generation of GEF projects more difficult for the World Bank and IFC (Chapter 7).

3.24 As described in the respective chapters, these policy changes have affected the effectiveness and the efficiency of the Bank Group-GEF partnership. While the mutual relevance of the partners' corporate mandates and strategies remains high, the relevance of the design of the partnership has diminished significantly.¹⁶

3.25 Apart from these issues, the only remaining potential conflict between Bank Group and GEF policies is a slight mismatch in respective country eligibility. According to the GEF Instrument, country eligibility for GEF grants that are provided within the framework of the financial mechanisms of the conventions on climate change, biodiversity, Persistent Organic Pollutants (POPs), and combating desertification follow the eligibility criteria decided by the

14. However, the Bank has experienced a serious general compliance issue with that policy. As described in IEG's 2009 Annual Review of Development Effectiveness (IEG 2009a), the share of World Bank investment operations that have contained an estimate of the economic rate of return in the initial appraisal document declined from a high of more than 70 percent during the early 1970s to approximately 30 percent in the early 2000s.

15. See <http://go.worldbank.org/2I4JROD0I0> for a summary, visited on March 19.

16. The IEG and OECD/DAC *Sourcebook for Evaluating Global and Regional Partnership Programs*, 2007, pp. 49–54, makes a similar distinction between relevance of the objectives and relevance of the design.

Conference of the Parties (COPs) of each convention. Grants outside the financial mechanisms of these conventions follow the eligibility criteria of the World Bank (IBRD) and/or International Development Association (IDA), and the eligibility criteria for receiving UNDP technical assistance. Eligibility for concessional finance outside the financial mechanisms of the conventions is determined by the Council.

3.26 From the GEF perspective, a mismatch occurs whenever a country is eligible by the GEF but not by World Bank Group operational policy. This can happen either because a GEF eligible country is not on the World Bank's country catalog (World Bank Operational Manual, 3.10 Appendix D) such as Cuba or North Korea, or because overall World Bank lending to a country has been put on hold. The World Bank cannot implement GEF-financed projects in such countries, although the World Bank as Trustee can still disburse funds to other GEF Agencies implementing projects in these countries.¹⁷ Appendix C3 in Volume 2 provides an overview of membership differences between the World Bank, IFC, and the environmental conventions that the GEF serves.

COMPARATIVE ADVANTAGE OF THE WORLD BANK GROUP

3.27 The early GEF was designed with a central and exclusive role of the World Bank as the Implementing Agency for investment projects. This original thinking is still inherent in the GEF Instrument, and has remained unchanged from 1994 to today:

“The World Bank will play the primary role in ensuring the development and management of investment projects. The World Bank will draw upon its investment experience in eligible countries to promote investment opportunities and to mobilize private-sector resources that are consistent with GEF objectives and national sustainable development strategies.”

3.28 Based on this statement, the World Bank's relevance to the GEF consists in providing access to its portfolio of investment projects and in mobilizing cooperation and co-funding by third parties, including the private sector.

3.29 Clearly, the promotion of investment opportunities and the mobilization of private-sector resources continue to be relevant comparative advantages of the World Bank and IFC.

3.30 The World Bank, with its access to client countries, has been a key implementer of GEF projects as illustrated in the beginning of this chapter. Its ability to provide co-financing for GEF projects remains strong. Overall, the World Bank has reported \$28.4 billion of co-financing, of which \$9.4 billion came from the World Bank's own IBRD/IDA resources, for an overall co-financing ratio of 6.9 to 1 for every dollar of GEF commitments.

3.31 As the private-sector development arm of the World Bank Group, IFC has a comparative advantage in mobilizing private-sector resources for global environmental purposes. This is in

17. As for other financial intermediary funds like the GEF Trust Fund, the World Bank as Trustee is not responsible for the use of funds by the Implementing Agencies/partners. The disbursement of funds from the Implementing Agencies/partners to project recipients is made in accordance with each Implementing Agency's own rules, policies, and procedures.

line with IFC's mandate to serve as a catalyst in facilitating productive investments in the private sector of its client countries. IFC manages various donor funds provided by the GEF and by other donors (IFC, 2012c), and uses this funding in a catalytic way to support projects that are not otherwise being financed by the market, on the expectation that similar investments on commercial terms will follow once financial viability is demonstrated.

3.32 The opportunity to further mainstream environmental objectives into the regular activities of the World Bank and IFC continues to make the Bank Group relevant to the related GEF objective of playing a catalytic role in accordance with its operational principles.¹⁸ Agency mainstreaming is assessed in more detail in Chapter 6.

3.33 However, there have also been limitations to the comparative advantages of the World Bank and IFC from a GEF perspective:

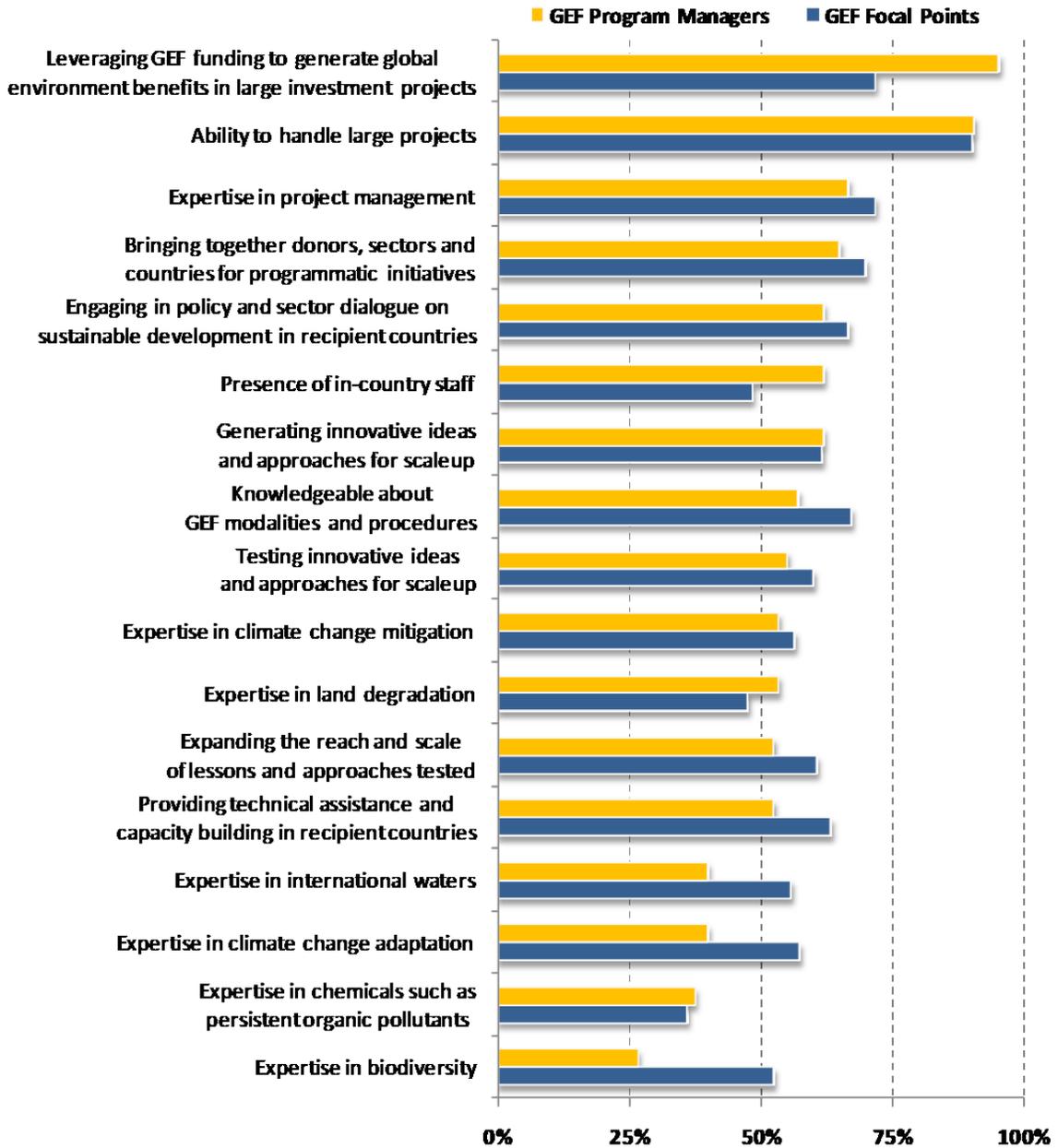
- First, the World Bank was initially the *de facto* sole provider of investment projects with which the GEF could associate its funding. This exclusivity — and the related dependence of the GEF on the World Bank — has eroded over time. From 1992 onwards, Regional Development Banks accessed GEF funding through the Implementing Agencies (Project Management Information System (PMIS) and GEF 1994c, p. 1) and from 1999 onwards, also directly (GEF 2003a, p. 5 and GEF 2003b). Access to GEF resources was extended to three further Executing Agencies between 2000 and 2001 (GEF 2003b, p. 3 and GEF 2001a). Parallel to this erosion of the World Bank's sole provider status, the GEF's dependency on the World Bank to implement investment projects has faded. In accordance with the GEF's 2011 revised private-sector strategy, not only IFC but also every MDB that has a private-sector window may establish and manage its own PPP program.
- Second, as discussed in more detail in Chapters 5 and 6, the related idea of associating GEF grants with World Bank investment projects has only been partly fulfilled. While reported World Bank co-financing volumes are very substantial, the degree to which World Bank co-financing is additional, essential, and contributes to GEF purposes has been questioned. Over time, the share of fully or partially blended FSPs has remained modest at around 29 percent.
- Third, within the two focal areas covered, IFC has clearly found it easier to mobilize co-financing for energy efficiency and clean energy projects compared to biodiversity projects. However, this may represent a general comparative disadvantage of institutions working with the private sector vis-à-vis those working with governments. Supporting sustainable energy finance, energy efficiency, and renewable energy has catered more directly to a private-sector profit rationale while supporting private investments for biodiversity conservation has been more challenging — involving taking underappreciated assets, developing them, adding value, and making them marketable.

3.34 IEG obtained additional evidence on the perceived comparative advantages of the World Bank as an Implementing Agency from surveys of 22 GEF Program Managers and

18. Operational Principle 9: "In seeking to maximize global environmental benefits, the GEF will emphasize its catalytic role and leverage additional financing from other sources" (GEF 1995a).

66 GEF Focal Points. Figure 2 provides their ratings of the comparative advantages of the Bank in relation to other GEF Agencies.

Figure 2. Comparative Advantage of the World Bank as Perceived by GEF Program Managers and Focal Points



Source: IEG Survey of GEF Program Managers and GEF Focal Points.

Note: These represent the percentage share of the 22 Program Managers and 66 Focal Points surveyed who rated the World Bank as having "some comparative advantage" or "strong comparative advantage" in each area.

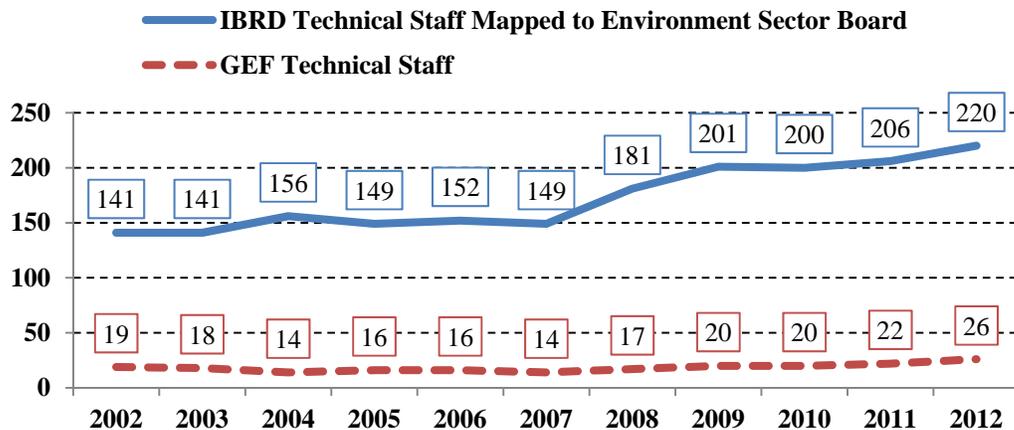
Question: "To what extent do you feel that the World Bank has a comparative advantage compared to other GEF Agencies in each of the following areas?" Full responses were received from 22 (76 percent) out of 29 targeted GEF Program Managers and from 63 (27 percent) out of 236 targeted Focal Points.

3.35 Overall, the GEF Focal Points provide a somewhat more positive assessment of the Bank Group’s comparative advantages. A large majority of both groups saw the Bank as an able manager of large projects, and able to leverage GEF funding to generate global environmental benefits in large projects. They saw the Bank Group as having expertise in project management, and the ability to facilitate policy and sector dialogue on sustainable development, bringing together donors, sectors, and countries for programmatic initiatives. In addition to these ratings, Focal Points were asked to describe the comparative advantage of the World Bank in their own words. The most frequently mentioned — unprompted — advantages were “project financing” and “World Bank’s procedures and guidelines” (mentioned 10 and 8 times, respectively).

3.36 Respondents rated the Bank’s expertise in the GEF focal areas more modestly, with the highest ratings for climate change mitigation and land degradation, and the lowest ratings for climate change adaptation and biodiversity. Only one-quarter of the GEF Program Managers felt that the Bank had a comparative advantage in relation to biodiversity.

3.37 At first sight, these findings are somewhat surprising in view of the large number of Bank staff with environmental expertise. Figure 3 shows how the number of technical staff mapped to the Environment Sector Board has grown by more than 50 percent over the last 10 years. The equivalent GEF staff numbers are also provided as a reference.¹⁹

Figure 3. Evolution of Technical Environment Staff in the World Bank and GEF



Source: World Bank Human Resources Vice Presidency.

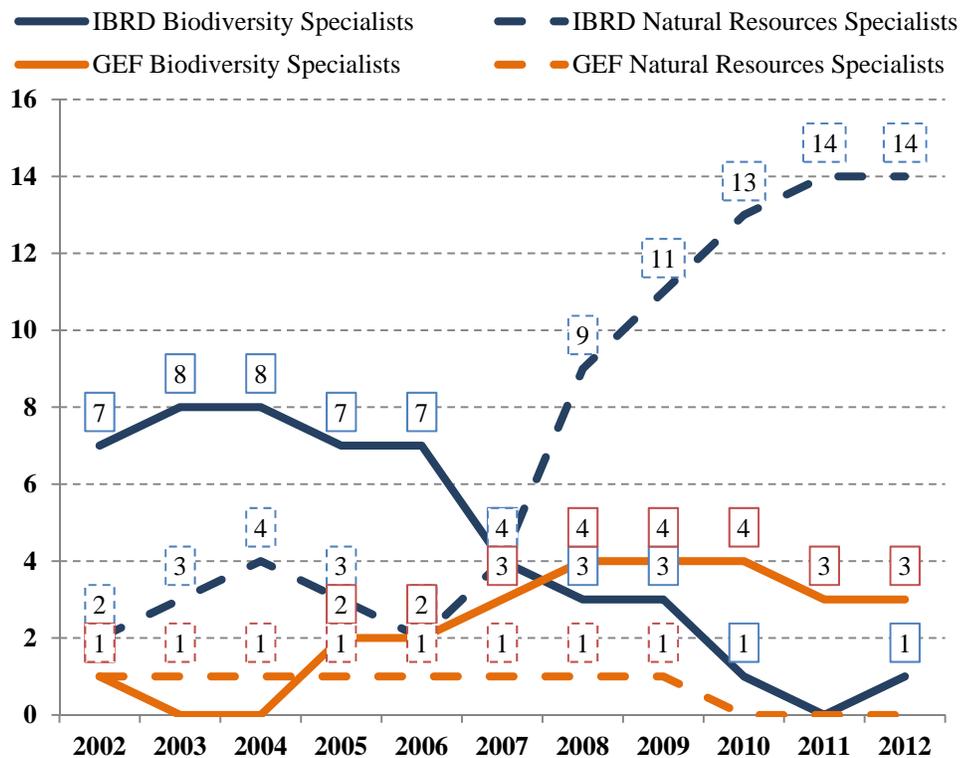
Note: These represent professional staff at grade level F and above, mapped to the Environment Sector Board.

19. IBRD does not track staff mapped to the Environment Sector Board systematically by sub-specialty area. Rather, staff were sorted based on their official titles. This, however, can only serve as an approximation. In addition, only staff at grade levels F and higher were tracked. Ungraded specialists were included. As an example, in FY2012, the following official titles were counted for technical staff: Biodiversity Specialist (1 staff), Carbon Finance Specialist (31), Climate Change Specialist (6), Ecologist (1), Environment Specialist (2), Environmental Institutions Specialist (1), Environmental Specialist (115), Financial Specialist (1), Forestry Specialist (3), Land Policy Specialist (1), Methodology Specialist (1), Monitoring and Evaluation Specialist (1), Natural Resources Management Specialist (14), Partnership Specialist (1), Specialist (1), Technical Specialist (1).

3.38 A number of interviewees, both in the GEF and the World Bank, raised the issue of the perceived erosion of the Bank’s expertise in relation to biodiversity. A former Director of the World Bank’s Environment Department felt that some of the world’s top biodiversity conservation and development specialists still worked in the Bank, while others had left because of a lack of demand by client countries and increased cost-effectiveness pressures, first affecting the often medium-sized GEF Projects in the biodiversity focal area.

3.39 Indeed, the number of staff titled “biodiversity specialists” has declined from 7–8 staff in 2002–06 to one staff member today (Figure 4). At the same time, the growing number of “natural resources management specialists” has more than compensated for the measured decline in biodiversity specialists. Therefore, care should be taken in drawing conclusions from this analysis since general job titles not shown here dominate in both cases and may mask additional biodiversity expertise. Keeping this in mind, further qualitative analysis, as well as analysis of how existing expertise is applied to GEF biodiversity projects, would be required to draw more definitive conclusions about the level of biodiversity expertise in the World Bank.

Figure 4. Evolution of Biodiversity Expertise in the World Bank and GEF



Source: World Bank Human Resources Vice Presidency.

3.40 Interviewees at IFC felt that working with the GEF had resulted in additional IFC staff capacity for environmental issues. They listed specialists in renewable energy, clean energy finance, lighting, blended finance, new energy technology, innovative financial products, and biodiversity that had been hired at least partly as a consequence of working with the GEF.

3.41 In interviews, fostering innovation was highlighted as a particular advantage of IFC. IFC's GEF projects have covered a range of innovative climate change interventions — from direct funding through grants and subsidies, to risk-sharing guarantee instruments, equity investments, and other concessional financing. IFC's value added is considered its experience in financial markets, in designing innovative approaches, in mobilizing private-sector financing for environmental sustainability, and in its network of partnering local financial intermediaries. There have been a number of IFC-implemented GEF projects in climate change and biodiversity, which, as identified in project documents and from interviews, the GEF perceived as a research and development laboratory for testing new markets and approaches (see Appendix E2 for details).

Relevance of the GEF from the Perspective of the World Bank Group

3.42 This section assesses the relevance of the GEF from the perspective of the World Bank in terms of a similar set of questions as the previous section:

- How complete is the coverage of Bank Group sectors by the GEF, weighed by their environmental importance?
- How compatible are the mandates, operational policies, and strategies of the GEF to those of the World Bank Group? Do they provide the necessary policy space so that GEF projects can fully contribute to Bank Group environmental objectives?
- What are the alternatives to the GEF for the World Bank Group and to what degree does the GEF exhibit comparative advantage in relation to these alternatives?

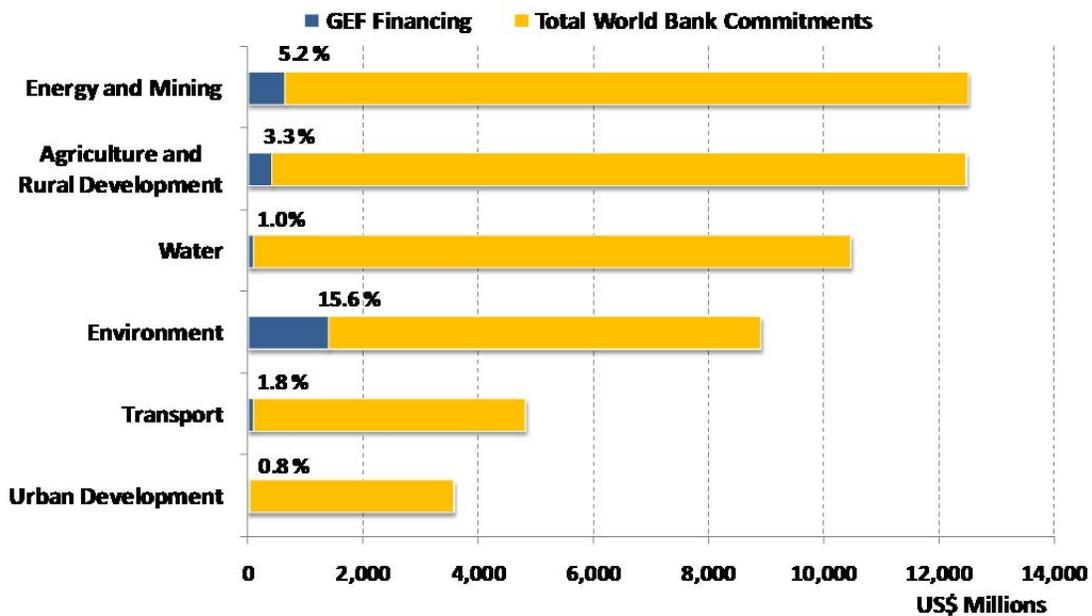
COVERAGE OF WORLD BANK GROUP SECTORS WITH ENVIRONMENTAL RELEVANCE BY THE GEF

3.43 Overall, GEF financing contributes a much smaller share to World Bank environmental projects — averaging 5 percent from 1992 to 2013 — compared to the World Bank share in the implementation of GEF projects — averaging 41 percent over the same time period. (Compare Figure 1 above with Figure 5 below.)

3.44 GEF policies and strategies do not contain the objective of covering all World Bank sectors with environmental relevance. The GEF contributes more finance to projects mapped to three Sector Boards (environment, energy, and agriculture) and very little finance to projects mapped to three other Sector Boards (transport, water, and urban development).

3.45 It is hard to compare GEF financing with IFC's own investments in the GEF focal areas because of its minimal size. For example, the IFC invested \$1.6 billion in climate-change related investments in FY2012, according to data from IFC's 2012 Annual Report (IFC 2012, p. 43). By contrast, the total GEF financing for IFC projects in all focal areas has only been \$309 million from 1995 to 2013.

Figure 5. Share of GEF Financing in World Bank Commitments to Environment-Related Projects, by Sector Board Mapping, Fiscal Years 1992–2013



Source: World Bank data.

Notes:

(a) Each World Bank project can identify up to five themes promoted by the project including environment and natural resource management themes such as biodiversity, climate change, pollution management, and water resources management. Commitments represent the proportion of the Bank's total project commitments dedicated to such themes. GEF financing represents the share of these commitments financed by the GEF Trust Fund.

(b) These data exclude development policy operations (DPOs), since the GEF does not generally finance DPOs. If DPOs had been included, the percentages would be even lower.

(c) Each World Bank project is supervised by a task team leader who reports to a regional manager who is represented on a Bank-wide Sector Board. Each project is thereby "mapped" — or becomes the responsibility of — that Sector Board.

COMPATIBILITY OF THE GEF MANDATE, OPERATIONAL POLICIES, AND STRATEGIES WITH THOSE OF THE WORLD BANK GROUP

3.46 **Mandates.** As described in the previous section, the Bank Group's poverty-focused mandate has increasingly been interpreted to allow for environmental objectives and activities. However, as a client-driven organization, the Bank's environmental activities follow country priorities and private-sector interests. These priorities have been marked by developing countries' understanding over past decades that activities to protect the global environmental commons should largely be financed by developed countries. This perspective has gradually, but not universally, shifted towards more contributions expected from developing countries in global environmental matters as described below in the context of the Bank Group's 2012 environmental strategy. Nevertheless, developing countries' priorities continue to prioritize local environmental issues over global ones.

3.47 The concept of Common but Differentiated Responsibilities is intimately connected to the GEF's own founding principle, that of providing funding to developing countries to cover the incremental costs of achieving global environmental benefits. In this context, the

GEF's focus on providing funding for global environmental matters represents a highly relevant and complementary mandate to that of the World Bank.

3.48 **Strategies.** The GEF's strategies have evolved and matured over time, driven by the GEF replenishment cycle — from a general purpose, a list of focal areas, and a set of operating principles during the GEF Pilot Phase (1991–1994) to today's set of strategies and principles for focal areas and cross-cutting issues, as described in more detail in Appendix C1 of Volume 2 of this report.

3.49 From the perspective of the World Bank, the primary “limiting factor” in GEF strategies is the GEF's exclusive focus on global environmental benefits:

“The GEF shall operate, on the basis of collaboration and partnership among the Implementing Agencies, as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits in the following focal areas” (GEF 2011a, p. 12).

3.50 Before 2001, the World Bank did not possess a fully developed corporate environmental strategy. However, the concept of client countries requiring assistance for covering the incremental costs of achieving global environmental benefits existed before 2001. As one significant example, in 1992, the influential World Development Report *Development and the Environment* (World Bank 1992a, Chapter 8) stressed the need for international transfers for paying for climate change and biodiversity-related additional costs.

3.51 The 2001 corporate environmental strategy *Making Sustainable Commitments* identifies the conservation of the global environment as one of its three fundamental pillars, and one of the five principles under this pillar as “facilitate transfer of financial resources to client countries to help them meet the costs of generating global environmental benefits not matched by national benefits” (World Bank 2001a, p. 51).²⁰ This principle refers explicitly to the role of the GEF in the following terms:

“In cases where actions designed to address regional and global concerns are not in the short- and medium-term interest of developing countries, the Bank will seek to engage the GEF, ... the MFMP [Multilateral Fund for the Implementation of the Montreal Protocol], or other special financing mechanisms to compensate countries for the incremental costs they incur to protect the global commons” (World Bank 2001a, p. 51).

3.52 The GEF's purpose is therefore neatly matched by and highly harmonized with the World Bank's own objectives and activities under the 2001 environmental strategy. This is

20. The five principles were: 1. Focus on the positive linkages between poverty reduction and environmental protection; 2. Focus first on local environmental benefits, and build on overlaps with regional and global benefits; 3. Address the vulnerability and adaptation needs of developing countries; 4. Facilitate transfer of financial resources to client countries to help them meet the costs of generating global environmental benefits not matched by national benefits; and 5. Stimulate markets for global environmental public goods (World Bank 2001a, p. xxii).

further exemplified by a detailed appendix to that strategy further detailing World Bank-GEF cooperation (World Bank 2001a, Appendix I).

3.53 This strategic commitment towards the global environment is also summarized in a World Bank report as follows (World Bank Group 1998, p. 1):

“The commitment by the Bank Group to the alleviation of poverty and sustainable development recognizes that these goals are only attainable if local, regional *and global* environmental issues are addressed” (emphasis in original).

3.54 In the 2012 corporate environmental strategy, *Toward a Green, Clean, and Resilient World for All*, less explicit distinction is made between global environmental benefits (and the related incremental costs of achieving them) and local or national environmental benefits (and their related costs). This reflects the above-mentioned shift in how the concept of Common but Differentiated Responsibilities has been translated into funding responsibilities for achieving global environmental benefits by developed vis-à-vis developing countries.

3.55 This shift has been triggered, among other things, (a) by the realization of just how immense are the total incremental costs for climate change mitigation and adaptation, (b) by how hard it is to separately quantify local and global environmental benefits, (c) by how tightly intertwined are poverty and environment aspects in concrete development interventions, and (d) how some developing countries have successfully increased their potential to contribute to global environmental concerns. In view of the particular interests of the involved countries, this shift is currently under negotiation and far from being universally accepted, but provides the background for a less clear-cut division of responsibilities in the 2012 environmental strategy of the World Bank Group.

3.56 In addition to its corporate environment strategies, global environmental concerns are reflected in a number of regional environment strategies, as well as in global and regional sector strategies issued by the World Bank. By way of example, the 2002 Africa Region’s environment strategy mentioned the GEF as one of the main financing sources for its implementation (World Bank 2002, p. 92). The 2005 East Asia and Pacific Region’s environment strategy identified the need to address transboundary regional and global environment challenges and developed a strategy for further engagement with the GEF (World Bank 2005b, pp. 12 and 60).

3.57 Similarly, World Bank sector strategies at the global and regional levels have identified global environmental issues as important components or risk factors and mention the GEF as a relevant partner and source of concessional funding to tackle these.²¹

3.58 With this in mind, the GEF’s purpose also remains relevant for the World Bank for achieving its environmental objectives under its 2012 strategy. However, the 2012 strategy does not match the degree to which the 2001 strategy was harmonized with and was complementary to

21. See, for example, the 2004 Forest Strategy, the 2008 Strategic Framework for Development and Climate Change, and the Infrastructure Strategy for FY2012–2015 at the global level; and the 1994 Africa Forestry Strategy, the 2003 Europe and Central Asia Biodiversity Strategy, the 2006 East Asia and Pacific Forestry Strategy, and 2012 Africa Action Plan for Forest, Trees and Woodlands at the regional level.

the GEF's purpose. The 2012 strategy has adopted a broader partnership approach, in part reflecting the fact that other sources of financing to address global environmental concerns have become available. That the 2012 strategy anticipates less of a role for the GEF in the Bank's environmental work can, based on interviews, also be attributed to a deteriorating operational relationship in the mid- to late 2000s, which is explored in more detail in the next chapter.

3.59 In 2006, the GEF Evaluation Office published a comprehensive study on how global environmental benefits are linked to — and enabled by — local benefits. The study concludes: “In several GEF focal areas, local benefits — or recompense for costs incurred locally to protect the environment — are an essential means of generating and sustaining intended global benefits” (GEF Evaluation Office 2006a, p. 3). These well-documented insights are likely to contribute to increasing the strategic overlap between the GEF's and the World Bank's strategies.

3.60 On the other hand, the intrinsic link between local and global environmental benefits poses a dilemma to the GEF whose mandate is to provide new and additional funding to meet the agreed incremental costs of measures to achieve the agreed global environmental benefits. Incremental costs are defined as the costs necessary to transform a project with national benefits into one with global environmental benefits. Therefore, the concept is a key to GEF operations and a core ingredient of proposals for GEF project funding. Based on a recommendation of the Pilot Phase evaluation, the GEF adopted a systematic and quantitative approach to the assessment of the incremental costs of projects in 1994 (GEF 1994c, p. 19 and GEF 2007d, p. 9). Twelve years later, the Evaluation Office found that much confusion surrounded both the concept of incremental cost and the procedures for its assessment, and recommended dropping the cost assessment (GEF Evaluation Office 2006b, p. 7).

3.61 Simplified guidelines were developed by the Secretariat and approved by the Council in 2007. The nature of the incremental cost assessment shifted from a quantitative to a more qualitative-descriptive exercise (GEF 2007e, p. 3). According to Bank staff, despite this simplification, justifying incrementality remains complicated. More than 80 percent of surveyed GEF Program Managers estimated that, in one out of four cases or more often, project proposals submitted by the World Bank have not been consistent with the incrementality policy of the GEF (see Figure 13 in Chapter 4).

3.62 The simplified approach still sharply differentiates global environmental benefits and local or national benefits. Yet the focus of the GEF on *agreed* incremental costs reflects that the determination of the costs for global environmental benefits remains ambiguous and negotiated for each project rather than systematically deducible. On the one hand, there is an acknowledged intrinsic link between local benefits and global environmental benefits which, in practice, often blurs the conceptual line between them. On the other hand, the idea of incremental cost is the founding principle of the GEF and remains a *raison d'être* often mentioned in interviews from the perspective of the World Bank.

3.63 The GEF has documented the importance of the private sector for achieving its objectives from the beginning²² and has tried to build a sound partnership with the private

22. See the *Instrument for the Establishment of the Restructured Global Environment Facility*, 1994, preamble (a). The 1996 Strategy document also provides the list of projects with private-sector participation, approved during the GEF Pilot Phase. The first IFC projects initiated during GEF Pilot Phase were the Poland

sector for almost two decades now. The GEF has prepared several strategic documents in this respect since 1995, each attempting to construct a framework of major principles of engagement with the private sector and operational policies for the GEF.²³ Although their strategic approach, their vision of the private-sector role, and their instruments of engagement have changed since 1995 — particularly with the establishment of the Earth Fund in 2007 — their specificity and level of commitment have remained below that found in the GEF’s focal area strategies.

3.64 From the perspective of IFC and its Strategic Directions (Road Map), the GEF private-sector strategies exhibit a particular compatibility in the areas of climate change, clean energy, and adaptation.

3.65 **Operational policies.** In terms of operational policies, the remarks made in the first part of this chapter also apply from a World Bank and IFC perspective. Increased inter-Agency competition, fee reforms, project-cycle policy changes, and changes in resource allocation modalities have all impacted the way in which the World Bank and IFC now collaborate on an operational level with the GEF. While the mutual relevance of the partners’ corporate mandates and strategies remains high, the relevance of the design of the partnership has diminished significantly.

COMPARATIVE ADVANTAGE OF THE GEF

3.66 The GEF was designed to provide grants and other concessional financing to pay for the incremental project costs for achieving global environmental benefits. Along with the MFMP, the GEF was the principal source of such donor financing in the 1990s. However, concessional donor financing for the environment has fragmented since 2000 both inside and outside the GEF.

3.67 Inside the GEF, the GEF now operates three additional programs — the Least Developed Countries Fund for Climate Change (established 2001), the Special Climate Change Fund (2001), and the Nagoya Protocol Implementation Fund (2011) — and provides secretariat and evaluation services for a fourth — the Adaptation Fund (2008) (Table 2). The LDCF, SCCF, and Adaptation Fund are all providing resources, under the auspices of the United Nations Framework Convention on Climate Change (UNFCCC), to help developing countries adapt to climate change. The LDCF is focused on the 48 least developed countries that are signatories to the UNFCCC, and the SCCF more broadly. Financing for the Adaptation Fund comes not from traditional Official Development Assistance (like that for the LDCF and SCCF), but from a 2 percent share of the proceeds of the Certified Emission Reductions issued by the Clean Development Mechanism under the Kyoto Protocol. The NPIF supports the implementation of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization, under the auspices of the Convention on Biological Diversity.

Efficient Lighting project and the SME Program. At least three more projects were approved during GEF 1: the Biodiversity Enterprise Fund, the Renewable Energy and Energy Efficiency Fund, and the Hungary Energy Efficiency Co-Financing Facility.

23. The evolution of the GEF’s private-sector strategies are described in Appendix C1 of Volume 2 of this report and IFC’s Performance Standards and Sustainability Framework are summarized in Appendix C2 of that volume.

Table 2. Sources of Concessional Financing for the Environment

Acronym	Program	Start Date	Objectives
	Inside the GEF		
LDCF	Least Developed Countries Fund for Climate Change	2001	To address the needs of the 48 least developed countries whose economic and geophysical characteristics make them especially vulnerable to the impact of global warming and climate change.
SCCF	Special Climate Change Fund	2001	To finance activities relating to climate change in the areas of adaptation and transfer of technologies
AF	Adaptation Fund	2008	To help developing countries adapt to the negative effects of climate change
NPIF	Nagoya Protocol Implementation Fund	2011	To support the implementation of the Nagoya Protocol on Access to Genetic Resources and the Fair and Equitable Sharing of Benefits Arising from their Utilization.
	Carbon Finance		
PCF	Prototype Carbon Fund	2000	As the first carbon fund, to pioneer the market for project-based greenhouse gas emission reductions.
	Country Carbon Funds	2002	A set of seven carbon funds, the first of which (Netherlands Clean Development Mechanism Facility) was established in 2002.
CDCF	Community Development Carbon Fund	2003	To provide carbon finance to projects in the poorer areas of the developing world.
BioCF	BioCarbon Fund	2004	To demonstrate projects that sequester or conserve carbon in forest and agro-ecosystems.
FCPF	Forest Carbon Partnership Facility	2008	To pilot activities that would reduce emissions from deforestation and degradation using a system of policy approaches and performance-based payments.
CPF	Carbon Partnership Facility	2010	To prepare large-scale, potentially risky investments with long lead times, which require durable partnerships between buyers and sellers.
	Climate Investment Funds		
CTF	Clean Technology Fund	2008	To provide scaled-up financing in 18 countries to contribute to demonstration, deployment, and transfer of low-carbon technologies with a significant potential for long-term greenhouse gas emissions savings
PPCR	Pilot Program for Climate Resilience	2008	To pilot and demonstrate ways in which climate risk and resilience may be integrated into core development planning and implementation in 18 pilot countries.
FIP	Forest Investment Program	2009	To demonstrate the economic, social and environmental viability of low-carbon development pathways in the energy sector in seven developing countries by creating new economic opportunities and increasing energy access through the use of renewable energy.
SREP	Scaling Up Renewable Energy in Low Income Countries	2009	To support seven developing countries' efforts to reduce emissions from deforestation and forest degradation by providing scaled-up bridge financing for readiness reforms and public and private investments.

3.68 The World Bank as Implementing Agency has so far (as of June 30, 2013) accessed \$86 million of financing commitments from the LDCF and SCCF trust funds for 12 stand-

alone projects and six blended projects. The Bank has in turn committed \$820 million of IBRD/IDA resources to the six blended projects.

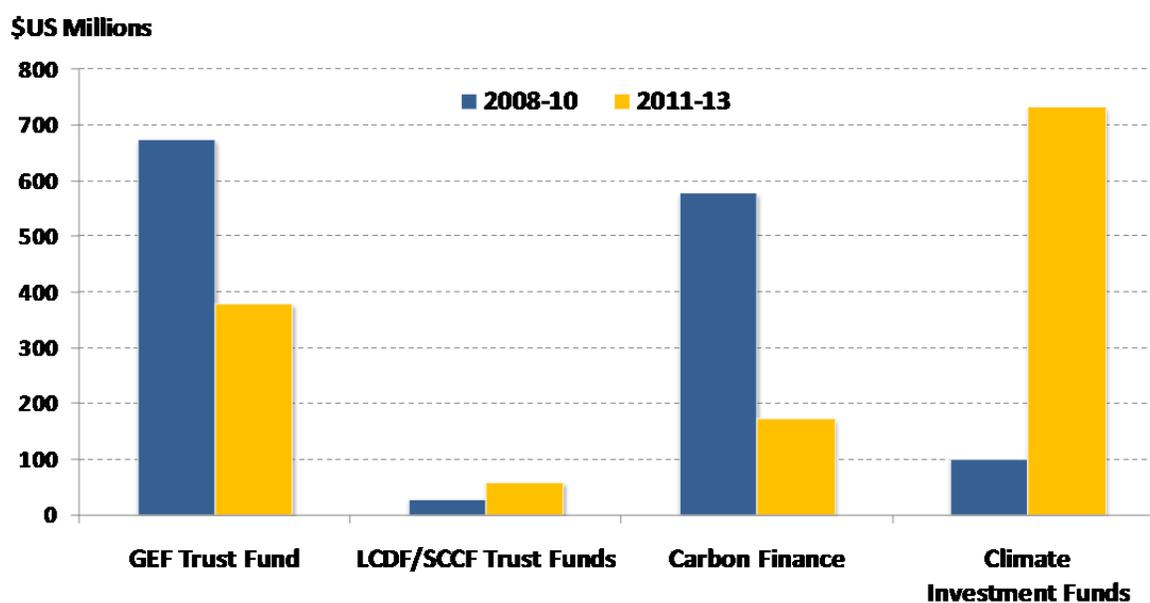
3.69 Outside the GEF, the World Bank manages a series of carbon finance funds/facilities that make purchases of carbon assets under the Kyoto Protocol's Clean Development Mechanism or Joint Implementation. That is, the funds use money contributed by governments and companies to purchase project-based greenhouse gas emission reductions in developing and transition countries. As of December 2012, these funds were capitalized at US\$2.89 billion, 54 percent of the resources coming from the public sector and 46 percent from the private sector (World Bank 2013). As of June 2013, the World Bank as Implementing Agency had so far accessed \$1.99 billion of financing commitments from these funds for 144 projects.

3.70 Also outside the GEF, the World Bank hosts the Administrative Unit of the Climate Investment Funds (CIFs). The Clean Technology Fund and the Strategic Climate Fund are linked global partnership programs that were established in 2008 to address climate change mitigation and adaptation via concessional funding for projects executed by the MDBs. The five MDBs — the African Development Bank, the Asian Development Bank, the European Bank for Reconstruction and Development, the Inter-American Development Bank, the International Finance Corporation, and the World Bank — established the CIFs to contribute to the goals of the Bali Action Plan adopted in December 2007 by the UNFCCC. The programs represent interim measures designed for the MDBs to assist in filling immediate financing gaps, while the UNFCCC deliberates on the future of the climate change regime, including discussions on a future financial architecture and funding strategy for climate change (now called the Green Climate Fund).

3.71 As of December 2012, donor countries had pledged \$4.9 billion (and contributed \$4.2 billion) to the Clean Technology Fund and pledged \$2.3 billion (and contributed \$1.9 billion) to the three subprograms of the Strategic Climate Fund — the Pilot Program for Climate Resilience (another climate change adaptation program), Scaling Up Renewable Energy in Low Income Countries, and the Forest Investment Program. Thus, the CIFs are roughly twice the size of one GEF replenishment period. As demonstration and pilot programs until the Green Climate Fund is established, they are also focusing their support for climate change mitigation and adaptation on 48 countries, rather than the complete list of GEF or World Bank-eligible countries. The World Bank has so far (as of June 30, 2013) accessed \$832 million of financing commitments for 17 projects from the CIF trust funds, and committed an additional \$2.14 billion of IBRD/IDA resources for eight of these projects. The IFC has so far accessed \$444 million for 11 projects through June 2013 — which is more than all the GEF financing for IFC-implemented activities between 1995 and 2013 (\$309 million).

3.72 Thus, the relevance of the GEF and related trust funds as sources of World Bank Group financing for climate change mitigation and adaptation projects has declined significantly with the establishment of the carbon funds and the CIFs (Figure 6). It is also notable that the increased number of funding sources for (global) environmental objectives that can be accessed by the World Bank and IFC is strongly focused on climate change. With the exception of the comparatively modestly funded NGIF, all funds in Table 2 primarily serve climate change mitigation and adaptation purposes.

Figure 6. Contributions of Different Sources of Finance to World Bank Commitments to Environment-Related Projects, Fiscal Years 2008–13



Source: World Bank data.

Note: "Environment-related" projects are those that are coded with at least one environment or natural resource management theme.

3.73 This having been said, the resources of the GEF are not insubstantial from the point of view of the Bank's client countries. The challenge is clearly to utilize these resources in innovative ways to leverage other sources of donor and multilateral finance for the environment.

3.74 From the perspective of the World Bank Group, the GEF is a crucial contributor to innovative and risk-sharing approaches when providing incentives to the piloting and demonstration of new technologies and approaches. Both World Bank and IFC interviewees expressed the view that the GEF has a strong comparative advantage in funding innovative and catalytic activities and provided anecdotal evidence for how GEF projects had triggered subsequent projects or even led to the establishment of new business lines.²⁴ For example, IFC staff mentioned that GEF funding had enabled the IFC to implement competitive pricing approaches in the SME and Environment Business Finance programs, mostly through financial intermediaries. In addition, a number of evaluations have confirmed that without the GEF funding, IFC would not have been able (a) to reach the necessary degree of market transformation to make it attractive for the private sector (as in the Efficient Lighting Initiative), or (b) to provide an initial subsidy matching the counterpart's expectations of economic viability (Ernst & Young 2011).

3.75 World Bank and IFC interviewees also felt that the GEF has an important comparative advantage in relation to regional (multi-country) projects intended to help neighboring countries manage a common environmental resource, such as a lake, a river

24. Chapter 6 provides a synthesis of existing evidence on catalytic effects of World Bank-implemented GEF projects.

system, or a biodiversity corridor. Such projects have, by their very nature, an international focus that transcends individual countries. Negotiating a GEF grant to support a regional project is also, in principle, easier than negotiating several IBRD/IDA loans or credits simultaneously with each of the participating countries.

Conclusions

3.76 The mandates and strategies of the GEF and the World Bank were in the past and remain today highly compatible and mutually relevant. The GEF's focus on global environmental benefits complements the World Bank's own environmental priorities. The GEF had an important and explicit role in the 2001 World Bank corporate environmental strategy, complementing the World Bank's own investment projects. For the GEF, the World Bank continues to exhibit relevant comparative advantages as principal provider and mobilizer of investment projects and related expertise, covering all GEF Focal Areas. The concept of *green growth* on which the 2012 World Bank environmental strategy is based further strengthens the case for environmental interventions under the Bank Group's poverty-focused mandate. The Bank considers the GEF as a crucial contributor to innovative and risk-sharing approaches, and the GEF perceives the Bank as having a key comparative advantage in leveraging GEF funding to generate global environmental benefits in large projects.

3.77 The IFC and GEF mandates and strategies are less explicitly harmonized. In principle, however, there is strong mutual relevance, particularly in the area of climate change, between the GEF's general interest in involving the private sector in its work and the IFC's private sector-focused and sustainability focused mandate.

3.78 This high mutual relevance of mandates and strategies is illustrated by the fact that more than 40 percent of all GEF funding between 1992 and 2013 has been implemented through the World Bank. From the World Bank perspective, the GEF has been an important contributor to projects mapped to the Environment, Agriculture, and Energy Sector Boards. From the perspectives of the GEF, the World Bank, and IFC, innovation is seen as an important comparative advantage of the other partner.

3.79 The relevance of the GEF and related trust funds as sources of World Bank Group finance for climate change mitigation and adaptation projects has, however, declined with the establishment of the carbon finance facilities and the CIFs. It is notable that the increased number of funding sources for (global) environmental objectives that can be accessed by the World Bank and IFC is strongly focused on climate change.

3.80 In spite of the high compatibility and mutual relevance of the partners' mandates and strategies, the relevance of the design of the Bank Group-GEF partnership has diminished significantly. Increased inter-Agency competition, fee reforms, project-cycle policy changes, and changes in resource allocation modalities have all affected the way in which the World Bank and IFC now collaborate on an operational level with the GEF.

4. Division of Labor and Inter-Organizational Coordination between the World Bank Group and the GEF

4.1 This chapter assesses how the GEF and the World Bank Group have interfaced operationally over time. The first two sections describe the project cycles for World Bank-implemented and IFC-implemented GEF projects, respectively. Subsequent sections describe and analyze some performance issues along the project cycles in some detail. The final section draws a number of conclusions.

Characterization of the World Bank Group-GEF Project Cycle

4.2 World Bank-implemented GEF projects largely follow the standard World Bank project cycle through the phases of identification, preparation, appraisal, approval, implementation, completion, and evaluation as reflected in World Bank operational policy.²⁵ This project cycle includes a range of mandatory process steps, reports, clearances, and approvals. The key person who is operationally responsible for managing each project through the cycle is the task team leader (TTL) who reports to a regional sector manager who is represented on a Bank-wide Sector Board. Bank management and/or the Bank's Board receive reports and decide on clearances and approval.

4.3 In parallel, GEF projects follow a second, GEF-specific project cycle that is managed by the Bank Group's GEF Coordination Team (consisting of the Coordination Unit and the GEF Regional Coordinators) in liaison with GEF Program Managers of the respective focal areas. The Coordination Team advises and assists each TTL with meeting GEF requirements and procedures, such as complying with the GEF's focal area strategies.

4.4 Project-level approval authority and accountability are less clear for the GEF's project cycle. *De jure*, according to the GEF Instrument, the World Bank as Implementing Agency is accountable to the GEF Council for GEF-financed activities implemented by the Bank Group. But the GEF Instrument does not specify if this accountability applies at the level of Bank Management as a whole, at that of the GEF Coordination Team, or of individual TTLs. *De facto*, the GEF Council and the GEF CEO, with the support of GEF Program Managers, exert project approval authority ultimately toward individual TTLs who are managing GEF projects. This results in sometimes intense back and forth discussions on project design details between the GEF Program Managers (and sometimes the GEF CEO) and World Bank TTLs, mostly mediated through the GEF Coordination Team, in which GEF Program Managers operate in a gray area between assessing the eligibility of received project proposals and actively co-designing World Bank-implemented GEF projects — i.e., making

25. Operational Directive 9.01, valid from May 1992 to June 2009 states “Other than the exceptions identified and described in this directive, GEF operational procedures follow standard Bank procedures for investment lending, including those for environmental assessments.” Operational Policy 10.20, valid from July 2009 until today, states that “The Bank's operational policies apply to GEF grants, except when OPs [operational policies] expressly exclude or restrict their application” (World Bank Archived Operational Manual, OD 9.01 and Operational Manual, Operational Policies (OP) 10.20).

suggestions to render projects GEF-eligible. Thus, while the accountability of Bank Group management for GEF-financed activities has been established, the degree of authority that the GEF CEO and Program Managers exercise over individual TTLs is unclear.

4.5 The GEF project cycles vary for different GEF project modalities and have evolved over time. The next two sections describe three GEF modalities — FSPs, MSPs, and Programmatic Approaches — as well as the evolution over time of the FSP project cycle, the GEF’s most important project modality in financial terms.

4.6 Programmatic Approaches consist of several projects that are linked through common objectives. Formally introduced in 2008 with the potential of improving project-cycle efficiency, the procedures for Programmatic Approaches were streamlined in 2010 with the delegation to the Agencies of approval of individual project concepts.²⁶

PROJECT CYCLE FOR FSPs, MSPs, AND PROGRAMMATIC APPROACHES

4.7 This section describes the World Bank-GEF project cycle for FSPs effective until December 2012. Recently, the GEF and the World Bank have started piloting a more harmonized project cycle as described in more detail in the last section of this chapter.

4.8 Within the World Bank, GEF FSPs are processed in line with Bank procedures for investment projects, onto which several GEF project-cycle steps are added (World Bank Operational manual, BP 10.20). Figure 7 provides a simplified overview of these interconnected project cycles. A detailed description of these project cycles is provided in Appendix D1 of Volume 2 of this report.

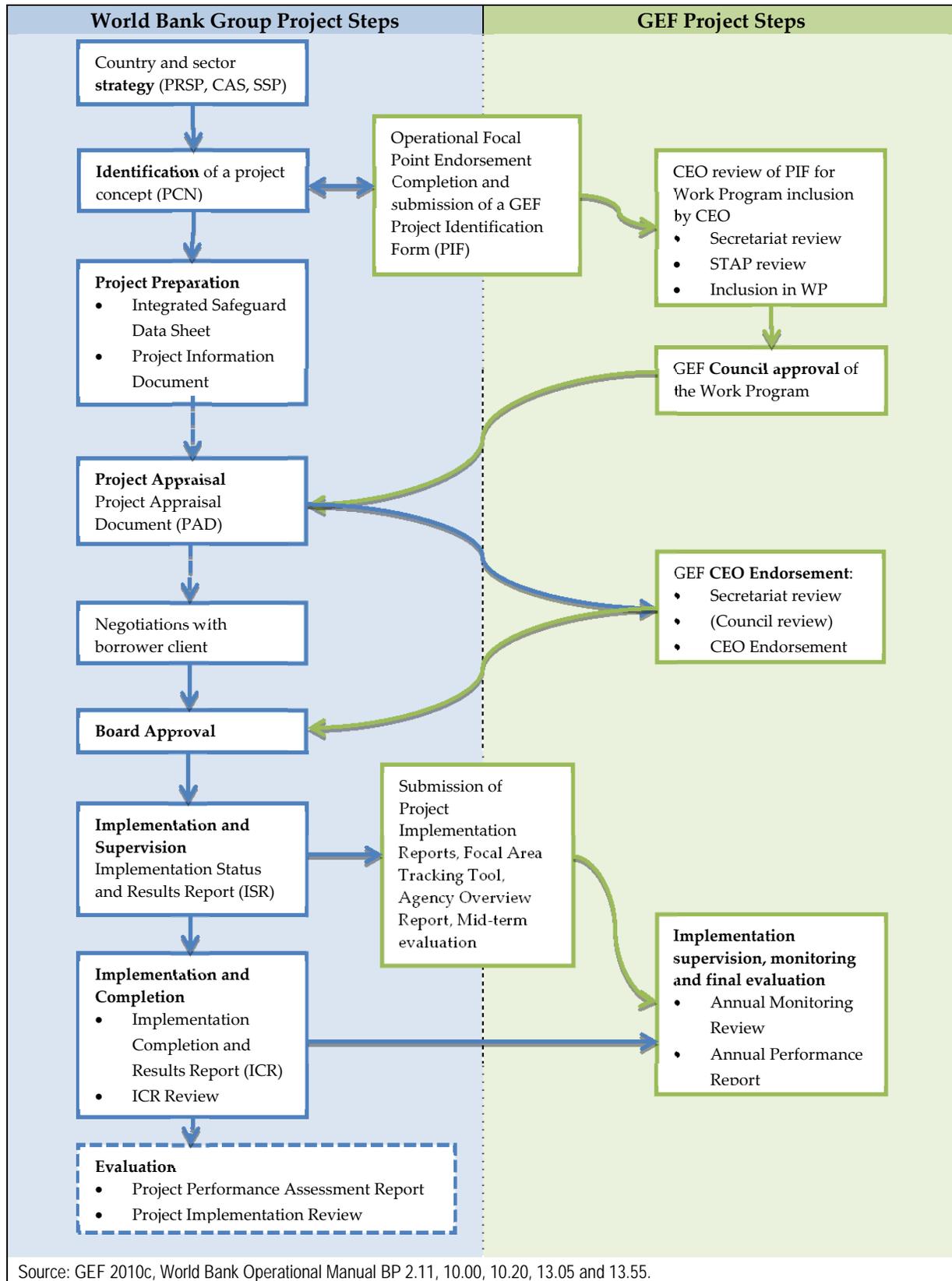
4.9 Project ideas usually emerge during country dialogue between the World Bank country team and the client. These ideas are conceptualized by the Bank’s task team and are reviewed and approved by the Bank’s Country Director. The task team addresses the World Bank’s safeguard policies in a data sheet cleared by the regional safeguards team.

4.10 In parallel, the TTL prepares a GEF-specific project proposal and requests the endorsement of the GEF Operational Focal Point located in the country. This is a condition for further processing in the GEF’s project cycle. The proposal is cleared by the GEF Coordination Team and submitted to the GEF Secretariat. At this stage, the TTL can also apply for a GEF Project Preparation Grant. A GEF Program Manager reviews the proposal for consistency with GEF strategies and policies and either recommends the project to the CEO, requests clarifications and/or modifications, or rejects the proposal. The GEF Scientific and Technical Advisory Panel (STAP) also screens proposals and issues a screening report.

4.11 Communications between the TTL and the GEF Program Managers are usually moderated by Regional Coordinators in the GEF Coordination Team in the World Bank who also provide thematic and procedural advice. Several thematic experts in the Coordination Team provide additional, focal area-specific input.

26. This is not the case for multi-agency programs.

Figure 7. Simplified World Bank-GEF Project Cycle



4.12 In the case of a favorable recommendation by the Program Manager, the GEF CEO includes the project into an upcoming GEF work program for GEF Council review and approval. The Council can provide comments on individual projects but approves the work program *en gros* and not individually.

4.13 Upon GEF Council approval, the proposal enters the preparation and appraisal phases in the World Bank during which the task team appraises the project in line with Bank procedures for investment projects, including an internal quality enhancement review and an appraisal decision meeting. Then the Project Appraisal Document (PAD) and GEF-specific documentation — including the CEO endorsement request, the GEF Focal Area Tracking Tool,²⁷ and the co-financing letters — are cleared by the GEF Coordination Team and submitted to the GEF Secretariat for a second CEO endorsement after review by one or more Program Managers. Only in case of major changes or if requested by a Council member is the proposal reviewed once more by the GEF Council before this final CEO endorsement.

4.14 After or during CEO Endorsement and before the approval by the World Bank's Board, negotiations take place with the country on the terms of the legal agreement. Board approval is conditional on endorsement by the GEF CEO.

4.15 During implementation, the task team follows World Bank policies on supervision and completion of the project (GEF 2010c, p. 5). The task team regularly issues supervision reports and transmits these to the GEF Secretariat through the GEF Coordination Unit. At the mid-implementation stage, a mid-term review of the project is conducted and relayed to the GEF Secretariat, accompanied by the Focal Area Tracking Tool and a co-financing report. Within six months of project completion, the Implementation Completion and Results Report (ICR) is transmitted with the Tracking Tool and the co-financing table to the GEF Secretariat and the GEF Evaluation Office. The GEF Evaluation Office also receives IEG's review of the ICR (ENVGC 2011, p. 13). Some GEF projects are also selected by IEG for performance or impact assessments (IEG DGE mandate, p. 3, accessed on 4/24/13).

4.16 This FSP project cycle represents the standard case for how GEF projects have been processed in the World Bank and the GEF between 2007 and December 2012. For blended projects and for other GEF project modalities, some changes apply:

- In the case of a GEF project fully blended with a Bank investment project, both components are processed as one project through the World Bank cycle, i.e., there is one concept approval, one appraisal mission and document, one Board approval, and common supervision and completion reports. Only the legal agreement for the GEF grant component remains distinct from the Bank investment component. GEF-specific steps and documentation remain the same.
- Since 2010, World Bank-implemented GEF projects under the GEF's Programmatic Approach have undergone streamlined GEF procedures. The GEF Council approves a program framework proposal upfront and sets aside the entire amount requested.

27. The Focal Area Tracking Tools are instruments developed by the GEF to monitor progress indicators and track overall portfolio performance in each Focal Area.

Project concepts under a Programmatic Approach do not require approval by the Council. Fully prepared projects proceed directly to CEO Endorsement before Agency Board approval.

- MSPs are processed along a simpler cycle than FSPs. MSPs do not require approval by the GEF Council. If no project preparation funds are requested, the task team transmits the final project document to the GEF for Secretariat review and CEO approval. MSPs requiring preparation funds go through a two-step CEO approval: (a) the approval of the project concept and of the request for preparation funds, and (b) the approval of the final project document. On the World Bank side, MSPs are approved by the Country Director and do not have to be submitted to the Bank's Board.

EVOLUTION OF THE FSP PROJECT CYCLE SINCE 1992

4.17 The World Bank procedures for investment projects applying to GEF projects have remained largely stable since the GEF was restructured in 1994.²⁸ The GEF project-cycle policies and procedures, however, have been modified on several occasions over time as highlighted in Table 3, below, and described in detail in Appendix D2. This section summarizes the major changes in the GEF project-cycle policies and procedures.

4.18 The GEF Pilot Phase (1991–1994) was designed without GEF-specific project-cycle documentation, and World Bank-implemented GEF projects were processed largely according to standard World Bank procedures, with some exceptions identified in the 1992 directives for operations under the GEF (World Bank Archived Operational Manual, OD 9.01). STAP representatives and the GEF Operations Coordinator participated in the Bank's technical review. In addition to World Bank procedures, projects were reviewed by the STAP, screened by the GEF Implementation Committee (composed of Implementing Agency and STAP representatives and the Administrator)²⁹ and approved by the Participants as part of a tranche. Projects were then submitted for approval by the relevant World Bank Regional Vice President and implemented and completed in line with World Bank procedures.

4.19 In 1995, the GEF Council introduced a GEF-specific project cycle (GEF 1995c, p. 2), which had two decision points, as envisaged by the 1994 GEF Instrument (GEF 1994a p. 15): an initial GEF Council approval and a later GEF CEO endorsement. The GEF Council approval was based on a review by the GEF Operations Committee (GEF OP), staffed with representatives of the three Implementing Agencies and the STAP chairperson, replacing the earlier Implementation Committee. The CEO endorsement, in turn, was preceded by a Council review. Standard profiles were developed for GEF-specific documentation (GEF 1995d). From 1995 onwards, Bank-implemented projects were submitted to the Bank's Board for approval (World Bank Archived Operational Manual OD 9.01).

28. Modifications to Bank Procedures (BPs) since 1994 related to investment lending (World Bank Operational Manual, BP 10.00) and to project completion reporting (World Bank Operational Manual BP 13.55), and since 2001 in relation to project supervision (World Bank Operational Manual, BP 13.05) have not affected the description of the elements of the World Bank project cycle as outlined in the previous section of this chapter. General information on procedures before these BPs came into effect were extracted from OPS-0 (GEF 1994b).

29. The Administrator position was replaced by the CEO position after the restructuring of the GEF in 1994.

Table 3: Major Changes in the GEF Project-Cycle Policies and Procedures

Month/Year	Changes in the Project Cycle
May 1995	Introduction of the GEF's project cycle (GEF 1995c, p. 2).
April 1996	Introduction of two inter-sessional Work Program Approvals between the Council meetings on a no-objection basis, raising the number of approvals per year from two to four (GEF 1998a, p. 2).
October 1996	Expedited procedures for MSPs (GEF 1998a, p. 2).
May 1997	Delegation of the individual project review prior to Council approval to the Secretariat. GEF OP to finalize the Work Program at the executive level and bilateral review of concepts between the Secretariat and Implementing Agencies (GEF 1997a).
July 1998	Introduction of a review sheet for the Secretariat's project concept review (GEF 1998a, p. 5).
November 2000	<ul style="list-style-type: none"> • Increase of the ceilings of project development funding • Reduction of the period for the Council to provide written comments on projects prior to the Council meeting • Simplified country endorsement process (GEF 2000b).
June 2007	Introduction of the new project cycle, reduced to two decision points with upfront Council approval of project concepts; introduction of the project identification form; Project Development Facilities replaced by Project Preparation Grant; introduction of a standard elapsed time of 22 months from Council approval to CEO endorsement (GEF 2007b).
April 2008	Clarification of the procedures for the Programmatic Approach and introduction of the program framework document template (GEF 2008b).
July 2010	<ul style="list-style-type: none"> • Elimination of the second Council review of projects prior to CEO endorsement • Reduction of the elapsed time standard from Council approval to CEO endorsement from 22 to 18 months; • Delegated approval authority of project concepts under the Programmatic Approach to qualified Agencies (Agencies that have a Board and sign agreements with recipient governments) (GEF 2010d).
2012	<ul style="list-style-type: none"> • Increase of the MSP grant ceiling from \$1 to 2 million • Simplification of project document templates • Replacement of the formal milestones extension process with a monitoring process • Streamlined review of multi-focal area projects (GEF 2012d).

4.20 In 1997, the review of individual projects prior to Council approval was delegated to the Secretariat which was in charge of upstream consultations with the Implementing Agencies (GEF 1997a). Before distributing a proposed work program to the Council, the CEO now convened a GEF Operations Committee at the executive management level to finalize the work program. Although still convened, the GEF OP's responsibility for finalizing the work program is not mentioned in any project-cycle policy document since 1997.

4.21 By 2000, further changes led to a GEF project cycle with three successive reviews by the Secretariat that were linked to three GEF decision points:

- The review of the project concept for agreement by the Secretariat;
- The review of the project document for Council approval which consisted of an early World Bank Project Appraisal; and
- The review of the final World Bank Project Appraisal Document for CEO endorsement.

4.22 In 2007, the GEF's project cycle was re-designed with a view to reducing the time needed to prepare projects (GEF 2006a, p. 2; Barbut, 2006, p. 10; GEF 2007c and GEF 2007d):

- The concept agreement review by the Secretariat was abolished;
- The Council approval was moved upfront, i.e., the Council now approved project concepts;³⁰
- A standard of 10 days was established for the Secretariat to respond to submitted concept documents; and
- A new template was created for the submission of project proposals to the Council.

4.23 In 2010, the second Council review prior to CEO endorsement was delegated to the CEO and the Secretariat in order to accelerate the CEO endorsement process. At the same time, the procedures for projects under the Programmatic Approach were simplified. Projects under the Programmatic Approach used to undergo the same project cycle as stand-alone FSPs, apart from the additional development and upfront Council approval of a program framework document. Since 2010, the concept approval of these projects has been delegated to those GEF Agencies that rely on a Board for project approval and conclude signed agreements with recipient governments, both of which apply to the World Bank. Accordingly, after the Council approval of a Program Framework Document, the World Bank fully prepares and appraises projects under the Programmatic Approach and submits each project to the CEO for endorsement before Board approval (GEF 2010d and GEF 2010b).

4.24 Recently, in November 2012, the Council approved two parallel sets of project-cycle simplifications: a set of streamlining measures applying to all GEF Agencies and a pilot project for further simplifications, specifically with the World Bank (GEF 2012c, p. 4 and GEF 2012d).³¹

4.25 For all GEF Agencies, the Council decided to:

- Integrate the request for preparation funds in the project concept instead of filling out a separate template;
- Increase the ceiling for MSPs from \$1 to \$2 million U.S. dollars;
- Review and simplify project templates to be consistent with the role of the GEF Secretariat in project review;
- Rearrange the review of multifocal area projects to make this more systematic;
- Replace the current milestone extension process (requiring formal approval from the Secretariat) by a monitoring and reporting system;
- Allow the payment of fees in tranches at Council approval and CEO endorsement to the Agencies;
- Monitor the Agencies' 10-days service standard for providing either the requested information or, when impossible, to respond within 10 days, for specifying the time

30. Within the Bank, project appraisal became conditional on GEF Council approval (BP 10.20).

31. This last round of simplifications was initiated after the reduction of Agency fees was approved at the June 2012 GEF Council meeting. The issue of fees is discussed in more detail in Chapter 2.

- needed to provide information; and
- Streamline the approval of Enabling Activities under an umbrella project.

4.26 Specifically with the World Bank, additional simplifications are currently being piloted, including further alignment of the combined project cycle with that of the World Bank and participation of GEF Secretariat staff in World Bank concept and appraisal meetings. Based on the experiences from the pilot, similar engagement processes with other Agencies might be explored (GEF 2012d, p. 2). Simplification measures and preliminary experiences with this pilot are summarized in the final section in this chapter.

IFC-GEF Coordination Arrangements

4.27 The GEF provided certain flexibility for the IFC from the beginning of the partnership. One of the earliest decisions on cooperation arrangements was taken in the mid-1990s, when the IFC-GEF Poland Efficient Lighting Project was approved, and it was necessary to arrange the processing and approval of other projects in the IFC-GEF pipeline (the SME program and Slovakia Ozone Depletion Substances phase-out project). The proposed procedures for IFC-GEF operations in the Addendum to the World Bank President's Memorandum recommended that IFC utilize its own rules and procedures for the administration of such projects, even though IFC was one of the Executing Agencies operating under special arrangements with IBRD (IFC 1995a).³² The same addendum proposed the introduction of an annual report to the Board on IFC-GEF operations. These reports provided a detailed year-by-year description of IFC's engagement with the GEF until FY2006, when the practice was ended after the adoption of the RAF (IFC 1995b).

4.28 Until the early 2000s, the Environmental Projects Unit of the Environment Division in the Technical and Environment Department (CTEEP) administered GEF funding. For the programs and funds financed by the GEF, IFC established an Investment Review Committee, consisting of the Unit Head of CTEEP and representatives of the involved IFC Investment Department and the Bank's GEF Coordination Team. Based on the recommendations of this Committee, the head of the CTEEP approved investments in individual projects. In addition CTEEP prepared the annual report to the GEF Secretariat and undertook other project supervision activities. CTEEP's administrative costs were covered from the GEF grant funds from the projects directly, as well as from the annual administrative budget that the World Bank received from the GEF.

4.29 As a result, the IFC-GEF project cycle was faster than that for similar projects in other Implementing Agencies (Evaluation Office 2007a, p. 65). Several factors contributed to this:

- The private-sector clients of IFC and their relatively fast pace drove IFC to proceed quickly on project initiatives;

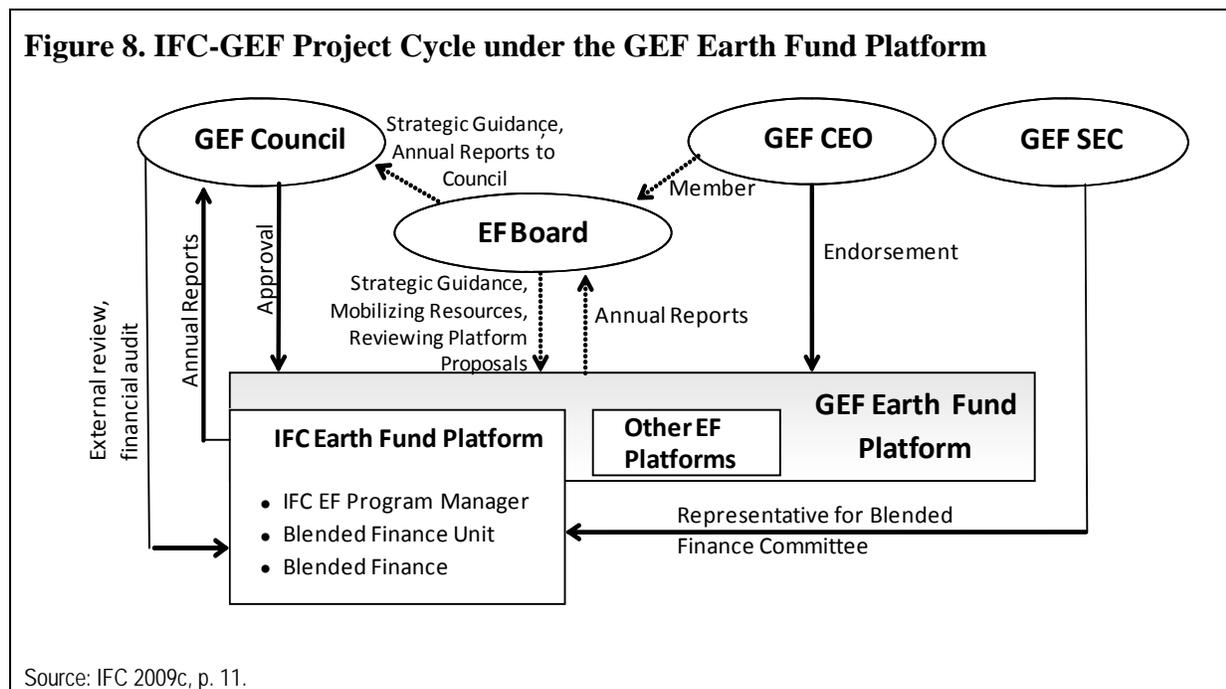
32. "Approval of individual GEF operations will be vested in IFC management. This is justified by virtue of: the modest size of IFC's expected GEF operations; the fact that IFC's own funds are not involved; IFC's role as a GEF Executing Agency; and involvement of private-sector sponsors who expect a shorter project processing cycle. Reflecting these differences and the greater role of IBRD as an Implementing Agency to the GEF, these procedures are different than those of IBRD" (IBRD 1995).

- The authority to approve projects was delegated to the Department Director;
- Co-financing commitments for IFC projects were contained in agreements with private-sector entities and therefore did not have to go through a formal governmental budget approval process; and
- IFC executed and implemented many of its projects by itself, rather than going through external contracting and procurement.

4.30 The endorsement by the Country Operational Focal Point was still a condition (GEF 1996a, paragraph 28) for the private-sector projects to be approved, even for program or fund-type projects. In the case of regional umbrella projects, all GEF recipient countries concerned would be asked to endorse the framework project, on a no-objection basis. In the case of global umbrella projects, the letter requesting the Country Operational Focal Point endorsement would be sent to the countries where sub-projects were envisaged.

4.31 Dramatic changes in the GEF-IFC project cycle were caused by the introduction of the RAF in 2006 but were partly avoided by the parallel establishment of the GEF Earth Fund as described in Chapter 2 and 7 of this report.

4.32 For operations under Earth Fund arrangements, the IFC-GEF project cycle changed. The new cycle exhibited the following main features (Figure 8) which allowed for flexibility and simplification of the project cycle: (a) full delegated authority from the GEF to the IFC over the Earth Fund, (b) funded projects not required to receive GEF focal point endorsements prior to acceptance, (c) a broad scope of interventions permitted with regard to financial instruments, and (d) a GEF observer invited to the IFC Earth Fund Blended Finance Committee (BFC) meetings, to provide for GEF participation.³³



33. If IFC submitted any proposals aside from the EF, then the normal project cycle would apply.

4.33 The IFC Earth Fund Platform employed IFC's standard policies and procedures with regard to project review, project appraisal, and project approval and supervision. The BFC provided GEF with annual reports on IFC Earth Fund implementation progress, and informed the GEF Secretariat about the pipeline of projects for approval. In accordance with the procedures for the approval of concessional investments approved by the IFC Board in March 2012, "to the extent possible, processing of these investments follow IFC's policies and procedures in order to gain efficiencies in processing" (IFC 2012d, p. 24). The BFC was designed to ensure efficiency and at the same time keep in mind the interests of donors in the structuring of the concessional financing (IFC 2012d).

4.34 Within the IFC Earth Fund, the Blended Finance Unit identifies the pipeline of eligible projects and structures them with concessional elements before passing them onwards for decision making by the BFC. This committee includes senior members of IFC management, and a representative from the GEF (observer). The committee ensures that proposed projects meet eligibility criteria, provide a minimum leverage of 3:1, and make sure that GEF funds receive the same standard of care as IFC's own funds (IFC 2012d and 2012e).

4.35 Overall strategic guidance and support to the Earth Fund was supposed to be provided by the GEF Earth Fund Board (EF Board) composed of (a) the GEF CEO as Chair, and (b) individuals with particular reputation for thematic excellence or influence in the topic of the Earth Fund (GEF 2009c, p. 9). In addition, representatives of organizations who committed to make significant contributions to the Earth Fund could be invited. The Chair would report to the GEF Council annually on behalf of the EF Board. According to the GEF Evaluation Office evaluation of the Earth Fund, the Earth Fund Board did not fulfill its role as a strategic advisor to the Earth Fund or as an advocate for the GEF among the private sector (GEF Evaluation Office 2011, p. 5).

4.36 Following the GEF EO evaluation of the Earth Fund in 2010, the revised private-sector strategy for GEF-5 advocated PPPs³⁴ as the modality for partnership with the private sector (GEF 2011e). The approval of each PPP program would now follow similar administrative procedures as for the concept approval of other GEF programmatic initiatives. Operational Focal Point endorsement letters would not be required unless the proposed PPP was specific to one country. After approval by the Council, the PPP program would be implemented by GEF Agencies.

Project-Cycle Issues

PROJECT PROCESSING SPEED

4.37 In 2007, the *Joint Evaluation of the GEF Activity Cycle and Modalities* by the GEF Evaluation Office, in collaboration with the evaluation offices of the 10 GEF Agencies, analyzed project-cycle efficiency by calculating the time projects required to travel from one to another project-cycle step.

34. In common parlance, the term PPP usually implies a specific capital investment that combines public and private funding to deliver a public service, or a broader partnership focused on a thematic area. In the GEF, the term PPP more often refers to broad partnerships rather than specific capital investments.

4.38 The evaluation found that the elapsed time for traveling through the entire cycle, from pipeline entry to implementation start, had reached an average of 44 months or 3.7 years in GEF-3. This represented an increase of 7 months over GEF-1 and of 5 months over GEF-2.³⁵ Further exacerbating this finding, the elapsed-time average of 3.7 years was a lower bound to the actual value since laggard projects under processing, but not considered in the average, would have driven this value further up. The evaluation considered this finding an alarming result and recommended completely redrawing the project cycle (GEF Evaluation Office 2007a, p. 11).

4.39 For the purpose of assessing the efficiency of the combined World Bank-GEF cycle, a similar analysis has been conducted for this Review based on the portfolio of all Council-approved World Bank-implemented Full-Sized GEF projects. The complete results of this analysis are summarized in Appendix D3.

4.40 The solid curves in Figure 9 show the cumulative percentage of project proposals that have reached effectiveness over the number of months that have passed since they were recorded as received by the GEF in the GEF's Project Management Information System (PMIS), separately for GEF-3, GEF-4, and GEF-5 projects. Percentages are based on the number of projects within each tranche that have reached the first milestone. GEF-5 projects under the Programmatic Approach are not included in this analysis since they undergo streamlined procedures with delegated approval to the Bank at the concept stage.

4.41 The cumulative representation has been chosen because this reduces the selection bias present in the "moving averages" of elapsed times, as discussed in the 2007 Joint Evaluation (GEF Evaluation Office 2007a, p. 144).

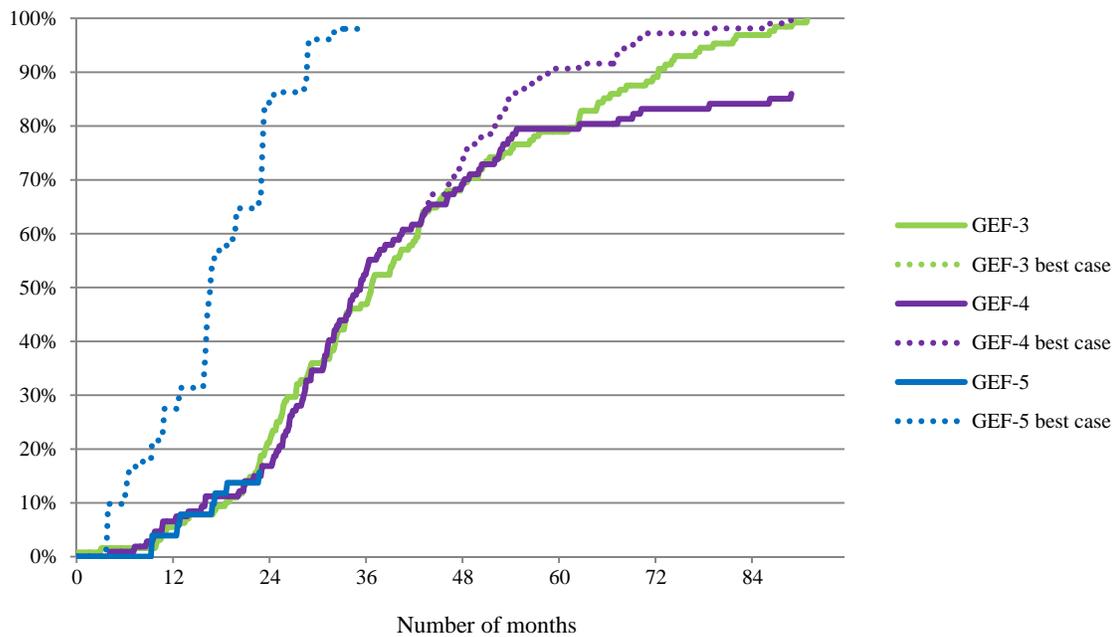
4.42 Such averages can however be calculated and yield 3.3 years if calculated including all GEF-3 projects that have reached effectiveness included in the sample (i.e., at the end of the solid GEF-3 curve). This World Bank-specific value is roughly in line with the all-Agency result of 3.5 years of the 2007 Joint Evaluation, but comparisons should be considered with care as the sample and definitions are not entirely analogous.

4.43 Projects not yet effective could, in principle, influence some parts of the solid curves once they reach effectiveness. Other parts of the curves cannot change because there are no sufficiently "young" projects in the sample anymore. To show the theoretical boundary to possible future changes, each solid curve is paired with a dotted curve of the same color. The dotted curves are calculated based on a highly unlikely scenario that assumes that all remaining projects reach effectiveness one day after the data was downloaded. The final curve, to be drawn in the future after all projects have become effective, is likely to be close to the solid curve but can, mathematically, lie anywhere between the solid and the corresponding dotted curve.

4.44 Figure 9 shows that for both GEF-3 and GEF-4 projects, 50 percent of projects had reached effectiveness after 37 months from receipt as recorded in the PMIS. It is also likely that GEF-4 projects are not faster than GEF-3 projects for the rest of the curve.

35. Average elapsed times were 37 months (3.1 years) in GEF-1 and 39 months (3.2 years) in GEF-2 (GEF Evaluation Office 2007a, p. 7).

Figure 9. Elapsed Time (in Months) from Record of Receipt by the GEF to Project Effectiveness



Source: GEF PMIS and Business Warehouse (as of July 24, 2013).

Note: Based on the portfolio of Council-approved projects as of June 30, 2013.

The date of receipt record by the GEF is based on the PMIS data. The receipt date does not constitute an official milestone in the Joint World Bank-GEF project cycle and has not been reconciled with World Bank data on project concept submission. This date serves here as a proxy for the entry of project concepts into the GEF cycle and does not account for exchanges between the Bank and GEF Secretariat staff prior to submission. This analysis has been split therefore into two charts in Appendix D3: from receipt record to approval and from approval to effectiveness. There is no dotted line for GEF-3 since all GEF-3 projects have now reached effectiveness.

4.45 This is a surprising result. Early into GEF-4, a major project-cycle reform with the objective of increasing processing speed was undertaken as described earlier. It therefore appears as if this reform had no effect on project processing speed in the case of World Bank-implemented GEF projects.³⁶

4.46 Since Figure 9 assigns projects to GEF phases by their Council approval date, it can be argued that the analysis is not entirely “fair” since the GEF-4 line includes projects that have been submitted during GEF-3 and therefore spent some time traveling the GEF-3 project cycle. Similarly, the GEF-3 line includes projects submitted during GEF-2. If those projects are removed from the analysis, the curves change somewhat. While the first 50 percent of GEF-4 projects traveled more slowly through the cycle than GEF-3 projects, GEF-4 projects traveled more quickly for the rest of the curve, as shown in Figure D-8 in Appendix D3 of Volume 2 of this report.

36. According to the Bank’s Coordination Unit, the introduction of the new allocation system in GEF-4 has led some TTLs to secure approval of GEF funding before engaging in the concept preparation and review steps in the World Bank cycle, resulting in a longer preparation time between Council approval and CEO endorsement.

4.47 For GEF-5 projects, only limited conclusions can be drawn since only 16 percent of all projects have reached effectiveness. However, the slowest project in this 16 percent subset of GEF-5 projects became effective 23 months after its proposal was received. This compares with 23 months for GEF-4 and 22 months for GEF-3 and therefore represents neither a decline nor an improvement in processing speed. This result should be interpreted with care and updated when a larger sample becomes available since the 16 percent GEF-5 subset consists of only 8 projects (compared to 18 and 20 projects for GEF-3 and GEF-4 respectively).

4.48 Figure 9 measured the elapsed time for the entire cycle from record of receipt to effectiveness. Similar analysis was also conducted in a disaggregated fashion for individual project-cycle steps and is only briefly summarized below. For a full description, the reader is referred to Appendix D3.

4.49 The elapsed time between first receipt as recorded by the GEF and Council approval³⁷ was considerably reduced during GEF-4. While 79 percent of GEF-4 projects were approved within 400 days of recorded receipt, only 40 percent of the GEF-3 projects reached Council approval in the same elapsed time. The project sample for GEF-5 is limited to projects approved by the GEF Council. However, this sample represents more than 80 percent of all projects submitted under GEF-5 as of July 24, 2013 and it should be noted that these projects have reached approval faster than GEF-4 and GEF-3 projects (Figure D3.2 in Appendix D3).

4.50 By contrast, the time elapsed between Council Approval and CEO endorsement³⁸ has increased from GEF-3 to GEF-4. This can be understood as the combined effect of the 2007 decision to move Council approval upfront and the World Bank policy condition that a project must be approved by the GEF Council before appraisal can begin (World Bank Operational Manual, BP 10.20).

4.51 Overall, only 46 percent of GEF-4 projects complied with the 22 months-standard between Council approval and CEO endorsement set by the GEF in 2007 (PMIS, January 29, 2013).

4.52 The project processing speed in the World Bank has slowed between CEO Endorsement and Effectiveness in GEF-4 compared to GEF-3 for the first 40 percent of the curve. Only 54 percent of GEF-4 projects reached Board approval within 45 days after CEO endorsement, compared to 75 percent of projects in GEF-3. Similarly, GEF-4 projects took longer than GEF-3 projects to become effective after Board approval.³⁹

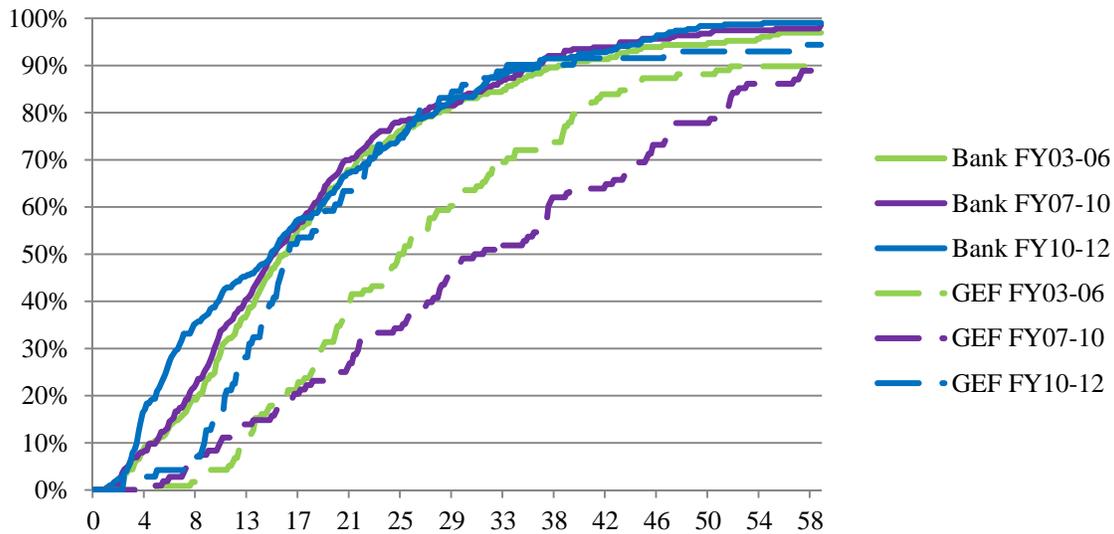
4.53 World Bank-GEF projects take longer to progress from concept meeting to Board approval compared with other World Bank Environment and Natural Resource Management (ENRM) projects not supported by the GEF (Figure 10). This result is not unexpected due to the second layer of approval and the separate GEF Project Cycle. Interestingly, this lag is

37. Including the Secretariat's review, CEO clearance of the Work Program, and review by the GEF Operational Committee and the Council.

38. Including appraisal by the World Bank as well as review and endorsement by the GEF.

39. According to the Bank's Coordination Unit, this increase in time to reach effectiveness can partly be explained by the strategy of TTLs to schedule Board approval sufficiently late in anticipation of a complex CEO endorsement review.

Figure 10. Elapsed Time (in Days) between Project Concept Meeting and Board Approval for IBRD/IDA and GEF-Supported ENRM Projects



Source: Business Warehouse as of July 24, 2013.

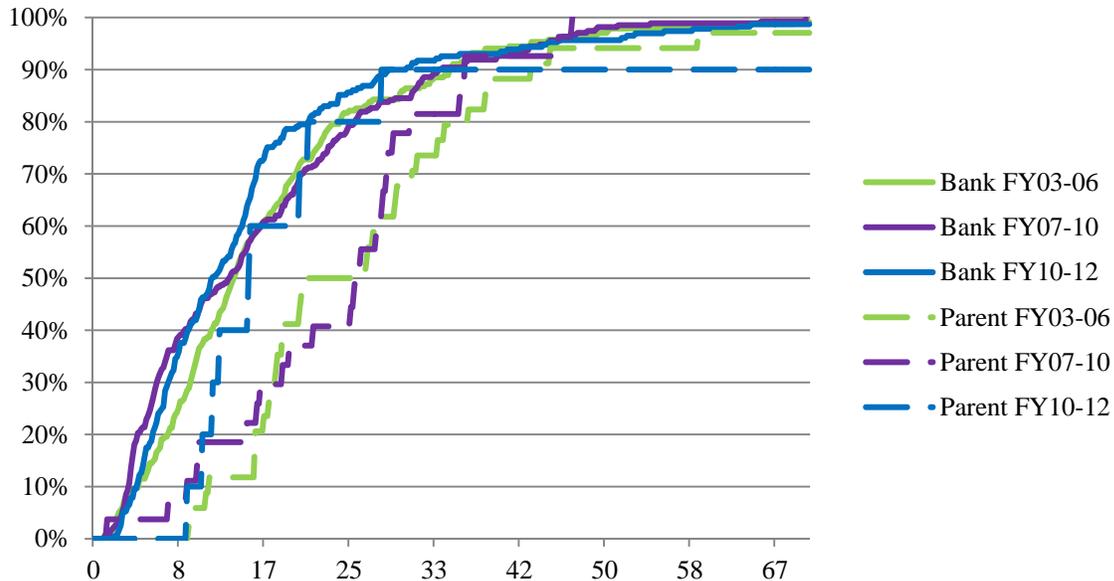
Note: Based on the portfolio of Board-approved projects as of June 30, 2013. ENRM projects are those that are coded with at least one environment or natural resource management theme.

largest for the FY07 to FY10-tranche, which corresponds to the GEF-4 phase during which the GEF project cycle was reformed.

4.54 For GEF projects that are fully blended with Bank operations, both the GEF and the World Bank component are processed as one project in the World Bank cycle: one concept meeting, one appraisal meeting, one appraisal document, and one Board approval. However, only a minority of World Bank-implemented GEF projects have been fully blended with their Bank parent project as described in more detail in Chapters 5 and 6. One concern voiced by World Bank interviewees was that adding a GEF component would risk slowing down the World Bank component when fully blended. According to some interviewees, initially blended projects would sometimes be “de-blended” to allow the World Bank component to move ahead without having to wait for GEF component approval and endorsement.

4.55 Figure 11 confirms this concern. Fully blended World Bank-GEF projects travel more slowly from project concept to Board approval. These projects also take longer to reach effectiveness after Board approval, as shown in Appendix D3 of Volume 2 of this report (Figures 3.9–3.11). For projects approved during FY2007–10, for example, it took 26 months for the first 50 percent of blended projects to move from concept review to Board approval — more than twice as long as non-blended ENRM projects without GEF involvement.

Figure 11. Elapsed Time (in Days) between Project Concept Meeting and Board Approval for IBRD/IDA ENRM Projects Not Blended with a GEF Component (“Bank”) vs. IBRD/IDA ENRM Projects Fully Blended with a GEF Component (“Parent”)



Source: Business Warehouse as of July 24, 2013.

Note: Based on the portfolio of Board-approved projects as of June 30, 2013.

Secondary Evidence

4.56 As noted above, the 2007 *Joint Evaluation of the GEF Activity Cycle* found that the project cycle was neither effective nor efficient, and that the situation had grown worse over time before 2007. The time needed to produce projects had increased with GEF requirements (GEF Evaluation Office 2007a, pp. 5–7). The evaluation recommended completely redrawing the project cycle with the goal of making it shorter, more transparent, and predictable (Ibid, p. 11).

4.57 According to OPS4, tensions in the GEF Partnership were mostly focused on pre-implementation phase issues (GEF Evaluation Office 2010a, p. 3). Agencies and the Secretariat complained about each other’s efforts in the Project Identification Form (PIF) phase (Ibid, p. 188). OPS4 further noted that project concepts tended to be sent back and forth between the Secretariat and the Agencies. This was echoed by World Bank and GEF staff interviewed for this Review, who pointed to the lengthiness of the review and approval processes in the GEF,⁴⁰ as well as by the efforts of the GEF Secretariat to limit these back and forth interactions to one single review (GEF 2010c, p. 13).

40. In a preparatory document for a meeting of the Fee Working Group, provided by the Bank’s Coordination Unit, GEF Agencies reported an average of 2.7 and 3.0 reviews per project, or 50.6 and 30.2 days respectively, for the GEF Work Programs submitted to the GEF Council in May 2011 and November 2011.

4.58 Over time, GEF project-cycle reporting requirements have grown and have taken the form of prescriptive templates. During the GEF Pilot Phase, the World Bank used its own format — the Executive Project Summary — for presentation to the STAP, GEF OP, and GEF Participants (GEF 1994a, p. 97). In 1995, a template for preparation fund requests and a standard profile for project proposals comprising key points to be addressed were adopted (GEF 1995d, appendixes). The World Bank adapted its own templates — the project concept and appraisal documents — to include additional GEF information in 1997 (GEF 1998a, p. 4). The information required in the GEF templates became increasingly quantitative and more complex over time. For example, in the 2011 GEF templates for concept submission (PIF) and CEO endorsement, TTLs must break down the budget in three different matrices: by Focal Area outputs, by project outputs, and by Agency, Focal Area, and country.

4.59 A cursory review of template requirements over recent years illustrates this increase in template volume. In 2007, 45 individual pieces of information⁴¹ were required in the CEO endorsement request template. This number grew to 68 in 2008 and to 71 in 2011. In order to facilitate the completion of the templates, the Secretariat prepared and updated guidelines that reference documentation to use to address the different items. The amount of documentation referred to in these guidelines also increased between 2007 and 2011.⁴²

4.60 The size of project concept documents and of requests for CEO endorsement followed this trend. Figure 12 shows the results of a page-counting exercise of project documents based on different versions of project concept and endorsement request templates.

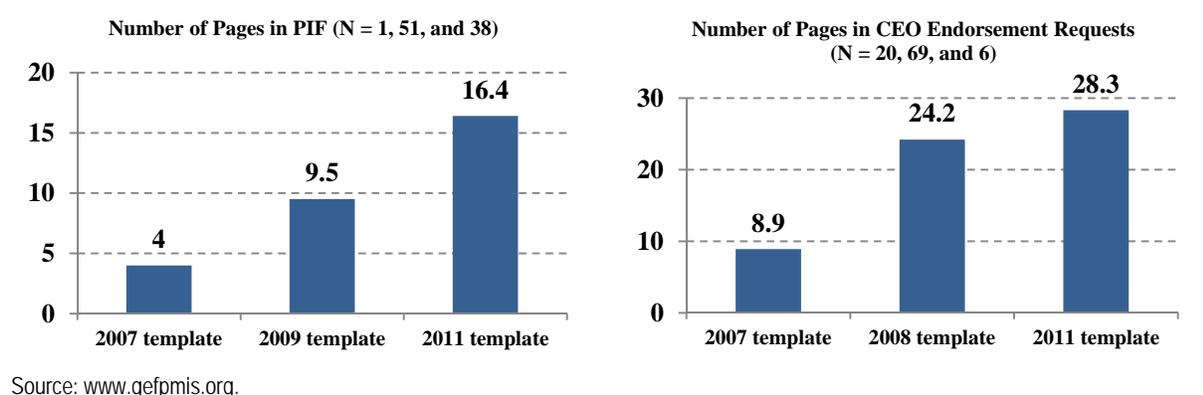
4.61 Interviewees in the World Bank felt that the post-2007 reform — frontloading of information requirements at concept stage — had decreased the degree to which project proposal information requirements were in sync between the World Bank and the GEF. TTLs and Coordination Team staff felt that the level of detail requested in GEF project concept templates largely exceeded the information usually available at the project concept stage. In some cases, TTLs admitted to simply guessing information not available at that early stage. Then this led to discrepancies with the information provided at the CEO endorsement stage upon which the Secretariat would request explanations, resulting in a back and forth process.⁴³

41. The information items counted in this cursory review range from general and easy to provide information (such as project title and country) to more complex quantitative and qualitative information on the project (such as financial data or incremental costs reasoning). The difference in time and effort required by the different items was not weighed. However, it should be noted that especially the addition of complex information requirements between 2007, 2008, and 2011 contributed to the increase in template volume, such as the project justification paragraphs added in 2008, the Focal Area Strategy Framework added in the 2011 template, or the description of socio-economic benefits also added in the 2011 template.

42. The 2007, CEO endorsement request templates referred TTLs to a single seven-page document. This increased to four documents with 165 pages total in 2008 and to 16 documents with 361 pages in 2011.

43. For illustration, a content analysis of a CEO endorsement request document for a randomly selected project was conducted. For this particular case, two-thirds of content was copied either from the project identification form submitted for Council approval or from the project appraisal document.

Figure 12. Numbers of Pages in Project Identification Forms and CEO Endorsement Requests



4.62 The increasing project cycle-related workload, combined with the introduction of the RAF, caused increasing tensions between the GEF and its Agencies (GEF Evaluation Office 2010a, p. 188). OPS-4 found that “these tensions and complaints have become a negative asset, a reputational risk for the GEF that endangers its future as a viable mechanism for the conventions in addressing global environmental problems.” OPS4 recommended that the Council should address these tensions by delegating more responsibility to the GEF Secretariat, Agencies, and Focal Points (Ibid, pp. 22–23). This led the Council to delegate the second project review to the CEO and the Secretariat in 2010 (GEF 2010b and GEF 2010d).

4.63 Although too early to assess, one would assume that projects under the Programmatic Approach would be processed faster than individual projects because of the upfront approval of an entire Program Framework. As mentioned above, GEF-5 World Bank projects under the Programmatic Approach undergo simplified procedures with delegated concept approval. This could constitute a rationale for the Bank to privilege Programmatic Approaches over single projects. Bank staff interviewed confirmed that the Bank has been willing to increase its share of Programs, especially in the context of the new allocation system (discussed in Chapter 7).

4.64 Bank staff perceive that these efficiency gains have been more than offset by increased scrutiny of the GEF review at the CEO Endorsement stage for GEF-5 projects and an insufficient level of fees for projects under the Programmatic Approach. According to Bank staff, this constitutes a disincentive for TTLs to use the Programmatic Approach, which partly explains the drop in the share of Council-approved FSPs under the Programmatic Approach compared to all Council-approved FSPs both in number (from 44 percent approved during GEF-4 to 21 percent during GEF-5) and in volume (from 42 percent to 30 percent).⁴⁴

44. Based on PMIS database downloaded on July 11, 2013. The shares are based on the portfolio of Council-approved Full-Sized Projects implemented by the World Bank. The PMIS indicates the approval date of the Program Framework for GEF-5 FSPs under the Programmatic Approach, as these do not require individual Council approval. Note also that the GEF-5 shares are not definitive. However, the shares of projects under the Programmatic Approach are smaller if all pipeline projects (excluding cancelled and dropped projects) are considered.

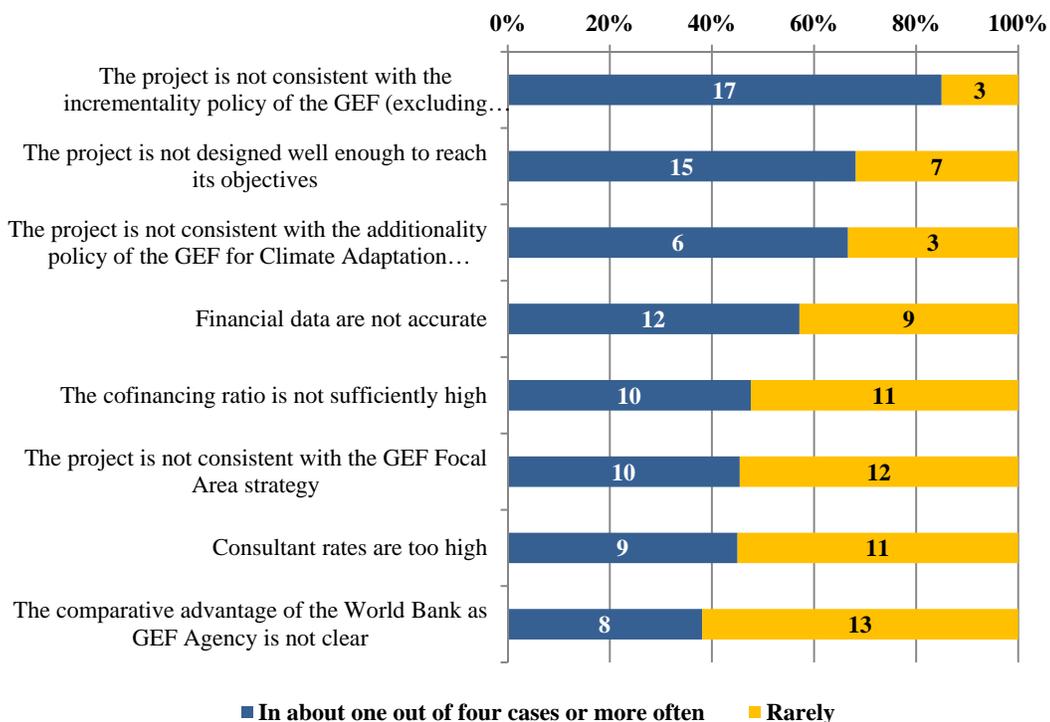
ISSUES FROM THE PERSPECTIVES OF GEF PROGRAM MANAGERS

4.65 GEF Program Managers have been primarily concerned about project quality. From their point of view, this covers both GEF-specific issues, such as consistency with the incremental cost principle as well as project design issues that should be covered by the World Bank’s own quality assurance mechanisms.

4.66 In interviews, Program Managers usually had no problem providing anecdotal evidence for cases in which, they felt, projects had not been eligible when first presented for review. Many Program Managers clearly saw themselves as advocates and the ultimate check in ensuring that World Bank-GEF projects effectively contributed to GEF objectives. Several Program Managers mirrored the former GEF CEO’s opinion that without corrective action by the GEF Secretariat, World Bank-GEF projects would not always represent “good projects.”

4.67 Profound concerns about project quality are also reflected in the IEG survey of 22 GEF Program Managers, the details of which are provided in Volume 3. A striking 85 percent of responding Program Managers estimated that a quarter or more of GEF project concepts were not consistent with the GEF’s incrementality policy for those focal areas where this principle applies (Figure 13). For climate change adaptation, where the

Figure 13. Issues Encountered When Reviewing Project Identification Forms of World Bank-Implemented Projects, as Perceived by GEF Program Managers



Source: IEG Survey of GEF Program Managers.

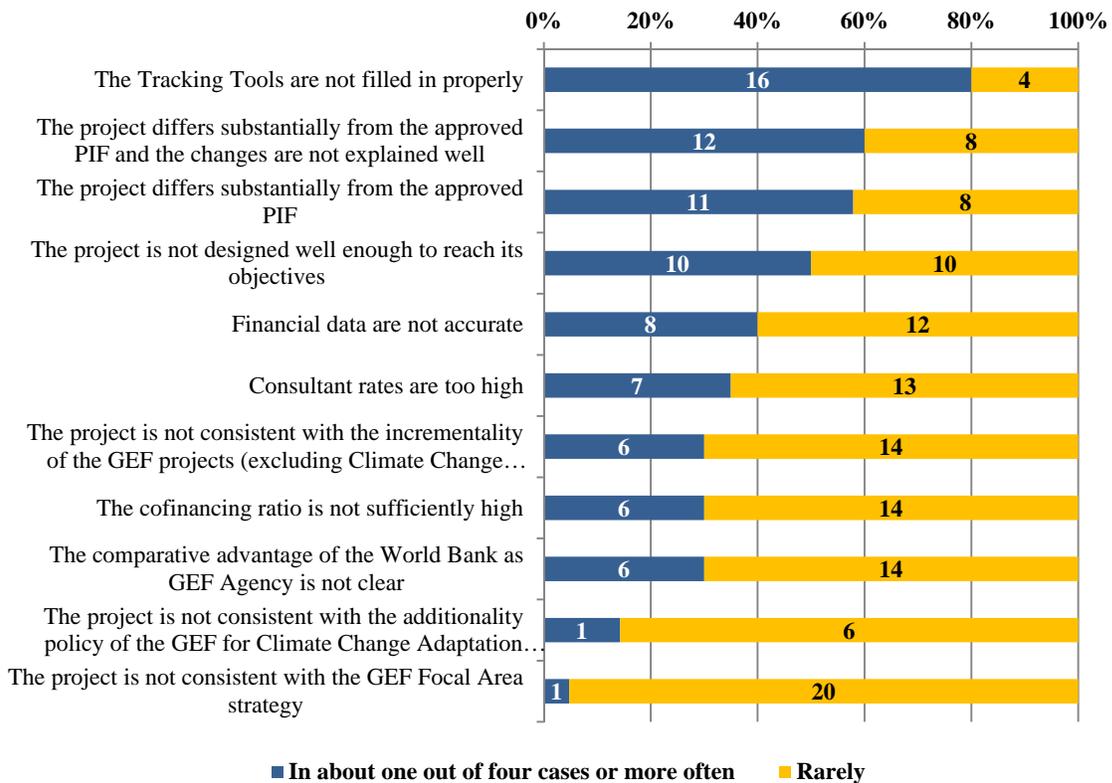
Note: Number of answers is indicated in chart.

Question: “When reviewing PIFs of World Bank-implemented projects, how often do you encounter the following issues when the PIF is submitted for the first time?”

incrementality criterion is replaced by the additionality criterion (characterizing activities and resources necessary to adapt to effects of climate change that would not be required in the absence of climate change), 67 percent of the respondents with that background felt that adaptation project concepts were inconsistent with the additionality principle in one out of four cases or more when first presented. Ten out of 22 respondents felt that a quarter or more of project concepts were inconsistent with GEF Focal Area strategies. Half of the respondents felt that a quarter or more of the projects were not designed well enough to reach their objectives when presented for concept review.

4.68 At the GEF CEO endorsement stage, Program Managers felt that compliance with the technical requirement of providing Tracking Tool data was the least satisfactory aspect: 80 percent of respondents felt that the tracking tools were not filled in properly in a quarter or more of all cases (Figure 14) and 40 percent felt that this was true in half or more of all cases (see Volume 3, survey for GEF Program Managers). Also at the same stage, more than half of the respondents felt that a quarter or more of appraisal documents exhibited substantial and not well explained changes compared to the earlier concepts. While Program Managers felt that consistency with focal area strategies and incrementality/additionality principles had

Figure 14. Issues Encountered When Reviewing CEO Endorsement Requests for World Bank-Implemented Projects, as Perceived by GEF Program Managers



Source: IEG Survey of GEF Program Managers.

Note: number of answers indicated in chart.

Question: "When reviewing CEO Endorsement Requests of World Bank-implemented projects, how often do you encounter the following issues when the CEO Endorsement Request is submitted for the first time?"

improved considerably from the concept stage, half of the respondents remained unconvinced about project design — judging that a quarter or more of projects were not designed well enough to reach their objectives.

4.69 At the CEO endorsement stage, GEF projects have already successfully navigated the World Bank’s project cycle through the appraisal phase. It is therefore surprising that GEF Program Managers voiced substantial concerns about the quality of project design at that stage. This was confirmed in interviews conducted with present and former GEF staff: there exists a tangible perception in the GEF Secretariat that the World Bank, left to its own devices, will generate an intolerably large proportion of inadequately designed GEF projects.

ISSUES FROM THE PERSPECTIVES OF WORLD BANK TTLs

4.70 In contrast to the feedback received from GEF Program Managers, World Bank TTLs and Coordination Team staff were primarily worried about process issues when asked about the project cycle.

4.71 Interviewees from these groups perceived that a lack of harmonization between the GEF and the World Bank project cycles caused serious disruptions in the latter and that feedback from the GEF Secretariat had become increasingly unpredictable over the last few years.

4.72 Interviewees also felt that the overall effort required to process GEF projects had grown to levels that seriously diminished the attractiveness of GEF projects for World Bank staff and their managers. They also felt that the transactions costs related to GEF projects were no longer offset by the administrative fees that the GEF provided to the World Bank.

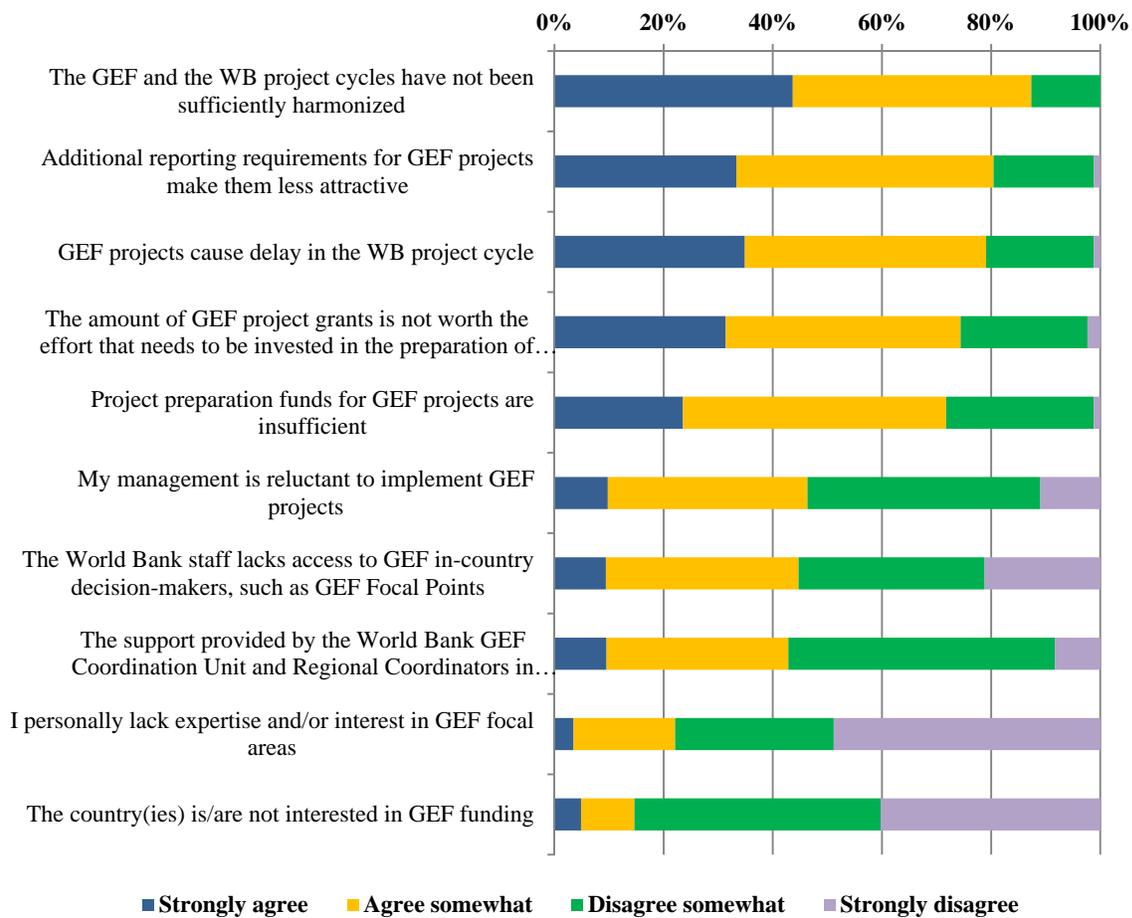
4.73 Following up on some of these perceptions in a survey of World Bank TTLs, a majority felt that many project-cycle steps required simplification but felt strongest about the approval and concept stages: 78 percent and 73 percent, respectively, agreed that those steps needed to be simplified the most (49 percent and 43 percent, respectively, strongly agreed) (see survey of TTLs in Volume 3 of this report).

4.74 There was also strong agreement among TTLs that the GEF and World Bank project cycles had not been sufficiently harmonized (Figure 15): 87 percent of respondents either agreed strongly (51 percent) or somewhat (36 percent) with this statement and 80 percent felt that additional reporting requirements for GEF projects made them less attractive. Seventy-nine percent agreed with the statement that GEF projects caused delays in the World Bank project cycle.

4.75 Seventy-eight percent felt that the amount of GEF project grants was not worth the effort that needed to be invested in the preparation of a GEF project, and 72 percent felt that project preparation funds for GEF projects were insufficient.

4.76 To a lesser but nonetheless substantial degree, 46 percent specified that their management was reluctant to implement GEF projects, and 43 percent felt that the support provided by the Bank’s GEF Coordination Team was insufficient, although only 10 percent expressed strong agreement with each of those two statements.

Figure 15. Hurdles for Implementing GEF Projects in the Bank as Perceived by World Bank TTLs



Source: IEG Survey of World Bank TTLs.

Note: N=82 to 87 depending on sub-question.

Question: "In your opinion, what are the main hurdles (if any) for implementing GEF projects in the Bank? Please indicate your level of agreement with the following statements."

4.77 More broadly, not only TTLs of GEF projects perceived project-cycle issues as hurdles for implementing GEF projects in the World Bank. This perception also prevails among TTLs who have managed environmental projects other than GEF projects: 68 percent (19 of 28) agreed that GEF grants were not worth the effort that needed to be invested in the preparation of a GEF project.

4.78 Overall, the tone of feedback received was consistently critical. Asked in an unprompted, open-ended question to relate any positive or negative experiences with the GEF project cycle, 38 out of 40 survey respondents reported negative experiences.⁴⁵

45. Question in the survey for TTLs: "Please use the space below to explain or give details about any positive or negative project-cycle issues you have experienced." For the qualitative analysis of this open-ended question, the reader is referred to Volume 3 of this report.

RESPONSES TO PROJECT SIMPLIFICATION IDEAS

4.79 In line with their lack of confidence in the World Bank's ability to generate generally acceptable GEF projects, Program Managers were very hesitant regarding suggestions for relaxing GEF reviews of project proposals (Figure 16 and 17). Program Managers largely rejected the idea of limiting the review of projects at concept and appraisal stage to consistency with GEF strategies and policies: 82 percent were somewhat or fully against limiting either the review itself or the review templates to this. All respondents unanimously felt that the review of project design should be at least as important as reviewing consistency with GEF strategies and policies. Ninety-five percent were somewhat or fully opposed to the idea entirely entrusting quality at entry to the World Bank.

4.80 By contrast, TTLs mostly agreed with the options offered. Their feedback is quite the opposite of that provided by GEF Program Managers for about half of the suggested simplification measures. This opposing feedback, by itself, is an indicator of serious issues in the partnership. The lack of confidence in World Bank-GEF project quality make GEF staff very hesitant towards a number of simplification measures while their World Bank colleagues apparently do not share these concerns.

4.81 Several interviewees in the Bank felt that a clear sense of trust and accountability at the management level of both the Bank Group and the GEF represented a necessary condition for any partnership to function effectively and expressed the view that this sense of trust and accountability had broken down since the mid-2000s. Staff interviewed in the World Bank also echoed the observation made by GEF Program Managers and other GEF staff that, while still amicable in many cases, overall interactions between World Bank and GEF staff had become increasingly frosty.

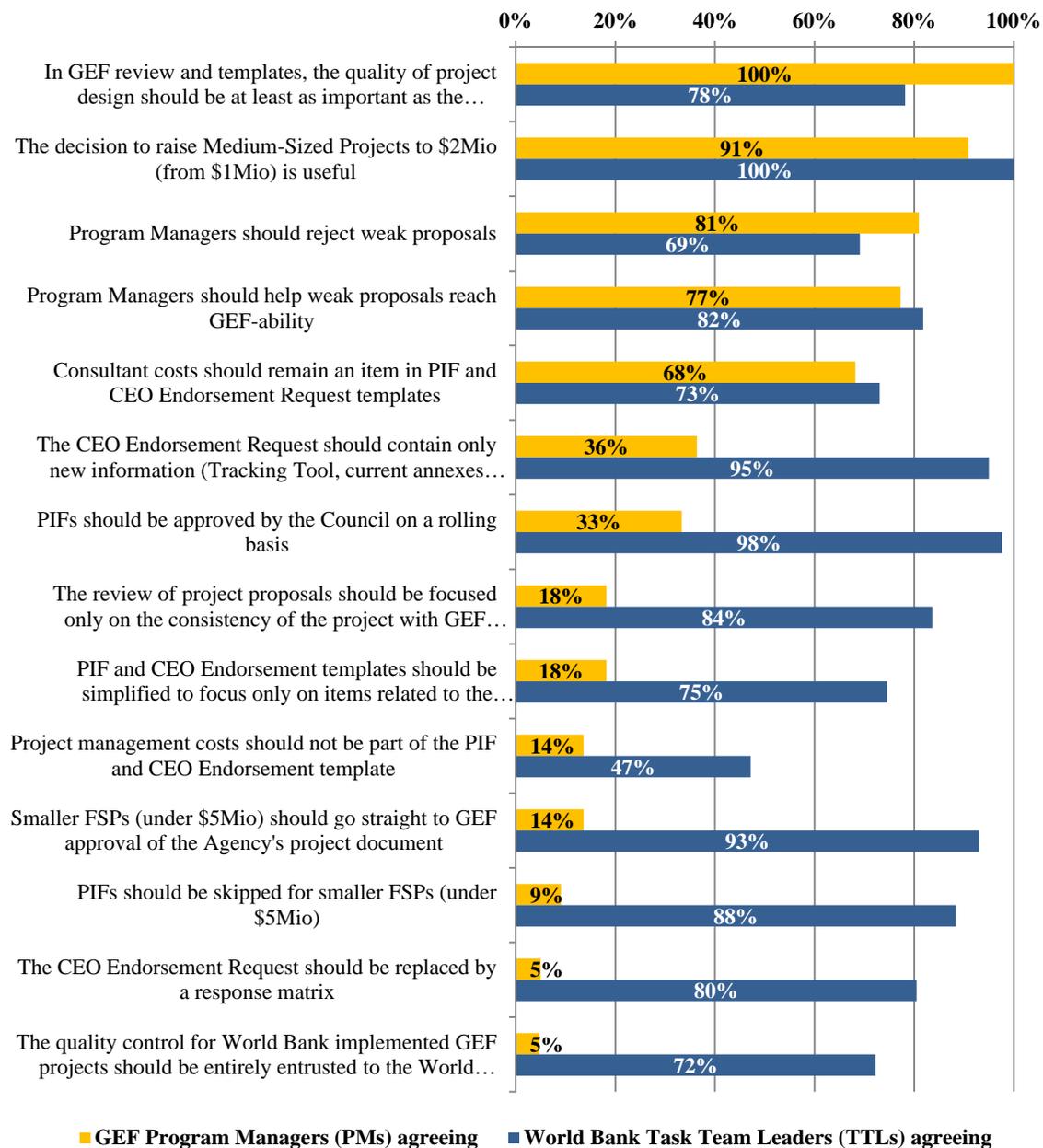
Harmonizing the World Bank and GEF Project Cycles: Procedures and First Experiences

4.82 In November 2012, in response to the reduction in project fees provided to GEF Agencies, the Council approved a Project Cycle Harmonization Pilot between the World Bank and the GEF. The measures under this pilot aim at reducing the costs of inter-agency coordination and at enhancing opportunities to more fully realize the GEF's strategic value in World Bank-implemented GEF projects by better integrating the individual project cycles of the two partners.

4.83 This pilot only started implementation around January 2013. This section describes the arrangements agreed upon by the World Bank and the GEF to harmonize their joint project cycle and synthesizes initial, general experiences (until about July 2013) with the pilot from the perspective of both partners.

4.84 **Arrangements.** Under the pilot arrangements, the points of interaction between the GEF and the Bank have been moved upstream in the World Bank project cycle and the amount of information exchanged at each stage has been reduced, also removing duplication. At the concept stage, GEF Program Managers receive the draft Project Concept package, the Focal Point endorsement and the GEF Data Sheet — comprising GEF-specific information

Figure 16. Opinion of GEF Program Managers and World Bank TTLs on Project-Cycle Streamlining Measures



Source: IEG Surveys of GEF Program Managers and World Bank TTLs.

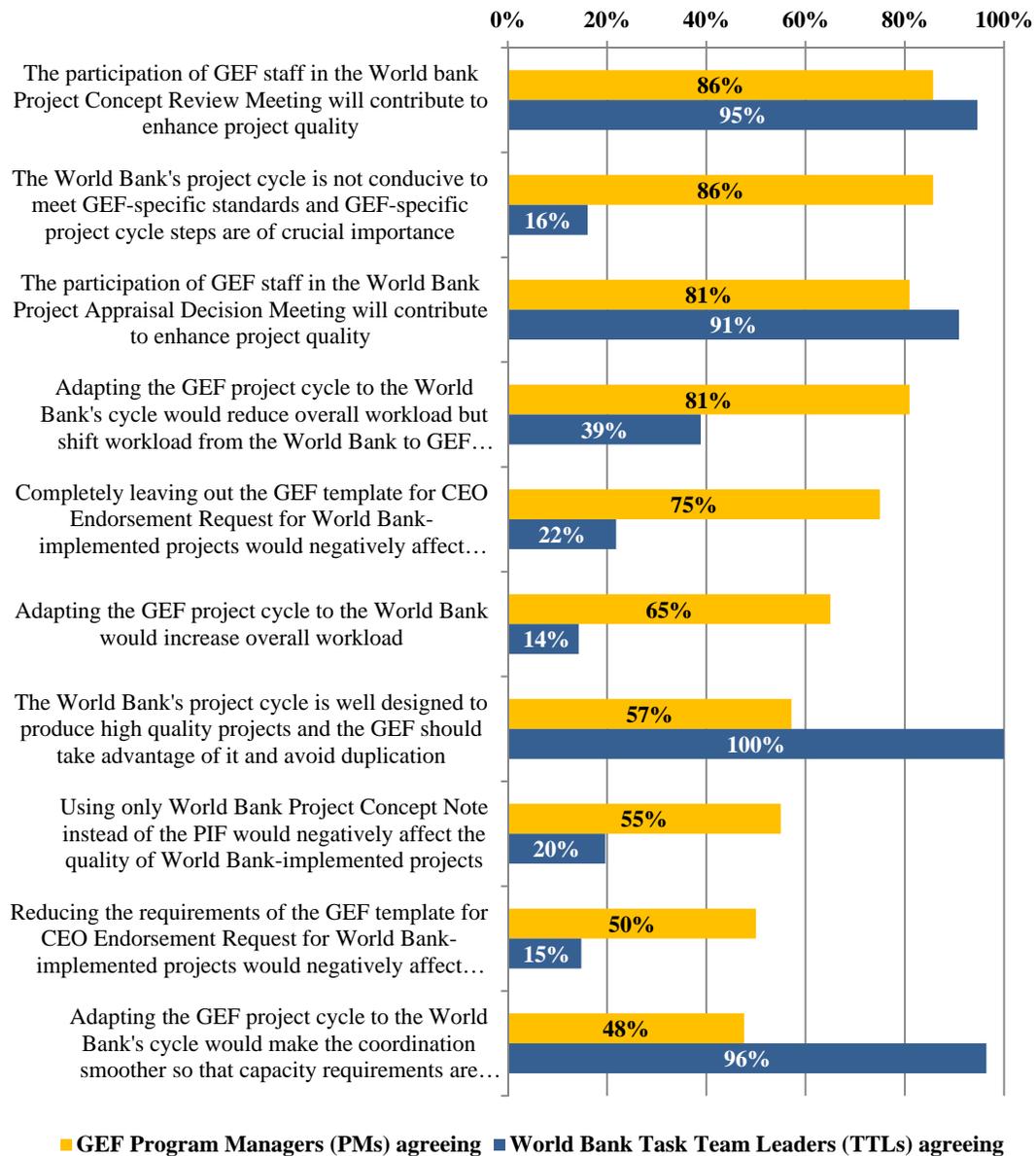
Notes: N=20 to 22 for Program Managers and N=40 to 55 for TTLs, depending on sub-question.

Question:

"During the last Council meeting, participants have agreed to further streamline the GEF project cycle vis-à-vis all GEF Agencies. In your opinion, how could the project cycle between the GEF and its Agencies be further improved? Please indicate your level of agreement with the following statements. Statements are sometimes formulated in a provocative way in order to trigger your reaction. They do not reflect the opinion of the evaluators."

Note on answer options: Some statements differed slightly in wording between the two surveys.

Figure 17. Opinion of GEF Program Managers and World Bank TTLs on the Project-Cycle Pilot Undertaken by the GEF and the World Bank



Source: IEG Survey of GEF Program Managers and World Bank TTLs.

Notes: (N=20 to 22 for Program Managers and N=54 to 56 for TTLs depending on sub-question).

Question: "In addition to the general streamlining measures discussed in the previous questions, the World Bank and the GEF are currently discussing a pilot for a further simplified project cycle. Secretariat staff will participate in key decision meetings of the World Bank. Instead of submitting PIF and CEO Endorsement templates, the World Bank will submit its own project documents. Project review by the GEF will be based on World Bank's Project Concept Notes and Project Appraisal Documents. Further documentation required is being discussed. In your opinion, what will be the impact contribution of the simplification measures described below? Please indicate your level of agreement with the following statements. Statements are sometimes formulated in a provocative way in order to trigger your reaction. They do not reflect the opinion of the evaluators".

not included in the Project Concept Note or in the Project Information Document — and send a concise review e-mail to the TTL in advance of the Bank Project Concept Note meeting. Program Managers participate in Bank Project Concept Note Review Meetings, convey consolidated GEF Secretariat comments, and clear the concept package.⁴⁶ If a Quality Enhancement Review takes place, the Program Manager is also invited to participate. The Council approves the project based on the Project Information Document.

4.85 Similarly, prior to CEO Endorsement, Program Managers receive and review the Decision Meeting package, including the draft Project Appraisal Document and the GEF Data Sheet, and attend the Decision Meeting, which takes place before the Bank appraisal mission and the finalization of the Project Appraisal Document. The project is endorsed by the CEO on the basis of the cleared Decision Meeting minutes. Co-financing letters and the tracking tool can be submitted after the CEO endorsement. A graphic representation of the Pilot Project Cycle is provided in Appendix D of Volume 2 of this Review.

4.86 **Status of implementation.** Since the November 2012 Council decision, all new GEF-5 projects submitted by the World Bank as well as projects at the concept or appraisal stages are managed under these harmonized procedures. A number of interactions and joint Project Concept Note Review and Appraisal Decision Meetings have taken place along the new project-cycle procedures.

4.87 **First results from the perspective of the partners.** The World Bank and the GEF have not yet jointly gathered and agreed on results from the pilot experiences. From the perspective of the World Bank, this harmonization effort is an important move towards the optimal and complementary use of Bank and GEF competencies. Instead of being disruptive of the World Bank project cycle, upstream interactions and decision points allow for a more effective and constructive contribution of the GEF to the development of projects through more direct contact and timely input. The coordination has become considerably smoother through reduced back-and-forth interactions and faster GEF and Bank response time. In the long run and beyond the new project-cycle procedures, however, World Bank staff interviewed would like to see a more direct and clear line of accountability to the Council and a stronger focus of the Council on policy and strategic issues.

4.88 The views of the GEF Secretariat on the pilot mirror these findings. On the operational level, the direct interaction between Program Managers and TTLs has fostered cooperation and considerably improved coordination by avoiding unexpected comments at key GEF decisions points. However, the GEF Secretariat is concerned that the information provided cannot satisfy the Council's information and accountability requirements. According to GEF Secretariat staff interviewed, Council members voiced these concerns during the last Council meeting in June 2013

4.89 **Remaining issues.** The level of information to be transmitted from the Bank to the GEF has been an important point of disagreement during the negotiations and implementation of the pilot. Although a fragile consensus could be reached, underlying

46. Although projects under the Programmatic Approach undergo a streamlined cycle with delegated GEF approval to the Bank, GEF Program Managers are also invited to Project Concept meetings of these projects.

perceptions still diverge on the appropriate level of detail in relation to GEF-specific project information and might constitute a source of friction in the near future. While the World Bank's Coordination Unit focuses on minimizing information additional to World Bank documentation, the GEF Secretariat is concerned that the Council does not receive sufficient information.

4.90 The focus of this joint World Bank-GEF initiative has been on improving the efficiency of the project cycle and on enhancing opportunities to more fully realize the GEF's strategic value in World Bank-implemented GEF projects through upfront direct consultation between the Bank's task teams and the GEF Program Managers and the minimization of GEF-specific information requirements that go beyond World Bank documentation at the concept approval and CEO endorsement stages. However, the pilot has not yet addressed the underlying issue of GEF Council and Secretariat accountability requirements and the related wish for detailed, GEF-specific *ex ante* project documentation. Without addressing these requirements and preferences properly, the piloted project-cycle simplifications may be unsustainable.

Conclusions

4.91 GEF projects essentially follow two parallel project cycles: a GEF-specific cycle and the standard project cycle of the GEF Agency. Up to the end of GEF-4, these intertwined project cycles became increasingly inefficient. By 2007, an evaluation found that the project cycle was neither effective nor efficient, and that the time required for a GEF-3 project to travel from first receipt to effectiveness had grown to an average of 3.7 years.

4.92 Project-cycle reforms in 2007 and 2010 that aimed to increase processing speeds were apparently not effective for GEF-4 projects, while GEF-5 projects do not yet show any indication of being processed more quickly. The difference in processing speed between World Bank ENRM projects and World Bank GEF projects was also the greatest during the GEF-4 period.

4.93 From GEF-3 to GEF-5, World Bank ENRM projects blended with GEF projects required significantly more time than other World Bank ENRM projects, confirming the concerns voiced by Bank staff that GEF components can slow down big investment projects.

4.94 A number of factors seem to contribute to World Bank-GEF project-cycle inefficiencies. First, while the *de jure* accountability of Bank Group management for GEF-financed activities has been established, GEF Program Managers and the GEF CEO exert a not clearly defined *de facto* authority, ultimately toward individual TTLs, in a gray area between only assessing the eligibility of received project proposals and actively co-designing World Bank-implemented GEF projects. This creates ambiguity in the respective roles and responsibilities of the GEF CEO, GEF Program Managers, the Bank's GEF Coordination Team, and TTLs of GEF projects in the Bank. Second, fees for GEF project administration are felt to be at unsustainably low levels by World Bank management. Third, the GEF cycle is frontloaded relative to the World Bank's project cycle, since the GEF's PIF requires more information than normally expected at the concept stage of Bank-supported investment projects. Fourth, the overall volume and detail of GEF project-cycle documentation

requirements has risen over time. This is likely driven by attempts for standardization across GEF Agencies by the GEF Secretariat, by accountability requirements of the GEF Secretariat towards the GEF Council and Assembly, and by preoccupation in the GEF Secretariat about the quality of GEF projects.

4.95 Controversy about administrative fees and the prolonged operational difficulties in managing the combined World Bank-GEF project cycles have had a significant negative impact on World Bank-GEF professional and personal relationships:

- GEF Secretariat staff and the former GEF CEO showed reduced trust in the World Bank’s ability to generate “good” GEF projects.
- At the same time, World Bank staff felt that many GEF-specific, project-cycle steps should be abandoned or radically simplified.
- Within the World Bank, the attractiveness of GEF projects deteriorated: 78 percent of the surveyed TTLs felt that the dollar amount of GEF project grants was not worth the effort that needed to be invested in project preparation and 72 percent felt that project preparation funds for GEF projects were insufficient.
- On a personal level, several interviewees indicated that the collegial working relationships that had existed between the GEF Secretariat and Bank staff in the 1990s and early 2000s had turned frosty and that the sense of trust and accountability in the partnership had broken down after that.

4.96 Regarding IFC, the project cycle was faster than similar projects implemented by GEF Implementing Agencies prior to the RAF. The introduction of the RAF made it very difficult for IFC to match GEF approval requirements with private-sector requirements in terms of approval processing speed. Therefore, the GEF Earth Fund was established partly to mitigate this risk to private-sector involvement in the GEF, with project approval authority delegated to IFC. However, a project-by-project CEO endorsement requirement was re-introduced for GEF-5 PPP programs, with the risk of rendering IFC-GEF project approval processes unattractively slow for private-sector partners.

4.97 Recently, the GEF and the World Bank have piloted a major simplification of the World Bank-GEF project cycle that aims to add strategic value to World Bank-implemented GEF-supported projects and to reduce project cycle-related technical inefficiencies such as processing speed and duplication of work along the combined World Bank-GEF project cycle. Initial experiences with this pilot suggest that inter-agency coordination has become smoother and allowed for more constructive exchanges among the partners on individual projects, although some disagreements on GEF information requirements continue to exist. The simplification pilot does not, however, address the underlying reasons that drove the GEF’s project cycle into increasing degrees of review intensity, nor has it reconciled the loss of personal and professional trust. While the project simplification pilot can represent an important part of a comprehensive solution, the underlying reasons — such as the GEF’s accountability requirements — need to be addressed as well, or past project cycle-related issues are likely to resurface in the future.

5. Portfolio Evolution and Project Effectiveness

5.1 This chapter describes the portfolio of Bank Group-implemented GEF projects, analyzes key trends in the evolution of the portfolio over time, and assesses the development effectiveness of the portfolio on a number of dimensions.

5.2 For each question, the World Bank portfolio is discussed first and the IFC portfolio second. The two portfolios are discussed separately because the two organizations have worked with different clients (governments vs. the private sector), have had different business models, and have utilized different instruments to achieve their objectives. While the World Bank has implemented projects in all six focal areas, the IFC has concentrated its efforts in the climate change and biodiversity focal areas.

5.3 This portfolio review covers the two primary GEF project modalities in both the World Bank and IFC, namely FSPs with a GEF contribution of more than \$1 million, and MSPs with GEF contributions of \$1 million or less, as well as FSPs and MSPs approved under the GEF's Programmatic Approaches. This portfolio review does not cover other GEF modalities, such as the GEF's Small Grants Program (administered by UNDP), Enabling Activities, or work based on Project Preparation Grants.

5.4 The portfolio review includes projects financed by the *GEF Trust Fund* —the GEF's largest and primary trust fund — as well as the LDCF and the SCCF, both of which were established in 2001 to help countries adapt to climate change. The IFC portfolio also includes the Earth Fund which was established as a separate fund in 2007.

5.5 The portfolio review covers all projects approved by the World Bank and IFC from the GEF Pilot Phase (1991–94) until June 30, 2013 — the end of the Bank Group and GEF fiscal year 2013. It includes all active and closed projects, including those canceled after approval, but excludes pipeline projects and projects dropped before being approved by the World Bank or IFC.

5.6 The portfolio review and analysis has been challenging because of significant data discrepancies among the five sources that were used to compile the Bank Group portfolio:

- The GEF's Project Management Information System (PMIS);
- The Council list, obtained from the World Bank's GEF Coordination Unit;
- The Multilateral Trustee/Innovative Financing (CFPMI) Department;
- The World Bank's Business Warehouse; and
- IFC Annual Board reports, IFC Blended Finance Unit data, and IFC intranet.

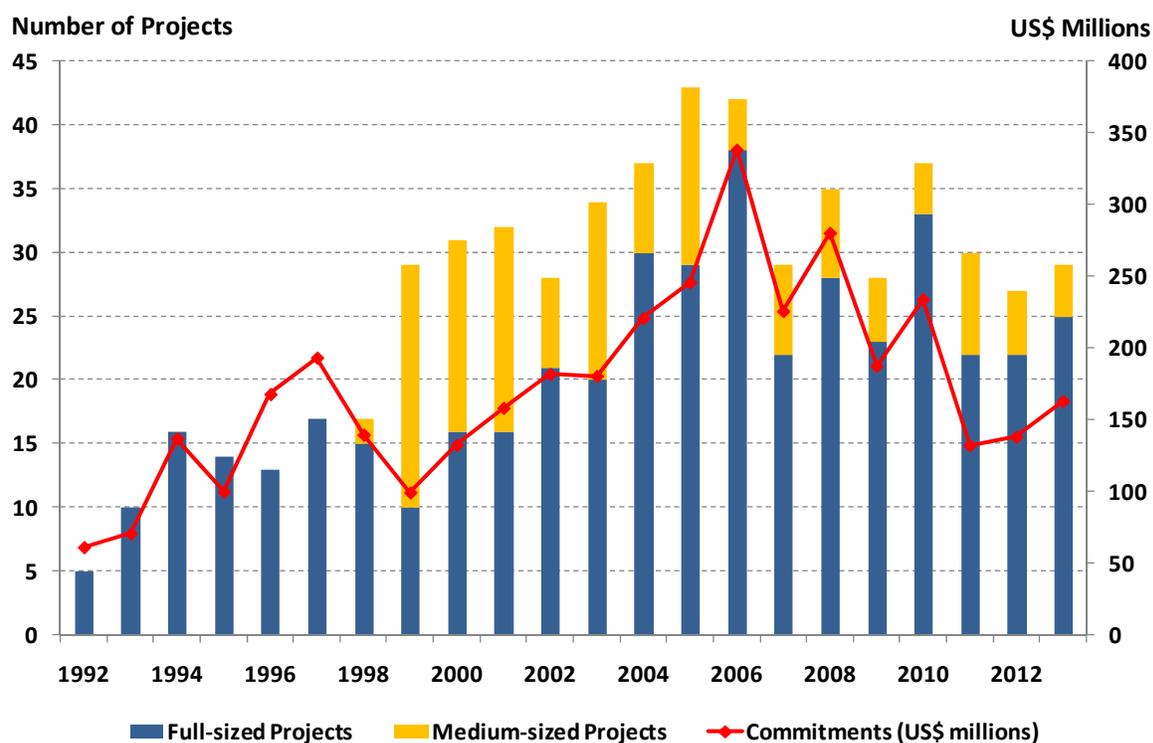
The ways in which IEG dealt with and reconciled these discrepancies is discussed in Appendix E1 of Volume 2 of this review.

Overview of the World Bank's GEF Project Portfolio

5.7 Up to June 30, 2013, the World Bank approved 445 FSPs and 138 MSPs, with a total commitment amount of \$3.8 billion. The latter amount translates into \$4.8 billion in U.S. dollars, after applying the OECD deflator for resource flows from DAC donors (which averaged 2.7 percent per annum from 1995–2011). Other amounts referenced in this chapter have not been adjusted for inflation. This portfolio includes FSPs and MSPs approved under the GEF's Programmatic Approaches, but does not include the IFC portfolio of \$309 million which is described later in this chapter.

5.8 World Bank approvals of GEF projects grew over time, peaking with 43 approved projects in FY2005 and declining somewhat irregularly after that (Figure 18). The associated annual commitment amounts peaked first in 1997 at \$193 million, and second in 2006 at \$338 million, also declining somewhat irregularly after that to less than half of the previous peak value. The World Bank approved 27 GEF projects in FY2012 for \$138 million and 29 GEF projects in FY2013 for \$163 million.

Figure 18. World Bank-Implemented GEF Projects by Fiscal Year of World Bank Approval



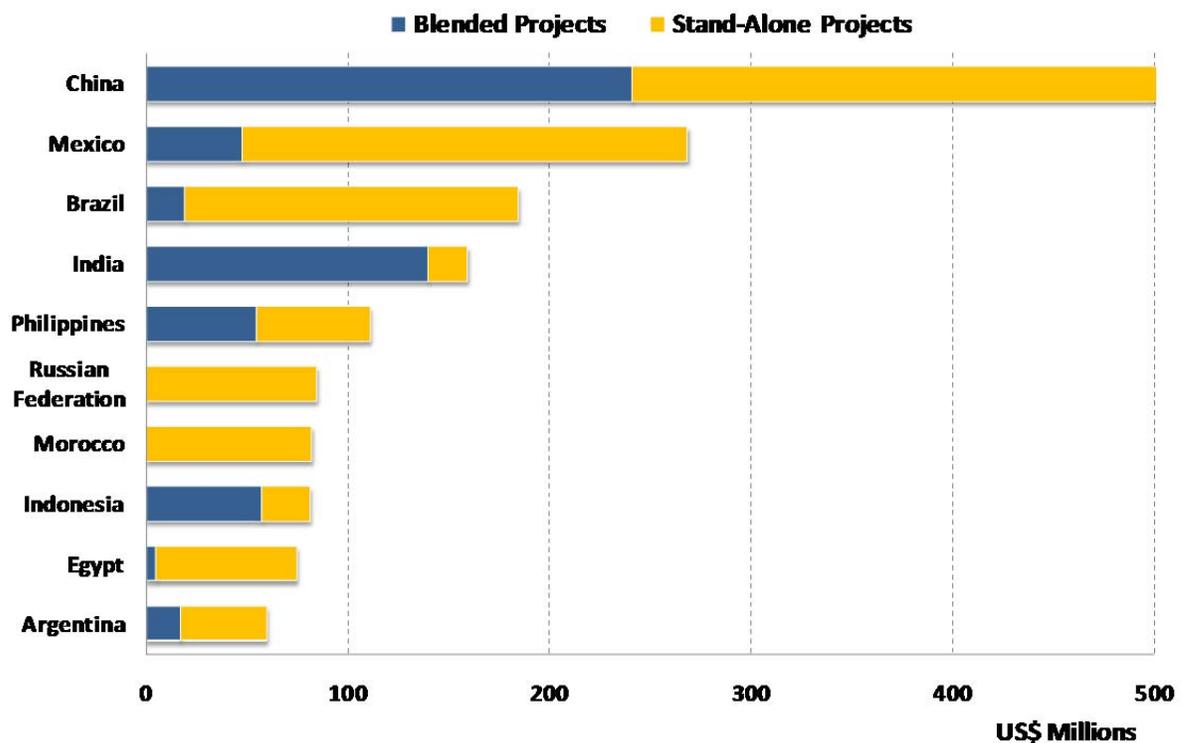
Sources: World Bank Business Warehouse, GEF Council Project List.

5.9 Three-quarters of the projects (445) were FSPs and one-quarter (138) were MSPs. The average size was \$8.1 million for the FSPs and \$780,000 for the MSPs. The number of MSPs has noticeably declined since the introduction of the new Resource Allocation

Framework (RAF) in GEF-4 — from an average of 12 projects a year from 1999–2006 to 6 projects a year from 2007–2013. (The impacts of the RAF and STAR are discussed in greater depth in Chapter 7.)

5.10 The size distribution of FSPs is somewhat skewed: the largest 10 percent of the FSPs represented 31 percent of total FSP commitments. The skewness in the commitment amounts is related to the large projects that have been approved in large developing countries. China has been the largest recipient both in terms of projects and commitments, receiving 6.9 percent of all projects and 14.0 percent of commitments (Figure 19). The top five countries in terms of funding — China, Mexico, Brazil, India, and the Philippines — together represent 18 percent of approved projects and 33 percent of funding. In 21 countries, only a single project has been approved, and in 36 countries that are World Bank- and GEF-eligible, no project has been approved. (Appendix E provides a complete list of countries with World Bank-GEF projects.)

Figure 19. Top Ten Recipients of World Bank GEF Projects, 1992–2013



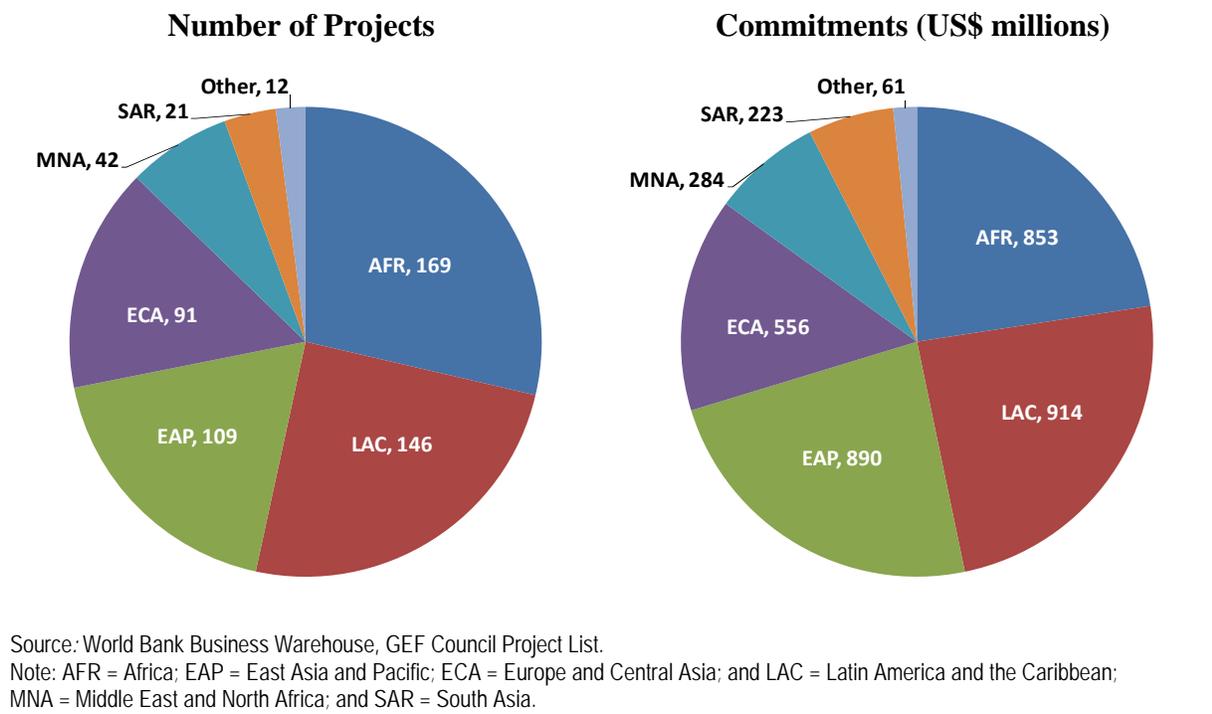
Sources: World Bank Business Warehouse, GEF Council Project List.

Note: Stand-alone projects only receive GEF financing. Blended projects received both GEF and IBRD/IDA financing together.

5.11 The share of blended projects (which receive both GEF and IBRD/IDA financing) varies markedly across countries. More than three-quarters of GEF commitments to India and Indonesia have been blended with IBRD/IDA financing, while none of GEF commitments to the Russian Federation and Morocco have so far been blended. However, the World Bank is currently preparing two fully blended GEF projects in the Russian Federation with considerable IBRD financing — the National Urban Transport Improvement Project and the Russian Energy Efficiency Financing project. (The subject of blending is discussed in greater depth in Chapter 6.)

5.12 **Regional Distribution.** Sub-Saharan Africa has received the largest number of GEF projects (29 percent), while Latin America and the Caribbean have received the largest volume of commitments (24 percent) (Figure 20). These proportions are similar for the World Bank as a whole. Overall, across all sectors, the Bank has approved the largest number of projects (29 percent) in Africa since 1992, and has committed the largest volume of lending (23 percent) to Latin America and the Caribbean during this same time period.

Figure 20. World Bank-Implemented GEF Projects by World Bank Region



5.13 The Latin America and Africa regions have had a greater focus on biodiversity projects, representing 55 percent and 40 percent of their respective portfolios. The South Asia, East Asia, and Middle East and North Africa regions have had a greater focus on climate change projects, representing 61 percent, 58 percent, and 48 percent of their respective portfolios. The Europe and Central Asia region has had a relatively even share of biodiversity, climate change, and international waters projects.

5.14 GEF commitments to global and regional environmental programs and projects — as opposed to single-country projects — represent a significant share of World Bank-implemented GEF projects (143 projects or 25 percent) and of funding (\$895 million or 24 percent.) These shares include country projects that are part of regional initiatives, such as 10 country projects under the Black Sea-Danube Basin Partnership. Many of these projects have been approved under the GEF's Programmatic Approach, since the latter was formally introduced in 2008, because most of the Bank's approved Programmatic Approaches have been regional or subregional in nature.

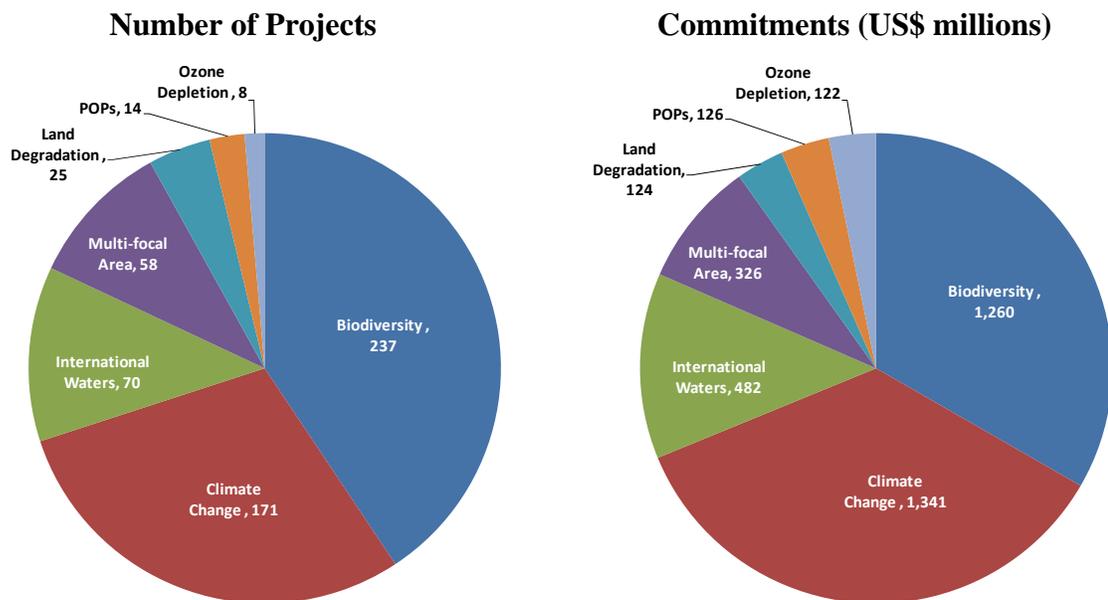
5.15 Through its project funding, the GEF has provided financial support to:

- Five global environmental programs — the Critical Ecosystem Partnership Fund (CEPF); the Coral Reef Research and Capacity Building Program; the International Assessment of Agricultural Knowledge, Science and Technology for Development (IAASTD); the Save our Species Program; and the Alliance for Responsible Fisheries
- Five global projects
- Five regional partnership programs — the Africa Stockpiles Program, the Black Sea-Danube Partnership, the Mesoamerican Biological Corridor (MBC), the Nile Basin Initiative, and TerrAfrica; and
- More than 80 regional projects not associated with any of the above.

5.16 Regional programs and projects often focus on a shared environmental resource, such as a body of water (like the Aral Sea or Lake Victoria), a river system (like the Nile or the Mekong), or a biodiversity corridor. The programs exist to a large extent to address the shared management and use of their common resource (IEG 2007). Indeed, 40 percent of the regional programs and projects were in the international waters focal area and 22 percent in the biodiversity focal area. All of the five global environment programs listed above have been supported by the Bank's Development Grant Facility, and 26 percent of the other projects have been blended with IBRD/IDA finance.

5.17 **Focal Area Distribution.** Among the six GEF focal areas, biodiversity projects are the most numerous, representing 41 percent of all projects, while climate change projects have represented the largest share of commitments (35 percent) (Figure 21).

Figure 21. World Bank-Implemented GEF Projects by GEF Focal Areas



Source: GEF Project Management Information System and World Bank Business Warehouse.

5.18 Each World Bank project is mapped to a Sector Board. The Bank’s Environment Sector Board has been responsible for preparing and supervising the largest volume (48 percent) of GEF commitments, more than half of this for biodiversity projects (Table 4). The Energy and Mining Sector Board has been responsible for 26 percent of GEF commitments, almost exclusively for climate change projects. The Agriculture and Rural Development Sector Board has been responsible for preparing and supervising 16 percent of GEF commitments across a range of focal areas.

5.19 The Environment Sector Board and the Agriculture and Rural Development Sector Board have been responsible for preparing and supervising all the multi-focal area projects approved by the GEF and the World Bank since the GEF Council first started approving such projects in the late 1990s. These have averaged three to four projects a year, totaling about \$20 million of annual commitments.

Table 4. World Bank GEF Projects by Focal Areas and Sector Board Mapping (US\$ millions)

World Bank Sector Boards	GEF Focal Areas							Total
	Bio-diversity	Climate Change	International Waters	Land Degradation	Multi-focal Area	Ozone Depletion	POPs	
Agriculture and Rural Development	312.8	32.1	92.1	72.1	111.2			620.3
Economic Policy		0.8						0.8
Energy and Mining		996.8	3.2					999.9
Environment	934.5	172.7	185.4	52.0	214.5	122.2	126.2	1,807.7
Financial & Private Sector Devt.	0.9	2.8						3.7
Social Development	9.1							9.1
Transport	1.8	111.1	49.3					162.2
Urban Development		25.0	19.5					44.5
Water	0.8		132.4					133.2
Total	1,259.9	1,341.2	481.8	124.1	325.8	122.2	126.2	3,781.3

Source: World Bank data.

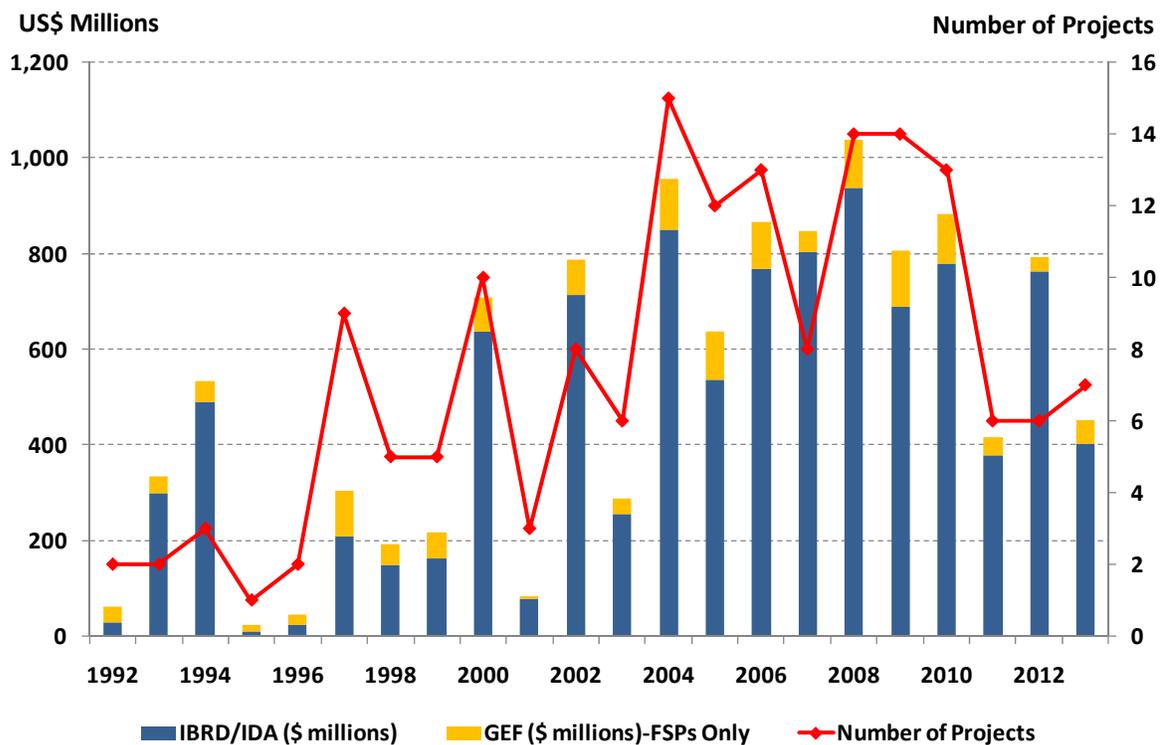
Note: Each World Bank project is supervised by a task team leader who reports to a regional manager who is represented on a Bank-wide Sector Board. Each project is thereby “mapped” — or becomes the responsibility of — that Sector Board.

5.20 **Blended Projects.** IEG was able to identify 168 GEF projects that were either partially or fully “blended” with IBRD/IDA projects. For fully blended projects, associated GEF and World Bank projects are processed as one project so that there is only one set of project documentation and one decision at each stage in the project cycle (apart from the negotiation stage). For partially blended projects, the associated GEF and World Bank projects are processed somewhat or completely separately. At some or all stages in their project cycles there are two separate sets of project documents, one for each project. Stand-alone GEF projects are not formally associated with any other World Bank project in terms of processing. MSPs were almost never blended with

World Bank projects. Only four of the 168 blended GEF projects (2 percent) were MSPs, although MSPs represent 24 percent of all approved projects.

5.21 The number of blended FSPs increased somewhat erratically over time, peaking at 15 projects in 2004, and declining thereafter (Figure 22). Over the entire time period, these have averaged about seven to eight projects a year, and accounted for GEF commitments averaging \$60 million a year and IBRD/IDA commitments averaging \$454 million a year. It is possible that there were more blended projects in the early years that were not recorded as such.

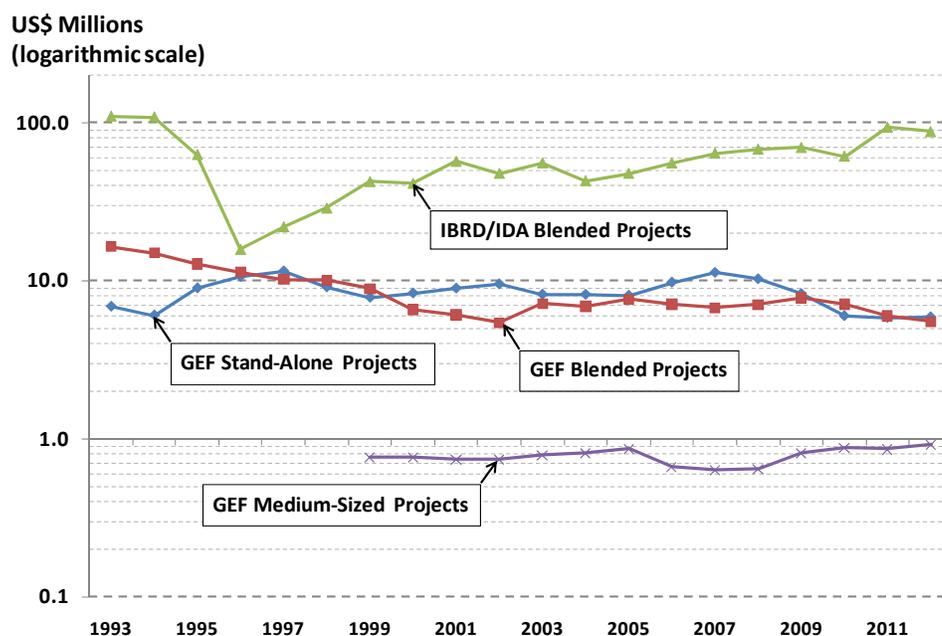
Figure 22. IBRD/IDA and GEF Commitments for Blended Full-Sized Projects



Source: World Bank Business Warehouse.

5.22 By way of summary, the average size of MSPs implemented by the World Bank has been \$780,000 and of stand-alone projects \$8.2 million. The average contribution of GEF financing to blended projects has been \$7.9 million, and of IBRD/IDA financing to blended projects \$59 million. However, these amounts have varied over time (Figure 23).

5.23 **GEF Share in World Bank Environment-Related Projects.** In the World Bank, environment and natural resource management (ENRM) is a crossing-cutting theme, not an economic sector. Therefore, the Bank's total portfolio of environment-related projects consists of those projects — about one-third of all Bank projects — coded with at least one environment or natural resource management theme, but mapped to many Sector Boards. The share of ENRM themes in the Bank's total commitments has averaged about 11 percent since 1991, when the GEF was established, peaking at 18 percent in 1994 and declining sharply to a low of 5 percent in 2002, before recovering after that.

Figure 23. Average Annual Size of World Bank-Implemented Projects

Source: World Bank Business Warehouse, GEF Council Project List.

Note: These are three-year moving averages in order to reduce the year-to-year fluctuations.

5.24 New ENRM projects have recovered from a low of 66 projects and \$1.04 billion in commitments in 2002 (Figure 24 and Figure 25). But a significant portion of the increase since 2002 has comprised development policy operations providing budgetary support in exchange for policy and institutional reforms. Excluding development policy operations, ENRM investment lending in 2011–13 was still 15 percent below that of 1993–95 in real terms (using the OECD/DAC deflator for official development assistance).

5.25 As indicated in Chapter 3, the sources of financing for World Bank projects have become more diversified. Although the GEF has accounted for 25 percent of all World Bank environmental projects since 1992, GEF projects have been considerably smaller than other ENRM projects and only accounted for 4 percent of total environmental financing (5 percent when excluding development policy operations). IBRD and IDA projects have accounted for 90 percent of all environmental financing but for only 64 percent of all projects, reflecting their larger size. The various carbon finance facilities located in the World Bank have accounted for 6 percent of all projects and 3 percent of financing. Other Bank-administered trust funds (such as the Climate Investment Funds established in 2008) have accounted for 4 percent of projects and only 3 percent of financing.⁴⁷

47. So far, there have been seven Bank-implemented projects using both GEF and CIF financing — five being supported by the Clean Technology Fund (CTF) and two by the Pilot Program for Climate Resilience (PPCR). In the first three CTF cases, an initial, innovative GEF project led to a larger IBRD and CIF project: the Morocco Concentrated Solar Polar project, the Indonesia Geothermal Power Generation project, and the Mexico Urban Transport Transformation project. In two subsequent CTF cases and the two PPCR cases, the projects have been designed with GEF and CIF financing from the beginning: the Mexico Efficient Lighting and Appliances project, the India Partial Risk Sharing Facility in Energy Efficiency (under preparation),

Figure 24. Number of World Bank ENRM Projects by Product Line

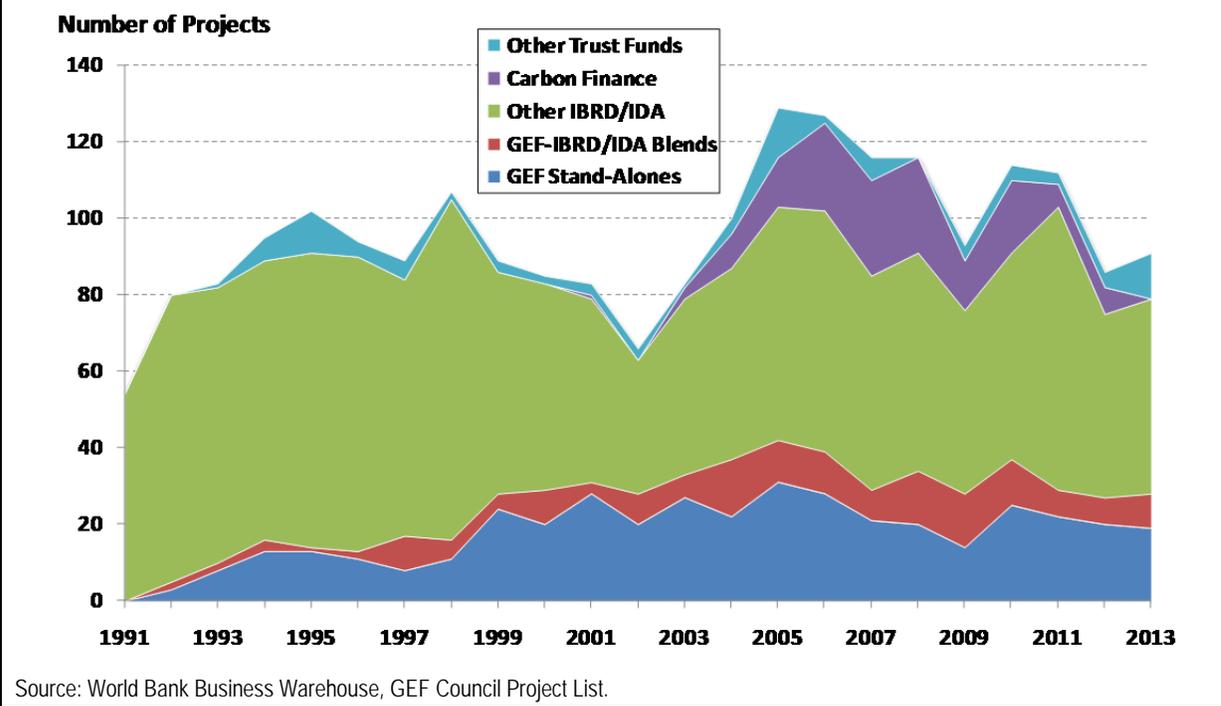
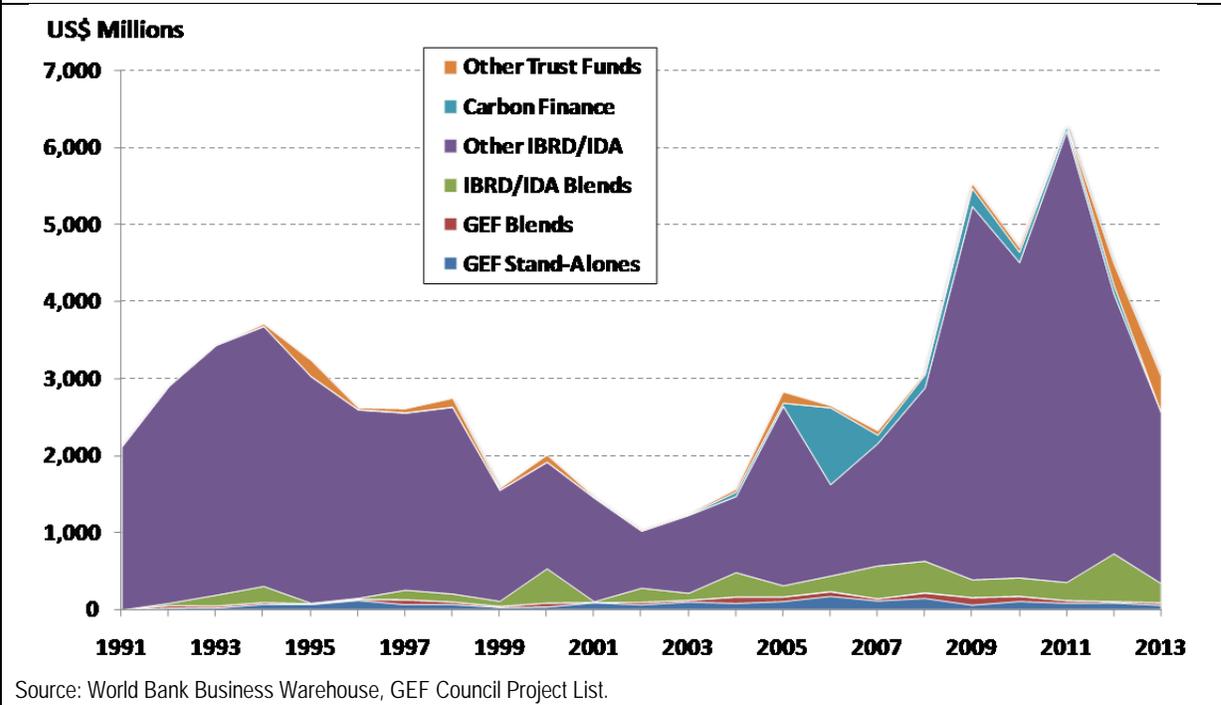


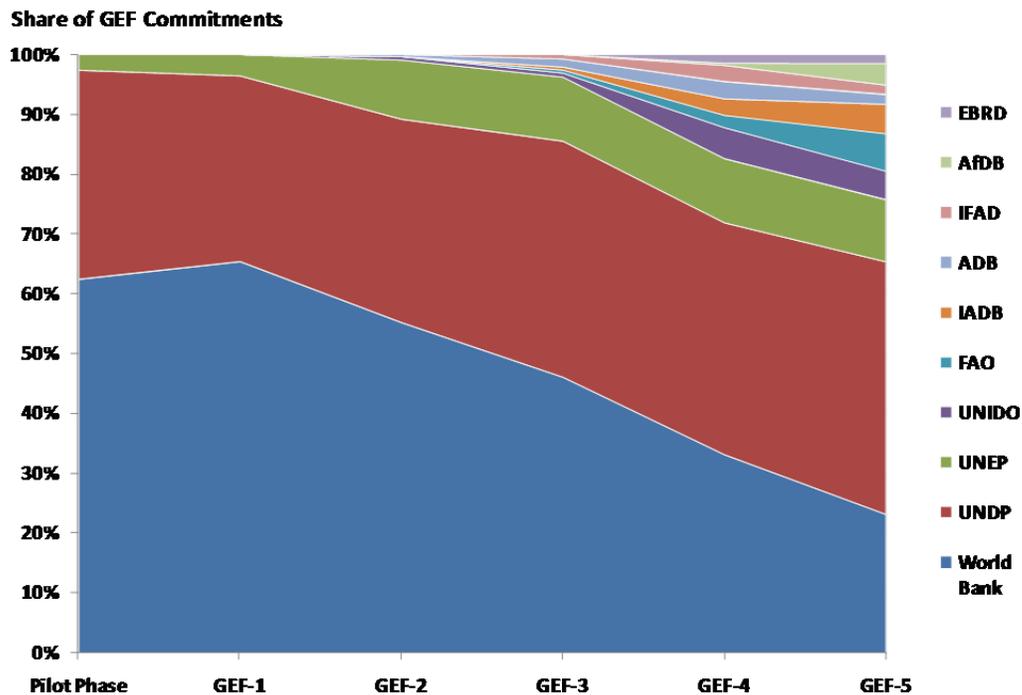
Figure 25. World Bank ENRM Projects: Commitments by Product Line



Tajikistan Environmental Land Management and Rural Livelihoods, and the Yemen Climate Resilient Integrated Coastal Zone Management (under preparation).

5.26 The World Bank's share of GEF commitments has also declined over time. This fell from an average of 60 percent for projects approved in the Pilot Phase, GEF-1, and GEF-2 to 46 percent in GEF-3, to 33 percent in GEF-4, and to 23 percent during the first three years of GEF-5 (Figure 26).

Figure 26. Share of GEF Commitments by Implementing Agency and Replenishment Phase



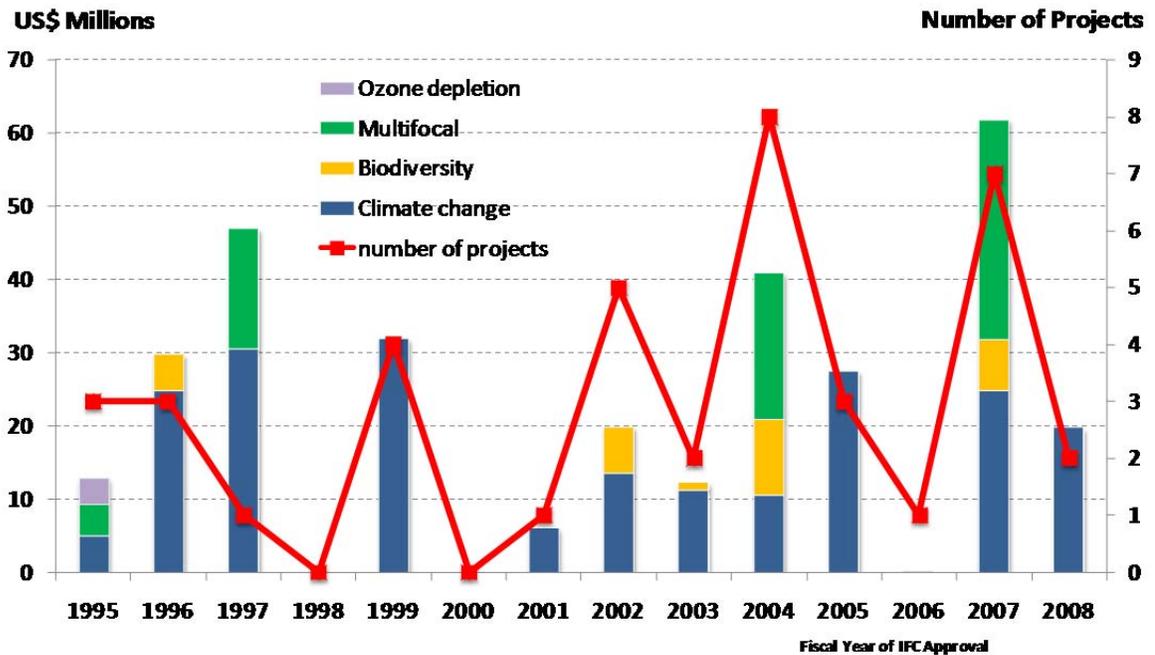
Source: GEF Project Management Information System. These shares are based on GEF Council approvals of Full-Sized Projects, Medium-Sized Projects, and Enabling Activities, and includes projects implemented by both the World Bank and IFC.

Overview of the IFC's GEF Portfolio

5.27 Up to June 30, 2013, IFC approved 40 GEF projects with a total commitment amount of \$309.1 million.⁴⁸ The number of project approvals has fluctuated considerably over time, following the evolution of the relationship between the GEF and IFC (Figure 27). When there was active collaboration at the end of the 1990s, several climate change programs were approved. When there were IFC-GEF project-cycle issues in the early 2000s, commitments declined but rebounded when the Environment Business Finance Program (EBFP) and the IFC Earth Fund Platform were approved.

48. The portfolio of IFC-implemented GEF projects has been derived from the following sources: IFC's annual reports to the World Bank Group Board from 1995 to 2006 on its GEF-financed activities, the GEF's Project Management and Information System, an IFC evaluation of IFC's GEF projects (Le Group Baastel 2006), IEG's Environmental Effectiveness Evaluation (IEG 2007), IFC's review of Sustainable Energy Finance Investments (IFC 2012), IFC's internal operational database Idesk, and IEG's internal evaluation database. See Appendix E-2 for the entire IFC-GEF portfolio of 40 projects.

Figure 27. IFC-Implemented GEF Portfolio, by GEF Focal Areas



Source: IFC Blended Finance Unit data, GEF CFPMI, IFC Annual Board Reports, IFC Intranet

Note: This information only refers to the approval date and commitments to "parent" projects, not to the subprojects of global programs, such as the SME Program or the IFC Earth Fund.

5.28 IFC's GEF portfolio covers several practice areas: energy efficiency, renewable energy, biodiversity, ozone layer depletion, and multi-focal areas (Table 5). Global projects have represented more than half the portfolio. Among regions, Europe and Central Asia has had the largest number of projects and commitment volumes, due to its large energy efficiency portfolio. The East Asia and the Pacific region follows with a mix of renewable energy, energy efficiency, and biodiversity projects, and the Latin America and the Caribbean region is third, with the majority of its portfolio in the biodiversity focal area.

5.29 Within the practice areas indicated in Table 5, IFC has applied four major project modalities: individual projects, multi-country initiatives, facilities and financing via financial intermediaries, and global projects. Energy efficiency interventions, for example, have mainly been implemented via financial intermediaries and only some as individual projects or multi-country initiatives. The renewable energy portfolio includes individual projects, multi-country initiatives, and global programs. Most biodiversity interventions have, with few exceptions, been individual projects.

5.30 The majority (73 percent) of interventions have been FSPs with an average size of \$10.3 million and representing 98 percent of all commitments. The 11 MSPs have averaged \$700,000 each and accounted for 2 percent of overall IFC-GEF commitments.

Table 5. IFC's GEF Portfolio by Practice Area and Regions (US\$ millions)

IFC Practice Areas	No. of projects	AFR	EAP	ECA	LAC	SAR	Global	Total
Climate Change								
Energy Efficiency	11		16.5	51.5	4.8		17.1	89.8
Renewable Energy	8	10.4	4.0	20.7			40.4	75.5
Energy Efficiency and Renewable Energy	7		5.8		1.0	3.6	29.5	39.9
Biodiversity	10	0.5	14.6		7.6		7.0	29.6
Ozone Depletion	1			3.5				3.5
Multi-Focal Area	3						70.8	70.8
Total	40	10.9	40.9	75.7	13.3	3.6	164.8	309.1

Source: IEG assembled the projects and their financing from various sources: GEF Project Management and Information System, IFC Blended Finance Unit project list, CFPMI Unit project list, IFC annual reports on GEF-funded IFC activities, an internal IFC database, and individual project documents. The multi-focal area commitments of \$70.8 million include \$30 million for the IFC Earth Fund.

5.31 Co-financing of GEF projects, including from both IFC and third parties, has been significant particularly in climate change and multi-focal area projects (Table 6). For example, IFC contributions to EBFP and the China Utility-Based Energy Efficiency Finance Program were \$285 million and \$205 million, respectively, representing co-financing ratios of 14.2 and 12.4, respectively. The overall co-financing ratio was 6.2 to 1.

Table 6. Co-financing of IFC-Implemented GEF Projects, by GEF Focal Areas

	GEF - 1	GEF - 2	GEF - 3	GEF - 4	Total
GEF Funding					
Climate Change	60.1	62.6	52.5	30.1	205.2
Biodiversity	5.0	8.0	16.6		29.6
Multi-Focal Area	20.8		20.0	30.0	70.8
Ozone Depleting Substances	3.5				3.5
Total	89.4	70.5	89.1	60.1	309.1
Co-financing					
Climate Change	257.2	278.7	477.6	237.1	1,250.6
Biodiversity	55.0	39.1	37.6		131.7
Multi-Focal Area	16.5		305.2	210.0	531.7
Ozone Depleting Substances	6.0				6.0
Total	334.7	317.8	820.4	447.1	1,919.9
Co-financing Ratios					
Climate Change	4.3	4.5	9.1	7.9	6.1
Biodiversity	11.0	4.9	2.3		4.5
Multi-Focal Area	0.8		15.3	7.0	7.5
Ozone Depleting Substances	1.7				1.7
Total	3.7	4.5	9.2	7.4	6.2

Source: See Table 5. GEF funding corresponds to the amounts ultimately approved by IFC, to be consistent with other tables in this section. Co-financing corresponds to the anticipated co-financing at the time of GEF Council approval.

Effectiveness and Sustainability of World Bank-Implemented GEF Projects

5.32 The World Bank and IEG have an objectives-based approach to evaluation, which comprises monitoring and self-evaluation by the project team, and independent review and validation by IEG. The project team prepares Implementation Status Reports (ISRs) during implementation and an Implementation Completion and Results Report (ICR) after project closing. IEG prepares ICR Reviews for all projects and Project Performance Assessment Reports (PPARs) for about 20 percent of projects, the latter of which involve a mission to the country. This system aims to create a traceable pathway from each project's objectives to inputs, activities and outputs, to performance against objectives using indicators and all available evidence, and ultimately to conclusions about the overall project outcome, initially by the project team and subsequently by IEG. This also includes an assessment of future risks to maintaining the outcomes achieved, an assessment of the Bank's own performance in preparing and supervising the project, and an assessment of Borrower's performance in implementing (executing) the project.

5.33 The World Bank's regional operations and IEG have so far rated 198 out of the 284 full-sized GEF projects that have closed, of which 140 were stand-alone projects and 58 were blended projects (Table 7). Most of the blended projects were reviewed and rated as one project, against the development objectives of the World Bank project. Neither the World Bank nor IEG rates the outcomes of MSPs.

Table 7. Portfolio of World Bank-Implemented GEF Projects — Approved, Closed, and Rated

	Approved Projects	Closed Projects	Rated Projects
Total number of Approved Projects, as of June 30, 2013	583		
Number of Closed Projects	367	367	
Of which:			
MSPs – None are rated by World Bank or IEG		120	
FSPs – Not yet rated by World Bank and IEG		86	
FSPs – Rated by World Bank and IEG		198	198
Of which:			
Stand-Alone GEF Projects			140
Blended Projects			58

Source: IEG data.

5.34 Among the three focal areas with sufficient projects for statistical analysis, international waters projects have achieved the most satisfactory outcomes (averaging 84 percent), and the best ratings across all categories (Table 8). The average outcomes of the biodiversity and climate change projects have been considerably lower at 66 and 69 percent, respectively. The multi-focal area projects have had the least satisfactory outcomes (50 percent), but this represents an average of only eight projects.

Table 8. Average IEG Ratings of GEF Projects, by Focal Areas

	Bio-diversity	Climate Change	International Waters	Ozone Depletion	Multi-focal Area	Overall Average ^a
Overall Project Outcome ^b	66%	69%	84%	100%	50%	71%
Risk to Development Outcome (RDO) (% Negligible to Moderate Risk)	44%	67%	60%	–	63%	53%
Bank Performance at Entry	63%	62%	71%	100%	63%	65%
Bank Performance Overall	64%	71%	87%	100%	57%	71%
Borrower Implementation	75%	76%	74%	100%	71%	76%
Borrower Performance Overall	64%	76%	87%	100%	71%	73%
Number Rated: Outcome ^c	91	49	31	8	8	191
Number Rated: RDO ^d	48	27	15	0	8	102

Source: IEG data.

a. Includes three land degradation projects and one POP project, not reported separately.

b. All ratings refer to “percent satisfactory,” except that for RDO.

c. The number of projects for other ratings is similar to that for the overall outcome rating.

d. The World Bank and IEG only introduced this rating for projects closing in 2006 and beyond.

5.35 Among the three major Sector Boards to which projects have been mapped, there is little difference in the overall outcome ratings of energy and environment projects (Table 9). But the overall outcome and other ratings are uniformly lower for agriculture and rural development projects. This could reflect the relative diversity of agricultural projects — covering all focal areas except ozone depletion and POPs — compared to energy projects, which are mostly climate change projects (Table 4). It could also reflect the higher share of agricultural projects in Sub-Saharan Africa that exhibit overall low performance as discussed immediately below.

Table 9. Average IEG Ratings of GEF Projects, by Sector Board Mapping

	Agriculture/ Rural Dev.	Energy/ Mining	Environ- ment	Transport	Water	Overall Average ^a
Overall Project Outcome ^b	67%	74%	72%	83%	67%	71%
RDO (% Negligible to Moderate Risk)	33%	72%	56%	33%	50%	53%
Bank Performance at Entry	65%	69%	70%	67%	67%	67%
Bank Performance Overall	64%	75%	74%	83%	67%	71%
Borrower Implementation	67%	78%	83%	100%	33%	76%
Borrower Performance Overall	72%	78%	73%	83%	67%	73%
Number Rated: Outcome ^c	36	35	103	6	6	191
Number Rated: RDO ^d	18	18	54	3	4	102

Source: IEG data.

a. Includes two projects mapped to Social Development, two projects to Urban Development, and one project to Finance and Private Sector Development, not reported separately.

b. All ratings refer to “percent satisfactory,” except that for RDO.

c. The number of projects for other ratings is similar to that for the overall outcome rating.

d. The World Bank and IEG only introduced this rating for projects closing in 2006 and beyond.

5.36 The overall outcome of all eight projects in South Asia have been rated satisfactory, as have been 11 out of the 13 projects (85 percent) in the Middle East and North Africa (Table 10). Among the four regions with the largest number of projects, the projects in Europe and Central Asia and in Latin America and the Caribbean have been the most satisfactory, averaging 78 and 77 percent, respectively, followed by East Asia and the Pacific (62 percent), and Sub-Saharan Africa (54 percent).

Table 10. Average IEG Ratings of GEF Projects, by Region

Regions	AFR	EAP	ECA	LAC	MNA	SAR	Overall Average ^a
Overall Project Outcome ^b	54%	62%	78%	77%	85%	100%	71%
RDO (% Negligible to Moderate Risk)	30%	60%	57%	71%	50%	67%	53%
Bank Performance at Entry	48%	67%	78%	76%	71%	75%	68%
Bank Performance Overall	49%	71%	82%	80%	69%	100%	71%
Borrower Implementation	72%	76%	82%	83%	77%	100%	79%
Borrower Performance Overall	60%	77%	76%	78%	77%	88%	73%
Number Rated: Outcome ^c	46	29	50	43	13	8	191
Number Rated: RDO ^d	27	15	23	28	4	3	102

Source: IEG data.

a. Includes two global environmental projects, not reported separately.

b. All ratings refer to “percent satisfactory,” except that for RDO.

c. The number of projects for other ratings is similar to that for the overall outcome rating.

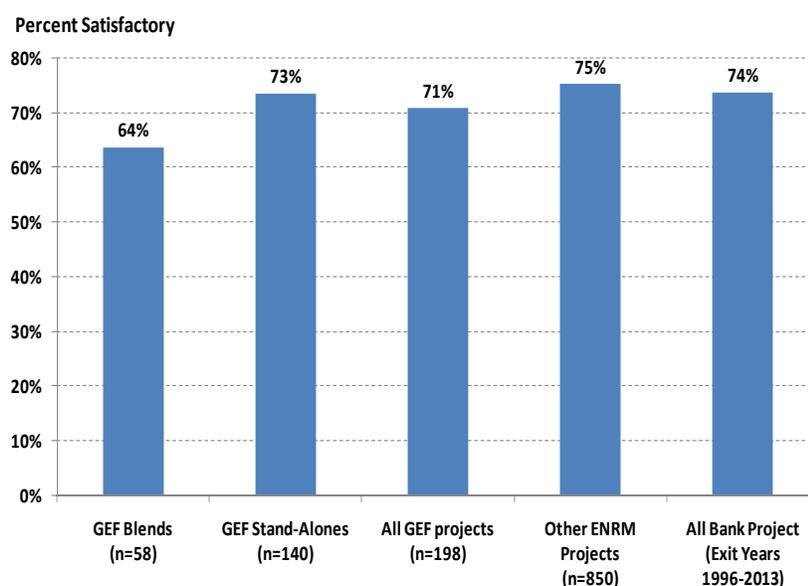
d. The World Bank and IEG only introduced this rating for projects closing in 2006 and beyond.

5.37 The overall outcome ratings for the 58 blended projects have been systematically lower (averaging 64 percent) than those of the 140 stand-alone GEF projects (averaging 73 percent), as well as those of other ENRM projects without GEF financing, and those of all World Bank projects implemented during the same period (Figure 28). The ratings of blended projects primarily reflect the outcomes in relation to the development objectives of the IBRD/IDA “parent” project, as opposed to the global environment objectives of the GEF project, and probably echo the fact that blended projects are more complicated to prepare.⁴⁹ As reported in Chapter 4, blended projects progress more slowly from project concept to Board approval, and take longer to reach effectiveness after Board approval — more than twice as long as non-blended ENRM projects. Notwithstanding the keen interest of the GEF in associating its financing with World Bank investment projects, TTLs interviewed by IEG felt that adding a GEF component to a Bank project risked slowing down the preparation and approval of the Bank project.

5.38 The average performance ratings of World Bank-implemented GEF projects have declined over time from GEF-1 to GEF-2 and GEF-3 across most rating categories (Table 11). This decline has been particularly notable for the overall outcome ratings — from 79 percent

49. In only five cases has the Bank prepared ICRs for both the blended IBRD/IDA and the GEF projects separately. The ICR Review outcome ratings were the same in all five cases — either satisfactory or unsatisfactory — and the projects have been treated as one project in all the analyses in this chapter.

Figure 28. Outcome Ratings for GEF Projects, Other ENRM Projects, and all World Bank Projects



Source: IEG data.

Table 11. IEG Ratings of GEF Projects over Time

World Bank Approval Fiscal Years (Indicative corresponding GEF Phase) ^a	1992–95 (Pilot Phase)	1996–99 (GEF-1)	2000–03 (GEF-2)	2004–07 (GEF-3)	Overall Average ^b
Overall Project Outcome ^c	79%	72%	68%	60%	71%
RDO (% Negligible to Moderate Risk) ^d	–	50%	60%	47%	53%
Bank Performance at Entry	78%	80%	59%	50%	68%
Bank Performance Overall	77%	82%	65%	59%	71%
Borrower Implementation	83%	87%	71%	77%	79%
Borrower Performance Overall	79%	77%	67%	76%	73%
Number Rated: Outcome ^e	43	54	63	30	191
Number Rated: RDO ^d	1	18	54	29	102

Source: IEG data.

a. Projects are classified by World Bank approval years to facilitate comparison with other Bank projects approved during the same time periods in Figure 29 below. These four-year periods correspond approximately to the GEF phases, assuming that Board approval occurs one year after GEF Council approval.

b. Includes one project approved in 2008, not reported separately.

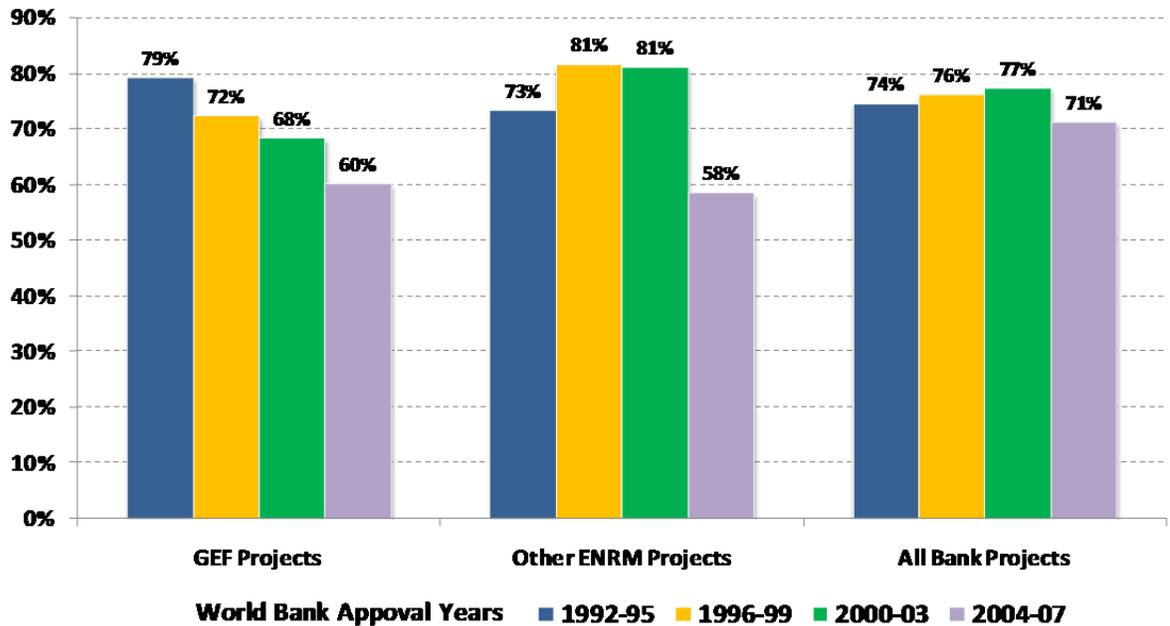
c. All ratings refer to “percent satisfactory,” except that for RDO.

d. Only one project initiated in the Pilot Phase has an RDO rating because the World Bank and IEG only introduced this rating for projects closing in 2006 and beyond.

e. The number of projects for other ratings is similar to that for the overall outcome rating.

satisfactory for projects approved by the Bank’s Board from FY1992–95 (which corresponds approximately to projects initiated during the GEF Pilot Phase), to 72 percent satisfactory for projects approved from FY1996–99 (corresponding to GEF-1 projects), to 68 percent from FY2000–03 (GEF-2), and to 60 percent from FY2004–07 (GEF-3). This decline in the average outcome rating is more uniform than that for other environment-related projects and for all World Bank projects approved during the same time periods, which only declined in the last period (2004–07) after improving during the previous two periods (Figure 29).

Figure 29. Average Outcome Ratings of GEF and Other World Bank Projects



Source: IEG data.

5.39 Investigating these declining ratings further, IEG found an average disconnect of 20 percent between the outcome ratings in the ICRs prepared by the project team immediately after project closing and those in the ICR Reviews and PPARs prepared by IEG — varying from 10 percent of projects in GEF-1 to 29 percent in GEF-3, although the latter is only based on 15 projects (Table 12). A further review of the 28 projects whose outcome ratings were downgraded between the ICR and the ICR Review or PPAR did not reveal any systematic reasons for the downgrading. Three projects had overly ambitious objectives. More than 10 had weak project designs. Eight mentioned difficult institutional collaboration. Only three ICR Reviews mentioned insufficient or demanding monitoring and evaluation. The downgraded project outcomes appear to reflect genuine difficulties with the projects as opposed to higher rating standards over time.⁵⁰

50. Commenting on an earlier draft of this report, the GEF Evaluation Office has hypothesized that the decline in ratings may be due to IEG’s raising the bar in its reviews of ICR ratings over the last few years. Regression analyses of project outcome ratings by both IEG and the GEF EO are not ultimately conclusive one way or the other — whether the observed decline is due to the declining quality of Bank-implemented GEF projects, higher World Bank implementation and evaluation rating standards in recent years, or some combination of both.

Table 12. Disconnect between Development Outcome Ratings of GEF Projects, at Different Stages of Evaluation

Approval Fiscal Years (Corresponding GEF Phase)	Number of Satisfactory Projects				Total	Number of Projects Evaluated
	1992–95 (Pilot Phase)	1996–99 (GEF-1)	2000–03 (GEF-2)	2004–07 (GEF-3)		
Last ISR before Closing	23	43	55	20	141	158
ICR	22	40	54	21	137	158
IEG's ICR Review	18	36	40	15	109	158
Disconnect ISR to ICR	-1	-3	-1	1	-4	
Disconnect ICR to IEG ^a	-4	-4	-14	-6	-28	
Percent Disconnect						
ISR to ICR	-4%	-7%	-2%	+5%	-3%	
ICR to IEG	-18%	-10%	-26%	-29%	-20%	

Source: IEG data.

Note: This analysis is based on the 158 projects (out of 198) that had ratings for all three steps in the self-evaluation and review process. ICR ratings were not recorded separately before 1999.

a. The ratings for 9 of the 28 projects with a disconnect between the ICR and IEG were based on PPARs, as opposed to ICR Reviews.

Effectiveness and Sustainability IFC-Implemented GEF Projects

5.40 IFC has so far evaluated the outcomes of 25 of the 40 GEF projects in its portfolio (Table 13). All 25 evaluated projects were Advisory Services activities funded by the GEF. Therefore, the ratings are based on the IFC self-evaluation reports called PCRs. IEG has not previously reviewed or validated any of these PCRs, but has conducted a qualitative analysis of the IFC-GEF portfolio for the present Review based on these reports, and on secondary reports and other assessments, in order to validate these findings. This qualitative analysis is summarized in Appendix E2 of Volume 2.

5.41 Table 13 presents two major IFC ratings in all 25 evaluated projects for the effectiveness of the IFC-GEF portfolio — the projects' development effectiveness and the IFC's role and contribution — in relation to the main IFC practice areas. Overall, IFC has rated the development effectiveness of its climate change projects as more satisfactory than its biodiversity projects, 71 percent to 56 percent, respectively, for an overall rating (including two other rated projects) of 68 percent satisfactory. The qualitative analysis in Appendix E2 generally confirms these ratings for each practice area.

5.42 In general, the evaluated energy efficiency projects (five of seven being rated satisfactory) represent a successful example of the effectiveness and sustainability of the IFC-GEF partnership. These projects had a high replication level (especially those which were sustainable energy facilities), and low records of losses. Based on the experience with these projects, IFC has developed a methodology for the pricing of risk-sharing guarantees (IFC 2012f, p. 29), and developed a major ongoing product line — now called Sustainable Energy Finance — that helps financial institutions to develop new business lines dedicated to energy efficiency, water efficiency, and renewable financing in emerging markets.

Table 13. Ratings of IFC-Implemented GEF Projects, by Focal Area (25 evaluated projects)

IFC Practice Areas	Number of Approved Projects	Number of Projects Evaluated	Development Effectiveness (% Satisfactory)	IFC's Role and Contribution (% Satisfactory)
Climate Change				
Energy Efficiency	11	7	86 %	86 %
Renewable Energy	8	5	60 %	80 %
Energy Efficiency and Renewable Energy	7	2	50 %	100 %
Biodiversity	10	9	56 %	78 %
Multi-focal Area	3	1	100 %	100 %
Ozone Depletion	1	1	100 %	100 %
Total	40	25	68 %	88 %

Source: IFC PCRs.

Note: Percentages are provided for illustration and do not assume statistical significance due to the small numbers.

There are 25 evaluation reports because one project (Commercializing Energy Efficiency Finance) had two reports, one each for the technical assistance and investment components of the project.

5.43 The results of the renewable energy projects have been less satisfactory. Although generally highly relevant, the projects have been weak in achieving the desired outcomes for several reasons. To begin with, renewable energy investments almost always have to compete with subsidized fossil-fuel energy supply (IEG 2010c, p. 23). Other reasons have been the lack of knowledge of the renewable energy market and the specifics of the technology. Both the technology, itself, and the related institutional arrangements take time to develop successfully in the case of new technologies like wind farms, solar home systems, PVs, and fuel cells.

5.44 The results of the nine biodiversity projects that have been completed and rated have also been weak. Their performance was constrained by the lack of knowledge about the commercial markets for the biodiversity services that they were trying to develop, about which little or no analysis was performed ahead of time. However, both IFC and the GEF viewed these projects as research and development products and incubators for financially risky approaches to be tested and replicated if successful. Their lower outcome ratings may therefore reflect the naturally higher failure rate of high-risk ventures.

5.45 Multi-focal area projects represent three important IFC-GEF programs, which served as test pilots for different approaches to GEF engagement with the private sector, in different stages of its evolution: the SME program, the EBFP, and the IFC Earth Fund. The mid-term evaluation of the SME program showed that the program was highly relevant both to IFC and the GEF, particularly with respect to local development priorities. However, the efficient implementation of the program was affected by the GEF procedures in place at the time in which every subproject in the portfolio had to seek the approval of the GEF Focal Point, which added significant delays to the approval process.

5.46 As the successor to the SME program, EBFP introduced several changes, including revising the SME eligibility criteria in order to soften the criteria for participation. The IFC rolled out the program on a country-by-country basis and provided technical assistance as

well as financing to the financial intermediaries participating in the program. As explained in Chapter 2, the authority to approve activities of less than \$0.5 million was also delegated to the IFC, although consultations with the STAP and endorsement by the GEF Focal Points were still required. Implementing projects via financial intermediaries appeared to be more successful due to greater leverage, more focus on energy efficiency (an area already known to the private sector where financial benefits were easier to quantify), and the participation of local financial intermediaries with good knowledge of local markets.

5.47 The IFC Earth Fund built on past IFC-GEF initiatives, such as the SME program, EBFP, and the Environmental Opportunities Fund. The mid-term review of the IFC Earth Fund gave positive marks to IFC's implementation with regard to the quality of the management and the effectiveness of the existing portfolio. However, the pace of deployment was slower than expected, and the design of the GEF Earth Fund was inefficient, creating misunderstanding and confusion about the role of the GEF and the private sector in the Fund.

Conclusions

PORTFOLIO EVOLUTION

5.48 Apart from being a principal founding partner of the GEF, the World Bank has been, in financial terms, the most important Implementing Agency of the GEF. Up to the end of June 2013, the World Bank's Board approved 445 FSPs and 138 MSPs with total GEF nominal commitments of \$3.8 billion (or \$4.8 billion in 2012 U.S. dollars, after adjusting for inflation). This accounts for 41 percent of all GEF commitments approved during this period.

5.49 Biodiversity and climate change account for 70 percent of World Bank-implemented GEF projects and 69 percent of all GEF commitments. The Bank Group's share of GEF commitments has varied from 26 percent of persistent organic pollutants projects to 75 percent of ozone depletion projects. Regionally, Sub-Saharan Africa has received the largest number of GEF projects (29 percent), while Latin American and the Caribbean have received the largest volume of commitments (24 percent) which represents similar proportions as for World Bank projects as a whole.

5.50 The relative and absolute magnitude of World Bank-GEF collaboration has fallen in recent years. In relative terms, the World Bank share of GEF Council approvals fell from an average of 60 percent for projects initiated in the Pilot Phase, GEF-1, and GEF-2 to 46 percent in GEF-3, to 33 percent in GEF-4, and to 23 percent during the first three years of GEF-5. In absolute terms, the volume of World Bank's Board approvals of GEF projects peaked in 2006 at \$338 million, and declined irregularly after that to about \$150 million in 2012 and 2013. While the GEF has accounted for 24 percent of the Bank's environment-related projects since 1992, it has only accounted for 4 percent of the Bank's environment-related financing since 1992 (5 percent excluding development policy operations).

5.51 Total GEF commitments for IFC-implemented projects have been \$309 million up to 2013. As in the World Bank, the IFC-GEF portfolio is dominated by FSPs (98 percent by commitments and 73 percent by number of interventions) and is sharply focused on climate change (energy efficiency and renewable energy) and to a lesser extent on biodiversity.

Multi-focal area projects (also largely climate change and biodiversity) represent 23 percent of all commitments. The evolution of this portfolio has been irregular over time, ranging from years without any commitments to more than \$60 million in 2007. There have been no new GEF commitments to IFC-approved projects since 2008.

PROJECT EFFECTIVENESS AND SUSTAINABILITY

5.52 The World Bank and IEG have so far rated 198 closed FSPs, covering mostly projects originating from the GEF Pilot Phase through GEF-3. Among the three focal areas with sufficient projects for statistical analysis, international waters have achieved the most satisfactory outcomes (averaging 84 percent) compared to biodiversity and climate change projects (averaging 66 and 69 percent, respectively). Among the three major Sector Boards to which GEF projects have been mapped, energy and environment projects have performed somewhat better than agriculture and rural development projects. Among the four regions with the largest number of projects, those in Europe and Central Asia and Latin America and the Caribbean had the most satisfactory outcomes (averaging 78 and 77 percent, respectively), followed by East Asia and the Pacific (62 percent), and Sub-Saharan Africa (54 percent).

5.53 The outcome ratings for 58 blended projects were systematically lower (averaging 64 percent) than those of the 140 freestanding GEF projects (averaging 73 percent), which were at par with other ENRM projects, without GEF financing, and with all World Bank projects during this period. The ratings of blended projects primarily reflect the outcomes of the IBRD/IDA “parent” projects, and probably reflect the fact that blended projects are more complicated to prepare and implement, as reported in Chapter 4.

5.54 The average performance of World Bank-implemented GEF projects has declined over time according to most rating criteria. This decline has been particularly notable for the overall outcome ratings — from 79 percent satisfactory for projects approved from FY1992–95, to 72 percent satisfactory for projects approved from FY1996 – 99, to 68 percent from FY2000–03, and to 60 percent from FY2004–07. This decline in the average outcome rating of GEF-supported projects is more uniform than that for other environment-related projects and for all World Bank projects approved during the same time periods, which only declined in the last period (approved during FY2004–07) after improving during the previous two four-year periods.

5.55 Among its major product lines, IFC’s energy efficiency projects have been the most successful. The energy efficiency finance programs have become a major ongoing product line, now called Sustainable Energy Finance, which helps financial institutions to develop new business lines dedicated to energy efficiency, water efficiency, and renewable financing in emerging markets. The results of IFC’s renewable energy projects have been less satisfactory because they usually have to compete against subsidized fossil-fuel energy supply. Both the technology, itself, and the related institutional arrangements take time to develop successfully in the case of new technologies like wind farms, solar home systems, PVs, and fuel cells. Both IFC and GEF viewed IFC’s biodiversity projects as research and development products and incubators for financially risky approaches to be tested and replicated if successful. Although these have generally been less successful in achieving their particular objectives of developing commercial markets for selected biodiversity services, their lower outcome ratings may reflect the naturally higher failure rate of high-risk ventures.

6. Experiences with Catalytic Approaches in the World Bank Group-GEF Partnership

6.1 The GEF, in concert with its Agencies, has attempted in a number of ways to act as catalyst and generate global environmental benefits that go beyond those directly related to the project financing from its trust funds. This chapter synthesizes and draws lessons from some of the experiences that the Bank Group and the GEF have had with these catalytic approaches. These ideas are likely to remain important in the future as well, since the GEF's innovation and catalytic roles are central elements of the current CEO's vision for the GEF (Ishii 2012).

6.2 The first section reviews the experience in increasing financial contributions to GEF projects through co-financing and leveraging. The second section reviews the experience with innovation, demonstration, and replication. The third and fourth sections review the experience with integrating global environmental objectives into projects and strategies of other organizations through blending and mainstreaming. The fifth section relates the somewhat ambiguous concept of linkages to other findings in this report. The final section draws a number of conclusions.

Co-Financing and Leveraging

6.3 The GEF Council and the GEF Secretariat have put a high emphasis on co-financing and other leveraged resources. Some interviewees felt that co-financing has been particularly high on the GEF's agenda since the mid-2000s. Co-financing volumes and ratios are part of the GEF's performance reporting, serve as benchmarks in project review,⁵¹ and are used for target-setting in the planning of future work programs. Co-financing is seen as "a key principle underlying GEF's success in its efforts to have significant positive impacts on the global environment" and the GEF Council has, on numerous occasions, expressed its interest and preference for increasing co-financing, in both absolute terms (volume) and relative terms (co-financing ratio) (GEF Evaluation Office 2010b, p. 27).

6.4 The GEF's Council-approved definition of co-financing characterizes it 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" (GEF 2003c, p. 4). These include either new, non-GEF resources that contribute directly to a GEF project's objectives or financing for baseline activities — i.e., activities conducted also in the absence of a GEF contribution, if essential for achieving GEF objectives.

6.5 However, this definition of co-financing does not appear to be understood or applied consistently across the GEF Secretariat and the GEF Evaluation Office. For example, many interviewees understood co-financing only in terms of direct contributions and not (also) in terms of financing for baseline activities. Some interpreted co-financing as non-GEF resources "mobilized" by the GEF, leaving no space for baseline resources that are built upon

51. For example, question 17 in the GEF project review sheet for Program Managers states: "Is the indicated amount and composition of co-financing as indicated in Table C adequate? Is the amount that the Agency is bringing to the project in line with its role?"

rather than mobilized. The definition itself is ambiguous on whether resources are considered co-financing if mobilized after the original financing package.⁵²

6.6 It should also be noted that this GEF-specific definition of co-financing differs from the definition used in the World Bank, which views co-financing as third party (usually other donor) resources additional to what the World Bank and the recipient (i.e., the borrowing government) are providing (World Bank Operational Manual, OP and BP 14.20). Co-financing under the World Bank definition can either be joint co-financing (expenditures from a common list are jointly financed by the World Bank and the co-financier) or parallel co-financing (different goods and services or different parts of a project are financed by the World Bank and the co-financier).⁵³ Measures of co-financing in the Bank Group-GEF partnership have followed the GEF definition and internal Bank co-financing figures have had to be adapted to those under the GEF's definition. For the remainder of this chapter, the GEF's definition is used.

6.7 The terms “leverage” and “leveraged resources” are also used widely in the GEF, with meanings reaching from mobilizing funds through (or complementary to) co-financing to the realization of financial, operational, or strategic synergies. This section focuses on leveraged resources as defined in the context of co-financing (GEF 2003c, p. 5):

“Leveraged resources are the additional resources — beyond those committed to the project itself — that are mobilized later as a direct result of the project, e.g., for further replication or through programmatic influence. As such, leveraged resources do not form part of the committed financing plan at the outset, and so they are not defined as ‘co-finance’.”

6.8 The GEF Council and Secretariat consider co-financing and leveraging important for several reasons: as new and additional financial resources for the global environment that can complement limited GEF resources; as an indicator of the commitment of counterparts, beneficiaries, and GEF Agencies; as enhancing the success and local acceptance of co-financed projects; and as maximizing and sustaining their impacts by linking them to sustainable development (GEF 2003c, p. 1 and references therein). The GEF Secretariat has portrayed co-financing as an indicator of the GEF's multiplier effect in generating new and additional resources toward the achievement of global environmental benefits (GEF Evaluation Office 2010b, p. 26, and references therein). Leveraged resources, while not counted as co-financing, are nevertheless considered “a very important indicator of GEF's catalytic effect” (GEF 2003c, p. 5).

6.9 The GEF Evaluation Office has adopted a more differentiated and somewhat more critical view on co-financing. For example, a 2010 report on co-financing finds that “the

52. The GEF's Council-approved definition of co-financing (GEF 2003c) is contradictory in itself in this respect (GEF 2003c, paragraph 14, compare 2nd sentence with point c).

53. In the case of joint co-financing, the World Bank usually has control over financial disbursements through a Bank-administered trust fund to which the co-financier has contributed. In the case of parallel, co-financing, the co-financier contributes directly to the project and has oversight of its own contributions.

evidence to support these [the above] conclusions has not yet been presented, and most of the benefits ascribed to co-financing are assumed to be self-evident” (GEF 2010b, p. 26).

6.10 This is of special relevance for the two major claims that are inherent in the GEF definitions of co-financing and leveraging:

- The first is a cause-and effect claim: that co-financing and leveraging mobilize new resources in addition to building on ongoing activities.
- The second claim concerns purposeful and effective use of resources: that these resources are essential for generating additional global benefits.

6.11 The attractiveness of these claims in the context of the GEF is obvious. Together, they cater directly to the purpose of the GEF — i.e., the purpose of providing “new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve the agreed global environmental benefits” (GEF 1994a, p. 6) as discussed in detail in Chapter 3 of this report. In this way, the two co-financing claims translate into a powerful cost-effectiveness argument. For every dollar invested into the GEF, the GEF causes effects worth several dollars in line with GEF objectives.

6.12 Implicit in these claims is also the idea that the GEF and its Agencies have developed specialized expertise in efficiently preparing and implementing projects with global environmental benefits so that other donors or investors would want to provide co-financing, or to be leveraged, beyond the resources that they are contributing to the GEF Trust Fund itself. But, as a former Executive Director of the Bank pointed out in 2000, most donors have a high opinion of their own initiatives. Everyone “wants to leverage the efforts of others, and no one wants to be leveraged” (OED 2001, p. 2).⁵⁴

6.13 Although there is no systematic evaluative evidence on the causality link between World Bank-implemented GEF projects and subsequent investments by the World Bank, the government or other stakeholders, World Bank staff interviewed for this review provided examples of GEF projects that led to further investments and activities. In some cases, these GEF projects immediately triggered the Bank project to which they were associated, often through the “sweetening” effect of the GEF grant on the Bank loan for recipient governments that are otherwise reluctant to borrow for environmental purposes.⁵⁵ In other cases, GEF projects led to Bank, government or private-sector investments either through policy changes⁵⁶ or through the development and demonstration of innovative business lines.⁵⁷ These examples of leveraged resources following World Bank-implemented GEF projects

54. By way of example, the World Bank’s Development Grant Facility also places a premium on leveraging its contributions to the activities that it supports.

55. The Senegal River Basin Project was cited as an example of a project that leveraged the Bank project to which it was associated.

56. The Argentina Biodiversity Conservation Project was cited as an example of a project that influenced the national policy and created incentives to plant native species, while the Nile Basin Initiative, the Lake Victoria Environmental Management, the Niger River Basin, and the Zambezi River projects are examples of initial GEF grant resources leveraged by the Bank into a lending program in international waters.

57. Such as Lighting Africa or the Energy Efficiency projects in China.

are largely echoed by the GEF Program Managers. For 95 percent of them, the World Bank has a comparative advantage in leveraging GEF funds, compared to other Agencies.

6.14 However, evidence gathered in the Overall Performance Studies of the GEF and in a study of the Evaluation Office on GEF's approach to co-financing suggests that the two major claims are only partially fulfilled in the context of the GEF. It is important to note that evaluations (up to and including OPS3) have not been based on the definition of co-financing in paragraph 6.4, and have not included the notion of baseline contributions to co-financing. The studies have found that, while some important new resources probably are mobilized and translate into additional global environmental benefits, this appears not to be the case for all co-financing. Especially those projects with large co-financing volumes have a high probability of having been implemented even in absence of a GEF contribution and of not focusing, directly or indirectly, on global environmental benefits:

- The 1994 independent evaluation of the GEF's Pilot Phase generally questioned the additionality of co-financing⁵⁸ and provided anecdotal evidence of cases where previously earmarked trust fund amounts had been reduced when co-financing became available. The evaluators concluded that it was "exceedingly difficult" to confirm the additionality of co-financing resources.⁵⁹
- In 1998, the study team for the first OPS undertook just such an analysis and found that about one third of the total co-financing in a sample of 18 GEF FSPs⁶⁰ could be considered genuinely leveraged.⁶¹ For World Bank loans associated with GEF grants, the team found that additional global environmental benefits were leveraged by these loans in 13 of 15 investigated projects (GEF 1998b, p. 13).
- The OPS2 team in 2002 did not dwell on additionality issues but advised it that was important to distinguish between co-financing leading to additional global environmental benefits from co-financing providing associated development support. The team considered the GEF's overall performance on co-financing to be "surprisingly modest" and stressed that increasing total co-financing levels was of overriding importance (GEF 2002d, p. 67). It recommended that GEF Agencies should be held responsible for generating significant additional resources to leverage GEF resources.
- The OPS3 team in 2005 remarked on the high co-financing levels in World Bank projects that "evidence suggests that GEF financing in World Bank projects is often

58. Co-financing was understood in a donor-centric way, without a visible notion of contributions by recipient countries and the private sector.

59. "Additionality as a guiding criterion for the GEF is understandable and appropriate. However, it is an exceedingly difficult principle to evaluate in practical operations. At the country level, only the donor can judge whether its GEF contribution is part of, or an addition to, planned assistance for the country, especially in the case of co-financing" (GEF 1994b, p. xv).

60. These represented all the projects approved for the GEF work program during the calendar year 1997 for which project documentation was available at the time of OPS1.

61. The study team defined "leveraged financing" as analogous to the two claims introduced earlier as "financing in conjunction with a GEF project that supports activities producing global environmental benefits and that would not have been spent in the absence of the GEF project or that would otherwise have been spent in ways that would have contributed to global environmental degradation" (GEF 1998b, p. 9).

used to augment other funds already committed to projects, which would go forward with or without GEF contributions” (GEF Evaluation Office 2005a, p. 111).

- The OPS4 teams in 2010 assessed 20 projects with high co-financing ratios and concluded that “high levels of co-financing and co-financing ratios do not lead to substantially higher levels of global environmental benefits” but confirmed a causal linkage for lower levels of co-financing. Accordingly, the team recommended that the GEF be realistic in its portrayal of the importance of co-financing and develop transparent rules that distinguish among categories of projects (GEF Evaluation Office 2010a, p. 143).
- Later in the same year, the GEF Evaluation Office published a comprehensive study on the GEF’s approach to co-financing, including the analysis presented in OPS4, as a chapter in its 2009 Annual Performance Report. The study found that the “replacement effects involved in co-financing contributed by organizations whose objectives are congruent with those of the GEF—and, when they are not, the fact that the nature of the projects undertaken tends to change—undermine the multiplier effect argument” (GEF 2010b, p. 31).

6.15 In terms of reporting on co-financing, the GEF Secretariat relies on “reported co-financing” by GEF Agencies and does not verify co-financing amounts reported by the Agencies. However, the GEF Secretariat does compare the reported committed with the reported realized amounts, and the GEF Evaluation office has evaluated co-financing on several occasions.

6.16 Reported co-financing figures may also reflect interpretational freedom in the definition of co-financing. For example, the criterion “essential for achieving the GEF objectives” (GEF 2003c, p. 4) allows stretching the concept of baseline co-financing considerably. More specific guidance on co-financing and leveraging has been consistently recommended in the GEF Overall Performance Studies.⁶² However, co-financing and leveraged resources are already challenging to track in principle. Information on project extensions and replications may be unavailable, and it is notoriously difficult to establish causality (i.e., additional to the level of resources and effects that would have materialized in absence of GEF activities) and to determine whether or not the resources are essential for achieving GEF objectives.

62. “The GEF should adopt a rigorous definition of “leveraging” that includes only funding that is additional to existing funding patterns and that is expected to create global environmental benefits” (GEF 1998b, p. 14); “A clear definition of co-financing and a set of strict co-financing criteria should be developed for different GEF project categories and country circumstances” (GEF 2002d, p. 69). “The GEF Council should clarify acceptable use of GEF funds to maximize leveraging. To ensure that co-financing is targeted for GEF projects and not vice versa, the use of GEF funding as ‘add-on’ to projects with large budgets should not be pursued. To this end, the GEF Council should develop explicit policy regarding the proper use of GEF funds as they relate to the leveraging of financing and other resources, as well as ensure that all Implementing Agencies and partners are clear on such policies” (GEF Evaluation Office 2005a, p. 121). “The GEF should be realistic in its portrayal of the importance of co-financing. There is a need to developing transparent rules for co-financing requirements that distinguish among categories of projects” (GEF Evaluation Office 2010a, p. 143).

Box 1. Cofinancing and Leverage in IFC

IFC has a different definition of co-financing from both the World Bank and the GEF. IFC views co-financing as financing from entities other than IFC (such as multinational and local banks), whether in loan or equity form, that becomes available to the principal client (generally a private company) that is encouraged by the participation of IFC due to IFC's direct involvement in raising resources (IFC 2012h, page 2). This adds yet another dimension to accurately determining the degree of co-financing associated with a GEF project. This definition also does not clearly distinguish the terms "co-financing" and "leverage", so that reports on IFC co-financing by IFC's Blended Finance Unit often show the same numbers for co-financing and leverage. The GEF OPS3 evaluation also commented on this issue, stating that additional analysis is needed to understand the actual size of co-financing, and how the timing of co-financing commitments affects actual co-financing received (GEF EO 2005a, p. 111).

Notwithstanding this conceptual ambiguity, there is considerable evidence of increased co-financing of IFC-implemented GEF projects after the IFC Board endorsed IFC's commitment to the concept of sustainability in its Strategic Directions paper in May 2001 (IFC 2001), in which IFC expressed its readiness to "move beyond its 'do no harm' approach on environmental and social issues to a more explicit 'adding value' approach" — that is, to focus on how the private sector could create financial value out of environmental value.^a According to IFC's Blended Finance Unit, IFC leveraged GEF financing to the tune of 18.5 to 1 between 2002 and 2012. However, as in the case of World Bank co-financing of GEF projects, a large part of this was accounted for by one project — the China Utility-Based Energy Efficiency Program, with co-financing of \$988 million from IFC and partnering financial institutions in relation to the initial GEF grant of \$26.5 million. Other examples of successful co-financing include a 30 to 1 ratio for the Philippines Sustainable Energy Facility project and an 18 to 1 ratio for the Sri Lanka Portfolio Approach to Distributed Generation Opportunity project (PAGDO) (IFC 2012f).

a. See Appendix C2, pp. 33–34, for more information on this strategic shift in IFC's approach to environmental financing, and the subsequent evolution of its "Sustainability Framework" up to 2012.

6.17 Reported co-financing volumes and ratios also seem strongly driven by a small number of highly co-financed projects. A cursory review of the entire GEF project portfolio⁶³ of projects yields an overall co-financing ratio of 4.5 to 1 at the PIF stage. If projects with a co-financing ratio of more than 10 to 1 (6 percent of all projects) are removed, this overall ratio falls to 2.2 to 1. If instead, the co-financing ratio for these projects is set artificially to 10 to 1, the overall ratio still falls to 2.6 to 1, which illustrates the large contribution of the minority of projects with extraordinarily high co-financing ratios to the overall co-financing volume.

6.18 This observation is in line with earlier findings. In 2010, a GEF study analyzed the project portfolio and concluded that less than 1 percent of approved projects accounted for more than 25 percent of total reported co-financing promised at approval and in 1998, OPS1 reported that a single Pilot Phase project "had leveraged \$1.3 billion through substitutional

63. Based on the GEF's PMIS, data for a total of 5,355 projects was downloaded on March 28, 2013. Only approved projects were considered. Cancelled projects were excluded. This sub-sample consists of 2,754 projects for which grant and co-financing data are reported.

activity, [which] accounts for a large proportion of all leveraging in the Pilot Phase and GEF 1” (GEF 1998b, p. 11).

6.19 When looking closer at the 6 percent of projects with a co-financing ratio higher than 10 to 1, it becomes clear that the World Bank as Implementing Agency is primarily driving the average ratio of co-financing at the GEF (Table 14), accounting for 99 of the 168 highly

Table 14: Top 10 GEF Projects, by Co-Financing Ratio and Co-Financing Volume

Rank	Project/Program Title	Country/Region	GEF Phase	Co-Financing ratio
1	Strategic Partnership for a Sustainable Fisheries Investment Fund in the Large Marine Ecosystems of Sub-Saharan Africa (Tranche 1, Installment 1) – GEF Program	Africa	GEF-3	1,024 to 1
3	Strategic Partnership for a Sustainable Fisheries Investment Fund in the Large Marine Ecosystems of Sub-Saharan Africa (Tranche 1, Installment 2) – GEF Program	Africa	GEF-4	588 to 1
5	(IFC) Energy Efficiency Co-Financing Program 2 (HEECP2)	Hungary	GEF-2	133 to 1
7	Alexandria Coastal Zone Management Project (ACZM) – Project under Programmatic Approach	Egypt	GEF-4	90 to 1
9	Strategic Partnership for Nutrient Reduction in the Danube River and Black Sea - World Bank-GEF Nutrient Reduction Investment Fund: Tranche 3 – GEF Program	Eastern Europe	GEF-3	76 to 1
				Co-Financing Volume (US\$ millions)
1	Leyte-Luzon Geothermal	Philippines	Pilot Phase	1,303.6
2	Sahel and West Africa Program in Support of the Great Green Wall Initiative – GEF Program	Africa	GEF-5	1,008.7
3	Russia Energy Efficiency Financing (REEF) Project	Russian Federation	GEF-5	824.5
5	Alexandria Coastal Zone Management Project (ACZM) – Project under Programmatic Approach	Egypt	GEF-4	647.0
6	LME-EA Scaling Up Partnership Investments for Sustainable Development of the Large Marine Ecosystems of East Asia and their Coasts (PROGRAM) – GEF Program	Asia	GEF-5	635.6
7	Partial Risk Sharing Facility for Energy Efficiency	India	GEF-5	594.3
8	GEF-World Bank-China Urban Transport Partnership Program (CUTPP)	China	GEF-4	585.8
9	Energy Efficiency Financing	China	GEF-4	583.2
10	Tunisia Northern Tunis Wastewater Project – Project under Programmatic Approach	Tunisia	GEF-4	547.0

Source: GEF PMIS (based on Co-Financing at PIF stage)

Notes: Only World Bank-implemented projects are shown, whether individual projects or part of a Programmatic Approach. Projects with 2nd, 4th, and 6th highest co-financing ratios were ADB projects, and that with 10th highest ratio was an IDB project. The project with 4th highest co-financing volume was an ADB project.

co-financed projects (59 percent). These represent only 4 percent of the whole GEF portfolio, but account for 33 percent of the overall co-financing volume. If all projects are taken into account, the overall ratio of 4.5 to 1 falls to 3.1 to 1 when all World Bank projects are removed from the portfolio.

6.20 In view of the high emphasis put on co-financing and leveraging at the GEF, the dominant contribution of the World Bank to the co-financing ratio constitutes an important aspect of the partnership from the perspective of the GEF.

Innovation, Demonstration, and Replication

6.21 In addition to increasing project or project-related financing volumes through co-financing and leveraged resources, the World Bank Group and the GEF have also engaged in introducing and mainstreaming innovative approaches for global environmental sustainability.

6.22 The OPS3 team, in 2005, treated innovation, demonstration, and replication as one cluster of related activities and differentiated between (a) replication of lessons and experiences in different geographic areas and (b) scaling up, when lessons and experiences are replicated in the same geographic area but are funded by other sources. The team found that although replication was not equally applicable to all focal areas, many GEF projects had replication objectives, such as market barrier removal. The team also offered a number of generic thoughts on required factors for innovation, demonstration, and replication, but concluded that further analysis into catalytic mechanisms needed to be conducted by the GEF (GEF Evaluation Office 2005a, p. 121).

6.23 Such analysis was conducted in 2008, when the GEF Evaluation Office drafted a conceptual framework for the GEF's catalytic role⁶⁴ that built on a deeper understanding of the underlying theories of change for causing catalytic effects.

6.24 The OPS4 team, in 2010, differentiated between three categories of catalytic activities (GEF Evaluation Office 2010a, p. 51):

- Foundational: Foundational and enabling activities focusing on policy, regulatory frameworks, and national priority setting and capacity development;
- Demonstration: MSPs and FSPs and the Small Grants Program, which focus on demonstration, capacity development, innovation, and market barrier removal; and
- Investment: FSPs with high rates of co-funding, catalyzing investments, or implementing a new strategic approach at the national level.

6.25 The team warned that, applied in isolation, these activities would not lead to catalysis; only when implemented in sequenced concert would sustainable effects ensue.

6.26 Based on a sorting exercise of GEF projects, OPS4 found that, in principle, GEF funding was sufficient to offer foundational and demonstration projects to all GEF countries,

64. The paper (GEF Evaluation Office 2008a) was part of a planned study "Evaluation of the Catalytic Role of the GEF" (GEF Evaluation Office 2007b). The evaluation itself was not completed.

but not for investment projects. As a result, the team recommended increasing overall GEF funding levels and cautioned that a relative increase of demonstration activities — the middle category — to the detriment of the other categories would reduce overall catalysis.

6.27 Recently, the GEF Evaluation Office has developed detailed and explicit theories of change for the GEF focal areas that illustrate how GEF project activities are causally linked to intended outcomes and impacts. These theories of change differ considerably from simpler results frameworks in which a program represents the dominant driver of outcomes. Instead, they take into account the multi-actor, multi-dimensional and multi-scale nature of GEF projects and the long-term intended and complex changes to which they aim to make a catalytic contribution. In the view of the Review team, this theory-based analysis is potentially of great explanatory power and likely to enhance the understanding, planning and assessment of the GEF's catalytic effects in the future.

6.28 For the present review, only limited evidence on innovation, demonstration, and replication effects caused by the GEF was gathered and no project-level assessments were conducted. Two principal difficulties were encountered when analyzing interview and survey feedback and when assessing prior evaluations addressing these effects. First, innovation, demonstration and replication are often understood in rather broad terms and some examples presented to the review team described successful projects that however lacked catalytic effects over time. Second, the causal attribution of developments to a GEF project, sometimes years after the GEF project was implemented, remains methodologically challenging and evidence presented has ranged from comprehensible fact-based analysis to expert opinions and personal beliefs. Regarding the latter point, the GEF Evaluation Office has moved towards a theory-based contribution analysis approach for its impact evaluations that aims to estimate the overall impact generated by the activities of the GEF and others.

6.29 Surveyed GEF Program Managers saw the comparative advantage of the World Bank more in leveraging GEF funding and handling large investment projects than in generating, testing, and scaling up new approaches,⁶⁵ while more than 95 percent of surveyed Bank TTLs saw testing new approaches for scaling up as the most important area for future GEF funding of Bank-implemented GEF projects.

6.30 During interviews, Bank staff pointed to projects that fell into the first two categories of catalytic activities (foundational and demonstration) and emphasized the role GEF funding has played in projects related to national policy development, innovation, and the initiation of new business lines in the environment sector. Especially in the 1990s, GEF grants helped to

65. Respectively 95 and 90 percent of the surveyed Program Managers saw (a) leveraging GEF funding to generate global environmental benefits and (b) handling large investment projects as comparative advantages of the World Bank (with more than 40 and 70 percent, respectively, assessing the comparative advantage of the Bank as strong) while approximately half of the Program Managers saw testing innovative ideas and approaches for scale up or expanding the reach and scale of approaches tested as comparative advantages of the World Bank (with only 5 percent viewing the comparative advantage as strong).

foster World Bank policy dialogue with countries on environmental topics and to implement environmental projects for which recipient countries were reluctant to borrow.⁶⁶

6.31 A cursory review of available analysis on the GEF's innovation, demonstration, and replication effects revealed most evidence for climate change mitigation projects, several examples for biodiversity conservation projects, and scattered examples for projects in other focal areas. Box 2 further illustrates some of the following examples.

- Two IEG studies on Climate Change and the World Bank Group (Phase I and II) suggest that GEF contributions have supported long-term policy engagement and have been critical in allowing Bank Staff to pursue innovative energy and renewables projects (IEG 2009c, pp. 57 and 93). The phase II study recommended mobilizing GEF and other concessional funds to mitigate clients' risks in addressing complex issues (IEG 2010d, p. 82).
- Several Post-Implementation Impact Assessments have found evidence of domestic and foreign replication of tested approaches in energy efficiency (World Bank 2006e p. 43). Sustainability and replication seem to be more problematic in biodiversity conservation projects (World Bank 2008b, p. 30, 2007b p. 3 and 2007c, p. 41).
- Finally, project-by-project evidence for the catalytic effect of World Bank-implemented GEF projects can be found in a number of documents relating experiences of the World Bank Group and the GEF in different areas and regions, or in individual project evaluations.⁶⁷

Associated and Blended World Bank-GEF Projects

6.32 In line with its emphasis on co-financing and leveraging financing from other sources for maximizing global environmental benefits, the GEF has shown a keen interest in associating its funds with World Bank investment projects. In 1995 the Council expressed its understanding that, for Regional Development Banks, "the GEF would not finance freestanding projects" (GEF 1995c, p2). Some years later, the GEF's first OPS summarized the rationale for World Bank-GEF project association as follows:

"The GEF Council and Secretariat have expressed a strong preference for World Bank GEF projects that are associated with non-GEF projects over "freestanding" World Bank GEF projects (which have no Bank loan financing) to increase the leveraging of GEF's limited resources. By linking a GEF grant with a World Bank loan, the GEF hoped that the Bank could persuade client governments to borrow for projects that would provide global environmental benefits" (GEF 1998b, p. 11).

66. Commenting on a previous draft of this Review, Bank Management emphasized the positive impact of GEF support and its "crucial contribut[ion] to innovative and risk-sharing approaches when providing incentives to the piloting and demonstration of new technologies and approaches."

67. See, for example, GEF 2012f, WBG 2006a, WBG 2006b, World Bank 2010, World Bank 2011a, World Bank 2012a, World Bank 2012b, IEG 2010b, and further information kindly provided by the Bank's Coordination Unit.

Box 2. Catalytic Effects of World Bank-Implemented Projects

Concentrated Solar Power: GEF funding of four projects enabled the World Bank to maintain its commitment to the concept of Concentrated Solar Power in a challenging context. This technology had suffered from non-competitive short-term returns and deregulation in the power industry in the 1990s and early 2000s. Over the last several years, the World Bank helped client countries capitalize on the renewed interest in this technology (as, for example, illustrated by its involvement in the Arab World Initiative Concentrated Solar Power Plan).

Biodiversity Conservation in Latin America and the Caribbean: In this region, the combination of protected areas with other instruments of biodiversity conservation has helped leverage government budgets. With the support of the GEF,^a governments have established the regulatory and institutional structure, while at the same time working on sustainable financial resources such as Payments for Environmental Services, the creation of marketable products, incentive-based conservation arrangements, and mainstreaming in policies and sector programs. In 2010, 60 percent of the funding for protected areas came from government budgets.

Energy Efficiency Demand-Side Management Projects: In 2006, the World Bank published the post-implementation impact assessment of four energy efficiency projects aimed at fostering the demand for energy efficient technologies through incentives and education.^b These assessments revealed that the projects could reach a significant degree of sustainability and replication. To a large extent, market transformation in the residential sector ensured the continued demand for energy efficient technologies after the projects. In most cases, approaches were replicated by governmental institutions or local corporations (including the funding of the Demand-Side Management Office in Thailand and the maintenance of the subsidies component in Mexico). The approach of the Poland Efficient Lighting Project was largely replicated by the IFC Efficient Lighting Initiative. In addition, energy efficiency-related issues were mainstreamed in Polish academic curricula. However, less impact was achieved at the policy level in terms of integrating energy efficiency objectives and of mainstreaming of global environmental issues into national energy policies. The approaches also had a weak impact on the commercial and industrial sector.

Sources: World Bank 2010, World Bank 2012, and World Bank 2006a-d.

a. One-third of all World Bank-implemented GEF projects in the biodiversity focal area were implemented in the Latin America and Caribbean region (PMIS as of January 2013).

b. The Poland Efficient Lighting Project, the Mexico High-Efficiency Lighting Project, the Jamaica Demand-Side Management Demonstration Project, and Thailand Promotion of Electricity Energy Efficiency.

6.33 And a 2006 Council paper *Roles and Comparative Advantages of the GEF Agencies* stated “The Bank-GEF portfolio is closely integrated (‘blended’) with IBRD/IDA lending, and all GEF operations are anchored in the Bank’s country and sector strategies” (GEF 2006b, p. 4)

6.34 For a long time, the World Bank considered important the association of GEF projects with its own investment operations and the avoidance of free-standing projects. From 1992 to 2009, project association was firmly embedded in Bank policy (World Bank Archived Operational Manual, OD 9.01, paragraph 4).⁶⁸

68. A 1995 Operational Memorandum on new procedures for GEF operations (World Bank Archived Operational Manual, OpMemo to OD 9.01) did not repeat such a statement, but represented an addition rather than a replacement of the earlier Operation Manual.

“Normally, GEF projects are investment operations and are expected to be components of Bank-financed projects in related fields; on an exceptional basis, however, they can be free-standing investment operations.”

6.35 However, the Bank abandoned the exceptional status of free-standing GEF projects in the 2009 Operational Policy for GEF operations, which no longer contains such a statement (World Bank Operational Manual OP 10.20). Today, there seems to be little strategic guidance on associated versus free-standing projects and the choice to associate GEF grants with Bank investment projects seems mostly driven by managerial cost-effectiveness considerations.

6.36 Within the World Bank, the association of GEF funding with World Bank projects is described by the degree of *blending*:⁶⁹

- For *fully blended projects*, associated GEF and World Bank projects are processed as one project. At each stage in the project cycle (apart from the negotiation stage) there should be only one set of project documentation and one decision.
- For *partially blended projects*, associated GEF and World Bank projects are processed somewhat or completely separately. At some or all stages in the project cycles there are two separate sets of project documents, one for each component.
- *Freestanding projects* are generally not associated with any other World Bank project in terms of processing. They have their own documentation throughout the project cycle. Freestanding projects are also usually not associated with Bank projects in terms of directly contributing to global environmental benefits, but may represent baseline contributions and thereby qualify as co-financing.

6.37 The difference between fully- and partially-blended projects is largely procedural; conceptually, both represent associated GEF and World Bank projects.

6.38 The above terminology, however, only approximates the GEF's concepts of project association and World Bank co-financing. Sometimes, Bank projects and Bank co-financing are associated with freestanding GEF projects in the GEF sense, but are not tracked as fully or partially blended by the World Bank because the GEF projects have been processed and documented separately from other Bank projects. For example, freestanding projects may have been conceived as part of a larger country or regional program such as the seven Meso-American Biological Corridor (MBC) projects in the six Central American countries and Mexico.⁷⁰

69. It should be noted that the term “blending” is used quite differently within IFC, referring to “the provision of financing (via a blended package) to a private-sector investment project on terms more favorable than market where it is expected that the need for below market terms is time-bound” (IFC 2012, p.6).

70. The Bank also implemented a number of rural development and land administration projects in these countries at the same time. The rural development projects were designed to reduce poverty, thus mitigating the push factors that were leading to unsustainable movement towards and use of MBC resources, while the “freestanding” GEF projects were designed to reduce the pull factor by supporting the conservation and sustainable management of the corridor. But each set of projects had its own independent documentation (IEG 2011a p. xx).

6.39 It is also important to note that, in the case of blending, speaking of GEF and World Bank projects or project components is not entirely correct. In an ideal scenario, there would be no separate projects or project components: GEF and World Bank funding, together with third party co-financing, would flow into one integrated project. However, separate project terminology is used for ease of expression.

6.40 GEF Secretariat staff interviewed for this review did not express strong opinions regarding the internal Bank terminology of blending but expected project association. The Bank's ability to "leverage GEF funding to generate global environmental benefits in large projects" was seen as the strongest comparative advantage of the Bank.

6.41 Interviewed Bank TTLs and regional and sector staff pointed to advantages and disadvantages of blending from a procedural and financial perspective. Blending GEF and Bank funds was generally considered a good opportunity to merge preparation budgets and to overcome perceived insufficiencies of GEF preparation funds and fees. In some regions, staff are expected to blend GEF funds with Bank investment and to envisage stand-alone GEF projects only on an exceptional basis. On the other hand, from a procedural perspective, blending is sometimes perceived as disadvantageous because of the dual project cycle and the fear that a blended GEF grant might slow down a larger investment project. Staff further indicated that, in specific cases such as innovative approaches or topics in which clients are reluctant to engage, freestanding projects may be more appropriate.

6.42 Over time, the share of blended projects in World Bank-implemented FSP projects has fluctuated around 29 percent of projects and 35 percent of GEF funding, respectively (Figure 30). Linear trend analysis yields a slowly rising project share and a slowly falling funding share. Project shares were 26 and 31 percent, respectively, in the last two years, FY2012 and FY2013, and funding shares were 23 and 32 percent, respectively.

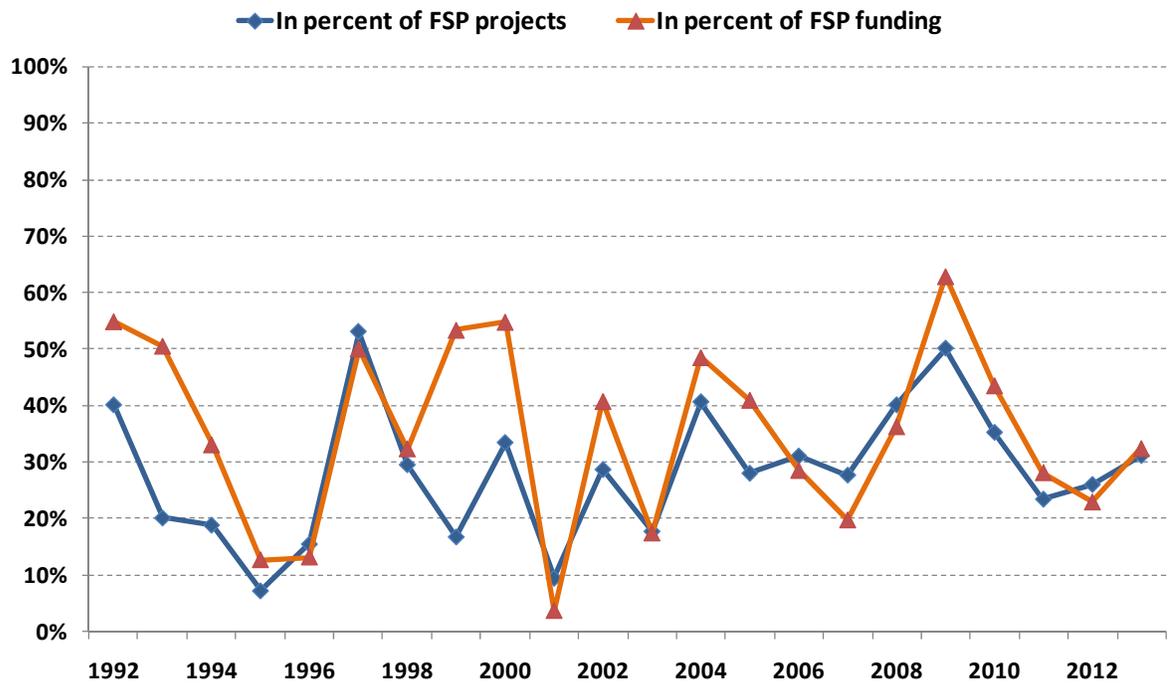
6.43 MSPs have rarely been blended with World Bank projects. Although MSPs have represented 24 percent of all projects, only four of the 168 blended GEF projects (2 percent) have been MSPs, two of these occurring in the most recent fiscal year 2013. It is not clear why MSPs have not been blended with World Bank operations more often: there is no procedural limitation for such blending and, in the context of unsustainably low project-cycle management costs, as remarked by Bank staff, blending MSPs with Bank projects would leverage procedural synergies compared to freestanding MSPs.

6.44 The overall share of blended projects has remained below expectations compared to original intentions in the mid-1990s, to World Bank Operational Policy from 1995 to 2009, and to more recent statements on the comparative advantage of the World Bank.

6.45 A low share of blended World Bank-GEF projects was noted as early as 1994 when the Independent Evaluation of the GEF's Pilot Phase remarked that

"The number of freestanding projects managed by the World Bank was originally expected to be very small. However, 21 out of 51 World Bank-implemented GEF investment projects are freestanding—nearly half of its portfolio" (GEF 1994b, p. 23).

Figure 30. Share of Blended Projects in World Bank-Implemented Full-Sized Projects, 1992–2013



Source: World Bank data.

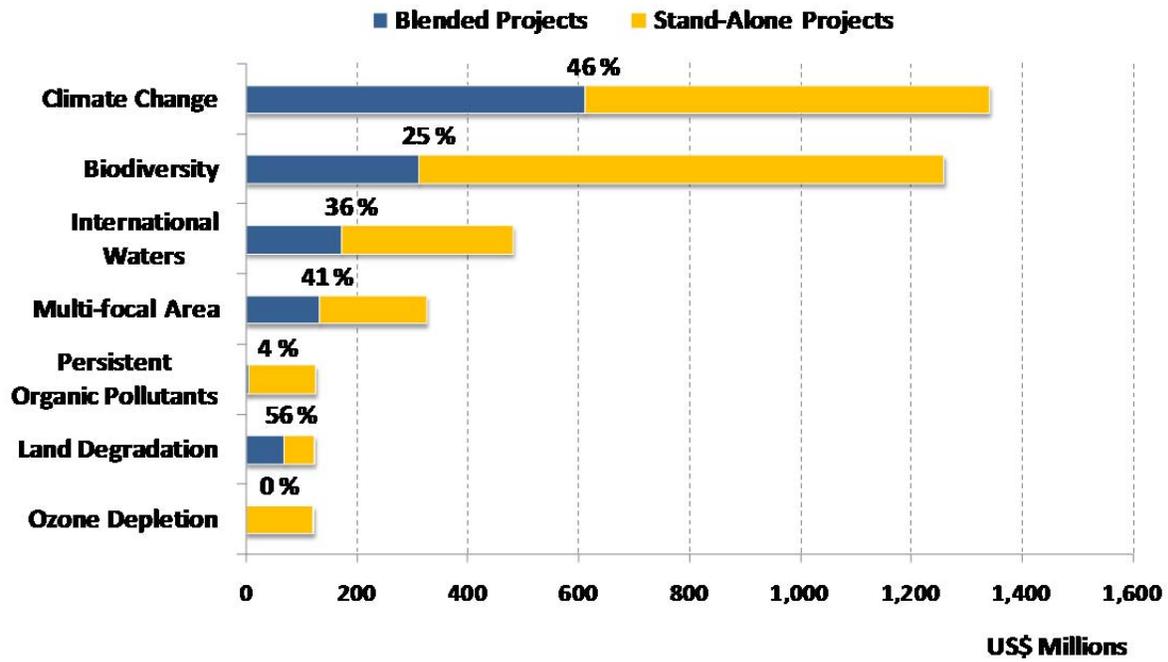
6.46 The land degradation and climate change focal areas had the largest proportion of blended projects in terms of funding (Figure 31). The \$611 million of GEF project commitments that were blended with World Bank projects in the climate change focal area alone represented almost half (47 percent) of the total GEF financing that was blended with World Bank projects.

6.47 Among the three major sectors that implement GEF projects, energy and mining and agriculture and rural development had the largest proportions (49 percent) of blended projects (Figure 32). Only 19 percent of GEF projects mapped to the Environment Sector Board were blended with World Bank projects. Governments appear to be more willing to borrow from the Bank for agriculture and energy projects since these have greater potential to generate economic returns to pay off the loans. Governments have proven less willing to borrow for biodiversity projects (which tend to be mapped to the Environmental Sector Board) because such projects are less bankable.

6.48 The above discussion has two limitations since it is restricted to the frequency of blending as recorded in World Bank databases. First, it might not reflect all GEF projects associated with World Bank projects; and second, it does not reveal the quality and the degree of integration between GEF and World Bank components in the case of blended projects.

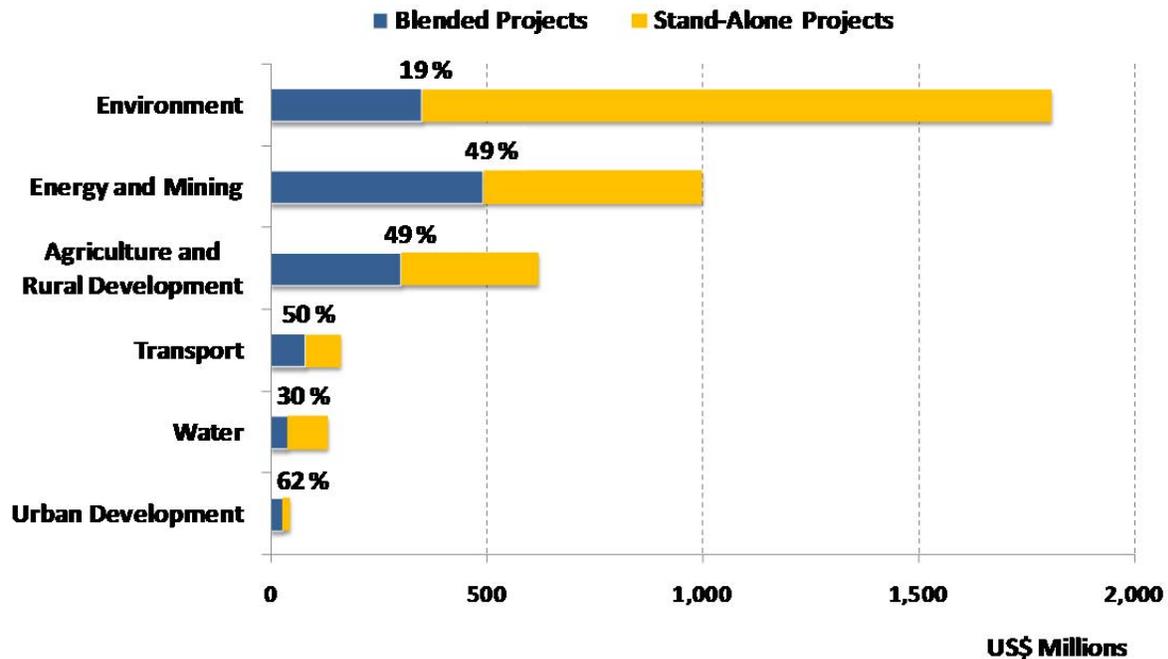
6.49 Regarding the first point, TTLs, Sector Managers, and Coordination Team staff interviewed for this Review acknowledged that a considerable number of truly freestanding

Figure 31. Share of Blended Projects in Total GEF Commitments, by Focal Area, 1992–2013



Source: World Bank data.

Figure 32. Share of Blended Projects in Total GEF Commitments, by Sector Board Mapping, 1992–2013



Source: World Bank data.

projects indeed existed. But, in some cases, GEF projects marked as non-blended would nevertheless be linked to World Bank projects, and in other cases, blended projects could be associated with additional World Bank projects not indicated in the database.

6.50 In addition, several interviewees defended the existence of freestanding projects in terms of a “blending over time-argument,” closely linked to the above discussion of innovation, demonstration, and replication. In some cases, freestanding GEF projects of an innovative character have triggered follow-on investments catering to GEF purposes, and in other cases, GEF grants have provided the only chance to initiate or keep alive a World Bank country dialogue on environmental matters.

6.51 On the quality of blending, IEG surveys sought feedback from task managers of country strategy documents and World Bank project TTLs. Both groups felt that true integration — i.e., a blending scenario in which the GEF component transformed a World Bank project to produce substantially more environmental benefits — was the most realistic or the most frequent (Table 15).

Table 15. Feedback on the Quality of Blending.

Scenario options	Share of TTLs of country strategy documents agreeing that the described scenario is very or somewhat realistic	Share of TTLs agreeing that the described scenario applies to half or more of all blended projects
The GEF component transforms the World Bank project: together with the GEF component, the World Bank component now produces substantially more environmental benefits. In terms of environmental benefits, the whole is considerably larger than the sum of both separate components.	87% (N=31)	68% (N=57)
The GEF component builds on the World Bank component but does not transform it: without the World Bank project, the GEF component doesn't make much sense while the World Bank component would produce very similar benefits whether there is a GEF component or not.	63% (N=30)	47% (N=57)
The GEF and World Bank components are essentially separate sub-projects without substantial synergies between them: without the World Bank component, the GEF component would produce very similar environmental benefits and the World Bank component would produce very similar benefits whether there is a GEF component or not.	28% (N=29)	40% (N=60)

6.52 This World Bank self-perception on blended projects is remarkable since it seems to contrast with a number of largely critical reviews of the quality of co-financing summarized in the section on co-financing above. Apart from a potential answer bias, the discrepancy may stem from the fact that co-financing implies *global* environmental objectives whereas the survey made no such references to specifically global environmental benefits. Therefore, one could interpret the survey results as pointing to significant local environmental benefits being generated through blending.

Agency Mainstreaming

6.53 Closely connected to but extending beyond World Bank-GEF project blending is the aim of mainstreaming global environmental objectives into the regular activities and objectives of the World Bank Group and other GEF Agencies.

6.54 Agency mainstreaming can occur on a strategic level, by incorporating global environmental objectives into Agency strategies as, for example, in the World Bank's 2001 environmental strategy and some World Bank sector and country strategies. Agency mainstreaming can also occur at an operational level, driven by strategy and/or by GEF financing, as associated World Bank-GEF projects.

6.55 The first mentions of mainstreaming occur as early as the GEF Pilot Phase negotiations: the U.S. negotiator felt that "a major purpose would be to incorporate global environmental concerns into the Bank's regular and ongoing work" (cited in Sjöberg 1994, p. 28) and some NGOs "specifically expected (or hoped) that the GEF would be a kind of 'Trojan Horse' that would work from inside the World Bank and UNDP, further enhancing their 'greening'" (GEF 1994b, p. 35).

6.56 This is a very common objective among global partnership programs. For example, one of the four main objectives of the *Consultative Group to Assist the Poor* when it was established in 1995 was to "mainstream microfinance in member donor agencies" including the World Bank. Also, one of the two objectives of the *Global Facility for Disaster Reduction and Recovery*, when it was established in 2006, was "to mainstream disaster reduction and climate change adaptation in country development strategies, such as poverty reduction strategies (PRSSs), country assistance strategies (CASs)," etc.

6.57 Mainstreaming was high on the GEF Council's agenda in the late 1990s. For example, in 1997, the Council endorsed the development of incentives for generating more GEF-style activities "truly mainstreamed into normal Implementing Agency operations" (GEF 1997b, paragraph 23, and GEF 1997c, p. 18). Later in the same year, the Council expressed its strong support for Agency mainstreaming and urged Implementing Agencies to "identify institutional barriers to mainstreaming and proposals for overcoming those barriers" (GEF 1997d, paragraph 29). In 1998 the Council, after having received reports on the Implementing Agencies' strategies for integrating global environmental activities into their work programs, noted its general dissatisfaction with those reports and, at the same time, called for a clearer definition of the concept of mainstreaming (GEF 1998c, p. 6). In 1999, the Council noted with appreciation a World Bank paper on *Environment Strategy and Mainstreaming the Global Environment: Status Report* (GEF 1999b, p. 2 and World Bank Group 1998). After highlighting the importance of Agency mainstreaming once more in 2001, the Council has not placed the topic high on its agenda anymore, apart from in-country, project-level mainstreaming issues.

6.58 Over time, the World Bank has firmly integrated global environmental objectives into its corporate strategies. As described in more detail in Chapter 3, this was most clearly visible in the 2001 corporate environment strategy and has remained an implicit objective in the subsequent 2012 strategy which, however, did not organize its primary framework around local versus global environmental objectives.

6.59 The integration of environmental objectives into World Bank Group corporate strategies can be considered a mainstreaming success. However, two questions require further investigation: First, did mainstreaming also occur at a level closer to operations and second, did the GEF make a substantial contribution to this?

MAINSTREAMING INTO WORLD BANK COUNTRY ASSISTANCE STRATEGIES

6.60 The first question in paragraph 6.54 was approached by a keyword search in 439 CASs of the World Bank, between 16 and 37 per year,⁷¹ and covering the period from GEF restructuring in FY1994 to FY2012.

6.61 As shown in Figure 33, mentions of the term “GEF” have risen quickly over time. Since 2005, the GEF has generally been mentioned five or more times on average in 60 percent of all new CASs.

6.62 Figure 34 displays the percentage of new CASs over time that mention specific groups of keywords chosen for the six GEF focal areas.⁷²

6.63 Mentions of biodiversity have always been high but have not shown much growth over time. Biodiversity, as one of the two flagship focal areas in the GEF, seems to have been an important issue in CASs from the first years of the restructured GEF onwards and could be an example of successful mainstreaming at the country strategic level.

6.64 However, as analyzed in OPS1, this running start may not have had much to do with the GEF at all:

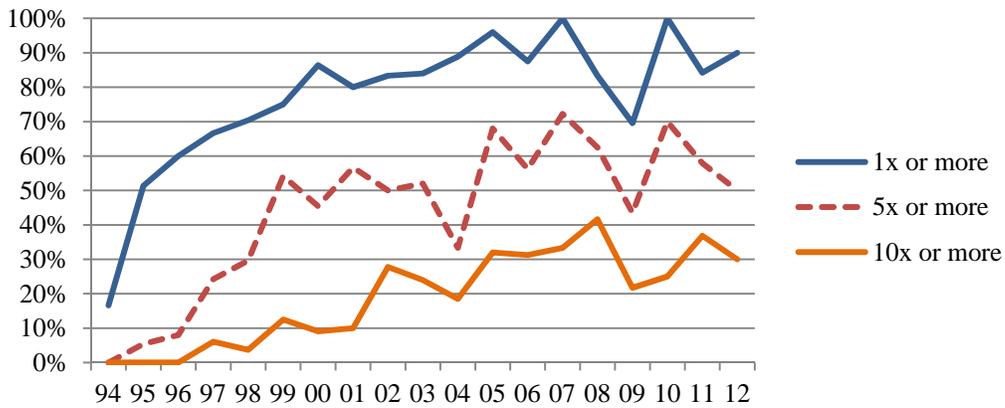
“When all co-financing connected with World Bank loans for biodiversity associated with GEF projects is added to the annual World Bank biodiversity lending totals, overall World Bank financing for biodiversity since fiscal 1993 is shown to average \$133 million annually compared to an average of \$115 million annually during the pre-GEF period. It can be concluded that GEF has accounted for the relatively small overall increase in the average annual level of World Bank lending for biodiversity since fiscal 1993” (GEF 1998b, p. 40).

6.65 In 2000, a joint Operations Evaluation Department-GEF review of the World Bank’s GEF portfolio in the context of the Bank’s 1991 forest strategy acknowledged that GEF grant financing had increased access and coverage of forest biodiversity conservation associated with global benefits, but concluded that “GEF program objectives have not become part of the mainstream of most countries’ development agendas, or of World Bank Country Assistance Strategies (CASs)” (OED 2000, p. xii).

71. Apart from 1994 for which only six CASs were found.

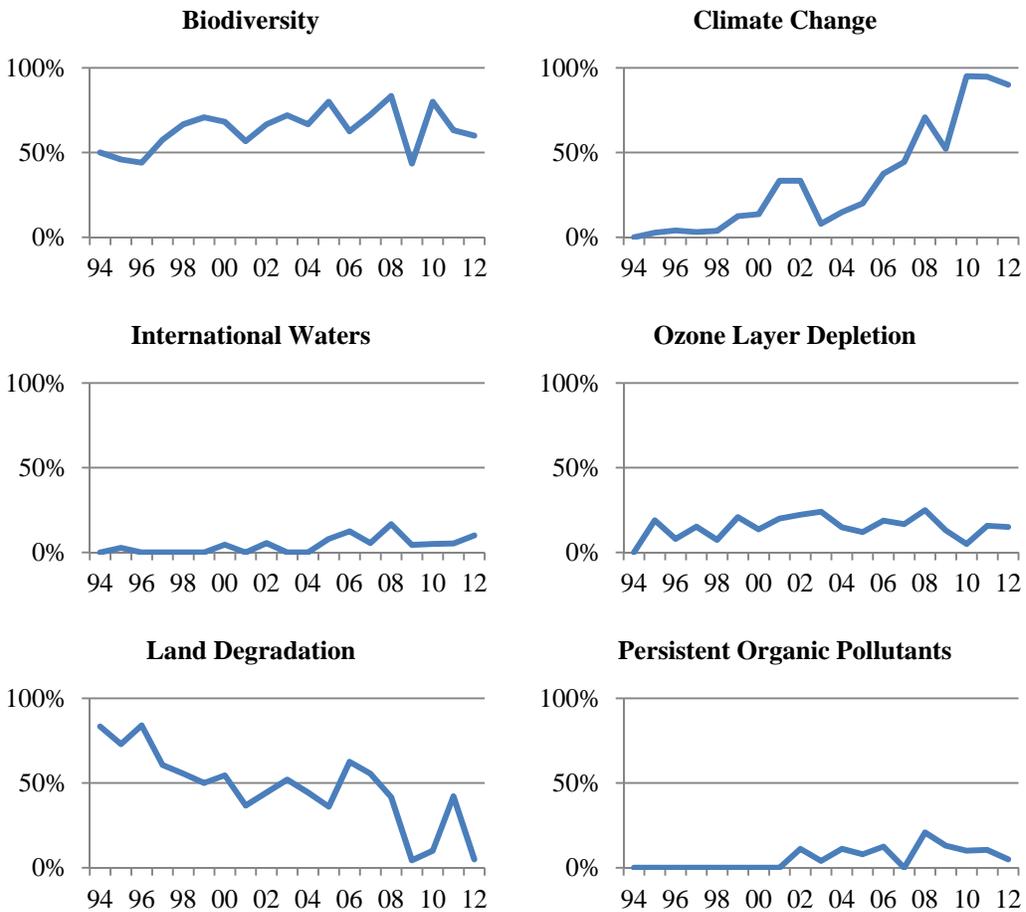
72. Search terms were as indicated in brackets. A vertical bar “|” represents a logical “or.” Biodiversity (biodiversity | biological diversity); Climate Change (climate change | climate variability | adaptation to climate change | climate change adaptation | climate adaptation | climate change mitigation | climate mitigation); International Waters (international waters); Ozone Layer Depletion (ozone | ozone layer); Land Degradation (land degradation | desertification | deforestation); POPs | persistent organic pollutants | organic pollutants | Stockholm Convention | dioxin).

Figure 33. Percentage of World Bank CASs Explicitly Mentioning the GEF at Least One, Five, or Ten Times



Source: Keyword analysis of 439 World Bank CASs.

Figure 34. Share of World Bank CASs Explicitly Mentioning GEF Focal Areas



Source: Keyword analysis of 439 World Bank CASs.

6.66 In contrast to biodiversity, climate change has been mentioned increasingly, growing from being virtually absent in CASs in the 1990s to being almost omnipresent in CASs written since 2010. As with biodiversity, the question of causality is difficult to settle in the case of climate change mainstreaming. As indicated in Chapter 3, the World Bank can now access an increasing number of donor trust funds outside the GEF, including carbon finance and the CIFs, to finance projects in climate change mitigation and adaptation.

6.67 Ozone layer depletion has been mentioned in about one of five new CASs per year. A slow decline may be visible over the last couple of years that might be attributable to the success in addressing this global environmental issue.

6.68 International waters and persistent organic pollutants have remained infrequent topics in CASs, the former probably reflecting that 40 percent of the international waters projects have been regional (multi-country) projects.

6.69 Finally, the land degradation focal area was very prominent in CASs when the restructured GEF was established and was mentioned in about half of all new CASs for a decade until about 2008, but has since fallen erratically to very low levels. It is not entirely clear what has caused this decline. One possible explanation could be due to the cross-cutting character of this focal area. Land degradation activities usually cover one of the other focal areas as well and former land degradation activities might now be integrated into CASs under other focal areas.

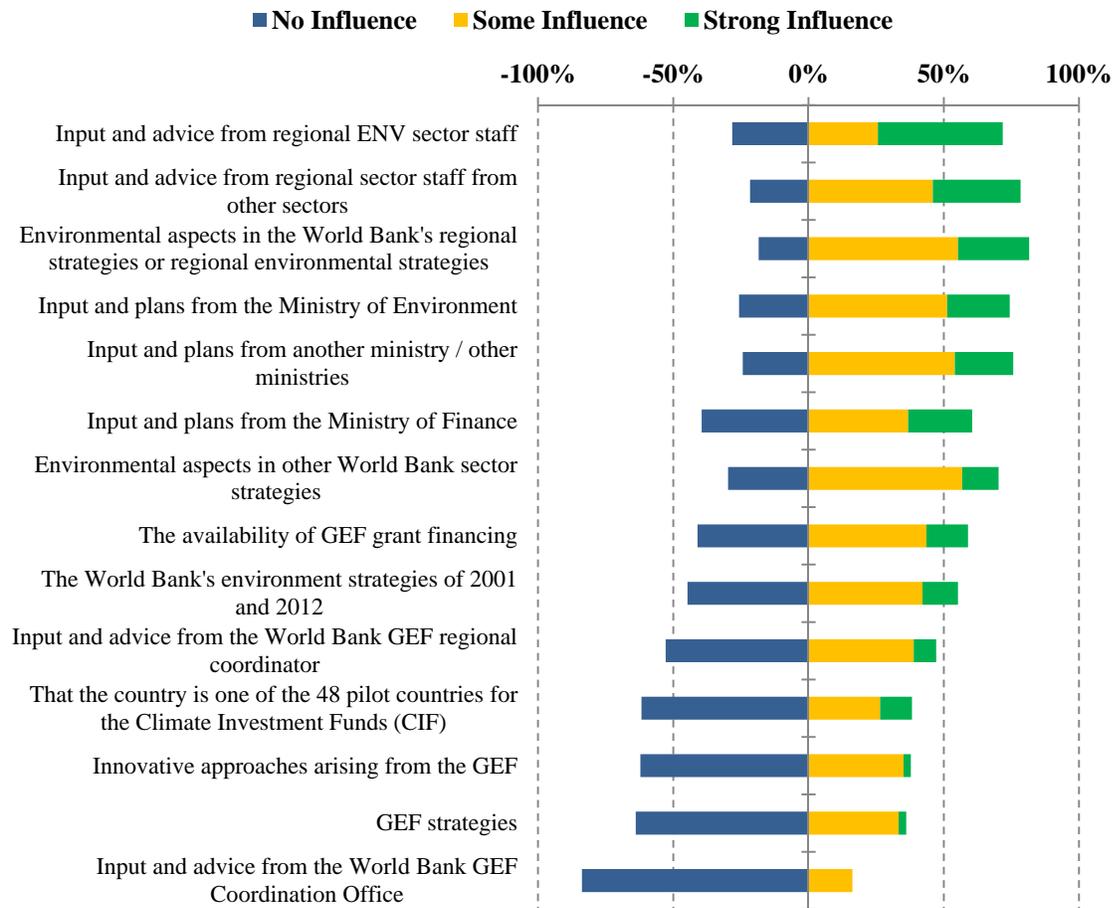
6.70 The keyword-based analysis presented in Figures 33 and 34 does not replace a more thorough analysis of how prominent the GEF's global environmental objectives have become in the World Bank's sector and country strategies over time. The World Bank has conducted considerable work on analyzing mainstreaming various topics into its CASs but, as far as the study team is aware, not of the GEF's global environmental objectives.

6.71 On the difficult subject of verifying whether the GEF has indeed made a contribution to mainstreaming environmental concerns in the World Bank, an IEG survey asked World Bank country economists that had led or been actively involved in preparing country strategy documents to provide their feedback on factors that influenced World Bank CASs. The results are summarized in Figure 35.

6.72 In terms of the direct influence of the GEF on environmental aspects in World Bank CASs, respondents considered the presence of GEF grant financing to be the strongest: 59 percent of surveyed country economists and task managers of country strategy documents felt that there was some (44 percent) or strong (15 percent) influence. For all other direct channels such as GEF strategies, innovative approaches arising from the GEF, or input from the Bank's GEF Coordination Team, a majority of respondents felt that these had little or no influence.

6.73 Indirect channels are more difficult to interpret. Clearly, environmental aspects in CASs are mostly influenced by input and advice from World Bank staff in the environment and regional sectors, by input and plans from client ministries, and by World Bank strategies. This represents a lesson in itself. For successful mainstreaming into World Bank CASs, the

Figure 35. Influence of Some Factors on Environmental Aspects in the Country Strategy Documents as Perceived by World Bank Country Economists and Country Strategy Document Task Managers



Source: IEG Survey of Country Economists and country strategy document task managers.

Note: N=34 to 39, depending on the question.

Question: "In your opinion, how strongly have the following factors influenced environmental aspects in the country strategy document?"

mainstreaming of global environmental priorities into the consciousness of key World Bank sector and client staff, as well as into World Bank and client plans and strategies needs to occur first. As mentioned earlier, mainstreaming of GEF objectives into World Bank corporate environmental strategies can be considered successful.

6.74 The analysis for this report does not establish whether mainstreaming of GEF objectives into World Bank staff priorities has occurred or not. The difficult operational relationship between the World Bank and the GEF, as discussed in Chapter 4, may however represent a challenge to this end.

MAINSTREAMING ENVIRONMENTAL CONCERNS IN IFC

6.75 IFC's engagement with the GEF has had a significant impact in terms of mainstreaming environmental concerns into the IFC, particularly in those practice areas where the IFC has been most active in terms of GEF projects: energy efficiency, renewable energy and, to a lesser extent, biodiversity.

6.76 **Energy efficiency.** Based on the success of early energy efficiency investments and programs, sustainable energy finance has been mainstreamed into regular IFC operations. IFC's support to energy efficiency has grown from advisory services projects to complex investments with the participation of financial intermediaries, and energy market stakeholders, and from individual loan guarantees to guarantees on a portfolio basis, as well as credit lines and mezzanine finance facilities. The first such program — the Hungary Energy Efficiency Program — was solely funded by GEF in 1997, and the rest have been jointly financed by GEF, IFC, and private-sector participants (IEG, 2010b, p. 13 and IFC, 2012f, p. 13).

6.77 The practical application of the IFC's experience in implementing energy efficiency projects with GEF support is found in the current design of IFC approaches for the development of sustainable energy markets:

- Module 1: Market transformation programs, such as Lighting Africa or the Efficient Lighting Initiative (a package of tools which address a range of market barriers, with the aim of market transformation);
- Module 2: Integrated advisory and investment approach, such as Sustainable Energy Finance investments (mobilizing investments in sustainable energy).

6.78 **Clean energy scale-up and energy access initiatives.** IFC has supported the development and scale-up of grid and off-grid clean energy, via focused solar photovoltaic investments, and by supporting renewable energy in general. The main instruments of this support have been regulatory advice, improving access to finance, and addressing informational barriers to market development. In general, renewable energy has been included in the IFC strategy as a part of the climate change direction, and the lessons of IFC's GEF projects have been incorporated in IFC's objectives for renewable energy development.

6.79 **Biodiversity.** The biodiversity projects did not change IFC's business per se, because it has proven difficult to make a business case for the private sector in this focal area. However, according to interviews with IFC staff, the ongoing Biodiversity and Agricultural Commodity project has contributed to the formulation of one of IFC's performance standards, namely Environmental Performance Standard 6 — Biodiversity Conservation and Sustainable Management of Living Resources — making this part of IFC's standard business practices, and bringing sustainability issues into IFC investments. This development of a standard for environmental safeguards that now applies to all IFC projects reflects the fact that environment is a cross-cutting theme (as opposed to a sector).

6.80 **IFC capacity to deal with the blended financing.** To a certain extent, thanks to its partnership with the GEF, IFC has gone through a number of organizational changes aimed

at structuring donor financing targeted on activities with strong social and environmental benefits, and managing such donor financing on a sustainable basis. Before 2004, IFC's Environmental Unit (later the Environmental Finance Group, EFG) was dealing with commercially viable and high-risk ventures in environment. At the time that the EBFP was endorsed in 2004, IFC created a unit — the Financial Mechanisms for Sustainability Unit (Fin Mech) — to work with concessional funding and structure this funding more efficiently for the clients, on a basis of the EFG. The latest transformation of this unit occurred in 2008, when the Blended Financing Unit was established to replace Fin Mech, within the Sustainable Business Advisory Group, for managing blended financing in IFC portfolio. This unit is now responsible for the management of all concessional donor financing, including the rest of EBFP, the implementation of the IFC Earth Fund, and the CIFs, among others.

6.81 **Impact on clients.** As the review of Sustainable Energy Finance Investments showed, sustainable energy financing investments contributed to the launch of the new sustainable business lines in IFC client entities. Another impact has been attracting sustainable energy lending — risk sharing guarantees that “crowded-in” private investments (IFC 2012f, p. 42). Examples of this have been attributable not only to the energy efficiency guarantees, but also to sustainable energy products in general.

Linkages

6.82 One of the most consistent themes in the World Bank's strategic documents since 2001 has been the desirability of effective linkages between global partnership programs like the GEF and the Bank's own country programs (Box 3). But the Bank has not yet specified what kinds of linkages it expects (a) for different kinds of partnership programs (knowledge networks, technical assistance, or investments), (b) for programs funded by Development Grant Facility or trust funds, or (c) for programs located inside and outside the Bank. One of the reasons for undertaking the present Review was to learn how linkages were working in the case of the GEF, which was designed from the very beginning to have linkages with the Bank's country programs. Appendix F of Volume 2 of this report provides a more complete list of references to linkages in earlier reviews and reports.

6.83 Therefore, this section provides a simple framework for assessing the effectiveness of different types of linkages in the case of the GEF and the Bank Group, which could also be applied to other global partnership programs: strategic, operational, financial, and institutional linkages.

6.84 **Strategic linkages** refer to the degree of harmonization and alignment of strategies and policies between the GEF and the World Bank Group, which was discussed in Chapter 3. This chapter concluded, among other things, that the 2001 corporate environmental strategy of the World Bank exhibited strong strategic linkages with the mandate and strategies of the GEF.

6.85 **Operational linkages** refer to GEF and Bank Group staff who are working together to achieve mutual objectives, which was discussed in Chapter 4. This chapter concluded that operational linkages have suffered from ineffective management of the Bank Group-GEF project cycle.

Box 3. References to Global-Country Linkages in the World Bank’s Strategic Documents in Relation to Global Partnership Programs

January 2001: A Framework for Managing Global Programs and Partnerships:

“Partnerships should demonstrate a clear linkage to our core institutional objectives and, above all, to our country operational work.”

March 2003: Update on Management of Global Programs and Partnerships:

“Global programs must take into account client country priorities as expressed through PRSPs or similar country-owned strategy documents. . . . Going forward, the principle of subsidiarity will be more rigorously applied when deciding whether a global program should be established and whether an activity should be carried out by the global program rather than, as the preferred option, implemented through country operations. If resources are mobilized through global programs, they should be channeled as much as possible directly to the country level and services should be provided as an integral part of country operations.”

April 2005: A Strategic Framework for the Bank’s Global Programs and Partnerships:

“Global programs and country-led approaches should be complementary. The Bank should . . . forge better links between global and developing country priorities. . . . Each of the regional and network vice presidential units will now be held explicitly accountable to . . . improve the alignment and linkages of global programs and partnerships with country- and region-based development strategies.”

August 2007: Global Public Goods: A Framework for the Role of the Bank:

The Bank will “use PRS, CAS, and sector strategies as the platform to work with countries on strengthening the links between national priorities and global/regional public goods. The Bank needs to bridge the partial disconnect between its country programs managed by the Regions, and its work on global issues managed by the Network Anchors. Management will explore how best to ensure a more systematic treatment of global issues as part of Bank country-level work.”

6.86 **Financial linkages** refer to the GEF financing of Bank Group-implemented projects in client countries, as well as the blending of IBRD/IDA financing with some of these projects, which was discussed in the present chapter. This chapter concluded that blending had remained below expectations over the last two decades.

6.87 Finally, **institutional linkages** are arrangements of a non-operational character between the GEF and the Bank Group that also contribute to the achievement of mutually shared objectives. Examples are the World Bank’s observer status on the GEF Council, the adoption of the GEF Instrument by the World Bank’s Board, the Bank’s trusteeship of the GEF and related trust funds, and the hosting of the GEF Secretariat in the World Bank. Chapter 8 will discuss some of these.

Conclusions

6.88 **Co-financing.** The GEF Council and Secretariat have put a high emphasis on co-financing and other leveraged resources. Co-financing volumes and ratios are part of the GEF’s performance reporting, serve as benchmarks in project review, and are used for target-

setting in the planning of future work programs. However, the GEF Evaluation Office has found a lack of evidence to support all the claims associated with co-financing.

6.89 Essentially, two major claims are inherent in the GEF's Council-approved definition of co-financing: (a) that co-financing and leveraging mobilize new resources in addition to building on ongoing activities, and (b) that these resources cause additional global environmental benefits to be generated.

6.90 Evidence suggests that the two claims are only partially fulfilled in the context of the GEF:

- While some important new resources probably are mobilized and translate into additional global environmental benefits, this appears not to be the case for all the co-financing that is claimed to be mobilized by the GEF. Especially those projects with large co-financing volumes have a high probability of being implemented in the absence of a GEF contribution and of not focusing, directly or indirectly, on global environmental benefits.
- Reported co-financing figures may reflect some interpretational freedom in the definition of co-financing. It is notoriously difficult to establish causality and to determine whether or not resources are essential for achieving GEF objectives.
- Overall co-financing volumes and ratios are strongly driven by a small number of highly co-financed projects. When looking more closely at projects with a co-financing ratio higher than 10 to 1, it becomes clear that the World Bank as Implementing Agency is primarily driving the average ratio of co-financing at the GEF. The overall ratio of 4.5 to 1 falls to 3.1 to 1 if all World Bank projects (including Pilot Phase projects) are removed from the portfolio and only other Agencies are considered.

6.91 Together, these three observations make reported co-financing figures unreliable and volatile: a small number of highly co-financed projects — with a high probability of not representing co-financing in the GEF's sense — largely drive reported co-financing numbers. This unreliability is exacerbated by the interpretational freedom in defining co-financing and by the fact that the GEF Secretariat does not verify co-financing figures reported by the Agencies. However, the GEF Secretariat does compare the reported committed with the reported realized amounts, and the GEF Evaluation office has evaluated co-financing on several occasions.

6.92 **Innovation, demonstration, and replication.** In addition to increasing project or project-related financing volumes through co-financing and leveraged resources, the GEF and the World Bank Group have also engaged in introducing and demonstrating innovative approaches for global environmental sustainability.

6.93 Bank staff emphasized the role GEF funding has played in projects related to national policy development, innovation, and the initiation of new business lines in the environment sector, and Bank management considered the GEF to have made crucial contributions to innovative and risk-sharing approaches when providing incentives to the piloting and demonstration of new technologies and approaches. About half of the GEF Program

Managers surveyed felt that the World Bank had a comparative advantage in testing innovative ideas and approaches for scale up or in expanding the reach and scale of approaches tested.

6.94 A cursory review of available analysis on the GEF's innovation, demonstration, and replication effects revealed most evidence for climate change mitigation projects, several examples for biodiversity conservation projects, and scattered examples for projects in other focal areas.

6.95 Overall, analysis of these evolutionary catalytic effects is difficult since innovation, demonstration, and replication are understood in rather broad terms by many and since the attribution of developments to a GEF project, sometimes years after the project was implemented, remains methodologically challenging.

6.96 **Blended and associated projects.** In line with its emphasis on co-financing, the GEF has also shown a keen interest in associating its funds with World Bank investment projects. In the World Bank, from 1992 to 2009, project association was firmly embedded in operational policy (World Bank Archived Operational Manual, OD 9.01, paragraph 4). Today in the Bank, there seems to be little strategic or policy guidance on associated versus free-standing projects and the choice to associate GEF grants with Bank investment projects seems mostly driven by managerial cost-effectiveness considerations.

6.97 Within the World Bank, the association of GEF funding with World Bank projects is described by the degree of blending. However, this terminology only approximates the GEF's concepts of project association and co-financing by the World Bank.

6.98 In contrast to early intentions, the share of GEF projects blended with World Bank operations has never dominated the World Bank-GEF project portfolio: the share of blended FSP projects has fluctuated around 29 percent of projects and 35 percent of GEF funding, and was below one-third for the last three two years.

6.99 In interviews, the existence of freestanding projects was justified by a "blending over time-argument." In some cases, freestanding GEF projects of an innovative character have likely triggered follow-on investments catering to GEF purposes, and in other cases, GEF grants have provided the only chance to initiate or keep alive a World Bank country dialogue on environmental matters.

6.100 **Mainstreaming.** Closely connected to but extending beyond World Bank-GEF project blending is the aim of mainstreaming global environmental objectives into the regular activities and objectives of the World Bank Group and other GEF Agencies. Agency mainstreaming can occur on a strategic level, by incorporating global environmental objectives into Agency strategy as, for example, in the Bank Group's 2001 environmental strategy. Agency mainstreaming can also occur at an operational level, driven by strategy and/or by GEF financing, as associated World Bank-implemented projects.

6.101 Agency mainstreaming was high on the GEF Council's agenda in the late 1990s but represents a very common objective among other global partnership programs as well. Over time, the Bank Group has firmly integrated global environmental objectives into its corporate

strategies. This was most clearly visible in the 2001 corporate environment strategy and has remained an implicit objective in the 2012 successor strategy which, however, did not organize its primary framework around the local versus the global environment. This integration of environmental objectives into Bank Group corporate strategies can be considered a mainstreaming success.

6.102 Closer to operations, on the level of the Bank Group's CASs, mainstreaming is less obvious. Biodiversity, for example, was mentioned in about 50 percent or more of all CASs from 1994 onwards, but earlier evidence suggests that the GEF had only "accounted for the relatively small overall increase in the average annual level of World Bank lending for biodiversity since fiscal 1993." Climate change, on the contrary, has been mentioned increasingly, growing from being virtually absent in CASs in the 1990s to being almost omnipresent in CASs written since 2010. However, as with biodiversity, the question of causality is difficult to settle. The World Bank Group, like other agencies, can now access an increasing number of donor trust funds outside the GEF, including carbon finance and the CIFs, to finance projects in climate change mitigation and adaptation.

6.103 However, mentions of the GEF itself have risen quickly over time. Over the last years, the GEF is mentioned five or more times on average in 60 percent of all new CASs.

6.104 It seems that for successful mainstreaming into World Bank CASs, mainstreaming of global environmental priorities into the consciousness of key World Bank sector and client staff, as well as into World Bank and client plans and strategies needs to occur first. The direct influence of the World Bank corporate environmental strategies on environmental aspects in CASs appears moderate and the direct influence of GEF strategies is likely to be minor.

6.105 IFC's GEF work has led to considerable mainstreaming for energy efficiency and clean energy projects. These project types were pioneered with GEF funding and have subsequently been developed into important IFC business lines. Mainstreaming in the biodiversity focal area has proven more difficult as it remains challenging to identify viable business cases.

7. Experiences with the GEF's Resource Allocation Systems

7.1 Allocating their available resources across product lines and countries in a priority fashion is a challenge for all global partnership programs, especially those that are financing country-level investments or technical assistance activities. The experience of the GEF in this regard represents a case example of significantly changing its resource allocation system over time, with potential lessons for other programs.

7.2 The first section of this chapter describes how the GEF has changed its allocation system over time with particular emphasis on the 2006 and 2010 changes, and the second section summarizes the effects of these changes on the Bank Group-GEF partnership, as well as on other GEF stakeholders.

Description of Resource Allocation in the GEF

7.3 A recent IEG evaluation of the World Bank's trust fund portfolio identified four general ways in which programs have allocated their resources (IEG 2011b, pp. 53–56):

- A formula-based allocation system like the World Bank uses for allocating IDA resources across IDA-eligible countries.
- Calls for proposals in response to published criteria, followed by a centralized review process to identify the most worthy proposals.
- Block grants to different operational units, like the World Bank allocates its own administrative budget.
- Country-specific trust funds in which the contributing donors pre-select the recipient country or countries.

7.4 Up until 2006, the GEF's allocation of resources largely resembled "calls for proposals." The GEF Agencies submitted proposals to the GEF Secretariat that were funded if eligible and if GEF Trust Fund resources were available. No further prioritization criteria seem to have been applied once projects had passed the eligibility threshold.

7.5 This arrangement has been referred to as an "implicit resource allocation framework under which Implementing/Executing Agencies tailored their country-level activities to the global environmental benefits and the ability of countries to deliver in different focal areas. Projects were developed in each country based on the focal areas where countries could implement projects" (GEF 2004e, p. 5).

7.6 In 2002, one of the policy recommendations agreed to by the Council as part of the third replenishment of the GEF Trust Fund requested the establishment of an explicit resource allocation system:

"Participants request the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental

improvements and promoting sound environmental policies and practices worldwide” (GEF 2002f, p. 50).

7.7 The initial arguments in favor of a resource allocation system were based on a comparison with the way resources were allocated in other international financial institutions. As the GEF Secretariat later formulated it: “From these recommendations it can be interpreted that the principal intent behind them is to enhance the performance and catalytic action of GEF-financed projects at the country-level by establishing a system to allocate resources that explicitly recognizes the role that country performance can play in maximizing generation of global environmental benefits” (GEF 2002f, p. 50).

7.8 In interviews, respondents said that the United States was the driving force in favor of an explicit resource allocation system. The U.S. representative on the GEF Council advocated more accountability for the use of funds by means of a performance-based resource allocation system, which IDA and other multilaterals were utilizing, and which would also be consistent with how its own *Millennium Challenge Corporation* was being set up (formally established in January 2004).

7.9 Several people interviewed for this study noted that a natural tension existed between the global environmental mandate of the GEF that called for flexibility in resource allocation and the mandate to assist countries in implementing their obligations under environmental conventions that called for a country-based allocation system.

7.10 While the Council had already decided — in principle — in 2002 to introduce an explicit formula-based allocation system, it took until September 2005 before Council Members reached agreement on how the new RAF would be designed, until September 2006 before the first RAF country allocations were disclosed, and until February 2007 when these were officially implemented at the time that GEF-4 became effective (GEF Evaluation Office 2009a, p. 2).

7.11 The RAF derived country allocations for the two major focal areas (biodiversity and climate change) based on a formula with two essential components: potential environmental benefits and country performance (GEF Evaluation Office 2009a):

- Potential environmental benefits were measured by two indexes: a *GEF Benefits Index for Biodiversity (GBI_{BIO})*, serving as a proxy for the potential global benefits from biodiversity-related activities in a country, and a *GEF Benefits Index for Climate Change (GBI_{CC})*, approximating the potential global benefits that could be realized from climate change mitigation activities in a country.
- Country performance, i.e., its capacity to successfully implement GEF projects and programs, was measured by a composite *GEF Performance Index* that combined three already existing indexes:
 - The World Bank’s *Country Environmental Policy and Institutional Assessment Indicator* for government performance in relevant policy areas;
 - The World Bank’s *Broad Framework Indicator* for the quality of management in selected public-sector areas; and
 - The *Portfolio Performance Indicator* compiled by the GEF, for the quality of completed and ongoing environmental GEF and World Bank projects in the country.

7.12 The other four focal areas were not subject to RAF allocations under GEF-4. “Recipient countries continued to access resources for the other focal areas on a first-come, first-served basis” (GEF Evaluation Office 2004a, p. 65). The GEF-4 set aside a certain amount for these focal areas which would continue to be allocated implicitly, as before, on a “call for proposals” basis. The Council also set aside \$50 million for the Earth Fund to support private-sector activities, attempting to pre-empt a crowding-out effect of the RAF on IFC and other private-sector projects, as discussed in Chapter 2.

7.13 Recipients could access RAF resources either as individual or as group allocation countries, depending on their eligibility (GEF 2005b, p. 4). Within the two focal areas covered by the RAF, “exclusions” of 5 percent of all resources were made available for regional and global projects and an additional 5 percent for the small grants program and cross-cutting capacity building activities.⁷³

7.14 In 2009, the mid-term evaluation of the RAF stated that countries increasingly resorted to multifocal area projects, in part “to overcome rigid walls between limited focal area funding under the RAF ... whereby projects are ‘merged’ to fit allocations without synergy as a primary objective” (GEF Evaluation Office 2009a, p. 78). In addition, “the walls between focal areas and the limited funds for some countries have enabled the push for programmatic approaches ... to gain momentum” (Ibid, p. 98).

7.15 An updated and expanded resource allocation system, now called the *System for Transparent Allocation of Resources (STAR)*, replaced the RAF in 2010, coinciding with the beginning of the GEF-5 replenishment phase, and covered a third focal area — land degradation — in addition to biodiversity and climate change.

7.16 A *Social and Economic Development Index* was added in the STAR, based on each country’s GDP per capita. This sought to address concerns that poorer countries needed more resources to build capacity for GEF project development and implementation, and for delivery of global environmental benefits.⁷⁴

7.17 The STAR also allowed for more flexibility through its “marginal adjustment” mechanism, which allowed shifting resources between focal areas in case a particular project would exhaust the country allocation in one specific focal area (GEF 2010f, p. 4). A total of 63 countries under the “flexibility threshold” of \$7 million were allowed to use their allocated resources “across any, or all, of the three focal areas of biodiversity, climate change, and land degradation” (Ibid, p. 4). Interviewed World Bank staff generally welcomed this increased flexibility under the STAR as compared to the RAF, although few countries appear to have made use of this flexibility so far.

73. Eligible countries under the RAF system would be allocated resources individually. Remaining countries would be grouped and would obtain collective access to the focal area resource that are neither attributed to individual countries nor fall under the 5 percent exclusions (GEF 2005b, p. 6).

74. GEF website: <http://www.thegef.org/gef/STAR>, visited on April 27, 2013.

Effects on the Bank Group-GEF Partnership

7.18 The GEF Evaluation Office undertook a mid-term evaluation of the RAF in 2009. While agreeing that the input data for RAF indexes represented “the best scientific data currently available,” this noted several concerns with its design and acceptance as well as with the unintended effects that it had caused. The evaluation found that the RAF had not provided effective incentives to improve performance, that unclear guidelines had limited the access of group allocation countries to GEF funds, that the complexity of the implementation rules had not encouraged flexible and dynamic resource usage, and that the design and accompanying rules had been too complex. While the RAF had increased country ownership in individual allocation countries, ownership in group allocation countries had not changed or had been reduced, and exclusions for global and regional projects had not been effective (GEF Evaluation Office 2009a, p. 8).

7.19 With relevance to the Bank Group-GEF partnership, the evaluation noted that the World Bank’s share of GEF commitments in the climate change and biodiversity focal areas had fallen from more than half of GEF resources in GEF-1 to GEF-3 to 32 percent at the mid-point of GEF-4, and that UNDP’s share had climbed from 28 percent to 43 percent during the same timeframe. The evaluation related the declining share of the World Bank to the RAF, while also stating separately that other factors in addition to the RAF had also influenced this:

“The RAF has led to increased participation by the United Nations Development Program (UNDP) and the “new” GEF Agencies and to a decrease in World Bank and, to a lesser extent, United Nations Environment Program (UNEP) participation” (GEF Evaluation Office 2009a, p. 5).

7.20 The evaluation further noted the spread of small RAF allocations over many countries had made it difficult for the Multilateral Development Banks, who were GEF Agencies, to blend their loans with GEF projects of a cost-effective size.

7.21 The evaluation also noted that the introduction of the RAF had caused a major shift in the GEF partnership. Together with other reforms, the RAF had led to more powerful roles: (a) for the GEF Secretariat in project inception, program development, and bilateral dialogue with the country, and (b) for the GEF Operational Focal Points from endorsement to actual programming. The roles of the GEF Agencies in these areas were consequently diminished.

7.22 The GEF Evaluation Office is in the initial phases of a mid-term evaluation of the STAR at the present time (GEF Evaluation Office 2013). Hence, there does not seem to be any further evaluative material on experiences with the RAF or the STAR at this time.

7.23 **Impacts on the World Bank.** World Bank TTLs and other staff interviewed for this Review raised two main issues with respect to the impact of the RAF and the STAR on the Bank Group-GEF partnership, both of which are consistent with the findings of the mid-term evaluation of the RAF:

- Some country allocations under the RAF and the STAR were too small to be financially viable for World Bank-implemented GEF projects; and

- The RAF and STAR systems increased the inception-stage decision-making authority of the GEF Focal Points, who are predominantly located in the countries' Environment Ministries, rather than in the Finance Ministries and technical sectoral ministries, with whom the Bank usually works as principal counterparts.

7.24 Comparing the seven year period (2007–13) since the advent of RAF/STAR with the preceding seven years (2000–06), the average size of full-sized GEF projects (across all Agencies) has indeed declined from US\$7.22 million to US\$5.53 million from the first period to the second, while that of World Bank GEF projects declined from US\$8.83 million to US\$7.50 million. The number of countries in which the World Bank initiated national projects also declined from 93 to 73 countries, the number of countries in which the Bank initiated an FSP declined from 72 to 68, and the number of countries in which it initiated at least two FSPs declined from 41 to 27. The decreased opportunities for large-scale FSPs (i.e., those with GEF financing of US\$10 million or more) has led both to fewer World Bank projects and to some decrease in the average project size.⁷⁵

7.25 The IEG survey of GEF Focal points confirmed that Focal Points were indeed predominantly located in Ministries of Environment (92 percent), versus the Ministry of Finance (8 percent).⁷⁶ About half of the GEF Focal Points also indicated that they either decided or had a strong influence on their country's resource allocation among GEF Agencies. However, more than a third felt that they had no influence on resource allocation at all.⁷⁷

7.26 Asked about the impact of the RAF and STAR on the World Bank, the surveyed GEF Program Managers and GEF Focal Points strongly agreed that the RAF and STAR had shifted decision-making power from the GEF Agencies to countries (Figure 36). Both groups also agreed that the Bank now needs to systematically combine GEF projects with large investment projects because the upper budget ceiling imposed by the RAF/STAR does not allow large-scale (stand-alone) projects any more. However, 71 percent of GEF Program Managers and 54 percent of GEF Focal Points disagreed that it has become more difficult for the World Bank to initiate GEF projects because other Agencies have better access to the GEF Focal Points.

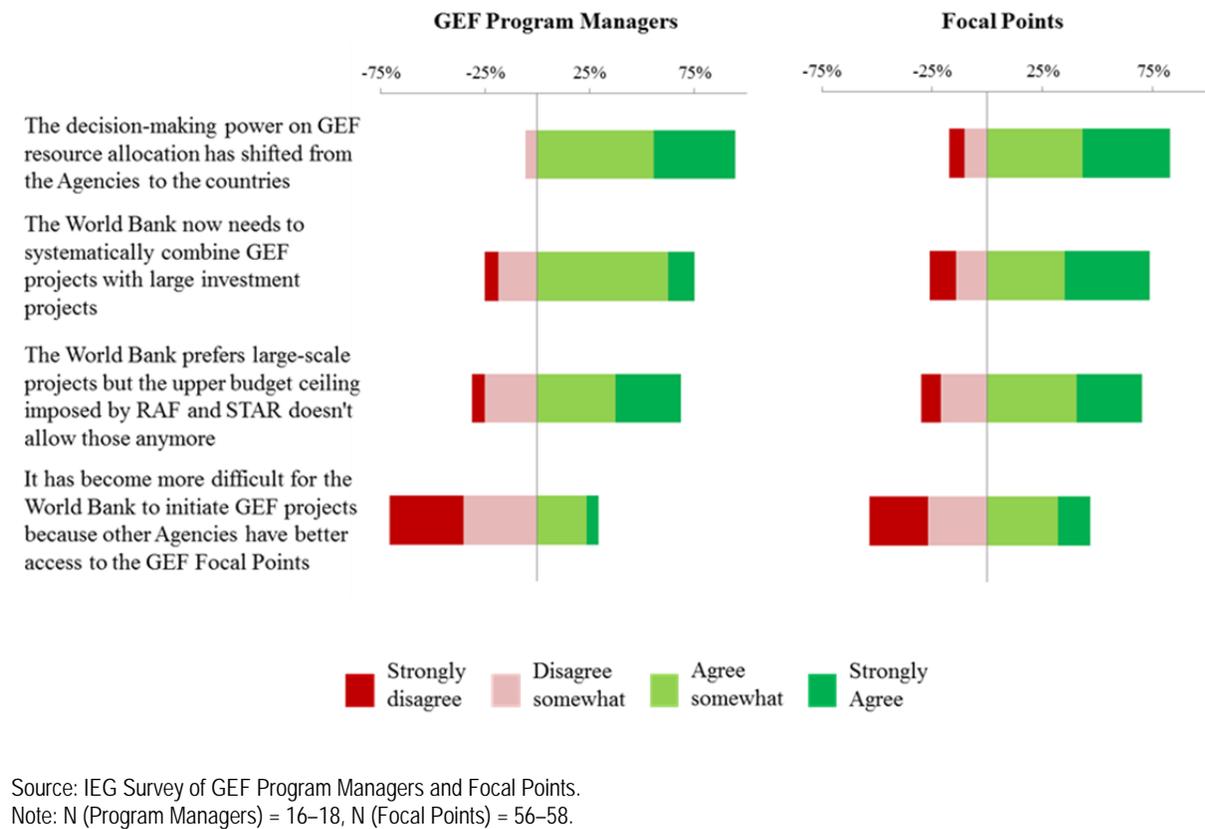
7.27 The World Bank has pursued a number of approaches to mitigate the negative impact of the RAF and STAR on the Bank's engagement with the GEF. These have included reducing the number of MSPs, increasing the size of FSPs, and greater use of Programmatic Approaches, multi-focal area projects, and multi-trust fund projects — all intended to generate GEF projects of a meaningful size that are financially viable to the Bank. According to interviews, none of these approaches has been fully successful in mitigating the impacts of the RAF and STAR, in part because each approach adds its own complexity to project identification and preparation.

75. This analysis is based on information contained in the GEF's Project Management and Information System through the end of fiscal year 2013 (June 30, 2013).

76. The survey targeted all GEF Focal Points: 51 respondents answered this particular question.

77. Five out of 62 respondents (8 percent) indicated that they had decision-making authority, 40 percent that they had a strong influence, 35 percent that they coordinated decisions made elsewhere. Ten respondents (16 percent) chose the option "other" and provided comments indicating varying degrees of influence.

Figure 36. Effects of the Introduction of RAF and STAR as Perceived by GEF Program Managers and Focal Points

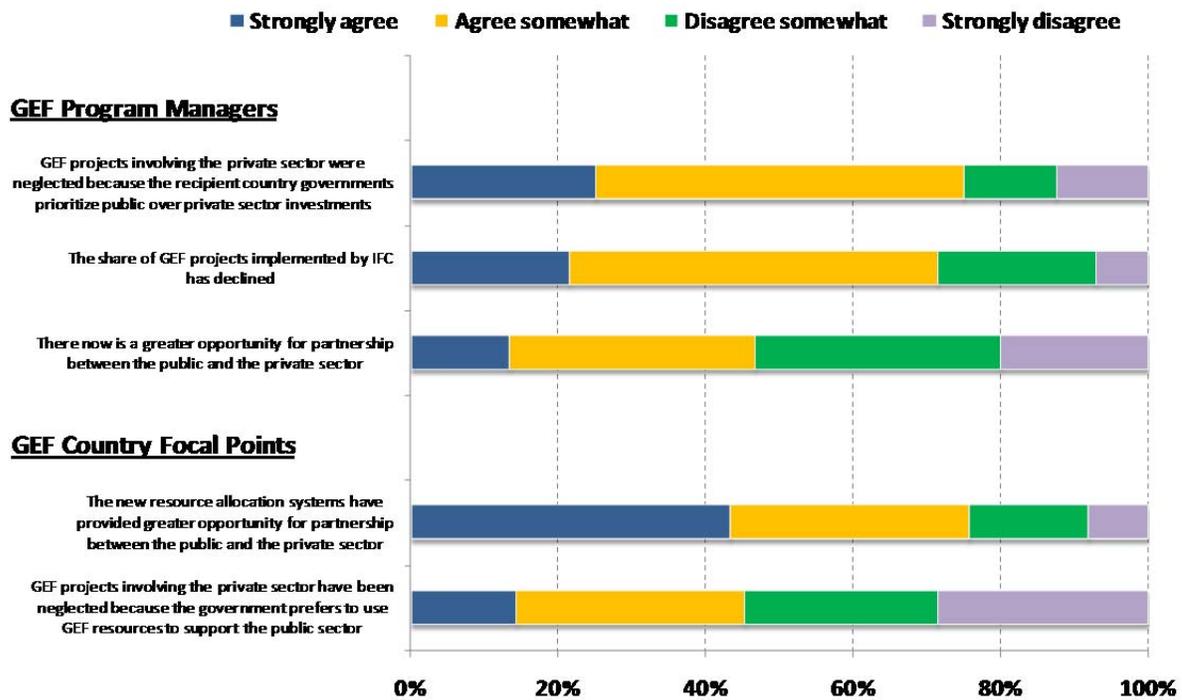


7.28 Impacts on IFC and private-sector involvement. The GEF Program Managers and Focal Points had divergent opinions on the impacts of the RAF/STAR on GEF projects involving the private sector (Figure 37). Three-quarters of the Program Managers agreed that GEF projects involving the private sector were neglected because the recipient country governments prioritized the public over the private sector, but 55 percent of Focal Points disagreed. Three-quarters of the Focal Points felt that the RAF/STAR provided greater opportunity for partnership between the public and private sectors, but 53 percent of Program Managers disagreed.

7.29 Almost three-quarters of the GEF Program Managers agreed that the share of GEF projects implemented by the IFC has declined since the introduction of the RAF/STAR. Both IFC managers and TTLs interviewed by IEG agreed. They felt that the introduction of the RAF/STAR had “crowded-out” the use of GEF funding for private-sector projects because the countries’ Environment Ministries, where most GEF Operational Focal Points were based, generally prioritized public over private-sector environmental projects.

7.30 As discussed in Chapters 2 and 4, the establishment of the Earth Fund at the beginning of GEF-4, when the RAF was introduced, was partly designed to mitigate these anticipated impacts on the involvement of the private sector in GEF projects, but does not appear to have effectively done so. Both the GEF EO evaluation of the Earth Fund (GEF 2011) and the IFC

Figure 37. Impact of the RAF and STAR on GEF Projects Involving the Private Sector as Perceived by GEF Program Managers and Focal Points



Source: IEG Survey of GEF Program Managers and Country Focal Points.

Question: "In your opinion, what impacts did the introduction of the resource allocation systems RAF and STAR have on GEF projects involving the private sector?"

mid-term evaluation of the IFC Earth Fund (Ernst & Young 2012) found that the pace of deployment has been slower than expected.

7.31 The introduction of the RAF also appears to have reduced the overall use of non-grant instruments by the GEF such as guarantees, revolving funds, concessional loans, equity and debt financing, and performance-based pricing instruments — instruments typically used to incentivize private-sector involvement in GEF projects. An inventory on the use of non-grant instruments, prepared for the GEF's revised private-sector strategy (2011), found that more than 80 percent of GEF projects with non-grant instruments were approved prior to the introduction of the RAF at the beginning of GEF-4 (Table 16).

Table 16. GEF Financing and Co-financing for Projects Using Non-Grant Instruments

GEF Phase	Number of Projects	GEF Grant Amounts (US\$ millions)	Total Co-financing (US\$ millions)
Pilot Phase	3	16.0	7.2
GEF 1	8	103.4	390.5
GEF 2	23	146.0	847.9
GEF 3	26	178.7	1,010.1
GEF 4	8	94.0	706.2
GEF 5	4	24.3	939.6
Total	72	580.5	3,901.6

Source: Revised Strategy for Enhancing Engagement with the Private Sector, Nov. 10, 2011 (GEF/C.41/09/Rev.01) and Operational Policies and Guidance for the Use of Non-Grant Instruments, March 26, 2008 (GEF/C.33/12).

Note: This inventory covers all the projects that the GEF financed with non-grant instruments, not just those implemented by the IFC.

Conclusions

7.32 The introduction of the RAF and the STAR led to significant impacts on how both the World Bank and IFC collaborated with the GEF:

- Some country allocations became too small for World Bank GEF projects; and
- The RAF and STAR systems increased the project decision-making authority of the GEF Focal Points, who are predominantly located in the countries' Environment Ministries, rather than in the Finance Ministries and the technical sectoral ministries with whom the Bank usually works as principal counterparts.

7.33 Interviewed World Bank staff felt that these effects reduced the Bank's access to GEF funding. A mid-term review of the RAF also found that the RAF had contributed to a significant decrease in the World Bank share of GEF projects (from more than half to 32 percent) and a corresponding increase in the share of UNDP projects from 23 to 43 percent.

7.34 Bank Group and GEF Secretariat staff had anticipated that the RAF would lead to a relative neglect of GEF projects involving the private sector. The creation of the GEF Earth Fund to pre-empt this crowding-out effect on IFC and other private-sector projects has not been very successful in this regard. The introduction of the RAF also appears to have reduced the overall use of non-grant instruments funded by the GEF, such as guarantees, revolving funds, concessional loans, equity and debt financing, and performance-based pricing instruments — instruments typically used to incentivize private-sector involvement in GEF projects.

8. The World Bank's Corporate Activities as a GEF Implementing Agency

8.1 In addition to developing, preparing, supervising, and evaluating the outcomes of GEF-financed projects, the World Bank and the other nine GEF Agencies undertake a range of corporate activities to support the governance and management of the GEF, as follows:⁷⁸

- **Policy support** — the development, revision, and operationalization of GEF policies, strategies, business plans and guidelines; and participation in the meetings of the GEF governing bodies.
- **Portfolio management** — pipeline and program management, financial management and data management; participation in financial consultations organized by the Trustee; preparation of the Annual Monitoring Report, the Annual Portfolio Review for the Evaluation Office; and the overall management of the portfolio regardless of the number of projects undertaken.
- **Reporting** — all the reporting requirements related to project-cycle management
- **Outreach and knowledge sharing** — participation in sub-regional consultations, country dialogues and STAP meetings.
- **Support to the GEF Evaluation Office** — evaluations, reviews, and studies initiated by the Evaluation Office.

This chapter covers these corporate activities as well as the management of potential conflicts of interest among the World Bank's multiple roles in the GEF.

8.2 The GEF policies with respect to corporate activities have undergone two major changes, and several minor ones, since inception. In the first phase from inception through the end of fiscal year 1999, each of the three original Implementing Agencies received a single annual corporate budget allocation that was intended to cover both (a) each Agency's direct costs for managing its current and planned projects for that year only and (b) the indirect costs of corporate activities not attributable to individual projects. What exactly constituted "corporate activities" was not precisely defined beyond the general paragraphs that appear in Appendix D of the GEF Instrument which emphasize flexible and innovative collaboration among Implementing Agencies within an overall cooperative framework (GEF 2011a).

8.3 As described in Chapter 2, in the second phase, from fiscal years 2000–07, the GEF Council introduced a fee-based system to cover the Agencies' project management costs, while continuing to provide a separate budget allocation for corporate activities. The document that formed the basis for the Council's decision also defined the Implementing Agencies' corporate roles for what appears to be the first time: (a) institutional relations; (b) policy and program development/management/coordination; (c) outreach/knowledge management/external relations; (d) management and finance, and (e) monitoring and

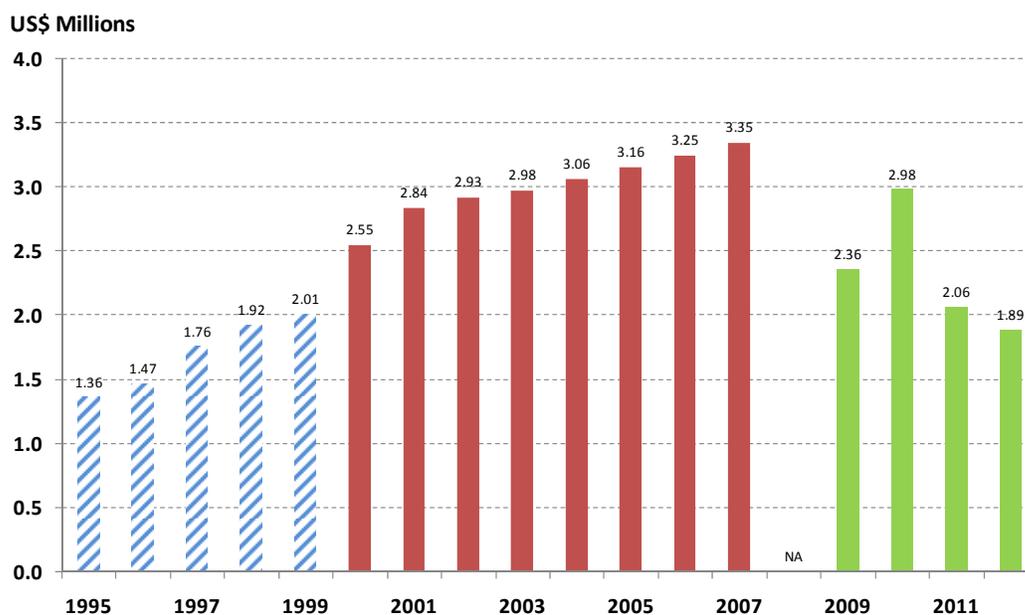
78. This is the most recent definition of the Agencies' corporate roles in GEF 2010c, "Rules and Guidelines for Agency Fees and Project Management Costs," October 2010 (GEF/C.39/9). Previous definitions, which are similar, can be found in GEF 1999d (GEF/C.13/11), and GEF 2006b (GEF/C.30/9).

evaluation (GEF 1999d, p. 5). The project-cycle management fees were subsequently revised to a flat 9 percent of the GEF grant, starting in fiscal year 2005 (GEF 2005a, p. 10).

8.4 In the third phase, from fiscal year 2008 to the present, the GEF Council eliminated the corporate budget allocation and increased the project-cycle management fee for all 10 GEF Agencies from 9 to 10 percent, on the understanding that the additional 1 percentage point was intended to cover the costs of corporate activities (Chapter 2). The document on which the Council based its decision also provided a more extensive list of corporate activities under three major headings: (a) policy development, (b) program management, and (c) relations with internal and external constituents (GEF, 2006b, p. 11).

8.5 As shown in Figure 38, the World Bank's corporate budget allocation from the GEF rose over time until 2007. Since then, the Bank's expenses for corporate activities, as reported in the GEF's Annual Monitoring Review, have been less than the previous corporate allocations, and have mirrored the general decline in Council commitments to new World Bank-implemented GEF projects. (See Figure 18 in Chapter 5.) This does not mean that actual expenses on corporate activities have declined — only those expenses charged against the 1 percentage point in the Agency fees received by the World Bank.

Figure 38. World Bank's Corporate Budget Expenses Related to the GEF



Source: GEF Corporate Budget Reports FY2000–07 and Annual Monitoring Reviews FY2009–12.

Notes:

- The GEF allocation to the World Bank did not distinguish between project-cycle management costs and corporate activities up to FY99 inclusive. Therefore, the figures for FY95–99 are based on the 90:10 ratio approved in 2007 (i.e., 10 percent of the overall budget), and are only indicative.
- The figures for FY2000–07 are the corporate budget allocations that the GEF provided to the World Bank during these years.
- The figure for FY2008 is not available. It was neither generated nor reported due to the transition to the new corporate budgeting system in that year.
- The figures for FY2009–12 are the World Bank's expenses for corporate activities reported in the Annual Monitoring Review. The GEF no longer provided the Agencies a corporate budget allocation during these years apart from the 1 percentage point included in the project-cycle management fees provided to each Agency.

Portfolio Management and Reporting

8.6 These two categories involve the corporate management of and reporting on the Bank Group's GEF portfolio, over and above the management of individual projects which was discussed in Chapter 4. These activities have generally accounted for the majority of the Bank Group's expenses on corporate activities — accounting for 63 percent of total expenses as recorded in the Annual Monitoring Reviews for 2009–12.

8.7 These activities generally follow an annual cycle in relation to the Bank Group's fiscal year (July to June), and the reporting requirements of the semi-annual meetings of the GEF Council in the fall and the spring of each fiscal year. They encompass:

- Preparation, negotiation, monitoring, and reporting of annual Work Program Agreements with the six World Bank Regions and IFC, while also providing continuous portfolio support to regions and TTLs on work programming, procedural, and other issues.
- Continual liaison with the GEF Secretariat, including the preparation and submission of GEF Work Programs; pipeline planning and review of submission packages at both the PIF and CEO endorsement stages; managing the reporting process for project implementation reviews, mid-term reviews, and terminal evaluations; and addressing other portfolio issues as they arise.
- Portfolio monitoring and reporting, including midyear and annual reviews, monitoring performance and reporting on underperforming projects; contributing to the Annual Monitoring Review (produced by the GEF Secretariat) and the Annual Performance Report (produced by the GEF Evaluation Office); participating in AMR and APR meetings; providing summary reports on GEF projects approvals, cancellations, closures, and drops; and contributing to portfolio lessons learned.
- Financial and data management, including the creation and activation of GEF project trust funds; ensuring the adequate flow of funds from the GEF Trustee; monitoring fee incomes and receipts; allocating the administrative budget for project preparation and supervision among regions; monitoring budgets; reconciling the data in different data bases (GEF Secretariat, GEF Trustee, and World Bank Business Warehouse); and financial reporting.
- Participation in GEF monitoring and evaluation activities, including results-based management, knowledge management, and independent evaluation.
- Information technology and systems support for maintaining and improving all the internal systems relating to portfolio management and reporting.

8.8 It is beyond the scope of this Review to provide an overall assessment of the efficiency of these activities in relation to the fees provided by the GEF Secretariat. However, IEG's experience during the course of this Review in assembling consistent data in relation to the Bank Group's portfolio of GEF projects strongly confirms the conclusion of the recent study on *Options for Strengthening GEF Systems* that “reconciliation of key data and information across the partnership continues to be inefficient, time consuming and labor intensive” (GEF

2012f, p. 3). As discussed in more detail in Appendix E1 of Volume 2, such poor recording and lack of coherence among the information systems maintained by the GEF Secretariat, the Trustee, and the World Bank as Implementing Agency make monitoring, reporting, evaluation, and accountability very difficult in a consistent and timely manner; require additional time to prepare reports to reconcile amounts; and need specialized staff to work with the data. Among other things, IEG was unable to obtain for this Review information on grant disbursements of World Bank-implemented GEF projects because no one is maintaining this information in a readily available and usable form. Hopefully, the recent agreement between the Trustee and the Secretariat to move the PMIS back-end functionality to the World Bank's SAP platform, while enhancing PMIS front-end functionality, in order to harmonize the data structure and flows between the Trustee and the Secretariat, will improve this situation over time, with consequent improvements in efficiency.

8.9 Second, there is little doubt that the workload of the Bank's GEF Coordination Unit has increased over time as the overall volume and detail of GEF project-cycle documentation requirements have risen, as feedback from the GEF Secretariat has become less predictable, and as the overall effort required to process GEF projects has grown. Initially, in the early 2000s, the Coordination Unit tried to absorb the growing transaction costs and, as one interviewee expressed it, keep the Bank's TTLs in "blissful ignorance" of them. The Coordination Unit simply kept the TTLs from knowing everything about the goings back and forth regarding their projects. But it became impossible for the Coordination Unit to continue to act as such a buffer between the GEF Secretariat and the TTLs after the introduction of the RAF in FY2007.

8.10 Third, and partly as a consequence of the above trends, the Coordination Unit has become more reactive than pro-active in shaping the Bank's portfolio of GEF projects and in optimizing the overlap and synergies between the two organizations' strategies, as envisaged for example in the Bank Group's 2001 corporate environment strategy with its strong focus on utilizing GEF resources to achieve global environmental benefits (World Bank 2001a, Appendix I). The Bank is more constrained than it used to be in this regard, since the client countries now ultimately decide what and how to utilize GEF resources. Nonetheless, the Bank could make greater use of internal incentives to steer its GEF portfolio in pro-actively chosen strategic directions in terms of focal areas, regions, or project types (blended, highly co-financed, strategically innovative, etc.).

Policy and Strategic Support

8.11 This category includes all the work related to the GEF Council, Assembly, and Replenishments, and the periodic Heads of Agency meetings with the CEO. This includes preparations for and attendance at meetings and side events, reviewing and commenting on draft papers beforehand, and subsequent analysis and internal briefings on decisions made. These activities have accounted for about 30 percent of total corporate expenses as recorded in the Annual Monitoring Reviews for 2009–12.

8.12 The policy and strategic work in relation to the GEF Assembly and Replenishment — leading to updated focal area, private sector and other strategies, and to amendments to the GEF Instrument — follow a quadrennial cycle. That in relation to the GEF Council follows a semi-annual cycle.

8.13 The World Bank routinely collaborated with the GEF Secretariat and the other Implementing Agencies in preparing various policy and strategic documents in the 1990s. Two key examples include:

- “Operational Strategy of the Global Environment Facility,” September 29, 1995, for the Sixth Council Meeting, November 25–27, 1995 — to guide the GEF Secretariat and the three Implementing Agencies in developing work programs, business plans, and budgets and the GEF Council in approving them. This was the first operational strategy of the GEF.
- “Strategy for Engaging the Private Sector,” March 6, 1996, for the Seventh Council Meeting, April 2–4, 1996 — to promote private-sector participation in GEF activities.

8.14 As the GEF Secretariat has grown over time (see Figure 3 in Chapter 3), its own role in the preparation of GEF policy and strategy documents has become increasingly dominant, while that of the World Bank and the other GEF Agencies has become less collaborative and more consultative. Today, the situation has evolved into one in which the Agencies largely review and comment on documents produced by the GEF Secretariat, and produce reports at the specific requests of the GEF Council and the Participants at the GEF Replenishments.⁷⁹

8.15 After the GEF Council agreed in principle in October 2002 to introduce a formula-based allocation system — the RAF — the World Bank collaborated with the GEF Secretariat and the other GEF Agencies from 2002–05 to work out the design and modalities of the RAF. In addition to staff from the Bank’s Environment Department, staff from the Operations Policy and Country Services and Development Economics Vice Presidencies made pivotal contributions to this process, helping to define the formulas used to measure both potential environmental benefits and country performance.⁸⁰ In spite of the Bank’s expressed and prescient concerns about using a formula-based allocation system, as discussed in Chapter 7, the Bank cooperated with the 2002 Council decision and provided expertise and information to implement the system in time for the beginning of GEF-4.

8.16 The World Bank collaborated with the other GEF Agencies in producing the following reports in relation to the Fourth and Fifth Replenishments of the GEF Trust Fund, respectively:

- GEF, “Report of the Agencies on Efforts to Mainstream Global Environmental Challenges into Core Development Work,” October 12, 2007 for the 32nd GEF Council Meeting, November 14–16, 2007 (GEF/C.32/Inf. 4) — which was requested by the Participants at the Fourth Replenishment of the GEF Trust Fund.
- “Issues for the Strategic Positioning of the GEF (prepared by the GEF Agencies),” June 1, 2009, for the Second Meeting for the Fifth Replenishment of the GEF Trust

79. According to interviews, the last focal-area strategy in the preparation of which the World Bank closely collaborated was the biodiversity strategy for GEF-4 in 2006.

80. See GEF, “Technical Paper on The GEF Resource Allocation Framework,” August 24, 2005, for the Special Meeting of the Council, August 31–September 1, 2005 (GEF/C.26/2/Rev.1), and GEF, “The GEF Resource Allocation Framework,” October 17, 2005, for the 27th GEF Council Meeting, November 8–10, 2005.

Fund, (GEF/R.5/16) — which “provides the views of the 10 GEF Agencies in response to the Council’s request, setting the framework for an integrated vision of GEF-5 in the context of today’s global environmental challenges.”

8.17 In the 1990s, the three original Implementing Agencies used to participate more actively in policy and strategic discussions at the GEF Council, even though they were invited observers with no formal vote. IEG interviews confirmed the findings of OPS4 that the Implementing Agencies have very little role or influence in decision making today. They largely answer questions when asked. “The original three Implementing Agencies would like to have a more active role and voice in the Council and better opportunities to discuss concerns, share their experiences, and participate in debates — rather than simply answering questions when requested to do so, as is the current practice” (GEF EO 2010a, pp. 89–90). There was little or no effort to involve the World Bank or other Agencies in the preparation of the GEF-5 Programming Strategy, although the World Bank’s Board had to sign off on it.

8.18 The Consultative Group on International Agricultural Research (CGIAR) had a similar situation before it initiated its governance reforms in 2010. Both IEG’s meta-evaluation of the CGIAR in 2003, and the subsequent 2008 Independent Review found that the 15 international research centers, who actually conduct the System’s agricultural and natural resource management research, had little influence over the policy and strategic direction of the CGIAR System, since they were only observers, not voting members, on the Consultative Group — the supreme decision-making body in the System (IEG 2003 and CGIAR Review Panel 2008). This lack of influence and the increasing share of restricted (as opposed to core) funding by the donors were two of the main drivers behind their governance reforms.

8.19 The World Bank Group, of course, produces its own strategic documents, such as its 2001 and 2012 environment strategies, and the 2008 Climate Change Framework. While these may influence the GEF’s own policies and strategies, they do not constitute an active policy or strategic role in the GEF. During the preparation of the 2012 environment strategy, the Bank Group generally regarded the GEF in much the same way as any other external stakeholders. Secretariat staff were free to send in comments or suggestions during the open consultation period. There was one special effort by the Bank’s Coordination Unit to organize a separate consultation between the 2012 strategy team and the GEF Secretariat.

8.20 Finally, following the reduction in project-cycle management fees at the 42nd Council meeting in June 2012, the Council requested the establishment of a working group, comprising the GEF Secretariat and the Agencies, to propose measures to streamline the project cycle in order to reduce costs commensurate with the new fee structure. The resulting document, “Streamlining of the Project Cycle,” October 14, 2012 (GEF/C.43/06), to which the Bank actively contributed, was presented to the 43rd Council meeting in November 2012. According to interviews, the Secretariat and the Agencies took this opportunity to seek a more collaborative working relationship in the future. While the fee reduction in June 2012 appears to have represented the culmination of a partnership crisis, this working group and the acceptance of its recommendations potentially represents the return to a more collaborative partnership in the future.

Outreach and Knowledge Sharing

8.21 This category includes outreach and communications to the larger GEF Network, knowledge management, and knowledge sharing. GEF Network activities include executive coordination; participating in and contributing to task forces, working groups, subregional consultations, country dialogues, and STAP meetings; and engaging with the GEF NGO Network. Knowledge management and sharing include participating in the development and implementation of the corporate communications strategy, contributing to GEF publications, website management and maintenance, and training and capacity building. The Bank's GEF Coordination Unit also ensures internal reporting on the GEF for the spring and annual meetings of the Bank's Board, and to internal SDN committees (the Sustainable Development Network of the Bank in which the Coordination Unit is located). The Coordination Unit has charged only 7 percent of its corporate expenses against this category in the Annual Monitoring Reviews for 2009–12 because many of these activities are so closely intertwined with the first two categories of corporate activities that many of their expenses have been charged to those categories. For example, the Bank's contribution to the 2010 GEF Assembly, a lot of which represented outreach and knowledge sharing, and amounted to \$380,000 overall, was mostly charged to other categories.

8.22 As reported earlier, Bank Group staff view the GEF as having a key comparative advantage in providing resources to introduce and demonstrate innovative approaches to global environmental sustainability. The GEF agrees that its unique mission “calls for the development of cutting-edge, innovative and experimental programs and projects, making it fundamental that processes and results are continuously tracked and analyzed, and lessons learned disseminated and incorporated in the next generation of activities” (GEF 2011f, p. 1). However, the GEF has not had an explicit knowledge management strategy until 2011 in the context of GEF-5, although it has supported a number of knowledge management activities and products over the years. As one part of its more targeted approach to generate knowledge based on project-level practice, experience, and lessons, the GEF Secretariat piloted a series of “learning missions” in 2010 to provide on-ground analysis of the execution of projects funded by GEF.

8.23 Both the recentness of this effort and IEG's interviews confirm that the current situation in the GEF, with regard to synthesizing the lessons of experience from GEF projects, is similar to that of other global partnership programs financing country-level investments and technical assistance. That is, IEG has observed in its GPRs that global partnership programs which are financing country-level investments or technical assistance are often so focused on preparing and implementing their country-level activities that they put less effort into assembling and synthesizing lessons arising from their activities. The accumulated knowledge and lessons learned tend to remain in people's heads. The task of synthesizing lessons from ongoing and completed activities tends not to happen systematically unless the program puts in place a concrete learning and knowledge management strategy, and devotes adequate resources to the task.

8.24 The Bank Group should be a formidable partner in producing knowledge products in relation to policy and institutional reform, as opposed to the type of scientific and technical documents produced by the STAP. Policy and institutional reform are widely regarded as one of the Bank Group's strengths. But targeted learning tends to take place in the context of

Bank Group-implemented GEF projects, not as part of corporate activities, per se. This is not surprising because of the general requirement for Bank budgetary allocations or trust fund resources for everything conducted or supervised by Bank staff, and because it takes real resources to produce knowledge products.

8.25 By way of example, IEG has identified a number of World Bank-implemented GEF projects that have a large knowledge component (Table 17). Two of the IFC-implemented GEF projects also had significant knowledge components: the Poland Efficient Lighting Project (approved 1995) and the Efficient Lighting Initiative (1999). IFC has produced a publication, *Selling Solar*, reviewing its experience with implementing GEF-supported solar power initiatives. Through these initiatives, IFC learned a lot about the type of financing required to support the solar PV market and what it takes to develop a successful solar PV company. The main challenge lies “not in the technology of solar PV, but in accurately judging market reality and trends” (IFC and GEF, 2007, p. 6). But the IFC has not yet produced a similar synthesis of the lessons learned from the attempts of its GEF-supported biodiversity projects to create commercial markets in selected biodiversity services.

8.26 Among the activities listed in Table 17, IEG has rated the outcome of the Coral Reef Targeted Research project as moderately satisfactory, and that of the International Assessment of Agricultural Knowledge, Science, and Technology for Development (IAASTD) as moderately unsatisfactory (Box 4). The scientific objectives of the coral reef project were highly relevant and substantially achieved, but the design did not make sufficient provision for working with policy makers and managers. Achievement of the objective of informing policies and management interventions, of integrating the science with country programs, and of leveraging budgetary resources for coral initiatives was limited by the failure to integrate the project with CASs.

Table 17. World Bank-Implemented GEF Projects with Large Knowledge Components

Approval Year	Country/Region	Project Name	Type of Project	GEF Financing (\$ millions)
2001	Ecuador	Albarradas in Coastal Ecuador: Rescuing Ancient Knowledge on Sustainable Use of Biodiversity	MSP	0.03
2005	World	Coral Reef Targeted Research and Capacity Building for Management	FSP	11.00
2006	World	International Assessment of Agricultural Knowledge, Science, and Technology for Development	FSP	3.00
2008	World	Assessment and Recommendations on Improving Access of Indigenous Peoples to Conservation Funding	MSP	0.25
2009	India	Institutional Coordination, Policy Outreach, and Monitoring and Evaluation Project under Sustainable Land and Ecosystem Management Partnership Program	MSP	0.98
2011	Nigeria	Scaling up Sustainable Land Management Practice, Knowledge, and Coordination in Key Nigerian States	FSP	6.80
2012	World	Mediterranean Sustainable Development Program: Governance and Knowledge Generation	FSP	3.00

Box 4. As an Effort in Public Science, the IAASTD Was a Bridge Too Far

The IAASTD was a multidisciplinary, multi-stakeholder assessment by about 400 experts, supported not only by the GEF (\$3.0 million), but also by Bank's Development Grant Facility (\$1.5 million) and by bilateral donors contributing to Bank-administered trust funds (\$3.5 million). The three-year project had four primary goals: (a) to assess the effects of agricultural knowledge, science, and technology policies, institutions, and practices in the context of sustainable development; (b) to identify information gaps; (c) to make the resulting analyses accessible to decision makers; and (d) to further the capacity of developing countries to generate agricultural knowledge, science, and technology for sustainable development.

While this was a useful experience at the nexus of politics and science, agricultural technology — with its complexity, diversity, and politics — proved to be a bridge too far. For the substantial resources used, the assessment did not offer sufficient new knowledge or conceptual frameworks for decision makers; it gave conflicting messages, and, for a 50-year timeframe, underestimated the potential of new technologies. Attributable impact from the assessment reports has so far been modest at best at the international level and negligible at the national level and below.

IEG's review also offered a number of lessons for the design of future assessments in the area of public science and for the World Bank as convener of such assessments. While the Bank should not shy away from controversy, there was no pressing need, in this case to answer the main instigating questions about genetically modified organisms and organic agricultural policy, to hand over the assessment to an outside team of uncertain representation. But, having done so, control of the pen had an enormous influence on the outcome. There should have been a more rigorous and balanced formal process to select the authors and reviewers as independent as is realistically possible, which was monitored by a disinterested institution for fairness.

Source: IEG, 2010c.

Support to the GEF Evaluation Office

8.27 The GEF established an independent evaluation office, the GEF Evaluation Office (GEF EO) in 2004, whose Director is appointed by and reports directly to the GEF Council. While each GEF Agency is responsible for undertaking terminal evaluations of GEF-financed projects that they supervise, the GEF EO has the central role of ensuring the independent evaluation function within the GEF, setting minimum requirements for project-level monitoring and evaluation in consultation with the Agencies, ensuring oversight of M&E systems at the program and project levels, and sharing evaluative evidence within the GEF. It also prepares independent evaluations that involve a set of projects from more than one Agency, the Annual Performance Report for the GEF Council, country portfolio evaluations of the totality of GEF support to a particular country across all Agencies, thematic evaluations on specific cross-cutting themes, and impact evaluations of the long-term impacts of GEF support. The GEF EO also conducted the fourth Overall Performance Study (OPS4) in 2009 for the Fourth GEF Replenishment, and is currently in the process of preparing the fifth, OPS5.

8.28 As explained in Chapter 5, the terminal evaluations of World Bank-implemented GEF projects comprise a self-evaluation by the project team (the Implementation Completion and Results Report), followed by independent review and validation by IEG, in the form of ICR Reviews for all FSPs, and PPARs for about 20 percent of the projects — the latter involving a mission to the country concerned. In addition to managing the reporting process for these terminal evaluations, the Bank's GEF Coordination Unit provides support to the GEF EO by

responding to GEF EO requests for support for specific evaluations, participating in evaluation consultations, reviewing and commenting on draft reports, commenting on the 2010 revisions to GEF's Monitoring and Evaluation policy (GEF EO 2010c), and liaising with IEG on portfolio evaluation issues. The Coordination Unit has charged less than one percent of its corporate expenses against this category in the Annual Monitoring Reviews for 2009–12, because support to the GEF EO is so closely associated the first two categories of portfolio management and policy support.

8.29 IEG and the GEF EO have developed a collegial relationship since the Office was established in 2006, through mutual participation in international evaluation networks, the conduct of joint evaluations, and the regular sharing of evaluation materials. IEG participated in a number of capacities in the 2007 *Joint Evaluation of the GEF Activity Cycle and Modalities*, conducted by the GEF Evaluation Office in collaboration with the evaluation offices of all 10 GEF Agencies. One IEG staff member was in the management group, another in the core evaluation group, and a third was a consultant to the core evaluation group. As reported in Chapter 4, this evaluation concluded that the GEF's project cycle was neither effective nor efficient and that the situation had grown worse over time.

8.30 IEG has contributed to several of the overall performance studies. The evaluation of the Pilot Phase (OPS-0) was conducted by three separate teams from the Agencies who reported to the heads of their respective evaluation departments — in the case of the World Bank what was then the Operations Evaluation Department. A Senior Adviser in OED served on the High Level Advisory Panel for OPS3, and two IEG staff served as peer reviewers for OPS4.

8.31 IEG has also prepared Global Program Reviews of three global and regional partnership programs in which the World Bank and the GEF have been partners — the CEPF (2007), IAASTD (2009), and the MBC (2011).⁸¹ The first review found that CEPF activities in protected area buffer zones and production landscapes were, for the most part, achieving their environmental objectives of protecting selected vital ecosystems (biodiversity hotspots). However, there was a need to better understand how these interventions were affecting the livelihoods of the people living in these areas.

8.32 The second review was summarized in Box 4. The third review found that the MBC has been more successful in providing support to enhance the management of key protected areas within the Central American Protected Areas System than it was in enabling an enforceable, sustained biodiversity corridor throughout the region. Although the data on forest cover suggests that overall forest cover is higher and forest cover change is lower inside the region's corridor units than outside, intense deforestation continues in key agricultural frontier areas that threaten to disrupt corridor connectivity. World Bank-implemented GEF projects have strengthened the central environment ministries and protected area agencies in the MBC countries and also helped to strengthen sub-national decentralized environmental capacity. However, progress has been uneven across countries. One of the key objectives of putting in place region-wide sustainable financing for the MBC still remains a major challenge.

81. IEG has also conducted reviews of other environment-related programs that have not been supported by the GEF such as the International Land Coalition, the Global Invasive Species Program, the Global Water Partnership, the Extractive Industries Transparency Initiative, the Global Facility for Disaster Reduction and Recovery, and the Forest Carbon Partnership Facility.

Managing Potential Conflicts of Interests among the Bank's Roles in the GEF

8.33 The World Bank plays three different roles in the GEF: as Trustee of the GEF and related trust funds, as host of the GEF Secretariat, and as one of the original three Implementing Agencies. This section analyzes the management of the potential conflicts of interest between two pairs of these roles.

TRUSTEE VERSUS IMPLEMENTING AGENCY ROLE

8.34 In order to shield execution of its responsibilities as GEF Trustee from potentially conflicting interests as Implementing Agency, the Bank established the Trusteeship function in a separate vice-presidency, now called the Concessional Financing and Global Partnerships Vice Presidency (CFPVP).

8.35 The World Bank as Trustee reports directly to the GEF Council (not through the Bank's Environment Department) and has its own observer status on the Council. From interviews, CFPVP treats all the GEF Agencies in the same fashion — that is, the Bank's GEF Coordination Unit like similar units in the other Agencies. However, the Bank does retain an informational advantage in relation to the other Agencies, since the GEF Coordination Unit has access to the internal trust fund databases, like other World Bank staff, and the Trustee has access to more information about Bank-implemented GEF projects than those of other Agencies. The GEF Secretariat staff, as World Bank employees, also have access to these internal databases.

8.36 Another potential conflict exists between the quadrennial replenishment of the GEF and the triennial replenishment of the IDA, both of which are managed by CFPVP. The GEF replenishment process has, in fact, been modeled on that for IDA. Based on interviews, the Bank seems to be acting as a good corporate citizen in this replenishment role, even when the two replenishment cycles coincide, as they did in 2001–02, and as they are in 2013–14. When funding is short, the two may be in effective competition with each other, but for many donors, funding for IDA comes in theory from a different budget or budget line that does not compete directly with funding for other multilateral initiatives such as the GEF. For the Bank, when the two coincide, the principal issues have been logistical, such as coordinating parallel meetings since several donor representatives have been deputies for both IDA and GEF.

HOST OF THE GEF SECRETARIAT ROLE VERSUS IMPLEMENTING AGENCY ROLE

8.37 The World Bank has hosted the GEF Secretariat since its formal creation in 1994.⁸² That is, the Bank has provided office space, furniture and equipment, and provided legal, financial, and communications services on behalf of the Secretariat, including human resource management services to the GEF Secretariat, whose staff are World Bank employees. While the GEF is one of about 50 global and regional partnership programs (GRPPs) whose management units (secretariats) are located inside the Bank (IEG 2011c, p. 4), the GEF Secretariat is significantly more independent than other GRPP secretariats located in the Bank. As the member states who adopted the GEF Instrument agreed, and as the three Implementing

82. During the pilot phase, the Office of the GEF Administrator was located in the World Bank.

Agencies ratified, the GEF Secretariat was to “operate in a functionally independent and effective manner”, while being “supported administratively” by the Bank (GEF 2011a, paragraph 21). Thus, the GEF CEO, who heads the Secretariat, reports only to the GEF Council and Assembly, not to a line manager in the Bank.

8.38 No other GRPP located in the Bank has such a high-level constitutive document like the GEF Instrument. However, the term “functional independence” has never been clearly defined outside the GEF Instrument. The central Vice-Presidencies of the Bank that provide services to the GEF Secretariat tend to treat it like another Regional or Network Vice-Presidential unit which has, from time to time, led to perceived conflicts with the Secretariat’s operational independence. However, little seems to be codified in writing and it appears that issues have been addressed as they have presented themselves. This has arisen in part because the Bank does not have a well-defined organizational locus for its role as host of the GEF Secretariat — unlike the Bank’s Trustee and Implementing Agency roles located in CFPMI and the GEF Coordination Unit (CPFIA), respectively. This has also arisen because the Bank does not have a general policy or management directive for hosting the secretariats of GRPPs, even though it has been doing so for more than 40 years, since the CGIAR was established in 1972.⁸³

8.39 Functional independence of GEF secretariat operations was not the case during the GEF Pilot Phase, during which GEF management remained within the Bank’s reporting hierarchy. The Director of the Bank’s Environment Department was the chair of the GEF, and both the GEF Administrator and the Bank’s Operations Coordinator for GEF activities reported to the chair (OPS-0, p. 119). An Implementation Committee — composed of representatives of the Agencies, the Administrator, STAP and the Convention Secretariats — screened and selected the projects. The lack of an independent arbiter in the GEF escalated to a zero-sum game between the Agencies and to “highly competitive and occasionally acrimonious” GEF Implementation Committee processes (OPS-0, p. 136, and Sjöberg 1999). The agreement on a 70/30 ratio (70 percent investment projects to 30 percent technical assistance projects) calmed the waters for the time being. So reporting lines were adjusted in the restructured GEF to safeguard functional independence — the CEO now reporting to the Council and Assembly, rather than to the Bank’s Environment Director — which strengthened the role of the GEF Secretariat as arbiter.

8.40 Being hosted in the World Bank has enabled the GEF Secretariat to recruit staff internationally, effectively unconstrained by U.S. immigration policy. The GEF Instrument also envisaged that some Secretariat staff would be seconded from the three Implementing Agencies. Initially, World Bank staff viewed GEF staff as environmental colleagues, and the Deputy CEO came to represent the GEF Secretariat on the Environment Sector Board, which oversees the staffing of all environmental staff in the Bank. This arrangement was terminated in 2007. The Environment Sector Board stopped clearing all high-level appointments to the GEF Secretariat, which reduced the collegiality between environmental staff in the Bank and the GEF Secretariat, and also reduced the mobility of GEF staff who might seek positions in the World Bank.

83. The word “host” does not currently appear in the Bank’s operational policies. IEG’s use of the word in this context is not intended to imply a particular legal or administrative arrangement. This is simply the most widely used generic term to describe this general situation of GRPP management units being located in existing international organizations like the World Bank.

8.41 In 2010, effective 2011, the requirement that the CEO be appointed by the Council “on the joint recommendation of the Implementing Agencies” was removed. While the loss of co-sponsorship for CEO nominations can be interpreted as a loss of influence of the Implementing Agencies, this has further reinforced the independence of the GEF Secretariat from the three original Implementing Agencies, in line with the requirement of functional independence.

Conclusions

8.42 The World Bank’s recorded expenditures on corporate activities have declined since 2007 along with the decline in Council approvals of World Bank-implemented projects, while the portfolio management and reporting workload has risen in line with the increased GEF project-cycle documentation requirements. Weak and inconsistent information systems across the partnership have also hindered efficient portfolio management and reporting. Partly as a consequence of these trends, the Bank has become more reactive than pro-active in shaping its portfolio of GEF projects in line with the comparative advantages of both partners.

8.43 As the GEF Secretariat has grown over time, its own role in the preparation of GEF policy and strategy documents has become increasingly dominant, while that of the World Bank and the other GEF Agencies has become less collaborative and more consultative. Today, the situation has evolved into one in which the Agencies largely review and comment on documents produced by the GEF Secretariat, and produce reports at the specific requests of the GEF Council and of the Participants at the GEF Replenishments.

8.44 But this is also a sign of a less than effective partnership, particularly when it comes to outreach and knowledge sharing activities. The partners — and the broader development community — could benefit from a more effective partnership in this area. But neither party seems to be willing to work more collaboratively in this area, given the other strains in the partnership. Both partners’ acknowledgement of the tensions between “functional independence” and the GEF’s embedded legal context in the World Bank that affords many benefits to the GEF Secretariat could enhance their ability to work more collaboratively.

8.45 The diminished role of the Bank in the governance of the GEF should be a concern for the Bank in terms of protecting its own interests, and for the broader development community in terms of what the Bank could contribute to GEF policy and strategy, among other things.

8.46 From interviews and the experience of IEG staff on the Review team, IEG and the GEF Evaluation Office have developed an effective partnership that is largely unaffected by the strained overall relationship between the GEF and the World Bank as Implementing Agency. Obviously, IEG’s own judgment cannot be considered unbiased for this statement.

8.47 The World Bank and the GEF have put in place practices and procedures over time to manage and mitigate the potential conflicts of interests arising from the Bank’s multiple roles in the GEF. However, no hosting agreement between the GEF and the Bank seems to exist that clarifies the rights and responsibilities of each partner, which has meant that issues have been addressed and resolved as they have come up. The findings of this Review support IEG’s 2011 recommendation that the Bank should develop a formal policy for hosting the management units (secretariats) of GRRPs located inside the Bank (IEG 2011c, p. xxi).

9. Lessons Learned

9.1 This GPR has been prepared, first and foremost, for the World Bank Group's Executive Board to facilitate an informed discussion about the Bank Group's past, current, and future partnership with the GEF. Its principal purposes have been **(a) to help improve the relevance and effectiveness of the Bank Group's partnership with the GEF, and (b) to draw lessons for the Bank Group's partnership with the GEF and other large global partnership programs.**

9.2 Since the Millennium Declaration in 2000, the Bank Group has become involved in a growing number of large partnership programs that pool donor resources to finance country-level investments to help countries achieve specific MDGs, that have inclusive governance structures, and that subscribe to the 2005 Paris Declaration on Aid Effectiveness. Examples include the Global Alliance for Vaccines and Immunization (established in 2000), the Global Fund to Fight AIDS, Tuberculosis and Malaria (2002), the Global Partnership for Education (2002), the Climate Investment Funds (2008), and the Global Agriculture and Food Security Program (2010).

9.3 While the GEF predates all the above programs by a decade or more — having been established in March 1991 by resolution of the World Bank Group's Executive Board — and while it was established for reasons other than to achieve specific MDGs, it is today representative of this class of global partnership programs. It also provides a longer period of time over which to review the experience of and draw lessons from the Bank's partnership with such programs.

Lessons on the Relevance and Effectiveness of the World Bank Group-GEF Partnership

9.4 **Competition versus partnership.** The growing number of GEF Agencies and increased pressure on administrative expenses has been both a cause and a symptom of profound change in the GEF — from the foundational paradigm of inter-Agency collaboration based on complementarity of comparative advantages towards a market-based model for project implementation based on inter-Agency competition. For the World Bank, the increased competition translated into the loss of its *de facto* sole provider status for investment projects and related expertise to the GEF and put the Bank into the position of having to compete for funding.

9.5 The lesson learned is that the Bank Group-GEF partnership needs to acknowledge that the concept of inter-Agency competition has introduced incentives — such as the desire to protect comparative advantages and to preserve GEF funding shares — that push the earlier close partnership in the direction of an arms-length “contractor-contractee relationship” that is difficult to reconcile with the original paradigm of collaboration and complementarity on which the GEF was founded. This has also led to a redefinition of roles, with the GEF Secretariat playing a more active role in project identification and conceptualization, and to ensuing project-cycle issues. Either conditions for a close partnership need to be (re-)established, or the roles and responsibilities of the Bank Group as GEF Agency need to be redefined.

9.6 **Resource Allocation.** The introduction of the RAF and the STAR led to significant impacts on how both the World Bank and IFC collaborated with the GEF. Some country allocations became too small for World Bank GEF projects and project decision-making authority shifted towards in-country GEF Focal Points. Since such authority was usually located within the countries' Environmental Ministries, World Bank staff felt that access to GEF funding for the Bank was reduced. The mid-term review of the RAF found that the RAF had contributed to a significant decrease in the World Bank's monetary share of GEF projects (from more than half to 32 percent) and to a corresponding increase in the share of UNDP projects from 23 to 43 percent.

9.7 The lesson learned is that the difficulties of the World Bank, and especially of IFC, in working under the GEF's resource allocation systems need to be acknowledged and addressed and options to mitigate or circumvent these difficulties need to continue to be explored.

9.8 **Project-cycle management and administrative fees.** The dual-approval World Bank-GEF project cycle has been repeatedly diagnosed to be ineffective and inefficient. Exacerbated by increased pressure on administrative expenses, prolonged operational issues along the project cycle have seriously damaged the World Bank-GEF partnership through unclear degrees of authority that the GEF CEO and Program Managers have over individual TTLs, through insufficient harmonization of the main World Bank and GEF decision-making points, and through increasing project approval-related reporting requirements. While a standardized, template-based approach to project-cycle management seems natural from a GEF perspective, additional project approval and quality assurance procedures, especially if perceived as duplication, are difficult to accept for World Bank management and staff in view of the Bank's own existing procedures. In spite of increasingly tight and complex project-cycle oversight and quality assurance procedures applied by the GEF Secretariat over the first three GEF phases, project outcome and Bank performance ratings have significantly declined over the same period. Apart from rendering inter-organizational collaboration more difficult, dual project-cycle mechanisms may also be ineffective in ensuring project quality.

9.9 The lesson learned is that for implementing GEF projects, super-imposing GEF-specific ex-ante quality assurance mechanisms onto the World Bank's and IFC's already elaborate quality assurance has not paid off. A new arrangement needs to be found that makes fuller use of existing World Bank and IFC quality assurance mechanisms and, at the same time, guaranteeing high-quality projects also according to GEF standards, and providing the GEF Participants with the required degree of accountability. In spite of analytical work done on the adequacy of fees, there seems to be no shared understanding on whether today's Agency fees cover all Agency costs, and, more importantly, on whether they actually should.

9.10 **Blending and innovation.** In contrast with the original intentions, the share of GEF projects blended with World Bank operations has never dominated the World Bank-GEF project portfolio, but has remained limited to about one-third of World Bank-GEF projects on average. It appears that even within the somewhat reduced portfolio of the last years, establishing a blending scenario is not always easy. However, as interviewees stated, blending was not always the objective in the first place. In some cases, freestanding GEF

projects of an innovative character were preferred not only because these were easier to prepare but also because these might trigger follow-on projects or even spearhead a new business line in Agencies or recipient countries. Anecdotal evidence in this report demonstrates that catalytic effects have indeed occurred after some GEF projects. In other cases, GEF grants have provided the only chance to initiate or keep alive a World Bank country dialogue on environmental matters.

9.11 The lesson learned is that an exclusive focus on blending World Bank and GEF funding is likely to limit the positive effects that the GEF can have — in line with its objective of acting as a catalyst — on the World Bank and on recipient countries. Further research on past catalytic effects of Bank-implemented GEF projects beyond the evidence presented in this report needs to guide the selection of future projects of this kind.

9.12 **Adapting the World Bank Group-GEF partnership to evolving realities.** Over time, gradual developments have summed up to major changes in how the GEF and the Bank Group collaborate — far from the original intentions. These have led to a strong decline in Bank Group-GEF collaboration, may have contributed to declining project quality, and have seriously damaged Bank Group-GEF working relationships:

- The GEF's involvement in project-cycle oversight and project-quality assurance has grown over time while pressure on administrative expenses has increased;
- The World Bank's *de facto* sole provider status for investment projects and related expertise to the GEF has eroded along with the increasing numbers of GEF Agencies;
- Inter-Agency competition for GEF resources has been further increased through the introduction of resource allocation systems;
- At the same time, the GEF has seen its own comparative advantage in climate finance challenged by the appearance of potent financing instruments outside the GEF; and
- Intentions to associate the lion's share of World Bank-implemented GEF projects with the Bank's own investment projects have never materialized.

9.13 Yet, the GEF's central policy document, the GEF Instrument, the GEF Council, and the World Bank's Board have never fully acknowledged and reacted to these changes. It is worthwhile noting that the World Bank has never made a centralized decision to reduce its level of engagement with the GEF.

9.14 The central lesson learned from this Review is therefore the need to update the principal partnership arrangements between the World Bank Group and the GEF to reflect the realities in which both partners operate. This implies recalibrating and specifying partnership objectives to mutually agreed levels, and then establishing procedures for implementation that honor respective institutional and operational strengths and constraints. In particular, the following points need to be addressed (some of which relate to earlier lessons) as part of a comprehensive solution to current partnership issues:

- Establish agreement between the Bank Group and the GEF on a shared project cycle that makes full use of the World Bank and IFC quality assurance mechanisms, while guaranteeing high-quality projects also according to GEF standards and providing GEF Participants with the required degree of accountability, for example through

- increased delegation of responsibilities accompanied by mutually appropriate checks and balances.
- Establish a shared understanding on costs incurred by the World Bank and IFC for the implementation of GEF projects and come to agreement between the Bank Group and the GEF on whether all or what share of these costs should be covered by the GEF and related trust funds.
 - Come to agreement on what type of partnership is mutually desired between the Bank Group and the GEF in the future and either (re-)establish conditions for a close partnership based on collaboration and complementarity, or redefine the roles and responsibilities of the Bank Group as a GEF Agency.
 - Acknowledge and address the difficulties of the World Bank and, especially IFC, in working under the GEF's resource allocation systems and continue to examine options to mitigate or circumvent those difficulties.
 - Clarify mutual expectations for blending World Bank with GEF funding and investigate options for legitimizing innovation, demonstration, and replication as selection criteria for freestanding projects.

General Lessons for the World Bank Group's Partnerships with Large GRPPs

9.15 **The World Bank as Implementing Agency for Large GRPPs.** When considering a project implementation role in large GRPPs, the World Bank needs to carefully consider potential implications along its entire project cycle. Large GRPPs are usually independently governed, i.e., their main accountability is not towards the World Bank but towards a governing body in which the Bank has little or only a minority influence and which can impose changes in project-cycle management on the Bank. In the case of the Bank Group-GEF partnership, this has led to a growing gap between basic partnership policy and the realities of cooperation.

9.16 The general lesson learned is therefore to reach an explicit initial agreement on the division of labor along shared project cycles and on accountability mechanisms for project implementation quality, and to establish a mechanism for regularly reviewing and updating these arrangements in the light of the evolution of external and internal conditions in the Bank Group and the GRPP. Then the effects of gradual evolution on the partners and the partnership need to be closely monitored and followed up.

9.17 **Co-financing.** The concept of mobilizing new resources for a program's purpose translates into an attractive cost-effectiveness argument: for every dollar invested into the program, the program causes effects worth several dollars in line with the program's objectives.

9.18 However, in the case of the GEF, earlier evaluations have revealed that reported co-financing has not always fulfilled the GEF Council-approved definition, especially for highly co-financed projects. In addition, the overall reported co-financing figures allow for interpretational freedom, are not verified by the GEF Secretariat, and are driven by a few,

highly co-financed projects. Under such circumstances, reported total co-financing figures may be volatile and unreliable.

9.19 The general lesson learned is that, for GRPPs financing country-level technical assistance or investments, strong attention on and ambitious targets for co-financing figures may not have the desired effect of maximizing contributions for the purposes of the GRPP, but simply lead instead to maximization of reported co-financing figures that exaggerate both the additional amounts generated and the level of resources actually devoted to the GRPP's purposes. To mitigate this risk, GRPPs need to ensure that reported co-financing figures are clearly defined, measured, and verified.

9.20 **Host arrangements.** The World Bank has been hosting the management units of large and small GRPPs for over 40 years, but does not have a formal operational policy or management directive for doing so. The legal status of GEF is stronger than any other GRPP hosted by the Bank, since the GEF Participants laid out the roles and responsibilities of the World Bank and other constituent parts of the GEF partnership in the form of a legal document — the GEF Instrument — that was ratified by the governing bodies of the original three Implementing Agencies. The World Bank and the GEF have since put in place practices and procedures over time that have mitigated the potential conflicts of interest between the multiple roles that the Bank plays in the GEF. Even so, ambiguities have remained. Little seems to have been codified in terms of the Bank's role and responsibilities as host of the GEF Secretariat so that issues have been addressed as they have come up.

9.21 The lesson from this Review is that achieving a good working relationship between the Bank as host organization and the GRPP secretariat that balances the benefits and costs of being located in the Bank takes effort, trust, and accountability on both sides. While it is impossible to codify everything in writing, greater clarity could help to build such trust and accountability, as well as avoid misunderstandings, so that the partners could enjoy working together again as partners rather than contractors. The findings of this Review support IEG's 2011 recommendation that the Bank should develop a formal policy for hosting the management units of GRPPs located in the Bank (IEG 2011, p. xxi), since the Bank will undoubtedly continue to host many GRPPs in the future.

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