**Multilateral Core Contribution**

**Business Case and Intervention Summary**

**Global Environment Facility (GEF) 6th Replenishment**

May 2014

Contents

[1](#_Toc387659452) [**Intervention Summary**](#_Toc387659452) [5](#_Toc387659452)

[1.1](#_Toc387659453) [What support will the UK provide?](#_Toc387659453) [5](#_Toc387659453)

[1.2](#_Toc387659454) [What is GEF’s role in the international climate architecture?](#_Toc387659454) [5](#_Toc387659454)

[1.3](#_Toc387659455) [Why is UK support required?](#_Toc387659455) [5](#_Toc387659455)

[1.4](#_Toc387659456) [What will this support achieve?](#_Toc387659456) [6](#_Toc387659456)

[1.5](#_Toc387659457) [Why does this represent value?](#_Toc387659457) [8](#_Toc387659457)

[2](#_Toc387659458) [**Strategic Case**](#_Toc387659458) [9](#_Toc387659458)

[2.1](#_Toc387659459) [Context](#_Toc387659459) [9](#_Toc387659459)

[2.1.1](#_Toc387659460) [Context and need for a DFID intervention](#_Toc387659460) [9](#_Toc387659460)

[2.1.2](#_Toc387659461) [What development and poverty reduction issues does GEF address?](#_Toc387659461) [11](#_Toc387659461)

[2.1.4](#_Toc387659462) [How does GEF add value?](#_Toc387659462) [13](#_Toc387659462)

[2.1.5](#_Toc387659463) [How has GEF performed?](#_Toc387659463) [15](#_Toc387659463)

[2.1.6](#_Toc387659464) [How is GEF responding to the policy and operational challenges?](#_Toc387659464) [18](#_Toc387659464)

[2.2](#_Toc387659465) [Impact and outcome that we expect to achieve](#_Toc387659465) [20](#_Toc387659465)

[2.2.1](#_Toc387659466) [Thematic results](#_Toc387659466) [21](#_Toc387659466)

[2.2.2](#_Toc387659467) [Policy and operational reform results](#_Toc387659467) [22](#_Toc387659467)

[2.3](#_Toc387659468) [THYPERLINK "#\_Toc387659468"heory of Change](#_Toc387659468) [24](#_Toc387659468)

[2.3.1](#_Toc387659469) [Inputs](#_Toc387659469) [24](#_Toc387659469)

[2.3.2](#_Toc387659470) [Outputs](#_Toc387659470) [24](#_Toc387659470)

[2.3.3](#_Toc387659471) [Outcomes](#_Toc387659471) [25](#_Toc387659471)

[3](#_Toc387659472) [**Appraisal Case**](#_Toc387659472) [26](#_Toc387659472)

[3.1](#_Toc387659473) [What are the feasible options that address the need set out in the Strategic Case?](#_Toc387659473) [26](#_Toc387659473)

[3.1.1](#_Toc387659474) [Option 1:](#_Toc387659474)  [Is providing no support to GEF6 a feasible option?](#_Toc387659474) [27](#_Toc387659474)

[3.1.2](#_Toc387659475) [Option 2:](#_Toc387659475)  [Choices concerning](#_Toc387659475) [the amount of the UK Contribution](#_Toc387659475) [28](#_Toc387659475)

[3.1.3](#_Toc387659476) [Choices concerning the UK’s priorities for GEF6 thematic allocations](#_Toc387659476) [29](#_Toc387659476)

[3.1.4](#_Toc387659477) [Choices concerning the UK’s priorities for policy reforms](#_Toc387659477) [30](#_Toc387659477)

[3.2](#_Toc387659478) [Identifying the strength of the evidence base for each feasible option](#_Toc387659478) [30](#_Toc387659478)

[3.3](#_Toc387659479) [Climate Change and Environment Category](#_Toc387659479) [31](#_Toc387659479)

[3.3.1](#_Toc387659480) [What is the likely impact (positive anHYPERLINK "#\_Toc387659480"d negative) on climate change and environment for each feasible option?](#_Toc387659480) [32](#_Toc387659480)

[3.4](#_Toc387659481) [What are the costs and benefits of each feasible option?](#_Toc387659481) [32](#_Toc387659481)

[3.5](#_Toc387659482) [What measures can be used to assess Value for](#_Toc387659482) [Money for the intervention?](#_Toc387659482) [33](#_Toc387659482)

[3.6](#_Toc387659483) [Summary Value for Money statement for the preferred option](#_Toc387659483) [34](#_Toc387659483)

[4](#_Toc387659484) [**Commercial Case**](#_Toc387659484) [35](#_Toc387659484)

[4.1](#_Toc387659485) [Value for money through Procurement](#_Toc387659485) [35](#_Toc387659485)

[5](#_Toc387659486) [Financial Case](#_Toc387659486) [36](#_Toc387659486)

[5.1](#_Toc387659487) [Who are the recipients of all proposed payments?](#_Toc387659487) [36](#_Toc387659487)

[5.2](#_Toc387659488) [What are the costs to be incurred directly by DFID?](#_Toc387659488) [37](#_Toc387659488)

[5.3](#_Toc387659489) [What are the costs to be incurred by third party organisations?](#_Toc387659489) [37](#_Toc387659489)

[5.4](#_Toc387659490) [Does the project involve financial aid to governments? If so, please define the arrangements in detail](#_Toc387659490) [37](#_Toc387659490)

[5.5](#_Toc387659491) [Is the required funding available through current resource allocations or via a bid from contingency? Will it be funded through capital/programme/admin?](#_Toc387659491) [37](#_Toc387659491)

[5.6](#_Toc387659492) [What is the profile of estimated costs?](#_Toc387659492) [How will you work to ensure accurate forecasting?](#_Toc387659492) [38](#_Toc387659492)

[5.7](#_Toc387659493) [What is the assessment of financial risk and fraud?](#_Toc387659493) [38](#_Toc387659493)

[5.8](#_Toc387659494) [How will expenditure be monitored, reported and accounted for?](#_Toc387659494) [39](#_Toc387659494)

[5.9](#_Toc387659495) [Are there any accounting considerations arising from the project?](#_Toc387659495) [40](#_Toc387659495)

[6](#_Toc387659496) [**Management Case**](#_Toc387659496) [40](#_Toc387659496)

[6.1](#_Toc387659497) [What are the Management Arrangements for implementing the intervention?](#_Toc387659497) [40](#_Toc387659497)

[6.1.1](#_Toc387659498) [GEF Governance and Organisational Structure](#_Toc387659498) [40](#_Toc387659498)

[6.1.2](#_Toc387659499) [Response to concerns raised by OPS5](#_Toc387659499) [41](#_Toc387659499)

[6.1.3](#_Toc387659500) [Management of funds in DFID](#_Toc387659500) [43](#_Toc387659500)

[6.1.4](#_Toc387659501) [UK role in GEF](#_Toc387659501) [44](#_Toc387659501)

[6.2](#_Toc387659502) [What are the risks and how these will be managed?](#_Toc387659502) [44](#_Toc387659502)

[6.3](#_Toc387659503) [What conditions apply (for financial aid only)?](#_Toc387659503) [45](#_Toc387659503)

[6.4](#_Toc387659504) [How will](#_Toc387659504) [progress and results be monitored, measured and evaluated?](#_Toc387659504) [46](#_Toc387659504)

[6.4.1](#_Toc387659505) [Monitoring the UK Contribution](#_Toc387659505) [47](#_Toc387659505)

[6.4.2](#_Toc387659506) [Quest No of logframe for this intervention: 4471306](#_Toc387659506) [47](#_Toc387659506)

|  |
| --- |
| List of tables |
| Table 1: GEF6 result areas and targets |
| Table 2: GEF6 policy priorities |
| Table 3: GEF6 operational reforms |
| Table 4: GEF5 STAR allocations for climate change, biodiversity and land degradation by income group and region |
| Table 5: Strategic goals and targets from May 2010 GEF5 programming document, and summation of contribution of project-level expected results to date |
| Table 6: MAR Update 2011 progress summaries |
| Table 7: Draft overall indicators for GEF thematic areas for GEF6 (based on $4.430bn replenishment scenario) |
| Table 8: Indicative Focal Area allocations |
| Table 9: How GEF6 will address UK policy and operational reform priorities |
| Table 10: GEF replenishment scenarios |
| Table 11: Indicative Focal Area allocations |
| Table 12: Evidence base for each feasible option |
| Table 13: VfM measures |
| Table 14: GEF risks and mitigating actions |

|  |
| --- |
| List of figures |
| Figure 1: DFID’s Theory of Change for GEF |
| Figure 2: The GEF project cycle |
| Figure 3: The GEF network |
| Figure 4: GEF RBM Framework |

* Intervention Summary
* **What support will the UK provide?**

The UK will contribute a grant of up to £220m to a $4.430bn target for the sixth replenishment of the Global Environment Facility (GEF6). Options for the UK’s contribution (total and burden share) will be considered by Ministers before the GEF Assembly in May 2014. The contribution will be paid over four financial years from 2014/15 to 2017/18.

* **What is GEF’s role in the international climate architecture?**

GEF has a clear niche in the international architecture to integrate environment and sustainable development and drive synergies between environmental themes through a country-driven networking business model. GEF is a key vehicle to deliver global agreements on climate change, biodiversity, land degradation and persistent pollutants. It enables the UK to contribute effectively to the UNFCCC target to mobilise $100bn p/a by 2020 for climate change; the Biodiversity Convention (CBD) agreement to double financial flows from all sources to help conserve biodiversity; and was nominated as the main funding vehicle to support the Minimata Convention on Mercury in 2014.

The Multilateral Aid Review (MAR) 2011 noted that GEF fulfils a critical niche which no other multilateral fills. Its piloting and capacity building functions enable countries and other aid agencies – particularly MDBs – to scale-up successful innovations. GEF will complement the Green Climate Fund, but GEF is likely to reduce its climate focus over GEF6.

* **Why is UK support required?**

The rate of natural resource depletion and climate change are still increasing. The pressure on resources is set to increase in the coming decades as the result of three global megatrends: meeting the needs of a 2 billion increase in global population by 2050; a rapid increase in the global middle class by 3 billion in just the next two decades; and a rapid growth in urbanisation. These major trends influence a range of drivers which affect global capacity to meet a doubling in demand for food, energy, human habitat, transportation, and others that together create direct pressures on the global environment.

Addressing the drivers of degradation and supporting sustainable development is essential for achieving the post 2015 Sustainable Development Goals, as set out in the High Level Panel Report, which noted, ‘We must act *now* to halt the alarming pace of climate change and environmental degradation, which pose unprecedented threats to humanity’. Climate change-associated impacts are observed globally on marine and terrestrial ecosystems, and affect water availability, energy supply, food security, infrastructure, and human health, as highlighted in the Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC). The Millennium Ecosystem Assessment and TEEB (The Economics of Ecosystems and Biodiversity) demonstrated that biodiversity underpins ecosystem goods and services that are required for sustainable development. There is evidence that the poor are most affected by environmental degradation and are most vulnerable to its impacts. Developing countries have the least financial or technical capacity to manage these increasing risks.

UK financial support will enable GEF effectively to undertake its mandated functions and achieve results which will, in turn, contribute to the goals and targets of the post-2015 development agenda. As a financial mechanism to international agreements on climate, biodiversity, land degradation, persistent pollutants, international waters and ozone depletion to which the UK is a Party, contributions to GEF are important to demonstrate commitment and underpin the UK’s position in international negotiations.

* **What will this support achieve?**

GEF contributes to poverty reduction in two ways. Firstly, GEF’s work to protect and sustain the environment at a global level underpins the achievement and sustainability of poverty reduction, for example by helping tackle climate change. Secondly, GEF projects at a country level benefit poor people directly, via a range of direct and indirect co-benefits. These include access to cleaner energy, with improvements in air quality; access to forest products and stabilisation of agricultural land prone to desertification; and improved prospects for women and girls in energy and natural resource access.

GEF will deliver outputs across a range of environmental and climate-related sectors, as summarised in Table 1. New technologies and approaches will be supported to help countries innovate and demonstrate tangible results capable of replication by country governments, including with MDB support. Benefits accruing to the earth's shared natural resources, such as the atmosphere and the oceans, will benefit the poorest most and GEF support will help developing countries improve their technical, institutional and financial capacity to manage ecosystem goods and services sustainably. This improvement is a key ingredient for sustainable development and poverty reduction.

*Table 1: GEF6 result areas and targets*

|  |  |
| --- | --- |
| **Result Areas** | **Targets** |
| * **Climate Change** : Support to transformational shifts towards a low-emission and resilient development path
 | 750 million tons of CO2 equivalent mitigated |
| * **Biodiversity**: Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society
 | Improved management of landscapes and seascapes covering 300 million hectares |
| * **Land degradation**: Sustainable land management in production systems (agriculture, rangelands, and forests)
 | Improved management/ productivity in 120 million hectares |
| * **International waters**: Promotion of collective management of transboundary water systems
 | Water-Food-Energy-Ecosystems under sustainable management in at least 10 freshwater basins; |
| * **Persistent Pollutants**: Increase phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals
 | Disposal of 80,000 tons of POPs (PCB, obsolete pesticides) Reduction of 1000 tons of MercuryPhase-out of 300 tons of ODP (HCFC)  |

In addition, there will be wider benefits which cannot be quantified at this stage:

* Increased knowledge of the viability of sustainable development options in comparison to current practice;
* Broader adoption and replication of lessons learned through GEF activities;
* Increased developing country ambition and help to build the conditions for progress in international agreements, notably the 2015 climate agreement.

By supporting GEF, the UK can influence its policy priorities and operational reforms. Through the replenishment negotiations, GEF is committed to a number of new policy priorities and reforms, including follow up to those identified in the UK MAR. These reforms will strengthen GEF’s operational effectiveness and internal efficiency and thereby improve its performance. The UK led donors in seeking a clear prioritised plan to enhance institutional effectiveness, including:

*Table 2: GEF6 policy priorities*

|  |
| --- |
| **Policy priorities** |
| * Develop GEF’s capacity to respond to emerging issues and/or opportunities through special programmes, e.g. piloting greening commodity supply chains
 |
| * Identify and incentivise synergies and increase resilience across GEF’s focal area strategies, particularly to climate change
 |
| * Integrate measures to enable private sector engagement in all of GEF’s focal area strategies
 |
| * Enhance gender mainstreaming through targeted activities in all GEF’s focal area strategies
 |

*Table 3: GEF6 operational reforms*

|  |
| --- |
| **Operational effectiveness and internal efficiency reforms, including those identified through the UK MAR** |
| * Maximise the impact of GEF resources by introducing measures to graduate GEF support according to country needs and capacities in GEF’s resource allocation mechanism and increase resources for use in LICs
 |
| * Improving operational efficiency to speed up approval procedures and adopt new targets
 |
| * Strengthening country ownership and civil society engagement to improve partnership working
 |
| * Increase the impact of GEF’s results by improving dissemination and uptake of knowledge products which can support mainstreamed change in policies and practices
 |

These improvements will increase the impact of GEF for the UK, other donors and recipients in GEF6.

* **Why does this represent value?**

The MAR concluded that GEF has a satisfactory (3) value for money and cost consciousness and has made progress on financial resource management. Though there remain areas for improvement across economy, efficiency and effectiveness dimensions of VfM, measures have been agreed to improve performance in GEF6. The main areas for reform are in: streamlining project cycle management; moving towards more programmatic approaches; and simplifying results. These are a focus of ongoing reform and the GEF draft programming documents contain remedial measures.

On economy, GEF: achieves a higher than average cost efficiency rating in comparison to similarly sized multilaterals; has demonstrated falling administrative costs in relative terms to programme spend in each replenishment period; and has reduced agency fees for all of its Implementing Agencies during GEF5. A comparison of GEF’s efficiency ratio – its share of internal expenses to total expenditures – with those of similar organisations shows that GEF’s operational efficiency compares well.

On efficiency, GEF has systems to ensure strong control over the quality and quantity of outputs, including: a System for Transparent Allocation of Resources (STAR), to direct resources to countries where they should have the maximum impact; support for countries to undertake National Portfolio Formulation Exercises (NPFEs), which help identify country priorities; a set of quality at entry protocols; a Project Management Information System (PMIS), to track information on project inputs, reporting and outputs; and an Independent Evaluation Office. GEF is also successful at leveraging co-financing for projects: the MAR noted that GEF’s total spend of $8.8 billion had been supplemented by more than $38.7 billion in co-financing.

On effectiveness: The Overall Performance (OPS) for GEF5 indicates that GEF is performing a valuable role and achieving results. On effectiveness, results show that 82% of GEF projects completed in GEF4 and GEF5 achieved outcome ratings of moderately satisfactory or higher, which is 7% higher than GEF’s target of 75%; and 86% of projects under implementation are likely to achieve development / global environment objectives. An independent assessment of GEF’s cumulative impact in addressing climate change over time shows that as of 2013, GEF has allocated a total of $3.3 billion to 615 projects expected to mitigate 10.8 billion tons of CO2e emissions.

* Strategic Case
* **Context**
* **Context and need for a DFID intervention**

The recently published High Level Panel report on post-2015 Development called for the new post-2015 goals to leave no one behind. It sets out the ambition that after 2015 we should move from reducing to ending extreme poverty, in all its forms, ensuring that no person is denied basic economic opportunities and human rights. Without action to accelerate the adoption of sustainable development, environmental degradation and climate change may jeopardise the achievement and sustainability of this goal.

* Climate Change

The Fourth Assessment Report of the Intergovernmental Panel on Climate Change (IPCC) highlighted that climate change-associated impacts are observed globally on marine and terrestrial ecosystems, and affect water availability, energy supply, food security, infrastructure, and human health. The severity of projected impacts becomes more significant at higher temperatures. Sub-Saharan Africa, South East Asia and South Asia are projected to experience a rising incidence of unprecedented heat extremes in the summer months by the mid-2020s, well before global temperature rises are projected to reach even 1.5°C. With a 4°C increase, productivity of all cereals decreases in low altitudes, impacting food security. Hundreds of millions of people may face water shortages. About 30% of global coastal wetlands may also be lost with temperature increases above 3.5°C. Changes in marine ecosystem productivity, fisheries, coral reefs, and ocean acidification due to CO2 uptake by oceans are likely.

Recent analysis suggests that without further commitments and action to reduce greenhouse gas emissions, the world is likely to warm by more than 3°C above the pre-industrial climate. In the absence of further mitigation action there is a 40 per cent chance of warming exceeding 4°C by 2100 and a 10 per cent chance of it exceeding 5°C in the same period.

* Biodiversity

Biodiversity and the services healthy eco-systems provide matter to poor people; natural assets are estimated to comprise about 30% of the value of assets of low income countries compared with only about 2% of the value of assets of high income OECD countries. The global target set for 2010 by the UN Convention on Biodiversity (CBD) “to achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and to the benefit of all life on Earth” was not met.

The Millennium Ecosystem Assessment highlighted the five main direct drivers of biodiversity loss: habitat change, overexploitation or unsustainable use, invasive alien species (particularly in island ecosystems), climate change, and pollution. More recent analyses, including the Global Biodiversity Outlook 3, reported that these five drivers remain the principal causes of biodiversity loss and are either constant or increasing in intensity.

* Food security

Food security is threatened by environmental degradation. The planet's population will likely exceed 9 billion by 2050, with up to 2 billion projected for sub-Saharan Africa alone. Population growth will require an estimated 50% increase in global food production. In sub-Saharan Africa, governments and development partners are stepping up efforts to increase food production, focusing mainly on smallholder farmers’ access to improved seeds, fertilizers, and markets. Yet there are as yet limited efforts to integrate environmental priorities, including the growing risks associated with climate change, which will undermine the continent’s fragile ecologies, with consequences for the long-term sustainability of food security investments; these actions will have major long-term implications for the livelihoods of the continent’s poor and vulnerable, especially women.

* Impacts on Women and Girls

Women and girls face particular vulnerabilities resulting from cultural norms, lower socio-economic status and lower access to productive assets in some societies. Poor women and girls are particularly at risk during climatic disasters, with four times more women than men dying as a result of flooding, due to a range of factors. Women’s domestic roles often make them disproportionate users of natural resources such as water, firewood and forest products. As these resources become scarcer, women experience an increased work burden and may fall further into poverty as a result.

Natural disasters also have gendered implications, killing more women than men. This trend is more pronounced the stronger the disaster. Despite the vulnerabilities experienced by women and girls, they are often unable to voice their specific needs. The exclusion of women’s voices also means that their extensive knowledge of the environment and resource conservation is untapped. Women are potentially significant agents of change in their own right, in their own communities and in regard to the animal and crop production that they are traditionally responsible for managing.

* Impacts on Growth

Environmental degradation impacts on growth. Climate shocks, for example, that affect at least 0.5 per cent of a country’s population typically cut GDP per person by about 0.6 per cent. Evidence suggests that droughts have the largest impact, with cumulative impacts of 1 per cent of GDP per capita. Poorer countries sustain greater impacts. Climate change affects growth in the short run and long run because resources that could have been used (more productively) elsewhere to stimulate growth will be absorbed by relief, recovery and adaptation efforts. For example climate change will reduce several drivers of long run economic growth: capital accumulation; infrastructure; human health; and productivity growth in energy and agriculture sectors. These adverse impacts are also likely to put a strain on governance and institutions.

Funding needs for action on global environmental issues are conservatively assessed as at least $100 billion annually. This amount of funding can only be achieved if civil society and the private sector become strong partners in addressing global and local environmental problems. However, at the same time global public funding of at least $1 trillion annually is available for subsidies and transfers that encourage unsustainable environmental practices, such as subsidies for fossil fuels, for unsustainable agricultural practices, for over-exploitative fisheries and for unsustainable use of water resources.

* **What development and poverty reduction issues does GEF address?**

As highlighted by the High Level Panel, securing lasting development benefits for 8 billion people by 2030 will face many challenges and the HLP noted that, ‘above all, climate change, will determine whether or not we can deliver on our [post 2015] ambitions’. The report also found that, ‘the stresses of unsustainable production and consumption patterns have become clear, in areas like deforestation, water scarcity, food waste, and high carbon emissions’ and that people, ‘living in poverty will suffer first and worst from climate change’. It concluded that, ‘the cost of taking action now will be much less than the cost of dealing with the consequences later’. To be tackled effectively, sustainable development and poverty reduction need to be addressed in an integrated manner.

GEF’s stated purpose is to ‘assist in the protection of the global environment and thereby promote environmentally sound and sustainable economic development’. GEF prioritises 66% of its resources to climate change and biodiversity, but also supports action to counter land degradation, manage persistent pollutants and improve management of international waters. GEF contributes to poverty reduction in two ways: firstly, GEF’s work to protect and sustain the environment at a global level underpins the achievement and sustainability of poverty reduction, for example by helping tackle climate change. Secondly, GEF projects at a country level benefit poor people directly, for example through projects to tackle desertification helping improve livelihoods.

Securing the environmental services on which sustainable development and poverty reduction depend, requires addressing the problems and identifying solutions to environmental management challenges in their countries of origin. The policies and actions of the developing countries with the fastest increases in greenhouse gas emissions will be critical to global attempts to curb global warming. These countries face a number of market failures and barriers to the rapid deployment of low carbon technologies, which reduce their ability to pursue low carbon development. GEF projects provide support to address these issues, where there are opportunities to achieve significant results at the national level and/or to learn lessons which could be applicable in other countries. Many of the greatest challenges and opportunities are in MICs. China and India accounted for 29% of energy generation emissions in 2010. These two countries are also making significant progress in extending renewable energy and access to electricity. The 2013 SE4ALL Global Tracking Report found that China recorded the greatest expansion in renewable globally and that India has provided electricity for an additional annual average of 24 million people since 1990. The report suggested that the experience of these fast-moving countries offers lessons for other high emitters in tackling climate goals. In addition to more sustainable energy, there are other local benefits, e.g. in improving local air quality, which has significant health impacts, and reducing acid rain.

GEF projects also provide local impacts of direct benefit to poor people in poor countries. The Dryland Livestock Wildlife Environment Interface Project, implemented in Kenya and Burkina Faso, provides an example of a biodiversity project that has had local, national and regional impacts. Locally, the benefits to livelihoods and biodiversity of better range management have been shown. Nationally, governments in Kenya and Burkina Faso have established ministerial task forces to oversee the integrated resource management. Regionally, African Ministers of Environment (AMCEN) has discussed livestock/wildlife interface issues, and has learned from the experiences of this project. As a result of these interventions, there has been reduced environmental stress at multiple sites.

The Market Transformation for Efficient Biomass Stoves project in Kenya achieved significant combined environmental, developmental and health benefits. The environmental impact included a reduction in greenhouse gases through the installing of 1,552 energy saving stoves that had a 70% energy efficiency compared to the traditional three-stone open fire. The development objectives included reduced air pollution indoors, improved respiratory and general health of cooks, less time spent gathering fuel, reduced fuel costs, and income generation for stove producers.

* **Gender Equality**

In this Business Case we have considered the disproportionate impact of climate change and environmental degradation on women and girls, particularly the gender implications of climatic disasters and the effect of diminishing natural resources on women’s livelihoods.

GEF policy recognises the importance of gender mainstreaming, both for successfully achieving sustainable development objectives as well as for contributing to gender equality. In May 2011, the GEF adopted the [*Policy on Gender Mainstreaming*](http://www.thegef.org/gef/policy/gender) that commits to address the link between gender equity and environmental sustainability, and to provide concrete guidance on how the GEF will address gender mainstreaming in a systematic manner in its policies, programmes, and operations. It has been used to assist GEF implementing agencies and recipients to promote gender mainstreaming in GEF projects through appropriate tools, including conducting gender assessments, preparing gender mainstreaming strategies and plans, and monitoring results through gender-disaggregated indicators.

The policy includes several requirements for the GEF Secretariat and GEF implementing agencies, including:

* In order to be eligible to receive GEF financing for GEF projects, all GEF implementing agencies are required to have established either (a) policies, (b) strategies, or (c) action plans that promote gender equality;
* The policies, strategies, or action plans of each GEF implementing agency need to satisfy the minimum criteria on gender mainstreaming that are included in the policy for the agency’s systems to be assessed as adequate;
* The GEF agencies are required to specify how they have met the requirements of the policy in their project and programme proposals.

The fifth Overall Performance Study of the GEF (OPS5, 2013) found that an increased proportion of projects had mainstreamed gender in project design since the adoption of the GEF Policy on Gender Mainstreaming in 2011, but that further progress could be achieved.

For the sixth replenishment, GEF has agreed a number of policy and operational reform objectives, including to enhance gender mainstreaming through:

* targeted activities in all GEF’s thematic area strategies, as appropriate;
* introducing an indicator for the percentage of GEF6 projects that incorporate gender equality and women’s empowerment issues in project documents and monitoring and evaluation reports. This indicator has been included in DFID’s GEF6 logframe and will be monitored as part of DFID’s Annual Review process;
* developing an action plan to put these and related measures into effect at the beginning of the GEF6 replenishment period.
* **How does GEF add value?**
* GEF’s Role

GEF’s niche in the international architecture is to pilot and build capacity for new approaches to integrate sound environmental management into sustainable development. It is the only institution with the mandate to cover all the major global environmental issues enabling it to promote integrated approaches more readily than single issue institutions. GEF is also the principal vehicle to support developing countries to play their part in implementing the international agreements on climate change, biodiversity, land degradation, international waters and persistent pollutants. Supporting developing countries through GEF underpins the UK’s commitments in the international agreements it serves.

GEF complements the work of other development institutions by piloting approaches which can be replicated and scaled up, particularly by the MDBs. GEF support has enabled MDBs to test approaches, e.g. in energy efficiency, forestry and biodiversity management, which have influenced the development of other programmes, including the Climate Investment Funds (CIF), which the UK supports. Of the themes covered by GEF, climate change has by far the greatest dedicated support through purpose-built funds, of which the CIFs are the largest. The CIFs will be replaced in the next few years by the Green Climate Fund (GCF), which will take over and expand their functions of providing scaled up support, including through engagement with the private sector.

* Promoting synergies

GEF’s mandate to cover all the major global environmental issues enables it to address them in conjunction with one another and put available resources to more effective use than can be done with separate funds. It does this by a range of means including promoting action that addresses multiple environmental problems at once. The Sustainable Forest Management incentive programme, introduced in GEF5, incentivises countries to find synergies between climate and biodiversity objectives by addressing both in the same programmes. This programme is new and uptake has been mixed, but it has been effective where recipients have taken up the approach, producing better outcomes at lower cost. Based on this experience and DFID’s approach to integration through the ‘Future Fit’ approach, the UK has supported the expansion of these incentive programmes to GEF6, which will include programmes on greening commodity supply chains, improving food security and improving environmental management in urban areas, as set out in Section 2.2 below.

* Allocating for results

As noted by the DFID MAR, GEF’s ‘System for the Transparent Allocation of Resources’ (STAR) supports the allocation of resources to those countries where support will have the greatest impact. The objective of the STAR is to, ‘maximize the impact of [GEF] resources on global environmental improvements and promote sound environmental policies and practices worldwide’. The system is based on two indices which assess i) the extent of environmental management problems and opportunities with global/regional impact and ii) the policies and capacities of countries, including a GDP measure, to yield benefits with GEF support.

*Table 4: GEF5 STAR allocations for climate change, biodiversity and land degradation by income group and region*

|  |  |
| --- | --- |
|  | **GEF5 Allocation ($ millions)** |
| **Region** | **Climate** | **Biodiversity** | **Land Degradation** | **Total** |
| Least Developed Countries (LDCs) | 151.67 | 181.88 | 101.63 | 435.18 |
| Africa | 209.90 | 231.40 | 139.25 | 580.55 |
| Asia | 451.12 | 308.79 | 74.80 | 834.71 |
| Central Asia | 204.15 | 59.13 | 54.23 | 317.51 |
| Latin America & Caribbean | 222.82 | 368.72 | 55.66 | 647.20 |

As the GEF benefits index finds that the sources of the greatest environmental problems and the opportunities to resolve them are concentrated in middle income countries, approximately 85% of GEF’s resources are used in MICs and about 15% in LICs. The allocation for LICs has been rising with each replenishment as a result of pressure on MICs to fund a higher proportion of the additional costs themselves and of growing environmental problems with global/regional implications in LICs. This trend will continue in GEF6, as the replenishment agreed on the need to provide more resources to least developed countries (LDCs) and small island developing states (SIDS) by reducing allocations to and seeking higher co-financing ratios from MICs, as set out in Section 2.2 below.

* Comparative advantage

GEF was designed as a network institution servicing a number of conventions, with a range of providers under one funding and management structure in a single institution. There are no other institutions which offer GEF’s balance of functions, country coverage and network of specialist providers.

Support could, in theory, be provided directly to the multilateral implementing agencies but this would complicate resource allocation, reduce healthy competition between agencies and synergies between different thematic areas and increase transaction and oversight costs. It would also make it more difficult for donors to coordinate their responses to the financial demands of the multilateral environmental agreements which GEF covers. The UK, in common with most donors, lacks the country coverage and specialised technical services to support GEF recipients directly through our bilateral country programmes.

* **How has GEF performed?**
* Results Performance

GEF’s results for projects completed and expected results from projects started during the period are reviewed at the end of each replenishment period. The summary for GEF5 indicates that GEF is performing a valuable role and achieving results. On effectiveness, results show that 82% of GEF projects completed in GEF4 and GEF5 achieved outcome ratings of moderately satisfactory or higher, which is 7% higher than GEF’s target of 75%; and 86% of projects under implementation are likely to achieve development / global environment objectives.

Counterfactual analysis carried out by GEF’s Independent Evaluation Office shows that many GEF-supported efforts would not have happened without a catalytic GEF contribution. Where they would have happened, they would have occurred more slowly or not in line with international standards. In studying 18 climate change mitigation projects in depth, only one was expected to have occurred with the same speed and quality in the absence of GEF support. The other 17 provide evidence of the catalytic success of GEF.

GEF’s Independent Evaluation Office has begun a series of impact assessments intended to assess GEF’s cumulative impact over time. The first assessment, for climate change, shows that as of June 30, 2013, GEF has allocated a total of $3.3 billion to 615 projects that address climate change mitigation. Of this, $3.1 billion has been allocated to 547 projects with explicit mitigation targets. The total amount of direct and indirect mitigation expected from these 547 projects is 2.6 and 8.2 billion tons of CO2e emissions, respectively, or 10.8 billion tons combined.

As most GEF5 projects are still at an early stage of implementation, measuring actual progress towards achieving GEF5 targets is not yet possible. However, the expected results agreed when projects are approved have been monitored to assess progress in GEF5. This shows that GEF5 projects are on track to meet or exceed targets for 11 out of 13 of the main output indicators. Two indicators in the Land Degradation thematic area are below replenishment targets. A summary of the expected contribution of GEF5 project results to GEF5 programming targets is given in Table 5.

*Table 5: Strategic goals and targets from May 2010 GEF5 programming document, and summation of contribution of project-level expected results to date*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Focal area | Strategic goal | Targets under $4.2 billion replenishment | GEF5 project-level targets (aggregate total to date) | Percentage of overall target contained in project-level targets |
| Biodiversity | Improved sustainability of protected area systems | Effective conservation and management of 170 million hectares of protected areas | 42.9 million Ha of new protected areas108.0 million Ha of existing protected areas  | **89%** of target |
| Sustainably managed landscapes and seascapes that integrate biodiversity conservation increased | Sustainable use and management of biodiversity in 60 million hectares of production landscapes and seascapes | 37.5 million Ha of production landscapes498,454 Ha of production seascapes | **63%** of target |
| Land Degradation | Arrested or reversed current global trends in land degradation, specifically desertification and deforestation | Sustainable management of agriculture, range and forest landscapes, including drylands and affected transboundary areas: 100 million Ha in agriculture; 200,000 Ha of forest landscapes; 175 million Ha in wider production landscapes | 10.6 million Ha of agricultural / rangeland systems under SLM 1,393,010 Ha of forest landscapes under SFM57.6 million Ha of wider production landscapes under sustainable management | **11%** of target\***697%** of target\***33%** of target\* |
| Climate Change | Slowed growth in GHG emissions to the atmosphere from demonstration and transfer of advanced low-carbon technologies and deployment and diffusion of technologies in energy efficiency, renewable energy, and sustainable transport and urban systems | 500 million tons of CO2-equivalent emissions avoided | 842 MtCO2eq direct mitigation2,251 MtCO2eq indirect mitigation | **168%** of target if only direct mitigation is included; **619%** of target if including direct and indirect  |
| Demonstration of 3-4 innovative technologies in 10-15 countries | Demonstration of 13 innovative technologies in 17 different countries | **113%** of country target using threshold of 15 countries\*\* |
| 0.5 gigawatts of new renewable energy capacity installed | 0.92 gigawatts of new renewable energy capacity installed | **184%** of target |
| Conserved and enhanced carbon sinks from reduced GHG emissions from Land Use, Land Use Change and Forestry (LULUCF) activities | 315-675 million tons of CO2 equivalent emissions avoided from LULUCF | 466 MtCO2eq emission reductions\*\*\* | **69%** of target using threshold of 675 MtCO2eq reductions |
| Chemicals | Phased out and reduced releases of POPs, ODS, and other chemicals of global concern | 10,000 tons of obsolete pesticides, including POPs, disposed of in an environmentally sound manner23,000 tons of PCBs and PCB-related wastes disposed of or decontaminated | 8,850 tons of obsolete pesticides, including POPs, disposed of in an environmentally sound manner21,950 tons of PCBs and PCB-related wastes disposed of or decontaminated | **89%** of POPs target**95%** of PCB target |
| Int. Waters | Catalyzed multi-state cooperation to balance conflicting water uses in transboundary surface and groundwater basins.Catalyzed multi-state cooperation to rebuild marine fisheries and Large Marine Ecosystems (LMEs) | Adoption/implementation of national/local reforms in 50% of States and demonstration results in at least 50% of States participating in 6-7 transboundary water systemsAdoption/implementation of national/local reforms in 50% of States and demonstration results in at least 50% of States participating in 5-6 LMEs | 5 transboundary water systems targeted through 5 projects involving 23 different countries9 LMEs targeted through 12 projects involving 55 different countries | **71%** of measurable target (# of transboundary water systems targeted) using threshold of 7 TWB systems**150%** of measurable target (# of LMEs targeted) using threshold of 6 LMEs |

\* In assessing progress towards Land Degradation Replenishment targets, indirect effects, which are present in replenishment targets, are absent from project documents at the PIF stage. The percentage of LD replenishment targets captured in GEF5 project-level targets can therefore be expected to rise as project proposals advance to GEF CEO Endorsement/Approval stage.

\*\*Aggregate project-level target is derived from projects with CCM-1 (tech transfer) funding.

\*\*\* Total project-level reductions from LULUCF include both direct and indirect reductions.

* Operational Performance

GEF’s operational effectiveness and efficiency has been assessed through both the DFID Multilateral Aid Review (MAR) update supported by the GEF Evaluation Office.  The UK’s 2011 MAR concluded that GEF represented ‘good’ value for money for the UK. The MAR highlighted several strengths:

* GEF fulfils a critical niche;
* Establishment of the System for Transparent Allocation of Resources (STAR) supports the allocation of resources to those countries where support will have the greatest impact;
* GEF has set indicators to ensure implementing agencies achieve value for money.

The MAR also highlighted weaknesses:

* Improvements in programmatic approaches and project cycle management are needed to improve efficiency of GEF;
* Improvements are required in partnership working, including improving demand driven approaches and improved working with recipient country national entities.

DFID’s four reform priorities for the MAR Update were:

* Increased support to countries in preparing programmes to maximise the benefits of GEF support – assessed under partnership behaviour;
* Increased use of programmatic approaches to maximise impact of GEF support – assessed under partnership behaviour;
* Streamline project cycle management arrangements to minimise transaction costs and avoid delays in the approval process – assessed under financial resource management;
* Improved results-based management framework with clear output targets and indicators – assessed under strategic and performance management.

DFID’s MAR Update in 2013 found that GEF had shown improvements in all the priority reform areas and was one of only two organisations to have a score change from 2 to 3 (for partnership behaviour) in the update.  Other progress scores rated ‘some’ to ‘reasonable’ progress.

*Table 6: MAR Update 2011 progress summaries*

|  |  |
| --- | --- |
| **MAR 2011 priority reform area** | **MAR Update 2013 progress summary** |
| Partnership behaviour | Reasonable progress: GEF has introduced National Portfolio Formulation Exercises (NPFEs) which are voluntarily undertaken by recipient countries to align GEF funding with national priorities and strategies. To date 42 countries have undertaken an NPFE. A pilot to accredit up to 10 new GEF agencies, to expand country choice, is currently ongoing.  |
| Financial resource management | Some progress: Early evidence suggests a reduction in the average time lag from project approval to CEO endorsement, from 22 months to 18 months, but at the time of the MAR update the time lapse for 75% of projects was unknown. Reduced agency fees have been established for all 10 Implementing Agencies; falling from 10% to 9.5% for grants up to $10 million and 9% for grants above $10 million. |
| Strategic and performance management | Reasonable Progress GEF has continued to develop Results Based Management through a new RBM framework. Reform of the Annual Monitoring Report is now complete which will provide the GEF Council with more timely analysis of the portfolio. |

* **How is GEF responding to the policy and operational challenges?**

GEF has produced revised programming targets and indicators for the existing thematic and cross-cutting programmes for GEF6, in consultation with donors. The combined UK (DFID, DECC and Defra) technical assessment is that the proposed priorities and indicators are appropriate. Table 7 below shows the corporate level results and targets for GEF6.

* Policy and Programming reforms

Learning lessons from reviews of previous experience and informed by donor priorities, GEF will introduce a number of new programmes to help keep GEF on the leading edge of innovation and enhance its responsiveness to regional and global issues. The UK was active in seeking these improvements, in line with priorities agreed with the ministers.

* Developing new incentive programmes to pilot new approaches to sustainable development according to pressing development themes. Responding to assessments of the drivers of environmental change, GEF will establish three new programmes: i) Taking Deforestation out of the Commodities Supply Chain; ii) Sustainable Cities—Harnessing Local Action for Global Commons; and iii) Fostering Sustainability and Resilience of Food Production Systems in Africa. The programmes will incentivise cross thematic area and regional cooperation. Making stronger, clearer links between environmental management and sustainable development is consistent with the High Level Panel’s approach to a post-MDG framework and in line with DFID’s Future Fit programme to mainstream climate change across development.
* Increasing synergies across the thematic areas, particularly between climate, biodiversity and land use. The Sustainable Forest Management (SFM) programme started in GEF5 has shown the benefits of providing incentives to manage for co-benefits and thus enhanced impacts, across thematic areas. The SFM programme will be extended to include land degradation. New measures will also be introduced to ensure that resilience to climate change is built in to all GEF programmes, as necessary.
* Promoting innovation, partnerships and co-financing with key actors, including the private sector, is central to GEF’s role and the way it adds value. GEF has some, limited scope in driving work with the private sector through dedicated programmes. In GEF6, support to improving the enabling environment for private investment will be included across all thematic areas, where applicable. Increased attention to engaging the private sector is consistent with our approach in the UK International Climate Fund and in the design of the Green Climate Fund.
* Enhancing gender mainstreaming. In line with the gender strategy agreed during GEF5, all projects will be required to acknowledge gender differences within their design and determine what actions are required to promote both women and men’s roles in environmental management. New indicators to monitor and assess how gender is being addressed will be introduced. This is consistent with DFID minister’s prioritisation of women and girls in development.
* Operational reforms

Informed by the Overall Performance Study for GEF5 and inputs from donors, in particular the UK MAR, GEF will introduce measures to improve its resource management and contribution to results. As with the policy issues, the UK was active in seeking these improvements, in line with priorities agreed with ministers.

* Maximise the impact of GEF resources by introducing measures to graduate GEF support according to country needs and capacities in GEF’s resource allocation framework. Updating the terms of GEF’s support to reflect country capacity and income status is a priority, in line with DFID’s business model. While eligibility for access to GEF resources is defined by the environment agreements to which GEF is a/the financial mechanism, GEF can amend allocation criteria to make MICs contribute more and thus make more resources available for LICs.
* Improving operational efficiency to speed up approval procedures and adopt new targets. While it is still not clear if GEF will meet the GEF5 target, as programming will continue until June 2014, the GEF Independent Evaluation Office has proposed options to revise project cycle management and indicators. This is a key UK MAR target.
* Strengthening country and civil society engagement to strengthen country ownership and improve partnership working. The programme of support to countries to develop national plans to maximise the impact of GEF resources will be continued in GEF6, with additional support to increase uptake. Partnership behaviour is a UK MAR target.
* Increase the impact of GEF’s results by improving dissemination and uptake of knowledge products and evidence which can support mainstreamed change in policies and practices. GEF needs to invest more in communicating its results and establishing its role as an authority on integrating environmental management into sustainable development. While GEF has improved its capture and use of results internally, the GEF Evaluation Review has highlighted the need to rationalise indicators to measure fewer variables better and to establish a dedicated ‘learning platform’ to make lessons more accessible.
* **Impact and outcome that we expect to achieve**

At the fund level, the impact and outcome that the UK support will help to deliver are:

* **Impact**: Sustainable development supported and detrimental impact of climate change and environmental degradation on poor people reduced
* **Outcome**: GEF projects contribute toward Millennium Development Goal 7 – ‘ensure environmental sustainability’. We will use this measure until it is replaced by the new 2015 goal and targets, when the logframe will be amended accordingly.
* **Outputs**: Result areas and output targets are set out in Table 7 below.

Looking ahead, it is envisaged that GEF support will contribute to the goals and targets of the post-2015 development agenda, in line with the illustrative goals and targets set out in the report of the High Level Panel, which include:

* Creating a Global Enabling Environment and Catalyse Long-Term Finance
* Hold the increase in global average temperature below 2⁰ C above pre-industrial levels, in line with international agreements
* Securing Sustainable Energy
* Double the global rate of improvement in energy efficiency in buildings, industry, agriculture and transport
* Ensuring Food Security and Good Nutrition
* Adopt sustainable agricultural, ocean and freshwater fishery practices and rebuild designated fishstocks to sustainable levels
* Managing Natural Resource Assets Sustainably
* Reduce deforestation by x% and increase reforestation by y%
* Improve soil quality, reduce soil erosion by x tonnes and combat desertification
* Safeguard ecosystems, species and genetic diversity
* **Thematic results**

Based on the indicative $4,430bn replenishment, GEF anticipates funding projects during the sixth replenishment period which will collectively deliver the following results:

*Table 7: Draft overall indicators for GEF thematic areas for GEF6 (based on $4.430bn replenishment scenario)*

|  |  |
| --- | --- |
| **Result Areas** | **Targets** |
| * **Climate Change** : Support to transformational shifts towards a low-emission and resilient development path
 | 750 million tons of CO2 equivalent mitigated |
| * **Biodiversity**: Maintain globally significant biodiversity and the ecosystem goods and services that it provides to society
 | Improved management of landscapes and seascapes covering 300 million hectares |
| * **Land degradation**: Sustainable land management in production systems (agriculture, rangelands, and forests)
 | Improved management/ productivity in 120 million hectares |
| * **International waters**: Promotion of collective management of transboundary water systems
 | Water-Food-Energy-Ecosystems under sustainable management in at least 10 freshwater basins; |
| * **Persistent Pollutants**: Increase phase-out, disposal and reduction of releases of POPs, ODS, mercury and other chemicals
 | Disposal of 80,000 tons of POPs (PCB, obsolete pesticides) Reduction of 1000 tons of MercuryPhase-out of 300 tons of ODP (HCFC)  |

These results will be delivered with broadly the same level of resources as for GEF5, as, in line with advice from donors, GEF has sought to meet new pressures through reprioritisation and efficiencies rather than through substantial increases in funding. Efficiencies are being achieved in a number of ways: for example, in climate change, GEF has shown a cost/benefit improvement in every replenishment; and GEF is increasingly seeking co-benefits from multi-thematic area projects, e.g. by promoting both climate and biodiversity benefits in forest management projects.

As agreed by ministers, the majority of GEF6 resources – over 60% - will be focussed on the two priority areas of climate change and biodiversity. The major new pressure arising for GEF6, relating to management of mercury, is to be funded by a proportionate reduction in funding to climate change which will be offset by the operationalization of the Green Climate Fund (GCF) within the next year.

*Table 8: Indicative Focal Area allocations*

|  |  |
| --- | --- |
|  | **GEF6** |
| **Thematic Allocations** | **GEF5 $m** | **Low Scenario** | **+/- GEF5** | **% real change** |
| Climate | 1,360 | 1,220 | -10% | -16% |
| Biodiversity | 1,210 | 1,230 | 2% | -5% |
| Land | 405 | 415 | 2% | -4% |
| Internat. Waters | 440 | 450 | 2% | -5% |
| Chemicals  | 425 | 525 | 24% | 15% |
| Private sector | 80 | 90 | 13% | 5% |
| X-cutting capacity  | 210 | 190 | -10% | -16% |

GEF will adopt a new Results Management Framework (RBM) for 2014-2018 as part of the agreement for GEF6. The RBM and more detailed results frameworks for each thematic area will also be developed. The RBM is designed to set targets and then track and assess GEF’s performance over the replenishment period. DFID has contributed to shaping the choice of indicators in the Results Framework for each thematic area and corporate performance measures, including giving greater emphasis to gender-disaggregated data.

* **Policy and operational reform results**

To enhance the economy, efficiency and effectiveness of GEF, the UK has identified a number of policy and operational reform priorities, informed by the DFID MAR and MAR update. The policy and operational reform objectives were agreed with Ministers during the course of the replenishment negotiations. All of the priorities identified by the UK have been addressed in the GEF6 programming documents – which set out programming priorities and allocations – and the replenishment ‘policy recommendations’ – which set out policy and operational reform objectives. The table below shows the UK priorities and how, as agreed with other donors through the replenishment negotiations, they will be addressed in GEF6.

*Table 9: How GEF6 will address UK policy and operational reform priorities*

|  |  |
| --- | --- |
| **UK reform priorities** | **How these will be addressed in GEF6** |
| **Policy priorities** |
| * Develop GEF’s capacity to respond to emerging issues and/or opportunities through special programmes, e.g. piloting greening commodity supply chains
 | GEF will dedicate approximately 5% of its resources to establish three new cross-cutting programmes addressing:* Taking Deforestation out of the Commodities Supply Chain
* Sustainable Cities—Harnessing Local Action for Global Commons; and
* Fostering Sustainability and Resilience of Food Production Systems in Africa.
 |
| * Identify and incentivise synergies and increase resilience across GEF’s focal area strategies, particularly to climate change
 | GEF will set aside 5% of its resources to expand the Sustainable Forest Management incentive programme to cover climate, biodiversity and land degradation. |
| * Integrate measures to enable private sector engagement in all focal area strategies
 | GEF will increase the resources set aside to extend support for improving the enabling environment for private sector across all thematic areas, where applicable. |
| * Enhance gender mainstreaming through targeted activities in all GEF’s focal area strategies
 | In line with the gender strategy for GEF6:* all projects will be required to assess gender dimensions within their design
* new indicators for gender will be introduced in the results framework
 |
| **Operational effectiveness and efficiency reforms** |
| * Maximise the impact of GEF resources by introducing measures to graduate GEF support according to country capacities in GEF’s resource allocation mechanisms and increase resources for LICs
 | The resource allocation framework will be amended to:* increase the contributions required of MICs by amending resource allocation to take more account of GNI and seeking higher co-financing ratios, and thereby,
* increase the allocation of resources for use in LICs to approximately 18%.
 |
| * Improve operational efficiency to speed up approval procedures and adopt new targets
 | In order to speed up approval processes:* a review of the project approval process will identify where efficiencies can be gained, and
* new targets for the time allowed for GEF Council and Secretariat processes will be set at the beginning of GEF6.
 |
| * Strengthen country ownership and civil society engagement and improve partnership working
 | Support for country programming exercises piloted in GEF5 will be extended in GEF6, according to recipient country demand. |
| * Improve dissemination and uptake of knowledge products which can support mainstreamed change in policies and practices
 | Results and knowledge management systems will be improved by:* rationalizing the indicators in the focal area tracking tools, with particular focus on multi-focal area projects
* establishment of a learning platform.
 |

These reforms will help keep GEF on the leading edge of innovation and enhance its responsiveness to regional and global issues, including the women and girls agenda and the importance of economic growth and private sector engagement in development.

Progress against these reforms will be monitored primarily through GEF’s Annual Monitoring Reports (AMRs) and the DFID Annual Review for GEF. A full, independent review of progress and impact will also be made in the Overall Performance Survey for GEF6 which will be conducted by GEF’s Independent Office of Evaluation.

* **Theory of Change**

GEF is a catalytic fund which enables the demonstration and wider adoption of more sustainable technologies, approaches and governance. The following sections set out the key elements of the GEF theory of change and the roles and dependencies of stakeholders, followed by a diagrammatic representation of the key steps and feedback mechanisms.

* **Inputs**

GEF provides finance to offset the additional expertise and financial costs for countries aiming to adopt more sustainable development pathways. GEF provides support in three mutually reinforcing categories: i) piloting improved technologies and methods over existing practices; ii) strengthening technical and institutional capacity, including supporting improved policy and regulatory frameworks; and iii) enabling sharing of knowledge and lessons, including monitoring and evaluation tools.

Pilots selected for GEF support are identified through a country-led process, which builds on national strategies and priorities. This helps to promote strong country ownership which increases the potential for long term success and continued country investment. The National Portfolio Formulation Exercise programme, designed to help countries plan and maximise the use of GEF support has been successful in GEF5 and will be expanded, according to country demand, in GEF6. The GEF approvals process requires countries / agencies to set out the implementation potential of these investments alongside the wider expected development impacts. This involves demonstrating that the conditions (e.g. policy, regulatory, technical, skills, etc.) are in place for successful implementation.

* **Outputs**

The outputs of GEF pilot projects produce direct benefits for local people and indirect benefits through reducing pressure on global/regional environmental factors and, overtime, contributing to reducing the costs of more sustainable development options. The direct benefits are described and assessed through GEF’s results framework.

The delivery of outputs depends on the efficient operation of GEF’s processes to allocate and disburse resources effectively; sufficient financial and technical support to enable projects to be implemented; and an effective monitoring and independent evaluation function to learn and disseminate lessons. GEF has mature allocation, monitoring and evaluation functions to support these processes and manage risks.

* **Outcomes**

Where successful, GEF outputs lead to broader adoption of new technologies and approaches and thus contribute to achieving global environmental sustainability targets, as defined through MDG7 and the multilateral environment agreements which GEF serves. Broader adoption takes place through a number of processes, including: the continuation of a GEF intervention by another agency, without GEF support; the incorporation of information and lessons generated by a GEF project into a new initiative; the replication of a GEF intervention, potentially in different geographical areas or regions; the scaling up of a GEF-supported initiative at a larger geographical scale, and; the transformation of markets through GEF-influenced changes to the supply of and/or demand for goods and services that contribute to global environmental benefits.

Replication and broader adoption are promoted within recipient countries through their own domestic agencies, and internationally through GEF’s MDB and UN agencies. The success of international replication depends on the GEF agencies’ capacity to learn and disseminate lessons and on the availability of finance for sustainable development alternatives.

DFID’s Theory of Change (TOC) – Figure 1 – for this intervention builds on GEF’s own TOC by recognising the contribution GEF makes in supporting sustainable development and reducing the detrimental impact of climate change and environmental degradation on the poor.

*Figure 1: DFID’s Theory of Change for GEF*



* Appraisal Case

This section summarises the economic appraisal described in more detail in an Economic Appraisal Annex (quest number 4383055).

* **What are the feasible options that address the need set out in the Strategic Case?**

The UK has adopted a two-stage approach to the negotiations: focusing in early meetings on the reforms and UK priorities for GEF spending allocations, leaving the amounts of UK support for the final negotiations. The options Ministers were advised on at the outset of and subsequently during the replenishment negotiations were about:

* the size of the total GEF6 replenishment;
* the priorities for allocating GEF6 resources across GEF’s thematic areas; and
* the areas in which the UK should press for operational reforms.

This Appraisal Case outlines the analysis and assessments of the options for a UK contribution. But first it considers the case for not supporting GEF.

* **Option 1: Is providing no support to GEF6 a feasible option?**

A cost-benefit analysis undertaken for this appraisal (and described in Section 3.4 below) established that there is a strong economic case for funding GEF. This indicated that the benefits of GEF-funded activities to promote climate change mitigation and biodiversity (representing about 60% of GEF allocations) should comfortably exceed their costs.

Following consultations with DECC and Defra, cancelling support to GEF was not presented to Ministers as an option for the following reasons:

* GEF is the principle funding vehicle for helping developing countries implement the Multilateral Environment Agreements (MEAs).

GEF is the dedicated financial mechanism of the UN Conventions on Climate Change, Biodiversity and Land Degradation and other agreements on persistent pollutants and international waters. Withdrawing from GEF, in the absence of international agreement on alternative arrangements, would undermine the UK’s commitments to the implementation of those agreements.

* There is no more effective and efficient mechanism to help developing countries implement the MEAs.

It makes sense to coordinate funding and support for the range of multilateral agreements together to maximise synergies, allocate resources effectively and minimise overhead costs for both donors and recipients. Supporting more than 100 recipient countries to implement the MEAs requires a broad range of services from providers with the regional and country presence to provide effective support. Providing these services through purpose-built single issue international agencies could deliver effective support, but this model would lack synergies, complicate resource mobilisation and allocation and increase transaction costs for recipient countries. Most of the literature on the pros and cons of different environment funding models concludes that the proliferation of finance mechanisms increases the challenges of coordinating, accessing and accounting for finance for recipient countries.

We assess that funding and providing support through a network, using international MDB and UN agencies according to their comparative advantage, is the most effective and efficient model for donors and recipients. GEF was purpose-built to fulfil its networking role. DFID’s 2011 Multilateral Aid Review (MAR) found GEF to be a good performer overall, whilst identifying some weaknesses. The 2013 MAR Update noted that progress has been made on all of these issues and reconfirmed GEF’s ‘good performer’ status.

* The risk that a UK withdrawal from GEF might trigger a sharp reduction in others’ funding.

As the 4th largest donor to GEF5, a cessation of UK support may deter other donors (some keen not to exceed their share of previous replenishments), leading to a drastic reduction in funding. Most of the major donors are, in common with the UK, concerned to manage their burden shares with respect to the replenishment total and some express their pledges in terms of cash and burden share limits. For any given replenishment target, if a major donor removed its contribution this would either oblige the remaining donors to accept a higher burden share or reduce their contributions to maintain their share, thereby reducing the replenishment overall.

* **Option 2: Choices concerning the amount of the UK Contribution**

The GEF5 replenishment was US$4,250bn, to which the UK contribution was £210m, representing a burden share of 9.3%.

For GEF6, the GEF Secretariat proposed two funding scenarios to guide the replenishment in advance of the final, pledging negotiations. The low scenario envisaged maintaining the GEF5 cash figure of $4,250bn, although this represented a real terms cut of 9% against the GEF5 replenishment total; the high scenario envisaged increasing the cash total to $4,890bn, representing a real terms increase of 5% against the GEF5 replenishment total. Both scenarios required an increase in donor funding because of declines in funds carried over from previous replenishments in lieu of arrears and projected investment income. The GEF Secretariat’s analysis assumed that all donors would comply with one or other scenario.

The collective pledges made in the final replenishment meeting slightly exceeded the lower of the two scenarios. The carry-over of funds from previous replenishments was also greater than expected; the final pledged total was $4,430bn. The following sections assess the UK’s funding options, with reference to both the GEF pledged total and GEF’s high scenario.

*Table 10: GEF replenishment scenarios*

|  |  |  |  |
| --- | --- | --- | --- |
| ***Scenario*** | ***Change in total resources vs. GEF5*** | ***Increase in donor contributions required (nominal terms)*** | ***Implied UK contribution*** *£ million (% burden share*a*/)* |
| **Pledged Total** | 2% increase in nominal US$ terms (5% decrease in real termsd/) | 5% nominal increaseb*/* | £220mc/(9.3%) |
| **High Scenario**  | 13% increase in US$ nominal terms (5% increase in real termsd/) | 18% nominal increasee/ | £250mc/(9.3%)f/ |
| a/ Shares of new donor financing. For the high scenario assumes all donors increase their contributions by 18%b/ Figure is averaged across all donorsc/ Rounded to nearest £10md/ Calculated using the IMF’s US GDP deflator taken from the WEO Oct 2013. e/ This keeps the $4,890bn total proposed in the GEF Secretariat’s high scenario but with the new donor funding amended in light of the new (higher) carry-over of funds from previous replenishments.f/ This assumes the same UK share of the new donor contributions as for GEF5.  |

The provisional outcome of the replenishment suggested a **range of funding options** for the UK:

* **Maintaining the UK’s GEF5 nominal contribution,** meaning a UK contribution of £210m. This could be defensible in terms of current fiscal stringency but could diminish UK influence in achieving our objectives;
* **Matching the 5% average increase (in US$) of other donors**, meaning a UK contribution of £220m. As the central ground around which the replenishment is on track to conclude, this would provide leverage for achieving our objectives.
* **Aiming for the GEF High Scenario**, where all donors make 18% increase (in US$), which would require a UK contribution of £250m. While the high scenario would have been justifiable as providing a real terms increase of 5%, it is not feasible in light of the replenishment outcome, as it would increase UK costs and burden share without providing additional leverage for our objectives.

The UK’s share of the new donor contributions to GEF6 would range from 8.7% for option 1 to 9.3% for option 2, both of which are consistent with the UK GEF5 burden share of 9.3%.

* **Choices concerning the UK’s priorities for GEF6 thematic allocations**

In line with advice from donors, GEF sought to meet new pressures through reprioritisation and increasing co-benefits between its thematic areas rather than through substantial increases in funding.

DFID Ministers agreed with official advice, based on consultations with DECC and Defra, that climate change and biodiversity should continue to be the main overall priorities for GEF6. However, in light of the Hyderabad Agreement (reached in 2012) to double financial flows from all sources to conserve biodiversity and the need to support the new Convention on Mercury (agreed in 2013), the UK has prioritised these two areas for modest increases within the broadly flat replenishment scenarios.

Following consultations with donors, GEF proposed the following thematic allocations for GEF6 resources, based on its low and high scenarios. UK relative priorities have been captured in the two scenarios, as set out in Table 12.

*Table 11: Indicative Focal Area allocations*

|  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- |
| **Thematic Allocations** | **GEF5 $m** |  | **GEF6 Options** |  |  |
|  |  | **Low Scenario** | **+/- GEF5** | **% real change** | **High****Scenario**  | **+/- GEF5** | **% real change** | **Diff****B-H** |
| Climate | 1,360 | 1,220 | -10% | -16% | 1,450 | 7% | 0% | +230 |
| Biodiversity | 1,210 | 1,230 | 2% | -5% | 1,450 | 20% | 12% | +220 |
| Land | 405 | 415 | 2% | -4% | 450 | 11% | 4% | +35 |
| Internat. Waters | 440 | 450 | 2% | -5% | 500 | 14% | 6% | +50 |
| Chemicals  | 425 | 525 | 24% | 15% | 600 | 41% | 32% | +75 |
| Private sector | 80 | 90 | 13% | 5% | 120 | 50% | 40% | +30 |
| X-cutting capacity  | 210 | 190 | -10% | -16% | 190 | -10% | -16% | 0 |

* **Choices concerning the UK’s priorities for policy reforms**

DFID Ministers’ views on the reform priorities the UK should pursue were sought in advance of each of the GEF6 replenishment negotiation meetings.

The reform priorities the UK has been pursuing during the negotiations were set out in the Strategic Case (Section 2) and fall into policy priorities and operational reforms. We assess that the UK’s interests have largely been met and support both the low and high scenarios.

* **Identifying the strength of the evidence base for each feasible option**

The previous section identified feasible options that comprise packages of financial support and negotiating objectives on GEF expenditure and reform priorities.

*Table 12: Evidence base for each feasible option*

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| **Option** | ***Financial*** | ***Expenditure Priorities*** | ***Reform*** | ***Strength of Argument*** |
| 1. | Maintain the GEF5 £210m nominal contribution. | Would allow GEF to achieve results targets for GEF6 assuming other donors don’t reduce their pledges. The monetary difference between options 1 and 2A is minor (amounting to a difference of 0.3% in GEF6 resources). | If, in contrast to other donors, the UK was not to increase its contribution, it would signal diminished UK interest in GEF, and may reduce UK influence in achieving our reform objectives.  | **Medium/Limited**: Much would depend on the extent to which other donors followed the UK’s lead. The likely fall in financial resources from GEF5 would reduce incentives for GEF and its agencies to improve. |
| 2. | UK contribution of £220m  | Would slightly increase the resources available to achieve results targets for GEF6 and help secure the pledges of other donors.  | Reform objectives likely to be met to the extent that GEF has the financial resources to implement them. | **High**: MAR update shows that GEF is making progress on a number of reforms of concern to the UK. Though the total new finance pledged to date still represents a real terms cut in GEF resources, this could reinforce incentives for the operational reforms the UK has pursued. |
| 3. | UK contribution of £250m | Based on pledges given, the overall level of funding for GEF’s high scenario is highly unlikely to be met. However, although the extra £30m would only increase GEF6 resources by around 1%, so have a negligible impact on the amount of finance available for UK spending priorities, it would signal strong UK commitment to GEF’s work.  | Reform priorities likely largely to be met. | **Medium**: GEF could certainly absorb a contribution of this amount and UK support of this level would likely maintain UK influence on reform agenda. However, risk that the UK burden share would exceed what Ministers may be happy with. |

On balance, **the preferred option is 2, to increase our contribution by the same percentage as other donors.** As the above table highlights, the main difference between the options is in the relative priority the UK wishes to afford supporting GEF’s work and in maintaining UK influence in pursuit of GEF’s results and reforms. Increasing our contribution by more than 5% could signal the importance the UK attaches to GEF’s priorities and so give weight to our arguments in negotiations over spending priorities and how reforms are implemented. However, the additional funding would have only a minor impact on GEF’s results.

* **Climate Change and Environment Category**
* **What is the likely impact (positive and negative) on climate change and environment for each feasible option?**

GEF investments are predicated on the delivery of global environmental benefits in the areas of biodiversity, climate change mitigation, international waters, land degradation, ozone depletion, and persistent organic pollutants. The impacts of GEF activities are strongly positive on environmental management.

GEF has a policy document which states the principles with regard to social and environmental safeguards that will be applied to all operations that GEF finances. It also lists the criteria and minimum requirements on environmental and social safeguard systems that all GEF Partner Agencies shall be expected to meet in order to implement GEF-financed projects. The policy document can be viewed at: <http://www.thegef.org/gef/content/environmental-and-social-safeguards>

* **What are the costs and benefits of each feasible option?**

An analysis was undertaken as part of this Appraisal – summarised in the Economic Appraisal Annex - of how the benefits expected to result from GEF6 presented in the Strategic Case compare with the cost of delivering them.

a comprehensive cost and benefit analysis (CBA) of each option is not possible because GEF does not yet know the exact projects and programmes the GEF6 replenishment will fund, as priorities within each thematic area are country-driven. However, a rough analysis is possible assuming that countries seek the same balance of support across themes from GEF6 as they have from previous replenishments. GEF has indicated (Table 12) how it would like to allocate resources should the low scenario be fully funded and has presented indicative results that previous spend suggests is feasible.

Although these do not allow all costs and expected benefits to be compared, by drawing on unit costs known, or estimated, for greenhouse gas (GHG) mitigation and biodiversity benefits, it is possible to assess whether the roughly 60% of programme resources likely to be allocated to these two focal areas is justified on economic grounds.

* **GEF action to limit GHG Emissions**: Under the low scenario US$1,220 million is expected to be allocated to climate change mitigation which GEF estimates will lead GHG emissions cuts of 750 million tonnes of CO2e. Between 10%-25% of the GHG cuts should be a direct result of GEF funding. Because GEF only funds the incremental costs associated with delivering the reduction in emissions, it is assumed that these cuts are entirely attributable to GEF.

The Annex finds high global returns to GEF’s proposed climate change spend at the DECC/DFID social cost of carbon. Benefit-cost ratios range from 3.5 for the 10% direct attribution up to 8.7 for the 25% direct attribution. The benefit cost ratios are robust – even if costs are 40% higher and the lower band social carbon price of carbon is used the BCRs only falls to 1.3. In addition to the global carbon benefits the projects should also have local benefits (improved energy efficiency, etc.).

* **GEF action to promote Biodiversity**: Under the low scenario US$1,230 million is expected to be allocated to biodiversity which GEF estimates will allow them to help improve the biodiversity management of landscapes and seascapes covering 300 million hectares. The GEF Secretariat has provided a breakdown of this area total by 10 biomes (based demand from governments under GEF5). Estimates of the value of biodiversity services from each biome were taken from The Economics of Ecosystems and Biodiversity (TEEB) programme.

Despite applying a number of very conservative assumptions, the benefit cost ratios are high, ranging from 9 up to 35 depending on which TEEB series is used. Break-even (benefit-cost ratio of 1) would require direct attribution to fall to only 1.1% (down from the already conservative 10%) or for GEF protection only to cover up to at most 0.2% of the protected area.

These simple cost-benefit analyses suggest that the benefits from two-thirds of GEF6 spend should far outweigh the cost and, therefore, that supporting GEF6 would be good value for money.

The Economic Appraisal Annex also includes analysis of whether there appears to be scope to deliver the benefits at substantially lower cost though operational efficiencies. This concluded that, though there remains some scope, this is not large and could not in any case be readily quantified.

* **What measures can be used to assess Value for Money for the intervention?**

The 2011 MAR rated GEF as satisfactory (3) on its cost and value consciousness. The 2013 Update confirmed this score and noted some progress with financial resource management.

In choosing measures by which DFID will assess value for money from GEF6 spend in Annual Reviews it will be important to keep a focus on helping track the extent to which GEF is maximising impact from its available resources. The following notes the indicators and systems which will be tracked in DFID Annual Reviews during GEF6 as a continued check on VfM.

*Table 13: VfM measures*

|  |  |  |
| --- | --- | --- |
| **What VfM targeted** | **Measure of VfM** | **Means of Verification** |
| **Effectiveness** |  |  |
| * Impact of GEF’s results increased by improving dissemination and uptake of knowledge products which can support mainstreamed change in policies and practices
 | * % of projects from all replenishments in which some or most broader adoption initiatives have been successfully adopted or implemented exceeds 60% [logframe output indicator 3.4]
 | Overall Performance Study of GEF6 (OPS6) |
| * Impact of GEF resources is maximised by introducing measures to graduate GEF support according to country needs and capacities
 | * % of GEF funds committed to projects in less developed countries exceeds 15% [logframe output indicator 3.1]
 | GEF Secretariat |
| * Programmes are successful
 | * % of GEF portfolio under implementation that receive moderately satisfactory or higher rating on progress towards development objectives in a given financial year exceeds 75% [logframe output indicator 3.5]
 | GEF Annual Monitoring Review |
| **Efficiency** |  |  |
| * Measures to enable private sector engagement in all of GEF’s focal area strategies are integrated
 | * % share of private sector co-financing in GEF6 projects [logframe output indicator 2.1]
 | GEF Secretariat |
| * Operational efficiency improved by speeding up approval procedures
 | * % of GEF6 projects meeting the project cycle standard of 18 months between PIF approval by Council and CEO endorsement [logframe output indicator 3.1]
 | GEF Secretariat |
| **Economy** |  |  |
| * Maximum feasible share of GEF funding for individual programmes is spent on delivering change
 | * GEF agency fees remain the same or fall [logframe output indicator 3.6]
 | GEF Secretariat |

* **Summary Value for Money statement for the preferred option**

The economic appraisal has demonstrated that the benefits of GEF-funded activities to promote climate change mitigation and biodiversity should comfortably exceed their costs. This finding would also tend to support the larger of the feasible funding options, subject to Ministers’ comfort over the UK’s burden share.

This appraisal and the 2011 MAR and its 2013 Update have concluded that GEF has a satisfactory value for money and cost consciousness ratings and has made progress on financial resource management.

While there remain areas for improvement across economy, efficiency and effectiveness dimensions of VfM, GEF acknowledges these and is bringing in improvements. The main areas for reform are: in streamlining project cycle management; in moving towards more programmatic approaches; and simplifying its results. These are a focus of ongoing reform and the GEF draft programming documents contain remedial measures.

DFID will continue to monitor these indicators through the DFID Annual Review process.

* Commercial Case
* **Value for money through Procurement**

GEF finance is channelled through 10 Multilateral Banks (mainly for pilot investments) and UN agencies (for technical assistance and training) according to their technical and geographical comparative advantage.

In 2007, the GEF Council approved a set of minimum fiduciary standards recommended by the Trustee. The minimum fiduciary standards required of Implementing and Executing Agencies in relation to procurement processes as outlined in GEF policy paper *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies (2007)* are:

* Specific agency directives promote economy and efficiency in procurement through written standards and procedures that specify procurement requirements, accountability, and authority to take procurement actions.
* Specific procurement guidelines are in place with respect to different types of procurement managed by the agency, such as consultants, contractors and service providers.
* Specific procedures, guidelines and methodologies of assessing the procurement procedures of beneficiary institutions are in place.
* Procurement performance in implemented projects is monitored at periodic intervals, and there are processes in place requiring a response when issues are identified.
* Procurement records are easily accessible to procurement staff, and procurement policies and awards are publicly disclosed.

Overall, the 2013 Due Diligence Assessment for GEF concluded that funding to GEF is judged as low risk and that there are robust and well established controls in place

As part of the a new pilot to accredit a number of new Implementing Agencies, GEF has established a strict accreditation process will see each application assessed to determine the value-added of each partnership and also whether they provide a good strategic fit with GEF, based on criteria agreed by the Council. Following the initial review, a further assessment is carried out to ensure all new agencies meet the: fiduciary standards; environmental and social safeguards standards; and the GEF policy on gender mainstreaming.

GEF’s Evaluation Office provides a summary of the performance of all GEF Implementing Agencies, looking specifically at results, factors affecting results, and the efficiency and quality of M&E. The Annual Monitoring Report (AMR) also includes details of the administration costs of each agency.

All Memorandums of Understanding (MoU) with each agency includes terms and conditions which each agency must adhere to, these include: adherence to all GEF policies and processes and maintaining a record of all procurement in accordance with the respective procurement reporting policies, practices and guidelines.

* Financial Case
* **Who are the recipients of all proposed payments?**

GEF is multi-donor fund, with the World Bank as Trustee. It will be the primary recipient of DFID funds and will be accountable to DFID for their use.

Funds will be disbursed by GEF to in-country implementing agencies as secondary fund holders. In turn these funds will be disbursed to service agents who will be responsible for delivery of the projects and services, agreed under individual GEF funded projects and overseen by the country implementing agencies.

* **What are the costs to be incurred directly by DFID?**

The total cost to DFID will be up to £220m (option 2A above) for the period 2014-2018. The funds will be managed by the Climate and Environment Department, [with 40% coming from the International Climate Fund (ICF), as resource expenditure.]

Management of our GEF contribution and participation in the GEF Council will require administrative resource of [FTE A1x 0.15, A2x 0.4, B1x 0.15].

DFID has funded GEF previously and this contribution is not considered novel, contentious, repercussive, or politically sensitive. HMT have given their approval to the Business Case and Management Accounts Group have confirmed that all options fall within DFID forward spending commitment limits. DECC and Defra have been consulted on the policy priorities and funding scenarios throughout the replenishment process and in detail before each submission to DFID ministers.

* **What are the costs to be incurred by third party organisations?**

Not applicable.

* **Does the project involve financial aid to governments? If so, please define the arrangements in detail**

Not applicable - no financial aid to governments. GEF funds are managed by international implementing agencies.

* **Is the required funding available through current resource allocations or via a bid from contingency? Will it be funded through capital/programme/admin?**

This programme will be funded using 100% current programme resources available from the CED budget. The contribution is 100% RDEL as GEF provides 95% of its funding through grants to incentivise adoption of sustainable development options.

GEF is not configured to receive CDEL either in the form of loans or to acquire a share of the fund and any future reflows. GEF does not have the operational and procedural infrastructure to receive loan inputs and substantial changes in GEF’s business model would be required to make their use feasible. GEF’s capacity building and technical assistance functions are not suitable for loans and the contributions to piloting activities are relatively small scale compared to the CIFs. Discussions with other donors on the potential applicability of loans to GEF showed that they do not think loans appropriate.

GEF was not structured for contributors to acquire shares in the fund and the assets it creates. This would require changes in GEF’s governing instrument which is assessed as not currently feasible.

* **What is the profile of estimated costs? How will you work to ensure accurate forecasting?**

The UK has made GEF payments by promissory notes in four, annual instalments in GEF4 and GEF5. It is proposed to continue this practice in GEF6, with for equal payments in FYs 2014/15 to 2017/18. [The timing of the payment will be set out in a Memorandum of Understanding between DFID and GEF. It is anticipated that the first payment will be made [in March 2015.]

We have an agreed encashment schedule with the World Bank, as Trustee, and, before any payments are made, we seek assurance from them that payments will not be in advance of need. We have requested that the Trustee provide us with a table showing disbursements to date and balance remaining, together with a list of commitments over the next 6 months, showing that the Secretariat anticipates approving a work programme requiring donors to make funds available according to their payment schedules.

The Bank has recently provided the following information regarding promissory note encashments:

“The GEF encashment modality is agreed by donors as a part of the replenishment negotiations. The promissory notes that are deposited by donors are encashed on an approximately pro-rata basis among donors based on an indicative (standard) encashment schedule agreed with donors under the GEF replenishment resolution. The standard encashment schedule takes into consideration the expected time profile of disbursements for GEF projects approved during the replenishment periods, and donors’ general preferences that encashment levels do not fluctuate sharply from period to period. The Trustee may also agree to encash promissory notes on a basis other than that of the indicative schedule as long as the revised (customized) encashment schedule is no less favourable to the GEF Trust Fund than the standard schedule, in present value terms.”

Details on promissory note encashment modalities are elaborated in the financing framework document prepared during the replenishment negotiations.

* **What is the assessment of financial risk and fraud?**

A comprehensive Due Diligence assessment was completed for GEF in January 2014 – funding to GEF was judged to be ‘low risk’. The Due Diligence assessment of GEF’s financial stability concluded that ‘GEF has sufficient processes in place to manage any risks’. GEF’s financial management was also reviewed as part of the MAR and was assessed as being satisfactory.

The GEF Evaluation Office Ethical Guidelines provide guidance to its staff and consultants on ethical behaviour, in order to ensure that evaluations are free of bias, transparent and considerate of stakeholder rights and interests. The guidelines contain specific provisions to prevent conflict of interest on three levels: institutional, staff and consultants hired to contribute to evaluations.

The GEF Policy Paper, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executive Agencies* (June 2007), recommends standards to agencies and requests that agencies report on compliance with these. These standards include recommendations for an internal auditing in line with internationally recognised standards, a hotline to report incidents and a whistleblower protection policy. The GEF Council reviews these standards every four years. As of June 2012 seven agencies – ADB, AfDB, EBRD, IADB, IFAD, UNDP, and the World Bank – all met GEF’s minimum fiduciary standards. The other three agencies – FAO, UNEP and UNIDO, continue to implement action plans to ensure full compliance. DFID is continuing to monitor follow-up on these three remaining agencies.

To further strengthen the controls in place GEF adopted a set of strengthened policies to address misappropriation of funds in June 2012. The UK would be made aware of any suspected misappropriation of funds through our representative on the GEF Council.

* **How will expenditure be monitored, reported and accounted for?**

GEF expenditure is routinely reported upon at the six monthly Council meetings, where the World Bank, as the Trustee, prepares Status Reports on GEF. The DFID Council Member and Defra Alternate Member represent the UK at these meetings. The World Bank also carries out audits periodically.

The Council / CEO are also involved in oversight as project approval occurs as follows:

* Council approval of a project concept (or a Project Identification Form (PIF)). This step can be skipped if the grant request is below US$ 2 million and no project preparation grant (PPG) is needed (GEF projects below US$ 2 million are subject to the same review and fiduciary standards as all other projects; they are also subject to the annual monitoring review, and required to submit annual project implementation reports).
* CEO approval/ CEO endorsement of a fully developed project proposal. Once a project is CEO endorsed, the GEF Trustee releases the required project funds for transfer to the Implementing Agency.
* Project implementation. The implementation phase is undertaken by the Implementing Agency.

Information on the status of projects (concept, pipeline, approved) is available on project score cards on the Project Management Information System.

* **Are there any accounting considerations arising from the project?**

Standard accounts and financial management reports will be provided by GEF.

* Management Case
* **What are the Management Arrangements for implementing the intervention?**
* **GEF Governance and Organisational Structure**

The GEF Council is the main governing body of GEF, and the UK is one of the Council members. The Council comprises members representing 32 constituencies - 16 from developing countries, 14 from developed countries, and two from countries with transitional economies. The Council functions as an independent board of directors, with primary responsibility for developing, adopting, and evaluating GEF programmes. Two-thirds of the Members of the Council constitute a quorum and decisions have, to date, been taken by consensus, although the GEF Instrument has provision for voting. The Council has an open door policy toward non-governmental organisations and representatives of civil society. With respect to decision making, the Council meets twice a year and some business may be agreed by written procedure between meetings.

The GEF Secretariat coordinates the overall implementation of GEF activities and services and reports to the Council. The Secretariat is headed by the Chief Executive Officer (CEO), who is appointed to serve for three years, and may be reappointed by the Council.

The GEF Agencies are the operational arm of GEF. GEF develops its projects through ten Implementing Agencies: the United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), the World Bank, the African Development Bank (AfDB), the Asian Development Bank (ADB), the European Bank for Reconstruction and Development (EBRD), the Inter-American Development Bank (IAD), the International Fund for Agricultural Development (IFAD), the United Nations Food and Agricultural Organisation (FAO), and the United Nations Industrial Development Organization (UNIDO). A pilot to accredit up to 10 new GEF agencies, with a view to determining how country choice of agency could be expanded, is currently underway.

The Scientific and Technical Advisory Panel (STAP) provides independent advice to GEF on scientific and technical aspects of programmes and policies. The members of STAP are appointed by the Executive Director of UNEP, in consultation with GEF’s CEO, the Administrator of UNDP, and the President of the World Bank.

GEF’s Independent Evaluation Office provides a basis for decision-making on amendments and improvements of policies, strategies, programme management, procedures and projects; promotes accountability for resource use against project objectives; documents and provides feedback to subsequent activities; and promotes knowledge management on results, performance and lessons learned.

* **Response to concerns raised by OPS5**

The fifth Overall Performance Study of the GEF (OPS5) made a number of criticisms in relation to GEF’s business process, specifically regarding the length of the GEF project cycle and the complexity of GEF's networking arrangements. It pointed out that, from the submission of Project Identification Forms (PIFs) it takes 2.5 years for half of the concepts to become a reality on the ground, with the other half still stuck at various earlier decision points in the project cycle.

*Figure 2: The GEF project cycle*



The GEF Secretariat has prepared a Management Response to OPS5, which will be presented to the GEF Assembly in May. Regarding the project cycle, the GEF Secretariat expresses its shared concern at the pace of progress made in

streamlining the project cycle since mid-2000s and reiterate its full commitment to halt any deterioration of performance against project cycle standards.

It explains that at the November 2013 Council meeting, a set of eight streamlining measures, including a harmonization pilot with the World Bank, was approved by the Council, and is now under implementation. Since then, the GEF Secretariat has undertaken a comprehensive stock-take of all the projects that have been approved by the Council to date (GEF4 and GEF5) that are overdue or close to being overdue for CEO endorsement (compared to the 18-month standard for elapsed time between PIF approval and CEO endorsement), and is working with Agencies and recipient countries to expedite their preparation. As requested by the Council at the November 2013 meeting, and in response to the policy recommendations of GEF6, the Secretariat is currently working with the Agencies to further identify measures to expedite the project cycle. A proposal will be prepared for the October 2014 Council meeting which suggests a cancellation policy for projects that exceed the elapsed time standards in the project cycle.

The Management Response notes that OPS5 puts forward a range of specific recommendations that can be considered for further streamlining of the project cycle, and that the feasibility of these recommendations and their likely impact on the project cycle will be explored with the GEF Agencies and other appropriate

stakeholders, with a view to identifying possible further modifications during GEF6.

The Secretariat says it supports the OPS5 recommendation for a higher frequency of use of programmatic Approaches and has concluded a review of the successes and challenges with the current programmatic approach modalities in GEF, with the aim of identifying opportunities for improvement and replication of successful good practices. In addition, the Secretariat point out that, in GEF6, a pilot program of investments is proposed for test delivery of more integrated approaches that address discrete time-bound global environment challenges whose resolutions are closely aligned with targets and goals of the multilateral environmental agreements that GEF serves as a financial mechanism.

*Figure 3: The GEF network*



In relation to the OPS5 criticism of the GEF networking arrangements, the GEF Secretariat’s Management Response points out that the growth of GEF’s partnership model not only implies growing interactions across the system, but also expansion of the richness of skills at the disposal of beneficiaries of GEF funding around the world, together with the fostering of innovation coming from the broader diversity of implementing partners. It points out that the expansion of mandates continues to strengthen GEF’s unique position of being able to serve multiple thematic areas and accords across the global environmental agenda. It argues that the strength of GEF remains the variegated nature of its partnerships, offering capabilities and reaches that would otherwise be unavailable. However, it does acknowledge that, as the partnership expands, it will need to remain vigilant that it does not lose its strengths.

The Management Response notes OPS5’s overall conclusion that “GEF is achieving its mandate and objectives; that it continues to be highly relevant and successful in its interventions, and that added value of GEF is found in its unique position as a financial mechanism of the multilateral environmental agreements”.

* **Management of funds in DFID**

The GEF programme is managed by the Climate and Environment Department (CED) in DFID. The Head of CED (SCS) and the Climate Finance and Negotiations Team Leader (A1) maintain oversight, with management inputs from a B1 and advice from DFID, DECC and Defra advisers [FTEs tbc] on technical matters, as required. The DFID A1 is the UK Council member and the Defra Deputy Director, International is the Alternate.

* **UK role in GEF**

The UK has been a member and major contributor to GEF since its inception in 1991. The UK has influence over policy priorities and level of ambition, through the replenishment process, and in driving monitoring operational effectiveness and efficiency through the Council. The UK has been influential in policy terms in pressing successfully for:

* Greater cross-thematic area working to improve impact and value for money, as in the Sustainable Forest Management incentive programme, established in GEF5;
* The establishment of new integrated approaches linking environmental management more closely with pressing development challenges, eg on food security, for GEF6;
* The establishment of a gender policy in GEF5, with programming objectives and indicators established for GEF6.

The UK has also been influential in pressing for improvements in operational effectiveness and efficiency, especially through the MAR which has served as a benchmark for progress and as a source for the adoption of new measures for GEF6, including:

* Strengthening country engagement, through providing support for country planning;
* Improving efficiency (reducing time elapsed) in the GEF project approval process;
* Improving GEF’s results based management system.
* **What are the risks and how these will be managed?**

*Table 14: GEF risks and mitigating actions*

|  |  |  |
| --- | --- | --- |
| **Description of risks** | **Threat\*** | **Mitigating actions** |
| GEF fails to share lessons and promote lesson learning effectively | R | * Incorporation of improved Knowledge Management system in GEF6
* Monitoring of GEF Office of Evaluation dissemination of knowledge, e.g. through the climate ‘community of practice’
 |
| GEF fails to remain at the forefront of innovation | A | * Regular review and revision of GEF’s thematic area strategies and indicators
* Incorporation of new incentive programmes to increase cross-thematic area working
* Incorporation of new incentive programmes to link environmental management more directly to pressing development challenges, e.g. food security
 |
| GEF fails to mainstream gender  | A | * Establishment of new objectives and criteria across all thematic areas
* Regular monitoring through GEF’s Annual Monitoring Reports (AMRs)
 |
| GEF outputs fail to achieve sustainability objectives | A | * GEF Annual Monitoring Reports (AMRs) and other reviews conducted by the Office of Evaluation provide regular updates on good practice to inform future project design and management
* Monitoring AMRs to ensure GEF performance stays within targets for performance
 |
| GEF outputs are not scaled by country governments of aid agencies | A |  |
| GEF fails to improve operational efficiency, including speed of project cycle management | G | * Incorporation of new measures in GEF6, including in response to UK MAR
* Monitoring Project Information Management (PIM) and Annual Monitoring Reports (AMRs)
 |
| Inconsistent HMG engagement with GEF | G | * CED teams cooperate closely on management of multilateral funds, including Climate Investment Funds (CIFs), Green Climate Fund (GCF) and GEF managed adaptation funds (LDCF / SCCF)
 |
| Donor contributions to GEF6 are not forthcoming. | G | * Maintain pressure on donors to honour pledges and clear arrears (USA and Italy have made progress in clearing arrears during GEF5).
 |

\* Threat is a function of impact and probability

* **What conditions apply (for financial aid only)?**

Not applicable, as the programme does not involve financial aid to governments.

* **How will progress and results be monitored, measured and evaluated?**

GEF has an established Results Based Management (RBM) system, which sets out a process to ensure the quality of objectives, baselines, and results indicators, where each step of the results chain can be easily defined and tracked. The RBM system seeks to ensure that project outputs feed into focal area objectives, which in turn feed into GEF’s corporate level targets and indicators.

*Figure 4: GEF RBM Framework*



All Implementing Agencies are required to submit all data extracted from GEF’s standardised monitoring tools (i.e. project tracking tool, project implementation reports (PIRs), mid-term reviews (MTRs), and project completion reports or terminal evaluations (TEs) on an annual basis. This information is then included within GEF’s Annual Monitoring Report (AMR) which provides: (i) an overview of cumulative project approvals; (ii) detailed information on the projects approved in the year in question; (iii) a breakdown of GEF’s active portfolio including performance ratings for each Implementing Agency; and (iv) information on management effectiveness and efficiency indicators.

Each of the Implementing Agencies are required to submit an annual financial report, audited by the agency’s independent auditors, and certain periodic unaudited financial reports, as evidence that the resources of the Trust Fund are being used in line with GEF procedures. The Trustee also has a responsibility to monitor the application of budgetary and project funds to ensure that the resources of the Trust Fund are being used in accordance with the Instrument and the decisions of the Council.

GEF have effective mechanisms and systems to track and manage poorly performing projects and programmes, which includes a Project Management Information System (PMIS) which contains data of all GEF projects. GEF is currently in the process of upgrading the PMIS. The upgrade will include development of a number of web-based tracking tools, which will automatically upload information to the PMIS and automatically generated reports which will provide key information across each of the GEF focal areas.

At the end of each replenishment period, the GEF Independent Evaluation Office produces an Overall Performance Study (OPS), which provides an independent assessment of the achievements of GEF up to the time of the study. OPS5 was published in November 2013.

DFID will measure the performance of GEF against the corporate-level indicators which form the apex of the RBM system. The RBM system as it exists is sufficient to meet the UK’s reporting needs. DFID will monitor and take action, as necessary, through the Council meetings. DFID reporting will be by the standard Annual Report and the concluding assessment of GEF6 through the standard Project Completion Report.

* **Monitoring the UK Contribution**

Monitoring and evaluation of the UK support will draw on GEF M&E systems and results frameworks. All approved projects have developed a detailed monitoring and evaluation plan that includes provision and arrangements for annual monitoring reports and independent mid-term and final evaluations. In addition, indicators for tracking the achievement of project goals and objectives are provided, including targets for mid-term and project completion.

The GEF Secretariat has developed a corporate-level results framework, which includes high-level targets for each of the GEF focal areas: climate change; biodiversity; land degradation; international waters; chemicals and waste; and corporate programmes. These targets are incorporated in the logical framework which DFID has developed to measure the progress of GEF. DFID will draw on this logical framework to produce Annual Reports for each year of the GEF6 replenishment and a Project Completion Report at the end of the replenishment period.

* **Quest No of logframe for this intervention: 4471306**