

ORGANISATION STRATEGY

Organisation Strategy for Denmark's Co-operation with the Global Environment Facility (GEF), 2014-2017

1. Introduction

The organisation strategy for GEF forms the basis for the Danish cooperation with and contribution to GEF, and is the key platform for Denmark's dialogue and partnership with the organisation. It establishes the Danish priorities for GEF's performance during the 6th replenishment 1 July 2014 – 30 June 2017 and outlines specific results that Denmark will pursue in the cooperation with the organisation. Denmark will continue to work closely with other partners in the efforts to promote specific goals and priorities. Together with Norway, Latvia and Lithuania, Denmark is sharing a seat in the GEF Council and will continue the close coordination. Denmark is presently the Council Member (until autumn 2016).

2. Relevance and Justification of Future Danish Support

Supporting GEF contributes to fulfilling the policy recommendations outlined in "The Right to a Better Life", The Strategy for Denmark's Development Cooperation. Albeit GEF cannot be characterized as a development organization, where poverty alleviation is the overarching goal, the focus on sustainable management and use of natural resources, environmental protection, innovative technological and financial solutions, sustainable energy etc. correspond well with the green growth chapter in the afore mentioned strategy. Furthermore environmental sustainability and poverty eradication are increasingly seen as two sides of the same coin.

While GEF is a funding and not an implementing organisation, it has adopted policies and guidelines vis-à-vis it's implementing partners (see also para 5) with specific demands on environmental and social safeguards and gender mainstreaming in the project implementation. These policies and guidelines ensure that the rights and wellbeing of people and communities (including indigenous peoples), as well as a sound environmental standards, are important considerations in the GEF-funded activities.

As outlined in Danida's NEC-strategy (Strategic Framework for Priority Areas – Natural Resources, Energy, and Climate Strategy, 2013) GEF has an important role as the financial mechanism of the Rio conventions, the Stockholm Convention, the Montreal Protocol and the recently agreed Minamata Convention to which Denmark is a party and finds of great value. By supporting GEF, Denmark contributes to improving the global environment in these important areas.

Climate activities, in a GEF context, have traditionally been biased towards mitigation projects. Against this background it was decided in the climate COP process to task GEF to administer two separate climate funds: "Least Development Countries Fund (LDCF)" and "Special Climate Change

Fund (SCCF)”. Particularly LDCF is relevant for Denmark in a development cooperation context with its objective of addressing the special needs of Least Developed Countries under the Climate Convention and focus on the poorest and most vulnerable countries. The focus of LDCF is that of financing preparation and implementation of National Adaptation Programs of Action (NAPAs).

3. About GEF

In 1994¹, after the Rio Earth Summit, the Global Environment Facility (GEF) was established as an independent financial mechanism for providing grants and concessional funding to cover the incremental or additional costs associated with transforming a project with national benefits into one with global environmental benefits thereby promoting environmental sustainable development. The World Bank serves as the Trustee of the GEF Trust Fund and provides administrative services. The GEF Council is the governing body and meets twice a year discussing and deciding on policy matters and approving project concepts. Of the 32 Council members, 18 are from recipient countries (16 from developing countries and 2 from countries with economies in transition) whereas 14 are from developed countries,

GEF is a financial mechanism for a number of key international environmental conventions. Furthermore funding is provided to a few other key areas where no convention has been adopted. GEF provides grants for projects and programmes related to the following areas: biodiversity, climate change (mitigation and adaptation), international waters, land degradation, ozone layer depletion, persistent organic pollutants, sustainable forest management and the recently adopted convention on mercury. Since 1991 GEF has provided 11.5 billion USD in grants and leveraged 57 billion USD in co-financing for over 3,215 projects in more than 165 countries.

The funding for climate change activities has traditionally taken up more than 30 % of GEF’s resources. Only a limited decrease is expected for GEF-6 due to the fact that the Green Climate Fund (GCF) is not yet operational. When the GCF becomes functional, the question of how to allocate funding for adaptation and mitigation more effectively at the international level will be accentuated. GEF is coordinating closely with the World Bank climate funds and the participation in the negotiations on the GCF modalities are given high priority and the implications for GEF funded activities are expected to increase as the Green Climate Fund becomes operational.

As of today GEF is a global partnership among 183 countries, international institutions, NGO’s and the private sector. GEF has not been playing a particularly visible role up to and after the Rio+20 Conference in 2012. The GEF leadership is keen to place GEF prominently in the new environmental and financial landscape including the process on developing sustainable development goals. For the same reason a new GEF 2020 strategy is under preparation with a focus on environmental drivers and synergies between activities under various conventions and agreements (see also below).

4. GEF’s resource allocation system

¹ In 1991 GEF began activities in a so-called pilot phase program in the World Bank.

Country eligibility criteria for GEF funding correspond to the eligibility criteria decided by the Conference of the Parties of each convention that GEF is serving. Eligibility criteria for grants that cannot be attributed to any convention follow the World Bank (IBRD and/or IDA) criteria for borrowing of loans or the eligibility for receiving UNDP technical assistance. As a consequence, large emerging economies and developing countries such as China, Brazil, Mexico, Russia and India have access to GEF funding.

The majority of GEF's resources are allocated according to the System for Transparent Allocation of Resources (STAR). 144 countries can access GEF funds under STAR. STAR covers the three focal areas: biodiversity, climate change and land degradation². Allocations are calculated based on a combination of the GEF benefits index, the GEF performance index and a social and economic index based on the GDP. The GDP-based index is a relatively new design (2009), the rationale being that poorer countries need additional funding to build the capacity that is required to ensure the success of GEF project development and implementation. Apart from country allocations GEF is funding a considerable amount of regional projects.

GEF has established so-called floors and ceilings which establish a minimum and a maximum amount any given country can receive. During the 5th replenishment period ending in 2014 the top-5 countries (Mexico, Russia, Brazil, India and China) have received 21.4 % of the total resources distributed under STAR. SIDS/LDC's have received 20.6 % and the group of other countries 34.7 %.

During the current deliberations leading up to the adoption of a number of policy recommendations for GEF-6, many countries have argued for a greater degree of solidarity among GEF recipient countries. In concrete terms it has been suggested to alter the present parameters under STAR with a focus on decreasing the weight of GDP (=high income countries will receive less funds), raising the floors for LDC allocations and lowering the ceiling for the amount of funds any given country can access. Changes along these lines are to be expected in GEF-6.

The top-5 countries have argued that global environmental benefits should be the key concern for GEF. The compromise for GEF-6 is expected to be slight changes in the parameters while at the same time not alienating the major recipient countries. Denmark supports such a compromise which will contribute to keep GEF as an institution with a high degree of country ownership and international legitimacy. It is impossible to give any accurate estimates as to the effects, whether positive or negative, on the global environmental benefit from changes in the parameters. The effects may also be different depending on the three focal areas. To offset negative consequences – if any - of the changes in the parameters for the global environmental benefits, the wealthier recipient countries will be encouraged to increase their contribution to the GEF-6 replenishment (several recipient countries have increased their pledges to the GEF, yet these continue to be lower than their contribution to other international organizations). Another measure will be to seek higher levels of co-

² The other focal areas are excluded from the STAR system because of the limited availability of suitable indicators of global environmental benefits and a lack of adequate datasets.

financing in countries with greater capacity as a means to achieve greater impact and broader adoption of higher standards and green technologies in any given country.

5. GEF's implementing partners

12 international institutions are today designated as GEF implementing partners (see Annex 1). The IP's comprise multilateral banks and major UN organisations. Most recently WWF-US and Conservation International have been appointed implementing partners after a long review process examining the organisations compliance with demands in relation to gender, human rights, fiduciary standards etc. Another seven organisations are currently being examined. A discussion in the Council on the future policy in relation to accreditation of new IP's is foreseen at the end of 2014. While adding new IP's enlarges the partnership model and – as is the case with the two new IP's - strengthen the ties to the civil society, there is also a strong risk that GEF will lose efficiency dealing with so many different partners. At the same time there is a strong hesitation among several countries in the GEF Council towards opening up for accreditation of national development organizations as IP's which potentially could threaten the objectivity among countries when judging the quality of various projects and programmes.

6. GEF's efforts to combat corruption and misuse of funds.

GEF relies upon the systems of its implementing agencies to ensure that funds are used for their intended purposes and that each Agency that implements GEF projects has sufficient systems and capabilities in place to ensure robust efforts to combat fraud and corruption. In order to ensure greater financial and programmatic accountability over the use of GEF funds, the GEF Council in 2006 adopted minimum fiduciary standards to apply for all its implementing partners.

The GEF Policy includes minimum standards in the following areas:

Project/Activity Processes and Oversight

Investigation Function

Hotline and Whistleblower Protection

Financial Disclosure

Codes of Ethics

Internal and External Financial Audit and Control Frameworks

Procurement Processes and Guidelines

Monitoring and Project-at-Risk Systems

Evaluation Function

Each agency are required to present a report to the GEF Secretariat on its compliance with the fiduciary standards , and as necessary, plans to remedy any shortfall. The assessment should not only consider the existence of standards, but also their effectiveness. The GEF Secretariat will then present a consolidated report to the Council. Best practice standards evolve over time, so target minimum may need to be adjusted. The Council approved an update of the policy on fiduciary standards in November 2011. Since then agencies have drawn up action plans in order to come into full compliance with the standards. GEF has regularly reported to the Council meeting on progress. In May

2014 a final report will be presented to the Council on the 2011 policy on fiduciary standards. All agencies are expected by then to show full compliance with the policy.

The GEF secretariat has confirmed that there are no recent examples of alleged or proven corruption involving GEF.

7. GEF - challenges and trends

Among GEF's core strengths are a high degree of country ownership including a strong alignment with national priorities and policies, an inclusive business model, a strong rooting in major conventions and environmental agreements and a high degree of international legitimacy. Furthermore GEF-funded projects in various evaluations generally receive high scores with an average of 80 % of projects having outcomes that are rated as moderately satisfactory or higher and with substantial transformational impact.³ Finally GEF receives sound advice from a highly acclaimed "Scientific and Technical Advisory Panel"⁴ on its policies and projects.

A relatively new feature in GEF is support to the so called "National Portfolio Formulation Exercises" whereby recipient countries receive support to national consultations with a wide range of stakeholders and to the creation of national steering committees to provide a broader decision-making and coordinating structure for GEF programming.

A key challenge is the GEF project cycle, which is too long and notoriously slow with rigorous approval process in both GEF and the IP's. After 2.5 years only half of the project concepts have become a reality on the ground. Implementation takes on average five years. The length of the project cycle has been reduced in recent years and the target for GEF is now to complete the project preparatory cycle in 18 months (from Council approval to endorsement by the GEF director). Several streamlining measures to process projects more efficiently through different stages have been initiated. Approval of programs has led to faster approval of projects proposed within the program. The introduction of less cumbersome rules and delegation of authority for small and medium size grants have been introduced and a harmonization of project cycles between GEF and the World Bank have the potential to lead to lower transaction costs and faster processing of proposals.

The GEF Secretariat is engaged in drafting a 2020 strategy for the organisation. The intention is to present the strategy for approval to the Council in November 2014 with some of the first steps being ready for implementation during GEF-6. A key feature in the strategy is envisaged to be an increased focus on interventions tackling the root-causes and underlying drivers of environmental degradation as opposed to focusing on the pressure points only. Other elements are expected to be increased use of differentiated financing such as changes in parameters determining country alloca-

³ In the UK "Multilateral Aid Review from 2011 GEF is rated as "good value for money" which is the second best category out of four categories.

⁴ The Panel consists of six members who are internationally recognized experts in the GEF's key areas of work, and are supported by a network of additional experts. The Science Panel is supported by a Secretariat, based at UNEP's regional office in Washington, DC.

tions, increased use of non-grant financing such as loans, guarantees and equity (now 6 % of GEF's total programmed amount). The strategy will emphasize gender mainstreaming considerations and increasing the use of multi focal area projects (see below). A limited number of integrated pilot approaches are suggested in order to address key underlying drivers by creating joint upfront platforms among key stakeholders. Concepts for the pilots are still being developed but are expected to be in three key areas: "Taking deforestation out of the Value Chain", Commodities, Sustainable Cities and Food Security in Africa.

GEF has the ability to support activities in recipient countries that can meet their commitment to more than one global convention within the context of their sustainable development needs. A growing share of multi-focal area (MFA) projects relevant to more than one GEF focal area are increasingly seen in the portfolio reflecting increased synergies across GEF focal areas. Biodiversity and Land Degradation are the focal areas most often involved in MFA projects. The increasing trend towards MFA projects and programs has accelerated during GEF-5. As of September 30th 2013, 42 % of the funding was directed towards to MFA projects.

8. Private Sector and Gender Mainstreaming

GEF has not been particularly successful in getting the IP's and the recipient countries to involve the private sector in GEF-funded activities. Recipient countries are responsible for presenting and formulating projects ideas and the private sector has often been absent from the concepts presented.

Under GEF-5 special funds have been designated for the private-sector. This model is expected to continue during GEF-6 together with additional efforts to mainstream private sector activities in the projects and programmes. Further it is the expectation that an increased use of non-grant funding will spur private sector engagement. Particularly in relation to climate change mitigation funding opportunities to involve the private sector are seen as promising. The GEF Secretariat has been requested to report to the Council on actions taken to enhance private sector engagement with timelines for future actions on mainstreaming.

GEF's gender engagement is based on the "GEF Policy and Gender Mainstreaming" that was adopted by the GEF Council in May 2012. Integration of gender in the GEF projects has improved but still varies significantly among focal areas and its programs. The GEF Secretariat is working on developing an action plan for enhancing gender mainstreaming to be presented to the Council at the end of 2014.

9. Intended Results of Danish Support

Denmark will focus attention on the following issues:

- Enhancing gender mainstreaming.
- A robust and workable Result Based Management System.
- Increased use of multi-focal area approaches including integrated approach pilots.
- Shortening and streamlining of the project cycle.

- Efficiency in achieving lasting global environmental benefits also through mainstreaming of GEF policies into national development policies and plans.
- GEF's effort to combat corruption and misuse of funds.

10. Danish support to GEF

Denmark's contribution to GEF for the 5th replenishment (July 2010 – June 2014) amounted to DKK 400 million out of total replenishment sum of 3,542 million USD⁵. This made Denmark number 13 in absolute terms with a contribution totalling 2.12 % of the total replenishment. The Danish contribution to GEF-6 is DKK 435 million. This implies an increase of 8.75 % in Danish currency. Due to changes in the reference exchange rates for GEF-6⁶, Denmark's contribution is, however, set to increase by 5 %.

Denmark contributed to the LDCF with DKK 50 million in 2013. It is being considered in 2014 to undertake a review (possibly together with other donors) looking into past results and lessons learned of bilateral and multilateral Danida climate adaptation funding, with a view to inform future decisions on support in this area.

Denmark has presently a JPO placed in the GEF Secretariat dealing with international waters. In addition two professionals of Danish Nationality (former JPO's) are working in the GEF Secretariat. This means that out of a total staff of approximately 100 professionals 3% are Danish Nationals.

11. Monitoring and Evaluation

GEF is one of the most thoroughly monitored and evaluated international organizations. External independent evaluation takes place for every replenishment period in order to inform the next replenishment cycle. The so called "performance studies" are done by the GEF Independent Evaluation Office established in 2003. In between the performance studies various smaller evaluation reports are presented on cross cutting issues, impact, country portfolio reports etc.

The GEF Independent Evaluation Office has gained increased autonomy with the budget of the Office now linked to the project portfolio instead of to the administrative budget. The Office cooperates extensively with other evaluation agencies and is about to undergo a peer reviews performed by a group of other agencies. An annual monitoring report is presented to the Council in two separate parts – one with a focus on aggregated macroeconomic results stemming from the projects portfolio and the other with a focus on the specific projects.

The Danida evaluation office has throughout the years had a good cooperation with the GEF Evaluation Office among others in connection with a joint evaluation of the LDCF in 2009. At present

⁵ The total budget for GEF-5 is estimated at 4.2 billion USD comprising replenishment contributions, carryovers, payment of arrears and deferred contributions.

⁶ The reference exchange rate to convert the SDR amount to the national currency is the average daily exchange rate over the period from 1 April 2013 to 30 September 2013.

Danida supports a virtual network (community of practice) on monitoring and evaluation of climate interventions. The network is administered by GEF's evaluation office.

12. Results-Based Management

A framework for RBM was first implemented during GEF-4. Greater emphasis has since then progressively been given to RBM. A weakness of the system is an inadequate feedback from the project and portfolio level to the Secretariat and the IP's of results and lessons learned. Work to ensure that results information is better employed in project development processes is ongoing.

Another weakness of the system is that there are far too many indicators in place. There is broad agreement that focus has to be on a select handful of core indicators that can be measured in a uniform way allowing for aggregation at different levels and help better understand impact. The focal area strategies in GEF-6 have already taken the step towards being selective in choice of indicators.

Denmark supports efforts underway to request the Secretariat in consultation with IP's, the Evaluation Office and other bodies, including the GEF-NGO network, to develop a comprehensive work plan for further strengthening of the RBM system and for building a knowledge Management System. It is envisaged that the Secretariat will present the work plan to the Council by November 2014.

13. Risks and Assumptions

Risk no. 1: Shrinking donor contributions

Donor countries are generally under pressure to reduce budgets and the prognosis for the size of the GEF-6 replenishment is relatively modest. The anticipation is that the GEF-6 replenishment will be about the same size as the GEF-5 replenishment. A risk is that the level of funding will be even smaller which will threaten GEF's efforts to make a difference and deliver on all its obligations including to new commitments such as the Mercury Convention.

Risk no. 2: Delays in project preparation and implementation

It has been difficult for GEF to fulfil the target of a maximum of 18 month for project preparation defined from the presentation of a project form to the GEF Council outlining the project concept up to endorsement by the GEF director. The implementation period also suffer from being too long. With even more implementing partners who will have to accustom themselves to GEF procedures, there is a risk that GEF will not be able to move sufficiently on this issue.

Risk no. 3: Resource allocation biased towards rich countries

Efforts are underway to alter the parameters determining country allocations under GEF giving increasing allocations to LDC's. The resistance to such revisions are, however, strong and there is a risk that GEF will end up financing what countries could do themselves under national budgets.

Risk no. 4: Misuse of funds

There might be a risk that GEF funds are not directed to the intended purposes and that the procedures in place do not detect misuse/corruption. The fiduciary standards and the close scrutiny of all GEF projects also in the evaluation process do, however, substantially reduce this risk factor.

14. Follow-up

Denmark will monitor and actively contribute to developments in GEF with a view to follow progress and fulfilment in relation to Danish priorities. The work will first and foremost be monitored through participation in the Council work and its two meetings per year. A number of important discussions and decisions with relevance for the fulfilment of Danish strategic priorities are planned for the upcoming Council meetings (see below).

An important tool for verification of GEF results, developments and trends is the Annual Monitoring Report which is issued in two parts – part I in the autumn with a macro perspective and part II in spring with a focus on detailed results and experiences.

A review of GEF will be conducted half way through the Danish strategy period. Terms of Reference for the review including decisions on the format (purely Danish or a joint review) will be decided at a later stage.

Council meeting in May 2014:

1. Council to consider a proposal for updating the GEF-6 allocation system including flexible use of country allocations.
2. Council to consider a policy for providing clarity in definitions and approaches to promoting effective co-financing (can also be seen as a proxy of national ownership and integration in national plans)

Council meeting in November 2014:

1. Council to consider measures to improve the policies and procedures associated with the project cycle.
2. Council to consider a gender action plan.
3. Council to consider a work plan for further strengthening results-based management system.