STRATEGIC POSITIONING OF THE GLOBAL ENVIRONMENTAL FACILITY FOR ITS FIFTH PHASE (DRAFT, FEBRUARY 19, 2009)
WBG comments

We find the document a good starting point for the replenishment discussions. Several of our concerns have been included, such as the possibility of tailoring the project cycle to Agency circumstances, the need for further reduction of transaction costs, and the importance of coordination and synergies between different funding sources. The focal area strategies are also evolving in a good direction. Our main concerns, at this early stage in the replenishment process, are:

1. **GEF partnership**. It would be helpful if the paper could specify more clearly what entities in the GEF partnerships are referred to under "GEF", especially when discussing possible reforms. The references seem, at various times, to cover the GEF (as partnership), the GEF Secretariat with Agencies, and the GEF Secretariat only. It may be useful to have the instrument definition upfront in a new para. 3 that says. The GEF consists of an Assembly of all participating countries, a Council, a Secretariat, a Scientific and Technical Advisory Panel, and three Implementing Agencies – UNDP, UNEP and IBRD. Four regional development banks (AfDB, ADB, EBRD, and IADB), FAO, UNIDO, and IFAD can access GEF resources under the expanded opportunities for executing agencies.
2. **Direct access,** expanded access and expansion of partnerships. The vision of change for the existing ten Agencies is not explicit in the document, and we look forward to discussing this aspect in more in detail. The possibility of direct access, additional Agencies and choice of implementing entities is referred to in various places (paragraphs 56, 71, 72, 74, 81, etc.), and consistency of the proposed reform is therefore difficult to grasp. A clearer definition of these concepts would help to establish a common understanding of options and how to proceed. For example, in some cases the paper refers to "access available to selected development banks and United Nations agencies, with adequate fiduciary standards, that could provide a clear value-added to the GEF" (implying more Agencies but with same 'access" as the ten Agencies have now?); "direct access to qualified entities at regional and national levels" (implying a different type of agency than now; with same 'access' as Agencies have now, with/without the same fiduciary standards, with other administrative arrangements?); "choosing in some cases project implementing entities on a competitive basis based on project proposal tenders prepared by the GEF and the recipient countries" (implying a different type of agency than now; contracted by GEFSec?, through other contracting modality, with/without the same fiduciary standards?); and "These grants [..] given directly to the governments (along with hard and soft loans from other funding windows), or blended by development banks with their internal

funding so as to tailor the level of concessionality offered to recipient countries" (implying direct access by governments, with same fiduciary standards? - but with loans, e.g. by banks, i.e. same as now?). The paper also raises the possibility of bilateral agencies as executing agencies; looking at past experiences in the pilot phase, how would you deal with the pressures such as using their contributions as parallel financing or how would you deal with having the country sit as Council member and implementing agency?

3. **Fragmentation of funding**. The coverage of the challenges to the raison d'etre of the GEF, (paragraphs 40-41) seems to imply that all new climate change funding should have been under the GEF, while at the same time mentioning that the GEF itself had not been in a position to address this "gap" (the GEF policy not to address LULUCF, or support large programs, or adaptation apart from SPA and pending the Adaptation Fund, the GEF practice of focus on innovative rather than mature technologies etc.). Thus, the text does not bring out that policy constraints were "imposed on the GEF", and may detract from the essential issues of how best should we mobilize funds for the climate, what are the comparative advantages of partners; and how do funding windows best work together.

4. Engagement with private sector and funding modalities. There are a number of references in the paper to "non-grant" instruments, "innovative financing" and financial tools/instruments. In many cases the use of these terms (and associated terms) in the context of the paragraph/topic is confusing and each of these discussions could benefit from greater clarity. This is particularly true in paragraph(s) 18, 55, 56(b), 59, 60, 61, and 78.

- For example, Paragraph 59 outlines three key reasons why the engagement with the Private Sector has been limited (project cycle, RAF, widespread deployment of non-grant instruments) but none of the subsequent paragraphs shows the link to how the GEF Earth Fund addresses these barriers. It would be helpful to underscore that the establishment of the GEF EF seeks to address these by, (for example) 1) Efficiency: Platform approved by Council after Board recommendation by circulation, and delegated authority to the GEF-eligible Agency managing the Platforms shortens the project cycle; 2) RAF: all Platforms/projects under GEF EF fall outside the RAF system, and 3) Non-grant instruments: Platforms/projects under the GEF EF can employ non-grant instruments. This can then be nicely summarized with the recommendation to expand/make permanent the GEF Earth Fund as a mechanism through which private sector can access GEF (not just expand the GEF EF activities – as suggested in para 61). Currently the GEF Earth Fund is a "pilot" program, and it is unclear in the paper if the recommendation is to make it permanent.
- The reference to the GEF Earth Fund Board should be accompanied by a more thorough description of the governance of the GEF Earth Fund (eg: Board recommends Platforms to Council, Council approves by circulation) to prevent confusion as to its role and function.
- The issue of the GEF Earth Fund becoming self-sustaining is complicated (para 61); we would recommend deferring this topic for another time, or simply state that this will be explored as an option.

- Para 58 suggests that some currently successfully implemented financing models may be "mainstreamed" and therefore may not require additional funding from GEF in the future. We would caution that this does not necessarily mean that there is no further role to play, as the model cited as an example may still benefit from support in certain sectors, countries, regions, etc., particularly where other funding mechanisms are not operating due to limited geographic scope, etc., or where no other sources of funding are available. GEF can still play a role in "scaling-up" interventions (as well as innovation and early stage testing, etc), but perhaps the distinction should be made that it not be used where there are other sources available to avoid redundancies.

More detailed comments and request for clarification on specific paragraphs will be forwarded tomorrow. As mentioned in the paper, the legal department of the World Bank is working to develop options regarding legal and administrative matters.