GEF/C.66/08/Rev.03
February 7, 2024

66th GEF Council Meeting
February 5 - 9, 2024
Washington D.C., USA

Agenda Item 05

STREAMLINING THE GEF PROJECT CYCLE

Recommended Council Decision

The Council, having considered document GEF/C.66/08/Rev.03, *Streamlining the GEF Project Cycle*:

(a) approves:

i. An increase in the cap for Medium-Sized Projects from US$ 2 million to US$ 5 million,

ii. Require Mid-Term Review for projects above US$ 2 million,

iii. Amendments to the Project Cycle Policy as outlined in Section II, and

(b) *requests* the Secretariat and an ad hoc working group of interested Council Members and Alternates equally representing donors and recipient countries, to elaborate additional measures for streamlining the GEF project cycle, in consultation with GEF Agencies, GEF Focal Points and others as appropriate, for consideration by Council at its 67th and 68th meetings.

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I. BACKGROUND AND CONTEXT:

1. **The GEF-8 Replenishment Policy Recommendations include a decision to explore areas for streamlining the GEF project cycle, with an objective of reducing transaction costs and facilitating faster access to GEF resources by countries**. This document presents initial proposed changes to GEF policy, guidelines and practices aimed at streamlining and simplification and potential additional measures under review, to be developed further.

2. **Two related processes are also underway**: i) harmonization of processes and practices with the Green Climate Fund (GCF) and ii) establishing a simplified project and program cycle for the new Global Biodiversity Framework Fund (GBFF). These processes will also inform additional measures and further potential actions on streamlining. The Secretariat has also elaborated a project cycle for the GBFF, expected to deploy a one-step approval process for all GBFF projects, in addition to other innovations expected to contribute to a more streamlined project approval and implementation process. Experience with the deployment of these processes will be assessed and will inform the extent to which they can be applied to the GEF Trust Fund project cycle.

Process

3. **Consultations with Agencies to date on streamlining measures have focused on a limited set of issues of particular interest and concern**: i.e. i) the Project Review process, ii) exceptions to policy in cases of execution of projects by GEF Agencies, and iii) project management costs. Further consultations are required on these and other potential streamlining actions that will implicate other policy areas such as co-financing requirements, project extensions, and monitoring Agency adherence to GEF policy and standards, among others. Amendments to Guidelines may be possible in the meantime as these are within the authority of the Secretariat, following consultation with Agencies and other stakeholders.

4. **Some streamlining measures will also be outside the scope of GEF policy and procedure.** Insofar as the GEF Agencies' own respective policies and procedures govern implementation of GEF-funded activities, actions are required across the Partnership. The GEF can take action to streamline delivery of GEF financing to countries, but this needs to be accompanied by actions by Agencies and recipient countries as well.

5. **Harmonization with the Green Climate Fund and other funds is also being explored**. The findings and recommendations of a study commissioned by GEF and GCF included suggestions to develop practical, actionable measures to improve coherence and complementarity. The Long-Term Vision (LTV) Steering Committee plans to convene a series of discussions on these topics to further refine policy and process proposals into a set of practical, actionable measures for potential consideration of the Secretariats and governing bodies of the two funds. The study suggested possible entry points as: i) harmonizing project cycles and templates; ii) simplified compliance requirements, iii) coordination among teams working on regional coordination, accreditation, sustainability policies, and communication activities.

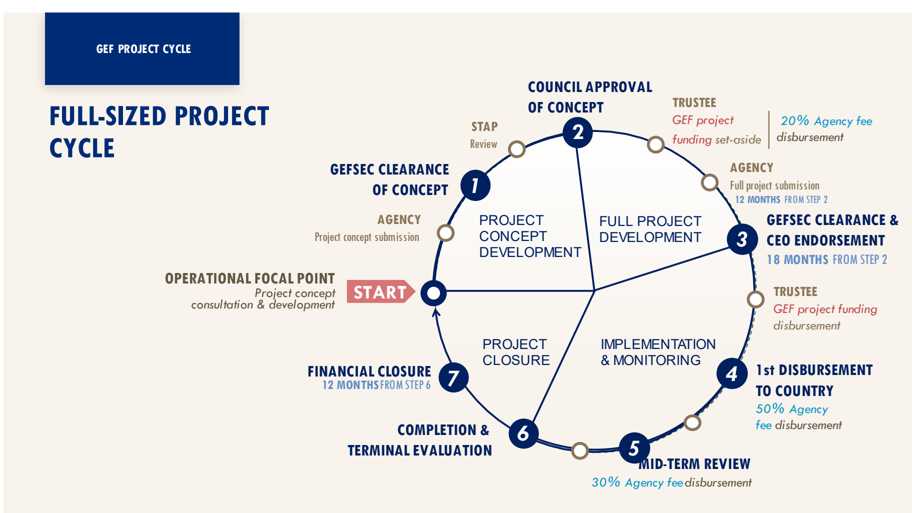
6. **There will also be implications arising from the expected adoption by the GEF of a Risk Appetite Statement and Framework**. This would be expected to norm and clarify the current and future risk reporting by Agencies and should minimize additional reporting requirements, consolidating risk data that is already provided at various stages in the project cycle. Analyses of the risk profile of projects and programs will help guide programming and further efficiency measures.

The GEF Project Cycle:

7. **The GEF project cycle is guided by other GEF policies and guidelines, which have introduced requirements and norms for Agencies and countries in the delivery of GEF resources**. The GEF Project and Program Cycle policy was approved by Council in June 2016 and a subsequent amendment also approved by Council in December, 2018. It is accompanied by a set of Guidelines that were recently updated in July 2020. The GEF 'Full-Sized Project' (FSP) cycle consists of seven distinct steps, as illustrated in Figure 1. FSPs are those projects over US$ 2 million and are subject to a two-step approval process. An analysis of the time required for project reviews specific to GEF-7 found that FSPs required on average approximately 25 months from PIF submission, through Council Approval to CEO endorsement. Over three-quarters of this represents time required for Agency planning and preparation; about 15% represents time going through GEF Secretariat review; and about 5% represents the time required for Council review and approval.

8. **Most of the time required from concept to approval is for Agency preparation.** On average, over the past decade (i.e. from FY13-22), the time from PIF approval to CEO Endorsement was 16 months. Over the same period, the average time required from PIF submission to the first disbursement of funds under a project has averaged about 41 months for FSPs, 27 months for Medium-Sized Projects (MSPs – under US$ 2 million) and 15 months for Enabling Activities (EAs). Additional detail on project cycle speed is presented in Annex 2.

Figure 1: The GEF Full-Sized Project Cycle



II. PROPOSED STREAMLINING MEASURES

This section summarizes the proposed immediate measures.

a. Increasing the cap on the size of Medium-Sized Projects (MSPs):

9. **The two main GEF project financing modalities are the Full-Sized Project (FSP) and Medium-sized Project (MSP).** The Project and Program Cycle Policy provides that MSPs may follow either a one-step or a two-step approval process with approval authority delegated from Council to the CEO. MSPs generally reach approval faster than FSPs and have other features such as shorter cancellation deadlines and streamlined reporting requirements. MSPs can be submitted on a rolling-basis (i.e. between Council meetings) and are approved by the CEO under delegated authority from Council. For 2-step MSPs, the maximum preparation time is 12 months and, to avoid cancellation, this can only be extended for 6 additional months. Finally, the maximum Project Preparation Grant (PPG) for an MSP is US$ 50,000 and a Mid-Term Review (MTR) is recommended, but not compulsory. An annual Project Implementation Report (PIR) is nevertheless still required, as is the case for FSPs.

10. **The MSP cap has not been adjusted in the past decade**. Despite strengthening of GEF internal processes and effects of inflation over the period, the ceiling has remained unchanged at US$ 2 million. The financing ceiling for MSPs was initially set at US$ 1 million and was later raised to US$2 million in 2012 (GEF/C.43/06, Streamlining of Project Cycle). An increase in the MSP cap would enable a greater number of projects and value of GEF financing to potentially benefit from the more streamlined approach, including a one-step approval process similar to that being developed for the Global Biodiversity Framework Fund (GBFF) under which a Project Preparation Grant (PPG) proposal is submitted, initiating the project development and enabling funds to be set aside. The experience with MSPs in 2024 could then be reviewed and inform on the merits of broader adoption of a one-step approval process in subsequent phases of streamlining. From a harmonization perspective, it also is consistent with recent decisions to increase the financing cap for projects under the Green Climate Fund's Simplified Approval Process.[1]

11. **In GEF-7, MSPs accounted for just under 10% of all GEF financing by amount, with cap of US$2 million.** If the cap had been US$ 3 million during this time, MSPs would have represented 13% of GEF-7 financing. At US$ 5 million, this would have represented 30% by volume of financing, and 64% of the number of projects approved. It is therefore possible that an increase in the MSP cap could facilitate up to a third of the remaining GEF-8 financing benefitting from the MSP's more streamlined approach.

[1] From US$10 million to US$25 million, by decision in May 2022: https://www.greenclimate.fund/decision/b32-05

Table 1: Number and volume of project approvals above and below US$ 5 million

GEF-7 and GEF-8 approved FSPs and MSPs, including child projects
as of 7 December 2023

No. of projects

Size	GEF - 7 FSP	GEF - 7 MSP	GEF - 7 Total	GEF - 8 FSP	GEF - 8 MSP	GEF - 8 Total	Grand Total	Share of GEF-7	Share of GEF-8
More than $5 mn	230		230	100		100	330	36%	61%
Up to $5 mn	189	225	414	52	11	63	477	64%	39%
Grand Total	**419**	**225**	**644**	**152**	**11**	**163**	**807**	**100%**	**100%**

Grant amount (USD million)

Size	GEF - 7 FSP	GEF - 7 MSP	GEF - 7 Total	GEF - 8 FSP	GEF - 8 MSP	GEF - 8 Total	Grand Total	Share of GEF-7	Share of GEF-8
More than $5 mn	2,340	-	2,340	1,114	-	1,114	3,454	70%	84%
Up to $5 mn	681	326	1,008	198	20	218	1,225	30%	16%
Grand Total	**3,022**	**326**	**3,348**	**1,312**	**20**	**1,331**	**4,679**	**100%**	**100%**

12. **An increase in the MSP cap would also serve the GEF-8 objective to incentivize project proposals through MDBs.** MDBs are also more likely to avail of proposal submission on a rolling basis to match internal approval processes. An IEO Evaluation of MSPs in 2020 noted that the one-step MSP modality approval process was efficient and streamlined compared with FSPs. While the Evaluation did not recommend an increase in the MSP cap at the time, it did note that MDBs considered the current MSP limit as too low.[2]

13. **The MSP cap should therefore be increased to US$ 5 million**. Specifically, projects up to US$ 5 million may be approved by the CEO based on the delegated authority provided by Council. To facilitate input from Council, projects would be circulated to Council Members four weeks prior to CEO approval for comments that could be directly uploaded to the GEF Portal. Projects ranging from US$ 2 million to US$ 5 million will be also circulated to STAP four weeks prior to CEO approval for comments. The Secretariat will clear STAP comments and ensure that Agencies respond adequately and to the satisfaction of the Council Member(s) prior to final CEO approval. The Secretariat will include a list of these projects in the Work Program Cover Note at the next Council meeting, adding clarification notes as appropriate.

14. **Project Management Cost (PMC) caps and thresholds presently in use by the Secretariat and Agencies would remain unchanged pending further review of PMC issues, as noted in Annex 1**.[3] The Secretariat would also review the experience with the one-step approval process under this increased MSP cap, as well as with GBFF projects during 2024 to determine the merits of developing a one-step process for all GEF projects. Parallel efforts to further streamline the overall project cycle would continue, including for MSPs and Enabling Activities.

[2] Evaluation of the Role of Medium-Sized Projects in the GEF Partnership (GEF/E/C.59/03), November 2020.

[3] i.e. cap of 10% for projects under US$ 2 million and 5% for projects over US$ 2 million

ANNEX 1: STREAMLINING MEASURES FOR FURTHER ELABORATION

1. **As noted above, the Secretariat and Agencies have begun consultations on other measures that could be taken to streamline, harmonize and otherwise improve efficiency.** Additional work by the Secretariat and Agencies will is required and will continue in the first half of 2024 with a few to developing additional proposals for Council consideration. The following is a non-exhaustive list of issues under consideration and possible areas for further streamlining.

a. Execution of project activities by GEF Agencies

2. **The GEF relies on Agencies to implement and supervise the execution of projects by executing entities, comprised of national government or non-governmental organizations**. This is an important feature of GEF governance, as neither the Secretariat, Trustee nor Council have the legal authority nor institutional capacity to oversee and supervise project level execution activities. This local execution is also important for sustainability of project outcomes that are expected to endure beyond the life of the project and role of the GEF Agency.

3. **This separation of functions is codified in the GEF Policy on Minimum Fiduciary Standards and reflected in other GEF policies**.[4] There are nevertheless provisions for exceptions in cases where no appropriate or acceptable local executing entity can be identified; these requests are submitted by Agencies and reviewed by the Secretariat on a case-by-case basis. Requests for such 'dual execution' have increased over time for various reasons, highlighting a need to further explore these reasons. The prevalence of dual execution is difficult to quantify as within some projects there are only a few discrete activities executed by GEF Agencies and in others the GEF Agency executes almost all project funds. Further work on GEF information systems is required to fully capture the extent, but the following tables provide an indication of the prevalence of the practice throughout GEF cycles. A review of 281 GEF-7 projects (national, standalone MSP and FSPs only) showed approx. 17% of the projects reviewed (49 projects) showing dual execution (see Table i). Five GEF Agencies accounted for all of the instances of observed dual execution (UNDP, FAO, UNEP, UNIDO and EBRD).

[4] e.g. the GEF Agency Fee Policy

Table I: GEF7 Projects with GEF Agencies in executing role.

Agency	Sample size	IA/EA match	% match/sample
UNDP	88	27	9.6%
FAO	66	15	5.3%
UNEP	46	3	1.1%
UNIDO	22	3	1.1%
ADB	3	0	0.0%
World Bank	15	0	0.0%
CAF	6	0	0.0%
BOAD	1	0	0.0%
Funbio	1	0	0.0%
IADB	2	0	0.0%
IUCN	8	0	0.0%
CI	3	0	0.0%
IFAD	10	0	0.0%
AfDB	5	0	0.0%
WWF-US	4	0	0.0%
EBRD	1	1	0.4%

4. **Recently, the Secretariat has noticed an increased number of requests for amendments to already-approved/endorsed projects.** The requests seek shifting execution responsibilities from national entities to the GEF Agency which, according to GEF policy and guidelines constitutes a major amendment as such arrangement would have required an exception to policy at the time of approval/endorsement. For child projects under GEF Programs, the share of projects with dual agency functions has decreased for some Agencies as

5. **Clear exception criteria is needed**. Countries and Agencies have expressed a need for clear, publicly available criteria for exceptional dual execution roles, for use in reviewing the merits and acceptability of exceptions. Currently, the Minimum Fiduciary Standards and Agency Fee Policies explicitly preclude the merging or crossing over of the implementing functions of the GEF Agencies and the execution functions undertaken by executing partners. However, in exceptional cases and as required by the Agency in accordance with its policy requirements, per the request of the beneficiary country/countries, and with justification, the same GEF Agency may carry out both functions. Treatment of exceptions also has bearing on the promotion of a level playing field among Agencies, as some Agencies' policies and procedures prohibit the merging of these two functions, while others have established this as a more common practice. While some cases may merit exception, it is important to reaffirm that dual execution remains a policy exception.

6. **Potential criteria**: To support achievement of the policy objectives and provide a transparent and consistent approach to exceptions, project execution should be undertaken by recipient governments or non-government entities as the norm, with a limited number of conditions for exception clearly specified. These and other criteria would be reviewed in consultation with Agencies and countries and could include:

- Country is constrained by domestic legislation to accept external financing directly. In this case the GEF Agency could provide services limited only to transaction processing, funds transfer and other fiduciary services. These would be clearly defined and confirmed by the recipient country, via letter from the Operational Focal Point and could be subject to thresholds (e.g. 5% of the budget)
- Project is executed in a fragile and conflict-effected situation/environment.[5] In these cases it may be necessary explore options outside the use of the GEF Agency, to preserve separation of functions.
- The GEF Agency is not permitted by internal policy/procedure to use government or non-government executing entity identified by the OFP, based on assessed risk or limited capacity of the identified executing entity.
- Blended Finance projects (private sector or NGI) in which the GEF Agency is both Implementing Agency and Executing Entity.
- Changes in project execution modality after CEO endorsement/approval that would have a material impact on the governance, funds flow and other aspects of project execution: In this case, as exception approval would have been required at time of project approval, so the exception requires active confirmation/approval by the Secretariat or Council (a 'major amendment under current policy). Cost and other implications would be reported.

b. <u>Improving the Project Review Process, including Portal enhancements</u>

One-step Approval Process:

7. **In some cases where countries and Agencies are in a position to move quickly on an initiative, a one-step process may be beneficial.** A two-step approval process for MSPs and FSPs enables Agencies and countries to first secure Council approval for a project concept prior to the elaboration of detailed design, which takes time and resources alongside the Agencies' own internal processes. It also pushes to the future the need for a financial commitment from the trustee, which relies on the availability of resources in the GEF trust fund that may not be immediately available in the early stages of a replenishment.[6]

[5] As determined by the country of project operations, using IBRD/IDA definitions, criteria
[6] At a minimum Promissory Notes, if not deposited cash

8. **As a one-step process is tested in the context of the GBFF, and based on experience with the one-step MSP, the GEF could make greater use of a one-step approval process**. This could be coupled with expanded use of virtual approval between meetings, as is deployed in other funds such as the Climate Investment Funds, to better align with internal approval processes of GEF Agencies, particularly MDBs. Implications on the Work Program approach to approvals, funding predictability and other elements will need to be reviewed further.

GEF Systems:

9. **Portal enhancements will be increasingly important.** The GEF project review process and supporting information technology systems (i.e. the 'GEF Portal') are guided by the Council-approved Project and Program Cycle Policy and related policies. The process is nevertheless managed by the Secretariat, Agencies and countries (OFPs) in accordance with established guidelines and practices. The main role for Council is in the review and funding decision process and in approval of related policy and budgets applicable to the Portal and other initiatives. The more the GEF Secretariat, Agencies and countries rely on the GEF Portal for not only information but transactions and business processes, the greater the need for investment in the integrity, transparency and functionality of the system.

c. *Project Management Cost Guidelines*

10. **Currently, GEF guidelines set a cap on Project Management Costs at 10% of total GEF financing for MSPs and EAs, and 5% for FSPs**. These caps were established in the context of Council deliberations on the need to contain GEF administrative costs, but in some cases have created challenges for Agencies and countries, especially in difficult contexts, high-cost environments and for smaller projects. The adequacy of current PMC levels based on data and evidence requires further analysis. Other issues raised by Agencies include the need to clarify the exceptional nature of any request for specific items (e.g. vehicles) and other exceptions. For instance, Guidelines specify that motorized vehicles may be purchased with GEF financing only under specific conditions and should instead generally be covered by co-financing resources.

11. **Additional data and analysis on this issue is needed.** The Secretariat, in consultation with Agencies, can further refine definitions of PMC, especially in cases where activities contribute directly to component objectives. The co-financing proportionality principle also requires further analysis to determine whether it is the best lever to maximize effective use of GEF and co-financed resources. At a minimum, details on project budgets should be available at approval and information available on use of GEF resources over time.

d. Co-financing:

12. **The GEF requires co-financing to contribute to the effectiveness, impacts and sustainability of GEF projects and programs.** The Co-financing policy affirms the value of additional funding to enable the GEF to achieve longer-lasting and larger-scale global environmental benefits, and strengthen partnerships with recipient country governments, multilateral, bilateral and national financing institutions, the private sector, and civil society.[7] The level of ambition for co-financing is set at the replenishment level, for the entire period and distinction is made between co-financing and *investment mobilized* – which excludes recurrent costs.

13. **In practice, confirmation of co-financing can be challenging**. The GEF requires a signed letter confirming co-financing by the time of CEO endorsement. In some cases, Agencies have experienced challenges securing such confirmations, and additional clarity on the amounts and entity providing the co-financing could be beneficial. For instance, in the case of an MDB loan, the non-concessional portion could be considered a contribution by the borrower.

14. **The adequacy of PMC is also related to co-financing requirements.** The GEF requires that co-financing be used to cover PMC at a level commensurate with the overall PMC ratio. Guidelines specify that "there should be 'proportionality' between the PMC covered by co-financing amounts and the PMC covered by the GEF funding. The spirit of this decision is that the GEF trust funds should not bear a disproportionate burden of the total management costs for GEF-financed projects, when co-financing is included." This has presented challenges, for instance in the case of CSO or private sector execution. Options for streamlining and simplifying co-financing requirements could include clarity on measuring in-kind co-financing, additional flexibility on the nature of the confirmations required and point(s) in the project cycle when co-financing is reported.

e. Monitoring Agency Compliance with GEF Policies:

15. **This is currently required once per Replenishment Cycle**. The Policy on Monitoring Agency Compliance with GEF Policies (ME/PL/02) and Policy on Minimum Fiduciary Standards (GA/PL/02) require Agency self-assessment and review of policy compliance and implementation capacity every second replenishment period, i.e. every 4 years. This is roughly analogous to a re-accreditation process as used by the Green Climate Fund, Adaptation Fund and others. All Agencies recently went through this process in 2022-23 and the next such review would start in the final year of GEF-8, i.e. in two years' time.

16. **This is an important feature of GEF governance insofar as the GEF relies heavily on the fiduciary and other capacities of its 18 Agencies**. Nevertheless, an extensive review every 4 years may not be required for GEF Agencies that are well established, with long track records and governance that also includes many GEF member countries. The self-

[7] GEF Co-financing Policy (FI/PL/01), 2018

assessment process is time and resource intensive for Agencies and requires the contracting of an independent third party reviewer by the Secretariat to undertake a thorough review, with costs borne by the GEF Trust Fund. There may be scope to adjust the periodicity of this exercise; e.g. to undertake it every 2 replenishment cycles or only in case of significant developments within the Agency.

f. *Providing implementation progress oversight*

17. **The GEF has established a robust yet streamlined approach allowing Agencies to provide yearly implementation progress updates.** Agencies inform the GEF Secretariat of project and program progress every year in the form of ratings on implementation quality and risk, disbursement progress and narrative updates on cross-cutting areas—gender equality, private sector engagement, stakeholder engagement and knowledge. In turn, the GEF leverages this information to report along the GEF-8 Results Measurement Framework and additional custom analysis in the Monitoring Report and through other outlets.

18. **This streamlined reporting approach is supported by deeper stock-taking at mid term and completion.** To reduce reporting efforts, a higher emphasis is placed on the important Mid-term review (MTR) milestone in projects. Agencies provide for example data on progress in achieving expected results and securing co-financing at MTR, as well as at completion. This allows Agencies and countries to focus on how this information can support project turnaround and improvements to achieve results by completion. This also supports the GEF in its ability to conduct deep-dive analyses and learning that inform future learning.

ANNEX 2: BACKGROUND ON SPEED OF APPROVAL AND DISBURSEMENT

Figure I. Time from PIF submission for GEF-7 FSPs to CEO endorsement (months)

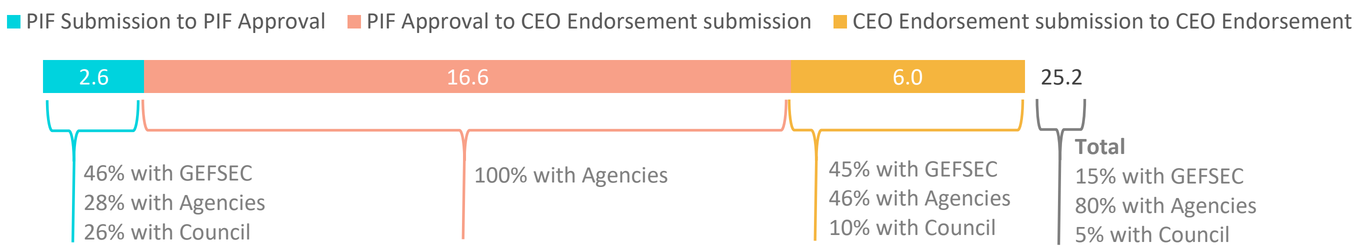


Table II. Average time from PIF submission to CEO Endorsement (months)

FY of CEO endorsement	Avg.	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
FULL-SIZED PROJECTS											
Value	29.7	27.1	29.7	29.6	29.4	29.2	32.9	38.0	29.3	28.3	27.8
Sample size	105	141	137	96	138	112	44	59	82	179	64
MEDIUM-SIZED PROJECTS											
Value	17.8	20.7	10.7	15.8	18.7	15.6	15.1	22.6	16.2	22.4	17.1
Sample size	44	25	56	78	66	39	57	26	10	36	49
ENABLING ACTIVITIES											
Value	3.2	3.0	1.4	3.2	2.0	2.5	3.8	2.8	4.0	4.6	5.5
Sample size	32	78	91	28	49	36	30	1	1	1	5

Table III. Average time from PIF/PFD approval to CEO endorsement submission (months)

FY of CEO endorsement submission	Avg.	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Average values											
FSP	17.5	14.3	18.6	19.7	23.2	15.9	17.3	17.1	15.2	17.1	16.9
MSP	11.5							13.1	8.6	13.5	10.9
EA	7.9		1.0	11.0		5.7		7.0	9.5	11.0	10.4
Sample size											
FSP	106	63	146	136	138	104	100	90	21	134	132
MSP	33							32	9	55	34
EA	3		4	2		3		1	2	1	5

Table IV. Average time from PIF submission to first disbursements (months)

1st disb. FY	Avg.	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21	FY22
Average values											
FSP	40.9	44.2	38.3	38.5	41.5	39.8	39.6	42.9	49.7	53.1	37.1
MSP	27.1	35.6	32.0	21.1	24.7	27.8	28.0	30.1	31.0	34.7	27.9
EA	14.8	10.6	12.5	13.8	15.7	13.9	21.2	24.1	15.6	15.2	18.7
Sample size											
FSP	93	82	86	127	102	133	119	92	69	70	49
MSP	44	34	36	53	77	50	59	42	30	24	32
EA	39	45	54	68	41	59	54	19	24	23	6