



Working paper

# The effectiveness of climate finance:

## a review of the Global Environment Facility

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## Abstract

The Global Environment Facility (GEF) is the longest standing multilateral climate change fund, and since 1994 it has been an operating entity of the financial mechanism of the United Nations Framework Convention on Climate Change (UNFCCC). It is replenished every four years, and is now in its fifth cycle with more than USD 1 billion for climate change projects. The GEF has grappled with many of the questions that confront the international community as it confronts the question of to design and operate effective international climate funds. It is one of the only funds to have adopted a criteria based approach to distributing climate finance, though this has been controversial. It has also placed a significant and growing emphasis on understanding the results of its work, investing in systems to measure the greenhouse gas (GHG) emission reductions that result from its funding. It has focused on supporting enabling environments that will promote low carbon activities in developing countries. It has also sought to support technology transfer and innovation – albeit with mixed results. It is therefore timely to take stock of its evolving priorities and areas of focus. This working paper is one of a series of Overseas Development Institute (ODI) studies of the effectiveness of international climate funds using a common analytical framework.

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# Summary

| FUND PURPOSE AND OBJECTIVES / THEORY OF CHANGE  |  |   | INSTRUMENTS |
|---|--|---|-------------|
| The Global Environment Facility was established to fund global environmental issues, and associated multilateral environmental agreements. It has financed programs that address climate change since 1991. |  |   |             |
| SPENDING  | <b>1. Resource mobilisation</b><br><br>The GEF is largely funded through voluntary contributions from member governments, raised through replenishment negotiations that take place every four years. Funding is meant to cover “incremental” or “additional” costs. The resources entrusted to the GEF are not in line with the scale of the challenges that it seeks to address.   | USD 1077 pledged, of which USD 776 million deposited so far.  |             |
|   | <b>2. Voice and administration</b><br><br>The GEF is a networked institution with multiple and diverse lines of accountability to the GEF council and Assembly, the UNFCCC COP, and its partner agencies. Over time, the fund has established a secretariat to respond to the differing needs of these diverse stakeholders. Ensuring that these systems are effective and efficient is a challenge. Developing and developed country governments have equal formal voice in the operations of the GEF, although contributor countries often wield influence through replenishment negotiations. The fund operates with substantial transparency. While many NGOs are actively involved in the execution of GEF supported projects within recipient countries, civil society have been less active in informing and monitoring its work on climate change in recent years.   | - GEF Council of 32 members: 16 developing, 14 developed, and 2 economies in transition<br>- GEF Assembly of 180 countries meets every 3 years to review and evaluate<br>- USD 14.5 million per year administrative budget (4% of capitalisation) |             |
|   | <b>3. Investment Strategy and Allocation</b><br><br>The GEF investment strategy is now well established and fairly formalised. Balancing the need for rigorous processes and quality control with the need for nimble and flexible approaches is a substantial challenge. The GEF is one of the few climate funds to have a formal and criteria based approach to allocation of its resources. Adoption of STAR has introduced greater predictability in the funding process. In some cases, this may prompt countries to take more strategic and deliberate approaches to accessing GEF resources. A pilot program to accredit new implementing partner organisations, including developing country based institutions, offers many lessons for efforts to improve modalities for accessing and delivering climate finance. Early experience suggests that the process of ensuring compliance with GEF fiduciary and environmental and social standards has been difficult. |   |             |
| Grants cover incremental costs of projects, which must be complemented by a variety of other instruments, as recipients are required to raise co-finance when accessing the GEF.                            |  |   |             |

Grants cover incremental costs of projects, which must be complemented by a variety of other instruments, as recipients are required to raise co-finance when accessing the GEF.

|                  |   |  |
|------------------|---|--|
|                  | <p><b>4. Disbursement and Risk Management</b></p> <p>The GEF does not currently report on the status of disbursement of funds to projects that are in implementation. There is a need to strengthen reporting on the status of its operations, and disbursement to projects and programs in order to allow more informed understanding of its processes. The GEF safeguard policies emphasise the need for project implementers to incorporate environmental assessment into their approaches, and avoid doing harm particularly to natural habitats. Adherence with these standards has the potential to strengthen these institutions, but potential partner institutions are struggling to meet requirements. Clearer guidance on requirements, how to comply with them, and technical support for coming into such compliance may be necessary.</p>   | No reporting   |
|                  | <p><b>5. Monitoring, evaluation, and learning</b></p> <p>Learning was an early priority for the GEF, and the fund has improved and strengthened its monitoring and evaluation processes. It has developed standardised tools to account for GHG emissions; resulting in more consistent data on GHG reductions than other areas. The Evaluation Office produces Annual Monitoring and Performance Reports on the GEF and an Overall Performance Study (OPS) every four years in advance of replenishment rounds. There is scope for greater coordination and collaboration with other climate funds seeking to collect information on the impacts of mitigation projects, in order to strengthen other aspects of GEF mitigation project impact assessment.</p>   | 148 million tons of CO2 equivalent reduced through GEF cycles 2 – 4, |
| <b>PORTFOLIO</b> | <p>The GEF 5 has approved USD 372 million for 66 projects and programs. Efforts to promote the uptake of energy efficient and low carbon technologies have received the majority of funding so far, with over 25% of the portfolio, followed by programs aimed at strengthening institutional capacity in order to support countries to scale up their mitigation actions. The remainder of the portfolio supports a diversity of renewable energy technology applications, particularly wind power and biomass based approaches. A large share of funding supports countries in Asia and the Pacific.</p>  |  |
| <b>OUTCOMES</b>  | <p><b>6. Scale</b></p> <p>The GEF has supported projects of a diversity of sizes, including full-sized projects (FSPs) of over USD 1 million and medium-sized projects (MSPs) of up to USD 1 million. The Small Grants Program (SGP), which funds up to US\$50,000 per project, has allowed the GEF to support projects that empower communities to engage on climate change activities, and has helped it build a community level constituency. The complementarity between SGP and core, medium and full size GEF projects has not always been clear, however. An enduring challenge for the fund is to deliver at scale.</p>   |  |
|                  | <p><b>7. Enabling Environments</b></p> <p>The GEF has placed a strong emphasis on helping improve underlying policy, regulatory and governance related to mitigation in developing countries. This is a significant strength. But the changes that have been made have not yet been at adequate scale to fundamentally re-align policies with low carbon development approaches. Many enabling programs have not been well linked with the wider processes that shape investment in mitigation in the country. Interventions have often taken narrow or technical approaches, rather than grappling with many of the challenges of governance and underlying incentives that present themselves within recipient countries.</p> <p><b>8. Catalytic outcomes</b></p> <p>A relatively high co-finance ratio of 1:14 for climate change projects suggests that the GEF has been relatively successful in mobilising additional investment to complement the limited resources that it has available, although much of this co-finance comes from implementing partners. The need to strengthen private sector engagement with the GEF is recognised. In response, the GEF has experimented with private sector set aside programs, which are supporting public partnerships and small and medium enterprise incubators</p> |  |

|  |   |  |
|--|---|--|
|  | <p><b>9. Innovation</b></p> <p>The GEF has re-engaged with technology innovation in its 5<sup>th</sup> cycle, prompted by UNFCCC interest. Its record to date in supporting technology processes under the UNFCCC, however, is mixed. Balancing competing demands to promote innovation with other demands to maximise cost effectiveness and reduce risk, has been a substantial challenge.</p>  |  |
|  | <p><b>10. National ownership and sustainability</b></p> <p>The GEF has an elaborate formal architecture to engage national institutions and seeks to ensure that programs are country driven, but perceptions of the effectiveness of these arrangements are mixed. Greater engagement of national stakeholders appears to be taking place through strategic processes to program available resource. There is a need to forge strategic alliances with key national stakeholders who may be partners seeking change</p>  |  |
|  | <p><b>ROLE IN THE GLOBAL CLIMATE FINANCE ARCHITECTURE</b></p> <p>While the GEF is an operating entity of the UNFCCC, the relationship between the GEF and the UNFCCC COP has been difficult. The establishment of the Green Climate Fund reflects many parties desire to see a new mechanism that is better placed to deliver on climate finance and the objectives of the convention. The multiple lines of accountability of the GEF – to its Governing Council, to its Assembly, to its implementing partners, and to wider global stakeholders present a complex content for its operations. Many of the investments that it has made in learning, monitoring for results, and in strengthening enabling environments in recipient countries have an important role to play in the evolving global architecture</p> |  |



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# Acronyms

|        |  |
|--------|--|
| APR    | Annual Performance Report                              |
| CAF    | Andean Development Bank                                |
| COP    | Conference of the Parties                              |
| CSP    | Concentrated Solar Power                               |
| EBRD   | European Bank for Reconstruction and Development       |
| ESCO   | Energy Services Company                                |
| FECO   | Chinese Foreign Economic Cooperation Office            |
| FONAM  | National Environmental Fund of Peru                    |
| FSP    | Full-Sized Project                                     |
| FUNBIO | Brazilian Biodiversity Fund                            |
| GBI    | GEF Benefits Index                                     |
| GEF    | Global Environment Facility                            |
| GHG    | Greenhouse Gas   |
| GPD    | Gross Domestic Product                                 |
| GPI    | GEF Performance Index                                  |
| IEA    | International Energy Agency                            |
| IA     | Implementing Agency                                    |
| LDCF   | Least Developed Countries Fund                         |
| MDB    | Multilateral Development Bank                          |
| MSP    | Medium-Sized Project                                   |
| NGO    | Non-Governmental Organisation                          |
| NPFE   | National Portfolio Formulation Exercises               |
| ODI    | Overseas Development Institute                         |
| OECD   | Organisation for Economic Co-operation and Development |
| OP     | Operational Performance                                |
| PIF    | Project Identification Form                            |
| PPP    | Public Private Partnerships                            |
| RAF    | Resource Allocation Framework                          |
| SCCF   | Special Climate Change Fund                            |
| SGP    | Small Grants Program                                   |
| STAP   | Scientific and Technical Advisory Panel                |
| STAR   | System for Transparent Allocation of Resources         |
| TEC    | Technology Executive Committee                         |
| TNA    | Technology needs assessments                           |
| UK     | United Kingdom   |
| UNDP   | United Nations Development Programme                   |
| UNEP   | United Nations Environment Programme                   |
| UNFCCC | United Nations Framework Convention on Climate Change  |
| UNIDO  | United Nations Industrial Development Organisation     |
| US     | United States  |
| WWF    | World Wildlife Fund                                    |

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# Introduction

The Global Environment Facility (GEF) was created in 1991, to serve as a consolidated financial mechanism for funding global environmental issues, and associated multilateral environmental agreements. Its mandate is to provide new and additional grants and concessional funding to cover the "incremental" or "additional" costs associated with achieving global environmental benefits. While the vast majority of GEF finance is provided as grants, the GEF 5 cycle established a private sector set aside program that offers non-concessional finance.

The GEF is the longest standing existing multilateral climate fund, with a now well established track record of funding climate change activities. It is an operating financial entity for the UNFCCC (as well as other multilateral agreements) and through its climate change focal area supports mitigation activities. The GEF secretariat has also been entrusted with managing two Funds established under the convention to support adaptation activities: the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF), as well as the Adaptation Fund, an instrument of the Kyoto Protocol. Together with the UNFCCC secretariat, the GEF secretariat acts as the interim secretariat of the Green Climate Fund (GCF). Over the years, it has experimented with many different approaches to financing climate change activities in developing countries, evolving in response to pressures from its diverse stakeholders. In recent years the GEF has taken many steps to strengthen its relevance and ways of working. Yet many of the lessons from the establishment, operationalization and implementing record of the GEF are not well appreciated or understood.

This paper reflects on the effectiveness of the GEF with consideration for the processes by which it spends money, and the likely outcomes of the funding that has been delivered. Our focus is on developments in its Fifth Replenishment Cycle (GEF 5) for its climate change focal area activities. Our review is based on a framework for reflecting on the effectiveness of international climate, developed by ODI through an iterative process of research, analysis and engagement, building on our longstanding program of work monitoring dedicated public finance (Nakhooda 2013). It is part of a series of studies of the effectiveness of dedicated climate funds, released as working papers to stimulate discussion and feedback. These papers will be revised and refined to respond to comments received, and new developments.



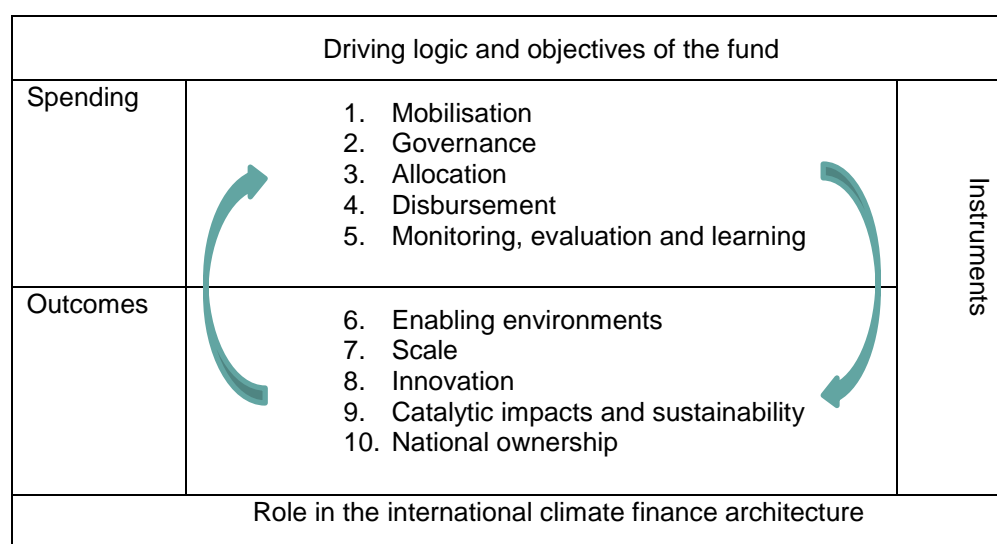
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# Objectives, Framework and Methodology

As the international community seeks to scale up the delivery of climate finance, there is growing interest in understanding what it takes to spend international climate finance effectively. The goal of this assessment is not to present a comprehensive evaluation of the Global Environment Facility. Instead, we seek to provide an evidence based overview of the operations and achievements of climate finance initiatives, and identify key challenges encountered (and why), and lessons learned for the effective delivery of climate finance. This paper presents a qualitative analysis of the achievements of climate funds complemented with relevant quantitative data, that is cognisant of the context and constraints within which funds operate.

The assessment starts by considering the driving objectives of a multilateral climate fund, setting it in its historical context, and the range of financing instruments that it has been able to offer. The context, objectives, and instruments that a fund offers fundamentally shape what it is able to achieve. We then analyse five interlinked components of **effective spending**, considering the integrity, efficiency and transparency of associated processes: (1) resource mobilisation, as the availability of resources fundamentally affects what a fund is able to support, and the range of outcomes and objectives it is able to achieve (2) the governance of a fund, as this is likely to shape trust in an initiative, and the extent to which it operates in a transparent, inclusive and accountable way (3) an investment strategy and fund allocation process is one of the key outcomes of an effective governance structure, and it is essential to understand the formal processes and informal influences that affect how funding decisions are made (4) disbursement of funding and risk management in support of approved programs is a key issue of interest, and provides insights into the mechanics of supporting robust activities, and avoiding negative impacts (5) monitoring, evaluation and learning processes, in order to understand the systems that funds have established to understand impact and strengthen performance.

Next, we present a review of the active portfolio of the fund, in order to inform subsequent analysis of the effectiveness of its outcomes, using fund self-reporting complemented with data collected on <http://www.climatefundsupdate.org>. The review considers the recipients of funding (type of institution; geographic distribution); and the types of technologies and approaches that have been supported.



**Figure 1: Framework for analysing climate finance effectiveness**

On the basis of the portfolio review, we consider five interlinked components that are likely to shape the **outcomes** of global climate funds. We analyse whether the fund has been able to work a variety of (6) scales from global to local, and support both small and large size projects that can be replicated and scaled up. We also consider the funds approach to engaging with (7) enabling environments, and whether it has been able to address underlying policy, regulation and governance that affects the long term viability of low carbon and climate resilient interventions. Next, we review the (8) catalytic effects of the fund, particularly in with respect to the private sector, recognising the diversity of ways in which investment and implementation capacities may be harnessed in support of low carbon climate resilient development. Recognising the central importance of finance for (9) innovation to global efforts to respond to climate change, we analyse the extent to which climate funds support innovative technologies and approaches, including at the local level. Finally, we consider the role of the fund in fostering (10) national ownership and leadership, seeking to understand the role that national institutions have played in identifying funding priorities, and how well its funding has been aligned with emerging national climate change and development priorities. We conclude by considering the role of the GEF in the global international climate finance architecture.

In completing this analysis, we drew on primary interviews with stakeholders in the fund, and complemented it with selective examples from the portfolio review that illustrate the various approaches that have been taken. Where data availability allowed it, we complemented our qualitative analysis with quantitative analysis. Our review of the portfolio is current through March 2013. Given that the GEF is a relatively long established fund, we were able to draw on literature and evaluations of prior operations, although the particular focus of our analysis is on progress made during its 5<sup>th</sup> cycle. We made particular use of the Fifth Overall Performance Study of the GEF prepared by the Evaluation Office as well as documentation to inform its 6<sup>th</sup> replenishment. Finally, we analyse the role of the fund in the global international climate finance architecture.

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# The Context for Establishing the Global Environment Facility, and its Driving Logic and Objectives

The GEF was established in the context of growing global awareness about mounting environmental problems, which culminated in the 1992 Rio Summit on Sustainable Development (Sjober 1994, Clemecon 2006). It has its origins as a World Bank administered Trust Fund. Its realisation was catalysed by a commitment of funding for an international environmental fund from the government of France, offered at the World Bank annual meetings in 1989. By 1991, USD 860 million had been raised from 16 OECD countries and nine developing countries for a pilot programme to assist in the protection of the global environment by providing grants and concessional funding to cover the “incremental” or “additional” costs of delivering global environmental benefits (Streck 2001). The focus on incremental costs and additionality reflected concerns that efforts to raise funds for environmental purposes would reduce available finance for developmental needs (Sjober 1994).

A key factor in its original design was to draw on the respective capabilities and advantages of existing international institutions, rather than establishing a new institution. The United Nations Development Programme (UNDP), the United Nations Environment Programme (UNEP), and the World Bank were the three initial partners implementing GEF projects, with the World Bank serving as administrator and trustee, in addition to a central role as implementing entity for supported projects. In its earliest incarnations, it had limited formal governance or bureaucracy.

From the outset, however, developed and developing countries had very different ideas about how the GEF should operate and the purpose it should fill. Developed countries were keen to work through existing channels, and avoid a proliferation of international funds for diverse environmental purposes (Sjober 1994, Streck 2001). Many developing countries were wary of its close links to the World Bank. When they agreed to use the GEF as a financial mechanism for Multilateral Environmental Agreements in the context of the Rio United Nations Conference on Environment and Development (UNCED) processes, it was on the condition that significant reforms would be made to increase transparency and the formal participation of developing countries in decision-making. Today, the GEF has a governing council with a roughly equal representation of developed and developing countries, an independent secretariat (that is hosted by the World Bank, and uses its

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administrative systems), its own evaluation office, and is informed by a Science and Technology Advisory Panel (STAP).

The GEF is replenished every four years; and each replenishment process has prompted a process of stock taking that has resulted in refinements and changes to the way in which it operates. This paper is focused on the 5th cycle of the GEF, during which it has initiated a number of further reforms. These have sought to rationalize the processes by which funds are allocated, and to improve systems adopted during the 4<sup>th</sup> replenishment to allocate resources. They are also aimed at strengthening strategic engagement with developing country counterparts and stakeholders, and to establish regional technology centres. Box 1 presents the strategic objectives for the GEF 5 climate change focal area.

### **Box 1: GEF Climate Change Strategic Objectives**

- Promote the demonstration, deployment, and transfer of innovative low-carbon technologies.
- Promote market transformation for energy efficiency in industry and the building sector.
- Promote investment in renewable energy technologies.
- Promote energy efficient, low-carbon transport and urban systems.
- Promote conservation enhancement of carbon stocks through sustainable management of land use, land-use change, and forestry.
- Support enabling activities and capacity building

# Spending

## **A. Instruments**

The GEF offers grants that cover the incremental costs of a project that addresses climate change relative to an intervention that would achieve the same objectives but would not consider climate change. These grants may be complemented by a variety of other instruments, as recipients are required to raise co-finance when accessing the GEF.

The underlying assumption of the GEF financing model is that the additional costs of responding to climate change can be precisely identified through comparison with the costs of achieving the same local benefit if climate change were not a factor. The concept seeks both to limit the costs that international funds would need to bear, as well as to ensure that the costs of addressing global environmental challenges would not come at the cost of meeting national development priorities. While detailed methodologies to this end have been developed, the concept has proved difficult to apply in practice. Indeed, the concept of incremental costs is increasingly difficult to use in light of the increasingly well recognised links between development activities and climate change incentives, the push to incorporate climate change into development activities, and the increasing viability of low carbon approaches (Ballesteros et al 2010, Steer 2012).

Co-finance is defined as “project resources that are committed by the GEF agency itself or by other non-GEF sources and which are essential for meeting the GEF project objectives. Typically, such resources are committed as part of the initial financing package” (GEF 2002). Co-finance includes resources from the implementing agency itself, which may include loans for which the government assumes responsibility; relevant government

counterpart resources; and contributions mobilized for the project from other multilateral agencies, bilateral development cooperation agencies, NGOs, the private sector, and beneficiaries. This is a broad definition of co-finance, which may be provided in the form of grants, concessional or market rate loans, credits, equity investments, or committed in kind support. All funds must specifically support project realisation.

In practice, finance from implementing entities and from the counterpart government are the most prevalent forms of co-finance that have been mobilised, and co-finance is typically higher for programmes implemented by development banks which often use other instruments (OP5 2013, APR 2013). GEF grants are therefore often used as part of a wider finance package, with the goal of reducing costs to help make interventions viable.

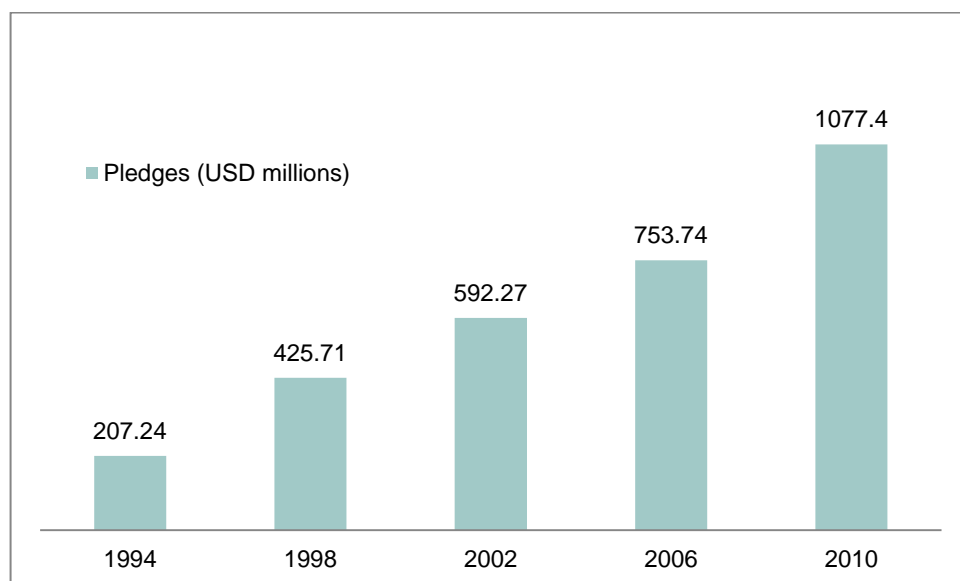
The policy on co-finance does not specify minimum ratios to be reached, and programming strategies do not specify minimum thresholds for mitigation projects. However, GEF projects are generally expected to achieve a minimum co-financing ratio of 1:1, and mitigation projects have achieved an average co-finance ratio of 1:3 (OP5 2013).

## 1 Resource Mobilisation Approach

### 1.1 Funding committed

The GEF is largely funded through voluntary contributions from member governments, raised through a series of replenishment negotiations that take place every four years. As of March 2013, it had also earned a cumulative US\$ 1,141 million in investment income on undisbursed funding (GEF Trustee 2013), and USD 144 million during the GEF 5 period as a result of the trustee's management of its finance to achieve a 1.5% yield. Unallocated resources from previous replenishments also contribute to GEF funding.

The GEF 5 directs US\$ 1,077 million towards climate change programs, which is nearly 40% higher than in the GEF 4 cycle. Many countries directed part of their Fast Start Climate Finance contributions through the GEF. The climate focal area represents about a quarter of overall GEF programming. The capitalisation of the GEF is of course substantially smaller than any estimates of the likely costs of climate change in developing countries, which run into the hundreds of billions of dollars (UNFCCC LTF 2012).



**Figure 2: Pledges to the GEF climate change focal area since its establishment**

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As noted, limited resource availability has resulted in a strong (though contested) focus on co-finance of projects in order to stretch its GEF investment potential (GEF 2003). The GEF co-finance policy stresses that co-financing also indicates “the strength of the commitment of the counterparts, beneficiaries, and Implementing and Executing Agencies to those projects” as well as their sustainability.

## **1.2 The terms of commitment**

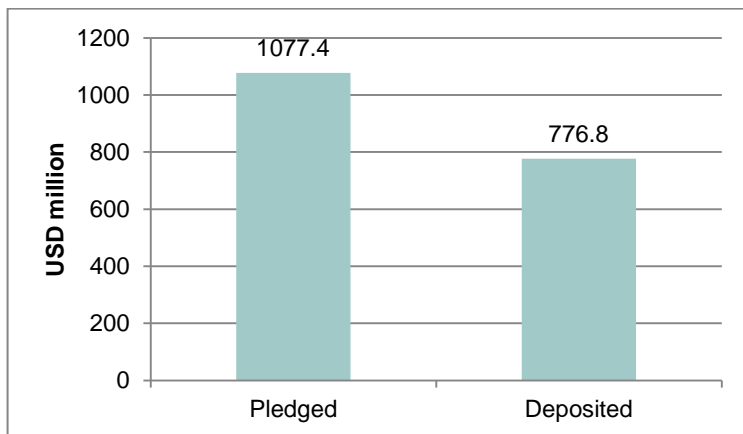
The replenishment process is managed by the World Bank as the trustee of the fund together with the GEF secretariat. The CEO of the GEF hosts meetings, and helps shape the agenda for these discussions informed by materials prepared by the GEF secretariat and its Evaluation Office. There has been little appetite to revise the period of GEF replenishment from contributor countries. Early deliberations over the establishment of the GEF proposed a capitalisation on the basis of contributions of 1% of GDP from all countries interested in participating. These proposals were not operationalized. However, both developed and developing countries have contributed to the GEF over the years. Developing country governments (including China, India, South Africa, Mexico and Korea) contributed some USD 16 million to the GEF 5. Developed countries have made much larger contributions, however – the largest contributors being the United States (US), Japan, Germany, the United Kingdom (UK), France, Canada and Sweden (Climate Funds Update 2013).

GEF resource mobilisation is loosely based on the burden sharing arrangements used for the 10th replenishment of the International Development Agency in 1994 (OPS4 2009). Over time, however, some countries have been willing to exceed these minimum shares (OPS4 2009). However, the fact that the US contributions to the Fund have often been relatively small despite it being one of the world’s wealthiest countries, has constrained how much other countries are willing to pledge as they are reluctant to bear more than their ‘fair share’ (Clemecon 2006).

Contributors broadly specify programming priorities during replenishments, and make policy recommendations, with the implicit threat of withdrawing financial contributions if their demands are not met. Contributor countries are therefore seen to wield substantial informal influence in the governance of the GEF (Ballesteros et al 2010).

In practice, the GEF has found that its largest contributors are not always able to follow through on their pledges of finance; final deposits are often received only towards the end of a cycle, leading to uncertainty in programming. The US has had a particular struggle to secure Congressional approval of its proposed contributions to the fund. As of July 2013, US\$ 776 million of US\$ 1077 million pledged to the GEF had been deposited to the fund (see figure 3). This represented a substantial increase of more than 200 million since March 2013 when only US\$ 571 million had been deposited.





Source: <http://climatefundsupdate.org>

**Figure 3: Pledges to the GEF climate focal area compared with deposits as of July 2013.**

### Take away messages

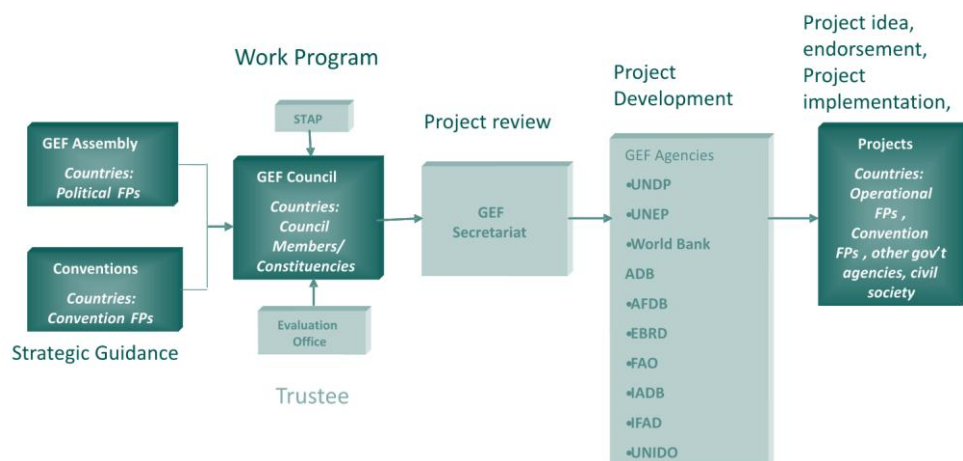
- While the GEF was established to meet the incremental costs of addressing global environmental challenges such as climate change, it was not entrusted with resources at a sufficient scale to take on these challenges.
- The substantial gap between the finance required to address climate change in developing countries and the resources that it has been able to mobilise through has been a constraint.
- The resource mobilisation model has provided a degree of predictability through four year replenishment cycles which allow some clarity on available resources to enable forward planning.

## 2 Voice and Administration

### 2.1 Governance of the Fund

The pilot program from which the GEF evolved had very little formal governance or bureaucracy associated with it. But influence over the operations of the GEF has always been closely linked to its resource mobilisation and funding model.

Originally, country participation in the GEF was based on making a minimum financial contribution of US\$ 5 million. It was hoped that this would give developed and developing countries a sense of shared ownership of the Fund. Countries did not need to be participants in the fund in order to access it, however. In practice, OECD contributions were substantially larger than those of developing countries, which gave the greater influence over deliberations. The issue of how to ensure equitable representation of developing countries in the board of the GEF became (and has remained) a central point of debate and concern. When the GEF was reorganised in 1994, it was on the condition that all countries would have access to the fund and a voice in decision-making about how to program its resources.



**Figure 4: Structure of the GEF**

In response, a GEF Council of 32 members was established, with a roughly even representation of developing (16) and developed country (14 developed country governments and 2 economies in transition) governments. If a consensus cannot be reached, a “double majority” within both constituencies must vote in favour of a proposal for it to be adopted. This “equal” representation arrangement represented a significant innovation in global governance at the time when it was adopted (Streck 2002), and a departure from the structures of the GEF’s host institution, the World Bank, in which votes were linked to financial contributions (Horta 2002). To date, the GEF has never resorted to formal voting in order to make decisions. Finally, there is also scope for five NGO observers representing various geographic regions of the world to participate in these meetings as observers.

**The Council** acts as a governing board for the fund, and meets twice a year to take stock of progress made (across focal areas) and provide guidance on ways forward. The **GEF Assembly** of more than 180 country participants in the GEF meet every 3 years. It reviews and evaluates the GEF’s general policies, operations, and membership, and provides a forum for wider debate in the run up to replenishment negotiations. The GEF is also accountable to the **Conference of the Parties (COP)** of the UNFCCC through a memorandum of understanding. It reports to the COP on a regular basis, and the COP in turn periodically reviews its performance as an operating entity of its financial mechanism. The GEF in turn seeks to respond to its guidance, although the extent to which it has done so is unclear. All GEF projects must be approved by national **operational focal points**, who bear responsibility for liaising with national institutions in developing proposals. The GEF has formal mechanisms for involving scientific and technical experts, and NGOs. In addition, one of the early innovations of the GEF was to establish a STAP made up of six expert advisers to guide the GEF’s technical approach, screen projects at an early stage to see if they would benefit from scientific advice, and provide input to the GEF Council and Assembly as needed. Keeping the GEF’s bureaucracy as efficient and nimble as possible is one of the major challenges.

## 2.2 Working modalities and administration

The Secretariat of the GEF and its CEO are central to its operations. The Secretariat shapes and shepherds the operations of the fund and ensuring coordination across implementing entities and executing agencies. It has evolved to be increasingly independent in its workings, even if it has many formal ties to its primary host institution, the World Bank, and now has more than 40 full time staff. The GEF also has its own evaluation office. The Secretariat is relatively small considering the scope of its responsibilities, which have evolved to also include hosting other climate change funds established under the UNFCCC such as the Adaptation Fund, the Special Climate Change Fund and the Least Developed Countries Fund. It facilitates the operations of the GEF, and manages the project cycle

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including by reviewing and managing project proposals. The CEO also approves small projects, as well as medium size projects and enabling projects. Its work to develop strategic and operational priorities has helped to focus the fund, and facilitate learning (Aidler 2009). Since its establishment, the GEF has had four CEOs, most recently Monique Barbut, who was succeeded by Dr Naoko Iishi in 2012.<sup>1</sup> GEF CEOs have played a key role in setting the tone for the organisation, and championing new strategies and approaches.

The cumulative administrative budget for the GEF 5 cycle is USD 58 million (for all focal areas), or an average of USD 14.5 million per year which represents about 4% of its total capitalisation, (GEF Trustee 2013). The trustee reports on the financial status of the fund at all meetings. The evaluation office periodically evaluates the processes of the GEF to make recommendations to streamline and improve its work. In addition, implementing agencies and executive agencies of the GEF are able to charge project management fees of up to 9.5% of the project budget for projects under \$10 million, and 9% for those over \$10 million. Fees for small grants are capped at 4%. The adoption of standardised fees has been a difficult process, and ensuring the accountability and cost effectiveness of the services of these agencies has been a particular concern.

### 2.3 Transparency and inclusiveness

The GEF was the first financial institution to formally engage NGOs in its operations. NGOs are formally represented within the GEF through the GEF/NGO network, which is made up of 18 members, representing 15 regions, and three representatives from Indigenous Peoples' Organizations, and coordinated by a focal point. There are over 400 accredited NGOs. Observers can provide written inputs into the work program of the fund. They also select regional representatives who are invited to participate in council meetings where they can make inputs at the invitation of the chair. There is also a one day meeting with the GEF NGO Network alongside all meetings of the GEF council to create a platform for deliberation and debate. NGOs participate in the fund in a diversity of ways, including as project implementers. Indeed some major international NGOs have recently been accredited as executing entities of the GEF. This has resulted in a diversity of interests and drivers for NGO participation in the GEF.

Over time NGO interest in active engagement with the GEF around climate change issues has waned. The GEF is no longer as new and interesting as it was at the outset. Indeed there seems to be much more active civil society engagement on climate issues at other more recently established multilateral climate funds including the Adaptation Fund and the Climate Investment Funds (CIFs). So while the GEF may have catalysed more inclusive approaches to climate fund governance, NGOs seem to make less use of this formal space on climate change related issues. The GEF has also sought to engage private sector actors since its inception, but they do not have a formal role in its core governance. The GEF Earth Fund which focuses on public private partnerships did engage two private sector representatives as board members for this sub-fund.

The GEF operates with a relatively high degree of transparency, making most documentation on its operations and decisions publicly available including through its website. It maintains a comprehensive project database, where information on all projects that have been approved for funding (and those that have been cancelled) is accessible. In 2013 the GEF became a signatory to the International Aid Transparency Initiative, and will begin to report on its operations in accordance with this common standard. As we discuss in section 4, however, there is scope to improve reporting on the status of portfolio implementation.

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<sup>1</sup> The first CEO of the GEF (including its pilot phase) was Mohammed El Ashry, who was instrumental in conceptualising the GEF as Senior Vice President of the World Resources Institute. He was followed by Leonard Good who served a three year term.

### Take away messages

- The GEF is a networked institution with multiple and diverse lines of accountability to the GEF council and Assembly, the UNFCCC COP, and its partner agencies. The fund secretariat has to respond to the differing needs of diverse stakeholders
- Developing and developed country governments have equal formal voice in the operations of the GEF, although contributor countries often wield significant informal influence through replenishment negotiations
- The fund operates with significant transparency. While many NGOs are actively involved in the execution of GEF supported projects within recipient countries, civil society appear to have been less active in informing and monitoring its work on climate change in recent years

## 3 Investment strategy and allocation

Parties to the UNFCCC, World Bank borrowers, and eligible recipients of UNDP technical assistance are eligible to access the GEF. Programs must be consistent with national priorities while also delivering global environmental benefits. In GEF 5, the decision was taken to allow developing country institutions to have “direct access” to the GEF (i.e. without working through implementing entities) for enabling activities (such as the development of national communications to the UNFCCC) and for National Portfolio formulation exercises. All approved projects must reflect the six strategic priorities of the GEF 5 cycle (see Box 2).

### Box 2: The Agencies of the GEF

#### Implementing Agencies

The World Bank

United Nations Development Programme (UNDP)

United Nations Environment Programme (UNEP)

#### Executing Agencies

Asian Development Bank

African Development Bank

European Bank for Reconstruction and Development

Inter-American Development Bank

International Fund for Agriculture and Development

Food and Agriculture Organization of the United Nations

United Nations Industrial Development Organization (UNIDO).

WWF US and Conservation International have recently been approved to be new GEF partner institutions. Additional agencies are currently under consideration: see section 3.3

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### 3.1 Formalising Resource Allocation

The GEF is one of the few climate funds to have adopted a formal and technically informed basis for allocating resources. In the case of the GEF, efforts to adopt a framework sought both to help stakeholders navigate how to allocate scarce resources, as well as to reinforce a focus on climate related results.

Starting with the GEF 4 allocation period in July 2006, country allocations were determined with the help of two indices: a GEF Benefits Index (GBI) that measured the potential of each country to generate global environmental benefits for climate change and biodiversity, and the GEF Performance Index (GPI) which measures country capacity, policies, and practices relevant to a successful implementation of GEF programs and projects. 75% of resources would go to the highest ranked countries, while remaining countries would be placed in groups with collective indicative allocations.

The goal was to better target funding to countries where emissions were high, and implementation capacity was likely to be robust. But the content of the indicators (many of which were based on confidential information from World Bank Country Policy and Institutional Assessments) and the amount of resources to be allocated to high ranking countries were highly controversial. The performance orientation of the RAF also did not reflect UNFCCC guidance which emphasised the importance of universal access to finance (Clemencon 2006). The adoption of the RAF was perceived to have been forced upon the GEF by the US through replenishment negotiations, and extremely unpopular with the many developing countries for whom it would restrict access to the GEF. Nevertheless, the adoption of the RAF does appear to have resulted in a greater focus on ensuring that GEF climate focal projects targeted countries with the highest emission mitigation opportunities.

A major focus of the GEF 5 cycle has been to try and improve upon the inadequacies of the original RAF framework, so that it better captures different country circumstances. The RAF has been replaced with a System for Transparent Allocation of Resources (STAR). The STAR complements the GBI indicators on environmental benefits and the GPI on implementation capacity with a social and economic index based on Gross Domestic Product (GDPI) which is weighted to reflect the additional funding needed by poorer countries. The potential for global climate benefits in relation to climate change mitigation is calculated using an emission related component adjusted for a factor that takes into account improvement in carbon intensity since the base year of 1990. An additional 5% component was added to reflect forest cover and deforestation. An allocation floor of USD 4 million ensures that the smallest countries and island nations will have access to enough funding to implement viable projects. In order to ensure that a few countries do not monopolise the portfolio, no more than 11% of total available climate funds can be allocated to any one country. Funding to support countries to report to the convention is delivered out of a separate pot.

While the move to more formalised allocation frameworks may have been contentious, GEF evaluations suggest that it has improved the predictability of funding for recipient countries, and given them a clearer sense of what they can expect from the GEF (OP5 2013). As part of the GEF 5 cycle, countries also have the option to access up to USD 30,000 to undertake voluntary National Portfolio Formulation Exercises (NPFE), to help them set priorities for how they would like to programme available funds. The goal has been to support countries to make more strategic allocations of available resources. Undertaking a NPFE is not a requirement or pre-requisite for requesting GEF grants. It has been observed, however, that there is a case for strengthening processes of in country engagement and partnership in selecting projects to be funded to ensure their strategic impact and value. While there must be evidence of stakeholder consultation in proposing projects, and indeed this is a criteria for project approval, to date the processes by which GEF projects have been selected and

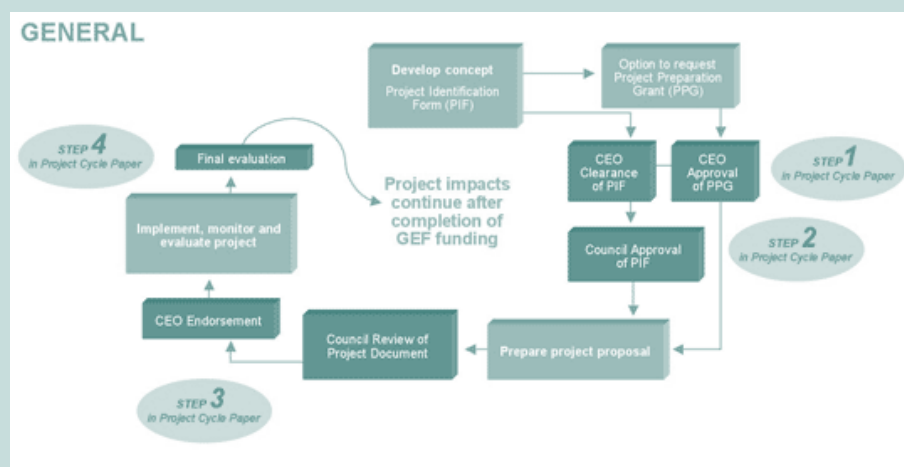
proposed have varied greatly across countries, largely driven by IAs and their in country partners.

### 3.2 Simplifying and accelerating the project cycle

A major source of frustration has been the complexity of the GEF's project cycle. In GEF 5, a substantial focus has been on accelerating funding decisions, which have been known to take up to 60 months to complete. Poor connections between the decision making cycles of the GEF decision points and of the individual Agencies can cause delays. Delays reflect both the complexity of GEF processes as well as the capacity of implementing agencies and recipient countries to develop proposals. Some institutions report avoiding collaborating on GEF projects because the long funding cycles for the 'incremental funding' can slow down the overall project. The project cycle was revised following a comprehensive evaluation of time lags and processes (See box 3).

#### Box 3: The GEF Project Cycle

Project proposals are developed by GEF agencies. These must be endorsed by the country operational focal point, and pass the implementing or executing agencies own internal project procedures. At this stage they are submitted as a Project Identification Form (PIF) to the GEF Secretariat to be reviewed and cleared by the GEF CEO based on country eligibility, alignment with GEF objectives and availability of resources within the country resource allocation. Projects are then sent to the STAP for screening against scientific and technical concerns, and are integrated into the GEF work programme. The GEF Council approves PIFs within the overall work programme every six months, or whenever new grant applications reach US\$50 million. After the PIF is approved, the applicant submits a full sized Project Document with complete details of the project it is reviewed by the Secretariat, Council and CEO before final endorsement.



Source: GEF <http://www.thegef.org/gef/content/what-gef-project-cycle>  
GEF Project Cycle and Approval Process

Since 2010, The GEF has committed to complete all steps within 18 months for a FSP, and 12 months for a medium-sized project (MSP), from the date of Council approval of the work programme till CEO endorsement of the final project document. It has not yet been possible to reach definitive conclusions on the efficiency of the new project cycle and impacts of business standards due to data availability limitations (OP5 2013), though this is an area of further enquiry. Certainly work remains to be done to address lingering perceptions of the slow and unwieldy nature of GEF processes.



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### 3.3 Expanding Partnerships

Another commitment of the GEF 5 cycle was to expand the range of institutions through which it works. In 2011 a pilot programme to accredit new implementing partners was initiated. The pilot is in part an effort to respond to demands for the GEF to work directly with developing country based institutions, informed by the experience of the Adaptation Fund which gave developing country and regional institutions “direct access” as implementing entities (Canales Trujillo and Nakhooda 2013). It will accredit up to ten institutions to be GEF partner agencies, of which at least five will be developing country based institutions. The process is overseen by an accreditation panel, and has moved slowly.

In June 2013 the Council announced that two international NGOs –WWF US and Conservation International as implementing partners. The Development Bank of South Africa is also expected to be approved pending further due diligence and institutional strengthening. They are to be approved as implementing partners following further checks and verification. Five agencies, including the Brazilian Biodiversity Fund (FUNBIO), the Andean Development Bank (CAF), the Chinese Foreign Economic Cooperation Office (FECO) and the Russian Federation VTB Bank were asked to undergo further review after they implement compliance related institutional improvements. An application from Peru’s FONAM was rejected.<sup>2</sup>

The major obstacle to accreditation has been demonstrating compliance with the GEF’s environmental and social safeguard policy requirements. In June 2013, the Council decided to take stock of whether to extend the pilot after review of eight pending applications has been completed. The implications of these expanded GEF partnerships for its activities on climate change remain to be seen.

#### Take away messages

- The GEF investment strategy is now well established and fairly formalised. Balancing the need for rigorous processes and quality control with the need for nimble and flexible approaches is a challenge. Steps have been taken to simplify and accelerate the project cycle to 18 months.
- The GEF is one of the few climate funds to have a formal and criteria based approach to allocation of its resources. In GEF 5 steps have been taken to improve these systems and better through the STAR framework. Adoption of STAR has introduced greater predictability in the funding process. In some cases, this may prompt countries to take more strategic and deliberate approaches to accessing GEF resources
- A pilot program to accredit new implementing partner organisations, including developing country based institutions, can inform efforts to improve modalities for accessing and delivering climate finance. Early experience suggests that the process of ensuring compliance with GEF fiduciary and environmental and social standards has been difficult.

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<sup>2</sup> IUCN was also asked for further review in this stage. Full details on the accreditation panel process are available online:  
[http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.44.09\\_Report%20on%20the%20Pilot%20Accreditation%20of%20GEF%20Project%20Agencies.pdf](http://www.thegef.org/gef/sites/thegef.org/files/documents/GEF.C.44.09_Report%20on%20the%20Pilot%20Accreditation%20of%20GEF%20Project%20Agencies.pdf)

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## 4 Disbursement and risk management

A key issue of concern for both contributors and recipients of multilateral finance has been how to disburse funds as quickly and efficiently as possible. This concern is of particular interest for climate finance given the complexity of projects and the urgency of action. In addition, substantial investment has been made over the life of the GEF to improve risk management and ensure that the projects that it supports do not do harm. We therefore reflect on its disbursement and risk management processes.

### 4.1 Transparency and efficiency of disbursement

The GEF reports on project level fund approval, and the status of project implementation. However, detailed information on the amount of funding that has actually been disbursed to implementing entities, and then to in country partners, has not yet been made available in an integrated form. Financial statements report at an aggregate level on the amount of funding that has been transferred to implementing entities. In past years (for example in the context of GEF 5 replenishment discussions) the secretariat compiled information from implementing entities on the status of disbursement to individual projects. To date, similar information on GEF 5 progress does not seem to have been made available. It was beyond the scope of this study to compile this information on an agency by agency basis. In the absence of more complete data, it is difficult to form complete conclusions on the efficiency of GEF disbursement processes.

Efforts are reportedly underway to strengthen GEF project monitoring systems in order to be able to provide better information on status (GEF Trustee 2013). Development of an integrated dashboard to support such monitoring was also a commitment made in the context of GEF 5 replenishment. A new map based tool for navigating the GEF portfolio has been introduced on its website. Ideally, improvements would allow for reporting on project level disbursement, as is now the practice for most other multilateral climate funds, including those managed by the GEF. Over time, results reporting could be incorporated into such formats in a more structured way than the current annual impact monitoring reports.

### 4.2 Safeguards

The GEF uses seven standards based on the World Bank Group's safeguard policies to protect against negative environmental or social impacts. All GEF partner agencies must demonstrate that they have policies and systems in place that comply. Partner agencies can make the case that the standards on Involuntary Resettlement, Indigenous Peoples, Pest Management, Physical Cultural Resources, and Safety of Dams may be inapplicable to its operations. All agencies will need to demonstrate that they can meet the environmental and social assessment and natural habitat standards. As of 2011, the GEF also has a gender mainstreaming policy, which requires agencies to demonstrate that they have established policies, strategies, or action plans that promote gender equality. A process to review whether all existing partner agencies comply with these standards began in March 2013. They will need to execute a time bound plan for ensuring adherence with those dimensions that they do not currently meet, though they will continue to be able to implement GEF funds while implementing these plans. The results of the review are forthcoming. Compliance with these safeguard policies has been a particular stumbling block in accrediting new partner institutions. Both developed and developing country based candidates have struggled to meet these standards. In addition, efforts are underway to prompt attention to climate-related risk in all GEF programming areas.

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The GEF secretariat has also established a conflict resolution service, to help resolve disputes and address complaints and other issues of importance to GEF operations. Its establishment has been promoted in particular by concerns expressed by smaller countries about the operations of the GEF, particularly after the adoption of the RAF. The extent to which climate change projects have been central here is unclear. The conflict resolution commissioner is an independent voice that reports directly to the CEO. Complaints can come from a contract dispute, lack of communication, the perception of wrongdoing, or other concerns. Complaints appear to refer primarily to the time taken to process projects and a sense of a lack of responsiveness of agencies and stakeholders, although several complaints have been raised by NGOs about projects.

### Take away messages

- The GEF does not currently report on the status of disbursement of funds to projects that are implementation. There is a need to strengthen reporting on the status of its operations and disbursement, in order to monitor program progress
- The GEF safeguard policies emphasise the need for project implementers to incorporate environmental assessment into their approaches, and avoid doing harm particularly to natural habitats. Adherence with these standards has the potential to strengthen these institutions, but potential partner institutions are struggling to meet requirements. Clearer guidance on requirements, how to comply with them, and technical support for coming into such compliance may be necessary

## 5 Monitoring, evaluation and learning

The GEF has invested considerable resources in learning, self-reflection, and evaluation. GEF Evaluation Office is the main body assessing the work of the GEF. Although it is part of the GEF, it has some independence. The Evaluation Office produces Annual Monitoring and Performance Reports on the GEF as well as an Overall Performance Study (OPS) every four years in advance of replenishment rounds.

### 5.1 Key elements of the climate focal area framework

The figure below summarises the outcomes against which GEF 5 projects report. The framework is structured around expected outcomes and associated indicators for the fund as a whole. All projects are not required to address all objectives.

| FA Objectives  | Expected Outcomes and Indicators   | Core Outputs   |
|--|--|--|
| CCM-1 Technology Transfer: Promote the demonstration, deployment, and transfer of innovative low-carbon technologies | Outcome 1.1: Technologies successfully demonstrated, deployed, and transferred<br>Indicator 1.1: Percentage of technology demonstrations reaching its planned goals<br><br>Outcome 1.2: Enabling policy environment and mechanisms created for technology transfer<br>Indicator 1.2: Extent to which policies and mechanisms are adopted for technology transfer (score of 1 to 5) | Output 1.1: Innovative low-carbon technologies demonstrated and deployed on the ground<br><br>Output 1.2: National strategies for the deployment and commercialization of innovative low-carbon technologies adopted |
| CCM-2: Energy Efficiency: Promote market transformation for energy efficiency in industry and the building sector    | Outcome 2.1: Appropriate policy, legal and regulatory frameworks adopted and enforced<br>Indicator 2.1: Extent to which EE policies and regulations are adopted and enforced (score of 1 to 5)<br><br>Outcome 2.2: Sustainable financing and delivery mechanisms established and operational<br>Indicator 2.2: Volume of investment mobilized                                      | Output 2.1: Energy efficiency policy and regulation in place<br><br>Output 2.2: Investment mobilized<br><br>Output 2.3: Energy savings achieved  |
| CCM-3: Renewable Energy: Promote investment in renewable energy technologies   | Outcome 3.1: Favorable policy and regulatory environment created for renewable energy investments<br>Indicator 3.1: Extent to which RE policies and regulations are adopted and enforced (score of 1 to 5)<br><br>Outcome 3.2: Investment in renewable energy technologies increased<br>Indicator 3.2: Volume of investment mobilized  | Output 3.1: Renewable energy policy and regulation in place<br><br>Output 3.2: Renewable energy capacity installed<br><br>Output 3.3: Electricity and heat produced from renewable sources                           |

| FA Objectives  | Expected Outcomes and Indicators  | Core Outputs   |
|--|---|--|
| CCM-4: Transport/ Urban: Promote energy efficient, low-carbon transport and urban systems  | Outcome 4.1: Sustainable transport and urban policy and regulatory frameworks adopted and implemented<br>Indicator 4.1: Number of cities adopting sustainable transport and urban policies and regulations<br><br>Outcome 4.2: Increased investment in less-GHG intensive transport and urban systems<br>Indicator 4.2: Volume of investment mobilized      | Output 4.1: Cities adopting in low-carbon programs<br><br>Output 4.2: Investment mobilized<br><br>Output 4.3: Energy savings achieved  |
| CCM-5: LULUCF: Promote conservation and enhancement of carbon stocks through sustainable management of land use, land-use change, and forestry | Outcome 5.1: Good management practices in LULUCF adopted both within the forest land and in the wider landscape<br>Indicator 5.1: Number of countries adopting good management practices in LULUCF<br><br>Outcome 5.2: Restoration and enhancement of carbon stocks in forests and non-forest lands, including peatland<br>Indicator 5.2: Hectares restored | Output 5.1: Carbon stock monitoring systems established<br><br>Output 5.2: Forests and non-forest lands under good management practices  |
| CCM-6: Enabling Activities: Support enabling activities and capacity building under the Convention   | Outcome 6.1: Adequate resources allocated to support enabling activities under the Convention<br>Indicator 6.1: Percentage of eligible countries receiving GEF funding<br><br>Outcome 6.2: Human and institutional capacity of recipient countries strengthened<br>Indicator 6.2: Countries and institutions supported by the GEF                           | Output 6.1: Countries receiving GEF support for national communication, etc.<br>Output 6.1: National communications, etc. completed and submitted to the UNFCCC as appropriate |

Fund level monitoring and evaluation is based on the information provided by each of the projects and programme implementing agencies to the GEF. Terminal evaluations are included alongside project documentation in the GEF project database. Implementing agencies such as the World Bank and UNDP also report on outcomes against agreed results using their own channels. One focus area has been to quantify emission reductions that have resulted from funded projects. The GEF invested in developing standardised excel based tools and templates for reporting on GHG emission reductions (including indirect reductions). The figure 5 below presents aggregate reporting on GHG emission reductions from the GEF climate focal area taken from the FY 2012 Annual Monitoring Report. It finds that overall, actual emission reductions have met or exceeded intended targets. Future work by ODI will analyse these emission reductions in more detail.

| GEF Phases | A. Number of projects reporting GHG data/Total number of projects | B. Emission reduction target at CEO endorsement (million tons CO <sub>2</sub> eq) | C. Reported direct emission reduction (million tons CO <sub>2</sub> eq) | D. Reported indirect emission reduction (million tons CO <sub>2</sub> eq) | E. Reported direct and indirect emission reductions (C+D) (million tons CO <sub>2</sub> eq) | F. Reported results vs. target at CEO endorsement (E/B) (%) |
|------------|---|---|---|---|---|---|
| GEF-2      | 5/7   | 89.4  | 122.4   | 14.4  | 136.8   | 153   |
| GEF-3      | 10/16   | 10.7  | 8.8   | 2.6   | 11.4  | 106   |
| GEF-4      | 1/1   | 0.4   | -   | 0.4   | 0.4   | 100   |
| Total      | 16/24   | 100.6   | 131.1   | 17.4  | 148.5   | 148   |

**Figure 5: Emission reductions from GEF projects**

The investment in standardised tools and formats for reporting on greenhouse gas emission reductions has paid off in terms of allowing relatively complete and comparable information. As a result, there is much more complete information on GHG emission reductions from the GEF, than other outcome area indicators (see box 4).

#### Box 4: The GEF experience with GHG accounting

- Emissions can be difficult and expensive to monitor. Recipient country institutions report that the tools that have been developed are not always easy to use.
- Key parameters are dynamic, and this may result in substantial changes to realised GHG emission reductions: for example, national grid emission factors will change as the energy mix in the region changes.
- Similarly, assumptions about the future benefit period for an intervention shape expected emission reductions.
- Where one places the boundaries on a GHG account (to include only direct reductions, or indirect reductions as well) makes a great deal of difference. For example, some GEF support for technical assistance or capacity building may enable a project that results in emission reductions to happen, but the narrow component supported by the GEF might not deliver direct reductions

The report recommends that the STAP undertake a targeted research project to offer better guidance on how to manage these challenges.

*Source: Climate Change Mitigation Impact Evaluation - GEF Support to Market Change in China, India, Mexico and Russia. GEF Evaluation Office, 2013*

## 5.2 Accessibility of results and improvements

GEF climate strategies have actively evolved in response to lessons from implementation, as well as new demands and pressures from the external environment. As Figure 6 shows, the GEF 3 cycle, for example, resulted in much lower emission reductions than GEF 2, in part because of its focus on off-grid rural electrification: evaluations concluded that these projects had been the least successful (GEF 5 Climate Strategy 2010). Subsequently it moved away from these interventions, focusing instead on on-grid and sustainable energy from biomass solutions.

There is a recognised need to strengthen tools and guidelines for reporting against indicators and outcomes other than greenhouse gas emissions, particularly in areas such as policy reform, market change, energy efficiency, and growth in renewable energy deployment in more systematic and consistent ways. This is particularly important, because many of the

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GEF's most promising outcomes relate to the catalytic impacts of its projects in addressing these issues, rather than in the direct emission reductions attributable to project implementation. During GEF-5, greater attention is being paid to knowledge management in relation to climate change mitigation.

One challenge for the GEF is that there is now a proliferation of frameworks for monitoring the impact of climate funds, each of which are structured around slightly different indicators and outcomes that reflect the particular fund's circumstances. Donor governments are also developing their own indicators for understanding the effectiveness of climate finance that they may spend through multilateral funds as channelling institutions. This poses challenges for implementing entities and recipient institutions, who are now required to report using a variety of different formats and approaches. There is a strong case for adopting common tools and methodologies for monitoring impact.

The GEF has recognised the critical opportunity to share learning between projects and agencies. However, this has proved challenging in practice. A GEF Climate Change Task Force shares information between the GEF Secretariat and the GEF Agencies. The GEF Country Support Program also works to disseminate knowledge. In addition the GEF hosts the Climate-Eval community of practice, aimed at fostering exchanges and learning on monitoring and evaluation. There is a continued need to strengthen these emerging arrangements, however. The GEF strategic positioning exercise completed for the 6<sup>th</sup> replenishment discussions recognises the opportunity to enhance its knowledge management and maximise its results based management frameworks.

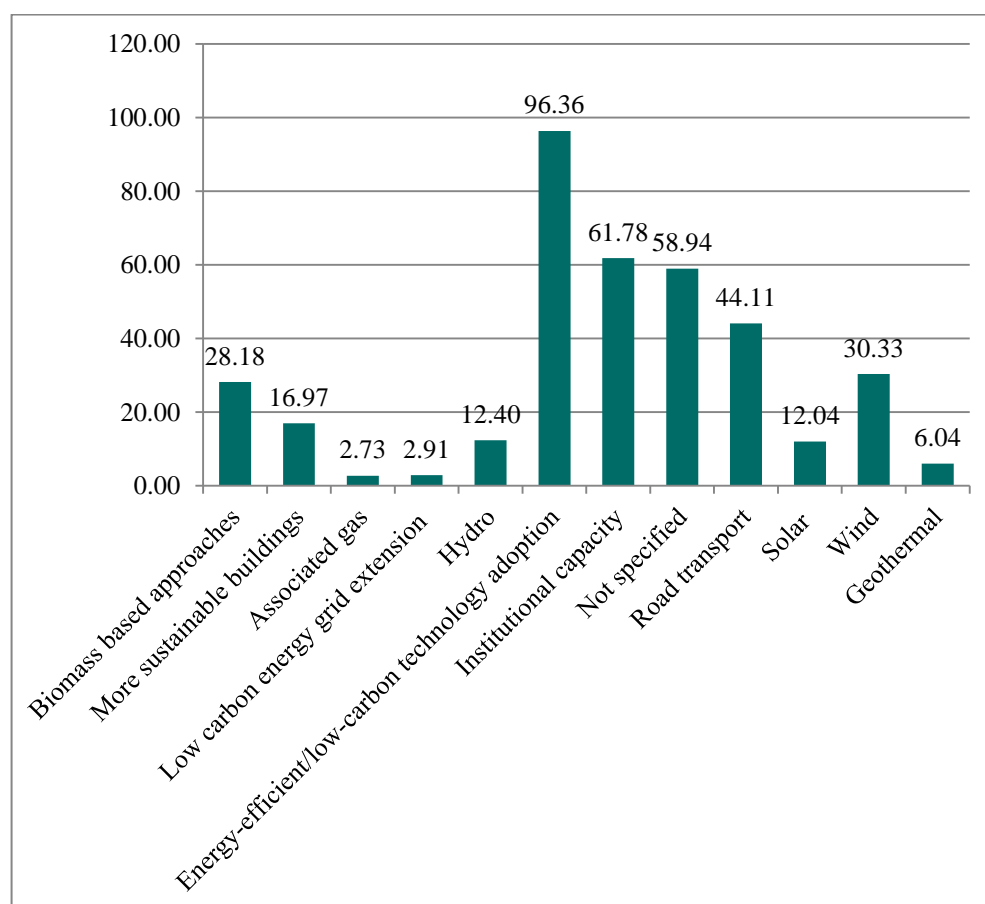
### Take away messages

- Learning was an early priority for the GEF, and the fund has improved and strengthened its monitoring and evaluation processes. The GEF has recognised the need to be more proactive about results management in order to better understand how it is affecting change, and communicate its achievements to stakeholders
- The GEF has developed standardised tools to help implementers account for GHG emissions. This results in more consistent data gathering on emission reductions than on other outcome areas. 148 million tons of CO<sub>2</sub>equivalent have been reduced through GEF cycles 2 – 4, exceeding predicted emission reduction estimates at the time of project approval. The approach to GHG accounting affects results substantially, however, and the GEF has called for STAP guidance to improve its approach.
- There is scope for greater coordination and collaboration with other climate funds seeking to collect information on the impacts of mitigation projects, including but not limited to GHG emission accounting. Tools to monitor policy adoption and institutional strengthening might be particularly helpful.

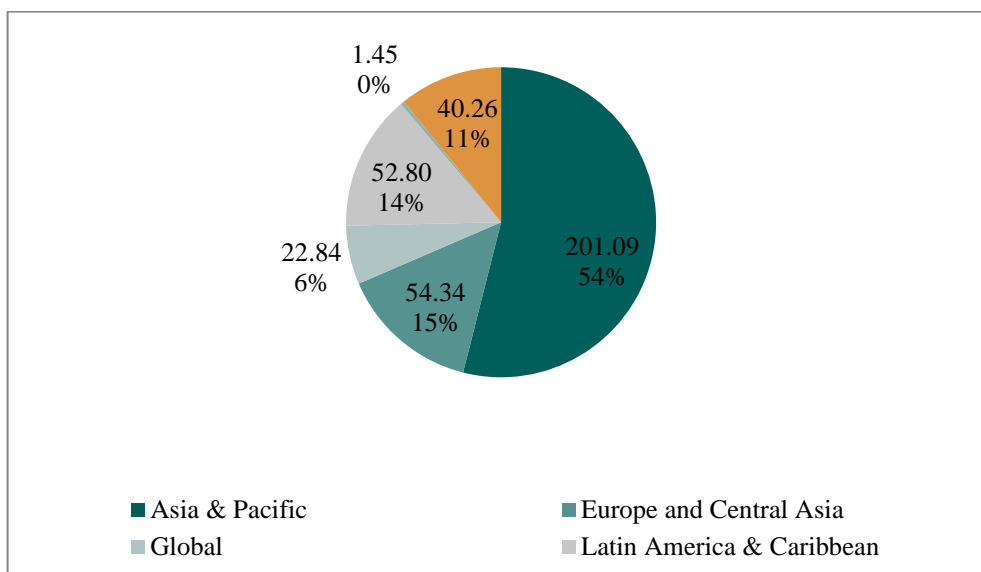


## B. Outcomes

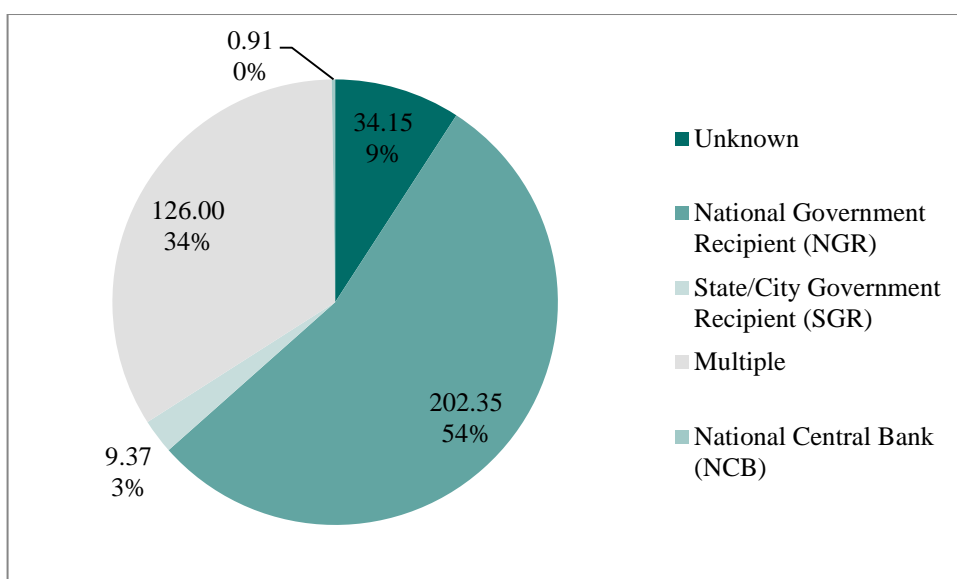
Through March 2013, the GEF 5 has approved \$ 372 million for 66 projects and programs (see figure 7). Efforts to promote the uptake of energy efficient and low carbon technologies have received the majority of funding so far, with over 25% of the portfolio, followed by programs aimed at strengthening institutional capacity in order to support countries to scale up their mitigation actions. The remainder of the portfolio supports a diversity of renewable energy technology applications, particularly wind power and biomass based approaches. A large share of funding supports countries in Asia and the Pacific, which is consistent with the large mitigation potential of many of the fast growing economies of the region. GEF-funded projects are to be implemented in partnership with agencies that have the most relevant capacity, knowledge and experience.



**Figure 6: GEF Fund Portfolio Review (USD Millions). Source: Annex of GEF Portfolio.**



**Figure 7: Geographic distribution of GEF 5 Climate Projects**



**Figure 8: Recipients of GEF Finance based on project documentation review (US\$ Million)**

Informed by this portfolio review, we now turn to consider the outcomes of the GEF. Much more information was available on processes for spending climate finance, than on outcomes for GEF 5 given the early stage of implementation of many programs. We have complemented this analysis with insights into the overarching achievements of the GEF on climate change mitigation. We have relied heavily on the evaluation reports prepared by the GEF as well as interviews with key stakeholders.

## 6 Scale

In understanding the effectiveness of climate finance, it is helpful to consider whether the fund has been able to work at a diversity of levels (from national to subnational and community level), as well as the extent to which the fund has been able to support projects

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of a variety of sizes, and the implications of the approach taken (particularly with respect to the needs of poorer and more vulnerable communities).

## 6.1 Engaging Local Institutions

Local institutions often have an important role to play in urban planning, local energy, transport, water and other infrastructure service delivery, as well as in forest and land use management. It is therefore relevant to consider how funds have been able to support efforts at a variety of scales from national to local.

In general, the focus of the GEF has been on engaging with national governments, though it has been working to engage local institutions and subnational stakeholders in formulating investment strategies. The GEF 5 climate strategy objective 4 to support sustainable urban transportation systems using integrated approaches emphasises the need to strengthen urban governance and implementation systems. As Figure 9 shows, at least 3% of GEF 5 projects have engaged subnational institutions directly through at least 7 of the 66 projects that we reviewed. These projects had a wide range of objectives, however, including municipal level finance programs in China. The Annual Monitoring report suggests that programs contributing to this objective have made some progress: GEF projects have resulted in been replication of sustainable transportation measures in 14 Indonesian cities and influenced policies on land transportation. Similarly in South Arica they have supported bus rapid transit systems in Johannesburg and the expansion of non-motorised transport in 3 other cities.

## 6.2 Providing funding at different scales

Spending large amounts of funding well is challenging. But channelling funds to small projects can be complex and cumbersome, and incur significant transaction costs. This may create an inclination to supporting larger projects and programmes over smaller ones. The GEF has expressly been designed to support projects of a diversity of sizes, including FSPs of over 1million and MSPs of up to US\$1million, which can be accessed by a range of parties including NGOs. The revised project cycle seeks to simplify the process for approving MSPs. Preparatory grants are also available to support the costs of developing projects.

### *The Small Grants Program*

A particular innovation of the GEF has been to support a Small Grants Program (SGP) administered that targets grassroots and community level projects. The program has been very positively received by many civil society commentators (Horta 2002), and in turn provides funding to many NGOs. The SGP provides up to USD 50,000 per project and is administered by the UNDP, with its own sub governance structure, which includes a national coordinator and steering committee. By outsourcing management, the GEF has sought to reduce the transaction costs associated with making small grants at the community level.

The FY 2012 Annual Monitoring Review of the GEF identified 346 different SGP projects that support climate change mitigation, which had received USD 9.4 million in support since 2011. However, climate change projects account for only about 20% of approved SGP projects: there are more than twice as many biodiversity projects in the portfolio. Understanding the impact of GEF SGP projects on climate change has been more complex. In the past, the nature of the SGP mitigation portfolio has been quite different from that of the main GEF portfolio, focusing largely on the provision of climate friendly household energy services (cooking stoves, lighting, water heating, grain milling and irrigation). In transition countries, the SGP supported household and municipal energy efficiency projects

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(Andnova 2010). The programme has helped to support civil society engagement on climate change issues within developing countries.

A 2008 review concluded that SGP projects have generally been successful, arguably more so than small grant components of FSPs and MSPs. But there was a need to strengthen management, monitoring and evaluation, and improve coherence between SGP supported programs and core GEF supported programs. To this end, the GEF proposed that more established SGP programs should be “upgraded” to a FSP that would be funded through the STAR. Programs in 9 countries have now been graduated. A joint UNDP-GEF evaluation that will consider the outcomes of these reforms is now underway.

### Take away messages

- A growing number of GEF projects engage subnational institutions, and there has been a particular emphasis on opportunities to work with cities on sustainable transport. Interim reports suggest that these projects are making some progress.
- The Small Grants Program (SGP) of the GEF has allowed it to support a large number of small projects that empower communities to engage on climate change activities, and have helped it build a community level constituency. The complementarity between SGP and core medium and full size GEF projects has not always been clear, however.
- While the GEF has taken many steps to ensure that it can support smaller projects despite their transaction costs, an enduring challenge for the fund is to deliver at scale.

## 7 Enabling environments

Policy, regulatory and governance frameworks fundamentally shape the viability of investment in low carbon and climate resilient approaches. Public finance can be used to strengthen the underlying “enabling environment for climate finance”, and helping address the various risks and barriers of different stakeholders. The GEF 5 outcome area 6 focused on “enabling activities” that will enable country responses to the requirements of the UNFCCC such as national communications and technology needs assessments. While these information tools can certainly support strengthened enabling environments, they are not the primary focus of this analysis.

The GEF has placed a strong – and indeed a growing – emphasis on addressing the policy and regulatory barriers to mitigation. The GEF 5 climate change strategy places a particular emphasis on expanding markets for renewable energy and energy efficiency.

Almost all (63 of 66) of the GEF 5 projects that we reviewed include a component aimed at strengthening policies, regulations, or implementing capacity. In several cases, the GEF funding supported the costs of technical assistance or capacity building that would support investment programs advanced by multilateral development banks. A recent GEF evaluation of mitigation projects in Russia, India, China and Mexico concluded that projects that have adopted “comprehensive approaches to address market barriers and specifically targeted supportive policy frameworks” have been the most impactful (GEF CCM Evaluation 2013). The evaluation documented causal links between GEF support and key policy changes in a third of the projects that it reviewed. It also emphasised the importance of public sector institutions, strategies and policies to private sector replication of the approaches piloted. Finally, it emphasised the importance of capacity building components of programs that target public centre institutions, knowledge centres, and the private sector,

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in supporting the mainstreaming of climate programs. It found that enabling programs that engaged key non-governmental stakeholders (including the private sector) who could be advocates for policy change were more successful.

The focus of GEF interventions has primarily been on providing and promoting new subsidies for low carbon technologies and approaches, however, rather than on engaging recipient countries to consider how existing incentives and pricing may sustain (or indeed subsidise) business as usual high carbon approaches.<sup>3</sup> Such interventions were not mentioned at all in the recent GEF review, even though the case study countries (India, Mexico, Russia and China) are all recognised to provide significant subsidies for energy and fossil fuels (Whitley 2013, IEA 2013). The importance of these underlying incentives was recognised in a recent UNDP GEF review of experiences promoting Feed-in Tariffs and Related Price and Market-Access Instruments (UNDP GEF 2012).

### Take away messages

- On balance, the GEF has placed a strong emphasis on and played an important role in helping improve underlying policy, regulatory and governance related to mitigation in developing countries: this is a significant strength
- But the changes that have been made have not yet been at adequate scale to fundamentally re-align policies with low carbon development approaches. Many enabling programs have not been well linked with the wider processes that shape investment in mitigation in the country
- Interventions have often taken narrow or technical approaches, rather than grappling with many of the challenges of governance and underlying incentives that present themselves within recipient countries

## 8 Catalytic outcomes

Reflection on the catalytic impacts of climate finance provides a lens through which to consider the diversity of ways in which public finance can mobilise action and investment, particularly the private sector, and captures indirect linkages and effects. It is important to note at the outset that GEF evaluations use the term catalytic differently, instead using it to assess causal links between an intervention and an outcome -- in other words, would the outcomes have happened if the GEF had not intervened (GEF 2013). In this section, however, we focus in particular on the engagement of the GEF in engaging the private sector, and creating new markets for low carbon approaches. Many capacity building initiatives have also focused on private sector actors, particularly in executing energy efficiency programs.

The GEF has a long history of working with the private sector in various informal ways, but has also struggled to engage with it in a proactive and strategic way. This observation has been echoed in multiple GEF replenishment discussions, and Operational Performance studies. Identified impediments include the fact that GEF funding processes are too slow and cumbersome for the private sector, and the difficulty of using grant instruments strategically to mobilise greater private sector action. It remains a priority and area for improvement identified in GEF strategic positioning documents, and in its draft 2020 vision strategy.

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<sup>3</sup> We note that there are at least 2 projects that have been reviewed by the STAP since March that considered fossil fuel subsidies, but these were not included in the scope of our project review.

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The OP 5 report finds that the move to country based allocation of funds through the RAF and STAR may have inadvertently reduced space for GEF engagement with the private sector within recipient countries, as national governments may see a trade-off between seeking access to funding for public sector projects and delivering finance to the private sector.

In this context, the 4<sup>th</sup> and 5<sup>th</sup> GEF cycles have set aside USD 80 million to support public private partnerships related to environmental objectives. The new private sector strategy will (a) work with MDBs to implement Public Private Partnerships that meet focal area objectives (b) encourage the use of non-grant instruments as part of STAR allocations for climate change (c) encourage innovation in small and medium size enterprises through competition and innovation. These programs also have the potential to support innovative finance approaches. The GEF 5 has supported public private partnerships with the African Development Bank to attract private investment in clean energy in Sub-Saharan Africa. It is also working with the EBRD to establish a structured financing facility to catalyze the creation of energy efficiency and Energy Services Company (ESCO) markets in Morocco, Tunisia, Egypt and Jordan. A PPP program with the IADB that will fund both climate change and biodiversity programs is underway. The GEF also engages small and medium enterprises in this initiative by partnering with UNIDO to run a competition pilot to feature and support small and medium enterprises to develop clean technologies. This program is supported out of the GEF private sector set aside.<sup>4</sup>

One indicator of the GEF's approach to mobilising additional investment in mitigation activities is through the direct co-finance associated with the projects that it funds. The GEF OP 5 report finds that co-financing ratios are highest for mitigation projects, and have increased substantially during the 5<sup>th</sup> cycle, achieving ratios as high as 1:14. Most of this finance comes from implementing agencies, however, and ratios are particularly high for programs implemented by MDBs who often use GEF finance for technical assistance and capacity building programs as part of large scale investments using loans and other instruments.

The 5<sup>th</sup> Operational Performance study proposes a detailed sub-study on GEF experience seeking to deepen its engagement with the private sector, however the results of this study were not yet available at the time of drafting. ODI plans to complete a deeper exploration of the catalytic impacts of multilateral climate funds in mobilising private sector investment.

### Take away messages

- A relatively high co-finance ratio of 1:14 for climate change projects suggests that the GEF has been relatively successful in mobilising additional investment to complement the limited resources that it has available, although much of this co-finance comes from implementing partners
- There is a longstanding recognition of the need to strengthen private sector engagement with the GEF. In response, the GEF has experimented with private sector set aside programs, which are supporting public partnerships and small and medium enterprise incubators

## 9 Innovation

There was a strong emphasis on scientific rigour and innovation in the conceptualisation of the GEF. In general terms, the GEF has invested in projects that support a broad continuum of approaches to innovation, including innovative technologies, deployment approaches,

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financing models, as well as capacities and institutions. Section 8 described some of its new initiatives to promote innovative finance that draws in the private sector. Evaluations of GEF support for mitigation found examples of technology improvements in 7 out of 18 surveyed projects (GEF Evaluation Office 2013g).

The GEF has had a strong focus on supporting innovative technology deployment, given the central importance of technology transfer to the UNFCCC. In its first cycle, the GEF focused on technology demonstration. Evaluations found that this approach spread its resources too thinly, and was not cost effective (GEF 5 Climate Strategy 2010). In 2004, however, it launched a strategic program on technology transfer in response to requests to this effect from the UNFCCC COP. Since then the GEF has re-engaged with technology innovation in a more explicit way. The first objective of the GEF 5 climate change strategy is to promote the demonstration, deployment, and transfer of innovative low-carbon technologies.

The strategy proposes that “although it requires additional time and risks to work with new, emerging technologies, GEF experience with concentrating solar power (CSP) and fuel-cell bus (FCB) technologies, for example, has shown that GEF support in the early stages of these technologies has played a pivotal role in spurring interest and subsequent investments in these technologies, thereby accelerating the pace of their commercialization, albeit in a limited number of countries” (GEF 5 Climate Strategy 2010). These experiences reinforce the importance of tolerance for risk and willingness to fail in supporting innovative approaches, particularly around technology.<sup>5</sup> The GEF 2020 strategy highlights the potential future role for the GEF in re-focusing on providing much needed finance for early stage technology innovation and research and development.

### **Box 5: The GEF and the Climate Technology Centre and Network**

Since 2012, the GEF has supported 4 regional technology networks in Asia, Africa, Europe and Latin America in partnership with their regional development banks with \$52 million who are also bringing co-finance. This initiative was positioned as a climate and technology network that could help advance UNFCCC objectives to support accelerated technology transfer.

However, the relationship between this initiative and the UNFCCC Technology Executive Committee (TEC) established in 2010 has been difficult. The TEC chose to select its Climate Technology Centre and Network through a competitive tender process. This resulted in the selection of a UNEP-led consortium hosted by the government of Denmark, rather than the GEF led-consortium. The relationships between these two networks will need to be elaborated. While the GEF may see itself as responsive to the guidance of the convention (OP5, Evaluation Office 2012), its efforts may not always well appreciated by parties to the Convention.

During the 4<sup>th</sup> cycle, the GEF partnered with UNDP and UNEP to support technology needs assessments (TNAs), to help developing countries understand which technologies would help them respond to the challenges of climate change, and inform efforts to meet these needs. It is well recognised that the TNA process, while a useful start, would have benefitted from the use of more systematic approaches and methodologies at the outset, and more active engagement and involvement of key domestic stakeholders (particularly from

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<sup>5</sup> In the 1990s the GEF and the World Bank made a substantial investment in a portfolio of CSP projects, in the hopes that this approach would help directly support the growth and development of the CSP industry. These expectations were not met (GEF and World Bank 2006). But the experience has informed the efforts of others, for example the Clean Technology Fund as it seeks to build on experience accumulated through the GEF experience to try and make new progress.

government and the private sector) to support execution (UNFCCC 2007, TEC 2013). The GEF 5 long term program on technology is positioned as a response to UNFCCC guidance; however, its relationship with UNFCCC technology bodies has been complex (See Box 5).

### Take away messages

- The GEF has re-engaged with technology innovation, prompted by UNFCCC interest. Overall its record to date in supporting technology processes under is mixed
- Balancing competing demands to promote innovation with other demands to maximise cost effectiveness and reduce risk, has been a substantial challenge

## 10 National ownership

The need for climate finance to be well aligned with national priorities, and to work in partnership with national institutions and stakeholders is a well-accepted principle of international climate finance. Lessons from development finance also confirm the centrality of ownership to long term effectiveness. It is therefore important to reflect on the GEF's experience in this regard.

The GEF 5 process has had a greater focus on measures to strengthen country ownership, so that investments are directed towards priority sectors, technologies, and activities identified by recipient countries. There is certainly a significant formal architecture aimed at fostering national ownership of GEF processes and projects. In order to be considered, projects must be supported by a letter from the country operational focal point. The GEF also carries out National Dialogues to facilitate stakeholder consultation, helping identify country priorities, increasing country ownership and coordination. In the past, these were primarily attended by the GEF political and operational focal points, but in recent years they have been expanded to include convention focal points in each country and representatives of civil society. Countries are encouraged to undertake NPFs to identify a set of project ideas that will best utilize the funds available to them from the GEF. While countries do not have to complete NPFs to access the GEF, funding is available to help countries undertake them and consult with relevant stakeholders.

The OP5 Evaluation considered the extent to which recipient countries were perceived to have ownership of GEF supported countries. It concluded that GEF projects are well aligned with national priorities. While there may be broad resonance between emerging environmental policies and strategies and financing arrangements for associated programs in most developing countries, it is not always clear that the programs that the GEF has supported have brought key stakeholders on board. Many stakeholders have the perception that the reliance of the fund on international implementing agencies has kept it from working through national systems. These agencies drive the program development process, as well as the implementation of projects. There is also a perception that in supporting enabling activities and technical assistance, there has been an excessive reliance on international consultants who may not understand the local context.

These considerations are particularly pertinent given that a strong appreciation of national context and systems, and support from key national stakeholders is essential to achieving GEF climate change strategy objectives. In this context, the GEF's current experiment to work with new partnering institutions based in developing countries may hold the potential to help strengthen grounding in local context. But these relationships are not straightforward, and finding more effective ways to strengthen the engagement of a diversity of stakeholders is a substantial priority.

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### Take away messages

- The GEF has an elaborate formal architecture to engage national institutions and seeks to ensure that programs are country driven, but perceptions of these arrangements are mixed
- Deeper engagement of national stakeholders appears to be taking place through strategic processes to program available resources, but there is an ongoing need to strengthen strategic alliances with champions and national stakeholders who may be partners in processes for change

## Role in the Global Architecture

There is much to learn from the GEF's experience with programming multilateral climate funds. As an operating entity of the financial mechanism of the UNFCCC it must respond to policy guidance from the COP. In practice, however, the relationship between the GEF and the UNFCCC has been a difficult one. The establishment of the Green Climate Fund, reflects these difficulties. Indeed the GEF secretariat is now involved in hosting a multitude of additional UNFCCC climate funds (including the GCF). While GEF accountability to the UNFCCC may not be strong enough for some stakeholders, others see the GEF as too close to the Convention. Many contributor countries have put substantially larger sums of funding into new initiatives such as the Climate Investment Funds, which are able to work in a smaller number of countries at greater scale.

The multiple lines of accountability of the GEF – to its Governing Council, to its Assembly, to its implementing partners, and to wider global stakeholders present a complex content for its operations. The GEF has endured by finding ways to be flexible and adapt to changing pressures from diverse stakeholders.

While the formal governance of the GEF gives developed and developing countries equal voice, in practice donors may wield significant influence and are often able to secure significant shifts in policy in the context of negotiating funding replenishments. Many of the ensuing changes, notably the adoption of a resource allocation framework, have been unpopular, and the GEF has had to respond by revisiting and revising its approach.

As the GEF explores expanding the range of partners through which it works to include developing country based institutions, there is much for the international community to

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learn from this experience. Many of the functions that it has filled and many of the standards to which its implementing partners must adhere are analogous to those that are required for direct access to the Green Climate Fund. Early insights suggest that finding pragmatic ways to ensure that implementing agencies have systems in place to avoid environmental and social damage may be a significant challenge.

The GEF has placed an increasingly strong emphasis on results management and learning, though it recognises the need to do more on this agenda to support better real-time improvement. The investments that it is making in strengthening these tools and approaches are likely to be of substantial benefit and interest to the growing community of actors in climate finance who are seeking to strengthen systems for understanding the impact of their climate funds. There is a strong case for the GEF to coordinate and collaborate with others in this effort.

Another area where the GEF has made substantial effort and investment is in strengthening policies, regulations, institutions and capacities within developing countries to respond to climate change. It has made important contributions to support and promote the uptake of low carbon technologies. But the GEF has not really engaged with recipient countries around some of the underlying incentives that may perpetuate business as usual approaches. In turn the funding available to the GEF has not always been sufficient for it to command political attention to its agendas. A better alignment and collaboration between its engagement on climate change and the efforts of other actors in the international climate finance architecture seeking to deliver and mobilise finance for investment and the private sector at scale is needed.

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