The Global Environment Facility (GEF) and the Reformed Financial Mechanism (RFM) of the UNFCCC

by Benito Müller, with a Reply by Monique Barbut

A recent Paper[1] prepared by the GEF Secretariat for the first meeting for the fifth replenishment of the GEF Trust Fund elaborates in some detail the GEF Secretariat's views on the future strategic position of the GEF, including some provisions for a reform in governance and architecture which may be of interest in these discussions. This brief begins with a short discussion of some of the governance specific components of this reform proposal, and then turns to explore what role, if any, this reformed GEF might have in the context of the proposed RFM. The brief ends with a Reply by the CEO and Chair of the GEF to these ideas.

The GEF Secretariat Paper

In Section III ('GEF of the Future') the Paper puts forward the GEF Sec. vision of how the GEF should be reformed under GEF-5. One proposal, to '***enhance accountability to the conventions***' is to reform the GEF governance structure and establish '*a two-tier structure with the* ***GEF Council responsible for overall governance****, institutional policy, and synergies among focal areas, and with* ***focal area boards*** *(in which conventions and other stakeholders would participate) responsible for focal area strategies and programming*'.

It may be the first time in a GEF document that the accountability to the conventions has been portrayed as being in need of enhancement.[2] Be that as it may, the real question here has to be whether the introduction of a GEF Climate Change Board (CCB) would overcome the problems that have clouded the relationship between the GEF and the UNFCCC COP, which ultimately led to the formation of a new body, the Adaptation Fund Board, to operate the Adaptation Fund. Given the lack of details in the Paper on the composition of such a CCB, and on the type of 'participation' of the relevant Conventions, this is difficult to judge.

For one, there is the possibility of the CCB being modelled on the executive body established by the GEF for the Convention *Least Developed Country* and *Special Climate Change Funds*: the GEF Council ***meeting as the LDCF/SCCF Council*** − presumably with some additional participation of Convention observers. If that is so then it is difficult to see how the necessary buy-in from the majority of Convention Parties could be generated: the key demand from developing countries on any executive body for climate change finance is that it must be ***under the authority of the UNFCCC***, and it is difficult to see how this could be reconciled with the fact that the GEF Council is meant to have responsibility for the overall governance, which according to a figure in the Paper (reproduced here as Figure 1) would also involve authority over the CCB.

[1] GEF Secretariat, FUTURE STRATEGIC POSITIONING OF THE GEF, GEF/R.5/7/Rev.1, March 02, 2009

[2] 'The GEF formally functions under the guidance of, and is accountable to, the Conferences of the Parties of these conventions, However, in practice, the conventions have limited voice in the day-to-day governance and decision-making process of the GEF. Over the last decade, the relationships between some of the COPs and the GEF Council have sometimes suffered from concerns that COP guidance is not fully reflected in the development of GEF operational policies.'

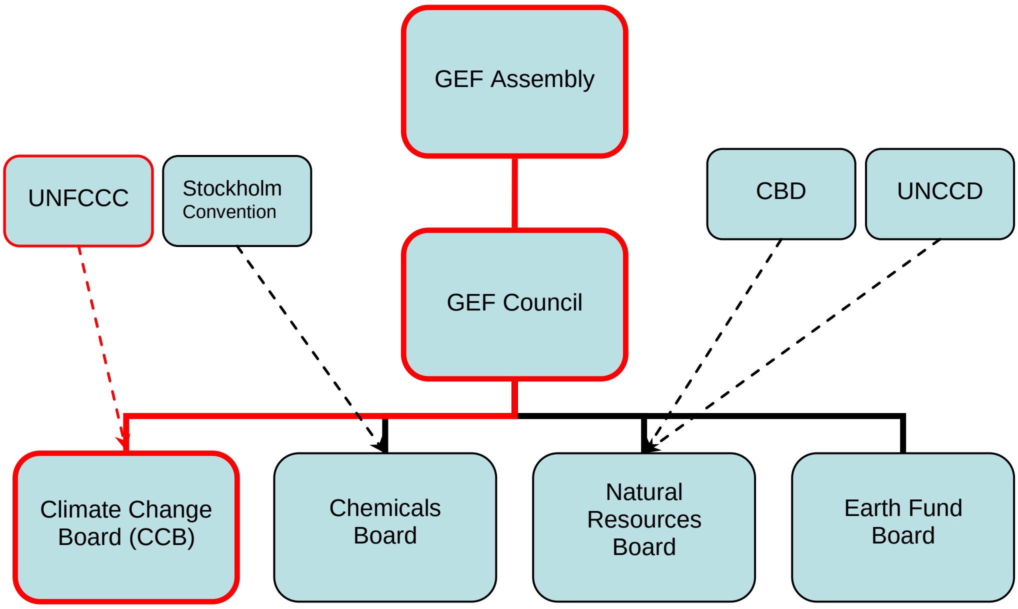

Figure 1. Proposed GEF Governance Structure

As suggested at the time of the Adaptation Fund negotiations,[3] there might be a form of 'power-sharing' between the GEF Council and a body under the authority of the COP − such as the proposed RFM Executive Board – which might resolve this problem. What is clear is that the Paper's 'Plan B' certainly would not do the job: '*If this proposal is not feasible, then at least invite the presidents of the COPs along with their respective secretariats to GEF Council meetings, with the opportunity to address the Council and engage in discussions*.'

Another key area of the envisaged reform with some implications on governance is to '***improve responsiveness to recipient countries*** *by*

- *developing a more flexible resource allocation system;*
- *aligning programming with country needs and priorities;*
- *providing assistance through programs that will have a transformative impact rather than projects;*
- *providing direct access to more qualified international and bilateral agencies, including piloting of direct access to qualified national agencies;*
- *reducing transaction costs;*
- *trimming overhead costs;*
- *tailoring the project cycle to capacities of agencies; and*
- *introducing a competitive scheme for selection of agencies to implement GEF-financed projects'*.

All of these improvements are doubtlessly worthwhile; indeed, some of them should not have to wait for a new replenishment. The one with further implications on governance is that of providing ***direct access.*** As has been demonstrated by debate concerning the Adaptation Fund at COP 14 in Poznan, direct access has implications with regards to legal capacity, which is presumably why the Paper suggests that '*the GEF Secretariat should be endowed with some legal capacity so as to be in a position to cover its financial risks and be able to enter into contracts directly*,' although it is not self-evident why − unlike in the case of the

[3] See B. Müller, *Nairobi 2006 − Trust and the Future of Adaptation Funding*, Oxford Institute for Energy Studies EV38, January 2007.

Adaptation Fund, where the issue was about legal capacity for the Board – it should be the Secretariat and not the Council or the focal area boards that is to be endowed with legal capacity.

What Role for the GEF?

The main purpose of the RFM − as described in Müller & Gomez-Echeverri (2009) – is to manage the disbursement of money to national Climate Change Funds. This is to be carried out through small, self-financed, administrative Assessment Units at the UNFCCC Secretariat, under the oversight and authority of the RFM Board. However, it is clear that assessment of national Climate Change Strategies alone is insufficient to ensure that the mechanism is both effective and equitable. For one, in light of the restitutive nature of these payments it would be unacceptable to deny them on grounds of 'lack of absorptive capacity' without providing remedial action to overcome this obstacle. In other words, the regime will have to make sure that absorptive capacity is built up so everyone is able to claim their fair dues.

Moreover, there may be good reasons why one would wish to retain the ability of funding certain projects and programmes at the international level, through instruments such as the existing Convention funds, in particular in the context of piloting activities to harness what has become known as 'synergies between conventions'. Given that this is currently the remit of the GEF, it is conceivable for the reformed GEF continue to carry out these and the above-mentioned capacity building activities as additional operating entity to the UNFCCC Secretariat. However, the crucial precondition for this would be a ***strict separation of functions as well as revenue streams between the two operating entities***.[4] The UNFCCC Secretariat would be the primary RFM operating entity with sole responsibility for the RFM disbursement regime, and the GEF activities would (continue) to be funded through its own periodic replenishment rounds. However, all of this would depend on whether the proposed reform of GEF manages to brings about the changes that are needed as *to 'enhance accountability to the conventions'* and to *'improve responsiveness to recipient countries*'. And here the proof of the pudding will have to be in the eating.

Reply by the GEF CEO/Chair

Thank you for the opportunity to respond. We both agree the Global Environment Facility (GEF) is an important institution in its role as the financial mechanism for several Multilateral Environment Agreements (MEAs). We also both agree on the need to shape the GEF to be responsive to the needs of Parties and other members of the global environment community. However, we differ in our views regarding the GEF's current and future structure, roles and responsibilities. For example, the proposed structure of the Reformed Financial Mechanism (RFM) is redundant with current GEF bodies including the Council. Alternative Governing structures should be fully vetted and discussed. We all aim for greater efficiency. Secondly, the GEF invests in a broad range of projects and activities (e.g., climate change, biodiversity, land degradation, international waters, ozone depleting substances, POPs) to protect the global environment and its role is not limited to capacity building. Over the past 18 years the GEF has invested $8 billion, with $33 billion in co-financing, and 2000

[4] In this context one might wonder whether the Adaptation Fund board should not equally become an RFM operating entity, but the function of the AF may be too similar to the adaptation disbursement window for it not to be subsumed into the activities of that window. Separate operating entities are, if at all, only warranted if they have clearly separated functions.

projects in more than 165 countries. Future GEF reforms should address the needs of its customers (e.g., Parties, MEA). It is not reasonable for the GEF to manage all future financial flows but the GEF could play an important role in shaping the future direction and policies of the future financial architecture.

The GEF has a unique role and set of responsibilities as it carefully manages and invests public resources. It has an extended track record of directing public sector investments yielding tangible results that improve the global environment. In the future, other sources of funding (eg, private sector funds) could play an increasingly important role at the GEF. The GEF will need to work carefully to administer future resources with efficiency. The GEF has extensive financial controls, fiduciary standards and other mechanisms to ensure these public funds are carefully invested. Blending of future funds will need to be done with care.

I am committed to a reform agenda at the GEF. We have dramatically reshaped the GEF over the past several years and I am proud of our accomplishments. I look forward to working with stakeholders to discuss new ideas and concepts that help contribute to the development of a new financial architecture and a continuously improving GEF.

Postscript by Benito Müller

While I agree that it 'is not reasonable for the GEF to manage all future financial flows' I do not think that the GEF – or for that matter the World Bank – would be in a position to manage the disbursement activities of the envisaged RFM, if only because neither could conceivably be put under the authority of the UNFCCC COP, a 'red-line' for most if not all developing countries as concerns the management of the RFM. The only way in which the GEF − even in its reformed guise − could continue to have a role in the proposed RFM is as a second operating entity to carry out certain activities that are not envisaged under the RFM Board.