



Global Environment Facility

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Agenda Item 9

ISSUES NOTE

A FRAMEWORK FOR PROGRAMMING RESOURCES FOR ENHANCED PERFORMANCE AND RESULTS AT THE COUNTRY LEVEL

Recommended Council Decision

The Council, having reviewed GEF/C.21/8, *A Framework for Programming Resources for Enhanced Performance and Results at the Country Level*, has agreed that

The Council requests the GEF Secretariat [to establish a technical working group and] to prepare elements of a proposed GEF Performance-based Allocation Framework for Council review and approval at its meeting in November 2003.

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Introduction

1. During the Third Replenishment of the GEF, Participants requested “the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide.”¹ Furthermore, “the system should establish a framework for allocation to global environmental priorities and to countries based on performance. Such a system would provide for varied levels and types of support to countries based on transparent assessments of those elements of country capacity, policies and practices most applicable to successful implementation of GEF projects. This system should ensure that all member countries could be informed as to how allocation decisions are made.”²

2. During its October 2002 meeting held in Beijing, Council endorsed the *Policy Recommendations of the Third Replenishment*. The Secretariat carried out two sets of consultations with Council members during March – April 2003 on the basis of draft document GEF/C.21/8, *Programming Resources for Enhanced Performance and Results at the Country level*. Several Council members provided feedback during the two consultations – the responses received so far have indicated that there is no consensus regarding the approach outlined in the document. Given this background, this issues paper, is presented to the Council to facilitate discussion and obtain guidance on some of the critical questions associated with the development of a performance-based framework for the allocation of GEF resources.

Some factors to consider while developing a Performance Based Allocation Framework for the GEF

3. Any performance-based allocation has to be undertaken within the context of the GEF mission related to the global environment, GEF relations with conventions, the strategic planning framework of the GEF Business Plan, and the institutional structure of the GEF.

4. GEF focus on delivering global environmental benefits. The overriding objective of the GEF is to maximize and sustain a positive impact on the global environment in six focal areas.³ The GEF was established to deal with a set of externalities – global environmental problems, where no individual country has an incentive to take corrective action by itself. GEF resources are provided as “incremental financing” to support developing countries undertake “incremental action” towards providing global environmental benefits in the context of sustainable development priorities of the countries. GEF projects, by and large, provide benefits to the global community. Thus in a fundamental way GEF support differs from traditional ODA where activities primarily provide benefits that accrue to a country.⁴

¹ GEF/C.20/4, Summary of Negotiations on the Third Replenishment of the GEF Trust Fund, Annex C, para. 16

² Ibid, para 18.

³ *Instrument* (as amended), paragraph 2.

⁴ Of course, there are global externalities that result from support for several country-focused developmental activities, e.g., health, and education.

5. Relations with Conventions. It is important to see the GEF in its role as the financial mechanism for a number of international conventions on the environment as expressed in the *Instrument for the Establishment of the Restructured GEF*, and its obligation to provide financial support to Parties⁵ to the convention for commitments agreed to by the respective Conference of the Parties. The international commitment to finance actions in eligible countries recognizes that: (i) actions are essential in developing countries to protect the global environment; and (ii) these actions are likely to impose additional costs on the country development program. Financial transfers to meet those additional, or “incremental” costs are thus payments to cover costs specifically required to generate *global* as opposed to *local* benefits.

6. Strategic Business Planning and Priorities. The strategic business planning framework of the GEF proposed in the Business Plan,⁶ developed in accordance with the *Policy Recommendations of the Third Replenishment*, is geared towards maximizing the catalytic impact of GEF-support in the six focal areas. The Business Plan operationalizes this approach through identification of strategic priorities in each focal area and associated levels of financing. The strategic framework has been driven by two major imperatives: (i) to factor in the rich implementation experience emerging from the portfolio; and (ii) the need to match demand for and supply of GEF resources. The strategic priorities⁷ themselves reflect the major themes or approaches under which resources would be programmed globally within each focal area. These priorities, consistent with the Operational Programs, guidance from the Conventions, and country priorities in each focal area, reflect a sharpening of approach based on: (i) lessons from the portfolio; (ii) sequencing of response to Convention priorities; (iii) responsiveness to national priorities; (iv) incorporation of scientific and technical advice; and (v) portfolio gaps. The programming, project design and implementation approaches are directed toward enhancing the catalytic effect of the GEF resources. The success of the GEF will be measured in terms of achievement of targets established under the different priorities.⁸

7. Performance. GEF-supported projects aim to achieve success by enhancing, among several factors, country-level performance. The assessment of adequacy of country policy, capacity, and institutional framework for project performance is undertaken during the course of project preparation by the Implementing and Executing Agencies; projects also usually contain actions to remove barriers or mitigate risks that stand in the way of project success. The GEF project review criteria employ factors that assess the adequacy of such analysis.

8. Institutional Structure. The GEF is structured in an “incremental” way. The GEF relies on Implementing and Executing Agencies, which are responsible and accountable for project preparation, implementation, and quality. Accordingly, the GEF makes maximum use of well-established systems and procedures that are in place in the Agencies.⁹

⁵ Based on criteria agreed to by the respective Conference of the Parties.

⁶ GEF/C.21/9, *GEF Business Plan FY04-06*)

⁷ GEF/C.21/Inf.11, *Strategic Planning: Directions and Targets*.

⁸ GEF-3 targets also include targets established under the third Replenishment.

⁹ Such systems include: (i) country allocations that are based on indicators of country and institutional performance and on due diligence policies and country assistance strategies; (ii) assessments of performance of specific sectors

Principles of a Performance-based allocation framework at the GEF

9. Any framework for programming resources to enhance performance at the country-level needs to recognize that: (i) as stated at the WSSD, good governance is essential at the level of each country and at the international level for sustainable development, and that the Implementing and Executing Agencies have a major responsibility for addressing this in their regular workprograms and in their GEF-related activities; (ii) capacity building is an essential element in any strategy for improving performance at the country level; and (iii) institutional issues, policy issues, capacity gaps, and any associated performance weaknesses are very specific to focal areas, sectors, institutions, and even projects within a country.

10. A GEF performance-based allocation framework could be based on a few key principles:
- (a) Recognize the uniqueness of the GEF, and target its objectives - catalyzing delivery of global environmental benefits;
 - (b) Build on the principle of strategic priorities and projected levels of financing established in the GEF Business Plan;
 - (c) Rely, to the extent possible, on existing assessments of and experiences with country policy, capacity and institutional frameworks;
 - (d) Employ and develop additional information regarding country performance through the GEF Monitoring and Evaluation Unit;
 - (e) Be simple, flexible, transparent, and expand on existing policies and programming procedures in the GEF and the Implementing and Executing Agencies; and
 - (f) Be administratively feasible, and not impose undue burden on GEF resources.

Issues for Council Consideration

11. There are two fundamental issues that need discussion by the Council in order to facilitate the development of a performance-based allocation framework at the GEF.

The Overall Objective of the Framework

12. The first and major issue that needs resolution is whether the framework should:
- (a) Allocate GEF resources a priori to countries based on “need” and “performance” criteria, and then seek project opportunities in countries; or

and institutions in which GEF projects are proposed; (iii) broad-based and longer term capacity development programs, of which GEF components relating to global environmental considerations form only a part; and (iv) mainstreaming global environmental considerations into sustainable development.

- (b) Ensure that GEF resources are allocated globally in accordance with strategic priorities to projects that operate in country policy, capacity, and institutional contexts that ensure a high probability of project success (assess performance within the context of a particular project and/or country portfolio).

13. The first approach is the one most commonly employed (or in the process of being designed) in some multilateral development institutions. To its advantage, it provides each country with a degree of certainty regarding the commitment of resources. However, as outlined in the sections above, given the GEF focus on global environmental externalities, the “need” that is being tackled by a GEF-supported project is the need of the global community and not so much the need of a country. It is true that some local benefits accrue to a country, but GEF-support is provided for additional costs imposed on a country’s development program in delivering global environmental benefits. Even if countries could be scored in terms of their potential contributions towards global environmental benefits, it would be analytically challenging to aggregate in a meaningful way such scores across the different focal areas of the GEF. Moreover, such an approach would hinder progress towards achievement of targets that have been agreed to under the third Replenishment.

14. Under the second approach, programming would be done globally on the basis of GEF strategic priorities, but GEF support for any project in a country would be commensurate with the assessment of adequacy of country policy, capacity, and institutional framework. The decision regarding allocation of GEF resources would be made primarily on the basis of the potential contribution of that project towards global environmental benefits and would thus reflect directly the imperatives of the GEF strategic business planning framework and the strategic priorities under the six focal areas. Also, given that the strategic priorities embody guidance from the international environment conventions, such an approach would clearly reflect the priorities of the conventions. Furthermore, countries would not a priori be allocated resources, but would be able to access GEF resources on the basis of merits of projects being proposed, and the adequacy of policy, capacity, and institutional framework.

What is “Performance” in the GEF context?

15. The second issue is what “performance” means and how it is to be accounted for in the framework. There are three possible interpretations of performance:

- (a) Overall (macro-level) country policy, capacity, and institutional framework; or
- (b) Country policy, capacity, and institutional framework relevant to delivery of global environmental benefits; or
- (c) Country policy, capacity, and institutional framework relevant to success of the project under consideration.

16. The first interpretation, commonly employed in multilateral agencies, requires an assessment of the current policy, capacity, and institutional framework of a country in terms of how conducive that framework is towards effective use of development assistance. Such an

assessment usually rates factors that include, inter-alia, economic management, sector policies, social policies, public sector management and general governance, and portfolio performance. While such assessments could be readily available off-the-shelf for most countries from other multilateral institutions, their relevance to performance of GEF-supported projects is indirect.

17. The second interpretation would require the assessment of current policy, capacity, and institutional framework of a country in terms of how conducive that framework is towards effective delivery of global environmental benefits. Such assessments could be undertaken periodically, and used as a basis during review of projects; these assessments could also provide guidance towards the choice and size of GEF financing vehicles approved for each country. However, such assessments are not readily available, and would require some additional analytical work by the GEF Secretariat and the Agencies.

18. The third interpretation would require an assessment of “the ability of the country to successfully implement GEF-financed projects and deliver global environmental benefits.” The current GEF programming framework embodies such an approach that assesses country/sectoral policy, capacity, and institutional framework that is appropriate for ensuring success of the project under consideration. As already mentioned, the GEF depends upon the policies and procedures of the Implementing and Executing Agencies to undertake this analysis, and the GEF project review criteria assesses the adequacy of such analysis.¹⁰ The current programming framework could be further enhanced by establishing, in agreement with the Council, specific country-level policy, capacity, and institutional assessment criteria to be used by Agencies in their due diligence assessment during project preparation.

Proposed Next Steps

19. Following discussion and the decisions of the Council regarding the two fundamental issues raised in this paper, it is proposed that the GEF Secretariat establish a *Technical Working Group*¹¹ to develop a GEF Performance-based Allocation Framework (GEF-PBAF). The Secretariat would submit a paper containing elements of a proposed GEF-PBAF to the Council for discussion at the November 2003 meeting.

¹⁰ A quick assessment of allocation of GEF resources against the resource allocation framework employed by IDA shows that higher shares of GEF resources have been allocated to countries in the higher quintiles of IDA ratings; conversely, with a few exceptions, countries in the lower quintiles of IDA ratings receive lesser shares of GEF resources.

¹¹ The Working Group will be chaired by the GEF Secretariat, and will consist of technical staff from the Implementing Agencies, Executing Agencies, and other selected technical experts.