



Global Environment Facility

GEF/C.25/8
May 2, 2005

GEF Council Meeting
June 6-8, 2005

Agenda Item 13

GEF RESOURCE ALLOCATION FRAMEWORK

Recommended Council Decision

The Council reviewed GEF/C.25/8, *GEF Resource Allocation Framework*, and noted its usefulness in advancing discussions on the RAF.

Executive Summary

Following the endorsement of the Policy Recommendations of the Third Replenishment in October 2002, the GEF Council has been working on the development of a Resource Allocation Framework (RAF). The Council has discussed the RAF at meetings in 2003 and 2004, and at two consultations that were held in September 2004 and March 2005. At the November 2004 Council Meeting, three motions were tabled by Council Members with a view to facilitating a final decision on the RAF at the Council meeting in June 2005.

Based on discussions during the consultations in March 2005 and elsewhere, there appears to be a strong view that an agreed consensus view on the outstanding RAF issues is preferable to a vote. There remain two outstanding structural issues: (i) the content of the Performance Indicator, especially as it relates to governance at the national level (and the related issue of public disclosure); and (ii) the percentage of GEF resources which should be allocated to individual countries (and, therefore, how much should be left for allocation within a group or groups).

Not all, but most, of the data required for the GEF Performance Index (GPI) are proposed to be borrowed from the World Bank and subject to World Bank policies on public disclosure. The GEF Secretariat has been in discussion with the Bank and is exchanging views on the extent to which, or the conditions under which, its most relevant data, the Country Policy and Institutional Assessment (CPIA) indicators, can be made available for RAF purposes. Currently, World Bank senior management has the issue under consideration and expects to provide a view in the near future.

The differences of view about the trigger date for moving to the country and group allocation phase are minimal, either July 1, 2006, or after the GEF Assembly which, subject to Council decision, is likely to be in the third quarter of 2006. In short the difference of view about the Phase 2 start date is at most three months. The arrears issue remains to be discussed.

Council Members may wish to think about the resolution of these issues under two scenarios, the first in which we have a definite and positive view from the World Bank about our ability to use CPIA data; the second in which we do not have by the time of our June Council Meeting a definitive view, that is, either no view, or one which involves pursuing a process over subsequent weeks.

Council Members are invited to accelerate their consultations on these issues over the course of May and into the period of the Council Meeting itself. The Secretariat would be happy to facilitate consultations in Washington on June 1 – June 2, and/or on June 4.

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BACKGROUND

1. At its meeting in October 2002, the Council endorsed the policy recommendations of the third replenishment of the GEF Trust Fund. Among the policy recommendations was a request to “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 policy recommendations stated that, “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. In endorsing the policy recommendations, the Council confirmed that the recommendations would serve as a framework for policy development and that further work would be undertaken by the Council to review and approve modalities to implement the general principles of the recommendations.

COUNCIL DISCUSSIONS

3. The Council has been addressing the development of a GEF resource allocation framework at its meetings over the last two years. The Resource Allocation Framework was discussed at Council Meetings in May 2003, November 2003, May 2004, and November 2004, and at two consultations in September 2004 and March 2005. Comments and perspectives emerging from these meetings have guided the development of the framework. Highlights of these meetings and consultations are as follows:

Council Meeting- May 2003

4. The Council discussed GEF/C.21/8, *Issues Note: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level* at the May 2003 meeting, and requested “the GEF Secretariat to establish and chair a working group of technical experts to prepare elements of a framework for GEF performance-based allocations for Council review and approval.”³

Council Meeting – November 2003

5. The Working Group presented its final report GEF/C.22/11, *Performance-based Framework for Allocation of GEF Resources*, at the November 2003 meeting. The Council reviewed the report and requested the Secretariat to develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. The Council envisions a performance-based system that is consistent with the GEF Instrument, the

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 Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, para.18.

environmental conventions for which the GEF is a financial mechanism, the Policy Recommendations of the Third Replenishment, Council decisions at the October 2002 meeting, and the Beijing Assembly Declaration. The Council asked that the system be simple, transparent, pragmatic, cost-effective, comprehensive, country-driven, and provide equal opportunity for all recipient countries to have access to GEF resources. Further, the Council requested the Secretariat to present to the May 2004 Council meeting a study of options to strengthen the current system of allocating GEF resources with a view to coming to a conclusion in November 2004.⁴

Council Meeting – May 2004

6. The Secretariat, presented the Council with GEF/C.23/7, *Performance-based Allocation Framework for GEF Resources*, for discussion at the May 2004 meeting. The Council agreed that the Secretariat should convene a seminar in September 2004 with a view to advancing the Council's work. In preparation for the seminar, the GEF Secretariat was requested to prepare a new, more elaborated document proposing additional options and simulations (without country identification), taking into account the deliberations of the Council at its meetings in November 2003 and May 2004 and written comments that may be submitted by Council Members by June 30. The Secretariat was requested to propose options and simulations that: (i) are consistent with the GEF Instrument; (ii) are sufficiently specified to be operational; (iii) use GEF-appropriate indicators and weightings; (iv) provide explicit consideration of: floors and ceilings; regional and global projects, including the Small Grants Program, cross-cutting capacity building for LDCs and SIDS, and enabling activities; and other provisions aimed at providing flexibility appropriate to the GEF's mandate; (v) take into account the transaction costs associated with operating the framework; and (vi) are consistent with the provisions and prerogatives of the conventions to which the GEF is the financial mechanism. Further, the Council confirmed that that simplicity, transparency, pragmatism, cost-effectiveness, comprehensiveness, country-drivenness, and equal opportunity for all recipient countries should be underlying principles in designing the performance based framework.⁵

Council Consultations – September 2004

7. A consultation on the GEF Resource Allocation Framework was held in Paris during Sept 27-28, 2004. As background for the discussion, the Secretariat prepared and distributed a document titled, *GEF Resource Allocation Framework*, on August 5, 2004. The document proposed three models to develop a Resource Allocation Framework at the GEF: (i) Country Allocation Model; (ii) Country and Group Allocation Model; and (iii) Rules-based Model. One constituency favored the Country Allocation Model, and several others were supportive of the Country and Group Allocation Model. Several other constituencies requested the Secretariat to develop a model that would not allocate resources to countries in an ex-ante manner.

⁴ Joint Summary of the Chairs, GEF Council Meeting, November 2003.

⁵ Joint Summary of the Chairs, GEF Council Meeting, May 2004.

Council Meeting – November 2004

8. The Secretariat prepared a document, GEF/C.24/8, *GEF Resource Allocation Framework* which proposed a “phased approach” based on an initial screening phase, followed by a country/group allocation phase, followed by an exclusively country based allocation phase. At the meeting three motions were tabled by Council Members in accordance with paragraph 37 of the Rules of Procedure for the GEF Council with a view to facilitating a final decision on the RAF at the Council meeting in June 2005. Refer to Annexes A, B, and C for the three motions. The Council requested the Secretariat to continue its work on the development of data and indicators necessary for the implementation of a resource allocation framework.

Council Consultations – March 2005

9. A consultation on the GEF Resource Allocation Framework was held in Paris on March 2, 2005. A document titled, *Discussion Note on the Resource Allocation Framework*, was distributed for the meeting. It identified three key structural issues that needed to be resolved based on the three motions submitted at the November 2004 Council Meeting: (i) the “trigger” which moves the RAF from the screening phase to the next phase; (ii) the “content” of the country performance indicator, and the link between this content issue and public disclosure; and (iii) the amount of RAF resources, in percentage terms, which is to be allocated in Phase 2 to individual countries and to groups. The document also noted the arrears issue.

10. Council Members discussed ways and means to resolve the issues identified above. The group which had tabled Motion B in the November Council meeting produced, at the March consultation, a “non-paper” which reflected significant progress on the “trigger” issue. It was agreed that Council members would continue further discussions between March and the June Council Meeting, with a view to taking a final decision on the RAF at the June Council Meeting.

PUBLIC DISCLOSURE

11. All Council members have emphasized the importance they attach to the public disclosure of the indicators on which the RAF is based. Not all, but most, of the data required for the GEF Performance Index (GPI) are proposed to be borrowed from the World Bank and subject to World Bank policies on public disclosure. The GEF Secretariat has been in discussion with the Bank and is exchanging views on the extent to which, or the conditions under which, its most relevant data, the Country Policy and Institutional Assessment (CPIA) indicators, could be made available for RAF purposes. Currently, World Bank senior management has the issue under consideration and expects to provide a view in the near future. It is possible, however, that by the time of the June Council meeting, we may not have a definite answer to the issue of World Bank data availability and associated public disclosure.

TECHNICAL NOTES ON THE RAF

12. The Paris consultations held in March 2005 Paris requested further information on a number of technical issues. The Secretariat is in the process of preparing a series of notes on the following topics to facilitate the work of the Council:

- (a) Equations and weights;
- (b) Public disclosure of indicators;
- (c) Threshold for Individual Country Allocations;
- (d) Assessment of climate change benefits;
- (e) Assessment of biodiversity benefits; and
- (f) Operationalization of the RAF.

The first three notes have been distributed to all Members of the Council, Alternates, and national focal points. The other notes will be forthcoming in the weeks before the Council Meeting.

CURRENT STATUS

13. Formally we approach the June Council meetings with three RAF motions on the table on which the Council might vote. Based on discussions in Paris and elsewhere, there appears to be a strong view that an agreed consensus view on the outstanding RAF issues is preferable to a vote.
14. As noted above there remain two outstanding structural issues:
 - (a) the content of the Performance Indicator, especially as it relates to governance at the national level (and the related issue of public disclosure); and
 - (b) the percentage of GEF resources which should be allocated to individual countries (and, therefore, how much should be left for allocation within a group or groups)
15. The differences of view about the trigger date for moving to the country and group allocation phase are minimal, either July 1, 2006, or after the GEF Assembly which, subject to Council decision, is likely to be in the third quarter of 2006. In short the difference of view about the Phase 2 start date is at most three months.
16. Also as noted in para 9, the arrears issue remains to be discussed.
17. Council Members may wish to think about the resolution of these issues under two scenarios, the first in which we have a definite and positive view from the World Bank about our ability to use CPIA data; the second in which we do not have by the time of our June Council Meeting a definitive view, that is, either no view, or one which involves pursuing a process over subsequent weeks.
18. Council Members are invited to accelerate their consultations on these issues over the course of May and into the period of the Council Meeting itself. The Secretariat would be happy to facilitate consultations in Washington on June 1 – June 2, and/or on June 4.

GEF Resource Allocation Framework

Draft decision/motion for discussion presented by Council Members (A)

Based on Policy Recommendations of the third replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting Council decisions at the May 2003, November 2003, May 2004 meetings;

Based on assessments of country potential to generate global environmental benefits and assessments of country level performance.

The Council, having reviewed document GEF/C.24/8, *Resource Allocation Framework*, agrees to implementing a resource allocation framework as described in the document, with the following understandings:

- (a) To begin implementation of the screening approach with the first work program immediately following this decision/vote; and
- (b) Provided that the issues of arrears of GEF III have been settled, and at the latest before the end of negotiations of the fourth GEF Replenishment, the framework will evolve to a country and group allocation as soon as OPS-3 has been discussed by the Council and the data and indicators necessary to assess the needs and the capacity/performance of recipient countries have been determined. Only data and indicators which are publicly disclosed will be judged appropriate.

Any further development of the approach is subject to a decision by Council following a review of the experience in implementing the agreed approach described above.

GEF Resource Allocation Framework

Draft decision/motion for discussion presented by Council Members (B)

Based on the Policy Recommendations of the Third Replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting the Council decisions at the May 2003, November 2003, May 2004 meetings;

The Council, having reviewed document GEF/C.24/8, Resource Allocation Framework, agrees to **start** implementing a resource allocation framework with the following understandings:

- (c) To begin implementation of the screening approach with the first work program immediately following this decision/vote. Any further development of the approach is subject to a decision by the Council following a review of the experience in implementing the agreed approach described above.
- (d) Provided that the issues of arrears of **GEF 2 and 3** have been settled, and at the latest before the end of negotiations of the fourth GEF Replenishment, the framework will evolve as soon as OPS3 has been discussed by the Council and the **environmental** data and indicators necessary to assess the needs and the capacity/performance of recipient countries have been determined. Only data and indicators which are publicly disclosed will be judged appropriate.
- (e) **Further guidance on the RAF shall be provided by the next GEF Assembly.**

GEF Resource Allocation Framework

Draft decision/motion for discussion presented by Council Members (C)

Based on Policy Recommendations of the third replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting Council decisions at the May 2003, November 2003, May 2004 meetings;

Based on assessments of country potential to generate global environmental benefits and assessments of country level performance.

The Council, having reviewed document GEF/C.24/8 *Resource Allocation Framework*, agrees to implement a resource allocation framework as described in the document with the following understandings and with the adjustments noted in the paragraph (b) below:

- (f) To begin implementation of the screening approach with the first work program immediately following this decision/vote;
- (g) Before the end of the negotiations of the fourth GEF Replenishment and after discussions of OPS-3 by the Council, the framework will evolve to a country and group allocation framework. This framework will have the following minimum conditions:
 1. at least 75 percent of resources available for the biodiversity and climate change focal areas will be allocated to individual countries based on a country's potential to generate environmental benefits in the focal area and country performance;
 2. the environmental benefits rating will be drawn from the best available public sources;
 3. the country performance rating will include indicators of policy and institutional performance in the environmental sector, project portfolio performance, macro-economic performance and governance;
 4. the portfolio performance indicator will be drawn from the GEF Country Portfolio Performance and from the environmental sector projects in the World Bank OED Project Portfolio;
 5. all indicators will be drawn from sources that will eventually be publicly disclosed and may be amended as new and better sources of information become available;

6. a formula for calculating allocations, with weighting between environmental benefits and country performance as proposed in the base case in Document GEF/C.24/8;
7. other operational features such as the list of eligible countries, carry-overs, floors and ceilings, set asides will be specified.

Any further development of the approach is subject to a decision by Council following a review of the experience in implementing the agreed approach described above.