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GEF RESOURCE ALLOCATION FRAMEWORK

Recommended Council Decision

The CEO is holding consultations with GEF Council Members/Constituencies prior to the November 2004 Council meeting. Based on these consultations and discussions at the Council meeting, a draft decision will be put forward at the Council meeting.

Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBD	Convention on Biological Diversity
CCD	United Nations Convention to Combat Desertification
EBRD	European Bank for Reconstruction and Development
FAO	Food and Agriculture Organization of the United Nations
IA	Implementing Agency
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
IPF	Country Indicative Planning Figure (of the UNDP)
LDCs	Least Developed Countries
M&E	Monitoring and Evaluation
MSP	Medium Size Project (of the GEF)
OECD	Organization for Economic Cooperation and Development
OP	Operational Program (of the GEF)
OPS3	Third Overall Performance Study of the Global Environment Facility
PIR	Project Implementation Review (of the GEF)
POPs	Persistent Organic Pollutants
PRC	Project Review Criteria (of the GEF)
RAF	Resource Allocation Framework (of the GEF)
SGP	Small Grants Program (of the GEF)
SIDs	Small Island Developing States
SMPR	Secretariat-Managed Project Review (of the GEF)
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission on Europe
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

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EXECUTIVE SUMMARY

Since the May 2003 meeting, the GEF Council has been discussing the development of a resource allocation framework for the GEF, following on the policy recommendation from the third replenishment of the GEF Trust Fund. A Technical Working Group, chaired by the GEF Secretariat, was initially tasked with providing options for resource allocation to the Council. The Working Group submitted its report to the November 2003 Council meeting. At Council's request, the Secretariat undertook direct responsibility for the task and prepared documents for discussion at the May 2004 Council meeting and at a special seminar convened during September 27-28, 2004, in Paris.

Beyond the broad agreement that assessments of country potential to generate global environmental benefits and assessments of country performance should constitute the two main components of a resource allocation framework at the GEF, there has been no consensus in the Council on any particular allocation approach.

Divergence of Views in the Council

There is a difference of view in the Council about the philosophy of resource allocation at the GEF. Some Council Members maintain that a resource allocation framework, by definition and as agreed in the policy recommendations of the third replenishment, must allocate resources to individual countries, citing the precedent of concessional funds at other multilateral institutions. They argue that such a system will serve to make the GEF more transparent and predictable, and will serve to produce better results.

Other Council Members, however, have called for a different approach to a resource allocation framework at the GEF based on the GEF's exceptional origins and mandate, its combined UN/Bretton Woods processes, and its historical partnership/consensus based approach to decision-making. They have reasoned that the GEF's principal objective is to be responsive to the needs of developing countries to meet the obligations of the multilateral environmental conventions. These Members have asserted that consistent with the agreements reached in the conventions, resources provided through the GEF should not be treated as conventional ODA resources, and therefore, the GEF need not follow the resource allocation systems being put in place in multilateral financial institutions. They have asked the Secretariat to examine a broader spectrum of options.

Council Members have also expressed concern regarding the reliability of methodologies, indicators and data, the operational flexibility, and the administrative cost associated with a resource allocation framework.

A Phased Approach to GEF Resource Allocation Framework

To accommodate the range of differences among Council Members, this paper outlines a phased approach to developing a resource allocation framework at the GEF. Three phases, all with the common foundation of employing the same assessments of benefits and performance, are set out in a sequence. Council could choose to enter the sequence through any one of the three phases presented, and progression from one phase to the next can be determined by the Council based

on its comfort with the philosophy of allocation, the reliability of methodologies, indicators and data, operational flexibility, and administrative cost.

Screening Phase

The first phase in the sequence is a screening approach that builds upon the current system of resource allocation. At the beginning of each replenishment period, all countries are classified as having the potential to generate either high benefits or low benefits separately for each focal area based on whether the country's global environmental benefits potential score exceeds a threshold score. Independently, all countries are also classified as either high or low performing countries based on whether the country's performance rating exceeds a threshold score. The performance and benefits classification of countries define four groups of countries (high benefits/high performance, high benefits/low performance, low benefits/high performance and low benefits/low performance). These four groups of countries will have different terms of access to GEF resources and project modalities.

Countries with high benefits potential will have full access to GEF modalities (full-sized projects, medium-sized projects, and enabling activities), while countries with low benefits potential will have limited access (enabling activities, medium-sized projects, and a single full-sized project during a replenishment period). A country's performance classification will not affect the resources available to the country. Projects in low performing countries will emphasize capacity building and institutional development and in addition will require higher level of scrutiny in the review, approval, and implementation process, including special safeguard and risk management measures.

The screening phase is sensitive to thresholds used in classifying countries into groups. Therefore, additional flexibility is introduced into this phase through a process of appeals to the Council for allowing countries to access other modalities on a case-by-case basis. The screening approach offers considerable operational flexibility, and is the least demanding regarding the reliability of methodologies, indicators and data.

Country and Group Allocation Phase

The country and group allocation phase is the next evolutionary step in the sequence of developing a resource allocation framework. A mathematical formula is used to compute an allocation score for each country in each focal area based on each country's potential to generate environmental benefits and each country's performance rating. Each country is either provided a individual allocation or is assigned to one of three groups each of which is provided an aggregate allocation.

Countries with indicative allocations larger than \$10 million receive individual allocations. Countries with indicative allocations between \$1 million and \$10 million are divided into three groups based on their respective indicative allocations (Group I: \$6 to \$10 million, Group II: \$3 to \$6 million and Group III: \$1 to 3 million). The aggregate indicative allocation for each of the three groups is equal to the sum of the indicative allocations for the countries belonging to each group. In addition, to ensure equitable distribution of resources among countries within a group, each country in a group can access no more than \$10, \$6 and \$3 million respectively of the

group's indicative allocation during the replenishment period. Finally, countries with indicative allocations less than \$1 million will receive an individual allocation of \$1 million, which is a floor allocation for all countries.

This phase offers the possibility of testing whether individual country allocations are workable in the GEF operational context, while maintaining the flexibility of group allocations for nearly half the resources in a focal area. As the GEF gains operational experience with this phase, the approach can be transformed either into an individual country allocation approach (the last phase in the sequence) or into a group allocation approach, where all countries are in groups.

Country Allocation Phase

The country allocation phase, which is similar to the allocation frameworks employed at other multilateral financial institutions, is the final step in the evolution of a resource allocation framework in the GEF. In this phase, each country is provided separate individual indicative allocations in each of the two focal areas -- biodiversity and climate change -- covering the entire replenishment period. The indicative allocations to each country are computed from global environmental benefits potential and country performance ratings in a similar manner to that in the country and groups allocation phase. Unlike the country and group allocation phase, all countries including those with indicative allocations less than \$10 million receive individual allocations.

The country allocation phase is the most demanding of the three phases regarding reliability of methodologies, indicators and data. It is also the most operationally challenging and the most expensive to implement. It does, however, provide the greatest degree of certainty to the recipient countries and other stakeholders regarding resource allocation.

Conclusion

The Council, based on its views about allocation philosophy, reliability of methodologies, data and indicators, operational flexibility, and administrative costs, should decide on an appropriate entry point in the phased approach.

BACKGROUND

1. During the third replenishment of the GEF Trust Fund, the policy recommendations approved during the replenishment negotiations 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 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. At its meeting in October 2002, the GEF Council welcomed the successful conclusion of the replenishment and endorsed the replenishment document and the policy recommendations. 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.

Resource Allocation Framework Seminar

3. The Council has been addressing the development of a GEF resource allocation framework at its meetings over the last two years (May 2003, November 2003, and May 2004). Comments and perspectives emerging from these meetings have guided the development of the allocation framework.

4. A seminar on the GEF Resource Allocation Framework was held in Paris during Sept 27-28, 2004. Participants at the seminar included several Council Members and experts nominated by their constituencies. 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.

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.

Organization of this Document

5. This document is prepared to advance the Council's continuing discussions on this issue at its November 2004 meeting.³ It builds upon and extends the work carried out during 2003 and 2004 in proposing a resource allocation framework for the GEF. This report is presented in two sections.

6. Section I, a review of the context within which a Resource Allocation Framework is being developed, traces very briefly the origins and purpose of the GEF, its relationships with the global environmental conventions, and other characteristics which make the GEF unique and different from other multilateral financial institutions. This section concludes with a summary of the factors driving the development of a resource allocation framework at the GEF, and a description of the current system of allocation.

7. Section II describes a phased approach to developing a resource allocation framework at the GEF, suggesting three phases along a sequence, based on global environmental benefits and country performance. The phases describe a system that can evolve taking into account Council comfort with resource allocation philosophy, reliability of methodologies, indicators and data, operational flexibility, and administrative costs. The phases are: (i) screening for benefits and performance; (ii) allocation of resources to countries and groups; and (iii) allocation of resources to countries. Depending upon the reliability and credibility of available information, and the feasibility of the methodology used in the different phases, Council may agree to initiate a resource allocation system anywhere along this continuum.

³ This paper and previous papers on the GEF resource allocation framework have been prepared by the GEF Secretariat in collaboration with the Development Economics Research Group of the World Bank, and with data provided by NGOs/research institutions such as the Worldwide Fund for Nature (WWF), Conservation International, World Resources Institute, etc.

I: THE CONTEXT FOR A RESOURCE ALLOCATION FRAMEWORK AT THE GEF

8. An understanding of the context within which the resource allocation framework is to operate is critical in its design.

Establishment of the GEF

9. During the late eighties, as concerns regarding global environmental issues were growing,⁴ support for an environmental grant facility gained ground in discussions involving the World Bank, UNDP, UNEP, several donors and NGOs.⁵ After several rounds of negotiations, the GEF was established in 1990 as a pilot facility within the World Bank Group, with the participation of UNDP and UNEP. As the negotiations for the 1992 Earth Summit in Rio gathered momentum, the GEF was increasingly drawn into the preparatory processes of the Summit. At the United Nations Conference on Environment and Development in 1992, the GEF was recognized as an important source of new and additional resources to help finance the implementation of Agenda 21, and it was agreed that the GEF should be restructured so as to:

- (a) encourage universal participation;
- (b) ensure a governance that is transparent and democratic in nature, including in terms of decision-making and operations, by guaranteeing a balanced and equitable representation of the interests of developing countries, as well as giving due weight to funding efforts of donor countries;
- (c) ensure new and additional financial resources on grant and concessional terms;
- (d) ensure predictability in the flow of funds by contributions from developed countries, taking into account the importance of equitable burden-sharing; and
- (e) ensure access to and disbursement of funds under mutual agreed criteria without introducing new forms of conditionality.

10. On the basis of these criteria, and similar criteria adopted by the conferences adopting the Convention on Biological Diversity (CBD) and the United Nations Convention on Climate Change (UNFCCC), the GEF was restructured in 1994 in accordance with the *Instrument for the Establishment of the Restructured GEF*.

11. In restructuring the GEF, governments confirmed that the GEF should strive to be one of the principal mechanisms for global environment funding, to ensure a governance that is transparent and democratic in nature, to promote universality in its participation, and to provide for full cooperation in its implementation among UNDP, UNEP, and the World Bank.

⁴ The publication of the Brundtland Commission Report in 1987 introduced the goal of sustainable development, placing environment within the context of wider development issues.

⁵ The establishment of the Montreal Protocol Fund to support the Vienna Convention for Protection of the Ozone Layer could be interpreted as a motivating factor.

How is the GEF Different?

12. While the GEF is an international financial facility, it is unique in its mandate and character, and is markedly different from other international financial institutions.

The GEF is a single financial mechanism serving the global environmental conventions

13. The GEF is currently the financial mechanism of the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC), and as such, functions under the guidance of, and is accountable to, the Conferences of the Parties of these Conventions. The GEF is also a financial mechanism to the Convention to Combat Desertification (CCD). In addition, GEF, on an interim basis, pending entry into force of the Convention, operates the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants.

14. As a financial mechanism of the global environmental conventions, the GEF strives to provide financial support to developing country Parties to the conventions to assist them in meeting their obligations under the conventions. The decisions of the Conferences of the Parties to the conventions provide guidance to the GEF on the policies, program priorities and eligibility criteria to be followed in providing such assistance to the Parties to the Convention.⁶

15. The role of the financial mechanism to these conventions is crucial to assisting developing country Parties to contribute to the achievement of the conventions' goals. The GEF is a critical pathway through which developed countries fulfill their obligations under the conventions to provide new and additional resources to developing country Parties for purposes of implementing the conventions.

GEF is a Partnership-based Institution

16. The GEF is the embodiment of a partnership between developed and developing countries to address global challenges that can only be resolved by the collective action of all countries. The need for such a partnership to address the global environmental and sustainable development issues has been recognized at UNCED, in the global environmental conventions, and most recently, at the World Summit on Sustainable Development, and at the International Conference on Financing for Development.⁷

17. The GEF was established to help address a unique problem in global public goods. No individual country has the incentive to tackle any global problem by itself, given that benefits associated with such action need not necessarily accrue to the country. The international commitment to provide grant resources to developing countries arises out of the recognition that actions essential in developing countries to protect the global environmental are likely to impose additional costs on country development programs. GEF resources are provided as "incremental

⁶ The GEF Operational Strategy, Operational Programs, the focal area Strategic Priorities, country eligibility etc., reflect the priorities and directions of the conventions and have been designed to be flexible and response to the conventions.

⁷ Monterrey Consensus, International Conference on Financing for Development, March 18-22, 2002.

financing” to support developing countries undertake “incremental action” towards providing global environmental benefits.

18. The GEF is also a partnership involving well-established international development agencies that function as the Implementing⁸ and Executing Agencies⁹ of the GEF. These Agencies bring to the partnership their institutional systems for delivering on-the-ground projects in countries, their accumulated knowledge, skills and experience. Accordingly, the GEF makes use of their established systems and procedures for project preparation and implementation. Recipient countries work directly with the Agencies to develop project concepts, access GEF resources and implement projects to generate global environmental benefits.

Why does the GEF need to develop a Resource Allocation Framework?

19. The GEF, as in the case of several other international concessional funds, is largely funded from taxpayers’ contributions in donor countries. The legislatures in these countries have strong expectations regarding results, efficiency, and transparency in the application of these resources. Concessional funds at other multilateral financial institutions¹⁰ have all established or are in the process of establishing transparent resource allocation frameworks. The resource allocation systems at these institutions are: (i) structured around the major objectives of the respective institutions; and (ii) reflect the organizational structure of each institution and relationship with its partners.

20. Development and implementation of a resource allocation framework for the GEF was among the policy recommendations accepted as part of the third replenishment of the GEF Trust Fund. From these recommendations it can be interpreted that the principal intent behind them is to enhance the performance and catalytic action of GEF-financed projects at the country-level by establishing a system to allocate resources that explicitly recognizes the role that country performance can play in maximizing generation of global environmental benefits.

How has the GEF Historically Allocated Resources?

21. Historically, the GEF has had an implicit resource allocation framework under which Implementing/Executing Agencies tailored their country-level activities to the global environmental benefits and the ability of countries to deliver in different focal areas. Projects were developed in each country based on the focal areas where countries could implement projects. Project formulation was usually halted until implementation bottlenecks were resolved.

⁸ United Nations Development Programme (UNDP), United Nations Environment Program (UNEP), and the World Bank Group.

⁹ African Development Bank (AfDB), Asian Development Bank (ADB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IDB), Food and Agriculture Organisation of the United Nations (FAO), International Fund for Agricultural Development (IFAD), United Nations Industrial Development Organisation (UNIDO),

¹⁰ Asian Development Fund at the Asian Development Bank (ADB), the African Development Fund at the African Development Bank (AfDF), the International Development Association (IDA) at the World Bank Group, concessional funds at the Inter-American Development Bank (IDB), and International Fund for Agricultural development (IFAD).

22. Until very recently, GEF programming was driven by submissions of project proposals by countries through the Implementing and Executing Agencies. The Secretariat reviewed these projects for eligibility in accordance with Project Review Criteria.¹¹ Projects submitted were approved when they met the criteria, taking into account the availability of resources in the GEF Trust Fund.

23. Historically, approximately two-thirds of GEF resources have been allocated to the biodiversity and climate change focal areas; international waters accounts for another 15 percent. There is increasing demand from the new focal areas, persistent organic pollutants and land degradation, which is expected to increase for the GEF-4 period.

Strategic Planning Framework & Strategic Priorities

24. In May 2003, the Council approved the GEF Business Plan for the period FY04-06 that included a strategic business-planning framework where allocation of GEF resources was done globally based on strategic priorities within the six focal areas of the GEF. The plan was prepared in response to the policy recommendations of the third replenishment negotiations calling for “a new strategic business plan ... that includes priorities for action to maximize results and impacts on the ground and to fulfill the mission of the GEF to achieve global environmental benefits in its focal areas.” The business plan, among other things, seeks to address two major challenges: (i) the need to take stock of, and account for the implementation experience emerging from the GEF portfolio as a means to enhance results on the ground; and (ii) in recent years, as demand for GEF support, for a variety of reasons, began surpassing the financial resources available to the GEF Trust Fund, there has been an increasing need to match demand for and supply of GEF resources, employing factors beyond simple project review eligibility criteria.

25. The strategic planning framework was followed up in the Business Plan for the FY05-07 period. Strategic priorities present a useful screen for emphasizing themes within GEF focal areas. Some focal areas have been fairly successful in managing the portfolio in accordance with the resource envelopes allocated against the strategic priorities, while in several focal areas this approach has not proven to be practical. On the other hand, the focal area resource envelopes have been helpful guides for programming and can be employed with the flexibility that is necessary for GEF programming and operations. Taking this experience into account, going forward, strategic priorities will be employed as a review screen, in addition to the project review criteria, and not associated with strict resource envelopes in the business plan.¹²

Rules of Country Eligibility

26. For a project to be eligible for GEF funding, it must reflect national or regional priorities and have the support of the country or countries involved. Furthermore, it must improve the

¹¹ Project Review Criteria of the GEF, inter-alia, reflect the 10 Operational Principles embodied in the GEF Operational Strategy, Operational Programs, and guidance from the Conventions.

¹² Focal areas may choose to allocated indicative envelopes to strategic priorities over a replenishment period as an operational approach to programming.

global environment or advance the prospect of reducing risks to it. Country eligibility to receive funding is determined in two ways:¹³

- (a) For grants that are made available within the framework of the financial mechanisms of the conventions, country eligibility is in conformity with the criteria decided by the Conference of the Parties of each convention; and
- (b) For all other grants, a country shall be an eligible recipient of GEF grants if it is eligible to borrow from the World Bank (IBRD and/or IDA) or if it is an eligible recipient of UNDP technical assistance through its country Indicative Planning Figure (IPF).

27. Among eligible countries, the current system does not provide for allocation of resources on a country basis; rather it puts the emphasis on a project's potential positive impact on the global environment. Allocations are made on a project basis, according to the project review criteria and in conformity with strategic priorities at the global level. The Implementing and Executing Agencies are responsible and accountable for assessing whether performance and capacity at the country-level, in terms of policy and institutions, are sufficient for project success.

Assessment of Country-level Policy and Institutional Factors

28. The current system of resources allocation depends upon existing systems at the Implementing and Executing Agencies, with particular reliance on project preparation and related quality control processes. The Agencies are responsible for assisting the recipient countries with project development/preparation, implementation supervision, and evaluation. Project proposals are approved by the GEF Council and endorsed by the CEO prior to final approval by the country and the Agency. Each Agency, within its project cycle, is responsible for assessing country-level policy and institutional factors relevant for project success. There is not a consistent, standardized assessment of country-level policy and institutional factors across the different Agencies. The Agencies' standard procedures for assessing country-level performance are described below.

29. United Nations Development Programme. UNDP, as manager of the UN Resident Coordinator System, bases its assessment of "need" through the UN-wide Common Country Assessment (CCA) and an articulation of an assistance framework through the United Nations Development Framework (UNDAF). UNDP defines its Country Programme in collaboration with government and national and international partners for approval by the Executive Board. Performance is tracked and measured through a system of self assessment of results and is required to be validated by independent evaluation at the outcome level, and complemented by monitoring and evaluation at the project and programme level as appropriate.

30. United Nations Environment Programme. The overall policy guiding the preparation of UNEP's program of work is adopted by UNEP's Global Ministerial Environmental Forum, in accordance with the overall policy framework of the United Nations General Assembly and its

¹³ Para 9 of the GEF Instrument.

relevant bodies, including the Commission on Sustainable Development. It is prepared based on the needs and priorities identified by member states. Reflecting UNEP's mandate, the projects focus at the global and regional level on scientific and technical capacity building largely through regional and sub-regional bodies. There is no notion of broad country-level performance assessment in the approval of projects, or any explicit assessment of country policy. However assessment of institutional factors is an important factor in establishing appropriate management arrangements for the execution of projects and capacity building goals.

31. The World Bank Group. Projects proposed through the World Bank are based on country assistance strategies (CASs) that reflect an assessment of macro-level and sectoral-level policies, governance, portfolio performance, public expenditures, procurement, and financial management systems in the country. While CASs for IDA countries have a priori allocations based on the IDA performance assessment framework (see Annex 4 for a list of indicators used in the IDA framework), CASs for IBRD countries review creditworthiness and Bank exposure for given levels of lending.¹⁴ During the project preparation process for IDA, IBRD or free-standing projects,¹⁵ there is assessment of institutional and implementation capacity and arrangements relevant to project performance.

32. An assessment of outcomes from the last decade from the current system of resource allocation shows that the distribution of GEF resources across countries, by and large, reflects each country's potential to deliver global environmental benefits, moderated by consideration of country-level policy and institutional factors relevant for project success.

Transparency is the Key Driver for a Resource Allocation Framework

33. It has been argued that the current system of resource allocation lacks transparency. When the issue of global benefits and country-level performance (and equity) are only implicitly considered on a project-by-project basis, there is little transparency in decision on resource allocation and no predictability for a recipient country.

¹⁴ There are country performance ratings for IBRD countries which are not disclosed.

¹⁵ Free standing projects are also part of the World Bank's country assistance dialogue and are anchored in the CAS and subject to the same assessments of policy and institutional elements.

II. COMPONENTS OF A GEF RESOURCE-ALLOCATION FRAMEWORK

34. This section describes a phased-approach towards establishing a resource allocation framework at the GEF. Rather than presenting the Council with allocation models that are mutually exclusive, this paper presents a sequential framework that can evolve taking into account experience and emerging data on global environmental priorities and country capacity, policies and practices most applicable to successful implementation of GEF projects. The phases are: (i) screening for benefits and performance; (ii) allocation of resources to countries and groups; and (iii) allocation of resources to countries in a focal area. Depending upon the reliability and credibility of available information and the feasibility of the methodology uses in the different phases, Council may agree to initiate the resource allocation system anywhere along this continuum.

35. All phases are based on the same set of data and indicators. Progression through the sequence would be based on increasing confidence regarding the philosophy associated with allocation of resources at the GEF, reliability of data/indicators and methodology, operational viability, and administrative cost of the phases. Such an approach provides the various stakeholders of the GEF, particularly the GEF Council, with the opportunity to review and agree on each step as the GEF Resource Allocation Framework evolves. The Council Members may have views regarding the appropriate entry point for the GEF in the sequence.

36. The development of an explicit resource allocation framework is not intended to create a system that is exclusionary, nor one that upsets the long-standing dynamics within the Council or between the Council and the Conferences of the Parties of the various conventions.

What has been achieved so far?

37. The Council has been discussing a resource allocation framework since May 2003. Most recently, a seminar was held in Paris during September 27-28, 2004. While the Council has made progress towards reaching a consensus on a number of key issues related to the resource allocation framework, there continues to be divergence on several key aspects.

Global environmental benefits and country-level performance identified as main components.

38. In undertaking its work to assist the Council in developing a resource allocation framework for the GEF, the Secretariat looked at a number of multilateral institutions to identify if there are any useful precedents. Most multilateral financial institutions have developed, or embarked on development of, resource allocation frameworks. The overall objective of all frameworks is to establish a well-understood, transparent and consistent system of resource allocation. These frameworks usually have two major components that reflect the mandate of the institution and its specific relationship with its clients. One component usually measures the “needs” that resources from the institution are meant to address. For example, institutions whose mandate is to promote economic development and poverty alleviation employ income per-capita as a factor to reflect this element; population is used as scale-factor in determining the actual

level of allocations in these models.¹⁶ The other component of these frameworks seeks to measure “**performance**” i.e., existence of a supportive policy and institutional framework in a country that will contribute to the effective use of resources from the institution. In addition to sectoral and macro-level factors, the performance component usually also includes a measure of portfolio performance.

39. For the GEF, given its role in the constellation of multilateral financial institutions, it is clear that providing support to developing countries to generate global environmental benefits is its *raison d’être*. Thus measuring country potential to generate global environmental benefits is an essential component to address the mandate of the GEF.

40. In granting resources to a country for the generation of global environmental benefits, there are risks associated with the effective application of those resources. These risks can be measured in terms of performance, i.e., the underlying policy and institutional factors most relevant for project success. These policies and factors should be reflected in the second component of a resource allocation framework at the GEF.

41. Reflecting these understandings, the GEF Council at its meeting in November 2003 requested the Secretariat to develop the GEF Resource Allocation Framework based on two components: (i) global environment priorities; and (ii) country-level performance relevant to those priorities. Consistent with this understanding, options proposed for an allocation framework have consistently included the following two components:¹⁷

- (a) Global Environmental Benefits – defined as the potential of each country to generate global environmental benefits in the focal areas of biodiversity and climate change; and
- (b) Country-level Performance – defined as the capacity of each country to generate its potential based on its past and current performance.

42. The Council also agreed that the GEF Resource-allocation framework would initially apply only to the focal areas of Biodiversity and Climate Change, which together account for nearly two-thirds of allocations of GEF resources.

Methodologies to assess country potential to generate global environmental benefits and country-level performance have been developed.

43. The fundamental step in developing any phase of a resource allocation framework is to assess individual countries and rate them according to: (i) the potential to generate global environmental benefits (separately for biodiversity and climate change); and (ii) country performance. Annexes 4 and 5 provide details regarding these assessments of potential to

¹⁶ Subject to ceilings in the system, and other factors in the resource allocation framework being equal, the lower the per-capita income, the higher the per-capita resource allocation.

¹⁷ In considering the Council’s guidance to consider the poverty indicator, it is our judgment that it would not be appropriate for the GEF framework given that there are several other multilateral institutions that focus on poverty, while GEF is the only institution that focuses on the global environment.

generate global benefits, and Annex 6 provides details regarding assessment of country performance.

Divergent Views in the Council

44. There continues to be several issues on which there is a divergence of views among Council Members. These issues can be grouped under three main categories.

Philosophy of Allocation

45. Council Members have not yet reached a consensus view regarding the basic philosophy behind a GEF resource allocation framework. Some Council Members maintain that a resource allocation framework, by definition and as agreed in the policy recommendations of the third replenishment, must allocate resources to individual countries, citing the precedent of concessional funds at other multilateral institutions. They argue that such a system will serve to make the GEF more transparent and predictable, and will serve to produce better results.

46. Other Council Members, however, have called for a different approach to a resource allocation framework at the GEF based on the GEF's exceptional origins and mandate, its combined UN/Bretton Woods processes, and its historical partnership/consensus based approach to decision-making. They have reasoned that the GEF's principal objective is to be responsive to the needs of developing countries to meet the obligations of the multilateral environmental conventions. These Members have asserted that consistent with the agreements reached in the conventions, resources provided through the GEF should not be treated as conventional ODA resources, and therefore, the GEF need not follow the resource allocation systems being put in place in multilateral financial institutions. They have also argued that the GEF is a unique institution serving the conventions and seeking to generate global public goods in the form of global environmental benefits, and therefore, resource allocation to individual countries would be inconsistent with these objectives and have asked for other forms of allocation, including through individual assessments at the project-level.

Reliability of Methodologies, Indicators and Data

47. Some Council Members have expressed concern regarding the reliability of the methodologies, indicators and data employed to assess benefits and performance. In addition, Council Members have voiced concerns regarding the limitations on public disclosure with some of the indicators.¹⁸ There is emerging consensus that environment sector performance, including measures of public participation and creation of enabling environments, and portfolio performance are relevant indicators in a GEF resource allocation framework. However, there are reservations about the relevance of macro-policy indicators. Details regarding these and other key issues in developing a resource allocation framework are described in Annex 8.

¹⁸ Given widespread concerns regarding the public disclosure of CPIA, the indicator proposed to reflect assessment of macro-policy, it is not employed in simulations provided in this document. Council needs to continue discussion on the substantive merit of its inclusion and signal a closure on this topic.

Operational Flexibility

48. Several Council Members have expressed serious doubts that any resource allocation framework for the GEF can be made viable and with sufficient flexibility in an operational context. The GEF is an “incremental” institution, with a small Secretariat, and dependent upon the Implementing and Executing Agencies to develop and implement projects, and maintain operational relations with countries. While the GEF currently maintains allocation norms within the different focal areas, it operates with a considerable degree of flexibility and is driven essentially by demand from recipient countries. Projects are developed in countries, based on a myriad of enabling factors, including the context of the country assistance strategies established between the Implementing/Executing Agencies and the countries. In many cases, GEF projects are integrated components of mainstream development projects being developed and financed by the Implementing/Executing Agencies and countries, reflecting the “incrementality” of GEF financing. Any resource allocation framework developed for the GEF should continue to be flexible and nimble in terms of accommodating these operational realities.

Administrative Cost

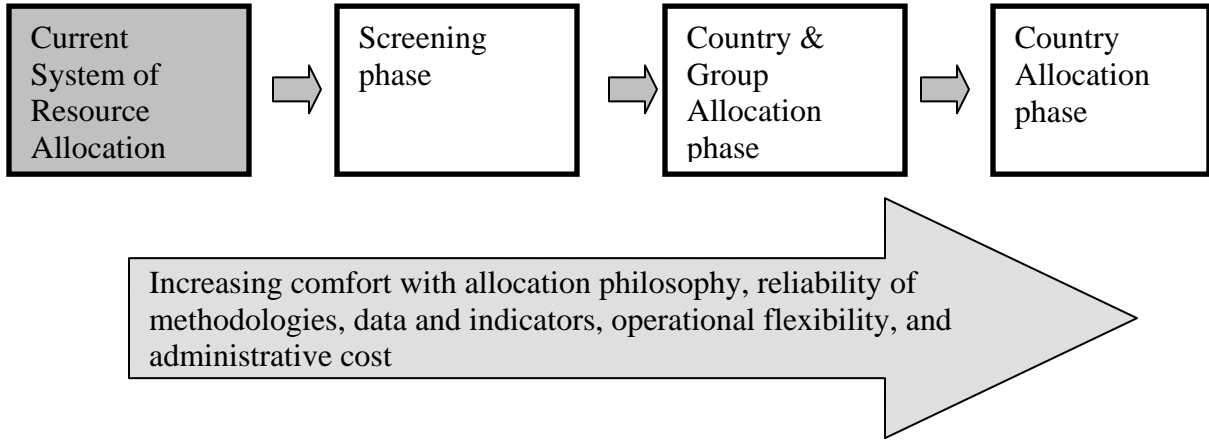
49. Council has also been concerned about the additional cost of developing and implementing a resource allocation framework. There are costs associated with establishing and maintaining the system, which would be largely borne by the GEF Secretariat. In addition, there are transaction costs associated with operating the system, to be incurred by the Secretariat and the Implementing/Executing Agencies.

How does the Phased Approach to a GEF Resource Allocation Framework work?

50. The phased approach, outlined in this section, is a response to the different concerns, outlined above, expressed by the Council during discussions on the resource allocation framework over the last 18 months. In this approach, three phases – screening phase, country and group allocation phase, and country allocation phase -- are proposed in a sequence, where choice of a particular allocation phase and progression from one phase to the next is based on operational experience and emerging data on global environmental benefits and country capacity, policies and practices most applicable to GEF projects. All phases employ the same assessments of country potential to generate global environmental benefits and country performance described in Annexes 4,5 and 6. The allocation rules defined by these phases include certain features to reflect the institutional and operational needs particular to the GEF (set-asides for the small grants program and basic crosscutting capacity building, ceilings and floors) details of which can be found in Annex 7. Figure 1 depicts the three phases that comprise the phased approach. The Council could indicate its preference for any phase in the sequence as a starting point, based on its comfort with regard to:

- (a) allocation philosophy;
- (b) reliability of methodologies, indicators and data;
- (c) operational flexibility; and
- (d) administrative cost.

Figure 1. Phased Approach to a GEF Resource Allocation Framework



Screening Phase

51. The screening phase is the first step forward from the current system of resource allocation. In this phase, at the beginning of each replenishment period, for each focal area, all eligible countries are classified as: (i) countries with high or low potential to generate global environmental benefits; and (ii) high or low performing countries. The two sets of classifications helps define four groups of countries in each focal area, each of which is governed by a separate terms of engagement as shown in Figure 2. While all countries have access to: (i) the Small Grants Program; (ii) basic crosscutting capacity building; (iii) global and regional projects; and (iv) enabling activities to report to the CBD and UNFCCC, access to additional resources is determined by each country’s classification, subject to ceilings and floors.

Figure 2: Schematic of Screening Phase

	Low performance countries	High performance countries
Countries with High Potential to Generate Global Environmental Benefits	<p>II Ring-fenced High Level of GEF Support</p>	<p>I High Level of GEF Support</p>
Countries with Low Potential to Generate Global Environmental Benefits	<p>IV Ring-fenced Limited GEF Support</p>	<p>III Limited GEF Support</p>

52. Terms of Engagement. In broad terms, countries with high potential to generate global benefits have access to higher level of resources –enabling activities, medium-sized projects, and

full-sized projects - while those with low potential have limited access to resources – enabling activities, medium-sized projects and a single full-sized project (not exceeding \$5 million) during a replenishment period. Independently, projects from countries with low performance have to satisfy additional standards of ring-fencing, involving enhanced supervision, monitoring and evaluation. A detailed description of this phase, including simulations, is presented in Annex 1.

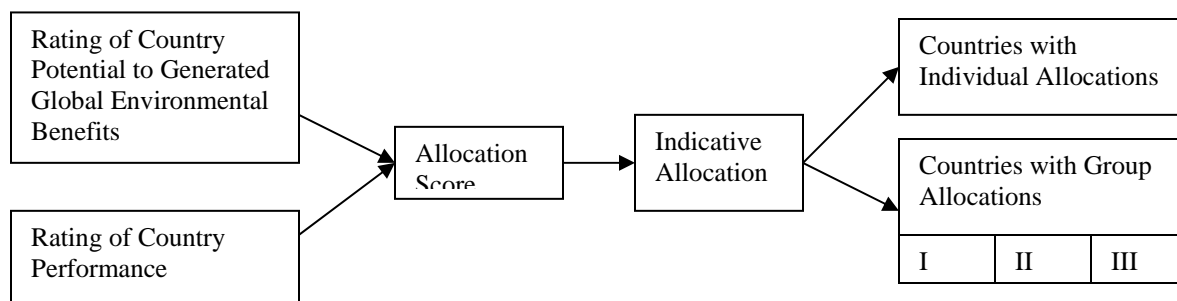
53. Council-mediated Appeals process. Since the framework in this phase is sensitive to the thresholds, or cut-offs, in benefits assessment and performance assessment employed in classifying countries into the four groups, the phase also includes a process of appeals to the Council for exempting projects from the applicable terms of engagement on a case-by-case basis. For example, if a country that is classified in Category III proposes a second, very high quality project or a single high quality project above the \$ 5 million threshold during a replenishment period, the proposal would be placed before the Council for review and discretionary exemption from the terms of engagement for that specific request.

54. The screening phase can be established as a significant first step beyond the existing system of resource allocation. Resources are not allocated ex-ante to countries at the beginning of a replenishment period. Council could, if it so desires, target indicative allocations across the four different categories of terms of engagement over a replenishment period.

Country and Group Allocation Phase

55. The country and group allocation phase offers a second evolutionary step in the sequence of developing a resource allocation framework. In this phase, each country is either provided individual allocations or is assigned to one of three groups each of which is provided an aggregate allocation for the countries belonging to the group as shown in Figure 3. All allocations are for the entire replenishment period. A mathematical formula is used to compute an allocation score for each country in each focal area based on each country’s potential to generate environmental benefits and each country’s performance rating.¹⁹ Indicative allocations to countries are determined in proportion to the respective allocation scores of each country.²⁰

Figure 3: Schematic of the Country and Group Allocation Phase



¹⁹ These same allocation scores are also used in the country allocation phase.

²⁰ The approach also has a country ceiling of 10% of total GEF resources in the focal area and a country floor of \$1 million per country. When necessary, the indicative allocations are adjusted to lie within these ceilings and floors.

56. Countries with indicative allocations larger than \$10 million receive individual allocations. Countries with indicative allocations between \$1 million and \$10 million are divided into three groups based on their respective indicative allocations (Group I: \$6 to \$10 million, Group II: \$3 to \$6 million and Group III: \$1 to 3 million). The aggregate indicative allocation for each of the three groups is equal to the sum of the indicative allocations for the countries belonging to each group. In addition, to ensure equitable distribution of resources among countries within a group, each country in a group can access no more than \$10, \$6 and \$3 million respectively of the group's indicative allocation during the replenishment period. Finally, countries with indicative allocations of less than \$1 million receive an allocation of \$1 million, which is the floor allocation for all countries.

57. A detailed description of the phase including simulation results for biodiversity and climate change and the sensitivity of the results to assumptions are shown in Annex II. An illustration of the indicative allocations and the distribution of countries into the groups is shown in Table 1 using the base case results for biodiversity. In the base case, 41 countries receive individual allocations of which 20 have indicative allocation larger than \$10 million while the remainder are at the floor of \$1 million accounting for over half of the allocated resources. The remainder is allocated across three groups.

Table 1. Country and Group Allocation Phase: Biodiversity Focal Area

Countries/Groups		Indicative Allocations (\$ millions)	Average Allocation (\$ millions)
Individual Allocations for 20 countries	Country 1	48.5	
	Country 2	37.2	
	Country 3	36.5	
	Country 4	31.9	
	Country 5	25.0	
	Country 6	22.7	
	Country 14	17.2	
	Country 7	17.2	
	Country 9	17.2	
	Country 8	16.9	
	Country 11	16.7	
	Country 10	16.1	
	Country 21	15.0	
	Country 13	13.6	
	Country 15	11.7	
	Country 17	11.3	
	Country 22	10.9	
	Country 12	10.8	
	Country 20	10.8	
Country 19	10.0		
TOTAL – Individual allocations	20 Countries	397.2	
Group I (countries with Indicative Allocations between \$6-10 million dollars in the country allocation phase)	16 Countries	122.0	7.6
Group II (countries with Indicative Allocations between \$3-6 million dollars in the country allocation phase)	42 Countries	169.4	4.0
Group III (countries with Indicative Allocations between \$1-3 million dollars in the country allocation phase)	55 Countries	110.4	2.0
Individual Allocation – Countries at Floor	21 Countries	21.0	1.0
TOTAL – Individual allocations	41 Countries	418.2	
TOTAL – Group allocations	113 Countries	401.8	
TOTAL – Biodiversity	154 Countries	820.0	

Note: Original ranking (and associated identification numbers of countries) are based on their biodiversity potentials.

58. These indicative allocations are not country/group entitlements; instead they constitute the country/group specific envelopes or ceilings against which countries can request GEF grants. Like the current system, only technically qualified projects that meet GEF’s strategic priorities will be funded. In addition, qualifying projects from a country will be approved only if the cumulative GEF allocations to the country/group during the replenishment period in the focal area will not exceed the corresponding indicative allocations of the country/group. Further,

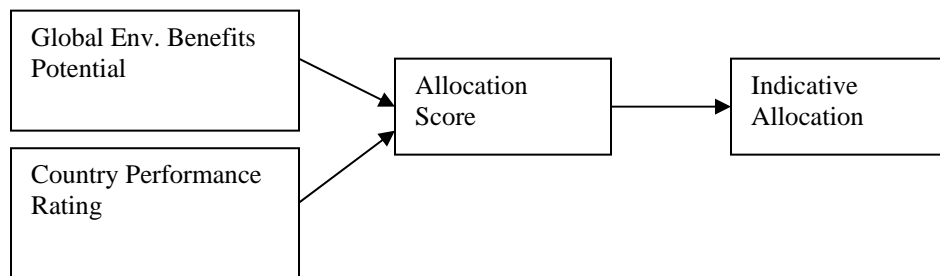
qualifying projects from a country belonging to a group will be approved only if the cumulative GEF allocations to the country during the replenishment period in the focal area will not exceed the corresponding group ceiling. Countries/groups unable to fully utilize their indicative allocations during the replenishment period will not be able to carry their indicative allocations forward into the next replenishment period. Instead, these unused indicative allocations will be returned to the general pool of funds available for disbursement to all countries in the next replenishment period.

59. The Country and Group allocation phase is a step forward from the screening phase as resources are allocated to countries/groups ex-ante at the beginning of a replenishment period. However, since a large number of countries are within groups and eligible for group envelopes, the system offers a considerable degree of operational flexibility.

Country Allocation Phase

60. The country allocation phase, which is based on models employed at other multilateral financial institutions, is the final step in the evolution of a resource allocation framework in the GEF. In this phase, each country is provided separate individual indicative allocations in each of the two focal areas -- biodiversity and climate change – covering the entire replenishment period. The indicative allocations to each country are computed from global environmental benefits potential and country performance ratings in a similar manner to that in the country and groups allocation phase. Unlike the country and group allocation phase, all countries including those with indicative allocations less than \$10 million receive individual allocations. A Schematic of the determination of individual indicative allocations is shown in Figure 4.

Figure 4: Schematic of the Country Allocation Phase



61. A detailed description of the phase including simulation results for biodiversity and climate change and the sensitivity of the results to assumptions are shown in Annex 3. An illustration of the indicative allocations and the distribution of countries into the groups are shown in Table 2 using the base case results for biodiversity.

Table 2. Country Allocation Phase: Biodiversity Focal Area

Countries		Indicative Allocations (\$ millions)
Individual Allocations for all countries	Country 1	48.5
	Country 2	37.2
	Country 3	36.5
	Country 4	31.9
	Country 5	25.0
	Country 6	22.7
	Country 14	17.2
	Country 7	17.2
	Country 9	17.2
	Country 8	16.9

	Country 141	1.0
	Country 143	1.0
	Country 145	1.0
	Country 146	1.0
	Country 149	1.0
	Country 150	1.0
	Country 151	1.0
Country 152	1.0	
Country 153	1.0	
Country 154	1.0	
TOTAL – Individual allocations	154 Countries	820.0
TOTAL – Biodiversity	154 Countries	820.0

62. Like the current system, only technically qualified projects that meet GEF’s strategic priorities will be funded. In addition, qualifying projects from a country will be approved only if the cumulative GEF allocations to the country during the replenishment period in the focal area will not exceed the corresponding indicative allocations of the country. Countries unable to fully utilize their indicative allocations during the replenishment period will not be able to carry their indicative allocations forward into the next replenishment period. Instead, these unused indicative allocations will be returned to the general pool of funds available for disbursement to all countries in the next replenishment period.

How do the three phases compare?

63. All three phases are similar in some fundamentals – they all employ the same assessments of country-potential to generate global environmental benefits and assessments of country-level performance. As already described, the phases evolve in ways in which these assessments are employed to arrive at an allocation framework. Table 3 shows a comparison across the three phases.

Table 3. Three Phases for the GEF Resource Allocation Framework

Parameter	Screening Phase	Country & Groups Allocation Phase	Country Allocation Phase
Transparency (all three phases are fully transparent in the data and indicators employed)	Is transparent, but employs a discretionary element through the appeals process.	Is transparent in allocation to individual countries and to groups	Is transparent in allocating to countries
Philosophy of Allocation	Does not allocate resources ex-ante to countries	Allocates nearly half the resources in a focal area ex-ante to a number of countries, but several countries belong to groups that are allocated resources.	Resources are allocated ex-ante to all countries.
Reliability of Methodologies, Indicators and Data	The framework, including the appeals process, with Council discretion, helps to provide a large degree of flexibility that can overcome discomfort with reliability of methodologies, indicators and data.	Having several countries in groups provides the flexibility to overcome discomfort with reliability of methodologies, indicators and data.	Potential problem of misplaced concreteness -- the preciseness of allocation to countries depends very heavily on the reliability of methodologies, data, and indicators
Operational Flexibility	Is operationally flexible. However, has the potential to create problems depending upon the extent to which the appeals process is used in situations where quality projects emerge and require terms of engagement beyond those permitted in the approach.	Is operationally flexible. While an all-groups phase would be the easiest to implement, the Country and Groups phase, with a limited number of individual country allocations is operationally feasible. .	It is operationally difficult to manage individual allocations across all GEF eligible countries.
Administrative Cost The cost of developing and maintaining the data and indicators and updating the methodology remain the same across the different phases. On an annual basis, this is expected to cost one staff year at the Secretariat: \$250,000, plus one-time cost of \$150,000 for a system to track the resource allocation framework.	<i>In addition to costs in column 1</i> <u>Medium</u> . The cost of operating this system involves managing an appeals process, and ensuring that all the terms of engagement are applied across the Implementing/Executing Agencies. On all annual basis, the estimated costs are as follows: Secretariat: 2 staff years - \$500,000. Implementing Agencies: 1 staff years - \$250,000	<i>In addition to costs in column 1</i> <u>Medium</u> . The cost of operating this system involves managing the individual country allocations, and managing the overall group allocations. On an annual basis, the estimated costs are as follows: Secretariat: 2 staff years - \$500,000 Implementing Agencies: 1 staff year - \$250,000	<i>In addition to costs in column 1</i> <u>High</u> . Managing individual country allocations across more than 150 countries requires considerable coordination efforts at the GEF Secretariat. Secretariat: 4 staff years – \$1,000,000 Implementing Agencies: 1 staff year - \$250,000

CONCLUSIONS

64. The resource allocation framework described in this report employs assessments of country potential to generate global environmental benefits and country performance in a phased approach. The phases reflect the range of opinions expressed by the Council with regard to a resource allocation framework. All three phases have a common foundation and are fully transparent in terms of data, indicators, and methodologies. They differ in the manner in which the benefits and performance assessments are employed. Such a phased approach can respond dynamically to the degree of comfort that emerges in the Council regarding the philosophy of allocation, the reliability of methodologies, indicators and data, operational flexibility, and administrative cost.

65. The screening phase builds upon the current system of resource allocation. It provides a well-defined framework to provide countries with different terms of access to GEF resources and project modalities. It does not allocate resources ex-ante to countries, and offers considerable operational flexibility. Mediation with a Council-appeals process mitigates any concerns regarding the reliability of methodologies, indicators and data. However, the appeals process could create operational problems if too many projects seek exemptions from the screening terms of engagement.

66. The country and group allocation phase is the first step into ex-ante resource allocation. This phase offers several countries individual allocations, while others are in groups competing for group resources. This step in the sequence offers the possibility of testing whether individual country allocations are workable in the GEF operational context, while maintaining the flexibility of group allocations for nearly half the resources in a focal area. As the GEF gains operational experience with this phase, the approach can be transformed either into an individual country allocation approach (the last phase in the sequence) or into a group allocation approach, where all countries are in groups.

67. The country allocation phase is presented as the final stage of the sequenced approach. Resources are allocated to individual countries. This phase is the most demanding of the three phases regarding the reliability of methodologies, indicators and data. It is also the most operationally challenging and the most expensive to implement. It does, however, provide the greatest degree of certainty to recipient countries and other stakeholders regarding resource allocation.

68. The Council, based on its views about allocation philosophy, reliability of methodologies, data and indicators, operational flexibility, and administrative costs, should decide on an appropriate entry point in the phased approach.

ANNEX 1: SCREENING PHASE

1. Like all phases proposed for the Resource Allocation Framework, the screening phase is based upon a common assessment of each country's potential to generate global environmental benefits separately in the two focal areas included in the Resource Allocation Framework (as defined in Annex 4 and 5) and a common assessment of country-level performance (as defined in Annex 6).

Overview of the Phase

2. In this phase, GEF financing of projects in each country within each focal area is governed by separate terms of engagements (the types of GEF-financed projects that would be available and the modalities under which they would be available) determined by each country's classification derived from the country's global environmental benefits potential score in the focal area and the country's performance rating. While all countries have access to (i) the Small Grants Program; (ii) basic crosscutting capacity; (iii) global and regional projects; and (iv) enabling activities to report to the CBD and UNFCCC, access to additional resources is determined by each country's classification. This phase also contains additional flexibility through an appeals process to the Council which can be used to exempt projects from the applicable terms of engagement on a case-by-case basis.

Country Classification



3. At the beginning of replenishment period, all countries are classified as either high benefits or low benefits countries separately for each focal area based on whether the country's global environmental benefits potential score exceeds a threshold score. Independently, all countries are also classified as either high or low performing countries based on whether the country's performance rating exceeds a threshold score. The performance and benefits classification of countries define four groups of countries (high benefits/high performance, high benefits/low performance, low benefits/high performance and low benefits/low performance).

Terms of Engagement

4. The terms of GEF engagement in financing projects in each country is based on the country's classification as shown in Figure 1.1. Countries rated as having high potential to generate global environmental benefits in a focal area have access to enabling activities, medium-sized projects and full-sized projects, subject to any constraints imposed by ceilings, while those rated as having low potential to generate global environmental benefits will have access to enabling activities, medium-sized projects and one full-sized project (up to \$5 million) during a replenishment period. A country's performance classification does not affect the resources available to it. However, the performance classification does affect the modalities under which the resources can be used. Specifically, projects in low performing countries will emphasize capacity building and institutional development components. In addition, projects in these countries will also be ring-fenced (subject to a higher level of scrutiny in the review, approval, and implementation process, and will include special safeguards and risk management modalities) to ensure project success despite the low country performance scores. These

additional measures will be over and above the baseline measures that project from all eligible countries have to meet. NGOs with proven records of accomplishment can also be considered for project execution in low performing countries where the low performance is a direct result of weaknesses in the public sector. Projects that do not meet the ring-fence requirements in low performance countries will not be approved.

Figure 1.1 Country Classification and Terms of Engagement in the Screening Phase

	Low performance countries	High performance countries
Countries with High Potential to Generate Global Environmental Benefits	 <p>II Ring-fenced High Level of GEF Support</p>	<p>I High Level of GEF Support</p>
Countries with Low Potential to Generate Global Environmental Benefits	 <p>IV Ring-fenced Limited GEF Support</p>	<p>III Limited GEF Support</p>

5. In addition, the Council can also establish indicative resource allocation guidelines in each of the four groups during a replenishment period. These guidelines can be used to channel a higher proportion of resources to higher benefit countries and/or higher performing countries, if the Council chooses. These guidelines can only be established in conjunction with the thresholds that define country classifications. While these guidelines set the aggregate resources for the group, they do not affect the terms of engagement of each country as defined above. The Council can also establish an overriding ceiling for the amount of resources that can be approved for any individual country at 10 percent of the available resources for the focal area, or any share that the Council determines to be appropriate.

6. Countries are neither excluded from GEF funding a priori nor allocated envelopes of GEF-support. A country's access to GEF funds can and will change when its performance rating or potential benefits score changes sufficiently to move it to a different class. For instance, a low performance/low benefits country can be reclassified to a high performance/low benefit country with sufficient improvements in the country's performance.

Modalities in Accessing GEF Resources

7. Implementing this phase requires the establishment of a common baseline of review, approval and implementation process across all the Implementing/Executing Agencies as well as defining the incremental safeguards and risk management modalities that ensure project success in low performing countries. The baseline levels of measures are currently undertaken by each Implementing/Executing Agency as part of its established project review criteria; there are currently no systematic review of these procedures for consistency or uniformity. Developing a credible "incremental" due diligence set of measures will be an administrative and management challenge.

Appeals Process

8. The screening phase is sensitive to the thresholds chosen for classifying countries into groups with even small changes affecting a country's terms of engagement. Therefore, additional flexibility is introduced into the approach through a process of appeals to the Council for exempting exceptional projects from the applicable terms of engagement on a case-by-case basis. For example, exemptions can be used either by low benefit countries to obtain additional resources beyond those allowed by the terms of engagement (for example, a full-sized project) or by low performing countries to lift the ring-fencing in special cases where other appropriate steps can be demonstrated. The appeals process would establish a transparent, though discretionary, decision-making element to the screening phase.

Simulations

9. This phase is sensitive to the thresholds used in classifying countries between high and low benefit categories and high and low performance countries. Meaningful and equitable thresholds have to be drawn: (i) to separate out countries across the different classes rather than bunch most countries in a single group; and (ii) at natural breakpoints to minimize the number of countries near the threshold, and hence minimize controversy.

10. For the base case simulations, the threshold value for country performance is set at a CPR of 2.5 and the potential benefits threshold is set to provide a fairly even distribution across the four groups of both the number of countries and the total potential benefits accounted for by each group. The low performance category also includes countries for which no performance data is available.²¹ This reflects the extra caution that may be warranted when the relative risk of engaging with a country is not known. This is a temporary measure until a performance rating can be developed for these countries, for instance after the country has implemented a medium or a full sized GEF project.

11. Tables 1.1 and 1.2 show the distribution of countries in the base case across the four groups for the biodiversity and climate change focal areas respectively. Approximately half of the countries in biodiversity and a quarter of the countries in climate change are classified as high benefit countries and account for approximately 90% of total benefits in each of the biodiversity and climate change focal areas. 38 countries in biodiversity and 60 countries in climate change are classified as low performance countries. Of these countries, 28 in biodiversity and 30 in climate change have country Performance scores lower than 2.5. The remaining countries do not have country performance scores. In total, the low performing countries account for less than 10% of total benefits in each of the focal areas.

²¹ A country will not have performance data if it has not had any medium or full size GEF projects in the past 5 years or any World Bank projects in the last 10 years and is not engaged with the World Bank. This primarily includes either high income countries or small countries that have not been engaged.

**Table 1.1 Screening Phase (Base Case):
Distribution of Countries for the Biodiversity Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	15	69
	Share of total Potential Benefits	8%	82%
Low Benefit Countries	No of Countries	23	47
	Share of total Potential Benefits	3%	7%

**Table 1.2 Screening Phase (Base Case):
Distribution of Countries for the Climate Change Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	16	34
	Share of total Potential Benefits	6%	84%
Low Benefit Countries	No of Countries	44	80
	Share of total Potential Benefits	3%	7%

Sensitivity to Changes in Thresholds

12. The approach employed in the screening phase is sensitive to the thresholds used in classifying countries between high and low benefit countries and high and low performance countries. The distribution of countries across the groups is shown for two alternative cases – increase in the performance threshold and an increase in the benefits threshold.

13. A natural starting point for a performance threshold is based on the average country performance score for all countries (approximately 3.0).²² Tables 1.3 and 1.4 show the distribution of countries in the biodiversity and climate change focal areas when the threshold for performance is raised from 2.5 to the mean CPR rating of 3.0. Increasing the performance threshold results in a more even distribution of countries across the four groups. However, since the performance rating for most countries are bunched up around the average, it also increases the number of countries whose classification would change due to small changes in their performance score.

²² See Annex 6 for a complete distribution of country performance.

**Table 1.3 Screening Phase (Higher Performance Threshold):
Distribution of Countries for the Biodiversity Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	44	40
	Share of total Potential Benefits	38%	52%
Low Benefit Countries	No of Countries	38	32
	Share of total Potential Benefits	5%	5%

**Table 1.4 Screening Phase (Higher Performance Threshold):
Distribution of Countries for the Climate Change Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	20	23
	Share of total Potential Benefits	16%	74%
Low Benefit Countries	No of Countries	77	47
	Share of total Potential Benefits	6%	4%

14. A natural breakpoint for the potential benefits threshold is at the point where the potential benefits curve shown in Figure 4.1 in Annex 4 and Figure 5.1 in Annex 5 start to flatten around (country number 13 for climate and 23 for biodiversity). Tables 1.5 and 1.6 show the distribution of countries in the biodiversity and climate change focal areas when the threshold for benefits is increased to this higher breakpoint in the benefits curve. Increasing the benefits threshold results in a more even distribution of potential benefits across the four groups, but a less even distribution of countries across the groups. Over 85% of countries in biodiversity and over 90% in climate change are now classified as low benefit countries.

**Table 1.5 Screening Phase (Higher Benefits Threshold):
Distribution of Countries for the Biodiversity Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	10	12
	Share of total Potential Benefits	22%	37%
Low Benefit Countries	No of Countries	72	60
	Share of total Potential Benefits	20%	20%

**Table 1.6 Screening Phase (Higher Benefits Threshold):
Distribution of Countries for the Climate Change Focal Area**

		Low Performance Countries	High Performance Countries
High Benefit Countries	No of Countries	2	11
	Share of total Potential Benefits	4%	65%
Low Benefit Countries	No of Countries	95	59
	Share of total Potential Benefits	18%	13%

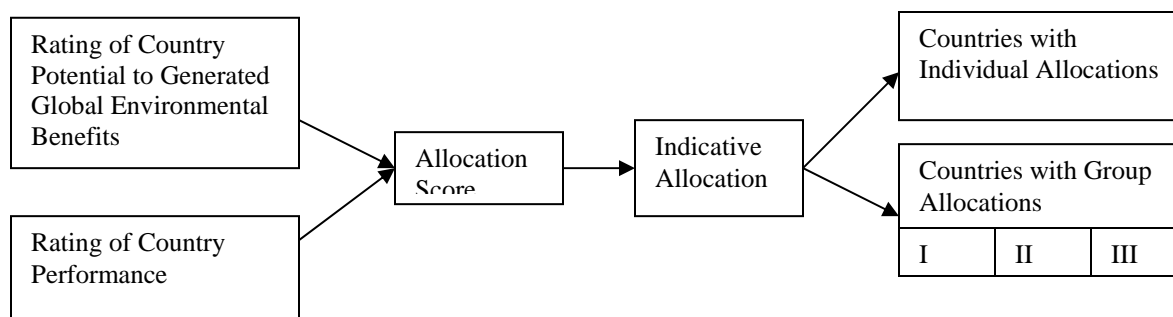
ANNEX 2: COUNTRY AND GROUP ALLOCATION PHASE

1. Like all phases proposed for the Resource Allocation Framework, the Country and Group Allocation phase is based upon a common assessment of each country's potential to generate global environmental benefits separately in the two focal areas included in the Resource Allocation Framework (as defined in Annex 4 and 5) and a common assessment of country-level performance (as defined in Annex 6).

Overview of Phase

2. In this phase, each country is either provided individual indicative allocations or is assigned to one of three groups each of which is provided an aggregate indicative allocation for the countries belonging to the group for the entire replenishment period as shown in Figure 2.1. This approach is derived from the computations employed in the country allocation phase discussed in Annex 3 in that country allocation scores and country indicative allocations are computed in a similar manner to that in the country allocation phase. A mathematical formula is used to compute an allocation score for each country in each focal area based on each country's potential to generate environmental benefits and each country's performance rating.²³ Indicative allocations to countries are determined in proportion to the respective allocation scores of each country.²⁴

Figure 2.1: Schematic of the Country and Group Allocation Phase



3. Like the country allocation phase, countries with indicative allocations larger than \$10 million continue to receive their individual country allocations. Countries with indicative allocations less than \$10 million, on the other hand, will be divided into three groups based on the indicative allocations (Group I: \$6 to \$10 million, Group II: \$3 to \$6 million and Group III: \$1 to 3 million). Finally, all of the countries with indicative allocations at the floor of \$1 million will continue to receive their individual country allocations as in the country allocation phase. The aggregate indicative allocation to each group will equal the sum of the indicative allocations for the countries belonging to each group. In addition, to ensure equitable distribution of resources among countries within a group, each country in a group can access no more than \$10,

²³ These same allocation scores are also used in the country allocation phase.

²⁴ The model also has a country ceiling of 10% of total GEF resources in the focal area and a country floor of \$1 million per country. When necessary, the indicative allocations are adjusted to lie within these ceilings and floors.

\$6 and \$3 million respectively of the group's indicative allocation during the replenishment period.

4. Like the country allocation phase, country/group individual indicative allocations for two focal areas -- biodiversity and climate change – cover all four years of the each replenishment period. These indicative allocations are not country/group entitlements; instead they constitute the country/group specific envelopes or ceilings against which countries can request GEF grants. Like the current system, only technically qualified projects that meet GEF's strategic priorities will be funded. In addition, qualifying projects from a country will be approved only if the cumulative GEF allocations to the country/group during the replenishment period in the focal area will not exceed the corresponding indicative allocations of the country/group.²⁵ Further, qualifying projects from a country belonging to a group will be approved only if the cumulative GEF allocations to the country during the replenishment period in the focal area will not exceed the corresponding group ceiling.²⁶ Countries/groups unable to fully utilize their indicative allocations during the replenishment period will not be able to carry their indicative allocations forward into the next replenishment period. Instead, these unused indicative allocations will be returned to the general pool of funds available for disbursement to all countries in the next replenishment period.

Base Case Simulations (Benefits weight, $S_1=0.8$ and Performance Weight, $S_2=1$)

5. **Tables 2.1 and 2.2** illustrate the distribution of Country/Group Indicative Allocations for the biodiversity and climate change focal areas respectively for the base case scenario (Benefits weight, $S_1=0.8$, Performance weight, $S_2=1$). The indicative allocations of 20 countries in biodiversity focal area and 18 countries in climate change focal area exceed \$10 million and will be provided with individual indicative allocations. In addition, 21 countries in biodiversity and 77 countries in Climate Change are at the floor and will also receive individual allocations. In total these countries account for 51 and 71 percent of the total resources allocated in the resource allocation framework for biodiversity and climate change respectively. The remaining 113 countries in biodiversity and 72 countries in climate change are divided into 3 groups and account for 49 and 29 percent of the total resources available for allocation under the RAF.

²⁵ The cumulative GEF allocations to the country/group during the replenishment period in a focal area are the sum of the approved GEF amounts in the relevant projects. For purposes of this approach, GEF funding is allocated to a country when full projects are approved at Work Program inclusion, MSPs and PDFBs and PDFCs receive CEO Endorsement and PDFAs receive IA/EA approval.

²⁶ The group ceilings are set at the higher cutoff point used in defining in each group: \$10 million for the \$6-\$10 million group, \$6 million for the \$3-\$6 million group, and \$3 million for the \$1-\$3 million group.

Table 2.1 Country & Group Allocation Phase for Biodiversity Focal Area

Countries/Groups		Indicative Allocations (\$ millions)	Average Allocation (\$ millions)
Individual Allocations for 20 countries	Country 1	48.5	
	Country 2	37.2	
	Country 3	36.5	
	Country 4	31.9	
	Country 5	25.0	
	Country 6	22.7	
	Country 14	17.2	
	Country 7	17.2	
	Country 9	17.2	
	Country 8	16.9	
	Country 11	16.7	
	Country 10	16.1	
	Country 21	15.0	
	Country 13	13.6	
	Country 15	11.7	
	Country 17	11.3	
	Country 22	10.9	
	Country 12	10.8	
Country 20	10.8		
Country 19	10.0		
TOTAL – Individual allocations	20 Countries	397.2	
Group I (countries with Indicative Allocations between \$6-10 million dollars in the country allocation phase)	16 Countries	122.0	7.6
Group II (countries with Indicative Allocations between \$3-6 million dollars in the country allocation phase)	42 Countries	169.4	4.0
Group III (countries with Indicative Allocations between \$1-3 million dollars in the country allocation phase)	55 Countries	110.4	2.0
Individual Allocation – Countries at Floor	21 Countries	21.0	1.0
TOTAL – Individual allocations	41 Countries	418.2	
TOTAL – Group allocations	113 Countries	401.8	
TOTAL – Biodiversity	154 Countries	820.0	

Table 2.2 Country & Group Allocation Phase for Climate Change Focal Area

Countries/Groups		Indicative Allocations (\$ millions)	Average Allocation (\$ millions)
Individual Allocations for 16 countries	Country 1	82.0	
	Country 3	64.3	
	Country 2	64.1	
	Country 4	37.3	
	Country 5	28.3	
	Country 11	27.1	
	Country 7	25.1	
	Country 6	23.4	
	Country 10	21.3	
	Country 9	19.9	
	Country 8	19.5	
	Country 12	17.1	
	Country 16	14.9	
	Country 14	14.4	
	Country 25	12.7	
	Country 15	12.5	
Country 21	12.0		
Country 17	10.7		
TOTAL – Individual allocations	18 Countries	506.6	
Group I (countries with Indicative Allocations between \$6-10 million dollars in the country allocation phase)	12 Countries	93.6	7.8
Group II (countries with Indicative Allocations between \$3-6 million dollars in the country allocation phase)	15 Countries	59.9	4.0
Group III (countries with Indicative Allocations between \$1-3 million dollars in the country allocation phase)	45 Countries	82.8	1.8
Individual Allocations – Countries at floor of \$1 million	77 Countries	77.0	1.0
TOTAL – Individual Allocations	95 Countries	583.6	
TOTAL – Group Allocations	72 Countries	236.4	
TOTAL – Climate Change	167 Countries	820.0	

Simulations

6. The sensitivity of country groupings and the number of countries with individual allocations to changes in the weights on global environmental benefits and country performance rating are presented for four cases that are also discussed in the country allocation phase. The four cases are: base case ($S_1=0.8$, $S_2=1.0$), pure benefits ($S_1=1.0$, $S_2=0.0$), pure performance ($S_1=0.0$, $S_2=1.0$) and an alternative ($S_1=0.8$, $S_2=2.0$). The results are shown in Table 2.3.

7. The overall distribution of countries across scoring categories as well as the average allocation per country in each category is robust to small changes in the weight given to the

performance, but is significantly affected by changes in the weight given to the global environmental benefits. This aggregate characteristics does not preclude significant changes in the status of specific countries with even small changes in the performance and benefits weights.

**Table 2.3 Country and Group Allocation Phase for Biodiversity:
Distribution of Countries and allocations per Country by Scoring Category**

Biodiversity					
Country/Group	Indicative Allocation Level	Benefits & Performance Weights			
		0.8 & 1	1 & 0	0 & 1	0.8 & 2
no of countries by group					
Individual Allocation Countries	greater than \$ 10 million	20	20	0	19
Group I	\$6-10 million	16	10	46	18
Group II	\$3-6 million	42	32	95	39
Group III	\$1- 3 million	55	63	3	52
Individual Allocation Countries at floor	At floor of \$1 million	21	29	10	26
<i>Total</i>		<i>154</i>	<i>154</i>	<i>154</i>	<i>154</i>
Total Allocations to Group (\$ million)					
Individual Allocation Countries	greater than \$ 10 million	397	459.5	0	402.2
Group I	\$6-10 million	122	78.5	319.7	134.1
Group II	\$3-6 million	169	137.9	482.7	158.3
Group III	\$1- 3 million	110	115.1	7.6	99.4
Individual Allocation Countries at floor	At floor of \$1 million	21	29	10	26
<i>Total</i>		<i>820</i>	<i>820</i>	<i>820</i>	<i>820</i>
Average Allocation by Group (\$ million)					
Individual Allocation Countries	greater than \$ 10 million	19.9	23.0		21.2
Group I	\$6-10 million	7.6	7.9	7.0	7.5
Group II	\$3-6 million	4.0	4.3	5.1	4.1
Group III	\$1- 3 million	2.0	1.8	2.5	1.9
Individual Allocation Countries at floor	At floor of \$1 million	1.0	1.0	1.0	1.0
<i>Total</i>					

**Table 2.4 Country and Group Allocation Phase:
Distribution of Countries by Scoring Category and allocations per Country**

Country/Group	Indicative Allocation Level	Benefits & Performance weights			
		0.8 & 1	1 & 0	0 & 1	0.8 & 2
		No of Countries by Group			
Individual Allocation Countries	greater than \$ 10 million	18	17	0	18
Group I	\$6-10 million	12	11	38	9
Group II	\$3-6 million	15	18	103	17
Group III	\$1- 3 million	45	30	3	42
Individual Allocation Countries at floor	less than floor of \$1 million	77	91	23	81
<i>Total</i>		<i>167</i>	<i>167</i>	<i>167</i>	<i>167</i>
		Total Allocations to Group (\$ million)			
Individual Allocation Countries	greater than \$ 10 million	506.6	522.8	0.0	521.9
Group I	\$6-10 million	93.6	82.5	267.5	70.8
Group II	\$3-6 million	59.9	70.1	522.0	71.8
Group III	\$1- 3 million	82.8	53.6	7.5	74.5
Individual Allocation Countries at floor	less than floor of \$1 million	77.1	91.0	23.0	81.0
<i>Total</i>		<i>820.0</i>	<i>820.0</i>	<i>820.0</i>	<i>820.0</i>
		Average Allocation by Group (\$ million)			
Individual Allocation Countries	greater than \$ 10 million	28.1	30.8		29.0
Group I	\$6-10 million	7.8	7.5	7.0	7.9
Group II	\$3-6 million	4.0	3.9	5.1	4.2
Group III	\$1- 3 million	1.8	1.8	2.5	1.8
Individual Allocation Countries at floor	less than floor of \$1 million	1.0	1.0	1.0	1.0
<i>Total</i>					

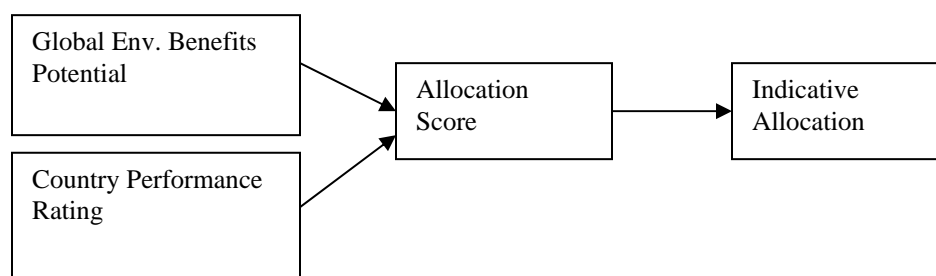
ANNEX 3: COUNTRY ALLOCATION PHASE

1. Like all phases proposed for the Resource Allocation Framework, the Country Allocation phase is based upon a common assessment of each country's potential to generate global environmental benefits (CGEP) separately in the two focal areas included in the Resource Allocation Framework (as defined in Annex 4 and 5) and a common assessment of country-level performance (as defined in Annex 6).

Overview of Phase

2. In this phase, each GEF eligible country is provided separate individual indicative allocations for two focal areas -- biodiversity and climate change – covering all 4 years of the each replenishment period. The indicative allocations to each country are computed from global environmental benefits potential and country performance ratings in a similar manner to that in the country and groups allocation phase. Unlike the Country/Group Allocation phase, all countries including those with indicative allocations less than \$10 million receive individual allocations. A Schematic of the determination of individual indicative allocations is shown in Figure 3.1.

Figure 3.1: Schematic of the Country Allocation Phase



3. These indicative allocations are not country entitlements; instead they constitute the country specific envelopes or ceilings against which countries can request GEF grants. Like the current system, only technically qualified projects that meet GEF's strategic priorities will be funded. In addition, qualifying projects from a country will be approved only if the cumulative GEF allocations to the country during the replenishment period in the focal area will not exceed the corresponding indicative allocations of the country.²⁷ Countries unable to fully utilize their indicative allocations during the replenishment period will not be able to carry their indicative allocations forward into the next replenishment period. Instead, these unused indicative

²⁷ The cumulative GEF allocations to the country during the replenishment period in a focal area are the sum of the approved GEF amounts in the relevant projects. For purposes of this model, GEF funding is allocated to a country when full projects are approved at Work Program inclusion, MSPs and PDFBs and PDFCs receive CEO Endorsement and PDFAs receive IA/EA approval.

allocations will be returned to the general pool of funds available for disbursement to all countries in the next replenishment period.

Method of Determining Indicative Allocations

4. Prior to the start of the replenishment period, each country's indicative allocations are developed in four steps as outlined below.

5. First, each Country's Allocation Score for each focal area is computed as a weighted geometric average of the country's potential to generate global environmental benefits in that focal area and the country performance rating. Country Allocation Scores in each focal area indicate the relative desirability of GEF funding to the country in that focal area considering two factors – potential global benefits and country performance. The formulas for computing a country's allocation scores for biodiversity and climate change respectively are shown below.

$$\text{Country's Biodiversity Allocation Score} = \text{CGEPBIO}^{\frac{S_1}{S_1 + S_2}} \times \text{CPR}^{\frac{S_2}{S_1 + S_2}}$$

$$\text{Country's Climate Change Allocation Score} = \text{CGEPCC}^{\frac{S_1}{S_1 + S_2}} \times \text{CPR}^{\frac{S_2}{S_1 + S_2}}$$

6. Second, Country Indicative Share of GEF resources for biodiversity and climate change is determined by dividing each country's allocation score for the respective focal areas by the sum of allocation scores for all countries for the corresponding focal area as shown in the formula below. Each country's indicative share is proportional to its allocation score.

$$\text{Country's Indicative Share for Biodiversity} = \frac{\text{Country's Biodiversity Allocation Score}}{\text{Sum of Biodiversity Allocation Scores for all countries}}$$

$$\text{Country's Indicative Share for Climate Change} = \frac{\text{Country's Climate Change Allocation Score}}{\text{Sum of Climate Change Allocation Scores for all countries}}$$

7. Third, each country's indicative share in each focal area is adjusted to ensure that each country's indicative share is between the country ceiling and the floor for the focal area by proportionately adjusting the indicative shares of all countries, as needed.

8. Finally, each Country's Indicative Allocations are computed as the product of the country's adjusted indicative share for a focal area and the total amount of GEF resources available for that focal area under the Resource Allocation Framework, as shown in the equations below. These indicative allocations are the maximum amounts that each country could

receive during a replenishment based on technically qualified projects approved by the Council or the CEO.

$$\text{Country's Indicative Allocations for Biodiversity} = \text{Country's Indicative Share for Biodiversity} \times \text{Resources available for Biodiversity in RAF in Replenishment Period.}$$

$$\text{Country's Indicative Allocations for Climate Change} = \text{Country's Indicative Share for Climate Change} \times \text{Resources available for Climate Change in RAF in Replenishment Period.}$$

Choice of Weights

9. The indicative allocations to individual countries are sensitive to the weights S_1 and S_2 used to compute the allocation scores. Countries with higher scores will have higher indicative allocations than countries with lower scores. Since it is desirable to allocate relatively more resources to those countries that have a greater potential for global environmental benefits as well as better performance, both weights should be positive. The choice of weights reflects both the importance of country performance relative to the potential global environmental benefits for country allocations, and the concentration of resources that go to the highest scoring countries relative to the lowest scoring countries. Increasing S_1 relative to S_2 increases the importance of global benefits, allocating more resources to countries with high potential to generate global environmental benefits. Conversely, decreasing S_1 relative to S_2 increases the importance of performance, allocating more resources to countries with good performance ratings. Increasing both S_1 and S_2 increases the proportion of total resources that are allocated to the highest scoring countries relative to the lowest scoring countries.

Simulations

10. All of the simulations presented in this section are developed from the base case indices for each country's potential to generate global environmental benefits (as outlined in Annexes 4 and 5) and country performance ratings (as outlined in Annex 6). As requested by the Council, the simulations do not identify specific countries. Instead, countries are identified by their global environmental benefits score rank in the two focal areas. Since there is no specific relationship between a country's global benefit rank in climate change and biodiversity, each country is identified by two independent numbers, one for biodiversity and another for climate change.

11. All of the simulations have been done with an assumed resource pool of \$820 million each for biodiversity and climate change focal areas (see Annex 7). This is based on the allocations in the current replenishment period excluding amounts allocated to corporate programs, other focal areas and set asides for global and regional projects in the biodiversity and

climate change focal areas. For comparability, all of the historical allocations presented in this section have also been proportionately scaled to add up to \$820 million.

Base Case Simulations ($S_1=0.8$ and $S_2=1.0$)

12. The set of weights (benefits weight $S_1=0.8$ and performance weight $S_2=1.0$) provided a good match to the historical distribution of GEF resources in both the biodiversity and climate change focal areas, so these weights have been chosen for the base case simulations. **Figures 3.2 and 3.3** compares the indicative allocations for each country in the base case against the historical distributions for biodiversity and climate change respectively. In each graph, countries have been sorted along the horizontal axis based on their global environmental benefits potential score in the respective focal area.²⁸

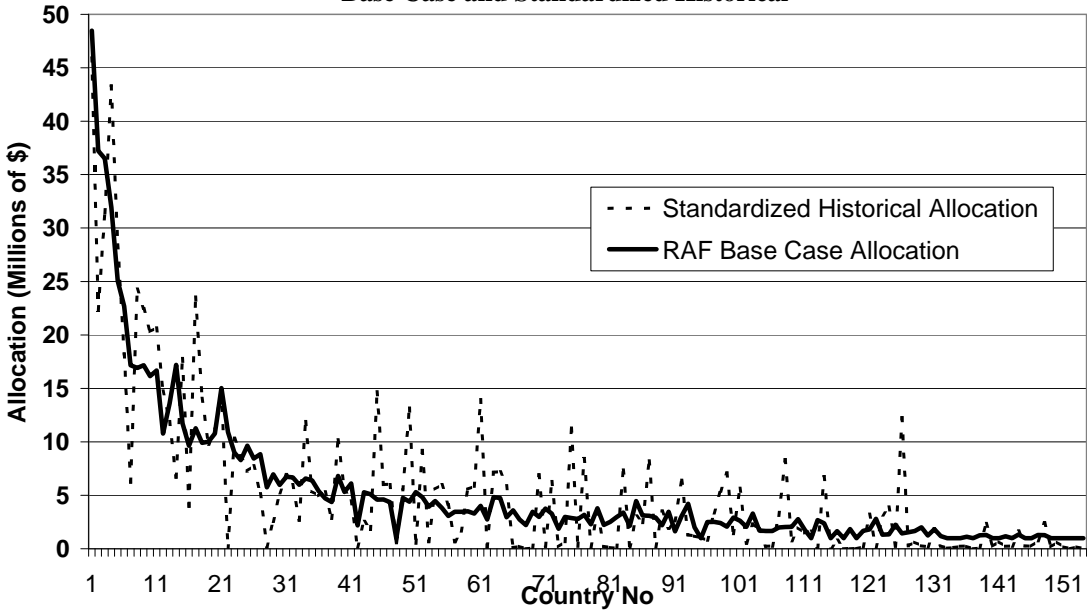
13. The historical distribution of GEF resources, with a few exceptions, appears to reflect each country's potential to generate global environmental benefits. A small number of countries (mostly those with the highest environmental potential) have historically received a large proportion of GEF resources while most countries have historically receiving a small share of resources. Most of the top twenty recipients in the base case have also been among the top twenty recipients historically.²⁹ Most of the countries that received small amounts of GEF resources receive more than their historical levels of funding due to the inclusion of the country floor in this approach.

14. **Figures 3.4 and 3.5** compare the cumulative share of resources accounted for by the largest recipients historically against the cumulative share of resources accounted for by the largest recipients in the base case for biodiversity and climate change respectively. The cumulative shares of resources is approximately the same in both focal areas with the top twenty receiving about 48 percent of resources for biodiversity and about 64 percent of resources for climate change.

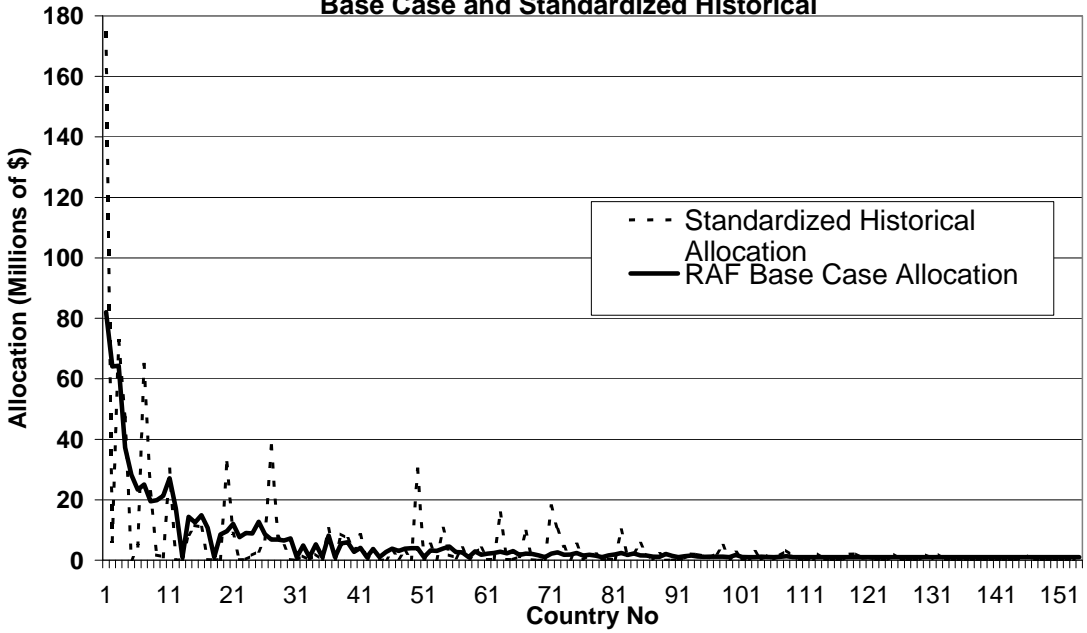
²⁸ Since the potential of a country to deliver global environmental benefits in biodiversity and climate change are independent, there is no correspondence in the country numbers in the two graphs (country no 5 in figure 1 is different from country number 5 in figure 2).

²⁹ Indicative allocations in the base case are not actual allocations as countries still need to propose quality projects.

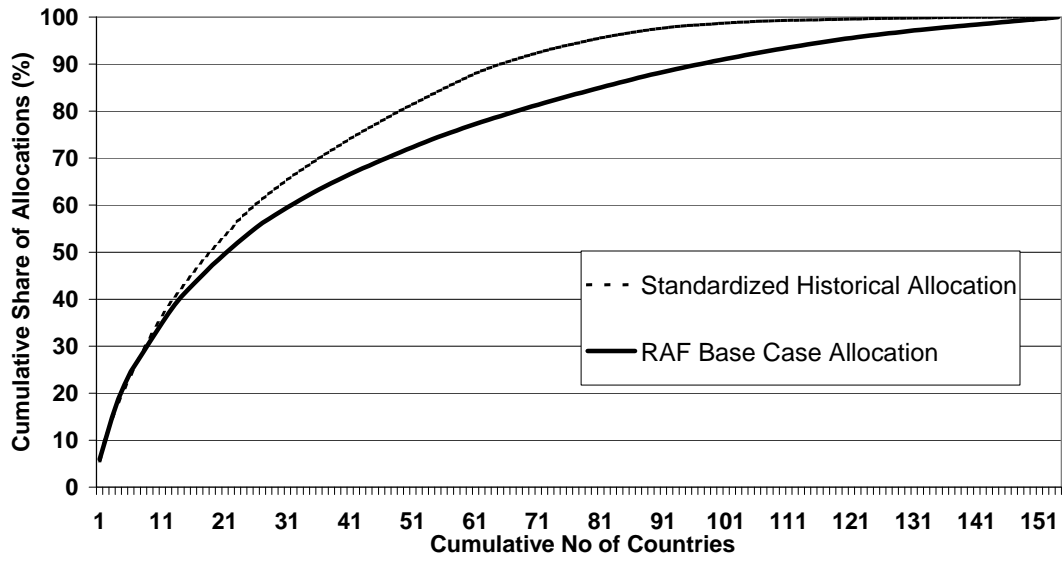
**Figure 3.2 Country Allocation Model: Biodiversity Allocation
Base Case and Standardized Historical**



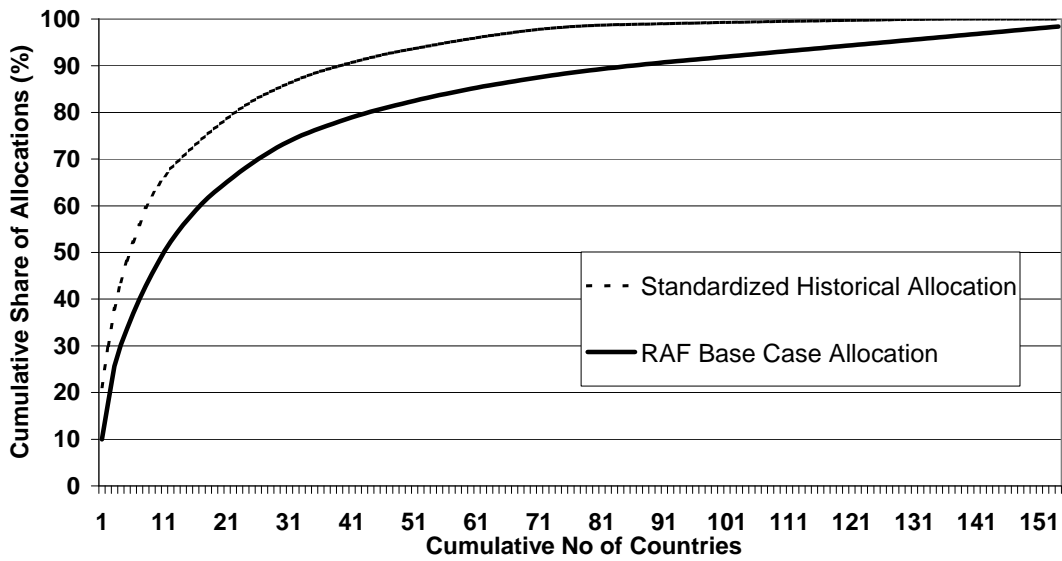
**Figure 3.3 Country Allocation Model: Climate Change Allocation
Base Case and Standardized Historical**



**Figure 3.4 Cumulative Share of Biodiversity Allocations:
RAF Base Case and Standardized Historical**



**Figure 3.5 Cumulative Share of Climate Change Allocations:
RAF Base Case and Standardized Historical**



Sensitivity of Simulations: Alternatives to the Base Case

15. The sensitivity of the indicative allocations to changes in the weights S_1 and S_2 are illustrated in Table 3.1 using three alternative weights: pure benefits ($S_1=1, S_2=0$), pure performance ($S_1=0, S_2=1$) and an alternative scenario ($S_1=0.8, S_2=2$).

16. The distribution of indicative allocations in the pure benefits case ($S_1=1, S_2=0$) is similar to the base case. The higher weight on benefits has the effect of concentrating resources among the top scoring countries while progressively reducing amounts to the remaining countries. The top 20 countries are allocated 56 percent of the biodiversity resources and 67 percent of the climate resources compared to 48 percent and 64 percent in the base case respectively.

17. The pure performance case provides the most significant contrast from the base case compared to all of the other cases presented. This case allocates GEF resources to all countries without regard to the potential benefits in the country. So, for instance, a small country with no biodiversity potential but with an excellent performance rating will get a higher allocation than a large country rich in biodiversity but that has low performance rating. Allocations based solely on performance result in a more even distribution of resources across countries than any of the other cases as countries vary much less in performance than in their potential to generate global environmental benefits.

18. The historical distribution as well as the base case can be viewed as a blend of the pure biodiversity and pure performance cases. Introduction of performance into the calculus evens out the distribution of resources compared to a distribution solely on benefits.

19. The final case shows the impact of increasing the weight on performance from 1 to 2 while leaving the weight on benefit the same as in the base case. Again, the overall distribution is changed little, but the impact on specific countries is larger. **Tables 3.1 and 3.2** show the indicative allocations that countries receive in each of the four cases for the biodiversity and climate change focal areas respectively. It also provides the rank of each country under each of these cases. Except for the pure performance case, the top 20 countries, historically, continue to be the largest recipients in all of the cases examined.

Table 3.1: Indicative Allocation and Allocation Ranks for Biodiversity

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
1	48.5	60.5	6.5	53.3	1	1	29	1
2	37.2	48.8	5.9	37.3	2	2	48	3
3	36.5	41.6	6.6	40.8	3	3	23	2
4	31.9	35.8	6.5	35.2	4	4	28	4
5	25.0	35.0	5.2	22.0	5	5	88	8
6	22.7	26.1	6.0	22.8	6	6	45	6
7	17.2	22.5	5.1	14.8	8	7	99	12
8	16.9	21.3	5.2	14.9	10	8	85	11
9	17.2	21.2	5.3	15.4	9	9	78	10
10	16.1	20.4	5.2	14.1	12	10	91	13
11	16.7	15.8	6.6	18.5	11	11	26	9
12	10.8	15.5	4.3	7.8	18	12	130	26
13	13.6	13.8	6.0	13.7	14	13	46	14
14	17.2	13.6	7.6	22.1	7	14	11	7
15	11.7	13.4	5.3	10.4	15	15	82	18
16	9.6	11.4	4.9	8.0	22	16	109	25
17	11.3	11.2	5.8	11.1	16	17	61	16
18	9.9	10.6	5.4	9.0	21	18	77	22
19	10.0	10.5	5.4	9.2	20	19	75	21
20	10.8	10.5	5.9	10.7	19	20	53	17
21	15.0	9.3	9.0	23.0	13	21	3	5
22	10.9	9.2	6.6	12.2	17	22	22	15
23	9.0	8.8	5.6	8.6	24	23	72	23
24	8.3	8.7	5.3	7.4	27	24	83	28
25	9.6	8.6	6.2	10.1	23	25	38	19
26	8.4	7.8	5.9	8.3	26	26	55	24
27	8.8	7.2	6.5	9.8	25	27	27	20
28	5.7	6.8	4.4	4.3	37	28	123	52
29	7.0	6.1	5.8	6.9	28	29	59	29
30	6.0	6.0	5.1	5.1	36	30	101	41
31	6.7	5.9	5.8	6.6	30	31	60	31
32	6.7	5.9	5.8	6.5	31	32	63	32
33	6.0	5.8	5.3	5.3	35	33	84	40
34	6.6	5.6	5.9	6.5	32	34	54	33
35	6.4	5.5	5.9	6.4	33	35	50	35
36	5.4	5.4	5.0	4.5	38	36	107	49
37	4.7	5.3	4.4	3.5	47	37	122	64
38	4.4	5.2	4.2	3.1	53	38	135	74
39	6.8	5.1	6.6	7.6	29	39	24	27
40	5.3	5.1	5.2	4.7	39	40	90	45
41	6.1	5.0	6.0	6.2	34	41	41	36
42	2.2	4.8	2.2	1.0	100	42	144	131
43	5.3	4.5	5.7	5.1	41	43	71	42
44	5.1	4.2	5.7	4.9	42	44	66	43

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
45	4.6	4.2	5.2	4.0	49	45	89	56
46	4.6	4.2	5.2	4.1	48	46	86	55
47	4.4	4.2	4.9	3.6	54	47	109	61
48	1.0	4.0	1.0	1.0	134	48	145	131
49	4.8	3.9	5.7	4.6	45	49	67	47
50	4.4	3.9	5.3	3.9	52	50	79	58
51	5.3	3.8	6.5	5.8	40	51	33	39
52	4.8	3.7	6.0	4.9	44	52	42	44
53	3.9	3.7	5.0	3.3	57	53	108	69
54	4.5	3.4	6.0	4.5	50	54	43	50
55	3.8	3.4	5.1	3.3	58	55	96	72
56	3.1	3.4	4.2	2.2	74	56	137	94
57	3.5	3.3	4.7	2.7	63	57	115	82
58	3.4	3.1	5.0	2.9	66	58	106	79
59	3.5	3.1	5.1	3.0	62	59	98	75
60	3.3	3.1	4.8	2.7	68	60	113	85
61	4.0	3.0	5.9	4.0	56	61	51	57
62	2.7	3.0	4.1	1.9	87	62	138	98
63	4.8	2.9	7.4	6.0	43	63	12	37
64	4.7	2.9	7.3	5.9	46	64	14	38
65	2.9	2.8	4.6	2.3	79	65	117	93
66	3.6	2.7	5.7	3.5	61	66	65	65
67	2.7	2.7	4.4	2.0	86	67	123	96
68	2.2	2.6	3.7	1.4	98	68	139	119
69	3.5	2.5	5.9	3.4	65	69	52	66
70	3.0	2.5	5.1	2.6	77	70	94	86
71	3.8	2.5	6.5	4.1	60	71	31	54
72	3.3	2.3	5.9	3.3	70	72	47	71
73	1.9	2.3	3.4	1.1	109	73	141	126
74	3.0	2.3	5.4	2.7	76	74	76	83
75	2.9	2.3	5.3	2.6	82	75	80	87
76	2.8	2.3	5.1	2.4	84	76	95	91
77	3.2	2.3	5.8	3.1	71	77	56	73
78	2.3	2.3	4.2	1.6	95	78	133	108
79	3.8	2.2	7.2	4.6	59	79	15	46
80	2.2	2.2	4.3	1.6	97	80	128	107
81	2.5	2.1	4.9	2.1	90	81	109	95
82	3.0	2.1	5.8	2.9	78	82	57	77
83	3.4	2.1	6.7	3.8	67	83	19	59
84	2.1	2.1	4.3	1.5	101	84	131	109
85	4.5	2.0	9.0	6.8	51	85	4	30
86	3.1	2.0	6.4	3.4	72	86	36	68
87	3.1	2.0	6.3	3.3	73	87	37	70
88	2.9	2.0	6.0	3.0	80	88	39	76
89	2.2	1.9	4.6	1.7	99	89	118	106
90	3.5	1.9	7.3	4.3	64	90	13	53
91	1.6	1.9	3.5	1.0	120	91	140	131

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
92	3.0	1.9	6.6	3.4	75	92	25	67
93	4.2	1.9	9.1	6.5	55	93	2	34
94	2.0	1.8	4.4	1.5	106	94	121	113
95	1.0	1.8	1.0	1.0	134	95	145	131
96	2.5	1.7	5.8	2.4	92	96	64	89
97	2.5	1.7	6.0	2.5	91	97	44	88
98	2.4	1.6	5.8	2.4	93	98	62	92
99	2.1	1.6	5.1	1.8	102	99	103	102
100	2.9	1.6	7.2	3.5	81	100	16	63
101	2.6	1.6	6.4	2.8	89	100	35	80
102	2.1	1.6	5.1	1.8	103	102	102	104
103	3.3	1.6	8.2	4.6	69	103	5	48
104	1.7	1.5	4.3	1.2	114	104	129	121
105	1.7	1.5	4.3	1.2	117	105	132	124
106	1.7	1.5	4.4	1.2	116	106	127	122
107	2.0	1.5	5.2	1.8	108	107	87	105
108	2.0	1.4	5.5	1.9	105	108	74	99
109	2.1	1.4	5.5	1.9	104	109	73	97
110	2.8	1.3	7.9	3.7	85	110	7	60
111	1.8	1.3	5.1	1.5	113	111	92	111
112	1.0	1.3	2.9	1.0	134	112	142	131
113	2.7	1.3	7.9	3.6	88	112	8	62
114	2.4	1.3	7.0	2.8	94	114	17	81
115	1.0	1.2	2.5	1.0	134	115	143	131
116	1.7	1.2	5.0	1.4	119	116	104	117
117	1.0	1.2	1.0	1.0	134	117	145	131
118	1.8	1.2	5.7	1.8	110	118	67	103
119	1.0	1.2	1.0	1.0	134	119	145	131
120	1.7	1.2	5.3	1.5	115	120	81	114
121	1.8	1.1	5.8	1.8	112	121	58	101
122	2.8	1.1	9.2	4.3	83	122	1	51
123	1.3	1.1	4.4	1.0	125	123	126	131
124	1.3	1.1	4.5	1.0	123	124	120	129
125	2.3	1.1	7.7	2.9	96	125	10	78
126	1.4	1.0	5.0	1.2	122	126	105	123
127	1.5	1.0	5.9	1.5	121	127	49	110
128	1.7	1.0	6.5	1.8	118	127	32	100
129	2.0	1.0	8.0	2.7	107	127	6	84
130	1.2	1.0	5.1	1.1	130	127	93	128
131	1.8	1.0	7.8	2.4	111	127	9	90
132	1.2	1.0	5.1	1.0	131	127	97	130
133	1.0	1.0	4.6	1.0	134	127	118	131
134	1.0	1.0	4.2	1.0	134	127	134	131
135	1.0	1.0	1.0	1.0	134	127	145	131
136	1.1	1.0	5.7	1.1	133	127	67	127
137	1.0	1.0	1.0	1.0	134	127	145	131
138	1.3	1.0	6.5	1.4	129	127	33	120

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
139	1.3	1.0	6.7	1.5	126	127	20	115
140	1.0	1.0	1.0	1.0	134	127	145	131
141	1.0	1.0	5.1	1.0	154	127	99	131
142	1.2	1.0	6.0	1.2	132	127	40	125
143	1.0	1.0	4.2	1.0	134	127	135	131
144	1.3	1.0	6.8	1.5	124	127	18	112
145	1.0	1.0	4.9	1.0	134	127	109	131
146	1.0	1.0	1.0	1.0	134	127	145	131
147	1.3	1.0	6.6	1.5	127	127	21	116
148	1.3	1.0	6.5	1.4	128	127	30	118
149	1.0	1.0	4.8	1.0	134	127	114	131
150	1.0	1.0	4.7	1.0	134	127	116	131
151	1.0	1.0	5.7	1.0	134	127	67	131
152	1.0	1.0	4.4	1.0	134	127	125	131
153	1.0	1.0	1.0	1.0	134	127	145	131
154	1.0	1.0	1.0	1.0	134	127	145	131

Table 3.2: Indicative Allocations and Allocation ranks for Climate Change

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
1	82.0	82.0	6.5	82.0	1	1	23	1
2	64.1	82.0	5.7	59.8	3	1	61	3
3	64.3	82.0	5.9	61.6	2	1	45	2
4	37.3	39.5	6.4	39.0	4	4	29	5
5	28.3	24.7	7.1	32.6	5	5	16	6
6	23.4	24.5	5.9	22.5	8	6	43	8
7	25.1	24.0	6.4	26.3	7	7	28	7
8	19.5	23.2	5.1	16.3	11	8	88	12
9	19.9	20.6	5.7	18.6	10	9	59	11
10	21.3	19.4	6.5	22.4	9	10	26	9
11	27.1	17.6	8.9	39.3	6	11	4	4
12	17.1	17.0	5.8	16.1	12	12	55	13
13	1.0	15.5	1.0	1.0	93	13	145	87
14	14.4	13.6	5.8	13.6	14	14	53	16
15	12.5	13.4	5.1	10.5	16	15	89	18
16	14.9	12.3	6.5	15.8	13	16	22	14
17	10.7	11.3	5.0	8.8	18	17	99	21
18	1.0	9.8	1.0	1.0	93	18	145	87
19	8.5	8.5	5.0	6.9	23	19	102	26
20	9.6	8.4	5.7	9.0	19	20	62	19
21	12.0	7.9	7.5	14.7	17	21	11	15
22	7.6	7.6	4.9	6.1	25	22	107	27
23	9.0	7.6	5.8	8.6	20	23	48	22
24	8.8	7.5	5.7	8.3	21	24	60	23
25	12.7	6.7	9.0	18.7	15	25	2	10
26	8.6	6.4	6.3	8.8	22	26	35	20
27	6.8	6.2	5.2	5.7	28	27	82	31
28	6.8	6.0	5.3	5.9	27	28	77	29
29	6.5	5.7	5.2	5.5	29	29	79	32
30	7.2	5.3	6.2	7.4	26	30	37	24
31	1.0	5.1	1.0	1.0	93	31	145	87
32	4.9	4.7	4.6	3.7	33	32	115	37
33	1.0	4.7	1.0	1.0	93	33	145	87
34	5.3	4.2	5.4	4.7	32	34	73	33
35	1.0	3.9	1.0	1.0	93	35	145	87
36	8.1	3.8	9.0	12.0	24	36	1	17
37	1.0	3.6	1.0	1.0	93	37	145	87
38	5.6	3.6	6.5	5.9	31	38	24	30
39	6.0	3.4	7.2	7.0	30	39	14	25
40	2.8	3.3	3.4	1.5	48	40	140	70
41	4.1	3.3	5.1	3.4	35	41	85	39
42	1.0	3.2	1.0	1.0	93	42	145	87
43	3.7	3.2	4.7	2.9	41	43	113	45
44	1.0	3.0	1.0	1.0	93	44	145	87

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 &1	1 & 0	0 & 1	0.8 & 2	0.8 &1	1 & 0	0 & 1	0.8 & 2
45	2.7	3.0	3.7	1.6	49	45	139	65
46	3.8	3.0	5.2	3.2	40	46	84	41
47	3.0	2.9	4.2	2.1	44	47	132	58
48	3.8	2.9	5.4	3.4	39	48	75	40
49	4.0	2.9	5.6	3.6	37	49	67	38
50	4.0	2.8	5.7	3.7	36	50	56	35
51	1.0	2.6	1.0	1.0	93	51	145	87
52	3.3	2.6	5.0	2.7	42	52	101	49
53	3.1	2.5	4.9	2.4	43	53	109	52
54	3.9	2.3	6.4	4.1	38	54	27	34
55	4.5	2.1	8.1	5.9	34	55	5	28
56	2.7	2.0	5.0	2.2	50	56	95	55
57	2.7	1.9	5.2	2.3	51	57	78	54
58	1.0	1.9	1.0	1.0	93	58	145	87
59	2.9	1.8	5.9	2.8	46	59	46	47
60	1.8	1.6	4.1	1.2	65	60	137	77
61	2.2	1.6	5.1	1.8	58	61	91	62
62	2.4	1.5	5.8	2.3	53	62	50	53
63	2.8	1.4	6.9	3.2	47	63	17	42
64	2.3	1.4	5.6	2.1	56	64	66	56
65	3.0	1.4	7.5	3.7	45	65	10	36
66	1.7	1.3	4.6	1.3	70	66	117	75
67	2.2	1.3	5.8	2.1	59	67	54	59
68	2.1	1.3	5.5	1.9	62	68	72	61
69	1.6	1.3	4.3	1.1	72	69	123	81
70	1.0	1.3	1.0	1.0	93	70	145	87
71	2.2	1.3	5.9	2.1	60	71	42	57
72	2.6	1.2	7.1	3.0	52	72	15	43
73	1.8	1.2	5.0	1.5	66	73	103	71
74	1.9	1.2	5.1	1.6	64	74	86	69
75	2.4	1.2	6.6	2.5	55	75	19	51
76	1.5	1.2	4.4	1.1	76	76	120	83
77	1.8	1.0	5.4	1.6	67	77	74	67
78	1.5	1.0	4.9	1.2	77	77	105	76
79	1.0	1.0	1.0	1.0	93	77	145	87
80	1.6	1.0	5.2	1.4	73	77	83	73
81	1.9	1.0	6.3	2.0	63	77	36	60
82	2.4	1.0	7.7	3.0	54	77	7	44
83	1.7	1.0	5.8	1.6	69	77	51	64
84	2.2	1.0	7.7	2.8	57	77	8	46
85	1.6	1.0	5.9	1.6	71	77	44	68
86	1.5	1.0	5.6	1.4	75	77	71	72
87	1.2	1.0	4.4	1.0	84	77	121	87
88	1.1	1.0	4.2	1.0	87	77	129	87
89	2.1	1.0	7.9	2.7	61	77	6	48
90	1.4	1.0	5.6	1.3	78	77	67	74
91	1.0	1.0	1.0	1.0	93	77	145	87

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
92	1.3	1.0	5.2	1.1	80	77	80	84
93	1.6	1.0	6.4	1.6	74	77	31	66
94	1.2	1.0	5.1	1.0	81	77	90	87
95	1.1	1.0	5.0	1.0	89	77	97	87
96	1.2	1.0	5.7	1.1	83	77	63	82
97	1.2	1.0	5.7	1.1	85	77	65	85
98	1.2	1.0	5.9	1.2	82	77	41	78
99	1.0	1.0	4.3	1.0	93	77	127	87
100	1.8	1.0	8.9	2.6	68	77	3	50
101	1.0	1.0	5.3	1.0	91	77	76	87
102	1.0	1.0	4.9	1.0	93	77	106	87
103	1.0	1.0	5.0	1.0	93	77	94	87
104	1.2	1.0	6.1	1.2	86	77	38	80
105	1.1	1.0	5.9	1.1	90	77	39	86
106	1.0	1.0	5.7	1.0	92	77	64	87
107	1.1	1.0	6.3	1.2	88	77	33	79
108	1.3	1.0	7.7	1.7	79	77	9	63
109	1.0	1.0	5.0	1.0	93	77	98	87
110	1.0	1.0	4.2	1.0	93	77	130	87
111	1.0	1.0	4.3	1.0	93	77	123	87
112	1.0	1.0	1.0	1.0	93	77	145	87
113	1.0	1.0	6.5	1.0	93	77	25	87
114	1.0	1.0	2.2	1.0	93	77	144	87
115	1.0	1.0	1.0	1.0	93	77	145	87
116	1.0	1.0	5.8	1.0	93	77	52	87
117	1.0	1.0	4.9	1.0	93	77	108	87
118	1.0	1.0	5.1	1.0	93	77	87	87
119	1.0	1.0	5.0	1.0	93	77	96	87
120	1.0	1.0	4.1	1.0	93	77	135	87
121	1.0	1.0	4.2	1.0	93	77	131	87
122	1.0	1.0	4.9	1.0	93	77	109	87
123	1.0	1.0	4.2	1.0	93	77	133	87
124	1.0	1.0	4.9	1.0	93	77	109	87
125	1.0	1.0	7.2	1.0	93	77	13	87
126	1.0	1.0	4.4	1.0	93	77	122	87
127	1.0	1.0	5.7	1.0	93	77	57	87
128	1.0	1.0	5.6	1.0	93	77	67	87
129	1.0	1.0	4.3	1.0	93	77	128	87
130	1.0	1.0	5.1	1.0	93	77	92	87
131	1.0	1.0	5.9	1.0	93	77	40	87
132	1.0	1.0	4.5	1.0	93	77	118	87
133	1.0	1.0	3.4	1.0	93	77	141	87
134	1.0	1.0	1.0	1.0	93	77	145	87
135	1.0	1.0	5.6	1.0	93	77	67	87
136	1.0	1.0	4.3	1.0	93	77	126	87
137	1.0	1.0	4.3	1.0	93	77	125	87
138	1.0	1.0	7.3	1.0	93	77	12	87

Country no	Allocations (Total allocations = \$820 million)				Allocation Ranks			
	Benefits & Performance Weights				Benefits & Performance Weights			
	0.8 & 1	1 & 0	0 & 1	0.8 & 2	0.8 & 1	1 & 0	0 & 1	0.8 & 2
139	1.0	1.0	6.3	1.0	93	77	33	87
140	1.0	1.0	4.9	1.0	93	77	104	87
141	1.0	1.0	1.0	1.0	93	77	145	87
142	1.0	1.0	4.0	1.0	93	77	138	87
143	1.0	1.0	5.8	1.0	93	77	47	87
144	1.0	1.0	4.6	1.0	93	77	116	87
145	1.0	1.0	6.6	1.0	93	77	18	87
146	1.0	1.0	5.7	1.0	93	77	58	87
147	1.0	1.0	5.8	1.0	93	77	49	87
148	1.0	1.0	2.5	1.0	93	77	143	87
149	1.0	1.0	2.8	1.0	93	77	142	87
150	1.0	1.0	6.4	1.0	93	77	30	87
151	1.0	1.0	4.7	1.0	93	77	114	87
152	1.0	1.0	5.2	1.0	93	77	81	87
153	1.0	1.0	1.0	1.0	93	77	145	87
154	1.0	1.0	6.5	1.0	93	77	20	87
155	1.0	1.0	5.0	1.0	93	77	93	87
156	1.0	1.0	1.0	1.0	93	77	145	87
157	1.0	1.0	6.5	1.0	93	77	21	87
158	1.0	1.0	6.4	1.0	93	77	32	87
159	1.0	1.0	4.5	1.0	93	77	118	87
160	1.0	1.0	4.2	1.0	93	77	134	87
161	1.0	1.0	4.1	1.0	93	77	135	87
162	1.0	1.0	1.0	1.0	93	77	145	87
163	1.0	1.0	1.0	1.0	93	77	145	87
164	1.0	1.0	5.0	1.0	93	77	99	87
165	1.0	1.0	4.9	1.0	93	77	109	87
166	1.0	1.0	1.0	1.0	93	77	145	87
167	1.0	1.0	1.0	1.0	93	77	145	87

ANNEX 4: ASSESSING COUNTRY POTENTIAL TO GENERATE GLOBAL BIODIVERSITY BENEFITS

1. The Convention on Biological Diversity (CBD) defines “Biological Diversity” as “the variability among living organisms from all living sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems.” Conserving biological diversity requires achieving a balance between ensuring that resources are allocated primarily to areas of high biodiversity, while ensuring that large-scale ecological processes and life-support systems at local, regional, and global scales (i.e., ecosystem services) are maintained, thus recognizing that all biodiversity is important. The scientific community and conservation organizations have responded to the need for priority setting with a variety of approaches. For biodiversity conservation planning, the World Wildlife Fund (WWF) has identified over 1,000 terrestrial, freshwater and marine ecoregions that are ecologically distinct. Among these, WWF has identified 200 ecoregions (the Global 200) as highest-priority when biodiversity conservation benefits and threats are taken into account. Similarly, Conservation International (CI) has pioneered another approach that focuses on critical species and threats in its identification of mega diversity countries and global conservation hotspots.

2. Drawing on work by the scientific community and data compiled by WWF, CI, The World Conservation Union (IUCN), Birdlife International, and other organizations, the Secretariat has built a framework for quantifying biodiversity priorities with the help of the World Bank’s Development Research Group. Guided by the Convention on Biodiversity, this framework incorporates a broad range of expert opinion on priority setting. The framework would align GEF resource allocation to the achievement of the 2010 targets of the CBD by incorporating the following elements in the model of decision making for resource allocation:

- (a) Magnitude of taxonomic variability at the species and higher levels, by recognizing species richness and endemism. These elements also recognize variability at the genetic level, as speciation is correlated with genetic diversity.
- (b) Large and unique ecoregions that provide opportunities for expansion in the global network of protected areas, both by area and representation.
- (c) Ensuring a minimum level of resources to all countries, thus recognizing that all biodiversity is important and providing opportunities for sustainable use and the maintenance of ecosystem services at various scales.

3. The priority-setting approach relies on indicators that characterize biodiversity and threats for a comprehensive set of terrestrial, freshwater and marine ecosystems. The Secretariat has made significant progress in developing indicators for terrestrial biodiversity, and will extend this work to freshwater and marine biodiversity. All indicators will be refined as new data become available

Determining the Global Biodiversity Benefit Score for a country

4. The Secretariat's global biodiversity benefit scores reflect the complex, highly uneven distribution of species and threats to them across the ecosystems of the world, both within and across countries. They reflect an emerging consensus among conservation organizations about appropriate use of information on biodiversity. The global biodiversity benefits scores are developed from information on the ecoregions within each country, in four steps:

- (a) Identify all components of distinct ecoregions within a country;
- (b) Score each of these Country Ecoregion Components (CECs) using four characteristics – represented species, endemism (uniqueness), ecological scale and threat;
- (c) Determine the composite score for each Country Ecoregion Component (CEC) using a weighted average of characteristics scores;
- (d) Compute a country's biodiversity benefits score as the sum of scores for Country Ecoregion Component (CEC) scores within the country.

5. Each of these four steps is discussed in detail below, followed by simulations that illustrate the sensitivity of country scores to changes in the weights assigned to CEC characteristics.

Identify Country Ecoregion Components

6. Country Ecoregion Components reflect the distributions of fauna and flora in each country. They are developed by overlaying a biologically determined map of the world (ecoregions) on a politically determined map (country boundaries).

7. An ecoregion is a relatively large unit of land containing a distinct assemblage of natural communities and species, with boundaries that approximate the original extent of natural communities prior to major land use changes. The World Wildlife Fund (WWF) has recently developed a map of the world that identifies and characterizes all terrestrial ecoregions.³⁰ The map's resolution is high enough to make it suitable for designing networks of conservation areas.³¹ WWF has identified 867 terrestrial ecoregions, along with a large number of freshwater and marine ecoregions.

8. Country Ecoregion Component (CEC). Ecoregions are defined with respect to biodiversity, while the focus of the GEF framework is on countries. Ecoregion boundaries often overlap national boundaries, which are in most instances unrelated to the geographic distribution of biodiversity. A country ecoregion component (CEC) is defined as the part of an ecoregion that is within a country's boundaries. For instance, an ecoregion that runs across four different countries is divided into four components, each containing the part of the ecoregion that is

³⁰ www.nationalgeographic.com/wildworld/terrestrial.html

³¹ The average size of an ecoregion in the WWF delineation is about 150,000 km².

contained within one country's borders. Making this distinction divides the 867 terrestrial ecoregions into approximately 1,700 country ecoregion components. Of these, 1,326 CECs are in GEF recipient countries and are the focus of analysis for the GEF Resource Allocation Framework.

Score Country Ecoregion Components

9. The second step in computing the global biodiversity potential of each country is scoring each CEC using four characteristics – represented species, endemism (uniqueness), habitat scale and threat.

Represented Species

10. The species score for each CEC is its average species count across all taxa for which data are available. To avoid bias toward particular taxa, each index is scaled to the range 0 - 100.³² The current score is based on total plants and amphibians. Data on mammals, birds, reptiles, and fish will be added as they become available.

11. Total amphibians. Total amphibian species in each CEC are computed from species range data in GIS format provided by The World Conservation Union (IUCN) and Conservation International (CI).

12. Total plants. Country plant species totals are provided by the United Nations Environment Programme World Conservation Monitoring Centre (UNEP-WCMC). Plant species data are not available at the CEC level. Country plant species are imputed to CECs in the same proportion as amphibian species.

Endemism

13. The endemism score for each CEC is computed as the average of endemism indices for all available taxa. The current score is based on endemic plants and endemic amphibians. Data on mammals, birds, reptiles, and fish will be added as they become available.

14. Endemic amphibians. Total endemic amphibian species in each country are computed from species range data in GIS format provided by The World Conservation Union (IUCN) and Conservation International (CI). For each endemic amphibian species in a country, each CEC is assigned a decimal score equal to the fraction of that species' range that lies in the CEC. CEC

³² To illustrate for hypothetical taxa A and B across countries, suppose that species counts for A are in the range 0 – 10,000, and counts for B are in the range 0 – 1,000. Each taxon count is translated to the % range 0 – 100 for comparability, so an A-count of 6,700 (67% of 10,000, the maximum for A) and a B-count of 670 (67% of 1,000, the maximum for B) both become 67 and their average value for the species representation index is also 67. Similarly, an A-count of 500 and a B-count of 200 become, respectively, 5 (5% of 10,000) and 20 (20% of 1,000) and their average index value is 12.5.

amphibian scores are the sums of decimal scores for individual amphibians.³³ These scores are scaled to a value between 0 and 100 for combination with endemic plant scores.

15. Endemic plants. Country endemic species data for plants are provided by Conservation International. Missing data have been estimated from a statistical regression model that relates the share of a country's plants that are endemic to the share of its amphibians that are endemic. For each country, endemic plants are imputed to individual CECs in proportion to their endemic amphibian scores (see 14 above). These scores are scaled to a value between 0 and 100 for combination with endemic amphibians.

Habitat Scale

16. Each CEC represents an ecoregion with unique characteristics, as well as a potential site for GEF projects that will demonstrate relevant approaches to biodiversity conservation. Ecoregions are also components of larger regions with biogeographic similarities. For example, the Southern Annamites montane rain forest of Vietnam, Cambodia and Lao PDR and the Sri Lanka lowland rain forest are both ecoregions in a larger biogeographic region (or functional region) defined by WWF – the Indo-Malayan Tropical-Subtropical Moist Broadleaf Forests. From a scientific perspective, ecological scale is an important attribute of conservation areas. In addition, regional scale is an important factor in determining the potential of GEF projects to leverage other conservation projects that address similar problems.

17. CEC scale. CEC scale is the size of habitat remaining in the CEC. Habitat is defined as the area within the CEC that has not been cleared for agriculture, as defined on a high-resolution GIS map supplied by the International Food Policy Research Institute (IFPRI). These scores are scaled to a value between 0 and 100 for combination with functional region scale.

18. Functional region scale. Functional region scale is the size of habitat remaining in the functional or biogeography region (see 16 above for an illustration). Habitat is defined as the area within the functional region that has not been cleared for agriculture, as defined on a high-resolution GIS map supplied by the International Food Policy Research Institute (IFPRI). These scores are scaled to a value between 0 and 100 for combination with CEC scale.

Threat

19. The threat score for each CEC is computed as the simple average of two components. The first is a combined index of threats to habitat for the CEC and its corresponding ecoregion. The second is a combined country-level index of threats to three species taxa: Birds, mammals and amphibians.

20. CEC habitat threat. The CEC habitat threat indicator is the fraction of the CEC's area (the original habitat) that has already been cleared for agriculture. Data have been supplied by IFPRI, as noted in 17 above. This indicator reflects the view that biodiversity conservation

³³ This procedure consistently represents endemic amphibians' presence in each CEC, while assuring that the sum of CEC decimal scores is equal to the total endemic species count for the country.

efforts should be focused on habitats that are more threatened by encroachment. The data are scaled to indices in the 0 – 100 range for combination with ecoregion habitat threat.

21. Ecoregion Habitat Threat. When an ecoregion crosses a national boundary, institutional, economic and other conditions in one country may pose a severe threat to habitat, while conditions in the other country may pose little threat. From a global perspective, the threat status of each CEC depends partly on the threat to habitat in the whole ecoregion. The ecoregion habitat threat indicator is the fraction of the ecoregion's area (the original habitat) that has already been cleared for agriculture.³⁴ The data are scaled to indices in the 0 – 100 range, and the habitat threat index is the average of the CEC habitat threat and the ecoregion habitat threat.

22. Species Threat. County-level data on threatened birds, mammals and amphibians have been provided by The World Conservation Union and Conservation International. The data are scaled to indices in the 0 – 100 range for each taxon, and the country species threat indicator is the average value of indices for the three taxa.

Determine Composite Scores for each Country Ecoregion Component

23. The Biodiversity score for each ecoregion country component is a weighted combination of the four scaled biodiversity indicators, as indicated by the following equation.³⁵ The scores are sensitive to the weights, which should be chosen to reflect the importance of perspectives represented by each of the indicators. After extensive consultation on current best practice with biodiversity experts, the base case simulations give relatively large, equal weights to species representation and endemism, and lower, equal weights to ecological scale and threat. The weights are defined below.

$$\text{CEC Biodiversity Score} = B_1 \times \text{Total Species Representation} + \\ B_2 \times \text{Endemic Species} + B_3 \times \text{Habitat Scale} + \\ B_4 \times \text{Threat}$$

$$\text{Where } B_1 + B_2 + B_3 + B_4 = 1$$

$$B_1=0.4; B_2=0.4; B_3=0.1; B_4=0.1$$

³⁴ CEC and ecoregion habitat threat indicators are identical by definition for ecoregions that are completely within one country.

³⁵ The first step in developing the biodiversity potential score for each country component is to scale all of the indicators uniformly so that the weights of the indicators are meaningful and transparent. Rescaling each indicator to a uniform scale means that the impact on the country component score of a one-point change in each indicator (e.g. habitat scale and threat) will be the same if they are equally weighted.

Country's Global Environmental Benefits Potential for Biodiversity (CGEPBIO)

24. Each Country's Global Environmental Benefits Potential for Biodiversity (CGEPBIO) is determined by summing the biodiversity scores for all of the country components of ecoregions that fall within the boundaries of each country.

$$\text{CGEPBIO} = \text{Sum of Biodiversity scores for all CECs in the country}$$

The CGEPBIO scores in the base case are shown in **Table 4.1** for the biodiversity eligible countries.³⁶ **Figure 4.1** shows that the distribution of biodiversity scores is skewed with a few countries accounting for most of the biodiversity potential.

³⁶ A few countries with limited biodiversity potential have not been included due to data issues in these tables. Their inclusion in the future will not affect any of the results in any significant way.

Table 4.1: Country Biodiversity Score and rank by Biodiversity Characteristics

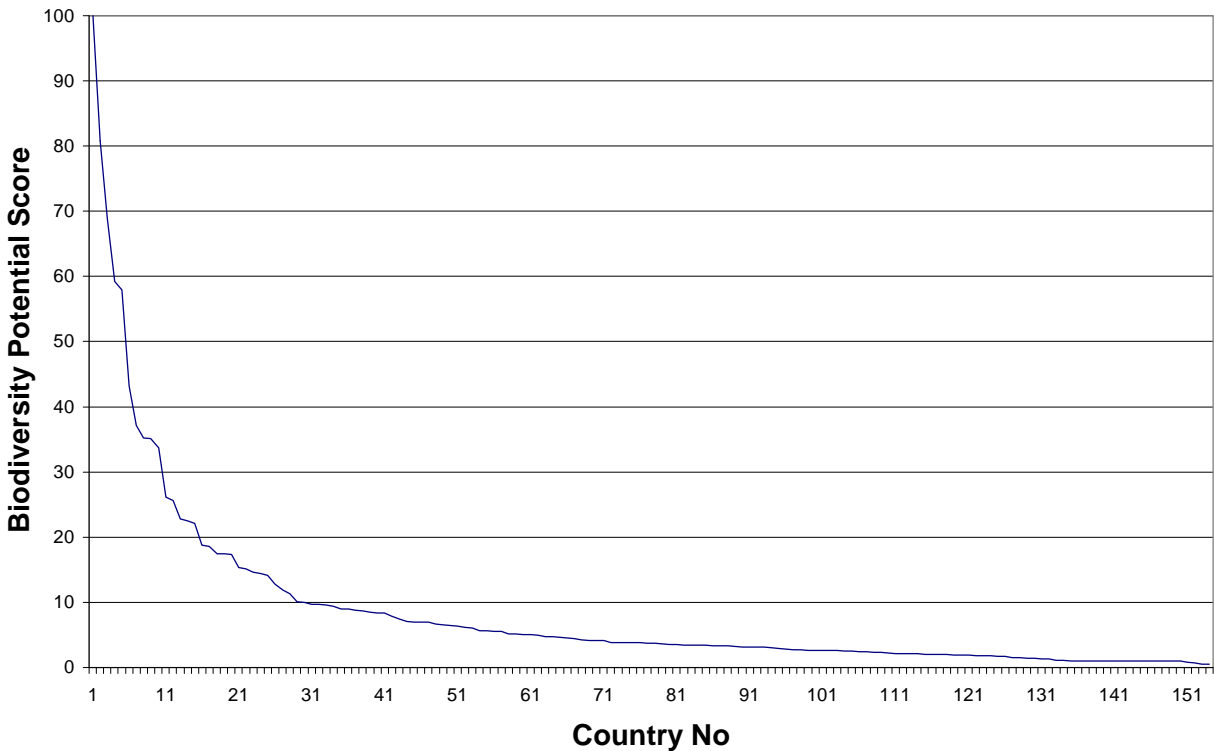
Country No	Biodiversity Score	County Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
1	100.0	1	1	2	4
2	80.8	2	2	7	10
3	68.8	3	3	1	2
4	59.2	5	5	4	3
5	57.9	4	4	6	5
6	43.2	9	9	5	1
7	37.2	7	8	8	32
8	35.2	8	7	15	48
9	35.1	10	6	32	24
10	33.7	6	14	49	100
11	26.1	13	11	14	14
12	25.7	11	13	19	88
13	22.8	15	10	20	56
14	22.5	14	12	33	13
15	22.1	12	24	35	7
16	18.8	20	15	11	25
17	18.6	124	30	3	6
18	17.5	24	19	26	8
19	17.4	18	21	13	16
20	17.3	22	22	9	17
21	15.3	23	16	45	35
22	15.2	40	20	22	9
23	14.6	27	18	27	38
24	14.4	21	23	34	19
25	14.2	29	17	41	34
26	12.9	26	41	21	12
27	11.9	16	40	68	50
28	11.3	31	27	16	51
29	10.1	35	45	12	27
30	10.0	39	31	31	22
31	9.7	124	59	10	11
32	9.7	33	29	50	46
33	9.6	30	37	30	52
34	9.3	19	50	104	27
35	9.0	44	42	38	15
36	9.0	59	34	25	30
37	8.8	38	25	58	98
38	8.6	86	26	39	33
39	8.5	17	52	82	114
40	8.4	63	37	28	29
41	8.3	81	36	36	23
42	7.9	25	49	81	64
43	7.4	56	39	37	41
44	7.0	28	54	78	80
45	7.0	50	64	24	26

Country No	Biodiversity Score	County Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
46	7.0	88	28	72	83
47	6.9	37	35	79	122
48	6.7	42	80	17	45
49	6.5	51	33	69	111
50	6.4	78	56	56	18
51	6.3	40	57	29	78
52	6.2	75	50	43	36
53	6.1	71	32	82	116
54	5.7	124	61	63	21
55	5.6	64	53	44	55
56	5.5	57	47	57	74
57	5.5	98	66	23	68
58	5.1	67	44	60	121
59	5.1	58	46	73	101
60	5.1	72	95	52	20
61	5.0	72	48	76	77
62	4.9	84	43	103	82
63	4.8	91	55	65	71
64	4.7	54	79	71	31
65	4.6	62	104	18	108
66	4.5	34	81	114	120
67	4.5	45	77	75	61
68	4.3	46	75	50	105
69	4.2	124	83	53	43
70	4.1	49	72	90	49
71	4.1	115	70	46	75
72	3.9	66	68	86	65
73	3.9	67	58	99	102
74	3.9	115	74	89	44
75	3.8	80	60	98	95
76	3.8	61	78	87	54
77	3.8	43	87	59	129
78	3.7	74	63	93	86
79	3.6	124	67	92	69
80	3.6	75	73	107	59
81	3.5	94	69	110	66
82	3.5	114	90	101	39
83	3.5	81	71	113	70
84	3.4	90	62	105	106
85	3.4	122	96	85	40
86	3.3	47	82	116	73
87	3.3	59	94	42	125
88	3.3	124	85	97	53
89	3.2	122	65	108	90
90	3.2	32	114	142	146
91	3.1	48	98	80	76
92	3.1	124	76	88	95

Country No	Biodiversity Score	County Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
93	3.1	124	102	95	47
94	3.0	64	92	55	134
95	2.9	85	91	93	79
96	2.8	124	110	115	37
97	2.8	113	84	84	117
98	2.7	83	114	47	118
99	2.7	96	93	66	127
100	2.6	86	97	100	85
101	2.6	69	112	106	57
102	2.6	124	152	48	42
103	2.6	88	86	121	97
104	2.5	55	101	130	81
105	2.5	124	151	40	61
106	2.5	124	108	54	130
107	2.4	124	89	123	89
108	2.4	77	117	70	108
109	2.4	124	109	124	60
110	2.2	124	111	126	63
111	2.1	100	106	109	103
112	2.1	36	133	152	148
113	2.1	124	103	118	99
114	2.1	124	113	74	123
115	2.0	91	87	138	128
116	2.0	124	107	111	104
117	2.0	112	116	64	151
118	2.0	124	136	91	67
119	2.0	78	130	67	149
120	1.9	95	136	112	58
121	1.9	124	138	62	119
122	1.8	102	100	134	115
123	1.8	117	99	125	126
124	1.8	69	129	77	150
125	1.8	91	139	61	144
126	1.7	124	105	117	131
127	1.5	117	145	119	72
128	1.5	99	142	120	84
129	1.4	124	118	136	110
130	1.4	96	135	133	91
131	1.3	124	128	135	107
132	1.3	124	133	102	145
133	1.1	124	147	122	87
134	1.1	52	140	139	132
135	1.1	124	148	127	92
136	1.1	124	148	127	92
137	1.1	100	146	96	147
138	1.1	124	148	127	92
139	1.1	53	143	141	133

Country No	Biodiversity Score	County Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
140	1.1	102	119	143	135
141	1.1	102	119	143	135
142	1.1	102	119	143	135
143	1.1	102	119	143	135
144	1.1	119	131	131	152
145	1.1	102	119	143	135
146	1.1	102	119	143	135
147	1.1	102	119	143	135
148	1.1	119	131	131	152
149	1.1	102	119	143	135
150	1.1	102	119	143	135
151	0.8	124	144	140	124
152	0.7	119	141	137	154
153	0.5	124	153	152	112
154	0.5	124	154	152	112

Figure 4.1: Distribution of Biodiversity Potential Score



ANNEX 5: ASSESSING COUNTRY POTENTIAL TO GENERATE CLIMATE CHANGE BENEFITS

1. The United Nations Framework Convention on Climate Change (UNFCCC), which became effective in March 1994, was an international acknowledgment that change in the Earth's climate and its adverse effects are a common concern of mankind and calls for the widest possible cooperation by all countries. The objective of the UNFCCC is the stabilization of greenhouse gas concentration in the atmosphere at a level that will prevent dangerous anthropogenic interference with the climate system. While recognizing that various actions to address climate change can be justified economically in their own right and help in solving other environmental problems, the Convention agreed on the need for all countries, especially developing countries, to have access to resources to address these issues. The GEF operates as a mechanism to the UNFCCC to provide new and additional grant and concessional funding to meet the agreed incremental costs of projects to achieve global environmental benefits in climate change.

2. Based on the current mandate of the GEF, each country's global environmental benefits potential in the GEF Resource Allocation Framework is based on its potential to mitigate GHG from the combustion of fuels and other sources of greenhouse gas emissions. Specifically, GHG mitigation from sequestration and/or land use changes is not currently used as a basis for determining climate change potential in the RAF. However, such activities have historically been supported by the GEF and can still be supported under within the RAF under the biodiversity focal area and outside the RAF under land degradation.³⁷ Similarly, climate change adaptation is not currently used as a basis for determining a country's global environmental benefits under climate change in the RAF because the current guidance of the UNFCCC to the GEF on adaptation activities is limited to enabling activities and the currently funded pilot program.

3. Each country's potential to deliver global climate change benefits in the RAF is based on the total GHG emissions in tons of carbon equivalent from fossil fuel, cement and other greenhouse gas emissions in the year 2000. Using historical emissions levels as an indicator for potential benefits avoids providing perverse incentives to countries to increase GHG as a way to increase their access to GEF resources. While National Communications from the parties to the UNFCCC do provide detailed and accurate GHG emissions inventories, they are neither comprehensive nor current in their coverage of countries eligible for GEF funding.³⁸ Based on these difficulties, each country's global climate change benefits potential in the RAF is based on standardized emissions data for the year 2000 available from the Climate Analysis Indicators Tool (CAIT) unit of the World Resources Institute.³⁹ Comparisons of the CAIT data with the

³⁷ Land use changes account for approximately 30% of total worldwide GHG emissions according to the Climate Analysis Indicators Tool of the World Resources Institute. (www.cait.wri.org)

³⁸ Only about 100 countries have provided National Communications to the UNFCCC mostly for the year 1994. The UNFCCC has requested parties for a Second round of National Communications which will provide more current emissions data but will not be available for a few years.

³⁹ Information can be found at the World Resources Institute website at www.cait.wri.org.

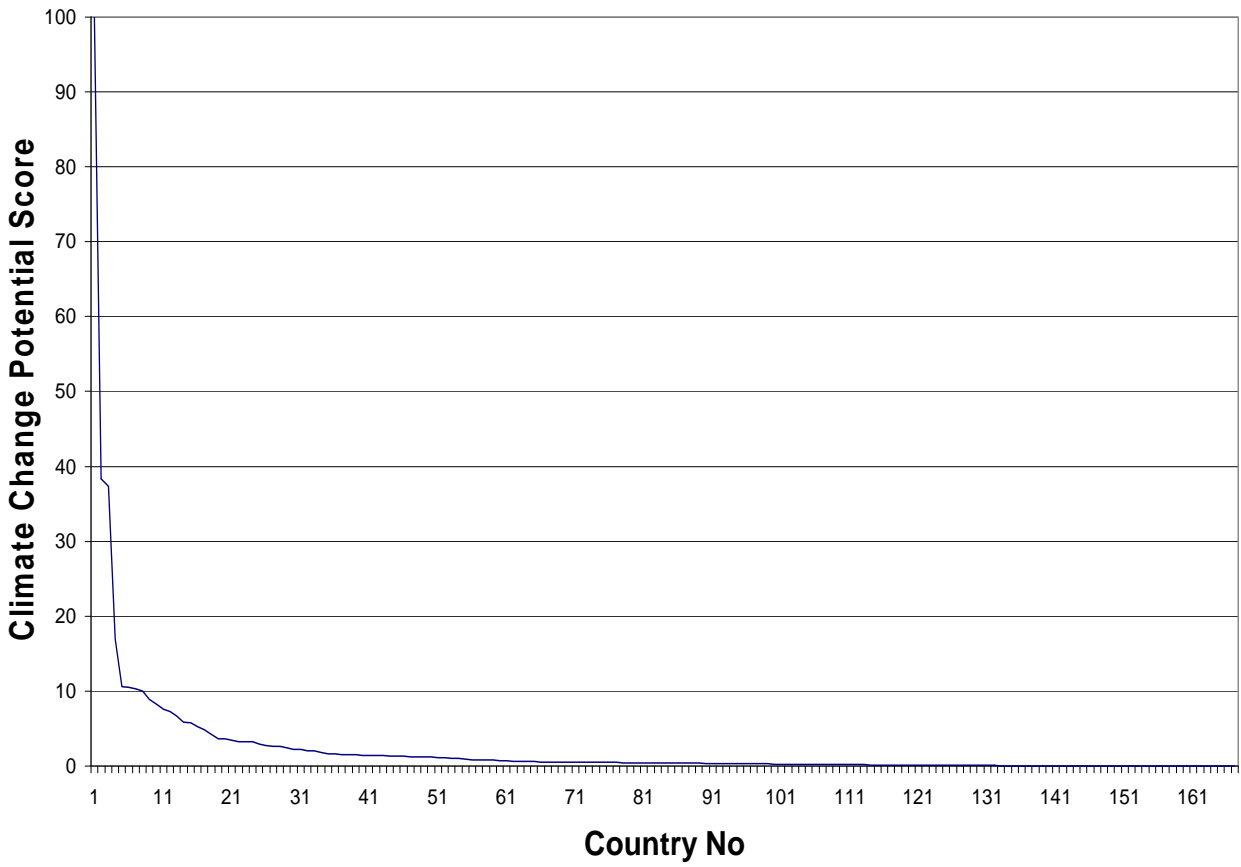
corresponding national emissions inventories reported by countries to the UNFCCC shows a high degree of correlation between the two datasets. The distribution of 2000 emissions levels and the potential mitigation in each country is shown in Figure 5.1. The potential benefits are highly skewed with a few countries accounting for most of the benefits, while the majority of countries account for a small fraction of global potential benefits.

$CGEPCC = \text{Total GHG emissions from Fuels and cement and other sources in 2000}$

4. Relating potential benefits to historical emission levels has the effect of providing larger benefit scores to larger emitters. There are two reasons for such a choice. First, in general, countries with larger emissions have lower abatement costs, which increase less rapidly than those in countries with smaller emissions. Second, projects are likely to have greater demonstration and learning effects in high emitting countries than in countries with smaller levels of emissions.

5. The Secretariat is currently investigating the feasibility of employing additional indicators that better reflects a country's efforts to mitigate GHG emissions. One indicator being explored is each country's change in emissions intensity (emissions/GDP) over time. These results will be incorporated into the Resource Allocation Framework as this work progresses. Preliminary analysis indicates that the impact of additional indicators on the overall distribution is not very significant.

Figure 5.1: Distribution of Climate Change Potential Score



ANNEX 6: ASSESSING COUNTRY PERFORMANCE

1. The soundness of a country's existing policies and institutions enhance and sustain the probability of success of future GEF projects in the country. Additional insights regarding future project success can also be gained by examining the performance of past and current projects in the country. The Country Performance Rating (CPR) used in the GEF Resource Allocation Framework is developed from a sectoral level policy and institutions related indicators (CEPIA) and two project portfolio indicators (GEFPP reflecting performance in the GEF portfolio and WBOED reflecting performance in a broader mix of projects at the World Bank). While the Council has also discussed the use of an additional indicator that reflects macro level policy and institutions (CPIA), various constituencies have either strongly supported its inclusion or have strongly questioned its relevance. The Council will need to continue its discussions and reach a consensus on whether this indicator is included in determining each country's performance rating. The CPIA indicator has not been included in the current set of simulations as this indicator is not expected to be publicly available for most of the countries that receive GEF funding.

2. The remainder of this annex begins with a brief description of all of the performance related indicators, including CPIA. This is followed by a description of the methodology used to determine each country's performance rating (CPR), a summary of the CPR results, and a discussion of the sensitivity of these results to changes in the methodology and assumptions.

Macro Level Indicator – CPIA

3. As an institution that is primarily focused on environmental issues, the GEF has no comparative advantage in measuring the macro level variables. Hence, it should adopt the macro level performance criteria that have been tested and are currently in use at other multilateral institutions. The Council has discussed the use of indicators that reflect macro level policy and institutions at length during its deliberations on the RAF in 2003 and 2004. While some constituencies have strongly supported the inclusion of the World Bank's Country Policy and Institutions Assessment (CPIA) indicator, other constituencies have strongly questioned its relevance for the GEF. The Council will need to continue its discussions on this topic and reach a consensus on whether this indicator is included in determining each country's performance rating for the GEF Resource Allocation Framework.

4. The CPIA indicator is computed by equally weighting each of 16 responses to an annual benchmarked survey conducted by the World Bank. The survey assesses aspects of the policies and institutions of each of the World Bank's client countries in the following four areas: economic management, structural policies, social inclusion/equity and the public sector. These ratings are an important component of the performance-based allocation system of the International Development Association.

5. The methodology described in this paper and the resulting simulations have not included this indicator because of Council's concerns about transparency.⁴⁰ Historically, the World Bank has only publicly disclosed the average score for quintiles of countries and not the CPIA score for each individual country. The World Bank Board at its September 2004 meeting has decided that it will provide full disclosure of the CPIA scores for all IDA countries by the beginning of 2006. While the Board did not formally consider the disclosure of CPIA ratings for non-IDA countries, prior Board discussions indicate that the controversy surrounding non-IDA country disclosure will not be resolved in the near future. A review of the GEF portfolio reveals that nearly three-quarters of GEF resources have historically been allocated to non-IDA countries. In light of prior Council discussions expressing a strong preference for the creation of a transparent system for resource allocation, the CPIA indicator has not been used in the base case simulations and methodology in this document. Council will have to continue to discuss the applicability of this indicator in the GEF and come to a closure on this topic.

Sectoral Level Indicators – Environmental sub-index of CPIA

6. The success of GEF projects and programmes is directly affected by the policy framework and capacities of institutions at the sectoral level. Public sector policies and regulations, the ability of institutions to implement and enforce these policies and the extent of public participation and information play an important role in influencing the incentives and behavior of stakeholders. They also affect the smooth functioning of markets, and the adoption and development of technologies. As part of the project review process, the Implementing and Executing Agencies routinely examine the effectiveness of a country's sectoral policies and institutional frameworks on a case-by-case basis. However, these reviews are neither systematic (using a standardized set of review criteria) nor comprehensive (covering all potential recipient countries). A review of the practices at other institutions shows that such a systematic, comprehensive and transparent assessment of environment-related policies and institutional frameworks is not currently available elsewhere.

7. Ongoing consultations with the Environment Department of the World Bank indicate that the World Bank is currently in the process of developing a methodology for assessing the policy and institutional setting for the environment sector in each of its member countries as part of an effort to better define the Environmental Sustainability sub-index of the World Bank's CPIA. The World Bank is preparing a detailed set of questions by environmental sub-sectors to guide staff in developing the overall rating for Environmental Sustainability in the CPIA. As currently proposed, the methodology separately evaluated (i) the existence of supportive policies; (ii) the capacity to implement and enforce policies; and (iii) public participation and provision of public information in each of the following areas – air pollution, water pollution, solid and hazardous waste, ecosystem conservation and biodiversity protection, marine and coastal resources, freshwater resources and commercial natural resources. It will also separately measure the ability of countries to perform environmental assessments, set priorities, and coordinate across sectors. This Assessment method provides a systematic, comprehensive, and transparent assessment of environment related policies and institutional frameworks.

⁴⁰ The sensitivity of including/excluding the CPIA indicator is discussed in para.19 in this annex.

8. Like the CPIA, the Environmental Sustainability index of the CPIA is not currently publicly disclosed by the World Bank. However, preliminary consultations with the World Bank indicates that it may be possible to define a set of modalities which would allow for the development of a publicly disclosable GEF relevant sectoral policy and institution rating for all World Bank member countries by 2006. Prior Council deliberations on this matter have indicated a strong preference for using a publicly disclosable sectoral indicator. The Secretariat will continue to followup on the current consultations with the World Bank and expects that the methodology currently being developed and tested by the World Bank can form a basis for the sectoral indicator in the GEF Resource Allocation Framework. In the meantime, for the purposes of the simulations presented here, the current Environmental Sustainability index of the CPIA is used as a proxy for the CEPIA indicator.

Portfolio Level Indicators

9. The successes of GEF projects and programs are often most directly affected by the enthusiasm, capacity and dedication of the local community and project stakeholders. While past project performance does not guarantee future results, it is often a credible predictor of future project success. Reliable indicators of past performance in GEF projects provide the best comparator for examining future project success. However, given the limited size of the GEF portfolio, past performance indicators are neither available nor very robust for many countries. More comprehensive and robust indicators of project performance that can be obtained from larger project portfolios such as that of the World Bank can also provide credible indicators for future project success.

I. GEF Country Portfolio Performance (GEFPP)

10. Since 1996, the GEF Monitoring and Evaluation Unit (GEFME) has carried out annual Portfolio Performance Reviews (PPRs) for all medium and full sized projects. Projects, which have been under implementation for at least a year, are required to submit annual Project Implementation Reports (PIRs) to the GEF M&E Unit. These reports include an evaluation of: (i) the progress of the project towards achievement of development objectives (DO); and (ii) implementation progress (IP). Projects are rated separately for DO and IP in one of four categories – highly satisfactory, satisfactory, partially satisfactory and unsatisfactory by project managers at the implementing and executing agencies. For each EA/IA consistent ratings are available for projects in the GEF portfolio beginning with the 1999 PPR. There has been no effort to standardize these PIR ratings across agencies to date. After converting the categorical PIR ratings to a corresponding numerical score, the GEFPP indicator for each country is computed as the simple average of the DO and IP scores available for projects under implementation in a country's portfolio since 1999.⁴¹ Historically, the individual PIRs have not been publicly disclosed. The Council will need to decide on public disclosure to enhance the transparency of the RAF.

11. A review of the PIR data suggests that the GEFPP is indicator is neither comprehensiveness nor robustness of this indicator. Since PIRs are only available for medium

⁴¹ The categorical ratings are converted to a numerical score ranging from 1 to 4, with 4 corresponding to *highly satisfactory*, 3 to *satisfactory*, 2 to *partially satisfactory* and 1 to *unsatisfactory*.

and full sized projects since 1999, the GEFPP indicator is available for 84 countries only. As a result, a substitute indicator or decision rule is required for countries that have not had a rated medium or full sized project. In addition, GEFPP is not a robust indicator for countries with limited PIR data because of the large potential influence of a few non-representative PIR ratings for the country. The GEFPP indicator will be updated over time as new project information becomes available as a result it will become robust and comprehensive.

II. World Bank OED Project Portfolio (WBOED)

12. Some of the shortcomings arising from the limited size of the GEF project portfolio can be addressed by using a broader portfolio of projects at the World Bank. The Operations Evaluation Department of the World Bank (WBOED) rates all World Bank projects at the completion of the project relative to the objectives of the project in one of six categories – highly successful, partially successful, marginally successful, marginally unsuccessful, partially successful, and highly unsuccessful. There are over 2800 rated projects in all of the World Bank’s client countries since 1990. The shortcomings of the GEF portfolio -- coverage and robustness – can be addressed using this larger database of projects. Statistical analysis of OED’s project database suggests that use of the complete portfolio of projects provides a reasonable measure of environmental project success rates.⁴² After converting the categorical OED ratings to a corresponding numerical score, the WBOED indicator for each country is computed as the simple average of the project scores available for all rated projects in each country between 1990 and 2003.⁴³ These ratings will be updated as new project level data becomes available.

Country Performance Rating (CPR)

13. The Country performance rating (CPR) is developed from uniformly scaled sectoral, and portfolio level indicators as the simple weighted average of the different scaled indicators.⁴⁴ Rescaling each indicator to a uniform scale means that the impact on the country score of a 1-point change in an equally weighted indicator will be the same. The Country Performance Rating is computed from the three indicators discussed above, CEPIA, the WBOED and the GEFPP indicators.

⁴² Statistical analysis shows that there are no significant time trends for project success rates during this period. It also shows that while there are significant differences in project success rates across sectors, success rates for environmental projects are similar to the average of all sectors, so use of the aggregate portfolio is a reasonable approximation of performance in the environmental sector.

⁴³ The categorical ratings are converted to a numerical score ranging from 1 to 6, with 6 corresponding to *highly successful*, 5 to *partially successful*, 4 to *marginally successful*, 3 to *marginally unsuccessful*, 2 to *partially unsuccessful*, and 1 to *highly unsuccessful*.

⁴⁴ The first step in developing the country performance rating is to scale all indicators to a uniform scale (from 1 to 5). This ensures that the weights given to each of the indicators are easily interpretable and transparent. For instance, the GEFPP indicator ranges from 1 to 4, while WBOED ranges from 1 to 6. Rescaling each indicator to the same scale means that the score is equally impacted by a one point change in any set of equally weighted indicators.

Country Performance Rating (CPR)

$$\text{CPR} = P_1 \times \text{CEPIA} + P_2 \times \text{WBOED} + P_3 \times \text{GEFPP}$$

$$\text{Where, } P_1 + P_2 + P_3 = 1$$

14. The Country Performance Ratings are sensitive to the chosen weights P_1 , P_2 , and P_3 . Since a higher rating of each indicator implies a better performing country all weights should be positive. In case, some of the performance indicators are not available for a country, CPR is based on the remaining indicators by proportionately increasing the weights for the available indicators.⁴⁵

15. The choice of weights should reflect both the relative importance and the accuracy and robustness of each underlying indicator. The base case simulations are based on the following weights reflecting discussions in the council for a larger weight on sectoral performance and the lack of robustness and comprehensiveness in the GEFPP indicator.

$$P_1 = 0.8; P_2 = 0.1; P_3 = 0.1$$

The distribution of country performance scores under the base case is shown in **Table 6.1**.

Table 6.1. Distribution of Country Performance Rating: base case

Country Performance Rating Range	No of Countries
Less than 2	6
2.0 – 2.5	24
2.5 – 3.0	44
3.0 – 3.5	50
3.5 – 3.75	9
Greater than 4.0	11
Unrated Countries	24

16. Of the 168 countries that are potentially eligible for GEF funding in biodiversity or climate change, 24 countries did not have any data for performance. None of these 24 countries have had a medium or full sized project at the GEF under any focal area. Neither did these countries have a project with the World Bank during the last 10 years. They consist of either high income countries that are not eligible and have not been eligible for World Bank borrowing for the past 10 years or low income countries that have not been engaged with the GEF or the World Bank. These countries have been assigned indicative floor allocations of \$1 million in the country and group allocation phase and the country allocation phase and are placed in the low

⁴⁵ CEPIA data was available for 136 countries, GEFPP for 84 countries and WBOED for 126 countries. In total, 144 countries had data for at least one of the three indicators.

performance category in the screening phase as a temporary measure until performance scores are developed.

17. Of the rated countries, the Country Performance Rating lies between 2.5 and 3.5 for about two thirds of the countries. The remaining third of the countries are split between the high end (greater than 3.5) and low end (less than 2.5) of the Country Performance Rating scale with a slightly more countries at the low end.

Sensitivity of CPR

18. The country performance ratings are sensitive to changes in some of the weights but are not very sensitive to changes in others. While the GEFPP indicator is the least correlated with the other indicators, changes in the weight does not affect the scores for nearly half the countries due to the unavailability of this indicator. The Country Performance score is much more sensitive to the weight given to WBOED. Progressively increasing the weight on WBOED with corresponding decreases in the other indicators has the effect of increasing the average country performance rating by a small amount about .05 per every 10% increase in the weight on WBOED. This occurs because about five times as many countries improve their scores than the number of countries whose scores fall.

19. While the CPIA indicator has not been used in computing the base case country performance rating, sensitivity analysis indicates that its inclusion with corresponding reductions in the other indicators does not make a large difference in the country performance scores due to the high correlation between CPIA and CEPIA. For instance, performance ratings remain approximately the same for most countries even when the CPIA index is included in computing the CPR with a weight of 0.4 and a corresponding reduction is made to the weight on CEPIA. The correlation of the two CPR scores is 0.96. The performance rating of 21 countries changes by more than 0.25 of which there are only 3 countries whose CPR changes by more than 0.5.

ANNEX 7: ADDITIONAL ISSUES TO BE CONSIDERED IN DEVELOPING A RESOURCE ALLOCATION FRAMEWORK

1. Several overriding issues need to be considered in developing a resource allocation framework at the GEF. These are discussed in this annex.

Amount of Replenishment Resources to be included in the Allocation Framework

2. The GEF has historically supported: (i) corporate programs, outside any particular focal area, such as the Small Grants Program and crosscutting capacity building involving NGOs and community groups; and (ii) activities that involve groups of countries, such as global and regional projects

3. Based on historical allocations, and discussions at the Council meetings and the seminar, it is proposed that 10 percent of the total replenishment amount be set aside for the Small Grant Program and cross-cutting capacity building activities. If the Replenishment amount is \$ 3 billion as in the case of the Second Replenishment, this amounts to \$290 million.

4. It is also proposed that 5 percent of the funds allocated to biodiversity and climate change focal areas be set aside for global and regional projects. The final amounts available for allocation under the Resource Allocation framework in each of the focal areas is \$820 million in a Replenishment period. Table 1 illustrates the set-asides and resources available under a resource allocation framework for \$3 billion as in the current replenishment.

**Table 7.1. Set Asides outside the Resource Allocation Framework
(millions of Dollars)**

	Focal Area Programs			Corporate Programs	Corporate Services	TOTAL
	Biodiversity	Climate Change	Other Focal Areas			
Total Resources	863	863	884	290	100	3000
Global & Regional Program Setaside (5%)	43	43				86
Resource Allocation Framework	820	820				

Transparency

5. As already explained, transparency – making explicit what is an implicit allocation system – is the primary rationale for a GEF Resource Allocation Framework. Council Members, and other stakeholders of the GEF, have emphasized the need for complete transparency of data, indicators, country scores and other elements that comprise a Resource Allocation framework. The concern was regarding the IDA Country Policy and Institutional Assessment (CPIA) index that was proposed as an indicator for assessment of macro-policy performance. While the World Bank plans to disclose the CPIA scores for IDA countries, there are no plans to do the same for IBRD countries. Given the widespread concerns regarding CPIA disclosure, the index has not

been used in the simulations presented in this document (see discussion below).⁴⁶ The environmental sectoral assessment (CEPIA) is dependent upon the environmental sub-index of CPIA. The World Bank is currently going through a process of disaggregating this sub-index, and the GEF Secretariat expects to use relevant elements of the disaggregated sub-index to build up the GEF CEPIA. Given the disconnect that can be established between the World Bank ratings and GEF CEPIA ratings, the Secretariat hopes that CEPIA can be disclosed.

Definition of Performance

6. There are many factors, as expressed by several GEF stakeholders, including the Council, which influence project performance – country performance, Implementing/Executing Agency performance, GEF Secretariat performance, etc. All these elements of performance need to be taken into account in the operations of the GEF. Some of these elements are amenable for inclusion in a resource allocation framework, while other aspects need to be addressed through other channels. The performances of the GEF Secretariat and the Agencies are expected to be discussed in the Third Overall Performance Study (OPS3) report to be presented to the Council in the spring.

7. There is widespread support for the inclusion of assessments of environment sector policy and institutions and assessments of portfolio performance as measures of country-level performance in the GEF Resource Allocation Framework. There are significant differences of opinion, however, on the relevance of macro-level policy and governance measures for a GEF Resource Allocation Framework. This appears to be a significant element of the current objections of a number of developing countries to the formal adoption of an allocation framework at the GEF. While macro-policy indicators have not been used in the simulations provided in this document, Council needs to continue discussion and signal a closure on this topic.

Consistency with the Instrument and Conventions

8. At the November 2003 meeting, Council requested the Secretariat for a legal opinion on whether a GEF resource allocation framework would be consistent with the GEF Instrument. Please refer to Annex 8 for a legal opinion prepared by the GEF General Counsel. The legal opinion suggests that the Council can take the decision to implement a resource allocation framework, but the Conferences of the Parties to the Conventions have the right to comment and ultimately decide whether to retain the GEF as a financial mechanism.

9. Technically, there is unlikely to be any inconsistency with a resource allocation framework and GEF conformance to guidance from the Conventions. Convention guidance is reflected in a flexible and dynamic manner in the Operational Programs and Strategic priorities of the GEF. However, the relationship between the Conventions and the GEF evolved in the past in a highly politically charged environment. A clear and transparent dialogue needs to be established with the Conventions as the GEF advances on implementing a resource allocation framework.

⁴⁶ The performance assessment is based on environmental sectoral policy and institutional assessment and ratings of portfolio performance as explained in Annex 6.

Country Eligibility

10. Historically, country eligibility has been decided in the context of specific project submissions on a case-by-case basis. Under the GEF Resource Allocation Framework, country eligibility has to be clarified upfront. The number of eligible countries and their ranking can have significant impact on the indicative allocations of all countries in the country and group allocation phase and in the country allocation phase. The simulations presented in this paper represent the best understanding of the Secretariat regarding country eligibility.

11. The Secretariat has requested clarification from the Conferences of the Parties regarding the eligibility issue. Given the difficulties associated with the eligibility issue and the potential delays in resolving it, the Secretariat is proposing an interim criteria pending a final resolution based on historical allocations. Prior to discussing the proposed interim measure, it is useful to discuss the current eligibility.

12. Under the GEF instrument, countries are eligible for GEF funding in a focal area if: (i) they meet eligibility criteria established by the relevant Conference of Parties for the focal area; or (ii) they are members of the conventions and are countries eligible to borrow from the World Bank or eligible for technical assistance from the UNDP.

13. These eligibility guidelines do not provide the needed clarity for uniquely determining the eligibility of specific countries. For instance, while Convention on Biodiversity considers developing country parties eligible for GEF funding, it does not provide a list of developing countries. Similarly, under the UNFCCC guidelines non-annex1 parties to the Convention on Climate Change irrelevant of their income level are eligible for funding.

14. In addition, the Council needs to clarify the appropriate treatment of EU accession countries. A number of economies in transition have gained or will have gained accession to the EU by the time GEF4 funds will be distributed. The change in the eligibility of accession countries can have a significant impact on the allocations of all countries especially in the climate change focal area. Council Members have indicated that they will address this issue in the context of negotiations for a potential GEF-4 Replenishment.

15. Given the difficulties associated with the eligibility issue and the potential delays in resolving it, the Secretariat proposes using the following interim criteria pending a final resolution.

- (a) Biodiversity. All countries that are a party to the Convention on Biodiversity and are eligible to borrow from the World Bank or are eligible for UNDP technical assistance and those that have historically received any GEF funding for biodiversity.
- (b) Climate Change. All countries that are a party to the UNFCCC and are either (i) non-Annex 1 Parties; or (ii) eligible to borrow from the World Bank or eligible for UNDP technical assistance.

Reliability of Methodology, Indicators and Data

16. The Secretariat has employed the best available data to arrive at the indicators that are employed to assess country-potential to generate global benefits in biodiversity and climate change. However, work continues to improve the methodology, indicators and data.

17. Biodiversity. A complex methodology employing ecoregions and species populations has been developed. The methodology attempts to balance the weight given to pristine ecosystems and threats reflecting the different views that exist in the conservation community. However much work remains to be done to improve the assessment. To begin with, data regarding marine and freshwater ecosystems need to be included. Several stakeholders have suggested inclusion of indicators that reflect more than conservation priorities – such as mainstreaming biodiversity, benefits sharing, biosafety, etc.

18. Climate Change. The current methodology is based on gross carbon dioxide emissions, following the logic that countries with higher level of emissions have more potential for reductions and for replication through learning. However, such an approach contains within it the perverse incentive of “paying the polluter”. Alternatives are being sought, including selecting some indicators that would adjust for improvements in emissions levels. While no neat solutions exist, work will continue in this area.

19. The work on methodology, indicators and data will be improved on a continuing basis in the years ahead.

Transition to GEF-4

20. All concepts for GEF projects have to be reviewed and entered into the GEF pipeline prior to further preparation and Council review for work program inclusion. There could be significant time lags between a project entering the pipeline and being submitted for work program inclusion. As a result, several projects currently being entered into the pipeline during GEF-3 will be ready for work program inclusion in GEF-4; also in some focal areas, where resources are scarce, concepts have been entered into the pipeline with the understanding that they will be submitted for work program inclusion during the GEF-4 period. As indicated in the current GEF Business Plan (GEF/C.24/ 9/Rev.1), nearly \$300 million worth of concepts currently entered in the GEF-3 pipeline are expected to arrive for work program inclusion in GEF-4; this does not include projects from GEF-3 that may slip to GEF-4 because of difficulties in preparation or resource constraints. In addition, seven more project pipelines are planned for the remainder of the GEF-3 period, which could mean additional projects that could be ready for Council approval in GEF-4.

21. Projects are entered into the pipeline with the understanding that should they appear for work program inclusion during the GEF-4 period, those projects would be subject to any policies and/or priorities emerging from the policy recommendations emerging from a potential fourth Replenishment; these projects would also be subjected to any policies associated with a possible resource allocation framework for the GEF, subject to any rules of transition agreed to by the Council.

22. To ensure that a significant share of GEF-4 resources is not locked into by projects being entered into the pipeline during GEF-3, the Secretariat and the Implementing Agencies are (i) cleaning up the current pipeline to identify and drop concepts that are not advancing; and (ii) developing additional management rules for concepts to be entered into the pipelines during the remainder of GEF-3. When the Council chooses a particular phase of the resource allocation framework as a point of entry, the considerations of that phase will be taken into account while reviewing concepts for pipeline entry during the remainder of GEF-3.

ANNEX 8: LEGAL OPINION ON CONSISTENCY OF RESOURCE ALLOCATION FRAMEWORK WITH THE GEF INSTRUMENT

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: APRIL 20, 2004

TO: Mr. Leonard Good, GEF CEO and Chairman

FROM: David Freestone, Acting Deputy General Counsel, Advisory Services, LEGVP

EXTENSION: 81743

SUBJECT: WOULD A GEF PERFORMANCE-BASED FRAMEWORK BE CONSISTENT WITH THE GEF INSTRUMENT?

A. FACTS

1. At its meeting of November 2003, the GEF Council reviewed a document entitled “Performance-based Framework for Allocation of GEF Resources” (GEF/C.22/11). After review of this document, the GEF Council agreed that the GEF Secretariat would develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. It is this system that, for reasons of convenience, is referred to here as “GEF performance-based framework”.⁴⁷

2. One of the decisions approved at the November 2003 meeting was to request the GEF Secretariat to present to the May 2004 meeting of the GEF Council

“a study of options to strengthen the current system of allocating GEF resources with a view to coming to a conclusion in November 2004. The system should be consistent with the GEF Instrument, the 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.”⁴⁸

B. QUESTION

⁴⁷ There is no need here to discuss the proposed variants and phases of such a system. It is also irrelevant, for the present purposes, to summarize the policy recommendation of the GEF Third Replenishment, and the Second Assembly, in this respect.

⁴⁸ Joint Summary of the Chairs, GEF Council Meeting, November 19-21, 2003, para. 21.

3. On the basis of this background, the question to be addressed in this memorandum is whether a GEF performance-based framework would be consistent with the GEF Instrument. As was indicated above, the expression “GEF performance-based framework” is used here as shorthand for a system based on global environmental priorities and country-level performance relevant to those priorities. The details of this system are still under study. Therefore, the answer to the proposed question, at this stage, can only be preliminary in its character and general in its underlying analysis.

C. ANSWER

4. In the GEF Instrument, there is no provision requiring or prohibiting a performance-based allocation system. A decision to this effect by the GEF Council would have to be judged in the light of the requirement that the GEF, as the financial mechanism of the Climate Change, Biodiversity, and Stockholm conventions, function under the guidance of, and be accountable to, the Conferences of the Parties of these conventions. This guidance has not implied any decisions having the effect of mandating or prohibiting a performance-based allocation. However, the question of consistency can be examined within the context of the relationship between the GEF Council and the Conferences of the Parties, as reflected in Memoranda of Understanding. These Memoranda protect the autonomy of the GEF as an external financial mechanism to the conventions, with the consequence that the Conference of the Parties can do no more than request from the GEF Council that a decision be clarified or reconsidered. The Memoranda also reflect a need for close cooperation between the GEF Council and the Conferences of the Parties, with the consequence that the GEF Council is required to act in conformity with the policies, program priorities and eligibility criteria established by the Conferences of the Parties. In consideration of the foregoing, in case of conflict generated by the adoption of a performance-based approach, the sanction would be in relation to the continued ability of the GEF to serve as the financial mechanism for the implementation of the conventions. Whether and how a conflict related to performance-based allocation might arise is a question that cannot be addressed in the abstract without knowing the details of the specific decision and conflict in question.

D. ANALYSIS

(a) The text of the GEF Instrument and allocation based on performance

5. The GEF Instrument does not contain any express provision either requiring or prohibiting an allocation system based on performance. This does not mean, however, that no provisions in it are of any relevance to the question.

(b) The GEF as the financial mechanism of environmental conventions

6. Paragraph 6 of the GEF Instrument, as recently amended, reads as follows:

“In partial fulfillment of its purposes, the GEF shall, on an interim basis, operate the financial mechanism for the implementation of the United Nations Framework Convention on Climate Change and shall be, on an interim basis, the institutional structure which carries on the operation of the financial mechanism for the implementation of the Convention on Biological Diversity, in accordance with such cooperative arrangements or agreements as may be made pursuant to paragraphs 27 and 31. The GEF shall be available to continue to serve for the purposes of the financial mechanisms for the implementation of those conventions if it is requested to do so by their Conferences of the Parties. The GEF shall also be available to serve as an entity entrusted with the operation of the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants. In both respects, the GEF shall function under the guidance of, and be accountable to, the Conferences of the Parties which shall decide on policies, program priorities and eligibility criteria for the purposes of the conventions. The GEF shall also be available to meet the agreed full costs of activities under Article 12, paragraph 1, of the United Nations Framework Convention on Climate Change.”

7. One of the GEF purposes, therefore, is to serve as the financial mechanism for the implementation of certain environmental conventions. In this role, the GEF functions “under the guidance of, and is accountable to,” the Conferences of the Parties that are the supreme organs of these conventions. Pursuant to paragraphs 15,⁴⁹ 20(h),⁵⁰ and 26,⁵¹ of the GEF Instrument, the aforementioned guidance and accountability imply the obligation of the GEF Council, when operating as the financial mechanism of the environmental conventions, to act in conformity with “the policies, program priorities and eligibility criteria decided by the Conference of the Parties” for the purposes of each convention.⁵²

8. The notion that the GEF, as the financial mechanism of the conventions specified in paragraph 6 of the GEF Instrument, shall function under the guidance of, and be accountable to, the Conferences of the Parties (which decide on policies, program priorities and eligibility criteria) is also expressly stated in the conventions.⁵³

9. The Conferences of the Parties have never adopted any decisions on policies, program priorities or eligibility criteria, which would have the effect of mandating or prohibiting an allocation of GEF grant funds based on performance, nor have they adopted any decisions that would be relevant to this issue. If such decisions were to be adopted, would they be binding on

⁴⁹ Paragraph 15 reads, in part, as follows: “Where the GEF serves for the purposes of the financial mechanisms of the conventions referred to in paragraph 6, the Council shall act in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned.”

⁵⁰ Pursuant to paragraph 20(h), the GEF Council shall “ensure that GEF-financed activities relating to the conventions referred to in paragraph 6 conform with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned”.

⁵¹ Paragraph 26 reads, in its entirety, as follows: “The Council shall ensure the effective operation of the GEF as a source of funding activities under the conventions referred to in paragraph 6. The use of GEF resources for purposes of such conventions shall be in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties of each of those conventions.”

⁵² Conformity with the eligibility criteria decided by the Conferences of the Parties is also a requirement stated in paragraph 9(a) of the GEF Instrument.

⁵³ See Article 11(1) of the Climate Change Convention, Article 21(1) of the Biodiversity Convention, and Article 13(6) of the Stockholm Convention.

the GEF Council? In other words, do the guidance provided by the Conference of the Parties to the GEF Council, and the accountability of the GEF Council to the Conference of the Parties, as expressed both in the GEF Instrument and the conventions, imply that a decision by the GEF Council to allocate funds on the basis of performance would be valid only to the extent that no contrary decisions are adopted by the Conferences of the Parties? The proper framework for an answer to this question is the relationship between the GEF and the Conferences of the Parties, as articulated in their cooperative arrangements.

(c) Cooperative arrangements with the Conferences of the Parties

10. The GEF Instrument expressly provides that the particulars of the relationship between the GEF and the Conferences of the Parties be specified in “cooperative arrangements or agreements”. Paragraph 27 of the GEF Instrument reads, in part, as follows:

“The Council shall consider and approve cooperative arrangements or agreements with the Conferences of the Parties to the conventions referred to in paragraph 6, including reciprocal arrangements for representation in meetings. Such arrangements or agreements shall be in conformity with the relevant provisions of the convention concerned regarding its financial mechanism and shall include procedures for determining jointly the aggregate GEF funding requirements for the purpose of the convention.”

11. “Relevant provisions of the convention concerned”, as mentioned in paragraph 27 of the GEF Instrument, are present in each of the Climate Change Convention,⁵⁴ the Biodiversity Convention,⁵⁵ and the Stockholm Convention.⁵⁶ There is no need here to examine the extent to which there is consistency between the provisions on cooperative arrangements or agreements in the GEF Instrument, on the one hand, and the corresponding provisions in the conventions, on the other hand.⁵⁷ Rather, the relevant issue for the present purposes is that such cooperative arrangements or agreements have been reflected in two Memoranda of Understanding,⁵⁸ between the GEF Council and the Conferences of the Parties to the Climate Change Convention and the Biodiversity Convention, respectively, and in a draft Memorandum of Understanding, still under consideration, which, if and when adopted, will constitute the cooperative arrangement between the GEF Council and the Conference of the Parties to the Stockholm Convention.⁵⁹

⁵⁴ See Article 11(3).

⁵⁵ See Article 21(2).

⁵⁶ See Article 13(7).

⁵⁷ For example, in paragraph 15 of a Memorandum (A/AC.237/74) dated August 23, 1994, from the United Nations Under-Secretary-General for Legal Affairs to the Executive Secretary of the Climate Change Convention, it was observed that an analysis of the options for cooperative arrangements, as provided for in the GEF Instrument and the Climate Change Convention, “gives reason to believe that under the Convention it is expected that the COP should play a slightly more active role in exercising control over the implementation of the policies, programme priorities and eligibility criteria established by the COP, than it is envisaged for it in the GEF Instrument.”

⁵⁸ The texts of the two Memoranda are helpfully reproduced, in comparative columns, in Annex I to UNEP/POPS/INC.7/INF/9 (June 6, 2003).

⁵⁹ The text of the draft is in the Annex to UNEP/POPS/INC.7/16 (June 18, 2003).

12. Pursuant to paragraph 4 of the Memorandum with the Conference of the Parties to the Climate Change Convention, the GEF Council undertakes⁶⁰ to “ensure the effective operation of the GEF as a source of funding activities for the purposes of the Convention in conformity with the guidance of the COP.” To this end, the GEF Council “reports regularly” to the Conference of the Parties on its Convention-related activities and on their conformity with the guidance provided by the Conference of the Parties. In paragraph 5, it is further specified that, regarding funding decisions for specific projects, the Conference of the Parties may ask the GEF Council for “further clarification on the specific project decision and in due time may ask for a reconsideration of that decision”, should it consider that the decision in question does not comply with the established policies, program priorities and eligibility criteria. Finally, in paragraph 8, it is expressly stated that the GEF Council may (but is not bound to) “seek guidance from the COP on any matter it considers relevant to the operation of the financial mechanism of the Convention”.

13. The Memorandum of Understanding with the Conference of Parties to Biodiversity Convention also contains in paragraph 3.1 an undertaking of regular reporting by the GEF Council, and a provision in paragraph 4.2 regarding the possibility of a request for “further clarification”, similar to that found in paragraph 5 of the Memorandum for the Climate Change Convention. The difference, though, is that in the Memorandum for the Biodiversity Convention there is no parallel provision on the request for “reconsideration” of a funding decision for a specific project by the GEF Council.

14. Finally, in the draft Memorandum relating to the Stockholm Convention, in addition to provisions in paragraphs 4, 6 and 7 similar to those found in paragraphs 4 and 5 of the Memorandum for the Climate Change Convention, there are provisions on communication and cooperation, as well as regular consultation, between the secretariats of the two parties “to facilitate the effectiveness of the financial mechanism” (paragraph 17), and on their reciprocal consultation “on draft texts of documents relevant to the Convention and the GEF prior to issuing the final texts of such documents” (paragraph 19).

15. The contents of the Memoranda of Understanding therefore reflect: (a) on the one hand, the autonomy of the GEF as an external financial mechanism to the conventions, with the consequence that the Conference of the Parties can do no more than ask for clarification or (depending on the particular Memorandum) reconsideration of a GEF Council’s project funding decision; and (b) on the other hand, a need for close cooperation between the GEF Council and the Conferences of the Parties, by means also of the GEF Council acting in conformity with the policies, program priorities and eligibility criteria established by the Conferences of the Parties.

16. In case of conflict, there is nothing either in the GEF Instrument or the Memoranda of Understanding requiring the GEF Council to do anything more than clarify or reconsider its decision, the sanction being the ability of the respective COP to reconsider the position of the GEF as the financial mechanism for the implementation of its convention. Whether and how a conflict may arise by a GEF Council’s decision to allocate resources on the basis of a

⁶⁰ The use of this verb does not imply any judgment on the legal nature (or absence of it) of the Memoranda of Understanding under review. This issue is immaterial to the present purposes.

performance-based system is a question that cannot be addressed in the abstract without knowing the details of the specific decision and conflict in question.
