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Agenda Item 10

PERFORMANCE-BASED ALLOCATION FRAMEWORK FOR GEF RESOURCES

Recommended Council Decision

The Council reviewed the document GEF/C.23/7, *Performance-based Allocation Framework for GEF Resources*, and requests the Secretariat to elaborate further on the [ex ante model with allocations to individual countries][ex ante model with allocations to groups of countries] as a basis for a performance-based allocation framework for the GEF.

The Secretariat is also requested [to develop a new indicator for CEPIA] [adopt the environmental sub-index of the World Bank's CPIA with the understanding that public disclosure of the ratings may not be possible.]

In preparing such as an elaboration for review by the Council at its next meeting in November 2004, the Secretariat is requested to take into account comments raised by Council Members during the meeting and any other comments submitted to the Secretariat by June 18, 2004.

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBD	Convention on Biological Diversity
CCD	Convention on Combating 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
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)
OPS2	Second Overall Performance Study of the Global Environment Facility
PBF	Performance-based Allocation Framework for GEF Resources
PIR	Project Implementation Review (of the GEF)
POPs	Persistent Organic Pollutants
PRC	Project Review Criteria (of the GEF)
SGP	Small Grants Program (of the GEF)
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

EXECUTIVE SUMMARY

At its meeting in November 2003, the GEF Council requested the Secretariat to develop a GEF-wide system to strengthen the current method of allocating resources based on global environmental priorities and country-level performance relevant to those priorities. The Council asked that the new system be simple, transparent, pragmatic, cost-effective, comprehensive, country-driven, and provide all recipient countries with an equal opportunity to access GEF resources. This report to the Council summarizes the progress that has been achieved in the design of such a system and outlines the various issues that need to be resolved before the system can be operational.

The initial model for the ex-ante allocation of GEF resources for GEF's largest focal areas—biodiversity and climate change—is based on a country's potential to deliver global environmental benefits in each focal area and the capacity to realize this potential, as measured by country performance.

The Secretariat has identified possible indicators for measuring country performance at the macro (KKZ), and project portfolio levels (GEFPP and WBOED), but not at the sectoral level. With regard to the latter, Council guidance is requested on which of the two following approaches should be undertaken: to adopt a new sectoral indicator that is currently under development at the World Bank, but will not be publicly disclosed, or to have the Secretariat take the lead in developing a new sectoral indicator despite considerable challenges.

The Secretariat has identified five indicators for measuring the terrestrial biodiversity potential of each country based on its ecoregions. The five indicators (local potential, local threat, regional threat, global potential, and biodiversity richness) reflect the broad diversity of opinions about biodiversity priorities among conservation experts. The Secretariat also proposes a relatively simple formulation for measuring each country's potential to deliver global environmental benefits for climate change based on historical levels of tons of carbon equivalent emissions from fuels, the cement industry, and other sources of greenhouses gases.

Developing an operational system requires additional indicators for marine biodiversity, biodiversity richness, and macro policy, and the sectoral performance indicator CEPIA. In addition, decision rules are also needed regarding the appropriate accommodations for regional and global projects, floors and ceilings, and the reallocation of resources when countries are unable to fully utilize the resources allocated to them.

The initial model strengthens the current allocation system by explicitly allocating resources based on global environmental priorities and country performance in a transparent manner. The Secretariat has also developed variations to the initial model based on ex-ante allocation of GEF resources to groups of countries rather than individual countries. These variations address issues related to the reliability and precision of the available indicators.

BACKGROUND

Policy Recommendations of the Third Replenishment

1. During the Third Replenishment of the GEF, Participants requested “the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide.”¹ Furthermore, the policy recommendations stated, “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 It was also agreed that “the GEF will have in place an operational performance-based allocation system ...” by Fall 2004.³

Council Decisions

2. The GEF Council has discussed the development of a performance-based allocation framework at its various meetings:
- (a) The Council endorsed the Policy Recommendations of the Third Replenishment at the October 2002 meeting held in Beijing.
 - (b) The Council discussed GEF/C.21/8, *Issues Note: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level* at the May 2003 meeting, and requested “the GEF Secretariat to establish and chair a working group of technical experts to prepare elements of a framework for GEF performance-based allocations for Council review and approval.”⁴
 - (c) The Working Group presented its final report GEF/C.22/11, *Performance-based Framework for Allocation of GEF Resources*, at the November 2003 meeting. The Council reviewed the report and requested the Secretariat to develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. The Council envisions a performance-based system that is consistent with the GEF Instrument, the environmental conventions for which the GEF is a financial mechanism, the Policy Recommendations of the Third Replenishment, Council decisions at the October 2002 meeting, and the Beijing Assembly Declaration. The Council asked that the

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

² Ibid, para 18.

³ Ibid.

⁴ Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, para.18.

system be simple, transparent, pragmatic, cost-effective, comprehensive, country-driven, and provides equal opportunity for all recipient countries to have access to GEF resources. Further, the Council requested the Secretariat to present to the May 2004 Council meeting a study of options to strengthen the current system of allocating GEF resources with a view to coming to a conclusion in November 2004.⁵

Organization of this Report

3. This report informs the Council of the progress made by the Secretariat to date in response to the Council decisions and highlights the work that remains before an operational system of resource allocation can be presented for Council consideration. This work has been carried out in collaboration with the Development Economics Research Group and the Environment Department of the World Bank, and in consultation with (and employing data from) international NGOs working on environmental policy and research.

4. This report is organized in two major sections. Section I addresses the technical challenges of developing the various elements of a GEF performance-based allocation framework. Section II develops an initial model for allocating resources to countries in an ex-ante manner based on global environmental priorities and country-level performance and outlines the various issues that need to be discussed and resolved before this model can be operational. A variation of this model, based on an ex-ante allocation of resources to groups of countries, is also presented in this section. As will be apparent from the report, while a lot of progress has been made in addressing the technical challenges, a substantial amount of work remains.

SECTION I. ELEMENTS OF A GEF PERFORMANCE-BASED ALLOCATION FRAMEWORK

Two Components of GEF Performance-based Allocation Framework

5. The November 2003 Council decision requested the Secretariat to develop the GEF Performance-based Allocation Framework from two components: (i) global environment priorities; and (ii) country-level performance relevant to those priorities. The Secretariat has responded with an extensive effort, expended significant resources and made considerable progress in developing robust, relevant and comprehensive measures of:

- (a) the potential of each country to deliver global environmental benefits in the focal areas of biodiversity and climate change; and
- (b) the capacity of each country to deliver on its potential based on its past and current performance.

6. Subject to Council approval, the proposed data and indicators provide the support for the GEF Performance-based Allocation Framework. In developing these indicators, preference is

⁵ Joint Summary of the Chairs, GEF Council Meeting, November 2003.

given to using credible and widely accepted off-the-shelf data and indicators developed at other institutions that are comprehensive and publicly available.

7. The remainder of this section discusses the chosen indicators and how they have been adapted for use in a GEF Performance-based Allocation Framework. It also highlights areas where available indicators are inadequate and the potential alternatives to address these inadequacies. In some cases, these alternatives include the need for primary data collection by the Secretariat on an ongoing basis, which would require a substantial commitment of time and resources initially, as well as on an ongoing basis.

8. The discussion begins with indicators of country-level performance. This is followed by separate discussions on the potential of each country to provide global environmental benefits in the different focal areas of the GEF. This latter discussion is limited to the two largest focal areas of the GEF -- Biodiversity and Climate Change – based on three reasons as identified by the Technical Working Group.⁶ First, it is difficult to meaningfully aggregate the potential for a country to meet global environmental priorities across the six focal areas of the GEF to arrive at an overall global environmental potential for a country. Second, consultations with indicator and data experts suggested that obtaining suitable comprehensive and consistent country-level indicators for the biodiversity, climate change and ozone depletion focal areas are feasible in the short to medium term but not for the international waters, land degradation, and persistent organic pollutants focal areas. Finally, the two covered focal areas, Biodiversity and Climate Change, account for nearly 70 percent of the current allocation of GEF resources.

Measuring Country Performance

9. National policy and institutional frameworks are increasingly considered by the international community to be a precursor for the sustained success and the replicability of project/programme investments. The success of GEF projects is no exception. Project performance can be affected by policies and institutions at three levels – the general or macro level, the sectoral level, and the portfolio level. Indicators for each of these -- two macro level indicators (KKZ and CPIA), the development of one sectoral level indicator (CEPIA) and two project level indicators (GEFPP and WBOED) – are discussed in the remainder of this section. An aggregate index of country performance based on the available indicators, Country Performance Rating (CPR), is presented at the end of the section.

Macro Level Indicators

10. As an institution that is primarily focused on environmental issues, the GEF has no comparative advantage in measuring the macro level variables and it should not seek to develop or use performance criteria that are substantially different from those used in other multilateral institutions. Two such indicators are available, the KKZ indicator of governance developed at the World Bank Institute, and the World Bank CPIA indicator employed by the International Development Association (IDA) in its performance-based allocation framework.

⁶ More fully presented in the report of the Working Group, GEF/C.22/11 presented and discussed by the Council in the November 2003 meeting.

I. Kaufmann, Kray and Zoido-Lobotan Indicators (KKZ)

11. Messrs. Kaufman, Kray and Zoido-Lobotan (KKZ) at the World Bank Institute (WBI) have developed a series of six aggregate indicators of governance for 199 countries and territories for four time periods (1996, 1998, 2000, and 2002).⁷ They define governance as “the traditions and institutions by which authority in a country is exercised for the common good. KKZ do not provide a single index of governance by country, instead they characterize the following six broad dimensions of governance:

- (a) Voice and Accountability;
- (b) Political Stability;
- (c) Government Effectiveness;
- (d) Regulatory Quality;
- (e) Rule of Law; and
- (f) Control of Corruption.

12. The two aggregate indicators Voice and Accountability and Political Stability measure the process by which those in authority are selected, monitored and replaced. Similarly the two aggregate indicators Government Effectiveness and Regulatory Quality measure the capacity of the government to effectively manage its resources and implement sound policies. Finally, respect of citizens and the state for the institutions that govern economic and social interactions among them are measured by two aggregate indicators Rule of Law and Control of Corruption.

13. The six KKZ indicators are developed from a set of 250 different indicators measuring different aspects of governance, drawn from 25 separate data sources in 18 different organizations. The data sources include cross-country surveys of firms and individuals, expert assessments from commercial risk-rating agencies, think tanks, government agencies, non-governmental organizations, and multilateral organizations.

14. In the GEF framework, the KKZ Governance indicator for each country is the simple weighted average of the six aggregate indicators of governance for the last available year. The KKZ indicators are updated approximately every 2 years. The GEF framework will use updated KKZ indicators as they become available in future years.

II. Country Policy and Institutional Assessment (CPIA)

15. The success of GEF projects and programmes can also be affected by a much broader set of macro policies and institutional frameworks than governance such as economic management, structural policies related to finance, trade and markets, public sector management and policies of inclusion. The World Bank annually measures the ability of current policies and institutional

⁷ Details available at WBI website <http://www.worldbank.org/wbi/governance/index.html>

frameworks to support poverty reduction, sustainable development and the effective use of development assistance in the Bank's client countries through a Country Policy and Institutional Assessment (CPIA).

16. This annual assessment is conducted by the World Bank based on a benchmarked survey of the relevant technical staff of the World Bank. The survey assesses each of the World Bank's client countries in 20 separate aspects of policies & institutions in the following four areas: economic management, structural policies, social inclusion/equity and the public sector (see Annex 1). An aggregate CPIA score is computed by equally weighting each of the 20 responses. These ratings are an important component of the performance-based allocation system of the International Development Association.

17. While the wider set of macro level policies and institutional frameworks covered by the CPIA indicator makes it the preferred macro level indicator, its major drawback for the purposes of the GEF Performance-based Allocation Framework is that neither the aggregate country CPIA score nor its component scores are publicly available. Discussions with the World Bank have revealed that there is a current effort to make the CPIA publicly available for IDA countries by 2006. However, an assessment of the GEF portfolio revealed that nearly three-quarters of GEF resources go to non-IDA countries.

18. Since there are no prospects that the CPIA indicator will be disclosed for the non-IDA countries at any time, the KKZ indicator of governance is used as a second-best alternative macro level indicator for reasons of transparency. In addition, the Secretariat will explore the feasibility of employing other off-the-shelf macro-policy indicators along with KKZ and present them for Council consideration in November 2004.

Sectoral Level Indicators

19. The success of GEF projects and programmes is more 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. While the GEF has been routinely examining the effectiveness of a country's sectoral policies and institutional frameworks on a case-by-case basis as part of its project review process, these reviews are neither comprehensive, covering all potential recipient countries, nor systematic, using a standardized set of review criteria. 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.

I. Country Environment Policy and Institutional Assessment (CEPIA)

20. One source for such a systematic, comprehensive, and transparent system that may be available in 2006 is based on proposed revisions to one of the sub-indices of the World Bank's CPIA. One of the 20 sub-indices in the CPIA assesses Policies and Institutions for Environmental Sustainability. Recent discussions with the World Bank indicate that it is

currently developing a set of detailed questions by environmental sub-sectors to guide staff while generating the performance rating for this sub-index. The scheme, as currently proposed, is based on separate evaluations of: (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. The CPIA environmental sub-index will also separately measure the ability of countries to perform environmental assessments, set priorities, and coordinate across sectors.

21. While the CPIA environmental sub-index may be available in the near future, its drawback for the purposes of the GEF PBA framework is that neither the score nor its components are publicly available. Further, discussions with the World Bank have revealed that the environmental sub-index of the CPIA as well as the underlying basis for the sub-index may not become publicly available even if the overall CPIA ratings are made available for IDA countries in 2006. Even if these data were revealed for IDA countries, the difficulty of assessing non-IDA GEF recipient countries remains. Finally, even if the World Bank made the complete environmental sub-index of the CPIA publicly available, the proposed modifications to developing the sub-index do not address the sectoral policies and institutions related to climate change.⁸

22. Alternatively, the GEF could attempt to develop a new Country Environmental Policy and Institutional Assessment (CEPIA) index. The CEPIA could assess the policy mix, implementation capacity, and public participation of each country as relevant for GEF priorities. These assessments could be done separately for each focal area or in the aggregate applicable to all focal areas.

23. Discussions with the World Bank regarding the CPIA Assessments indicate that the credibility of these assessments crucially depends on extensive consultations with a network of country economists and sectoral specialists experienced in developing and implementing projects in each country. The GEF currently neither has the staff to oversee such a process nor access to the network of country economists and sectoral specialists that can provide credible, comparable, and comprehensive assessments for each recipient country.

24. The Council needs to consider the importance of the sectoral performance indicators in the GEF framework, and decide whether to:

- (a) adopt the environmental sub-index of the CPIA implemented by the World Bank when it becomes available despite the lack of public disclosure; or
- (b) provide the necessary resources to the Secretariat to develop a Country Environmental Policy and Institutions (CEPIA) index despite the major challenges in developing this indicator as just outlined.

⁸ There is, of course, the possibility of requesting the World Bank to include an assessment of policies and institutions related to GHG emissions in the assessment of the air pollution sub-sector.

Portfolio Level Indicators

25. 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. The best indicator of future GEF project performance is past GEF project performance. 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 which 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)

26. 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 1999.⁹ The GEFPP indicator will be updated over time as new project information becomes available.

27. A review of the PIR data suggests two issues related to comprehensiveness and robustness of this indicator. First, since the PIRs only rate medium and full sized projects and because of a limited duration of the existence of the PIRs, it only covers 84 recipient countries. Use of this indicator requires a separate decision rule regarding an appropriate substitute for countries that have not had a rated medium or full sized project. The limited number of projects and PIRs in many countries can also result in non-robust indicators for countries arising from the large potential influence of a few non-representative PIR ratings for a country. Second, it is important to note that these individual projects ratings have not been publicly available to date and the Council needs to decide, in consultation with the IA/EAs, to make these ratings publicly available prior to their use in a transparent GEF framework.

II. World Bank OED Project Portfolio (WBOED)

28. 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

⁹ 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*.

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.¹⁰ 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 2003.¹¹ These ratings will be updated as new project level data becomes available.

Country Performance Rating (CPR)

29. The Country performance rating (CPR) is developed from uniformly scaled macro, sectoral, and portfolio level indicators as the simple weighted average of the different scaled indicators.¹² Rescaling each indicator to a uniform scale means that the impact on the country score of a 1 point change in each indicator will be the same if they are equally weighted. The Country Performance Rating is computed from the KKZ, the proposed CEPIA, the WBOED and the GEFPP indicators, assuming that the Council will agree to make the project level PIR data publicly available.

<p>Country Performance Rating (CPR)</p> $CPR = P_1 \times KKZ + P_2 \times CEPIA + P_3 \times WBOED + P_4 \times GEFPP$ <p>where $P_1 + P_2 + P_3 + P_4 = 1$</p>

30. The Country Performance Ratings are sensitive to the chosen weights P₁, P₂, P₃, and P₄. 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, a simple non-distortionary alternative would be to compute the CPR based on the remaining indicators by

¹⁰ Statistical analysis shows that there are no significant time trends for 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.

¹¹ 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*.

¹² 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.

proportionately increasing the weights for the available indicators. If the Council decides not to develop CEPIA, the weight P_2 can be proportionately distributed to the remaining indicators.

The Council needs to provide guidance on the selection of the weights P_1 , P_2 , P_3 and P_4 that best reflect GEF goals and priorities.

31. The choice of weights should reflect both the relative importance and also the accuracy and robustness of each underlying indicator. Equal weights for the indicators are a good point to begin consideration:

$$P_1 = 0.25; P_2 = 0.25; P_3 = 0.25; P_4 = 0.25$$

32. Increasing the weight on indicators that assess existing policies and institutions (such as KKZ and CEPIA) emphasizes the importance of expected outcomes and is forward-looking. Increasing the weights on portfolio performance (WBOED, GEFPP) emphasizes the importance of historical outcomes and is backward looking. The more direct impact of sectoral policies and institutions compared to macro level policies and institutions can be reflected by increasing the weight on CEPIA relative to KKZ. Similarly, the weight on the WBOED indicator can be increased relative to that of GEFPP on account of it being more robust. When the macro-policy indicators are available, it is proposed that the weight P_1 be equally divided between KKZ and the set of macro-policy indicators.

Measuring Countries' Global Potential to deliver Biodiversity Benefits (CGEPBIO)

33. Measuring a country's potential contributions to global biodiversity is a challenging task.¹³ It is particularly difficult because a consensus does not exist amongst conservation experts regarding the priorities and approaches in preserving biodiversity. A variety of analytical approaches have been used to prioritize biodiversity conservation based on ecoregions and/or species richness, such as Global 200 (World Wide Fund for Nature) global hotspots and megadiversity countries (Conservation International).

34. The Secretariat has built a framework for quantifying these priorities with the help of the World Bank's Development Economics Research Group in a way that accounts for this diversity in expert opinion. While the GEF framework is based on ecoregions, the relative priority of each ecoregion is based on a number of factors, including its species richness. Significant progress has been made in developing indicators for terrestrial biodiversity and is presented in this section. Further work remains to be done before incorporating marine biodiversity into this framework. Such a complete formulation including marine biodiversity can be made available for review and discussion in the November 2004 Council Meeting.

¹³ 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."

Some preliminary Concepts

35. Biodiversity reflects the complex and highly uneven distribution of species and threats to them across the natural ecosystems of the world. Because of the difficulty of the concepts involved, it is useful to begin with a discussion of some preliminary concepts that is used in developing the indicators and scoring:

- (a) Ecoregion;
- (b) Country Component of an Ecoregion;
- (c) Functional Region; and
- (d) Habitats Remaining and Habitats Lost.

36. Ecoregion. 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. Ecoregions reflect the distribution of the broad range of fauna and flora across the entire world. The World Wildlife Fund (WWF) has recently developed a comprehensive detailed map of the world that identifies and characterizes all terrestrial ecoregions of the world.¹⁴ The resolution of the WWF characterization is high enough to make it suitable for designing networks of conservation areas.¹⁵ Based on this characterization, there are 867 distinct ecoregions in the world.

37. Country Component of an Ecoregion. 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 based on historical artifacts and are in most instances unrelated to biodiversity. The pressures on the same ecoregion can be quite different in different countries, for reasons related to policies and institutions in the respective countries. Therefore, it is important to distinguish between components of ecoregions based on national boundaries. The country component of an ecoregion is defined as the part of an ecoregion that is within the 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 contained within a country's borders. Making this distinction divides the 867 ecoregions into approximately 1700 ecoregion country components. Of these, 1326 country components lie in GEF recipient countries and are the focus of analysis for the purposes of the GEF framework.

38. Functional region. A third important concept is that of a functional region. It is defined as a collection of ecoregions that are similar to each other in terms of their biodiversity characteristics such as habitats and species assemblages. The similarities across the ecoregions within a functional region are important because they define the set of ecoregions over which the lessons learned in an ecoregion may be transferable. In effect, this measures the potential spillover benefits of a project into other biodiversity areas. For the GEF framework, functional regions are defined by two broad classifications of ecoregions -- biogeographic regions and vegetation types. Biogeographers have classified the ecoregions of the world into eight biogeographic areas and 14 biomes or vegetation types. A functional region is defined as each

¹⁴ www.nationalgeographic.com/wildworld/terrestrial.html

¹⁵ The average size of an ecoregion in the WWF delineation is about 150,000 km².

unique vegetation type within each biogeographic region. Since not all vegetation types exist in each region, there are a total of 45 functional regions in GEF recipient countries.

39. Habitats Remaining and Habitats Lost are two additional concepts that are useful in developing indicators for biodiversity. WWF has characterized ecoregions based on the original extent of the region prior to major land use changes. They include land that have already been lost due to encroachment or are currently under significant threat. For purposes of developing indicators it is useful to distinguish areas within an ecoregion that are relatively intact (Habitat Remaining) and those that are already lost due to land clearing (Habitat Lost). This is achieved by overlaying an agricultural extent map of the world from International Food Policy Research Institute (IFPRI) over the WWF ecoregion maps.¹⁶ The Habitat Lost in each country component is determined using Geographic Information System based tools to compute the area of each ecoregion that has already been cleared. Habitat remaining is the area of each ecoregion component that has not been cleared.

40. The potential of a country to contribute to global biodiversity is developed from the bottom-up based on the characteristics of each country component of each ecoregion within the country and is detailed in the next three sections. The first two sections identify five indicators used to characterize and score each country component of each ecoregion. This is followed by a discussion of how these country component scores are aggregated to determine the potential of each country to deliver global biodiversity benefits.

Indicators used to Score Country Components of Ecoregions

41. Measuring the potential biodiversity benefits of different areas is a challenging endeavor, especially so because of the diversity of expert opinion regarding conservation priorities. Five indicators (local potential, local threat, regional threat, global potential, and biodiversity richness) are presented to span this diversity. Each country component of an ecoregion is characterized based on these five indicators for the purpose of determining its potential contribution to global biodiversity benefits. These indicators and the concepts that they capture are discussed in detail in the rest of this section. Three of the indicators are also illustrated in a schematic diagram in Annex 2.

42. Local Potential. The local potential of each country component of an ecoregion is defined as the habitat remaining (hectares of land that remains within each country component). This indicator increases in proportion to the size of the land remaining, hence scores larger ecoregions higher than smaller ones. By focusing on the habitat currently remaining (instead of the original extent of the ecoregion), it scores relatively pristine habitats higher than areas that have been threatened and hence are smaller in size. Overall, this measure reflects the views of biodiversity experts who emphasize the protection of relatively large pristine areas.

Local Potential = habitat remaining in country component of ecoregion in hectares

¹⁶ PAGE Report, Pilot Analysis of Global Ecosystems: Agroecosystems by Stanley Wood, Kate Sebastian and Sara J. Scherr, IFPRI, December 2000. More details available at www.wri.org/wr2000/page.html

44. Local Threat. The local threat indicator is defined as the fraction of the original habitat that has been lost in the country component of the ecoregion. This indicator reflects the perspective that preservation efforts should be focused on areas of greatest preservation need defined in terms of current ongoing threat and encroachment. Under this perspective, unthreatened pristine areas will continue to be preserved without the need for additional protection; hence, protection efforts are best utilized in more threatened areas.

$$\text{Local Threat} = \frac{\text{area of habitat lost in country component of ecoregion}}{\text{Original extent of country component of ecoregion}}$$

45. Regional Threat. When ecoregions cross national boundaries, one country component of the ecoregion may be severely threatened while another country component of the same ecoregion may be relatively untouched solely as a result of differences in the policies and institutions and circumstances in the countries that share the ecoregion. From a global perspective, it may be more important to consider the status of the ecoregion as a whole instead of considering the merits of protecting either component based on the local potential or local threat in each component of the ecoregion. The regional threat measures the aggregate threat that the ecoregion (comprising of all of the country components that belong to it without regard to country boundaries) faces.¹⁷

$$\text{Regional Threat} = \frac{\text{area of habitat lost in the ecoregion}}{\text{Original extent of ecoregion}}$$

46. Global Potential. The global potential indicator attempts to capture the extent to which lessons learned from a project in a particular ecoregion is transferable to ecoregions elsewhere. Such transferability depends on the similarity of the ecoregion with other regions as defined by Functional Regions. Lessons learned in a conservation project are more easily transferable to other ecoregions in the same Functional Region. The size of the Functional region determines the leveraging power of resources spent on an ecoregion component. The global potential indicator for a country component of an ecoregion is defined as the relative size of the functional region that the ecoregion belongs to compared to the largest functional region.

$$\text{Global Potential} = \frac{\text{habitat remaining in functional region that country component belongs to}}{\text{habitat remaining in largest functional region}}$$

¹⁷ The local threat and the regional threat indicators will by definition be identical for ecoregions that wholly lie within a single country. They will often be different for country components in the same ecoregion when different pressures are applicable in each country.

47. Biodiversity Richness. The final indicator is an index of the relative biodiversity value of an ecoregion based on the number of endemic species or the number of different species native to the ecoregion. This is an intrinsic measure of the relative quality of the biodiversity found in each area. This indicator is currently being developed. The Secretariat is exploring the feasibility of including an indicator based on the Conservation International's Megadiversity database.

Computing Biodiversity Benefit Scores for Country Components of Ecoregions

48. The five indicators developed for each country component of an ecoregion is used to score the potential global benefits that each country component can provide.

49. 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 accorded to each 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. local threat and global potential) will be the same if they are equally weighted.

50. The Biodiversity potential score for each ecoregion country component is determined as the simple weighted average of the five different scaled indicators of biodiversity.

<p style="margin: 0;">Biodiversity Score for = $B_1 \times \text{Local Potential} + B_2 \times \text{Local Threat} +$ Ecoregion $B_3 \times \text{Regional Threat} + B_4 \times \text{Global Potential} +$ $B_5 \times \text{Biodiversity Richness}$</p> <p style="text-align: center; margin: 10px 0 0 0;">Where $B_1+B_2+B_3+B_4+B_5 = 1$</p>

The Council needs to provide guidance on the weights B_1 , B_2 , B_3 , B_4 , and B_5 that best reflect GEF goals and priorities.

51. These scores are sensitive to the chosen weights and should be chosen to reflect the importance of the different perspectives represented by each of the indicators. Equal weights for each of the indicators are a good point to begin consideration:

$$B_1=0.2; B_2=0.2; B_3=0.2; B_4=0.2; B_5=0.2$$

52. Given the wide-ranging differences of opinion in the biodiversity conservation community regarding the different elements of conservation, it is suggested that equal weights be given to all indicators. However, if a particular perspective such as species richness needs to be given more consideration, this could be done by increasing its weight while simultaneously decreasing the weight for the other indicators.

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

53. 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.

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

Measuring Country's Global Environmental Benefits Potential for Climate Change (CGEPCC)

54. Measuring each country's global environmental benefits potential for climate change is not as difficult as measuring the benefits potential for biodiversity because each ton of carbon emitted has approximately the same impact on global climate. There are three broad sources of greenhouse gas emissions – fuel combustion and cement, land use changes and other green house gases. Since there is greater uncertainty about the exact contribution of land use changes on a year to year basis at the country level and since the GEF has not historically been active in the carbon sequestration area,¹⁸ for purposes of the GEF framework, the potential contribution will only be derived from green house gases from fuels and cement and other GHGs.¹⁹ The potential of a country will also not be measured in terms of the country's vulnerability to climate change as adaptation is still not part of the GEF mandate.²⁰

55. To avoid perverse incentives arising from the use of future baselines, the total GHG emissions in tons of carbon equivalent from fossil fuel, cement and other green house gas emissions in the year 2000 will be used as the indicator of a country's potential contributions to deliver global climate change benefits. These will be based on the standardized data available from Climate Analysis Indicators Tool (CAIT) unit of the World Resources Institute.²¹

$$\text{CGEPCC} = \text{Country Emissions from Fossil fuels and cement and other GHGs in year 2000}$$

56. 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,

¹⁸ While GEF does not support carbon sequestration activities under its climate change activities, such measures are often supported by activities under activities in other focal areas such as biodiversity conservation and land degradation.

¹⁹ According to the Climate Analysis Indicators Tool of the WRI land use changes account for approximately 30% of the total worldwide GHGs emissions.

²⁰ The strategic priority on "piloting an approach to adaptation" is expected to end once the resources allocated to the priority are fully committed, and adaptation is supported by special funds established under the UNFCCC and managed by the GEF.

²¹ Information can be found at the World Resources Institute website at www.cait.wri.org.

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.

SECTION II. CONSTRUCTING THE GEF ALLOCATION FRAMEWORK

Initial Model: Ex-Ante Allocation to Countries

57. A framework to allocate GEF resources to countries in an ex-ante manner is presented in this section based on each Country’s Global Environmental Benefits Potential and its capacity to deliver on this potential as measured by its Country Performance Ratings. Under the initial model, the maximum amount of GEF resources that would be available to each country during each replenishment period for the biodiversity and climate change focal areas respectively would be publicly available ex-ante. Each country can access these allocations to finance the incremental costs of projects that meet the other technical requirements of GEF funded projects while delivering global environmental benefits. This framework increases the effectiveness of GEF resources by explicitly directing resources towards higher priority areas. The maximum allocations to each country under each focal area in the initial model are determined in a three-step process.

58. Country Allocation Score. First, the allocation score for each country in each focal area is computed as a weighted geometric average of each country’s performance rating and the country’s potential to deliver global environmental benefits in the respective focal areas. The formulas for computing a country’s allocation scores for biodiversity and climate change respectively are shown below.

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

where $S_1 + S_2 = 1$

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

where $S_1 + S_2 = 1$

59. The country’s allocation scores are sensitive to the weights S_1 and S_2 used to compute the allocation scores. These scores represent the relative desirability of allocating GEF resources for biodiversity and climate change respectively in a country considering two factors – country performance and potential global benefits. Higher scoring countries will be allocated more resources than lower scoring countries. Since it is desirable to allocate relatively more resources to those countries that have a greater potential for more global benefits as well as better performance, both weights should be positive.

The Council needs to provide guidance on the weights for environmental priorities, S₁, and country performance, S₂, that best reflects the GEF goals and priorities.

60. The choice of weights reflects both the importance of country performance relative to potential global benefits for country allocations, and the concentration of resources that go to the highest scoring countries relative to the lowest scoring countries. Equal weights to performance and benefits that sum to 1 are a good point to begin consideration:

$$S_1=0.5; S_2=0.5$$

61. Increasing S₁ relative to S₂ increases the importance of global benefits, allocating more resources to countries with high potential to deliver global environmental benefits. Conversely, decreasing S₁ relative to S₂ increases the importance of performance, allocating more resources to countries with good performance ratings.²²

62. Country Indicative Share. Second, the 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.

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

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

63. Country's Indicative Allocations. Finally, the maximum allocations to each country for biodiversity and climate change are determined as the product of the country's indicative share and the GEF resources available for the respective focal areas. This is illustrated separately for biodiversity and climate change in the equations below. These indicative allocations are the maximum amounts that countries could receive based on projects that meet the technical criteria and strategic priorities of the GEF. Countries that are unable to bring quality projects would not receive the indicative allocations.

²² The sum of S₁ and S₂ need not be constrained to 1. Increasing the sum of weights will increase the proportion of resources allocated to higher scoring countries.

Country's Indicative Allocations for Biodiversity	=	Country's Indicative Share for Biodiversity	x	Total Resources available for Biodiversity in the GEF framework in a Replenishment Period.
---------------------------------------------------	---	---------------------------------------------	---	--------------------------------------------------------------------------------------------

Country's Indicative Allocations for Climate Change	=	Country's Indicative Share for Climate Change	x	Total Resources available for Climate Change in the GEF framework in a Replenishment Period.
-----------------------------------------------------	---	-----------------------------------------------	---	----------------------------------------------------------------------------------------------

Further work remaining to Operationalize the Initial Model

64. The Initial ex-ante country-allocation Model described so far is currently not operational because of a number of issues related to data (availability and appropriateness of indicators) and system design (institutional and operational considerations, as well the incentive effects) as outlined below.

Data related issues

65. Three indicators that are not currently available, but are expected to be available before the November 2004 Council meeting, are the indicators related to marine biodiversity, indicators for the biodiversity richness, and indicators related to macro-policy. The Secretariat is currently examining the appropriateness of a number of indicators in this regard and will have a set of recommendations for the Council by the next meeting.

66. While Sectoral Performance is a key measure of success for GEF projects, indicators for sectoral performance (CEPIA) in GEF recipient countries do not exist. One alternative is to use the environmental sub-index of the World Bank's CPIA, despite the lack of public disclosure. However, even here, there is a need to develop performance indicators relevant for climate change. A second alternative is for the Secretariat to take the lead in developing the indicators and methodology needed for a Country Environment Policy and Institutional Assessment (CEPIA). As previously outlined in this report, this is a considerable challenge for the Secretariat in terms of the staff and resource requirements.

67. Assuming the Council is in agreement in the appropriateness of the initial model and indicators, operationalizing the model still requires

Council guidance on the weights for global environmental priorities, S₁, and country performance, S₂, that best reflects the GEF goals and priorities.

(a) In addition,

Council guidance is also needed on the weights that are to be given to the different indicators:

- (b) **P₁, P₂, P₃ and P₄** when computing the country performance rating (CPR);
- (c) **B₁, B₂, B₃, B₄, and B₅** when computing the biodiversity scores for country components of ecoregions; and
- (d) **Additional weights** to be defined after inclusion of marine biodiversity.

68. These weights have significant impacts on the extent of GEF involvement in each country, as well as the global benefits that will be realized from such interventions. **The Council should also decide whether it desires to review simulations and examine the sensitivity of the allocations** prior to making a final decision on the adoption of the system. This task has not been completed yet because of the lack of a complete set of indicators.

System Design

69. The country allocation rules defined by the initial model do not allow for certain institutional considerations (e.g. the support of enabling activities to meet country reporting requirements to the conventions), operational considerations (e.g. support for regional and global projects, or the reallocation of unutilized resources). The design of an operational model also needs to consider the incentives that countries have to improve the quality of the projects. The following modifications are suggested to the initial model to respond to these aspects of GEF operations.

70. Regional Projects. While all of the analysis presented so far has had a country focus as requested by the Council, approximately 10 percent of GEF resources have historically been allocated through regional and global projects. For instance, numerous GEF projects in the biodiversity area have been brought forth by groups of countries that share a biodiversity-rich area. Such partnerships are often beneficial as they allow for the protection of the complete ecoregion. To the extent that such partnerships are beneficial and preferable from the perspective of global benefits, the GEF framework should continue to support them. Under the initial model, regional projects would be financed from the indicative allocations of the countries participating in the regional project in proportion to the benefits that each country provides.

71. Global Projects. The GEF has, and should continue, to support global projects (such as global ecosystem assessments, science and technology assessments) that provide benefits to the community of nations. It is proposed that global projects be funded through a separate block of resources not allocated to specific countries.

72. Ceilings. The allocation rules could result in the allocation of a large portion of GEF resources in a focal area to a single country. Should this be undesirable, the allocation rule would be modified to ensure that no single country gets more than a pre-determined share of GEF resources in each focal area.

73. Floors. The CBD and the UNFCCC require that the GEF support all convention eligible countries through enabling activities to prepare national reports to the conventions. The GEF has

also historically provided support for the small grants program to stimulate local innovation and learning and basic cross-cutting capacity building to develop elements of environmental governance in a country. Resources required for such activities could be guaranteed by defining activity floors for all GEF recipient countries.

Resources Available for PB Allocation in Biodiversity	= Total GEF Resources for Biodiversity	- Resources allocated for Global Biodiversity Projects
-------------------------------------------------------------	-------------------------------------------	-----------------------------------------------------------

Resources Available for PB Allocations in Climate Change	= Total GEF Resources for Climate Change	- Resources allocated for Global Climate Change Projects
----------------------------------------------------------------	---------------------------------------------	-------------------------------------------------------------

74. **Reallocation of Resources:** An operational system also needs to specify how resources will be reallocated in cases when individual countries are unable to bring forth in a timely manner a sufficient number of quality projects to utilize the country’s indicative allocations fully. This can occur for four reasons. First, countries may not have sufficient expertise in designing and developing satisfactory projects. Second, the need for GEF resources in a country is driven by the demand for a complementary set of projects on which GEF projects usually piggyback. Third, there are significant lead times in the development of projects, especially for large and complex operations, that require multiple co-financing sources, each of which may have separate approval processes. Finally, indicative allocations for some countries may be smaller than the minimum viable project size leading to an inability to identify quality projects.

75. A simple approach would reallocate “underutilized” allocations to other countries with viable projects in proportion to their country allocation scores. However, such a simple system may not be acceptable for two reasons. First, countries have an incentive to rush projects through in order to meet allocation deadlines failing which they would lose their indicative allocations. This could have significant adverse effects on project quality especially for large and complex projects. Second, the system will systematically over allocate resources to projects and countries that meet allocation deadlines regardless of the relative priority of the country in terms of country allocation scores.

76. A more complex system that allows countries to “bank” their underutilized allocations to the next replenishment period will ensure that resources are allocated primarily based on identified priorities over the long term. Such a banking system, which has not been developed yet, can be designed to ensure that high priority areas are able to retain their indicated allocations instead of simply losing their allocations.

Comparison of the Initial Model with the Current GEF Allocation System

77. The initial ex-ante country-allocation model just described can be compared with the current allocation system in terms of: (i) effectiveness of GEF resources; (ii) transparency; (iii) reliability; and (iv) incentive effects of the system.

78. Effectiveness of resources. The initial model strengthens the current resource allocation system by:

- (a) explicitly prioritizing countries based on their potential global benefits and the capacity of countries to deliver on that potential as measured by country performance; and
- (b) allocating GEF resources based on these priorities.

79. Like the current system, the initial model ensures that all GEF financed projects will meet specific minimum standards of quality based on the established technical project review criteria and strategic priorities. In addition, the certainty provided by the initial model enables countries to focus on the countrywide partnership approaches to developing and delivering global benefits instead of a more narrow project by project approach. Indicative ex-ante allocations also provide countries that have previously been overlooked with the incentives to design and develop projects in high priority areas.

80. Transparency. The initial model increases the transparency of the current system by providing an explicit framework for allocating GEF resources. While the initial model and the methods are transparent, the system will be completely transparent only if all of the data used in the model are publicly available. Such disclosure can also increase the effectiveness of GEF resources by providing countries with the necessary incentives to improve their performance over time.

81. Reliability and quality of underlying indicators: The extent to which the initial model strengthens the current resource allocation system depends on the precision with which priorities (as measured by Country Allocation Scores) can be defined. Confidence in the set of Allocation Scores generated by the system depends on the quality and reliability of the underlying data and indicators. The greater the reliance of the system on imprecisely measured indicators, the greater is the uncertainty in the Country Allocation Score outcomes resulting from that system.

82. While the best available data and indicators have been utilized in the initial model, there are significant uncertainties associated with them. For example, the available data on performance can only distinguish between countries in a rough way. For this reason, the creators of the KKZ indicator believe that their measures should be used to separate countries into a few broad performance categories.²³ Similar reasoning applies to measures developed from GEFPP, WBOED and CPIA.

83. Indicators for measuring global benefits are primarily based on physical data and are less affected by measurement error. As a result, their contribution to allocation scores is less affected by the precision of underlying indicators than by the lack of appropriate indicators for some dimensions of global benefits potential (e.g., the readiness of communities to protect locally-endangered species).

²³ For example, if 100 countries receive KKZ-based performance scores, dividing the countries into quartile or quintile groups may be appropriate.

84. Incentives for inter-country competition. Under the initial model countries will receive their indicated allocations as long as their projects meet the minimum technical project criteria. They have no incentive to increase the project quality. In contrast, the current system forces all countries to compete for the same resources, providing them with an incentive to increase the quality of the projects.

Variation of the Initial Model: Ex-Ante Allocation to Groups of Countries²⁴

85. A variation of the initial model, based on ex-ante allocations to groups of countries rather than individual countries, is discussed in this section. This variation enhances the effectiveness of GEF resources while addressing the limited reliability and quality of the underlying indicators. It also improves incentives for enhancing project quality. In this approach, GEF recipient countries are categorized into a number of groups (for example five groups) in each focal area. These groups are based on ranking of countries resulting from the country allocation scores developed under the initial model.

86. This approach is described, using an example, where countries are categorized into groups, with each group receiving an equal share of GEF resources in a focal area.²⁵ Table 1 provides a numerical example of the ex-ante group allocations model. This example does not relate to any specific country or group of countries. It is purely hypothetical and presented for illustrative purposes. In the example, there are 25 countries for which Country Allocation Scores have been arbitrarily assigned. Countries have been sorted based on their allocation scores, with the highest ranking country listed at the top and the lowest scoring country at the bottom. The sum of the scores is 1000.

²⁴ The Technical Working Group had presented a number of screening approaches to the Council in November 2003, (GEF/C.22/11). These options have not been presented here because the objectives of the screening approach can be realized in a more flexible manner using the ex-ante allocation to Groups of Countries variation presented here. Both the screening approach and the ex-ante allocation to groups of countries categorize countries into a number of groups based on global environmental benefits potential and country performance. The screening approach does not make any attempt to shift resources away from poor performing or low global potential countries. Instead, it attempts to enhance the effectiveness of GEF resources by setting up a separate set of rules (e.g., no full sized projects), standards, and procedure (increased monitoring) that are progressively more stringent as a country's global potential decreases or a country's performance decreases.

²⁵ Groups can also be created with equal number of countries in each group. An example of such an approach is presented in Annex 3.

Table 1: Ex-ante Allocation to Groups of Countries

Country	Country Allocation Score	EX-ANTE ALLOCATION TO COUNTRIES (Initial Model)	EX-ANTE ALLOCATION TO GROUPS						
		Country Allocation Share	Groups based on equal allocations by group						
			Group number	Country	Group Allocation Share	Average Allocation Share per Country			
A	100.0	10.0	1	A	19.1	9.5			
B	90.9	9.1		B					
C	82.7	8.3	2	C	22.6	7.5			
D	75.2	7.5		D					
E	68.4	6.8		E					
F	62.2	6.2	3	F	21.7	5.4			
G	56.5	5.7		G					
H	51.4	5.1		H					
I	46.7	4.7	4	I	17.7	3.5			
J	42.5	4.2		J					
K	38.6	3.9		K					
L	35.1	3.5	5	L	18.9	1.7			
M	31.9	3.2		M					
N	29.0	2.9		N					
O	26.4	2.6	Total	O	100.0				
P	24.0	2.4		P					
Q	21.8	2.2		Q					
R	19.9	2.0		R					
S	18.1	1.8		S					
T	16.4	1.6		T					
U	14.9	1.5		U					
V	13.6	1.4		V					
W	12.3	1.2		W					
X	11.2	1.1		X					
Y	10.2	1.0		Y					
Total	1000.0	100.0							

87. Countries have been divided into five groups with each group receiving an equal share of resources (approximately 20%). The first group consists of the highest ranked countries whose cumulative allocation scores amount to 20 percent of the sum of scores; the second group consists of the next tier of countries whose cumulative scores add up to 20 percent of the sum of scores; three more groups are established in a similar manner by working down the list of countries. Column 4 shows the countries that belong to each group; the top group contains only two countries while the last group contains 15 countries. The sixth column shows the resources that are allocated to each group. In the example, the share of resources for each group is not

exactly 20 percent because countries have to be assigned to unique groups and country allocation scores are discrete. The final column shows the average allocation per country in each group.

88. Under this approach, countries can propose projects against the total resources allocated to the group to which they belong. Rules can be developed for regional and global projects, ceilings and floors in a similar manner to the initial model. For instance, ceilings for a country in a group can be set based on the average allocation in each group. A benefit of this approach is that it removes the need for resource reallocation rules in cases where individual countries do not propose enough satisfactory projects to use up their allocations.

Conclusion

89. The Secretariat has made significant progress in developing the specific indicators necessary for a performance-based allocation framework in the areas of country performance and global environmental benefits for Climate Change and Biodiversity. The Secretariat has also presented an initial performance-based allocation model that allocates GEF resources to countries in an ex-ante manner. The strengths and the weaknesses of the initial model are compared to the current way of allocating resources. A variation of the initial model, which allocates ex-ante to groups of countries rather than individual countries, is presented to address issues related to data quality.

90. The Secretariat seeks specific guidance from the Council in the following areas:

- (a) The type of model to be further developed:
 - (i) Ex-ante with allocations to individual countries; or
 - (ii) Ex-ante with allocations to groups of countries.
- (b) The relative weights to be given to Global Environmental Potential (S_1) and Performance (S_2) in determining the Country Allocation Score;
- (c) The relative weights to be employed in determining Country Performance Rating – P_1, P_2, P_3, P_4
- (d) The relative weights to be employed in determining global environmental potential for biodiversity – B_1, B_2, B_3, B_4, B_5
- (e) The sectoral performance indicator (CEPIA):
 - (i) The Secretariat to develop a new indicator, CEPIA; or
 - (ii) Adopt the environmental sub-index of the World Bank's CPIA with the understanding that public disclosure may not be possible.

**IDA COUNTRY POLICY AND INSTITUTIONAL ASSESSMENT (CPIA)
INDICATORS**

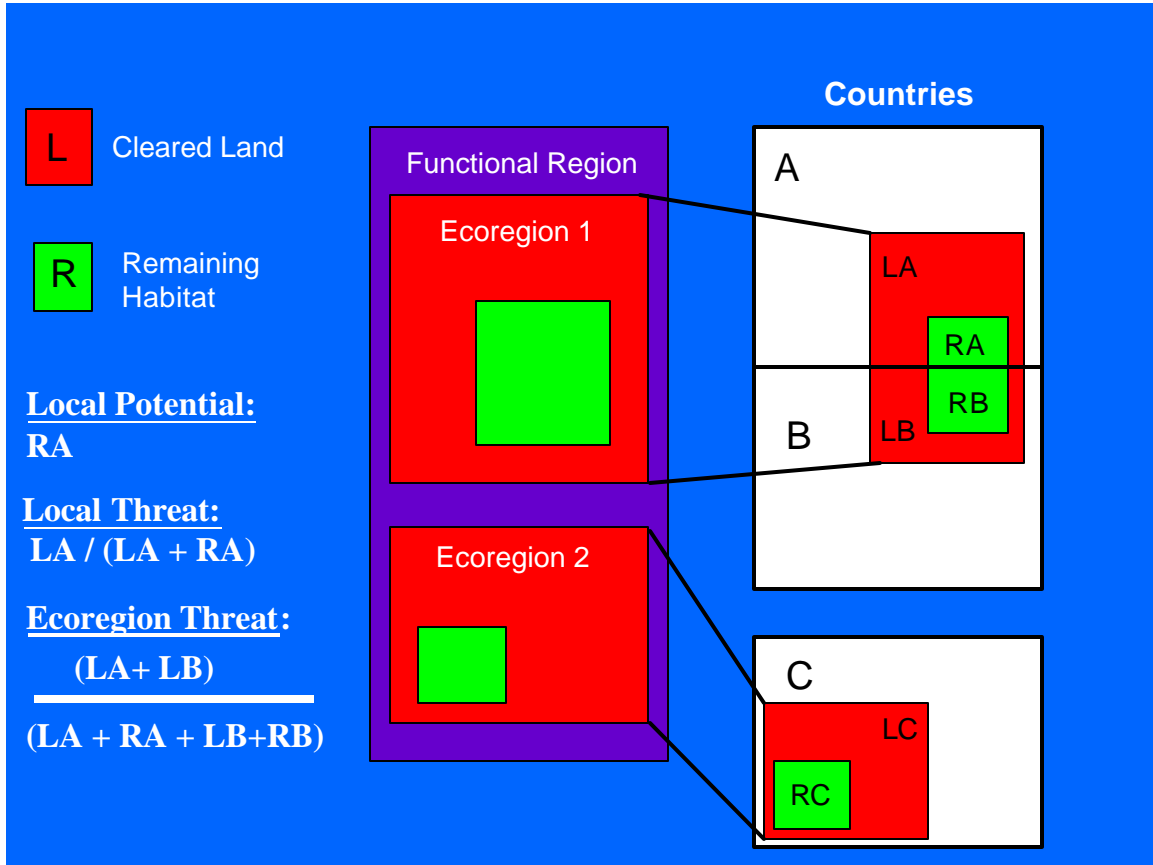
- A. Economic Management
 - 1. Management of Inflation and Macroeconomic Imbalances
 - 2. Fiscal Policy
 - 3. Management of External Debt
 - 4. Management and Sustainability of the Development Program

- B. Structural Policies
 - 5. Trade Policy and Foreign Exchange Regime
 - 6. Financial Stability and Depth
 - 7. Banking Sector Efficiency and Resource Mobilization
 - 8. Competitive Environment for the Private Sector
 - 9. Factor and Product Markets
 - 10. Policies and Institutions for Environmental Sustainability

- C. Policies for Social Inclusion/Equity
 - 11. Gender
 - 12. Equity of Public Resource Use
 - 13. Building Human Resources
 - 14. Social Protection and Labor
 - 15. Monitoring and Analysis of Poverty Outcomes and Impacts

- D. Public Sector Management and Institutions
 - 16. Property Rights and Rule-based Governance
 - 17. Quality of Budgetary and Financial Management
 - 18. Efficiency of Revenue Mobilization
 - 19. Quality of Public Administration
 - 20. Transparency, Accountability and Corruption in the Public Sector

SCHEMATIC REPRESENTATION OF BIODIVERSITY INDICATORS AND CONCEPTS



COMPARISON OF ALLOCATIONS USING EX-ANTE ALLOCATIONS TO COUNTRIES AND EX-ANTE ALLOCATIONS TO GROUPS

1. This annex describes how allocations are done under the initial model which ex-ante allocates resources to countries based on their respective Country Allocation Score. Ex-ante allocations to groups based on two different ways of categorizing countries are also presented. In the first approach country groups are formed so that each group gets an equal allocation. In the second approach, each group is defined so that there are an equal number of countries. The example presented below is hypothetical and for illustrative purposes only. It does not have any bearing to any country or group of countries.

Country	Country Allocation Score	EX-ANTE ALLOCATION TO COUNTRIES (Initial Model)	EX-ANTE ALLOCATION TO GROUPS			
			Groups based on equal allocations by group			
			Group number	Country	Group Allocation	Average Allocation per Country
A	100.0	10.0	1	A	19.1	9.5
B	90.9	9.1		B		
C	82.7	8.3	2	C	22.6	7.5
D	75.2	7.5		D		
E	68.4	6.8	3	E	21.7	5.4
F	62.2	6.2		F		
G	56.5	5.7		G		
H	51.4	5.1	4	H	17.7	3.5
I	46.7	4.7		I		
J	42.5	4.2		J		
K	38.6	3.9	5	K	18.9	1.7
L	35.1	3.5		L		
M	31.9	3.2		M		
N	29.0	2.9	4	N	10.0	2.0
O	26.4	2.6		O		
P	24.0	2.4		P		
Q	21.8	2.2	5	Q	6.2	1.2
R	19.9	2.0		R		
S	18.1	1.8		S		
T	16.4	1.6	4	T	10.0	2.0
U	14.9	1.5		U		
V	13.6	1.4		V		
W	12.3	1.2	5	W	6.2	1.2
X	11.2	1.1		X		
Y	10.2	1.0		Y		
Total	1000.0	100.0	Total		100.0	

2. It describes a world with 25 countries named A through Y for which country allocation scores have been determined. Countries have been sorted based on their score with the highest scoring country A in the top line and the lowest scoring country Y in the last line. The sum of the scores for all countries is 1000. Dividing each country's allocation score by the total score gives each country's indicated share of GEF resources for the Ex-ante Allocation to Countries as defined in the initial model (shown is column 3).

3. The 4 columns in the center block illustrate the allocations when countries are grouped so that each group receives an equal share of resources. The first group consists of the top two scoring countries and account for a 19.1% share. It takes more countries in each successive group to account for 20% of the scores, hence shares. The last group has 11 countries in it. The allocations in each group are not exactly 20% because the scores

for each country are continuous and each country has to uniquely be in only one group. The average allocation per country in each group decreases progressively from the higher ranked groups to the lower ranked groups.

4. The last block of four columns illustrates the case when countries are divided into groups so that there are an equal number of countries in each group. GEF resources are allocated ex-ante to each group based on the sum of allocation scores for countries in that group. In the example, the first group gets approx 40 percent of the total resources available in that focal area; the bottom group gets approx six percent.