

GEF Council Meeting
November 13 – 15, 2012
Washington, D.C.

Agenda Item 15

FINANCIAL PROJECTIONS FOR GEF-5 PROGRAMMING OPTIONS

Recommended Council Decision

The Council, having reviewed document GEF/C43/08: *Financial Projections for GEF-5 Programming Options* takes note of the three scenarios for adjusting future programming presented by the Secretariat for a projected envelope of \$3.66 billion for GEF-5, and agrees that the general principles outlined in scenario 3 be implemented.

The Council requests the Secretariat to report on the progress in programming at the next Council meeting, and whether any major adjustments need to be made to the implementation of the scenario.

EXECUTIVE SUMMARY

At the beginning of GEF-5, allocations under the System for Transparent Allocation of Resources (STAR) and the business planning were undertaken on the basis of an overall envelope of \$4.25 billion for the replenishment period. As of October 10, 2012, \$1,922.25 million has been programmed; an additional work program of \$ 173.99 million is being proposed for the November 2012 Council meeting, bringing the total GEF-5 programming to date to \$2,096.24 million.

Currently, the estimated GEF-5 resource envelope, which is based on projections for foreign exchange rate fluctuations, investment income rate movement, and projected donor inflows, indicates a possible shortfall in GEF-5 resource envelope of about \$590 million, or 13.8 percent, against the target envelope for GEF-5; it is projected that the overall envelope of resources available for GEF-5 would be about \$3.66 billion.

To deal with the projected shortfall, the Secretariat has developed three illustrative scenarios for future programming: (i) scenario#1 – STAR country allocations in the biodiversity, climate change, and land degradation remain the same as at the beginning of GEF-5; (ii) scenario#2 – all focal areas/themes take equal reductions; and (iii) scenario#3 – is based on scenario #2, but STAR country allocations in the biodiversity, climate change, and land degradation remain the same for the most vulnerable countries - LDCs and SIDS - as at the beginning of GEF-5, and allocations in the focal area set-asides remain the same as the beginning of GEF-5.

These scenarios, at the broadest level, demonstrate the various trade-offs that may need to be made during the next two years. It is prudent at this stage to agree on the general guiding principles to make necessary adjustments to future business planning so that the shortfall can be absorbed in a manner that is fair and as far as possible is aligned with the original GEF-5 allocations.

The Secretariat recommends following the general principles developed in scenario#3 as a practical way forward as it: (i) keeps the allocations aligned in proportion with original allocations of GEF-5; (ii) protects the allocations for the most vulnerable countries – LDCs and SIDS; and (iii) protects resources for funding basic obligations to the conventions and for critical global and regional projects.

Additionally, the Secretariat will, at the beginning of the last fiscal year of GEF-5 (starting on July 01, 2013): (i) take stock of the programming across the different focal areas/themes, including the utilization of STAR allocations; and (ii) work with the GEF Agencies to ensure that programming is undertaken in areas/countries where there is demand, by diverting resources from areas/countries where demand is lagging. The Secretariat and the Trustee will work together to ensure accurate and appropriate resource envelope projections. The Secretariat will report to the Council at its next meeting on the progress in programming.

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INTRODUCTION¹

1. At the beginning of GEF-5, allocations under the System for Transparent Allocation of Resources (STAR) and the business planning were undertaken on the basis of an overall envelope of \$4.25 billion for the replenishment period. As of October 10, 2012, \$1,922.25 million has been programmed; an additional work program of \$ 173.99 million is being proposed for the November 2012 Council meeting, bringing the total GEF-5 programming to date to \$2,096.24 million.

2. Currently, the estimated GEF-5 resource envelope, which is based on projections for foreign exchange rate fluctuations, investment income rate movement, and projected donor inflows, indicates a possible shortfall in GEF-5 resource envelope of about \$590 million, or 13.8 percent, against the target envelope for GEF-5; it is projected that the overall envelope of resources available for GEF-5 would be about \$3.66 billion.

3. To deal with the projected shortfall, the Secretariat has developed three illustrative scenarios for future programming. These scenarios, at the broadest level, demonstrate the various trade-offs that may need to be made during the next two years.

4. The following GEF areas remain constant in all three scenarios: (i) GEF-5 allocations for the Small Grants Program has been fully utilized for \$140 million and so undergoes no change in allocation; and (ii) allocations for the corporate budget remains unchanged since the basic administrative expenditures of the GEF entities – Secretariat, Evaluation Office, Trustee, and STAP – are essentially fixed costs.

SCENARIO 1

5. In this scenario, the overall priority is to protect the initial STAR country allocations² in the biodiversity, climate change, and land degradation focal areas; i.e., the country allocations remain the same as at the beginning of GEF-5. The projected financial shortfall is then allocated among other focal areas and themes in the GEF. The key elements of this scenario are:

- (a) All country allocations in the biodiversity, climate change and land degradation focal areas remain unchanged as at the beginning of GEF-5;
- (b) Allocations for sustainable forest management (SFM) remain unchanged at \$250 million;
- (c) The set-aside amounts for the biodiversity, climate change and land degradation focal areas are set to the minimum amounts possible while still allowing for convention obligations - these amounts were determined by the focal area managers of the Secretariat.

6. The aggregate details of the scenario and consequences for the future programming targets are presented in Annex 1.

¹ This report is based on data as of **October 10, 2012**.

² For STAR utilizations, refer to GEF/C.43/Inf.04, *Progress Report on STAR*.

Implications of Scenario 1

7. As country allocations remain unchanged for biodiversity, climate change, and land degradation focal areas, programming in nearly two-thirds of the GEF business can continued unhindered. Programming for sustainable forest management is left unchanged.
8. Focal area set-asides are reduced to the bare minimum to support fundamental obligations to the conventions. Future programming for regional and global project programming are zeroed out.
9. There are disproportionately drastic reductions in other focal areas and therefore shares are no longer in line with the original programming intentions of GEF.5: (i) 62 percent reduction in international waters such that there will be no programming in this focal area for the next two years; (ii) overall programming in both the chemicals focal area and the private sector is reduced by nearly 40 percent each compared to the original GEF-5 targets; and (iii) there is a 14 percent reduction in corporate programs.

SCENARIO 2

10. In this scenario, except for the SGP and corporate budget, that are protected, all focal areas/themes take equal reductions. The key elements are:
 - (a) All focal areas/themes, including country allocations, take a 14.79% reduction;
 - (b) Where countries have already utilized allocations beyond the current reduced allocations, these “over-utilizations” are met by redirecting resources from countries with large allocations.³ Annex 4 contains a set of rules that can facilitate such reallocations.
11. The aggregate details of the scenario and consequences for the future programming targets are presented in Annex 2.

Implications of Scenario 2

12. Reductions are proportionally distributed among all focal areas/themes, and therefore the shares are maintained in line with the original programming intentions of GEF-5

SCENARIO 3

13. This scenario is a variation of scenario # 2 where: (i) STAR country allocations are protected for LDCs and SIDS only (75 countries); and (ii) allocations are protected for focal area set-asides. The key elements are:
 - (a) Focal area set-asides remain unchanged as at the beginning of GEF-5;
 - (b) Country allocations in the biodiversity, climate change and land degradation focal areas for the SIDS and LDCs remain unchanged as at the beginning of GEF-5;
 - (c) Other non-STAR focal areas/themes take an equal 14.79% reduction;

³ Simulations show that resources totaling \$27.11 million need to be reallocated from the 23 countries whose initial total allocations exceed \$25 million each.

- (d) Where countries have already utilized allocations beyond the current reduced allocations, these “over-utilizations” are met by redirecting resources from countries with large allocations.⁴ Annex 4 contains a set of rules that can facilitate such reallocations.

14. The aggregate details of the scenario and consequences for the future programming targets are presented in Annex 3.

Implications of Scenario 3

15. Reductions are proportionally distributed among all focal areas/themes, and therefore the shares are maintained in line with the original programming intentions of GEF-5.

16. STAR allocations are fully protected for the most vulnerable countries – LDCs and SIDS.

17. Allocations are fully protected for set-asides for fundamental obligations to the conventions and for global and regional projects.

PROGRAMMING FOR THE REMAINDER OF GEF-5

18. To date, including the work program proposed for Council discussion at the November 2012 meeting, \$2,096.24 billion has been programmed in GEF-5. Going forward, the Secretariat and the Agencies need to work on the basis of some general principles to guide programming to reflect shifting priorities, if any, among the various focal areas. In this regard, the Secretariat recommends following the general principles developed in scenario 3 as a practical way forward as it: (i) keeps the allocations aligned generally with original allocations of GEF-5; (ii) protects the allocations for the most vulnerable countries – LDCs and SIDS; and (iii) protects resources for funding basic obligations to the conventions and for critical global and regional projects,

19. Additionally, the Secretariat will, at the beginning of the last fiscal year of GEF-5 (starting on July 01, 2013): (i) take stock of the programming across the different focal areas/themes, including the utilization of STAR allocations; and (ii) work with the GEF Agencies to ensure that programming is undertaken in areas/countries where there is demand, by diverting resources from areas/countries where demand is lagging. The Secretariat and the Trustee will work together to ensure accurate and appropriate resource envelope projections. The Secretariat will report to the Council at its next meeting on the progress in programming.

⁴ Simulations show that resources totaling \$125.35 million need to be reallocated from the 23 countries whose initial total allocations exceed \$25 million each.

ANNEX 1: SCENARIO #1: PROTECTION OF ALL STAR ALLOCATIONS PLUS MINIMUM AMOUNT IN SET-ASIDES FOR CONVENTION OBLIGATIONS

| Focal Area/Theme | Original GEF-5 Target (US\$ million) | Total Utilisations Against Original Targets | Share Programmed against Original Target | Remaining against Original Target | Revised Target, \$3.66 | Remaining Against Revised Targets | Percentage Reduction of Targets | Absolute Reduction of Targets (US\$ million) |
|--|--------------------------------------|---|--|-----------------------------------|------------------------|-----------------------------------|---------------------------------|--|
| Biodiversity Country Allocation | 968.00 | 577.55 | 60% | 390.45 | 968.00 | 390.45 | 0.00% | - |
| Biodiversity Set-Aside | 112.00 | 51.19 | 46% | 60.81 | 68.00 | 16.81 | 39.29% | 44.00 |
| Climate Change Country Allocation | 1,088.00 | 506.04 | 47% | 581.96 | 1,088.00 | 581.96 | 0.00% | - |
| Climate Change Set-Aside | 172.00 | 80.31 | 47% | 91.69 | 143.00 | 62.69 | 16.86% | 29.00 |
| Land Degradation Country Allocation | 324.00 | 177.63 | 55% | 146.37 | 324.00 | 146.37 | 0.00% | - |
| Land Degradation Set-Aside | 61.00 | 11.11 | 18% | 49.89 | 22.00 | 10.89 | 63.93% | 39.00 |
| SFM / REDD Plus Program | 250.00 | 97.41 | 39% | 152.59 | 250.00 | 152.59 | 0.00% | - |
| International Waters | 440.00 | 166.84 | 38% | 273.16 | 167.00 | 0.16 | 62.05% | 273.00 |
| Chemicals | 425.00 | 186.93 | 44% | 238.07 | 260.00 | 73.07 | 38.82% | 165.00 |
| Corporate Programs (CSP and Capacity Building) | 70.00 | 3.19 | 5% | 66.81 | 60.00 | 56.81 | 14.29% | 10.00 |
| Small Grants Program | 140.00 | 140.00 | 100% | - | 140.00 | - | 0.00% | - |
| Private Sector | 80.00 | 37.80 | 47% | 42.20 | 50.00 | 12.20 | 37.50% | 30.00 |
| Corporate Budget | 120.00 | 60.25 | 50% | 59.75 | 120.00 | 59.75 | 0.00% | - |
| TOTAL-GEF Trust Fund Replenishment | 4,250.00 | 2,096.24 | 49% | 2,153.76 | 3,660.00 | 1,563.76 | 13.88% | 590.00 |

ANNEX 2: SCENARIO#2: EQUAL REDUCTIONS ACROSS ALL FOCAL AREAS/THEMES

| Focal Area/Theme | Original GEF-5 Target (US\$ million) | Total Utilisations Against Original Target | Share Programmed against Original Target | Remaining against Original Target | Revised Target, \$3.66 | Remaining Against Revised Targets | Percentage Reduction of Targets | Absolute Reduction of Targets (US\$ million) |
|--|--------------------------------------|--|--|-----------------------------------|------------------------|-----------------------------------|---------------------------------|--|
| Biodiversity Country Allocation | 968.00 | 577.55 | 60% | 390.45 | 824.86 | 247.31 | 14.79% | 143.14 |
| Biodiversity Set-Aside | 112.00 | 51.19 | 46% | 60.81 | 95.44 | 44.25 | 14.79% | 16.56 |
| Climate Change Country Allocation | 1,088.00 | 506.04 | 47% | 581.96 | 927.12 | 421.08 | 14.79% | 160.88 |
| Climate Change Set-Aside | 172.00 | 80.31 | 47% | 91.69 | 146.57 | 66.25 | 14.79% | 25.43 |
| Land Degradation Country Allocation | 324.00 | 177.63 | 55% | 146.37 | 276.09 | 98.46 | 14.79% | 47.91 |
| Land Degradation Set-Aside | 61.00 | 11.11 | 18% | 49.89 | 51.98 | 40.87 | 14.79% | 9.02 |
| SFM / REDD Plus Program | 250.00 | 97.41 | 39% | 152.59 | 213.03 | 115.63 | 14.79% | 36.97 |
| International Waters | 440.00 | 166.84 | 38% | 273.16 | 374.94 | 208.10 | 14.79% | 65.06 |
| Chemicals | 425.00 | 186.93 | 44% | 238.07 | 362.16 | 175.23 | 14.79% | 62.84 |
| Corporate Programs (CSP and Capacity Building) | 70.00 | 3.19 | 5% | 66.81 | 59.65 | 56.46 | 14.79% | 10.35 |
| Small Grants Program | 140.00 | 140.00 | 100% | - | 140.00 | - | 0.00% | - |
| Private Sector | 80.00 | 37.80 | 47% | 42.20 | 68.17 | 30.37 | 14.79% | 11.83 |
| Corporate Budget | 120.00 | 60.25 | 50% | 59.75 | 120.00 | 59.75 | 0.00% | - |
| TOTAL-GEF Trust Fund Replenishment | 4,250.00 | 2,096.24 | 49% | 2,153.76 | 3,660.00 | 1,563.76 | 13.88% | 590.00 |

| | Climate Change | Biodiversity | Land Degradation | Total |
|---|----------------|--------------|------------------|-------|
| Reallocation Needed for Over-Utilizations | 4.53 | 15.16 | 7.42 | 27.11 |

ANNEX 3: SCENARIO#3: PROTECTION OF STAR ALLOCATIONS FOR LDCs AND SIDS, PLUS FULL SET-ASIDES

| Focal Area/Theme | Original GEF-5 Target (US\$ million) | Total Utilisations Against Original Target | Adjusted Total Utilisations (country overruns for non SIDS and non LDCs coming from set-asides) | Share Programmed against Original Target | Remaining against Original Target | Revised Target, \$3.66 | Remaining Against Revised Targets | Percentage Reduction of Targets | Absolute Reduction of Targets (US\$ million) |
|--|--------------------------------------|--|---|--|-----------------------------------|------------------------|-----------------------------------|---------------------------------|--|
| Biodiversity Country Allocation | 968.00 | 577.55 | 577.55 | 60% | 390.45 | 808.30 | 230.75 | 16.50% | 159.70 |
| Biodiversity Set-Aside | 112.00 | 51.19 | 59.74 | 46% | 60.81 | 112.00 | 60.81 | 0.00% | - |
| Climate Change Country Allocation | 1,088.00 | 506.04 | 506.04 | 47% | 581.96 | 901.68 | 395.64 | 17.12% | 186.32 |
| Climate Change Set-Aside | 172.00 | 80.31 | 82.11 | 47% | 91.69 | 172.00 | 91.69 | 0.00% | - |
| Land Degradation Country Allocation | 324.00 | 177.63 | 177.63 | 55% | 146.37 | 267.07 | 89.44 | 17.57% | 56.93 |
| Land Degradation Set-Aside | 61.00 | 11.11 | 14.86 | 18% | 49.89 | 61.00 | 49.89 | 0.00% | - |
| SFM / REDD Plus Program | 250.00 | 97.41 | 97.41 | 39% | 152.59 | 213.03 | 115.63 | 14.79% | 36.97 |
| International Waters | 440.00 | 166.84 | 166.84 | 38% | 273.16 | 374.94 | 208.10 | 14.79% | 65.06 |
| Chemicals | 425.00 | 186.93 | 186.93 | 44% | 238.07 | 362.16 | 175.23 | 14.79% | 62.84 |
| Corporate Programs (CSP and Capacity Building) | 70.00 | 3.19 | 3.19 | 5% | 66.81 | 59.65 | 56.46 | 14.79% | 10.35 |
| Small Grants Program | 140.00 | 140.00 | 140.00 | 100% | - | 140.00 | - | 0.00% | - |
| Private Sector | 80.00 | 37.80 | 37.80 | 47% | 42.20 | 68.17 | 30.37 | 14.79% | 11.83 |
| Corporate Budget | 120.00 | 60.25 | 60.25 | 50% | 59.75 | 120.00 | 59.75 | 0.00% | - |
| TOTAL-GEF Trust Fund Replenishment | 4,250.00 | 2,096.24 | 2,110.33 | 49% | 2,153.76 | 3,660.00 | 1,563.76 | 13.88% | 590.00 |

| | Climate Change | Biodiversity | Land Degradation | Total |
|---|----------------|--------------|------------------|---------------|
| Reallocation Needed to keep SIDS and LDCs at Original Levels | 17.80 | 38.23 | 18.31 | 74.33 |
| Reallocation Needed to keep Set-Asides at Original Levels | 25.43 | 16.56 | 9.02 | 51.02 |
| Total Reallocation needed | 43.23 | 54.79 | 27.33 | 125.35 |

ANNEX 4. RULES FOR REALLOCATION OF RESOURCES BETWEEN COUNTRIES

These rules for reallocation follow the same iterative methodology that is used to allocate STAR focal area resources among countries.

- a) Calculate the deficit per focal area that has to come from resource reallocations among countries.
- b) Countries with an initial total allocation greater than 25 million will be the focus to cover the focal area deficit.
- c) Calculate the proportion of each country's focal area allocation relative to the sub-total allocation of large countries.
- d) Apply these proportions to the total focal area deficit to be covered – therefore the total deficit is allocated proportionately to the size of the initial focal area allocation of the country.
- e) However we need to adjust for the programming that countries may already have done in their focal area. Taking into account the November 2012 work programme:
 - i. if the leftover amount per focal area per country is less than 0 (in other words, that focal area is in the red), then the loss the country takes in that focal area is 0.
 - ii. If the leftover amount per focal area per country is less than the amount needed for reallocation, then the loss the country takes in that focal area is the leftover amount.
 - iii. Otherwise, the loss the country takes in that focal area is equal to the amount calculated in d) above.
- f) With this adjustment for utilizations, the total deficit is no longer covered. Therefore, we deduct this total from the total deficit for the focal area, and re-allocate this difference among all countries in the same way as step (d) above (country focal area proportion * amount).
- g) Calculate the new total deficit:
 - i. The amount calculate in (d) above + the amount calculated in (f).
- h) adjust for utilizations: same step as (e) above.
- i) Iterate steps e-h until the deficit of (a) has been totally allocated, with 0 deficit being allocated to any country whose focal area utilizations are in the red, and all deficits are within the bands of the leftover amounts per focal area per country.