

Midterm Review of the GEF Resource Allocation Framework

In 2006, the Global Environment Facility (GEF) launched a Resource Allocation Framework (RAF) that would allow for purposeful apportionment of scarce GEF funds while maximizing impact on the global environment. Under the RAF, for the 2006–10 period, the GEF allocated \$1 billion to 150 countries in the biodiversity focal area and \$1 billion to 161 countries in the climate change focal area. These allocations were based on three indexes: two indicating a country's potential to generate global environmental benefits in biodiversity and climate change, respectively, and an index of performance. Although allocations under the RAF correspond to the overall pattern of past GEF allocations, and while countries continue to access GEF funds by proposing projects, the framework represents a distinct change in GEF partnership operations and relations.

This midterm review conducted by the GEF Evaluation Office and its consultants aimed to evaluate the transparency and cost-effectiveness with which resources have been allocated to countries under the RAF. The review comprised an assessment of the design and early implementation of the RAF as well as a comparison with the performance-based allocation systems of other organizations. It identified the early effects of the RAF through documentation review, electronic surveys, extensive stakeholder consultation, collaboration with nongovernmental organizations (NGOs), in-depth statistical analysis and simulation, and a portfolio and pipeline review. The comparative study of other performance-based systems and an expert peer Delphi study provided feedback on the RAF design.

Findings

Results

The RAF has increased country ownership in countries with an individual allocation and has had a neutral or detrimental effect on country ownership in countries with a group allocation. The RAF, together with other reforms,

has caused major shifts in GEF partnership roles, including increased responsibilities for the GEF Secretariat and for GEF operational focal points (mainly those in individual allocation countries), and relative less involvement on the part of the NGO community and the private sector.

Design

The RAF formula channels resources to countries with high global environmental benefits as measured by the GEF Benefits Index; the GEF Performance Index is not as influential in determining allocations. The data and indicators used for assessing global environmental benefits reflect the best information now available, with some gaps. The RAF does not provide effective incentives to improve performance.

Other design factors were highly influential in shaping the amount of resources countries may obtain, and can be revisited. These include the rule that 75 percent of aggregated funds are provided as individual allocations to top-ranked countries, while the remaining countries share a pool of funds; the rule that only 50 percent of allocations can be utilized in the first two years; and the allocation ceilings, allocation floors, and 10 percent set-aside for global and regional resources. The exclusions to the country allocation formula—namely, the funds set aside for global, regional, and cross-cutting activities—did not work well and may have diminished the GEF's effectiveness in delivering global and regional environmental benefits.

Implementation

After two years, overall resource utilization—as measured at the point of project identification form (PIF) approval—stands at 31 percent of total focal area funds. This low level of utilization is partially due to the slow start of the GEF-4 replenishment period and the implementation of other GEF reforms. In particular, unclear guidelines have limited the access of the majority of countries eligible to

obtain funds from a common group allocation of resources. The majority of least developed countries and countries in special circumstances receive group allocations, and thus have been especially affected by low utilization of funds.

Comparison

Of organizations with performance-based allocation systems, the GEF is working in the largest number of countries with the smallest amount of funds. Further, it is the only donor with *two* complex allocation systems (one for biodiversity and one for climate change). This unfavorably influences the RAF's overall cost-effectiveness. The complexity of the RAF's implementation rules does not foster the flexible and dynamic use of resources for what is a relatively small level of funding; moreover, these rules are not fully in line with international practice.

Recommendations

For GEF-4

- Allow the reallocation of unused funds in the last year of GEF-4.
- Implement the remainder of GEF-4, including the reallocation of funds, with full public disclosure, transparency, participation, and clear responsibilities.
- Simplify implementation rules.

For GEF-5

- Future improvements for GEF-5 require consultation with all GEF stakeholders, and that aspects of design and implementation be considered together. Steps to improve RAF design and indexes should be taken now to
 - improve the benefit indexes and their weights, for example, in the areas of marine resources and for adaptation;
 - increase the weight of the environmental portfolio performance;
 - discontinue the group allocation to improve predictability and cost benefits;
 - reconsider allocation ceilings and floors and the 50 percent rule;

- recognize transboundary global environmental problems.
- If the RAF is expanded, create a single integrated allocation for all GEF focal areas. Creation of six separate allocation systems in GEF-5 for each of the six focal areas would result in an operationally unmanageable system.

Follow-Up

In November 2008, the GEF Council decided that unused funds will be reallocated in the last year of GEF-4, based on objective rules and a transparent and equitable procedure to be developed over the next months. The last phase of GEF-4, including reallocation of funds, will be implemented with full public disclosure, transparency, participation, and clear responsibilities. For GEF-5, the Council asked for proposals on steps to improve RAF design and indexes for the climate change and biodiversity focal areas, along with scenarios for expanding the RAF, if feasible, to all focal areas.

The GEF Evaluation Office is an independent entity reporting directly to the GEF Council, mandated to evaluate the focal area programs and priorities of the GEF.

The full version of the *Midterm Review of the GEF Resource Allocation Framework* (Evaluation Report No. 47, 2009) is available in the Publications section of the GEF Evaluation Office Web site, www.gefeo.org. For more information, please contact the GEF Evaluation Office at gefevaluation@thegef.org.