

Evaluation of the GEF's System for Transparent Allocation of Resources (STAR)



This evaluation looked at recent STAR performance in transparent, equitable, and effective allocation of GEF resources for generating global environmental benefits.

KEY FINDINGS

1. Country allocations under the STAR model are primarily driven by a country's potential to generate global environmental benefits despite performance having a higher weight. The global environmental benefits component has a relatively higher influence because of the greater variance in the observed country scores for the component compared to the country performance component.

2. The STAR model assigns a low weight to gross domestic product (GDP) compared to indexes used by multilateral development banks. From 2012 to 2016, per capita GDP increased at a higher rate for low- versus middle- and upper-middle-income countries. If the weight of the GDP component for the GEF-7 period is not increased, there is a risk that the share of low-income countries in the GEF-7 STAR may decline.

3. The GEF-6 STAR provided least developed countries (LDCs) a greater ex ante share of GEF resources. The increase for LDCs was primarily driven by that in the allocation floor, although a portion may be attributed to an increase in the weight of the GDP component.

4. The GEF Secretariat managed the projected shortfall in the GEF replenishment proactively and adaptively. However, non-LDCs and countries that were not small island developing states (SIDS) would have been better prepared for the shortfall had its effect on them been discussed during the October 2016 Council meeting.

5. In general, calculations of STAR allocations were carried out correctly. In response to the recommendations of the GEF-5 STAR midterm review, the GEF Secretariat has made efforts to reduce errors. There is room for further improvement in minimizing calculation errors, however.

PURPOSE AND METHODS: This evaluation of the Global Environment Facility's (GEF's) System for Transparent Allocation of Resources (STAR) looked at the STAR's design, implementation, and impact to determine—among other things—its transparency, predictability, and flexibility in allocating GEF resources and strengthening country-driven approaches. The evaluation used a mix of quantitative and qualitative tools and methods, including an online survey, statistical modeling and simulations, data analysis using terminal evaluation reviews and the Project Management Information System (PMIS) data set, and document review.

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ABOUT US: The Independent Evaluation Office (IEO) of the GEF has a central role in ensuring the independent evaluation function within the GEF. www.gefio.org

6. An increase in the marginal adjustment of focal area allocations has led to greater cross-focal use of allocations by targeted countries.

Use of this flexibility feature did not make a material difference to the focal area funding balance during GEF-5.

7. Use of the sustainable forest management incentive scheme increased substantially during GEF-6.

Nonetheless, the level of GEF resources invested in sustainable forest management activities during GEF-6 is about the same as during GEF-5 because contributions from the STAR were required at a lower ratio.

8. The STAR has helped smaller countries in accessing GEF resources.

GEF activities are seen as more relevant to country needs and priorities.

9. Projects funded through STAR resources perform as well those prepared with non-STAR resources.

BACKGROUND

In September 2005, the GEF Council agreed to implement a Resource Allocation Framework (RAF) for the GEF-4 replenishment period. Implementation of this framework began in 2006, covering the biodiversity and climate change focal areas. Several weaknesses in its design—including group allocations for some countries, a 50 percent ceiling on resource utilization within the first two years of the replenishment period, and the inadequacy of set-asides—soon became apparent. Based on the recommendations of the [RAF's midterm review](#), the framework was updated for GEF-5 and renamed the STAR. The STAR featured several major revisions of the RAF:

- The group allocation was dropped, and all recipient countries were covered through country allocations.
- Flexible cross-focal country use of allocations was incorporated.

- A GDP-based index was added to take socioeconomic factors into account.
- Focal area set-asides were substantially increased.
- Coverage was expanded to include the land degradation focal area.

The recommendations of the [STAR midterm evaluation](#), along with discussions during GEF-6 replenishment negotiations, led to several changes in the STAR for the GEF-6 period. Key changes include an increase in the aggregate floor for LDCs to \$6.0 million, an increase in the weight of the GDP index exponent from -0.04 to -0.08 , an increase in the marginal adjustment for countries with allocations in the \$7–\$100 million range, and a slight decrease in the country allocation ceiling for the climate change focal area.

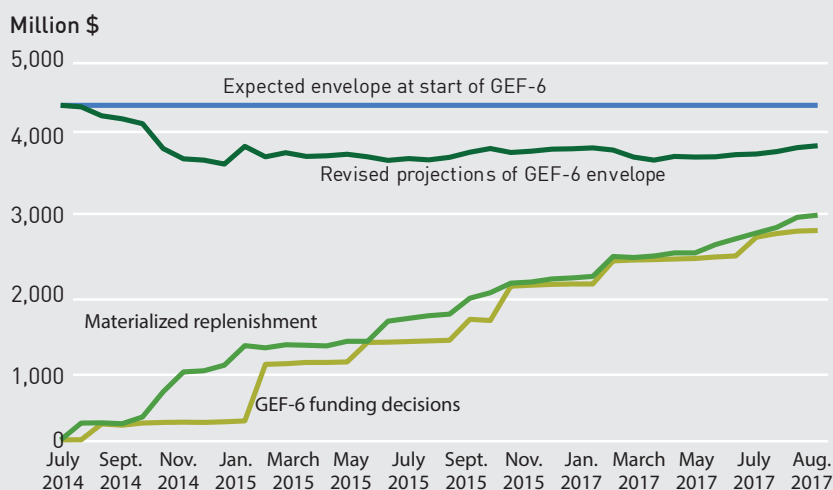
The GEF-6 STAR was implemented based on a projected replenishment of \$4.43 billion, with \$2.34 billion budgeted for country allocations. As of this writing, over half of all GEF Trust Fund programming resources are channeled through the STAR. During GEF-6, the U.S. dollar appreciated compared to other currencies, leading to a shortfall in the projected replenishment (figure 1).

RESULTS

STAR design. Although the GEF Performance Index adequately incentivizes improved performance, country allocations are primarily driven by the GEF Benefits Index. This is so because normalized GEF Benefits Index scores of recipient countries are spread across a wider range than their normalized GEF Performance Index scores. While per capita GDP figures for recipient countries also vary considerably, GDP Index scores do not drive country allocations because of the low weight of the exponent of the GDP Index. The instrumental role played by GEF Benefits Index scores in determining country allocations is appropriate because it helps in directing GEF resources to countries where there is higher potential to produce global environmental benefits.

GDP Index weight. During GEF-5, the GDP Index had an exponent of -0.04 ; this was increased to -0.08 for GEF-6. Simulations indicate that this change led to a moderate increase in allocations for LDCs (a 4 percent increase) and low-income countries (a 5 percent increase). The exponents of the income-based index used in the performance-based allocation formulas of other multilateral organizations range

FIGURE 1: GEF-6 envelope projections by the GEF Trustee (million \$)



from -0.125 to -0.90 , which are substantially higher values than that used in the GEF STAR model. From 2012 to 2016, the per capita GDP increased at a higher rate for low-income countries than for middle- and upper-middle-income countries. Simulations show that when 2016 per capita GDP data are used instead of 2012, with all else remaining the same, allocations for low-income countries decline by 1.4 percent and for LDCs by 0.9 percent.

Change in floors for LDCs. From GEF-5 to GEF-6, the ex ante country allocations of LDCs increased by 21 percent, from \$429 million to \$518 million. The LDC share of country allocations also increased, rising from 18 percent to 22 percent. Decomposition of the increase in LDC allocations shows that 41 percent of the increase is accounted for by the increase in the floors for LDCs. An increase in the weight of the GDP Index from -0.04 to -0.08 accounts for 23 percent of the increase. Other factors—including changes in the underlying values of per capita GDP, GEF Performance Index scores, and GEF Benefits Index scores; the ceiling for the climate change focal area; and the change in the amounts provided for country allocations from GEF-5 to GEF-6—account for the remainder of the increase. The increase in floors also had the effect of increasing aggregate allocations for SIDS by 5.1 percent, as several SIDS are also LDCs.

GEF-6 replenishment shortfall. From December 2014 onwards, GEF Trustee reports have projected a shortfall of more than \$500 million in the GEF-6 replenishment due to the appreciation of the U.S. dollar vis-à-vis other currencies in which replenishment commitments had been made. The GEF Secretariat has managed the projected shortfall in the GEF replenishment proactively. At the October 2016 meeting of the GEF Council, the Secretariat presented an [update on GEF-6 resource availability](#), which informed the Council of the extent of the shortfall and

recommended measures to address it. After discussing the paper, the Council accepted the Secretariat's recommendation to maintain the country STAR allocations of SIDS and LDCs and focal area set-asides to meet convention obligations at their original level; and to meet the shortfall by reducing the focal area resources proportionately, while maintaining the original GEF-6 balance. Several non-SIDS and non-LDCs felt they would have been better prepared had the effect of the GEF Secretariat's recommendations on them been clarified during the Council meeting. Although recipient countries would have liked to know their updated allocation as a fixed number, it was difficult for the Secretariat to provide this information, as shortfall projections change with fluctuations in the currency exchange rate and available resources are difficult to ascertain with finality until all pledges materialize or the replenishment period ends.

GEF-6 STAR calculations. In response to the recommendations of the GEF-5 STAR midterm review, the GEF Secretariat has made efforts to reduce errors. Several improvements were made in the processes adopted for carrying out calculations for GEF-6. In general, the calculations of STAR allocations were carried out correctly. However, errors were observed in some calculations. The overall effect of the errors was not substantial. There is scope for further minimizing the risk of such errors occurring.

STAR utilization. Compared to the projected availability of resources, overall utilization of resources, including set-asides, for focal areas covered under the GEF-6 STAR was 64 percent through September 2017. Overall utilization of focal area resources was higher for land degradation (69 percent) and biodiversity (67 percent) than for climate change (61 percent). It is likely that full or almost full utilization will be achieved by the end of the GEF-6 period in June 2018.

Flexibility in cross-focal use of STAR resources. During GEF-6, countries with aggregate allocations up to \$7.0 million were provided with full flexibility for cross-focal use of STAR resources. Countries with allocations greater than \$7.0 million were provided a marginal adjustment of \$2.0 million. Of the 143 countries that received a country allocation, 56 (39 percent) had already utilized the flexibility feature as of September 2017. Based on the net cross-focal transfer so far, the net transfer for the entire GEF-6 period is likely to be less than 3 percent of the total focal area resources of the contributing focal areas. Therefore, compliance with the GEF STAR policy to protect at least 90 percent of the resources of the climate change and biodiversity focal areas is likely. Analysis shows that countries use marginal adjustments to fully utilize their residual focal area allocations, and that marginal adjustments that are around half the GEF funding for an average full-size project usually may be optimal for maximizing flexibility as well as for ensuring that the focal area balance of the GEF portfolio is maintained.

Sustainable forest management incentive scheme. Of the \$230 million allocated to the sustainable forest management incentive scheme for GEF-6, \$216.6 million (94 percent) had been utilized through September 2017. Sustainable forest management incentives attracted \$456.0 million from STAR country allocations and set-asides, and additional contributions of \$10.5 million from non-STAR focal areas. Thus, during GEF-6, the GEF has so far invested \$682 million in activities aimed at sustainable forest management, which is in line with the \$699 million invested during the GEF-5 period.

Equity in allocation of GEF resources. The level of concentration of GEF resources among countries has decreased across the GEF periods. The Herfindahl-Hirschman Index (HHI) score for share of recipient countries of

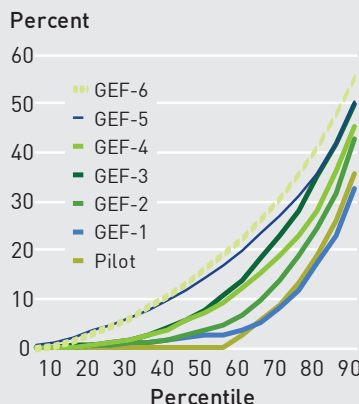
GEF funding for national projects is 251 for GEF-6 as of September 2017; this is the lowest score for any GEF period (figure 2). Further, the bottom half of the countries with the smallest share of GEF funding for national projects now account for 16 percent of the total, compared to 7 and 3 percent during GEF-3 and GEF-2, respectively (figure 3).

Stakeholder perspectives on the STAR. An online survey was administered February–March 2017 to Council members and staff of the GEF Agencies, the GEF Secretariat, the GEF operational focal points, the conventions, and the GEF Scientific and Technical Advisory Panel. Results show that respondents were in broad agreement that the STAR supports environmental activities in a wide range of countries, is important in helping the GEF meet country objectives, and ensures equitable resource allocation to recipient countries. In general, operational focal point

FIGURE 2: HHI score by period—concentration of GEF Trust Fund resources among recipient countries



FIGURE 3: Share of GEF recipient countries in GEF Trust Fund funding for approved national projects



responses on the STAR's performance indicate greater confidence in its effectiveness than the responses of other stakeholders. Two-thirds of the respondents to the GEF-6 STAR online survey agree with the statement that the STAR is a key component of the GEF's ability to meet country objectives. This finding is consistent with that of the GEF-5 STAR online survey, wherein 75 percent of the respondents agreed with the statement that the STAR had made GEF operations more relevant to country needs and priorities.

Effect of the STAR on project performance. Comparison of performance ratings of GEF-3 and GEF-4 projects from focal areas covered by or outside of the STAR shows that STAR funding makes little difference to performance ratings. Analysis shows that the difference in the percentage of projects in the desirable range for performance

ratings was –1 percent for outcomes, +1 percent for sustainability, –1 percent for quality of implementation, +14 for broader adoption, and +3 for environmental stress reduction. None of these differences are statistically significant at a 95 percent confidence level.

CONCLUSION

The GEF-5 and GEF-6 STAR have facilitated more equitable allocation of GEF resources to recipient countries. Broadly, recipient countries consider the STAR to be an effective mechanism for resource allocation. The evaluation findings show that without an increase in the GDP Index weight there is a risk that the share of low-income countries may decrease during GEF-7 due to changes in the underlying GDP data. The increased flexibility in cross-focal use of country allocations has been useful, and there is scope for further increase in marginal adjustments. However, the increase in the marginal adjustments may need to be calibrated so that it does not risk focal area balance.

RECOMMENDATION

The GEF Secretariat should develop clear protocols and quality checks on calculations. In line with the GEF-5 midterm review of the STAR, the GEF Secretariat has made efforts to minimize errors in STAR calculations. As STAR databases and equations become increasingly complex, the Secretariat should ensure that quality control protocols are developed and risks to mistakes in calculations are minimized. ■

