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Agenda Item 8

MID-TERM REVIEW OF THE RESOURCE ALLOCATION FRAMEWORK

(Prepared by the GEF Evaluation Office)

Recommended Council Decision

The Council, having reviewed document GEF/ME/C.34/2 “*Mid-Term Review of the Resource Allocation Framework*” takes note of the *Management Response to the Mid-Term Review of the Resource Allocation Framework* (GEF/ME/C.34/3), and decides that:

- a. Reallocation of unused funds will be allowed in the last year of GEF-4
- b. The last phase of GEF-4, including reallocation of funds, will be implemented with full public disclosure, transparency, participation and clear responsibilities
- c. Implementation rules will be simplified.

The Secretariat is requested to inform the Council of steps taken to address the above items at its meeting in June 2009.

The Council also requests the GEF Secretariat, in collaboration with the GEF Agencies and STAP, to commence steps to improve RAF design and indices for GEF-5, taking into account the experience with the RAF and the recommendations of the mid-term review on future issues.

The Council requests the GEF Evaluation Office to report through the Management Action Record on the follow- up to the decisions.

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EXECUTIVE SUMMARY

1. The **objective** of this mid-term review is to “evaluate the degree to which resources have been allocated to countries in a transparent and cost-effective manner based on global environmental benefits and country performance”. This includes assessment of (a) the design of the RAF; (b) the early implementation; and (c) comparison with the systems of other multilateral agencies.

2. The **methodology** of the review included documentation review, electronic survey of stakeholders; extensive stakeholder consultation, collaboration with the NGO network, and a review of the RAF and the small grants programme (SGP). A comparative study of other performance based allocation (PBA) and a separate Delphi study provided review of the RAF design and of practices by other organizations. This was complemented by in-depth statistical analysis, including simulation and data modeling, as well as a portfolio and pipeline review with historical time series analysis. The mid-term point of the RAF is formally July 3, 2008. This date has been used for portfolio analysis, except for re-allocation issues, which are discussed separately.

3. As intended in the RAF design, the RAF allocations correspond to the overall pattern of historical allocations in the GEF, although there are considerable shifts for some countries. The RAF formula channels resources to countries with high global environmental benefits as measured by the GEF Environmental Index, while the GEF Performance Index (GPI) is not as influential in determining allocations. The countries with individual allocations accumulate 88% of the total GBI scores in biodiversity and 75.3% of the total resources in the focal area. In climate change, the 46 indicative countries receive 75% of the total focal area resources, and cover 89% of scores in climate change.

4. The overall resource utilization through PIF approvals is 31% of focal area funds at midpoint. Six percent of total GEF-4 country RAF funding is CEO endorsed. Countries receiving a climate change group allocation have only utilized 5% of their funds, biodiversity group allocation countries have used 18%. The majority of countries in special circumstances (SIDS, LDCs, post-conflict countries, etc.) receive group allocations, and it is very difficult to divide out whether low access is due to the special circumstances and/or the problems associated with the group allocations. Continued low access is not in the interest of the countries and the GEF. Unused funds at the end of GEF-4 are not of benefit to the global environment.

5. Utilization rates have also been influenced by other factors and changes in the GEF partnership, as has Agency participation and the portfolio. The World Bank has dropped from a share of more than half of GEF resources to 32% of GEF RAF resource utilization in the two focal areas; while UNDP and the Executing Agencies have increased their involvement.

6. The RAF has also caused major shifts in roles in the GEF partnership, including an increase in the role of GEF operational focal points mainly in individual allocation countries, and of the GEF Secretariat. The sense of ownership is enhanced in individual allocation countries, although the RAF has brought out more strongly the inherent conflicts between the criteria of global environmental benefits, overarching focal area priorities and country-specific sustainability needs.

7. The RAF design of indices for biodiversity and climate change in general reflects the best scientific data available currently. There are scientific efforts to develop responses to data gaps such as for marine resources and for adaptation. Other design factors, not based on scientific work, are very influential in shaping the pattern of resources countries may obtain, and can be re-visited. These include the 75% rule (of funds to individual countries), the 50% rule of resource utilization, the ceilings and the 10% set aside for global and regional resources. The purpose of the Global and Regional Exclusion (GRE) was to support projects of global scope not funded by countries, and multi-country cost-effective

projects with benefits beyond each country. The reduction in global and regional funds has affected Agencies such as UNEP.

8. Combined with the slow start of GEF-4 and the GEF reform agenda, the implementation of RAF was more instrumental in influencing slow utilization of funds than the RAF *design*. Clear and simple rules of the game are indispensable for a network partnership as complex as the GEF, where actors have many different levels of capacity and are located all over the world. Planning for and use of global and regional exclusion funds should be made transparent to countries and Agencies, especially when involving programmatic approaches.

9. The evaluation reached the following **conclusions**:

- a. The GEF is operating in circumstances which increase the need to purposefully allocate scarce resources.
- b. Data and indicators for assessing global environmental benefits used in the RAF reflect the best available information today, with some gaps which should be addressed over time.
- c. The RAF does not provide effective incentives to improve performance.
- d. Unclear guidelines for the Group Allocation system in the RAF have limited the access for countries with a group allocation in the first period of the RAF.
- e. Complexity of implementation rules in the RAF does not provide encouragement for flexible and dynamic use of resources for a relatively small GEF-4 funding.
- f. The design and rules of the RAF are too complex for a network partnership like the GEF, and guidelines and support have not succeeded in making the RAF transparent and accessible.
- g. 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.
- h. The exclusions did not function well and may have diminished the effectiveness of the GEF in delivery of global and regional environmental benefits.

10. Of organizations with a performance-based allocation system, the GEF is currently the donor working in the largest number of countries with the smallest amount of funds, and the only donor with *two* complex allocation systems, one for biodiversity and one for climate change. While it is too early to assess the cost effectiveness of the RAF, which will depend mainly on whether or not it improves GEF's impact, the trends are not favorable.

11. The review provides the following **recommendations**:

- a. Reallocation of unused funds should be allowed in the last year of GEF-4
- b. The last phase of GEF-4, including reallocation of funds, should be implemented with full public disclosure, transparency, participation and clear responsibilities
- c. Implementation rules should be simplified.
- d. Steps to improve RAF design and indices for GEF-5 should be taken as of now.

The improvements for GEF-5 require consultation with all GEF stakeholders, and that aspects of design and implementation be considered together. The future issues for improvements include:

1. Improvement of the global benefits indices and their weights
2. Increase of weight of the environmental portfolio performance
3. Improvement of predictability and cost-benefits for the group allocation, or discontinuation of the group allocation
4. Reconsideration of ceilings, floors and the 50% rule
5. Recognition of transboundary global environmental problems
6. Expanding the RAF to one integrated allocation for all focal areas.

BACKGROUND

12. In response to the policy recommendations of the third replenishment, the Council of the Global Environment Facility (GEF) agreed to implement, for the GEF-4 replenishment, a resource allocation framework based on an index of a country's potential to generate global environmental benefits in the biodiversity and climate change focal areas and an index of performance. All references to the decisions on the RAF can be found in the full report (Chapter 3).

13. The policy recommendations for the fourth replenishment requested the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide. It was also expected that the RAF would provide a framework for countries to program their resources in accordance with national priorities; provide countries with increased predictability in GEF financing available from the GEF, and enhance transparency by specifying a well-defined and publicly disclosed method for allocating GEF resources.

14. According to the final approved document on the framework, the RAF is "... a system for allocating resources to countries in a transparent and consistent manner based on global environmental priorities and country capacity, policies and practices relevant to successful implementation of GEF projects". It is composed of three indices:

- a. Global Environmental Benefits Index for biodiversity (GBI-BIO)
- b. Global Environmental Benefits Index for climate change (GBI-CC)
- c. Global Performance Index (GPI) which is combined with both of the GBI indices.

15. Under the RAF, the GEF allocated 1 billion US\$ to 150 countries for biodiversity and 1 billion US\$ to 161 countries for climate change for the period 2006-2010. Countries access these funds by proposing projects in line with GEF strategic priorities. The GEF Council requested the GEF Evaluation Office to review the RAF after two years of implementation and to examine the operational experience with the RAF.

SCOPE AND METHODOLOGY

16. The **objective** of the mid-term review is to "evaluate the degree to which resources have been allocated to countries in a transparent and cost-effective manner based on global environmental benefits and country performance". The mid-term review addresses three sub-objectives: (a) to evaluate the extent to which the design of the RAF is able to facilitate maximization of the impact of scarce GEF resources to enhance global environmental benefits; (b) to assess the extent to which the early implementation of the RAF is providing countries with predictability and transparency as well as enhancing country driven approaches to improve the potential for delivery of global environmental benefits; and (c) to compare the design and implementation of the RAF with the resource allocation systems of other multilateral agencies.

17. To address the ten key questions of the review, the GEF Evaluation Office (EO) codified more than 200 Council **documents** and all Joint Summaries on the RAF and related subjects; documents related to the RAF design, Working Group and Inter-agency task force; Convention guidance; Assembly documents and correspondence. A comparative **study of other performance based allocation (PBA)** frameworks yielded lessons and information on best practices, and included consultations with all the major International Financial Institutions (IFIs) with such systems. A separate **Delphi study** provided for anonymous review of the RAF indicators, indices and design by three panels of independent experts on global biodiversity; climate change and on performance.

18. Views from experts and stakeholders were complemented by **statistical analysis**, simulation and data modeling. Based on the underlying indicator data provided by the GEF Secretariat, the MTR team verified accuracy and effectiveness of the indices, their composition and their interrelations. The simulations covered the exclusions to the allocations; changing formula weights, floors and ceilings, and numerous other design factors.

19. The review team designed and compiled a number of databases to analyze the effect of the RAF on the **portfolio**. The project database compiled by the recent Joint Evaluation of the GEF Activity Cycle was used as a baseline at the end of GEF-3, and extended with a country analysis component to analyze the effect on various country categories; a database to track and compare baseline pipeline; proposals made by countries; and the current pipeline and approvals; and a RAF project database, which includes the portfolio of approved projects and PIFs since the start of GEF-4; as well as proposals under development (pipeline). All data was received directly from GEF Secretariat database download, and subsequently verified with Agencies, countries and Secretariat staff. All data is up-to-date as of 3 July 2008, the midpoint of GEF-4. The combination of the design statistics and the portfolio allowed the team to undertake an historical time series analysis. The effect of the RAF on GEF operations was analyzed through a quantitative comparison with historical commitments and previous implementation arrangements. Other focal areas are also included for comparison purposes.

20. **Extensive stakeholder consultation** through semi-structured interviews, focus group interviews and workshops provided diverse and rich views from key informants on both implementation and design. The stakeholders interviewed included GEF Operational and Political Focal Points, other relevant national government stakeholders; GEF Secretariat, Convention secretariats; Agency staff, GEF project staff; and NGOs, sources of indicator data, and PBA experts. The data from interviews and consultations were aggregated in *Atlas.ti* which identified the recurring and divergent opinions across interviewees from different sources. An electronic survey with close to 700 respondents provided a broad perspective on many questions. Collaborative mechanisms with the NGO network, the small grants programme (SGP) and the Country Support Programme (CSP) allowed the review to reach a large group of constituents, including GEF focal points in five sub-regional workshops (Bali, Belgrade, Manila, Douala, and Windhoek). The EO also consulted countries through national dialogue workshops; constituency meetings; bilateral meetings, select field visits, and participation and side events in the Conferences of the Parties to the Biodiversity and Climate Change conventions.

DEVELOPMENT AND CURRENT STATUS OF THE RAF

21. The development and implementation of the RAF took place during a period marked by many other changes and reforms. These influenced the RAF implementation and design; and in turn the RAF also affected the GEF partnership and shaped the implementation of other reforms. Furthermore, the GEF-4 replenishment, although successful and an increase over GEF-3 in nominal terms, did not provide an increase in real available funding, whereas the demands on the GEF and the number of strategic objectives and focal areas had grown over time.

22. At the same time, the donor community and conventions have paid increasing attention to the need for support and resource mobilization for the environment. The growing awareness of climate change and its effects has led to the establishment of new funds in parallel to the GEF Trust Fund. Enhanced effectiveness underpins the revised focal area strategies for GEF-4, approved in October 2007, which tightened the scope of the focal areas and moved the strategic objectives to a higher, more programmatic level. GEF-4 also started with a push for greater efficiency, with the revision of the GEF project cycle, and a subsequent growth in programmatic approaches, as well as the decision to level the playing field between the GEF Agencies through deletion of the corporate budgets for Implementing Agencies and the increase of the project fees. These and other GEF reforms and changes have greatly

affected RAF implementation and signal that exact comparisons of the RAF implementation period with GEF-3 cannot be made.

23. The development of the RAF was lengthy, with seven Council meetings over four years, as well as numerous workshops, task forces and consultations. Once agreement was reached in September 2005, planning for implementation started. The country allocations were disclosed in September 2006, after the end of GEF-3 in July 2006. Country-level discussions on priorities relative to each allocation had started but continued until spring of 2007. The implementation of the RAF officially only began in February 2007, when the fourth GEF replenishment came into effect. These various delays affected the timely launch of the RAF. While the period until midpoint in July 2008 has been less than two years, and environmental impacts are not yet observable, clear effects are emerging including differences with the other focal areas that are not yet part of the RAF.

Historical allocations

24. As intended in the RAF design, the RAF allocations correspond to the pattern of historical allocations in the GEF. Statistically, the RAF formula yields high levels of correlation between past and current allocations for all countries over all phases, as seen when analyzing trends in scattergram (see technical paper 3). Although the results of the RAF formula may mimic historical allocation, there are several formulae with various weights that could achieve this.

25. For all past phases, all but three of the top twenty RAF country allocations in biodiversity were also in the top twenty historically, and twelve of the twenty highest-allocation countries in climate change are the same. The country shares within each replenishment show a high correlation with RAF GBI and focal area allocation share. Most of the countries in the group allocation received limited amounts in the past. Also, the larger nominal GEF-4 replenishment, and the reduction in global and regional projects resulted in more resources available to allocate to countries. See **map** for the initial allocation, September 2006.



26. Within the overall pattern there are considerable shifts for some countries and at times a shift in predominance of resources between the two RAF focal areas for a country. During GEF-3, more than a hundred countries accessed funds in both focal areas. Compared to past amounts, the RAF allocation represents a possible gain for 71 climate change countries and for 115 biodiversity countries, though not in large amounts, provided the countries can access the maximum of their allocations (the remaining eligible countries receive less than they did in the past). The possibilities of access are greater if a country has a history of GEF involvement, existing pipeline and an individual RAF allocation.

Individual allocation countries

27. The RAF provided 57 countries in the biodiversity focal area with **individual** potential allocations totaling 753.2 million US\$. In climate change, 46 countries have been allocated a total of M\$751.4 in individual allocations. The comparison with historical allocation shares by region is presented

1.1 RAF adjusted allocation and country count by constituency/region	Allocation share for 46 indicative climate change countries		Allocation share for 57 indicative biodiversity countries	
	past	RAF	past	RAF
Latin America	23%	15%	40%	40%
Asia	49%	44%	26%	27%
Europe and CIS	11%	30%	6%	5%
East & South Africa	6%	6%	16%	16%
Caribbean	1%	1%	1%	4%
West & Central Africa	2%	1%	5%	5%
North Africa/Middle East	8%	4%	3%	2%
Pacific SIDS	0%	0%	2%	2%
Total	100% of 1,557M	100% of 751 M	100% of 1,347M	100% of 753M

in **table 1.1**. The 31 countries with individual allocations in both focal areas have a share of biodiversity of 61% (compared to 52% historically); and 68% of climate change compared to 73% in the past. To promote a more equitable distribution of resources, a country allocation cannot exceed 10% in biodiversity and 15% in climate change of total focal area resources. These ceilings are set too high to affect allocations as only one country is limited, in climate change.

Group allocation

28. For the group allocation countries, a historical comparison is difficult because the countries share a pool of funds with no fixed allocation per country. However, before they are put into the group, these countries have a *preliminary* ranking and allocations (not made public). The total pool amount consists of

1.2 Status of group allocation	Biodiversity	Climate change
Number of countries	93	115
Total pool amount	M\$146.8	M\$148.6
Maximum possible per country	3.5M	3.1M
Preliminary allocation:		
a. Countries with <i>more</i> than 1M US\$	53	41
b. Countries with <i>less</i> than 1M US\$	10	33
c. Countries with <i>fixed</i> amount at 1M US\$	30	41
Supplement needed for (b) and (c)	M\$ 15.37	M\$ 25.9

the preliminary allocations of the group countries of *more* than 1M, plus the 1M each for the rest (this is called the adjusted allocation (see **Table 1.2**). Once they are put into the group allocation, no amount is guaranteed for any country, but all can compete for a higher amount

than what they normally would receive from their preliminary allocation.

29. There are many possibilities for access. As an extreme case, 42 biodiversity countries could get the maximum of 3.5M, but then 51 would get zero (in climate change, 48 can get the maximum while 67 countries get zero). Or, if all countries receive 1M from the pool, then 21 countries in biodiversity and 16 countries in climate change could get the maximum of more than 3 million each. In previous replenishment periods a lot of countries did in fact get zero grants.

30. The majority of countries in special circumstances receive group allocations (table 1.3). For example, in climate change, 97% of the 48 Small Island Developing States (SIDS) are part of the group; and 88% of 48 Least Developed Countries (LDCs) are group allocation countries. Given this pattern, the challenges of the group allocation intensify the challenges of SIDS and LDCs for access to GEF resources.

1.3 RAF adjusted allocation and country count by classification	161 CC countries						150 BD countries					
	count			allocation M\$			count			allocation M\$		
	all	ind	grp	all	ind	grp	all	ind	grp	all	ind	grp
SIDS	35	1	34	40.56	4.25	36.311	35	9	26	110.05	62.29	47.76
LDC	48	6	42	80.36	28.44	51.919	48	13	35	154.84	95.63	59.2
LandLocked	36	9	27	98.63	59.86	38.763	35	9	26	87.64	50.48	37.16
Fragile	30	4	26	56.35	27.64	28.707	30	8	22	86.21	48.33	37.87
HIPC	40	5	35	67.90	21.55	46.353	40	16	24	164.69	124.08	40.61

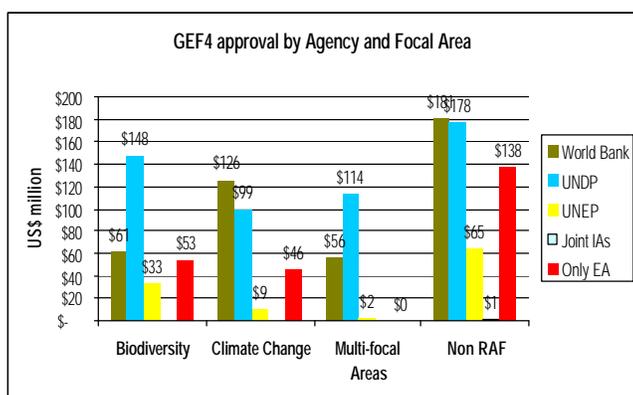
Resources and global environmental benefits

31. The RAF model channels resources to countries with high global environmental benefits as measured by the GBI-BIO scores; the GEF Performance Index (GPI) is not as influential in determining allocations. The 57 indicative countries, defined as countries with individual allocations, accumulate 88% of the total GBI scores for the 150 eligible countries, as defined by the biodiversity index, and accumulate 75.3% of the total resources in the focal area. In climate change, the 46 indicative countries receive 75% of the total focal area resources, and cover 89% of environmental GBI-CC scores of the 161 eligible countries (see **table 1.4**). There is good coverage of mega-diverse countries for biodiversity, but less for biodiversity hotspots that straddle individual and group allocation countries (the coverage of hotspots is also influenced by a reduction in global and regional resources). In climate change the main determinant for allocation is GHG emissions.

Table 1.4: Shares of GBI scores and Allocations in biodiversity and climate change

Country type	# of countries	Share of countries	Share of Allocation	Share of GBI
Individual allocation BD	57	38%	75%	88%
Group allocation BD	93	62%	15%	12%
Individual allocation CC	46	29%	75%	89%
Group allocation CC	115	71%	15%	11%

Resource utilization



32. There is substantially lower use of funds in the RAF focal areas during its first period as compared to previous replenishment periods. At midpoint there have been almost no disbursements on the ground from GEF-4 funding. The overall rate for resource utilization is 31% of focal area funds at midpoint. In comparison, the resource utilization is higher in the non-RAF focal areas: international waters (59%), land degradation (81%), and POPs (48%) (**Figure 1.1**). It has to be noted that the first period of the RAF has actually been less than two years, given the fact that GEF-4 became effective in February 2007.

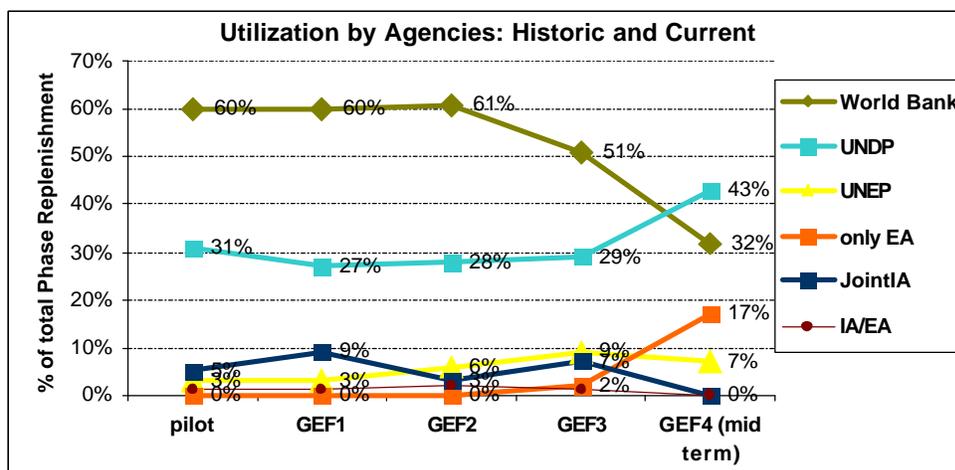
33. Under the new project cycle, the above utilization is defined by the Secretariat as PIF approvals (previously concepts in the pipeline) although at this stage the project document has not yet been endorsed. Up to 3 July 2008, the formal midpoint of the RAF, fifteen full-size country projects have been CEO endorsed. If CEO endorsement of the project document is considered as a more realistic indication of use of funds, countries have utilized 6% of total GEF-4 country RAF funding (see **Table 1.5**). Project start, when disbursement of funds takes place, is only recorded for one project.

1.5 Status	Biodiversity	Climate change
RAF allocation	900 M	900 M
Resource utilization (PIF approval)	287 M (32%)	252 M (28%)
CEO endorsement	37.8 M (4%)	65.4M (7%)
In implementation	N/A	N/A

34. The access to resources is uneven; climate change group-allocation countries have only utilized 5% of their allocation, biodiversity group-allocation countries have used 18%, while the individual allocation countries have used 33% in PIF clearance, preparation grants and MSP approvals. (Global and regional funding is discussed later.)

Agency composition

35. The RAF has led to an increased participation of UNDP and the “new” GEF agencies and a decrease in World Bank and to a lesser extent UNEP participation. Historically the largest Agency in terms of GEF resources, the World Bank (including IFC) has dropped from a share of more than half of GEF resources in biodiversity and climate change in past periods, to 32% of GEF RAF resource utilization in PIF approvals. The World Bank share has increased for multi-focal areas, from 21% to 33% in GEF-4, while its overall involvement in non-RAF focal areas has increased as compared to the past. As seen in **Figure 1.2**, UNDP now accounts for 43% of the resource utilization, up from 28% historically. Following the revised policy of leveling the playing field for the GEF Agencies, the role of the seven “Executing Agencies” (ExA) has increased in GEF-4 to 17% of RAF utilization (compared to 7.9% in GEF-3 including indirect access, or 2% of all historical resources). This includes 30.1M for EBRD projects in Russia and Ukraine, seven projects for ADB including activities within the Pacific



programmatic approach. IADB has eight projects in the LAC region, IFAD and FAO also have GEF-4 projects. Many reasons in addition to the RAF influence the shift in positions. All of the Agencies have been affected by other GEF-4 reforms and the shift in roles under

the RAF. The shift also reflects UNDP’s ability to provide technical assistance and capacity building supported by local offices, plus its readiness to engage relatively small projects under RAF. The spread of small RAF allocations over many countries makes it difficult to pursue the policy to blend IFI loans with GEF projects of a cost-effective size. Other, internal funding alternatives are often easier to access than the GEF support.

Roles and relationships

36. The RAF has caused major shifts in roles in the GEF partnership. The RAF did not require any formal change in roles in the GEF apart from the new task of managing and monitoring the RAF by the Secretariat. Combined with other reforms, however, the RAF has prompted the GEF Secretariat to take on a stronger role in project inception, program development and bilateral dialogue with countries, for which the RAF pipeline discussion was the starting point. GEF operational focal points report an increase in their role, mainly in individual allocation countries, from just required endorsement to actual programming and prioritization. They have led national consultations to establish GEF priorities for the pipeline, which have often been broader and more systematic than previously. Focal points in group allocation countries are expected to fulfill the same coordination and prioritization role, but with less resources to program.

37. This does not mean that there is full national ownership of GEF proposals; as the involvement of other partners such as NGOs, private sector, or donors was less extensive, as consultations shifted from a project to national portfolio level. Only forty-four percent of NGO and private sector organization staff indicated in the mid-term review survey that public participation was moderately or very successful, and sixty-nine percent of SGP stakeholders indicated their concern that SGP's neutral role may be weakened by governments' strengthened position in GEF planning.

38. The roles are still evolving. Additional changes occurred simultaneously, such as the diminished role of the three original GEF Agencies in the strategic and management of the GEF, as well as the change in the role of the Council in the project cycle and the introduction of programmatic approaches.

Nature of the portfolio

39. Although utilization at the PIF-stage is not yet high, some implementation trends are obvious. There is a slight increase in the MSP share (9.5% compared to 5.5% at GEF-3 mid-point). As 93% of climate change group countries (and 53% of biodiversity group countries) have not accessed any amount, this figure may rise further during the remainder of GEF-4. However, with some regional exceptions, countries and Agencies generally do not find MSPs cost-effective, as this modality requires almost the same level of procedural effort as full-size projects. While MSPs can be a way to distribute scarce resources between more project proponents, a shift towards MSPs has implications for the cost effectiveness of the overall GEF portfolio. MSPs were not subject to cycle simplification.

40. There has been a growth in multifocal area projects, from a 13% share of historical replenishments to 33% in GEF-4 so far, covering both RAF and non-RAF funds. Joint Agency projects seem to have disappeared, but projects are also split into PIF components per Agency, country, focal area, and source of funds, which makes comparison with past practice difficult. The division of funds under the RAF - between countries, focal areas and exclusions - has increased the need to draw on many sources to develop a feasible project, so that the substantive synergies of such MFA projects are uncertain. This is also the case for the twelve approved programmatic approaches, some for a given country, some for regional program and some global. The programmatic approaches may present a solution to low delivery for some countries, but it is too soon to discern the effects. OPS4 will address new evidence whether and how they increase efficiency as currently implemented.

41. There is also a reduction in enabling activities, with only ten approved in biodiversity and none in climate change. This may be partly explained by their cyclical nature which depends on convention guidance. The cost of enabling activities could require the full amount allocated for countries in the group allocation, leaving no funding for other projects. Enabling activities are part of the responsibilities of the countries in fulfilling their obligations to the convention. The main concern is the support to the Biosafety

Protocol. So far in GEF-4, a Biosafety programmatic approach and ten biosafety projects have been approved, less than expected given the historic pattern. In GEF-3, most support for biosafety (21 M US\$) was provided through global projects. The RAF appears to have slowed down the momentum created by the previous global biosafety project. The Delphi experts agreed that biosafety is best addressed as a transboundary issue outside the RAF design.

Cost effectiveness

42. It is too early to say if the RAF has been cost-effective, but the trends so far are not favorable. The cost effectiveness of the RAF will depend mainly on whether or not it improves GEF's impact. In the short term, RAF has yielded benefits in terms of better planning and ownership in some countries. It has improved predictability of funding for individual allocation countries. However, so far, its effects on the portfolio and pipeline are mixed. Some countries with large allocations have been able to bring more coherence to their portfolios.

43. On the other hand, RAF may have encouraged a broader spread of resources, smaller projects and an entitlement mentality among some member governments. The RAF development process was a long and laborious investment. The RAF has not benefited from significant involvement by NGOs, civil society and the private sector, with a consequent loss in opportunities to broaden the effectiveness and range of GEF resources. As few projects have been approved, and even fewer started, the hidden opportunity costs of delays in impact can be large.

44. The cost-benefit has not been fully demonstrated compared with the previous system or other PBA systems, in terms of value for money. The small allocations coupled with extensive GEF requirements has reduced cost-effectiveness both at the portfolio level and project access level, by the extensive consultation, wasted efforts, re-endorsements, dropped projects and procedures for obtaining approvals for proposals. Results have not yet materialized. Cost-effectiveness can be enhanced by:

- a. Increasing overall funds and country allocations (same effort but more benefit)
- b. Decreasing efforts to access existing funds (same benefit and quality-at-entry but less effort)
- c. Preferably, both of the above.

MAIN CONCLUSIONS

45. The RAF has, overall, been implemented in accordance with Council decisions. This does not imply that the underlying objectives have been fully achieved, as the transition to a new way of providing resources has been challenging. When reviewing the RAF design, implementation and comparative experiences, the mid-term review found that these issues are to some extent interlinked. Some difficulties in implementation are caused by the rigid design rules of the RAF, while in other cases the design is reasonable but their operationalization has not worked well. Some implementation problems are linked to the fact that the GEF mandate, practices and RAF design differ from that of other PBA systems.

Conclusion 1: The GEF is operating in circumstances which increase the need to purposefully allocate scarce resources.

46. Internationally, the call has increased for harmonization, alignment, ownership and fitting external funding into national priorities and strategies. To address the issue of scarce resources and promote national programming, resource allocation systems have been put in place in most if not all multilateral funding agencies. The UN agencies tend to have needs-based allocation systems, whereas the International Financial Institutions tend to combine needs and performance indicators.

47. The fourth replenishment of the GEF has delivered less money in real terms than previous replenishments. At the same time, the number of focal areas has increased to six. New issues keep emerging and the urgency of tackling global environmental problems has increased. Furthermore, a relatively large number of eligible countries received no GEF support in the past, and consequently less money needs to be spread over more countries for more tasks. In order to meet the guidance and expectations of the conventions and to address the growing number of environmental challenges, returning to an ad hoc fashion of delivering funding to address problems is no longer an option. However, the resource allocation system now adopted by the GEF needs specific improvements if it is to serve effectively as a tool to resolve these issues.

48. The RAF was not introduced based on an assessment of the existing system for producing global environmental benefits. The historical approach to global environmental benefits has been based on the Operational Strategy, Operational Programs and Strategic Priorities established for each replenishment phase. While these strategies and priorities are still in place, the country-based nature of the RAF poses intrinsic challenges in managing and monitoring the pipeline and portfolio to meet such priorities. It may also curtail opportunities to promote new project modalities and innovative corporate initiatives, such as NGO and private sector cooperation.

Conclusion 2: Data and indicators for assessing global environmental benefits used in the RAF reflect the best available information today, with some gaps which should be addressed over time.

49. The indices for biodiversity and climate change in general reflect the best scientific data available at the current point. There are, however, efforts to develop responses to data gaps within the scientific community, that may, in the medium to longer term, represent improvements to the RAF indices. The Delphi study did not support extending the biodiversity indices to include agrobiodiversity, and led to questions whether biosafety can be addressed appropriately through indices. The Delphi experts strongly support the inclusion of marine invertebrates and ecosystems, for which data is now available or emerging.

50. Simulations to respond to the issue of **marine/terrestrial** balance demonstrate that a 50-50 weight with the current data would bring five SIDS up to individual allocations, while seven countries (including one SIDS and four landlocked countries) would move from individual to group allocations. For SIDS currently receiving individual allocations, amounts would increase for five and decrease for two countries. Because individual recipient countries also have large marine resources, their GBI also increases when modifying the weights. It is not clear if new data on biodiversity ocean resources would change this pattern significantly. The individual allocation countries currently have 85% of the accumulated marine score (and 89% of the accumulated terrestrial score). No consensus emerged among international experts on what the ideal weight balance between marine and terrestrial resources would be. There was some argument that given the lack of a scientific foundation for weighting, a marine species should be treated the same as a terrestrial species, without weights.

51. On climate change, **adaptation** and vulnerability to climate change are not reflected in the indices. International experts strongly agree that more should be done to balance funding between adaptation and mitigation in developing countries. However, no agreement emerged on an internationally agreed best practice or standard to reflect the scale of vulnerability or adaptation needs.

52. Furthermore, the GBI Climate Change formula multiplies a 'need' variable (emissions) with a 'performance' variable (change in carbon intensity). This makes the weight difficult to interpret, and means that emissions dominate the allocations. Consideration should be given to full recognition of energy intensity improvements. The Delphi experts stated that neither the overall size of emissions of a country, nor its economic growth, are reliable proxies to getting the most emission reductions for the

money spent. They find that energy intensity was found to be a good indicator due to the significant potential in reducing emissions through improvements in energy efficiency.

Conclusion 3: The RAF does not provide effective incentives to improve performance.

53. A premise of the RAF is that good performance should be recognized in higher allocations. Member countries should be able to see improved practices leading to higher RAF scores, and this in turn should improve their initial allocation. The relation between incentives and behaviors is complex, and depends on government understanding the link between its performance, its scores and the grants it receives, as well as ability to influence the achievement of global environmental benefits and performance scores. The incentive depends on how much a country can realistically aspire to improve its allocation. Neither focal points nor other stakeholders have been given a clear understanding of what performance means in the GEF context, or how to address it.

54. Most stakeholders perceive 'performance' as the quality of GEF projects. However, the performance of the environmental portfolio has a relative low weight in the performance indices (5% for *ongoing* GEF projects), which means that improving the performance of this portfolio will only lead to a very limited increase of the allocation. The weight of ratings for *closed* projects is another 5%. For the other general performance indices on environmental policies and institutions and enabling environment, their improvement will not be incentivized through the promise of slightly more GEF funding, given the marginal share of funding accounted for by the GEF in almost all countries. The 57 countries with individual allocations in biodiversity accumulate 41% of the GPI scores, while the 46 climate change individual allocation countries accumulate 35% of GPI scores, which is less than their benefits scores. The investments to improve environmental policy and institutions far outweigh the level of increase in the GEF funding that such performance improvements might bring. Even with higher weight assigned to the GPI, unless the overall amount available to the GEF increases dramatically, finetuning the performance indices is unlikely to make a difference. One would have to change the weights to a large extent to make a difference, with subsequent volatility in allocations.

55. The RAF design specifies that 75% of accumulated resources after country ranking based on the formula will be provided as individual allocations to countries, and those below receive a joint group allocation. This parameter is unique to the GEF among PBA systems. Because of this rule, most group allocation countries will remain in the group even if their performance improves greatly. Availability of more funds will benefit the category of individual-allocation countries in the top 75%. The group-allocation countries with preliminary ranking close to the 75% cut-off point may move up to individual allocation, as five did in the 2008 reallocation. However, there are no incentives for improvement, because countries have not been made aware of their preliminary allocations and ranking.

56. A general concern has been that recognition of performance would be detrimental to recognition of needs, especially in the Least Developed Countries. This is correct as regards the general performance indices, where low capacity and less institutional development may result in a low score. It is not correct for the performance of the environment portfolio, which would be geared towards the specific needs of the country. A project in an LDC could substantially differ from a project in a medium income country, yet achieve high outcome ratings. However, currently the environment portfolio overall only contributes 10% to the Performance Index.

Conclusion 4: Unclear guidelines for the Group Allocation system in the RAF have limited the access for countries with a group allocation in the first period of the RAF.

57. In total the funding of around 148 M US\$ to each group allocation is the same as it would have been if all allocations had remained individual, including a small supplement (around 2% of total focal

area funds) of resources for 88 countries without sufficient data to compute a meaningful allocation. The group allocation system could in principle provide flexibility to countries and the GEF while providing for equality in resources, but not in the way it is implemented. The small allocations can in themselves serve as a barrier to access of funds.

58. This is shown in the portfolio overview and it has clearly emerged in the stakeholder consultations. There was a general lack of understanding by countries regarding how to react to being in a group, especially for countries with limited capacities. The utilization by least developed countries (44 LDCs) is just 8% as compared with non-LDC countries (106) at 40%, in spite of the fact that their allocations are limited. By region, countries outside Africa (98) have on average utilized 39% of their biodiversity allocation as compared with 52 African countries that have on average utilized 14%.

59. The group countries were issued conflicting or incomplete guidance on pipeline management under the RAF. Most of their proposals were discouraged in the teleconferences with the GEF Secretariat (biodiversity group allocation countries had 75% of their proposals discouraged). While individual allocation countries also experienced a high level of ‘rejection’ they had more proposals to continue developing. Group resources allow GEF to fund projects up to \$1 million for all countries in the group for both focal areas, but are insufficient for funding the upper limit for every group country. Now countries are struggling to develop small projects for 1 million US\$ dollars while complying with the ambitious focal area strategies. Some countries have been too discouraged by the high transaction costs associated with a US\$ 1 million MSP, which they could receive without competitive review among many proposals, to develop proposals. The GEF Agencies were incentivized to give priority to countries with an individual allocation. The programmatic approach was developed as an answer to the problems that emerged but it took time to bring this to the countries concerned, and there is no evidence that such approaches lead to increased or faster access for the majority of countries.

60. The Secretariat has now given group countries until end of December 2008 for proposals up to 1 million US\$, after which access will be based on competition, not guaranteeing funding during GEF-4. Individual allocation countries are not subject to such time limitations, although six biodiversity and eight climate change countries have accessed zero of their individual allocations. The associated resources total US\$ 126.5 M, an amount similar to the unspent group funds.

Conclusion 5: Complexity of implementation rules in the RAF does not provide encouragement for flexible and dynamic use of resources for a relatively small GEF-4 funding.

61. Some rules were adopted by the Council which decrease or hamper the flexibility of the RAF. The **50% rule** of curtailing spending appears to be unnecessary – it has hampered delivery and is not necessary to keep funding in the first half of a resource allocation system within bounds. For the group allocation there is no need to limit proposals to 50% of a hypothetical maximum amount, which decreases cost-effectiveness further for these countries. The underlying assumption behind the 50% rule does not hold true; that it would serve as an incentive or consequence for changes in performance at mid-point. Furthermore, the rule is not needed for liquidity purposes, as experiences of other PBAs show. The 50% rule is thus not an international standard, as other PBAs have more dynamic approaches to limiting “front loading” of funds and yet ensuring periodic revisions in allocations as incentives. It does not make sense for the levels of funding available, particularly for the group allocation countries.

62. More importantly, rules for **re-allocating** funds in the crucial last phase of the RAF are not in place. The current rules envisage that remaining funds will be turned over to GEF-5 rather than be used where good opportunities for global benefits and high performance exist. The introduction of the RAF has caused lag in delivery, with uneven demand and capacity to deliver. The re-allocation did not lead to substantial changes in allocation, given the lack of some new data in biodiversity, the nature of the RAF

formula and limited changes in the GPI. The reallocation for the GEF is mainly a re-calculation of the indices, rather than shifting resources around based on a flexible assessment of demand and supply as is done by many other PBAs. Unused funds at the end of GEF-4 are not of benefit to the global environment.

63. Perhaps more than the indices themselves, the **other design factors** are very influential in shaping the pattern of resources countries may obtain. The indicators are based on scientific and analytical work, but the other design parameters described are based on strategic policy decisions. These include the weights that articulate the quantitative relationships between the indicators; the 15% ceiling in climate change; the 75% of all focal area resources (*not* country resources) going to the countries with highest accumulated ranking, the 10% set aside for global and regional resources, and the 50% rule of resource utilization. These determine how much countries receive, and who receives group or individual allocations.

Conclusion 6: The design and rules of the RAF are too complex for a network partnership like the GEF, and guidelines and support have not succeeded in making the RAF transparent and accessible.

64. Strong efforts were made to communicate the RAF to focal points once the framework was approved, and have continued over the last years. The agenda of reform adopted by the Council and CEO also required extensive communication work. In spite of efforts, transparency of the system is not achieved. The design is too complex to communicate easily and many elements that could have been disclosed have not been made public. It may not be realistic for all involved to reach broad and in-depth understanding of the technical measurement issues, but the detail of how the RAF formula works may not be needed for most stakeholders. Country partners do need to be informed of (a) the maximum the country could obtain in a grant; (b) the country's performance on all three indices, relative to other countries; and (c) what actions would likely increase the country's performance scores in the next round

65. Gaps in knowledge and limits to institutional capacity of focal point offices and project proponents, as well as in local Agency offices, continue to affect the pipeline, especially in group countries, LDCs and sub-Saharan Africa. The Country Support Programme and the GEF country profile page have been helpful in providing basic information to focal points. However, the traditional support mechanisms may not suffice for the kind of training and continuous support needed, for a multi-component, multi-dimensional system with so many different actors and country RAF categories. Exclusion from pipeline discussions and changing implementation arrangements have hampered the Agencies' ability to provide clarifications and support to countries. Furthermore, a key actor in the RAF implementation, the GEF focal point, has often not been provided with the crucial elements and tools to fulfill their new role, either by their respective governments and/or by the GEF. In most cases, the GEF is only a small part of these individuals' work programs and therefore they cannot support the implementation of the RAF to the extent needed. Some focal points indicate that the implementation of the RAF has taken too much of their limited time. Focal points, especially in individual allocation countries, are now expected to establish and manage systems for programming and project selection.

66. Corporate reforms and requirements have had effects beyond their intended purpose to address 'old' problems in a new RAF setting. The stoppage of the 2007 pipeline, the suspension of work programs due to lack of funds in the transitional period, and the requirement for re-endorsement of concepts and re-formatting as PIFs have contributed to a slow-down in pipeline development. The simplification of the project cycle was greatly appreciated by all stakeholders, but the project cycle now seems to have returned as a barrier due to ever-changing and expanding PIF templates and screening. Time pressure to spend funds within a four-year window makes both cycle and co-funding requirements more difficult to address in many countries. For Agencies, additional functional demands from the GEF,

changes in financial circumstances, and lack of clear guidelines have discouraged staff from working with the GEF.

67. The RAF *design* did not by itself cause the slow utilization of funds currently observed; implementation did, combined with the slow start of GEF-4 and the reform agenda. Clear and simple rules of the game are indispensable for a network partnership as complex as the GEF, where actors have many different levels of capacity and are located all over the world. In the initial phase and issues of design, rules, allocation and how to operate cannot be easily separated out and have led to confusion. Ambiguous and occasional inconsistencies in guidance put further brakes on delivery. The 2006-07 teleconferences between countries and the GEF Secretariat were highly appreciated in intent. The potentially positive effects of these bilateral discussions on pipeline priorities were, however, restrained by unclear responsibilities for action points, resulting in lack of systematic follow-up by the concerned parties, especially regarding group allocation countries. This increased the confusion felt by country stakeholders and Agencies in many cases. The programmatic approach is also taking a lot of energy to get off the ground. The GEF Secretariat does not have the manpower to play the central role needed in the complicated system which is the RAF and GEF undergoing other reforms.

Conclusion 7: 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.

68. For several larger individual allocation countries, such as India and Russia, the predictability of a sizable amount has galvanized the focal points and attracted political interest, and promoted more coherence to country portfolio planning. Other countries with historically large utilization continued their existing approaches to pipeline development. Overall, there has been a growth in establishment of committees and informal and formal consultations, and national consultations have “moved up” from focus on project level to greater attention to portfolios. This trend has moved the attention to the GEF focal points, rather than project proponents who are often located in sector ministries or the GEF Agencies. RAF implementation also appears to have empowered focal points in negotiating with GEF agencies.

69. However, the concept of country ownership also contains some intrinsic tensions. Extensive consultations are time-consuming and can in some cases be linked to slow utilization. While country ownership is essential to the planning and delivery of GEF projects, country environmental priorities may be at odds with those of the GEF Secretariat and Agencies. The experience with the RAF pipeline negotiations brought out more strongly the inherent conflicts between the criteria of global environmental benefits and country-specific sustainability needs. National consultations identified a broad range of priorities, and subsequent rejections of ideas and proposals had a dampening effect on engagement for the GEF, and sometimes put focal points in a difficult position. This has worked against the underlying RAF objective to provide a framework for countries to program their resources in accordance with national priorities.

70. While sixty-three percent of survey respondents agree that RAF may strengthen country roles in portfolio planning, many - if not most - group allocation countries feel that the empowerment has not materialized. There is disenchantment with small allocations that cannot be realistically programmed, by changing rules that are hard to understand, and by expectations of predictable levels of funds that cannot be accessed. In most countries, frequent turnover of focal points makes it difficult to sustain a sense of ownership and knowledge of the RAF.

71. Also, “country ownership” in practice may or may not, depending upon particular country circumstances, involve engagement and consultation with a broadly representative group of stakeholders at national and local levels. While there are a few excellent examples of NGO and civil society

cooperation under the RAF, such as in Honduras, Uganda and Madagascar, in the majority of countries the involvement of the NGO community has not improved, and the private sector is largely excluded from project proposals and government-led consultations on the GEF portfolio.

Conclusion 8: The exclusions did not function well and may have diminished the effectiveness of the GEF in delivery of global and regional environmental benefits.

72. There has been a significant drop in available global and regional resources, from historic shares of focal area resources of 23% in biodiversity and 20% in climate change to the 10% fund under RAF that are excluded from the formula, of which 5% (50M US\$) is set aside for global and regional projects per RAF focal area. In spite of the reduction, utilization of global and regional resources is only 16% of biodiversity funds, but 52% in climate change. While countries recognize the importance of transboundary environmental issues, there is general reluctance to give up country allocations for such purposes due to cultural and regional constraints, national ownership and past experience with such projects.

73. The “clear set of policies [...] for their use in the context of the revised focal area strategies” promised to Council in June 2007 have not been made available. The current trend, for which funds are earmarked by the Secretariat for different purposes, is the use of **global and regional** resources to top-up or complement country or group allocation PIFs in the context of programmatic approaches. The underlying GEF intent to use the 5% to support some coordination efforts or development of programmatic approaches, has not been clear to countries, which seems to blur lines between what is best served by global, regional or country activities. There is also considerable ‘taxation’ of focal areas for corporate and global activities; by which the six focal areas are charged with a ratio of such programmes.

74. The purpose of the Global and Regional Exclusion (GRE) was to support projects of global scope not funded by countries, and multi-country cost-effective projects with benefits beyond each country. The lack of transparency and participation in the management of the exclusions have led to a sense of confusion among country and Agency stakeholders, and raised doubts as to whether the objectives can be achieved.

75. The reduction in global and regional funds has affected Agencies such as UNEP, whose support has been dominated by global and regional projects (85% of UNEP’s biodiversity funds and 81% of climate change). It has also affected countries that were previously recipients of such support and specific focal area priorities. International experts agree that biosafety is not covered well in the indices, or through country allocations, and could potentially be treated as an exception as well.

76. For the **Small Grants Programme**, the introduction of the RAF seems to have contributed to a shortfall in the agreed amount by the GEF-4 replenishment. Of a maximum of US\$ 200 million, 80 million were to be set aside from RAF global resources, and the SGP could also obtain country RAF allocation contributions. Both RAF contributions fall short. The SGP Steering Committee decisions capped the RAF contributions for at least 29 countries that wanted to provide more funds to the SGP, of the 74 countries that have intersecting SGP and RAF individual allocations. During the first year of SGP OP4, participating countries contributed a total of about US\$ 18 million from their RAF country allocations. The predictability of funding has been reduced for the SGP and the influence of host governments has concomitantly increased. In countries using RAF allocations for the SGP, it is impossible to comply with the agreed strategy to diversify the SGP portfolio, as the funds can only be used for climate change and biodiversity grants.

77. To access 3-400.000 US\$ from country RAF funds, the SGP must provide a strategy for the use of RAF funds, although a country SGP strategy already exists and countries with large individual RAF

allocation have no such requirement. The cost-effectiveness is reduced by the level of negotiations required, increased workload, separate accounting, the shift in portfolio, additional requirements and lost opportunities for the NGO community and civil society.

RECOMMENDATIONS

78. The introduction of the RAF can be seen as part of a worldwide movement towards harmonization and aid effectiveness; the international financial institutions introduced PBAs at the same time as the GEF although some will argue that the GEF is not a typical IFI and the UN system has generally introduced needs based allocation systems. Several of the problems in implementation stem from the fact that the GEF is not a development bank, but a complex partnership for the global environment. Recommendations below relate to (a) immediate and short-term action to improve RAF implementation for the remainder of the GEF-4 period; and (b) medium-term action for enhancements for GEF-5 and perhaps beyond.

Recommendation 1: Reallocation of unused funds should be allowed in the last year of GEF-4

79. Current rules envisage that remaining funds will be turned over to GEF-5. The resource utilization issues that many countries now experience were, naturally, not anticipated when designing the RAF. Now is the appropriate time to introduce such rules. The issue is made more acute by the new definition of resource utilization. Even though the PIF does not constitute a legal obligation, the funds are set aside as commitment. There is room to speed up approvals while maintaining conservative risk management. Keeping the GEF-3 experience in mind, whereby the last work program was so huge that it caused absorption problems in the system, it is important to ensure that countries can use funds within the bounds of the current replenishment period.

80. Potentially a high level of funding will remain unused at the end of GEF-4. The GEF should inform itself on whether countries plan to use the allocation and should then be allowed to re-allocate any potentially unused funds to countries that have a portfolio of proposals ready for funding. Other PBAs have rules to this effect and these rules can be adapted to the specific circumstances for the last year of the RAF. Three alternatives are (a) iterative reallocations of funds for the whole set of countries, winnowing out lack of demand, as is observed by IFAD; (b) case-by-case pair-wise country-to-country reallocations, as is followed by IDA but only from lower performing to higher performing countries; or (c) meeting funding gaps in corporate programs and exclusions.

Recommendation 2: The last phase of GEF-4, including reallocation of funds, should be implemented with full public disclosure, transparency, participation and clear responsibilities

81. The role of the Secretariat has changed but there are no clear terms of reference for a new role and responsibilities. With the restructuring and new teams in place, countries are not sure who to turn to, or even if the Secretariat or an Agency should provide a response. The Management Information System is not yet operational; and the current systems are insufficient for providing countries with status of proposals. The Agencies with the Secretariat should establish routines and responsibilities for informing countries of pending proposals and ideas. Corporate reports should be made more explicit as to the source of funds, and available funds. Planning for and use of global and regional exclusion funds should be made transparent to countries and Agencies, especially when involving programmatic approaches.

82. The bilateral contacts between the Secretariat and countries can be indispensable for clarifying eligible proposals, which seems to have been a key barrier, but will continue to lead to miscommunications unless the Agencies who develop the PIFs and project documents are involved. The

focal area task forces and executive coordinators meetings, as well as the disbanded RAFT, would serve as useful mechanisms to agree on operational guidance and strategies that work.

83. More transparency and better communication may have prevented or alleviated some of the problems faced. The need for training and continuous support should not be underestimated. Traditional support mechanisms may not suffice. An increase in support funds for the focal points should be considered, but this will not be enough in helping governments to develop a portfolio quickly. A “RAF hotline”, online training packages, more effective constituency meetings and exchanges would help. More can be done to keep stakeholders informed electronically.

Recommendation 3: Implementation rules need to be simplified

84. In the transition to a new resource allocation system, like the RAF, a strong effort has to be made to maintain the project pipeline and maintain implementation momentum. Delay in identifying and implementing projects can result in large opportunity costs. The composition of the project pipeline, in terms of project size and focus, needs to be monitored and managed to ensure that unforeseen bottlenecks are not created by the new system.

85. A moratorium on additional requirements for project identification and formulation for the remainder of GEF-4 should promote stability that allows countries and Agencies to program. However, further simplification of MSP requirements is overdue given the level of allocations, with small financial risk but high transaction cost.

86. More specifically, the Agencies and countries need to be incentivized to develop proposals. Allowing the countries more leeway to reflect national priorities and choice of implementing Agency would reduce delays and strengthen ownership, without undue risk to quality. The group allocation countries should not be subject to requirements that are the same as or more stringent than those applied to large individual countries with more capacity.

87. The use of programmatic approaches is promising but need more development. While it is too soon to assess results, it is already clear that the key principles for the programmatic approaches need more vigilance. There is room to improve national ownership, transparency, participation and catalytic role and leveraging; open and transparent process of multi-stakeholder representation; increase cost-effectiveness and reduce transaction costs, as well as incentives for the Agencies to support programmatic approaches. Moreover, close follow-up and attention to the development country PIFs must be maintained, which is where countries can access resources. Specifically, clarity and negotiations of funding composition are needed, and operational guidance has been requested.

88. There is a need to consider overall rationalization and reconciliation of RAF requirements and SGP needs. Some of the effects of the constraints on the SGP introduced due to implementation of RAF could be mitigated. Increase in program expenditure caps for countries such as India, Philippines and Mexico that have considerable capacity to absorb GEF resources through small scale interventions would help these programs to produce global environmental benefits in a cost efficient manner. It is also recommended to allow SGP country programs receiving only RAF funds to access a relatively small level of support from SGP core funds. This would mitigate the current imbalances in the project portfolios of these country programs.

Recommendation 4: Steps to improve RAF design and indices for GEF-5 should be taken as of now

89. The above recommendations would serve to support immediate improvements to implementation. Issues for GEF-5 are more systemic, or not as easily remedied. Given the novelty of a PBA system for a

partnership with a global environmental mandate, some elements of the RAF were untried and now merit that they be revisited. Work related to the RAF for the start of GEF-5 in 2010 should start now. The initial experience shows that timely launch, planning and resource availability are crucial.

90. As seen from the above, what could have been a relatively straightforward performance-based allocation system has evolved into a complex framework. In essence, each member country now has a maximum amount it may ask for, but no amount is guaranteed. Countries and Agencies must endeavor to push ahead with proposing quality projects to access such funds. There will always be inherent complexities in a system with uncertain allocations. An entitlement system is not feasible. On the other hand, the GEF should ensure that it facilitates access to the resources allocated under the RAF. This calls for improvements in both design and implementation for GEF-5, described in more detail below, in the following areas:

1. Improvement of the global benefits indices and their weights
2. Increase of weight of the environmental portfolio performance
3. Improvement of predictability and cost-benefits for the group allocation or discontinuation of the group allocation
4. Reconsideration of ceilings, floors and 50% rule
5. Recognition of transboundary global environmental problems
6. Expanding the RAF to one integrated allocation for all focal areas.

ISSUES FOR THE FUTURE

91. The suggestions below on issues to address require consultation with all GEF stakeholders. All the issues contain design elements (indices, weights, exclusions, group allocation redesign, and expansion), but also depend on good strategies for implementation (transparency, information, planning, simplification). When moving ahead in improving the current Resource Allocation Framework, it is important that aspects of design and implementation be considered together. There is, of course, a risk that further modifications may make the system more complex; care should be taken to maintain simplicity and to plan strategically for implementation. The fourth overall performance study will continue to gather evidence as it emerges during the last period of GEF-4, and provide further input to these issues for the future.

a. The indices for global benefits and their respective weights should be improved for GEF-5

92. The RAF has been efficient in using data that is already publicly available and should continue to do so wherever possible. Further design work should be participatory, with mechanisms to involve countries, Agencies, NGOs and STAP.

93. While the index for biodiversity is appropriate as it is at present concerning threats and representation, any decision on the respective weights is a policy matter for the GEF to decide, with the advice of biodiversity experts. Information on different species such as marine invertebrates can be added. A better balance of marine and terrestrial would signal the importance attributed to different ecosystems, although actual allocations may in the end not differ significantly.

94. Experts agree, as do many stakeholders, on channeling most of funding for adaptation in most vulnerable countries, if most of the funds under the GBI-CC go to mitigation in countries with more emissions. The separate funding windows may not suffice to address adaptation needs, and furthermore the county stakeholders find it increasingly difficult to keep track of different paths of access for different funds. This aspect goes beyond the possible data content of the indices, to a discussion of the strategy of

adaptation in the climate change portfolio. If the separate Adaptation Fund is expected to address these needs, there would be no need to include adaptation in an index for mitigation funding.

95. Climate change Delphi experts would like to see the indices improved with more representation of gases and sources of GHG emissions, including agriculture and land use change; deforestation and forest degradation; gas flaring; and industrial non-CO₂, but recognize that such emissions are hard to determine accurately. The data from national communication could possibly be used to verify the accuracy of global datasets, but this would need further study. The climate change index should be made more harmonized and transparent by weighting and adding emissions and energy intensity, or by adding a new variable to give appropriate weight to improvement in GBI from period to period.

96. There is currently no link between the content of the indices that provide the allocations, and how these allocations may be used. For example, in biodiversity the GEF does not fund species conservation but allocations are based on species. The GEF should consider the opportunity for policy dialogue with countries and enhanced focus that the data can provide. If new aspects are included in RAF indices, such as adaptation, vulnerability and marine sources, they should be accompanied by focal area strategies to be able to spend resources on these priorities.

b. The relative weight of the environment portfolio performance in a country should be increased in GEF-5 to ensure that performance is rewarded

97. The RAF is not serving as a realistic incentive structure for performance or global environmental benefits. The incentive depends on how much a country can realistically aspire to improve its allocation, as well as government understanding the link between its performance, its scores and the grants it receives. Most importantly, it depends on the ability of the ones involved to improve such performance. The GEF focal points, who are most invested in GEF portfolio, generally do not have direct influence over the aspects measured by the index, and the funds are insufficient to serve as incentive for other authorities.

98. Merely increasing the exponent weight of the performance index, compared to the benefits index, will not in and of itself provide sufficient incentives in the environment field that are within the reach of the GEF to influence. It might be more relevant to reward more recent improvement in GEF project performance, by a higher weight of the portfolio performance indicator. However, there is inevitably some tradeoff between stability (by being averaged over a long period of time, as currently the case) and responsiveness and accuracy (by emphasizing recent performance). The index should also increase in relevance by adding ratings from final evaluations of GEF projects. When the RAF was designed, a relatively low number of terminal evaluations had been reviewed by the GEF Evaluation Office. It is expected that at the start of GEF-5, a credible number and an acceptable geographical coverage will have been achieved. This will be reported on further in OPS4.

99. Increasing the relative importance of the environment portfolio will provide better recognition of achievements and results in LDCs and SIDS, which may achieve high outcome ratings in their portfolio, even while scoring relatively lower in general institutional performance. Currently international practice puts the portfolio percentage between 5 and 30. The RAF with 10% is at the lower end of the range and the percentage could be increased to 30.

c. The predictability and cost-benefits for the group allocation must be improved, or the group allocation must be abandoned

100. Realistic expectations and a clear vision need to be established for the group allocation if it is to continue. Two conflicting perceptions are observed: (a) the group allocation represents a 'minimum' of

equal level of resources for countries, so that countries with higher needs would be guaranteed some support; and (b) not all countries would normally access funds during a phase, so it is acceptable that resource utilization is low. The first vision was emphasized when introducing the RAF, and has raised high expectations, but implementation seems to have centered on the second. The current push to provide access for group allocation countries through programmatic approaches is promising, but may at this stage not include all permanent measures needed for countries with capacity issues for GEF-5. OPS4 will continue to study the development of the programmatic approaches.

101. Many of these countries previously benefited from regional support and enabling activity umbrella projects, which have diminished under RAF and countries instead have the opportunity to obtain country resources from a pool. Their proposals for individual country projects have largely been discouraged. The Secretariat and Agencies are now expending considerable efforts going around to countries convincing them to put the funds back into a regional programmatic program, so that they in turn can be provided with individual country PIFs. This roundabout way of programming is not a cost-effective use of scarce GEF resources and very frustrating to countries. In addition, the smaller countries face higher transaction costs in accessing GEF funds than larger GEF recipients. The small allocation, with difficulty in getting projects through, is not worth it for many countries and Agencies.

102. Whereas transitional “hiccups” and mixed guidance may explain some of the challenges these countries have encountered, the review finds that problem are more systemic, linked to capacity limitations, lack of predictability and transparency, and focal area strategies. In all scenarios for group allocation, improvements would require (a) clear and consistent guidance from the GEF in cooperation with the Agencies; (b) improved communication on status on proposals and programming; (c) lightening the requirements of focal area strategies for small allocations and allowing more country-driven proposals; and (d) simplifying the procedures and bureaucracy for small projects/MSPs.

103. Several options for changing the group allocation are possible, depending on desired balance between flexibility, simplicity and predictability:

- Option 1: Abandon grouping, so that all would receive individual allocations. A minimum allocation could be provided of 1 million US\$, for those with scores below that amount, while countries with scores above would receive their preliminary allocation.
- Option 2: The group pot could be divided up regionally, so that opportunities for programmatic approaches and regional collaboration could be maximized.

104. The “75% rule” in RAF design is very influential in shaping the pattern of resources countries may obtain, how much countries receive, and who receives group or individual allocations. The 75% rule of allocations to the top ranked indicative countries is not internationally accepted PBA practice. An advantage of abandoning the group allocation system is that the 75% rule can be discontinued. This would allow more countries to benefit from predictable allocations, while ensuring that the formula is applied.

d. Trans-boundary global environmental problems need to be better recognized and served in a revised resource allocation system for GEF-5.

105. Global and regional activities are considered part of the core mandate of the GEF. Resources should be made available. Motivation for global and regional funding could be stimulated by a “trans-boundary premium” of say, 15%, on appropriate projects and country allocations. The share of global and regional projects could be reconsidered, but with a clear perspective of what the exclusions should achieve to improve achievement of global and regional environmental benefits. If purely focused on global matters, a small allocation may suffice, if used for incentives to regional projects, programmatic

approaches and corporate initiatives and flexibility that cannot be assured through country allocation, it does not suffice.

106. The GEF Small Grants Program now finds itself spending considerable time and effort mobilizing resources from the GEF, rather than – or in addition to – seeking new and additional financing. The SGP should be secured a reasonable level of core financing and be enabled to pursue the policies of expanding focal area attention and resource mobilization.

e. A re-examination of ceilings, floors and the 50% rule should be considered

107. Lowering the ceilings for how much one country can be assigned could also be reconsidered, to 5% of focal area funds, which would ensure a more even distribution of funds, or alternatively more resources for global and regional exclusions. Conversely, it would allow effective floors, which are now redundant, as the one million US\$ floor is applied to the group but then pooled in the group allocation. Simulations show that a 10% ceiling is not effective in modifying current allocation patterns, while lowering the ceiling to 5% has a significant impact.

108. Lower ceilings would likely increase the equity and effectiveness (economic efficiency) of the RAF, with this being more the case in climate change than in biodiversity. A staggered reduction could be possible, with reducing the ceiling in the biodiversity focal area to 5%; and the ceiling in climate change to 10% in GEF-5, and to 5% in GEF-6.

109. The floors in allocations are appropriate to ensure a minimum level of funding for obligations to the conventions. One million US\$ should suffice for this purpose for the majority of countries. However, if countries would want to use GEF funds for global environmental benefits, the provision of support to enabling activities through country allocations may not be an effective approach. Furthermore, what is the “minimum” level of GEF support that would be reasonable for countries to promote global environmental benefits? This may vary from country to country, and from Agency to Agency, with some mentioning four million US\$ as a practical level. The GEF may want to consider the level of floors, as it has already emerged that 1 million US\$ is limited for producing extensive global environmental benefits.

110. The 50% rule should be replaced by transparent and dynamic approaches for limiting “front loading” of funds as necessary, while balancing availability of funds with stimulation of resource delivery. The Secretariat on advice of the Trustee should be allowed to put reasonable and transparent limits on spending early in the cycle, in consultation with the Agencies. The reallocation exercise would in any case, as is the case in other PBA systems, serve the purpose of recognizing achievements.

f. Introducing the RAF for all focal areas in GEF-5 requires one integrated allocation for all focal areas per country.

111. Of organizations with a performance-based allocation system, the GEF is currently the donor working in the largest number of countries with the smallest amount of funds, and the only donor with *two* complex allocation systems, one for biodiversity and one for climate change. Turning this into *six* allocation systems in GEF-5 will mean that the system will become operationally unmanageable, unless the GEF replenishment would increase manifold and the staff of the Secretariat is also substantially increased. The Global Fund, for example, with disbursements to date of 10 billion US\$, has around 400 headquarters staff. IFAD, operating with a similar level of funding as the GEF, has 225 professional staff at Headquarters, as well as some regional and country representatives. The GEF, on the other hand, is built on a network of Agencies with existing expertise, management systems and field offices.

112. Furthermore, the call for more integrative action has been heard throughout the GEF and in the conventions. For example, the linkage between biodiversity and climate change has been highlighted in many recent articles. New initiatives that the Council, the GEF Secretariat and the Conventions would like to take - also require a new perspective on the focal areas as indicative rather than prescriptive allocations within country allocations. Recipient countries of the GEF are member countries of the conventions and thus first responsible to ensure that they implement the conventions.

113. New initiatives may include, for example, involvement of the private sector as envisaged in the private sector strategy, cooperation with the NGO community, and/or attention to specific thematic issues, such as technology transfer. With country-based allocations there will inevitably be some trade-offs between country priorities and corporate schemes. Such policy issues could be addressed through an allocation system either by providing separate and sufficient set-asides, or by developing incentive mechanisms for countries and Agencies to participate in and contribute to such initiatives. This would normally imply some modification of project modalities, and financial incentives.

114. Presumably allocations would be calculated for each focal area and then pooled for each country. The question to resolve is how much flexibility would be provided for a country to develop projects drawing upon its whole pool of funds, and how much would a country be restricted to focal-area compartments within its allocation. As mentioned for transboundary issues above, special attention should be paid to international waters and the need to stimulate regional activities. At country level, focal area spending in rough proportion with its RAF scores in different focal areas may be appropriate. Providing timely and adequate information on these scores to countries would then be essential.

115. However, maintaining flexibility for greater cost-effectiveness is indispensable. Experience so far has shown a disconnect between nationally-owned priorities and GEF strategic priorities in developing the pipeline, which in turn causes delays, frustration and lack of access. The GEF cannot expect to provide one pot of funds to increase flexibility and cost-effectiveness – and then remove flexibility by deciding where and on what those funds should be spent. Synergies are also not achieved merely by pooling funds together. For increased effectiveness, the GEF needs a vision or strategy on how such pooling should work within and among focal areas, and at country level.