Global Environment Facility

GEF/ME/C.34/3
October 17, 2008

GEF Council
November 11-13, 2008
Agenda Item 8

MANAGEMENT RESPONSE TO THE MID-TERM REVIEW OF THE RESOURCE ALLOCATION FRAMEWORK

(Prepared by the GEF Secretariat)

Table of Contents

INTRODUCTION

1. This is the management response to document GEF/ME/C.34/2, *Mid-term Review of the Resource Allocation Framework*, undertaken by the GEF Evaluation Office. The overall objective of the mid-term review was to "evaluate the degree to which resources have been allocated to countries in a cost-effective manner based on global environmental benefits and country performance," with the following three sub-objectives: (i) to evaluate the extent to which the design of the resource allocation framework (RAF) is able to facilitate maximization of the impact of scarce GEF resources to enhance global environmental benefits; (ii) to assess the extent to which the early implementation of the RAF is providing countries with predictability and transparency as well as country-driven approaches to improve the potential for delivery of global environmental benefits; and (iii) to compare the design and implementation of the RAF with the resource allocation systems of other multilateral agencies.

2. The review focuses on three major phases of the RAF experience: (i) design and approval from August 2002 to August 2005; (ii) planning for implementation from August 2005 to June 2006; and (iii) implementation to mid-point allocation from July 2006 to July 2008.

3. The management response has been prepared by the GEF Secretariat, with comments received from the GEF Agencies.[1] The GEF plays a unique role among global multilateral institutions with a particular mandate to assist developing countries generate global environmental benefits. It is the financial mechanism of four multilateral environmental conventions. It is a networked partnership, depending upon 10 Agencies to work with eligible countries to develop and implement GEF-financed activities. The design and implementation of the RAF has been a major challenge facing the GEF over the last six years. The RAF represents a fundamental change in GEF business practices in the focal areas of climate change and biodiversity. Instituting this fundamental change through a complex network partnership is bound to have been a learning experience with positives and negatives. The mid-term review of the RAF provides us with a good opportunity to take stock of this experience, benefit from its conclusions and recommendations, and move forward to further refine the programming framework of the GEF to meet the goals of all its partners.

4. We are in general agreement with the four recommendations emerging from the review, and consider them to provide a sound basis for further development of the RAF. Some of the conclusions of the review, however, need to be placed and interpreted within their proper contexts.

[1] The preparation of this management response has been under a very tight deadline. The GEF Evaluation Office distributed to the Agencies and the Secretariat a Working Document on the RAF mid-term review on September 30, 2008. The Evaluation Office distributed a revised version of the review on October 14, 2008. The Secretariat prepared a draft management response and distributed it to the Agencies for comments on October 14, 2008, with request for comments by October 15, 2008 in order to meet the deadline for web-posting of documents.

FINDINGS AND CONCLUSIONS

5. We are pleased with the review's overall conclusion that the "RAF has, overall, been implemented in accordance with Council decisions." As the review underscores, the shift to a new mode of allocating and programming resources has been challenging for the GEF and its Agencies. It is our view, that to a large extent, the rigid rules of the RAF design contributed significantly to difficulties in the operational phase.

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

6. We are in overall agreement with the above conclusion. However, as the GEF looks forward, it is also important to note that we need to find ways to allocate resources that are responsive to the GEF mandate to deal with global environmental commons in its different focal areas. In addition, we need to take into consideration the level of resources available and the large number of eligible countries to allocate resources not only purposefully, but also pragmatically. The future evolution of the allocation system has to reflect the networked structure of the GEF with 10 Agencies, its fundamental obligations to conventions, and the particular needs of least-developed countries.

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

7. We are pleased with the conclusion that the indices for biodiversity and climate change in general reflect the best scientific data currently available. It is interesting to note that the Delphi experts experienced the same quandaries faced by the RAF team with regard to the choice of indicators, weights, and methodologies. We intend to continue to improve the methodology and the indicators as better data becomes available, both in biodiversity and climate change -- in biodiversity with regard to marine ecosystems, and in climate change with regard to land use, land use change and forestry, and adaptation – and will engage with experts in the Agencies, STAP, NGOs and research organizations in this endeavor.

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

8. The above conclusion must be regarded in the general framework of how performance is usually included in a resource allocation system. First, resource allocation systems are primarily designed to help direct scarce resources towards generating benefits in the scope of the institution's mandate. The GEF's mandate is to provide assistance to developing countries to generate global environmental benefits. Second, performance is usually included in the allocation framework to manage risk, i.e., to influence the resource allocation at the margin

towards countries where conditions for success are better. Third, allocation systems are based on relative ranking of both benefits and performance. At the extreme, for example, if all countries improve their performance, with no change in benefits, the allocations would remain the same. To make a resource allocation system primarily driven by performance is to risk misdirection of resources with respect to the institution's overall mandate.

9. We note the review's concern with regard to the lack of a clear understanding of what performance means in the minds of several stakeholders. The review also notes that the performance of the environmental portfolio has a relative low weight in the performance indices (5% for ongoing GEF projects) thereby implying that improving the performance of this portfolio will lead to a very limited increase of the allocation. Allocation systems are usually forward-looking with regard to performance, usually providing a higher weight for existing institutional and policy frameworks that reflect the potential for future performance, and therefore a lower weight for past performance, usually reflected through portfolio performance. The GEF RAF very much reflects the approach with regard to inclusion of performance in other allocation systems, though the weight of portfolio performance is at the lower range when compared to other systems.

10. In closing, we do think that, in the RAF, performance does matter on the margin with regard to influencing allocations. The more relevant question to ask is whether the overall level of resources available under the GEF really provides strong incentives to countries to improve performance with regard to their respective environmental institutions and policies.

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

11. The group allocation system was conceived to provide flexibility to the RAF system. Historically, not all eligible countries have requested GEF funding during a replenishment period. A group allocation system, it was thought, would provide the flexibility to program several countries to the ceiling of the group, while some others may not request GEF funding. However, programming the group has been a challenge, particularly to ensure that countries that request funding do get the minimum guaranteed of $1 million in each focal area.

12. The Secretariat has taken a pragmatic, as well as a proactive, approach to this challenge. In order to ensure that first-comers do not garner all resources, the Secretariat has adopted a phased tactic to ensure that group countries utilize their allocations. Countries can submit proposals requesting up to $1 million for each country until the end of December 2008. These proposals will be reviewed for their strategic fit and technical merits prior to any approval. After that, the resources in the group allocation will be programmed through a batch review of request for proposals up to the ceiling of the group for each country. While the evolution of such an approach may have created confusion among several stakeholders, we think that it is an equitable and pragmatic way to program countries in the group.

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 funding

13. We are in agreement with this finding that some of the rules of the RAF have reduced the flexibility in implementation. For the small level of funding available in the GEF, the rules are particularly onerous. Indeed, as the review points out, the 50 % rule does not serve as a strong incentive for performance improvement at mid-point; nor does it serve to improve liquidity.

14. We also agree with the finding that the RAF needs to have rules for re-allocating unutilized allocations in the crucial last year of GEF-4 in order to reduce the amount of un-programmed resources carried over to GEF-5. We will review the re-allocation practices in other institutions and propose an approach to the Council in Spring 2009.

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

15. We are in agreement with the finding that the design of the RAF is too complex to be communicated easily. We are, however, not in agreement that implementation practices and the corporate reforms and requirements have resulted in slow utilization of funds.

16. The RAF implementation team was very aware that the introduction of a complex instrument such as the RAF would need a smooth transition to GEF-4. Steps were taken to inform countries of the arrangements to operate under the RAF with the issuance of guidelines in May 2006 when countries were also requested to provide an initial list of project concepts by September 15, 2006. This was, of course, in parallel with the series of regional workshops to roll-out the RAF.

17. In practice, why was the transition not as smooth as expected? When the project endorsement letters began arriving at the Secretariat during September 2006, the Secretariat was concerned that many projects were no longer in line with country priorities, or no longer provided the best fit with the emerging GEF-4 strategic priorities. In order to ascertain the evolving priorities of countries and to ensure that concepts under development would fit within the GEF-4 priorities, the Secretariat had teleconference discussions with over 120 countries during October 2006 – April 2007. This process was followed by a close monitoring by the Secretariat of the RAF programming rates through direct engagement with the countries. As the review notes, this exercise strained the resources of the Secretariat.

18. In parallel with the above effort to reach out to countries, the Secretariat also engaged in an exercise to deal with an oversized project pipeline of 177 concepts amounting to about $1.5 billion, or nearly half of the GEF-4 replenishment. Given the historical nature of the pipeline, many of the concepts were outdated and did not fit with the evolving focal area strategies and/or not in consonance with the country allocations under the RAF. The re-pipelining effort was necessary in order to reduce the pipeline overhang to nearly half its original size so that innovative new proposals that reflect both the GEF priorities and the countries allocations could

be approved for further preparation. Needless to say, the process was a little tumultuous, but was necessary in order to “cut the coat according to the cloth.”

19. The mid-term review also points to the GEF-4 reform agenda as a significant cause of slow utilization of funds in the focal areas under the RAF. First, the utilization of funds has to be carefully interpreted. The simple fact is that the GEF cannot program ahead of availability of funds, meaning that the Council just cannot approve work programs if there are no funds in the GEF Trust Fund. Though the GEF-4 phase began on July 1, 2006, it became effective only in February 2007. Until June 3, 2008, over a period of 17 months, nearly a third of the resources have been utilized in each of the climate change and biodiversity focal areas. The Secretariat and the Agencies are now on target to program about half the resources in both the focal areas by November 2008, i.e., over 21 months since funds became available. Therefore, closer analysis reveals that the programming rate is close, or even marginally faster than, what can be expected vis-à-vis the availability of funds.

20. The steps taken under the reform process were practical responses, approved by Council, to issues identified in a series of reports from the GEF Evaluation Office. The evaluation of the GEF project activity cycle, in particular, led to the revamping of the project cycle that was approved by the Council in June 2007. The fundamental changes in policies and operational procedures, combined with the transition to programming under the RAF for two focal areas, while posing some early difficulties, were necessary in order to improve the effectiveness of the GEF. In fact, the new project cycle, where resources are marked as utilized at the point where project identification forms (PIFs) are approved by the Council, provides an early guarantee to a recipient country regarding the feasibility of the concept and the availability of resources. Similarly, other reforms have established a better and transparent operating environment for different GEF stakeholders. It was inevitable that the early period of dealing with this transition would pose difficulties. However, it is our judgment that the system is now settling down as the different players have become familiar and comfortable with the revised policies and procedures.

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

21. We are pleased with the review’s finding that the RAF has increased country ownership of GEF-financed activities, particularly in those countries with individual allocations. We are not surprised that country ownership is relatively weak in countries in the group that expect to get very little resources from the GEF. We hope to work with the Council in refining the RAF such that country ownership becomes a strong feature of GEF-financed activities across all recipient countries.

22. We share the concern raised by the review that in majority of countries the involvement of NGOs, and the private sector is limited, or even non-existent, in government led consultations on GEF programming. The Secretariat and the Agencies will continue to work through our corporate programs such as the regional consultations and national dialogue initiatives to continue to encourage broader stakeholder involvement in GEF-financed activities. Again, it is

impractical to expect wide-ranging consultative processes in countries that expect to receive very little resources from the GEF.

23. We remain concerned that the RAF has restricted the potential for the private sector to access GEF funding, considering the need to engage the private sector in maximizing positive impact on the global environment. We believe that the continuation of the Earth Fund mechanism to enable the private sector to participate in the GEF is vital to achieve far greater leverage of and returns on GEF resources.

24. We agree with the mid-term review's view that the concept of country ownership contains some intrinsic tensions. Country programming cannot be solely driven by national priorities; it also has to respond to global priorities established by the GEF Council, reflecting the mandate of the GEF. The challenge for the GEF is to identify, in consultation with eligible countries, those activities that meet national priorities while delivering global environmental benefits.

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

25. We do not share the definite conclusion as stated above. It is true that the exclusions of 5% for global and regional projects do not fully reflect the historical shares in either of the focal areas. However, there has been a long-standing concern, expressed by several recipient countries that multi-country projects may not fully reflect the priorities of the participating countries. In order to address this issue, during the design of the RAF, Council agreed to limit the exclusions under the RAF to 5% for the global and regional projects in each of the focal areas, with the understanding that a significant share of resources for participating in multi-country projects would be generated from the allocations of the participating countries. A share of the exclusion would be directed towards global projects, while multi-country regional projects would be programmed from a combination of country allocations and resources from exclusions.

26. The Secretariat, together with the Agencies, has been implementing the above-mentioned approach, in order to ensure that multi-country projects are really country-driven. While such an approach may have affected the implementation of projects through particular GEF Agencies, the participating countries have often expressed a stronger ownership for the projects that they are involved in. In the final analysis, multi-country projects with country ownership not only reflect priorities of the countries, but are also better positioned to deliver project benefits. However, overall, it remains true that given the low base-level of resources available for the focal areas, the resources available through the 5% exclusions are too small for any meaningful interventions through global and regional projects.

27. Regarding the "taxation" of focal areas for funding the corporate and global activities, it reflects the approach suggested by the donors during the fourth replenishment negotiations. We hope to work with the donors during future replenishments to fund such activities without taxing the focal areas.

28. Similarly, for the Small Grants Program, under the RAF it was agreed by the Council that funding would be from a combination of core funds (largely directed towards LDCs and SIDS)

and contributions from focal area allocations of participating countries, particularly those with individual allocations. It was also agreed by the SGP Steering Committee that there was a need to limit the contributions from those countries contributing from their country allocations to their respective SGP activities, so that a significant share of the resources would continue to be programmed for focal area activities. Hence the need for managing the country contributions to SGP. The SGP Steering Committee will revisit the necessity of country strategies for country allocations to the RAF if the country already has a SGP strategy.

RECOMMENDATIONS

29. We are in overall agreement with the four recommendations emerging from the review, and look forward to guidance from the Council in following up to the recommendations. As part of the management response, we would like to suggest some approaches towards follow-up.

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

30. We agree with the review's finding that the GEF and its Agencies should ensure that very limited unused resources be carried forward into GEF-5. While we do not foresee any overall underutilization issues, we have to be prepared for cases where several countries may not be able to utilize their respective allocations by the end of GEF-4 (June 30, 2010). We will take stock of the programming situation by December 31, 2008, and make a proposal to the Council at its Spring 2009 meeting for a reallocation of funds for programming during the last year of GEF-4 (July 1, 2009 – June 30, 2010).

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

31. We could not agree more with the above recommendation. We will establish an inter-agency process to develop proposals for reallocation and reprogramming for the consideration of the CEO. In addition to electronic communications, constituency meetings, etc. we will also employ the inter-agency process as a means to disseminate information rapidly through participating Agencies and countries.

Recommendation 3: Implementation rules need to be simplified

32. We agree with the need for simplification of processing. We have already established a moratorium on additional requirements for project identification and formulation for the remainder of GEF-4. We will also take a proposal to the Council in Spring 2009 to further simplify the requirements for medium-sized projects.[2]

33. As the report recommends, it is important for the countries to reflect national priorities, but we have also got to identify where pursuit of those national priorities can deliver global

[2] Currently, the requirements for medium-sized projects are little different from that of full-sized projects.

benefits in accordance with GEF priorities. Such an approach is essential if the GEF is to maintain its mandate among different funding sources.

34. Several issues have been raised with regard to the SGP and programming under the RAF. The SGP Steering Committee will revisit those issues in the context of the mid-term review, and will inform the Council in Spring 2009 regarding the steps taken.

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

35. The mid-term review has provided several forward looking suggestions for improving the RAF design before implementation of GEF-5. These include: (i) improvement of the global benefits indices and their weights; (ii) increase of the weight of the environmental portfolio performance; (iii) improvement of predictability and cost-benefits for the group allocation; (iv) reconsideration of ceilings and floors; (v) recognition of transboundary global environmental problems; and (vi) expanding the RAF to one integrated allocation for all focal areas. The review provides detailed suggestions for each of the above areas.

36. The introduction of the RAF was a fundamental change in the GEF's way of doing business. Relative to other institutions with allocation systems, the GEF is straitjacketed in many ways. It has a lower level of resources, dispersed across six different focal areas, and programmed across more than 160 countries. The GEF is a financial institution of four multilateral environmental conventions with the obligation to support eligible countries with the fundamental requirements of each one of those conventions. Eligible countries prepare and implement GEF projects through 10 Agencies. Therefore, it is not surprising that both the design and the implementation of the RAF were difficult experiences for the GEF and its different stakeholders. If a GEF-wide RAF is implemented, the Secretariat agrees with the mid-term review's finding that there is a clear need to strengthen the Secretariat to be able to play a stronger coordinating role in programming among GEF Agencies and recipient countries, in line with findings mentioned in paragraph 109 of the review regarding staff resources of comparable multilaterals with resource allocation systems such as IFAD and the Global Fund.