



# Global Environment Facility

## Summary of Document GEF/ME/C.34/2

### Mid-Term Review of the Resource Allocation Framework

#### 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.

#### 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 revisited. 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.