GLOBAL ENVIRONMENT FACILITY
EVALUATION OFFICE

# MID-TERM REVIEW OF THE GEF SYSTEM FOR TRANSPARENT ALLOCATION OF RESOURCES

Technical Document # 3

# Resource Utilization under STAR

October, 2013

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# 1. Introduction

This technical paper has been prepared as an input to the mid-term review of the GEF System for Transparent Allocation of Resources (STAR), which is under implementation for the GEF-5 replenishment period. It provides a detailed analysis of both the allocation of GEF resources under STAR and the utilization of those resources by eligible countries to date. Allocation and utilization of GEF-5 resources is compared with that of GEF-4 and, in some instances, with other preceding replenishment periods. The paper also provides information on the extent to which resource utilization differs among countries that did and did not undertake the National Portfolio Formulation Exercises. Lastly, the participation of community-based organizations (CBOs) over different replenishments is considered.

The key findings of the analysis are:

- The overall allocation of GEF resources to STAR focal areas is in-line with earlier GEF periods. One exception is the regional distribution of land degradation resources, and distribution of land degradation resources to countries with special needs. Compared with GEF-4, allocation of land degradation under STAR is more evenly distributed across both country groupings.
- Overall utilization of STAR focal area resources by end of third replenishment year is nearly identical to that of RAF, at 69% and 70% respectively. At the same time, countries that received a group allocation of resources under RAF show substantially higher levels of resource utilization under STAR, particularly in the climate change focal area. In the biodiversity focal area, resource utilization as a percentage of allocated resources is up from 75% to 85% for countries receiving a group allocation under RAF. In the climate change focal area, resource utilization jumped from 37% to 63% for this same group of countries.
- Overall, not much effect is seen in resource utilization among countries undertaking NPFEs. However, a small sample size and other factors caution against firm conclusions at this time.
- The shift to national allocation under RAF and STAR may be contributing to a decline the participation of NGOs and CSOs as lead executing agencies and an increase in the percentage of governmental agencies serving in this role. At the same time, the percentage of projects with any kind of NGO/CSO participation appears to be on the rise. The percentage of projects with NGOs/CSOs serving as secondary executing agencies has increased from 3% in GEF-3 to 11% in GEF-5, in the biodiversity and climate change focal areas. Similarly, the percentage of NGOs/CSOs serving as project collaborators has increased from 62% in GEF-3 to 73% in GEF-5.
- Removal of the RAF 50% rule on access to GEF resources appears to have contributed to a rise in utilization by midpoint under STAR. If the 50% rule were in effect, the overall utilization rate for covered focal areas at the midpoint (June 30, 2012) would have fallen from 48% to 35%.

- Flexibility provisions to move GEF resources across allocated focal areas were utilized by a 60% of countries with full flexibility and only 19% of countries with marginal flexibility.

## 2. Background

The funding cycle for GEF resources can be thought of as having three primary stages: (1) donors to the GEF agree upon an overall funding level for a four-year GEF replenishment cycle; (2) those funds are made available to eligible countries by the GEF secretariat in accordance with the measures and objectives agreed upon by the GEF Council (what is referred to as ***allocation***); and (3) the resources are then utilized by allocating them to approved projects (what is referred to as ***utilization***[1]) that have been developed by GEF Agencies and stakeholders.

Prior to GEF-4, allocation of GEF funding was largely done at the focal area level by Council and the Secretariat, with country allocation in part a result of subsequent deliberations between the GEF Council, Secretariat, Country focal points, and Agencies. Beginning with the GEF-4 replenishment period (2007-2010), and with the aim of increasing transparency, strengthening country ownership, and enhancing efficiency, the GEF moved to a performance-based allocation (PBA) system for allocating a portion of its resources. This approach utilizes a formula to determine the distribution of resources. The formula weights and combines indices measuring two broad components: potential benefits and needs, and performance.

The GEF PBA system, which was initially called the Resource Allocation Framework (RAF), covered allocation of resources under the biodiversity and climate change focal areas. The RAF underwent substantive revisions for the GEF-5 replenishment period, however, the overarching goals remain the same. Changes introduced in GEF-5 include expansion to cover the Land Degradation focal area, elimination of group allocations (all eligible countries now receive individual indicative allocations), elimination of constraints on access to funding during the first two-years of a replenishment cycle, incorporation of a GDP-based factor in the allocation formula (to the benefit of poorer countries), increase in the set-asides from five to twenty percent of each covered focal area, and increase in the weight given to portfolio performance in the performance component of the PBA formula. The revised PBA system is called the System for Transparent Allocation of Resources (STAR).

### 2.1 Allocation procedures and set-asides

STAR covers country allocation of GEF resources under the biodiversity, climate change, and land degradation focal areas. The procedure to determine country allocations for a covered focal area involves the following steps:

1. Country scores for a given focal area are calculated using the GEF STAR PBA formula (shown in box 1).

[1] For the purposes of this analysis, utilization of GEF resources is taken to be at the point of PIF approval.

2. Country shares for each focal area are determined by dividing the country score for the focal area by the sum of the country scores for all eligible countries in that focal area.
3. A **preliminary allocation** for each country in each focal area is computed as the product of the country share and the total amount of GEF resources available for that focal area, after deducting focal area set asides.
4. The **adjusted allocation** (also known as an "indicative allocation") is determined for each country after application of ceiling and floors.[2]

**Box 1. GEF STAR PBA formula:**

$$Country\ Score = \left[\mathrm{GBI}^{0.8} * \left(\frac{\mathrm{GDP}}{\mathrm{capita}}\right)^{-0.04}\right] * \left[0.65CEPIA + 0.15CPIA_D + 0.2Portfolio\right]$$

Notes: The Global Benefits Index (GBI) is calculated separately for the three focal areas under STAR – Biodiversity, Climate Change, and Land Degradation. CEPIA factor is criterion #11, "Policies and Institutions for Environmental Sustainability," of the World Bank CPIA indicators. $CPIA_D$ is a simple average of the five criterion comprising cluster D (Public Sector Management and Institutions) of the CPIA indicators. Portfolio factor is a weighted average of a country's GEF portfolio ratings of projects under implementation between 2005-2008 (for GEF-5). For a more detailed description of how these indices are calculated, see the document "System for Transparent Allocation of Resources," (PL/RA/01; 2012), available on the GEF website.

For GEF-5, twenty percent of resources available in each STAR focal area are initially set-aside for other purposes, and are not part of the total resources allocated via STAR. These set-aside resources are used to finance enabling activities, the sustainable forest management incentive program (SFM), and to provide additional funding for global and regional projects.[3] As noted above, the twenty percent share of focal area funding for set-asides is an increase from five percent of the focal areas covered by RAF (Biodiversity and Climate Change) in the GEF-4 period.

One feature of the SFM set aside is that it was designed in such a way as to provide an incentive for countries in the programming of their STAR allocations. For countries willing to undertake SFM projects using their STAR allocations, 1 additional dollar of GEF funding is available for every 3 dollars of resources programmed from a country's STAR allocation from

[2] Under STAR, the minimum indicative allocation (floor) for any country is set at $2 million for climate change, $1.5 million for biodiversity, and $0.5 million for land degradation. The maximum indicative allocation (ceiling) for any country is set at 11 percent of total focal area resources for climate change, and 10 percent of total focal area resources under biodiversity and land degradation, respectively. Following a preliminary allocation, any country with an allocation at the minimum amount is allocated at the value of the floor. Likewise, any country with a preliminary allocation higher than the ceiling is allocated at the ceiling amount. Country scores and country shares are then computed for all other countries to lead to adjusted allocations, after deducting the sum total of the capped and floored countries from the total GEF resources available under each covered focal area.

[3] In some instances, the contribution of set-aside funding for global/regional projects is additional to funding contributed from national allocations. In other cases, project funding comes entirely from the global/regional set-aside.

two or more focal areas. Individual countries are allowed to invest a maximum of $30 million from their combined allocations for GEF-5, which means that the maximum funding a country may assess through the SFM incentive scheme is $10 million.

Separate from the set-asides, a number of other programs and activities are funded outside the STAR allocation process. These include the corporate budgets of the Secretariat, the Trustee, Evaluation Office, and STAP; the Small Grants Program (SGP); the Country Support Program, including the voluntary National Portfolio Formulation Exercises (NPFE – see section 2.3); the International Waters, Chemicals, and Ozone Layer Depletion focal areas; and the GEF Earth Fund. Finally, note that funding for GEF Agencies to cover expenses related to corporate activities and project cycle management activities is provided as a percentage of every approved GEF grant.

## 2.2 Flexibility and marginal adjustments

The mid-term review of RAF found that countries with smaller allocations faced higher transaction costs in accessing GEF funds than countries with larger allocations, and that a small allocation combined with the restriction requiring use within a particular focal area was not cost effective.[4] To address this issue, a flexibility scheme was introduced in STAR. Countries with a total indicative allocation in all focal areas falling below a certain threshold are free to use their allocation within any of the STAR focal areas – provided that country is a Party to the relevant Convention – without regard to the level set forth in that country's indicative allocation.

For GEF-5, following a replenishment of $4.25 billion (USD), this flexibility threshold was set at $7 million.[5] That is, any country whose sum total indicative allocation for biodiversity, climate change, and land degradation is less than $7 million is allowed to use the total of its allocations across all and any of these three focal areas, if eligible.

In addition to the flexibility provided to countries with STAR allocations totaling less than $7 million, countries with sum total allocations above the flexibility threshold are afforded the ability to make small or "marginal adjustments" of GEF resources between focal areas. The amount of resources that can be moved between focal areas is dependent upon the sum total of a country's allocation under STAR, and falls into three bands:

- A maximum of $200,000 for countries with a sum total indicative allocation of $7 million to below $20 million.
- A maximum of $1 million for countries with a sum total indicative allocation of $20 million to $100 million.
- A maximum of $2 million for countries with a sum total indicative allocation above $100 million.

[4] GEF EO, 2009. *Midterm Review of the Resource Allocation Framework*. Evaluation Report No. 47.
[5] The flexibility threshold was set so as to ensure that at least 90 percent of resources programmed under the biodiversity and climate change focal areas is utilized for the intended focal areas.

### 2.3 Utilization process

For GEF to be effective allocated resources must be utilized. The utilization of funding involves GEF stakeholders that are involved in development, appraisal, and implementation and execution of GEF activities. Potential factors affecting utilization include the size of focal area funding available; operational rules and procedures for utilization; the efficiency of the GEF project cycle which includes the project development and approval processes in all the GEF agencies; etc.

Another issue considered in this paper is what effect upon resource utilization, if any, is seen in countries that took part in National Portfolio Formulation Exercises (NPFE). NPFEs are part of a GEF initiative launched at the start of GEF-5 that provides a small amount of resources to recipient countries willing to undertake a set of activities that seek to produce a clear set of priorities and objectives for the use of GEF resources, including both STAR and non-STAR focal area resources. The overall objectives of the initiative, which is part of a larger effort within the GEF promoting a portfolio approach in the programming of GEF resources, are "enhancing country ownership and improving the effectiveness and efficiency of the GEF partnership."[6] Forty-two countries undertook NPFEs by the end of the third replenishment year and their utilization patterns are presented, alongside those of countries that did not undertake NPFEs.

### 2.4 Constraints on access to GEF funds

Under RAF, countries were prohibited from utilizing more than 50% of allocated funding (both group allocations and national allocations) prior to the midpoint of a GEF replenishment cycle. The reasons for including this provision were: (1) concern for keeping funding in bounds and to ensure liquidity; and (2) that it would serve as a performance incentive.[7] The mid-term review of the RAF found that these concerns were largely unfounded, and that the "50 percent" rule, as it was called, hindered resource utilization and did not provide an incentive for performance given the way in which GEF resource allocation is accomplished.[8] As a response to these findings, the 50 percent rule was dropped in STAR. Section 4.6 looks at the effects of this change upon resource utilization under STAR.

## 3. Allocation of GEF resources under STAR and earlier periods

Table 1 shows the allocation of GEF-5 resources under STAR and non-STAR focal areas, along with the historical utilization for earlier periods. As a share of total GEF resources, funding for biodiversity has fallen from a high of 44% in the GEF Pilot Phase, to around 30% for GEF-3 through GEF-5. Funding for climate change, which had fallen to a low of 28% of GEF resources in GEF-3, is at 36% for GEF-5 – in-line with the percentage of funding allocated in the Pilot Phase through GEF-2. Finally, funding for land degradation, which was formally established as

[6] GEF/R.5/32, Policy recommendation for the fifth replenishment of the GEF trust fund, page 3.
[7] GEF EO, 2009. *Midterm Review of the Resource Allocation Framework*. Evaluation Report No. 47, page 12.
[8] In particular, the performance component of the GEF PBA system is based largely upon factors that do not see much if any change at replenishment mid-point, and therefore, reallocation did not lead to substantial changes in allocation. Ibid 8.

a GEF focal area in GEF-3 and is covered under STAR, has risen from 9% of GEF resources in GEF-3 and GEF-4 to 11% of resources in GEF-5.

The total commitments made by the donor countries for the GEF-5 replenishment was $ 4.34 billion. This is considerably higher than the $ 3.14 billion replenishment for the GEF-4 period. Availability of higher levels of resources for the GEF-5 period led to an increase in the aggregate allocations for focal areas and to increased average country allocations under STAR.

Table 1. Allocation of resources under STAR and non-STAR focal areas (GEF-5) compared with historical utilization of resources. Each cell shows the total amount of resources allocated/utilized and the (percentage) of total focal area funding this represents.

| GEF phase | Biodiversity | Climate Change | Land Degradation | All other focal areas | Grand total (millions USD) |
|---|---|---|---|---|---|
| **Pilot Phase** | 292 (44%) | 229 (35%) | - | 141 (21%) | 662 (100%) |
| **GEF - 1** | 392 (38%) | 350 (34%) | - | 295 (28%) | 1,037 (100%) |
| **GEF - 2** | 686 (38%) | 620 (34%) | - | 513 (28%) | 1,819 (100%) |
| **GEF - 3** | 892 (30%) | 830 (28%) | 254 (9%) | 975 (33%) | 2,950 (100%) |
| **GEF - 4** | 907 (31%) | 907 (31%) | 262 (9%) | 833 (29%) | 2,909 (100%) |
| **GEF - 5** | 1,210 (32%) | 1,360 (36%) | 405 (11%) | 840 (22%) | 3,815 (100%) |

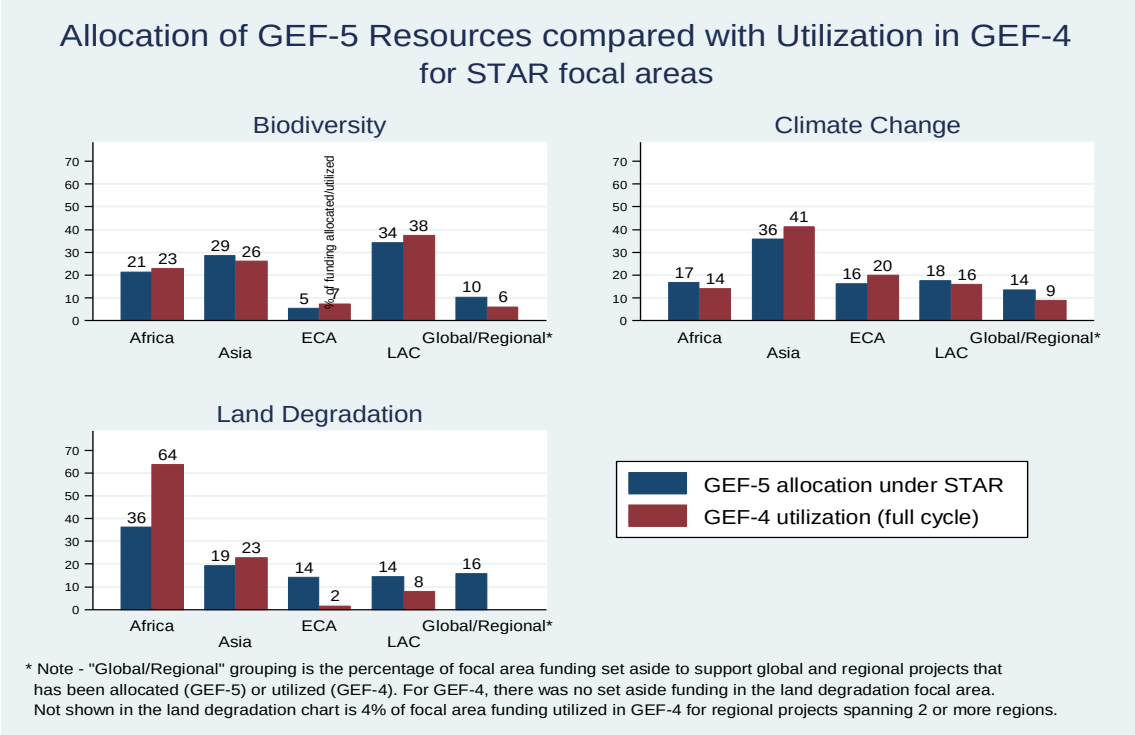
More distinction is seen in the share of STAR focal area funding allocated to regions and country groupings compared against utilization in GEF-4, particularly for the land degradation focal area. As shown in figure 1 and table 2, for biodiversity, the percentage of focal area funding allocated to regions under STAR has more or less equaled the share utilized under GEF-4. One exception is a slight decrease (4%) in the percentage of funding allocated to the Latin America and Caribbean region (LAC), although this may be more than made up by utilization of the global/regional set aside, which accounts for 10% of the biodiversity funding in GEF-5.[9] In the climate change focal area, there is a small uptick (3%) in the percentage of focal area funding allocated to the Africa region compared with GEF-4 utilization, while the Asia and Europe and Central Asia (ECA) regions have seen their percentage of funding decrease slightly.

The largest shift in funding between GEF-4 and GEF-5 periods is found in the land degradation focal area, which is covered under STAR in GEF-5 but not under RAF in GEF-4. Utilization of land degradation funding by regions was highly uneven in GEF-4, with Africa accounting for 64% of focal area funding compared to 23% in Asia, 8% in LAC, and only 2% in ECA. The high level of utilization of land degradation resources in the Africa region under GEF-4 was due, in large part, to the 'Strategic Investment Program' for sustainable land management. This GEF-

[9] Percentages in table 2 and figure 1 exclude the focal area set-aside funding for SFM, as it is not regional in nature at the point of allocation.

4 initiative focused on drivers of land degradation that are most prevalent in Africa.. Under STAR, the Africa region still accounts more funding in land degradation funding, at 36%, than other regions but the share is lower. Some of the lower allocation share would be mitigated by share of African countries in set-asides. Taking this into account the land degradation focal area allocation to countries of Africa region is similar to their share in utilization during GEF-3 (42 percent), although lower than their share in utilization during GEF-4 (64 percent).

Figure 1. Regional allocation of GEF-5 resources in STAR focal areas compared with GEF-4 utilization.




* Note - "Global/Regional" grouping is the percentage of focal area funding set aside to support global and regional projects that has been allocated (GEF-5) or utilized (GEF-4). For GEF-4, there was no set aside funding in the land degradation focal area. Not shown in the land degradation chart is 4% of focal area funding utilized in GEF-4 for regional projects spanning 2 or more regions.

Similar shifts in the share of focal area funding between the GEF-5 and GEF-4 periods are found when considering groupings of countries with special needs, as shown in table 3. For the biodiversity focal area, the largest change is a three percent increase in the share of funding allocated to Least-Developed Countries (LDCs) in GEF-5. For the other four country groupings considered, the biodiversity allocation under STAR is essentially unchanged from the share of resources utilized in GEF-4 under RAF. In the climate change focal area, all of the country groupings see a small increase in the percentage of funding allocated in GEF-5 compared with GEF-4 utilization, with LDCs receiving around 4% more resources, and the other groupings receiving between 1-3% more in funding. This overall increase in funding to countries with special needs in the biodiversity and climate change focal areas is in part the result of the addition of a GDP-weighted index in the STAR allocation formula.

Table 2. Regional allocation of GEF resources in STAR focal areas compared with utilization under GEF-4. Each cell shows the total amount of resources allocated/utilized and the (percentage) of total focal area funding this represents.

| Region | GEF -5 allocation under STAR | | | GEF-4 utilization (full cycle) | | |
|---|---|---|---|---|---|---|
| | Biodiversity | Climate Change | Land | Biodiversity | Climate Change | Land |

| | | | Degradation | | | Degradation |
|---|---|---|---|---|---|---|
| **Africa** | 231.4 (21%) | 209.9 (17%) | 139.3 (36%) | 207.5 (23%) | 127.4 (14%) | 166.5 (64%) |
| **Asia** | 308.8 (29%) | 451.1 (36%) | 74.8 (19%) | 236.7 (26%) | 373.5 (41%) | 59.8 (23%) |
| **Europe & Central Asia** | 59.1 (5%) | 204.2 (16%) | 54.2 (14%) | 67.6 (8%) | 181.4 (20%) | 4.4 (2%) |
| **Latin America and the Caribbean** | 368.7 (34%) | 222.8 (18%) | 55.7 (15%) | 340.3 (38%) | 143.8 (16%) | 20.9 (8%) |
| **Global/Regional set aside** | 112.0 (10%) | 172.0 (14%) | 61.0 (16%) | 55.0 (6%) | 81.2 (9%) | 10.2* (4%) |
| **Total** | 1,080 (100%) | 1,260 (100%) | 385 (100%) | 907.1 (100%) | 907.3 (100%) | 261.8 (100%) |

Note that totals may not sum to 100% due to rounding. Total funding and percentages exclude set-aside funding for SFM.
*For GEF-4 period, there was not global/regional set aside in the Land Degradation focal area. Shown in this cell is the amount of funding utilized, and the percentage of land degradation funding represented by land degradation projects that are global or which are regional projects not circumscribed in one region.

As with the regional groupings, the greatest shifts in funding between GEF-5 and GEF-4 periods to countries with special needs occurs in the land degradation focal area. The share of land degradation funding allocated to fragile states decreased by 33 percentage points from GEF-4 utilization levels. LDCs also saw a significant decrease in the share of land degradation – dropping 16 percentage points from GEF-4 utilization levels – although in absolute terms, the level of land degradation funding to LDCs is essentially unchanged. However, much of this decline is because most of the countries in these categories were in Africa and during GEF-4 Africa had been specifically targeted for land degradation activities. Country groupings that see an increase in the percentage of land degradation funding are Highly-Indebted Poor Countries (HIPCs) and Small-Island Developing States (SIDS), which increased their share of funding by 15 and 9.5 percentage points, respectively.

Table 3. Allocation and utilization of GEF resources in countries with special needs . Each cell shows the total amount of resources allocated/utilized and the (percentage) of total focal area funding this represents. Percentages and totals for RAF include utilization in countries with individual allocations as well as to countries with group allocations

| Country Grouping | GEF -5 allocation under STAR | | | GEF-4 utilization (full cycle) | | |
|---|---|---|---|---|---|---|
| | Biodiversity | Climate Change | Land Degradation | Biodiversity | Climate Change | Land Degradation* |
| **LDCs** | 179.3 (19%) | 149.7 (14%) | 100.7 (31%) | 141.1 (16%) | 77.5 (9%) | 95.5 (47%) |
| **SIDS** | 120.6 (13%) | 79.9 (7%) | 34.9 (11%) | 107.2 (13%) | 39.6 (5%) | 2.6 (1%) |
| **Landlocked** | 88.9 (9%) | 117.0 (11%) | 92.0 (28%) | 78.2 (9%) | 60.1 (7%) | 60.5 (30%) |
| **Fragile States** | 87.9 (9%) | 84.3 (8%) | 48.8 (15%) | 83.0 (10%) | 57.2 (7%) | 98.5 (48%) |
| **HIPCs** | 174.0 (18%) | 118.9 (11%) | 97.0 (30%) | 154.9 (18%) | 64.9 (8%) | 31.0 (15%) |

Note that country groupings are non-exclusive (overlap) and therefore percentages may sum to more than 100%. Percentages exclude focal area set-aside funding (except for land degradation in GEF-4 which had no set-aside).

* Figures for Land Degradation in GEF-4 period exclude all non-national projects as those resources cannot be tracked to recipient countries.

## 4. Utilization of GEF resources under STAR and earlier periods

In this section, utilization of GEF-5 resources under STAR focal areas is compared with utilization in the GEF-4 period. As noted above, RAF covered two of the three STAR focal areas – biodiversity and climate change – and did not cover land degradation. Because the GEF-5 period is ongoing, utilization of resources to the end of the third replenishment year – June 30, 2013 for GEF-5 and June 30, 2009 for GEF-4 – is considered as a point of comparison. However, in doing so, two factors must be taken into account.

First, the preparatory period of GEF-4 faced extra-ordinary circumstances. While the GEF replenishment period normally starts on July 1$^{st}$ of its first fiscal year, for GEF-4, the replenishment had not been completed by that time. It was only on November 30$^{th}$ 2006 that the advance contribution scheme under GEF-4 became effective, and it was not until February 8$^{th}$ 2007 that the Trustee received instruments of commitment or qualified instruments of commitment from donors to initiate activities under GEF-4.

Although it would not have been possible for the GEF to utilize GEF-4 resources before February 8$^{th}$ 2007, work on development of operational policies, procedures, and project documents had continued during the period of July 1$^{st}$ 2006 to February 8$^{th}$ 2007. As a result, if February 8$^{th}$ 2007 is used as the start date for GEF-4, GEF-4 performance may appear to be better than that of GEF-5. For example, the first project approval during GEF-5 took place during the 8$^{th}$ month after start of GEF-5, which is three months earlier than in GEF-4 if February 8$^{th}$ 2007 is considered as the start date. In contrast, if July 1$^{st}$ 2006 is used as a starting point for GEF-4, performance during GEF-4 is likely to appear weaker due to the delay in the actual start of the GEF-4 project appraisal process. In this paper, comparisons

have been made based on nominal start dates for the GEF periods, i.e. GEF-4 starts on July 1st 2006 and GEF-5 starts on July 1st 2010.

Another factor that needs to be considered when comparing GEF-4 and GEF-5 utilization is the materialization of donor commitments to the GEF during these two periods and the economic conditions faced by donor and recipient countries. For GEF-5, the total commitment was $4.34 billion USD. Of this, at the start of GEF-5, it was anticipated that $4.13 billion would be available for programming (GEF/C.39/4/Rev.1). The actual materialization of the commitments, however, was significantly lower than anticipated during the first two years of GEF-5. By October 2012, the Secretariat was projecting that the drop in funds might be around $600 million (GEF/C.43/08). This anticipated drop in the materialization of GEF-5 replenishment resources is likely to have slowed the speed of resource utilization during the period of July 1st 2012 to June 2013. The expected drop in funding was subsequently mitigated with realization of some of the commitments.

For GEF-4, donors had committed $3.135 billion (GEF/C.30/6), of which US $ 2.95 billion materialized (GEF/C.35/12) – a gap of $185 million. However, unlike GEF-5, where most of the anticipated shortfall was due to less than expected materialization of donor commitments, about two thirds of the GEF-4 shortfall was due to appreciation of the US dollar against currencies/instruments in which donor commitments were made. Thus, both replenishment periods faced shortfalls in the materialization of replenishment resources which likely slowed the speed of resource utilization, although for different reasons, and to different degrees.

These two issues – delay in the operational start date of GEF-4 and variances in the level of materialization of replenishment resources – are confounding factors that limit the certainty to which variances in utilization performance may be attributed to any changes in the GEF PBA system.

### 4.1 Overall utilization patterns through third replenishment year

Table 4 shows the utilization of GEF-4 and GEF-5 resources though the third year of the replenishment cycle for the three focal areas covered under STAR. As a percentage of allocated resources, the total utilization of STAR and RAF focal area resources is nearly identical at this point, at 69% and 70% respectively. While the percent utilization of biodiversity and climate change focal area set asides under STAR is some 20% lower than those under RAF, the size of the set-aside, both in absolute terms and as a percentage of focal area funding, has increased substantially in GEF-5, and so utilization levels are not easily comparable.

One noticeable change in utilization is seen in the land degradation focal area. Under STAR, utilization of land degradation resources at the end of the third replenishment year is 67% compared with 96% in GEF-4. At the same time, this level of resource utilization is in-line with that of the other two STAR focal areas. The decline in land degradation resources utilization may have more to do with the limited amount of resources available under this focal area being spread among more countries in the GEF-5 period than previously.

Table 4. Utilization of GEF resources under STAR and RAF focal areas by end of the third replenishment year. Each cell shows the amount of resources in millions of USD, and the (percent) of allocated resources utilized to date. Utilization of total land degradation resources in GEF-4, which was not covered under RAF, is shown for comparison with utilization under STAR.

| | GEF-5 utilization through Year 3 | | | | GEF-4 utilization through Year 3 | | | |
|---|---|---|---|---|---|---|---|---|
| Allocation | Biodiversity | Climate Change | Land Degradation | All three STAR focal areas | Biodiversity | Climate Change | Both RAF focal areas | Land Degradation |
| **Country Allocations** | 761.8 (79%) | 748.8 (69%) | 246.4 (76%) | 1,757.0 (74%) | 683.2 (76%) | 567.7 (63%) | 1,250.8 (69%) | - |
| **Set-asides** | 122 (50%) | 140.9 (52%) | 25.8 (32%) | 288.7 (49%) | 34.7 (69%) | 36.7 (73%) | 71.3 (71%) | - |
| **Total** | 883.8 (73%) | 889.7 (65%) | 272.2 (67%) | 2,045.7 (69%) | 717.8 (76%) | 604.4 (64%) | 1,322.2 (70%) | 251.8 (96%) |

Note that country allocation figures in GEF-4 include both countries with individual allocations and those with group allocations under RAF.

Table 5 show the absolute and percent utilization of focal area resources that were allocated to regions under STAR and RAF, through the third replenishment year. The regional breakdown exposes some differences in utilization that are masked when looking at overall utilization. Under STAR, countries in Africa with appear to be utilizing climate change focal area resources at a slower rate than under RAF. For this region, the percent utilization of allocated climate resources by the end of the third replenishment year is 52% under STAR compared with 66% under RAF. Similarly, the percent utilization of biodiversity resources allocated to the ECA region is lower under STAR than under RAF, at 51% compared with 70%, respectively.

Balancing out these declines in resource utilization at the regional level: utilization of allocated resources by countries in the Asia region under the biodiversity focal area is up from 70% under RAF to 83% under STAR. In the climate change focal area, resource utilization is up from 55% to 74% in the ECA region, and from 49% to 77% in the LAC region. No comparisons are available for the land degradation focal area, as resources were not allocated by region in GEF-4. However, as noted previously, the percent utilization of land degradation resources set aside to support global and regional projects is low, at 26%.

Table 5. Regional utilization of allocated GEF resources under STAR and RAF focal areas. Each cell shows the amount of resources in millions of USD and the (percent) of allocated resources utilized by the end of the third replenishment year. Percentages for RAF include utilization in countries with individual allocations as well as to countries that were part of group allocations.

| | STAR utilization through year 3 | | | RAF utilization through year 3 | |
|---|---|---|---|---|---|
| Region | Biodiversity | Climate Change | Land Degradation | Biodiversity | Climate Change |
| Africa | 179.4 (78%) | 209.9 (52%) | 108.1 (78%) | 168.5 (79%) | 86.0 (66%) |
| Asia | 257.0 (83%) | 451.1 (71%) | 52.2 (70%) | 182.0 (70%) | 275.9 (73%) |
| Europe & Central Asia | 29.9 (51%) | 204.2 (74%) | 43.6 (80%) | 52.3 (70%) | 134.7 (56%) |
| Latin America and the Caribbean | 295.5 (80%) | 170.6 (77%) | 42.5 (76%) | 280.3 (79%) | 71.1 (49%) |
| Global/Regional set aside | 56.7 (51%) | 90.7 (53%) | 15.8 (26%) | 34.7 (69%) | 36.7 (73%) |
| Total | 818.5 (76%) | 839.5 (67%) | 262.2 (68%) | 717.8 (75%) | 604.3 (64%) |

Lastly, the mid-term review of RAF found that countries with group allocations faced unclear guidelines on how to access funding, and that the group allocation approach may also have had a detrimental effect on country ownership.[10] In response to these findings, and at the direction of the GEF Council, group allocations were dropped in STAR so that "...all GEF recipient countries (may) benefit from added predictability in the availability of resources..."[11] A change in utilization patterns among countries with and without group allocations under RAF is clearly evident. As shown in table 6, resource utilization levels in the biodiversity and climate change focal areas are largely unchanged for countries receiving individual allocations under both RAF and STAR. However, countries that received a group allocation of GEF resources under RAF show substantially higher levels of resource utilization under STAR, particularly in the climate change focal area. In the biodiversity focal area, resource utilization as a percentage of allocated resources is up from 75% to 85% for countries receiving a group allocation under RAF. In the climate change focal area, resource utilization jumped from 37% to 63% for this same group of countries.

Table 6. Utilization of GEF resources by end of third replenishment year for countries receiving individual and group allocations under GEF-4 (RAF). Each cell shows the amount and (percentage) of allocated resources utilized. Under STAR (GEF-5), countries that had previously received a group allocation under RAF (GEF-4) received an individual allocation.

| | STAR utilization through year 3 | | RAF utilization through year 3 | |
|---|---|---|---|---|
| Focal area | Countries with individual allocations | Countries with group allocations in GEF-4 | Countries with individual allocations | Countries with group allocations in GEF-4 |

[10] GEF EO, 2009. *Midterm Review of the Resource Allocation Framework*. Evaluation Report No. 47., pg 11 and 13.
[11] GEF SEC 2013. System for Transparent Allocation of Resources (STAR), pg 8. PL/RA/01.

| | in GEF-4 | | in GEF-4 | |
|---|---|---|---|---|
| **Biodiversity** | 610.5<br>(77%) | 151.3<br>(85%) | 572.2<br>(76%) | 111.0<br>(75%) |
| **Climate Change** | 583.7<br>(71%) | 162.6<br>(63%) | 513.3<br>(68%) | 54.4<br>(37%) |
| **Total** | 1,194.2<br>(74%) | 313.9<br>(72%) | 1,085.5<br>(72%) | 165.3<br>(56%) |

## 4.2 Utilization by countries with special needs

Table 7 compares utilization by end of third replenishment year of allocated resources under STAR and RAF to countries with special needs. Overall, under STAR there is high utilization of allocated biodiversity resources among these country groupings, and the percentages are comparable to that under RAF. In the climate change focal area, however, there has been a substantial increase in the percentage of allocated resources utilized under STAR compared with RAF. For LDCs, the percentage of utilized resources jumped from 39% under RAF to 61% under STAR. For SIDS, the increase is even larger – from 17% under RAF to 77% under STAR. Fragile states are the only grouping that saw a decline in the percentage of allocated climate change resources utilized by year three – from 59% under RAF to 54% under STAR.

Table 7. Utilization of allocated GEF resources under STAR and RAF by the end of the third replenishment year to countries with special needs. Each cell shows the amount in millions of USD, and the (percent) of allocated focal area resources utilized by the end of the third replenishment year. Percentages for RAF refer only to utilization in countries with individual allocations.

| | Utilization of allocated STAR resources through year 3 | | | Utilization of allocated RAF resources through year 3 | |
|---|---|---|---|---|---|
| Region | Biodiversity | Climate Change | Land Degradation | Biodiversity | Climate Change |
| LDCs | 143.3 (80%) | 90.9 (61%) | 81.7 (81%) | 114.9 (78%) | 31.9 (39%) |
| SIDS | 98.8 (82%) | 61.7 (77%) | 29.1 (83%) | 99.6 (93%) | 9.1 (17%) |
| Landlocked | 72.8 (82%) | 73.6 (63%) | 72.5 (79%) | 66.3 (79%) | 26.6 (38%) |
| Fragile States | 83.9 (96%) | 45.3 (54%) | 43.9 (90%) | 66.2 (78%) | 36.4 (59%) |
| HIPCs | 126.7 (73%) | 67.3 (57%) | 73.9 (76%) | 124.5 (77%) | 36.4 (52%) |
| None of the above | 489.4 (80%) | 543.4 (69%) | 98.7 (76%) | 430.7 (73%) | 493.4 (69%) |

Note that country groupings are non-exclusive (overlap) and therefore percentages may sum to more than 100%. Percentages exclude focal area set-aside funding.

## 4.3 NPFE effects on utilization

Included in the analysis of resource utilization conducted for this paper is an assessment of what effect upon resource utilization, if any, is seen in countries that took part in National Portfolio Formulation Exercises (NPFE). The question is relevant to the overall assessment of STAR utilization patterns because of the many ways in which the NPFE is anticipated to affect the efficiency and programming of both STAR and non-STAR focal areas (see section 2.3).

To date, 42 countries undertook NPFEs – 32 with GEF funding and 10 without. Their resource utilization levels to the end of the third replenishment year are shown in table 8, alongside that of countries that did not undertake NPFEs. Overall, countries that did an NPFE with their own resources utilized 85% of allocated resources compared with 73% utilization for countries that did not undertake an NPFE – a sizable difference. On the other hand, countries that undertook an NPFE with GEF funding have utilized only 66% of allocated resources to date, which is below that of countries that did not undertake an NPFE. The differences are most striking in the climate change focal area: countries undertaking NPFEs with GEF funding have utilized only 46% of allocated resources to date compared with 69% utilization among countries that did not undertake an NPFE, and 86% for countries that undertook an NPFE without GEF resources.

While the mixed picture in terms of utilization levels suggests that the NPFE had no effect at all on utilization levels, or perhaps even a detrimental effect, a more robust assessment requires comparisons with GEF-4 utilization levels for these same country groupings. The comparison shows that among countries that undertook an NPFE with GEF resources, utilization rates are essentially unchanged between GEF-4 and GEF-5. For countries that undertook an NPFE using their own resources, utilization in GEF-5 was a few percentage

points higher than for GEF-4. The limited sample size, delays in countries accessing NPFE related GEF grants, and numerous other confounding factors, including the aforementioned differences in materialization of replenishment resources and the delayed start date for GEF-4 caution against reading too much into this analysis at this point in time.

Table 8. Resource utilization in countries that did and did not undertake NPFEs. Each cell shows the amount in millions of USD, and the (percent) of allocated focal area resources utilized by the end of the third GEF-5 replenishment year.

| | Utilization of allocated STAR resources through year 3 | | | |
|---|---|---|---|---|
| Country grouping | Biodiversity | Climate Change | Land Degradation | Total |
| **Countries that undertook NPFEs with GEF funding (n=32)** | 134.5 (78%) | 68.2 (46%) | 59.4 (76%) | 262.1 (66%) |
| **Countries that undertook NPFEs without GEF funding (n=10)** | 150.1 (87%) | 171.3 (86%) | 21.5 (67%) | 342.9 (85%) |
| **Countries that did not undertake NPFEs (102)** | 477.2 (77%) | 509.3 (69%) | 165.6 (78%) | 1,152.1 (73%) |

## 4.4 Participation of NGOs and CSOs under STAR and earlier periods

The GEF mandate, as stated in the GEF Instrument, calls for participation of NGOs and CSOs in GEF supported projects and activities.[12] Such involvement is seen as key to achieving the GEF's mission and objectives as NGOs and CSOs bring a wide-range of needed skills and experiences to GEF projects; contribute to the formulation and maintenance of key partnerships; and strengthen country and local ownership of project outcomes.[13] Moreover, for GEF-5, the GEF Council approved a strategy for enhancing the engagement of civil society in partnership with the GEF.[14]

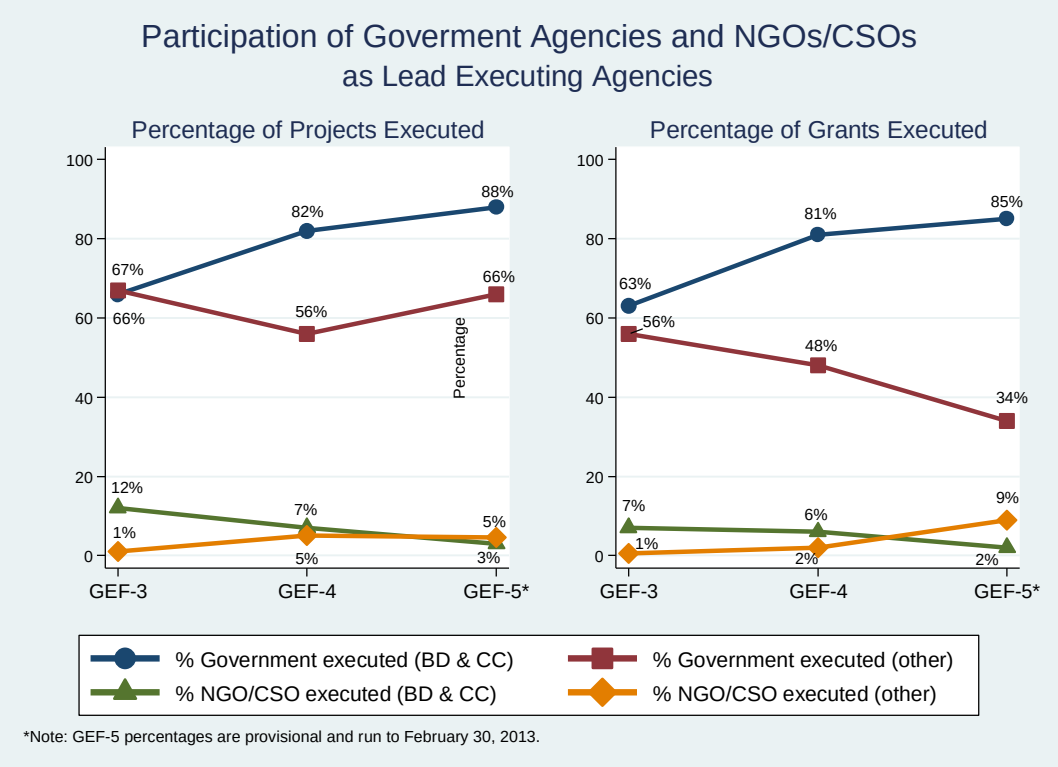
At the same time, there is concern among GEF stakeholders that the shift to national allocation under RAF, and expanded under STAR, has the potential to reduce the participation of NGOs and CSOs in GEF projects and operations. Such an outcome could result if, for example, NGOs and CSOs were excluded from programming decisions concerning the use of GEF resources that have been allocated to countries, or if their contributions to GEF projects were not valued in the same way as under earlier periods. Therefore, the participation of NGOs and CSOs is of key interest in evaluating the effectiveness of both STAR and RAF.

Figure 2 shows the percentage of projects and GEF grants with NGOs and CSOs serving as lead executing agents, along with percentages for governmental agencies in that role. A clear upward shift is visible for governmental agencies under the biodiversity and climate change focal areas, alongside a decline in the percentages for NGOs and CSOs. The percentage of biodiversity and climate change projects with governmental agencies serving as lead

[12] Instrument for the Establishment of the Restructured GEF (2008). Available at: http://www.thegef.org/gef/node/2552
[13] GEF/C.34/9. Enhancing Civil Society Engagement and Partnership with the GEF. Page 2.
[14] Ibid, 13.

executing agencies has risen from 66% in GEF-3 to 88% in GEF-5, compared with a decline from 12% to 3% for NGOs/CSOs over the same period. The percentages are largely unchanged when assessed as the percentage of grants executed (right side of figure 2). For other focal areas, there has been a decline in the percentage of grants executed by governmental agencies – from 56% in GEF-3 to 34% in GEF-5. For NGOs and CSOs, the percentage of non-biodiversity and non-climate change grants executed has risen from 1% in GEF-3 to 9% in GEF-5. Thus, from the data available so far (GEF-5 figures are provisional), it appears that the shift to national allocation under RAF and STAR may be contributing to a decline in the participation of NGOs/CSOs as lead executing agencies, and an increase in the percentage of governmental agencies serving in this role.

Figure 2. Participation of government agencies and NGOs/CSOs as Lead Executing Agencies in GEF projects under the biodiversity and climate change focal areas (BD & CC), and other focal areas, from GEF-3 through GEF-5 (through February 30, 2013).




*Note: GEF-5 percentages are provisional and run to February 30, 2013.

At the same time, stakeholders, including NGOs and CSOs, can and do participate in GEF projects in significant ways outside of serving as lead executing agencies. Table 10 looks at NGO and CSO participation in GEF-3 through GEF-5, in the biodiversity and climate change focal areas, using the following five groupings for the nature of project participation:

- **Lead Executing agency**: Project with an NGO/CSO officially designated (in project documents) as the lead executing agency with responsibility for project execution.

- **Secondary Executing agency**: Project with an NGO/CSO designated as having responsibility for some aspects of project execution, but not responsibility for overall project execution.
- **Project Collaborator**: Projects where an NGO/CSO has not been designated as a lead or secondary executing agency, but where one or more NGOs/CSOs are actively involved in project activities, through provision of technical support, training, expertise, outreach, participation in the steering committee, and other activities of this nature.
- **Co-Financier:** Project where one or more NGOs/CSOs provide financial support.
- **Project Beneficiary:** Project where one or more NGOs/CSOs directly benefit from the project, by receiving technical support, training, financial support, or other assistance.

As can be seen in table 10, while the participation of NGOs and CSOs as lead executing agencies has declined under RAF and STAR, in other capacities their participation has increased. The percentage of projects with NGOs/CSOs serving as secondary executing agencies has increased from 3% in GEF-3 to 11% in GEF-5, in the biodiversity and climate change focal areas. Similarly, the percentage of NGOs/CSOs serving as project collaborators has increased from 62% in GEF-3 to 73% in GEF-5. On balance, while the nature of NGO and CSO participation in GEF appears to have changed under RAF and STAR, the percentage of projects with any kind of NGO/CSO participation appears to be on the rise.

Table 10. NGO and CSO participation in GEF projects in the biodiversity and climate change focal areas, from GEF-3 to GEF-5 (through February 30, 2013).

| | GEF-3, Biodiversity and Climate Change focal areas | | GEF-4 (RAF), Biodiversity and Climate Change focal areas | | GEF-5 (STAR), Biodiversity and Climate Change focal areas | |
|---|---|---|---|---|---|---|
| Role of NGO/CSO | # of projects | % of total projects (385) | # of projects | % of total projects (519) | # of projects | % of total projects (297) |
| Lead Executing Agency | 48 | 12% | 38 | 7% | 9 | 3% |
| Secondary Executing Agency | 10 | 3% | 32 | 6% | 32 | 11% |
| Project Collaborator | 240 | 62% | 319 | 61% | 217 | 73% |
| Co-Financier | 110 | 29% | 177 | 34% | 76 | 26% |
| Project beneficiary | 90 | 23% | 90 | 17% | 57 | 19% |
| Any of the above | 247 | 64% | 349 | 67% | 222 | 75% |

## 4.5 Removal of constraints on access to funding, and utilization of flexibility and marginal adjustment provisions

As noted in section 2.4, the RAF requirement that countries utilize no more than 50% of allocated resources was dropped under STAR. The effect of this rule change on utilization can be clearly seen in GEF-5. If the 50% rule were in effect, the overall utilization rate for

covered focal areas at the half-way mark (June 30, 2012) would have fallen from 48% to 35%.[15] Removal of the 50% rule allowed 67 countries in the biodiversity focal area, 37 countries in the climate change focal area, and 62 countries in the land degradation focal area to utilize more than 50% of their allocation. Given that the objectives for removing the 50% rule were to increase resource utilization, we therefore conclude that this change was an unqualified success.

Changes introduced in GEF-5 under STAR, allowing for flexibility and marginal adjustments of allocated resources across focal areas were not, on the other hand, as successful overall. As shown in table 11, 60% of countries with full flexibility took advantage of this provision – shifting 21% of their aggregate focal area funding across focal areas by the end of the third replenishment year. For countries with marginal flexibility, only 19% utilized any allocated funding in a different focal area. Moreover, the majority (65%) of countries with marginal flexibility had allocations that afforded them the flexibility to move $200,000 across focal areas.[16] From interviews with country stakeholders it was determined that a key factor responsible for the low usage of funding across focal areas for countries in this grouping was that the flexibility ceiling is too low.

Table 11. Exercise of STAR flexibility provisions for countries with full and marginal flexibility. Figures run through the end of the third replenishment year of GEF-5.

| Grouping | Countries with Full flexibility | Countries with Marginal Flexibility | | | |
|---|---|---|---|---|---|
| | | All countries with marginal flexibility | Countries with flexibility of $200,000 | Countries with flexibility of $1 million | Countries with flexibility of $2 million |
| **Total # of countries** | 63 | 81 | 53 | 24 | 4 |
| **Total allocation ($M)** | $334 | $2,046 | $590 | $861 | $590 |
| **# countries utilizing flexibility provisions** | 38 | 15 | 10 | 5 | 0 |
| **% of countries utilizing flexibility provisions** | 60% | 19% | 19% | 21% | 0% |
| **Amount of allocated resources utilized in different focal areas ($M)** | $72 | $2 | $1 | $1 | - |

Among the reasons why countries may wish to shift allocated funding from one focal area to another, there are two of particular concern. First, a country with a low indicative allocation in a given focal area may find this amount is too low to allow development of a viable project, and may therefore wish to pool allocations across focal areas to create a viable project. In the second scenario, a country with a larger allocation may find that after programming most of its allocation in a given focal area, they're left with residual mounts not sufficiently large to create another viable project in that focal area. In both of these cases, the flexibility needed is that which enables the development of a viable project, which is not necessarily determined by the size of a country's sum total indicative allocation.

[15] The 35% figure comes from a simulated utilization scenario where resource utilization is capped at 50% for national and group allocations.
[16] That is, their sum total indicative allocation fell between $7 to $20 million (see section 2.2).