

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

Technical Document # 4

Sustainable Forest Management Set Aside

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1. Introduction

This paper has been prepared as an input to the STAR Mid Term Evaluation. It has been prepared specifically to assess utilization pattern for the Sustainable Forest Management (SFM/REDD+) incentive scheme, which is one of the set asides under STAR. The paper has been prepared based on the desk review of the available publications, analysis of PMIS dataset, and inputs from GEF staff involved in implementation of the SFM incentive scheme.

GEF has provided support for projects that focus on sustainable forest management (SFM) since its inception. However, GEF's past efforts to promote SFM have been fragmented. This changed during GEF-4, with development of a strategy to direct resources towards SFM. The strategy encompassed approaches that include protected area and integrated watershed management, biofuels and LULUCF. In 2007, the GEF launched a pilot financial incentive scheme promoting country investments in multi-focal area projects with a focus on forests in Amazonia, the Congo and Papua New Guinea/Borneo. During GEF-5 the financial incentive scheme was expanded to cover all the forests of global importance. GEF created a separate \$ 250 million¹ set aside that is being operated as an incentive mechanism for beneficiary countries willing to undertake SFM projects using their STAR allocations for biodiversity, climate change and land degradation focal areas. To access a dollar from the SFM set aside a beneficiary country is required to allocate three dollars from its STAR allocations to a project that addresses SFM related concerns. Individual countries are allowed to invest a maximum of \$ 30 million from their combined allocations for GEF-5 for accessing SFM funds, which means that the maximum a country may access through the SFM incentive scheme is \$ 10 million.

The SFM incentive scheme has now been in operation for more than three years. Learning from this experience is important, especially because GEF is considering signature programs as one of the ways to facilitate generation of global environmental benefits. While it's too early to determine the extent to which the SFM incentive scheme has been effective in generating global environmental benefits, the experience so far does show how an incentive scheme may work. This note assesses the extent to which the SFM incentive scheme is being utilized by the beneficiary countries and the emerging resource utilization patterns. It uses information on utilization up to June 30th 2013. The key findings are:

- At the end of the third year of GEF-5 total utilization of SFM set-aside was \$ 125.6 million (50.2%) through 66 projects.
- Of the \$ 662.7 million in GEF funds invested in SFM projects, funds from the GEF Trust Fund account for 94 percent whereas the remainder is accounted for by other trust funds such as LDCF, SCCF and NPIF that are managed by the GEF.
- Of the 144 GEF beneficiary countries that had a STAR allocation, 79 countries have been able to access the SFM set aside.
- Countries from Africa and Latin America and Caribbean have been able to utilize a relatively higher percentage of SFM set aside funding than their share in STAR allocations and in STAR resources utilized so far would indicate. A key achievement has been the utilization of SFM set aside funding by countries in Europe and Central

¹ All amounts shown in this paper are in USD.

Asia region, which had not been able to access these incentives during the GEF-4 period.

- Countries that have a sum total STAR allocation of less than \$ 10 million are accessing relatively more SFM set aside resources.
- LDCs and landlocked countries accessed a relatively higher percentage of SFM resources.
- Since GEF-5 period is still under implementation, the utilization figures for the period are not final. However, GEF-5 resources provided for SFM have already exceeded the amounts provided during the GEF-4 period. Even after accounting for a larger replenishment for the GEF-5 period, by the end of the GEF-5 period the funding for SFM projects is likely to be greater than that during GEF-4 period. Despite these achievements, the overall utilization of SFM resources is likely to be lower than the total set-aside envelope of \$ 250 million.

2. Overview

By the end of June 30th 2013, the total utilization of the SFM set aside of US \$ 250 million was 125.6 million (50.2%). GEF has so far approved 66 projects that have received funding from SFM set aside. Of these, 57 projects that involved a total of US \$ 102.1 million in SFM incentive were funded exclusively through funds from GEF Trust Fund (GET). Nine SFM projects involving a total of \$ 23.5 million in SFM incentive, in addition to funds from GET, also involved funds from other trust funds such as LDCF and SCCF that are managed by the GEF. Some of the SFM projects have also received funding from the international waters focal area. Table 1 gives a break up of sources of GEF funding for SFM projects. Compared to the \$ 662.7 million in GEF funding, the SFM projects have been able to get commitments of \$4,383.5 million in co-financing from partner institutions and beneficiaries.

Table 1: Utilization of GEF Funding for SFM Projects

Funding Source	Amount (\$millions)
GEF Trust Fund	620.0
<i>SFM set aside</i>	125.6
<i>STAR country allocations</i>	472.4
<i>International Waters focal area</i>	22.0
Other Trust Funds	42.7
<i>LDCF</i>	36.1
<i>SCCF</i>	5.5
<i>NPIF</i>	1.0
Total size	662.7

Stand-alone projects account for 73.9 percent of SFM set aside utilization. The remainder of the utilization is accounted for by SFM projects that have been developed under programmatic approach. These include projects under the Sahel and West Africa Program; Greater Mekong Sub-region Forests and Biodiversity Program; and, Lake Chad Basin Regional Program for the Conservation and Sustainable Use of Natural Resources and Energy Efficiency.

Table 3 presents a comparison of SFM set aside and STAR allocations utilization through the GEF-5 period. Although SFM set aside utilization is lower than utilization of STAR resources, the pattern is quite similar. During the first year of GEF-5 the utilization was low at 9.1 percent (\$ 22.8 million), similar to the STAR utilization of 9.4 percent. The SFM utilization increased to 26.8 percent during the second year and slowed down to 14.3 percent during the third year.

Table 2: SFM set aside utilization - by approach type

Category	SFM Utilization (\$ millions(%))
Stand-alone projects	92.8 (73.9%)
Programmatic Approach	32.8 (26.1%)
<i>Child projects</i>	13.9 (11.1%)
<i>Parent projects (amounts yet not allocated to child projects)</i>	18.9 (15.0%)
Total SFM set aside utilization	125.6 (100%)

(Up to June 30th 2013)

Several factors seem to have led to a lower level of utilization of SFM set aside (vis-à-vis STAR). Firstly, this being the first time the incentive scheme was implemented at a global scale most beneficiary countries had little experience or knowledge about GEF requirements and procedures for accessing SFM resources. Secondly, although an incentive of one dollar from SFM set aside for three dollars from STAR resources was sufficient for countries with larger allocations it was a barrier for countries that had smaller STAR allocations. Thirdly, the ceiling for countries at \$ 10 million in terms of the resources they may access from SFM set aside prevented some of the countries such as Mexico and Brazil from accessing more resources. Although the \$ 10 million ceiling did lead to slightly lower overall utilization, it performed its function of preventing the SFM incentive scheme from being monopolized by a few countries with large STAR allocations.

Table 3: Utilization of SFM Envelope during GEF-5 up to 30th June 2013 (in \$ m)

GEF-5 Period	SFM set aside Utilization	Number of SFM Projects	STAR Utilization
Year 1 (July 1 st 2010 to June 30 th 2011)	22.8 (9.1%)	11	256.2 (9.4%)
Year 2 (July 1 st 2011 to June 30 th 2012)	67.1 (26.8%)	31	1015.0 (37.2%)
Year 3 (July 1 st 2012 to June 30 th 2013)	35.6 (14.3%)	24	649.0 (23.8%)
Total (up to June 30 th 2013)	125.6 (50.2%)	66	1920.2 (70.5%)

Utilization of SFM set aside has been significantly lower than utilization of STAR resources (see Table 3). It is unlikely that by the end of the GEF-5 period the total utilization of the SFM set aside resources would be close to the total envelope of \$ 250 million. Nonetheless, the SFM incentive scheme has had some success in directing STAR country allocations towards SFM projects. During the first three years of GEF-5, \$ 620 million of GEF trust fund resources were provided to SFM projects. This has already exceeded the \$ 427 million that had been provided during the GEF-4 period². Even after accounting for a larger replenishment for the GEF-5 period, the funding for SFM projects is greater than that during GEF-4 period. With one more year of GEF-5 remaining the final figures are likely to show an even greater GEF funding

² GEF-4 figures based on information provided at:

<https://www.thegef.org/gef/sites/thegef.org/files/Docs/SFM%20Portfolio%208-2010.xls>

support for SFM projects. Of the 144 GEF beneficiary countries that had a STAR allocation, 79 countries have been able to access the SFM set aside. Thus, SFM incentive scheme has been able to motivate a large number of countries to prioritize SFM concerns in programming of their respective STAR allocations.

3. Focal Area coverage in SFM projects

Table 4 presents the focal area combinations for SFM projects taking into account only the GEF trust fund allocations. Of the 66 SFM projects, 58 (88%) received funding from the biodiversity, 51 (77%) from land degradation, 47 (71%) from climate change and 5 (8%) from international waters. The most frequent combination, which accounts for 32 percent of projects and 37.4 percent of SFM set aside utilization, involves biodiversity, climate change and land degradation focal area. Biodiversity with land degradation; and, biodiversity with climate change, are other combinations that are fairly common. Focal area sources of funds may be used as a proxy for the concerns addressed by these projects.

Table 4: Focal area concerns addressed by the SFM projects - based on focal areas that fund projects

Focal areas present (in SFM projects)*	Number of projects	SFM Allocation (million \$)	% of total SFM set aside	STAR funds in SFM project	STAR/SFM ratio	Total size (million \$)	% of total size
BC	15	32.0	25.5%	129.9	4.1	161.9	19.8%
BCL	21	47.0	37.4%	153.1	3.3	228.1	20.6%
BL	17	23.7	18.9%	75.9	3.2	100.6	23.6%
BLI	2	4.4	3.5%	12.6	2.9	30.0	14.7%
BCLI	3	9.1	7.2%	62.8	6.9	94.5	9.6%
CL	8	9.4	7.5%	38.2	4.1	47.6	19.8%
Total	66	125.6	100%	472.4	3.8	662.7	18.9%

*B=Biodiversity; C= Climate Change Mitigation; L= Land Degradation; and, I = International Waters.

4. Geographical Scope of the SFM Projects

Table 5 presents distribution of SFM set aside utilization by geographic scope of SFM projects. Of the total SFM set-aside utilization of \$ 125.6 million, national projects account for \$ 99.4 million (79.2 percent) whereas the remainder is accounted for by global/regional projects. Although SFM incentive scheme primarily works through countries providing contributions from their STAR allocations, the given SFM project may be a global or regional project. Usually, the STAR allocations provided by a beneficiary country for a regional/global SFM project is intended for activities that take place within that country. However, the data available through PMIS does not make clear how much of the SFM funds for a regional/global project would be used in activities that take place within countries. Hence disaggregating the SFM funds for regional/global projects among countries is difficult.

Table 5: Utilization of SFM set aside by geographical scope of projects

Geographic scope	SFM Utilization (\$millions)	Percentage of total	STAR funds in SFM project (\$millions)	STAR/SFM ratio
National	99.4	79.2%	357.6	3.6
Global/Regional	26.2	20.8%	114.8	4.4
All projects	125.6	100%	472.4	3.8

5. SFM set aside utilization by regions

Table 6 presents utilization of SFM set aside by region and a comparison with patterns in use of STAR allocation resources. The analysis shows that countries from Africa and Latin America and Caribbean have been able to utilize a relatively higher percentage of SFM set aside funding than their share in STAR allocations and in STAR resources utilized so far would indicate. Countries from Asia and ECA account for a relatively smaller percentage of SFM set aside resources. They also contribute more resources from their STAR allocations to access resources from the SFM set aside, which is reflected in a higher STAR/SFM ratio for these regions. Thus, overall SFM set-aside is leading to greater flow of resources to Africa, which is a priority area for GEF activities. Further, SFM resources are also being utilized by countries in ECA which did not have access to these incentives during GEF-4.

Table 6: Utilization of SFM set aside by region

Type of country	SFM Allocation (\$millions)	Percentage of total	Share in Allocation of STAR resources	Share in utilization of STAR resources	STAR funds in SFM project (\$millions)	STAR/SFM ratio
AFR	41.4	33.0%	24.4%	20.9%	139.7	3.4
Asia	30.6	24.3%	35.1%	37.5%	129.8	4.2
ECA	8.3	6.6%	13.3%	11.8%	33.6	4.1
LAC	43.9	34.9%	27.2%	29.8%	164.8	3.8
Global Projects	1.5	1.2%	-	-	4.5	3.0
All regions	125.6	100%	100%	100%	472.4	3.8

6. SFM set aside utilization patterns by size of STAR allocations

Table 7 presents information on level of utilization of SFM allocation among various categories of countries. It shows that when compared to their STAR allocation and utilization, countries that have total STAR allocation of less than US \$ 10 million are accessing relatively more SFM set aside resources. Of the countries that have accessed funds from the SFM set aside, only Mexico and Brazil have hit or are close to hitting the SFM incentive ceiling of US \$ 10 million

Table 7: SFM set aside utilization in national projects by size of STAR allocations

Country category based on the size of STAR allocations	SFM set aside utilization in national projects (\$millions)	SFM set aside utilization as % of total SFM utilization in national projects	Allocation under STAR	Utilization under STAR	STAR funds in SFM project	STAR/SFM ratio
< US \$ 10 million	34.0	34.1%	22.5%	24.1%	115.3	3.4
<i>Flexible (US \$7 m>)</i>	<i>14.5</i>	<i>14.6%</i>	<i>14.0%</i>	<i>17.2%</i>	<i>50.3</i>	<i>3.5</i>
US \$ 10-30 million	23.9	24.0%	30.4%	26.8%	78.6	3.3
US \$ 30-50 million	9.2	9.2%	10.1%	8.9%	27.5	3.0
Over US \$ 50 million	32.5	32.6%	37.1%	40.1%	136.2	4.2

7. SFM set aside utilization in countries with special circumstances

Table 8 presents data on SFM set aside utilization in countries that face special circumstances. For most of these countries, the share in utilization of SFM set aside resources closely tracks their share in utilization of STAR resources, and share in STAR country allocations. However, LDCs and landlocked countries accessed a relatively higher percentage of SFM resources than their share in STAR country allocation and utilized STAR resources would indicate.

The SIDS account for 10.2 percent of SFM set aside utilization in national projects, which is lower than their share of 12.6 percent in STAR country allocation utilization. However, two regional projects that are being implemented exclusively in SIDS - ‘the Pacific Islands Ridge-to-Reef National Priorities’ project and ‘the Implementing Integrated Land Water and Wastewater Management in Caribbean SIDS’ project - account for an additional US \$ 7.2 million in SFM set aside funds. When this is taken into account, SIDS countries have also accessed relatively more funds from the SFM set aside.

Table 8: SFM set aside utilization in countries with special circumstances (up to June 30th 2013)

Type of country	SFM set aside utilization (\$millions)	As % of SFM set aside utilization in national projects	Share in STAR country allocations	Share in utilization of STAR resources	STAR funds used in SFM projects (\$ millions)	STAR/SFM ratio
Fragile	11.5	11.6%	9.3%	9.7%	40.7	3.5
SIDS	10.1	10.2%	9.9%	12.6%	33.4	3.3
LDC	25.1	25.2%	18.1%	17.5%	83.3	3.3
Landlocked	21.5	21.6%	12.5%	12.1%	74.2	3.5
Other countries*	58.5	58.8%	66.2%	65.8%	217.5	3.7

*‘Other countries’ comprise of those countries that have not been classified as fragile, SIDS, LDCs or landlocked.

8. SFM set aside utilization by Agency

Among the agencies, World Bank accounts for 41.4 percent of SFM funds. Among other agencies, UNDP (25.1 %), UNEP (11.4%), FAO (9.2%) and IADB (8.0%) account for sizable share (Table 9). Much of the funding for World Bank is concentrated in programs and projects such as the 'Great Green Wall Initiative' and 'Conservation of Coastal Watersheds'.

Table 9: SFM set aside utilization by Agency

Agency	SFM Allocation (\$millions)	% of SFM Funds
UNDP	31.51	25.1%
World Bank	51.97	41.4%
UNEP	14.26	11.4%
FAO	11.58	9.2%
IADB	10.11	8.0%
AfDB	4.65	3.7%
ADB	1.50	1.2%
All projects	125.57	100%