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Subject: GEF - French position on PBA

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Please find attached, on behalf of Ramon Fernandez, the position held by France on the performance and environmental potential based allocation system.

Kind regards,

Frederick



406059 f viii - Position française sur PBA

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### FICHE

**SUBJECT : GEF – French position on the performance-based allocation system**

At the last Council meeting, it was decided that Council members may submit written comments on the performance-based allocation framework, till June 30<sup>th</sup>. To this regard, please find below, the position held by France.

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### Principles

- 1) France supports an allocation of GEF's resources through a performance-based framework for two reasons:
  - a. First and foremost, the current system allocates resources "*as the GEF goes*". Since there is no clear strategy behind the allocation, the flow of resources cannot be foreseen and is not transparent. The other way round, an allocation system based on each country's performance and environmental potential provides all donor and recipient countries with a clear assessment of where GEF's resources are allocated to and why so. There cannot be equal access to GEF's resources without transparency.  
The same rationale underlies all national budgetary procedures: the governing bodies determine priorities for the period to come and allocate funds to achieve the targets set.
  - b. The last replenishment was decided once a common agreement had been found between all parties on policy recommendations. These recommendations and additional funds form a package: deciding not to

implement these recommendations might undermine donors' willingness to fulfil their financial commitments.

- 2) The performance-based allocation system should not lead to :
  - a. "Name and shame" policies;
  - b. A purely automatic allocation of funds.
- 3) In addition to the principles already agreed upon by the Council (transparency, pragmatism, cost-effectiveness, country-drivenness...), France pleads for the performance-based allocation system to ...
  - a. As in IFAD, increase or at least maintain the share of GEF's resources already committed to least developed countries, notably in Africa;
  - b. As in IFAD, allocate funds mostly on the basis of performance and potential indicators directly related to the environment;
  - c. Be sufficiently flexible, like all budgetary procedures, in order to take into account the specific needs or circumstances of a country: for instance, the performance of the local offices of implementing and executing agencies might sometimes be taken into consideration, as well as the total involvement of the international community and the need for improved coordination prior to any additional commitment. To this regard, the decisions made on IDA's and IFAD's systems clearly set precedents, since they adjust financing to reflect special circumstances (natural catastrophes, post-conflict).
  - d. Increase the overall quality of the GEF portfolio. The project decision-making process should above all assess the eligibility and quality of each project: projects must be driven by their benefits and the existing needs and not by the urge to spend allocated resources. To this regard, implementing and executing agencies will play an even greater role under the new allocation scheme than under the previous.
- 4) As a matter of consistency, France firmly states that before making a decision on how to allocate GEF's resources, all these resources (notably those due under the GEF-2 replenishment) should have been paid in or at least the commitments to do so clearly expressed. Resolving the issues of pending arrears is a preliminary step in the implementation of a performance-based allocation system.

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## **I- Indicators**

### **Performance assessment**

- 1) Macro-indicators :
  - a. Macro-indicators should provide for a broad assessment of a country's ability to implement GEF projects. Therefore, as in IFAD, France prefers CPIA to KKZ which is too narrowly focused on governance. For coherence with its position in the World Bank, France can live with partial disclosure of the CPIA indicator, but recalls that it constantly advocates full disclosure.
  - b. Macro-indicators should also measure any country's capacity to finance global environment projects in order to allocate funds to those who need assistance most: consequently, as in IFAD, the macro-indicators should include a component measuring poverty. Such an addition would also

highlight the strong link between poverty alleviation and protection of the environment.

2) Sectoral level indicators :

- a. The performance-based allocation system must be cost-effective: for the GEF to develop its own sectoral level indicators would not provide for the required effectiveness.
- b. Therefore, GEF should rely upon the CEPIA developed by the World Bank and request (and assist) the World Bank in including an assessment of policies and institutions related to GHG emissions in the assessment of the air pollution sub-sector.

3) Portfolio level indicators :

- a. France does not see sufficient rationale to use World Bank's complete portfolio of projects as a proxy of GEF's projects. France would rather use either an evaluation of all GEF projects as implemented by all three implementing agencies, or –in case the data is lacking- an evaluation of all environmental projects implemented by all three agencies.
- b. The portfolio indicator should very carefully differentiate between the results whom the countries are responsible for and those whom the agencies are responsible for.

4) Country performance indicator :

As in IFAD, the country performance indicator should allocate most of the weight to sectoral level (45%) and portfolio level (35%) indicators and less to the macro level indicator (20%).

### **Environmental Potential**

1) Benefits Potential for Climate change

The indicator proposed is biased since it uses total GHG emissions as in the year 2000 and therefore allocates the funds to the largest emitters, which might create a perverse incentive. The indicator should rather consider the emissions avoided or which are avoidable through increased energy efficiency, adaptation or use of renewable energies as well as the preservation of existing carbon sinks.

## **II- Construction of the framework**

### **Groupings**

Three reasons plead for groupings:

- a. The proposed indicators lack precision and are subject to a certain volatility.
- b. Moreover, the performance-based allocation system will result in some countries getting allocations so low that they are insufficient to fund any project at all.
- c. If allocated on a country basis, without any possible reallocation of unused or insufficient funds, the system might create a sense of entitlement, incompatible with an efficient use of GEF's resources.

To mitigate these difficulties and use resources as efficiently as possible, funds should be allocated on a country basis, but used among geographical groupings of countries:

the ranking of each country would therefore be indicative and not prescriptive. Geographical groupings would also ease the funding of regional projects.

However groupings will not resolve the case of those countries with the worst performance and the lowest potential who are most likely to under-utilize the allocations.

#### **Unallocated funds**

France opposes banking of under-utilized allocations to the next replenishment period: if a country is unable to bring forth in a timely manner a sufficient number of quality projects to utilize the country's indicative allocations fully, these funds should benefit other countries: as in IFAD, there are enough urgent quality projects to be implemented, whilst there is a clear danger that a banking system might significantly slow down the use of GEF funds and undermine the current replenishment cycle.

France does not consider the risks on the project quality as being significant, as long as the implementing and executing agencies play their role.

In order to assess under-utilization in a transparent way, France pleads for the GEF to develop an indicative timetable for each step of the project cycle. Once a milestone has not been met, cancellation of the project and reallocation of the funds would be considered.

#### **Simulations**

Since France will not accept a system that does not -at least- preserve the share of Africa in GEF's resources, France pleads either for simulations or for a clear guarantee that this share will not decrease.

#### **Floors and caps**

A minimal allocation to each country is the very essence of GEF being the financial mechanism of the climate and biodiversity conventions. Therefore, floors are a substantial part of any performance-based allocation system. The decision made on IDA's and IFAD's allocation systems show that such systems can operate with floors and ceilings.

#### **Calendar**

France favors an entry into force of the performance-based allocation system next fall, provided that the system is operational. A first evaluation and eventually amendment to the system should be undertaken in 2006, prior to the replenishment.

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Ramon Fernandez