Global Environment Facility

GEF RESOURCE ALLOCATION FRAMEWORK

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBD	Convention on Biological Diversity
CCD	United Nations Convention to Combat Desertification
EBRD	European Bank for Reconstruction and Development
FAO	Food and Agriculture Organization of the United Nations
IA	Implementing Agency
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
M&E	Monitoring and Evaluation
MSP	Medium Size Project (of the GEF)
OECD	Organization for Economic Cooperation and Development
OP	Operational Program (of the GEF)
OPS2	Second Overall Performance Study of the Global Environment Facility
PBF	Performance-based Allocation Framework for GEF Resources
PIR	Project Implementation Review (of the GEF)
POPs	Persistent Organic Pollutants
PRC	Project Review Criteria (of the GEF)
RAF	GEF Resource Allocation Framework
SGP	Small Grants Program (of the GEF)
SMPR	Secretariat-Managed Project Review (of the GEF)
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission on Europe
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank

At the May 2004 meeting, the GEF Council discussed GEF/C.23/7, *Performance-based Framework for Allocation of GEF Resources*, and requested the Secretariat to convene a seminar in September 2004 to further advance work on the development of a resource allocation framework for the GEF. The Secretariat was requested to prepare a more elaborated document for the seminar and propose additional options and simulations (without country identification).

This report presents three options (and associated simulations) for Council discussion. All three models are based on two components, which the Council agreed should constitute a resource allocation framework for the GEF: (i) assessments of country-potential to generate global environmental benefits in the focal areas of biodiversity and climate change; and (ii) ratings of country-performance based on macro, sectoral, and portfolio performance indicators.

Country Allocation Model

In this model, ratings of country-potential to generate global environmental benefits and country-performance are explicitly employed in a mathematical formula to arrive at country-by-country allocations. Allocations are independently made for biodiversity and climate change focal areas and are intended to cover a four-year replenishment period of the GEF. The resources allocated to countries are only indicative in the sense that countries will have to submit project proposals that meet the technical criteria and strategic priorities of the GEF in order to have grants allocated against individual projects.

The allocations to individual countries are sensitive to the weights chosen for ratings of country-potential to generate global environmental benefits and for ratings of country-performance. The choice of weights reflects both the importance of benefits relative to performance for allocations, and the share of resources that go to the higher rated countries relative to the lower rated countries. When choices of weights for country-potential to generate global environmental benefits and for country-performance are set to 0.8 and 1.0 respectively, it results in a distribution that closely matches the historical distribution of resources at the GEF. However, application of this model would raise significant operational complexities because many countries would not receive resources sizeable enough to support meaningful projects, while other countries may have unused resources at the end of an allocation period.

Country & Group Allocation Model

This model is directly derived from the Country Allocation Model described above, and employs the same ratings of country-potential to generate global environmental benefits and country-performance. The innovation introduced in this model is to only provide country allocations to those countries that would receive more than $10 million (about 15 countries that are in the top tier in the County Allocation Model), while the remaining

countries are in two separate groups with a group allocation; countries within a group would be able to submit projects for financing out of the group allocation.

Based on operational experience, $ 10 million is a threshold above which it is reasonable to consider country programming without introducing transaction costs and complexity. Allowing countries within groups to propose projects would address concerns raised in the first model regarding unused resources and critical threshold of resources for projects.

Rules-based Allocation Model

In the two models described above, country-performance is accounted for explicitly by adjusting the levels of resources allocated to countries based on their levels of performance. When two countries have an equal potential to generate global environmental benefits, the country with a lower level of performance would be allocated a relatively lower level of resources.

An alternate approach is reflected in the Rules-based Model. Under this model: (i) resources are allocated to countries/groups as per the second model, but based only on the assessment of country-potential to generate global environmental benefits; and (ii) projects in non-high performing countries (identified from the country-performance ratings) are required to incorporate design features and enhanced due diligence measures to deal with performance issues. In this model, since country/group allocation levels are based solely on country-potential to generate global environmental benefits, the distribution of resources is more skewed than in the first two models. The additional design/monitoring rules make the process more bureaucratic and there is a potential for confusion regarding roles and responsibilities among the different GEF agencies.

The report also raises other issues relevant to building a resource allocation framework, including issues related to global and regional projects, enabling activities, small grants programs.

Conclusion

Simulations and comparative analyses demonstrate that the Country and Group Allocation Model offers a sound basis for developing a Resource Allocation Framework for the GEF.

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Background

1.   During the Third Replenishment of the GEF, Participants requested "the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide."[1] Furthermore, the policy recommendations stated that, "the system should establish a framework for allocation to global environmental priorities and to countries based on performance. Such a system would provide for varied levels and types of support to countries based on transparent assessments of those elements of country capacity, policies and practices most applicable to successful implementation of GEF projects. This system should ensure that all member countries could be informed as to how allocation decisions are made."[2] It was also agreed that "the GEF will have in place an operational performance-based allocation system …" by Fall 2004.[3]

Council Decisions

2.   The GEF Council has discussed the development of a resource allocation framework at its various meetings:

   (a)   The Council endorsed the Policy Recommendations of the Third Replenishment at the October 2002 meeting held in Beijing.

   (b)   The Council discussed GEF/C.21/8, *Issues Note: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level* at the May 2003 meeting, and requested "the GEF Secretariat to establish and chair a working group of technical experts to prepare elements of a framework for GEF performance-based allocations for Council review and approval."[4]

   (c)   The Working Group presented its final report GEF/C.22/11, *Performance-based Framework for Allocation of GEF Resources,* at the November 2003 meeting. The Council reviewed the report and requested the Secretariat to develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. The Council envisions a performance-based system that is consistent with the GEF Instrument, the environmental conventions for which the GEF is a financial mechanism, the Policy Recommendations of the Third Replenishment, Council decisions at the October 2002 meeting, and the Beijing Assembly Declaration. The Council asked that the system be simple, transparent, pragmatic, cost-effective, comprehensive, country-driven, and provides equal opportunity for all recipient countries to have access to GEF resources. Further, the Council requested the Secretariat to present to the May 2004 Council meeting a study of options to strengthen the current system of

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[1] GEF/C.20/4, Summary of Negotiations on the Third Replenishment of the GEF Trust Fund, Annex C, para. 16
[2] Ibid, para 18.
[3] Ibid.
[4] Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, para.18.

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allocating GEF resources with a view to coming to a conclusion in November 2004.[5]

(d)   At the May 2004 meeting, Council reviewed GEF/C.23/7, *Performance-based Framework for Allocation of GEF Resources,* and agreed that the GEF Secretariat convene a seminar in September 2004 with a view to advancing the Council's work. The Secretariat was requested to prepare a more elaborated document for the seminar, taking into full account the decision of the GEF Council at its Nov 2003 meeting, and propose options and simulations (without country identification) that:[6]

(i)   Are consistent with the GEF Instrument;

(ii)   Are sufficiently specified to be operational;

(iii)   Use GEF-appropriate indicators and weightings;

(iv)   Provide explicit consideration of: floors and ceilings; regional and global projects, including Small Grants program, cross-cutting capacity building for LDCs and SIDs, and enabling activities; and other provisions aimed at providing flexibility appropriate to the GEF's mandate;

(v)   Take into account the transaction costs associated with operating the framework; and

(vi)   Are consistent with the provisions and prerogatives of the conventions to which the GEF is the financial mechanism.

Further, the Council suggested that consideration be given to an indicator related to poverty and a country's ability to finance global environmental activities by itself, and confirmed that simplicity, transparency, pragmatism, cost-effectiveness, comprehensiveness, country-drivenness, and equal opportunity for all recipient countries should be underlying principles in designing the framework. Council members were requested to provide written comments to the Secretariat by June 30, 2004.

Organization of this Document

3.   This document is prepared specifically as a basis for discussion at the September 2004 seminar.[7] It builds upon and extends the work carried out during 2003 and early 2004 in

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[5] Joint Summary of the Chairs, GEF Council Meeting, November 2003.
[6] Joint Summary of the Chairs, GEF Council Meeting, May 2004.
[7] The exercise on the GEF resource allocation framework is being carried out by the GEF Secretariat in collaboration with the Development Economics Research Group and Environmental Department of the World Bank, and NGOs/research institutions such as the Worldwide Fund for Nature (WWF), Conservation International, World Resources Institute, Birdlife International, etc.

developing a resource allocation framework for the GEF. The report is presented following a clear logic of developing a resource allocation framework:

> (a)   First, major components that would underpin a framework are identified as described in Section I.

> (b)   Second, as presented in Section II, various ways of employing these components and the resulting outcomes are reviewed; and

> (c)   Third, as discussed in Annexes 4, 5 and 6, indicators and data that comprise the components are presented.

4.   It is important to note that a such a step-by-step exposition, discussion and decisions is key to ensuring that the larger strategic questions associated with a resource allocation framework are resolved prior to dealing with issues that remain at the technical level.

SECTION I. COMPONENTS OF A GEF RESOURCE-ALLOCATION FRAMEWORK

5.   The overriding purpose of a resource allocation framework in any institution is to enhance the effectiveness of the application of resources to meet the overall goals of that institution. Decision-support systems at all institutions usually employ factors that the institution considers critical for the success of its mission -- the consideration of such factors could be explicit or implicit. Resource allocation frameworks are essentially decision-support systems, whose architecture is explicit. Besides enhancing the effectiveness of resource application, such systems could, through the transparency of understanding of the factors and system of application of these factors among the stakeholders of the institution, help establish a better understanding of expectations and responsibilities of the stakeholders.

6.   Most multilateral financial institutions have developed, or embarked on development of, resource allocation frameworks. These frameworks usually have two major components that reflect the relationship between the institution and its clients. One component reflects the "**Need**" of a country for resources from the institution. Institutions geared towards economic development and poverty alleviation employ income per-capita as a factor to reflect this element; population is used as scale-factor in determining the actual level of allocations in these models.[8] The other component reflects "**Performance**" – existence of a supportive policy and institutional framework in a country for application of resources from that institution; besides sectoral and macro-level factors, it usually also includes a measure of portfolio performance.

Principal Intent of the Policy Recommendations of the Third Replenishment

7.   In developing a Resource Allocation Framework for the GEF, it is useful to refer to its genesis. In reviewing the set of policy recommendations of the Third GEF Replenishment, that are relevant to the development of a resource allocation framework (GEF/C.20/4, paras 16-18), it can be interpreted that the principal intention is to enhance the performance and catalytic action

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[8] Subject to ceilings in the system, and other factors in the resource allocation framework being equal, the lower the per-capita income, the higher the per-capita resource allocation.

of GEF-financed projects at the country-level to maximize the generation of global environmental benefits. It directs that, "the system should establish a framework for allocation to global environmental priorities and to countries based on performance." Furthermore, the recommendations are clear that any system be developed on the basis of a transparent and systematic assessment of country policy and institutional factors most relevant to GEF projects (GEF/C.20/4, para.18).

Two Major Components for the GEF Resource Allocation Framework

8. For the GEF, given its role in the constellation of multilateral financial institutions, it is clear that providing support to developing countries to generate global environmental benefits is its raison d'etre. In granting resources to any country, there are risks associated with the application of those resources, and the generation of benefits. These risks can be measured in terms of performance, i.e., the underlying policy and institutional factors most relevant for project success. Reflecting these understandings, the GEF Council at its meeting in November 2003 requested the Secretariat to develop the GEF Resource Allocation Framework from two components: (i) global environment priorities; and (ii) country–level performance relevant to those priorities. In operationalizing this guidance, the GEF resource allocation framework has been developed on the following two major components:[9]

  (a) Global Environmental Benefits – defined as the potential of each country to generate global environmental benefits in the focal areas of biodiversity and climate change; and

  (b) Country-level Performance – defined as the capacity of each country to generate its potential based on its past and current performance.

The Council also agreed that the GEF Resource-allocation framework would initially apply only to the focal areas of Biodiversity and Climate Change, which together account for nearly two-thirds of allocations of GEF resources.

9. In addition to the discussion at the May 2004 Council meetings, written comments were also received from seven Council members, which were distribution on July 26, 2004.[10]

Consistency with GEF Instrument and Conventions

10. At the November 2003 meeting, Council requested the Secretariat for a legal opinion on whether a GEF resource allocation framework would be consistent with the GEF Instrument. Please refer to Annex 7 for a legal opinion prepared by the GEF General Counsel.

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[9] In considering the Council's guidance to consider the poverty indicator, it is our judgment that it would not be appropriate for the GEF framework given that there are several other multilateral institutions that focus on poverty, while GEF is the only institution that focuses on the global environment.
[10] The written comments can be found at the GEF website at http://www.gefweb.org/Whats_New/whats_new.html.

Benefits and Performance Assessments

11.   Following the above argument, GEF resources can be allocated to countries taking into account both Benefits and Performance. The fundamental step in developing any of the models is to assess individual countries and rate them on: (i) the potential to generate global environmental benefits (separately for biodiversity and climate change); and (ii) country performance. Annexes 4 and 5 provide details regarding these assessments of potential to generate global benefits, and Annex 6 provides details regarding assessment of country performance.

SECTION II. EMPLOYING BENEFITS AND PERFORMANCE ASSESSMENTS TO ALLOCATE RESOURCES

Three Models proposed for the GEF Resource Allocation Framework

12.   There are various ways of combining assessments of country potential to generate global environmental benefits and country performance, and based on our analysis of various options, three models are presented in this report:

    (a)   Country Allocation Model, where resources are allocated to individual countries;

    (b)   Country and Group Allocation Model,[11] where a number of countries receive individual allocations, while other countries belong to groups that receive allocations; and

    (c)   Rules-based Allocation Model, where resources are allocated to countries as in the Country and Group Allocation Model, but based solely on environmental benefits, and rules are employed to manage country performance risks.

All three models employ the same assessments of country potential to generate global environmental benefits and country performance described in Annexes 4,5, and 6.

Country Allocation Model

13.   In this model, ratings of country potential to generate environmental benefits and country performance are explicitly employed in a mathematical formula to arrive at country-by-country allocations. The model is developed employing a three step methodology:

    (a)   First, independently for the biodiversity and climate change focal areas, country allocation scores are computed employing assessments of country potentials to generate global environmental benefits and country performance ratings;

    (b)   Second, a country's indicative share in a focal area is based on its individual country allocation score as a share of the total of all country allocation scores; and

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[11] Referred to in shorthand as the Hybrid Allocation Model.

(c)   Finally, a country's indicative allocation in a focal area is based on its indicative share and total amount of GEF resources available under that focal area in the resource allocation framework.

14.   The details of the allocation methodology are described in Annex 1, including simulations. Allocations are made by country for each of the two focal areas (biodiversity and climate change) and are intended to cover a four-year replenishment period of the GEF. The resources allocated to countries are only indicative allocations in the sense that countries will have to submit project proposals that meet the technical criteria and strategic priorities[12] of the GEF in order to have grants allocated against individual projects.

15.   The allocations to individual countries are sensitive to the weights chosen for country global environmental benefit scores and country performance ratings in the allocation formula. The choice of weights reflects both the importance of benefits relative to performance for country allocations, and the concentration of resources that go to the highest scoring countries relative to the lowest scoring countries.

16.   Among the various simulations[13] conducted, the resource allocation distribution where global environmental benefits receives a weight of 0.8 and performance a weight of 1.0 closely matches the historical resource distribution at the GEF as shown in Figures 1 and 2;[14] these weights to benefits and performance are termed "base case" weights in the simulations and illustrations in this document. The allocations are based on the assumption that $ 700 million will be available under the Resource Allocation Framework in a replenishment period separately for the biodiversity and climate change focal areas, after having set aside resources for global projects and small grants programs.[15] The detailed allocations by country are presented in Tables 1.1 and 1.2 in Annex 1.

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[12] GEF strategic priorities are based on guidance from the Conventions, lessons from the portfolio, responsiveness to national priorities, incorporation of scientific and technical knowledge, and portfolio gaps.

[13] The simulations (and associated tables and charts) in this report are presented without any specific country attribution, as requested by the Council. Instead, countries are identified by the global environmental benefits score rank in the two focal areas. Since there is no specific relationship between a country's global benefit rank in biodiversity and climate change, each country is identified by two independent numbers, one for biodiversity and another for climate change. There are 126 GEF-eligible countries in the biodiversity focal area and 142 GEF eligible countries in the climate change focal area. The eligibility list will be closely reviewed and confirmed prior to finalization of the Resource Allocation Framework.

[14] If allocations are done with weights for benefits = 1.0 and performance = 0, a smooth distribution curve is obtained with country numbers in series. However, the distribution of resources for the benefits=.0.8 and performance=1.0 does not appear smooth in figures 1 and 2 since individual countries shift around a little in their ranking once country performance is factored into allocations.

[15] This is similar to the level of allocations in biodiversity and climate change under GEF-3.

Fig 1. Country Allocation Model: Biodiversity Allocations - Base Case and Normalized Historical

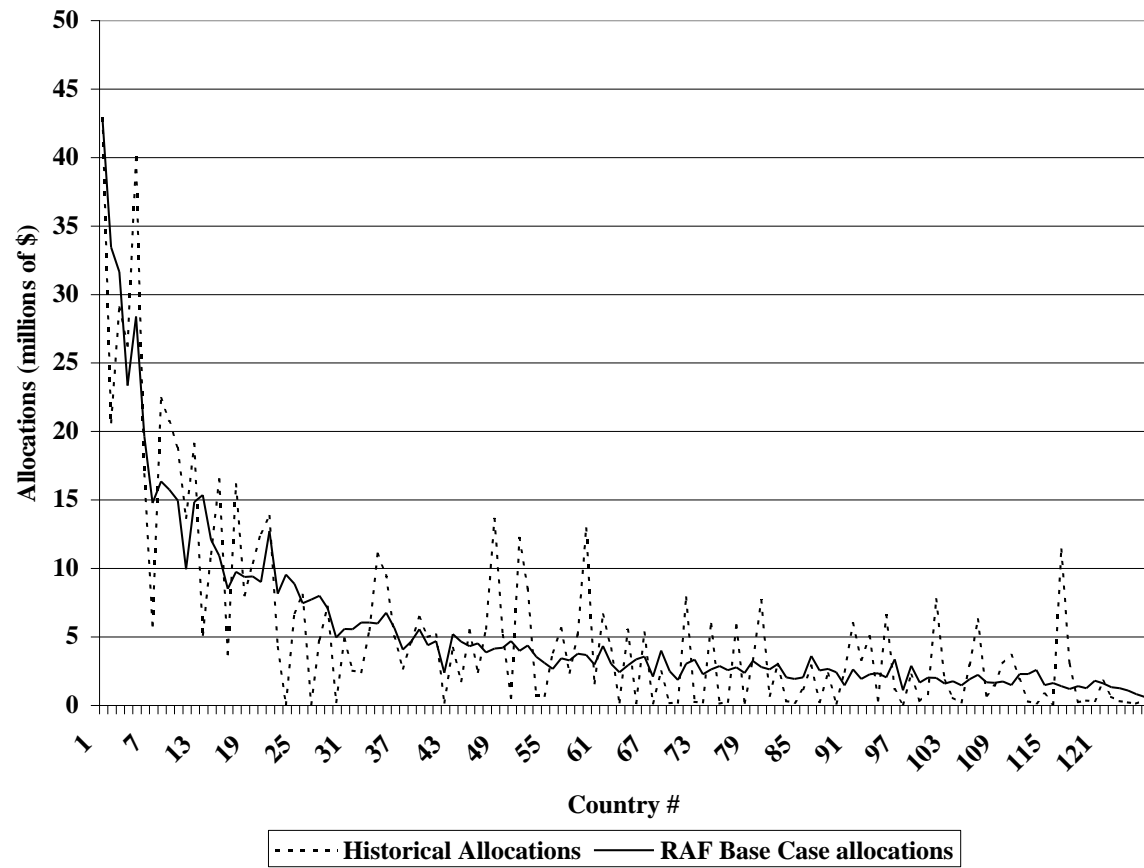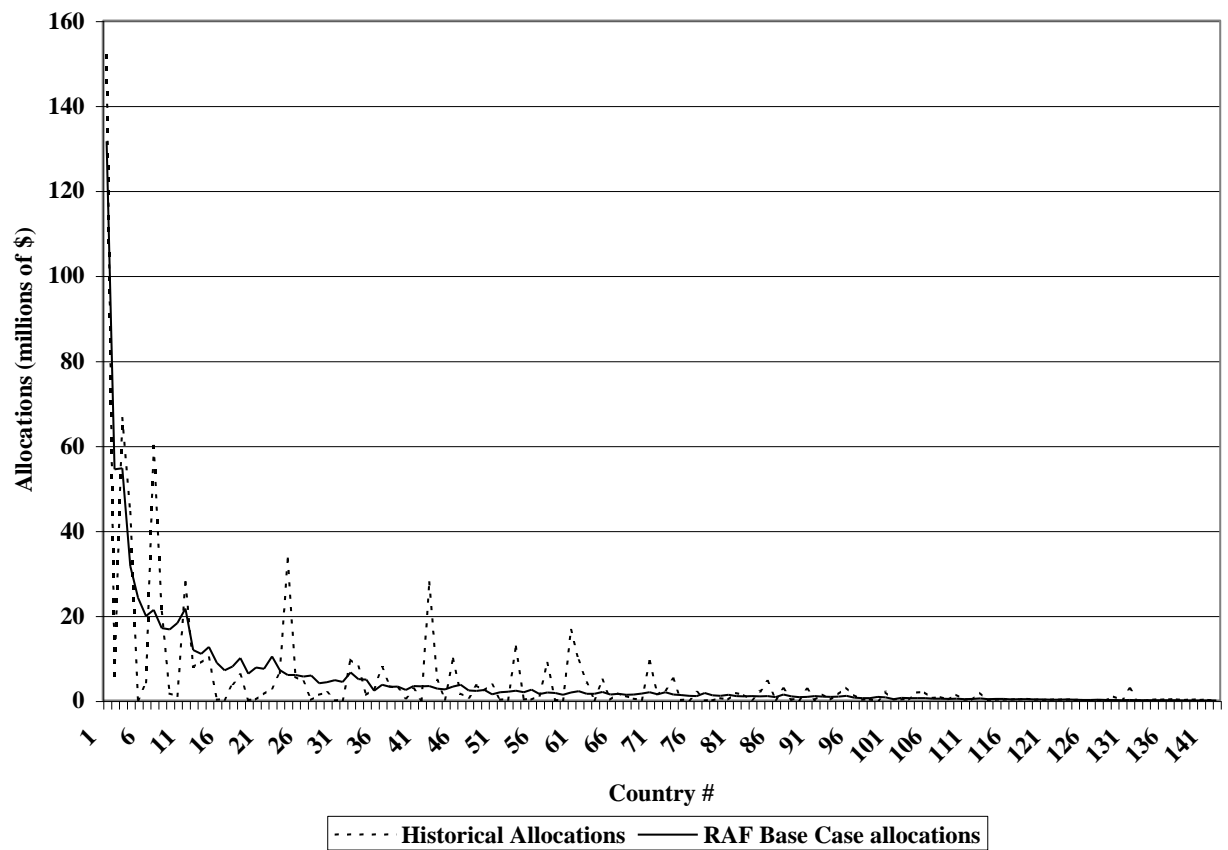- - - - - Historical Allocations ———— RAF Base Case allocations

Fig. 2 Country Allocation Model: Climate Change Allocations -- Base Case and Normalized Historical

Allocations (millions of $)

Country #

· · · · Historical Allocations ——— RAF Base Case allocations

17.   The Country Allocation Model, while offering simplicity in its formulation, has potential for significant operational complexities:

(a)   Critical minimum resources for projects. Critical minimum resource allocations are required for countries to develop and implement sound projects. In the base case (0.8/1.0) model, of the 126 countries in the Biodiversity focal area, 89 countries receive allocations under $ 5 million over a replenishment period, and 32 countries receive allocations under $ 2 million. Of the 142 countries in the Climate Change focal area, 113 countries receive allocations under $ 5 million, and 87 countries receive allocations under $ 2 million. Such level of resource allocations to individual countries may not be significant enough to undertake a meaningful project.[16] An option is for the country to accumulate resources over multiple replenishment periods before putting forth a project proposal. However, this approach creates the need for complex allocation rules that need to be operationalized over multiple replenishment periods; and

(b)   Unused resources. The second complexity is related to the issue of unused resources. Should indicative resources allocated to a country not be used completely during a replenishment period, there is the issue of the remaining resources.[17] One option is to bank these resources and make them available to the country in the future replenishment period; the other option is to reallocate such resources to other countries that indicate demand for these resources in the form of technically qualified projects in the same replenishment period. Both options require development of complex rules and associated implementation challenges.

Country and Group Allocation Model

18.   The Country and Group Allocation Model offers a way to overcome the operational complexities identified with the Country Allocation model. Under this model, about 15 countries (at the top of the country allocation model) receive individual country allocations; these are countries that have significant global environmental potential with proven track records in terms of performance; GEF can provide a predictable level of resources to these countries. The other countries belong to groups and each group receives an allocation of resources; countries can submit project proposals for resources allocated to the groups that they belong to; should one or more countries not come up with enough qualified projects, then resources will be directed to other countries that demonstrate strong demand within the same group.

19.   The Country and Group Allocation Model is directly derived from the Country Allocation Model and employs the same ratings of country benefits and performance assessments. Details and simulations of the model can be found in Annex 2. Tables 1 and 2 illustrate the results from this model for the biodiversity and climate change focal areas respectively, with benefits and performance weights of 0.8 and 1.0. In this instance, countries

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[16] This may be particularly so after obligations have met for enabling activities for those countries.
[17] In addition to the obvious instance where a country may not develop enough proposals towards its envelope of resources, countries may be eligible for GEF resources, but may not have the intent to access such resources, or may not have the relationships with the GEF Implementing and Executing Agencies to develop projects.

that are allocated more than $ 10 million receive individual envelopes, while others will belong to Groups. Based on operational experience, $ 10 million is a threshold above which individual country allocations can be programmed without introducing excessive complexity into GEF operations.

Table 1. Country & Group Allocation Model for Biodiversity Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 15 countries	Country 1	42.6	
	Country 2	33.4	
	Country 3	31.6	
	Country 5	28.3	
	Country 4	23.3	
	Country 6	19.6	
	Country 8	16.3	
	Country 9	15.7	
	Country 13	15.3	
	Country 10	14.9	
	Country 12	14.8	
	Country 7	14.7	
	Country 21	12.7	
	Country 14	12.0	
	Country 15	10.9	
TOTAL – Individual allocations	*15 Countries*	*306.0*	
Group I: (countries getting 5-10 million dollars in the Country Allocation Model)	22 Countries	164.0	7.5
Group II: (countries getting less than 5 million dollars in the Country Allocation Model)	89 Countries	230.0	2.6
TOTAL - Biodiversity	**126 Countries**	**700.0**	

Table 2. Country & Group Allocation Model for Climate Change Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 16 countries	Country 1	131.6	
	Country 3	54.7	
	Country 2	54.4	
	Country 4	31.6	
	Country 5	24.1	
	Country 11	21.6	
	Country 7	21.4	
	Country 6	19.9	
	Country 10	18.3	
	Country 8	17.0	
	Country 9	16.7	
	Country 14	12.6	
	Country 12	11.9	
	Country 13	11.0	
	Country 22	10.3	
	Country 18	10.0	
TOTAL – Individual allocations	*16 Countries*	*467.0*	
Group I: (countries getting 5-10 million dollars in the Country Allocation Model)	13 Countries	88.0	6.8
Group II: (countries getting less than 5 million dollars in the Country Allocation Model)	113 Countries	145.0	1.3
TOTAL – Climate Change	**142 Countries**	**700.0**	

20.   Seven countries are common among the 15 countries that receive individual allocations in biodiversity focal area and 16 countries that receive individual allocations in climate change focal area. While it is clear that Group II countries in both the biodiversity and the climate change focal areas best meet operational realities by accessing resources allocated within the group, Group I countries could very well receive individual allocations. On the balance, however, the allocations on the average ($ 7.5 million in biodiversity and $ 6.8 million in climate change) over a four year period is still too small to warrant individual allocation. The operational feasibility of individual allocations for these countries improves if the actual level of individual allocations for each country increases – a possibility with increased level of resources for the GEF as a whole. Therefore, countries in Group I could be viewed as transitional countries that would move into the individual country allocation system as more resources become available to the GEF.

21.   Some of the operational issues that remain in this model are:

  (a)   <u>Unused allocations under individual country allocations</u>. The top tier of countries that receive individual country allocations could have unused resources at the end of a GEF replenishment period, giving rise to the operational complexity of handling these resources. Given that about 15 countries receive individual allocations under this model, the expectations are that resource allocation and use can be better managed; and

(b)   <u>A few countries getting all the resources with a group allocation</u>. Given that countries within groups would propose projects for financing within the group allocation, there is the possibility that a few countries could end up garnering all the resources with a group. However, establishing a ceiling for resource allocation that no country could exceed within a group can mitigate this risk.[18]

Rules-based Allocation Model

22.   In the two models described above, country performance is accounted for very explicitly by adjusting the levels of resources allocated to countries based on their respective levels of performance. In these models, for an equal potential to generate global environmental benefits, countries with lower levels of performances would get relatively lower levels of resources.

23.   An alternate approach, embodied in the *Rules-based Allocation Model*, is to retain the resource allocations based solely on the potential to generate global environmental benefits. Performance is factored into managing projects in countries with design features and due diligence measures related to the levels of country performance. For example, countries with lower levels of performance are allocated resources in proportion to their global biodiversity and climate change benefits, but projects are managed with higher due diligence, and directed towards capacity building and other activities that address issues related to weak performance. Such an approach would instill a longer-term perspective to GEF engagement with countries, whereby weaker countries are supported more explicitly with performance-enhancement measures while being provided with a level of resources geared towards generation of global environmental benefits.

24.   Under this model, resources are allocated, based solely on scores for the potential to generate global biodiversity benefits and climate change benefits, following the logic of the *Country and Group Allocation Model* – individual country allocations for about 15 countries and group allocations for the rest of the countries. Performance risk is managed by subjecting projects in non-high performing countries (identified on the basis of their country performance ratings) to special design features and increased levels of due diligence. Details of this model are presented in Annex 3. Allocations in a Rules-based model are illustrated in Tables 3 and 4 for the biodiversity and climate change focal areas respectively.

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[18] The feasibility of a simple rule such as average of the group allocation plus a certain percent could be examined.

Table 3. Rules Based Allocation Model for Biodiversity Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 15 countries	Country 1	53.2	
	Country 2	43.4	
	Country 3	36.3	
	Country 4*	31.9	
	Country 5	31.7	
	Country 6	22.4	
	Country 7*	19.7	
	Country 8*	19.6	
	Country 9*	19.4	
	Country 10*	18.4	
	Country 11*	14.0	
	Country 12	13.8	
	Country 13	12.5	
	Country 14	12.3	
	Country 15*	11.9	
	Country 16*	10.1	
TOTAL – Individual allocations	*16 Countries*	*371.0*	
Group I: (countries getting 5-10 million dollars in the Country Allocation Model)	17 Countries	130.0	7.6
Group II: (countries getting less than 5 million dollars in the Country Allocation Model)	93 Countries	199.0	2.1
TOTAL - Biodiversity	**126 Countries**	**700.0**	

* non-high performing countries

25.   In the Biodiversity focal area, among the 16 countries that receive individual allocations, eight countries are rated non-high performing. In Group I, there are six non-high performing countries, and in Group II, there are 49 non-high performing countries. Project proposals from these countries will be subjected to specific design features and enhanced due diligence.

Table 4. Rules Based Allocation Model for Climate Change Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 16 countries	Country 1	190.9	
	Country 2	73.2	
	Country 3	71.2	
	Country 4	32.3	
	Country 5	20.2	
	Country 6	20.1	
	Country 7	19.6	
	Country 8*	19.0	
	Country 9	16.9	
	Country 10	15.9	
	Country 11	14.4	
	Country 12	11.1	
	Country 13*	11.0	
	Country 14	10.0	
TOTAL – Individual allocations	*14 Countries*	*526.0*	
Group I: (countries getting 5-10 million dollars in the Country Allocation Model)	10 Countries	64.0	6.4
Group II: (countries getting less than 5 million dollars in the Country Allocation Model)	118 Countries	110.0	0.9
TOTAL – Climate Change	**142 Countries**	**700.0**	

* non-high performing countries where projects will be subjected to design features and enhanced due diligence

26. In the Climate Change focal area, among the 14 countries that receive individual allocations, two countries are rated non-high performing. In Group I, there are four non-high performing countries, and in Group II, there are 69 non-high performing countries. Project proposals from these countries will be subjected to specific design features and enhanced due diligence.

27. Besides the issues identified in the Country and Group Allocation model, and which are amenable to the proposed solutions, there are some issues that can be identified with the Rules-based model:

    (a)   Distribution of resources is more skewed. In this model, country/group allocation levels are based solely on potential to generate global environmental benefits, which results in a distribution of resources that is more skewed than in the Country and Group Allocation Model.

    (b)   Developing credible enhanced due diligence rules. Given that the Implementing and Executing Agencies have their own rules and procedures for project implementation and supervision, it will be important to identify a set of rules that will not only enhance, but also ensure consistency in application across the entire set of GEF agencies; and

    (c)   Roles of the GEF Secretariat and independent monitoring and evaluation unit. The development and implementation of the performance rules under this model would have to be consistent with the roles and responsibilities of the Secretariat,

the Implementing and Executing Agencies, and the independent Monitoring and Evaluation unit. Under the existing structure, the Implementing and Executing Agencies are responsible for monitoring of the projects. Establishing a regime of increased due diligence without resorting to a top-heavy structure is a challenge.

28.   Prior to establishing this model, an assessment needs to be taken of the project cycle due diligence policies and procedures at the different GEF Implementing and Executing Agencies in order to establish the baseline above which enhanced due diligence/surveillance mechanisms can be established.

Modifications required for the Resource Allocation Framework

29.   The allocation rules defined by the models described above have to be modified to allow for certain institutional considerations (e.g. the support of enabling activities to meet country reporting requirements to the conventions), operational considerations (e.g., support for regional and global projects, small grants program).

30.   Floors. A basic building block of GEF assistance to enable countries to meet their obligations under the CBD and UNFCCC has been the enabling activities. Enabling activities include financing for inventories, compilation of information, policy analysis, strategic action plans and reporting. The GEF has also recently agreed, through the Strategic Approach to Capacity Building, to support basic crosscutting capacity building to develop elements of environmental governance in a country. Floors need to be established within the Resource Allocation Framework that will ensure sufficient resources to continue GEF financing of enabling activities and basic capacity building in all recipient countries.

31.   Ceilings. All models generate results that allocate significant resources to a limited number of countries. If this is undesirable, the allocation rule can be modified to ensure that no single country gets more than a pre-determined share of GEF resources in each focal area --- e.g., no country shall get more than 10 percent of resources in any focal area. In the Country and Group Allocation model, in addition to the overall ceiling, the allocation rule can be modified to ensure that no country gets more than a pre-determined ceiling within any group -- e.g., no country shall get more than 25 percent of the average allocation within a group. The lower the ceiling within a group, the lesser the operational flexibility to design and implement projects of a meaningful size.

32.   Regional Projects. While all of the analysis presented has been country focused (even in a Country and Group Allocation Model) as requested by the Council, approximately 10 percent of GEF resources have historically been allocated through regional and global projects. For instance, numerous GEF projects in the biodiversity area have been brought forth by groups of countries that share a biodiversity-rich area. Such partnerships are often beneficial as they allow for the protection of the complete ecoregion. To the extent that such partnerships are beneficial and preferable from the perspective of global benefits, the GEF framework should continue to support them. Regional projects may be financed from the indicative allocations of the countries participating in the regional project in proportion to the benefits that each country provides. While such an approach would ensure that countries demonstrate strong support for regional projects in which they participate, countries could also be reluctant to participate in such projects

that are high priority from a global environmental perspective, but not viewed as important from an individual country perspective. Earmarking resources for regional projects outside the Resource Allocation Framework would ensure that critical regional projects can be undertaken.

33.   Global Projects. The GEF has, and should continue, to support global projects (such as global ecosystem assessments, science and technology assessments) that provide benefits to the community of nations. It is proposed that global projects be funded through a separate block of earmarked resources not allocated within the Resource Allocation framework.

34.   Small Grants Program. The Small Grants Program targets small amounts of GEF resources to community groups and NGOs in countries to support on-the-ground activities that generate global environmental benefits. Given that many of the performance-related issues are outside the remit of such groups, it is proposed that the resources allocated for the Small Grants Program be outside the Resource Allocation Framework. In addition, a small amount of GEF resources could be earmarked outside the framework for medium-sized project proposals from NGOs.

CONCLUSIONS

35.   All the three models described in this report employ assessments of country potential to generate global environmental benefits and country performance in arriving at resource allocation frameworks.

(a)   In the Country Allocation Model, choice of weights for benefits = 0.8 and performance = 1.0 arrives at a distribution that closely matches the historical distribution of resources at the GEF. However, this model faces potential operational complexities resulting from a large number of countries receiving small amounts of resources, and countries with unused resources at the end of an allocation period.

(b)   Deriving a Country and Group Allocation Model from the Country Allocation Model offers a framework that responds to operational realities of the GEF, while still maintaining a large share of GEF resources allocated individually to a number of countries.

(c)   A Rules-based Allocation Model gives priority weight to global environmental benefits and manages project performance risks through design measures and extra due diligence measures. In this model, country/group allocation levels are based solely on potential to generate global environmental benefits, which results in a distribution of resources that is more skewed than in the Country and Group Allocation Model. The need for additional design/monitoring rules makes it somewhat bureaucratic and there is potential confusion regarding roles and responsibilities among the different GEF agencies.

36.   In summary, considering the pros and cons of the various models, the Country and Group Allocation Model offers a sound basis for developing a Resource Allocation Framework for the GEF.

COUNTRY ALLOCATION MODEL

1.   The Country Allocation Model provides individual <u>indicative allocations</u> to GEF recipient <u>countries</u> for two focal areas -- biodiversity and climate change – during each replenishment period. The indicative allocations provide countries with an envelope against which they can request GEF grants on the basis of proposals that meet the technical standards and strategic priorities of the GEF.

2.   Each country's indicative allocation for each focal area is based on the country's potential to generate global environmental benefits in the areas of biodiversity and climate change (defined in Annexes 4 and 5 respectively) and the country's performance rating (defined in Annex 6) relative to that of other GEF recipient countries. The sensitivity of these indicative allocations to changes in the relative importance attached to the environmental benefits assessment and country performance rating are illustrated in the simulations presented at the end of this annex. Country indicative allocations are developed in three steps as outlined below.

3.   First, each <u>Country's Allocation Score</u> for each focal area is computed as a weighted geometric average of the country's potential to generate global environmental benefits in that focal area and the country performance rating. Country Allocation Scores represent the relative desirability of allocating GEF resources for biodiversity and climate change to the country considering two factors – potential global benefits and country performance. Higher scoring countries are allocated more resources than lower scoring countries. The formulas for computing a country's allocation scores for biodiversity and climate change respectively are shown below. Both weights should be positive, since it is desirable to allocate relatively more resources to those countries that have a greater potential for global environmental benefits as well as better performance.

Country's Biodiversity Allocation Score = $CGEPBIO^{S_1} \times CPR^{S_2}$

Country's Climate Change Allocation Score = $CGEPCC^{S_1} \times CPR^{S_2}$

4.   Second, <u>Country Indicative Share</u> of GEF resources for biodiversity and climate change is determined by dividing each country's allocation score for the respective focal areas by the sum of allocation scores for all countries for the corresponding focal area as shown in the formula below. Each country's indicative share is proportional to its allocation score.

Country's Indicative Share =   Country's Biodiversity Allocation Score __
for Biodiversity   Sum of Biodiversity Allocation Scores for all countries

> Country's Indicative Share =   <u>Country's Climate Change Allocation Score</u>
> for Climate Change   Sum of Climate Change Allocation Scores for all countries

5.   Finally, each <u>Country's Indicative Allocations</u> are determined based on the country's indicative share and the total amount of GEF resources available for the focal area under the Resource Allocation Framework. These indicative allocations are the maximum amounts that each country could receive during a replenishment based on technically qualified projects approved by the Council or the CEO. Countries that are unable to develop quality projects would not receive the indicative allocations. Each Country's Indicative Allocations for Biodiversity and Climate Change respectively are computed as the product of the country's indicative share and the GEF resources available for the respective focal areas, as shown in the equations below.

> Country's Indicative Allocations = Country's Indicative Share x Resources available for
> for Biodiversity   for Biodiversity   Biodiversity in RAF
>   in Replenishment Period.

> Country's Indicative Allocation = Country's Indicative Share x Resources available for
> for Climate Change   for Climate Change   Climate Change in RAF
>   in Replenishment Period.

6.   The indicative allocations to individual countries are sensitive to the weights S_1 and S_2 used to compute the allocation scores. The choice of weights reflects both the importance of country performance relative to the potential global environmental benefits for country allocations, and the concentration of resources that go to the highest scoring countries relative to the lowest scoring countries. Increasing S_1 relative to S_2 increases the importance of global benefits, allocating more resources to countries with high potential to generate global environmental benefits. Conversely, decreasing S_1 relative to S_2 increases the importance of performance, allocating more resources to countries with good performance ratings. Increasing both S_1 and S_2 increases the proportion of total resources that are allocated to the highest scoring countries relative to the lowest scoring countries.

Simulations

7.   As requested by the Council, the Secretariat has conducted simulations of the model using the base case indicators outlined in Annexes 4 and 5 to assess country potential to generate global environmental benefits and the base case country performance ratings as outlined in Annex 6. The results of these simulations are presented in this section without any specific country attribution, as requested by the Council. Instead, countries are identified by their global environmental benefits score rank in the two focal areas. Since there is no specific relationship

between a country's global benefit rank in climate change and biodiversity, each country is identified by two independent numbers, one for biodiversity and another for climate change.

8.   The base case simulations (benefits weight S_1=0.8 and performance weight S_2=1.0) provide a good match to the historical distribution of GEF resources in both the biodiversity and climate change focal areas. All of the simulations have been done with an assumed resource pool of $700 million each for biodiversity and climate change focal areas. This is based on the allocations in the current replenishment period excluding amounts allocated to small grants program and global projects under each of these focal areas. For comparability, historical allocations shown in the graphs and tables have also been proportionately scaled to add up to $700 million dollars.

9.   **Figures 1.1 and 1.2** compares the indicative allocations for each country in the base case against the historical distributions for biodiversity and climate change respectively. In each graph, countries have been sorted along the horizontal axis based on their global environmental benefits potential score in each of the focal areas.[19] The historical distribution of GEF resources, with a few exceptions, appear to reflect countries' potential to generate global environmental benefits, with a small number of countries (usually those with the highest environmental potential) receiving large proportion of resources and most countries receiving a small share of resources. Most of the top twenty recipients historically remain to be in the top twenty recipients in the base case of the country allocation model.

10.   **Figures 1.3 and 1.4** compare the cumulative share of resources accounted for by the largest recipients historically against the cumulative share of resources accounted for by the largest recipients in the base case for biodiversity and climate change respectively. The cumulative shares of resources is approximately the same in both focal areas with the top twenty receiving about 50 percent of resources for biodiversity and about 70 percent of resources for climate change.

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[19] As a result, there is no correspondence in the country numbers in the two graphs (country no 5 in figure 1 is different from country number 5 in figure 2).

Fig 1.1 Country Allocation Model: Biodiversity Allocations - Base Case and Normalized Historical

Fig 1. 2 Country Allocation Model: Climate Change Allocations -- Base Case and Normalized Historical
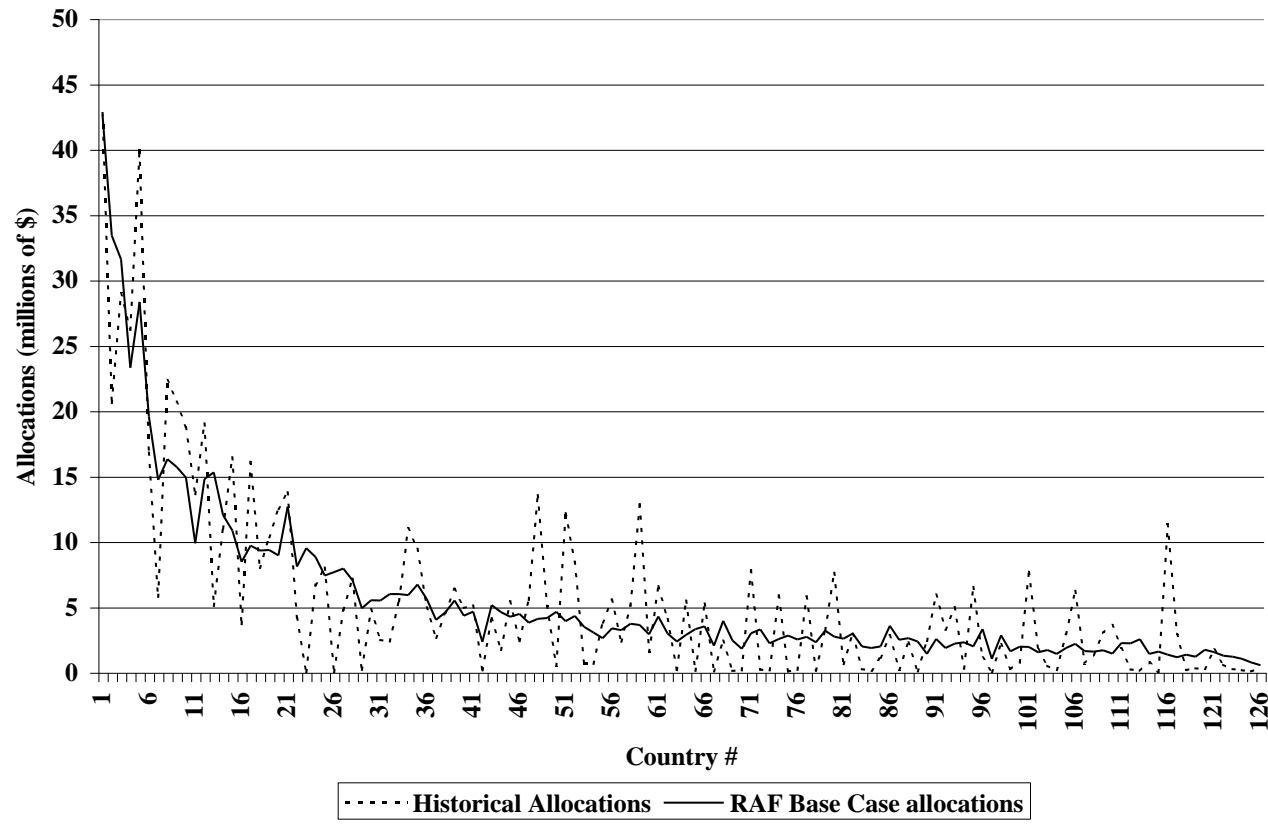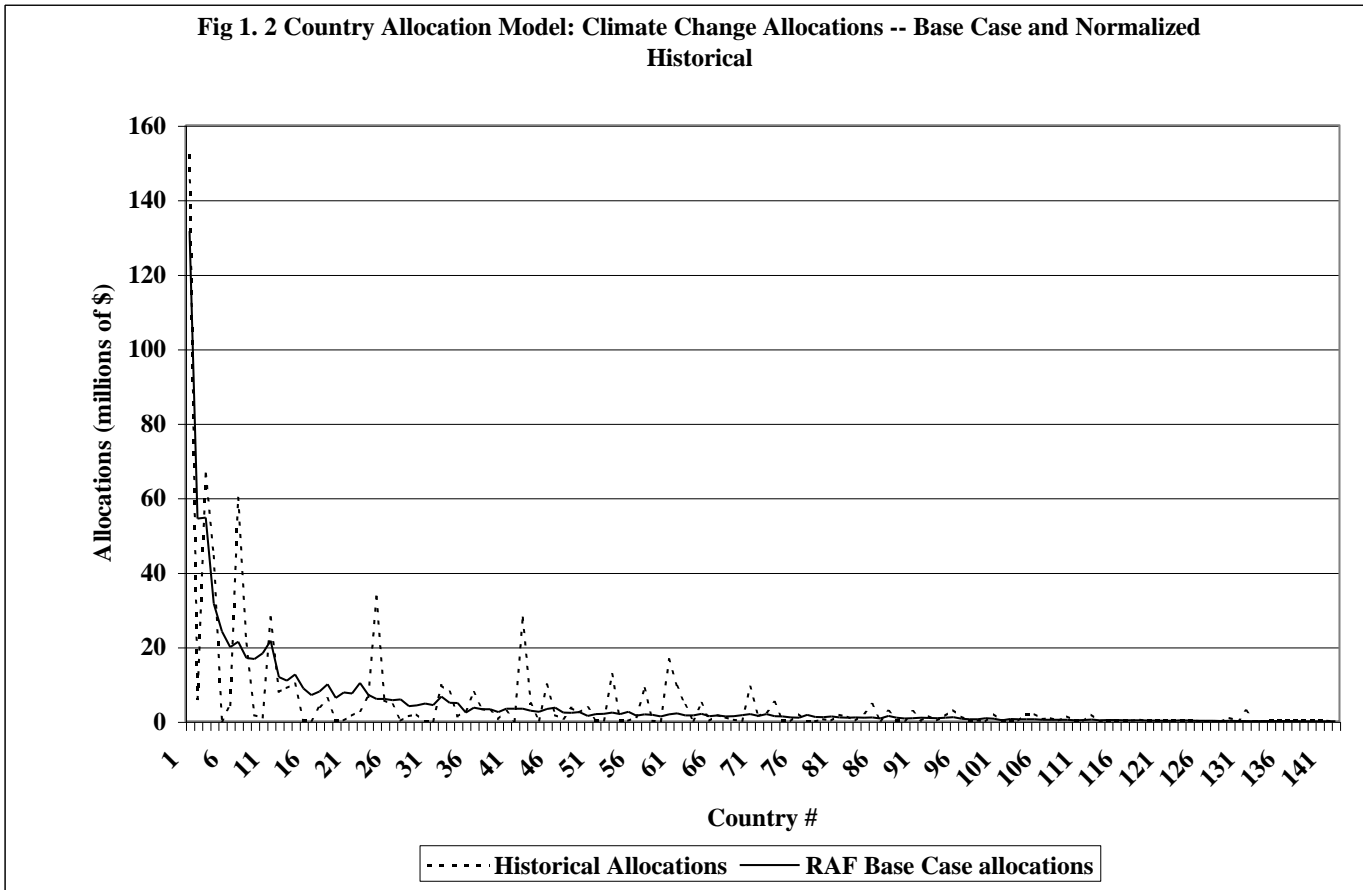
Fig 1.3 Cumulative Biodiversity Allocations: Base Case and Normalized Historical

Fig 1.4 Climate Change Allocations: BAse Case and Normalized Historical

Historical Allocations —— RAF Base Case allocations

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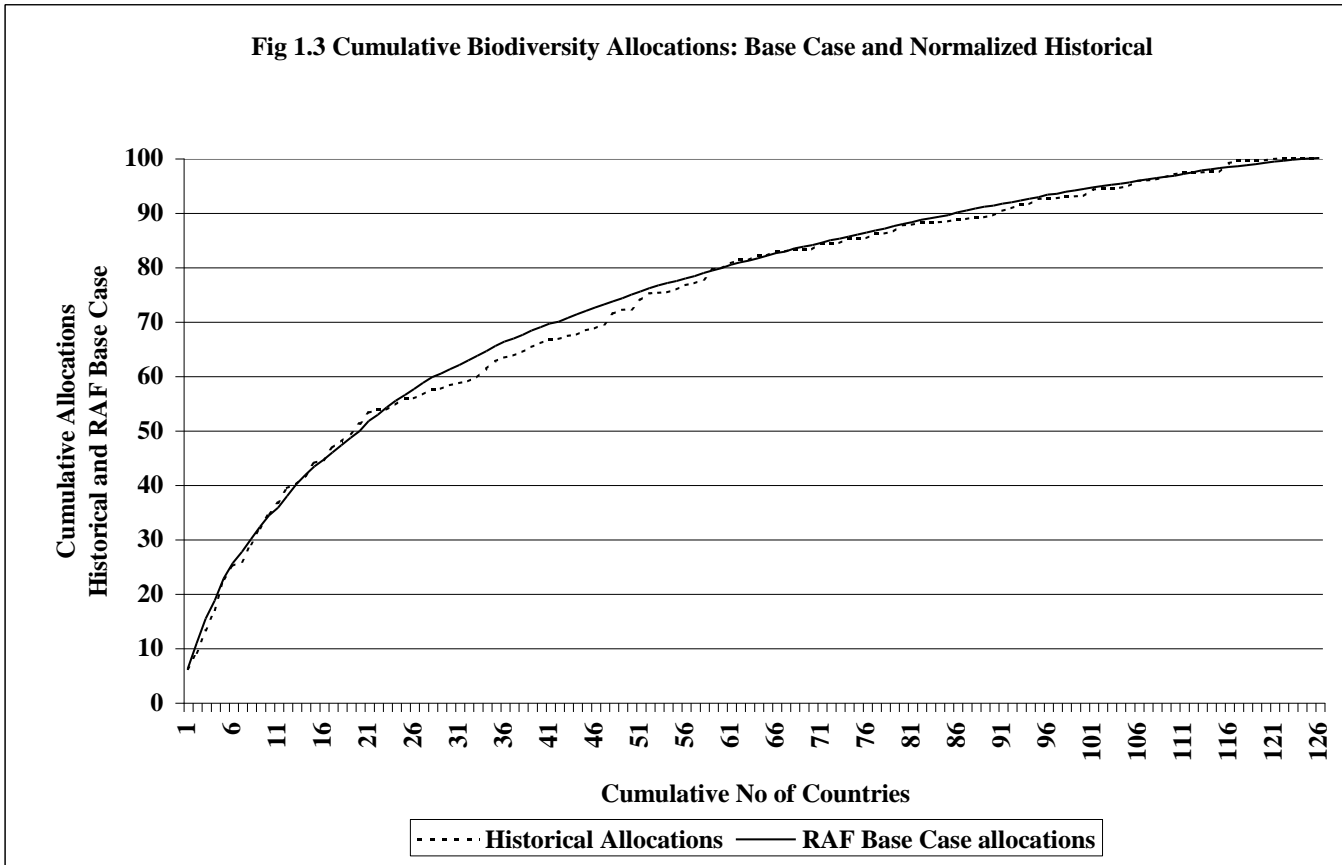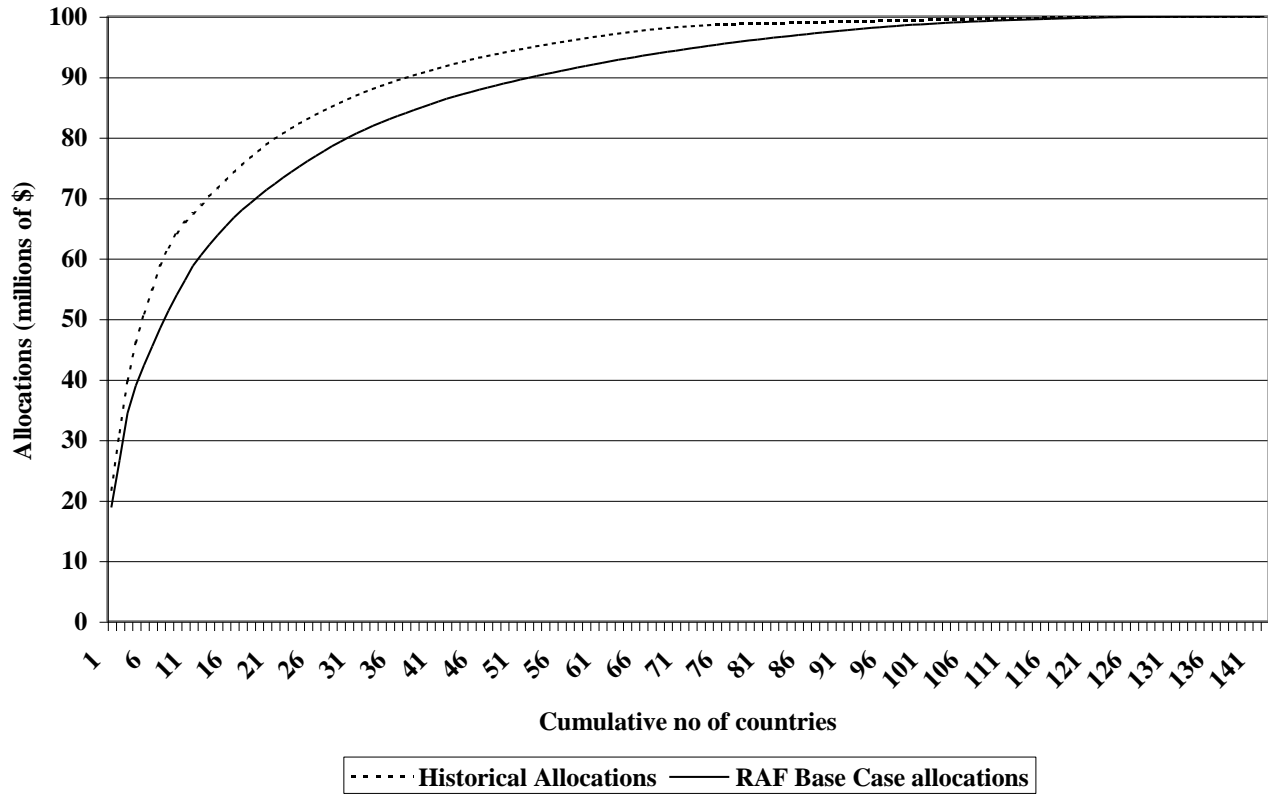
Simulations: Alternative Cases

11.   The sensitivity of indicative allocations to changes in the weights assigned to global environmental benefits and performance is illustrated with three alternative weights: pure benefits (S_1=1, S_2=0), pure performance (S_1=0, S_2=1) and an alternative scenario (S_1=0.8, S_2=2). The changes in the characteristics of these scenarios relative to the base case are summarized in this section. The first two cases are bounding cases and provide insights regarding the way the system works.

12.   The distribution of indicative allocations in the pure benefits case in similar to the base case. The higher weight on benefits has the effect of concentrating resources to the top scoring countries while progressively reducing amounts to the remaining countries. The top 20 countries are allocated 58 percent of the biodiversity resources and 81 percent of the climate resources compared to 50 percent and 70 percent in the base case respectively.

13.   The pure performance case provides the most significant contrast to all of the other cases presented. This case allocates GEF resources to all countries without regard to the potential benefits in the country. So, for instance, a small country with no biodiversity potential but with an excellent performance rating will get a higher allocation than a large country rich in biodiversity but that has low performance rating. Allocations based solely on performance result in a more even distribution of resources across countries than any of the other cases as countries vary much less in performance than in potential to generate global environmental benefits.

14.   The historical distribution as well as the base case can be viewed as a blend of the pure biodiversity and pure performance cases. Introduction of performance into the calculus evens out the distribution of resources compared to a distribution solely on benefits.

15.   The final case shows the impact of increasing the weight on performance from 1 to 2 while leaving the weight on benefit the same as in the base case. Again, the overall distribution is changed little, but the impact on specific countries is much larger. **Tables 1.1 and 1.2** show the indicative allocations that countries receive in each of the four cases for the biodiversity and climate change focal areas respectively. It also provides the rank of each country under each of these cases. Except for the pure performance case, the top 20 countries continue to be the largest recipients in all of the cases examined.

Table 1.1: Indicative Allocation and Allocation Ranks for Biodiversity

Country #	Allocations (Total: $ 700 million)				Allocation Ranks			
	Weights (Benefits/Performance)				Weights (Benefits/Performance)			
	1.0 / 0.0	0.8 / 1.0	0.0 / 1.0	0.8 / 2.0	1.0 / 0.0	0.8 / 1.0	0.0 / 1.0	0.8 / 2.0
1	53.2	42.6	6.4	47.1	1	1	22	1
2	43.4	33.4	5.9	34.0	2	2	35	3
3	36.3	31.6	6.5	35.1	3	3	21	2
4	31.9	23.3	5.3	21.2	4	5	73	5
5	31.7	28.3	6.5	31.5	5	4	20	4
6	22.4	19.6	5.9	19.9	6	6	39	6
7	19.7	14.7	4.9	12.4	7	12	94	13
8	19.6	16.3	5.5	15.3	8	7	68	10
9	19.4	15.7	5.3	14.3	9	8	72	11
10	18.4	14.9	5.3	13.5	10	10	76	12
11	14.0	9.9	4.3	7.3	11	16	115	26
12	13.8	14.8	6.6	16.7	12	11	17	9
13	12.5	15.3	7.4	19.3	13	9	10	7
14	12.3	12.0	5.9	12.1	14	14	40	14
15	11.9	10.8	5.4	10.1	15	15	69	16
16	10.1	8.4	4.8	7.0	16	23	98	28
17	9.6	9.7	5.8	9.6	17	17	45	17
18	9.5	9.3	5.6	8.9	18	20	63	20
19	9.4	9.3	5.7	9.1	19	19	55	19
20	9.2	8.9	5.5	8.4	20	21	67	22
21	8.3	12.7	8.4	18.3	21	13	3	8
22	8.1	8.1	5.5	7.6	22	24	65	24
23	8.0	9.5	6.5	10.6	23	18	18	15
24	7.7	8.8	6.2	9.4	24	22	29	18
25	7.6	7.4	5.3	6.7	25	27	75	29
26	7.2	7.6	5.7	7.5	26	26	52	25
27	6.5	7.9	6.4	8.8	27	25	23	21
28	6.4	7.0	5.8	7.0	28	28	44	27
29	6.0	4.9	4.2	3.6	29	38	116	59
30	5.5	5.5	5.1	4.8	30	34	87	41
31	5.3	5.5	5.2	4.9	31	36	78	39
32	5.3	6.0	5.7	5.9	32	30	48	32
33	5.3	6.0	5.7	5.9	33	31	47	31
34	5.0	5.9	5.9	6.0	34	32	38	30
35	4.8	6.7	6.9	8.0	35	29	14	23
36	4.8	5.6	5.8	5.6	36	33	42	33
37	4.7	4.0	4.2	2.9	37	50	118	67
38	4.7	4.6	4.8	3.8	38	42	101	51
39	4.7	5.5	5.8	5.4	39	35	46	34
40	4.6	4.3	4.6	3.4	40	44	105	60
41	4.3	4.6	5.2	4.1	41	39	82	46
42	4.3	2.3	2.6	1.0	42	86	126	118

	Allocations (Total: $ 700 million)				Allocation Ranks			
	Weights (Benefits/Performance)				Weights (Benefits/Performance)			
43	4.2	5.1	6.0	5.2	43	37	34	35
44	3.9	4.6	5.6	4.4	44	41	56	43
45	3.9	4.2	5.2	3.8	45	47	80	50
46	3.8	4.5	5.5	4.2	46	43	64	45
47	3.7	3.8	4.8	3.1	47	53	98	63
48	3.6	4.1	5.3	3.7	48	49	74	55
49	3.4	4.1	5.6	4.0	49	48	59	47
50	3.4	4.6	6.3	5.0	50	40	27	38
51	3.4	3.9	5.4	3.6	51	52	71	57
52	3.3	4.3	6.0	4.4	52	45	31	44
53	3.3	3.5	4.9	2.9	53	58	96	66
54	3.0	3.0	4.6	2.4	54	65	107	80
55	3.0	2.6	3.9	1.8	55	75	120	94
56	3.0	3.4	5.1	3.0	56	59	86	65
57	2.9	3.2	5.0	2.8	57	63	90	72
58	2.8	3.7	5.9	3.8	58	54	36	53
59	2.8	3.6	5.8	3.6	59	55	41	58
60	2.8	2.9	4.7	2.3	59	69	103	82
61	2.7	4.3	7.0	5.2	61	46	12	36
62	2.7	3.0	4.9	2.5	61	68	95	79
63	2.6	2.4	3.9	1.6	63	84	121	99
64	2.6	2.9	4.8	2.4	64	70	97	81
65	2.5	3.3	5.7	3.2	65	61	54	62
66	2.4	3.5	6.2	3.8	66	57	28	54
67	2.4	2.0	3.7	1.3	67	94	122	109
68	2.4	3.9	7.1	4.8	68	51	11	42
69	2.3	2.4	4.5	1.9	69	83	110	93
70	2.3	1.8	3.4	1.0	70	103	124	119
71	2.2	3.0	5.8	3.0	71	66	43	64
72	2.1	3.3	6.5	3.7	72	62	19	56
73	2.1	2.2	4.4	1.7	73	91	113	97
74	2.1	2.6	5.1	2.2	74	78	88	87
75	2.0	2.8	5.7	2.8	75	72	49	74
76	2.0	2.5	5.2	2.2	76	81	81	86
77	2.0	2.7	5.7	2.7	77	74	50	75
78	1.9	2.3	5.0	2.0	78	87	91	90
79	1.9	3.2	7.0	3.8	79	64	13	49
80	1.9	2.7	6.0	2.8	80	73	30	70
81	1.8	2.6	5.7	2.5	81	77	53	78
82	1.8	3.0	6.6	3.3	82	67	16	61
83	1.8	2.0	4.4	1.5	82	97	111	103
84	1.8	1.9	4.2	1.3	84	100	117	108
85	1.7	2.0	4.6	1.6	85	96	106	100
86	1.7	3.5	8.4	5.1	86	56	4	37
87	1.7	2.5	6.0	2.6	87	82	32	76

	Allocations (Total: $ 700 million)				Allocation Ranks			
	Weights (Benefits/Performance)				Weights (Benefits/Performance)			
88	1.7	2.6	6.3	2.8	88	76	26	71
89	1.6	2.3	5.7	2.3	89	85	51	85
90	1.6	1.4	3.4	0.8	90	115	123	123
91	1.6	2.6	6.3	2.8	91	79	25	73
92	1.6	1.9	4.7	1.5	92	101	104	102
93	1.5	2.2	5.6	2.1	93	92	56	88
94	1.5	2.3	5.9	2.3	94	88	37	84
95	1.5	2.0	5.2	1.8	95	95	85	95
96	1.5	3.3	8.7	4.9	96	60	2	40
97	1.4	1.0	2.8	0.5	97	123	125	125
98	1.4	2.8	7.9	3.8	98	71	5	48
99	1.4	1.6	4.5	1.2	99	108	109	111
100	1.3	2.0	5.6	1.9	100	98	59	91
101	1.3	1.9	5.6	1.9	101	99	58	92
102	1.3	1.5	4.4	1.1	102	112	112	116
103	1.3	1.7	4.9	1.4	103	105	93	105
104	1.3	1.4	4.1	1.0	103	116	119	120
105	1.3	1.8	5.4	1.7	105	102	70	96
106	1.2	2.2	6.8	2.5	106	93	15	77
107	1.2	1.6	5.2	1.5	107	107	79	104
108	1.1	1.6	5.2	1.4	108	109	84	106
109	1.1	1.7	5.6	1.6	109	106	59	98
110	1.1	1.4	4.8	1.2	110	113	100	114
111	1.1	2.2	7.6	2.9	111	89	7	68
112	1.1	2.2	7.5	2.9	111	90	8	69
113	1.1	2.5	8.7	3.8	113	80	1	52
114	1.0	1.4	5.0	1.2	114	114	92	113
115	1.0	1.6	5.6	1.5	115	110	59	101
116	0.9	1.3	5.1	1.2	116	118	89	115
117	0.9	1.1	4.4	0.9	117	122	114	122
118	0.9	1.3	5.5	1.3	118	117	66	110
119	0.8	1.2	5.3	1.1	119	121	77	117
120	0.8	1.7	7.9	2.3	120	104	6	83
121	0.7	1.5	7.5	2.0	121	111	9	89
122	0.7	1.3	6.3	1.4	122	119	24	107
123	0.7	1.2	6.0	1.2	123	120	33	112
124	0.7	1.0	5.2	0.9	123	124	83	121
125	0.5	0.7	4.7	0.6	125	125	102	124
126	0.4	0.5	4.5	0.4	126	126	108	126

Table 1.2: Indicative Allocations and Allocation ranks for Climate Change

Country	Allocation Total ($700 million)				Allocation rank			
	Weights (benefits/Performance)				Weights (benefits/Performance)			
	1/	0.8/	0/	0.8/	1/	0.8/	0/	0.8/
	0	1	1	2	0	1	1	2
1	190.9	131.6	5.7	138.0	1	1	27	1
2	73.2	54.4	5.0	50.8	2	3	55	3
3	71.2	54.7	5.2	52.4	3	2	49	2
4	32.3	31.6	5.6	33.0	4	4	29	4
5	20.2	24.1	6.3	28.0	5	5	14	6
6	20.1	19.9	5.2	19.1	6	8	45	9
7	19.6	21.4	5.7	22.4	7	7	26	7
8	19.0	17.0	4.6	14.6	8	10	85	11
9	16.9	16.7	5.0	15.6	9	11	58	10
10	15.9	18.3	5.8	19.4	10	9	22	8
11	14.4	21.6	7.4	29.4	11	6	4	5
12	11.1	11.9	5.0	10.9	12	13	65	15
13	11.0	11.0	4.6	9.4	13	14	86	16
14	10.0	12.6	5.7	13.3	14	12	24	13
15	9.2	8.9	4.3	7.1	15	17	107	21
16	6.9	7.1	4.3	5.6	16	22	106	25
17	6.8	8.0	4.9	7.3	17	18	66	19
18	6.5	10.0	6.5	11.9	18	16	11	14
19	6.2	6.3	4.2	4.9	19	24	114	30
20	6.2	7.8	5.2	7.5	20	19	44	18
21	6.1	7.5	5.0	7.0	21	20	56	22
22	5.5	10.3	7.6	14.5	22	15	2	12
23	5.2	7.1	5.5	7.2	23	21	36	20
24	5.0	6.0	4.7	5.3	24	25	81	28
25	4.9	6.0	4.8	5.3	25	26	79	27
26	4.7	5.7	4.7	4.9	26	28	83	29
27	4.3	5.9	5.3	5.8	27	27	38	23
28	3.8	4.1	4.0	3.0	28	34	122	41
29	3.4	4.3	4.6	3.6	29	33	91	34
30	3.4	4.8	5.2	4.6	30	31	42	32
31	3.2	4.4	5.0	4.0	31	32	62	33
32	3.1	6.6	7.6	9.4	32	23	1	17
33	3.0	5.0	6.1	5.6	33	29	18	26
34	2.8	4.9	6.2	5.6	34	30	15	24
35	2.7	2.3	3.0	1.3	35	50	139	71
36	2.7	3.7	4.8	3.3	36	36	80	36
37	2.6	3.2	4.3	2.6	37	42	108	44
38	2.4	3.3	4.6	2.8	38	41	90	42
39	2.4	2.5	3.6	1.6	39	46	136	62
40	2.4	3.4	4.9	3.1	40	38	74	39
41	2.3	3.4	4.9	3.0	41	39	75	40

	Allocation Total ($700 million)				Allocation rank			
	Weights (benefits/Performance)				Weights (benefits/Performance)			
	1/	0.8/	0/	0.8/	1/	0.8/	0/	0.8/
Country	0	1	1	2	0	1	1	2
42	2.3	3.4	5.1	3.2	42	37	54	37
43	2.1	2.8	4.5	2.3	43	43	100	49
44	2.0	2.6	4.2	2.0	44	44	111	52
45	1.9	3.3	5.6	3.4	45	40	30	35
46	1.7	3.7	6.9	4.7	46	35	5	31
47	1.6	2.3	4.6	2.0	47	48	94	53
48	1.5	2.3	4.7	2.0	48	51	84	54
49	1.5	2.5	5.1	2.3	49	47	50	48
50	1.3	1.5	3.5	0.9	50	68	137	83
51	1.3	1.9	4.6	1.7	51	56	88	61
52	1.2	2.0	5.1	1.9	52	53	52	56
53	1.2	2.3	6.0	2.6	53	49	19	43
54	1.2	1.9	4.9	1.8	54	57	66	59
55	1.1	2.6	6.6	3.1	55	45	9	38
56	1.1	1.5	4.2	1.2	56	67	110	72
57	1.1	1.9	5.2	1.8	57	59	47	58
58	1.1	1.7	4.8	1.6	58	62	77	63
59	1.0	1.3	3.7	0.9	59	76	132	86
60	1.0	1.9	5.3	1.8	60	60	39	57
61	1.0	2.2	6.1	2.5	61	52	17	46
62	1.0	1.6	4.5	1.3	62	66	98	70
63	1.0	1.6	4.6	1.4	63	64	92	67
64	1.0	2.0	5.8	2.1	64	54	20	51
65	0.9	1.4	4.2	1.1	65	71	113	76
66	0.9	1.6	4.9	1.4	66	65	68	64
67	0.8	1.3	4.5	1.1	67	74	102	75
68	0.8	1.4	4.6	1.2	68	73	87	73
69	0.8	1.6	5.5	1.7	69	63	34	60
70	0.8	2.0	6.6	2.4	70	55	8	47
71	0.8	1.5	5.1	1.4	71	69	51	66
72	0.8	1.9	6.9	2.5	72	58	6	45
73	0.7	1.4	5.2	1.3	73	72	46	69
74	0.7	1.3	4.8	1.2	74	77	76	74
75	0.7	1.1	4.0	0.8	75	81	121	91
76	0.7	1.0	3.8	0.7	76	86	127	94
77	0.7	1.8	6.9	2.2	77	61	7	50
78	0.6	1.2	4.9	1.1	78	78	69	77
79	0.6	1.1	4.6	0.9	79	79	93	84
80	0.6	1.3	5.7	1.4	80	75	25	65
81	0.6	1.1	4.6	0.9	81	82	95	88
82	0.5	1.0	4.6	0.8	82	88	89	90
83	0.5	1.0	5.0	1.0	83	84	57	81
84	0.5	1.0	5.0	0.9	84	87	64	85

Country	Allocation Total ($700 million)				Allocation rank			
	Weights (benefits/Performance)				Weights (benefits/Performance)			
	1/	0.8/	0/	0.8/	1/	0.8/	0/	0.8/
	0	1	1	2	0	1	1	2
85	0.5	1.0	5.2	1.0	85	83	43	80
86	0.5	0.8	3.9	0.6	86	95	124	99
87	0.5	1.4	7.4	1.9	87	70	3	55
88	0.5	0.9	5.0	0.9	88	89	63	89
89	0.5	0.8	4.1	0.6	89	96	117	96
90	0.5	0.8	4.5	0.7	90	94	101	95
91	0.5	1.0	5.5	1.0	91	85	37	79
92	0.4	0.9	5.3	0.9	92	91	40	87
93	0.4	0.8	4.9	0.8	93	93	69	92
94	0.4	0.9	5.5	1.0	94	90	35	82
95	0.4	1.1	6.6	1.3	95	80	10	68
96	0.4	0.7	4.4	0.6	96	98	103	100
97	0.3	0.5	3.8	0.4	97	101	131	105
98	0.3	0.5	3.9	0.4	98	102	125	104
99	0.3	0.9	6.4	1.0	99	92	12	78
100	0.3	0.7	5.5	0.7	100	97	33	93
101	0.3	0.3	2.3	0.1	101	116	142	123
102	0.3	0.6	5.0	0.6	102	99	59	97
103	0.3	0.5	4.3	0.4	103	104	109	103
104	0.3	0.6	4.7	0.5	104	100	82	101
105	0.3	0.5	4.5	0.4	105	103	99	102
106	0.3	0.4	3.7	0.3	106	106	135	110
107	0.2	0.4	3.7	0.3	107	108	133	114
108	0.2	0.4	4.2	0.3	108	109	111	109
109	0.2	0.4	4.9	0.4	109	107	69	106
110	0.2	0.3	3.8	0.2	110	114	128	117
111	0.2	0.3	4.4	0.3	111	112	104	113
112	0.2	0.5	6.3	0.6	112	105	13	98
113	0.1	0.3	4.1	0.2	113	113	119	116
114	0.1	0.4	5.0	0.3	114	110	61	107
115	0.1	0.3	4.9	0.3	115	111	69	108
116	0.1	0.3	3.8	0.2	116	118	126	120
117	0.1	0.3	4.5	0.2	117	117	97	115
118	0.1	0.3	5.1	0.3	118	115	53	112
119	0.1	0.2	4.1	0.2	119	120	118	121
120	0.1	0.2	4.9	0.2	120	121	69	119
121	0.1	0.2	3.8	0.1	121	123	129	125
122	0.1	0.2	4.0	0.1	122	124	123	126
123	0.1	0.3	6.2	0.3	123	119	16	111
124	0.1	0.2	5.6	0.2	124	122	31	118
125	0.1	0.2	4.4	0.1	125	126	105	124
126	0.0	0.1	3.4	0.1	126	128	138	132
127	0.0	0.2	5.0	0.1	127	125	60	122

Country	Allocation Total ($700 million)				Allocation rank			
	Weights (benefits/Performance)				Weights (benefits/Performance)			
	1/ 0	0.8/ 1	0/ 1	0.8/ 2	1/ 0	0.8/ 1	0/ 1	0.8/ 2
128	0.0	0.1	4.0	0.1	128	129	120	131
129	0.0	0.1	5.8	0.1	129	127	21	127
130	0.0	0.1	5.2	0.1	130	131	41	129
131	0.0	0.1	5.7	0.1	131	130	23	128
132	0.0	0.0	2.4	0.0	132	137	141	140
133	0.0	0.1	5.7	0.1	133	132	28	130
134	0.0	0.0	2.9	0.0	134	136	140	138
135	0.0	0.0	5.2	0.0	135	133	48	133
136	0.0	0.0	4.2	0.0	136	135	115	135
137	0.0	0.0	4.8	0.0	137	134	78	134
138	0.0	0.0	4.5	0.0	138	138	96	137
139	0.0	0.0	3.7	0.0	139	141	134	141
140	0.0	0.0	4.2	0.0	140	140	116	139
141	0.0	0.0	5.5	0.0	141	139	32	136
142	0.0	0.0	3.8	0.0	142	142	130	142

COUNTRY AND GROUP ALLOCATION MODEL

1. The Country and Group Allocation Model is derived from the Country allocation Model discussed in Annex 1. In this model, the country allocation scores and indicative allocations are computed as in the Country Allocation Model. The Country indicative allocations are then employed as a guide to allocate resources in the Country and Group Allocation Model as follows: (i) Countries with indicative allocations larger than $10 million continue to receive their individual country allocations; while (ii) the other countries are divided into two groups[20] that receive allocations against groups; the group allocations are also derived from summing the individual country allocations of countries contained in a group. For the base scenario (S_1=0.8, S_2=1), the **Tables 2.1 and 2.2** illustrate the distribution against countries and groups for the biodiversity and climate change focal areas respectively.

Table 2.1. Country & Group Allocation Model for Biodiversity Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 15 countries	Country 1	42.6	
	Country 2	33.3	
	Country 3	31.6	
	Country 5	28.3	
	Country 4	23.3	
	Country 6	19.6	
	Country 8	16.3	
	Country 9	15.7	
	Country 13	15.3	
	Country 10	14.9	
	Country 12	14.8	
	Country 7	14.7	
	Country 21	12.7	
	Country 14	12.0	
	Country 15	10.9	
TOTAL – Individual allocations	*15 Countries*	*306.0*	
Group I (countries getting 5-10 million dollars in the Country Allocation Model)	22 Countries	164.0	7.5
Group II (countries getting less than 5 million dollars in the Country Allocation Model)	89 Countries	230.0	2.6
TOTAL - Biodiversity	**126 Countries**	**700.0**	

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[20] Group I consists of countries that receive individual allocation between $ 5 and 10 million in the Country Allocation Model, while Group II consists of consists that receive less than $ 5 million in the Country Allocation Model.

Table 2.2. Country & Group Allocation Model for Climate Change Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 16 countries	Country 1	131.6	
	Country 3	54.7	
	Country 2	54.4	
	Country 4	31.6	
	Country 5	24.1	
	Country 11	21.6	
	Country 7	21.4	
	Country 6	19.9	
	Country 10	18.3	
	Country 8	17.0	
	Country 9	16.7	
	Country 14	12.6	
	Country 12	11.9	
	Country 13	11.0	
	Country 22	10.3	
	Country 18	10.0	
TOTAL – Individual allocations	*16 Countries*	*467.0*	
Group I (countries getting 5-10 million dollars in the Country Allocation Model)	13 Countries	88.0	6.8
Group II (countries getting less than 5 million dollars in the Country Allocation Model)	113 Countries	145.0	1.3
TOTAL – Climate Change	**142 Countries**	**700.0**	

SIMULATIONS

2.   The sensitivity of using different weights on global environmental benefits and country performance rating on the categorization of countries into groups and the country/group indicative allocations are examined for the four cases presented in the Country Allocation Model. The four cases consisted of the base case with (S_1=0.8, S_2=1.0), pure benefits (S_1=1.0, S_2=0.0), pure performance (S_1=0.0, S_2=1.0) and an alternative (S_1=0.8, S_2=2.0). The results are shown in Table 2.3.

3.   The overall distribution of countries across scoring categories as well as the average allocation per country in each category is robust to small changes in the weight given to the performance, but is significantly affected by changes in the weight given to the global environmental benefits. This is not to rule out significant changes in the status of specific countries with even small changes in the performance and benefits weights.

Table 2.3. Country and Group Allocation Model:
Distribution of Countries by Scoring Category and allocations per Country

Biodiversity					
	Allocation	weights (benefits/performance)			
		1/0	0.8/1	0/1	0.8/2
		no of countries by group			
Individual Allocation	greater than $ 10 million	16	15	0	16
Group I	5-10 mill	17	22	92	21
Group II	less than 5 mill	93	89	34	89
Total		*126*	*126*	*126*	*126*
		total allocations to group ($ million)			
Individual Allocations	greater than 10mil	371	306	0	332
Group I	5-10 mill	130	164	553	154
Group II	less than 5 mill	199	230	147	214
Total		*700*	*700*	*700*	*700*
		average allocation by group ($ million)			
Individual Allocation	greater than 10mil	23.2	20.4		20.8
Group I	5-10 mill	7.6	7.5	6.0	7.3
Group II	less than 5 mill	2.1	2.6	4.3	2.4

Climate Change					
Category	Allocation	weights (benefits/performance)			
		1/0	0.8/1	0/1	0.8/2
		no of countries by group			
Individual Allocations	greater than 10mil	14	16	0	15
Group I	5-10 mill	10	13	65	13
Group II	less than 5 mill	118	113	77	114
Total		*142*	*142*	*142*	*142*
		total allocations to group ($ million)			
Individual Allocations	greater than 10mil	526	467	0	473
Group I	5-10 mill	64	88	371	55
Group II	less than 5 mill	110	145	329	172
Total		*700*	*700*	*700*	*700*
		average allocation by group ($ million)			
Individual Allocations	greater than 10mil	37.6	29.2		31.5
Group I	5-10 mill	6.4	6.8	5.7	4.2
Group II	less than 5 mill	0.9	1.3	4.3	1.5

RULES-BASED ALLOCATION MODEL

1.   The Rules-based model employs assessments of both the components required for a GEF Resource Allocation Framework – potential to generate global environmental benefits, and country performance. The Model follows an explicit two step process as described below:

First Step: Resource Allocation Based on Environmental Benefits

2.   First, resources in each of the focal areas of biodiversity and climate change are allocated to countries under the following process.

3.   Country Allocation Score. The allocation score for each country in each focal area is computed as each country's potential to generate global environmental benefits in that focal area. The formulas for computing a country's allocation scores for biodiversity and climate change respectively are shown below.

> Country's Biodiversity Allocation Score = CGEPBIO
>
> Country's Climate Change Allocation Score = CGEPCC

4.   Country Indicative Share. Second, the indicative share of GEF resources for biodiversity and climate change is determined by dividing each country's allocation score for the respective focal areas by the sum of allocation scores for all countries for the corresponding focal area as shown in the formula below. Each country's indicative share is proportional to its allocation score.

> Country's Indicative Share = $\dfrac{\text{Country's Biodiversity Allocation Score}}{\text{Sum of Biodiversity Allocation Scores for all countries}}$
> for Biodiversity

> Country's Indicative Share = $\dfrac{\text{Country's Climate Change Allocation Score}}{\text{Sum of Climate Change Allocation Scores for all countries}}$
> for Climate Change

5. Country's Indicative Allocations. The maximum allocations to each country for biodiversity and climate change are determined as the product of the country's indicative share and the GEF resources available for the respective focal areas. This is illustrated separately for biodiversity and climate change in the equations below. These indicative allocations are the maximum amounts that countries could receive based on projects that meet the technical criteria and strategic priorities of the GEF. While individual country ratings and scores would be employed, it is proposed that the allocations be according to the Country and Group Allocation model, whereby a few countries will receive significant individual allocations, while the remaining countries will be clustered into groups that receive allocations.

Country's Indicative Allocations = for Biodiversity	Country's Indicative Share x for Biodiversity	Total Resources available for Biodiversity in the GEF framework in a Replenishment Period.

Country's Indicative Allocations = for Climate Change	Country's Indicative Share x for Climate Change	Total Resources available for Climate Change in the GEF framework in a Replenishment Period.

6. A simple way to interpret this model is to understand that it is derived from the Country and Group Allocation model for $S_1=1$ and $S_2=0$.

Second Step: Application of Performance-based Rules

7. Once allocations are determined according to benefits, a country's performance is accounted for in the design and oversight of the project. Countries will be divided into two groups: i) high performing ii) non-high performing.

    (a)   High performing countries. Given their proven track record, projects in these countries will be subject to the standard GEF oversight, which consists of the following:

        (i)   Project Implementation Review (PIR): An annual performance review carried out by the Implementing and Executing Agencies on all projects that have been under implementation for at least an year;

        (ii)   Mid-term review: A review undertaken by Implementing/Executing Agency close to the mid-point of the project implementation period, which is usually employed as an opportunity to take stock of progress achieved against objectives and to recommend if any major design or implementation changes are necessary;

      (iii)   Specially-managed Project Review (SMPRs): These are reviews conducted randomly in the active GEF portfolio by the independent M&E unit; about 15 projects are subjected to the review every year, and overall objective of the review is to assess the progress of projects against GEF criteria.

   (b)   <u>Non-high performing countries</u>. Given their need for improved capacity as well as institutional and policy support, projects will be subject to the following rules:

      (i)   Project Design: Projects, other than enabling activities, will have an increased focus on general capacity building, including institutional strengthening and policy development and support;

      (ii)   Increased due diligence/surveillance:

           a.   Enhanced levels of supervision;

           b.   Enhanced reporting in the annual PIR; and

           c.   Increased number of projects in the annual SMPR sample.

Simulation

8.   The indicative resource allocations that would emerge from such a two-step approach are shown in **Tables 3.1 and 3.2** for the biodiversity and climate change focal areas respectively. **Table 3.3** shows a distribution of countries based on country performance ratings (described in detail in Annex 6). If a rating of 3.0 is chosen as a cut-off for countries where projects would be subjected to specific design considerations and enhanced due diligence, 73 countries would fall into the non-high performing category. A review of track record over the past several years show that about 15 projects, in total, were proposed from these countries on the average every year. This is judged a manageable number for the enhanced provisions mentioned under this model.

Table 3.1 Rules Based Allocation Model for Biodiversity Focal Area

Countries/Groups			Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 15 countries		Country 1	53.2	
		Country 2	43.4	
		Country 3	36.3	
		Country 4*	31.9	
		Country 5	31.7	
		Country 6	22.4	
		Country 7*	19.7	
		Country 8*	19.6	
		Country 9*	19.4	
		Country 10*	18.4	
		Country 11*	14.0	
		Country 12	13.8	
		Country 13	12.5	
		Country 14	12.3	
		Country 15*	11.9	
		Country 16*	10.1	
TOTAL – Individual allocations		*16 Countries*	*371.0*	
Group I (countries getting 5-10 million dollars in the Country Allocation Model)		17 Countries	130.0	7.6
Group II (countries getting less than 5 million dollars in the Country Allocation Model)		93 Countries	199.0	2.1
TOTAL - Biodiversity		**126 Countries**	**700.0**	

* non-high performance countries where projects will be subjected to design features and enhanced due diligence

9.   In the Biodiversity focal area, among the 16 countries that receive individual allocations eight countries are rated non-high performing. In Group I, there are six non-high performing countries, and in Group II, there are 49 non-high performing countries. Project proposals from these countries will be subjected to specific design features and enhanced due diligence.

Table 3.2. Rules Based Allocation Model for Climate Change Focal Area

Countries/Groups		Indicative Allocations ($ millions)	Average Allocation ($ millions)
Individual Allocations for 16 countries	Country 1	190.9	
	Country 2	73.2	
	Country 3	71.2	
	Country 4	32.3	
	Country 5	20.2	
	Country 6	20.1	
	Country 7	19.6	
	Country 8*	19.0	
	Country 9	16.9	
	Country 10	15.9	
	Country 11	14.4	
	Country 12	11.1	
	Country 13*	11.0	
	Country 14	10.0	
TOTAL – Individual allocations	*14 Countries*	*526.0*	
Group I (countries getting 5-10 million dollars in the Country Allocation Model)	10 Countries	64.0	6.4
Group II (countries getting less than 5 million dollars in the Country Allocation Model)	118 Countries	110.0	0.9
TOTAL – Climate Change	**142 Countries**	**700.0**	

* non-high performance countries where projects will be subjected to design features and enhanced due diligence

Table 3.3:   Distribution of Country Performance Rating

Country Performance Rating Range	No of Countries
Less than 2	6
2.0 – 2.5	20
2.5 – 3.0	47
3.0 – 3.5	51
3.5 -- 4.0	13
Greater than 4.0	10

Annex 4

ASSESSING A COUNTRY'S POTENTIAL TO GENERATE GLOBAL BIODIVERSITY BENEFITS

1.   The Convention on Biological Diversity (CBD) defines "Biological Diversity" as "the variability among living organisms from all living sources including, inter alia, terrestrial, marine and other aquatic ecosystems and the ecological complexes of which they are part; this includes diversity within species, between species and of ecosystems." Conserving biological diversity requires achieving a balance between ensuring that resources are allocated primarily to areas of high biodiversity, while ensuring that large-scale ecological processes and life-support systems at local, regional, and global scales (i.e., ecosystem services) are maintained, thus recognizing that all biodiversity is important. The scientific community and conservation organizations have responded to the need for priority setting with a variety of approaches. For biodiversity conservation planning, the World Wildlife Fund (WWF) has identified over 1,000 terrestrial, freshwater and marine ecoregions that are ecologically distinct. Among these, WWF has identified 200 ecoregions (the Global 200) as highest-priority when biodiversity conservation benefits and threats are taken into account. Similarly, Conservation International (CI) has pioneered another approach that focuses on critical species and threats in its identification of mega diversity countries and global conservation hotspots.

2.   Drawing on work by the scientific community and data compiled by WWF, CI, The World Conservation Union (IUCN), Birdlife International, and other organizations, the Secretariat has built a framework for quantifying biodiversity priorities with the help of the World Bank's Development Research Group. Guided by the Convention on Biodiversity, this framework incorporates a broad range of export opinion on priority setting. The framework would align GEF resource allocation to the achievement of the 2010 targets of the CBD by incorporating the following elements in the model of decision making for resource allocation:

(a)   Magnitude of taxonomic variability at the species and higher levels, by recognizing species richness and endemism. These elements also recognize variability at the genetic level, as speciation is correlated with genetic diversity.

(b)   Large and unique ecoregions that provide opportunities for expansion in the global network of protected areas, both by area and representation.

(c)   Ensuring a minimum level of resources to all countries, thus recognizing that all biodiversity is important and providing opportunities for sustainable use and the maintenance of ecosystem services at various scales.

3.   The priority-setting approach relies on indicators that characterize biodiversity and threats for a comprehensive set of terrestrial, freshwater and marine ecosystems. The Secretariat has made significant progress in developing indicators for terrestrial biodiversity, and will extend this work to freshwater and marine biodiversity. All indicators will be refined as new data become available

DETERMINING THE GLOBAL BIODIVERSITY BENEFIT SCORE FOR A COUNTRY

4.   The Secretariat's global biodiversity benefit scores reflect the complex, highly uneven distribution of species and threats to them across the ecosystems of the world, both within and across countries. They reflect an emerging consensus among conservation organizations about appropriate use of information on biodiversity. The global biodiversity benefits scores are developed from information on the ecoregions within each country, in four steps:

>   (a)   Identify all components of distinct ecoregions within a country;

>   (b)   Score each of these Country Ecoregion Components (CECs) using four characteristics – represented species, endemism (uniqueness), ecological scale and threat;

>   (c)   Determine the composite score for each Country Ecoregion Component (CEC) using a weighted average of characteristics scores;

>   (d)   Compute a country's biodiversity benefits score as the sum of scores for Country Ecoregion Component (CEC) scores within the country.

5.   Each of these four steps is discussed in detail below, followed by simulations that illustrate the sensitivity of country scores to changes in the weights assigned to CEC characteristics.

Identify Country Ecoregion Components.

6.   Country Ecoregion Components reflect the distributions of fauna and flora in each country. They are developed by overlaying a biologically determined map of the world (ecoregions) on a politically determined map (country boundaries).

7.   An ecoregion is a relatively large unit of land containing a distinct assemblage of natural communities and species, with boundaries that approximate the original extent of natural communities prior to major land use changes. The World Wildlife Fund (WWF) has recently developed a map of the world that identifies and characterizes all terrestrial ecoregions.[21] The map's resolution is high enough to make it suitable for designing networks of conservation areas.[22] WWF has identified 867 terrestrial ecoregions, along with a large number of freshwater and marine ecoregions.

8.   Country Ecoregion Component (CEC). Ecoregions are defined with respect to biodiversity, while the focus of the GEF framework is on countries. Ecoregion boundaries often overlap national boundaries, which are in most instances unrelated to the geographic distribution of biodiversity. A country ecoregion component (CEC) is defined as the part of an ecoregion that is within a country's boundaries. For instance, an ecoregion that runs across four different countries is divided into four components, each containing the part of the ecoregion that is

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[21] www.nationalgeographic.com/wildworld/terrestrial.html
[22] The average size of an ecoregion in the WWF delineation is about 150,000 km2.

contained within one country's borders. Making this distinction divides the 867 terrestrial ecoregions into approximately 1,700 country ecoregion components. Of these, 1,326 CECs are in GEF recipient countries and are the focus of analysis for the GEF Resource Allocation Framework.

Score Country Ecoregion Components

9.   The second step in computing the global biodiversity potential of each country is scoring each CEC using four characteristics – represented species, endemism (uniqueness), habitat scale and threat.

Represented Species

10.   The species score for each CEC is its average species count across all taxa for which data are available. To avoid bias toward particular taxa, each index is scaled to the range 0 - 100.[23] The current score is based on total plants and amphibians. Data on mammals, birds, reptiles, and fish will be added as they become available.

11.   Total amphibians. Total amphibian species in each CEC are computed from species range data in GIS format provided by The World Conservation Union (IUCN) and Conservation International (CI).

12.   Total plants. Country plant species totals are provided by the United Nations Environment Programme World Conservation Monitoring Centre (UNEP-WCMC). Plant species data are not available at the CEC level. Country plant species are imputed to CECs in the same proportion as amphibian species.

Endemism

13.   The endemism score for each CEC is computed as the average of endemism indices for all available taxa. The current score is based on endemic plants and endemic amphibians. Data on mammals, birds, reptiles, and fish will be added as they become available.

14.   Endemic amphibians. Total endemic amphibian species in each country are computed from species range data in GIS format provided by The World Conservation Union (IUCN) and Conservation International (CI). For each endemic amphibian species in a country, each CEC is assigned a decimal score equal to the fraction of that species' range that lies in the CEC. CEC

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[23] To illustrate for hypothetical taxa A and B across countries, suppose that species counts for A are in the range 0 – 10,000, and counts for B are in the range 0 – 1,000. Each taxon count is translated to the % range 0 – 100 for comparability, so an A-count of 6,700 (67% of 10,000, the maximum for A) and a B-count of 670 (67% of 1,000, the maximum for B) both become 67 and their average value for the species representation index is also 67. Similarly, an A-count of 500 and a B-count of 200 become, respectively, 5 (5% of 10,000) and 20 (20% of 1,000) and their average index value is 12.5.

amphibian scores are the sums of decimal scores for individual amphibians.[24] These scores are scaled to a value between 0 and 100 for combination with endemic plant scores.

15.   Endemic plants. Country endemic species data for plants are provided by Conservational International. Missing data have been estimated from a statistical regression model that relates the share of a country's plants that are endemic to the share of its amphibians that are endemic. For each country, endemic plants are imputed to individual CECs in proportion to their endemic amphibian scores (see 14 above). These scores are scaled to a value between 0 and 100 for combination with endemic amphibians.

Habitat Scale

16.   Each CEC represents an ecoregion with unique characteristics, as well as a potential site for GEF projects that will demonstrate relevant approaches to biodiversity conservation. Ecoregions are also components of larger regions with biogeographic similarities. For example, the Southern Annamites montane rain forest of Vietnam, Cambodia and Lao PDR and the Sri Lanka lowland rain forest are both ecoregions in a larger biogeographic region (or functional region) defined by WWF – the Indo-Malayan Tropical-Subtropical Moist Broadleaf Forests. From a scientific perspective, ecological scale is an important attribute of conservation areas. In addition, regional scale is an important factor in determining the potential of GEF projects to leverage other conservation projects that address similar problems.

17.   CEC scale. CEC scale is the size of habitat remaining in the CEC. Habitat is defined as the area within the CEC that has not been cleared for agriculture, as defined on a high-resolution GIS map supplied by the International Food Policy Research Institute (IFPRI). These scores are scaled to a value between 0 and 100 for combination with functional region scale.

18.   Functional region scale. Functional region scale is the size of habitat remaining in the functional or biogeography region (see 16 above for an illustration). Habitat is defined as the area within the functional region that has not been cleared for agriculture, as defined on a high-resolution GIS map supplied by the International Food Policy Research Institute (IFPRI). These scores are scaled to a value between 0 and 100 for combination with CEC scale.

Threat

19.   The threat score for each CEC is computed as the simple average of two components. The first is a combined index of threats to habitat for the CEC and its corresponding ecoregion. The second is a combined country-level index of threats to three species taxa: Birds, mammals and amphibians.

20.   CEC habitat threat. The CEC habitat threat indicator is the fraction of the CEC's area (the original habitat) that has already been cleared for agriculture. Data have been supplied by IFPRI, as noted in 17 above. This indicator reflects the view that biodiversity conservation

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[24] This procedure consistently represents endemic amphibians' presence in each CEC, while assuring that the sum of CEC decimal scores is equal to the total endemic species count for the country.

efforts should be focused on habitats that are more threatened by encroachment. The data are scaled to indices in the 0 – 100 range for combination with ecoregion habitat threat.

21.   Ecoregion Habitat Threat. When an ecoregion crosses a national boundary, institutional, economic and other conditions in one country may pose a severe threat to habitat, while conditions in the other country may pose little threat. From a global perspective, the threat status of each CEC depends partly on the threat to habitat in the whole ecoregion. The ecoregion habitat threat indicator is the fraction of the ecoregion's area (the original habitat) that has already been cleared for agriculture.[25]   The data are scaled to indices in the 0 – 100 range, and the habitat threat index is the average of the CEC habitat threat and the ecoregion habitat threat.

22.   Species Threat. County-level data on threatened birds, mammals and amphibians have been provided by The World Conservation Union and Conservation International. The data are scaled to indices in the 0 – 100 range for each taxon, and the country species threat indicator is the average value of indices for the three taxa.

Determine Composite Scores for each Country Ecoregion Component

23.   The Biodiversity score for each ecoregion country component is a weighted combination of the four scaled biodiversity indicators, as indicated by the following equation.[26] The scores are sensitive to the weights, which should be chosen to reflect the importance of perspectives represented by each of the indicators. After extensive consultation on current best practice with biodiversity experts, the base case simulations give relatively large, equal weights to species representation and endemism, and lower, equal weights to ecological scale and threat. The weights are defined below.

$$\text{CEC Biodiversity Score} = B_1 \times \text{Total Species Representation} + B_2 \times \text{Endemic Species} + B_3 \times \text{Habitat Scale} + B_4 \times \text{Threat}$$

$$\text{Where } B_1 + B_2 + B_3 + B_4 = 1$$

$B_1 = 0.4; B_2 = 0.4; B_3 = 0.1; B_4 = 0.1$

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[25] CEC and ecoregion habitat threat indicators are identical by definition for ecoregions that are completely within one country.

[26] The first step in developing the biodiversity potential score for each country component is to scale all of the indicators uniformly so that the weights of the indicators are meaningful and transparent. Rescaling each indicator to a uniform scale means that the impact on the country component score of a one-point change in each indicator (e.g. habitat scale and threat) will be the same if they are equally weighted.

Country's Global Environmental Benefits Potential for Biodiversity (CGEPBIO)

24.   Each Country's Global Environmental Benefits Potential for Biodiversity (CGEPBIO) is determined by summing the biodiversity scores for all of the country components of ecoregions that fall within the boundaries of each country.

CGEPBIO   = Sum of Biodiversity scores for all CECs in the country

The CGEPBIO scores in the base case are shown in **Table 4.1** for the biodiversity eligible countries.[27]   **Figure 4.1** shows that the distribution of biodiversity scores is skewed with a few countries accounting for most of the biodiversity potential.

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[27] A few countries with limited biodiversity potential have not been included due to data issues in these tables. Their inclusion in the future will not affect any of the results in any significant way.

Table 4.1: Country Biodiversity Score and Country rank by Biodiversity Characteristics

| Country | Biodiversity Score | Country Rank | | | |
		Endemic Species	Total Species	Habitat Scale	Threat
1	100.00	1	1	2	4
2	81.57	2	2	7	6
3	68.23	3	3	1	3
4	59.92	4	4	6	2
5	59.50	5	5	4	5
6	42.01	9	9	5	1
7	37.06	7	8	8	24
8	36.80	8	7	16	13
9	36.48	10	6	33	11
10	34.53	6	14	51	28
11	26.38	11	13	20	33
12	25.95	13	11	14	15
13	23.44	14	12	34	9
14	23.03	15	10	21	38
15	22.43	12	25	36	7
16	18.99	20	15	11	23
17	18.03	109	31	3	8
18	17.80	18	21	13	14
19	17.59	22	22	9	16
20	17.36	24	19	27	10
21	15.66	23	16	46	30
22	15.23	27	18	28	25
23	15.02	40	20	23	12
24	14.53	29	17	42	29
25	14.35	21	23	35	22
26	13.57	34	24	15	17
27	12.27	16	41	71	40
28	11.96	26	42	22	20
29	11.26	31	28	17	48
30	10.31	38	32	32	21
31	9.95	30	38	31	42
32	9.91	35	46	12	37
33	9.87	32	30	52	43
34	9.37	19	51	104	31
35	9.04	17	53	86	53
36	8.98	43	43	39	19
37	8.92	82	27	40	32
38	8.89	57	35	26	35
39	8.86	109	60	10	18
40	8.61	37	26	60	96
41	8.13	60	39	29	41
42	8.12	25	50	84	47
43	7.80	78	37	37	44
44	7.28	28	55	81	57
45	7.27	83	29	75	56

Country	Biodiversity Score	Country Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
46	7.21	53	40	38	49
47	6.98	36	36	82	112
48	6.81	49	64	25	36
49	6.52	41	80	18	50
50	6.44	50	34	72	109
51	6.42	39	58	30	74
52	6.31	76	57	58	26
53	6.21	72	52	44	45
54	6.15	68	33	85	97
55	5.61	93	66	24	62
56	5.58	54	48	59	78
57	5.55	62	54	45	61
58	5.37	55	47	76	80
59	5.23	109	61	66	34
60	5.18	66	45	62	110
61	5.18	69	49	79	69
62	5.02	70	96	54	27
63	5.02	86	56	68	52
64	4.97	80	44	103	84
65	4.89	59	104	19	81
66	4.74	33	81	113	91
67	4.57	96	83	65	39
68	4.52	45	75	53	85
69	4.51	51	79	74	46
70	4.36	44	77	78	79
71	4.28	65	59	100	66
72	4.09	42	89	61	101
73	4.00	101	70	47	89
74	3.98	71	63	97	73
75	3.97	48	72	93	65
76	3.85	109	84	55	63
77	3.76	58	78	90	60
78	3.73	64	98	50	58
79	3.68	63	68	89	88
80	3.54	89	69	109	67
81	3.51	109	67	95	83
82	3.49	56	95	43	108
83	3.46	101	74	92	71
84	3.45	77	71	112	77
85	3.45	73	73	106	75
86	3.39	85	62	105	115
87	3.27	61	93	57	114
88	3.25	81	92	96	59
89	3.20	107	97	88	51
90	3.13	109	86	99	72
91	3.11	46	82	115	100
92	3.09	100	91	101	64

Country	Biodiversity Score	Country Rank			
		Endemic Species	Total Species	Habitat Scale	Threat
93	3.05	47	98	83	90
94	3.04	109	76	91	104
95	2.98	106	65	107	125
96	2.89	79	113	48	99
97	2.86	99	85	87	106
98	2.84	91	94	69	119
99	2.81	109	103	98	68
100	2.72	88	88	131	76
101	2.61	84	87	119	98
102	2.59	109	108	56	126
103	2.53	109	110	114	55
104	2.50	74	115	73	95
105	2.49	52	102	125	92
106	2.47	109	131	49	54
107	2.47	109	130	41	70
108	2.46	109	90	121	94
109	2.39	98	114	67	111
110	2.25	109	112	77	113
111	2.18	109	109	122	86
112	2.14	95	106	108	107
113	2.07	109	124	64	102
114	2.05	67	118	80	123
115	2.03	75	119	70	130
116	2.03	87	125	63	117
117	2.03	109	111	124	87
118	1.99	97	101	127	103
119	1.93	109	107	110	122
120	1.92	109	123	94	82
121	1.77	109	105	116	128
122	1.75	103	100	123	131
123	1.62	90	122	111	93
124	1.45	109	120	102	127
125	1.41	109	116	129	121
126	1.30	109	117	128	120
127	1.26	94	127	118	116
128	1.24	104	128	117	105
129	1.24	91	121	126	118
130	0.93	108	129	120	124
131	0.66	105	126	130	132
132	0.37	109	132	132	129

Fig 4.1 Distribution of Biodiversity Potential Score
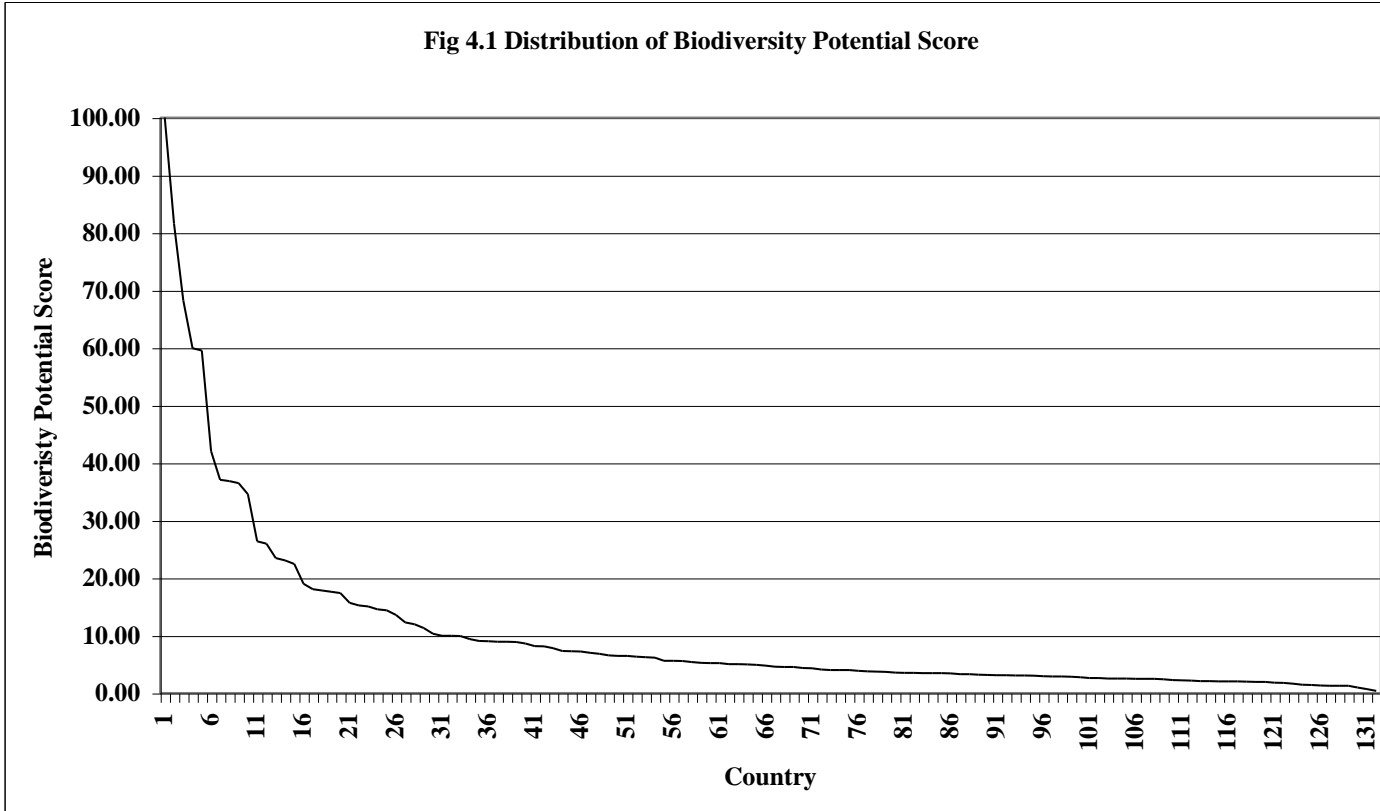
ASSESSING COUNTRY'S POTENTIAL TO GENERATE CLIMATE CHANGE BENEFITS

1.   The United Nations Framework Convention on Climate Change (UNFCCC), which became effective in March 1994, was an international acknowledgment that change in the Earth's climate and its adverse effects are a common concern of mankind and calls for the widest possible cooperation by all countries. The objective of the UNFCCC is the stabilization of greenhouse gas concentration in the atmosphere at a level that will prevent dangerous anthropogenic interference with the climate system. While recognizing that various actions to address climate change can be justified economically in their own right and help in solving other environmental problems, the Convention agreed on the need for all countries, especially developing countries, to have access to resources to address these issues. The GEF operates as a mechanism to the UNFCCC to provide new and additional grant and concessional funding to meet the agreed incremental costs of projects to achieve global environmental benefits in climate change.

2.   The global benefits potential in the GEF Resource Allocation Framework is restricted to a country's potential to mitigate GHG from these two sources mitigation of the GHG from the combustion of fuels and other sources of greenhouse gas emissions based on the current mandate of the GEF. Specifically, GHG mitigation from sequestration and/or land use changes is not currently included in the RAF for climate change, but such activities are often supported under activities in other focal areas such as biodiversity conservation (in the RAF) and land degradation (outsider the RAF).[28] Similarly, climate change adaptation is not currently factored in to the climate change RAF as adaptation activities outside of enabling activities and the currently funded pilot program are beyond the current guidance of the UNFCCC to the GEF.

3.   To avoid perverse incentives arising from the use of future baselines, the total GHG emissions in tons of carbon equivalent from fossil fuel, cement and other green house gas emissions is used as the indicator of a country's potential contributions to generate global climate change benefits. While National Communications from the parties do provide detailed and more accurate GHG emissions inventories, they are neither comprehensive nor current with coverage of approximately 100 countries mostly for the year 1994. For purposes of the RAF, standardized emissions data for the year 2000 available from the Climate Analysis Indicators Tool (CAIT) unit of the World Resources Institute is used to measure each country's global environmental benefits potential.[29] Comparisons of the CAIT data with the National Communications reported to UNFCC shows a high degree of correlation between the two datasets. The distribution of 2000 emissions levels and the potential mitigation in each country is shown in Figure 5.1. The potential benefits are highly skewed with a few countries accounting for most of the benefits, while the majority of countries account for a small fraction of global potential benefits.

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[28] Land use changes account for approximately 30% of total worldwide GHG emissions according to the Climate Analysis Indicators Tool of the World Resources Institute. (www.cait.wri.org)

[29] Information can be found at the World Resources Institute website at www.cait.wri.org.

CGEPCC = Total GHG emissions from Fuels and cement and other sources in 2000

4.   Relating potential benefits to historical emission levels has the effect of providing larger benefit scores to larger emitters. There are two reasons for such a choice. First, in general, countries with larger emissions have lower abatement costs, which increase less rapidly than those in countries with smaller emissions. Second, projects are likely to have greater demonstration and learning effects in high emitting countries than in countries with smaller levels of emissions.

5.   The feasibility of employing additional indicators that would better reflect a country's efforts to mitigate GHG emissions are under investigation. One indicator being explored is the change over time of emissions intensity (emissions/GDP) in a country. As work progresses on this front, the results will be incorporated into the Resource Allocation Framework. Preliminary analysis indicates that the impact of additional indicators on the overall distribution is not very significant.

Fig 5.1 Distribution of Global Benefits Potential for Climate Change
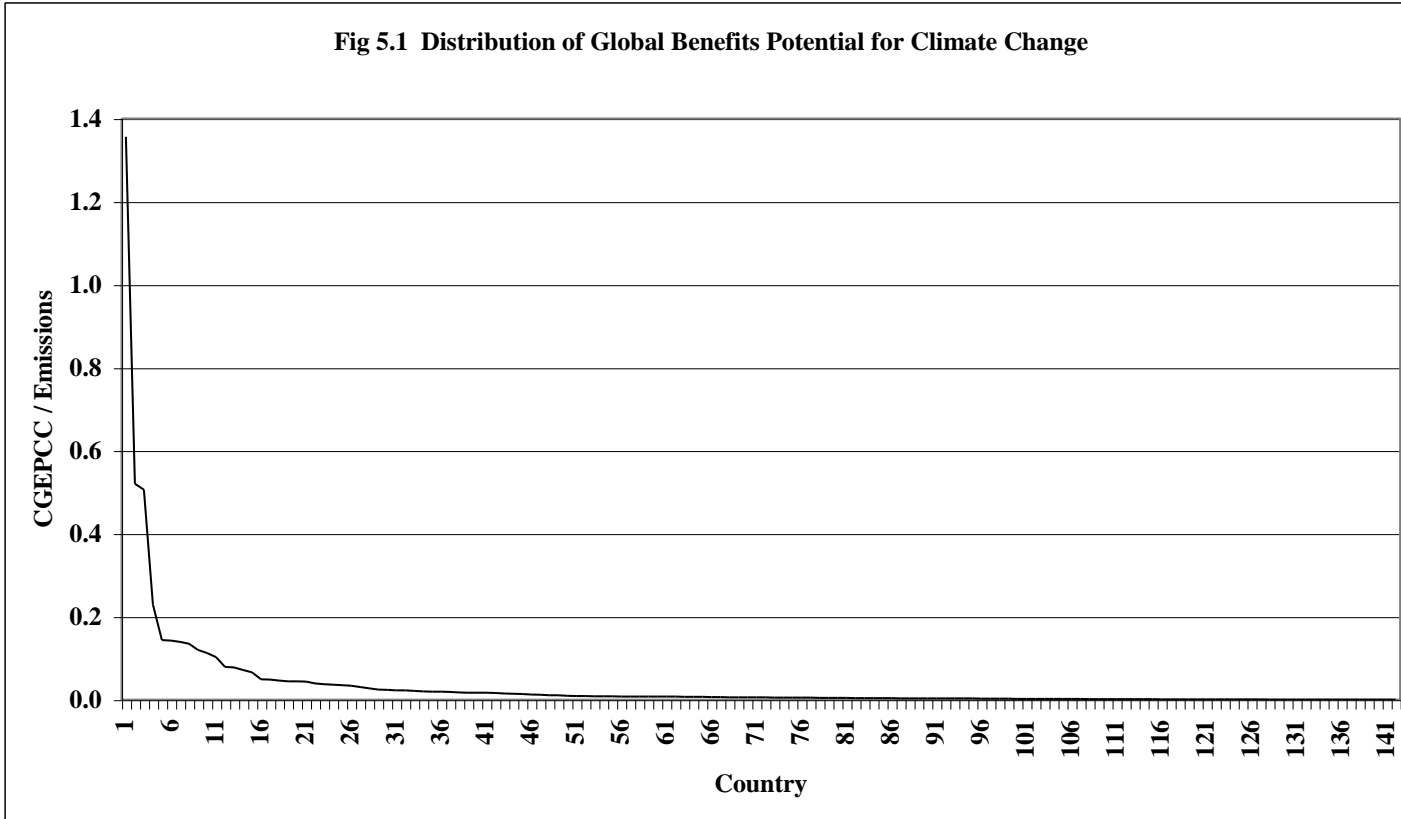
ASSESSING COUNTRY PERFORMANCE

1.   The success of future projects in a county depends on the soundness of existing policies and institutions at the macro and sectoral levels. Past project performance also provides insights into the likelihood of future project success. The Country Performance Rating (CPR) used in the GEF Resource Allocation Framework is developed from two policy and institutions related indicators (a macro level indicator, CPIA, and a sectoral level indicator, CEPIA) and two project portfolio indicators (GEFPP reflecting performance in the GEF portfolio and WBOED reflecting performance in a broader mix of projects at the World Bank). A description of these indicators is followed by the methodology is used in determining the country performance rating and the sensitivity of the country performance rating to changes in the relative importance attributed to the different indicators.

Macro Level Indicator – CPIA

9.2.   As an institution that is primarily focused on environmental issues, the GEF has no comparative advantage in measuring the macro level variables. Hence, it should adopt the macro level performance criteria that have been tested and are in currently in use at other multilateral institutions. Based on Council discussions on this topic, the GEF Resource Allocation Framework employs the CPIA indicator, which is used by the International Development Association (IDA) to allocate its resources, as the macro level policy and institutions indicator.

3.   The CPIA indicator is computed by equally weighting each of 20 responses to an annual benchmarked survey conducted by the World Bank. The survey assesses aspects of the policies and institutions of each of the World Bank's client countries in the following four areas: economic management, structural policies, social inclusion/equity and the public sector. These ratings are an important component of the performance-based allocation system of the International Development Association.

4.   While neither the CPIA indicator nor its components is currently publicly available, the World Bank is actively exploring the adoption of a policy for full public disclosure of the indicators for IDA countries by 2006. However, an assessment of the GEF portfolio revealed that nearly three-quarters of GEF resources go to non-IDA countries. Prior Council deliberations on this matter indicated preference for employing CPIA in the GEF Resource Allocation Framework subject to the World Bank's disclosure guidelines.

Sectoral Level Indicators – Environmental sub-index of CPIA

5.   The success of GEF projects and programmes is more directly affected by the policy framework and capacities of institutions at the sectoral level. Public sector policies and regulations, the ability of institutions to implement and enforce these policies and the extent of public participation and information play an important role in influencing the incentives and behavior of stakeholders. They also affect the smooth functioning of markets, and the adoption and development of technologies. As part of the project review process, the Implementing and Executing Agencies routinely examine the effectiveness of a country's sectoral policies and

institutional frameworks on a case-by-case basis. However, these reviews are neither systematic (using a standardized set of review criteria) nor comprehensive (covering all potential recipient countries). A review of the practices at other institutions shows that such a systematic, comprehensive and transparent assessment of environment-related policies and institutional frameworks is not currently available elsewhere.

6.   Discussions with the World Bank indicates that proposed revisions to the Environmental Sustainability sub-index of the World Bank's CPIA may provide a systematic, comprehensive, and transparent assessment of environment related policies and institutional frameworks in 2006. The World Bank is preparing a detailed set of questions by environmental sub-sectors to guide staff in developing the overall rating for Environmental Sustainability in the CPIA. The scheme, as currently proposed, is based on separate evaluations of: (i) the existence of supportive policies; (ii) the capacity to implement and enforce policies; and (iii) public participation and provision of public information in each of the following areas – air pollution, water pollution, solid and hazardous waste, ecosystem conservation and biodiversity protection, marine and coastal resources, freshwater resources and commercial natural resources. The CPIA environmental sub-index will also separately measure the ability of countries to perform environmental assessments, set priorities, and coordinate across sectors.

7.   Like the CPIA, the Environmental Sustainability index of the CPIA is not currently publicly disclosed by the World Bank. Prior Council deliberations on this matter indicated preference for employing the Environmental Sustainability index in the CPIA in the GEF Resource Allocation Framework subject to the World Bank's disclosure guidelines. The current environment related subindex of the CPIA is used for the CEPIA indicator in the current set of simulations and results. In the future, the CEPIA indicator will be developed based on the enhanced assessment of environmental sustainability in the World Bank's CPIA index subject to the World Bank's disclosure guidelines.

Portfolio Level Indicators

8.   The successes of GEF projects and programs are often most directly affected by the enthusiasm, capacity and dedication of the local community and project stakeholders. While past project performance does not guarantee future results, it is often a credible predictor of future project success. The best indicator of future GEF project performance is past GEF project performance. However, given the limited size of the GEF portfolio, past performance indicators are neither available nor very robust for many countries. More comprehensive and robust indicators of project performance that can be obtained from larger project portfolios such as that of the World Bank can also provide credible indicators for future project success.

I. GEF Country Portfolio Performance (GEFPP)

9.   Since 1996, the GEF Monitoring and Evaluation Unit (GEFME) has carried out annual Portfolio Performance Reviews (PPRs) for all medium and full sized projects. Projects, which have been under implementation for at least a year, are required to submit annual Project Implementation Reports (PIRs) to the GEF M&E Unit. These reports include an evaluation of: (i) the progress of the project towards achievement of development objectives (DO); and (ii) implementation progress (IP). Projects are rated separately for DO and IP in one of four

categories – highly satisfactory, satisfactory, partially satisfactory and unsatisfactory by project managers at the implementing and executing agencies. For each EA/IA consistent ratings are available for projects in the GEF portfolio beginning with the 1999 PPR. There has been no effort to standardize these PIR ratings across agencies to date. After converting the categorical PIR ratings to a corresponding numerical score, the GEFPP indicator for each country is computed as the simple average of the DO and IP scores available for projects under implementation in a country's portfolio since 1999.[30] The GEFPP indicator will be updated over time as new project information becomes available.

10.   A review of the PIR data suggests two issues related to comprehensiveness and robustness of this indicator. First, since the PIRs only rate medium and full sized projects and because of a limited duration of the existence of the PIRs, it only covers 84 recipient countries. Use of this indicator requires a separate decision rule regarding an appropriate substitute for countries that have not had a rated medium or full sized project. The limited number of projects and PIRs in many countries can also result in non-robust indicators for countries arising from the large potential influence of a few non-representative PIR ratings for a country. Second, it is important to note that these individual projects ratings have not been publicly available to date.

II. World Bank OED Project Portfolio (WBOED)

11.   Some of the shortcomings arising from the limited size of the GEF project portfolio can be addressed by using a broader portfolio of projects at the World Bank. The Operations Evaluation Department of the World Bank (WBOED) rates all World Bank projects at the completion of the project relative to the objectives of the project in one of six categories – highly successful, partially successful, marginally successful, marginally unsuccessful, partially successful, and highly unsuccessful. There are over 2800 rated projects in all of the World Bank's client countries since 1990. The shortcomings of the GEF portfolio -- coverage and robustness – can be addressed using this larger database of projects. Statistical analysis of OED's project database suggests that use of the complete portfolio of projects provides a reasonable measure of environmental project success rates.[31] After converting the categorical OED ratings to a corresponding numerical score, the WBOED indicator for each country is computed as the simple average of the project scores available for all rated projects in each country between 1990 and 2003.[32] These ratings will be updated as new project level data becomes available.

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[30] The categorical ratings are converted to a numerical score ranging from 1 to 4, with 4 corresponding to *highly satisfactory*, 3 to *satisfactory*, 2 to *partially satisfactory* and 1 to *unsatisfactory*.

[31] Statistical analysis shows that there are no significant time trends for success rates during this period. It also shows that while there are significant differences in project success rates across sectors, success rates for environmental projects are similar to the average of all sectors, so use of the aggregate portfolio is a reasonable approximation of performance in the environmental sector.

[32] The categorical ratings are converted to a numerical score ranging from 1 to 6, with 6 corresponding to *highly successful*, 5 to *partially successful*, 4 to *marginally successful*, 3 to *marginally unsuccessful*, 2 to *partially unsuccessful*, and 1 to *highly unsuccessful*.

Country Performance Rating (CPR)

12.   The County performance rating (CPR) is developed from uniformly scaled macro, sectoral, and portfolio level indicators as the simple weighted average of the different scaled indicators.[33] Rescaling each indicator to a uniform scale means that the impact on the country score of a 1-point change in each indicator will be the same if they are equally weighted. The Country Performance Rating is computed from the four indicators discussed above, CPIA, the proposed CEPIA, the WBOED and the GEFPP indicators.

Country Performance Rating (CPR)

CPR = P_1 x CPIA + P_2 x CEPIA + P_3 x WBOED + P_4 x GEFPP

Where, $P_1 + P_2 + P_3 + P_4 = 1$

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13.   The Country Performance Ratings are sensitive to the chosen weights P_1, P_2, P_3, and P_4. Since a higher rating of each indicator implies a better performing country all weights should be positive. In case, some of the performance indicators are not available for a country, CPR is based on the remaining indicators by proportionately increasing the weights for the available indicators.

14.   The choice of weights should reflect both the relative importance and the accuracy and robustness of each underlying indicator. The base case simulations are based on the following weights reflecting discussions in the council for a larger weight on sectoral performance and the lack of robustness and comprehensiveness in the GEFPP indicator.

$P_1 = 0.2; P_2 = 0.6; P_3 = 0.1; P_4 = 0.1$

The distribution of country performance scores under the base case is shown in **Table 6.1.**

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[33] The first step in developing the country performance rating is to scale all indicators to a uniform scale (from 1 to 5). This ensures that the weights given to each of the indicators are easily interpretable and transparent. For instance, the GEFPP indicator ranges from 1 to 4, while WBOED ranges from 1 to 6. Rescaling each indicator to the same scale means that the score is equally impacted by a one point change in any set of equally weighted indicators.

Table 6.1. Distribution of Country Performance Rating: base case

Country Performance Rating Range	No of Countries
Less than 2	6
2.0 – 2.5	20
2.5 – 3.0	47
3.0 – 3.5	51
3.5 -- 4.0	13
Greater than 4.0	10

15.   The Country Performance Rating for two thirds of potential GFF recipient countries is between 2.5 and 3.5, while the remaining third of the countries are evenly split at the high end (greater than 3.5) and low end (less than 2.5) of the Country Performance Rating scale. Due to the high correlation amongst the policy indicators CPIA and CEPIA, shifting the weight between the two does not make a large difference in the country performance scores. While the GEFPP indicator is the least correlated with the other indicators, changes in the weight does not affect the scores for nearly half the countries due to the unavailability of this indicator. The Country Performance score is much more sensitive to the weight given to WBOED. Progressively increasing the weight on WBOED with corresponding decreases in the other indicators has the effect of increasing the average country performance rating by a small amount about .05 per every 10% increase in the weight on WBOED. This comes occurs because about five times as many countries improve their scores than the number of countries whose scores fall.

THE WORLD BANK/IFC/M.I.G.A.

OFFICE MEMORANDUM

DATE: APRIL 20, 2004

TO: Mr. Leonard Good, GEF CEO and Chairman

FROM: David Freestone, Acting Deputy General Counsel, Advisory Services, LEGVP

EXTENSION: 81743

SUBJECT: WOULD A GEF PERFORMANCE-BASED FRAMEWORK BE CONSISTENT WITH THE GEF INSTRUMENT?

A.   **FACTS**

1.   At its meeting of November 2003, the GEF Council reviewed a document entitled "Performance-based Framework for Allocation of GEF Resources" (GEF/C.22/11). After review of this document, the GEF Council agreed that the GEF Secretariat would develop a GEF-wide system based on global environmental priorities and country-level performance relevant to those priorities. It is this system that, for reasons of convenience, is referred to here as "GEF performance-based framework".[34]

2.   One of the decisions approved at the November 2003 meeting was to request the GEF Secretariat to present to the May 2004 meeting of the GEF Council

"a study of options to strengthen the current system of allocating GEF resources with a view to coming to a conclusion in November 2004. The system should be consistent with the GEF Instrument, the environmental conventions for which the GEF is a financial mechanism, the Policy Recommendations of the Third Replenishment, Council decisions at the October 2002 meeting, and the Beijing Assembly Declaration."[35]

B.   **QUESTION**

3.   On the basis of this background, the question to be addressed in this memorandum is whether a GEF performance-based framework would be consistent with the GEF Instrument. As was indicated above, the expression "GEF performance-based framework" is used here as shorthand for a system based on global environmental priorities and country-level performance relevant to those priorities. The details of this

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[34]   There is no need here to discuss the proposed variants and phases of such a system. It is also irrelevant, for the present purposes, to summarize the policy recommendation of the GEF Third Replenishment, and the Second Assembly, in this respect.
[35]   Joint Summary of the Chairs, GEF Council Meeting, November 19-21, 2003, para. 21.

system are still under study. Therefore, the answer to the proposed question, at this stage, can only be preliminary in its character and general in its underlying analysis.

C.   ANSWER

4.   In the GEF Instrument, there is no provision requiring or prohibiting a performance-based allocation system. A decision to this effect by the GEF Council would have to be judged in the light of the requirement that the GEF, as the financial mechanism of the Climate Change, Biodiversity, and Stockholm conventions, function under the guidance of, and be accountable to, the Conferences of the Parties of these conventions. This guidance has not implied any decisions having the effect of mandating or prohibiting a performance-based allocation. However, the question of consistency can be examined within the context of the relationship between the GEF Council and the Conferences of the Parties, as reflected in Memoranda of Understanding. These Memoranda protect the autonomy of the GEF as an external financial mechanism to the conventions, with the consequence that the Conference of the Parties can do no more than request from the GEF Council that a decision be clarified or reconsidered. The Memoranda also reflect a need for close cooperation between the GEF Council and the Conferences of the Parties, with the consequence that the GEF Council is required to act in conformity with the policies, program priorities and eligibility criteria established by the Conferences of the Parties. In consideration of the foregoing, in case of conflict generated by the adoption of a performance-based approach, the sanction would be in relation to the continued ability of the GEF to serve as the financial mechanism for the implementation of the conventions. Whether and how a conflict related to performance-based allocation might arise is a question that cannot be addressed in the abstract without knowing the details of the specific decision and conflict in question.

D.   ANALYSIS

(a)   The text of the GEF Instrument and allocation based on performance

5.   The GEF Instrument does not contain any express provision either requiring or prohibiting an allocation system based on performance. This does not mean, however, that no provisions in it are of any relevance to the question.

(b)   The GEF as the financial mechanism of environmental conventions

6.   Paragraph 6 of the GEF Instrument, as recently amended, reads as follows:

"In partial fulfillment of its purposes, the GEF shall, on an interim basis, operate the financial mechanism for the implementation of the United Nations Framework

Convention on Climate Change and shall be, on an interim basis, the institutional structure which carries on the operation of the financial mechanism for the implementation of the Convention on Biological Diversity, in accordance with such cooperative arrangements or agreements as may be made pursuant to paragraphs 27 and 31. The GEF shall be available to continue to serve for the purposes of the financial mechanisms for the implementation of those conventions if it is requested to do so by their Conferences of the Parties. The GEF shall also be available to serve as an entity entrusted with the operation of the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants. In both respects, the GEF shall function under the guidance of, and be accountable to, the Conferences of the Parties which shall decide on policies, program priorities and eligibility criteria for the purposes of the conventions. The GEF shall also be available to meet the agreed full costs of activities under Article 12, paragraph 1, of the United Nations Framework Convention on Climate Change."

7.   One of the GEF purposes, therefore, is to serve as the financial mechanism for the implementation of certain environmental conventions. In this role, the GEF functions "under the guidance of, and is accountable to," the Conferences of the Parties that are the supreme organs of these conventions. Pursuant to paragraphs 15,[36] 20(h),[37] and 26,[38] of the GEF Instrument, the aforementioned guidance and accountability imply the obligation of the GEF Council, when operating as the financial mechanism of the environmental conventions, to act in conformity with "the policies, program priorities and eligibility criteria decided by the Conference of the Parties" for the purposes of each convention.[39]

8.   The notion that the GEF, as the financial mechanism of the conventions specified in paragraph 6 of the GEF Instrument, shall function under the guidance of, and be accountable to, the Conferences of the Parties (which decide on policies, program priorities and eligibility criteria) is also expressly stated in the conventions.[40]

9.   The Conferences of the Parties have never adopted any decisions on policies, program priorities or eligibility criteria, which would have the effect of mandating or prohibiting an allocation of GEF grant funds based on performance, nor have they adopted any decisions that would be relevant to this issue. If such decisions were to be

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[36] Paragraph 15 reads, in part, as follows: "Where the GEF serves for the purposes of the financial mechanisms of the conventions referred to in paragraph 6, the Council shall act in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned."

[37] Pursuant to paragraph 20(h), the GEF Council shall "ensure that GEF-financed activities relating to the conventions referred to in paragraph 6 conform with the policies, program priorities and eligibility criteria decided by the Conference of the Parties for the purposes of the convention concerned".

[38] Paragraph 26 reads, in its entirety, as follows: "The Council shall ensure the effective operation of the GEF as a source of funding activities under the conventions referred to in paragraph 6. The use of GEF resources for purposes of such conventions shall be in conformity with the policies, program priorities and eligibility criteria decided by the Conference of the Parties of each of those conventions."

[39] Conformity with the eligibility criteria decided by the Conferences of the Parties is also a requirement stated in paragraph 9(a) of the GEF Instrument.

[40] See Article 11(1) of the Climate Change Convention, Article 21(1) of the Biodiversity Convention, and Article 13(6) of the Stockholm Convention.

adopted, would they be binding on the GEF Council? In other words, do the guidance provided by the Conference of the Parties to the GEF Council, and the accountability of the GEF Council to the Conference of the Parties, as expressed both in the GEF Instrument and the conventions, imply that a decision by the GEF Council to allocate funds on the basis of performance would be valid only to the extent that no contrary decisions are adopted by the Conferences of the Parties? The proper framework for an answer to this question is the relationship between the GEF and the Conferences of the Parties, as articulated in their cooperative arrangements.

(c)   Cooperative arrangements with the Conferences of the Parties

10.   The GEF Instrument expressly provides that the particulars of the relationship between the GEF and the Conferences of the Parties be specified in "cooperative arrangements or agreements". Paragraph 27 of the GEF Instrument reads, in part, as follows:

"The Council shall consider and approve cooperative arrangements or agreements with the Conferences of the Parties to the conventions referred to in paragraph 6, including reciprocal arrangements for representation in meetings. Such arrangements or agreements shall be in conformity with the relevant provisions of the convention concerned regarding its financial mechanism and shall include procedures for determining jointly the aggregate GEF funding requirements for the purpose of the convention."

11.   "Relevant provisions of the convention concerned", as mentioned in paragraph 27 of the GEF Instrument, are present in each of the Climate Change Convention,[41] the Biodiversity Convention,[42] and the Stockholm Convention.[43] There is no need here to examine the extent to which there is consistency between the provisions on cooperative arrangements or agreements in the GEF Instrument, on the one hand, and the corresponding provisions in the conventions, on the other hand.[44] Rather, the relevant issue for the present purposes is that such cooperative arrangements or agreements have been reflected in two Memoranda of Understanding,[45] between the GEF Council and the Conferences of the Parties to the Climate Change Convention and the Biodiversity Convention, respectively, and in a draft Memorandum of Understanding, still under consideration, which, if and when adopted, will constitute the cooperative arrangement

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[41] See Article 11(3).
[42] See Article 21(2).
[43] See Article 13(7).
[44] For example, in paragraph 15 of a Memorandum (A/AC.237/74) dated August 23, 1994, from the United Nations Under-Secretary-General for Legal Affairs to the Executive Secretary of the Climate Change Convention, it was observed that an analysis of the options for cooperative arrangements, as provided for in the GEF Instrument and the Climate Change Convention, "gives reason to believe that under the Convention it is expected that the COP should play a slightly more active role in exercising control over the implementation of the policies, programme priorities and eligibility criteria established by the COP, than it is envisaged for it in the GEF Instrument."
[45] The texts of the two Memoranda are helpfully reproduced, in comparative columns, in Annex I to UNEP/POPS/INC.7/INF/9 (June 6, 2003).

between the GEF Council and the Conference of the Parties to the Stockholm Convention.[46]

12.   Pursuant to paragraph 4 of the Memorandum with the Conference of the Parties to the Climate Change Convention, the GEF Council undertakes[47] to "ensure the effective operation of the GEF as a source of funding activities for the purposes of the Convention in conformity with the guidance of the COP." To this end, the GEF Council "reports regularly" to the Conference of the Parties on its Convention-related activities and on their conformity with the guidance provided by the Conference of the Parties. In paragraph 5, it is further specified that, regarding funding decisions for specific projects, the Conference of the Parties may ask the GEF Council for "further clarification on the specific project decision and in due time may ask for a reconsideration of that decision", should it consider that the decision in question does not comply with the established policies, program priorities and eligibility criteria. Finally, in paragraph 8, it is expressly stated that the GEF Council may (but is not bound to) "seek guidance from the COP on any matter it considers relevant to the operation of the financial mechanism of the Convention".

13.   The Memorandum of Understanding with the Conference of Parties to Biodiversity Convention also contains in paragraph 3.1 an undertaking of regular reporting by the GEF Council, and a provision in paragraph 4.2 regarding the possibility of a request for "further clarification", similar to that found in paragraph 5 of the Memorandum for the Climate Change Convention. The difference, though, is that in the Memorandum for the Biodiversity Convention there is no parallel provision on the request for "reconsideration" of a funding decision for a specific project by the GEF Council.

14.   Finally, in the draft Memorandum relating to the Stockholm Convention, in addition to provisions in paragraphs 4, 6 and 7 similar to those found in paragraphs 4 and 5 of the Memorandum for the Climate Change Convention, there are provisions on communication and cooperation, as well as regular consultation, between the secretariats of the two parties "to facilitate the effectiveness of the financial mechanism" (paragraph 17), and on their reciprocal consultation "on draft texts of documents relevant to the Convention and the GEF prior to issuing the final texts of such documents" (paragraph 19).

15.   The contents of the Memoranda of Understanding therefore reflect: (a) on the one hand, the autonomy of the GEF as an external financial mechanism to the conventions, with the consequence that the Conference of the Parties can do no more than ask for clarification or (depending on the particular Memorandum) reconsideration of a GEF Council's project funding decision; and (b) on the other hand, a need for close cooperation between the GEF Council and the Conferences of the Parties, by means also

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[46] The text of the draft is in the Annex to UNEP/POPS/INC.7/16 (June 18, 2003).
[47] The use of this verb does not imply any judgment on the legal nature (or absence of it) of the Memoranda of Understanding under review. This issue is immaterial to the present purposes.

of the GEF Council acting in conformity with the policies, program priorities and eligibility criteria established by the Conferences of the Parties.

16.   In case of conflict, there is nothing either in the GEF Instrument or the Memoranda of Understanding requiring the GEF Council to do anything more than clarify or reconsider its decision, the sanction being the ability of the respective COP to reconsider the position of the GEF as the financial mechanism for the implementation of its convention. Whether and how a conflict may arise by a GEF Council's decision to allocate resources on the basis of a performance-based system is a question that cannot be addressed in the abstract without knowing the details of the specific decision and conflict in question.

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