

TELEFAX

Sender:

Marita Steinke
BMZ (Federal Ministry for Economic Cooperation and Development)
Postfach 12 03 22
53045 Bonn, Germany

Telefax No.: +49-228-535 3980
Email: steinke@bmz.bund.de
Desk officer: Vera Rosendahl
Email: Vera.Rosendahl@bmz.bund.de

Ref.No.: 312-K8185-24

Date: 30.06.2004

No of pages incl. this page: 5

To: Dr. Leonhard Good
GEF Chief Executive Officer
Telefax No.: 001-202-522-3240 (-3245)
(advanced copy also sent by Email to: lgood@thegef.org and to gcoordination@thegef.org)

Subject: Comments by Germany on the Performance Based Allocation Framework

Dear Mr. Good,

Please find attached comments by Germany on the Performance Based Allocation Framework.

Best regards

Marita Steinke

Referring to the May Council Meeting, Germany would like to comment on the development of an operational performance-based allocation system, as it was agreed during the Third Replenishment of the GEF. It is the resolve of Germany to contribute constructively to the establishment of such a system.

Performance is an important and valid criteria for allocating resources and should therefore be applied in an adequate manner.

I. At the same time it has to be taken into account that the GEF is the **financial mechanism** of two of the **Conventions** (UNFCCC and CBD) and a financial mechanism to others. As a consequence it is crucial that the way this financial entity is operationalized enables it to answer to COP guidance taken by the Parties to these Conventions.

During the Third replenishment of the GEF, participants requested the GEF Secretariat to work with the Council to establish a system for allocating GEF resources with a view towards maximizing the impact on global environmental improvements and promoting sound environmental policies worldwide. Thus the aim of a new allocation system will be, in accordance with the overall goal of GEF as a financial mechanism, **higher global environmental benefits**. An allocation system that addresses this goal has to be based strictly on environmental indicators and on environment related country performance.

1. From this it follows that we have to identify in the first place **environmental indicators** for each of GEF's focal areas that reflect adequately the environmental relevance of proposed projects in each country or region.
 - a) Regarding the proposed indicators on **biodiversity** as outlined in Document GEF/C.23/7 we have the following remarks:
 - GEF as the financial mechanism for CBD implementation has been under the guidance by the member countries. Proposals that could change this principle should be carefully evaluated. The proposed procedure could reduce the access of member countries to financial resources in relation to all aspects of biodiversity (ecosystem-, species-, genetic biodiversity) as guaranteed in the "equal opportunity to access GEF resources" and could violate UN rules by giving preferential treatment to certain countries.
 - In general the indicators "local potential" and "local threat" neutralize each other related to a specific country mutually (high local potential coincides with low local threat and vice versa). Furthermore "local threat" is only one statement about a past situation and does not include future threats.
 - "Regional threat" is a problematic indicator as well. In its definition of different threats at the national level, it is pointed out that they can mainly be explained "as a result of differences in the policies and institutions and circumstances in the countries that share the ecoregion". The inoffensive term "circumstances" hides such powerful factors as population growth and density, migration flows, infrastructure and the like. An aggregated indicator describing the issue of "regional threat" makes only sense in case regional solutions are looked for, i.e. countries sharing the same ecoregion decide a common approach to solve their problems.
 - The indicator referring to "global potential" is based on the assumption that a similar natural resource asset is sufficient to transfer experiences from one region to another even across countries. This assumption is exclusively biological and can-

not be accepted from a development point of view. This indicator would always lead to a certain “bias”.

- The indicator “biodiversity richness” depends heavily on the state of research in a given country. Furthermore, it simply reduces the term biodiversity to species richness that is only one of the components of biodiversity.
 - Therefore the biodiversity indicators reduce the characterization of a country specific situation to the issue of “pristine natural landscapes as a potential” versus “destroyed ecosystems as a threat”. The comprehensive approach of the CBD (conservation, sustainable use, equal sharing of benefits) is thus weakened and neglected.
- b) As to the proposed indicators for **climate change** we would like to point out the following:
- We share the views expressed in para. 54 that measuring CC benefits is not as difficult as weighing biodiversity benefits if one restricts the approach to mitigation of GHG only. However, we have great problems in understanding the general approach taken in selecting what to measure and what to exclude from being considered.
 - The document states (para. 56) that “historical emission levels have the effect of providing larger benefits to larger emitters”. The reasons given in the remaining part of the para. are not convincing and need further explanation. We are aware that the absolute potential to reduce emissions in larger countries are generally higher, but if e.g. the energy efficiency and the fuel resource situation of a country is ignored a very distorted picture of the potential benefits of many countries may evolve.
 - The document states (para. 55) that data of the year 2000 from CAIT of the WIR will be used as indicators for a country’s potential contribution to CC benefits. With all respect to the useful work WIR is publishing in the field of CC, we feel that it would be rather arbitrary to use data of this non-UN organization to determine the CC benefits of a country. To us, it is not clear whether it can be, at all, acceptable to use unofficial data from a country for the purpose of determining its share of GEF support.
 - Moreover the indicators should not be reduced to historical emissions, but have to take into account future developments. Therefore reliable data for emission prognoses should be identified.
2. **Country performance** as a whole might have its place within this framework, as some criteria are relevant to the possibilities of allocating resources for environment as well (e.g. civil wars). A prerogative for country performance allocation criteria is that they are **environmental-related**, because the GEF as an institution has its mandate only in the field of environment. Other factors than those thus cannot be part of the allocation system.

The GEF is explicitly a fond for the advancement of *global* environmental values from which all countries will benefit at last. To implement a GEF funded project according to *national* indicators would undermine the unique global character of the GEF. To forsake a project just because the host country is a bad economic or political performer could finally affect the whole mankind in a negative manner.

Taking into account that GEF is always only financing the incremental costs of any project, the “rest” of the project has to go through an IA’s/EA’s screening process in

any case. Germany doubts whether there should be two different allocation systems within the GEF.

To avoid a duplication of work existing indicators should be used. For example elements of the indicators that form the basis of IFAD or IDA could be taken into account.

Advantages of adopting an already existent Performance Based Allocation System (PBAS) would be on the one hand the diminution of bureaucratic investments of the GEF and on the other hand a consolidated coherence between different donors.

Turning to one of the existent systems outlined in the GEF document, the following problems might arise:

- The Country Policy and Institutional Assessment (CPIA) of IDA includes at present just the 80 IDA countries. Nearly $\frac{3}{4}$ of GEF funding is provided to non-IDA countries, though. Moreover the data of IDA are not public available.
- With respect to the uniqueness of the GEF it will be difficult to transfer other PBAS to the GEF. For example the indicators (rural) population size and per capita income, on which IDA and IFAD are based upon are only partly eligible for the GEF. While there exists a certain correlation between population size and environmental damage (e.g. deforestation), it is difficult to define the exact correlation between per capita income and environmental pollution.

Germany refers to the Council decision of November 2003 and would like to stress again that the utilized indicators should be simple, transparent, easily to survey and environmental driven. Moreover there are only a very few factors where a negative weighing in an overall allocation system makes sense (e.g. war). In most of the cases the absence of certain indicators should lead to projects that address the existing deficiencies for the benefit of the environment instead of leading to the ineligibility of a country. Capacity building has been decided during the Third Replenishment of the GEF to be "essential to achieving results and improving performance at the country level". Therefore it should play an important role within a new allocation system.

II. Apart from the composition of the system, the way of its **application** is critical. Document GEF/C.23/7 that was presented to the last GEF Council meeting in May 2004 suggests an ex-ante allocation system that divides resources from the beginning to countries or regions.

Germany does **not agree** with an **ex-ante system** to countries in which budgets will be fixed for each country according to their country performance. Arguments against an ex-ante allocation system are the following:

To classify the GEF partner countries ex ante into good and bad performers

- **might paralyze competition between different project applications:** once governments know that they will have a certain budget for projects for sure, they maybe will reduce their efforts in creating perfected project applications. Consequently the quality of projects might decline.
- **might create huge bureaucratic investments:** this would be contradictory to the criteria of transparency, cost-efficiency and simplicity, which the council decided to be the parameters for such an allocation system.

- **might be inflexible:** since many of the young economies and democracies in developing countries are quite vulnerable for crises (like civil wars) either, or they face quick positive developments, the countries allocation must be revised by GEF regularly.

The Ex-Ante categorization of countries is a task which is technically and politically too difficult and risky for the GEF. As to the application of a PBAS Germany would prefer as an alternative a system similar to the “**Screening Framework Employing Country Performance and Country Global Environmental Potential**” as suggested in Document GEF/C.22/11 (para. 54) presented to the November Council 2003. This proposals foresees the employment of the screening system when projects are proposed for concept review stage of the GEF project cycle before entering the project pipeline. This approach allows a flexible mechanism that stays in principle open to Convention guidelines on the one hand and to competition of projects on the other hand. Thus, Germany recommends very strongly to further work on this approach for the employment of the PBAS.

Germany, therefore, cannot agree to the system suggested in Doc. GEF/C.23/7. As there has not been much time for creating our own position concerning the design of a possible Performance Based Allocation System, we reserve us the right to send a more detailed statement to the GEF Secretariat before September.