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Conference Room Paper

**ADDITIONAL ISSUES FOR OPERATIONALIZING THE GEF
RESOURCE ALLOCATION FRAMEWORK**

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1. Before the GEF Resource Allocation Framework can be operational, there are several issues that require Council discussion and guidance. These are:

The option to be used

2. Three options have been proposed for allocating resources in the climate change and biodiversity focal areas: Country Allocation Model, Country/Group Allocation Model and the Rules-based Allocation Model.

3. The Council needs to indicate a preference for one of these models for its further development by the Secretariat or propose an alternative. The Secretariat has indicated that the Country/Group Allocation Model offers a sound basis for developing a GEF Resource Allocation Framework. The historical allocations of the GEF are best represented by weights of 0.8 for potential environmental benefits and 1.0 for country performance for both the biodiversity and climate change focal areas. These weights can be modified if the Council chooses.

Resource Allocation Framework Cycle

4. An operational RAF has to define what it means to allocate resources, the resources that are to be allocated and the period over which the resources will be allocated. Given the significant time spans of the replenishment cycle and the project cycle, the Secretariat proposes:

- (a) The adoption of a single cycle of allocations covering each replenishment period of four fiscal years, henceforth, referred to as the allocation period.
- (b) Despite the reality of arrears in previous GEF replenishments, the gross amount to be allocated under the RAF will be the amount agreed in the replenishment agreement less the set asides as agreed to by Council (see section of set asides).
- (c) The indicative allocations to countries/groups of countries will remain fixed for the duration of the allocation period based on the Potential Environmental Benefits and Country Performance Indicators at the outset of the allocation period. All of the indicators and the indicative allocations will be updated for each subsequent allocation period.
- (d) Unused allocations will not be carried forward to the next allocation period.
- (e) Allocations will be deemed to be utilized when: (i) full sized-projects are included in the work program, (ii) the CEO approves medium-sized projects, project development facilities Bs and Cs; and (iii) the Implementing Agencies approve project development facility As. The amounts utilized are the GEF funded amounts in the case of Full and Medium sized projects and the respective PDF portions only for the PDFs.

Set asides from the Resource Allocation Framework

5. The Seminar paper already refers to the need to set aside some of the gross resources available in the climate change and biodiversity focal areas based on specific operational realities of the GEF. Resources set aside will not be part of the Resource Allocation framework. In the Seminar paper, the Secretariat had proposed set asides for the small grants initiative, global projects and regional projects. In addition, the Secretariat also proposes setting aside funds outside of the RAF for capacity building activities that cut across focal areas.

6. Based on historical allocations, the Secretariat proposes setting aside 10% of the total replenishment amount for the small grants and cross-capacity building activities and 12% of the funds allocated to the biodiversity and climate change focal areas respectively for global and regional projects. These set asides will leave more than half of the total GEF resources for allocation within the RAF for biodiversity and climate change projects. The remaining quarter of the resources will be allocated outside of the resource allocation framework to the other focal areas of the GEF.

Cross Cutting Capacity Building

7. The GEF has historically funded cross-cutting capacity building activities that cut across focal areas. The third replenishment agreement provisioned \$200 million for such activities.

Small Grants

8. The Small Grants program is an established corporate program of the GEF that is administered by UNDP that directly supports NGOs and community based organization to address global environmental programs under any of the focal areas supported by GEF. Currently, the Council replenishes the funds for this program on a biannual basis. The UNDP disburses these funds in conjunction with national partners in amounts averaging \$20,000. The third replenishment agreement set aside approximately 5% of the total resources for the small grants program.

Global Projects

9. The GEF has historically supported global projects such as global ecosystems and science & technology assessments that are not focused on individual countries or groups of countries but provide benefits to the global community of nations. Historically, approximately 3% of biodiversity allocations and 8% of climate change allocations of GEF funds have been made to global projects. The higher share of global climate change projects is partially offset by a decreased share of regional climate change projects.

Regional Projects

10. The GEF has historically supported regional projects brought forth by groups of countries (for instance to protect a commonly shared biodiversity rich area). Regional

projects have also historically facilitated participation of territories in GEF activities (see issue 5 eligibility).¹

11. While countries can jointly fund projects through their respective allocations under the RAF, the Secretariat proposes setting aside some resources for regional projects where: (i) projects entail many countries leading to costly negotiations; and (ii) joint projects are critical to obtain global environmental benefits but agreement among concerned countries are unlikely due to divergent local priorities.

12. Historically, approximately 15% of biodiversity allocations and 4% of climate change allocations of GEF funds have been made to regional projects. The higher share of regional biodiversity projects is partially offset by a decreased share of regional biodiversity projects. The number of countries in regional projects has varied from two to more than 10. Regional projects with four or fewer countries have accounted for about half of the allocations to regional projects. Some of the projects with few countries involve projects in Territories.

Ceilings

13. The Secretariat has proposed in the paper the inclusion of two types of ceilings to prevent the concentration of allocations to specific countries: (i) Ceilings on the share of total resources in a focal area that can be allocated to an individual country; and (ii) ceilings on the total amount of resources that can be allocated to an individual country placed within a group.

14. Indicative allocations in Biodiversity are distributed more evenly across countries than in climate change. Country ceilings of approximately 7% for biodiversity and 20% for climate change will start to be impact indicative country allocations in at least some of the scenarios examined for the simulations. The Council will need to provide guidance on whether to have a ceiling for individual country allocations and if so at what level.

15. When allocating to groups of countries, the Secretariat has proposed the inclusion of a ceiling for countries within each group. The Secretariat proposes using the higher indicative allocation cutoff point for each group (\$10 million for countries in the \$5-\$10 million group and \$5 million for the less than \$5 million group).² The ceiling (i) prevents any single country from utilizing a disproportionate share of the resources allocated to the group (ii) ensures that countries in a group have the possibility, but not the guarantee, of obtaining the indicative allocations they would have been eligible for had they received individual allocations and (iii) ensures that no country within a group will receive more

¹ Since territories are often not parties to the conventions, projects in the Territories historically have been funded through regional projects that include neighboring eligible countries. Only a small fraction of the total allocated GEF resources have been allocated to territories for these purposes in the past, so the continuation of this practice, which the Secretariat recommends, will not alter the allocations of most countries.

² In the Seminar paper, the Secretariat had proposed a ceiling tied to the average allocation of the group. The current proposal is simpler and more transparent.

resources than any of the countries that utilize their allocations and are either in a higher allocation group or are receiving individual country allocations.

Floors

16. The GEF has historically funded enabling activities of countries as required by the conventions. Enabling activity needs have varied over time based on Convention guidance. The third replenishment agreement provided \$52 million for enabling activities in the biodiversity and climate change focal areas. The Secretariat proposes guaranteeing sufficient resources for all countries to meet the convention related enabling activities within the RAF. Countries that are willing to fund enabling activities from their own resources will be free to use all of their indicative allocations on regular projects.³

Country Eligibility

17. Historically, country eligibility has been decided in the context of specific project submissions on a case by case basis. Under the RAF, country eligibility has to be clarified upfront since the number of eligible countries and their ranking can have significant impact on the indicative allocations of all countries. The simulations presented in the Seminar paper represent the best understanding of the Secretariat regarding country eligibility. The Secretariat requests the Council to seek clarification from the Convention Secretariats regarding the eligibility issue. Given the difficulties associated with the eligibility issue and the potential delays in resolving it, the Secretariat is proposing interim criterion pending a final resolution based on historical allocations supplemented by accommodations for new entrants. Prior to discussing the proposed interim measure, it is useful to discuss the current eligibility.

18. Under the GEF instrument, countries are eligible for GEF funding in a focal area if: (i) they meet eligibility criteria established by the relevant Conference of Parties for the focal area; or (ii) they are members of the conventions and are countries eligible to borrow from the World Bank or eligible for technical assistance from the UNDP.

19. These eligibility guidelines do not provide the needed clarity for uniquely determining the eligibility of specific countries. For instance, while Convention on Biodiversity considers developing country parties eligible for GEF funding, it does not provide a list of developing countries. Similarly, under the UNFCCC guidelines non annex1 parties to the Convention on Climate Change independent of their income level are eligible for funding.

20. In addition, the Council needs to clarify the appropriate treatment of EU accession countries. A number of economies in transition have gained or will have gained accession to the EU by the time GEF4 funds will be distributed. The change in the eligibility of accession countries can have a significant impact on the allocations of all countries especially in the climate change focal area. Council guidance is needed on the

³ Countries will also be able to obtain additional resources under the small grants program and for cross-cutting capacity building needs outside of the RAF (see issue 4).

inclusion or exclusion of EU accession countries when determining allocations of GEF4 resources.

21. Given the difficulties associated with the eligibility issue and the potential delays in resolving it, the Secretariat proposes using the following interim criteria pending a final resolution.

- (a) All countries that have historically received any GEF funding under any of the focal areas will be included in the RAF allocation process, if they are party to the appropriate convention. Countries that are not included by these criteria will not be included when determining the indicative allocations of countries.
- (b) Treatment of Newly Eligible Countries: Newly eligible countries do not have any indicative allocations under any of the options presented. Under either of the options that contain groups, these countries can be included into one of the groups without the need to readjust the allocations of other countries. The Secretariat proposes that the resources allocated to each group be increased by 1% of the resources available for allocation in each focal area to accommodate the inclusion of new countries and or territories.

Data/Indicators Improvement

22. The secretariat is revising and updating the indicators used to measure Potential Benefits and Country Performance Scores. The Secretariat expects to update these indicators and present for Council review at the outset of each allocation period. As part of this effort, the Secretariat expects to utilize the newly available and updated Indicators for performance from the World Bank for use in the initial allocations to be done for the set of RAF allocations. In addition, the Secretariat will include new indicators for marine and freshwater ecosystems and additional indicators of species richness, as they become available.