



Global Environment Facility

February 22, 2005

Consultations on the Resource Allocation Framework
March 2, 2005
Paris, France

DISCUSSION NOTE ON THE RESOURCE ALLOCATION FRAMEWORK

PURPOSE

1. This note is intended to support the first two agenda items for our discussion of the RAF in Paris on March 2:

- (a) Review of Three Motions, and
- (b) Performance Indicators and Public Disclosure

REVIEW OF THE THREE MOTIONS

2. At the last GEF Council Meeting (November 17-19, 2004) three motions with respect to the future evolution of the RAF were tabled. The motions referred to as Motion A, Motion B, and Motion C are attached as Annex 1 of this note.

3. The three motions have several points in common:

- (a) Agreement to begin implementation of the screening approach with the first work program immediately following a decision;
- (b) The discussion of OPS3 as a pre-condition to moving forward;
- (c) Determination of [environmental] data and indicators to assess the needs and the capacity/performance of recipient countries; and
- (d) The importance of data and indicators that can be publicly disclosed.

4. Motions A and B refer to arrears clearance as a pre-condition: the former to GEF3 arrears, the latter to both GEF2 and GEF3 arrears.

5. A review of the three motions reveals three key structural differences among them. These differences relate to:

- (a) the “trigger” which moves the RAF from the screening phase to the next phase;
- (b) the “content” of the country performance indicator, and the link between this content issue and public disclosure; and
- (c) the amount of RAF resources, in percentage terms, which is allocated to individual countries and to groups (on the assumption that after the screening phase, the RAF evolves to the “individual country and group allocation” model set out in the paper to Council last November).

6. These three issues are described in more detail below. The intention of the following sections is to highlight the substance underlying each of these issues so as to promote a discussion among Council Members that may lead to a consensus decision on the RAF.

Issue I. The “trigger” which moves the RAF from the screening phase to the next phase

7. Motions A and C are in agreement that “before the end of negotiations of the fourth GEF replenishment, the framework will evolve to a country and group allocation” model.

8. Motion B states that at the point in time referred to above (i.e., before the end of negotiations on the fourth replenishment), “the framework will evolve” but it does not set out the nature of that evolution and also suggests a role for guidance from the GEF Assembly, the timing of which has yet to be determined.

Issue II. The “content” of the country performance indicator, and the link between this content issue and public disclosure

9. The essence of these issues is reflected only partially in the motions, although earlier discussions within the Council have made the issues relatively clear.

10. The ‘content’ issue addresses the components that should comprise a country performance index. Previous papers to Council have set out three possible components:

- (a) a project portfolio component;
- (b) an “environment policy/sector” component; and
- (c) a “macro policy/governance” component.

11. This section of the note proposes a new approach to a GEF Performance Index. In so doing, attention must be drawn to the additional complexity that, based on discussions now under way with the World Bank, there may be a link between the resolution of the ‘content’ issue and public disclosure.

12. It is proposed that a GEF Country Performance Index be established with the following two sub-indices or components:

- (a) a project portfolio sub-index (PPI); and
- (b) a new sub index, “Enabling Environment for GEF Project Success” (EEI).

13. The details of this new GEF specific sub-index are set out in Annex 2. The sub-index itself could be built upon *up to* eleven questions.

14. Based on preliminary discussions with World Bank staff, it is expected that a publicly disclosable GEF index built on data derived from the World Bank’s Country Policy and Institutional Assessment (CPIA) for questions 1 through 8 may be possible. Public disclosure of an index based on data derived from the CPIA for questions 1 through 11 may, however, be more problematic. Discussions with the Bank on this issue are on-going. The Secretariat should be in a better position at the meeting in Paris to offer a clearer view on this matter.

15. Independent of the World Bank's position on disclosure of a GEF index based on data derived from the CPIA, GEF Council Members are invited to express their views on the eleven questions proposed as a basis for the "Enabling Environment" index, and on the weights which should be attached to each.

16. This issue is of paramount importance to reaching a consensus, and it is hoped that the Paris meetings will provide an opportunity to make progress on this issue.

Issue III. The amount of RAF resources, in percentage terms, which are allocated to individual countries and groups.

17. On the assumption that agreement can be reached on an appropriate trigger to proceed to Phase 2 of the RAF, the 'country and group allocation' phase, there still remains an important issue to be agreed upon: the amount (in percentage terms) of resources to be allocated to individual countries and the amount to be allocated to groups of countries.

18. In the paper presented to Council last November, individual countries received allocations when the country allocation exceeded \$10 million. Countries with initially calculated allocations below \$10 million were clustered into 3 groups (countries with initially calculated allocations between \$1-3 million; \$3-6 million; and \$6-10 million). The result of this approach was that for biodiversity, about 48% of resources was allocated to twenty individual countries, while for climate change about 62% of resources was allocated to eighteen individual countries.

19. Motion C proposes that "at least 75% of resources available for the biodiversity and climate change focal areas be allocated to individual countries."

20. This is an important issue for Council to resolve. The GEF Secretariat and Implementing Agencies note that a 75% requirement is likely to lead to some operating difficulties and inefficiencies.

CONCLUSION

21. There is some degree of commonality in the three RAF motions before the Council. There are three structural issues on which further discussion is necessary if consensus is to emerge by the June 2005 Council meeting: the "trigger" issue; the country performance/public disclosure issue; and the individual country percentage allocation issue. The meetings in Paris are intended to provide the time, space, and convivial atmosphere in which to make progress.

Annex I

Draft decision/motion for discussion presented by Council Members (A)

Based on Policy Recommendations of the third replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting Council decisions at the May 2003, November 2003, May 2004 meetings;

Based on assessments of country potential to generate global environmental benefits and assessments of country level performance.

The Council, having reviewed document GEF/C.24/8, *Resource Allocation Framework*, agrees to implementing a resource allocation framework as described in the document, with the following understandings:

- (a) To begin implementation of the screening approach with the first work program immediately following this decision/vote; and
- (b) Provided that the issues of arrears of GEF III have been settled, and at the latest before the end of negotiations of the fourth GEF Replenishment, the framework will evolve to a country and group allocation as soon as OPS-3 has been discussed by the Council and the data and indicators necessary to assess the needs and the capacity/performance of recipient countries have been determined. Only data and indicators which are publicly disclosed will be judged appropriate.

Any further development of the approach is subject to a decision by Council following a review of the experience in implementing the agreed approach described above.

Draft decision/motion for discussion presented by Council Members (B)

Based on the Policy Recommendations of the Third Replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting the Council decisions at the May 2003, November 2003, May 2004 meetings;

The Council, having reviewed document GEF/C.24/8, Resource Allocation Framework, agrees to start implementing a resource allocation framework with the following understandings:

- (a) To begin implementation of the screening approach with the first work program immediately following this decision/vote. Any further development of the approach is subject to a decision by the Council following a review of the experience in implementing the agreed approach described above.
- (b) Provided that the issues of arrears of GEF 2 and 3 have been settled, and at the latest before the end of negotiations of the fourth GEF Replenishment, the framework will evolve as soon as OPS3 has been discussed by the Council and the environmental data and indicators necessary to assess the needs and the capacity/performance of recipient countries have been determined. Only data and indicators which are publicly disclosed will be judged appropriate.
- (c) Further guidance on the RAF shall be provided by the next GEF Assembly.

Draft decision/motion for discussion presented by Council Members (C)

Based on Policy Recommendations of the third replenishment;

Consistent with the GEF Instrument and conventions;

Reflecting Council decisions at the May 2003, November 2003, May 2004 meetings;

Based on assessments of country potential to generate global environmental benefits and assessments of country level performance.

The Council, having reviewed document GEF/C.24/8 *Resource Allocation Framework*, agrees to implement a resource allocation framework as described in the document with the following understandings and with the adjustments noted in the paragraph (b) below:

- (a) To begin implementation of the screening approach with the first work program immediately following this decision/vote;
- (b) Before the end of the negotiations of the fourth GEF Replenishment and after discussions of OPS-3 by the Council, the framework will evolve to a country and group allocation framework. This framework will have the following minimum conditions:
 1. at least 75 percent of resources available for the biodiversity and climate change focal areas will be allocated to individual countries based on a country's potential to generate environmental benefits in the focal area and country performance;
 2. the environmental benefits rating will be drawn from the best available public sources;
 3. the country performance rating will include indicators of policy and institutional performance in the environmental sector, project portfolio performance, macro-economic performance and governance;
 4. the portfolio performance indicator will be drawn from the GEF Country Portfolio Performance and from the environmental sector projects in the World Bank OED Project Portfolio;

5. all indicators will be drawn from sources that will eventually be publicly disclosed and may be amended as new and better sources of information become available;
6. a formula for calculating allocations, with weighting between environmental benefits and country performance as proposed in the base case in Document GEF/C.24/8;
7. other operational features such as the list of eligible countries, carry-overs, floors and ceilings, set asides will be specified.

Any further development of the approach is subject to a decision by Council following a review of the experience in implementing the agreed approach described above.

Annex II

GEF Performance Index (GPI)

1. For purposes of the Resource Allocation Framework, it is proposed that a GEF specific index, the GEF Performance Index (GPI), be developed to measure a country's potential to successfully implement a GEF-financed project. The index would be built from two components: (i) an index of the enabling environment for GEF project success (EEI) (weighted 80%) and; (ii) an index based on a review of past portfolio performance (PPI) (weighted 20%). It is also proposed that the GPI and its two component indices, EEI and PPI, be publicly disclosed. It is further proposed that the individual component scores for each country be disclosed only to the country concerned upon request.

Enabling Environment for GEF Project Success (EEI)

2. The index of the enabling environment for GEF project success could be built upon up to eleven separate indices. While the scores for the eleven indices would be derived by utilizing data from the World Bank CPIA, the aggregate index would be developed to suit the unique mandate and priorities of the GEF. The table below lists the proposed indices.

Index
1. Adequacy of environmental prioritization
2. Cross-sectoral coordination for environmental management
3. Quality and effectiveness of environmental assessment system
4. Environmental public information and participation
5. Effectiveness of policy, implementation, and enforcement for ecosystem and biodiversity management
6. Effectiveness of policy, implementation, and enforcement for freshwater resources
7. Effectiveness of policy, implementation, and enforcement for marine & coastal resources
8. Effectiveness of policy, implementation, and enforcement for air pollution
9. Quality of public administration
10. Quality of budgetary and financial management
11. Transparency, accountability and corruption in public sector

GEF Index of Country's Portfolio Performance (PPI)

3. The past portfolio performance would be built from two indices consisting of a review of the current portfolio of GEF projects and a review of the completed World Bank environment related projects.

Index
1. GEF portfolio
2. WB OED for environment related projects