May 23, 2005

GEF RESOURCE ALLOCATION FRAMEWORK

OPERATIONALIZATION

Background

1. During Council consultations held in Paris in March 2005, Council Members asked for further clarification on a series of technical issues related to the Resource Allocation Framework to facilitate their internal consultations prior to the June Council Meeting. This is the sixth note in the series. It focuses on the key issues in operationalizing the RAF.

2. The Secretariat and the three Implementing Agencies (UNDP, UNEP, and the World Bank) have held discussions on several occasions, and note the following issues associated with operationalizing the RAF.

Implementing the Screening Phase

3. All of the motions on the RAF tabled during the November 2004 meeting, propose that the Screening Phase described in GEF/C.24/8 be implemented beginning with the first work program following Council decision on the RAF.[1] Prior to the implementation of the Screening Phase, Council needs to:

(a) Adopt the proposed GEF Benefits Index, GBI, for Biodiversity and Climate Change as described in the fourth and fifth technical notes in this series.

(b) Agree to the specific content and method for determining the GEF Performance Index, GPI, as described in the first technical note in this series.

(c) Agree on a public disclosure policy for the GBI and GPI indicators as described in the second technical note in this series.

(d) Agree to the proposed set of decision rules for categorizing countries into low/high benefit countries and low/high performance countries (see GEF/C.24/8 for details).

(e) Agree on the proposed manner in which resource access will be limited for low benefits countries (see GEF/C.24/8 for details).

[1] The screening phase categorizes countries into high/low benefit countries based on GEF Benefits Index (GBI) and high/low performance countries based on GEF Performance Index (GPI). Separate rules would apply for countries based on their benefits and performance classification.

(f) Agree on whether the resource limits on countries in (e) apply only to the remaining work programs of GEF3 or need to take into account all of projects approved in GEF3.

(g) Agree on a detailed set of ring-fencing rules to be used for projects from low performing countries. These procedures include higher level of scrutiny in the review, approval, and implementation process, including special safeguards and risk management modalities.

(h) Agree on a set of rules for an appeals process that would be applicable when exemptions are sought from the adopted rules. These rules would specify the parties that can appeal, the conditions under which such appeals can be made, and the process to adjudicate such appeals.

4. Throughout its deliberations on the RAF, the Council has vigorously discussed items (b) and (c) related to the contents of the GEF performance index and the associated public disclosure rules. The Screening Phase cannot be implemented until these two issues have been fully resolved. With items (b) and (c) resolved, the earliest that the Council can review and approve a fully specified Screening Phase, including other items listed above, is at the November 2005 Council meeting to be effective for the first work program following that meeting.

5. Should the Council agree to implement a country and group allocation phase beginning in GEF4, the screening phase would be a transitional phase applicable to only two work programs. Given these circumstances, the Council may want to consider by-passing the screening phase altogether. Such a decision would allow the Secretariat and the Agencies to focus on implementing the country and group allocation phase instead of spending time and resources on a framework that would be applicable only for two work programs.

Country-level Programming in the Country and Group Allocation Phase

6. In addition to the project level programming that is currently in place, the RAF will permit, for the first time, GEF-focused country level programming based on a country's allocation amount. The Secretariat and the Implementing Agencies agree that the Implementing/Executing Agencies will continue to be responsible for dialoguing with the eligible countries and programming at the project level in light of the more than a decade long experience and the comparative advantage of the Agencies vis-à-vis the Secretariat in detailed programming. These programming dialogues between the countries and the Agencies will be informed by the resources available to each country under the RAF. To begin with, the Secretariat will chair annual inter-agency business plan preparation meetings to facilitate the coordination of the Agencies' portfolios to ensure consistency with RAF allocations, GEF-4 programming targets, Agency comparative advantage, and portfolio management rules. As experience is gained, these arrangements will be reviewed to specify in detail the roles and responsibilities of the Secretariat and the Implementing/Executing Agencies and the stakeholders in the countries.

Grouping of Countries in the Country and Group Allocation Phase

7. The technical note on thresholds in this series indicated that the threshold-level determines the number of viable country groups in the Country and Group Allocation Phase. The threshold level demarcates which countries receive individual allocations and which countries belong to groups.

8. In the November 2004 document, under the country and group allocation phase, it was recommended that countries with indicative allocations larger than $10 million receive individual allocations. Countries with indicative allocations between $1 million and $10 million are divided into three groups based on their respective indicative allocations (Group I: $6 to $10 million, Group II: $3 to $6 million and Group III: $1 to 3 million). The aggregate indicative allocation for each of the three groups is equal to the sum of the indicative allocations for the countries belonging to each group. In addition, countries with indicative allocations of less than $1 million receive an allocation of $1 million, which is the floor allocation for all countries.

9. Should the threshold-level be reduced to $6 million as modeled in the "thresholds" technical note in this series, it is suggested that there be only one group for all countries below the threshold. This would improve operational flexibility and would enhance the chances that viable projects would be developed in a significant number of countries which belong to the group.

Floors in the Country and Group Allocation Phase

10. In the November 2004 document on the RAF, it was proposed that the RAF contain a floor of $ 1 million under each of the focal areas of biodiversity and climate change. A floor is not a guarantee, but a minimum indicative envelope against which countries will have to submit technically qualified projects to assess GEF resources. Based on their operational experience, the Implementing Agencies have suggested that operational flexibility would be improved if the floors were defined as activity floors rather than dollar-amount floors. For example, the RAF could guarantee all eligible countries the level of resources required to meet the fundamental obligations of the respective conventions, such as regular reporting to the conventions. Such an approach would provide for more realistic programming for small countries in the groups.

11. Another option, suggested by the Implementing Agencies, would be for the $1 million floor to be applied in aggregate to regional groups of countries rather than to individual countries. Such an approach would facilitate dialogue among a group of countries that are regionally organized to come up with a GEF program that contains a combination of regional and country-level projects; this could mitigate the inherent bias in the RAF against regional projects.

Administrative Costs

12. In the November 2004 document on the RAF, some indicative figures were provided for administrative costs for the Secretariat and the Agencies. It is expected that more reliable figures could be provided as the Secretariat and the Agencies work out

more details regarding implementation issues in the months ahead. The actual costs will depend on the actual configuration of the final RAF framework.

13. The Secretariat costs will be associated with developing, maintaining, and updating the RAF framework, including any data-related costs, keeping track of country/group allocations, monitoring the implementation of the RAF, and undertaking adjustments as requested by the Council. For the FY05 and FY06 fiscal years, the Secretariat costs associated with the RAF have been funded through special initiative budget requests. It is anticipated that requests for resources to cover Secretariat costs in subsequent years will be made under the Corporate Budget.

14. The Agencies have indicated that they anticipate the costs of RAF implementation to be associated with the increased costs of coordination at country-level programming, and that this burden would be carried largely by task teams preparing and implementing GEF projects. If this turns out to be the case, the Agencies have suggested that these additional costs be recouped through the project cycle management fees. As operational experience is gained with the RAF, it would be useful to revisit the project fee policy and present it for Council review to make appropriate provisions, if necessary.