

GEF RESOURCE ALLOCATION FRAMEWORK:

EQUATIONS AND WEIGHTS

Background

1. The GEF Council has discussed various documents related to the Resource Allocation Framework (RAF) beginning in 2003. The Council is considering a number of motions related to the RAF that were tabled at its meeting in November 2004. During consultations on the RAF held in Paris in March 2005, several council members sought further clarification on a series of technical issues related to the RAF to facilitate their internal consultations prior to the June Council Meeting. This is the first note in the series. It focuses on equations and weights used in the Resource Allocation Framework.¹
2. Throughout its deliberations, the Council has consistently agreed on the use of the following two assessments as a basis for the Resource Allocation Framework: (i) GEF Benefits Index (GBI) – separately measured for the biodiversity and climate change focal areas; and (ii) GEF Performance Index (GPI). Council members have asked further clarification on the three sets of weights used in the resource allocation framework:
 - (a) Weights on GBI and GPI to determine the allocation score relevant in the Country and Group Allocation model;
 - (b) Weights for the performance sub-indices used to compute GPI; and
 - (c) Weights for the benefits sub-indices used to determine GBI.
3. This paper focuses on the first two sets of weights while the last one is covered in forthcoming papers focusing on the focal area specific GBI.

Weights for GBI and GPI for Determining Allocation Scores

4. In the Country and Group allocation Model, allocations to countries or groups of countries are proportional to their respective allocation scores. In the RAF document discussed at the November 2004 Council meeting (GEF/C.24/8) country allocation scores are determined based on the following equation.

$$\text{Country Allocation Score} = \text{GBI}^{0.8} \times \text{GPI}^{1.0}$$

¹ Glossary of terms

GBI:	GEF Benefits Index for a country, assessed separately for the biodiversity and climate change focal areas.
GPI:	GEF Performance Index for a country, constructed from EEI and PPI:
EEI:	Enabling Environment Index
PPI:	Portfolio Performance Index

5. Countries receive country-specific allocations if their allocations are higher than a threshold amount (see forthcoming paper on thresholds). Countries with country-specific allocations below the threshold are assigned to a group of countries. The group allocation is the sum of the individual country allocations of countries belonging to that group.

6. The weights of 0.8 for GBI and 1.0 for GPI proposed in the paper were determined based on replicating historical allocations to countries.

Weights used to compute the GEF Performance Index (GPI)

7. There is still significant debate among Council members about the indicators that are relevant in computing the GEF Performance Index (GPI). During the Council Consultations held in Paris in March 2005, participants reviewed a proposed set of indicators for determining the GPI (as shown in Table 1). It consists of indicators in assessing a country's past portfolio performance (indicators 12 and 13) and an assessment of a country's policies and institutions. The latter consists of indicators directly relevant to the environment sector (indicators 1 through 8) and those that assessed broad framework of policies and institutions in a country (indicators 9 through 11). While Council Members have consistently agreed on the need to use the portfolio assessment and assessment of policies and institutions directly relevant to the environment sector in their deliberations, there has been a significant discussion on the specific indicators of a country's broad framework of policies and institutions that are relevant and important for the GEF Performance Index.²

8. Cognizant of this Council discussion, a set of weights for the indicators used to construct the GEF Performance Index is proposed in Table 1 based on the following considerations. The GEF Performance Index will guide future decisions on GEF projects; as such, it should provide greater weight to factors relevant to future projects. Indicators in the Portfolio performance Index reflect the relative success of GEF projects in the past. Past performance while providing a good basis for forecasting future performance is not as strong an indicator as a country's current policies and institutions. Given this understanding, portfolio performance is included in GPI with a proposed weight of 20% while current policies and institutions are included with a weight of 80%. These weights are consistent with the portfolio performance weights used in the resource allocation frameworks in place at other international financial institutions.

² The following are some of the alternative indicators (instead of indicators 9 through 11 in table 1) for assessing a country's overall policies and institutions that Council members have suggested.

- i. Use the indicators 9, 10, and 11;
- ii. Use some of the indicators from 9, 10, and 11;
- iii. In addition to indicators 9,10, and 11, use the 2 remaining indicators for "Public Sector Management & Institutions" in CPIA
 - Property Rights and Rule-based Governance
 - Efficiency of Resource Mobilization
- iv. Use the aggregate CPIA rating instead of indicators 9, 10, and 11.

9. Given the consensus in the Council on the relevance and importance of environment sector specific policy and institutions and the ongoing discussions on the content, relevance and importance of broad framework indicators of policies and institutions, 60% of the weight is proposed for the Environment specific indicators, and subject to agreement on their inclusion in some form, 20% for the broad framework indicators.

10. Among the environment sector-specific indicators, indicators 1 through 4 cover broad aspects of the environment, while 5 through 8 assess specific sub-sectors of the environment. The first four indicators should be weighed higher to reflect their wider applicability to all areas of the environment. The distribution of the weights across the indicators of broad framework can be done as appropriate once Council has determined the relevance and importance of each of these indicators.

Table 1. Indicators proposed to construct the GEF Performance Index*

Indicator	Proposed Weight (%)
Environmental Environment Index (EEI)	
<i>Indicators of Environment Sector specific Policies & Institutions</i>	
1. Adequacy of Environmental Prioritization	10
2. Cross-sectoral Coordination for Environmental Management	10
3. Quality and Effectiveness of Environmental Assessment System	10
4. Environmental Public Information and Participation	10
5. Policy, Implementation, and Enforcement: Ecosystem and biodiversity Management	5
6. Policy, Implementation, and Enforcement: Freshwater Resources	5
7. Policy, Implementation, and Enforcement Marine & Coastal Resources	5
8. Policy, Implementation, and Enforcement: Air Pollution	5
Subtotal	60
<i>Indicators of Broad Framework of Governance, Policies and Institutions</i>	
9. Quality of Public Administration	
10. Quality of Budgetary and Financial Management	
11. Transparency, Accountability, and Corruption in Public Sector	
Subtotal	20
Portfolio Performance Index (PPI)	
12. GEF PIR ratings of portfolio	10
13. World Bank OED ratings of Environment related projects	10
Subtotal	20
TOTAL	100

* The 11 indicators used to determine a country's Enabling Environment Index, is derived from the World Bank's CPIA which consist of an assessment of a country's policies and institutions in 16 areas. These include an assessment of Policies and Institutions for Environmental Sustainability and 5 additional areas under "Public Sector Management" in public is one of these 16 areas. Indicators 9 through 11 above of the GEF EEI index above are 3 of the 16 areas under "Public Sector Management". Indicators 1 through 8 are derived from components of the assessment of Policies and Institutions for Environmental Sustainability. The World Bank constructs this index based on an assessment of 10 specific aspects of the environment sector. Eight of these indicators that are relevant for the GEF are used as indicators 1 through 8 above.