



# Global Environment Facility

April 9, 2009

---

## REALLOCATION OF REMAINING GEF-4 RESOURCES

## Executive Summary

1. The agreement on the fourth replenishment of the GEF Trust Fund, endorsed by the GEF Council in August 2006, included a target total allocation for GEF-4 of \$3.13 billion based on donor pledging of new resources, projected investment income to be earned during the GEF-4 period, as well as carry-over of funding comprising arrears, deferred contributions, and available funding from previous replenishments. The new resources were pledged in various currencies and were to be converted to US dollars at the exchange rates available at the time of receipt in cash.

2. The recent global economic crisis and the high volatility of currency exchange rate movements have led to significant shifts from month to month over the last year in the projected value of total GEF-4 programmable resources. Further, there is no certainty on when the financial markets may stabilize. Therefore, given the current uncertainty and volatility in the financial markets, including the direction of exchange rate movements against the US dollar, as well as the uncertainty on the timing of donor contribution payments, the GEF Secretariat and the Trustee discussed and agreed on a conservative methodology for projecting the programmable resources for the remaining months of the GEF-4 period.

3. The current projection of available programmable resources between April 1, 2009 and June 2010 is \$1.0 billion. This amount takes into account the uncertainty regarding future exchange rates as well as uncertainty in the timing of donor contribution payments. Taking into account the funding decisions of \$1.9 billion taken to date, the total projected GEF-4 envelope amounts to \$2.9 billion. A sensitivity analysis of the future exchange rate variability confirms that the estimates are cautiously optimistic. As these estimates will change over time, overall GEF-4 resources will be undertaken periodically and allocations may be adjusted, as necessary.

4. The remaining amount within each focal area that would be available for programming under the current conservatively projected target amount for GEF-4 is shown in the last column of Table 1. Going forward, there has to be a re-balancing of programming between the different focal areas to ensure that target focal area shares are achieved, to the extent possible, by the conclusion of GEF4.

5. It is proposed that any project concept for biodiversity and climate change from countries with individual RAF allocations be processed and cleared up to the country allocation levels as of July 2008, until the overall cap for the focal area, as indicated in the attached table, is reached. If the financial situation improves, this cap may be adjusted upwards as we approach the end of GEF-4, allowing additional room for programming.

6. Project concepts from group allocation countries will also be processed until the limit of available funds, with priority given to concepts that belong to programmatic approaches approved by the Council.

7. Council is being asked to approve reallocation of funds from the Corporate GEF Programmes, the ODS focal area, and the Capacity Building budgets for a total of \$ 37 million to support the Poznan Technology Transfer Program, the Mediterranean Program and the Development Marketplace Program.

**DRAFT Recommended Council Decision**

The Council, having reviewed by mail the document, *Reallocation of Remaining GEF-4 Resources*, agrees with the principles for allocating the remaining GEF-4 resources outlined in the paper. The Council mandates the Secretariat to implement the allocation of the remaining GEF-4 resources in accordance with these principles, and in collaboration with the Trustee, to undertake periodic reviews of the projected available resources and to adjust the allocations as needed.

## Table of Content

<b>Executive Summary .....</b>	<b>i</b>
<b>Background .....</b>	<b>1</b>
<b>RAF Mid-term Allocation .....</b>	<b>1</b>
<b>Current Status of GEF Trust Fund.....</b>	<b>2</b>
<b>Principles for Allocating the Remaining GEF-4 Resources .....</b>	<b>3</b>
Reallocation of Uncommitted Envelopes .....	4
Programming in the Focal Areas.....	4
Funding for National Communications.....	5
Requested Council Decision .....	5
<b>Tables</b>	
Table 1: GEF-4 Resources Utilization and Reallocation as of March 31, 2009 .....	6
Table 2: Proposed budget adjustments to meet programming needs in GEF-4, as of March 31 <sup>st</sup> 2009.....	7

## **Background**

1. The agreement on the Fourth Replenishment of the GEF Trust Fund, endorsed by the GEF Council in August 2006, included a target total allocation for GEF-4 of \$3.13 billion based on donor pledging of new resources, projected investment income to be earned during the GEF-4 period, as well as carry-over of funding comprising arrears, deferred contributions, and available funding from previous replenishments. The new resources were pledged in various currencies and were to be converted to US dollars at the exchange rates available at the time of receipt in cash.

2. Donor Participants agreed that an amount of up to \$120 million was to be used to fund the GEF corporate budget and special initiatives. The remaining resources, \$3.015 billion, was divided among the focal areas according to a set of agreed shares from the replenishment agreement for GEF 4, as follows: (Biodiversity (BD) 33%, Climate Change (CC) 33%, International Waters (IW) 12%, Land Degradation (LD) 10%, Persistent Organic Pollutants (POPs) 10 %, Ozone Depleting Substance (ODS) 1%, and Corporate Programs (1%).

3. The total actual replenishment resources and thus the resulting allocations in each focal area, would, however, always be subject to actual contribution payments made by donors (including arrears), release of deferred contributions, changes in currency exchange rates against the US dollar on donors' contributions, investment income realized, and project cancellations.

4. As part of the GEF-4 replenishment agreement, a Resource Allocation Framework (RAF) was introduced for the Biodiversity and Climate Change focal areas, leading to 75% of the GEF-4 resources in each of these two focal areas being allocated to selected individual countries according to a country scoring algorithm based on a combination of RAF indicators; 15% of the resources would be allocated as a 'group allocation' to the remaining countries, and 5 % of the resources would be set aside for global and regional projects and further 5 % for global programs such as the Small Grants Program. Minimum and maximum allocations were decided for countries in the group allocation. It was also decided that the individual country allocations would be recalculated at the mid-term of GEF-4 on the basis of updated indicators.

5. It was furthermore agreed that the GEF Small Grants Program (SGP) and enabling activities for capacity building in GEF-4 would be funded by agreed contributions from the allocations to the focal areas.<sup>1</sup>

6. In July 2007, direct access to GEF funding was expanded from the three Implementing Agencies to include the seven Executing Agencies and the corporate budget for the Agencies was replaced by an increase of the agency fee from 9% to 10%. Consequently, the amount originally targeted for corporate budgets and special initiatives was reduced from \$120 million to \$93 million.

## **RAF Mid-term Allocation**

7. By the mid-point of GEF-4, the US Dollar had depreciated relative to its value in 2006. In consideration of this movement and a projected increase in investment income at the time, the Trustee projected that the total value of the replenishment target for GEF-4 increased from \$ eq.3.1 billion to \$ eq.3.3 billion. At the mid-term reallocation of the RAF, country

---

<sup>1</sup> *Summary of Negotiations on the Fourth Replenishment of the GEF Trust Fund* (GEF/C.29/3), p. 15, footnote 7.

allocations under the RAF were recalculated by the GEF Secretariat using this projected increase in the target amount and on the basis of updated RAF indicators. The results were conveyed to Council on July 31, 2008.

8. In June 2008, Council also approved a set of rules guiding the RAF allocations to countries under the 'Group.'<sup>2</sup> According to these rules, any guarantee of a minimum allocation for a group allocation country under the RAF was to be suspended as of January 2009. The paper also stated that technically qualified PIFs that fit within a programmatic approach for biodiversity or climate change that has been approved by the Council will be entered into the first available work programs, once they are cleared by the Secretariat, provided that they are cleared by September 1, 2009.

9. At the time of the Council meeting in November 2008, it was anticipated that some countries with individual RAF allocations might not be able to fully program and utilize their allocations in GEF-4, and the question of how to reallocate unused funds under the RAF emerged against a background of relative optimism about the state of GEF 4 resources.

### **Current Status of GEF Trust Fund**

10. The Trustee periodically updates the projected value of the total expected resources in the Trust Fund. The events that trigger the changes in the projected value of the resources are the following: exchange rate movements, actual donor contribution payments including promissory note encashment, deposit of Instruments of Commitment, actual arrears clearance and the corresponding release of deferred contributions, as well as actual investment earned. The recent developments in the global financial markets during the last year, along with the volatility in exchange rate movements created significant shifts in the projected value of the total potential GEF-4 resources over the last year: \$ eq. 3.1 billion in December 2008; \$ eq. 3.0 billion as of March 31, 2009.

11. However, in view of the continuing uncertainty in the global financial markets, exchange rate movements, as well as actual timing of donor payments, the GEF Secretariat will use a more conservative estimate for total potential GEF-4 resources: \$ eq. 2.911 billion, taking into account the undeposited Instruments of Commitment (\$121 million). A reserve of \$ 40 million has been set aside as a buffer for future exchange rate fluctuations.

12. The Secretariat will keep these figures under review, based on Trustee's periodic reports to Council and the Secretariat, and will consider further reallocation if necessary. To assist in buffering the ever changing situation, the Secretariat will review the stock of projects approved by Council prior to GEF-4 that have not met the target deadline for reaching endorsement. If any such projects so warrant, the Secretariat will work with the relevant Agency to cancel the project. This will release additional resources that can be used. The Secretariat will further make adjustments should the un-deposited Instruments of Commitment and corresponding contribution payments be received by the Trustee. The uncertainty related to exchange rates, and thereby the needed buffer, will also diminish towards zero as we approach the end of GEF-4, and this buffer will then be released for use.

---

<sup>2</sup> See paper: [http://www.thegef.org/uploadedFiles/Policies/Resource\\_Allocation\\_Framework/GEF-4\\_Indicative\\_Allocations/Rules%20for%20Group%20allocation%20countries%20from%202007.31.08.pdf](http://www.thegef.org/uploadedFiles/Policies/Resource_Allocation_Framework/GEF-4_Indicative_Allocations/Rules%20for%20Group%20allocation%20countries%20from%202007.31.08.pdf)

13. The reduction from the high point of \$ eq. 3.3 billion as of the mid-term reallocation figures in July 2008, down to \$ eq. 2.9 billion represents a reduction of around \$400 million or around 12 % from the mid-term reallocation figure.

14. Allocations under the Resource Allocation Framework, whether individual country allocations or group allocations, are not entitlements. They are an indication of the envelope of resources that could be available to each country to finance projects that meet GEF's strategic objectives and technical criteria, and approved in accordance with GEF procedures.

15. Council has also been informed as part of that mid-term reallocation that "actual amounts available during the GEF-4 period may be higher or lower than the indicative amounts and depend on many factors, including the actual receipt and value of donor payments to the GEF Trust Fund, changes in investment income and exchange rates."<sup>3</sup>

16. The present challenge then is to manage the reduction in available GEF-4 resources in a way that respects previous Council agreements and commitments to the maximum extent possible and, at the same time, provides sufficient operational flexibility and ensures that all available funds are utilized in GEF-4. Elements that need to be taken into consideration in the allocation of the remaining GEF-4 resources include the agreed funding of the corporate budget and the programmatic approaches, the agreed shares between the focal areas, the RAF allocations for the biodiversity and climate change focal areas, including global and regional exclusions, and the amounts already committed into projects and programs.

### **Principles for Allocating the Remaining GEF-4 Resources**

17. The various elements that need to be taken into consideration are shown in figurative format in the attached Table 1 and described in the following paragraphs:

18. Following the Replenishment Agreement, the corporate budget (reduced to \$93 million) is deducted from the revised target amount (conservatively estimated at \$2,911 million) and the remaining \$2,762 million is distributed among the focal areas according to the shares agreed at replenishment.

19. Next, according to the previously agreed contributions from each focal area, the budgeted amounts for the Small Grants Program (SGP), the Capacity Building Program (Enabling Activities EA/CB) and the global and regional exclusions for BD and CC (GRE) are subtracted from the focal areas. The total global allocation for the SGP (\$110 million) has already been disbursed, while the remaining SGP funding that has been submitted to Council in April, 2009, is derived from individual country allocations for CC and BD and is charged to those allocations. The amounts for global and regional exclusions (GRE) in the biodiversity and climate change focal areas are fully programmed. It is recommended not to revise these amounts that have been already agreed and committed. The total for all the above-mentioned programming amounts to \$ 255 million (see column F on Table 1 for further details).

20. The total of expenditures to date on all of the allocations has been represented in column G on Table 1 showing that the Trustee has set aside \$ 1,924 million against all the above

---

<sup>3</sup> See letter from CEO to Council of July 31, 2008 on mid-term re-allocation

budget lines. The remaining funds available are derived from the figures in columns F and G and are represented in column H of Table 1.

### ***Reallocation of Uncommitted Envelopes***

21. There is potential for reallocations from three envelopes:
- (a) The allocation for Capacity Building is currently under-committed with \$27 million remaining unspent. It is proposed to reallocate \$14 million from this envelope;
  - (b) The allocation for Corporate GEF Program is under-committed with all \$15 million remaining unspent. It is proposed to reallocate \$8 million from this envelope; and
  - (c) The Ozone Depleting Substances focal area has attracted relatively few eligible proposals, with \$35 million remaining unspent. It is proposed that \$15 million of these resources be reallocated.
22. From the above-mentioned re-allocations, a total of \$ 37 million is available for reprogramming along the following lines:
- (a) \$15 million for the new *Poznan Technology Transfer Program* in the climate change focal area in support of the Council-approved agreement;<sup>4</sup>
  - (b) \$20 million for the Mediterranean Program (with the World Bank as the lead agency) to be presented to the Council in June 2009;
  - (c) \$2 million for the Development Marketplace Program implemented through the World Bank; and
23. If by June 2009, no project proposals are submitted for funding under the Corporate Program allocation or the ODS allocation, then we will propose further redeployment of the remaining resources.

### ***Programming in the Focal Areas***

24. For the two focal areas under the influence of the RAF (BD and CC), it will not be possible, within the reduced target amount, to accommodate all the projects from countries with individual allocations, up to the level of the revised RAF allocation as of July 2008. One possibility would be, therefore, to recalculate all the individual RAF allocations in consideration of the revised target amount. This option is not considered viable for the following reasons:
- (a) Some countries have actually already programmed and received approval of their project concepts for their entire RAF allocation;

---

<sup>4</sup> At its November 2008 meeting, the Council agreed to support the *Poznan Technology Transfer Program* totaling \$50 million. It is proposed that the program be funded from allocations from the climate change global and regional allocations (\$20 million), the SCCF (\$15 million) and \$15 million from resources freed up from actions mentioned in paragraphs 21.



- (b) It was a central part of the RAF agreement for GEF-4 to do one and only one recalculation at the mid-point of GEF-4;
- (c) The target amount will still have to be readjusted again as we approach the end of GEF-4 and it is not operationally possible for countries and agencies to rescale individual project concepts to a moving budget target; and
- (d) The RAF agreement for GEF-4 explicitly states that the individual RAF allocation to a country represents a budget frame, not an entitlement to that amount.

25. It is proposed that any project concept for BD and CC from countries with individual RAF allocations be processed and cleared up to the country allocation levels as of July 2008, until the overall cap for that focal area as indicated in Table 1 is reached. As described and on the assumption that the financial situation does not deteriorate, or even experiences some improvement, this cap may be adjusted upwards as we approach the end of GEF-4, allowing additional room for programming.

26. It is also proposed that project concepts from group allocation countries will be processed and cleared up to the maximum that was to be allowed for any country in the recalculations of July 2008, up to the limit of available funds.

27. Considering the other focal areas, it will be necessary to freeze further programming in the International Waters and Land Degradation focal areas to ensure a reasonable balance among focal areas. However, programming will continue in the POPS focal area within the limits set by the total revised allocation available.

28. The remaining amount within each focal area that would be available for programming under the current estimated target amount for GEF-4 after subtraction of the amounts already committed to projects is shown in column H of the table in Table 1.

### ***Funding for National Communications***

29. Provisions will be made for funding national communications that are due during GEF-4 to the UNFCCC and CBD. Funding for this will be drawn from the country allocations and group allocations in the climate change and biodiversity focal areas where possible, and otherwise covered from the GREs. The estimated cost will be \$ 27.5 million for CC (each UNFCCC Nat. Comm. is estimated at \$550,000 including Agency fee for 50 countries) and \$ 1 million for the 40 National Reports due to the Convention on Biological Diversity. (Each CBD National Report is estimated at \$ 25,000 including Agency fee).

### ***Requested Council Decision***

30. The sum of the proposed reallocations is set out in Table 2 and indicates that the Council is being asked to approve the reallocation of funds from the Corporate GEF Programmes, the ODS focal area, and the Capacity Building budgets for a total of \$ 37 million to support the Poznan Technology Transfer Program, the Mediterranean Program and the Development Marketplace Program.

Table 1: GEF-4 Resources Utilization and Reallocation as of March 31, 2009

A	B	C	D	E	F	G	H	I
GEF Focal Areas and Corporate Program	Initial GEF-4 Allocations		Revised Mid Term GEF-4 Allocations	Revised GEF-4 Allocations - March 2009	Actual Situation in GEF-4 of allocations and expenditures as of March 31st 2009			Proposed disposition of funds as of March 31st 2009
	August 2006 Targeted Allocations		Revised GEF-4 Allocation as of April 30, 2008	Revised GEF-4 Allocations as of March 31, 2009*	Revised GEF-4 Allocations net of SGP, GRE, Cap Bld, EF, etc	GEF-4 Resources utilized (set aside) by Trustee to date	Remaining funds available as of March 31st 2009	
	(\$ million)	Share	(\$ million)	(\$ million)	(\$ million)	(\$ million)	(\$ million)	
<b>GEF-4 Target</b>	<b>3,130.00</b>		<b>3,309.00</b>	<b>2,911.00</b>	<b>2,911.00</b>	<b>1,918.28</b>	<b>992.72</b>	<b>992.72</b>
<b>GEF-4 Programmable Resources</b>	<b>3,010.00</b>	<b>100%</b>	<b>3,160.00</b>	<b>2,762.00</b>	<b>2,507.00</b>	<b>1,629.29</b>	<b>877.71</b>	<b>874.71</b>
Biological diversity	1000.00	33.2%	1030.00	917.20	817.70	494.13	323.57	323.57
Climate change	1000.00	33.2%	1030.00	917.20	817.70	449.88	367.82	367.82
International waters	355.00	11.8%	366.00	325.60	305.60	271.58	34.02	54.02
Land degradation	300.00	10.0%	309.00	275.16	257.16	238.50	18.66	18.66
Ozone layer depletion	40.00	1.3%	41.00	36.69	36.69	1.73	34.96	19.96
Persistent organic pollutants	300.00	10.0%	309.00	275.16	257.16	173.47	83.69	83.69
Corporate Programs (CSP/NDI)	15.00	0.5%	15.00	15.00	15.00	0.00	15.00	7.00
<b>Corporate budget</b>	<b>120.00</b>		<b>93.00</b>	<b>93.00</b>	<b>93.00</b>	<b>45.00</b>	<b>48.00</b>	<b>48.00</b>
<b>Technology Transfer Program: CC</b>								<b>35.00</b>
<b>Earth Fund</b>	<b>0.00</b>		<b>56.00</b>	<b>56.00</b>	<b>56.00</b>	<b>56.00</b>	<b>0.00</b>	<b>0.00</b>
<b>Corporate and Core Programs</b>					<b>255.00</b>	<b>188.00</b>	<b>67.01</b>	<b>35.01</b>
Small Grants Program (SGP)					110.00	110.00	0.00	0.00
EA/CB/LDC-SIDs					45.00	17.72	27.29	13.29
Development Gateway					0.00	0.00	0.00	2.00
GRE Biodiversity					50.00	33.58	16.42	16.42
GRE Climate Change					50.00	26.70	23.30	3.30
<b>Total</b>	<b>3,110.00</b>		<b>3,309.00</b>	<b>2,911.00</b>	<b>2,911.00</b>	<b>1,918.28</b>	<b>992.72</b>	<b>992.72</b>

\* Trustee predicted shortfall of approx. \$400 million, January 31st from \$ 3.3 billion figure due to net effects of dollar depreciation, investment income, cancellations and reconciliation

\* Further unrealized resources from undeposited instruments of commitments lead to a projected further \$ 121 million reduction as of March 31st 2009

\* The resources obtained in GEF 4 from cancellation of projects ( \$ 171 million ) and reconciliation are included in this chart 31st March 2009

Table 2: Proposed budget adjustments to meet programming needs in GEF-4, as of March 31<sup>st</sup> 2009

<b>Focal Area / Budget line</b>	<b>Proposed additional funding for specific budget lines</b>	<b>Proposed reduction of funding on specific budget lines</b>
	<b>(\$ million)</b>	<b>(\$ million)</b>
<b>Biological diversity</b>		
<b>Climate change</b>		
<b>International waters</b>		
<b>Land degradation</b>		
<b>Ozone layer depletion</b>		<b>(15)</b>
<b>Persistent organic pollutants</b>		
<b>Corporate Programs (CSP/NDI)</b>		<b>(8)</b>
<b>CC Technology Transfer Program</b>	<b>15</b>	
<b>Development Marketplace</b>	<b>2</b>	
<b>Small Grants Program (SGP)</b>		
<b>EA/CB/LDC-SIDs</b>		<b>(14)</b>
<b>GRE Biodiversity</b>		
<b>GRE Climate Change</b>		
<b>Mediterranean Program</b>	<b>20</b>	
<b>Total</b>	<b>37</b>	<b>(37)</b>