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Agenda Item 13

PERFORMANCE-BASED FRAMEWORK FOR ALLOCATION OF GEF RESOURCES

Recommended Council Decision

The Council, having reviewed document GEF/C.22/11, *Performance-based Framework for Allocation of GEF Resources*, agrees to the adoption of a phased approach to develop a transparent, systematic, standardized and implementable GEF-wide framework for incorporating relevant country performance assessments and global environmental priorities in the allocation of GEF resources. The Secretariat is requested to begin work on developing the data and indicators necessary for the two elements that would constitute the performance-based framework: (a) country performance, and (b) country global environment potential. The Secretariat is also requested to report to the Council at its next meeting on progress being made.

The Council also agrees in principle to the staffing needs outlined by the Secretariat to undertake the technical work on the performance-based framework and requests the Secretariat to prepare a detailed proposal, including a proposed budget, to be distributed by December 1, 2003 for approval by mail.

The Council expresses its appreciation for the work carried out by the Technical Working Group and requests the working group to continue as an advisory group to the Secretariat, providing guidance to the Secretariat on the technical work on the performance-based framework.

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Acronyms

ADB	Asian Development Bank
AfDB	African Development Bank
CBD	Convention on Biological Diversity
CCD	Convention on Combating Desertification
EBRD	European Bank for Reconstruction and Development
FAO	Food and Agriculture Organization of the United Nations
IA	Implementing Agency
IDB	Inter-American Development Bank
IFAD	International Fund for Agricultural Development
IFC	International Finance Corporation
M&E	Monitoring and Evaluation
MSP	Medium Size Project (of the GEF)
	Organic Pollutants)
OECD	Organization for Economic Cooperation and Development
OP	Operational Program (of the GEF)
OPS2	Second Overall Performance Study of the Global Environment Facility
PBF	Performance-based Framework for Allocation of GEF Resources
PIR	Project Implementation Review (of the GEF)
POPs	Persistent Organic Pollutants
PRC	Project Review Criteria (of the GEF)
SGP	Small Grants Program (of the GEF)
SMPR	Secretariat-Managed Project Review (of the GEF)
UNDP	United Nations Development Programme
UNECE	United Nations Economic Commission on Europe
UNEP	United Nations Environment Programme
UNFCCC	United Nations Framework Convention on Climate Change
UNIDO	United Nations Industrial Development Organization
WB	World Bank

BACKGROUND

Policy Recommendations of the Third Replenishment

1. During the Third Replenishment of the GEF, Participants requested “the GEF Secretariat to work with the Council to establish a system for allocating scarce GEF resources within and among focal areas with a view towards maximizing the impact of these resources on global environmental improvements and promoting sound environmental policies and practices worldwide.”¹ Furthermore, the policy recommendations stated, “the system should establish a framework for allocation to global environmental priorities and to countries based on performance. Such a system would provide for varied levels and types of support to countries based on transparent assessments of those elements of country capacity, policies and practices most applicable to successful implementation of GEF projects. This system should ensure that all member countries could be informed as to how allocation decisions are made.”² It was also agreed that “the GEF will have in place an operational performance-based allocation system ...” by Fall 2004.³

2. The above policy recommendations resonate with findings emerging from the work of the GEF monitoring and evaluation unit, that emphasize importance of a supportive country policy and institutional framework for project success leading towards global environmental improvements.

Council Decisions

3. During its October 2002 meeting held in Beijing, Council endorsed the *Policy Recommendations of the Third Replenishment*. At the May 2003 meeting, the Council discussed GEF/C.21/8, *Issues Note: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level*, and requested “the GEF Secretariat to establish and chair a working group of technical experts to prepare elements of a framework for GEF performance-based allocations for Council review and approval.”⁴ The working group was requested to present its report to the Council for review and comment at the November 2003 meeting.

Technical Working Group

4. Based on nominations received from Council members, and other experts identified by the Secretariat, the CEO constituted a Technical Working Group (hereafter referred to as “Working Group”) in July 2003 (refer to Annex 1 for a composition of the Working Group). The Working Group began its work in mid-July with a discussion on organization of the workprogram (refer to Annex 2), and subsequently convened at a workshop held at the GEF Secretariat on Aug 19-20 to: (i) familiarize with the mission, mandate, policies and operations of the GEF; and (ii) to brainstorm at the conceptual level regarding a performance-based allocation framework for the GEF.

¹ GEF/C.20/4, Summary of Negotiations on the Third Replenishment of the GEF Trust Fund, Annex C, para. 16

² Ibid, para 18.

³ Ibid,

⁴ Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, para.18.

5. A first draft report, reflecting “early thinking” of the Working Group was shared with Council members on September 15, 2003. Comments were received from several Council members during the week of September 29. The Working Group met at a second workshop convened at the GEF Secretariat during Oct 2-3, 2003, where it reviewed and discussed the feedback received from Council members, and debated on ways to move forward on the development of a Performance-based Framework. At this workshop, the Working Group also discussed indicators and data availability with experts.⁵ This report reflects the discussions of the Working Group, and its proposals to the Council.

6. The Working Group has not undertaken an assessment of the existing framework of resource allocation at the GEF, as such an assessment was not in its mandate. Further, the Working Group is not aware of any such assessment.⁶ Based on its understanding that there is no GEF-wide country performance assessment system in place, and responding to the Council request to develop a performance-based framework for allocation of GEF resources, the Working Group proposes a logical and phased approach to establish such a framework at the GEF.

7. The Working Group members, except the Chair, currently serve on the Working Group in voluntary capacities, with very little time for substantive involvement in technical work. In addition, given that the Working Group is geographically spread, it has been difficult for it to meet more than twice over the last two months. Should the Working Group be asked to play a role in the next steps of the process, it could do so only in the capacity of a Technical Advisory Group, to provide direction and review to detailed technical work that needs to be carried out by the GEF Secretariat, with inputs from appropriate experts.

Organization of this Report

8. This report is organized in two Sections. Section I, a review of the current situation, begins with the Working Group’s interpretation of the relevant policy recommendations of the Third Replenishment. Following that is a brief discussion of the GEF’s objectives and the special characteristics of the GEF as understood by the Working Group. This section concludes with a description of the current system and the Working Group’s understanding of how “country performance” is currently accounted for in the GEF project approval process.

9. Section II sketches a phased approach that the GEF could embark on to develop a Performance-based Framework for allocation of resources. Such an approach, the Working Group suggests, reflects the development of elements for a performance-based allocation framework as a practical management tool in an incremental manner, based on operational experience, conceptual and technical advances, and evolving priorities.

10. At the outset, the Working Group would like to emphasize the data challenges that confront the GEF as it embarks on this exercise. There is significant amount of investigation and research that needs to be undertaken to progress on developing a performance-based allocation framework at the GEF. A key point to remember is that while the GEF can look to other

⁵ World Resources Institute, Washington D.C, and Yale Center for Environmental Law, New Haven, CT.

⁶ The Second Overall Performance Study (OPS2) of the GEF, concluded in January 2002 did not undertake any such assessment of allocation either.

multilateral institutions for guidance regarding performance-based frameworks, those institutions, none of which had to deal with the issue of global benefits, have very little to offer in terms of off-the-shelf and publicly available items that could be used as building blocks in a GEF performance-based allocation system.

11. In this context, the report proposes a way forward that would help develop a performance-based allocation framework investigating and addressing the technical and institutional feasibilities, and progressively including building blocks. Such an approach provides the GEF Council with several opportunities to decide, on a step-by-step basis, the path it wishes for the GEF to follow in developing a performance-based allocation framework.

SECTION I – CURRENT SITUATION

Scope of the Policy Recommendations of the Third Replenishment

12. The Working Group has reviewed the relevant policy recommendations of the Third Replenishment that cover the issue of performance (GEF/C.20/4, paras 16-18). It concludes that the principal intent of the set of recommendations is to enhance the performance and catalytic action of GEF-financed projects at the country-level to maximize the delivery of global environment benefits (specifically para 16). Furthermore, the recommendations point towards a system that allocates resources according to both global environmental priorities and country performance, with a transparent and systemic assessment of country policy and institutional factors most relevant to GEF projects (para 18). Thus, the intent of the policy recommendations is one of effective and transparent allocation of GEF resources to countries that would use them best to deliver priority global environment benefits.

13. There are many factors that influence project performance – country performance, Implementing/Executing Agency performance, GEF Secretariat performance, etc – but the Working Group’s mandate is to propose a system that would address the issue of country performance as it applies to GEF-financed projects, with the understanding that other aspects of project performance (e.g., Implementing/Executing Agency performance and GEF secretariat performance) are addressed through other channels.

Particularities of the GEF

14. The Working Group briefly reviewed performance-based resource allocation systems at other multilateral institutions such as the International Development Association (IDA) at the World Bank Group, International Fund for Agriculture and Development (IFAD), Asian Development Fund at the Asian Development Bank (ADB),⁷ etc, and inferred that such systems: (i) are structured around the major objectives of the respective institutions; and (ii) reflect the organizational structure of each institution and relationship with partners. Each performance-based allocation system assesses a country’s current policy and institutional framework for fostering the objectives and goals of activities supported by the respective multilateral institution,

⁷ Details regarding the IDA Performance-based allocation system can be found at <http://sitesources.worldbank.org/IDA/Resources>

and allocates resources ex-ante to countries. In this context, several features of the GEF need to be considered while developing a performance-based allocation framework for the GEF:

- (a) Collective action. GEF is the articulation of a vision that global problems need collective action of the global community as demonstrated by its membership of 175 countries;
- (b) Externalities. The GEF was established to deal with externalities – global environmental problems – where no individual country has an incentive to take corrective action by itself;
- (c) Financial mechanism of the Conventions. GEF is the financial mechanism for a number of international conventions on the environment⁸ and is under obligation to provide financial support to Parties to the Conventions for commitments agreed to by the respective Conference of the Parties;
- (d) Incremental financing for incremental action. The international commitment to finance activities in eligible countries recognizes that actions are essential in developing countries to protect the global environment, and that these actions are likely to impose additional costs on country development programs. GEF resources are provided as “incremental financing” to support developing countries undertake “incremental action” towards providing global environmental benefits;
- (e) Not ODA. GEF projects, largely, provide benefits to the global community, and hence differ from traditional overseas development assistance (ODA) where financial assistance is geared towards providing benefits that accrue to a country. GEF resources are seen as “new” and “additional” over ODA; and
- (f) Incremental structuring of the GEF. As the Second Overall Performance noted, “the GEF is a novel multilateral organizational arrangement that embodies institutional partnerships at different levels and dimensions, facilitated by the GEF Council and Secretariat, and builds on the comparative strengths of the different partner agencies.” Accordingly, the GEF makes use of established systems and procedures that are in place in these Agencies. The GEF relies on Implementing and Executing Agencies, which are responsible and accountable for project preparation, implementation, and quality; the recipient countries work directly with the Agencies to develop project concepts, access GEF resources and deliver global environmental benefits.

⁸ GEF is the financial mechanism of the Convention on Biological Diversity (CBD) and the United Nations Framework Convention on Climate Change (UNFCCC), and a financial mechanism to the Convention to Combat Desertification (CCD), and functions under the guidance of, and is accountable to, the Conferences of the Parties of these Conventions. In addition, GEF, on an interim basis, pending entry into force of the Convention, operates the financial mechanism of the Stockholm Convention on Persistent Organic Pollutants.

Current System of Allocation of GEF Resources

15. Until very recently, the GEF programmed resources based on submissions of project proposals from the Implementing and Executing Agencies that the Secretariat reviewed for eligibility in accordance with Project Review Criteria. Projects submitted for GEF support were approved when they met the eligibility criteria, commensurate with the availability of resources in the GEF Trust Fund.

16. In May 2003, the Council approved the GEF Business Plan for the period FY04-06 that included a strategic business-planning framework where allocation of GEF resources is done globally based on strategic priorities within the six focal areas of the GEF. Two major imperatives drove the development of such a framework: (i) the need to take stock of, and account for the implementation experience emerging from the GEF portfolio as a means to enhance results on the ground; and (ii) in recent years, as demand for GEF support, for a variety of reasons, began surpassing the financial resources available to the GEF Trust Fund, there has been an increasing need to match demand for and supply of GEF resources, employing factors beyond simple project review eligibility criteria. For more details on GEF strategic priorities, refer to Annex 3.

17. For a project to be eligible for GEF funding, it must reflect national or regional priorities and have the support of the country or countries involved. Furthermore, it must improve the global environment or advance the prospect of reducing risks to it. Country eligibility to receive funding is determined in two ways. Developing countries that have ratified the relevant environmental convention are eligible to propose projects under that convention. Other countries, primarily those with economies in transition, are eligible if the country is a party to the appropriate convention and is eligible to borrow from the World Bank or receive technical assistance grants from UNDP.

18. Projects are funded through partnerships with three Implementing Agencies, World Bank Group, United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and seven Executing Agencies – Asian Development Bank (ADB), African Development Bank (AfDB), European Bank for Reconstruction and Development (EBRD), Inter-American Development Bank (IADB), Food and Agriculture Organization of the United Nations (FAO), International Fund for Agriculture and Development (IFAD), and United Nations Industrial Development Organization (UNIDO) - acting under expanded opportunities. Projects are brought forward by the above-mentioned Agencies, which assist countries with the development/preparation phase, and eventually with the supervision and evaluation phases conditional upon the project's approval by the GEF's Council and eventual endorsement by the GEF CEO.

19. Among eligible countries, this system does not privilege any specific ones for the allocation of GEF resources; rather it puts the emphasis on a project's potential positive impact on the global environment. Allocations are made project-by-project, according to the project review criteria and in conformity with strategic priorities at the global level. The Implementing and Executing Agencies are responsible and accountable for assessing whether performance and capacity at the country-level, in terms of policy and institutions, are sufficient for project success.

20. Based on a review of presentations made by the three Implementing Agencies, and an understanding of project approval procedures, the Working Group agrees that while project proposals from the Agencies do contain, to varying degrees, assessments of policy and institutional factors relevant for project success, there is no GEF-wide systematic, transparent methodology or set of procedures in place. In the case of the Implementing Agencies:

- (a) Projects proposed through the World Bank are based on country assistance strategies (CASs) that reflect an assessment of macro-level and sectoral-level policies, governance, portfolio performance, public expenditures, procurement, and financial management systems in the country. While CASs for IDA countries have a priori allocations based on the IDA performance assessment framework (see Annex 4 for a list of indicators used in the IDA framework), CASs for IBRD countries review creditworthiness and Bank exposure for given levels of lending.⁹ During the project preparation process for IDA, IBRD or free-standing projects,¹⁰ there is assessment of institutional and implementation capacity and arrangements relevant to project performance.
- (b) In the case of the UNDP, while there are country assessments in terms of “need” through the Common Country Assessment (CCA) and an articulation of an assistance framework through the United Nations Development Framework (UNDAF), there is no broad country-level notion of performance in these assessments. However, there is assessment in proposals of project performance in terms of execution arrangements, country capacity (relevant to the project, at the time it is being designed), and external factors/risks.
- (c) The overall policy guiding the preparation of UNEP's program of work is adopted by UNEP's Global Ministerial Environmental Forum, in accordance with the overall policy framework of the United Nations General Assembly and its relevant bodies, including the Commission on Sustainable Development. It is prepared based on the needs and priorities identified by member states. Reflecting UNEP's mandate, the projects focus at the global and regional level on scientific and technical capacity building largely through regional and sub-regional bodies. There is no notion of broad country-level performance assessment in the approval of projects, or any explicit assessment of country policy. However assessment of institutional factors is an important factor in establishing appropriate management arrangements for the execution of projects and capacity building goals.

21. The current system of resource allocation depends upon existing systems at the Implementing and Executing Agencies, with particular reliance on project preparation and related quality control processes. Project and resource allocation are driven by countries (and by Agencies), with a degree of flexibility in allocation of resources. However, the linkages between

⁹ There are country performance ratings for IBRD countries which are not disclosed.

¹⁰ Free standing projects are also part of the World Bank's country assistance dialogue and are anchored in the CAS and subject to the same assessments of policy and institutional elements.

strategy and operations are implicit and there is no reference to systematic, consistent, and standardized accounting for “country performance” across the different agencies.

SECTION II. THE WAY FORWARD

22. This section summarizes a phased approach the GEF could employ to develop a more transparent, systematic, standardized, and implementable GEF-wide framework for incorporating relevant country “performance” assessments and global environmental priorities in allocating resources.

General Configuration of a Performance-based Allocation Framework

23. A performance-based allocation framework is a decision-support tool integrated into resource allocation processes in an institution. The overriding purpose of such a framework is to enhance the effectiveness of the application of resources to meet the overall goals of the institution. Decision-making systems at all institutions employ factors that the institution considers critical for the success of its mission -- the consideration of such factors could be explicit or implicit. A performance-based allocation framework is geared towards making such critical factors more explicit, and the application of such factors more transparent and systematic.

24. Performance-based allocation frameworks, besides enhancing the effectiveness of resource application, could through the transparency of understanding of the factors and system of application of these factors among the stakeholders of the institution, help establish a better understanding of expectations and responsibilities of the stakeholders.

25. Performance-based allocation frameworks used at other multilateral institutions for resource allocation usually have two major elements. One element reflects the “**Performance**” – existence of a supportive policy and institutional framework in a country for application of resources from that institution; besides sectoral and macro-level factors, this element includes governance. In addition, it usually also includes a measure of portfolio performance. The other element reflects the “**Need**” of a country for resources from the institution. Institutions geared towards development and poverty alleviation employ income per-capita as a factor to reflect this element.¹¹

Principles for a Performance-based Allocation Framework

26. In considering options for a performance-based allocation framework, the Working Group has taken into account the key principles discussed by the GEF Council at the May 2003 meeting:¹²

- (a) Recognize the uniqueness of the GEF, and target its objectives - catalyzing delivery of global environmental benefits;

¹¹ Subject to ceilings in the system, and other factors in the PBF being equal, the lower the per-capita income, the higher the per-capita resource allocation.

¹² These principles were contained in GEF/C.21/8, *Issues Note: A Framework for Programming Resources for Enhanced Performance and Results at the Country Level*.

- (b) Build on the principle of strategic priorities and projected levels of financing established in the GEF Business Plan;
- (c) Rely, to the extent possible, on existing assessments of and experiences with country policy, capacity and institutional frameworks;
- (d) Employ and develop additional information regarding country performance through the GEF Monitoring and Evaluation Unit;
- (e) Be simple, flexible, transparent, and expand on existing policies and programming procedures in the GEF and the Implementing and Executing Agencies; and
- (f) Be administratively feasible, and not impose undue burden on GEF resources.

A Conceptual Outline of a Performance-based Allocation Framework for the GEF

27. The Working Group recognizes that current resource allocation decisions in the GEF factor in, inter-alia, two key elements critical for results and impacts from application of GEF resources: (i) the first element is a “country performance” element that is an assessment of the policy and institutional environment, undertaken in a project development context, albeit with no consistent framework across the GEF; (ii) the second element is a “country needs” element, which in the GEF context is interpreted as a country’s potential to deliver global environmental benefits in the six focal areas of the GEF. Focal area program managers at the GEF Secretariat and experts at the Implementing and Executing Agencies, based on their understanding of global environmental issues, factor in the “country potential” element while interacting with GEF recipient countries to seek opportunities for developing projects (that are country-driven) for GEF funding. These two elements are currently employed implicitly in project development processes as shown in the equation below.

$\text{Pursuit of Project Opportunities} \approx f[\text{Country Performance (assessed in project preparation context), Country 's Global Environment Potential(based on technical knowledge)}]$
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28. The challenge in developing a performance-based allocation framework is: (i) to define the two elements explicitly, with clearly identifiable and appropriate indicators that could be measured at the country-level for all countries that are eligible for GEF funding; and (ii) then employ them in a structured and systematic manner within a transparent framework to allocate GEF resources as shown in the equation below.

$$\text{Resource Allocation} = f(\text{explicit measure of Country Performance, explicit measure of Country 's Global Environment Potential})$$

Some Additional Considerations in developing a Performance-based Allocation Framework

29. In addition to the principles listed in paragraph 26, the following issues have emerged from Working Group discussions as critical to be considered during the development of a performance-based allocation framework:

- (a) Off-the-shelf indicators and data from other institutions. The factors that are to be included in the *Country Performance* and *Country Global Environment Potential* elements would have to be identified and elaborated. Then relative weights of the factors in each element would have to be determined. For the sake of efficiency and neutrality, the preference would be to employ credible and widely accepted off-the-shelf factors developed at other institutions to the extent they are relevant to the elements of the GEF performance-based allocation framework, and reflect the mission and purpose of the GEF. If such off-the-shelf factors are not available, then factors relevant to the GEF have to be developed from off-the-shelf universally available indicators. Or, fairly-universally available indicators need to be demonstrated to be credible (though imperfect) proxies as starting points for the framework, with a view to improving them over time. Any effort to develop GEF-specific factors will be constrained by the availability of indicators and data at the national level for all countries eligible for GEF funding, their quality, robustness, and acceptance. If any effort is made to develop GEF-specific data, it is desirable to employ off-the-shelf data available at other institutions, and not embark on a data collection and indicator development exercise for the sake of the GEF, given the burden, time, and cost of such a process
- (b) Ease of Implementation. Given the incremental nature of the GEF organizational arrangements between the GEF Secretariat and the Implementing and Executing Agencies, ease of implementation is key to ensure that the proposed performance-based allocation framework is a value-added to the GEF rather than a burden.

The next section discusses in detail the factors that could be considered to comprise each of the two elements.

Country Performance Rating (CPR)

30. The Working Group suggests that there be three factors in the element reflecting country performance:

- (a) An assessment of a country's portfolio of GEF projects (GEFPP);

- (b) Country Environmental Policy and Institutional Assessment (CEPIA); and
- (c) An assessment of governance in a country (GOV).

$\text{Country Performance Rating (CPR)} = f(\text{GEFPP}, \text{CEPIA}, \text{GOV})$

Further discussion is required to develop the specific function that would comprise the three factors (including their relative weights in the function) to arrive at a rating of country performance.

Assessment of GEF Country Portfolio Performance (GEFPP)

31. Since 1996, the GEF Monitoring and Evaluation Unit has carried out annual Portfolio Performance Reviews (PPRs). All projects in the GEF portfolio, with more than a year of implementation, are required to submit annual Project Implementation Reports (PIRs) to the M&E Unit. Among others, these reports evaluate and rate on a four-point scale: (i) progress of the project towards achievement of development objectives (DO); and (ii) implementation progress (IP). It is proposed that the GEF M&E Unit take the lead in developing an approach to generate a consolidated portfolio-level assessment of performance. Among other approaches, the GEF M&E unit could test the feasibility of applying a project-at-risk (PAR) system to data generated within the PPR process. Generally, a PAR approach would generate portfolio performance ratings based on actual and potential problem projects.¹³

32. Given the limited size of GEF portfolios in many recipient countries, the process of developing GEFPP could also explore feasibility of incorporating, in a transparent and universal manner, non-GEF country portfolio performance evaluations at the Implementing Agencies.

Country Environmental Policy and Institutional Assessment (CEPIA)

33. The country environmental policy, regulatory and institutional capacity assessment (CEPIA) would be an evaluation of current policy, capacity, and institutional framework that is relevant to environmental management (or more broadly, sustainable development). Public sector policies, regulations, and institutions play a critical role in addressing environmental challenges by influencing incentives, behavior, markets, technologies, availability of resources, etc. There are several items that could be included in this factor, such as level of political commitment to environmental management, effectiveness of cross-sectoral coordination, transparency, participation, and public access to environmental management information and processes, etc.

34. Systematic assessments of such environment-specific governance are difficult to come by, plagued by lack of agreed frameworks, data deficiencies, etc. The Working Group

¹³ An actual problem project is one that does not meet criteria for implementation progress and/or achievement of development objectives; a potential problem project is one rated satisfactory on implementation progress and achievement of development objectives, but having risk factors historically associated with unsatisfactory outcomes (IFAD, The Structure and Operation of a Performance-based Allocation System, EB2003/79/R.2).

recommends that research be undertaken regarding the work undertaken at other institutions, including the Environmental Performance Reviews (EPRs) undertaken by the Organization for Economic Cooperation and Development (OECD), and the United Nations Economic Commission for Europe (UNECE), reviews of country and regional environmental assessment capacity undertaken by the World Bank, etc.

Governance (GOV)

35. The Working Group had initially considered using Country Policy and Institutional assessment undertaken by IDA (IDACPIA) to reflect assessment on a wide range of country policies and institutions. However, an assessment of the GEF portfolio revealed that nearly three-quarters of GEF resources go to non-IDA countries, where at this time there are no prospects that CPIA will be disclosed. This rules out, for the present, the use of IDACPIA in a GEF framework. Since no equivalents or proxies exist, the Working Group agreed that in reviewing the different factors in the IDACPIA, governance was indeed the most important factor, given that other components relevant to the GEF could be reflected in the CEPIA factor discussed earlier. All multilateral institutions consider good governance as a major influence on the effective and efficient use of resources. It is proposed that governance be considered as a factor in country performance, and research be undertaken regarding possible constituents of the governance factor.

36. The Working Group recommends that the Secretariat undertake a detailed review of governance work being undertaken at other institutions, particularly at the World Bank Institute (WBI) in an effort to identify appropriate indicators to constitute the governance factor.¹⁴ The Kaufman, Kray and Zoido-Lobaton (KKZ) governance indicators, developed by WBI, presents estimates for 199 countries and territories for four time periods (1996, 1998, 2000, and 2002) across six dimensions of governance,¹⁵ and are based on several hundred variables measuring assessments of governance, drawn from 25 separate data sources constructed by 18 different organizations.

Country's Potential to deliver Global Environmental Benefits (CGEP)

37. The GEF allocates resources in six focal areas – biodiversity, climate change, international waters, land degradation, ozone, and persistent organic pollutants. An ideal function reflecting a country's potential to deliver global environmental benefits could be

¹⁴ The WBI work on governance defines governance as “the traditions and institutions by which authority in a country is exercised for the common good. This includes (i) the process by which those in authority are selected, monitored and replaced, (ii) the capacity of the government to effectively manage its resources and implement sound policies; and (iii) the respect of citizens and the state for the institutions that govern economic and social interactions among them (WBI website). <http://www.worldbank.org/wbi/governance/index.html>

¹⁵ (i) Voice and Accountability; (ii) Political Stability; (iii) Government Effectiveness; (iv) Regulatory Quality; (v) Rule of Law; and (vi) Control of Corruption.

$\text{Country Global Env Potential (CGEP)} = f(\text{Bio, CC, IW, LD, OZ, PP})$
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Where *Bio* is a factor(s) reflecting the country's potential to deliver global environmental benefits in the biodiversity focal area; and *CC, IW, LD, OZ, PP* are similar factors in the other GEF focal areas.

38. Two points need to be considered here. First, when considering the above function, it is very difficult to meaningfully aggregate a country's global environmental potential in the six focal areas of the GEF to arrive at an overall global environmental potential for a country. Second, based on consultations with indicator and data experts, it appears that the feasibility in the short to medium term¹⁶ of obtaining suitable country-level indicators and data to develop the factors appropriate to the focal areas of international waters, land degradation, and persistent organic pollutants is low; the feasibility is higher in the focal areas of biodiversity, climate change and ozone.

39. Therefore, the Working Group recommends that measures of "Country Global Env Potential" be developed for the biodiversity and climate change focal areas.¹⁷ This would account for nearly 70 percent of the allocation of GEF Resources.

$\text{CGEP}_{\text{bio}} = F(\text{Bio})$ $\text{CGEP}_{\text{climate change}} = F(\text{CC})$

40. There are several issues that need to be factored into investigation of data to define the Country Global Environmental Potential elements for the biodiversity and climate change focal areas:

- (a) Biodiversity. In the biodiversity focal area, there are several indicators that at initial review seem to be useful. One would be the number of species in a country; a more sophisticated version of this is a country biodiversity intensity indicator, explored in 1995 in a joint exercise between the GEF and WRI.¹⁸ However, such indicators will not capture the full global benefits as biodiversity underlies ecosystem services; with the biodiversity conservation community moving to an ecosystem-based approach, uses of such indicators would be second best. In addition, the allocation of resources to a country should not be solely

¹⁶ Less than 5 years.

¹⁷ The ozone portfolio of the GEF is generally declining (and covers only countries with economies in transition) and is not worth the effort in the Group's judgement.

¹⁸ Eric Rodenburg, Dan Tunstall, Frederick Van Bolhuis, *Environmental Indicators for Global Cooperation*, GEF Working Paper Number 11, 1995

based on its biodiversity endowments; it should also take into account the threat to these endowments.

- (b) Climate Change. Similarly, in the climate change focal area, it may be feasible to employ indicators such as carbon-dioxide emissions per capita or per dollar GDP: data which is readily available from national reports submitted as part of the requirements of the United Nations Framework Convention on Climate Change (UNFCCC). However, these indicators will reflect only the mitigation part of the climate change area. In addition, there is a need for indicator(s) that address the issue of trends in emissions. Further, there are other areas such as land-based sequestration and vulnerability and adaptation for which indicators are not easy to come by.

41. Further exploration of the availability and suitability of country-level indicators (including appropriate starting proxies) is needed in the biodiversity and climate change focal areas, to define the elements of a GEF performance-based allocation framework.

Phased Development of a Performance-based Allocation Framework

42. Given the opportunities and challenges identified in the development of the Performance-based Allocation Framework (PBF) concept described in the earlier sections, a phased approach is proposed, where the PBF is built component by component, with a detailed assessment of the feasibility of each component.¹⁹ Such an approach provides the various stakeholders of the GEF, particularly the GEF Council, with the opportunity to review and agree on each component as the PBF is developed.

43. A phased approach would involve work on the two elements that would constitute the PBF : (i) Country Performance; and (ii) Country Global Environmental Potential. The difference phases could be as follows:

- (a) Phase I would be the research and investigation of data and indicators that constitute the different factors, and the functional relationships between the factors, proposed in *Country Performance Rating* (CPR) and *Country Global Environmental Potential* (CGEP) in the biodiversity and climate change focal areas;²⁰
- (b) Phase II would be the employment of the two factors in a performance-based allocation framework, including outlining any related technical feasibility and viability challenges. There are several intermediate milestones that could be established in this phase, depending upon the robustness of the two elements CPR and CGEP and the reliability of the factors contained within them:

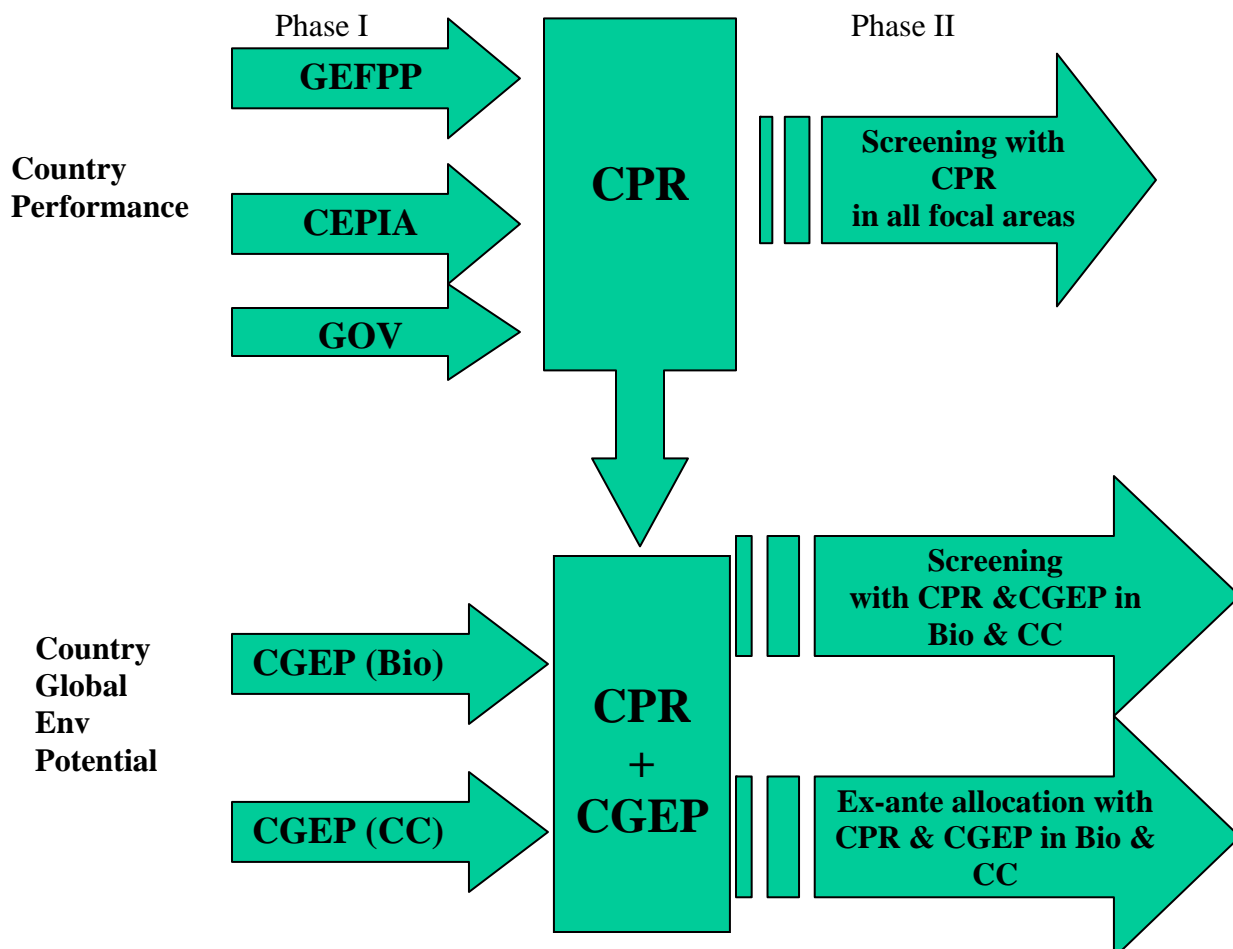
¹⁹ With a further opportunity downstream to monitor implementation experience.

²⁰ Ideally, the Working Group would have been able to accomplish this task. It did not, largely due to the constraints noted in para.7, the need for more concentrated experience within the Working Group on availability and applicability of data, and the need for similar capacity or resources in the GEF Secretariat.

- (i) Country Performance Rating (CPR) alone could be employed in a screening framework for resource allocation;
- (ii) Country Performance Rating (CPR) and Country Global Environmental Potential (CGEP) could be combined in a screening framework for resource allocation;
- (iii) Country Performance Rating (CPR) and Country Global Environmental Potential (CGEP) could be combined together in an explicit formulation to arrive at a framework that allocates resources ex-ante to GEF recipient countries.

Inclusion of building blocks within each phase, as well as the progression from one phase to next would be subject to GEF Council reviews and decisions based on detailed proposals placed before the Council. Given the difficult research and investigation work that lies ahead, the Working Group is reluctant to provide any strict timetables to the progressions of the different phases. The pace of progression is also dependent upon the capacities and/or resources available at the GEF Secretariat to undertake these detailed tasks. A schematic for the phased approach is shown in **Figure 1**.

Fig 1. Phased Development of GEF Performance Based Allocation Framework



Phase I. Research and Investigation of Factors that comprise Country Performance and Country Global Environmental Potential

44. The GEF Secretariat could begin investigation and research on data and indicators on factors that would comprise the *Country Performance* and *Country Global Environmental Potential* elements of a proposed performance-based allocation framework. Progress on such a broad front, on a complex topic, is dependent upon the capacities available at the Secretariat and/or resources available to commission work conducted by external experts.

45. Country Performance. The first step would be for the GEF Monitoring Group, in consultation with the Working Group, to develop the portfolio performance factor (GEFPP), along the lines described in paragraphs 29-30. A proposal on GEFPP could be ready by Spring 2004. In parallel, investigations could begin on the governance factor (GOV) and the Country Environmental Policy and Institutional Assessment (CEPIA). It is anticipated that a first report on the research and development of these indicators could be completed by Fall 2004. Depending upon progress achieved, this could lead to the development of Country Performance Rating function (CPR).

46. Country Global Environmental Potential. In parallel with the work on factors for *Country Performance*, it is suggested that research and investigation begin on the development of CGEP in the GEF focal areas of biodiversity and climate change. Such an exercise would involve a survey of country-level data and indicators available at other institutions that track the status of climate change and biodiversity elements in countries. After the robustness of the data and indicators has been assessed, a simple and reliable way of translating them into country ratings (CGEP) has to be developed.

Phase II. Using the CPR and CGEP indicators in a Performance-based Allocation Framework

47. As the work on the Country Performance and Country Global Environmental Potential elements progress, there are several ways to employ them in a performance-based allocation framework as described below.

A Screening Framework employing Country Performance Rating (CPR)

48. If only the Country Performance Rating (CPR) system is robustly developed and acceptable to the Council, it could then be employed to initiate a Performance-based Allocation Framework as follows. GEF resources would continue to be primarily allocated according to the strategic priorities of the GEF Business Plan, with project opportunities sought in countries to provide global environmental benefits, which would be subject to a transparent, systematic and structured screening of country performance.

49. Country performance would be assessed using the CPR. Countries would be categorized ex-ante into three performance categories: (i) high performing; (ii) medium performing; and (iii) low performing, with the understanding that countries will get incentives and support to move

from the lowest to highest category. The hurdles establishing the performance categories could be done only after detailed work on the CPR is complete.


50. The performance-based allocation framework would be an application of strategic priorities and country performance assessment as follows:

- (a) The country performance screening would not apply to the following categories of GEF support:
 - (i) Enabling activities to support reporting to the global environmental conventions;
 - (ii) Small grants program; and
 - (iii) Basic crosscutting capacity building, such as developing country capacity to engage with the conventions and with the GEF, developing foundational capacity to improve basic environmental governance as reflected in the CEPIA factor, etc.
- (b) On an exceptional basis, countries in the *Low Performance* category would be eligible for strictly ring-fenced limited funding. Projects supported in these countries would be limited to addressing crises concerning globally unique environmental resources. Projects proposed in these countries would be subjected to a higher level of scrutiny in the review, approval, and implementation process, and would have to include special safeguards and risk management modalities. If these safeguard conditions could not be met, then projects would not be approved in these countries. NGOs with proven records of accomplishment could be considered for project execution in such countries. Projects would include components dealing with the capacity and institutional constraints in these countries.
- (c) Countries in the *Medium Performance* category would be eligible for limited GEF support – medium-sized projects with no restrictions, and full-sized projects on a strictly ring-fenced approach as described in paragraph 50(b).
- (d) Countries in the *High Performance* category would be eligible for the full-range of GEF funding through full-sized projects, medium-sized projects, and potentially programmatic approaches;

51. Under this approach, resources would not be allocated a priori to countries based solely on assessment of performance. Resources are allocated to strategic priorities and as projects emerge from countries, at the concept stage, countries would be evaluated against a transparent, systematic, and consistent set of country-performance criteria. Screening of projects would occur at the concept review stage in the GEF project cycle before projects are admitted into the GEF pipeline. **Figure 2** shows a schematic of the possible performance-based framework. Refer to **Annex 5** for a flow-chart showing how the screening framework could be employed at the project concept review.

Fig 2. Performance-based Allocation Framework with Country Performance Screening

Country Performance			
	Low	Medium	High
	<ul style="list-style-type: none"> • Enabling Activities for preparing national communications to the global environmental conventions, • Small Grants Program, • Basic crosscutting capacity building. 		
Projects fit GEF's strategic Priority	On an exceptional basis, strictly ring-fenced limited funding.	Limited GEF support: medium-sized projects with no restrictions, and full-sized projects with strictly ring-fenced funding.	Full access to GEF funds: <ul style="list-style-type: none"> - Full-sized projects - Medium-sized projects - Programmatic approaches



 Projects could be concentrated in capacity building to allow countries to move to stronger performance.

52. For regional projects, depending upon the individual performance rating of the countries involved, the stratified approach described above could be applied to each of countries involved. Another way would be to employ a rule that not more than a third of the countries involved in a regional project could be in the low performing category.

53. In establishing the screening system, the Council could establish floors and ceilings for resources being allocated to recipient countries, and where justified, explicit exemptions.

A Screening Framework Employing Country Performance and Country Global Environmental Potential.

54. Once the Country Performance ratings (CPR) and Country Global Environmental Potential Ratings (CGEP) are available for the biodiversity and climate change focal areas and their robustness established, then there is the scope to improve on the screening system as shown in **Figure 3**, where CPR and CGEP are explicitly employed together in a screening framework for allocation of resources in those two focal areas.²¹ The screening system being employed when projects are proposed for concept review stage of the GEF project cycle before entering the project pipeline. Refer to **Annex 6** for a flow-chart showing how the screening framework could be employed at the project concept review.

²¹ Resources allocated to projects in the other four GEF focal areas could continue to be allocated employing CPR in a screening framework.

Fig 3. Performance based Framework with Country Performance and Country Global Environmental Potential Screening

Country Performance			
	Low	Medium	High
	<ul style="list-style-type: none"> • Enabling Activities for preparing national communications to the global environmental conventions, • Small Grants Program, • Basic crosscutting capacity building. 		
Projects fit GEF's strategic Priority and Country has a high focal area CGEP Rating	On an exceptional basis, strictly ring-fenced limited funding in that focal area	Limited GEF support: medium-sized project with no restrictions and full-sized projects with strictly ring-fenced funding in that focal area.	Full access to GEF funds: <ul style="list-style-type: none"> - Full-sized projects - Medium-sized projects - Programmatic approaches
Projects fit GEF's strategic Priority and Country has a low focal area CGEP Rating.	No funding in that focal area.	Only medium-sized projects in that focal area.	A few full-sized or medium-sized projects with country-ceiling restrictions in that focal area

Projects could be concentrated in capacity building to allow countries to move to better performing group

Ex-Ante Resource Allocation System.

55. As the performance-based framework evolves, *Country Performance* and *Country Global Environmental Potential* elements could also be employed in an ex-ante resource allocation system, subject to the decisions of the Council. Under this system, GEF resources would be first allocated to focal areas as under current practice. Resources allocated to the biodiversity and climate change focal areas²² could be then allocated among recipient countries as shown in the equation below, where, for example, resources available to a country in biodiversity is dependent on: (i) the Country Performance Rating; and (ii) the Country's Global Environmental Potential in the biodiversity focal area. A schematic for an ex-ante allocation framework is shown in **Annex 7**.

²² Resources for projects in the other four GEF focal areas could continue to be allocated using CPR in a screening framework.

$$\text{Country Allocation}_{\text{biodiversity}} = F(\text{CPR}, \text{CGEP}_{\text{bio}})$$

$$\text{Country Allocation}_{\text{climate change}} = F(\text{CPR}, \text{CGEP}_{\text{climate change}})$$

56. The form of the above function, together with the relative weights of the two elements, CPR, and CGEP, scaling factors, etc, needs to be developed. Such a framework would result in an ex-ante allocation of resources, where project opportunities are sought in countries after resources have been allocated ex-ante in those countries. An ex-ante allocation has the several merit of being a transparent framework for allocation of levels and types of GEF resources to countries. Its development would aim to accommodate the following concerns expressed by various stakeholders:

- (a) Given that GEF has a small amount of resources, distributing this across countries in an ex-ante manner may not result in the critical mass of resources required to implement good projects in countries;
- (b) GEF projects are incremental in nature and they usually piggy-back on projects that are developed and prepared in countries and agencies responding to other priorities;
- (c) There remain differences in capacity amongst countries to implement GEF projects; and
- (d) The particular attention to be given to ensure a demand driven process in the GEF project cycle, considering the global nature of GEF projects' impact, to improve country ownership and project quality.

57. The system could have floors and ceiling, and explicit exceptions to the allocation rule, etc. A clear time-line for arriving at this stage is difficult to estimate without embarking on developing the first parts of the framework and additional research on the different elements and factors described throughout this document.

Conclusion

58. In closing, while proposing a phased approach, the Working Group underscores the challenges involved in embarking on this process. Given that the PBF at the GEF will have little to borrow easily from systems at other multilateral agencies, the Working Group would like to reiterate that a significant amount of work has to be carried out under the aegis of the Secretariat (and Council) over the next couple of years. It is estimated that the Secretariat would require two professionals (an econometrician/statistician, an expert on environmental indicators), a research analyst, and a budget for commissioning external experts, as required.

Performance-based Framework for Allocation of GEF Resources: Technical Working Group

Chair: Mr. Ramesh Ramankutty, Strategic Planner & Team Leader, Operations Coordination, GEF Secretariat

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Performance-based Framework for Allocation of GEF Resources

Workplan for Technical Working Group

The overall objective of the working group is to develop a performance-based framework (PBF) for allocation of GEF resources. In meeting its objectives, the working group shall, inter-alia, undertake the following tasks:

- (a) Review existing GEF policies and practices, including those at Implementing and Executing Agencies, to account for project/country performance at various stages of the project cycle;
- (b) Review the strategic planning framework of the GEF, and current policies and practices for allocating financial resources;
- (c) Review policies and practices to support performance-based allocation in other multilateral organizations, including International Development Agency (IDA), International Fund for Agricultural Development (IFAD), the regional development banks, etc.,
- (d) Agree on the objectives of the GEF, and the interpretation of the policy recommendation (related to country performance) of the third replenishment.
- (e) Develop a basic set of principles²³ around which the PBF is to be designed;
- (f) Develop elements of a PBF, including assessment factors, and indicators for those factors;
- (g) Outline of how the PBF could be implemented in the GEF and the Implementing and Executing Agencies.

The working group shall submit a report to the Council for review and comment at its meeting in November 2003. The proposed time-table for undertaking these activities is as follows:

Activity	Time table
First Teleconference of the Working Group	July 17, 2003
Review of background documentation, related to 1(a), (b) and (c)	July - August
First workshop (detailed agenda for workshop to be finalized)	August 19-20, 2003
Further work through teleconferences and Email communication	August - September
Preliminary Draft to Council members	September 12, 2003
Second Workshop (detailed agenda to be finalized)	Oct 2-3, 2003
Final Report to Council	Oct 16, 2003

²³ Refer to the principles in GEF/C.21/8, which were widely accepted by the Council.

GEF STRATEGIC PRIORITIES

1. Strategic Priorities reflect the major themes or approaches under which resources would be programmed within each of the focal areas. These priorities, consistent with the Operational Programs, guidance from the conventions, and country priorities in each focal area, reflect a sharpening of approach as follows:

- (a) Lessons from the portfolio. The Second Overall Performance Study, and other reports and studies from the GEF Monitoring and Evaluation Unit have provided a lot of insight regarding experience with project implementation and impacts at both the project and program level that needs to be reflected in the future portfolio. In addition, there is a rich body of experience with non-GEF supported efforts towards global sustainability. These lessons also provide guidance on how to target convention guidance and national priorities more closely, and achieve results on the ground.
- (b) Sequencing of response to Convention priorities. The current practice ensures that GEF projects are consistent with Convention priorities by requiring projects to conform to the criteria of an Operational Program that reflects Convention guidance. GEF needs to progress to an approach where response to Convention guidance needs to be strategically sequenced while maintaining the flexibility to program resources to meet the evolving needs of the Conventions and to program for synergies across the various Conventions.
- (c) Responsiveness to national priorities. Targeting the highest national priorities more actively through national reports, assessments, strategies, plans, and dialogue, in addition to relying upon country focal point endorsement.
- (d) Incorporation of scientific and technical advice. Identifying the priority interventions, consistent with scientific knowledge, through the work of the Scientific and Technical Advisory Panel (STAP), to reduce global environmental risks.
- (e) Portfolio gaps. Identifying gaps in the GEF portfolio and niches for innovation that need to be explored.

These strategic priorities have been developed by the Focal Area Interagency Task Forces, comprised of staff from the Secretariat, the Implementation Agencies, and STAP members. These strategic priorities are not mutually exclusive; many projects could address more than one strategic priority in a focal area; some may address multiple focal areas.

GEF Strategic Priorities and Projected Levels of Financing

Strategic Priorities	Millions of US Dollars		
	FY03 (actual)	FY04	FY05
Capacity Building			
Enabling Activities (climate change & biodiversity)	5	33	35
Cross-cutting Capacity Building	6	50	58
Total	11	83	93

Biodiversity			
Catalyzing Sustainability of Protected Areas	80	90	90
Mainstreaming Biodiversity in Production Landscapes and Sectors	52	73	82
Capacity Building for the Implementation of the Cartagena Protocol on Biosafety	1	19	25
Generation and Dissemination of Best Practices for Addressing Current and Emerging Biodiversity Issues	12	13	15
Total	145	195	212

Climate Change			
Transformation of Markets for high volume products and processes	28	25	25
Increased Access to Local Sources of Financing for Renewable Energy and Energy Efficiency	16	30	38
Power Sector Policy Frameworks supportive of Renewable Energy and Energy Efficiency	48	40	40
Productive Uses of Renewable Energy	20	35	40
Global Market Aggregation and National Innovation for Emerging Technologies	0	30	35
Modal Shifts in Urban Transport and Clean Vehicle/Fuel Technologies	20	20	39
Short-term measures	0	5	5
Total	132	185	222

International Waters			
Catalyze Financial Resources for implementation of agreed actions	46	45	30
Expand Global Coverage with Capacity Building Foundational Work	21	28	30
Undertake innovative demonstrations for reducing contaminants and addressing water scarcity	15	26	19
Total	82	99	79

Ozone – Methyl Bromide Reduction	-	12	-
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Persistent Organic Pollutants			
Targeted Capacity Building	42	8	6
Implementation of Policy/Regulatory Reforms and Investments	27	3	10
Demonstration of Innovative and Cost-effective Technologies	16	9	14
Total	85	20	30

Sustainable Land Management			
Targeted Capacity Building	5	25	30
Implementation of Innovative and Indigenous Sustainable Land Management Practices	5	40	55
Total	10	65	85

Integrated Approach to Ecosystem Management	47	30	25
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Small Grants Program	30	54	69
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IDA Country Policy and Institutional Assessment (CPIA) Indicators**A. Economic Management**

1. Management of Inflation and Macroeconomic Imbalances
2. Fiscal Policy
3. Management of External Debt
4. Management and Sustainability of the Development Program

IDA Country Policy and Institutional Assessment (CPIA) Indicators

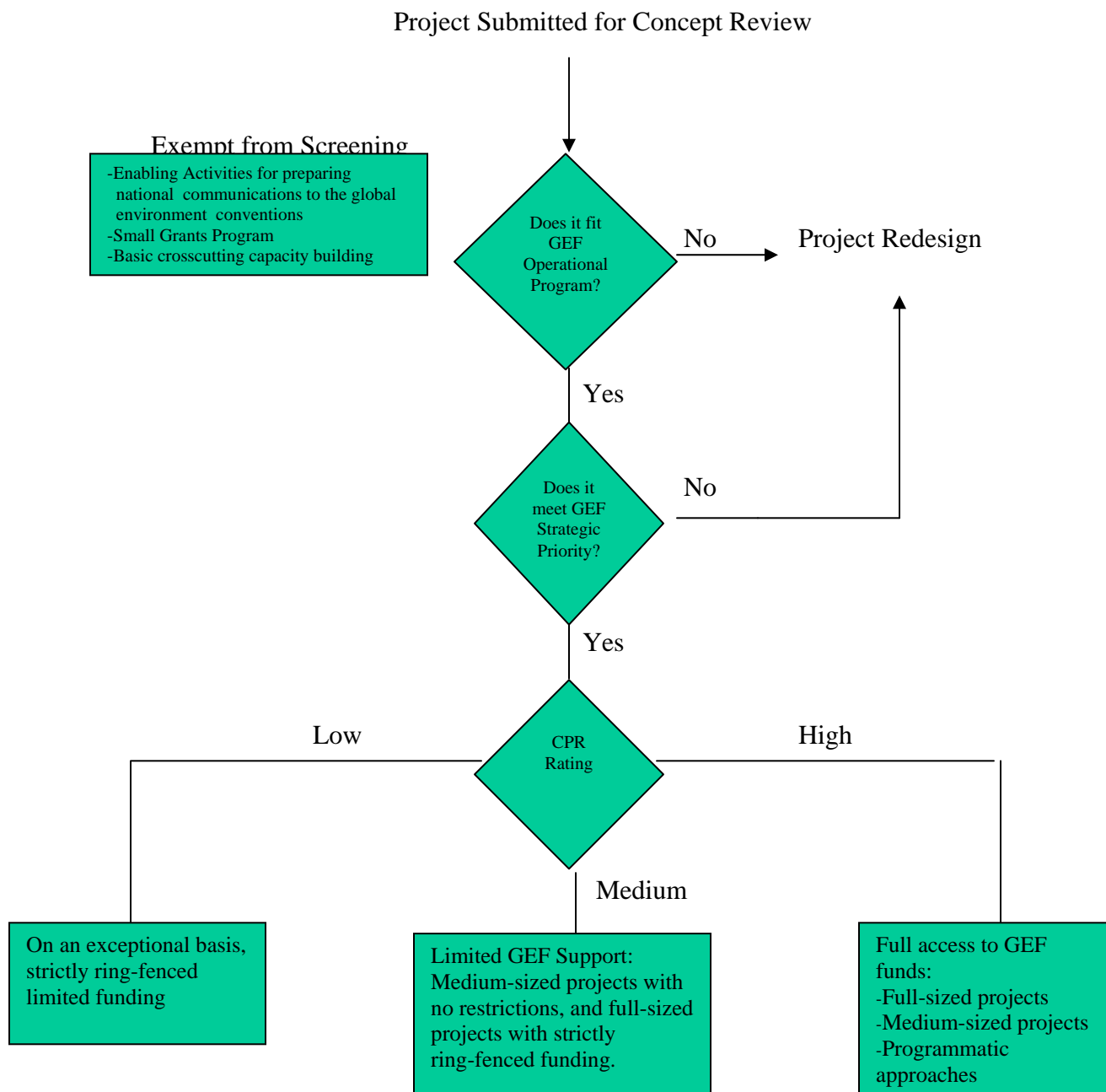
- A. Economic Management
 - 1. Management of Inflation and Macroeconomic Imbalances
 - 2. Fiscal Policy
 - 3. Management of External Debt
 - 4. Management and Sustainability of the Development Program

- B. Structural Policies
 - 5. Trade Policy and Foreign Exchange Regime
 - 6. Financial Stability and Depth
 - 7. Banking Sector Efficiency and Resource Mobilization
 - 8. Competitive Environment for the Private Sector
 - 9. Factor and Product Markets
 - 10. Policies and Institutions for Environmental Sustainability

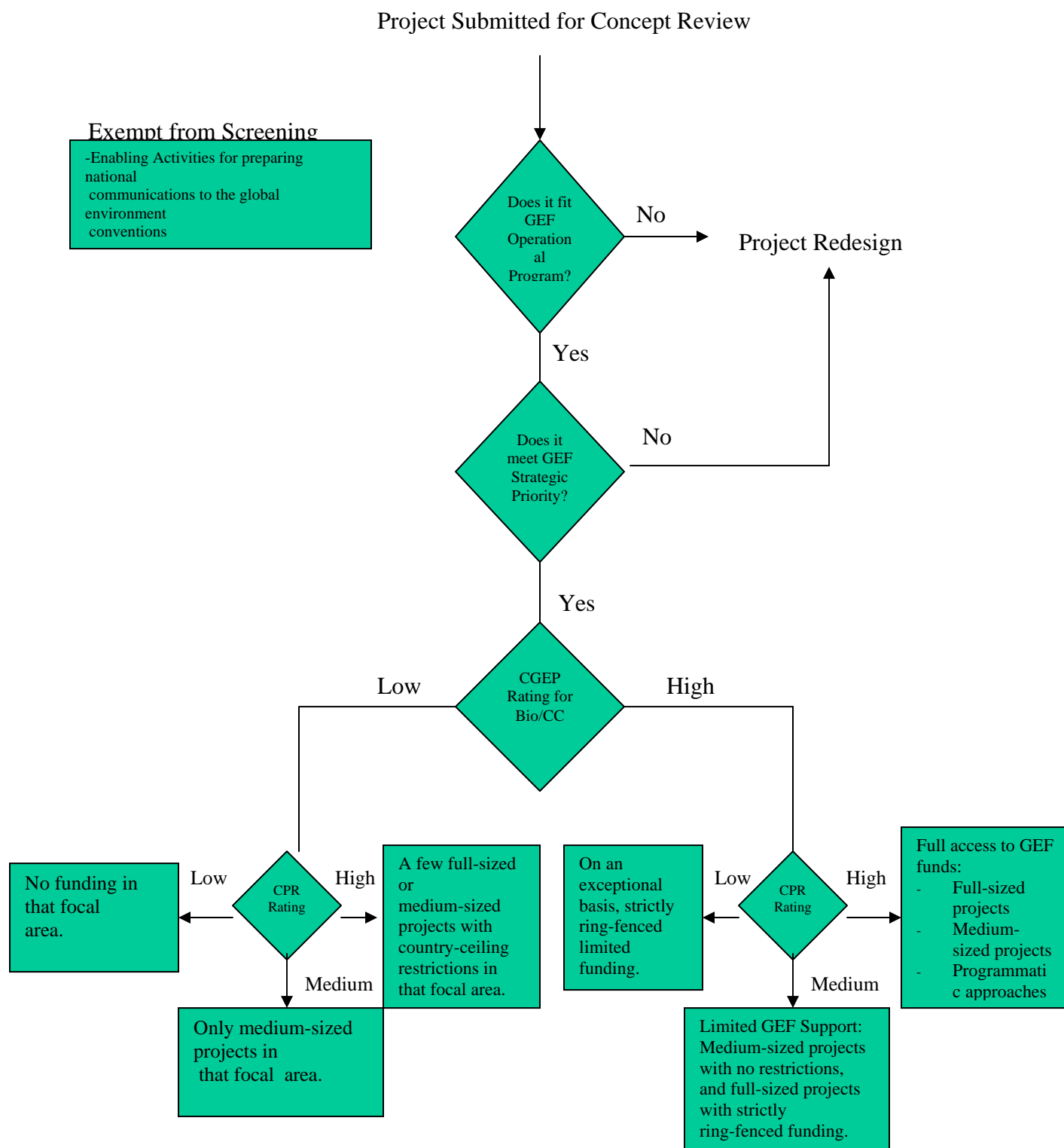
- C. Policies for Social Inclusion/Equity
 - 11. Gender
 - 12. Equity of Public Resource Use
 - 13. Building Human Resources
 - 14. Social Protection and Labor
 - 15. Monitoring and Analysis of Poverty Outcomes and Impacts

- D. Public Sector Management and Institutions
 - 16. Property Rights and Rule-based Governance
 - 17. Quality of Budgetary and Financial Management
 - 18. Efficiency of Revenue Mobilization
 - 19. Quality of Public Administration
 - 20. Transparency, Accountability and Corruption in the Public Sector

PERFORMANCE-BASED ALLOCATION FRAMEWORK WITH COUNTRY PERFORMANCE SCREENING



PERFORMANCE BASED FRAMEWORK WITH COUNTRY PERFORMANCE AND COUNTRY GLOBAL ENVIRONMENTAL POTENTIAL SCREENING



**PERFORMANCE BASED FRAMEWORK WITH EX-ANTE ALLOCATION OF
RESOURCES BASED ON COUNTRY PERFORMANCE AND COUNTRY GLOBAL
ENVIRONMENTAL POTENTIAL**

