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# STRATEGIC POSITIONING FOR THE GEF

(Prepared by GEF Secretariat)

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## INTRODUCTION

1. This document outlines the elements for the strategic positioning of the GEF for the sixth replenishment period (GEF-6) covering July 01, 2014 to June 30, 2018. The document presents directions that have emerged from the long-term strategy development underway, and proposes possible ways of addressing issues that emerged during discussions at the first replenishment meeting in April 2013.

2. First, the document incorporates the latest output from the ongoing long term strategic exercise of the GEF (GEF2020). GEF2020 will provide the overall strategic directions the GEF may take in the longer run, with some of the first steps being feasible for implementation during GEF-6. At the first replenishment meeting, participants had discussions on some of the key elements of the GEF2020 supported by a detailed presentation of the rapidly deteriorating status of the global environment. Among other things, the presentation stressed the importance of the GEF increasingly focusing on drivers of environmental degradation. Since then further progress has been made in the exercise, as presented to GEF Council in June 2013.

3. Second, the document responds to a range of questions that was raised at the first replenishment meeting. At that meeting, document GEF/R.6/06/Rev.01, *Draft Strategic Positioning for the GEF*, posed 10 questions.[1] On the basis of the subsequent discussion, participants requested the Secretariat to undertake analysis on seven issues in preparation for the second meeting: (i) A differentiated financing approach; (ii) Modifications of the resource allocation system; (iii) Strengthening of the results-based management and knowledge management systems; (iv) Engagement with the private sector; (v) Mainstreaming of gender considerations; (vi) Programing, including details of the signature programs; and (vii) Resource programming for focal areas and signature programs. Participants also requested the Trustee to prepare a paper on several financial issues, including the minimum contributions to participate in the replenishment discussion, the use of pro-rata rights to defer contributions, and possible alternatives to create incentives for timely payments and clearing of arrears.

4. The current document, prepared by the Secretariat, deals with the issues (i) to (v), while the *Draft GEF-6 Programming Directions* document,[2] also prepared by the Secretariat, will handle the issues (vi) and (vii). The current document also outlines some steps to be taken in GEF-6 to enhance climate resilience in the portfolio. The *GEF-6 Replenishment: Additional Information on Financial Structure* document,[3] prepared by the Trustee, will handle the financial issues.

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[1] (i) How could the GEF move towards a more program based approach? (ii) How can the GEF support more focused and impactful projects? (iii) What is the GEF's role in climate finance in view of the evolving global finance architecture and changing demands? (iv) How can the GEF continue to remain at the forefront of innovation? (v) How should the GEF seek to enhance its results-base management and knowledge management to facilitate replications and scale-up? (vi) How should the GEF enhance its strategic partnership with the private sector? (vii) How should the GEF engagement in middle income countries evolve? (viii) Should the GEF review its current resource allocation system? (ix) Should the GEF consider introducing alternative and more innovative financing models?; and (x) Should the GEF consider rebalancing resource allocation among focal areas?

[2] GEF/R.6/13.

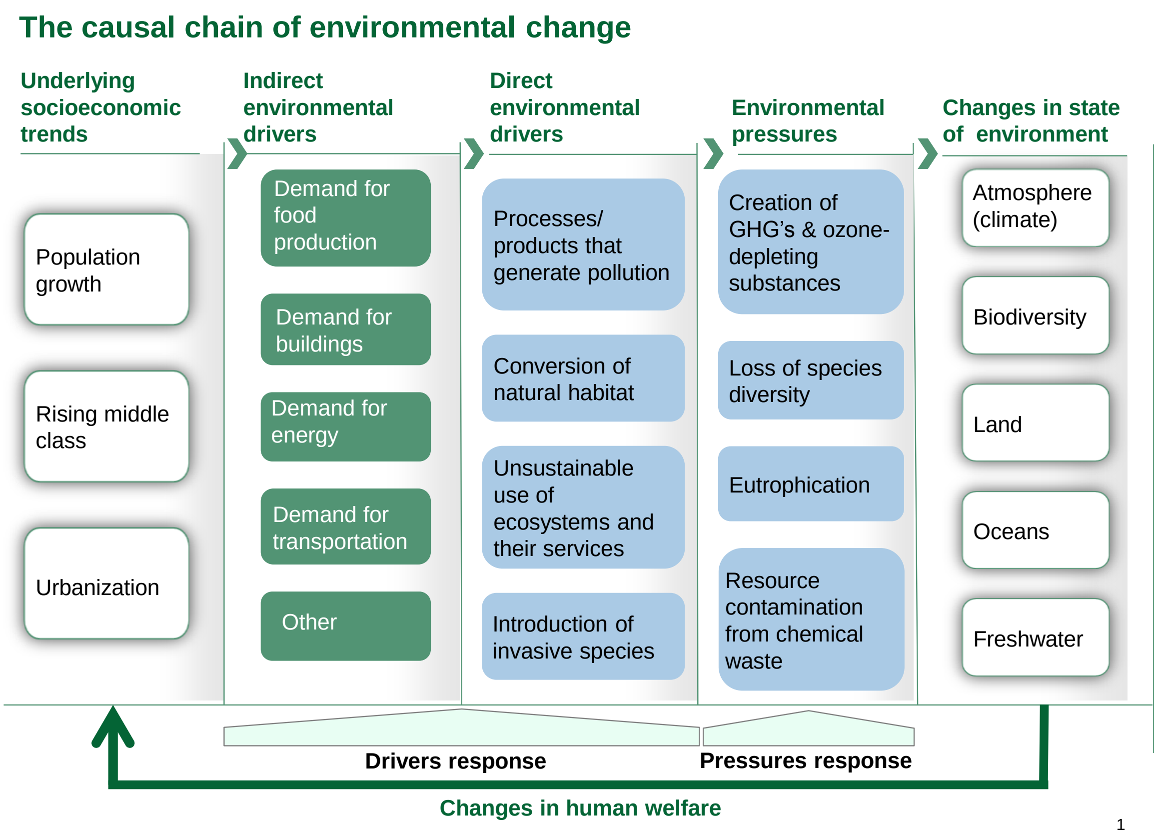
[3] GEF/R.6/15.

## STRATEGIC DIRECTION

5. The draft strategic positioning document presented at the first replenishment meeting, together with the presentations made during the meeting, laid out the case for the GEF to seek higher and more systemic impacts at scale and explored the means to achieve that goal. The intention of this document is not to repeat what has been already presented, but rather to summarize the major points made and to outline the key messages emerging from GEF2020 exercise.

6. **It was emphasized at the first meeting that the earth's environmental challenges are intensifying**. Ecosystems are being pushed to their limit as human demands on them imply that key ecosystems are now increasingly exceeding their carrying capacity to the extent that abrupt changes—which may be prohibitively costly or simply impossible to reverse—can no longer be ruled out. It was also noted that the pressure on resources is set to increase in the coming decades as the result of three global megatrends, viz., a 2 billion increase in global population by 2050, accompanied by a rapid increase in the global middle class by 3 billion in just the next two decades, almost all of whom are likely to live in cities. The megatrends influence various indirect drivers as the world needs to meet a doubling in demand for food, energy, human habitat, transportation, etc., that create direct pressures on the state of the global environment (Figure 1).

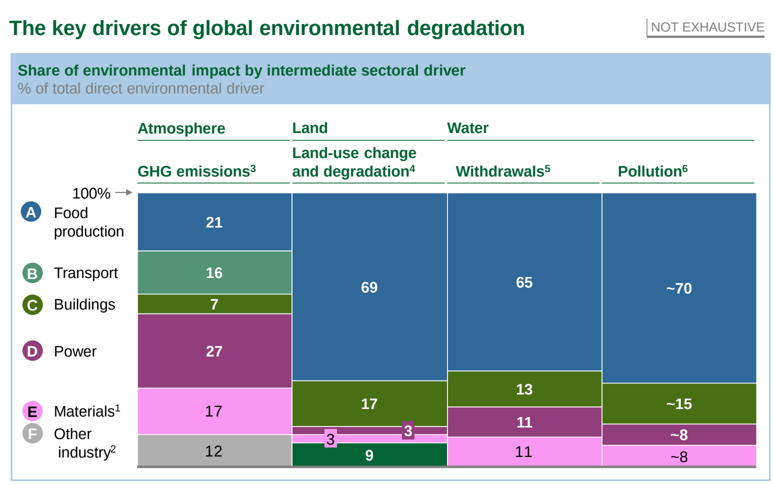
**Figure 1: Drivers of Environmental Degradation**




[1]

7. **Given these challenges, incremental gains in managing global environment will not suffice.** Articulating the causal chain from megatrends to the state of global environment illustrates the opportunity for the GEF to strengthen its focus on interventions that are closer to the underlying drivers of environmental change. By adopting a stronger focus on the drivers that lead to unsustainable usage of resources, the GEF will better be able tackle the "root-causes" of environmental degradation, which will be critical to slow and eventually reverse environmental trends. It would also help the GEF create synergies across several environmental domains, and enable GEF to enhance its contribution to countries' broader national development goals consistent with country-ownership and guidance from the multilateral environmental conventions.

**Figure 2: Sectoral Drivers of Global Environmental Degradation**




Assessment shows that some sectoral drivers predominate across different environmental states. For example, agriculture accounts for approximately a quarter of the greenhouse gas emissions in 2010. This figure includes 13 percent from agricultural production, viz., methane from livestock, nitrous oxide from fertilizer use, and carbon dioxide from farm machinery and fertilizer production. Land use change, which is primarily driven by agriculture, contributes another 11 percent.

8. **The meeting noted the rapidly evolving landscape for global environmental financing.** It also recognized a diminishing space for public finance in the context of increased private flows. This requires GEF more than ever to clearly articulate its value proposition if the GEF is to continue to be relevant in the future. At the same time, it was recognized that GEF has a number of strengths upon which its future strategic positioning can be built. Among the key strengths are: (i) the 22 years of experience of the GEF network in implementing projects that deliver global environmental benefits; (ii) high degree of international legitimacy derived from its association with key multilateral environmental conventions; (iii) programs and projects reviewed and guided by a world-class Scientific and Technical Advisory Panel (STAP), and the results-on-the ground being continuously assessed by the independent Evaluation Office; (iv) an equitable governance structure; and (v) a strong and expanding network of implementing partners. Ongoing international discussion on sustainable development goals also points to the need to efficiently bridge gaps in the implementation of the sustainable development agenda. Moreover, it was emphasized that the GEF is unique among multilateral funding mechanisms in being able to integrate various inter-linked and reinforcing environmental objectives to promote cost-efficiency and higher impact of scarce resources. This, however, will require new ways for the GEF to conduct its business, including how it prioritizes and allocates financial resources. The draft programming paper prepared for the first meeting described some possible options for how the

GEF could pursue a more integrated approach to programing, including its proposal of the Signature Programs, which have been further developed in the *Programing Directions Document* prepared for the second replenishment meeting.

9. **For each intervention, GEF must carefully select the most effective way to catalyze impact.** In order to complement a "driver-focused approach," it is critical for the GEF to identify the most effective way to catalyze the impact of its interventions. The GEF has historically employed a mix of six influencing models: (i) investing in green infrastructure; (ii) transforming policy frameworks; (iii) creating demonstration effects through innovation; (iv) mobilizing diverse stakeholders; (v) measuring challenges and codifying solutions; and (vi) setting standards to shift markets. It is noted that in order for GEF-supported interventions to produce the systemic impacts at scale, the existence of enabling environment is critical. Among the six influencing models, (ii) to (vi) are effective to create enabling environment conducive to catalyzing the transformative change deriving from the intervention. To have sufficient catalyzing impact, infrastructure interventions generally need to be combined with other influencing models.

10. **The proposed GEF-6 programing takes into account these key messages from the GEF2020 exercise**. In particular, each of the focal area strategies makes efforts to address underlying drivers whenever appropriate, while it continues to address pressure points directly if urgent actions are needed. Focal area strategies also seek to exploit opportunities to help create enabling environments as important catalyzers. Furthermore, a set of Signature Programs is proposed to address key underlying drivers most effectively by creating joint platforms upfront among key stakeholders.

### DIFFERENTIATED FINANCING

11. At the first replenishment meeting, participants noted the merits of further analysis of the possibility of introducing greater differentiation of the terms for financial support to recipient countries, and requested the Secretariat to work closely with the Trustee to explore this further and present an assessment at the second replenishment meeting.

12. Based on the feedback received at the first meeting, differentiated terms in this context is understood to mean that eligible GEF recipient countries would receive GEF financial assistance on different financial terms according to their GDP per capita levels (or other wealth indicator); the assumption being that countries with higher per capita income would receive GEF financing on less concessional terms than countries with lower per capita incomes. The principle of differentiated financing is employed by all Multilateral Development Banks (MDBs). MDBs classify their recipient countries in several categories, with countries' GDP per capita playing as central role in the classification, although there are differences in the exact rules. UN agencies mostly rely on grants, and generally do not differentiate the terms of their assistance on the basis of countries' income levels.

13. This section discusses: (i) brief summary of past discussions about non-grant financing in the context of GEF; (ii) the legal underpinnings for GEF eligibility criteria and financing modalities; (iii) the current allocation of GEF funding across country groups; and (iv) the main issues to consider when discussing the possibility for GEF to introduce country-based differentiated financing as a general modus operandi. Finally, some options are presented for participants to consider.

**Past GEF Discussions about Non-grant Financing**

14. **Since the inception of the GEF, there has been continuing interest in exploring options for non-grant financing.** The Council has on several occasions explored the use of different forms of GEF financing to achieve global environmental benefits, consistent with the principle of incremental cost financing (see Box 1). The discussions to date have, however, focused almost exclusively on the uses of "non-grant instruments"[4] in the context of engagement with the private sector, rather than as a deliberate strategy to differentiate among recipient countries through the terms of financing various countries would face.

15. **The GEF already deploys a number of different financial instruments, although the GEF overwhelmingly is a grant-making facility**. In its Project Management Information System (PMIS), the Secretariat records projects that are utilizing "non-grant instruments."[5] Broadly speaking, in addition to grants, GEF utilizes three types of instruments: loans, guarantees and equity. Since its inception, a total of 85 projects have been recorded as having utilized one of these "non-grant" instruments, for a total amount of $711 million. This is equivalent to about 6 percent of GEF's total programmed amount. In GEF-5 so far, 16 projects involving the use of non-grant instruments have been approved by Council, for a total amount of $173 million. Projects using non-grant instruments generally have high co-financing ratios. A key reason for the higher co-financing ratios is that the projects utilizing non-grant instruments are very often designed exactly to leverage substantial capital, most often from the private sector, whether it is through providing funding for first losses in partial guarantee schemes, or providing equity to leverage other kinds of finance. For the 16 projects approved in GEF-5 to date, the average co-financing ratio is 18.4. Most of these projects are implemented by MDBs, although UNIDO also implements a number of projects. Historically, by far the largest share of projects involving use of no-grant instruments are in the climate change mitigation focal area, although there are also limited examples from other focal areas (in fact, in GEF-5 all 16 projects approved so far was in the climate change mitigation focal area).

16. **Most "non-grant" GEF projects include also grant-funded activities.** The flexibility for GEF to provide grant and non-grant financing enables GEF Agencies to tailor project design to local market and institutional circumstances, and to ensure maximum complementarity between capacity building activities and innovative financial instruments. Such instruments can unlock private investments, which would otherwise not have provided sufficient risk-adjusted returns to be viable. GEF support helps change the risk profile of the total investment package, which in turn helps overcome information and knowledge gaps that hold investments back. If the project is successful, as the relevant market matures and familiarity with the target technology or business

[4] Broadly speaking four types of financing have been considered: *Grants* are resources channeled to fund projects without the expectation that the money be repaid. *Concessional loans* are resources channeled to fund projects with the expectation that the money will be repaid on conditions more favorable than market terms, most often by offering lower-than-market or no interest rates, longer repayment and/or grace periods, or a combination of these features. *Guarantees* are commitments—possibly against the receipt of a—in which a guarantor undertakes to fulfill the obligations of a borrower to a lender in the event of non-performance or default of its obligations by the borrower. Guarantees can cover the entire investment or just a portion of it. *Equity* consists of a direct investment into a project; repayment or any financial depends on the results of the project.

[5] GEF's use of non-grant instruments is based on Council decisions documented in GEF/C.32/7, The Use of Non-Grant Instruments in GEF Projects: Progress Report, November 2007, and C.33/12, Operational Policies And Guidance for the Use of Non-Grant Instruments, March 2008

practices grows, the GEF funding for capacity building and risk-sharing elements can be phased out.

**Box 1. Summary of GEF discussions to date about use of non-grant instruments**

***Mid-1990's***. As early as November 1994, the Council reviewed a paper that reiterated the importance of grant financing to achieve global environmental benefits, but also discussed the use of other financing options, such as concessional and contingent finance and when their use might be appropriate (GEF/C.2/6). The Council noted that policies would have to be developed for the use of these instruments in order to establish an appropriate degree of concessionality, and ensure that GEF resources would not substitute for other sources of financing. This work was followed by two related papers in 1996 and 1998.

In the 1996 paper, the Council considered, for the first time, ways for the GEF to engage the private sector (GEF/C.7/12). The paper undertook an initial exploration of the use of concessional lending, revolving loans, investment, and venture capital as a way to engage the private sector. A core concern was to avoid subsidizing activities the private sector would undertake anyway. The paper recommended that GEF funding for potential private sector applicants be subject to rigorous but practical requirements. The second 1996 paper was an information document that provided options for financing policy, particularly the use of non-grant financing (GEF/C.7/Inf.04). Up to that point the GEF had primarily provided grants, and no policy had been adopted to distinguish between the appropriate use of grants and concessional financing. While noting the many cases in which grant funding was the most appropriate approach, the paper considered the use of guarantees, equity investment, revolving funds and concessional loans. The paper considered cases where loans could provide an appropriate way to finance incremental costs, such as those that would later be recovered from revenues or cost savings. In particular, the paper argued that GEF soft loans may be used "when a market exists, or can be developed for recovering initial incremental costs," while revolving funds could be used when there are many "small incremental investments with recoverable costs." The paper suggested that World Bank lending rates would be an appropriate cost benchmark for concessional GEF loans.

***Mid-2000's.*** In June, 2006, in connection with ongoing work on the GEF strategy to enhance private sector engagement, the Council requested "the Trustee and the Secretariat, in collaboration with the World Bank and the Regional Development Banks, and in consultation with the other Implementing and Executing Agencies, to consider the feasibility of, and to develop operational policies and guidance as appropriate, for the use of non-grant instruments, building upon an assessment of the GEF experience in the use of non-grant instruments." (GEF/C.28/14) This resulted in two papers in 2007 and 2008.

The 2007 paper provided a status update of the GEF's experience with non-grant instruments as of that time (GEF/C.32/7). It also suggested two basic rules regarding the GEF's use of non-grant instruments, which were subsequently adopted by Council. The two basic rules were: (i) "non-grant financing has to be concessional," in order for it to be consistent with the GEF Instrument; (ii) "the PIF must clearly describe the financing package, including the degree of concessionality that will be offered to the recipient and, if any, the expected reflows for the GEF Trust Fund, as well as the risk exposure for the GEF." The 2008 paper reported that until that time a total of 61 GEF projects had used non-grant instruments, almost all of them within the climate change areas and focusing on support for the private sector. The paper set forth a number of operational principles for the use of non-grant instruments (GEF/C.33/12).

## Legal Underpinnings

17. **By way of background, it is useful to briefly review the different financing modalities and GEF's eligibility criteria as they are currently institutionalized in the GEF Instrument**:

(a) In terms of financing modalities, the GEF Instrument enables the GEF to provide grants (i.e., without any obligation by the recipient to repay) and concessional

funding in a form other than grants (i.e., with an obligation for repayment at more favorable terms than market);[6]

(b) Eligibility criteria is determined by the Conference of the Parties of each convention (para. 9 (a) of the Instrument) for grants and concessional financing within a convention framework. In the case of UNFCCC, UNCBD and UNCCD, the group of eligible countries is defined as "developing countries."[7] For those grants and concessional financing outside of a convention framework, the eligibility criteria requires that the recipient be eligible to borrow from the World Bank (IBRD and/or IDA) or receive UNDP technical assistance through its Country Indicative Planning Figure (IPF) and any other additional criteria determined by the Council (par. 9 (b) of the Instrument).[8]

(c) Eligibility currently stands at 144 countries that have an allocation from the System for Transparent Allocation of Resources (STAR) under GEF-5.

**GEF Eligible Countries across Income Categories**

18. **Given its primary focus on providing funding for global environmental benefits, GEF provides assistance to both low-income countries and higher-income countries**. Since eligibility for GEF financing is not directly tied to a measure of GDP per capita, or similar income measure, GEF provides assistance across a broad spectrum of countries. Currently, 52 of the 144 GEF recipient countries are classified as "Upper Middle Income" (UMIC) and an additional six countries as "High Income" (HIC) according to the World Bank classifications[9] (Table 1); i.e., around 40 percent of GEF recipient countries have GDP per capita higher than $4,000. The remaining 60 percent of GEF recipient countries are either classified as "Low Income Countries (LIC)" or "Lower Middle Income Countries" (LMIC). In GEF-5, 35 LICs and 51 LMICs have received funding.[10]

19. **In GEF-5, Upper Middle Income Countries receive 53 percent of the funding that GEF allocates through STAR.** LMICs receive 31 percent, LICs 15 percent, with the remaining 1 percent allocated to HICs. The share of GEF funding allocated to UMICs in large part reflects a high degree of concentration of GEF funding going to a few large recipient countries: 29 percent of STAR resources is allocated to the top five recipient countries (China, India, Brazil, Russia and Mexico).

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[6] Paragraph 2 of the GEF Instrument.

[7] It should be noted that the Conventions generally do not explicitly define the term "developing country". Under the UNFCCC, for example, it is equated with being a non-annex 1 country. Some non-annex 1 countries have, however, opted to not to receive GEF assistance.

[8] However, if the activities fall under the focal area of a convention but outside its framework, the eligible recipients are only those who are parties to the convention (par. 9 (b) of the Instrument).

[9] Economies are divided according to 2012 GNI per capita, calculated using the World Bank Atlas method. The groups are: low income, $1,035 or less; lower middle income, $1,036 - $4,085; upper middle income, $4,086 - $12,615; and high income, $12,616 or more. Among GEF recipient countries, there are six HIC. Of these, four are SIDS. Moreover, Croatia, as a new EU member state, is not expected to be a GEF recipient in GEF-6.

[10] Annex 1 contains a list of GEF eligible countries with the ranking against various criteria – gross national income, per capita income, total STAR allocations, average STAR global benefits index.

**Table 1: Allocation of STAR Resources across Income Groups**

| | LIC | LMIC | UMIC | HIC | Total | Top-5 recipients |
|---|---|---|---|---|---|---|
| **Number of countries** | 35 | 51 | 52 | 6 | 144 | 5 |
| **Share of countries** | 24% | 35% | 36% | 4% | 100% | 3% |
| **Total Allocation (US$ mill)** | 348 | 740 | 1,259 | 33 | 2,380 | 688 |
| **Share of allocation** | 15% | 31% | 53% | 1% | 100% | 29% |

Source: Staff calculation based on STAR data

**Differentiated Financing across Countries: Issues to Consider**

20. **Already today there is significant differentiation in the financing terms among GEF recipient countries**, when taking into account the full financing package leveraged by the GEF. Consistent with its mandate to finance incremental cost, GEF generally leverages significant amounts of funding from other sources. For this reason it is relevant to consider the degree of concessionality (grant element) of the entire funding package of which the GEF funding is but one component.[11] There are two main factors determining the grant element: the relative level of co-financing and the difference in the terms of the co-financing.

21. **GEF co-financing ratios are higher for Upper Middle Income Countries than for poorer countries.** The average co-financing ratio in GEF-5 approved programing to date is 6.8 (Table 2). For LICs it is slightly below average, at 6.7. For LMICs the average increases to 7.3, while UMIC have an average co-financing ratio equal to 7.7. HIC has the lowest average co-financing ratio, reflecting—as noted earlier—that SIDS make up a large share of GEF recipient countries classified as HIC's. The average co-financing ratio for the five largest GEF recipient countries is 10.

22. **GEF leverages a higher share of both public and private funding in higher income countries than in lower income countries**. For example, PMIS data show that for UMICs 39 percent of all co-financing is provided by the government, while an additional 16 percent originates in the private sector. In LICs the numbers are 20 percent and 3 percent, respectively. Since domestic finance is raised on market terms (or via taxes), this is an indication of the importance of the GEF role in increasing the overall grant element of the financing, thereby increasing the incentive for countries to undertake investments in projects that generate global environmental benefits. By contrast, in LICs a higher share of co-financing comes from external sources: 58 percent of co-financing in LICs comes from GEF Agencies and an additional 12 percent from bilateral donors.

[11] In isolation, the grant element of GEF assistance is of course very close to 100 percent since almost all GEF assistance is provided on full grant terms. By comparison, the grant element of a Regular IDA Credit is about 62 percent That is, over the life cycle of an IDA credit, as a result of the extended grace period and lower-than-market interest rates, the lender (IDA) provides a subsidy equivalent to 62 percent of the net present value of the credit

**Table 2: Source and Type of Co-financing across Country Income Group in GEF-5**

| | LIC | LMIC | UMIC | HIC |
|---|---|---|---|---|
| **By Source:** | | | | |
| **GEF Agency** | 58% | 44% | 30% | 16% |
| **Bilateral** | 12% | 5% | 4% | 8% |
| **Government** | 20% | 34% | 39% | 47% |
| **Private Sector** | 3% | 6% | 16% | 29% |
| **Other** | 7% | 11% | 10% | 1% |
| **By type** | | | | |
| **Grant** | 24% | 14% | 17% | 31% |
| **Concessional** | 48% | 36% | 9% | 0% |
| **Non-Concessional** | 27% | 47% | 72% | 62% |
| **Other** | 2% | 3% | 3% | 7% |
| ***Memo items:*** | | | | |
| **Co-financing ratio** | 6.7 | 7.3 | 7.7 | 5.9 |
| **Grant element in total financing** | 60% | 41% | 31% | 45% |

Source: PMIS and staff calculations
Note: Data exclude projects for which information source and/or type of co-financing were not available at the time of PIF approval. Non-concessional financing consist of equity, guarantees, "hard" loans, and co-financing provided by the government. Grant element is calculated as a weighted average of the grant elements in the following four components of financing: GEF funding, grant, concessional loan and non-concessional loan.

23. **Finally, the share of co-financing on non-concessional terms is higher for UMICs than in poorer countries**. GEF projects in LICs predominantly leverage co-financing on concessional terms: On average, 72 percent of all co-financing of GEF projects in LICs is concessional, of which 24 percent in the form of grants, and 48 percent in the form of concessional loan. Only 27 percent is non-concessional. The reverse is true for UMICs: only 26 percent of co-financing in UMICs is on concessional terms, of which 17 percent as grants and 9 percent as concessional terms. Consequently, close to three-quarters of all co-financing in UMICs is non-concessional. The figures for LMICs fall in-between these two categories.

24. **Consequently, the total grant element in GEF financing to UMICs is significantly lower than for poorer countries**. PMIS does not record the actual terms of co-financing for individual projects, so the available data does not allow an exact analysis. However, rough estimates suggest that in LICs the average grant element of the total project financing of which GEF is part of amounts to around 65%. This is approximately twice as high the grant element in UMICs where the estimated grant element is 32%. Thus, in terms of the full financing package, since the grant element is declining with higher per capita incomes, GEF funding is already considerably aligned with "ability to pay."

25. **A move to loan-based funding would reduce GEFs ability to fund innovation and risk taking**. GEF's ability to be relevant in terms of supporting innovation and risk-taking is in part linked to its ability to provide grant financing. This is because grant financing provides maximum coverage of any risk that is not priced at market level, and hence maximum incentive for the

investment to be made, or activity to be undertaken. Although subsidized financing also would provide some coverage, the lower the grant element in the total financing package, the lower the additional incentive to invest becomes. Thus, while GEF's role as funder of innovation and risk taking does not imply that the GEF should only provide grants, it has generally been consensus that GEF funding should help enhance the concessionality of project financing—which would be more limited under a move to broad-based differentiated financing.

26. Across all its focal areas, a key role of GEF assistance is to help countries pilot emerging innovative solutions to environmental challenges. These include technologies, management practices, and supportive policies and strategies, and financial tools. Some pertinent examples from selected focal areas in GEF-6 include:

(a) In *climate change*, the GEF will promote sustainable energy access through renewable energy and efficiency gains, support performance-based mechanisms, and help reduce emissions from short-lived climate forcers. GEF also has considerable experience in helping lower the risks of project financing schemes and to facilitate their design and implementation, especially in collaboration with MDBs and domestic development banks. By reducing the risks associated with consumer default, it removes a major barrier in the residential end-use sector to allow the adoption of more energy-efficient appliances.

(b) In *land degradation*, GEF financing promotes innovative approaches that improve crop and livestock productivity while preserving ecosystem services by providing financing to improve land and soil health, enhance sustainability of surface and groundwater resources, and increase resilience to the effects of climate change. GEF also seeks to help countries leverage innovative financial and market instruments (e.g. carbon finance) to implement sustainable land management practices that reduce GHG emissions and increase sequestration of carbon on smallholder farms.

(c) In *biodiversity*, GEF financing helps operationalize innovative tools and revenue mechanisms that respond to specific country situations, e.g., conservation trust funds, systems of payments for environmental services, debt-for-nature swaps, economic valuation of protected area goods and services, habitat banking, aggregate offsets, and tradable development rights and quotas.

27. As the examples above suggest, the key role of the GEF to pilot innovative solutions can be best performed if resources are provided in grant form.

28. **Differentiated financing may significantly curtail demand for GEF assistance in countries where large global environmental benefits could otherwise have been reaped**. There are several reasons for this:

(a) ***Limited Size of GEF projects***. The average size of GEF projects during GEF-5 to date is US$2.5 million. For UMICs, the average project size is only US$2.7 million. This makes it highly questionable how many of these countries--that generally have access to other funding sources--would be willing to go through the added "hassle" of negotiating loans of this size. By comparison, the average size of the 20 loans that have been funded by the Clean Technology Fund to date is

US$95 million, i.e., more than 35 times larger than the average GEF project in UMICs.

(b) ***Loss of GEF "uniqueness" and missed opportunity to complement other players.*** If switching to loans, the GEF would invariably lose some of its "uniqueness" vis-à-vis other funding sources, for example the Climate Investment Funds (CIFs), or other funding windows from MDBs, and possibly, the Green Climate Fund in the future. The GEF would also miss the opportunity to complement those key players through leveraging. There are successful joint projects between the GEF and CIFs, which might be lost if the GEF switches to loan financing.

(c) ***Funding for global environmental benefits***. A related argument against differentiated financing is linked to the GEF's role as financier of global environmental benefits. Since its inception, a key principle underpinning the GEF has been the notion that GEF funding focuses on the incremental costs incurred by eligible countries to achieve global environmental benefits. Against this background it can be argued that it is inherently questionable to require eligible countries to take on debt to fund global—as opposed to local or national—environment benefits.

29. **A move to country-based differentiated financing would involve a number of practical considerations**. A move to broad-based differentiated financing would raise a number of policy and procedural questions that GEF has not hitherto been facing. Regarding the current GEF Agencies, only the MDBs and IFAD would likely be able to administer loans to eligible GEF countries, as these agencies are the only ones that are able to enter into loan agreements with countries, and have systems in place to record and track loan reflows. By contrast, unless some special arrangement can be established, UN agencies, and the agencies that are currently being accredited under the GEF Accreditation Pilot, are unlikely to be able to administer such loans, and hence would be excluded from implementing GEF projects in the countries for which the assistance would be loan based. In this respect, it should be noted that UN agencies' share of GEF programing is actually higher than the MDB's share in UMICs: in GEF-5 to date 59 percent of programing in UMICs has been done through UN agencies, against 41 percent programed through MDBs (Table 3). This suggests that a switch towards loan financing in higher income countries would imply a significant change in the composition of GEF Agencies in these countries. Certain systems enhancements would also be needed at e.g. the Secretariat and the GEF Agencies, for example related to monitoring of reflows, development of legal documents and procedures, etc. Finally, loan financing is generally also considerably more complicated for recipient countries, e.g., national approval processes, necessary arrangements between central and federal governments regarding lending and repayment, etc.

**Table 3: GEF Agencies' Share of Programming in GEF-5**

| | LIC | LMIC | UMIC | HIC | Total |
|---|---|---|---|---|---|
| **MDBs** | 48% | 36% | 41% | 18% | 36% |
| **Non-MDBs** | 52% | 64% | 59% | 82% | 64% |

Source: Calculations based on PMIS

30. Loan-based financing will eventually generate reflows, albeit only in the medium-to-long-term, since according to the GEF instrument they must be concessional. From the perspective of the GEF Trust Fund, an advantage of moving away from purely grant financing is that loans would generate reflows to the GEF Trust Fund. This would, over time, create an element of self-sustainability of the GEF Trust Fund. Timing and value (in net present terms) of the reflows would depend on the degree of concessionality of the loan terms (i.e. the grant element). For example, in the case of IDA regular terms, the reflows would begin only 10 years after the first disbursement and be completed 30 years later. Loans under Climate Investments Funds (CIF) have a similar repayment profile, although the exact terms in terms of service charge and fees are slightly different.[12] But, contrary to IDA, under the CIF, the terms of the financing is determined on the basis of project level characteristics, not according to country (income) classification. Two examples of reflow-profiles are shown under the second option below.

## Options

31. The following section briefly considers a set of options that Replenishment participants may wish to consider.

*Continue GEF's Selective Use of "Non-grant Instruments," according to Country Demand.*

32. This option, where "non-grant" instruments are employed in response to country demand and to mainstream private sector engagement, is essentially a continuation of status quo, recognizing inter alia: (i) the already considerable alignment between the degree of concessionality in the full GEF funding package and "ability to pay"; (ii) the risk of GEF no longer being an attractive partner in countries where large global environmental benefits can be achieved, and more generally the issue of recipient countries having to borrow to pursue global environmental benefits; and (iii) the long-time lag until reflows would begin to accrue to the GEF Trust Fund. This option may require certain improvement in the GEF's system of managing, monitoring and reporting in terms of the use of non-grant instruments.

*Introduce Country-based Differentiated Financing in the GEF*

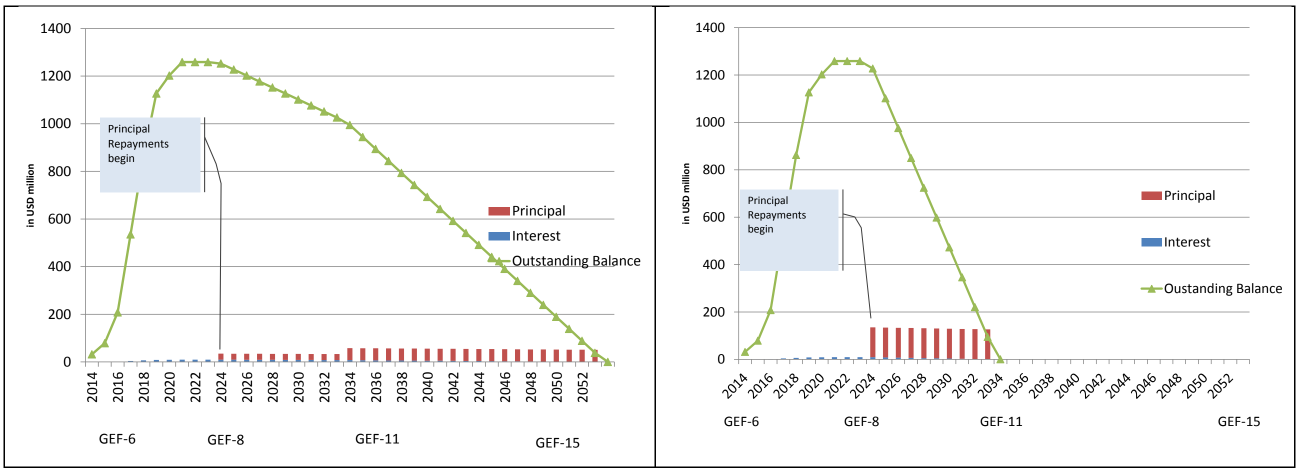
33. As noted above, while it is indeed possible within the stipulations of the GEF instrument to change GEF's current mainly grant-based *modus operandi* to one in which a predetermined set of countries is offered GEF assistance on concessional loan terms, there are a number of issues to consider. The first would be how to define the set of countries, i.e., what would be the relevant metric that would determine that a country is no longer be eligible for grant funding.

[12] Under the Climate Technology Fund there are two types of loans: the "harder" terms has 20 years maturity, while the "softer" terms have 40 years maturity.

34. By way of example, if it were decided that all UMICs and HICs in GEF-6 could only receive GEF assistance on concessional loan terms, it would imply—under current country allocation principles—that more than half of GEF's country allocations, or about one-third of the entire GEF-5 amount, equivalent to about $1.3 billion would be used for concessional loans instead of grants. Assuming that loans would be granted on terms similar to the CIF's, the first repayments would happen in 2024. In the "softer" case annual reflows would peak in 2034 at $58 million. Under "harder" terms reflows would peak in 2024 at $158 million (Figure 3). Given enhanced uncertainty about the demand for these concessional loans, procedures for allocating possibly unspent amounts would have to be established (e.g. could/should unspent amounts be carried over the next cycle? To the same countries?).

**Figure 3: Outstanding Balance and Repayment Profile for Concessional Loans.**

"Softer" terms "Harder" terms




Source: Staff calculations

Note: In both examples a 7-year disbursement profile is assume. "Softer" terms assumes 10 year grace and 40 years maturity. Principal payments are staggered in line with regular IDA loans. Interest rate is 0.75%. "Harder" terms assumes 10 grace and 20 years maturity. Interest rate is 0.75 percent.

*Establish a Pilot Loan-Financing Scheme.*

35. There are a number of ways that a pilot loan-financing scheme could be designed. In the following, two examples are summarized.

36. <u>Middle Income Country Pilot.</u> One option would be to establish a "*Middle Income Country loan pilot.*" The purposes of such a pilot would be: (i) for the GEF to better assess implications of introducing country focused concessional lending; and (ii) to gauge demand for such loans. To set up the pilot a special set-aside would be established from which eligible countries (e.g.,UMICs) would be able to access funding on concessional loan terms. It would have to be decided if the loan funds would act as a supplement to these countries country allocation or a substitute. The source of the set-aside funds would also have to be decided. The size of the set-aside would be relatively limited, to avoid "locking up" too large a share of overall GEF resources in the set-aside. Other practical issues would also have to be worked out. For example, should there be a maximum loan size? Would funding be allocated on a first-come-first-serve basis, or should it be "pre-allocated" to eligible countries?

37. Private Sector Loan Pilot**.** An alternative option might be to establish a "*Private Sector loan pilot.*" Such a pilot would restrict the eligible set of activities to those involving mobilizing private investments, recognizing GEF's experience to date that non-grant instruments have been applied much more frequently in private sector settings than in other settings.

*Establish Differentiated Grant Element/Leverage Targets of Overall Project Financing by Country Classification.*

38. While, as described above, there is already a considerable degree of differentiation of overall funding terms across country groups, codifying these differences may be considered, either through co-financing requirements or through terms of the grant element in the overall project financing. In either case, however, care should be taken to avoid being too formulaic in applying such an approach. For example, co-financing ratios differ significantly between focal areas, so a single country target may inadvertently favor one focal area over another.

**ADJUSTMENT OF THE RESOURCE ALLOCATION SYSTEM**

39. **Since GEF-4 a resource allocation system has guided countries' funding envelopes**. The System for Transparent Allocation of Resources (STAR), an update to the Resource Allocation Framework (RAF), has governed the allocation of resources in the GEF-5 replenishment period of 2010-2014. Using this model, the GEF-5 resource envelopes for Climate Change, Biodiversity and Land Degradation are allocated to eligible countries. For an overview of the STAR, refer to Annex 2. The Evaluation Office is in the process of conducting a mid-term review of the STAR allocation system that would provide feedback to the modifications under consideration.

40. **There are several options to adjust the resource allocation system.** The options presented in this document to modify the resource allocation system were proposed by some of the participants at the first replenishment meeting as well as through written comments and by the Secretariat. The intention behind those proposals ranges from lowering the share of resources allocated to large recipients and/or high income countries, to allocating more resources to needed countries, to seeking higher impacts from the allocation system. The Secretariat has undertaken some initial assessment of the implications of those suggestions:

(a) increasing the weight of the GDP per capita index;

(b) lowering the ceilings imposed on large allocation recipient countries;

(c) increasing the floor allocations for each focal area; and

(d) introducing a competitive group allocation for large allocation recipient countries.

**Increasing the Weight of the GDP per Capita Index**

41. **Increasing the weight of the GDP per capita index in the STAR allocation formula shifts resources from higher to lower income countries.** The rationale behind the creation and inclusion of the GDP per capita index into the STAR was to re-allocate resources from higher income countries to lower income ones. It has been weighted to a value of -0.04. The Secretariat conducted simulations to assess the effects of increasing this value on country allocations. Table

4 summarizes the effects of successive increases in weight of the GDP per capita index on allocations by country income groupings:[13] (i) low-income countries; (ii) lower middle income countries; (iii) upper middle income countries; and (iv) high income countries. As the weight increases, the allocation of the low income country group increases; the allocation of the lower middle income group increases up to a certain weight and then decreases; the allocations of the upper middle income and high income groups decrease steadily.

**Table 4: Effect of GDP per Capita Index on Allocations - by Income Group**

| Countries | Number | Total STAR Allocation ($ million) | Share | Allocations with Different GDP per Capita Index Weights ($ million) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | | | -0.04 | -0.06 | -0.1 | -0.25 | -0.5 | -0.8 | -1.0 |
| **Low Income Countries (LICs)** | 35 | 348 | 15% | 348 | 359 | 381 | 473 | 655 | 874 | 1002 |
| **Lower Middle Income Countries (LMICs)** | 51 | 740 | 31% | 740 | 748 | 763 | 810 | 845 | 799 | 728 |
| **Upper Middle Income Countries (UMICs)** | 52 | 1259 | 53% | 1259 | 1241 | 1206 | 1070 | 857 | 682 | 626 |
| **High Income Countries (HICs)** | 6 | 33 | 1% | 33 | 32 | 31 | 27 | 24 | 24 | 24 |
| **Total** | **144** | **2380** | **100%** | **2380** | **2380** | **2380** | **2380** | **2380** | **2380** | **2380** |

42. Table 5 summarizes the effects of successive increases in the GDP per-capita index weight on country allocations, presented as three different categories: (i) LDCs and SIDS; (ii) five countries with the largest allocations; and (iii) other countries. As the weight increases, the allocations for the LDCs and SIDS increase at the expense of allocations of the other groups. Among the top-5 recipient countries, India experiences an increasing allocation to a certain weight, while the other four countries experience reductions.

[13] World Bank classifications.

**Table 5: Effect of GDP per Capita Index on Allocations – by Country Group**

| Countries | | Number | Total STAR Allocation ($ million) | Share | Allocations with Different GDP per Capita Index Weights ($ million) | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | | | | | **-0.04** | **-0.06** | **-0.1** | **-0.25** | **-0.5** | **-0.8** | **-1.0** |
| **SIDS/LDCs** | | 75 | 611 | 26% | 611 | 621 | 641 | 727 | 906 | 1158 | 1327 |
| **Other Countries** | | 64 | 1081 | 45% | 1081 | 1077 | 1068 | 1025 | 919 | 753 | 637 |
| **Top-5 Countries** | | 5 | 688 | 29% | 688 | 683 | 671 | 628 | 555 | 470 | 416 |
| *Top-5* | *Mexico* | *1* | *98* | *4%* | *98* | *96* | *91* | *74* | *48* | *25* | *15* |
| | *Russian Federation* | *1* | *120* | *5%* | *120* | *116* | *110* | *88* | *57* | *29* | *18* |
| | *Brazil* | *1* | *129* | *5%* | *129* | *127* | *121* | *101* | *69* | *38* | *24* |
| | *India* | *1* | *129* | *5%* | *129* | *132* | *138* | *157* | *182* | *192* | *185* |
| | *China* | *1* | *212* | *9%* | *212* | *211* | *211* | *208* | *199* | *185* | *175* |
| **Total** | | **144** | **2380** | **100%** | **2380** | **2380** | **2380** | **2380** | **2380** | **2380** | **2380** |

### Lowering the Ceilings

43. **Under the STAR, there are maximum allocations (ceilings) that any country cannot exceed within a focal area.** The ceiling is 11 percent for climate change, and 10 percent each for biodiversity and land degradation.[14] The effects of lowering the ceilings are summarized in Table 6, where there is a reduction in China's allocation with a reduction in the current ceiling levels, while India and Brazil experience reductions only when the ceiling levels are much lower.

**Table 6: Effect of Lowering Ceilings on Allocations**

| Countries | | Number | Total STAR Allocation ($ million) | Share | Allocations with Different Ceilings ($ million) | | | |
|---|---|---|---|---|---|---|---|---|
| | | | | | **10** | **9** | **8** | **7** |
| **SIDS/LDCs** | | 75 | 611 | 26% | 613 | 615 | 616 | 619 |
| **Other Countries** | | 64 | 1081 | 45% | 1088 | 1095 | 1102 | 1112 |
| **Top-5 Countries** | | 5 | 688 | 29% | 679 | 670 | 661 | 649 |
| *Top-5* | *Mexico* | *1* | *98* | *4%* | *99* | *100* | *100* | *101* |
| | *Russian Federation* | *1* | *120* | *5%* | *121* | *123* | *124* | *126* |
| | *Brazil* | *1* | *129* | *5%* | *130* | *131* | *132* | *131* |
| | *India* | *1* | *129* | *5%* | *131* | *133* | *134* | *133* |
| | *China* | *1* | *212* | *9%* | *198* | *184* | *171* | *157* |
| **Total** | | **144** | **2380** | **100%** | **2380** | **2380** | **2380** | **2380** |

[14] These percentages are applied to the focal area allocations plus set-asides as outlined in Table 7.

**Table 7: Ceilings for Each Scenario**

| Focal Area | Ceilings under STAR | Ceilings = 10% | Ceilings = 9% | Ceilings = 8% | Ceilings = 7% |
|---|---|---|---|---|---|
| Climate Change | 150 | 136 | 122 | 109 | 95 |
| Biodiversity | 121 | 121 | 109 | 97 | 85 |
| Land Degradation | 41 | 41 | 36 | 32 | 28 |

The currently ceilings in STAR are determined as a percentage of the overall focal area allocation for Climate Change (11%), Biodiversity(10%) and Land Degradation (10%)

### Increasing the Floors

44. **In the current STAR model, a minimum allocation amount or "floor" was set for each focal area.**[15] This benefited many of the LDC and SIDS countries, many of whom would have had allocations beneath these levels had the floors not been introduced. The Secretariat simulated the effects of increases in the focal areal floors on country allocations. Table 8 shows the effects of increasing the floors: modest levels of resources are being reallocated towards LDCs and SIDS from other country groups.

**Table 8: Effects of Increasing Floors on Allocations**

| Countries | | Number | Total STAR Allocation ($ million) | Share | Allocations with Different Floors ($ million) | | |
|---|---|---|---|---|---|---|---|
| | | | | | Scenario 1 | Scenario 2 | Scenario 3 |
| **SIDS/LDCs** | | 75 | 611 | 26% | 639 | 670 | 752 |
| **Other Countries** | | 64 | 1081 | 45% | 1071 | 1060 | 1036 |
| **Top-5 Countries** | | 5 | 688 | 29% | 670 | 651 | 593 |
| *Top-5* | *Mexico* | *1* | *98* | *4%* | *95* | *92* | *82* |
| | *Russian Federation* | *1* | *120* | *5%* | *115* | *109* | *95* |
| | *Brazil* | *1* | *129* | *5%* | *125* | *121* | *108* |
| | *India* | *1* | *129* | *5%* | *124* | *118* | *103* |
| | *China* | *1* | *212* | *9%* | *211* | *210* | *205* |
| **Total** | | **144** | **2380** | **100%** | **2380** | **2380** | **2380** |

[15] The floor values are currently set as follows: $2 million for climate change, $1.5 million for biodiversity, and $0.5 million for land degradation.

**Table 9: Floor Amounts for Each Scenario**

| Focal Area | Floor under STAR ($ million) | Scenario 1 ($ million) | Scenario 2 ($ million) | Scenario 3 ($ million) |
|---|---|---|---|---|
| Climate Change | 2.00 | 2.50 | 3.00 | 4.00 |
| Biodiversity | 1.50 | 1.88 | 2.00 | 3.00 |
| Land Degradation | 0.50 | 0.63 | 1.00 | 1.00 |
| **Total** | **4.00** | **5.00** | **6.00** | **8.00** |

### Competitive Group Allocations

45. Given the underlying concern that a large share of resources are allocated to a small number of countries, the Secretariat is proposing an option to introduce competitive allocations among large recipient countries with the expectation that these countries design and implement projects that generate higher impacts. The current allocation system calculates country allocations based on the potential for each country to generate global environmental benefits; the top five recipient countries (China, India, Brazil, Russia and Mexico) account for 29 percent of the total focal area envelopes under the STAR.

46. **The proposed system would distinguish three groups of recipient countries**. The proposed system would split the 144 countries currently eligible for STAR allocations into three groups as follows: (i) 75 LDCs and SIDS; and (ii) the top five recipient countries – China, India, Brazil, Russia, and Mexico; and (iii) all other 64 countries. First, "indicative country allocations" are calculated for all 144 eligible countries based on the same formula under the STAR in GEF-5. Then the resources are allocated for each of three groups as follows:

(a) 75 countries defined as LDCs and/or SIDS continue to receive individual allocations;

(b) The indicative allocations of the five countries with the largest allocations will be placed into a common resource pool, with these countries engaging in a fully competitive process to access these funds; and

(c) Each of the other 64 countries receives 50 percent of its respective indicative allocations as an individual country allocation. The remaining 50 percent of its indicative allocation will be added to the competitive resource pool referenced above, within which it (and others in this group) along with the top five countries will compete for funds.

47. Under such a system, approximately one half of the focal area resources could be under individual allocations, and one half in a competitive pool. Illustrative allocations for such an arrangement are shown in Table 10. The competitive element within such a system could help ensure a greater level of effectiveness in the use of the GEF's scarce resources as the countries with larger allocation will aim to produce the best quality proposals under competition. From the perspective of an individual country with access to a common pool, while there is no ex-ante allocation, the country may be able to program more GEF resources than is possible under the current individual allocation system if it proposes higher quality proposals. This offers a

differentiated treatment among recipient counties depending on the capacity and opportunity to produce global environmental benefits.

48. **It should be noted that operationalization of this proposal would need careful preparation. T**he competitive mechanism would have to be developed, including for e.g., criteria for selection. The role of the Council also needs to be defined. The desirability of upfront discussion of programming between large recipient countries and the Secretariat and/or the Council would also need to be assessed.

**Table 10: Illustration of Competitive Group Allocations[16]**

| **Categories** | **Number** | **Total Allocation ($ million)** | **National Allocation ($ million)** | **Group Access Fund ($ million)** | **National Allocation ($ million)** | **Group Access Funds ($ million)** |
|---|---|---|---|---|---|---|
| **SIDs and LDCs** | 75 | 530 (26%) | 530 (26%) | - | 530 (26%) | - |
| **Other countries** | 64 | 860 (45%) | 430 (23%) | 430 (23%) | 430 (23%) | Combined fund for all non-SIDS/LDCs 430 + 560 = 990 (51%) |
| **Brazil, China, India, Mexico, Russia** | 5 | 560 (29%) | - | 560 (29%) | | |
| **Total** | **144** | **1,950 (100%)** | **960 (49%)** | **990 (51%)** | **960 (49%)** | **990 (51%)** |

[16] This illustration is based on the "status quo" scenario proposed for GEF-6. Total allocation is calculated by aggregating resources allocated to the three focal areas of Climate Change, Biodiversity and Land Degradation subject to STAR, and subtracting contribution to Signature Programs and "set-aside" for enabling activities and regional projects.

## STRENGTHENING RESULTS AND KNOWLEDGE MANAGEMENT

49. To effectively address global environmental degradation, the GEF needs a better evidence-base to assess effectiveness of approaches, and with a well-established knowledge base help drive those approaches forward. Results-based management and knowledge management are inextricably linked. In their development, results-based management will focus on *how and what results we need to measure*, while knowledge management will focus on *codifying and sharing those results and lessons*.

### Further Development of the Results-based Management Framework

50. **A robust result-based management (RBM) is key for GEF effectiveness.** The robustness of the GEF's RBM system will determine whether it is able to chart a course with its investments and build a strong portfolio that supports synergies across focal areas, or whether it simply hopes that its investments might add up to something bigger. At the core of the GEF's role as a financial intermediary is its ability to direct investments to projects that will achieve transformational impact, whether through setting strategy to inform project design, or through the project appraisal and selection processes. If "catalyzing global action" is at the heart of the GEF's value proposition, it must better understand which approaches best address drivers of environmental degradation to wisely target scarce public money for global environmental benefits

51. **The GEF has made some progress in developing a RBM system**. A framework for RMB was approved by Council in 2007 (GEF/C.31/11). RBM was first implemented during GEF-4, incorporating monitoring and reporting at three levels: institutional (organization); programmatic (focal area); and project. Progressively, the GEF has built up its RBM capabilities: as a first step toward measuring progress, the GEF introduced tracking tools to systematically monitor key indicators at the project level in GEF-3 and GEF-4 for four of its focal areas. During GEF-5, the Monitoring and Evaluation Policy was revised in 2010. Greater emphasis was given to RBM, including establishment of monitoring baselines and ensuring project alignment with the results frameworks of the focal areas.

52. **Several good RBM practices have been institutionalized at the GEF, but more need to be done.** While RBM has been institutionalized to some degree throughout the GEF project cycle, and tools such as an Annual Monitoring Report give some insight into GEF results, there are several challenges preventing the GEF from utilizing RBM effectively. Perhaps most significantly, feedback loops to adequately inform the Secretariat and Agencies of project and portfolio results and lessons learned are missing, resulting in limited influence of the RBM system on future strategy setting and project or program design. Project and portfolio level indicators are incomplete and need to be enhanced through a review of the existing tracking tools and additional RBM tools to understand the causes for successes and failures at the portfolio level. There is a need for integrating GEF systems and automating the submission of all project data, implementation reports, tracking tools, mid-term reports, and evaluation reports.

#### *Transforming Results Management to Scale up Impact*

53. **The GEF will aim to operationalize four key elements of an enhanced RBM system:** (i) close the feedback loop; (ii) measure what matters: (iii) understand how GEF impact adds up; and (iv) lay the foundation for next-generation results management.

54. Close the feedback loop. Despite recent improvements, today the GEF as a network does not have a robust system that analyses what is working and what is not at the portfolio level. The GEF's past performance seems to have a minimal influence on project design and the direction of GEF investment; the feedback loop is broken. Basic RBM processes and systems need strengthening to ensure that the feedback loop is closed, ensuring that the rich lessons from results inform the way the GEF programs in the future. Revamping the systems and tools will include strengthening of the Project Management Information System (PMIS) to facilitate automated collection of information from partners and to allow GEF staff and stakeholders quick and easy access to results information. The GEF project cycle and review process will include measures to ensure that results information is employed in project development processes.

55. It would be critical to ensure that GEF Agencies and countries feel that the information they supply to the GEF network is being put to good use. If it is seen as largely a data gathering exercise with little real added value – a perspective that to some extent prevails today – incentives to cooperate will be diminished. The GEF will clearly articulate the RBM value proposition to members of the GEF extended family to incentivize their active engagement in effective RBM throughout the life of a GEF project.

56. Closing the feedback loop will require linking monitoring and evaluation capacity at the GEF more closely to results management. Under the current organizational arrangements, the Secretariat focuses on monitoring while the Evaluation Office focuses on evaluation. Lessons from evaluation activities need to systematically provide feedback to the project and policy formulation processes at the Secretariat and the GEF Agencies.

57. Measuring what matters. For effective RBM, it will be crucial for the GEF to focus on a very select handful of core indicators that can be measured in a uniform way, allowing for aggregation of these indicators at different levels – across countries, regions, programs and portfolios. Choosing the right indicators will be difficult, but the RBM system must move away from a sole reliance on the current version of the tracking tools that measure a large number of indicators, and thus may obscure the trends that could be revealed from results information. A focus on a few core indicators would help better understand GEF impact and thereby target scarce GEF resources more effectively.

58. These core indicators must also be the measures that matter, and have the most relevance to the GEF Partnership, given mandate from the Conventions and institutional goals. For example, the GEF has moved from measuring hectares of land under protection as a proxy for impact on biodiversity, as in GEF-5, to metrics with a more explicit focus on globally significant biodiversity, as in the GEF-6 Biodiversity Focal Area Strategy. This shift toward measuring the *right* things – things that the GEF needs to manage for – will be accelerated in GEF-6 and beyond.

59. The core indicators that will become the focus of GEF results management will also emphasize catalytic and transformational outcomes. Some of the current metrics that try to capture the GEF's catalytic role – for example, the co-financing ratio of GEF investments – are inadequate to capture the entire range of impacts, and may even sell GEF contributions short. Evidence suggests that some of the most catalytic GEF investments may not have had particularly

high co-financing ratios.[17] Ensuring that substantive core indicators also measure the GEF's catalytic impact will be an RBM priority.

60. It is also imperative that the RBM system measures and tracks the co-benefits from GEF projects that enable transitions to more sustainable economic opportunities and more resilient societies. This will to better demonstrate value for money, and to make a stronger case to all stakeholders, including those beyond the GEF Partnership, that environmentally sustainable development is also economically sustainable.

61. <u>Understand how the GEF impacts add up</u>. The GEF will develop monitoring capacity that allows for telling impact stories at a portfolio level, rather than relying on aggregation of quantitative indicators alone.

62. The current RBM system does not allow for adequate aggregation of results information at the portfolio level. To do this kind of analysis requires taking a step back, conducting a more in-depth ex-post analysis of select sets of projects within a portfolio to understand what worked, what did not, and more importantly, *why* – in ways that are purpose-built to be useful to project and program managers.

63. While the GEF Evaluation Office conducts detailed evaluations of some projects, they are conducted mostly with a view to evaluating on a project-by-project basis. A qualitative, portfolio-level understanding of how our impact adds up needs to be developed in a coherent manner between the Evaluation Office and the GEF Secretariat, with an eye to how portfolio-level results information can best flow back to Secretariat and GEF Agency program managers.

64. <u>Next-generation results management</u>. Ultimately, if the GEF intends to focus more on underlying drivers of environmental degradation, this shift must be reflected in the way it manages for results. The RBM architecture will need to understand and capture the GEF's influence on underlying drivers. A layer of core indicators would be mapped to drivers of environmental degradation, while these would roll up into focal area-relevant metrics (such as volume of greenhouse gases mitigated for the Climate Change Mitigation), demonstrating the effect of operating at the level of drivers on addressing multiple Convention priorities.

65. **The need to measure results across focal areas provides another impetus for the GEF to refine its RBM architecture.** Bringing drivers into the architecture will help the GEF understand where it is realizing synergies across multiple focal areas, measuring project and portfolio outcomes across and beyond focal area silos. Multi-focal area projects already constitute nearly half of the GEF portfolio, adding urgency to the push to break down silos for assessing results.

66. **A robust RBM system would open new opportunities for the GEF**. When the GEF has closed the results feedback loop, and is measuring what matters most through its RBM system, two potentially game-changing opportunities arise, for which a robust RBM system is a prerequisite.

67. **GEF would be able to pursue experimental or quasi-experimental project design.** With a strong RBM system, it would be possible to design a certain proportion of GEF projects specifically with evaluation in mind – offers an opportunity for the GEF to strengthen results-

[17] E.g. Catalyzing Ocean Finance

based management, and generate knowledge that will help the GEF scale up impact. Although few GEF projects are likely to take this form, a helpful illustration of experimental project design is a randomized controlled trial, where precise measurement of the benefits of a given intervention is possible. The GEF will eventually target the development of a certain share of the portfolio as experimental or quasi-experimental projects, supported by a 2011 STAP report recommending that the GEF invest more in projects "deliberately designed to evaluate environmental and social effects of project implementation."[18]

68. **More robust RBM will also allow the GEF to experiment with performance-based finance where appropriate**. This could include the delivery of outcomes that are readily quantifiable, and where project risks are relatively low, linking with models and partners from the Global Partnership on Output-Based Aid. If designed correctly, performance-based finance is an innovation could provide the GEF an assurance of value for money in select cases.

69. **RBM must be sharpened for the GEF to deliver value for money**. The above steps will help the GEF ensure that it is maximizing the impact of its investments across investments, fulfilling the GEF's catalytic and transformational role in environmental finance.

**Building a Knowledge Management System**

70. **A better Knowledge Management (KM) system could enable to play a stronger catalytic role to arrest global environmental degradation.** GEF has the potential to play a role as a knowledge facilitator, where the lessons learned through its investments can greatly multiply the GEF's impact by informing where other dollars flow. However, this is an area of the GEF that has been grossly underdeveloped in the 22 years of its existence. Knowledge activities undertaken by GEF have been so far limited with the exception of two activities – IW: LEARN and the Adaptation Learning Mechanism. Knowledge products emerging from the GEF network are not well-aligned with the most pressing identified user needs; nor do they align with user perceptions of where the GEF has a comparative advantage in knowledge – at the portfolio and global levels. Figure 4 exemplifies this through an analysis of GEF publications during 2012.

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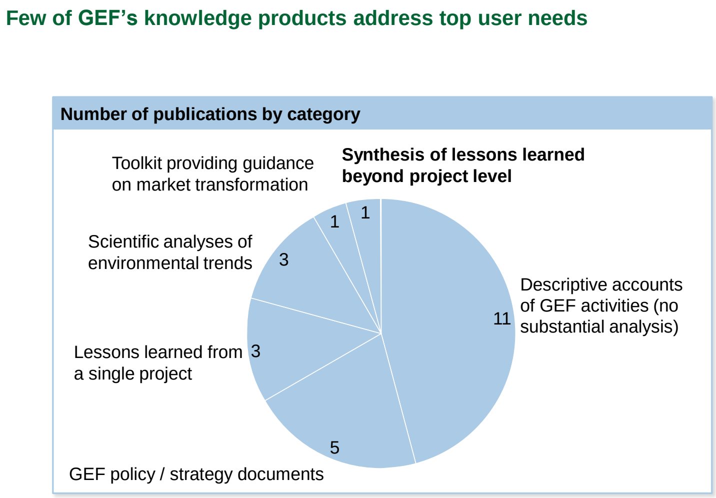
18 http://www.thegef.org/gef/sites/thegef.org/files/publication/Experimental%20Project%20Designs%20in%20the%20GEF.pdf

**Figure 4: GEF Publications in 2012**



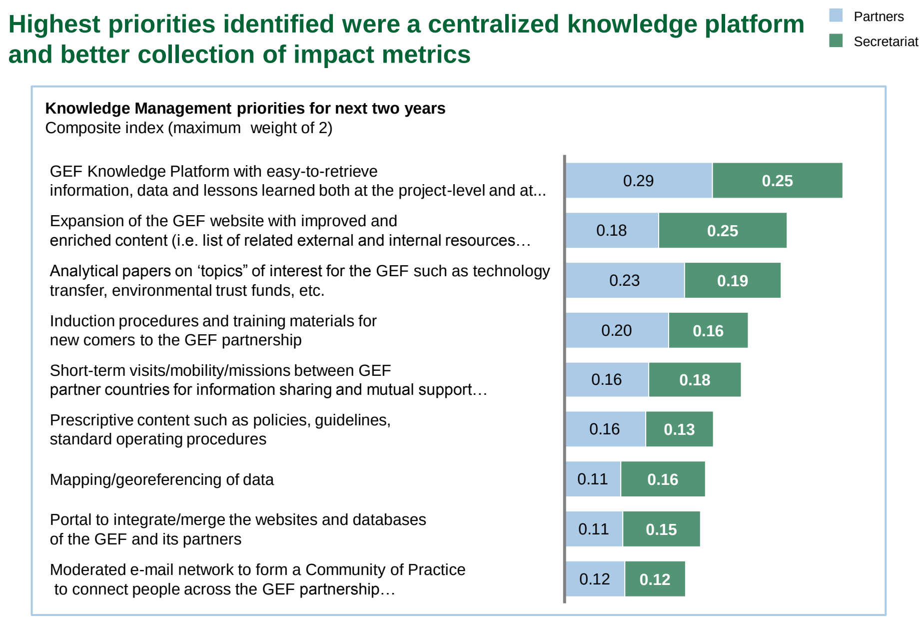

71. **Only few of GEFs knowledge products meet the users' expectations**. Few of the GEF's current knowledge products provide the insights that users find most distinctive of the GEF and even those that do are not having the impact they should due to constraints in the active dissemination and management of these products, as well as their packaging for specific users. From a knowledge systems perspective, there is limited systematic effort network-wide to capture lessons learned from project design and performance, other than through the quick analysis done in the context of the annual monitoring review undertaken by the Secretariat in collaboration with the agencies.

72. **Many of the GEF's KM challenges are not new**. Responding to one of the policy recommendations emerging from negotiations for GEF-5 replenishment, the Secretariat submitted a Knowledge Management (KM) strategy as Council Information Document on June 2011. The strategy was prepared by the GEF Secretariat in consultation with the GEF Evaluation Office (GEFEO), the GEF Agencies, and Scientific and Technical Advisory Panel (STAP). The Knowledge Management Strategy identified some of these challenges and proposed a number of short-term measures to address some of them, though few of them were appropriately budgeted and implemented. The inability to meet these challenges has made it difficult for the GEF to leverage knowledge effectively. It is important to think more boldly about the role of knowledge for a catalytic and transformational GEF, and to make commitments in line with that ambition. The GEF has an opportunity to deliver on a distinct knowledge offer given its mandate and unique positioning.

73. **GEF needs to articulate what its distinctive knowledge offer should be.** The GEF Agencies already produce and disseminate knowledge on the projects they carry out in different ways. Given that there are many GEF partners with more immediate access to detailed on-the-ground information about lessons from projects, the GEF should articulate what the GEF's distinctive knowledge offer should be. The Knowledge Needs Assessment undertaken to prepare the KM strategy found GEF's distinctiveness to be at the portfolio and global levels, rather than at the granular project-by-project learning level. The assessment also found that users of GEF

knowledge today demand that the GEF "grow the pool of publications harnessing and disseminating best practices, success stories, case studies and fact sheets." Figure 5 shows the highest priorities identified in the KM needs assessment.

**Figure 5: Priorities Identified in the KM Needs Assessment**




Source: GEF Knowledge Needs Assessment Draft Report, March 2012

*Directions for the Future*

74. **There are three main objectives for the development of GEF's future KM system.** As the knowledge capabilities are built from the ground-up, the system should be able to do the following: (i) identify clear examples of strategic investments in knowledge to help drive successful solutions to scale; (ii) active, solutions-oriented working knowledge partnerships with focus on tackling the drivers of environmental degradation; (iii) establish the GEF as a credible and influential voice on global environmental solutions.

75. Working Knowledge Partnerships. In sharpening its focus on underlying drivers of environmental degradation, the GEF Partnership has a critical opportunity for knowledge leadership. GEF-6 signature programs provide a clear pathway to pilot such networks, targeting where they can be most valuable. Working knowledge partnerships can be developed in ways that build on the successful IW:Learn structure supported by the GEF, but will institute stronger links between the GEF Secretariat and the knowledge networks to allow for complete knowledge feedback loops. These partnerships will also have a narrower focus, targeting specific issues and knowledge users. For example, part of the GEF's food security program focuses on re-greening, agroforestry and sustainable intensification practices in African drylands, where knowledge sharing between practitioners has been identified as an underserved gap where the GEF should play a role by supporting such knowledge networks. These partnerships will be the key plank of

the GEF knowledge offer, providing the means to both generate and disseminate lessons that are of the highest relevance to users.

76. Portfolio-level analysis. The second flagship knowledge offer will leverage the portfolio-level analysis highlighted in the Results-Based Management section of this strategy, leveraging this knowledge to maximize impact. To address this felt knowledge need, the GEF will work with GEF Agency partners to generate and disseminate knowledge on the most scalable and transformational elements of their combined experience, presenting strong evidence on which types of interventions have had the most impact and why. This knowledge will be purposefully designed to influence investments beyond the GEF Partnership, with the potential to greatly scale up GEF impact. The GEF will also partner with leading academic and research institutions, tying them into the knowledge ecosystem to conduct rigorous analysis and to increase the dissemination of GEF lessons learned.

77. Frontiers of Environmental Change. The third flagship knowledge product that could be built up over a longer time horizon is the development of a world-leading piece of analysis focusing on the frontiers of environmental change. As the Millennium Ecosystem Assessment showed, the GEF has an important role to play in supporting and developing leading knowledge on tackling drivers of environmental degradation, and will leverage STAP and partner with other leading academics, among others, to produce such knowledge product every four years. This product will provide analysis and insight on future frontiers of environmental change, and will signal future areas of GEF focus. They will not aim to replicate efforts on the state of the global environment already undertaken, such as UNEP's GEO.

## ENHANCING PRIVATE SECTOR ENGAGEMENT

78. **The first GEF-6 replenishment meeting discussed the critical need for the GEF to enhance its private sector engagement**. This section describes the GEF's historical approaches and lessons learned; discusses new and expanded approaches for GEF-6; and presents potential operational implications.

79. **There are compelling reasons why engaging the private sector is a higher priority in addressing global environmental challenges**. The private sector is increasingly dependent on scarce natural resources, and has the most to lose as those resources dry up. The private sector is already reacting to the drivers of population growth, rising middle class, and increasing urbanization, recognizing that business as usual approaches are not sustainable. The private sector dominates the entire economic sphere, and therefore limited public sector resources need to be better utilized to redirect private sector activities towards environmentally sustainable approaches.

### GEF's Historical Approaches for Private Sector Engagement

80. **GEF has a long history of private sector engagement with a number of successful projects.** However, those efforts have only been loosely organized and insufficiently replicated across focal areas, institutions, and countries. In GEF-4 and GEF-5, projects geared towards

private sector engagement tended to use ear-marked funding and included non-grant instruments, which address important barriers to private sector engagement.[19]

81. **GEF and its partner agencies have typically used four intervention models to engage private sector partners and catalyze private sector investment**.

(a) Enabling policy environments. Policy and regulatory development (e.g., feed-in tariffs for renewable energy, regulatory incentives that guarantee markets for new sustainability innovations and encourage business to make long-term investments, financial regulatory frameworks) that is critical to putting the right incentives in place to steer their activities in an environmentally sustainable manner.

(b) Incremental financing for risk reduction. Incremental financing—whether through grants, debt, equity, guarantees, structured products or other de-risking mechanisms—for projects that are close to commercialization but require a little push in the right direction. GEF finance has helped transform such markets by taking risk positions within capital and/or financing structures that would otherwise not be filled from commercial sources. The GEF-5 private sector set-aside of $80 million focused entirely on providing catalytic financing through the use of non-grant instruments. Incremental financing in the form of grants to promote private sector investment has been used on hundreds of traditional GEF projects as well.

(c) Corporate alliances**.** GEF has consistently shown success with its agencies in creating alliances to promote environmental objectives. Examples include working with the Rain Forest Alliance to promote sustainable coffee production; working with the Forest Stewardship Council to promote sustainable forestry; with the Marine Stewardship Council to promote sustainable fishing; and with the lighting industry to promote energy efficient lighting. These alliances were particularly effective in developing and documenting industry best practices, standards, and certifications.

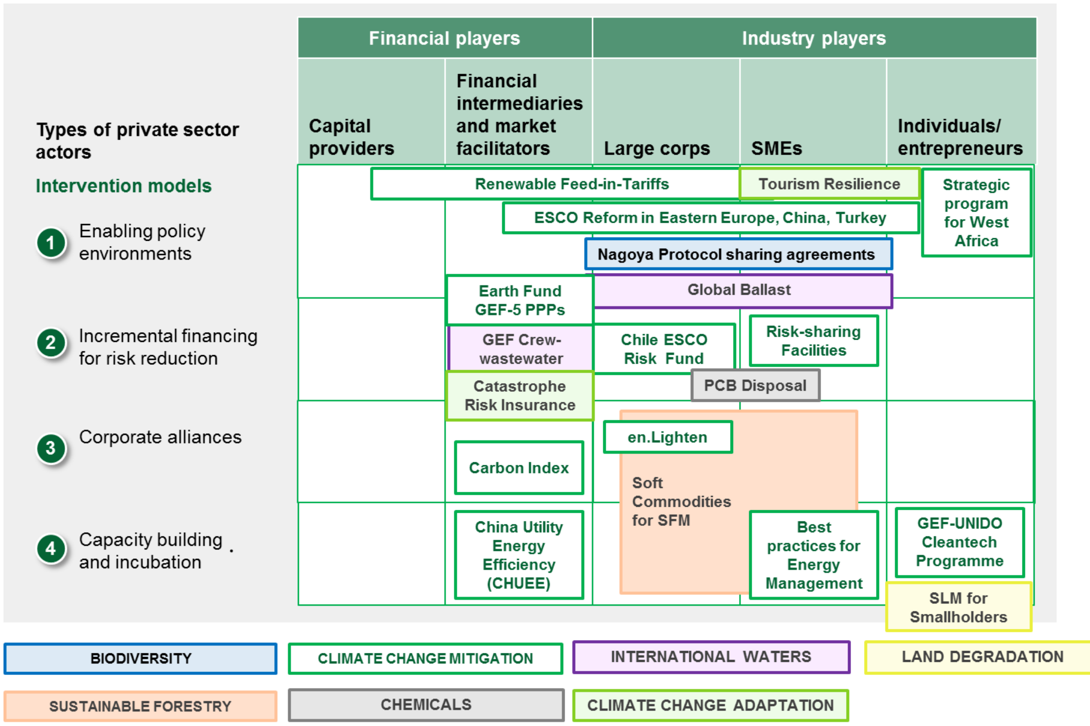
(d) Capacity building and incubation**.** The GEF is known for providing capacity building assistance for public agencies to enhance policy and regulatory development and implementation. In addition, GEF has also provided capacity building assistance for the private sector, especially smallholders, cooperatives, community organizations, and small and medium enterprises—actors who drive innovation and growth in developing countries. GEF is virtually unique in its ability to provide grant funding that can be used for capacity building, incubation, advisory services, innovation and commercialization, and mentoring.

82. **These interventions are most effective when they are fine-tuned to specific types of private sector actors and the specific needs and gaps based on local conditions**. As shown in Figure 6, the GEF has had successful efforts in engagement with many specific private sector actors, including: capital providers and institutional investors; financial intermediaries and market

[19] Barriers to greater private sector investment have been enumerated in several GEF papers, including GEF/C.28/14, GEF Strategy to Enhance Engagement with the Private Sector (2006) and GEF/C.41/09/Rev.01, Revised Strategy for Enhancing Engagement with the Private Sector (2011).

facilitators; and industry partners in specific sizes, such as large corporations; SME, and individuals, co-operatives, and entrepreneurs.

**Figure 6: A Snapshot of Successful GEF Interventions with the Private Sector**




## Lessons Learned from Previous Private Sector Engagements

83. **Historically, these interventions were developed somewhat on an ad hoc basis**. Private sector interventions were developed project by project, and were often highly dependent on the expertise and experience of the GEF Agency and the baseline business and policy environment in the recipient country. It is understandable for GEF Agencies and partners to focus on public institutions that have the lead in setting environmental policy and managing scarce public resources. However, under the STAR, in far too many GEF projects, private sector engagement is an after-thought and private sector stakeholders are not given the opportunities to actively engage in project design or implementation. Furthermore, when private sector engagement is prioritized, stakeholders have to deal with a variety of GEF Agency requirements and procedures that can slow the process and make the partnership with the GEF unattractive. It should also be noted that the private sector engagement has decreased under the RAF and the STAR, indicating involvement of the private sector is challenging once the resources are allocated to individual countries.

## GEF-6 Private Sector Priorities

84. **It is proposed that in GEF-6, a more holistic and comprehensive approach be undertaken by mainstreaming private sector engagement across GEF focal area strategies and proposed signature programs**. Specifically, the focal area strategies identify potential

opportunities to enhance private sector engagement; the signature programs also emphasize and explicitly include private sector engagement.  In addition, the private sector set-aside will aim for supporting more innovative financing models and innovation through capacity building and incubation. Furthermore, GEF will broaden its efforts to engage capital providers and test less frequently used intervention models.

*Potential for Focal Area Mainstreaming*

85. **Mainstreaming private sector engagement across the GEF must be a long-term priority**. Opportunities of GEF-6 potential engagements, taken from the focal area strategies, include:

(a) In <u>Climate Change Mitigation</u>, expanded efforts to engage private sector will include performance based instruments; risk reduction for clean energy and smart grid applications; and corporate alliances to promote energy efficient appliances; greening of the supply chain; and Sustainable Energy For All. GEF can play an important path-breaking role in demonstration of innovative business models and engagement approaches that can be picked up and expanded by other funding organizations, such as the Green Climate Fund.

(b) In <u>Chemicals</u>, opportunities include work with nascent corporate alliances to manage E-waste; expand private sector partnerships for disposal of PCBs; and develop partnerships on green chemistry that can develop new products and processes that reduce harmful by-products and toxic waste-streams.

(c) In <u>Climate Change Adaptation</u>, opportunities include support for enhanced climate risk assessment tools that can be used by private sector investors and insurance companies; supporting technologies and business models for adoption of climate/weather services and drought tolerant techniques and crops, for example, which can build capacity for smallholders to adopt Climate Smart Agriculture techniques. Expanding insurance access for countries vulnerable to climate change, such as Small Island Developing States and least developed countries, and working with agencies and developers to improve land-use planning could be explored.

(d) In <u>Sustainable Forest Management</u>, opportunities include the promotion of landscape restoration by addressing the lack of regulatory policy and enhancing awareness in partnership with all levels of industry. Another example is to promote the uptake of forest certification by capacity building in the underdeveloped markets, engaging across the entire supply chain from micro and SME producers to investment firms. GEF may also support the development of policy risk insurance for vulnerable REDD+ projects that could catalyze private sector investment.

(e) In <u>Biodiversity</u>, there are several opportunities including efforts to develop payment schemes for ecosystem services which will rely on proper policy development and capacity building for private sector actors. The strategy also identifies the need to expand utilization of certification which is hampered by inadequate finance, lack of awareness and under-developed markets. GEF interventions could include corporate alliances, enabling policy, and capacity building, engaging with private sector actors along the entire value chain. The

strategy also identifies ideas for expanded engagement on the Nagoya Protocol (NP) where GEF support is rooted in the vision that obtaining access to genetic resources under the terms of the NP by the private sector can deliver monetary and non-monetary benefits to be shared with the providers of the genetic resources.

(f) In Land Degradation, opportunities exist to work with private sector partners to promote climate smart agriculture through capacity building for smallholders and SME; and potentially incremental financing/risk reduction for adoption of sustainable land management principles.

(g) In International Waters, there are numerous potentials for partnerships with large corporate actors, following the successful Globallast partnership with shippers and the International Maritime Organization. Another example is working with the private sector to promote innovative, market-based approaches fostering good fishing practices and fishery management on Large Marine Ecosystems (LMEs) and Areas beyond National Jurisdiction (ABNJ). Further, there is a good opportunity for engaging with the private sector players through joint investments in joint management of surface and groundwater along the entire supply chain.

*Potentials for Signature Programs*

86. **The GEF-6 signature programs explicitly aim to create a platform through which the private sector can be engaged.** The Signature Programs aim at addressing the major drivers of environmental degradation that need to be arrested urgently. The programs will be designed and implemented through a joint platform involving key stakeholders upfront and the private sector is an indispensable part of the platform and is expected to play a key role there..

(a) In Sustainable Cities: Harnessing Local Action for Global Commons, the opportunities to engage private sector are fundamental to the program design, including integrated urban management through stronger energy services, service providers, waste and water management, and sustainable and resilient urban planning that will necessitate strong private sector engagement. Other examples include building efficiency and smart grid applications. Potential private sector partners include developers, financial institutions, freight and transport, infrastructure construction and management companies.

(b) The signature program Taking Deforestation out of the Commodities Supply Chain is predicated on the notion that engagement with the private sector across the full supply chain in key commodities will help address the fundamental drivers of deforestation. By working with private sector partners, this program will address both supply and demand barriers to uptake of sustainable practices for commodities. The program may also help institutional investors redirect investments from unsustainable to sustainable commodities.

(c) In the signature program A New Development Path for the Amazon Basin, there is recognition that existing market forces are taking a toll on the Amazon, and that long-term solutions must recognize that new business models are needed for individuals, smallholders, agri-business, and the extractive industries.

(d) Food production: Fostering Sustainability and Resilience of Production Systems in Africa has the opportunity to change the dynamic for private sector engagement and recognize the critical role for smallholders and cooperatives in adoption of sustainable approaches to enhance food security, including Climate Smart Agriculture. For example, in areas where food transport losses lower farmer income and promote land degradation through over-use, GEF can work with the private sector to support new technologies and business models for refrigeration that reduce food transport losses. Other areas include improving access to financing, capacity building, and valuation of eco-system services.

(e) The signature program Rebuilding Global Fisheries recognizes the inability of markets to sustainably develop and manage open-access resources such as those found in the ocean. This program will strengthen institutions and catalyze a global transformation of the fisheries sector, partnering with private sector actors to adopt sustainable fishing practices.

*Opportunities for Private Sector Set-Aside*

87. **There are additional opportunities for the GEF to intervene and magnify private sector engagement through the use of a private-sector set-aside.** The use of private sector set-aside offers significant flexibility for innovation and is an excellent means to encourage agencies and private sector partners to propose new ideas.

88. In GEF-5, the private sector set-aside was oversubscribed and could not fund all the ideas presented. Examples of innovative approaches for GEF-6 include (Figure 7), but are not limited to:

(a) Equity funds for environmentally sound technologies and innovative business models that are having difficulty attracting commercial financing. Despite highly liquid capital markets globally, equity financing is still difficult to obtain for innovative technologies and young companies. GEF has the flexibility to invest equity at concessional terms and leverage significant additional private sector investment. Equity investments also offer the potential for returns/reflows that can be used for future projects.

(b) Greening the supply chain for major retailers, working with certification organizations and providing capacity building for SMEs who must comply with new requirements.

(c) Tapping into capital markets and asset management activities. The global capital markets-comprised of both stock and bond markets-are a vast pool of financial resources. The GEF can potentially mobilize private financing in global capital markets by promoting innovative instruments such as:

(i) Techniques to securitize revenue streams from environmental projects.

(ii) New risk reduction tools that address the growing need for policy risk insurance.

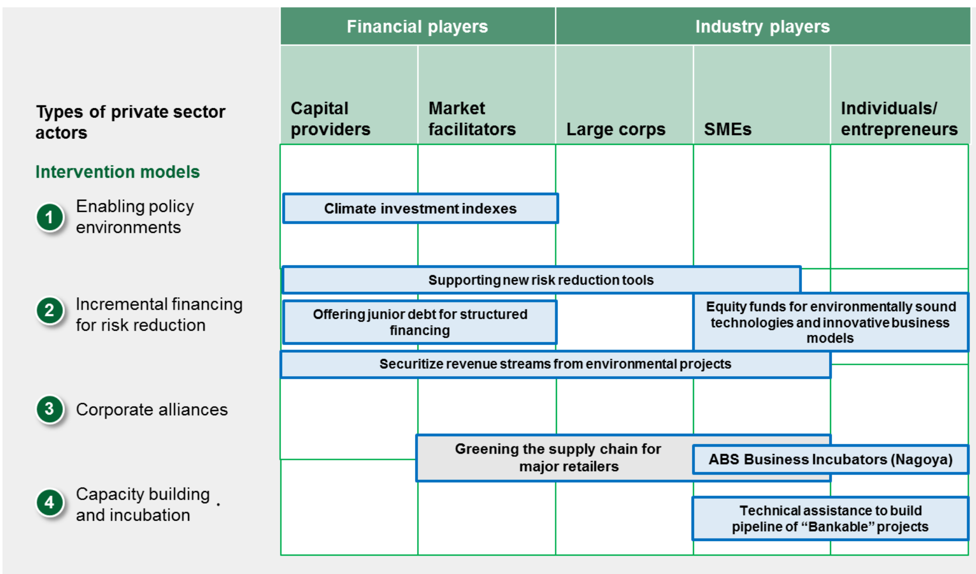
(iii) Junior debt for structured financing that attracts institutional investors.[20]

(iv) Technical assistance to build pipelines of "bankable projects."

(d) Supporting expanded use of analysis and climate investment indexes, such as the ClimateScope tool developed by IADB,[21] that help countries document and showcase their policies for sustainable development (e.g., clean energy, low-carbon development, climate resilience, etc.) with an eye to attracting private sector investment.

(e) Supporting the development and implementation of "ABS Business Incubators"; institutional arrangements set up for converting biodiversity-based innovations into viable businesses on Access and Benefit Sharing of genetic resources (ABS). Specifically, these incubators in one or more countries would allow small- and medium-size enterprises to grow and position themselves to engage on ABS agreements under the provisions of the Nagoya Protocol.

**Figure 7: Options for Private Sector Set-aside**




[20] As an example or pilot of this approach, EBRD developed an innovative structured financing approach to support energy efficiency in North Africa. The GEF supported this approach under the GEF-5 Private Sector Set-Aside in GEF Project #5143. This type of financing vehicle could be instrumental in attracting institutional investors.

[21] ClimateScope is a tool for assessing the "climate" for climate investing in Latin America and the Caribbean. http://www5.iadb.org/mif/climatescope/2012/.

**MAINSTREAMING GENDER CONSIDERATIONS**

89. **The GEF is committed to further engage in and systematically address gender mainstreaming during GEF-6**. GEF's gender engagement is based on the *GEF Policy on Gender Mainstreaming* that was adopted by the GEF Council in May 2012. The GEF recognizes that gender equality is an important goal in the context of projects that it finances, because it advances both the GEF's goals for attaining global environmental benefits and the goals of gender equality and equity, and social inclusion.

90. **GEF is regularly analyzing and reporting on gender issues related to projects.** Based on related policies and strategies of the GEF and its Agencies, the Secretariat has been analyzing how gender issues have been addressed and integrated in GEF projects. The first such attempt was the *Mainstreaming Gender at the GEF*,[22] which was published in 2008. The GEF Secretariat has also been providing regular analysis and reporting on gender mainstreaming among its projects through the Annual Monitoring Review (AMR) since 2012. Portfolio of projects has been analyzed across all focal areas, while systematically reviewing gender specific information in the Project Implementation Reports, Mid-Term Evaluation Reports and Terminal Evaluation Reports.

91. **Integration of gender in GEF projects varies significantly.** While there is important and interesting work being undertaken to integrate gender in GEF projects, the Secretariat has recognized that inclusion of gender mainstreaming actions[23] in GEF projects is less than ideal, and varies among focal areas and its programs.[24] For instance, gender mainstreaming has been relatively strong in projects related to natural resources management, compared to others. Moreover, reports submitted by Agencies often lack information on gender specific results without gender-disaggregated indicators, which makes it difficult to track progress made on the engagement and impact of the project activities towards both women and men. It was also recognized that the approach and information related to gender mainstreaming actions in project documents/reports varies among and within the GEF Agency.

92. **Several actions to strengthen gender aspects in GEF-6 are being proposed.** It is important for the Secretariat and the GEF Agencies to further explore how project results and progress related to gender could be better designed, implemented, and reported, particularly for those projects where gender mainstreaming is highly relevant. During GEF-6, the Secretariat and the GEF Agencies will further strengthen gender mainstreaming through the following actions:

93. <u>Development of GEF Guidelines on Gender Mainstreaming</u> Recognizing that each GEF Agency has different gender policy, strategy, and/or action plan with varying application to GEF

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[22] 2008, GEF, Mainstreaming Gender at the GEF (http://www.thegef.org/gef/node/1548)

[23] These analysis reviewed portfolio of project documents and monitoring and evaluation reports on description related to consideration and approaches on gender mainstreaming. This includes: gender analysis undertaken during project preparation and/or implementation; gender-sensitive project framework (i.e. project objective, outcomes, outputs, and activities that specifically target women and men); gender–sensitive monitoring and evaluation processes, including use of gender-disaggregated indicators; and project staffing (e.g. gender specialist, target to recruit more women staff, etc.).

[24] The gender mainstreaming analysis under the Annual Monitoring Review FY12 (GEF/C.44/05, May 21, 2013) found that 27% of the projects that were analyzed included specific information related to gender. Among the focal area portfolio, about 38% of the projects under biodiversity and land degradation focal areas addressed some approach to mainstreaming gender in project implementation, while it was about 10-18% for other focal areas.

projects, the Secretariat, in collaboration with the Agencies, will develop Guidelines on Gender Mainstreaming to facilitate a systematic approach and provide practical guidance for the implementation of the *GEF Policy on Gender Mainstreaming*. This will clarify and address gender mainstreaming in key steps of the GEF project cycle, including application by the GEF Agencies on gender analysis at the project preparation phase; development of project framework with gender-sensitive outcomes and outputs; and gender-sensitive monitoring and evaluation. Further, guidance will also be provided on the use of gender-disaggregated indicators for relevant projects. To develop the guideline, the Secretariat will review and draw lessons from good practices and practical tools that are used by the GEF Agencies and others for mainstreaming gender in their operation.

94. <u>Mainstreaming Gender in GEF Program Strategies.</u> Under GEF-6, the GEF plans to adopt a more comprehensive and programmatic approach toward gender mainstreaming across GEF programs and projects. While recognizing that the degree of relevance of gender dimensions in GEF projects differ depending on focal areas and objectives, the GEF will place priority in identifying and focusing its efforts to strengthen gender mainstreaming on those programs and projects that could generate significant results and contribute to achieving the goals on gender equality.

95. Opportunities may include focusing on key programs and projects related to sustainable use of natural resources, such as agro-biodiversity, fisheries, and forest resources management under the biodiversity, land degradation, and international waters focal areas and signature programs. Within the climate change portfolio, renewable energy projects have historically generated positive benefits, particularly towards women. The chemicals portfolio has also generated noticeable impacts on the improvement of the health of women and children, through active engagement of both women and men in awareness raising and capacity building activities as well as the eradication of exposure to these chemicals.

96. The Secretariat, together with the GEF Agencies, will identify specific programs and opportunities where gender mainstreaming could be further highlighted and strengthened. This could include incorporating gender-specific activities, along with gender-disaggregated indicators under the concerned focal area programs and its results framework. The Secretariat will also undertake portfolio reviews and learning missions, and strengthen its knowledge management on gender mainstreaming, while highlighting challenges and good practices among related projects. By focusing its efforts towards those programs and projects that could potentially have significant improvement in project results through mainstreaming gender, the GEF intends to take a more programmatic approach in addressing gender issues under GEF-6.

97. <u>Gender Screening/Categorization of GEF Projects at Entry and during Implementation.</u> Recognizing that not all projects require equal attention to gender issues depending on the GEF focal area and/or type of engagement, the GEF will assess and screen gender relevance of all projects at entry. Building on the practices and experiences of various GEF Agencies (e.g. UNDP's Gender Marker, ADB's Gender Mainstreaming Categories, etc.) and other relevant partners, the Secretariat will prepare a simple gender screening criteria and system at the project concept stage, in coordination with the GEF Agencies to avoid duplication of efforts but allow some level of consistency in its approach. As part of the GEF Guidelines on Gender Mainstreaming, this system will help clarify each GEF project's relevance, engagement, and contribution toward the achievement of gender equality. Once under implementation, projects

under different categories would be tracked and reported against on an annual basis through the AMR, using information provided through the PIRs and others. The Secretariat will also provide additional information and analysis through its portfolio monitoring and learning missions.

98. Strengthen Results-based Management on Gender Mainstreaming. During GEF-6, the GEF will further strengthen GEF-wide accountability for gender mainstreaming by enhancing gender-specific performance targets at all levels; from institutional to project levels. The GEF results-based management framework will include examining progress on gender related outcomes and outputs. This would include developing program and project results framework with gender specific indicators, as relevant. This will be monitored and reported against on an annual basis through the Annual Monitoring Review (AMR) exercise. Project Implementation Reports (PIR), Project Evaluation Reports, and other information from the GEF Agencies will provide important inputs to the analysis and reporting.

99. Ensure GEF Partner Agencies' Compliance with the GEF Policy on Gender Mainstreaming . The ongoing assessment on the compliance of the existing ten GEF Agencies with the *GEF Policy on Gender Mainstreaming* will clarify and indicate those areas in which the Agencies meet or exceed the minimum requirements of the Policy and where they do not. The GEF Agencies are expected to meet all the requirements, and be consistent with the Policy. For the entities that apply for accreditation as a new GEF Project Agency, the GEF accreditation criteria require that all applicants demonstrate consistency with the minimum requirements of the Policy.

## ENHANCING RESILIENCE IN GEF-6 PROGRAMMING

100. Given the magnitude of the potential adverse impacts of climate change on development, it is imperative for the GEF to systematically integrate climate change adaptation concerns throughout GEF programming as much as possible. The Council has encouraged the GEF reflect resilience in its project, and STAP has developed advisory document , *Enhancing Resilience to Reduce Climate Risks: Scientific Rationale for the Sustained Delivery of GEBs in the GEF Focal Areas* (2010). Currently as the financial mechanism of the UNFCCC, the GEF manages the Least Developed Countries Fund (LDCF) and Special Climate Change Fund (SCCF). Since 2011, the GEF has begun to support multi-focal and multi-trust fund projects, combining funding of LDCF or SCCF with that of BD, IW, LD, and CCM.

101. In order to make resilience of the GEF investment portfolio a more concerted and systematic effort, the GEF Secretariat, in collaboration with its agencies and STAP, will develop a methodology to screen vulnerable projects and incorporate adaptation measures throughout the GEF portfolio during GEF6, including Signature Programs. An initial analysis of each focal area and signature programs was carried out.

102. The following actions are proposed in order to integrate adaptation efforts across the GEF as appropriate:

(a) Improve project selectivity. Working with each focal area, criteria will be developed to ensure projects and programs adequately reflect adaptation considerations.

(b) Integrate adaptation into project design principles. In partnership with implementing agencies, the GEF will develop a set of best practices for project design that can incorporate adaptation considerations, to be supplemented by training sessions, as needed.

(c) Upgrade knowledge management and results based management tools. GEF tracking tools, and results based tools will be enhanced to better measure and report on adaptation measures undertaken under FA programming.

## ANNEX 1: GEF ELIGIBLE COUNTRIES RANKS ON DIFFERENT CRITERIA

| No | Country | 2011 GNI/Cap ($) | Rank GNI/Cap | 2011 GNI ($) | Rank GNI | GEF-5 Total STAR Allocation ($ million) | Rank STAR | Average Rank STAR Global Benefits Index |
|---|---|---|---|---|---|---|---|---|
| 1 | China | 4940 | 40 | 6645277 | 1 | 212 | 1 | 1 |
| 2 | India | 1450 | 85 | 1766180 | 3 | 129 | 2 | 4 |
| 3 | Brazil | 10700 | 12 | 2106984 | 2 | 129 | 3 | 2 |
| 4 | Russian Federation | 10810 | 11 | 1545952 | 4 | 120 | 4 | 3 |
| 5 | Mexico | 8970 | 15 | 1070195 | 5 | 98 | 5 | 5 |
| 6 | Indonesia | 2930 | 67 | 713213 | 7 | 88 | 6 | 7 |
| 7 | Colombia | 6090 | 32 | 286911 | 11 | 53 | 7 | 14 |
| 8 | South Africa | 6950 | 26 | 351700 | 8 | 53 | 8 | 8 |
| 9 | Argentina | | 133 | | 140 | 40 | 9 | 6 |
| 10 | Peru | 5120 | 38 | 151511 | 19 | 38 | 10 | 17 |
| 11 | Philippines | 2200 | 77 | 208741 | 15 | 36 | 11 | 33 |
| 12 | Madagascar | 420 | 124 | 9159 | 78 | 33 | 12 | 25 |
| 13 | Ecuador | 4770 | 42 | 72784 | 27 | 32 | 13 | 21 |
| 14 | Thailand | 4620 | 47 | 307343 | 10 | 32 | 14 | 22 |
| 15 | Malaysia | 8800 | 17 | 253044 | 12 | 30 | 15 | 32 |
| 16 | Chile | 12270 | 5 | 212334 | 14 | 29 | 16 | 29 |
| 17 | Iran, Islamic Rep. | | 139 | | 136 | 29 | 17 | 11 |
| 18 | Vietnam | 1270 | 88 | 111132 | 24 | 28 | 18 | 26 |
| 19 | Tanzania | 540 | 117 | 24241 | 48 | 27 | 19 | 9 |
| 20 | Venezuela, RB | 11760 | 7 | 347049 | 9 | 27 | 20 | 23 |
| 21 | Turkey | 10510 | 13 | 767687 | 6 | 27 | 21 | 13 |
| 22 | Ukraine | 3150 | 62 | 143983 | 21 | 27 | 22 | 52 |
| 23 | Kazakhstan | 8200 | 21 | 135752 | 22 | 25 | 23 | 10 |
| 24 | Congo, Dem. Rep. | 200 | 132 | 13104 | 64 | 23 | 24 | 41 |
| 25 | Nigeria | 1260 | 89 | 207278 | 16 | 23 | 25 | 18 |
| 26 | Pakistan | 1120 | 95 | 198153 | 17 | 22 | 26 | 12 |
| 27 | Egypt, Arab Rep. | 2760 | 72 | 219175 | 13 | 21 | 27 | 49 |

| No | Country | 2011 GNI/Cap ($) | Rank GNI/Cap | 2011 GNI ($) | Rank GNI | GEF-5 Total STAR Allocation ($ million) | Rank STAR | Average Rank STAR Global Benefits Index |
|---|---|---|---|---|---|---|---|---|
| 28 | Bolivia | 1960 | 81 | 20266 | 53 | 20 | 28 | 24 |
| 29 | Uzbekistan | 1500 | 83 | 44082 | 34 | 19 | 29 | 35 |
| 30 | Ethiopia | 380 | 127 | 33955 | 43 | 19 | 30 | 15 |
| 31 | Kenya | 810 | 103 | 34104 | 42 | 18 | 31 | 20 |
| 32 | Cuba | | 136 | | 142 | 17 | 32 | 40 |
| 33 | Papua New Guinea | 1480 | 84 | 10345 | 73 | 16 | 33 | 39 |
| 34 | Morocco | 2940 | 66 | 95958 | 25 | 16 | 34 | 28 |
| 35 | Angola | 3970 | 54 | 80024 | 26 | 16 | 35 | 19 |
| 36 | Myanmar | | 141 | | 144 | 15 | 36 | 27 |
| 37 | Sudan | 1320 | 87 | 54911 | 30 | 15 | 37 | 16 |
| 38 | Costa Rica | 7660 | 23 | 36291 | 40 | 15 | 38 | 72 |
| 39 | Algeria | 4110 | 50 | 155105 | 18 | 15 | 39 | 48 |
| 40 | Cameroon | 1140 | 93 | 24196 | 49 | 15 | 40 | 37 |
| 41 | Namibia | 5170 | 37 | 11458 | 69 | 14 | 41 | 30 |
| 42 | Panama | 8610 | 19 | 32188 | 44 | 14 | 42 | 82 |
| 43 | Mozambique | 450 | 123 | 11092 | 70 | 13 | 43 | 34 |
| 44 | Sri Lanka | 2580 | 73 | 53833 | 31 | 13 | 44 | 43 |
| 45 | Bangladesh | 770 | 106 | 117771 | 23 | 13 | 45 | 63 |
| 46 | Belarus | 6270 | 30 | 59417 | 28 | 12 | 46 | 112 |
| 47 | Azerbaijan | 5290 | 35 | 48520 | 33 | 11 | 47 | 51 |
| 48 | Guatemala | 2880 | 68 | 42372 | 36 | 11 | 48 | 66 |
| 49 | Syrian Arab Republic | | 144 | | 137 | 11 | 49 | 42 |
| 50 | Zambia | 1180 | 92 | 16078 | 59 | 11 | 50 | 38 |
| 51 | Mongolia | 2340 | 74 | 6458 | 88 | 11 | 51 | 36 |
| 52 | Lao PDR | 1110 | 97 | 7213 | 84 | 11 | 52 | 57 |
| 53 | Tunisia | 4020 | 53 | 42942 | 35 | 11 | 53 | 62 |
| 54 | Uganda | 470 | 122 | 16642 | 56 | 11 | 54 | 54 |
| 55 | Botswana | 7070 | 25 | 14037 | 61 | 11 | 55 | 44 |
| 56 | Turkmenistan | 4920 | 41 | 25110 | 47 | 10 | 56 | 31 |
| 57 | Honduras | 1980 | 79 | 15406 | 60 | 10 | 57 | 77 |

| No | Country | 2011 GNI/Cap ($) | Rank GNI/Cap | 2011 GNI ($) | Rank GNI | GEF-5 Total STAR Allocation ($ million) | Rank STAR | Average Rank STAR Global Benefits Index |
|---|---|---|---|---|---|---|---|---|
| 58 | Burkina Faso | 620 | 111 | 9902 | 75 | 10 | 58 | 61 |
| 59 | Mali | 670 | 110 | 9702 | 76 | 10 | 59 | 45 |
| 60 | Afghanistan | 570 | 114 | 16604 | 57 | 9 | 60 | 46 |
| 61 | Senegal | 1030 | 99 | 13764 | 63 | 9 | 61 | 58 |
| 62 | Yemen, Rep. | 1110 | 98 | 25960 | 46 | 9 | 62 | 59 |
| 63 | Korea, Dem. Rep. | | 137 | | 143 | 9 | 63 | 89 |
| 64 | Jamaica | 4760 | 43 | 12890 | 65 | 9 | 64 | 67 |
| 65 | Ghana | 1420 | 86 | 35279 | 41 | 9 | 65 | 56 |
| 66 | Dominican Republic | 5190 | 36 | 52701 | 32 | 9 | 66 | 65 |
| 67 | Paraguay | 3170 | 61 | 20844 | 52 | 9 | 67 | 50 |
| 68 | Moldova | 1980 | 80 | 7056 | 86 | 8 | 68 | 83 |
| 69 | Nepal | 610 | 112 | 16583 | 58 | 8 | 69 | 60 |
| 70 | Cote d'Ivoire | 1140 | 94 | 22065 | 50 | 8 | 70 | 55 |
| 71 | Benin | 720 | 107 | 7077 | 85 | 8 | 71 | 88 |
| 72 | Mauritius | 8230 | 20 | 10583 | 71 | 8 | 72 | 98 |
| 73 | Gambia, The | 510 | 118 | 889 | 117 | 8 | 73 | 96 |
| 74 | Armenia | 3490 | 58 | 10347 | 72 | 8 | 74 | 71 |
| 75 | Bahamas, The | 21280 | 1 | 7795 | 83 | 8 | 75 | 80 |
| 76 | Seychelles | 11140 | 10 | 974 | 115 | 8 | 76 | 117 |
| 77 | Malawi | 360 | 128 | 5559 | 91 | 8 | 77 | 86 |
| 78 | Sao Tome and Principe | 1240 | 91 | 226 | 128 | 7 | 78 | 90 |
| 79 | Haiti | 700 | 108 | 7050 | 87 | 7 | 79 | 87 |
| 80 | Cambodia | 800 | 104 | 11673 | 68 | 7 | 80 | 69 |
| 81 | Fiji | 3720 | 56 | 3233 | 100 | 7 | 81 | 106 |
| 82 | Jordan | 4380 | 48 | 27082 | 45 | 7 | 82 | 84 |
| 83 | Cape Verde | 3610 | 57 | 1773 | 109 | 7 | 83 | 94 |
| 84 | Mauritania | 980 | 100 | 3646 | 98 | 7 | 84 | 75 |
| 85 | Trinidad and Tobago | 14660 | 2 | 19548 | 54 | 7 | 85 | 64 |
| 86 | Niger | 330 | 130 | 5482 | 92 | 7 | 86 | 78 |

| No | Country | 2011 GNI/Cap ($) | Rank GNI/Cap | 2011 GNI ($) | Rank GNI | GEF-5 Total STAR Allocation ($ million) | Rank STAR | Average Rank STAR Global Benefits Index |
|---|---|---|---|---|---|---|---|---|
| 87 | Chad | 690 | 109 | 8287 | 81 | 7 | 87 | 47 |
| 88 | Nicaragua | 1540 | 82 | 9066 | 79 | 7 | 88 | 91 |
| 89 | Serbia | 5530 | 34 | 40131 | 37 | 7 | 89 | 100 |
| 90 | Djibouti | | 138 | | 138 | 7 | 90 | 101 |
| 91 | Eritrea | 390 | 126 | 2313 | 105 | 7 | 91 | 79 |
| 92 | Zimbabwe | 590 | 113 | 7940 | 82 | 7 | 92 | 53 |
| 93 | Kyrgyz Republic | 900 | 101 | 4963 | 93 | 7 | 93 | 73 |
| 94 | Micronesia, Fed. Sts. | 3080 | 63 | 319 | 127 | 6 | 94 | 108 |
| 95 | Guyana | 3050 | 64 | 2411 | 104 | 6 | 95 | 85 |
| 96 | Congo, Rep. | 2200 | 76 | 9316 | 77 | 6 | 96 | 70 |
| 97 | Gabon | 8710 | 18 | 13886 | 62 | 6 | 97 | 81 |
| 98 | Lebanon | 8930 | 16 | 39156 | 39 | 6 | 98 | 97 |
| 99 | Solomon Islands | 1120 | 96 | 601 | 122 | 6 | 99 | 95 |
| 100 | Swaziland | 2830 | 71 | 3426 | 99 | 6 | 100 | 109 |
| 101 | Uruguay | 11700 | 8 | 39572 | 38 | 6 | 101 | 102 |
| 102 | Macedonia | 4710 | 45 | 9918 | 74 | 6 | 102 | 103 |
| 103 | Tajikistan | 780 | 105 | 6078 | 90 | 6 | 103 | 93 |
| 104 | Guinea | 400 | 125 | 4432 | 94 | 6 | 104 | 76 |
| 105 | Croatia | 13830 | 3 | 59217 | 29 | 6 | 105 | 115 |
| 106 | Georgia | 2850 | 70 | 12760 | 67 | 6 | 106 | 92 |
| 107 | Suriname | 7830 | 22 | 4149 | 96 | 6 | 107 | 105 |
| 108 | Togo | 470 | 121 | 3059 | 101 | 5 | 108 | 104 |
| 109 | Maldives | 5800 | 33 | 1927 | 108 | 5 | 109 | 121 |
| 110 | Central African Republic | 480 | 119 | 2131 | 106 | 5 | 110 | 74 |
| 111 | Vanuatu | 2870 | 69 | 694 | 120 | 5 | 111 | 111 |
| 112 | Samoa | 2970 | 65 | 556 | 124 | 5 | 112 | 120 |
| 113 | Belize | 4180 | 49 | 1322 | 112 | 5 | 113 | 122 |
| 114 | Liberia | 330 | 129 | 1359 | 111 | 5 | 114 | 107 |
| 115 | Bosnia and Herzegovina | 4690 | 46 | 17991 | 55 | 5 | 115 | 118 |

| No | Country | 2011 GNI/Cap ($) | Rank GNI/Cap | 2011 GNI ($) | Rank GNI | GEF-5 Total STAR Allocation ($ million) | Rank STAR | Average Rank STAR Global Benefits Index |
|---|---|---|---|---|---|---|---|---|
| 116 | Comoros | 830 | 102 | 580 | 123 | 5 | 116 | 110 |
| 117 | St. Lucia | 6720 | 28 | 1204 | 113 | 5 | 117 | 124 |
| 118 | Grenada | 7190 | 24 | 756 | 118 | 5 | 118 | 125 |
| 119 | Cook Islands | | 135 | | 134 | 5 | 119 | 134 |
| 120 | Guinea-Bissau | 570 | 115 | 926 | 116 | 5 | 120 | 119 |
| 121 | Rwanda | 560 | 116 | 6207 | 89 | 5 | 121 | 116 |
| 122 | Burundi | 220 | 131 | 2110 | 107 | 5 | 122 | 126 |
| 123 | Niue | | 143 | | 139 | 5 | 123 | 140 |
| 124 | Marshall Islands | 4080 | 51 | 214 | 129 | 5 | 124 | 137 |
| 125 | Bhutan | 2210 | 75 | 1612 | 110 | 4 | 125 | 131 |
| 126 | Libya | | 140 | | 133 | 4 | 126 | 68 |
| 127 | St. Kitts and Nevis | 13470 | 4 | 713 | 119 | 4 | 127 | 138 |
| 128 | Antigua and Barbuda | 12210 | 6 | 1076 | 114 | 4 | 128 | 123 |
| 129 | Palau | 9240 | 14 | 190 | 131 | 4 | 129 | 136 |
| 130 | Timor-Leste | 3340 | 60 | 3924 | 97 | 4 | 130 | 127 |
| 131 | Tonga | 3800 | 55 | 398 | 126 | 4 | 131 | 130 |
| 132 | Lesotho | 1250 | 90 | 2542 | 103 | 4 | 132 | 129 |
| 133 | Kiribati | 2060 | 78 | 205 | 130 | 4 | 133 | 135 |
| 134 | St. Vincent and the Grenadines | 6100 | 31 | 667 | 121 | 4 | 134 | 132 |
| 135 | Sierra Leone | 480 | 120 | 2804 | 102 | 4 | 135 | 114 |
| 136 | Montenegro | 6810 | 27 | 4228 | 95 | 4 | 136 | 139 |
| 137 | Tuvalu | 4960 | 39 | 49 | 132 | 4 | 137 | 143 |
| 138 | El Salvador | 3480 | 59 | 21756 | 51 | 4 | 138 | 128 |
| 139 | Albania | 4050 | 52 | 12787 | 66 | 4 | 139 | 133 |
| 140 | Iraq | 4750 | 44 | 151012 | 20 | 4 | 140 | 99 |
| 141 | Barbados | | 134 | | 141 | 4 | 141 | 142 |
| 142 | Dominica | 6700 | 29 | 478 | 125 | 4 | 142 | 141 |
| 143 | Equatorial Guinea | 11670 | 9 | 8359 | 80 | 4 | 143 | 113 |
| 144 | Nauru | | 142 | | 135 | 4 | 144 | 144 |

## ANNEX 2: AN OVERVIEW OF THE STAR

1. Under GEF 5, the STAR model allocates resources in 3 of the 5 focal areas of the GEF: Climate Change, Biodiversity and Land Degradation[25]. Once the focal area envelopes have been determined by the donors in the replenishment stage, the STAR model divides these envelopes into allocations for eligible countries[26]. This process can be divided into the following steps:

   (a) Calculation of available focal area funds

   (b) Calculation of country scores

   (c) Calculation of preliminary country allocations

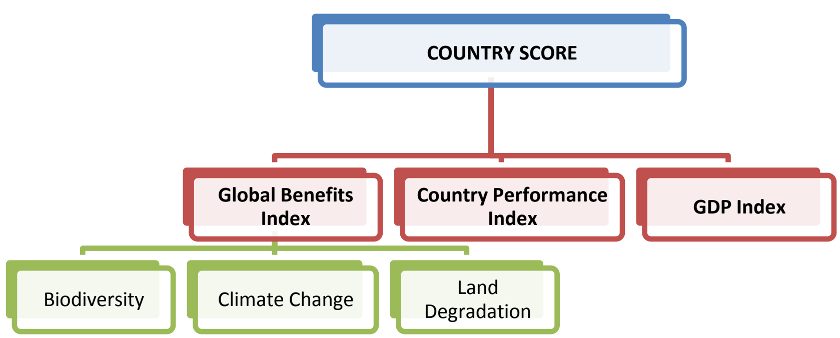
   (d) Adjustment for floors and ceilings

   (e) Calculation of final country allocations

   (f) Categorization of post-allocation flexibilities

2. Before country allocations are made, 20% of the resources available to each of these three focal areas are removed or "set aside" for cross cutting programs such as global and regional projects, enabling activities and sustainable forest management. The 80% remaining to each focal area is then allocated among eligible countries.

Figure 1: Calculation of Country Scores




3. The country score comprises three main elements[27](Figure 1). The Global Benefits Index (GBI) measures a country's relative share of GEF potential benefits that can be generated by a

[25] The other two focal areas – Chemicals and International Waters – were excluded because of limited availability of suitable indicators, and lack of adequate datasets.

[26] According to the GEF/P.3 Policy Paper on the STAR, for a country to be eligible for funding in a particular focal area, it has to (1) be a party to the relevant Convention and meet the eligibility criteria decided by the Conference of the Parties to that Convention, (2) not be a member of the European Union as of July 1st 2010, and (3) have had at least one national, GEF-financed project in the past five years.

[27] Each of these elements is itself a function of a series of indices, sub-indices, parameters and weights.

fixed amount of resource input into a focal area. A GBI is developed for each STAR focal area[28]. The Country Performance Index (CPI) measures a country's performance and capacity to deliver on these global benefits. Finally, the GDP per capita index[29] is an income criterion that is designed to slightly skew resources away from higher income countries towards lower income countries.

The country score is calculated as follows:

Country score = $GBI^{0.8} * CPI^{1.0} * GDP^{-0.04}$

The Country Share is calculated as follows:

Country Share = Country Score / Sum of Country Scores for all eligible countries

Each country share is then multiplied by the available focal area resources to determine the preliminary country allocation.

The STAR model outlines floors and ceilings for each of its focal areas within which all country allocations should fall (Table 1).

Table 1: Floors and Ceilings of the STAR Model

| **Focal Area** | **Floor ($ million)** | **Ceiling Percentage**[30] |
|---|---|---|
| Climate Change | 2.0 | 11% |
| Biodiversity | 1.5 | 10% |
| Land Degradation | 0.5 | 10% |

4. When adjustments are made for floors and ceilings, there is a surplus or deficit relative to the original preliminary allocation. This is then allocated among countries using the country scores – countries therefore either all get an addition or a subtraction from their preliminary allocation. This process iterates until the full focal area amount (less set aside) has been allocated among countries, yielding the final country allocations.

[28] The Land Degradation focal area was not included in the RAF model.
[29] The GDP index was not part of the original RAF model and is therefore one of the innovative elements of the STAR.
[30] Ceiling figures are obtained by applying these percentages to the total focal area envelope, i.e. before the 20% set asides are taken.

5. The final step in the STAR model is the categorization of countries into their flexibility bands (Table 2).

Table 2: Flexibility Bands

| **Total Allocation X ($)** | **Allowed Marginal Adjustment ($)** |
| --- | --- |
| X ≤ 7 million | unlimited |
| 7 < X < 20 million | 200 000 |
| 20 < X < 100 million | 1 million |
| X > 100 million | 2 million |

6. If there is a total indicative country allocation that falls below a certain threshold, this country is allowed full flexibility to use its allocation within any of the focal areas inside the STAR. The threshold for flexibility under GEF-5 is $ 7 million. Countries above $ 7 million are allowed marginal shifts among focal areas.