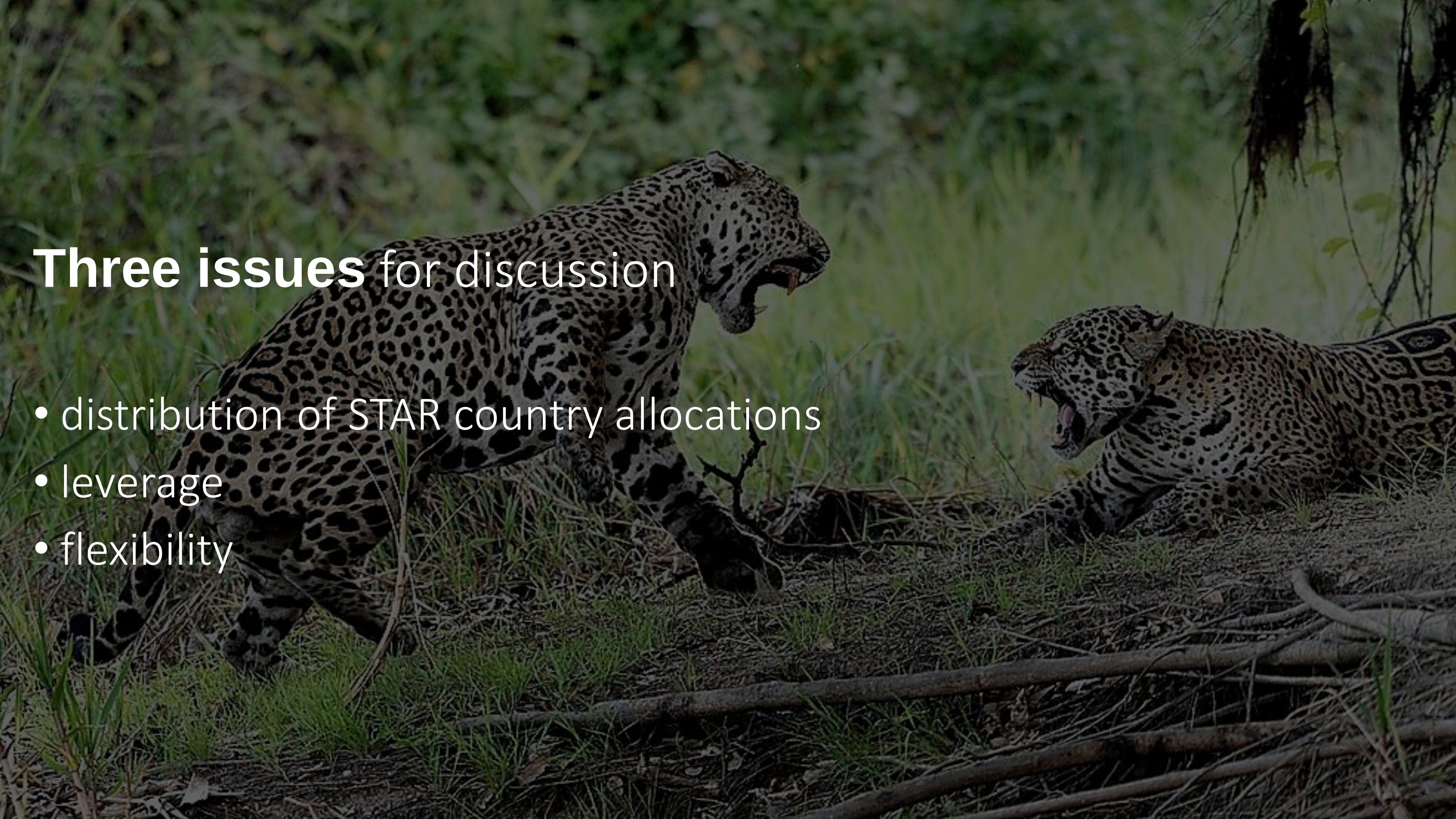
Key Policy Issues: STAR and Optimization

Third Meeting for the Seventh Replenishment of the GEF Trust Fund
Brasília, Brazil
January 23-25, 2018
documents GEF/R.7/14 and GEF/R.7/10



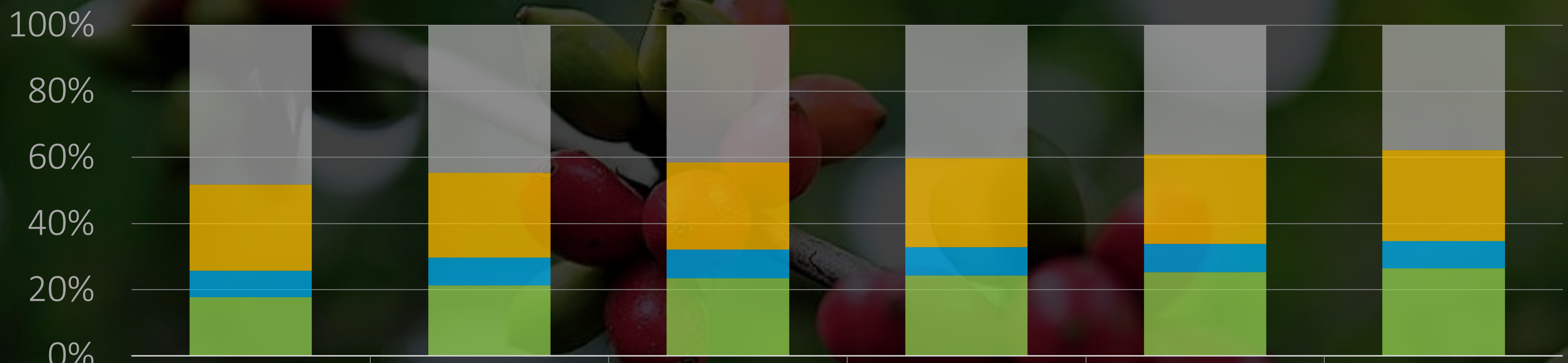
Three issues for discussion

- distribution of STAR country allocations
- leverage
- flexibility

STAR offers **three policy 'levers'** to adjust distribution of funds across groups of countries:

1. weight of the GDP Index
2. minimum allocation floors
3. focal area allocation ceilings

Increasing the weight of the GDP Index provides the most efficient way to further increase funding to LDCs (share of total STAR country allocations, "Status Quo" scenario)

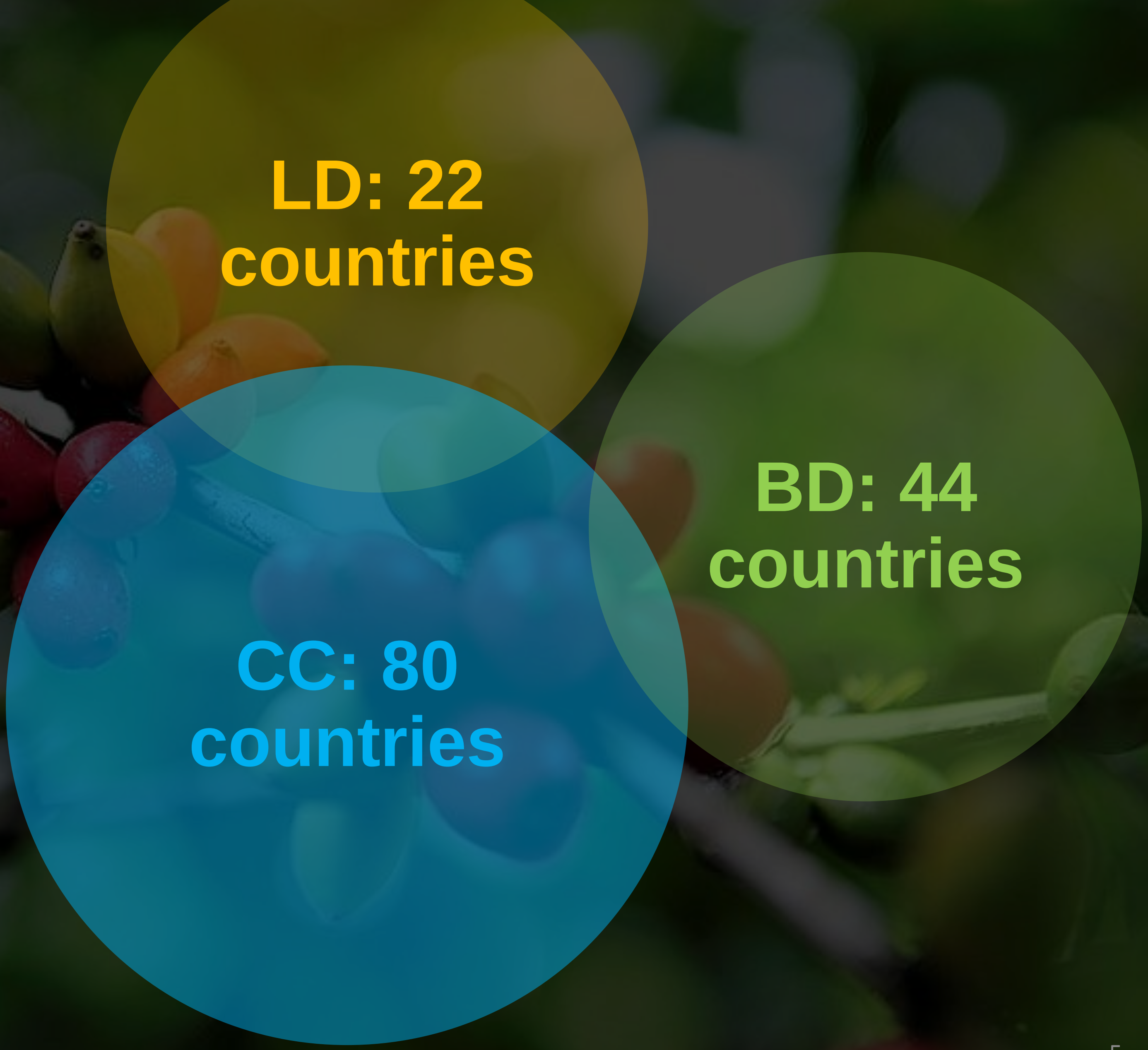


	GEF-5 (GDP = -0.04)	GEF-6 (GDP= -0.08)	GEF-7 GDP = -0.08	GDP = -0.12	GDP = -0.16	GDP = -0.20
UMICs and HICs	48.3%	44.6%	41.5%	40.3%	39.1%	37.9%
Other countries	26.1%	25.7%	26.5%	26.8%	27.1%	27.4%
SIDS	7.9%	8.3%	8.6%	8.5%	8.5%	8.4%
LDCs	17.8%	21.4%	23.4%	24.4%	25.3%	26.4%
LDCs/SIDS	25.7%	29.7%	32%	32.9%	33.8%	34.8%

Further increasing the aggregate allocation floors would result in a more rigid and inefficient STAR:

90 countries already "protected" by minimum allocation floors in GEF-6

Number of countries at each focal area allocation floor in GEF-6



Setting higher expectations for **leverage**

Defining
“investment leverage”

through leverage, a $ of GEF support results in multiple $ of investment in the global environment

“investment leverage” = a subset of “co-financing”

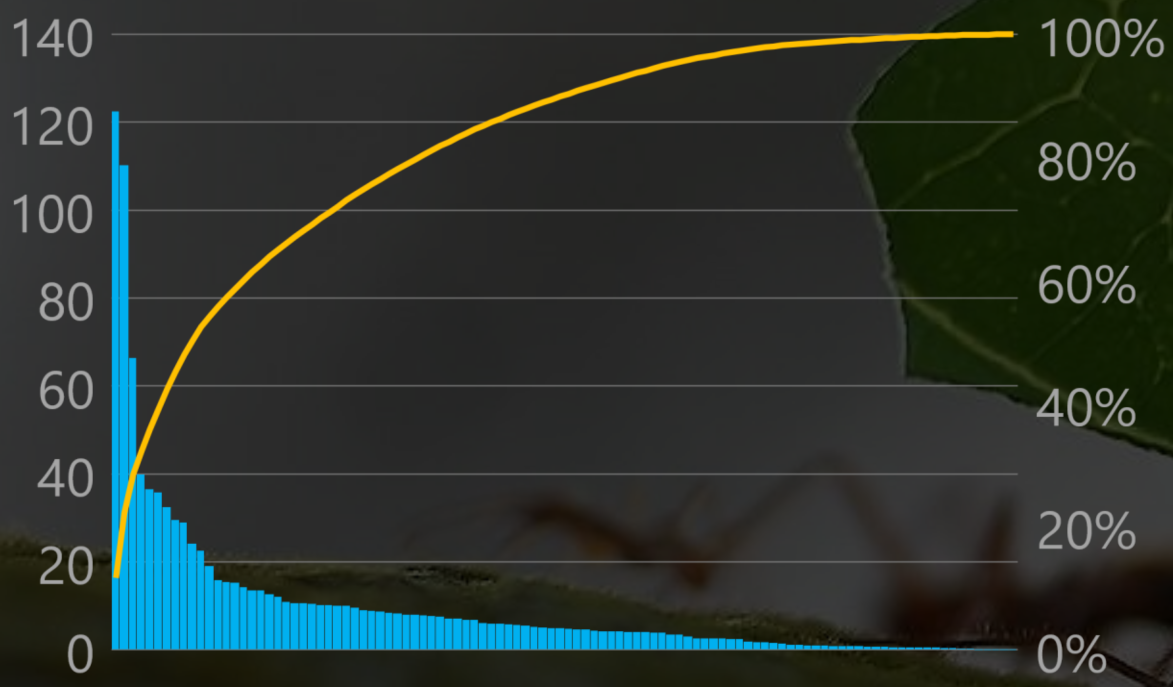
CO-FINANCING

INVESTMENT LEVERAGE

- investments that are additional and directly linked to GEF support

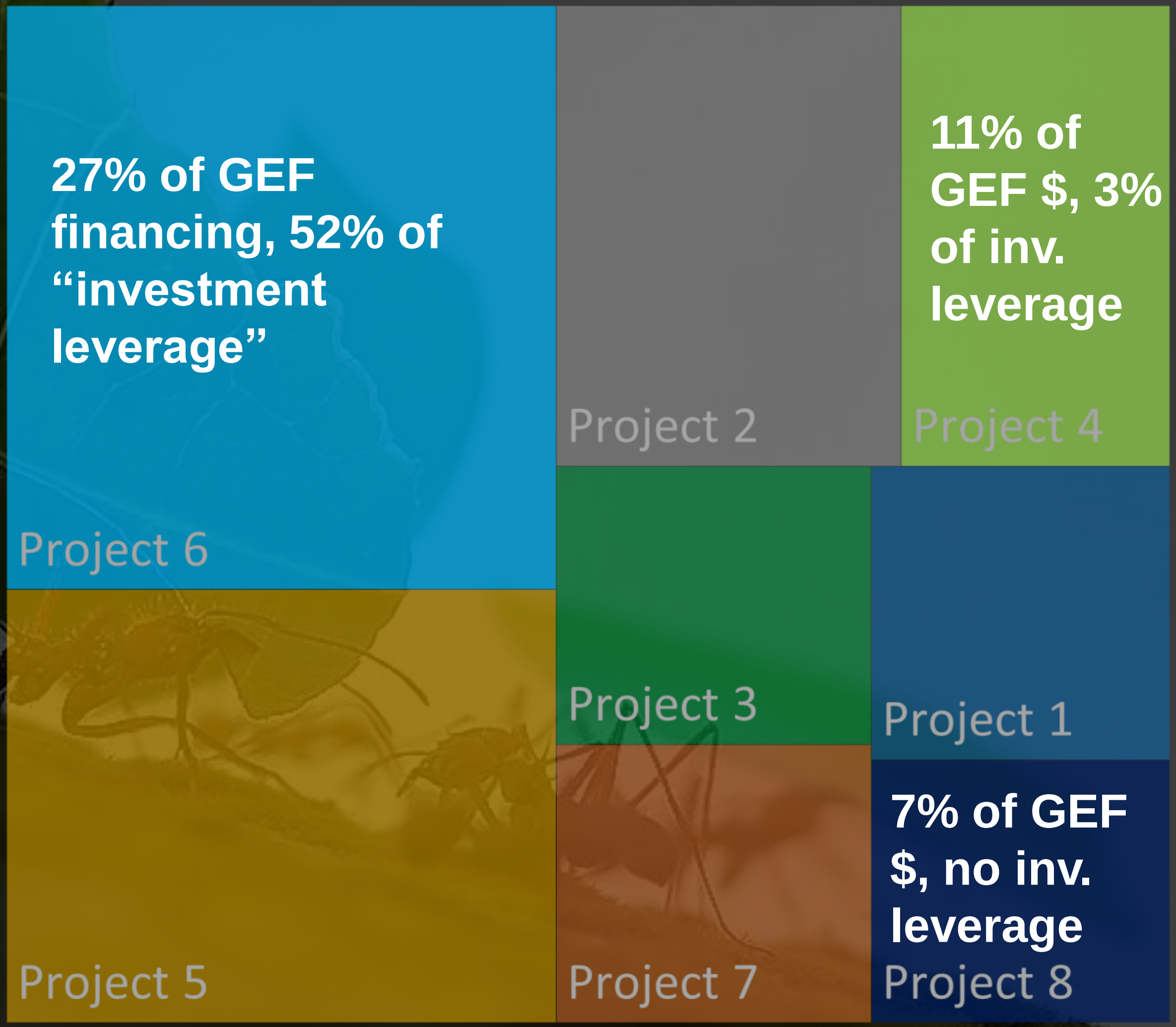
≠ e.g. recurrent expenditures, in-kind contributions

Country selection



Higher expectations for investment leverage in a small number of appropriately targeted countries can impact a considerable share of GEF resources (GEF-6 commitments at CEO Endorsement/ Approval, by recipient country [left, mUSD] and cumulative share of commitments [right])

Case study: GEF-6 portfolio of CEO Endorsed full-sized projects in one large recipient country



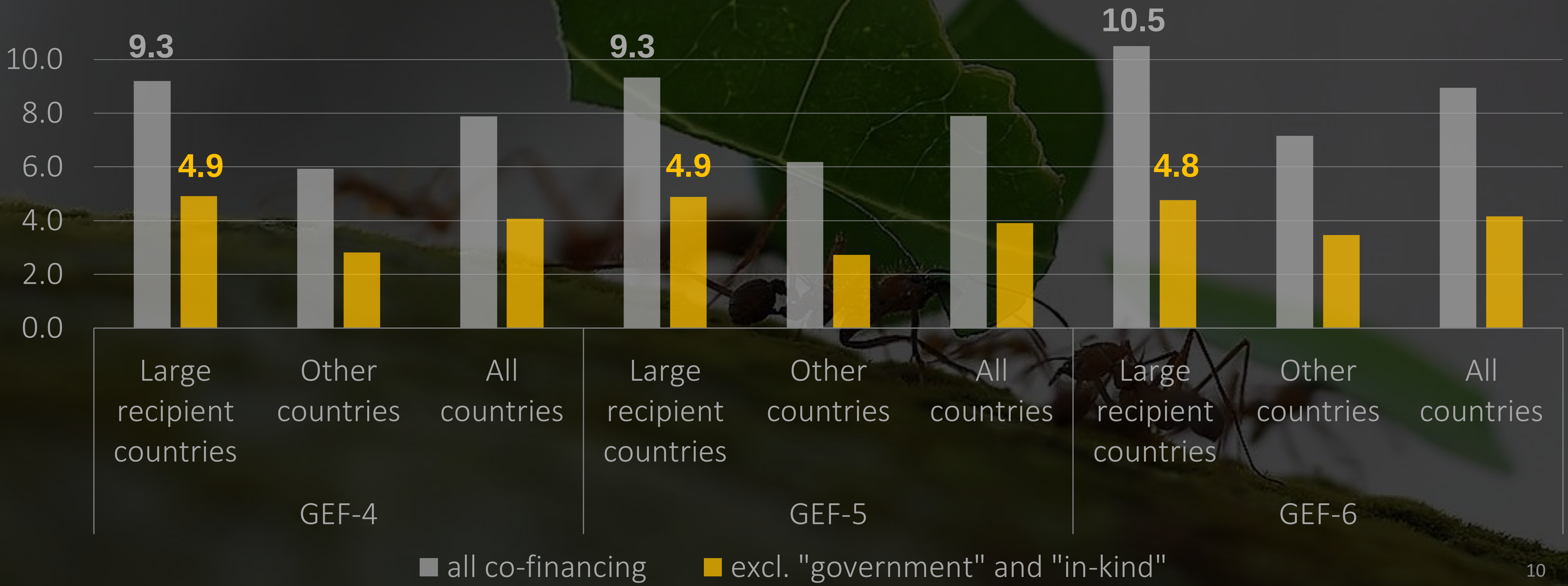
Country selection (cont.)

Simulating possible thresholds to target countries for higher expectations for investment leverage (only countries that are not LDCs or SIDS, % of total STAR country allocations)

		Status quo scenario (US$4.4bn)	US$4.1bn scenario	US$5bn scenario
≥ US$30m	number of countries	11	10	12
	share of STAR	36%	35%	39%
≥ US$20m	number of countries	**18**	**13**	**22**
	share of STAR	**46%**	**39%**	**49%**
≥ US$10m	number of countries	38	35	41
	share of STAR	58%	57%	61%

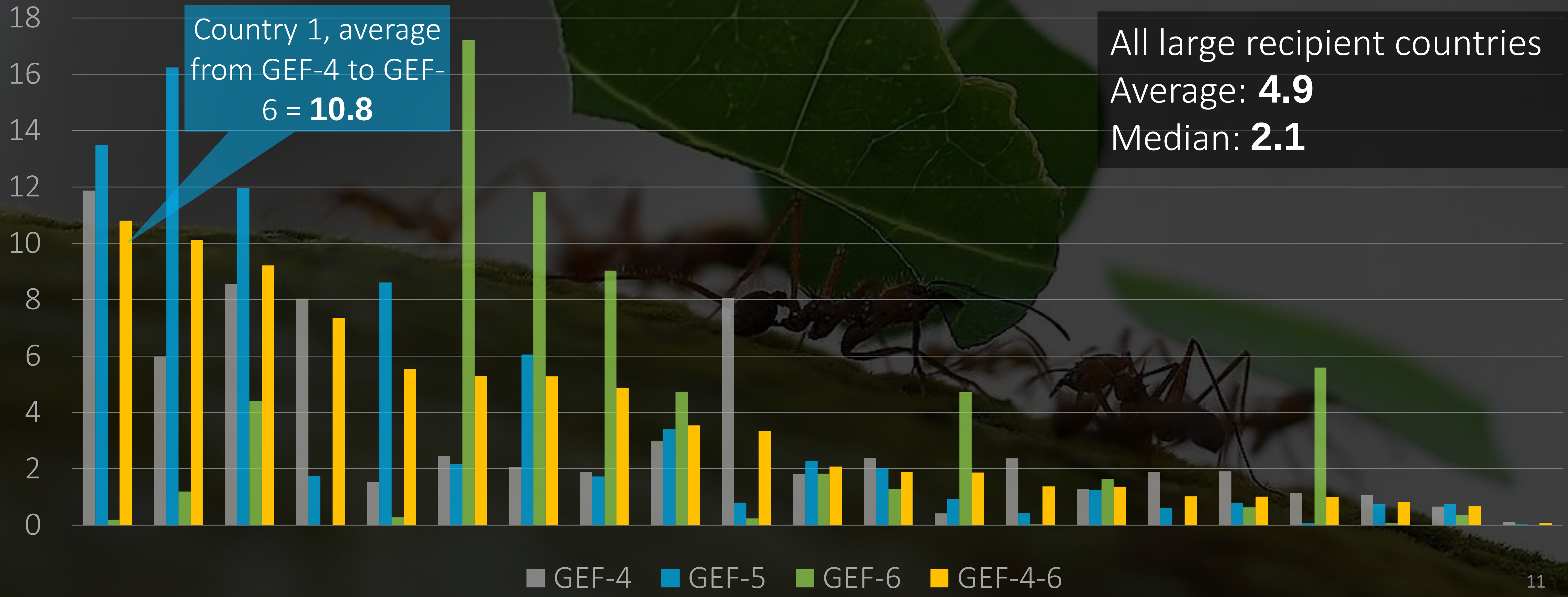
The baseline: evidence of leverage in large recipient countries

Excluding “government” and “in-kind” contributions, co-financing ratios in large recipient countries have not improved from GEF-4 to GEF-6 (ratios of confirmed co-financing to GEF financing by co-financing source, with “large recipient countries” defined as non-LDC/SIDS with GEF-6 STAR ≥ US$20m)



The baseline: variation across countries, replenishment cycles

Ratio of confirmed co-financing at CEO Endorsement/ Approval to GEF project financing, by large recipient country and replenishment phase, excl. "government" and "in-kind"



All large recipient countries
Average: **4.9**
Median: **2.1**

Higher expectations for leverage – **addressing the 'how'?**

STEP 1: AGREE ON TARGET

[4]

possible target "leverage ratio", applied to the **portfolio** of GEF-7 projects and programs approved in each large recipient country

~0-17

current, approximate leverage ratios in large recipient countries

STEP 2: PLAN TOGETHER EARLY

a deliberate, upstream planning process for targeted large recipient countries could help identify early on the most promising opportunities to increase leverage.

STEP 3: PROGRAM

the Secretariat – in its reviews of projects and programs – would consider investment leverage among other review criteria

STEP 4: MONITOR AND REPORT TO COUNCIL

each country's performance would be monitored and regularly reported to Council, and any issues would be brought to the Council's attention

The case for **full flexibility**

Possible advantages

- Eases constraints to **integration** and systemic impact
- Enhances **country ownership**
- Reduces **fragmentation** and improves ability to engage with ministries of finance, private sector, MDBs

Possible disadvantages

- Reduced predictability in terms of resources programmed by focal area

Ex-ante allocation of funds by focal area

Biodiversity

Climate change

Land degradation

Programming of funds

Factors that influence actual focal area contributions:

- GEF investments increasingly deliver **multiple benefits** across different focal areas
- **Focal area set-asides** protect core MEA obligations
- GEF-7 would offer **incentives** for integration

Even with fully flexibility, GEF expected to **make a meaningful contribution** to each STAR focal area

Ex-ante allocation to CC reduced under status quo financing, however:

(1) GEF expected to achieve **greater GEBs in CC** thanks to more integration, mitigation from forests and land use

(2) Similarly, large **share of GEF funding** will continue to contribute towards mitigation and adaptation

GEF-6 target	Possible GEF-7 target ("Status Quo" scenario)
750	**1,650**

Million metric tons of CO_2e mitigated

2013	2014	2015	2016	GEF-7
55%	**56%**	**70%**	**60%**	**>60%**

% of 2013-2016 GEF TF funding approvals that were "climate-related" (OECD DAC)

Projecting focal area contributions: **implications for CC**