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EVALUATION OF THE GEF'S SYSTEM FOR TRANSPARENT ALLOCATION OF RESOURCES

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EXECUTIVE SUMMARY

1. In September 2005, the GEF Council agreed to implement a resource allocation framework for the GEF 4 replenishment period.¹ Implementation of the resource allocation framework started in 2006 and it covered biodiversity and climate change focal areas. During its implementation, several weaknesses in its design such as group allocations for some countries, a 50 percent ceiling on resource utilization within first two years of replenishment period, and inadequacy of set-asides, became apparent. Based on the recommendations of the Mid-Term Review of the Resource Allocation Framework (GEF IEO, 2008) the framework was updated for the GEF-5 period. The framework was renamed as System for Transparent Allocation of Resources (STAR).²
2. The revised STAR for the GEF-5 period included several new features: group allocation was dropped – all recipient countries were covered through country allocations; flexibility for cross-focal use of allocations by countries was provided; a GDP based index was added to account for socio-economic factors; focal area set-asides were increased substantially; and, STAR coverage was expanded to include land degradation focal area.
3. The recommendations of the Mid-term Evaluation of the System for Transparent Allocation of Resources (GEF IEO, 2014), along with discussions during the GEF-6 replenishment negotiations, led to several changes in the STAR for GEF-6 period. Important changes include: an increase in the aggregate floor for the LDCs to \$ 6.0 million³; increase in weight of the GDP index exponent from -0.04 to -0.08; increase in marginal adjustment for countries with allocations in the \$ 7.0 million to 100 million range; and, slight decrease in the country allocation ceiling for the climate change focal area.
4. STAR for GEF-6 has been under implementation since July 2014. STAR model was implemented based on a projected replenishment of \$ 4.43 billion, with \$ 2.34 billion budgeted for country allocations. During implementation of GEF-6, US dollar appreciated vis-à-vis other currencies leading to a shortfall in projected replenishment.

1. Key Conclusions and Findings

STAR design

Conclusion 1. Country allocations under the STAR model are primarily driven by a country's potential to generate global environmental benefits, which is appropriate.

5. Although GEF Performance Index (GPI) adequately incentivizes improved performance, country allocations are primarily driven by the GEF Benefits Index (GBI). This is so because

¹ Joint Summary of Chairs – Special Meetings of the Council, August 31 – September 1, 2005 (GEF/C.26/Joint Summary).

² From here on term STAR will be used for both RAF and STAR.

³ The dollar sign refers to US dollars in this paper.

normalized GBI scores of recipient countries are spread across a wider range than their normalized GPI scores. While per capita GDP figures for recipient countries also vary considerably, due to low weight of the exponent of GDPI, the GDPI score do not drive country allocations.

6. GBI scores playing an instrumental role in determining country allocations is appropriate, because it helps in directing the GEF resources to countries where there is higher potential to produce global environmental benefits. The general endorsement of GBI formula used for GEF-5 STAR by the Mid Term Evaluation of the System of Transparent Allocation of Resources (GEF IEO, 2014) is still valid, along with the suggestions on areas where the formula may be finetuned.

Conclusion 2. The STAR model assigns a low weight to GDP relative to indices used in other MDBs.

7. During GEF-5 the GDPI had an exponent of - 0.04, which was increased to -0.08 for the GEF-6 period. Simulations indicate that this change led to a moderate increase in allocations of Least Developed Countries (LDCs) (+4 percent) and low income countries (+5 percent). The exponents of the income based index used in performance based allocation formulae used by other multilateral organizations range from -0.125 to - 0.9, which is substantially higher than that used by the GEF STAR model.

8. From 2012 to 2016, the per capita GDP increased at higher rate for low income countries than for middle income and upper middle income countries. Simulations show that when the per capita GDP data for 2016 is used instead of 2012, allocations for low income countries decline by 1.4 percent and for LDCs by 0.9 percent.

Conclusion 3. GEF-6 STAR provided LDCs greater share in GEF resources. The increase was mostly driven by an increase in floors.

9. The total country allocations of LDCs increased from \$ 429 million in GEF-5 to \$ 518 during GEF-6: an increase of 21 percent. Share of LDCs within country allocations also increased from 18 percent to 22 percent. Decomposition of the increase in LDC allocations shows that 41 percent of the increase (\$ 37 million) is accounted for by increase in floors for the LDCs. Increase in the weight of the GDPI from -0.04 to -0.08 accounts for 23 percent of the increase (\$ 21 million). Other factors such as changes in the underlying values of the per capita GDP, GPI scores, and GBI scores; ceiling for climate change focal area; change in amount provided for country allocations from GEF-5 to GEF-6; etc., account for remainder of the change. The increase in floors also had the effect of increasing aggregate allocations for SIDS by 5.1 percent as several SIDS are also LDCs.⁴ During its October 2016 meeting, the GEF Council accepted the Secretariat's recommendation to protect the allocations of LDCs and SIDS from the effects of projected shortfall in GEF-6 replenishment. The level of decrease apportioned for

⁴ The countries that are both LDCs and SIDSs include Comoros, Guinea-Bissau, Haiti, Kiribati, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu. Two SIDS, Maldives and Samoa, were LDCS when calculations for GEF-6 STAR were carried out. But there have now graduated from the LDCS list.

country allocations is being met entirely by the non-LDC and non-SIDS countries. These two measures together increased the effective share of LDCs in STAR country allocations from 22 percent at the start of GEF-6 to 26-28 percent after the Council's decision⁵.

STAR Implementation

Conclusion 4. GEF Secretariat has managed the projected shortfall in GEF replenishment proactively and in an adaptive manner. However, non-LDC and non-SIDS countries would have been better prepared had its effect on them been discussed during the October 2016 Council meeting.

10. The Trustee's monthly reports have projected a shortfall of more than \$ 500 million in GEF-6 replenishment from December 2014 onwards. However, given that the exchange rates fluctuate and most of the replenishment pledges were yet to materialize, the level of certainty on extent of the shortfall low. As the replenishment period progressed, and more pledges materialized, the level of certainty in these projections increased. In its June 2016 meeting, the GEF Council requested the Secretariat to prepare an update on GEF-6 resource availability for its next meeting. In response to the Council's request, the GEF Secretariat prepared an Update on GEF-6 Resource Availability (GEF/C.51/04), which informed the Council on the extent of the shortfall and its recommendation on measures to address the shortfall. The paper recommended to the Council that country STAR allocations for SIDS and LDCs, and focal area set asides to meet convention obligations will remain unchanged, and burden of the shortfall to be met by the focal areas proportionately to maintain the original GEF-6 balance. The measures adopted by the Council are consistent with its decision in November 2012, when a short fall had been projected for the GEF-5 replenishment.⁶

11. For focal areas under STAR, maintaining the funding for the set asides at the original level and decreasing the level of support for focal area country allocations at the same rate as that for focal areas outside STAR reduces GEF's ability to maintain the focal area balance as it disadvantages the focal areas that are outside STAR. This is so because it reduces the total resources available to focal areas outside STAR at a higher rate than the reduction in the total resources of the focal areas under STAR. This said, overall difference in reduction at 1-2 percent is not substantial. Moreover, it slightly mitigates the decrease in STAR allocations of non-LDC and non-SIDS countries.

12. From October 31st 2016 onwards, depending on when the projections are made, the average decrease in the allocations of the non-LDC and non-SIDS countries is in the 27 percent to 32 percent range for the land degradation, 22 to 27 percent for biodiversity, and 21 to 26 percent for climate change focal area. The allocations of the non-LDC and non-SIDS countries for land degradation focal area are more affected, because at the start of the GEF-6 period a higher share of the focal area allocations had been allocated to LDCs and SIDS. Further, among

⁵ The level of effective share is given as a range because the after the Council's endorsement in October 2016, the projections of the shortfall have changed. Thus, level of LDC share in allocations is contingent on when the projection is made.

⁶ 2012a. "Joint Summary of the Chairs, 43rd GEF Council Meeting, November 13–15, 2012."

the non-LDC and non-SIDS countries, 22 countries had already utilized more than 80 percent of their allocation, which mean that the revised targets could not be applied fully to them. When this is considered, the decrease in allocations for remaining (slow programming) non-SIDS and non-LDCs is in 25 percent to 37 percent range.

13. Among the GEF regions, countries in Africa on average faced a decrease of 7 to 8 percent compared to other regions where average decline was in 20 to 24 percent range. This skew is primarily due to higher share of LDCs and SIDS in allocations for countries in Africa.

14. During the October 2016 Council meeting, several Council members requested the Secretariat to work with recipient countries on the operationalization of the consequences of the potential shortfall and pro-actively engage recipient countries in their programming activities.⁷ The Secretariat managed the shortfall consistent with the request of the Council members. The Secretariat informed the countries of their revised resource envelope and discussed options to help them program their remaining unutilized resources. In the interim, the Secretariat put PIF submissions on hold for several affected countries so that the countries may discuss and choose among the available options. Several countries dropped and/or resized projects, and/or needed to utilize marginal adjustments allowed to them.⁸ This also slowed down the project cycle as it increased the time taken from project information form submission to its approval.

15. Several non-SIDS and non-LDC countries felt that they would have been better prepared had the effect of the GEF Secretariat's recommendations on non-LDC and non-SIDS countries been clarified during the October 2016 Council meeting. Although recipient countries would have liked to know their updated allocation as a fixed number, it was difficult for the Secretariat to provide it as shortfall projections change with fluctuations in the currency exchange rate and available resources are difficult to ascertain with finality till all pledges materialize or the replenishment period ends.

Conclusion 5. In general, calculations of STAR allocations were carried out correctly. In response to the recommendations of the GEF-5 STAR Mid-Term Review, the GEF Secretariat has made efforts to reduce errors. However, there is room for further improvement in minimizing calculation errors.

16. In response to the recommendations of the GEF-5 STAR Mid-Term Review, the GEF Secretariat has made efforts to reduce errors. There were several improvements in the processes adopted for carrying out the calculations for GEF-6. In general calculations of STAR allocations were carried out correctly. However, errors were observed in some of the calculations. The overall effect of the errors was not substantial. There is scope for further minimization of the risk for such errors.

⁷ Highlights of the Council's Discussions; 51st GEF Council Meeting.

⁸ In such instances, marginal adjustments are unlikely to be reflected in the PMIS data as it tracks these adjustments based on the ex-ante allocation targets which were determined at the start of the GEF-6 replenishment period.

17. For calculation of country scores, the underlying data for GPI and GDPI were updated. GBI data was updated for the climate change focal area and for the land degradation focal area. Data could not be updated for the biodiversity focal area as it was not available. GEF Secretariat is now working with UNEP UN Environment World Conservation Monitoring Centre to update the data for biodiversity focal area for GEF-7 period. This will allow GEF to assess benefits potential of a recipient country with greater precision, based on a richer and more updated data. For other focal areas, the data may be easily updated again for the GEF-7 period.

STAR Utilization

Conclusion 6. Overall utilization of focal area resources covered under GEF-6 STAR was 64 percent as on September 30, 2017.

18. Compared to the projected availability of resources on August 31st 2017, overall utilization of resources, including set asides, for focal areas covered under GEF-6 STAR was 64 percent through September 2017. Overall utilization of focal area resources was higher for Land Degradation (69 percent) and Biodiversity (67 percent) than for Climate Change (61 percent).

19. Within the focal area resources, overall utilization was 66 percent for the revised country allocations. Rate of utilization of country allocations was 70 percent for land degradation, 66 percent for biodiversity, and 64 percent for climate change focal area. Overall utilization of set asides was 53 percent. There are wide variations among focal areas in terms of set-aside utilization. While utilization of biodiversity focal area set aside was at 83 percent, it was substantially lower for climate change at 46 percent and land degradation at 50 percent.

Conclusion 7. Increase in marginal adjustment of focal area allocations has led to greater cross-focal use of allocations by targeted countries. Use of the flexibility feature did not make a material difference to the focal area funding balance during GEF-5.

20. GEF-5 STAR provided full flexibility for cross-focal use of allocations to countries that had a total allocation of up to \$ 7 million. It provided marginal adjustment of up to \$ 0.2 million to countries with allocation in the \$ 7 million to \$ 20 million range, of up to \$ 1.0 million to countries with allocation in \$20 million to \$ 100 million range, and of up to \$ 2.0 million to countries with allocation greater than \$100 million. Based on the recommendation of the Mid Term Evaluation of STAR (GEF-5), for GEF-6 marginal adjustment was increased to \$ 2.0 million for countries with allocations in \$ 7.0 million to \$ 100 million range. For others, the permissible marginal adjustment remained the same as GEF-5.

21. As utilization of the flexibility feature tends to be back loaded, it is still too early to assess its utilization for the entire GEF-6 period. However, some trends are evident. Of the 143 countries that received a country allocation, 56 (39 percent) had already utilized the flexibility feature through September 2017. During GEF-5, at a comparable stage in the replenishment cycle (through June 2013⁹), 53 countries (37 percent) had used the flexibility feature. The

⁹ Given that a high percentage of resource utilization decisions take place during biannual GEF Council meeting, GEF-5 figures through June 2013 provides a good comparison for GEF-6 utilization through September 2017.

overall utilization rate of marginal adjustments is comparable for the two periods. However, countries with allocation in the \$ 7.0 million to \$ 20 million range have a much higher utilization rate (43 percent) during GEF-6 than during GEF-5 (19 percent). This is especially impressive as utilization of the flexibility feature is likely to have been negatively affected by projected shortfall in GEF-6 replenishment.¹⁰

22. During GEF-6, the total cross-focal utilization under STAR has so far been \$ 60.1 million. Of this \$ 25.7 million was received for activities in Climate Change, \$ 17.0 for activities in Biodiversity, and \$ 17.4 million for activities in Land Degradation. Considering the original share of the three focal areas in STAR country allocation, this amounts to an indicative net transfer of \$ 10.0 million from Biodiversity focal area. Of the indicative net transfer from Biodiversity focal area, Climate Change accounts for \$ 1.5 million and Land Degradation focal area for \$ 8.5 million. It is still too early to estimate the net cross-focal transfer for the entire GEF-6 period, the GEF-5 experience indicates that the net transfer is likely to less than 3.0 percent of the total resources of the contributing focal areas. Thus, compliance with the GEF STAR policy¹¹ to protect at least 90 percent of the resources of climate change and biodiversity focal areas is likely.

23. Analysis of the utilization of marginal adjustments was conducted to assess whether it's the same countries that used marginal adjustments during GEF-5 and GEF-6. The question was explored both at the aggregate country allocation level and at country focal area allocation level. The analysis shows that there is no pattern in terms of utilization of marginal adjustments by the same countries other than randomness for utilization of adjustments for biodiversity focal area, and for the three focal areas together. The analysis was less conclusive for climate change and land degradation focal areas. While no statistically significant pattern was observed, it was also difficult to conclude with (95 percent) confidence that randomness explains the observed repetition of countries that used (or have not used) marginal adjustment during both GEF-5 and GEF-6 period.

Conclusion 8. Utilization of sustainable forest management incentive scheme increased substantially during GEF-6. However, the level of GEF resources invested in sustainable forest management activities are about the same as because contributions from STAR were required at a lower ratio.

¹⁰ This analysis has been prepared based PMIS data for GEF-6 STAR allocation utilization, which records utilization of the marginal adjustments based on the ex-ante allocation. Ex-ante allocation based assessment of marginal adjustment utilization, will tend to underestimate utilization of marginal adjustments when there is shortfall in availability of resources. However, in practice the need for marginal adjustments will be more when there is shortfall because countries will reach their de-facto focal area residual balances faster. Because shortfall projections at the country level changes for non-LDC and non-SIDS countries with changes GEF replenishment shortfall projections, using the revised allocations in real time to assess utilization of marginal adjustments is difficult.

¹¹ Proposal for the System of Transparent Allocation of resources (STAR) for GEF-6, May 2014 (GEF/C.46/05/Rev.01) and GEF-5 Operational Procedures for the System for a Transparent Allocation of Resources (STAR), July 2010, (GEF/C.38/9/Rev.1).

24. Of the \$ 230 million allocated to sustainable forest management incentive scheme for GEF-6, \$ 216.6 million (94 percent) had been utilized through September 2017. Sustainable forest management incentives attracted \$ 456 million from STAR country allocations and set asides, and additional contributions of \$ 10.5 million from focal areas outside STAR. Thus, during GEF-6, GEF has so far invested \$ 682 million in activities aimed at sustainable forest management, which is in the same ball park as the \$ 699 million invested during the GEF-5 period.

25. During GEF-6 participating countries were required to provide two dollars from their STAR country allocations, compared to three dollars during GEF-5, to access a dollar from sustainable forest management incentive scheme. The lower rate at which recipient countries need to contribute from their STAR allocations during GEF-6 facilitated increased utilization of the incentive scheme. However, the increased utilization was balanced by lower level of contributions from STAR country allocations. The average incentive utilized by participating countries was much larger during GEF-6 than during GEF-5 because of the lower rate of required contribution from STAR, and because number of countries that accessed the sustainable forest management incentive was lower at 54 for GEF-6 compared to 69 for GEF-5.

Conclusion 9. STAR has helped smaller countries in accessing GEF resources. It is perceived to make GEF activities more relevant to country needs and priorities¹².

26. Analysis of the GEF portfolio shows that across GEF periods, the level of concentration of GEF resources among countries has decreased. Herfindahl-Hirschman index (HHI) score for share of recipient countries in the GEF funding for national projects is 251 for GEF-6 through September 2017, is the lowest it had been for any GEF period. Further, the bottom half of the countries with smallest share in GEF funding for national projects now account for 16 percent of the total, compared to 7 percent during GEF-3 and 3 percent during GEF-2. Compared to GEF-3 period, there was a spike in concentration level during GEF-4. Much of this may be explained due to provision of group allocations in STAR for GEF-4, which created barrier for the countries under group allocation in accessing GEF funding. The countries that were included in a 'group' and were forced to compete with other countries included in the group for a small pot of resources. However, after this weakness was fixed the level of concentration decreased during GEF-5.

27. Results of online survey that was administered in Feb-March 2017 to GEF Agencies, GEF Secretariat staff, GEF Operational Focal Points (OFPs), the Conventions, STAP, and Council members, shows that respondents were in broad agreement that STAR: supports environmental activities in a wide range of countries; is important in helping GEF meet country objectives; and, ensures equitable resource allocation to recipient countries. In general, OFP responses on STAR's performance indicate greater confidence in effectiveness of STAR than responses of other stakeholders. Two thirds of respondents of the GEF-6 STAR online survey agree with statement that STAR is a key component of GEF's ability to meet country objectives. This finding consistent with the finding of the GEF-5 STAR online survey wherein 75 percent of

¹² GEF/C.20/Inf.3; GEF/C.21/Inf.3;

the respondents agreed with the statement that STAR has made GEF operations more relevant to country needs and priorities.

Conclusion 10. Projects funded through STAR resources perform as well those prepared through non-STAR resources.

28. Most of the projects that have been prepared through resources from STAR country allocations are yet not complete. However, a sizable number of projects from GEF-4 period of focal areas (Biodiversity and Climate Change) covered under STAR during the period have been completed. Performance ratings of projects, for focal areas under or outside STAR, approved during the first two years of GEF-4 may be compared with those approved during the last two years of GEF-3 to assess whether funding through STAR made a difference in performance ratings of projects. The analysis shows that the difference in percentage of projects in the desirable range for outcome ratings was – 1 percent for outcomes, + 1 percent for sustainability, – 1 percent for quality of implementation, + 14 for broader adoption and + 3 for environmental stress reduction. None of these differences are statistically significant at 95 percent confidence. Difference in percentage of projects that achieve broader adoption is salient but not statistically significant. Whether this difference endures may be ascertained as more observations become available. However, it may be concluded that in general GEF projects prepared through non-STAR resources do not perform better than those prepared through STAR resources.

2. Recommendation

GEF Secretariat should develop clear protocols and quality checks on calculations.

29. In line with the GEF-5 Mid-Term Review of STAR, the GEF Secretariat has made efforts to minimize errors in the STAR calculations. As STAR databases and equations continue to become increasingly complex, the GEF Secretariat should ensure that quality-control protocols are developed and risks to mistakes in calculations are minimized.

I. BACKGROUND AND CHARACTERISTICS OF STAR

1. Background

1. In September 2005, the GEF Council agreed to implement “*a resource allocation framework based on an index of country’s potential to generate global environmental benefits in the biodiversity and climate change focal areas and an index of performance*” for the GEF 4 replenishment period.¹³ Implementation of the Resource Allocation Framework (RAF) started in 2006.

2. The GEF Independent Evaluation Office conducted the Mid-Term Review of the Resource Allocation Framework in 2008. The evaluation noted several concerns related to the design and implementation of the framework and recommended several changes. Based on the recommendations provided by the mid-term review and discussions during the GEF-5 replenishment negotiations several changes were made in allocation framework: group allocation was dropped; flexibility for cross-focal use of their allocations by countries was provided; a GDP based index was added to account for socio-economic factors; focal area set-asides were increased substantially; and, STAR coverage was expanded to include the land degradation focal area. The Resource Allocation Framework was also renamed as the System for Transparent Allocation of Resources (STAR).

3. The total donor commitment of \$ 4.34 billion for GEF-5 period was considerably higher than \$3.14 billion commitment for the GEF-4 period. Due to an increase in GEF-5 replenishment, and graduation of several countries in Europe from GEF funding¹⁴, GEF recipient countries experienced a substantial increase in their indicative country allocations.

4. In 2013 the GEF IEO undertook a mid-term evaluation of STAR (for GEF-5). The evaluation recommended an increase in flexibility to use STAR resources across focal areas; specification of better indicators and an update of underlying data; and, fine tuning of the STAR implementation processes. These recommendations led to several changes in the design of STAR for GEF-6. Discussions during the GEF-6 replenishment negotiations also led to some changes such as an increase in the aggregate floor for the LDCs to \$ 6.0 million, the increase in weight of the GDP index to give preference to the countries with low per capita GDP, and a slight decrease in the country allocation ceiling for the climate change focal area. The Proposal for the System of Transparent Allocation of Resources (STAR) for GEF-6 (GEF Secretariat, 2014c), provides details on the key features of the GEF-6 STAR.

5. STAR for GEF-6 has been under implementation since July 2014. Although replenishment commitments for the GEF-6 period at \$ 4.43 billion were marginally higher than the GEF-5 replenishment, due to appreciation of the US dollar vis-à-vis other currencies a shortfall of more than \$ 0.5 billion has been projected from December 2014 onwards. During

¹³ Joint Summary of Chairs – Special Meetings of the Council, August 31 – September 1, 2005 (GEF/C.26/Joint Summary).

¹⁴ The countries that graduated during this period include: Bulgaria, Estonia, Hungary, Latvia, Lithuania, Malta, Poland, Romania, and Slovak Republic.

the October 2016 meeting of the GEF Council, the Secretariat presented an Update on GEF-6 Resource Availability (GEF/C.51/04), which informed the Council on the projected shortfall and recommended measures to address it. The Secretariat recommended that the country allocations for SIDS and LDCs, and focal area set asides to meet convention obligations remain unchanged, and the shortfall be met maintaining the original GEF-6 focal area balance. The GEF Council accepted the GEF Secretariat’s recommendations.

2. Characteristics of STAR (GEF-6)¹⁵

6. STAR (GEF-6) covers biodiversity, climate change and land degradation focal areas. Eligibility criteria for countries remained unchanged from GEF-5.¹⁶ The STAR model includes a GEF Benefits Index (GBI), a GDP based index (GDPI), and a GEF Performance Index (GPI). Separate allocations are provided to countries for each of the three focal areas covered under STAR.

7. The GBI for biodiversity focal area is a weighted score of a country for its terrestrial (0.75) and marine biodiversity (0.25). The GBI for the climate change focal area is a weighted score based on two sub-indices. The first index is a product of a country’s GHG emissions and change in its carbon intensity (0.95), and the second index is a product of a country’s forest cover and change in forest cover (0.05). The GBI for land degradation focal area is based on a weighted score based on three indicators: global share of land area affected (0.2); proportion of dryland area in the country (0.6); and, proportion of rural population (0.2).

$$\text{Gross Country Score} = \text{GBI}^{0.8} \times \left(\frac{\text{GDP}}{\text{capita}} \right)^{-0.08} \times \left(\frac{0.65 \text{ CEPIA}^{17} + 0.15 \text{ BFI}^{18} + 0.2 \text{ PPI}^{19}}{\text{BFI}^{18} + 0.2 \text{ PPI}^{19}} \right)$$

8. The weight of the exponent for the GDPI changed from -0.04 for GEF-5 to -0.08 for determining GEF-6 country allocations. The weight was changed to allocate more resources to countries with a lower per capita income.

¹⁵ See *Proposal for the System of Transparent Allocation of Resources (STAR) for GEF-6*, GEF/C.46/05/Rev.01, May 2014, and, *System for Transparent Allocation of Resources*, PL/RA/01, March 2013, for more details.

¹⁶ To be eligible, a country should be a Party to the relevant Convention and meet the eligibility criteria decided by the Conference of the Parties to that Convention; it should not be member of the European Union; and, should have had at least one national project in the past five years, excluding projects that involve reporting to the Conventions.

¹⁷ CEPIA factor is Criterion #11, “Policies and Institutions for Environmental Sustainability,” of the World Bank’s CPIA indicators. World Bank data for 2012 was used.

¹⁸ Broad Framework Indicator (BFI) is a simple average of the five criteria comprising cluster D (Public Sector Management and Institutions) of the CPIA indicators. World Bank data for 2012 was used.

¹⁹ Of the 0.20 weight, 0.12 is accounted for by the outcome ratings given by, or adopted by, the GEF IEO for the completed GEF projects. The remainder 0.08 is accounted for by the project implementation reports ratings for implementation progress. The GEF IEO data on outcome ratings of completed projects up to calendar year 2013, and implementation progress ratings up to March 2013 were used for update of the performance index for GEF-6.

The GPI uses information from two sources: World Bank’s Country Policy and Institutional Assessment (CPIA) scores for a country; and, data on performance of GEF projects in a country. The Country Environmental Policy and Institutional Assessment Index (CEPIA) and Broad Framework Indicator (BFI) components of the GPI, which accounted for 0.65 and 0.15 weight of the GPI respectively, are based on the CPIA indicators. The Portfolio Performance Index (PPI) component of the GPI (0.2 weight) is based on data from the terminal evaluation review ratings on project outcomes (0.12 weight) and from the project implementation report ratings for implementation progress (0.08 weight).

9. GEF-6 STAR country allocation floors remained the same for the non-LDCs. For the LDCs, the floors were increased from \$ 1.5 million to \$ 2.0 million for biodiversity, from \$ 2.0 to \$ 3.0 million for climate change, and from \$ 0.5 million to \$ 1.0 million for land degradation focal area (table 1). The ceiling for country allocation for the climate change focal area was decreased from 11 percent to 10 percent of the total focal area resources.

Table 1: STAR Floors and ceilings by replenishment period

Focal Area	Floor (in \$ million)			Ceiling (as percentage of total focal area resources)		
	GEF-4	GEF-5	GEF-6	GEF-4	GEF-5	GEF-6
Biodiversity	1.0	1.5	2.0 (LDCs) 1.5 (Others)	10%	10%	10%
Climate Change	1.0	2.0	3.0 (LDCs) 2.0 (Others)	15%	11%	10%
Land Degradation	—	0.5	1.0 (LDCs) 0.5 (Others)	10%	10%	10%

10. The STAR’s design for GEF-6 continues to provide full flexibility to countries with aggregate allocation of up to \$ 7.0 million for cross focal use among the focal areas covered by STAR. For a country that has an aggregate allocation of more than \$ 7 million, GEF-6 STAR allows the marginal adjustment of up to \$ 2.0 million for cross-focal use among the focal areas covered by STAR (table 2).

Table 2: Marginal adjustments allowed for cross-focal use under STAR

Aggregate GEF country allocation	GEF-4	GEF-5	GEF-6
Up to \$ 7.0 million	\$ 0	Full flexibility	Full flexibility
\$ 7 million to 20 million	\$ 0	\$ 200,000	\$ 2,000,000
\$ 20 million to 100 million	\$ 0	\$ 1,000,000	
\$ 100 million or more	\$ 0	\$ 2,000,000	

11. The STAR model for GEF-6 was run in 2014 for a total replenishment level of \$4.43 billion²⁰. Following steps were taken to determine country allocations:

- (a) Of the total replenishment, the allocation for corporate budget and GEF IEO; the resources for focal areas not covered under STAR; and the set asides for focal areas covered under STAR, are excluded from the allocation.²¹
- (b) Using the STAR formulas country scores for focal areas are determined.
- (c) A country's gross share for each focal area is determined by dividing the country's score for the focal area by the sum of the country scores for all eligible countries.
- (d) A country's preliminary allocation for a given focal area is determined by multiplying the country's gross share in the focal area with the total focal area resources available for allocation.
- (e) The floors are applied to ensure that a country's allocation is not below the floor. Ceiling is applied to ensure that none of the country allocation for a focal area exceeds the ceiling. The residual amount is reallocated to the remaining countries maintaining their respective country share.

12. Proposal for the System of Transparent Allocation of Resources (STAR) for GEF 6 (GEF/C.38/9/Rev.1) describes the rules to be followed country allocations. It informs that country allocations determined through application of the STAR model would be treated as targeted maximum that may be achieved if the initial estimate of funding is realized. From the overall GEF envelope, recipient countries may access available resources up to their country allocation on a first come first serve basis. When there a shortfall in actual replenishment vis-à-vis projected replenishment at the start of the period, the countries that have already utilized their ex-ante allocation are not affected. However, those that have not fully utilized their allocations may be affected. The paper also notes that in case actual replenishment exceeds the initial estimate by \$ 300 million, STAR model will be implemented again to determine revised allocations for recipient countries.

²⁰ GEF/C.47/Inf.08

²¹ The exception to this rule is calculations of the ceilings, which are calculated and applied as a percentage of total focal area resources that includes resources for country allocations and for focal area set asides.

II. KEY QUESTIONS AND METHODOLOGY

1. Key questions

13. The evaluation seeks to answer the following key questions related to STAR, with focus on the STAR for the GEF-6 period:

1. To what extent does the STAR design facilitate a balanced allocation and utilization of GEF resources?
2. To what extent does the STAR promote transparency and predictability in allocation of GEF resources and strengthen country driven approaches?
3. To what extent has STAR been implemented in a transparent and efficient manner?
4. To what extent were the flexibility features of the STAR design effective?
5. What is the impact of STAR on generation of global environmental benefits?

To what extent does the STAR design facilitate a balanced allocation and utilization of GEF resources?

14. The evaluation assesses the quality of design based on the relative importance given to benefits potential, past performance, and socio economic factors, to determine country allocations. It also assesses the merits of other design features such as floors, ceilings, set asides, etc. The mid-term evaluations of STAR undertaken for the GEF-4 and GEF-5 periods have already addressed several aspects of STAR design in detail. The elements that have remained the same between GEF-5 and GEF-6, therefore, receive less attention. More specifically the evaluation assesses:

- (a) **The quality of the index to determine the performance potential:** The extent to which the performance index influences resource flows and creates incentives for improved performance.
- (b) **The quality of the indices on socio-economic factors:** The extent to which GDP based index influences resource flows along with simulations for other approaches that could have been used in terms of weight of the index.
- (c) **Merits of other design features that affect allocation:** The extent to which design features such as set asides, floors and ceilings, determine a country's share.

To what extent does the STAR strengthen country driven approaches?

15. The evaluation assesses the extent STAR is perceived to have led to greater country ownership and to have promoted country driven approaches.

To what extent has STAR been implemented in a transparent and efficient manner?

16. The review assesses the extent to which STAR has been implemented in a transparent and efficient manner. More specifically, it assesses Secretariats response to addressing the funding shortfall and its communications on STAR related matters with key stakeholders.

To what extent were the flexibility features of the STAR design effective?

17. The evaluation assesses the extent to which flexibility features of STAR design were used and were effective. It will identify patterns evident for different groups of countries.

What is the impact of STAR on generation of global environmental benefits?

18. The review will address issues related effect of STAR on GEF's ability to generate global environmental benefits. It will compare the results of the GEF projects from focal areas that are covered under STAR with those that are not covered, and those approved after adoption of STAR (GEF-4 and later) with those approved before (GEF-3 and earlier). This will help in assessment of the STARs effect on generation of global environmental benefits controlling for other factors.

2. Methodology

19. The evaluation draws on a variety of methodological approaches to respond to the key questions. It uses a mix of quantitative and qualitative tools and methods.

Document review

20. The review gathers STAR objectives, its design, rules and procedures for implementation from relevant GEF documents. Publications from other multilateral organizations were used to gather information on the design of their performance based allocation frameworks and their experience in implementing them.

Qualitative assessment of the STAR indices

21. The scientific and technical merits of the GBI have been covered in detail in the two preceding evaluations of the STAR. The STAR review undertaken for GEF-4 used the Delphi approach to assess the scientific and technical merits of GBI, whereas the review for GEF-5 used expert panels along with peer review of the panel reports for the assessment. The GBI has remained unchanged from the GEF-5 period to GEF-6 period. Therefore, this evaluation does not repeat the assessment of the GBI undertaken earlier but draws on their findings as these continue to be relevant. It gives more attention to assessment of the GPI and GDPI indices; set asides, floors and ceilings; and, other arrangements that are part of the STAR design.

Portfolio analysis and statistical modeling

22. The GEF PMIS database is the main source of information for portfolio analysis and statistical modeling. The cut-off date for PMIS data for portfolio analysis is 30th of September

2017. Portfolio analysis has been undertaken to uncover trends in resource utilization. Statistical modeling has been used to assess the effect of changes made in the STAR indices for GEF-6 and other design choices that may be relevant.

Interviews

23. The evaluation also draws from interviews of Secretariat staff that was involved in the implementation of STAR. The notes of the interviews conducted for the Evaluation of the Expansion of the GEF Partnership (2016) have also been used to draw information on effects of STAR on GEF Partnership.

Online survey

24. This evaluation draws on an online survey which covered issues related to GEF governance including STAR. It was administered by Universalia from February 22nd to March 2nd 2017. In all 87 respondents, representing different GEF stakeholders, answered questions relevant to STAR.²²

Study team

25. The evaluation was led by Neeraj Kumar Negi, Senior Evaluation Officer at the GEF IEO, who also prepared this report. Molly Watts Sohn, Evaluation Analyst at the GEF IEO, provided research assistance support. Mathias Einberger, consultant, conducted statistical analysis and simulations.

²² Universalia was hired by the GEF IEO to conduct an evaluation on governance related topics. Questions relevant to STAR were embedded within a more general online survey that covered a wide range of governance related topics.

III. FINDINGS

1. Design

Comparison with other Performance Based Allocation (PBA) systems

26. When compared to its peers that use a PBA system, GEF provides support to a larger number of countries but it is at the lower end in terms of annual disbursement per country. A PBA system is used to allocate development aid systematically, generally based on country needs and performance. The World Bank pioneered its use in 1977 for allocation of the International Development Association (IDA) resources. In past 15 years, nearly all major multi-lateral development institutions have adopted a PBA system. Tables 3 and 4 present a comparison among some of the funds that use a performance based allocation system. Among these funds GEF STAR stands out as the framework used for allocations for the highest number of recipient countries (143 countries). In terms of resources disbursed per country, funds administered by the multilateral development banks generally provide a recipient country about \$ 50 to \$ 100 million per year. In comparison, GEF provides about \$ 8 million per recipient country per year, which is much lower in magnitude and similar in the range to the resources provided by IFAD and by the Special Development Fund of the Caribbean Development Bank. Not all resources of these organizations are provided through the PBA system.

27. The formula used for PBA systems generally has two main components. The first component addresses country needs and may include indicators that assess potential of a country to generate intended benefits and a measure of prevalent socio-economic conditions in the country. The second component addresses country performance which may include indicators that measure policy environment and actual performance of activities undertaken in the country. The PBA systems generally use a multiplicative formula to generate overall score for a country. In a multiplicative formula, all factors that are multiplied are critical as a zero value for any of these will result in a zero total. In an additive formula, an addend affects the sum only to the extent of changes in addend's value and its zero value of one of the addends by itself may not result in a zero sum. Additive formulae are rarely used: Inter-American Development Bank's Fund for Special Operations being an exception as it half of its resources through an additive formula.

Table 3: Multilateral Development Institutions and Funds that use PBA Systems

Multilateral Development Institution, Fund	Funding Instruments and Objectives	Number of Eligible Countries (as of 2017)	Date of PBA System Operational Effectiveness	Percentage of Funding Allocated Through PBA System	Average Annual Disbursements (USD millions) ^A	Average per country (USD millions) ^A
Global Environment Facility, GEF Trust Fund	Grants covering incremental costs of measures to achieve global environmental benefits	143	2006	53% (GEF-6)	1108	8
African Development Bank, African Development Fund	Concessional loans and grants to promote sustainable development and reduce poverty in least developed African countries	38	1999	92% (ADF-13)	2433	64
Asian Development Bank, Asian Development Fund	From 2017 on ADF provides grants only to reduce poverty among the poorest Asian and Pacific region countries	29	2001	85% (ADF-11)	3100	107
Caribbean Development Bank, Special Development Fund	Concessional loans and grants to reduce poverty among Caribbean nations	18	2001	60% (SDF-8)	59.2 (SDF 7)	3
International Fund for Agricultural Development	Concessional and non-concessional loans and grants to improve food and nutrition security and alleviate poverty among rural poor.	99	2005	87% (IFAD-9)	375 (IFAD 10)	4
Inter-American Development Bank, Fund for Special Operations	Concessional loans ^B to reduce poverty and inequality and achieve sustainable growth in the region's poorest countries.	4	2002	100% (2015-16)	278	70
World Bank, International Development Association	Concessional loans and grants to reduce poverty within the poorest developing countries.	75	1977	84% (IDA15)	7700 (IDA18)	103

^A Average annual disbursements calculated as total replenishment resources divided by number of years in replenishment cycle, and includes funding allocated outside the PBA system. This figure is meant as a rough indication of disbursements and does not distinguish between resources allocated as grants or loans, or discount for resources held for the fund's operational expenditures.

28. All PBA formulae reviewed for this evaluation include a per capita GDP/GNI based index. The level of country score is inversely linked with the level of income through use of a negative exponent. Among the formulae considered for comparison the GEF GDPI exponent at – 0.08 has the lowest weight (table 4). In addition to GDPI, GEF uses GBI which is primarily based on environmental indicators to determine country needs. PBA formulae of other funds, in comparison, use population along with per capita GDP/GNI as an indicator to determine country needs. Thus, the role that population score plays in these formulae is analogous to what GBI plays in GEF STAR. Most formulae use a combination of World Bank’s CPIA indicators, or indicators harmonized with CPIA, and country portfolio performance. The GEF STAR approach to measure performance is consistent with that of the other funds. The weight it accords to the portfolio performance is within the same range as in formulae for funds.

Table 4: Performance-based allocation formulae in use by multilateral development banks and funds.

Multilateral Development Institution, Fund	Needs Factors		Performance Factors	Result
Global Environment Facility, GEF Trust Fund	$GBI^{0.8} * \left(\frac{GDP}{capita}\right)^{-0.08}$	X	$(0.65CPIA + 0.15CPIA_D + 0.2Portfolio)$	= allocation share
African Development Bank, African Development Fund	$Population^1 * \left(\frac{GNI}{capita}\right)^{-0.125} * AIDI^{-0.125}$	X	$(0.26CPIA_{A-C} + 0.58CPIA_D + 0.16Portfolio)^4$	= allocation share
Asian Development Bank, Asian Development Fund	$Population^{0.6} * \left(\frac{GNI}{capita}\right)^{-0.25}$	X	$[(ADB_CPIA_{A-C})^{0.7} * (ADB_CPIA_D) * Portfolio^{0.3}]^2$	= allocation share
Caribbean Development Bank, Special Development Fund	$LogPopulation * POOR^{0.1} * \left(\frac{GNI}{capita}\right)^{-0.9} * Vulnerability^2$	X	$(0.7CDB_CPIA + 0.3Portfolio)^2$	= allocation share
International Fund for Agricultural Development	$Rural_Population^{0.45} * \left(\frac{GNI}{capita}\right)^{-0.25}$	X	$(0.2CPIA + 0.35Portfolio + 0.45RuralCPIA)^2$	= allocation share
Inter-American Development Bank, Fund for Special Operations (half of the fund allocated by each formulae)	$Population^{0.5} * \left(\frac{GNI}{capita}\right)^{-0.25}$	X	$(0.3Portfolio + 0.7CIPE)^2$	= allocation share
	$0.22FUND * \left(\frac{Population}{\sum Population} + 0.133FUND * \left[\frac{\left(\frac{GNI}{capita}\right)^{-1}}{\sum \left(\frac{GNI}{capita}\right)^{-1}}\right]\right)$	+	$\frac{(0.6FUND) * \left[\frac{0.7CIPE + 0.3Portfolio}{\sum (0.7CIPE + 0.3Portfolio)}\right]}$	= \$ allocation
World Bank, IDA	$Population^1 * \left(\frac{GNI}{capita}\right)^{-0.125}$	X	$(0.24CPIA_{A-C} + 0.68CPIA_D + 0.08Portfolio)^3$	= allocation share

GEF Benefits Index (GBI)

The STAR GBI remained unchanged from the GEF-5 period to GEF-6 period. The Midterm Evaluation of the System of Transparent Allocation of Resources (GEF IEO, 2014) concluded that the STAR GBI indices for GEF-5 were scientifically and technically valid, although it did identify several areas for finetuning such as giving greater attention to ecosystem functions and freshwater species within the GBI for biodiversity focal area; and, moderation of weight given to proportion of dryland area in a country.

Table 5: Observed range of normalized gross GBI scores (for GEF-6)

Focal Area	Minimum score	Median score	Maximum score
	(a)	(b)	(c)
Biodiversity	<0.01	0.21	9.12
Climate Change	<0.01	0.09	52.83
Land Degradation	<0.01	0.44	3.31

29. Table 5 presents the observed range of normalized gross GBI scores for GEF-6 for recipient countries. The range of country scores is much wider for the climate change focal area, where the top most score accounts for more than half of the normalized gross score and is more than six times the score of the next highest country score and more than 500 times the median score. The differences in gross normalized country scores for land degradation focal area are relatively moderate: the top score is about eight times the median score and it accounts for only 3.31 percent of the total of country scores. The variations in normalized gross GBI scores of recipient countries observed for the biodiversity focal area are somewhere between the other two. While there is a huge spread in normalized GBI scores for climate change, there is only one outlier (China). The present approach of applying a ceiling of 10 percent to a country's allocation as share of the total focal area resources, ensures that country allocations for climate change are equitable but it reduces the level of resources for the country with maximum global environmental benefit potential, as assessed through its GBI score.

30. The GBI formula presently includes an exponent of 0.8 which has the effect of slight moderation of the country GBI scores. Simulations show that if the GBI exponent were higher, it would have led to lower country allocations for LDCs, SIDS, landlocked countries, and Africa region but more resources would have gone to countries where underlying indicators suggest greater benefits. The reverse is true if the value of the exponent was decreased.

31. For GEF-6 STAR GBI calculation, the underlying data was fully updated for the climate change focal area. Data on the proportion of rural population within recipient countries was also updated for the land degradation focal area. Data for climate change and land degradation focal area may be updated for the GEF-7 period.

32. The underlying data for calculation of the GBI for biodiversity focal area was not updated for the GEF-6 period, as these were not available. GEF Secretariat is working with UNEP UN Environment World Conservation Monitoring Centre to update this data for the GEF-7 period. Key changes in biodiversity GBI that are under consideration include use of data on occurrence of important habitats and biologically important areas, in addition to the data on fisheries species, for the calculation of the marine biodiversity score. Data on fisheries had been the sole basis of determination of this score so far. This will allow GEF STAR to fully utilize updated data to assess potential biodiversity benefits with greater precision.

GDP Based Index (GDPI)

33. From GEF-5 to GEF-6 the weight of the exponent of the GDPI was increased from – 0.04 to – 0.08. Simulations show that had there been no increase in the weight, compared to their actual ex-ante allocations for GEF-6 the allocations of the LDCs would have been lower by 4.0 percent, and those of the heavily indebted poor countries (HIPC) by 4.5 percent (table 6). Allocations for SIDS, which tend to have higher per capita GDP, would have been slightly higher by 0.5 percent. Among the regions, allocations of countries in Africa would have been lower by 2.7 percent, and those in Asia by 1.0 percent. On the other hand, allocations for countries in Europe and Central Asia would have been higher by 2.7 percent, and those in Latin America and Caribbean 2.9 percent. The change in allocations experienced by individual countries range between a 9.8 percent decrease to a 6.6 percent increase in allocation.

34. The simulations show that if the weight of the GDPI were increased from – 0.08 to – 0.12, the direction of effect will change. Allocations of countries with lower per capita GDP would have increased and those with higher GDP would have decreased. The changes in allocations would have been in the range of -6.4 percent to 10.7 percent, compared to the GEF-6 STAR allocation baseline.

Table 6: Percentage change in GEF-6 STAR allocations with changes in GDP weight and data update²³

Effect on	- 0.04 weight used instead of - 0.08 (GEF-6 baseline with 2012 per capita GDP data)		- 0.08 (GEF-6 baseline with 2012 per capita GDP data)	- 0.12 weight used instead of - 0.08 (GEF-6 baseline with 2012 per capita GDP data)	
	2012 data	2016 data	2016 data	2012 data	2016 data
High Income Countries	4.5	5.7	2.2	-4.4	-1.3%
Upper Middle Income Countries	2.4	2.9	0.7	-2.5	-1.6%
Low Middle Income Countries	-1.9	-2.3	-0.8	1.7	0.7%
Low Income Countries	-5.3	-6.1	-1.4	5.7	3.6%
Africa	-2.7	-2.9	-0.3	2.9	2.5
Asia	-1.0	-1.6	-1.0	1.0	-0.4
Europe and Central Asia	2.7	4.0	2.2	-2.7	0.3
Latin America and Caribbean	2.9	3.3	0.6	-3.0	-2.1
Highly Indebted Poor Countries	-4.5	-5.0	-0.7	4.9	3.9
Least Developed Countries	-4.0	-4.5	-0.9	4.3	3.0
Small Island Developing States	0.5	0.5	-0.2	-0.5	-0.9
Land Locked Developing Countries	-1.8	-1.4	0.3	2.0	2.2
Fragile States	-3.9	-5.5	-2.2	4.1	1.3
Max. increase for a GEF constituency	4.6	6.3	3.2	4.9	4.5
Max. decrease for a GEF constituency	-4.6	-4.9	-3.4	-4.7	-4.5
Maximum increase for a country	6.6	7.2	4.8	10.7	12.0
Maximum decrease for a country	-9.8	-9.8	-3.8	-6.4	6.4

35. Simulations show that even if the GDP weight was maintained at -0.08 for the GEF-7 period, and other factors were constant, there would be a change in the allocations because of the data update. For example, if the per capita GDP data is updated to 2016, holding other factors constant, low income countries, LDCs, and HIPICs, would experience a decrease because from 2012 to 2016 their per capita incomes have increased at a faster rate than countries with higher levels of income.

36. Most of the performance based allocation frameworks include GNI per capita as an indicator of socio-economic conditions. GEF STAR includes GDP per capita instead. Although there is a high correlation between the two, allocations of some of the countries would be affected if GEF STAR replaces GDP per capita with GNI per capita. Allocations of some of the countries such as Philippines, Moldova and Bangladesh, whose GNI is higher than GDP may decrease; whereas that of others, such as Liberia, Belize, and Gabon, may increase. Overall, the choice of GDP as an indicator is appropriate because there are more gaps in World Bank's GNI data, than their GDP data, for the GEF recipient countries.

²³ Based on 2012 per capita GDP data from the World Bank.

37. The mid-term evaluation of the STAR (GEF IEO, 2014) recommended use of purchasing power parity (PPP) based per capita GDP, instead of exchange rate based GDP, for the STAR GDPI because it is a better indicator to compare living standards across the world, and calculate global poverty or inequality. The evaluation noted that most performance based allocation system follow the IDA precedent, wherein the exchange rate based GDP per capita has been used. However, the evaluation explained, while use of exchange rate based per capita may make sense where there is not much difference in the per capita income levels of the recipient countries, it may not be as useful for STAR as GEF recipients of GEF grants include not only IDA recipients but also middle-income countries. Consequently, ratios of PPP and exchange rate-based per capita GDP shows greater variance for GEF grant recipient countries than for recipient countries for other funds. During its November 2013 meeting, the GEF Council discussed the GEF IEO recommendation to use PPP, instead of exchange rate, based GDP per capita for STAR GDPI. It, however, did not accept the recommendation although several Council members suggested that its feasibility be studied further.

38. Simulations show that if PPP based GDP had been used, GEF-6 STAR allocations of countries in Latin America and Caribbean, and of Europe and Central Asia, would have been higher by about 1.9 percent and 0.7 percent, respectively. On the other hand, allocations of countries in Asia and in Africa, would have lower by 1.2 percent and 0.6 percent respectively. Allocations for countries of a constituency in Latin America and Caribbean would have increased by 2.9 percent, whereas allocations for countries of a constituency in Asia would have decreased by 2.8 percent. Effects on individual countries show greater variation – they range from a 16.5 percent decrease to a 5 percent increase. Allocations for HIPC and LDCs would have been lower by 1.0 percent and 1.1 percent, respectively. Given that GEF gives greater attention to LDCs and low income countries, this may be an unintended outcome. However, this may be compensated for by increasing the weight accorded to GDPI. By using PPP instead of exchange rate based GDP per capita, GDPI gains precision in directing GEF resources to countries that face more challenging socio-economic conditions.

GEF Performance Index (GPI)

39. The GEF STAR Performance Index has two distinct components: Country Policy and Institutional Assessment (CPIA) and GEF Portfolio Performance, which account for 80 percent and 20 percent of the weight, respectively. Two subcomponents of the World Bank's CPIA score are: Country Environmental Policy and Institutional Assessment (CEPIA) Indicator, which has a weight of 65 percent; and the Broad Framework Indicator, which has a weight of 15 percent. Inclusion of CPIA indicators is consistent with the practice of other performance based allocation frameworks. However, a disadvantage of using CPIA indicators is that the data is not publicly disclosed. Although World Bank discloses CPIA scores to the recipient countries, these may not be accessible to the GEF Operational Focal Points in the country (GEF IEO, 2008). In any case, even if these scores were accessible to all the Operational Focal Points for their country, they would not be able to compare it with that of other countries.

40. Among the publicly accessible alternatives of CPIA, Environmental Performance Index (EPI) by the Yale Center for Environmental Law and Policy could be tested. It has been published since 2006 and its last report (2016) rated environmental performance of 180 countries. This includes 134 (94 percent) of the 143 GEF recipient countries eligible for STAR allocations. The subcomponent of the index covers several areas that are closely aligned with the GEF focal areas. Simulations show that replacing the CPIA indicators with EPI indicators would have led to allocation outcomes that are broadly consistent with the STAR baseline, however some allocations for countries may change as their scores based on EPI may be at variance with those from CPIA. Adding EPI indicators with a low weight, alongside CPIA indicators, may mitigate risk of significant change in country allocations due to transition.

41. Within the GPI, Project Portfolio Index (PPI) accounts for 0.2 weight. Of this 0.08 weight is accounted for by the project implementation reports ratings for implementation progress. The remainder, 0.12 weight, is accounted for by the outcome ratings of completed projects given by, or adopted by, the GEF IEO (i.e. terminal evaluation review dataset).

42. The project implementation report based component of PPI is based on the implementation progress rating of the projects under implementation. All the projects that had been under implementation at some point and for which implementation progress ratings were available were included for calculating the STAR PPI for GEF-6 period. Because a project may be under implementation for multiple years, and may, therefore, have multiple (annual) implementation progress ratings, its implementation progress ratings are averaged. Each project is accorded equal weight. Given that for this component implementation progress ratings for all the projects that were under implementation since inception are included, recent performance of a country in implementing GEF projects is not adequately prioritized. Therefore, there is a case for restricting the time-period for including implementation progress ratings used calculation of PPI to more recent years or alternatively weighing implementation progress performance of recent projects more heavily. Table 7 presents a comparison of country coverage through projects for implementation progress ratings are available based on time-period under consideration. It shows that although the number of projects in the pool decreases when period is restricted to last 10 or six years, the decrease is not substantial. The advantages of focusing on more recent data outweighs benefits from including data of projects that were completed a long time back.

Table 7: Availability of Implementation Progress Ratings for PPI calculations for GEF-7²⁴

Project under implementation at any time from....	Inception to 2015	2006 to 2015	2010 to 2015
Single country projects with implementation progress ratings	1425	1288	1117
Number of countries eligible for STAR allocations	144	144	144
Countries with at least one project with IP rating	137	133	133
Countries with at least two projects with IP ratings	123	123	120
Countries with at least three projects with IP ratings	115	114	111
Countries with at least four projects with IP ratings	108	106	101
Countries with at least five projects with IP ratings	98	90	85
Countries with at least 10 projects with IP ratings	57	51	40
Countries with at least 20 projects with IP ratings	14	11	8

Source PMIS (As on June 30th 2017)

43. For GEF-6 STAR, the GEF IEO data on outcome ratings of completed projects up to December 2013, and PMIS data on implementation progress ratings up to March 2013 were used. While PPI calculations for the GEF-5 and GEF-6 STAR were made based on a thinly populated terminal evaluation review dataset, coverage of countries in the dataset has improved substantially (table 8). So far, all completed GEF projects for which outcome ratings are available have been accounted for in PPI calculation. This includes a sizable number of projects that were completed more than 10 years back. To incentivize performance improvement through PPI, there is a case to give more weightage to projects that were completed more recently.

Table 8: Availability of GEF IEO's outcome ratings for completed projects in recipient countries*

GEF STAR – Replenishment Period	GEF-5	GEF-6	GEF-7	GEF-7
Terminal Evaluation Review data up to	2008	2013	2016	2016***
Number of countries eligible for STAR allocations	144	143	144**	144**
Countries with at least one outcome rating	64	101	121	117
Countries with at least two outcome ratings	29	73	106	94
Countries with at least three outcome ratings	17	49	94	73
Countries with at least four outcome ratings	12	37	75	58
Countries with at least five outcome ratings	6	26	60	48
Countries with at least 10 outcome ratings	0	7	17	10

*Pertains only to ratings on a six-point scale. **Number of eligible countries may change for GEF-7 period. TER availability and country coverage for the GEF-7 period may increase due to inclusion of 2017 data. ***This column presents TER figures when number of TERs under consideration is restricted to projects completed in last 10 years, i.e. 2007 to 2016.

²⁴ As of June 30th, 2017, PMIS provides implementation progress data for up to FY 2015. It is likely that by the time calculations for STAR for GEF-7 period are carried out, more updated data will be available.

44. GEF STAR GPI exponent of 1.0 is higher than its GBI exponent of 0.8 and GDPI exponent of (-) 0.08. This means other things remaining the same, the country score for a focal area is more sensitive to changes in the GPI than in GBI and GDPI. However, given that the variation of scores is much higher for GBI than for GPI, and the GDPI exponent is too low, its GBI that drives country allocations.

Floors and Ceilings

45. The purpose of establishing floors is to provide recipient countries a minimum level of funding for programming GEF activities, whereas that of establishing ceilings is to prevent concentration of GEF resources in a GEF recipient country. Therefore, while use of an absolute value makes sense for prescribing floors, a percentage is more appropriate for prescribing a ceiling. The GEF STAR practice for using an absolute threshold for floors and a percentage for ceilings is, therefore, well-reasoned.

46. From GEF-5 to GEF-6, the focal area country allocation floors, i.e. the minimum amount that a country may be allocated, remained unchanged for most countries. However, there was an increase in floors for LDCs. Simulations show that increase in floors account for 7.6 percent increase in the allocations for LDCs. Overall, it led to an aggregate increase of \$ 37 million in allocations for LDCs. The increase in floors also had the effect of increasing average allocations for SIDS by 5.1 percent as several SIDS are also LDCs.²⁵

47. GEF-6 STAR imposed a uniform 10 percent ceiling of the total resources of a focal area for determining the maximum country allocation for the focal area. The total focal area resources include set asides along with the resources allotted for country allocations. Once the focal set-asides are excluded, ceilings – as a percentage of focal area resources available for country allocation – are in the 12 to 13 percent range. Although country allocation ceilings have been prescribed for all the three focal areas covered by STAR, in practice the prescribed ceiling is applicable to the Climate Change focal area allocation of China. For biodiversity and land degradation focal areas, the gross allocation of the country with the highest allocation were much lower than the ceiling.

Flexibility

48. GEF-4 STAR did not provide countries any flexibility for cross-focal use of their allocations. GEF-5 STAR provided full flexibility for countries that had a total allocation of \$ 7 million or less, and marginal adjustments of up to \$ 200,000 for countries with allocation in the range of \$ 7 million to \$ 20 million; up to \$ 1.0 million for countries with allocation in \$20 million to \$ 100 million, and \$ 2.0 million for countries with allocation greater than \$100 million. Based on the recommendation of the Mid Term Evaluation of STAR (GEF IEO, 2014), for GEF-6 a uniform marginal adjustment of \$ 2.0 million was provided for countries with allocation greater than \$ 7.0 million. Countries with allocations up to \$ 7 million continue to have full

²⁵ The countries that are both LDCs and SIDSs include Comoros, Guinea-Bissau, Haiti, Kiribati, Sao Tome and Principe, Solomon Islands, Timor-Leste, Tuvalu, and Vanuatu. Two SIDS, Maldives and Samoa, were LDCS when calculations for GEF-6 STAR were carried out. But there have now graduated from the LDCS list.

flexibility. Compared to the GEF-5 baseline, during GEF-6 this change provided greater flexibility to 91 countries. Figure 1 plots total permissible use of resources across focal areas as a percentage of total country allocations for GEF-5 and GEF-6 period. It clearly shows that compared to GEF-5 STAR, level of marginal adjustments provided in the GEF-6 STAR design showed greater increase for the countries in the allocation in the \$ 7 M to \$ 20 M range.

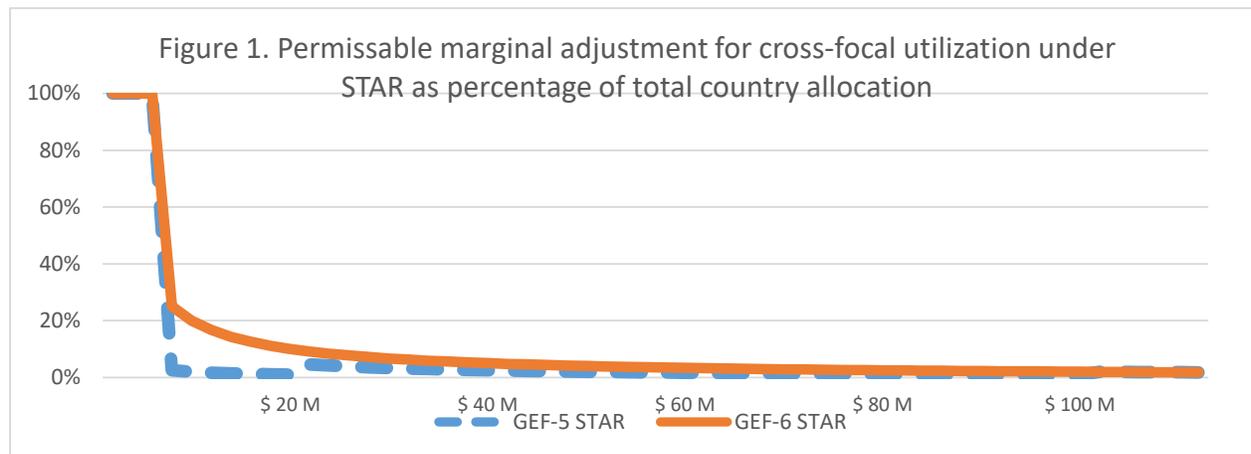


Figure 1: Permissible marginal adjustment for cross-focal utilization under STAR as percentage of total country allocation

Set Asides

49. Of the total resource envelope for the three focal areas, \$ 2,338 million (78.3 percent) was allotted for country allocations and \$ 649 million (21.7 percent) was allotted to set asides (table 9). There were minor differences across focal areas in terms of share of set asides in total focal area resources. The share of set asides in total focal area resources ranged from 18.9 percent for the biodiversity focal area to 25.3 for the climate change focal area. Variation in the share of set asides during GEF-6 for the focal areas is a departure from the GEF-5 and GEF-4 practice of uniform share of set asides: during GEF-4 the set asides were 5 percent, and during GEF-5 20 percent, of the focal area resources covered under STAR. Table 9 provides details on how focal area set asides were allotted to different activities such as the sustainable forest management (SFM) incentive scheme, Convention obligations, integrated approach pilots (IAPs), and global and regional initiatives. From this point on the term set asides will be restricted to resources for global and regional projects, and to meet the Convention obligations.²⁶

²⁶ Although the distribution provided in table 9 is also presented in annex of the GEF-6 Programming Directions (GEF/C.46/07/Rev.01), in subsequent reporting by the GEF Secretariat only country allocations and set asides for global and regional projects, and for convention obligations have been considered as part of the focal area resources. The approach used in this evaluation is consistent with the GEF Secretariat's practice.

Table 9: Set asides for focal areas covered by STAR

Focal Areas	Total resources	Country Allocations	Set Asides							
			Total	Global / Regional	Convention obligations	SFM	Allocation of focal area set asides to Integrated Approach Pilots			
							Total	Commo.	Cities	Food
Biodiversity	1296 (100%)	1051 (81.1%)	245 (18.9%)	37 (2.9%)	13 (1.0%)	150 (11.6%)	45 (3.5%)	35 (2.7%)	0 (0.0%)	10 (0.8%)
Climate Change	1260 (100%)	941 (74.7%)	319 (25.3%)	59 (4.7%)	130 (10.3%)	80 (6.3%)	50 (4.0%)	0 (0.0%)	40 (3.2%)	10 (0.8%)
Land Degradation	431 (100%)	346 (80.3%)	85 (19.7%)	10 (2.3%)	15 (3.5%)	20 (4.6%)	40 (9.3%)	0 (0.0%)	0 (0.0%)	40 (9.3%)
Total	2987 (100%)	2338 (78.3%)	649 (21.7%)	106 (3.5%)	158 (5.3%)	250 (8.4%)	135 (4.5%)	35 (1.2%)	40 (1.3%)	60 (2.0%)

Based on Annex A- Detailed Table of Programming Targets for GEF-6, of 'Summary of the Negotiations of the Sixth Replenishment of the GEF Trust Fund' (GEF/C.46/07/Rev.01)

50. Of the focal area set-asides, \$ 106 million was allotted to global and regional initiatives, and \$ 158 million for Convention Obligations. Among the focal areas, \$ 37 million of biodiversity, \$ 59 million of climate change, and \$ 10 million of land degradation focal area resources were provided for global and regional initiatives. While the GEF-6 programming document does not provide a further breakdown, it discusses the types of activities the set-aside will support. The biodiversity set aside for regional and global initiatives aimed at supporting complementary biodiversity investments at the national level for countries that participate in priority global, regional or multi-country projects. Support for enhancing global conservation knowledge through experimental or quasi-experimental design based field evaluations was listed among the priorities. The climate change set aside for regional and global initiatives is designed to incentivize countries to participate in global, regional or multi-country projects. The land degradation focal area set aside for regional and global projects is aimed at supporting cross-cutting initiatives that are regionally integrated, and promote knowledge sharing and advance sustainable land management globally.

51. Of the total focal area resources, \$ 130 million of climate change, \$ 13 million of biodiversity, and \$ 15 million of land degradation, were allotted to support the obligations to the respective Conventions. The climate change focal area set aside for Convention obligations is substantially higher than that of other focal areas. The climate change set aside provides all GEF-eligible countries support for preparation of the biennial update reports. It also provides support to SIDS and LDCs to undertake technology needs assessments. The biodiversity focal area set aside for the Convention obligations provides support to recipient countries to prepare the 6th national report to the Convention on Biodiversity, along with national reporting obligations under the Cartagena Protocol and Nagoya Protocol that need to be met during the GEF-6 period. The land degradation set aside is aimed at supporting enabling activities consistent with UNCCD's guidance.

2. Implementation

52. The negotiations for the GEF-6 replenishment were completed in April 2014. Subsequently, in May 2014 the GEF Council endorsed the programming directions and policy recommendations for the GEF-6 period. The Council also adopted all the elements of the revised STAR for GEF-6 as detailed in the Proposal for the System of Transparent Allocation of Resources (STAR) for GEF-6 (GEF/C.46/05/Rev.01).

Calculation of STAR country allocations

53. The programming allocations for the GEF-6 period were determined based on replenishment commitments valued at \$ 4.43 billion at the start of the GEF-6 period. The data used available as at April 01, 2014 was used to calculate country shares.²⁷ In July 2014, the GEF Secretariat published the indicative country allocations for the three focal areas covered under STAR for the GEF-6 period.

54. While underlying data for GBI indicators for climate change focal area were updated, those for biodiversity and land degradation remained unchanged as the updated data on the relevant indicators was not readily available. GBI data update for climate change focal area led to increase in allocations of some countries such as Brazil and Myanmar that had improved scores in the underlying indicators.

55. The exchange rate based per capita GDP data for 2012 from the World Bank was used for calculation of the GDPI. Because exchange rates fluctuate, several countries may experience sharp changes in their per capita GDP figures in dollars without a corresponding change in the underlying real GDP. For example, if per capita GDP data for 2011, instead of 2012, had been used for GEF-6 STAR calculations, changes in country allocations would have ranged from 3.5 percent increase to 16.5 percent decrease in calculations.

56. In response to the recommendations of the GEF-5 STAR Mid-Term Review, the GEF Secretariat made several improvements in the processes adopted for carrying out the calculations for GEF-6. In general calculations of STAR allocations were carried out correctly. However, errors were observed in some of the calculations. The overall effect of the errors was not substantial. The Mid Term Evaluation of STAR (GEF IEO, 2014) had identified similar errors in calculation of country allocations. It made a case for an iterative approach that includes “independent calculations followed by reconciliation to facilitate identification and rectification of mistakes”. Had this process been followed, it is likely that the errors could have been avoided.

²⁷ GEF-6 Indicative STAR Allocations (GEF/C.47/Inf.08).

National Portfolio Formulation Exercises (NPFEs)

57. The NPFE program was first initiated by the GEF during GEF-5 period to help recipient countries plan their portfolio of GEF supported activities. A grant of \$ 30,000 is provided to a recipient country that requests such support to conduct a NPFE. The request for NPFE for the GEF-6 period could be submitted by a GEF recipient country from March through September 2014. During GEF-6 period, 25 countries accessed GEF grant for NPFE, compared to 32 countries during the GEF-5 period. The uptake during the GEF-6 period was lower than the target of 80 recipient countries.²⁸ The profile of recipient countries shows an interesting pattern. Of the 25 countries that received grants, 22 are from Africa. During the GEF-5 period too, 22 countries from Africa had accessed the GEF grant to conduct NPFE. However, the number of countries from other regions that accessed an NPFE grant decreased from 10 countries during GEF-5 to three countries during GEF-6.

58. Of the countries that accessed the grant during GEF-6 period, 19 (76 percent) are LDCs and/or SIDS, which shows that the demand for the program remains high among countries with capacity constraints. The Midterm Evaluation of the National Portfolio Formulation Exercise (GEF IEO 2014) reported that during the GEF-5 period at least 10 countries conducted NPFEs entirely from non-GEF resources. While extent to which this took place during the GEF-6 period is difficult to determine, several countries may have conducted these exercises through their own resources.

Managing changes in Replenishment Projections

59. The projected funding envelope of \$ equivalent 4,433 million at start of GEF-6 included \$ equivalent 3,716 million from new pledges, \$ equivalent 583 million carried over from previous replenishments, and \$ 134 million of expected investment income during the GEF-6 period.²⁹

60. The GEF Trustee prepares monthly status reports on availability of the GEF Trust Fund funding. Figure 2 is based on the information presented in these monthly reports. It compares the GEF-6 replenishment envelope expected at the start of the period, revised projections of the GEF-6 replenishment envelope, realized replenishment, and cumulative GEF-6 funding decisions. The Trustee also presents a GEF Trust Fund Financial Report to the GEF Council on a biannual basis.

61. Although a substantial shortfall of more than \$ 500 million has been projected from December 2014 onwards. However, at that point, most of the replenishment commitments – most of which were in non-dollar denominations – were yet to materialize, and future currency fluctuations could substantially alter shortfall projections. As the replenishment period progresses, and as more of the replenishment pledges are realized, the level of certainty with which the shortfall may be predicted increases. In its June 2016 meeting, when discussing the Work Program for GEF Trust Fund (GEF/C.50/11), the GEF Council took cognizance of the

²⁸The Country Support Program Implementation (GEF/C.47/08)

²⁹ GEF Trust Fund Financial Report: *Summary of Financial Information*, 2015 (GEF/C.48/Inf. 08)

“Trustee's estimate of the potential resource shortfall of the GEF-6 envelope” and requested the Secretariat to prepare “an update on GEF-6 resource availability” and present it in the next meeting of the Council. In response to the Council’s request, the GEF Secretariat presented Update on GEF-6 Resource Availability (GEF/C.51/04). The update provided information on net resource availability and the Secretariat’s recommendations to address the shortfall. The update recommended that country allocations for SIDS and LDCs, and focal area set asides, remain unchanged. It also recommended that the original GEF-6 balance among the focal areas be maintained, and for the remaining countries (non-LDC/non-SIDS) the STAR country allocations be decreased proportionately. The measures outlined by the GEF Secretariat are consistent with the Council decision in November 2012, when a short fall had been projected for the GEF-5 replenishment.³⁰ The Council endorsed the Secretariat’s recommendations for addressing the GEF-6 replenishment shortfall.³¹

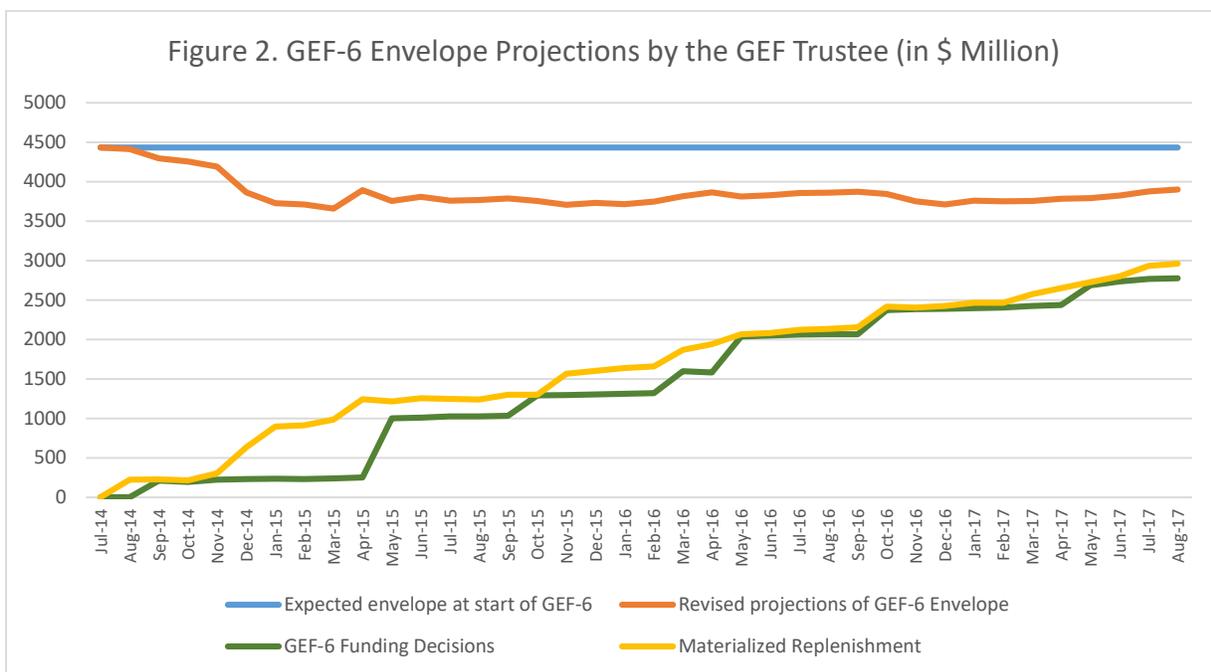


Figure 2: GEF-6 Envelope Projections by the GEF Trustee (in \$ Million)

62. During the October 2016 Council meeting, several Council members requested the Secretariat to work with recipient countries on the operationalization of the consequences of the potential shortfall and pro-actively engage recipient countries in their programming activities.³² The GEF Secretariat operationalized the Council decision on the shortfall consistent with the request the Council members. The Secretariat informed the countries their revised resource envelope and discussed options to help them program their remaining unutilized resources. In the interim, it put PIF submissions on hold for several affected countries so that they may design their response. Several countries dropped and/or resized projects, and/or

³⁰ 2012a. “Joint Summary of the Chairs, 43rd GEF Council Meeting, November 13–15, 2012.”

³¹ 2016. “Joint Summary of the Chairs, 51st GEF Council Meeting, October 25-27, 2016.”

³² Highlights of the Council’s Discussions; 51st GEF Council Meeting.

needed to utilize marginal adjustments allowed to them.³³ These measures, along with the need to align the GEF work program with available resources, increased the time taken from project information form submission to its approval.

63. Several non-SIDS and non-LDC countries felt that they would have been better prepared had the effect of the GEF Secretariat's recommendations on non-LDC and non-SIDS countries been clarified during the October 2016 Council meeting. Although recipient countries would have liked to know their updated allocation as a fixed number, it was difficult for the Secretariat to provide a fixed number as shortfall projections change with fluctuations in the currency exchange rate, and available resources are difficult to ascertain with finality till all pledges materialize or the replenishment period ends.

64. The effect of the replenishment shortfall on resource availability for programing has not been uniform. The allocations for corporate budget, country support program, IAPs, small grants program, and focal area set asides, have been maintained at original levels. Only a small percentage of decrease in the overall resources could be passed to the SFM incentive scheme and to the non-grant instruments pilot because their utilization levels already exceeded the revised proportionate share.

65. For focal areas under STAR, maintaining the funding for the set asides at the original level and decreasing the level of support for focal area country allocations at the same rate as that for focal areas outside STAR reduces GEF's ability to maintain the focal area balance as it disadvantages the focal areas that are outside STAR. This is so because it reduces the total resources available to focal areas outside STAR at a higher rate than the reduction in the total resources of the focal areas under STAR. This said, overall difference in reduction at 1-2 percent is not substantial. Moreover, it has the effect of mitigating the decrease in STAR allocations of non-LDC and non-SIDS countries.

66. Among the three focal areas covered by STAR, the land degradation focal area allocations of the non-LDC and non-SIDS countries were affected more as a LDCs and SIDS account for a higher share of the country focal area allocations. On average the non-LDC and non-SIDS countries experienced a decline in the 27 percent to 32 percent range for the land degradation focal area, compared to 22 to 27 percent for biodiversity and 21 percent to 26 percent for climate change.

67. Among the non-LDC and non-SIDS countries, 22 countries had already utilized more than 80 percent of their allocation, consequently their allocations may not decrease to the extent a proportionate sharing of the short-fall warrants. When this is considered, the decrease in allocations for remaining (slow programming) non-SIDS and non-LDCs is in 25 percent to 37 percent range based on the point in time when the assessment was made.

³³ In such instances, marginal adjustments are unlikely to be reflected in the PMIS data as it tracks these adjustments based on the ex-ante allocation targets which were determined at the start of the GEF-6 replenishment period.

68. Among the GEF regions, countries in Africa on average face a decrease of 7 to 8 percent, whereas other regions face a decline in the 20 to 24 percent range. This skew is primarily due to LDCs and SIDS accounting for 63 percent of the original allocation share of countries in Africa. Countries in Europe and Central Asia region, where none of the recipient countries is an LDC or a SIDS, on average face the highest level of decline. For the Latin America and Caribbean region and the Asia region the effects are moderate given that the LDCs and SIDS account for 17 percent and 25 percent of the original GEF-6 country allocation targets for these countries.

69. Figure 3 translates the effect of Council’s decision on addressing the shortfall and the Trustee’s projections into GEF-6 resource availability projections for various categories vis-à-vis ex-ante allocations. The analysis shows that non-LDC and non-SIDS countries that were slow to program, experienced greater decrease in available resources than the average for non-LDC and non-SIDS countries. It also shows that projected shortfall is accentuated for some categories of recipient countries.

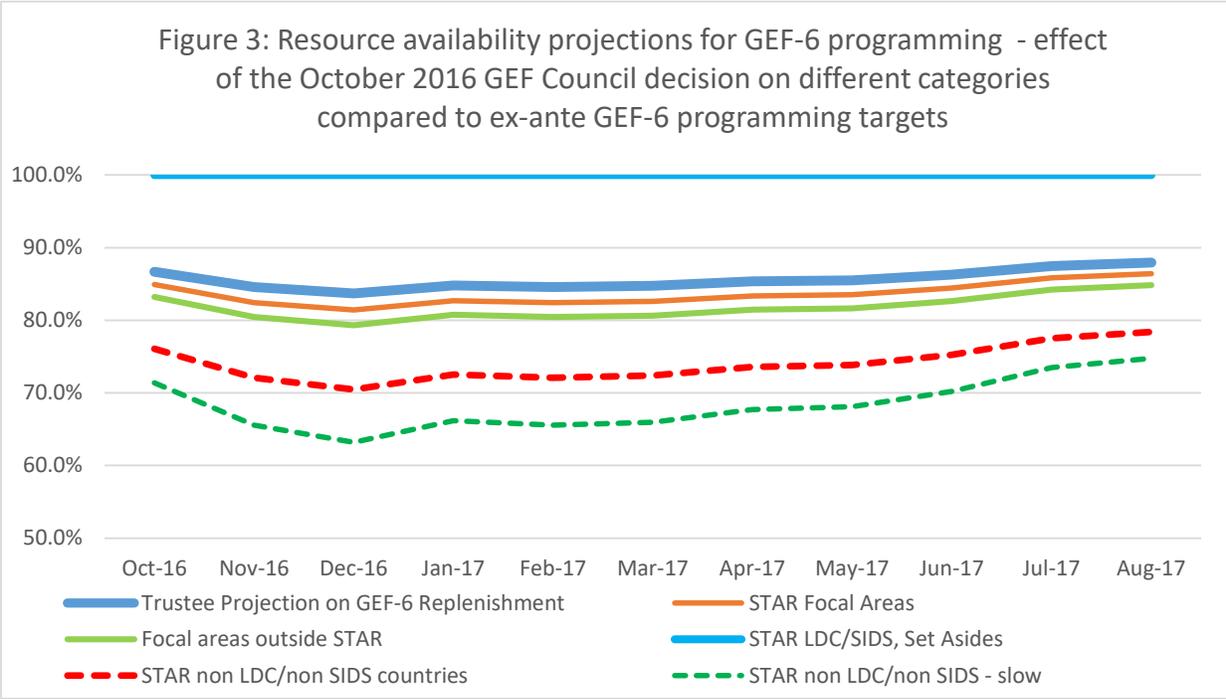


Figure 3: Resource availability projections for GEF-6 programming - effect of the October 2016 GEF Council decision on different categories compared to ex-ante GEF-6 programming targets

70. A major result of protecting the country allocations of LDCs and SIDS, and passing on the shortfall in resource availability to other countries was that it led to increase in share of LDCs and SIDS in STAR country allocations (Figure 4). Their shares increased from 22 percent to 26-28 percent, and from 11 percent to 13-14 percent, respectively. On the other hand, the share of non-LDC and non-SIDS countries in STAR country allocations decreased from 70 percent to 62-64 percent.

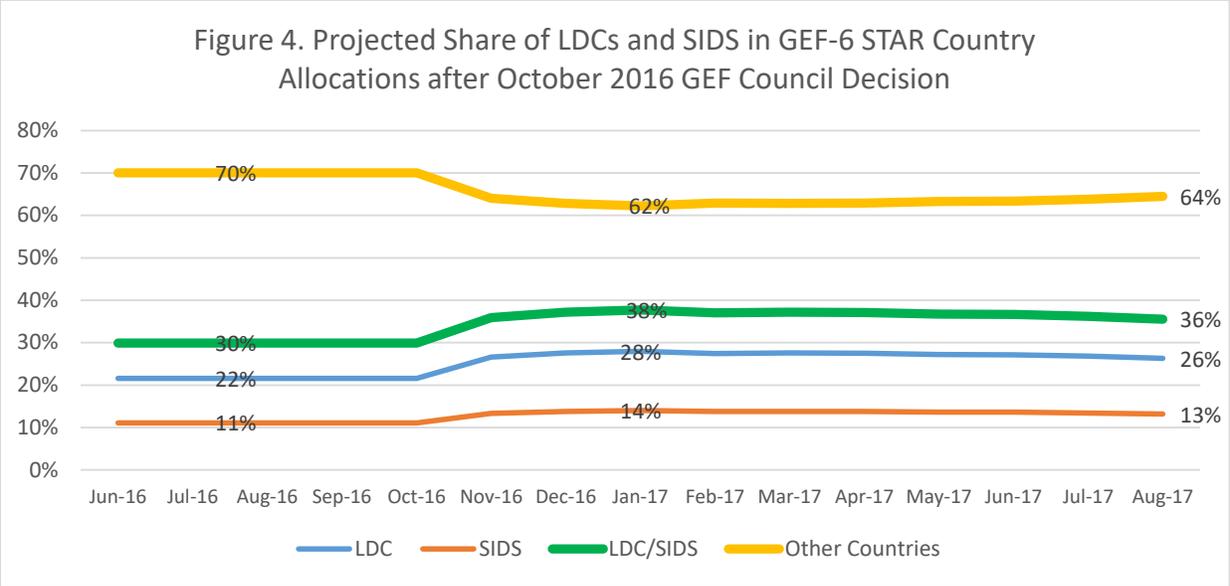


Figure 4: Projected Share of LDCs and SIDS in GEF-6 STAR Country Allocations after October 2016 GEF Council Decision

3. Utilization

STAR Resources

71. For focal areas covered under STAR, compared to the projected availability of resources for GEF-6, overall utilization of resources, including set asides, was 64 percent (table 10). Overall utilization of focal area resources was higher for Land Degradation (69 percent) and Biodiversity (67 percent) than for Climate Change (61 percent).

72. Within the focal area resources, overall utilization was 66 percent for the revised country allocations. Rate of utilization of country allocations was 70 percent for land degradation, 66 percent for biodiversity, and 64 percent for climate change focal area. Although the overall utilization of set asides is 53 percent, there are wide variations among focal areas. While utilization of the biodiversity focal area set aside was at 83 percent, it was substantially lower for the climate change at 46 percent and land degradation at 50 percent.

73. The overall utilization rate for focal areas outside STAR is slightly higher than those under STAR (68 percent versus 64 percent). Utilization of funds in terms of funding decisions taken by the GEF Council or CEO for IAPs, SFM, Small Grants Program, and Non-Grants Instruments Pilot, was close to 100 percent and substantially higher than that for focal areas covered under STAR. This is primarily because utilization for these activities tends to be front loaded.

Table 10: GEF-6 Replenishment targets, updated targets, and utilization of available resources

Focal Area / Theme	Original GEF-6 targets	Projected GEF-6 resource availability	Percentage Reduction of GEF-6 targets	GEF-6 Utilization (as on September 30 th 2017)		
				Amount	Percentage of original targets	Percentage of revised targets
Biodiversity	1101	942	14%	628	57%	67%
<i>Country Allocations</i>	1051	892	15%	586	56%	66%
<i>Set asides</i>	50	50	0%	41	83%	83%
Climate Change	1130	987	13%	598	53%	61%
<i>Country Allocation</i>	941	798	15%	512	54%	64%
<i>Set aside</i>	189	189	0%	86	46%	46%
Land Degradation	371	319	14%	219	59%	69%
<i>Country Allocation</i>	346	294	15%	206	60%	70%
<i>Set aside</i>	25	25	0%	13	50%	50%
Focal Areas under STAR	2602	2248	14%	1444	56%	64%
<i>Country allocations</i>	2338	1984	15%	1304	56%	66%
<i>Focal area set asides</i>	264	264	0%	140	53%	53%
Focal Areas not under STAR	1010	857	15%	586	58%	68%
SFM	230	217	6%	217	94%	100%
IAPs	160	160	0%	160	100%	100%
Non-Grant Pilots	110	100	9%	100	91%	100%
SGP	140	140	0%	140	100%	100%

74. Figure 5 presents utilization of GEF-6 STAR country allocations as a percentage of the original GEF-6 targets, and of revised targets as on September 30th 2017, by different groups of countries and by recipient countries in different regions. In general, the level of STAR country allocation utilization for SIDS and LDCs is very close to that of the other countries when utilization is calculated as a percentage of the original GEF-6 targets. However, when utilization is calculated as a percentage of revised targets – considering the GEF-6 replenishment projections by the Trustee through August 2017– the picture changes. While utilization of country allocations was 70 percent, that of LDCs at 56 percent and of SIDS at 58 percent was substantially lower. Another pattern that is evident was low utilization (38 percent) of allocations for the land degradation focal area by SIDS.

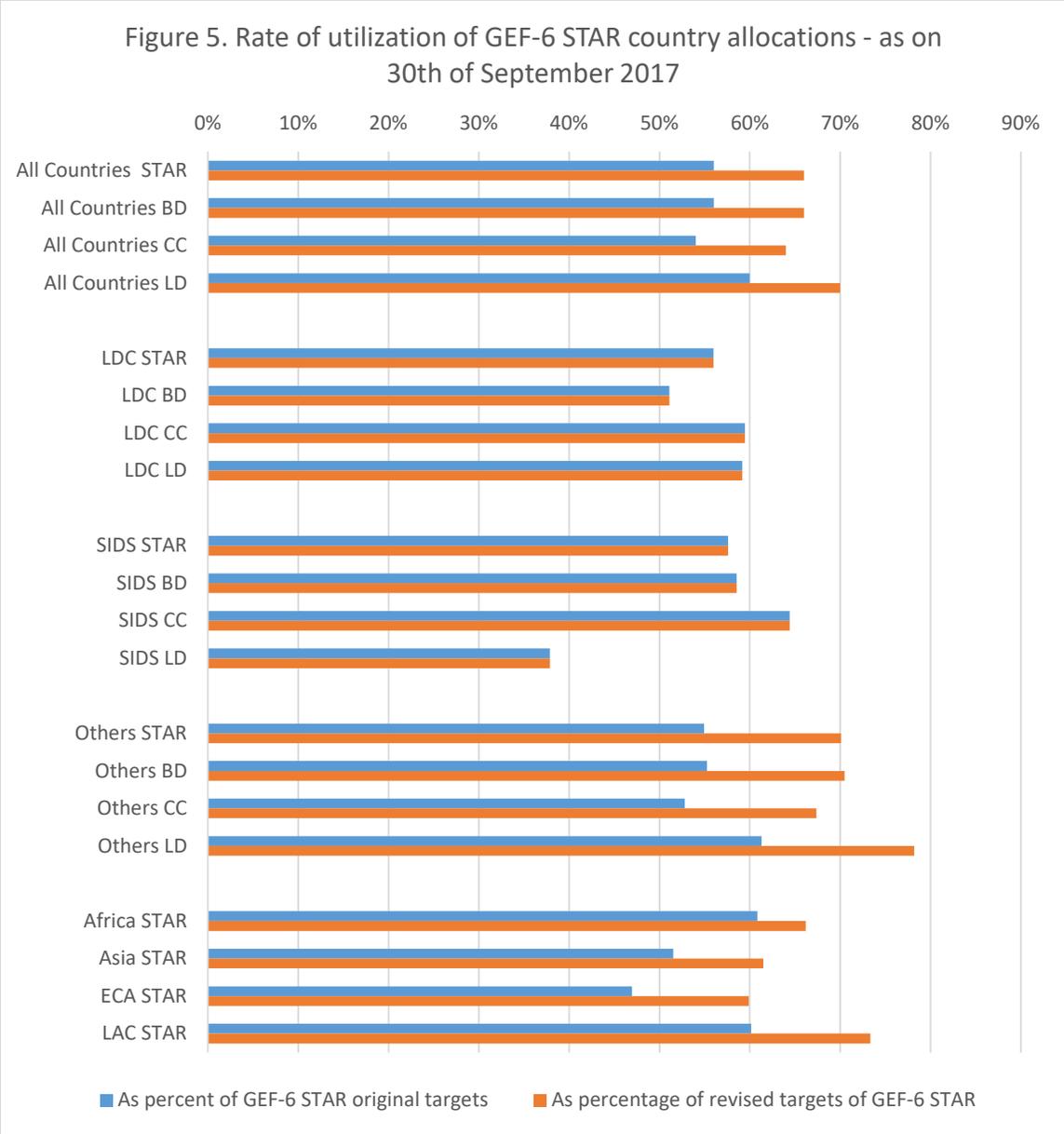


Figure 5: Rate of utilization of GEF-6 STAR country allocations - as on 30th of September 2017

75. Among GEF regions, utilization of country allocations as percentage of revised targets was substantially higher for countries in Latin America and the Caribbean (73 percent). For other regions, utilization was in the 60 percent to 66 percent range. STAR country allocations for SIDS and LDCs have been unaffected by the shortfall in GEF-6 replenishment. However, so far programming of the country allocations has been slow for these countries. With less than a year remaining in completion of the GEF-6 period, more efforts may be required to facilitate programming of the STAR resources in these countries.

Utilization of Marginal Adjustment

76. As utilization of the flexibility feature tends to be back loaded, it is still too early to assess the extent this feature will be utilized for the entire GEF-6 period. However, some trends are evident. Table 11 presents data on cross-focal utilization of country allocations during the GEF-6 period through September 2017. Of the 143 countries that have a country allocation during GEF-6, 56 have utilized the flexibility feature so far. Countries with lower levels of aggregate allocations are more likely to have used marginal adjustments. In all \$ 60.1 million has been utilized across focal areas. Of this \$ 25.7 million was received from other focal areas for activities in Climate Change, \$ 17.0 for activities in Biodiversity, and \$ 17.4 million for activities in Land Degradation. Considering the original share of the three focal areas in the STAR country allocation, this amounts to an indicative net transfer of \$ 10.0 million from Biodiversity focal area. Of the indicative net transfer from the Biodiversity focal area, Land Degradation received \$ 8.5 million and Climate Change \$ 8.5 million. During GEF-5, Land Degradation focal area was a net recipient (of \$ 21.1 million), Climate Change focal area was the primary contributor for cross focal area utilization of resources (\$ 20.4 million) with a minor net contribution from Biodiversity focal area (\$ 0.8 million).

Table 11: Cross-focal Utilization of STAR Country Allocations during GEF-6 – through September 2017

Country Category	Total		Cross-focal Utilization		Recipient focal areas					
					Biodiversity		Climate Change		Land Degradation	
	Nos. of countries	Allocation \$ Mil.	Number	\$ Mil.	Number	\$ Mil.	Number	\$ Mil.	Number	\$ Mil.
Full Flexibility Up to 7.0 million	49	271.3	23	36.2	11	12.0	11	16.0	9	8.2
Marginal Adjust. >7.0 million	94	2066.7	33	29.8	9	5.0	14	9.7	13	9.2
<i>Allocation \$7–\$20 m</i>	68	741.6	29	23.3	9	5.0	12	9.7	11	8.6
<i>Allocation \$20–100 m</i>	23	876.2	4	0.6	0	0.0	2	0.0	2	0.6
<i>Allocation: >\$100 m</i>	3	449.0	0	0.0	0	0.0	0	0.0	0	0.0
Total	143	2338.0	56	66.0	20	17.0	25	25.7	22	17.4

77. Figure 6 compares utilization of the marginal adjustments by the recipient countries during the entire period of GEF-5, GEF-5 utilization through June 2013³⁴, and GEF-6 utilization through September 2017. Given that most resource utilization decisions are taken during biannual GEF Council meeting, GEF-5 figures through June 2013 may be compared with GEF-6 utilization through September 2017, i.e. at three years after the start of the respective replenishment periods. The data shows that percentage of countries in the \$ 7.0 million to \$ 20.0 million allocation range that have used marginal adjustments so far during GEF-6 matches the performance for the entire GEF-5 period, and is substantially higher the percentage that utilized it during GEF-5 through June 2013. This is consistent with the increased flexibility

³⁴ The figures for GEF-5 utilization through June 2013 are sourced from the Mid Term Evaluation of STAR (GEF IEO, 2014).

provided to the countries that pertain to \$ 7.0 million to \$ 20 million allocation category (i.e. up to \$ 0.2 million during GEF-5 versus up to \$ 2.0 million during GEF-6). The percentage of countries with allocations above \$ 20 million that utilize the flexibility feature is in the same range as the percentage of countries that utilized the feature at the same stage during GEF-5.

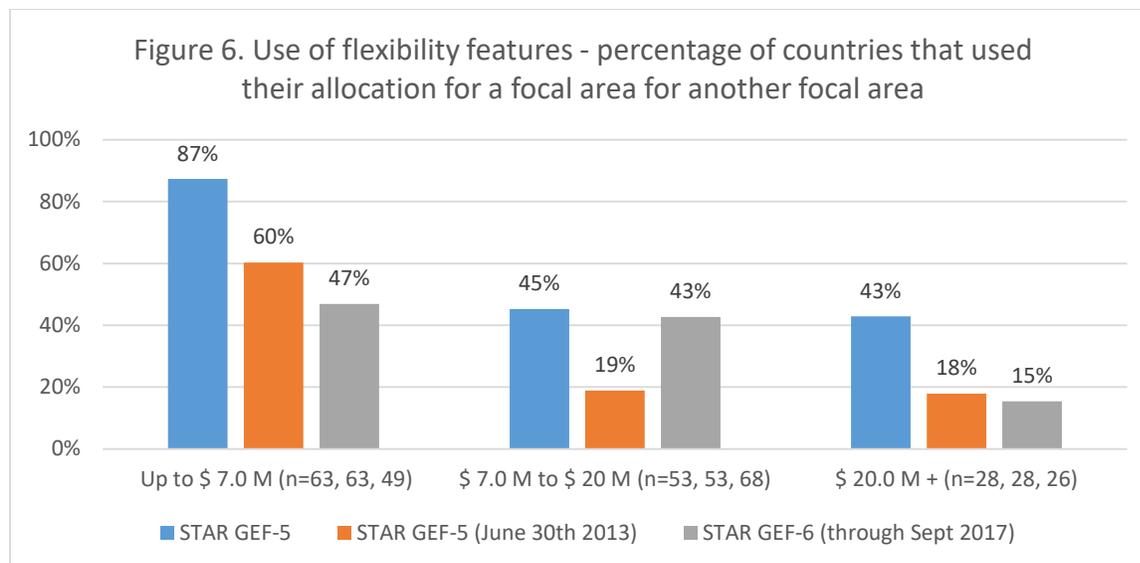


Figure 6: Use of flexibility features - percentage of countries that used their allocation for a focal area for another focal area

78. The evidence so far supports the assessment of the Mid Term Evaluation of STAR (GEF-5) that the countries with smaller country allocations have a greater need for cross-focal marginal adjustment, and that when sufficient marginal adjustment is provided they are more likely to use it. It also shows that Land Degradation tends to be the net recipient of the cross-focal utilization of resources and these transfers may be about 10 percent of the country allocations for the focal area. However, the effect of this net transfer on Biodiversity and Climate Change focal areas is limited because they have a broader country allocation base than the Land Degradation focal area.

79. The analysis on countries that use marginal adjustments by countries assessed the extent to which it's the same countries that use marginal adjustments. The utilization of marginal adjustments during GEF-5 was used to generate contingent probabilities. Assuming that there is no pattern to explain use of marginal adjustments across countries, then the percentage of the countries that used marginal adjustments during GEF-5 should be same as the percentage that these countries account for among the countries that have used marginal adjustment during GEF-6.³⁵ Table 12 presents the result of this analysis. It shows that the observed share of the countries that used marginal adjustment during GEF-5, among countries that have used it during GEF-6 so far, is the same as their predicted share, at the 90 percent confidence level. For the bio-diversity focal area a similar result is found. For the land

³⁵ For this analysis, only those 143 countries that were eligible for STAR allocations during both GEF-5 and GEF-6 have been taken into account.

degradation and the climate change focal areas the chi square values are too high to allow a similar conclusion.³⁶

Table 12: Contingent probability of countries using marginal adjustment in GEF-5 and GEF-6

Focal Area	Countries that used marginal adjustment during GEF-5	Countries that have used marginal adjustment during GEF-6*			Chi square statistic (χ^2)
		Number	Predicted share of countries that used marginal adjustment during GEF-5	Observed share of countries that used marginal adjustment during GEF-5	
Biodiversity	26% (37)	20	26% (5.2)	25% (5)	0.006**
Climate Change	24% (34)	25	24% (6.0)	16% (4)	0.667
Land Degradation	30% (43)	22	30% (6.6)	36% (8)	0.297
Any Focal Area	63% (91)	56	64% (35.6)	63% (35)	0.010**

*Source: PMIS, through September 2017; n=143. **Same at 90 percent confidence.

80. As also reported by the Mid Term Evaluation of STAR (GEF IEO, 2014), countries use the flexibility feature for preparing viable projects consistent with their priorities, with the residual resources of their country allocations that are left towards the end of the replenishment period. The GEF approach of providing full flexibility for cross-focal use of resources to countries with aggregate allocation of up to \$ 7.0 million is appropriate as these countries may be able to program only one or two full size projects. The increase in marginal flexibility to \$ 2.0 million was especially useful for countries with the allocation in the \$ 7.0 to 20.0 million range. Evidence so far suggests that net flows across focal area will not risk the GEF STAR policy to protect at least 90 percent of the allocations of the biodiversity and climate change focal area. Further, net flows form a small percentage of the total country allocations for focal areas under STAR (less than 1.0 percent for GEF-6 so far). GEF funding for a typical stand-alone full size GEF project is about \$ 7 to \$ 8.0 million inclusive of the preparation grant and Agency fees. If a recipient focal area contributes at least half of a project budget, appropriate level for permissible flexibility is likely to be around half the GEF funding required for a typical GEF full size project. In comparison, it appears that the \$2.0 million marginal adjustment provided to countries with allocations above \$ 7.0 million is still conservative.

81. A marginal adjustment of higher than \$ 5.0 million, on the other hand, may not be effective and poses greater risk of focal area imbalance. Even for countries with full flexibility, the actual marginal adjustment is never \$ 7.0 million as one would need to deduct the amount

³⁶ This, however, does not mean that the observed distribution of the marginal adjustment users during GEF-6 for the two focal areas is significantly different from their predicted probability. The chi square statistic is not high enough to indicate significant difference between observed and predicted shares at 10 percent significance level.

contributed by the recipient focal area. Thus, marginal adjustment rarely exceeds US \$ 5.0 million for countries with full flexibility.

The SFM Incentive Scheme

82. The SFM incentive scheme is supported through upstream transfer of resources from biodiversity, climate change and land degradation focal areas. The scheme was allotted \$ 230 million for the GEF-6 period³⁷. To access a dollar from the scheme during GEF-6, a recipient country needs to provide a minimum of two dollars from its STAR country allocation. The maximum that a country may access through the incentive scheme for national projects is \$ 10 million. This cap excludes resources accessed for regional and/or global initiatives on SFM where the country may participate during the GEF-6 period. However, the participating countries need to provide contributions from their STAR country allocations at a 2:1 ratio for the regional and global initiatives as well.

83. In comparison, during GEF-5, when \$ 250 million had been allocated to the scheme, countries could access funds from the scheme with a 3:1 contribution from their STAR allocations. This meant that only countries that had an allocation of \$ 30 million had the potential to max out the cap of \$ 10 million from the incentive scheme. Reduction of the rate at which contributions from STAR were required to 2:1 during GEF-6, allowed 26 recipient countries a chance to max out the cap. The measure made resources from the scheme more accessible to countries.

84. Of the \$ 230 million allocated to the sustainable forest management incentive scheme for GEF-6, \$ 216.6 million (94 percent) had been utilized through September 2017. SFM incentives attracted \$ 456 million from STAR country allocations and set asides, and additional contributions of \$ 10.5 million from focal areas outside STAR. Thus, during GEF-6, GEF has so far invested \$ 682 million in activities aimed at sustainable forest management, which is in the same ball park as the \$ 699 million invested during the GEF-5 period.

85. During GEF-6 participating countries were required to provide two dollars from their STAR country allocations to access a dollar from sustainable forest management scheme. In comparison, during GEF-5 participating countries were required to contribute three dollars from their STAR country allocations to access a dollar from the scheme. The lower rate at which recipient countries needed to contribute from their STAR allocations facilitated increased utilization of the incentive scheme, but it also resulted in the incentive attracting lower level of resources from STAR country allocations. The average incentive utilized by participating countries was much larger during GEF-6 than during GEF-5 because of the lower rate at which countries needed to contribute from STAR and because number of countries that accessed the sustainable forest management incentive was lower at 54 for GEF-6 compared to 69 for GEF-5.

³⁷ In all \$ 250 million dollars, of which \$ 150 million was allocated from biodiversity, \$ 80 from climate change, and \$ 20 million from land degradation focal area, have been provided for the incentive scheme for the GEF-6 period. However, of the total, \$ 20 million was re-directed from the SFM incentive scheme to IAPs, leaving the incentive scheme with a balance of \$ 230 million.

Integrated Approach Pilots (IAPs)

86. During the GEF-6 period, GEF launched three IAPs. These were funded through a combination of STAR set-asides, indirect STAR set-aside contribution through SFM incentive scheme, and through non-grant pilot. Overall, the three programs were provided \$ 160 million for the GEF-6 period, of which \$ 155 million (97 percent) is from the resources of focal areas covered by STAR.

87. The IAPs on sustainable cities and food security are designed to attract country STAR resources at a dollar for a dollar for financial incentive from these two pilots. The commodities pilot was implemented in targeted countries through the centralized resources without an expectation of contribution from the STAR country allocations.

88. The allocated resources for three integrated approach pilots (IAPs) have been fully utilized. Among the three integrated approach pilots, the sustainable cities and food security IAPs garnered resources from STAR allocations of participating countries. The Cities IAP raised resources from the STAR country allocations at 1:2.1, whereas the Food Security IAP raised resources at 1:1.2. This was so because several countries contributed more to the IAP activities implemented in their country than was required by the incentive scheme. Table 13 presents how IAPs were supported through the STAR country allocations and through centralized resources of the IAPs.

Table 13: Approved Allocations for IAPs

	Commodities	Cities	Food Security	Total
Centralized resources for IAPs	45	55	60	160
STAR Country Allocations	0	93	58	151
<i>Biodiversity</i>	0	8	15	23
<i>Climate Change</i>	0	84	12	95
<i>Land Degradation</i>	0	1	32	33
Total GEF Amount	45	158	118	310

Number may not add due to rounding off

4. Effects of STAR

Stakeholder Perceptions

89. Interviews conducted by the GEF IEO for Evaluation of the Expansion of the GEF Partnership (2017), and OPS-6, also captured information relevant to stakeholder perceptions on STAR. There is agreement among a varied set of stakeholders that STAR has strengthened country ownership of GEF programming. STAR is also perceived to have strengthened the role of Operational Focal Points (OFPs), especially in programming of GEF activities funded through STAR resources. Interviews also indicate that advent of STAR, along with expansion of GEF partnership, has led to increased competition among the GEF Agencies to access GEF resources.

On the other hand, several multi-lateral banks felt that STAR has fragmented GEF resources and has disadvantaged them as it is difficult for them to meet the demand for projects that involve smaller scale of investments.

90. An online survey was conducted to gather perceptions of the GEF stakeholders. It was administered to GEF Agencies, GEF Secretariat staff, GEF Operational Focal Points (OFPs), the Conventions, STAP, and Council members. The survey gathered information on a wide range of topics including GEF's comparative advantage, donor funding, expansion of GEF partnership, and STAR. Given that the online survey was broadly focused, stakeholder perceptions on only a few topics related to STAR were captured. In all 87 respondents provided their responses on questions related to STAR. Annex 1 presents the distribution of the stakeholder responses in terms of their agreement with a given statement.

91. The online survey indicates a broad agreement among key GEF stakeholders that STAR supports environmental activities in a wide range of countries, is important in helping GEF meet country objectives, and ensures equitable resource allocation to recipient countries (Annex 1). On several parameters, there is no obvious pattern. On some parameters, however, there are wide variations in perceptions. For example, most OFPs (71 percent) agree with the statement that STAR enables delivery of regional projects whereas majority of respondents from GEF Agencies (59 percent) and GEF Secretariat (53 percent) disagree with it. Similarly, while majority of OFPs (54 percent) assess STAR to enable partnership between public and private sector, an over whelming majority of the GEF Agency and GEF Secretariat staff either disagree with the assessment or neither agree or disagree or are unable to assess. In general, OFP responses on STAR's performance are more optimistic, whereas other stakeholders are more circumspect.

92. Two thirds of the respondents of the online survey for GEF-6 STAR agree with statement that STAR is a key component of GEF's ability to meet country objectives. This finding is consistent with the finding of the online survey for the Mid-Term Evaluation of STAR (GEF IEO, 2014) wherein 75 percent of the respondents agreed with the statement that STAR has made GEF operations more relevant to country needs and priorities. These two surveys also show that STAR is perceived to ineffective in supporting regional projects, which is understandable as STAR is primarily designed to help countries program activities at the national level whereas regional and global activities are supported through set asides, and regional and global programs.

Country Coverage

93. STAR has helped smaller countries in accessing GEF resources. The level of concentration of GEF resources among recipient countries has decreased. Figure 7 plots the Herfindahl-Hirschman index (HHI) score for GEF replenishment periods. It shows that level of concentration of GEF resources was highest in GEF-1. Thereafter, till GEF-3 there was a decline in the level of concentration. During GEF-4, when STAR was implemented for the first time, the level of concentration increased. Much of the increase during GEF-4 may be attributed to inclusion of the group allocation provision, which created a barrier to GEF programming in

countries that were covered through group allocation. However, after this weakness was fixed, and other corrective design features such as increase in floors, full flexibility in cross focal marginal adjustments for countries with allocation up to \$ 7.0 million, and inclusion of GDP, were introduced the trend towards decreasing concentration was restored during GEF-5. Due to increase in floors for LDCs and greater weight for GDP, the concentration is projected to decrease further during GEF-6.

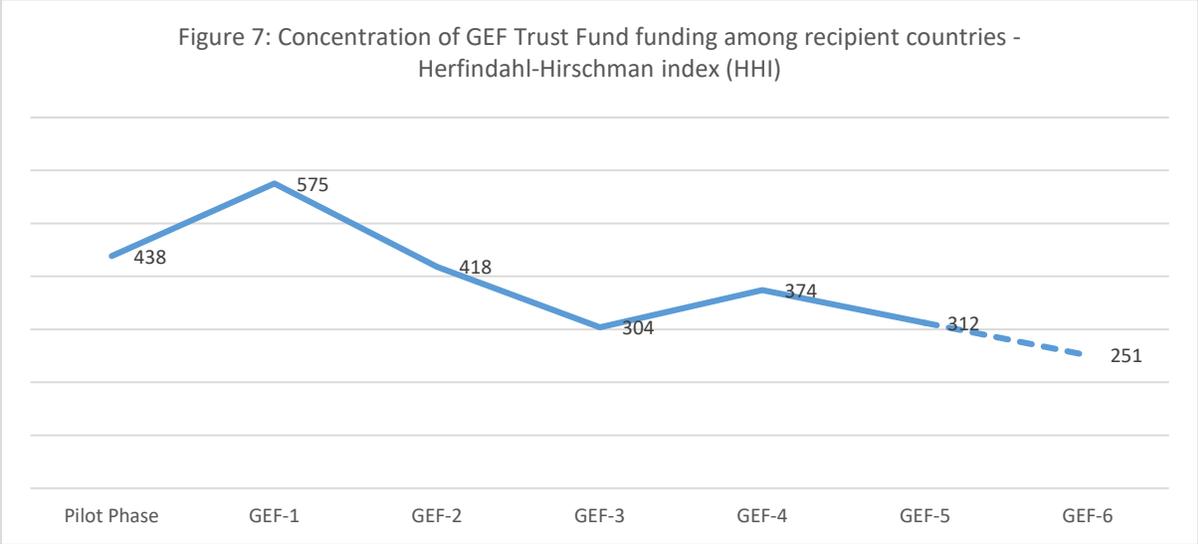


Figure 7: Concentration of GEF Trust Fund funding among recipient countries – Herfindahl-Hirschman index (HHI)

94. Another way to assess whether STAR is helping countries access GEF resources is to determine the extent to which countries that account for a lower share in GEF resources account individually, account for GEF resources as a collective. Figure 8 shows that countries that accounted for a lower share in GEF resources individually, progressively account for a higher share in GEF resources across different replenishment periods. For most percentile thresholds the provisional share of the countries with smaller share is higher for GEF-6 than it was during preceding GEF replenishment periods. The increase in share of the countries with share in GEF resources in the bottom 40-50 percent is especially noticeable for GEF-5 and GEF-6. This suggests that STAR has helped smaller countries access a relatively higher share of GEF resources.

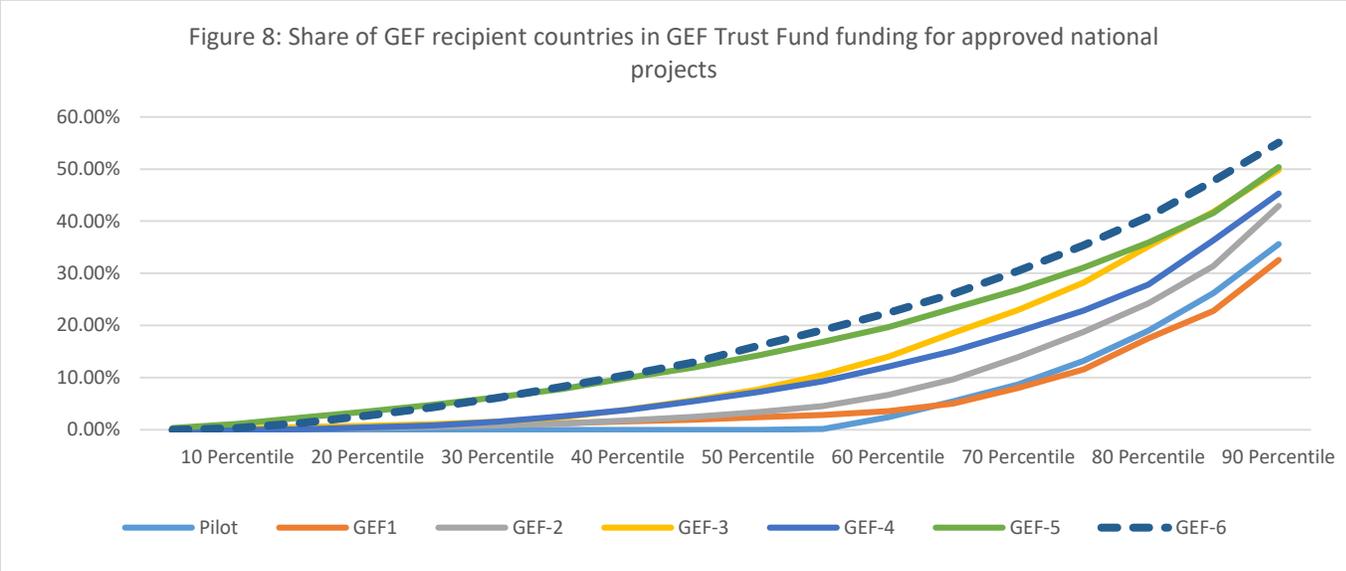


Figure 8: Share of GEF recipient countries in GEF Trust Fund funding for approved national projects

Effect on Project Results

95. STAR is perceived to have increased predictability in GEF resources available for programming at the country level, and to have increased country ownership of GEF activities. At the same time, it is also perceived to have led to fragmentation of scarce GEF resources, which may affect their ability to achieve intended outcomes and progress to impact. Therefore, it may be useful to know whether the performance of projects that are funded through STAR resources is any different from those that are not.

96. Most of the projects that have been prepared through resources from STAR country allocations are yet not complete. However, a sizable number of projects from GEF-4 period of focal areas (Biodiversity and Climate Change) covered under STAR have been completed. Ratings of projects that were approved during the first two years of GEF-4 and funded through STAR resources, may be compared with those funded from resources outside STAR (during GEF-4) and those that were approved during GEF-3 before STAR was implemented. A difference of differences based analysis was undertaken to compare performance of different groups of projects. Table 14 presents the results of this analysis. These results show that for the focal areas covered under STAR, difference in differences in percentage of projects in the desirable range for outcome ratings was -1 percent for outcomes, +1 percent for sustainability, - 1 percent for quality of implementation, + 14 for broader adoption and + 3 for environmental stress reduction. Of these +14 for STAR focal area for broader adoption shows an optically noticeable but statistically insignificant difference, whereas for other parameters the difference in differences is neither optically noticeable nor substantial. It may be concluded that in general GEF projects prepared through resources from STAR perform as well as those prepared through non-STAR resources.

Table 14: Difference of Differences between projects from focal areas under STAR and not under STAR, during GEF period under STAR (GEF-4) and not under STAR (GEF-3)

Parameter	STAR focal Areas			Non-STAR focal Areas			Difference of differences
	GEF-3	GEF-4	Difference	GEF-3	GEF-4	Difference	
	(a)	(b)	(b)-(a)=(c)	(d)	(e)	(e)-(d)=(f)	
Outcome (Satisfactory Range)	84% (141)	89% (90)	5%	75% (67)	81% (72)	6%	-1%
Sustainability (Likely Range)	65% (138)	76% (88)	11%	58% (67)	68% (66)	10%	+1%
Implementation (Satisfactory Range)	80% (132)	89% (87)	9%	74% (66)	84% (67)	10%	-1%
Broader Adoption (Achieved)	58% (59)	72% (65)	14%	63% (35)	63% (40)	0%	14%
Stress Reduction (Achieved)	59% (59)	71% (65)	12%	54% (35)	63% (40)	9%	3%

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ANNEX 1. STAKEHOLDER PERCEPTIONS ON STAR – ONLINE SURVEY RESULTS³⁸

Statement: STAR.....	GEF Agencies (n=27)			GEF Secretariat (n=19)			GEF OFP (n=28)			All respondents (n=87)		
	Agree	Disagree	NA/Don't Know	Agree	Disagree	NA/Don't Know	Agree	Disagree	NA/Don't Know	Agree	Disagree	NA/Don't Know
Supports environmental activities in a wide range of countries (n=87)	63%	15%	22%	63%	11%	26%	96%	0%	4%	72%	8%	20%
Is key component of GEF's ability to meet country objectives (n=87)	67%	15%	19%	58%	21%	21%	82%	0%	18%	67%	8%	25%
Enables the delivery of regional projects (n=87)	11%	59%	30%	11%	53%	37%	71%	4%	25%	30%	37%	33%
Limits the GEF's ability to address important environmental concerns at scale (n=87)	41%	22%	37%	47%	16%	37%	54%	25%	21%	44%	24%	32%
Limits GEF's ability to prioritize the use of scarce resources (n=87)	22%	48%	30%	42%	26%	32%	29%	32%	39%	28%	38%	34%
Enables partnerships between the public and private sectors (n=81)	11%	41%	48%	11%	42%	47%	54%	7%	39%	25%	28%	47%
Ensures an equitable resource allocation overall	52%	19%	30%	68%	5%	26%	71%	4%	25%	57%	13%	30%
Has ensured an equitable resource allocation to my country (n=28)	—	—	—	—	—	—	57%	14%	29%	—	—	—
Is being implemented efficiently (n=78)	37%	26%	37%	47%	5%	47%	68%	4%	29%	49%	13%	38%

³⁸ The number of responses from the STAP (6), Council Members (4) and the Conventions (3) were too small. Therefore, these are not presented in the table. However, these have been included in the aggregate figures.

