

GLOBAL
ENVIRONMENT
FACILITY

REVISED GEF FY97 CORPORATE
BUDGET

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The Council reviewed document GEF/C.7/8, *Revised GEF FY97 Corporate Budget*, and approved the proposed budget for FY97.

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REVISED FY97 CORPORATE BUDGET

INTRODUCTION

1. This paper presents a revised GEF Corporate budget proposal for FY97 of \$33.05 million to deliver an estimated FY97 work program of \$340-415 million in outputs. It is based on a revised proposal by the CEO, feedback through informal consultations between the CEO and Council members, and ongoing discussions between the CEO and Management of the Implementing Agencies. It reflects a philosophy of steady and stable growth for the GEF as a continuing and permanent financial mechanism for global environmental improvement.

2. Following a brief background section on the process used to develop this revised proposal, the paper reviews the main planning assumptions involved and then provides a breakdown of the revised work program outputs for FY97 based on the revised budget. The revised work program is reviewed by type of activity and focal area, and as it relates to the cumulative work program to date. Non-operational outputs also are summarized in that section and remain essentially as defined in the first working draft.

3. After a review of proposed outputs, the paper presents the revised FY97 budget¹ in aggregate and by agency, with summary and detailed tables using the existing two-tier approach to budget reporting which separates administrative/coordination unit expenses "above the line" from project-related expenses "below the line". For the first time this approach is being used by all three Implementing Agencies with further improvements that delineate project-related expenses by project phase and within each phase by staff salaries/benefits, travel, consultants, and other expenses. This more detailed budget reporting aims to begin to improve transparency, comparability and integration of budgets across the GEF units pursuant to Council guidance and recommendations of a study prepared by an outside financial expert from Price Waterhouse contracted by the GEF in FY96. Annexes to the paper provide further background information and explanation of special items and planning assumptions. Based on the Council's comments and decision on this revised budget proposal, the individual submissions of the six GEF entities will be revised and appended to the final document for the record.

BACKGROUND

4. On February 9, 1996, a first working draft of a proposal for the GEF FY97 Budget was sent to Council Members and Alternates for review and comment pursuant to the Council decision in October 1995 for two rounds of review for the proposed FY97 budget. That draft proposed budgets for the three Implementing Agencies (IAs -- UNDP, UNEP, World Bank/IFC) totaling about \$34 million (a 42% growth over FY96) to produce a

¹ The revised FY97 budget presented in this paper does not include a budget for the GEF's new monitoring and evaluation program to be managed by the Senior Monitoring and Evaluation Coordinator. That budget is attached to a separate Monitoring and Evaluation paper (GEF/C.7/5) before the Council.

combined work program of about \$630 million, double that of FY96. This amount together with the proposed budgets of the three administrative units (STAP, Trustee, and Secretariat), which held roughly steady with FY96, resulted in an initial budget proposal for FY97 of \$41.9 million. These estimates of outputs and budget were roughly consistent with projections in the GEF Corporate Business Plan FY97-99 reviewed at the October 1995 Council meeting.

5. Comments received from the Council coupled with an international trend toward budgetary constraint provided important feedback and guidance for revision of the first draft. Specifically, Council comments included expressions of concern about the slow pace of enabling activities and the resources to be focused on them as compared to the ambitious nature of the work program. Concerns were raised about the costs of work program delivery, that the GEF budget could not be divorced from other international developments in the United Nations and International Financial Institutions (IFIs), and that budget review must look at IA performance to date and then make a realistic assessment of delivery. Other comments suggested that the budget should better consider capacity of the IAs and absorptive capacity in developing countries. In addition, changes in contributions to the GEF Trust Fund as of March 1, 1996, prompted further comments from some Council Members for new projections of outputs and inputs in the context of such changes.

6. In view of these comments, the CEO proposed a revised budget in a memo to Council members which suggested only minor growth from FY96 (taking into account inflation and small adjustments) and a more steady-state planning and programming approach consistent with the permanent and continuing nature of the GEF. This proposal was discussed with Council through a round of informal consultations in March. Those consultations produced broad and strong support for a pattern of growth that was stable and sustainable, with administrative budgets following accordingly. The revised FY97 corporate budget and associated revised outputs proposed in this paper are pursuant to these discussions. They reflect the early stages of the GEF and continuing challenges expected in FY97, including development and strengthening of GEF's operational framework, implementation of Convention priorities, and strengthening country and agency absorptive capacities to deliver high quality projects and programs.

7. The process of budget development involved ongoing discussions among the Secretariat and Implementing Agencies. The January Council consultations convened by the CEO for guidance on future budget reporting, including reporting for FY97, involved participation of the Implementing Agencies. Interagency consultations included numerous bilateral discussions and three formal Budget Committee meetings, the third meeting convened in early March at the level of the Chiefs of the Coordination Units to discuss the FY97 budget proposal with the CEO in light of Council comments and other developments.

PORTFOLIO STATUS

8. Subject to Council approval of the proposed April 1996 work program, the GEF's cumulative commitment of resources for FY95 and FY96 will be some \$450 million, including the Small Grants Programme. The combined administrative budget for the six GEF entities to deliver this work program over the first two years totals some \$58 million, plus an additional \$15 million authorized by the Council in February 1995 for project preparation support through a Project Development Facility (PDF). Table 1 shows these work program and budget resource commitments to date.

TABLE 1: Current Commitments under the GEF (\$millions)

	FY95	FY96*	Total
Work Program**	135	315	450
PDF	15		15
Admin. Budget	26	32	58
Total	176	347	523

*Subject to Council approval of the April 1996 proposed work program.

**Includes Small Grants Programmes, excludes proposal in April 1996 proposed work program for an initial allocation of \$ 30 million for enabling activities which, if authorized, will be programmed in FY97.

9. GEF's approved work program currently comprises project activities at all four stages of the project cycle. Of the combined FY95 and FY96 work programs under the permanent GEF, some 43 projects totaling \$241 million have been prepared through agency approval stage and are in implementation or are anticipated to be processed through this stage by the end of FY96. UNDP has 12 projects totaling \$13 million in implementation; the World Bank, 29 projects totaling \$223 million; and UNEP, 2 projects totaling \$5 million.

10. Pilot phase projects also continue to move through the project cycle. As of the end of FY96, some 133 projects will be in implementation: 78 projects totaling some \$270 million for UNDP, 49 projects totaling some \$413 million for the World Bank, and 6 projects at \$21 million for UNEP. UNDP expects to have 8-10 pilot phase projects worth some \$6 million in the evaluation stage by the end of FY96. Four UNEP pilot phase projects are expected to reach completion in FY96, and one World Bank pilot phase project.

11. Finally, during FY95 and FY96 a sizable PDF pipeline has been approved which will produce a significant increase in projects to the GEF work programs of FY97 and FY98 -- anticipated to be about equal in dollar amount to the cumulative work program approved to date. Of the \$15 million authorized by the Council for PDF, some \$4.4 million was committed in FY95 and to date an additional \$7.66 million has been

approved for FY96 for a total commitment of roughly \$12.1 million. The breakdown of PDF by agency is provided in Table 2. A more detailed analysis of PDF is provided in "Analysis of the PDF" (GEF/C.7/10) before this Council.

TABLE 2: 'Total PDF Commitments by Implementing Agency - FY95 & FY96* (in \$ millions)

Agency	Block A	Block B	Block C	Total
UNDP	0.47	3.710		4.180
UNEP	0.075	0.231		0.306
World Bank	0.27	4.628	1.496	6.394
Combined IA		1.181		1.181
TOTAL	0.815	9.75	1.496	12.061

*Data as of March 1, 1996

PLANNING AND PROGRAMMING ASSUMPTIONS

12. *Long-term Strategy for Stable, Sustainable Growth:* GEF planning and programming must be based on a long-term strategy appropriate to a continuing and permanent financial mechanism for global environmental improvement, not a cyclical operation experiencing severe ups and downs (as in the pilot phase), even though it is replenished at regular intervals. It is therefore prudent for GEF budget and outputs projections to reflect a more steady and stable growth pattern than initially presented in the first working draft. For illustrative purposes, Figure 1 shows the progression of growth during the pilot phase which experienced sharp changes from year to year; it then projects patterns of growth for the permanent GEF using two variations -- first, the initial working draft projections (which also produce severe ups and downs) and, second, the CEO's revised proposal (reflecting more stable, steady growth). Annex A to this paper provides additional information about the planning assumptions used in projecting availability of resources for FY97 and FY98.

13. *Implementing the Operational Strategy:* The main substantive thrust of GEF's operations during FY97 must be on implementation of the Operational Strategy approved in October 1995, and associated guidance from the COPs of the Biodiversity and Climate Change. The year remains a transition period, however, because of the lead time required

in getting projects to the work program (some 18 months for the World Bank, 10-16 months for UNDP, and 12-14 months for UNEP). Portfolios will continue to experience some shifts and adjustments as projects are reviewed for their fit with the Strategy's initial ten operational programs, currently under preparation. Some projects that do not fall within these priorities may need to be dropped and agency calculations allow for some project drop-outs. Similarly, Convention guidance continues to unfold as those instruments move through early stages of implementation and countries take stock of their capacities and needs. Special emphasis also will need to be given to ensuring adequate GEF resources for enabling activities to support country Parties in meeting the requirements of the Conventions.

14. *Improving Quality and Cost-effectiveness of the Portfolio:* Project quality continues to pose fundamental challenges for the GEF. Programming must be based on realistic estimates of high quality outputs if the GEF is to meet its mandate and use its resources effectively. The absorptive capacity of recipient countries must be considered as well as the performance of Implementing Agencies to date if realistic assessments are to be made. During FY96, the GEFOP process continued to be emphasize improvements in quality based on experience gained to date and, while it now appears that the FY96 work program will almost deliver the projected dollar amount, it will underdeliver by more than 60% in numbers of projects promised. Among the reasons for this sizable underdelivery in project numbers were operational constraints at both the agency and country levels and assumptions about project size that varied substantially in several cases from what was projected.

15. *Maintaining Flexibility:* A pattern of steady growth for the GEF does not foreclose flexible adjustments during the course of the year if additional new projects of high quality are specifically identified and shown to be viable. Such adjustments may be proposed at the time of the midyear review.

16. *Continued Improvement in Budget Reporting/Tracking:* The budget planning and programming process continues to face issues of interagency comparability, and common cost structures and programming assumptions. The FY97 budget estimates for project-related expenses have the benefit of one year (1995) of actual cost data, but different recording systems continue to limit the comparative analysis. Subject to Council approval of the CEO's recommended approach for future GEF budget reporting (GEF/C.7/9), the Secretariat and Implementing Agencies will begin immediately to develop a common cost accounting format, and associated time and project code systems, for testing during FY97 with actual expenditures in order to better monitor FY97 and program for FY98 and beyond. This testing period will provide more concrete information about the actual resource and staffing needs of implementation in each entity and opportunities to improve productivity. It also will begin to build comparable historical data on administrative and project-related costs for projecting future needs in a manner that enhances comparability and transparency. Finally, improved cost accounting procedures will improve accountability by better substantiating the relationship of outputs

to costs and facilitating midyear adjustments upward or downward depending on actual deliverables.

FY97 REVISED OUTPUTS

17. *Operational Outputs.* Based on a revised FY97 budget of \$33.05 million, the three Implementing Agencies estimate they will be able to deliver a combined Council-approved work program for FY97 of some \$310-385 million worth of GEF-funded activities, depending on ultimate project size. Table 3 shows the rough budget breakdowns and revised output projections by agency, plus an additional line item for the proposed special allocation in the April 1996 work program for \$30 million for enabling activities. If approved by Council, that authorization would generate activities in FY97 as part of that year's outputs; this special allocation plus the revised agency projections of outputs would result in total outputs of some \$340-415 million for the year.

TABLE 3: Revised FY97 Outputs by Implementing Agency and Associated Revised Budget (\$ millions)

	UNDP	UNEP	WB/IFC	Special Allocation*	TOTAL
Work Program	80-100	30-35	200-250	30	340-415
Budget	6.28	2	16.76		25.04

*Proposal in April 1996 work program for an initial allocation of \$ 30 million for enabling activities which, if approved, would be delivered in FY97.

TABLE 4: FY96 Outputs and Budget by Implementing Agency (\$ millions)

	UNDP	UNEP	WB/IFC	TOTAL
Work Program	64.0*	.2	250.0	314.0
Budget	6.1	1.7	16.3	24.0

*Includes Small Grants Programme, but excludes PDF.

18. For comparative purposes, Table 4 provides the outputs and budgets for FY96. It can be seen from these two tables that with roughly steady budgets, projected FY97 outputs for UNDP and UNEP increase from FY96; this difference reflects underdelivery in FY96 due to project delays and shifts to PDF resources in some cases. During FY97 the PDF pipelines of UNDP and UNEP are expected to deliver a number of outputs based

on much of the work undertaken in FY96. The World Bank's projected FY97 outputs hold steady and may slightly decline from FY96 due mostly to differences between the actual average size of projects resulting in FY96 (some \$18 million) and the FY97 estimate of average project size at \$10 million.

19. Tables 5 and 6 provide a rough breakdown of the revised FY97 outputs by focal area for that year and as part of the cumulative work program. The cumulative allocation by focal area at the end of FY97 results in roughly 30% of the portfolio to biodiversity, 47% to climate change, 11% to international waters, and 12% to ozone. During FY97 every effort will be made to better balance the distribution of resources in a manner consistent with the Operational Strategy and Convention priorities.

TABLE 5: Proposed FY97 Outputs by Focal Area

	Bio	C.C.	IW	Ozone	Total
UNDP	33-40	34-44	12-16	1	80-100
UNEP	12-14	6-8	10-11	2	30-35
WB/IFC	76-95	95-118	18-24	11-13	201-250
Special Allocation*	15	15			30
Total	136-164	150-185	40-50	14-16	340-415

*Proposal in April 1996 work program for an initial allocation of \$ 30 million for enabling activities which, if approved, would be delivered in FY97.

TABLE 6: GEF Cumulative Outputs* by Focal Area (\$millions)

	Actual		Proposed	Cumulative	
	FY95	FY96**	FY97***	Est. Total	%
Biodiversity	65	22	136-164	223-251	30
Climate Change	31	182	147-181	360-394	47
Int. Waters	0	38	42-52	80-90	11
Ozone	37	49	15-18	101-104	12
Total	133	291	340-415	764-839	100%

*Excludes PDF and Small Grants Programme.

**Assumes April 1996 Work Program approved by Council

***Proposal in April 1996 work program for an initial allocation of \$ 30 million for enabling activities, which would be delivered in FY97, 15m. each for Bio. and CC.

20. Table 7 shows the revised FY97 output projections by type of activity and as compared with FY96, the first year this categorization was introduced as part of the Operational Strategy. During the second half of FY96 and for FY97, special emphasis

will be placed on COP priorities for enabling country Parties to meet the requirements of the Biodiversity and Climate Change Conventions. Reflecting the importance of allocating resources specifically to enabling activities, it is recommended in the proposed work program before the April 1996 meeting that the Council approve an initial allocation of \$30 million for enabling activities in support of the Conventions. Assuming this amount is approved by the Council, it will be programmed according to agreed operational criteria and procedures. For planning purposes that proposal estimates some \$15 million for each of the two focal areas based on an average activity size of \$250,000 to some 60 countries. Project preparation and delivery will occur largely in FY97, and be reported as part of that output as activities are approved.

TABLE 7: Proposed FY97 Outputs by Type of Activity compared to FY96 (\$ millions)

	FY96*				FY97 (proposed)			
	L-T Oper.	Enab. Act.	S-T Meas.	Total	L-T Oper.	Enab. Act.	S-T Meas.	Total
UNDP	34	6		40	66-80	13-18	1-2	80-100
UNEP	.2			.2	24-26	4-7	2	30-35
WB/IFC	192		58	250	184-220	2-5	14-25	200-250
Special Allocation**						30		30
Total	226	6	58	290	274-326	49-60	17-29	340-415

*Assuming April 1996 Proposed Work Program Approved by Council; excludes PDFs and Small Grants Programme.

**Proposal in April 1996 work program for an initial allocation of \$ 30 million for enabling activities which, if approved, would be delivered in FY97.

21. As can be seen on Table 7, if this special allocation is approved by Council, the estimated resources for enabling activities for FY97 will grow to \$49-60 million, an amount some 8-10 times larger than the FY96 resource allocation. Long-term operations will increase by some 21-44%, depending on ultimate project size, with short-term measures expected to decrease by some 60% which is consistent with the GEF Operational Strategy.

22. Assuming the proposed FY97 outputs are delivered as projected, the cumulative Council-approved work program for GEF by the end of FY97 will roughly total some \$760-835 million worth of projects, excluding PDF. This sum combined with the proposed \$30 million for programming enabling activities during FY97 would bring the total cumulative work program to some \$790-865 million (Table 8) and seniority who contribute some but not all of their time to GEF activities.

TABLE 8: GEF Cumulative Outputs* by Agency (\$ millions)

	Actual		Proposed	Total
	FY95	FY96	FY97	
UNDP	27	64	80-100	171-191
UNEP	5	1	30-35	36-41
WB/IFC	103	250	200-250	553-603
Special Allocation**			30	30
Total	135	315	340-415	790-865

*Excludes PDF.

**Proposal in April 1996 work program for an initial allocation of \$ 30 million for enabling activities which, if approved, would be delivered in FY97.

23. *Other Outputs supporting Operations.* As indicated in the GEF Business Plan FY97-99, a number of outputs supporting operations will be produced during FY97 under the general heading of "common services" and other outputs are clustered generally under the heading of administrative products. Most of these outputs are prepared through collaborative work of the six entities, under the guidance and direction of the Secretariat. In addition, STAP delivers special technical products and services in support of operations pursuant to its mandate under the Instrument and Council-approved terms of reference.

24. Outputs under the heading of "common services" are divided broadly into three categories: operational guidance, internal/external communications and external relations, and training. Table 9 lists the major common services to be produced by the GEF during FY97. Priority in operational guidance will be given to finalizing the initial ten Operational Programs identified in the Operational Strategy and other supporting guidance. In communications, external relations was centralized in the Secretariat in FY96 to facilitate a common message and promote a GEF-wide communications strategy. During FY97, the Quarterly Operational Report will remain the flagship publication, with some modifications in formatting to accommodate the electronic data base from which it is now drawn. Other regular publications to continue in FY97 are the Quarterly Bulletin, GEF Questions and Answers, inserts to Our Planet, the Annual Report and special articles for the media as opportunities arise. The external mailing list for publications has now reached some 2,200 users. Internal communications within the entities will continue to be the responsibility of each respective agency, the main outputs for this activity being project documents. Training activities will give priority to IA staff training in GEF policies and procedures especially the Operational Strategy.

TABLE 9: List of Common Service Outputs for FY97

<u>Type</u>	<u>Output</u>
Operational Guidance (OGs and papers)	<ul style="list-style-type: none"> - OGs: Public involvement, Monitoring and Evaluation, Financing Modalities, Private Sector Involvement in the GEF - Operational Guidance Papers for the Ten Operational Programs
Internal/External Communications	<ul style="list-style-type: none"> - <u>External Publications</u>: <i>Project documents</i> <i>Quarterly Operational Report</i> <i>Quarterly Bulletins</i> <i>GEF Questions and Answers (4)</i> <i>GEF inserts in Our Planet (4)</i> <i>Periodic articles in newspapers and magazines</i> - <u>Technical Working Papers</u>: <i>Incremental Costs of Biodiversity Conservation</i> <i>Information Technology for Country Capacity Building</i> <i>Risk Assessment as Related to GEF Objectives</i> <i>Root Causes of Biodiversity Loss</i> - <u>Representational Travel</u>: <i>Conference of Parties to the Conventions</i> <i>Technical Meetings Associated with the work of the Conventions</i> <i>Important International UN Meetings (e.g., CSD)</i> <i>International or Regional Seminars/Workshops</i>
Training	<ul style="list-style-type: none"> - <u>Staff Training Modules</u>: <i>Mainstreaming the GEF: Operational orientation for IA regular staff</i> <i>Understanding incremental costs and other economic aspects of global environmental issues</i>

25. Activities grouped under the heading of administrative outputs relate principally to budget and business planning, and financial and institutional relations. Table 10 lists the regular administrative reports requested by the Council on an annual basis or for each Council meeting. For FY97 they are expected to remain as identified in the GEF Business Plan FY97-99 reviewed at the October Council meeting. This category of outputs also encompasses activities to maintain overall institutional and legal relations

with the Conventions and other bodies of the GEF, and ongoing financial management and policy work. In addition, FY97 will see preparatory work in two activities of a cyclical nature-- the Assembly which probably will be convened in FY98 (late calendar 1997) and the replenishment of the GEF trust fund which will begin early discussions during FY97 (early calendar 1997) for intensive work in FY98.

TABLE 10: FY97 Administrative Reports to Council

<u>Document</u>	<u>FY97</u>	
	1st half	2nd half
GEF Corporate Business Plan	x	
GEF Corporate Budget		x
GEF Midyear Budget Review		x
Secretariat Budget Expenditure Review		x
Annual Audit Reports		x
Status of Commitments and Pledges to the GEF Trust Fund	x	x
GEF Annual Report (incl. reporting to Conventions)	x	
Annual Project Implementation Review		x

26. The Trustee leads the replenishment discussions in cooperation with the Secretariat and IAs, and the Secretariat can expect to take the lead in preparing a number of special reports as the process advances. In general, outputs of the World Bank as Trustee of the GEF Trust Fund that will continue during FY97 can be clustered into six areas: (a) financial management of donor resources, (b) mobilization of resources, (c) maintenance of appropriate records and accounts of the Fund and providing for their audit, (d) monitoring and reporting to the Council, (e) coordination of the Trustee responsibilities within the Bank as well as with the Secretariat and outside sources; and (f) provision of legal advice.

27. Finally, STAP provides a number of specialized technical outputs and services supportive of GEF operations. During FY97 these outputs will include: (a) strategic advice on scientific and technical issues pursuant to Council requests, (b) contributions to follow-up work on the GEF Operational Strategy, (c) advice on targeted research, (d) participation in GEFOP and selective review of projects as part of the regular GEF

project cycle, (e) managing the STAP roster of experts, and (f) providing reports to the Council as needed. These activities are normally integrated with the activities of the GEF Secretariat and IAs.

FY97 REVISED BUDGET

28. To deliver the outputs indicated above, it is estimated that the required FY97 budget proposal for the six GEF entities will be about \$33.05 million. This reflects a level for FY97 that holds relatively steady with FY96 as adjusted in midyear, allowing for a standard inflation rate of 3%. This base was used as the initial target during the informal consultations at which point some minor adjustments were considered. Specifically, UNEP is applying a 10% inflation rate to cover the special circumstances of Nairobi and requesting an additional adjustment to cover a new assessment being made by the UN Office in Nairobi for general operating expenses. STAP is applying an adjusted inflation rate of 4.5% to take into account the portion of its work administered in Nairobi.

29. Table 11 breaks down the revised FY97 budget proposal by entity, further separating the core administrative costs from project-related costs for the Implementing Agencies pursuant to the two-tier approach to budget reporting. For comparative purposes, the FY96 budget breakdown also is provided (Table 12). For FY97, almost 51% of the budget is allocated to project-related costs of the Implementing Agencies, as compared to about 52% for FY96.

TABLE 11: Revised FY97 Budget Proposal by GEF Entity (rounded figures in \$ millions)

	UNDP	UNEP	W.BANK &IFC	Subtotal	STAP	TRUSTEE	SECRET	TOTAL %
Admin. Core Unit Exp.	3.20	1.00	4.03	8.23	1.08	0.83	6.09	16.23 (49%)
Project Rel. Exp.	3.08	1.01	12.73	16.82				16.82 (51%)
Grand Total	6.28	2.01	16.76	25.05	1.08	0.83	6.09*	33.05 (100%)

*Does not include Monitoring and Evaluation costs of the new Monitoring and Evaluation Work Program being proposed in the separate document GEF/C.7/5.

TABLE 12: FY96 Budget* by GEF Entity (rounded figures in \$ millions)

	UNDP	UNEP	W.BANK & IFC	Subtotal	STAP	TRUSTEE	SECRET.	Total %
Admin. Core Unit Exp.	3.12	0.66	3.86	7.64	1.03	0.81	5.91	15.39 (48%)
Project Rel. Exp.	3.00	1.04	12.41	16.45				16.45 (52%)
Grand Total	6.12	1.70	16.27	24.09	1.03	0.81	5.91	31.84 (100%)

*With CEO mid-year adjustment.

30. Table 13 roughly breaks out the agencies' revised FY97 project-related expenses by project phase. Out of a total of \$16.82 million, phase one (project development for GEFOP) is estimated to require \$8.59 million or about 51% of the total project-related budget to deliver the proposed FY97 outputs, plus work on project concepts for the FY98 and FY99 proposed work programs. For this cost estimate UNEP is assuming a similar sized work program for FY98 and FY99 as is being projected for FY97, with UNDP assuming growth in FY98 and FY99 to \$150 million of outputs per year, and the Bank to \$300 million each of those years. Because of the lead time required for some projects, costs incurred in project development in one year may not produce a project for the work program until the next year.

Table 13: Revised FY97 Budgets for Project-Related Expenses by Project Phase* (\$ millions)

	Project Development (From Project Concept to Work Prog. App.) (Phase 1)	Project Preparation (From Work Program Approval to Agency Approval)) (Phase 2)	Project Implementation (From Agency Approval to Project Completion) (Phase 3)	Project Monitoring and Evaluation (Completed Projects revisited for Monitoring and Evaluation) (Phase 4)	Total	
UNDP	1.45	0.83	0.55	0.25	18%	3.08
UNEP	0.46	0.27	0.18	0.09	6%	1.01
World Bank	6.68	1.84	3.89	0.32	76%	12.73
Total	(51%) 8.59	(18%) 2.94	(27%) 4.62	(4%) 0.67	100%	16.82

* Project Phases taken from Project Cycle Paper.

**Table 14: Proposed FY97 Budget: Aggregate of Administrative and Project Related Expenses
of all Six GEF Entities**

	UNDP a/	UNEP	W.BANK & IFC b/	Subtotal	STAP	TRUSTE c/	SECRET.	Subtotal	TOTAL
Coordinating Units (no. of positions)									
Staff Resources									
Core Unit									
No. of Professional level	9	5	12.5	26.5	2	3.5	17	22.5	49.0
No. of Long Term Consultants (6 months +)	2.5		2.5	5			7	7	12.0
Total Higher Level	11.5	5	15	31.5	2	3.5	24	29.5	61.0
Total Support Level	7	5	8	20	2	1	7	10	30.0
Regional Program/Bureaux									
No. of Professional level		3		3				0	3.0
No. of Long Term Consultants (6 months +)				0				0	0.0
Total Higher Level		3		3				0	3.0
Total Support Level		3		3				0	3.0
Total No. of Higher Level Positions	11.5	8	15	34.5	2	3.5	24	29.5	64.0
Total No. of Support Level Positions	7	8	8	23	2	1	7	10	33.0
Agency Coordination Expenses (US\$ 000)									
Staff Salaries and Benefits 1/	1610.0	560.0	2231.5	4401.5	210.0	357.0	2874.7	3441.7	7843.2
Consultants	260.0	48.0	200.0	508.0	342.0		829.2	1171.2	1679.2
Travel	150.0	115.0	235.5	500.5	44.0	60.0	422.3	526.3	1026.8
Meetings/Seminars		100.0	50.0	150.0	350.0		494.4	844.4	994.4
Equipment	40.0	10.0	60.0	110.0	10.0		61.8	71.8	181.8
Translation	10.0		5.0	15.0			97.9	97.9	112.9
Communications	40.0	60.0	82.0	182.0	40.0		87.6	127.6	309.6
Management Information System	70.0		75.0	145.0		20.0	46.4	66.4	211.4
Representation		6.0	10.0	16.0	2.0		15.5	17.5	33.5
General Operating Costs	380.0	99.0	444.0	923.0	39.0		726.2	765.2	1688.2
Contractual Services	20.0		65.0	85.0	42.0		309.0	351.0	436.0
Financial/Legal			510.0	510.0		355.0		355.0	865.0
Other	625.0		60.0	685.0		39.5	123.6	163.1	848.1
TOTAL ADMINISTRATIVE COSTS	3205.0	998.0	4028.0	8231.0	1079.0	831.5	6088.6	7999.1	16230.1
Project Expenditures									
Project Development: (subtotal)	1447.0	463.0	6682.0	8592.0					
Salaries and Benefits	767.0	168.0	2672.8	3607.8					3607.8
Travel	325.0	78.0	1336.4	1739.4					1739.4
Consultants	210.0	49.0	1336.4	1595.4					1595.4
Other Expenses	145.0	168.0	1336.4	1649.4					1649.4
Project Preparation: (subtotal)	830.0	273.0	1836.0	2939.0					
Salaries and Benefits	440.0	126.0	734.4	1300.4					1300.4
Travel	210.0	59.0	367.2	636.2					636.2
Consultants	100.0	37.0	367.2	504.2					504.2
Other Expenses	80.0	51.0	367.2	498.2					498.2
Project Supervision/Implementation:	549.0	181.0	3888.0	4618.0					
Salaries and Benefits	294.0	84.0	1555.2	1933.2					1933.2
Travel	140.0	39.0	777.6	956.6					956.6
Consultants	70.0	24.0	777.6	871.6					871.6
Other Expenses	45.0	34.0	777.6	856.6					856.6
Project Monitoring/Evaluation: (subtotal)	254.0	91.0	324.0	669.0					
Salaries and Benefits	131.0	42.0	129.6	302.6					302.6
Travel	55.0	20.0	64.8	139.8					139.8
Consultants	40.0	12.0	64.8	116.8					116.8
Other Expenses	28.0	17.0	64.8	109.8					109.8
TOTAL PROJECT EXPENDITURES	3080.0	1008.0	12730.0	16818.0					16818.0
GRAND TOTAL	6285.0	2006.0	16758.0	25049.0	1079.0	831.5	6088.6	7999.1	33048.1

1/ Includes salary and benefits costs of HL, SL and those recruited through IAs.

a/ Includes one International Waters expert position, but budget provision is for six months only.

b/ Includes full year funding for 2 1/2 new higher level positions in FY96; and 1 1/2 new support level positions.

c/ The number of higher level (3.5) and support level (1.0) positions do not represent dedicated post assignments rather, the Trustee uses an average full time equivalent (FTE) measure to convey the volume of staff activity. This is so because the Trustee's responsibilities require the input of a large number of staff of varying expertise and seniority who contribute some but not all of their time to GEF activities.

31. Project-related costs for phase 2 of the project cycle -- project preparation through agency approval -- is estimated to require \$2.94 million or about 18% of the total estimated project-related budget for FY97. Of this amount, the Bank estimates it needs some \$1.84 million to prepare 18-20 investment projects for Bank approval. UNDP estimates about \$.83 million in project-related costs to prepare 20 long-term operations and 25 enabling activities and short-term measures to agency approval. And UNEP estimates the need for some \$.27 million to process some 8 to 10 projects to agency approval stage.

32. Table 13, column three, shows estimated costs of \$4.62 million (or about a fourth of the project-related budget) for supervising or monitoring projects in implementation during FY97. This estimate includes projects from the pilot phase as well as GEF 1. The Bank anticipates some 70-80 projects (from the pilot phase and GEF) will be in supervision during FY97, costing some \$3.89 million. The Bank implements and supervises its projects directly and includes the corresponding budget needs for this phase of the project cycle in its annual GEF budget submission. UNDP's costs for this project phase cover in-house supervision and implementation of 135 projects from the pilot phase and permanent GEF expected to be under implementation during FY97, requiring some \$.55 million. UNEP estimates that it will have 2 projects from the pilot phase and 6 to 8 activities from the permanent GEF under implementation in FY97, requiring some \$.18 million to supervise.

33. The evaluation and monitoring costs of completed projects in FY97 (phase 4 of the project cycle) are estimated to require only about 4% of the project-related budget, due largely to the small number of completed projects at this stage of the GEF. The World Bank estimates that about five projects will reach completion in FY97 and be evaluated, these being from the pilot phase, for an estimated cost of \$.32 million. UNDP estimates that 8-10 projects (including PRIFs) will be completed during FY97 and under evaluation, at an administrative cost of \$.25 million. UNEP estimates that 2 projects will be under evaluation during FY97 requiring about \$.09 million of support.

34. It should be noted that project-related costs for monitoring and evaluation in this proposed FY97 budget are separate from the Monitoring and Evaluation Work Program and Budget also before this Council. Should the Council approve that separate budget proposal and authorize the Secretariat to do so, future administrative budgets will include resources specifically identified for the Monitoring and Evaluation Work Program, in addition to specific project-related monitoring and evaluation resources that may be required by the Implementing Agencies.

35. Finally, Table 14 sets out the detailed aggregate FY97 revised budget of \$33.05 by entity and itemized using the two-tier approach. Expenditures for the administrative portion of the budget amount to about \$16.23 million, with project-related expenses at \$16.8 million. The administrative portion of this budget will support some 49 higher level staff and 12 long-term consultants in the core units of the IAs and the STAP, Trustee and Secretariat, along with some 30 support level posts. These posts include 3.5

higher level and 1 support level full-time staff equivalents in the case of the Trustee which does not have dedicated GEF post assignments but uses an average full time equivalent measure to convey volume of staff activity. The Trustee uses this approach because its responsibilities require the input of a large number of staff of varying expertise and seniority who contribute some but not all of their time to GEF activities. About half of these higher level posts (31.5) and 2/3 of the support level posts (20 persons) are in the core coordinating units of the IAs.

36. The largest expenditure in the administrative portion of the budget continues to be for staff (50%) and consultants (10%) bringing personnel costs to roughly about 60% of this portion of the budget. Other large expenditures in the administrative portion of the budget relate to travel (6%), meetings and seminars (essentially Council-related meetings at another 6%), and general operating costs which are normally fixed costs (at 10%).

37. For comparative purposes, Annex B contains a separate table showing the FY96 aggregate sums and detailed breakdowns for each entity as of the FY96 midyear adjustment.

SPECIAL ISSUES

38. A few special budget issues need to be highlighted for special attention and monitoring in FY97:

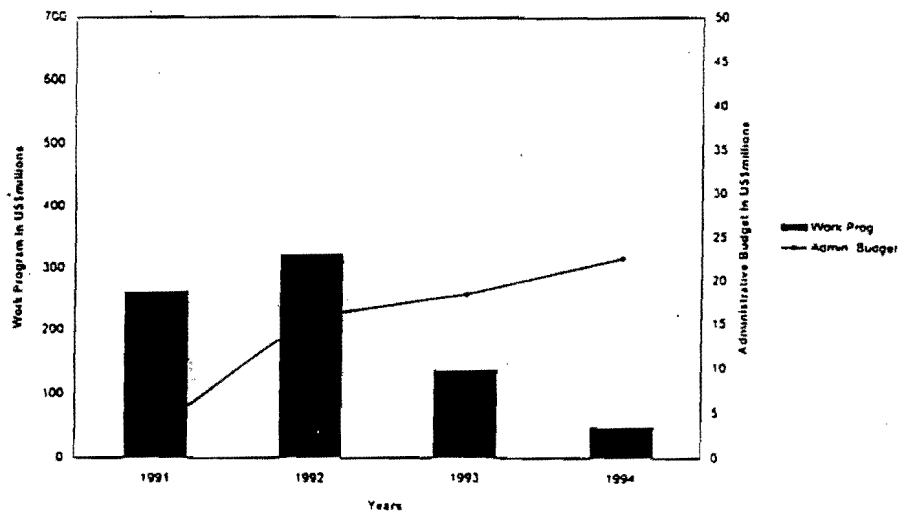
- a. UNDP has requested an additional half-year (about \$122,000) to cover the full costs of an International Waters Specialist based on its specific indication that the post will not be possible to operate with only a half-year allocation per the midyear FY96 adjustment.
- b. The travel budgets of the administrative and project-related portions of the FY97 budget amount to some \$1.03 million and \$3.47 million respectively, totaling \$4.5 million or some 13% of the aggregate budget. It is difficult to compare this sum with FY96 travel costs because the reporting formats are different in these two years. Nevertheless, it is a sizable portion of the overall budget and needs monitoring during the year with a view to finding opportunities for cost-cutting and cost-efficiencies.
- c. External communications activities and the associated budget were centralized in the Secretariat in FY96 to ensure a common message and development and implementation of a corporate GEF communications strategy. At the same time, it was recognized that internal communications activities should continue to be the responsibility of the respective agencies and for FY96 some \$40,000 was estimated as appropriate for this agency work. It will be important to monitor communications expenditures during FY97 to ensure that this approach continues

to be applied, especially in light of some increases in that budget category in the revised FY97 budget.

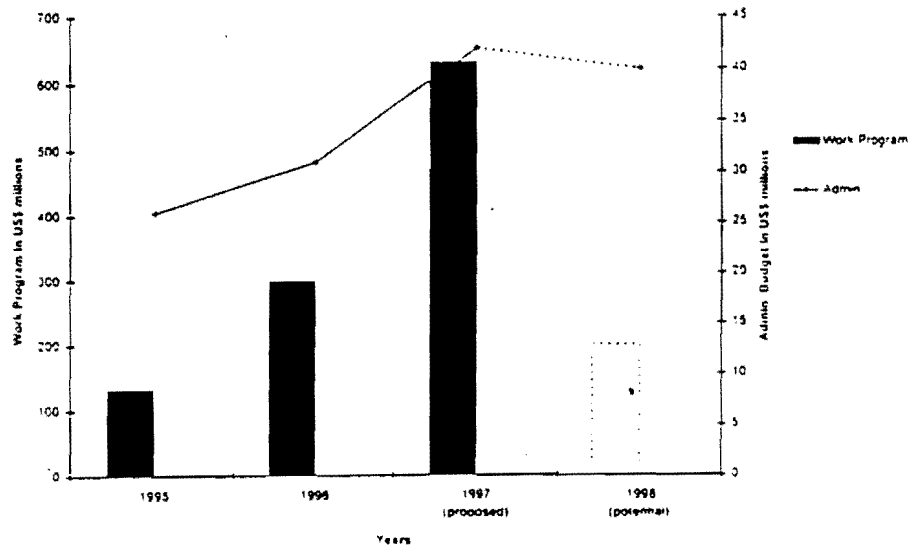
- d. Efforts in FY97 to move to improved cost accounting using a three-tier approach to budget reporting will help improve comparability across agencies, transparency, and accountability. These improvements also will help better understand actual resource requirements of the agencies for GEF coordination and project-related work which should aid in making productivity gains and further identifying areas of cost savings and improved efficiencies where possible.
- e. Midyear budget adjustments at the time of the midyear review will be used if new projects of high quality are specifically identified and shown to be viable and consistent with the Operational Strategy. This mechanism will ensure the flexibility needed within the proposed stable growth strategy to effectively support additional high-quality projects without delay.

Figure 1: Work Program Development Under Pilot Phase and GEF

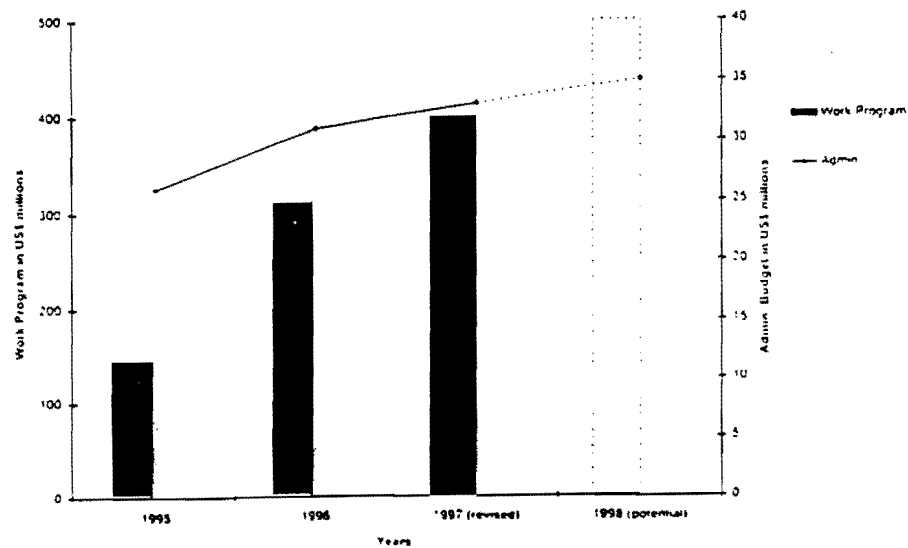
Pilot Phase Progression of Outputs and Budgets by Year



GEF Possible Progression of Outputs and Budgets - First Draft Proposal



GEF Possible Progression of Outputs and Budgets - Revised Proposal



GEF PLANNING ASSUMPTIONS AS OF MARCH 1, 1996

1. On March 4th, the Trustee notified the Secretariat that the reduction in commitment authority due to payment shortfalls in FY96 totaled \$83 million. The Trustee also confirmed that since commitment authority as of December 31, 1995 amounted to some \$975 million, this reduction would not constrain the GEF's ability in 1996 to carry out its work programs.
2. In the context of the FY97 GEF administrative budget exercise, this information was taken into account when the CEO proposed the budget assumptions for FY97 and outputs for FY97 and FY98. The proposed budget and associated outputs also took note of the currently outstanding donor pledges of some \$150 million. Under a "medium" projection scenario (one that avoids either extremes), the total GEF funding available from this replenishment is estimated at \$1.7 billion.
3. Out of such an overall funding envelope of \$1.7 billion, about \$176 million was allocated in FY95 (work program of \$150 million, including PDF, plus administrative budget of \$26 million). Assuming the work program submitted to the April 1996 Council meeting will be approved, about \$347 million will be allocated in FY96 (work program of \$315 million plus admin. budget of about \$32 million). Allowing for total budget allocation for FY97 and FY98 of about \$70 million would leave, under this scenario, some \$1.1 billion for work program allocations in FY97 and FY98.
4. Given the uncertainties inherent in such projections as well as changes in exchange rates, it would seem prudent to set aside for now 20%, or some \$200 million, of the projected funding envelope for the second half of this replenishment, which leaves some \$900 million for work program allocations. For current planning purposes, it is proposed that the annual allocations for work programs would be \$350-400 million for FY97 and \$450-500 million for FY98 (which begins on July 1, 1997).

Annex B: GEF ADMINISTRATIVE BUDGET - FY96 Adjusted (in US\$ thousands)

	UNDP a/	UNEP	W.BANK & IFC b/	Subtotal	STAP c/	TRUSTEE d/	SECRET. e/	Subtotal	TOTAL
Coordinating Units (no. of positions)									
Staff Resources									
Core Unit									
No. of Professional level	9.0	4.0	11.5	24.5	2	3.5	17.0	22.5	47.0
No. of Long Term Consultants	1.5	0.0	3.5	5.0	0		7.0	7.0	12.0
Total Higher Level *	10.5	4.0	15.0	29.5	2	3.5	24.0	29.5	59.0
Total Support Level	7.0	5.0	6.5	18.5	2	1.0	7.0	10.0	28.5
Regional Program/Bureaux									
No. of Professional level	8.5	3.0	1.0	12.5				0.0	12.5
No. of Long Term Consultants	7.0	0.0	0.0	7.0				0.0	7.0
Total Higher Level *	15.5	3.0	1.0	19.5				0.0	19.5
Total Support Level	6.0	3.0	0.0	9.0				0.0	9.0
Total No. of Higher Level Positions *	26.0	7.0	16.0	49.0	2	3.5	24.0	29.5	78.5
Total No. of Support Level Positions	13.0	8.0	6.5	28	2	1.0	7.0	10	37.5
Agency Coordination Expenses (US\$ thousands)									
Staff Salaries & Benefits	2887.5	844.5	2052.0	5784.0	210.0	415.0	2791.0	3416.0	9200.0
Consultants	790.0	194.8	280.0	1264.8	342.0		805.0	1147.0	2411.8
Travel	320.0	387.3	225.0	932.3	39.0	60.0	410.0	509.0	1441.3
Meetings/Seminars	500.0	50.0	50.0	600.0	350.0		480.0	830.0	1430.0
Equipment	70.0	50.0	50.0	170.0			60.0	60.0	230.0
Translation	10.0	0.0	5.0	15.0			95.0	95.0	110.0
Communications	45.0	100.0	77.0	222.0	30.0		85.0	115.0	337.0
Management Information System	140.0	0.0	65.0	205.0			45.0	45.0	250.0
Representation	0.0	2.0	10.0	12.0			15.0	15.0	27.0
General Operating Costs	420.0	48.0	404.0	872.0	35.0	35.0	705.0	775.0	1647.0
Contractual Services	20.0	0.0	65.0	85.0			300.0	300.0	385.0
Financial/Legal	0.0	0.0	500.0	500.0		264.0		264.0	764.0
Other	900.0	0.0	80.0	980.0	26.0	39.0	120.0	185.0	1165.0
TOTAL ADMINISTRATIVE COSTS	6102.5	1676.6	3863.0	11642.1	1032.0	813.0	5911.0	7756.0	19398.1
Project Expenditures									
Project development			5000.0	5000.0					
Project preparation			4499.0	4499.0					
Project supervision/implementation			2908.0	2908.0					
Project monitoring/evaluation									
Field-Office support									
Total Project Expenditures			12407.0	12407.0					
GRAND TOTAL	6102.5	1676.6	16270.0	24049.1	1032.0	813.0	5911.0	7756.0	31805.1

a/UNDP: Adjustment for 1 HL post for Int'l Waters (budget adjustment for 1/2 staff year).

b/World Bank/IFC: Incl. adjustment approved by Council for IFC (\$512.5) with 2 HL staff and 1 SL. Includes midyear adjustment approved by the CEO for 2-1/2 HL posts (\$400.0) and project-related costs (\$200.0).

c/STAP: Reflects adjusted budget approved by Council in October 1995.

d/Trustee: The number of positions does not represent dedicated post assignments but rather full-time staff/year equivalents. The Trustee uses an average full-time equivalent measure to convey the volume of staff activity; this is so because the Trustee's responsibilities require the input of a large number of staff of varying expertise and seniority who contribute some but not all of their time to GEF activities.

e/Secretariat: reflects CEO-amended staffing plan following July 1995 Council meeting (adjustment to Table 1 of Secretariat Staffing Plan document -- Includes 1 upgraded post for Conference Officer)