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Agenda Item 15

BUSINESS PLAN FY08-10 AND FY08 CORPORATE BUDGET

Recommended Council Decision

The Council, after having reviewed the *GEF Business Plan for FY08 and the FY08 Corporate Budget*, document GEF/C.31/9, takes note of the business plan and approves a FY08 Corporate Budget of \$15.868 million comprising:

- (a) \$13.249 million for the GEF Secretariat;
- (b) \$1.989 million for the STAP; and
- (c) Special initiatives for the Review of GEF-related Administrative Expenses in the Implementing Agencies in the amount of \$0.380 million and for the Development of Tools to Assess the Impact of Climate Change on Project Results and Sustainability in the amount of \$0.250 million.

The Council approves the Terms of Reference for the Review of GEF-related Administrative Expenses in the Implementing Agencies.

EXECUTIVE SUMMARY

1. The Secretariat has previously presented for Council consideration separate documents for the GEF Business Plan and the Corporate Budget. The Business Plan informed Council of the progress made towards meeting the goals and targets of each replenishment period, reflecting on the achievements of the prior years, anticipating the expected challenges in the coming years, and outlining the activities to be carried out to meet those challenges. The Corporate Budget requested the Council to authorize resources for meeting the expected costs associated with the activities to be carried out in the forthcoming fiscal year. In order to more closely tie the request for budgetary resources to the strategic directions and proposed activities of the GEF, this document presents both the business plan for the GEF-4 period and the corporate budget for the next fiscal year.

2. With the successful conclusion of the fourth replenishment of the GEF Trust Fund in August 2006, the GEF is now focused on delivering the agreed results. The priorities and activities for the 4-year period of GEF-4 (FY07-FY10) are guided by the policy recommendations of the replenishment. To better focus and integrate the GEF's response to the policy recommendations, the CEO presented to the Council, at the December 2006 meeting, a five-point sustainability compact consisting of five key elements (strategy, innovation, equity, accessibility, and focus) aimed at raising the impact of GEF investments to a new level of results and making the GEF a leading force for sustainable development for all people.

3. The Business Plan describes the status of policy development underway, or to be undertaken, in

4. the following areas to: (a) implement the policy recommendation of the fourth replenishment;

5. and (b) to further develop the GEF as an institution based on the five-point sustainability compact. It builds upon the significant achievements in FY07 including (a) the largest replenishment of the GEF Trust Fund, (b) the convening of the Third GEF Assembly, (c) the largest level of annual funding in GEF's history, (d) presentation for Council review and approval revised focal area strategies, a policy on comparative advantages of GEF Agencies, a revised project cycle, and a results-based management framework and (e) implementation of the key elements of the sustainability compact: elimination of the corporate budget for the implementing agencies and a corresponding increase in the agency project cycle management fee, establishment of a new pipeline for 2007, shift to actual incremental cost-based project preparation grants, revised guidelines for programming Small Grants Program resources, launch of a new GEF website, and the initiation of a process of direct consultation with recipient countries.

6. The GEF corporate budget requests \$15.868 million for the Secretariat and STAP for FY08 to meet the costs of activities to be carried out and outputs to be delivered in FY08 based on the business plan. The corporate budget includes \$0.630 million for special initiatives. This represents a decrease of \$0.841 million (5.3%) compared to the FY07 approved budget of \$16.709 million for the two entities. While the FY08 budget request includes an increase in the

core corporate budget for the Secretariat and STAP of \$1.343 million, this is offset by a decrease in the amount requested for special initiatives of \$2.184 million.

7. Beginning in FY08, the GEF Implementing Agencies will be compensated for their services through the provision of project cycle management fees on GEF-financed projects that they manage. In addition, starting in FY08, the Trustee is also presenting a separate budget request for the cost of the services it provides, (GEF/C.31/13, *FY08 Budget for the Trustee*).

8. When the separate budget requests of the Evaluation Office and the Trustee are included, the total budget request inclusive of all special initiatives for FY08 is \$22.061 million. This represents a decrease of \$8.92 million (29%) compared to the approved total FY07 budget of \$30.981 million. Most of the savings results from the Council decision to no longer provide a corporate budget for the Implementing Agencies.

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BACKGROUND

1. The Secretariat has previously presented for Council consideration separate documents for the GEF Business Plan and the Corporate Budget. The Business Plan informed Council of the progress made towards meeting the goals and targets of each replenishment period, reflecting on the achievements of the prior years, anticipating the expected challenges in the coming years, and outlining the activities to be carried out to meet those challenges.¹ The Corporate Budget requested the Council to authorize resources for meeting the expected costs associated with the activities to be carried out in the forthcoming fiscal year.² In order to more closely tie the request for budgetary resources to the strategic directions and proposed activities of the GEF, this document presents both the business plan for the GEF-4 period and the corporate budget for the next fiscal year.

2. With the successful conclusion of the fourth replenishment of the GEF Trust Fund in August 2006, the GEF is now focused on delivering the agreed results. The priorities and activities for the 4-year period of GEF-4 (FY07-FY10) are guided by the policy recommendations of the replenishment. To better focus and integrate the GEF's response to the policy recommendations, the CEO presented to the Council, at the December 2006 meeting, a five-point sustainability compact consisting of five key elements (strategy, innovation, equity, accessibility, and focus) aimed at raising the impact of GEF investments to a new level of results and making the GEF a leading force for sustainable development for all people.

3. FY07 has been a year of transition from GEF-3 to GEF-4. GEF-4 became effective on February 8, 2007. A review of achievements during FY07, including a detailed list of activities undertaken and the outputs, is attached in Annex 1. The major achievements of FY07 include:

- (a) Fourth replenishment of the GEF Trust Fund for US\$ 3.13 billion was concluded, the largest in GEF's history.
- (b) The Third GEF Assembly was convened in South Africa in August 2006.
- (c) Approval of 107 projects totaling \$1090.25 million in grant resources (including the projects in the June 2007 workprogram), the largest level of annual funding in GEF's history.³ These projects leveraged total co-financing of \$6262.87 million.
- (d) As called for in the policy recommendations, presentation for Council review and approval in June 2007 of revised focal area strategies, a policy on comparative advantages of GEF Agencies, a revised project cycle, and a results-based management framework.
- (e) Elimination of the corporate budget for the implementing agencies and a corresponding increase in the agency project cycle management fee,

¹ The Council reviewed and noted the first business plan for the GEF-4 period, GEF/C.30/6. GEF Business Plan FY07-10, at its December 2006 meeting.

² The Council reviewed and approved the Corporate Budget request for FY07 at its June 2006 meeting.

³ This includes Agency fees of \$86.82 million associated with these projects. In addition, \$3.61 million were also approved as project preparation grants for preparing projects for future workprograms.

establishment of a new pipeline for 2007, shift to actual incremental cost-based project preparation grants, revised guidelines for programming Small Grants Program resources, launch of a new GEF website, and the initiation of a process of direct consultation with recipient countries, all components of the sustainability compact.

I. BUSINESS PLAN FOR FY08-10

4. The GEF's core mission is to finance projects that deliver global environmental benefits. This business plan lays out a course of action to be followed in the three remaining years of GEF-4 to increase the global environmental impacts and results of the GEF-4 investments. At the core of this business plan is the implementation of the policy recommendations of the Fourth Replenishment of the GEF Trust Fund endorsed by the Council. The plan is structured upon the five elements of the sustainability compact: strategy, innovation, equity, access and focus. The progress that was achieved during FY07 in implementing the policy recommendations and the elements of the sustainability compact are summarized in Annexes 1 and 2 respectively.

Strategy

5. GEF will increase the impacts of its resources by being more strategic through: (a) revised focal area strategies that set clear priorities for programming, (b) a shift towards a programmatic approach, and (c) the implementation of the RAF.

Focal Area Strategies

6. In revising the focal area strategies for GEF-4, the GEF undertook to set clear priorities to guide the programming of resources in each of the focal areas, and to take into account cross-cutting issues of sustainable forest and chemicals management. A proposal for strategic programming in GEF-4 (GEF/C.31/10) is being submitted to the Council for review and approval in June 2007 which identifies priorities, measurable indicators and tracking tools to facilitate the measurement of global outcomes and impacts of GEF projects. The GEF will ensure that all remaining resources programmed in GEF-4 during FY08-10 are consistent with the approved strategies and strategic programs.

7. In anticipation of the fifth replenishment of the GEF Trust Fund, the GEF will initiate in FY08 preparation of strategic programming for GEF-5, building upon the experience of developing the GEF-4 strategic programs. The GEF-5 programming will be developed with a view to submitting proposals to Council and the replenishment discussions in the first half of 2009.

Programmatic Approach

8. The programmatic approach will move the GEF from being project-driven to a more strategic focus on thematic or geographic programs aimed at leveraging greater resources, achieving significant measurable results and enhancing opportunities for learning. The Strategic Investment Partnership (SIP) for alleviating land degradation included in the June 2007 work

program is an example of such a programmatic approach. Similarly, a program on sustainable forest management and the GEF-Pacific Alliance for Sustainability will be presented in December 2007. The revised focal area strategies have identified additional programs to be developed in GEF-4 for each of the targeted objectives within the focal area. Most of the programs identified in the revised focal area strategies will be presented for approval in work programs during FY08 and FY09. Effectively designing a program and preparing projects that contribute to the programmatic objectives will require increased coordination and consultation among the Secretariat, the GEF agencies, countries, and co-financiers.

Resource Allocation Framework

9. The Resource Allocation Framework is a system for allocating GEF-4 resources in the biodiversity and climate change focal areas to countries based on global environmental priorities and country-level performance. Following agreement on the GEF-4 replenishment, the initial indicative allocations under the RAF were publicly disclosed in September 2006. The Secretariat began to consult with countries to program the resources available to each country under the RAF. Through April 2007, the Secretariat had completed discussions with 129 countries. The biodiversity and climate change proposals included in the June 2007 work program were identified after these consultations. The resources programmed in these two focal areas in the current work program are disproportionately low compared to the other focal areas, as GEF partners, the Secretariat, Agencies, and recipient countries adjust and adapt to the new programming framework. It is fully expected that programming in these focal areas will increase significantly, consistent with the targeted focal area allocations agreed for GEF-4, as countries work with the Secretariat and the GEF agencies to program their allocations.

10. The Evaluation Office will undertake a mid-term review of the RAF and will report to the Council in November 2008. The terms of reference for the review will be presented to the Council for approval at its meeting in November 2007. The Secretariat has initiated preliminary consultation with the inter-agency focal area task forces to identify indicators on which a GEF-wide RAF could be based and will also report to the Council on progress achieved in November 2008.

Innovation

11. The mission of the GEF calls for innovative solutions to the challenges of managing the global environment. Two proposals for innovative approaches are being presented to the Council at its meeting in June 2007: a public-private partnership and the development of tools to assess the impact of climate change on project results and sustainability.

Private Public Partnership

12. The Council reviewed at its June 2006 meeting a strategy to enhance engagement with the private sector (GEF/C.28/14) and requested the Secretariat to further develop a public private partnership fund. Towards this end the Secretariat, in consultation with the IFC and the private sector, has initiated steps to establish this to promote collaboration on developing tools and technologies that address global environmental challenges and to expand markets for

environmentally sensitive investments. A specific proposal is being presented for Council review and approval as part of the June 2007 work program.

Tools to Assess the Impact of Climate Change on Project Results and Sustainability

13. The GEF will undertake steps to mitigate the risk to the sustainability of GEF projects from the impacts of climate change. The Secretariat, in consultation with STAP, GEF Agencies and other external experts, will develop an assessment of the climate change risks in all focal areas and issues that need to be addressed in project design for Council review in November 2007. Thereafter the GEF will prepare, for Council review in June 2008, tools and guidelines to be used during project design for assessing climate change risk to GEF projects so that all GEF projects may include measures for alleviating or minimizing such risks. Beginning FY09, all GEF project proposals would be expected to be climate-proofed in accordance with the Council-approved guidelines.

Equity

14. The GEF will work with those countries least able to manage the impacts of a changing global environment by emphasizing efforts to build their capacity and to equip them with the skills, knowledge and tools necessary to respond to emerging global environmental challenges.

Targeted Programs

15. The GEF has advanced preparations for two specific programs directed towards LDCs and SIDS and will continue to explore additional opportunities during GEF-4.

16. The June 2007 work program includes a \$150 million program for the *Strategic Investment Partnership for Africa* aimed at addressing land degradation in Africa.⁴ Upon approval by the Council, the program will be implemented over the course of GEF-4.

17. With the full participation and support of the Pacific SIDS countries, the GEF is developing a multi-focal *GEF-Pacific Alliance for Sustainability*. The program proposes to direct about \$100 million in GEF resources to the Pacific region, a six-fold increase compared to historical average, and will be funded through resources made available under the various focal areas and the climate change funds managed by the GEF. The program is built upon the collective interests of countries as have been expressed to the GEF during its dialogues with the countries of the region. The program is expected to be ready for Council approval in FY08 and will be implemented during GEF-4.

Capacity Building

18. New approaches and modalities will be developed to further operationalize the *Strategic Approach to Capacity Building*, support countries in implementation of the RAF, align on-going activities to ensure cost-effective management, and to demonstrate impact. A report on the

⁴ Amount includes Agency fees of 10% on the GEF grant amount.

implementation of the capacity building strategy will be presented for Council review in May/June 2008. The report will take into account the evaluation of the GEF capacity development activities to be presented to the Council for discussion at the November 2007 meeting.

Accessibility

19. Accessibility to the GEF has been one of the major concerns of GEF stakeholders, particularly recipient country partners. Historically, country accessibility to the GEF for programming was largely through GEF agencies. With the implementation of the RAF in the biodiversity and climate change focal areas, the Secretariat initiated direct dialogues with countries to streamline project development and to bring coherence and consistency to GEF strategic programming and countries priorities. During the last six months, the Secretariat has discussed programming for the first two years of GEF-4 with 129 countries. The Secretariat has identified four areas for focus to improve accessibility: (a) strengthening the capacity of the Secretariat for direct dialogue with countries; (b) improving the effectiveness of corporate programs; (c) strengthening GEF's corporate image and public communications; and (d) strengthening GEF's capacity to tap into and share our knowledge base.

Direct Dialogue with Countries

20. The Secretariat will continue to build its direct lines of communications with the GEF operational and political focal points to ensure that GEF resources are directed towards activities that support country priorities in the context of GEF's mandate. The Secretariat is strengthening the staff working directly on country relations, and through an expanded external affairs team, will coordinate its outreach and communications more closely with corporate programs for country support and capacity building.

Corporate Programs

21. The GEF currently has four corporate programs for engaging countries and building their capacity to access GEF resources: the GEF National Dialogue Initiative, Country Support Program, Council Member Support Program, and the Small Grants Program.

22. The GEF has been supporting countries to host in-depth national multi-stakeholder dialogue workshops on the GEF since 2000 in response to country requests and an evolving GEF. The current dialogues are being implemented through the *GEF National Dialogue Initiative* which began implementation in July 2004. The inter-agency effort is implemented by UNDP, on behalf of the GEF Secretariat and the agencies.⁵ The current funding cycle runs through June 2008.

23. The *Country Support Program (CSP)* began implementation in March 2006. It was developed to complement the National Dialogue Initiative by promoting global, sub-regional and

⁵ In the NDI Steering Committee meeting held in December 2006, agencies were asked to share with the Secretariat list of relevant activities, meetings, process, etc, so that the Secretariat could align its efforts closely with the ongoing efforts and initiatives at the agencies.

constituency-level exchange and provide direct assistance to GEF Focal Points in response to the their and their countries' expressed needs. It is implemented jointly by UNDP and UNEP. This project is expected to end in early 2010.

24. The *Council Member Support Program* started in March 2006 alongside the CSP and is funded through the Secretariat administrative budget. The goal is to provide assistance to developing country Council Members for informed consultations with their constituents so as to contribute to effective GEF governance.

25. The three programs are closely linked through a single Steering Committee and a single management structure. This linkage has had a streamlining effect, ensuring consistency in delivery and cost effectiveness to maximize country-level impact. For example, countries are being encouraged to use the sub-regional workshops as an opportunity to schedule their constituency meetings, and this has become commonplace since April 2006. As another example, national dialogues often provide in-depth country experiences that are codified and shared with focal points through the CSP knowledge facility.

26. In the near term, it is anticipated that the projects will continue in their present form. However, efforts are being made to provide more coherence and flexibility in implementation through the Steering Committee, as well as by providing a broad menu of activities that countries can choose from. Details of the long-term strategy for the programs will be discussed by the National Dialogue and CSP Steering Committee with inputs provided by the countries. Detailed information on the next phase of these programs will be provided in the next business plan in June 2008.

27. A significant achievement during FY07 was the development of a forward-looking approach to managing the *Small Grants Program (SGP)*. Under this approach, the SGP will meet all pending requests from countries that want to join the program, and will work towards enhancing its on-the-ground effectiveness while maintaining a country-based decision-making process through the SGP National Steering Committees.

28. The first meeting of the GEF SGP Steering Committee, chaired by the CEO, and comprised of representatives from the Implementing and Executing Agencies and the coordinator of the GEF NGO network, was held on December 11, 2006. The Steering Committee agreed on procedures for allocating the resources available to the SGP, both through its GEF-4 core funding of \$110 million and through resources from indicative country allocations under the RAF. The June 2007 work program contains a request for \$128.32 million to replenish the Small Grants Program (see GEF/C.31/8, *Work Program*).

Corporate Image and Public Communications

29. A key element of GEF's ongoing reform is an upgraded approach to strategic communications to presented to the Council in December 2007,⁶ which clarifies and promotes understanding of GEF policies and procedures, creates a higher public profile for GEF work,

⁶ One of the policy recommendations of the replenishment was the development of a new strategic communications strategy.

increases the impact of GEF partnerships and alliances, clarifies and strengthens the principal GEF messages, and creates and makes best use of innovative communications products and tools. This upgraded approach to communications, for which there will be associated increased costs to the Secretariat, is expected to include the development of the elements listed below. It is proposed that steps already be taken to advance the GEF in these efforts:

- (a) A new series of products, including corporate publications, articles, multimedia presentations, and web-based presentations;
- (b) A broad globally-based network of media contacts and story placements in major news outlets;
- (c) Several strategic media-based and communications partnerships for which there is a participation fee (GLOBE, Com+);
- (d) An ongoing series of workshops, seminars and briefing sessions for journalists on GEF-related issues;
- (e) A presentation series making use of GEF managers throughout the GEF family; and
- (f) An ongoing interagency communications network which would host periodic meetings.

Lesson Learning and Dissemination

30. The potential added value of a common knowledge system for GEF lies in achieving the following objectives: (a) better and more efficient projects by reducing development costs and development time, avoiding repeated errors, and improving performance of GEF projects; (b) better and more targeted development of programs, strategies, and policies; (c) increased catalytic impact of GEF projects through dissemination of knowledge and information (including best practices) in order to foster replication; and (d) stronger role of the GEF in advocacy for achieving global environmental objectives. The Secretariat, together with other GEF partners, looks forward to developing a robust approach to knowledge management in FY08, developing close linkages to the GEF results-based management framework.

Focus

31. GEF will focus on delivering results, implementing the policy recommendations, strengthening the GEF partnership, and being cost-effective.

Focus on delivering results

Programming GEF-4 Resources

32. Programming resources for quality projects is a pre-condition to delivering results. The progress in programming GEF-4 resources during FY07 and the targets for FY08-10 is

summarized in Annex 3. Programming during FY08 is projected to be around 30% of the total resources available during GEF-4, with the remainder programming expected to occur during FY09-10. It is expected that 35-45% of the GEF-4 programming targets for biodiversity and climate change focal areas will be programmed in FY08. The exact focal area shares in each work program depend on the rollout of the strategic programs being developed based on the revised focal area strategies.

Strengthening Linkages Between Environment and Development

33. The sustainability of global environmental results can be strengthened if it is strongly linked to the sustainable development goals of countries. As requested in policy recommendations for GEF-4, each GEF agency will continue to monitor progress in mainstreaming global environmental challenges into its respective core development work and report on their mainstreaming efforts to the Council in November/December 2007.

Measuring and Managing for Results

34. Measurement of, and managing for, results is a major undertaking for the GEF. The conceptual framework for the results-based management is being submitted to the Council for review and approval in June 2007 (GEF/C/31/11, *Results-based Management Framework*). It involves monitoring and reporting at three levels: (a) corporate level; (b) programmatic (focal area) level; and (c) project-level. At the project level, the framework is anchored in the minimum M&E standards that the GEF Evaluation Office has established. At the programmatic (focal area) level it is anchored by performance indicators that have been developed in the context of developing the strategic programmatic approaches for GEF-4.

35. Upon approval of the framework, the GEF will develop a comprehensive set of tools including proposals to adapt existing tools to better manage for results. The overall objective of the framework is to begin to shift the GEF from an “approvals-culture” to a “results-based” culture. Such an approach is reflected in the design of the new GEF project cycle, which is being submitted for discussion at the June 2007 Council meeting (see below).

36. A performance and outcome matrix of the GEF agencies, based on an assessment by the GEF Evaluation Office and in line with international methods and standards, will be also be included in the Annual Performance Report starting in November 2007 as requested in the policy recommendations of replenishment.

Focus on implementing policy recommendations

37. The GEF is focused on implementing all of the policy recommendations of the fourth replenishment of the GEF Trust Fund and will report the progress made in implementing them in every business plan. As summarized in Annex 1 and reported throughout this paper, the GEF expects to fulfill the policy recommendations as initially scheduled. As requested in the policy recommendations, the Secretariat will prepare a mid-term review of progress in implementing the recommendations for Council review in November 2007.

Focus on strengthening the GEF Partnership

Partnership with Implementing and Executing Agencies

38. The GEF Evaluation Office submitted an evaluation of the experience with the Executing Agencies under expanded opportunities (GEF/ME/C.30/ 4) at the December 2006 Council meeting. The Secretariat supported the findings and recommendations of the evaluation and, after consultation with the Implementing and Executing Agencies, proposed a set of actions (GEF/ME/C.30/5) to ensure equal access for projects to the GEF for the Implementing and Executing Agencies. These actions approved by the Council at the December 2006 meeting include: (a) abolishing the corporate budget for the three Implementing Agencies beginning in FY08; (b) increasing the fees for all GEF agencies from 9 percent to 10 percent,⁷ with the increased fee amount being used by all GEF agencies to participate in GEF corporate activities; and (c) ensuring that each agency operates within the scope of comparative advantages that it brings to the GEF partnership.

39. In response to the Council request to further elaborate the comparative advantages and primary roles of the agencies, document GEF/C.31/5, *Comparative Advantages of the GEF Agencies*, is being submitted to the June 2007 Council meeting. While this document provides for a “level playing field” among the GEF Implementing and Executing Agencies for purposes of managing GEF projects, the Instrument recognizes that the GEF is to operate “on the basis of collaboration and partnership among the Implementing Agencies.” During FY08, the Secretariat will engage the three Implementing Agencies to redesign and better define the basis of their fundamental corporate partnership, taking into account the evolution of GEF policies and procedures since the Instrument was adopted.

Budget Reform

40. The corporate budget proposal for FY08, submitted for discussion at the June 2007 Council meeting, reflects the December 2006 Council decision to eliminate the corporate budget for the three Implementing Agencies, beginning with FY08.

Fiduciary Standards

41. The Trustee has developed proposals on minimum fiduciary standards, GEF/C.31/6, *Recommended Minimum Fiduciary Standards for GEF Implementing and Executing Agencies*, for Council review at the June 2007 meeting. When adopted by the Council, the proposed standards will be applied and monitored across all Implementing and Executing Agencies. The proposed fiduciary standards include recommendations with respect to independent oversight, audit, evaluation and investigation functions; external financial audit, financial management and control frameworks; project appraisal standards, including environmental assessments and other safeguard measures as appropriate; monitoring and project-at-risk systems; procurement and financial disclosure; hotline and whistleblower protection; and codes of ethics.

⁷ The total fee amount for any Implementing Agency in a fiscal year will be capped at what it would have received under the previous system of a 9% fee plus \$3 million in the corporate budget.

Management Information System

42. The Secretariat, in consultation with the Trustee and the GEF agencies, is developing a management information system to support the business processes within the Secretariat and between the Secretariat, the GEF agencies and the Trustee. Secured access to the system will be provided through web-based portals for all GEF stakeholders to get up-to-date information on the status of concepts, proposals and projects. This information will also be linked to RAF-related information in the biodiversity and climate change focal areas such as indicative allocations for countries and the group, resources utilized, and resources remaining for programming in countries and the group. Major changes in the development approach of the system have delayed the launch of an operational system to December 2007.

Focus on being cost effective

43. The GEF is focused on being more cost-effective. There are two aspects to this: (a) reduced administrative costs (Secretariat restructuring, administrative costs of agencies, streamlining operations project cycle and processes); and (b) more effective cost-sharing which reflects the GEF's role as an incremental financier.

Restructuring of the Secretariat

44. During FY07, the CEO restructured the Secretariat into four teams, thereby streamlining the management team and helping to promote synergies between the teams. The four teams are: Climate Change and Chemical, Corporate Operation, Policies and Financial Service, External Affairs, and Natural Resources. Annex 9 contains Organization Charts for the GEF Secretariat before after the restructuring. The Secretariat has already re-focused its efforts so that staff resources are devoted to the core priorities of the GEF. In undertaking the restructuring, there was an assessment of the Secretariat's existing human resources, and it was concluded that if the GEF is to be more accessible, it is necessary to devote more human resources to GEF's ability to interact directly with Governments and to enhance its external communications. A new position is being created, for example, for a conflict resolution commissioner. The commissioner will report directly to the CEO and will be responsible for responding to country concerns or complaints. He/she will help resolve any country concern swiftly and comprehensively.

Review of GEF-related Administrative Expenses in the Implementing Agencies⁸

45. The GEF is seeking to reduce the amount of GEF resources used to cover the administrative expenses in Implementing Agencies. To facilitate this, it would be useful to have a clear factual basis as to how the administrative resources that have been provided to and through the Implementing Agencies have been utilized so as to have a complete and comprehensive understanding of the GEF's cost of doing business. It is proposed that an independent reviewer be contracted to undertake a review of GEF-related administrative costs in the Implementing Agencies. The objective of the review are:

- (a) To collect and review information on the use of GEF administrative resources so as to have comprehensive information on the different elements and drivers of expenses incurred by the Implementing Agencies as partners in the GEF and in managing and implementing GEF projects.
- (b) To have a clear break-down of cost items financed by administrative resources: staff, consultants, travel, office space, information technology, etc.
- (c) To provide a better understanding of the Implementing Agencies' costs for doing GEF business, an assessment of whether GEF resources are being used effectively and efficiently, and recommendations, as appropriate, to improve the means by which administrative costs are supported.

Project Cycle and Pipeline Management

46. The joint evaluation of the GEF project cycle, undertaken by the GEF Evaluation Office, concludes that the current project cycle and associated procedures are inefficient and ineffective, and that it takes up to 66 months for a proposal to progress from identification to start of

⁸ The term "administrative expenses" is utilized to refer to the costs incurred in the delivery of GEF resources towards project activities in recipient countries. For the purposes of this exercise, "administrative expenses" capture three categories of expenses.

- (a) The first is the corporate budgets that have been provided to the Implementing Agencies to cover their costs in fulfilling corporate responsibilities related to institutional relations, policy and program development/management/ coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation.
- (b) A second category of administrative expenses is the fees that have been provided for project cycle management, including due diligence management of a project through the entire project cycle – development, preparation, supervision, and evaluation.
- (c) A third category of administrative expenses is related to project management costs included in the GEF project grant.

It is recognized that resources to finance these costs are not always provided to the Implementing Agency and that they often flow directly to the executing agency of the project. Nevertheless, in order to have a complete understanding of the cost of doing business, the review is expected, through a review of a sample of projects, to provide information on the level and use of project management resources.

implementation.⁹ This conclusion vindicates the long-standing concern among all GEF partners that the GEF project cycle has, over the years, become unviable.

47. The Secretariat, in collaboration with the GEF Implementing and Executing Agencies, STAP, and Trustee, and taking into consideration the joint evaluation of the GEF project cycle, including Council discussion on the evaluation in December 2006, has developed a proposal for a more cost-effective project cycle and associated business process to process proposals in a timely manner through the project cycle (not exceeding 22 months from project identification to start of project implementation).¹⁰ The new project cycle also has a “disciplining” process to monitor and identify concepts and proposals in the project pipeline not meeting agreed elapsed time benchmarks between key milestones. Proposals not meeting these benchmarks may be cancelled, suspended or terminated, following decisions taken by the Council at the December 2006 meeting regarding project cancellations/suspensions/terminations. This monitoring system is being incorporated with an alert mechanism into the new management information system that is under development. The GEF Secretariat will prepare an Operational Manual to operationalize the redesigned project cycle and report to the GEF Council in December 2007.

Replacement of PDFs with actual cost based PPG

48. The joint evaluation of the GEF project cycle, undertaken by the GEF Evaluation Office, highlighted significant delays in the preparation phase of the project cycle. The CEO has introduced a number of reforms in FY07 to increase accountability and to streamline this phase of the process. These include a shift to an actual cost-based project preparation grant justified based on the outputs being delivered. As a result, the average grant size has decreased. Agencies are now also required to submit a PPG status report before project proposal is considered for CEO endorsement. This increased accountability is expected to strengthen controls on the use of PPG funds. These changes have also been incorporated into the new project cycle.

Incremental Costs

49. The Evaluation Office submitted to the December 2006 Council meeting the *Evaluation of the Incremental Cost Assessment*, GEF/ME/C.30/2. The evaluation confirmed that the application of incremental costs should be adapted to become a more transparent, cost-effective and useful tool in project preparation and implementation. It recommended that the current application of the incremental cost principle, especially the assessment and reporting of incremental costs, be replaced by a more pragmatic and strategic approach. Based on feedback received from the Council on the evaluation, the GEF Secretariat has worked with the GEF agencies to propose a new approach to the application of the incremental cost principle for Council review and approval in June 2007 (GEF/C.31/12, *Operational guidelines for the Application of the Incremental Cost Principle*).

⁹ Elapsed times have been aggravated by resource constraints that have adversely affected the GEF project processing cycle for both GEF-2 and GEF-3. A similar situation is evolving with the delayed effectiveness of GEF-4.

¹⁰ The new project cycle and associated business processes are being submitted for Council review and approval in June 2007 (GEF/C.31/7, *GEF Project Cycle*).

II. CORPORATE BUDGET FOR FY08

50. The GEF corporate budget finances the ongoing corporate activities of the GEF partnership.¹¹ The administrative costs of the Secretariat, STAP, Trustee, and the Implementing Agencies have historically been funded through the corporate budget. The Evaluation Office has its own corporate budget approved separately by the Council (GEF/ME/C.31/7, *Four-Year Work Program and FY08 Budget of the GEF Evaluation Office*).

51. Beginning with FY08, the GEF Implementing Agencies will be compensated for their services through the provision of project cycle management fees on GEF-financed projects that they manage just like the Executing Agencies instead of the corporate budget based on the Council decision in December 2006.¹² In addition, starting FY08, the Trustee is presenting a separate budget request to recover the cost of the services it provides, (GEF/C.31/13, *FY08 Budget for the Trustee*).

52. The total budget request for FY08, inclusive of special initiatives, for the two entities in this request (Secretariat and STAP) is \$15.868 million. This represents a decrease of \$0.841 million (5.3%) compared to the FY07 approved budget of \$16.709 million for the two entities. While the FY08 budget request includes an increase in the core corporate budget for the Secretariat and STAP of \$1.343 million, this is offset by a decrease in the amount requested for special initiatives of \$2.184 million.

53. When the separate budget requests of the Evaluation Office and the Trustee are included, the total budget request inclusive of all special initiatives for FY08 is \$22.061 million. This represents a decrease of \$8.92 million (29%) compared to the approved total FY07 budget of \$30.981 million. Most of the savings results from the Council decision to no longer provide a corporate budget for the Implementing Agencies.

54. A report on FY07 activities, outputs and review of expenditures financed by the corporate budget are contained in Annex 5 (Secretariat), Annex 6 (STAP), Annex 7 (Trustee) and Annex 8 (Implementing Agencies).¹³

GEF Secretariat FY08 Activities, Outputs, and Budget

Activities and Outputs

55. The following is a list of the proposed activities and outputs of the Secretariat in FY08, organized under the four broad headings of Governance, Program Management, Relations with

¹¹ The partnership consists of the Secretariat, the three Implementing Agencies and seven Executing Agencies, the Trustee, and STAP, which are collectively responsible, under the overall leadership and guidance of the GEF Chief Executive Officer and Chairman, for the achievement of the GEF's corporate objectives.

¹² At its meeting in December 2006, the Council agreed to create a more level playing field among the Implementing and Executing Agencies and that, among other things, decided to (a) eliminate the corporate budget for the Implementing Agencies effective FY08 and (b) increase the project cycle management fee for all GEF agencies by 1% (from 9% to 10%) to include administrative resources for the corporate support provided by the agencies. See Annex 10a for background on the GEF Agency Fee system.

¹³ The Implementing Agencies received a corporate budget until FY07.

Constituents, and Financial and Administrative Management, to be financed out of the core budget for the Secretariat:

Governance

Council

56. Two Council meetings will be convened. These meetings will consider:
- (a) two work programs including programmatic approaches for forests and the South Pacific SIDS;
 - (b) agencies' reports on efforts to mainstream global environmental challenges into core development work;
 - (c) a proposed communications and outreach strategy;
 - (d) a performance and outcome matrix in line with international methods and standards to be included in the Annual Performance Report, which will include realistic and international best practice targets, with the goal of achieving satisfactory ratings in all categories by 2010;
 - (e) a report on implementation of the Strategic Approach to Enhance Capacity Building;
 - (f) the annual monitoring report;
 - (g) a review of GEF-related administrative expenses in the Implementing Agencies;
 - (h) an annual budget;
 - (i) a GEF business plan and budget;
 - (j) relations with conventions and other institutions; and
 - (k) a joint evaluation of the SGP being undertaken by the GEF Evaluation Office and the UNDP evaluation Office.
57. Regular communication will be maintained with the Council.

Program Management

58. Activities relating to program management will include:
- (a) working with countries to program resources in accordance with RAF and GEF-4 programmatic framework;

- (b) implementing the revised project cycle and developing an operations manual to support the implementation;
- (c) preparing work programs for Council approval and preparing and approving project preparation grants, MSPs and enabling activities;
- (d) reviewing project documents for CEO endorsement;
- (e) managing the GEF pipeline;
- (f) involvement in programmatic and other evaluations managed by the GEF Evaluation Office;
- (g) implementing the results management framework and associated monitoring tools;
- (h) preparation of a portfolio performance review;
- (i) implementation of the new GEF Management Information System;
- (j) continued participation in knowledge management and related activities for dissemination of lessons learned; establishing a knowledge management framework in one or two GEF focal areas;
- (k) continued improvement and strengthening of the risk management system;
- (l) preparation of the 2007 GEF Annual Monitoring Report, and application of program-level monitoring tools;
- (m) implementation of the public-private partnership;
- (n) contributing, as appropriate, to the RAF mid-term review; and
- (o) preliminary work towards developing strategic programs and priorities for GEF-5.

Relations with Constituents

59. With respect to relations with constituents, the following activities are foreseen:
- (a) the Secretariat will maintain dialogue and regular communications with national focal points;
 - (b) organization of a series of outreach and awareness-raising activities under the auspices of the National Dialogue Initiative;
 - (c) convening four sub-regional exchanges and training workshops targeted to respond to the identified needs of focal points from member countries;

- (d) organization of an orientation for new Council Members and Alternates prior to each Council meeting;
- (e) support to GEF constituency meetings;
- (f) organization of two regular NGO consultations prior to each Council meeting;
- (g) GEF participation at Conferences of the Parties and related meetings of the global environmental conventions and CSD;
- (h) enhancing communication tools and outreach activities at the global and country levels;
- (i) support to major GEF initiatives with appropriate outreach tools and media strategies;
- (j) expanding multimedia tools and products;
- (k) presenting to the Council in December 2007 an enhanced GEF communications strategy and implementing it upon approval;
- (l) organization of a familiarization seminar;
- (m) publication of the GEF Annual Report and updated operational report of GEF projects; and
- (n) developing innovative modalities through the Capacity Building Task Force to program cross-cutting capacity development funds for strengthening the enabling environment.

Special Activities in FY08

60. The CEO proposes two special activities for FY08.

Strategic Initiative to Develop Tools to Assess the Impact of Climate Change on Project Results and Sustainability

61. It is increasingly clear that the potential impacts of climate change can directly affect the achievement of sustainable results in projects if the project is not designed to alleviate or minimize such impacts. Climate change affects ecosystems and all sectors of development, including agriculture, health, water, and infrastructure. Adaptation measures must, therefore, be fully integrated into development projects and programs if they are to be sustainable. For this, a wide range of expertise is needed.

62. The Secretariat proposes to work with STAP, experts, GEF agencies, and other development and environment institutions with a view to “climate proofing” the GEF portfolio by developing a comprehensive overview of the climate change risks in all the focal areas

together with tools and guidelines that can be used in designing projects to ensure that their results will be sustainable.

63. It is proposed that the Secretariat recruit consultants knowledgeable in focal areas and climate change impacts to assist it in its work, and that extensive consultations and meetings be organized with STAP and interested organizations over the course of the next fiscal year.

64. The Secretariat will submit to the Council for its review in November 2007 an overview of climate change risks in all focal areas while the tools and guidelines for assessing climate change impacts will be prepared for review at the Council meeting in June 2008.

Review of GEF-related Administrative Expenses in the Implementing Agencies¹⁴

65. In moving forward to review and revise the GEF project cycle as well as other operational policies of the GEF, it would be useful to have a clear factual basis as to how the administrative resources that have been provided to and through the Implementing Agencies have been utilized so as to have a complete and comprehensive understanding of the GEF's cost of doing business. It is proposed that an independent reviewer be contracted to undertake a review of GEF-related administrative costs in the Implementing Agencies. The objectives of the review are:

- (a) to collect and review information on the use of GEF administrative resources so as to have comprehensive information on the different elements and drivers of expenses incurred by the Implementing Agencies as partners in the GEF and in managing and implementing GEF projects;
- (b) to have a clear break-down of cost items financed by administrative resources – staff, consultants, travel, office space, information technology, etc;
- (c) to provide a better understanding of the Implementing Agencies' costs for doing GEF business, an assessment of whether GEF resources are being used effectively and efficiently, and recommendations, as appropriate, to improve the means by which administrative costs are supported.

¹⁴ The term "administrative expenses" is utilized to refer to the costs incurred in the delivery of GEF resources towards project activities in recipient countries. For the purposes of this exercise, "administrative expenses" capture three categories of expenses. The first is the corporate budgets that have been provided to the Implementing Agencies to cover their costs in fulfilling corporate responsibilities related to institutional relations, policy and program development/management/coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation.

A second category of administrative expenses is the fees that have been provided for project cycle management, including due diligence management of a project through the entire project cycle – development, preparation, supervision, and evaluation.

A third category of administrative expenses is related to project management costs included in the GEF project grant. It is recognized that resources to finance these costs are not always provided to the Implementing Agency and that they often flow directly to the executing agency of the project. Nevertheless, in order to have a complete understanding of the cost of doing business, the review is expected, through a review of a sample of projects, to provide information on the level and use of project management resources.

FY08 Secretariat Budget

66. The proposed FY08 budget for the GEF Secretariat is \$13.879 million, consisting of a core budget of \$13.249 million and a special initiative budget of \$ 0.630 million. This represents an increase of 10.7% in the core Secretariat budget and 3.8% in the total Secretariat budget including special initiatives compared to the FY07 budgets.

67. The distribution of costs by expense category is shown in Table 1. The proposed budget reflects a 3% nominal increase to account for inflation, or 0% real growth in most cost categories. The CEO has made special efforts to reduce the cost of travel by carefully reviewing the necessity of each travel request for GEF's core mission. As a result, the travel budget is being held constant at the nominal levels of FY07, despite the proposed increases in staffing complement.

68. After careful review of the staffing complement against the business plan and the staffing needs to deliver the sustainability compact, the CEO restructured the GEF Secretariat into four teams to refocus its efforts so that staff resources are devoted to the core priorities of the GEF. The four teams are: Climate Change and Chemicals; Corporate Operation Policies and Financial Service; External Affairs; and Natural Resources. Annex 9 contains the current organization chart of the Secretariat. In undertaking the restructuring, there was an assessment of the Secretariat's existing human resources, and it was concluded that if the GEF is to be more accessible, it is necessary to devote more human resources to GEF's ability to interact directly with Governments and to enhance its external communications. The budget therefore calls for a 15% increase for new staffing.

69. The budget also proposes a 15% increase for communications and outreach. The additional resources for staff and for communications will play an integral role in the Secretariat's drive to strengthen its public communications, respond promptly to country concerns and needs, and ensure coordination of corporate programs with the involvement of all agencies.

Table 1: Proposed FY08 GEF Secretariat Budget

<i>FY06 Actual</i> \$m	Expense Category	<i>FY07 Budget</i> \$m	<i>FY07 Estimated</i> \$m	<i>FY08 Proposed</i> \$m
<u>6.687</u>	<u>Staff Costs</u>	<u>8.550</u>	<u>7.250</u>	<u>9.650</u>
6.039	Salaries and Benefits	7.450	6.450	8.547
0.598	Travel	0.997	0.750	0.997
0.051	Training	0.103	0.050	0.106
<u>0.921</u>	<u>Consultant Costs</u>	<u>0.534</u>	<u>0.632</u>	<u>0.548</u>
0.382	Fees (long-term)	0.206	0.200	0.212
0.521	Fees (short-term)	0.246	0.350	0.253
0.017	Travel	0.082	0.082	0.082
<u>0.443</u>	<u>Council Costs</u>	<u>0.597</u>	<u>0.597</u>	<u>0.615</u>
0.162	Logistics	0.191	0.191	0.197
0.125	Council Travel	0.180	0.180	0.185
0.154	NGO Consultations (Logistics and Travel)	0.160	0.160	0.165
0.003	Council Member Support Program	0.066	0.066	0.068
<u>0.130</u>	<u>Contractual Services</u>	<u>0.052</u>	<u>0.052</u>	<u>0.052</u>
0.130	(Contracts with Firms)	0.052	0.052	0.052
<u>0.542</u>	<u>Publications, Media, Web and External Outreach</u>	<u>0.721</u>	<u>0.721</u>	<u>0.829</u>
<u>1.107</u>	<u>General Operations Costs</u>	<u>1.510</u>	<u>1.510</u>	<u>1.555</u>
0.509	Office Space, Equipment, and Supplies	0.869	0.869	0.895
0.539	Communications and Internal Computing	0.583	0.583	0.600
0.000	Corporate Services	0.000	0.000	0.000
0.060	Representation and Hospitality	0.058	0.058	0.060
<u>9.831</u>	<u>TOTAL</u>	<u>11.964</u>	<u>10.762</u>	<u>13.249</u>

Special Initiative Requests FY08

70. Two new special initiatives are being proposed for FY08 at a total cost of \$0.630 million. They are (a) review of GEF-related Administrative Expenses in the Implementing Agencies focused on identifying how administrative costs can be reduced (\$0.380 million); and (b) Strategic initiative to develop tools to assess the impact of climate change on project results and sustainability (\$0.250 million).

STAP FY08 Activities, Outputs and Budget

71. The highlights of activities and outputs of STAP in FY08 will include:

- (a) implementing the Council-approved new structure and procedures for STAP;
- (b) convening a small meeting on carbon capture and storage;
- (c) completing follow-up work on energy efficient buildings, and on approaches to adaptation;

- (d) fulfilling anticipated requests arising from the need for guidance on operationalizing effective interlinkages for the new Strategic Programs under GEF-4;
- (e) developing strategic advice to the Council, including translating new knowledge from global assessments and convention subsidiary bodies into policy advice;
- (f) convening semi-annual STAP meetings planned for September 2007 and February 2008, as well as small and flexible meetings on policy review and on strategic program needs, led by the STAP panelists but with greater access to global, regional and appropriate national expertise; and
- (g) participating more directly in GEF Secretariat task delivery and additional responsibility for scientific and technical screening of project concepts.

FY08 STAP Budget

72. STAP's estimated FY07 expenditures and proposed FY08 corporate budget are summarized in Table 2. The FY07 Work Program for STAP will be implemented within budget. The STAP Work Program for FY08 will be implemented within the same budget as approved for FY07, with a 3% increase in costs to offset inflation.

Table 2: Proposed FY08 STAP Budget

<i>FY06 Actual \$m</i>	<i>STAP – Secretariat Expense Category</i>	<i>FY07 Budget \$m</i>	<i>FY07 Estimated \$m</i>	<i>FY08 Proposed \$m</i>
<u>0.901</u>	<u>Staff Costs</u>	<u>0.683</u>	<u>0.683</u>	<u>0.823</u>
0.819	Salaries and Benefits	0.603	0.603	0.743
0.082	Travel	0.080	0.080	0.080
0.000	Training	0.000	0.000	0.000
<u>0.021</u>	<u>Consultant Costs</u>	<u>0.020</u>	<u>0.020</u>	<u>0.000</u>
0.000	Fees (long-term)	0.000	0.000	0.000
0.021	Fees (short-term)	0.020	0.020	0.000
0.000	Travel	0.000	0.000	0.000
<u>0.000</u>	<u>Council Costs</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
0.000	Logistics	0.000	0.000	0.000
0.000	Council Travel	0.000	0.000	0.000
0.000	NGO Consultations (Logistics and Travel)	0.000	0.000	0.000
<u>0.000</u>	<u>Contractual Services</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
0.000	Contracts with Firms	0.000	0.000	0.000
<u>0.000</u>	<u>Publications, Media, Web and External Outreach</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
<u>0.215</u>	<u>General Operations Costs</u>	<u>0.240</u>	<u>0.240</u>	<u>0.250</u>
0.094	Office Space, Equipment, and Supplies	0.106	0.106	0.115
0.031	Communications and Internal Computing	0.044	0.044	0.045
0.090	Corporate Services	0.090	0.090	0.090
0.000	Representation and Hospitality	0.000	0.000	0.000
<u>1.137</u>	<u>SUB-TOTAL</u>	<u>0.943</u>	<u>0.943</u>	<u>1.073</u>
	STAP – Members			
	Expense Category			
0.468	Honoraria & Logistical/Secretarial Support	0.427	0.469	0.374
0.000	MOUs with Expert Institutions	0.000	0.020	0.339
0.261	STAP Meetings	0.561	0.499	0.150
0.065	STAP Publications	0.000	0.000	0.053
<u>0.794</u>	<u>SUB-TOTAL</u>	<u>0.988</u>	<u>0.988</u>	<u>0.916</u>
<u>1.931</u>	<u>TOTAL</u>	<u>1.931</u>	<u>1.931</u>	<u>1.989</u>

Consolidated FY08 Budget and Total Administrative Costs

Consolidated FY08 Budget Request for Two GEF Units

73. The total consolidated budget for the Secretariat and STAP and Trustee including all special initiatives is \$15.868 million, as summarized in Table 4.

Table 4: Consolidated FY08 Budget Request for two GEF Entities
(\$million)

	<i>Budget Request (\$ million)</i>
CORPORATE BUDGET	
GEF Secretariat	13.249
STAP	1.989
Sub-total	15.238
Special Initiatives	
Review of Admin. Exp. in IAs	0.380
Climate-Proofing GEF Portfolio	0.250
Sub-total	0.630
TOTAL Budget Request	15.868

Total Administrative Costs

74. Cost-efficient delivery of services requires the consideration of total administrative cost of the GEF partnership and not just the resources being requested in this document. The administrative costs of the GEF also include the budget being separately requested by the Evaluation Office (GEF/ME/C.31/7) and the Trustee (GEF/C.31/13) as well as the fees paid to GEF agencies for the delivery of project cycle management services. Table 5 shows the proposed FY08 total administrative costs of the GEF partnership compared to the actual FY06 and estimated FY07 total administrative costs. Figure 1 shows the trend in administrative costs as a percentage of total GEF grants approved for the period FY01-08. Figure 2 shows the trend in administrative costs as a percentage of total GEF-4 resources utilized (including GEF grants, agency fees, corporate budget and special initiatives) for the period FY01-08.

Table 5: Total Administrative Costs of all GEF Partners (\$ Million)

FY06 actual		FY07 Budget	FY07 estimated	FY08 proposed
	Corporate Budgets of seven GEF units:			
9.831	GEF Secretariat	11.964	10.762	13.249
2.932	UNDP	2.932	2.932	0.000
2.862	UNEP	2.875	2.875	0.000
2.335	World Bank	3.250	3.021	0.000
1.931	STAP	1.931	1.931	1.989
1.495	Trustee	1.540	1.540	2.086
2.774	Office of Evaluation	2.907	2.907	3.793
24.160	<i>Sub-total</i>	27.399	25.968	21.117
2.805	Special Initiatives*	3.582	3.782	0.944
26.965	Total Corporate Budget	30.981	29.750	22.061
47.680	Agency Fees	60.000	84.370	82.000
74.645	Total Administrative Costs	90.981	114.120	104.411
566.640	Total GEF Grants	665.000	949.530	820.000
13.17%	Admin. Costs as % of Project Allocations	13.68%	12.02%	12.69%

*FY07 estimated includes expenditures on special initiative approved in earlier fiscal years;
Special Initiatives includes those for all GEF entities.

Figure 1: Trend in Administrative Costs as a Percentage of total GEF Grants (FY01-FY08)

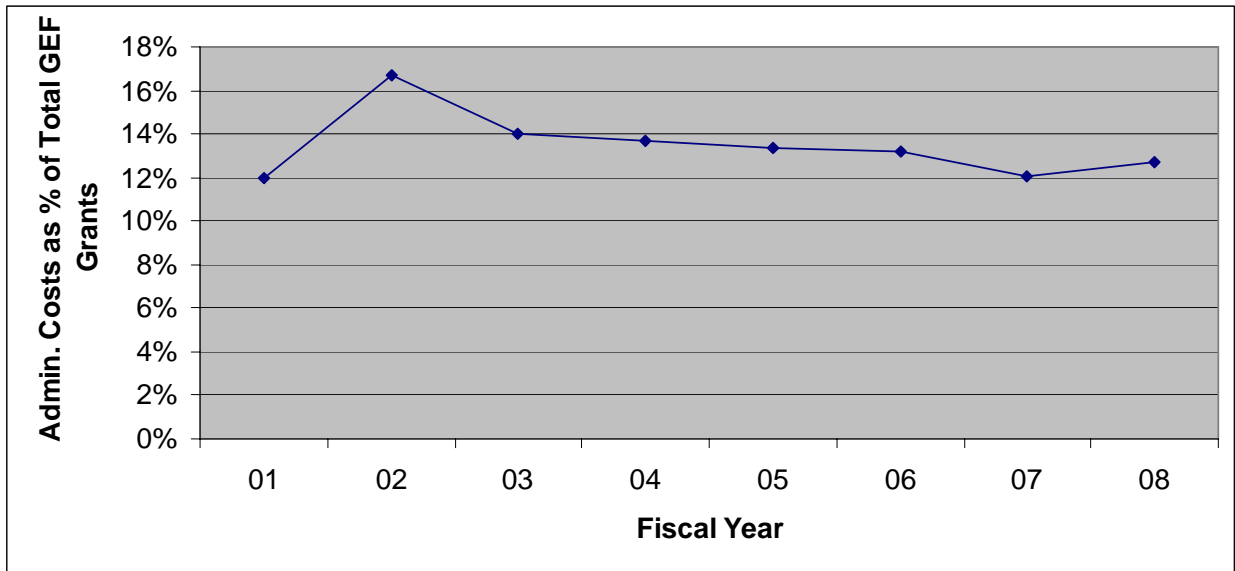
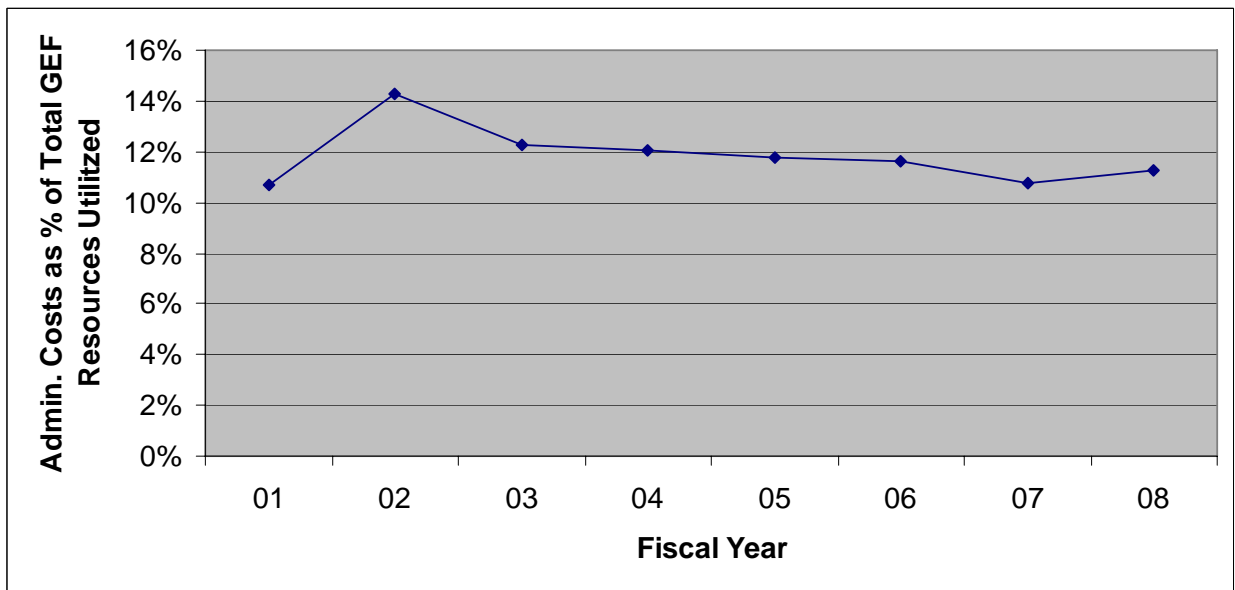


Figure 2: Trend in Administrative Costs as a Percentage of total GEF Resources Utilized (FY01-08)



ANNEX 1: PROGRESS IN IMPLEMENTING GEF-4 POLICY RECOMMENDATIONS

Date	Initial Plan of Action	Progress through FY07
Council meeting in December 2006	<ul style="list-style-type: none"> • Council to review Secretariat proposals regarding the review and revision, as necessary, of the six focal areas strategies, taking into account the cross cutting issues of sustainable forest and sound chemicals management. • Council to consider Office of Evaluation review of the experience of Executing Agencies. • Council to decide on action plan for strengthening involvement of Executing Agencies in GEF operations. • Council to decide on proposed results management framework . • Council to decide on clear rules, procedures and objective criteria for project selection and management of the pipeline, including a policy for cancellation of projects. 	<ul style="list-style-type: none"> • Council discussed preliminary strategies at the December 2006 Council meeting. Council to discuss revised strategies at the June 2007 meeting. • Council reviewed findings of the evaluation. • Council approved the reforms recommended by the CEO at the December 2006 meeting that level the playing field among agencies and strengthen the engagement with Executing Agencies. Council to review further clarifications on comparative advantages of agencies at the June 2007 meeting. • Council to review Results-Based Management Framework along with the revised focal area strategies at the June 2007 meeting. • Council approved rules and procedures for project cancellation/suspension /termination at the December 2006 Council meeting. Council to be informed of the objective criteria to be used as part of the redesigned project cycle being presented for discussion at the June 2007 meeting. GEF Operations Manual to be presented at the December 2007 meeting.
Council meeting in May/June 2007	<ul style="list-style-type: none"> • Council to decide on proposals for a simplified approach to operational programs and strategic objectives. • Council to decide on proposals of Secretariat and agencies for clearer operational guidelines for the application of the incremental cost principle. • Council to decide on proposed specific steps for project cycle streamlining. • Council to decide on Trustee’s proposed policy on strengthened accountability for Implementing and Executing Agencies. 	<ul style="list-style-type: none"> • Council to review revised and focused strategies at the June 2007 Council meeting. • Council to review a simplified approach to incremental cost. • Council to review redesigned project cycle at the June 2007 Council meeting. • Council to discuss Trustee’s proposal for minimum fiduciary standards at the June 2007 Council meeting.

Date	Initial Plan of Action	Progress through FY07
Council meeting in November/December 2007	<ul style="list-style-type: none"> • Council to review agencies' reports on efforts to mainstream global environmental challenges into core development work. • Council to decide on proposed communications and outreach strategy. • A performance and outcome matrix in line with international methods and standards will be included in the Annual Performance Report, and realistic and international best practice targets for ratings will be set. The goal is to achieve satisfactory ratings in all categories by 2010. Consistent with international best practices, the target for satisfactory outcome ratings should be 75%. 	
Council meeting in May/June 2008	<ul style="list-style-type: none"> • Council to review report on implementation of Strategic Approach to Enhance Capacity Building. 	
Council meeting in November/December 2008	<ul style="list-style-type: none"> • Council to consider independent mid-term review of the RAF and review progress in developing indicators. • Secretariat to prepare midterm review of progress in implementing GEF-4 policy recommendations. 	
Council meeting in May/June 2009	<ul style="list-style-type: none"> • Taking into account (i) the findings of the mid-term review, (ii) the progress in developing indicators for other focal areas, and (iii) subsequent decisions by the Council on the GEF-wide RAF framework, the Secretariat will implement a GEF-wide RAF by 2010, if feasible. 	

ANNEX 2: PROGRESS IN IMPLEMENTING THE SUSTAINABILITY COMPACT

Component	Initial Plan of Action	Progress through FY07
Strategic	<ul style="list-style-type: none"> • Focus focal area strategy on a clear set of priority issues for global environment by building synergies for cross-cutting issues. • Move to a programmatic approach and away from project-driven approach. • Apply tracking tools and measurable indicators of global outcome and impacts to all GEF projects. 	<p>Council to discuss in June 2007 revised Focal Area strategies which includes:</p> <ul style="list-style-type: none"> • A clear set of objectives by focal area and including cross-cutting issues. • A list of Strategic programs that will be developed during GEF-4. • A set of indicators that will be used when developing projects within each strategic objective and will be tracked as part of the Results-based Management Framework.
Innovative	<ul style="list-style-type: none"> • Finance innovative entrepreneurial efforts and technologies for which there is no market base. 	<ul style="list-style-type: none"> • Council to review a project proposal in the June 2007 work program for the creating of a public private partnership fund.
Equitable	<ul style="list-style-type: none"> • Help most vulnerable by ensuring concrete results for global environment and for sustainable development. • Ensure today's beneficiaries have opportunity to make financial contributions. 	<ul style="list-style-type: none"> • Ensure that the most vulnerable countries including LDC/SIDS and countries in Africa are not disadvantaged in the composition of the work programs.
Accessible	<ul style="list-style-type: none"> • Direct Dialogue with countries. • Creation of a position of Ombudsman. • Enhance Effectiveness of Corporate programs (NDI, CSP, CMSP, SGP). • Strengthen corporate image and public communications. • Strengthen GEF's capacity to tap into and share its knowledge base. 	<ul style="list-style-type: none"> • Secretariat has initiated direct dialogue with countries in the context of programming resources under the RAF. • Position has been advertised. • Developed Guidelines on Programming resources under the SGP. Council to review paper on implementation of Strategic Approach to Enhance Capacity Building in December 2007. • Council to review paper in December 2007.
Focused	<ul style="list-style-type: none"> • Draw on the comparative advantage of each GEF partner • Eliminate corporate budget for implementing agencies beginning FY08 and increased the Agency project cycle management fee to 10% • Simplify approval process 	<ul style="list-style-type: none"> • Council to review a paper on comparative advantage of agencies in June 2007. • Council approved the reforms recommended by the CEO at the December 2006 meeting. • Council agreed on a set of rules and procedures for project selection, management of pipeline and project cancellation in

Component	Initial Plan of Action	Progress through FY07
		<p>December 2006.</p> <ul style="list-style-type: none"> • Reduced existing pipeline to \$700 million • Ensure quality at entry through the PIF • Modified project review templates to focus on administrative cost and cost-effectiveness • Replaced PDFs with PPGs based on actual project preparation grants. • Proposed new project cycle for Council review in June 2007 that reduces the time between project identification and start of implementation to an average of 22 months

ANNEX 3: RESOURCES PROGRAMMED IN FY07 AND PROGRAMMING TARGETS FOR FY08-10

1. Table 1 contains details about resources programmed in FY07. Please note that FY07 straddles both GEF-3 and GEF-4. GEF-4 resources programmed include all approvals until April 30, 2007 and the work program proposed for Council approval at the June 2007 meeting.

Table 1. Resources Programmed in FY07
(including the proposed June 2007 work program)

Focal Areas/Themes and Strategic Objectives	GEF-3 Resources (US\$ million)	GEF-4 Resources (US\$ million)
Biodiversity	153.84	42.83
Climate Change	246.00	84.47
International Waters	17.18	78.14
Ozone Depletion	0.00	0.91
Land Degradation	54.17	151.04
Persistent Organic Pollutants (POPs)	27.91	33.12
Multi-Focal Areas: OP#12	25.74	-
Core Corporate Programs	0.00	-
Corporate Programs	0.00	128.31
Public Private Partnership	-	50.19
Total: Focal Areas/Themes	524.84	569.03

Note: Resources programmed include Agency fees

Table 2. Resource Programming Targets for FY08-10

Focal Areas/Themes and Strategic Objectives	GEF-4 Replenishment Programming Targets	GEF-4 Resources Programmed (US\$ million)	GEF-4 Programming Target FY08-10
Biodiversity	950.00	42.83	907.17
Climate Change	950.00	84.47	865.53
International Waters	335.00	78.14	256.86
Ozone Depletion	40.00	0.91	39.09
Land Degradation	282.00	151.04	130.96
Persistent Organic Pollutants (POPs)	282.00	33.12	248.88
Core Corporate Programs	15.00	-	15.00
Corporate Programs	156.00	128.31	27.69
Public Private Partnership	-	50.19	n/a
Total: Focal Areas/Themes	3010.00	569.03	2491.16

Note: Resources Programmed are until April 30, 2007 plus the proposed June 2007 work program. All resources programmed are inclusive of Agency fees.

ANNEX 4: CORPORATE BUDGET CATEGORY DEFINITIONS

1. The following expense categories are used to track cost components in the corporate budget for all agencies. The specific categories used by each agency are governed by the relevant policies, guidelines and practices of the reporting agency.

- (a) *Staff costs*: salaries and staff benefits, travel and training costs as they pertain to regular and fixed-term staff;
- (b) *Consultant costs*: fees and travel costs as they pertain to consultants;
- (c) *Council costs*: costs of organizing the Council meetings, travel for Council Members and Alternates, costs and travel for the NGO network to participate in NGO consultations and Council meeting, and support for Council Members;
- (d) *Contractual services*: contracts with firms for consulting and other services;
- (e) *Publications, media, web and external outreach*: costs associated with vendors for designing, printing, and publishing and other costs associated with outreach; and
- (f) *General operations costs*: office occupancy services (e.g., office space, utilities, communications, systems support, and equipment supplies and fixtures) provided by the respective parent agency and charged to each GEF unit on some agreed basis (e.g., square footage of space occupied); office technology and communication equipment; central services (e.g., personnel, treasury, accounting & audit, security, travel, information systems, general services, etc.) provided by the respective parent agency and charged to each GEF unit on some agreed basis (e.g., a percentage of net staff salaries); representation and hospitality costs.

ANNEX 5: GEF SECRETARIAT – FY07 REVIEW OF ACTIVITIES AND ACHIEVEMENTS

2. This annex contains a list of the activities and outputs of Secretariat financed by the FY07 Corporate Budget. It includes and accounting of both the core budget as well as the status of the activities and outputs under the various special initiatives.

3. Overall, there was an under run in the FY07 budget for staff. As a result of the arrival of a new CEO in August 2006 and the restructuring of the Secretariat, recruitment for existing positions was delayed until the second half of the fiscal year. Active recruitment is underway, and it is expected that all positions will be filled in FY08. A direct consequence of understaffing for regular positions was a larger than expected expenditure for short-term consultants who assisted the Secretariat in fulfilling its work program in FY07.

4. A special initiatives completion report is included for the GEF Assembly and IYDD reviewing the expenditures and describing the activities and outputs. A FY07 progress report is included for the special initiatives that will be ongoing into FY08 -- RAF, Results, MIS.

Table 1. Comparison of FY07 Budget and Estimated Expenditures GEF Secretariat

<i>FY06 Actual</i> \$m	Expense Category	<i>FY07 Budget</i> \$m	<i>FY07 Estimated</i> \$m
<u>6.687</u>	<u>Staff Costs</u>	<u>8.550</u>	<u>7.250</u>
6.039	Salaries and Benefits	7.450	6.450
0.598	Travel	0.997	0.750
0.051	Training	0.103	0.050
<u>0.921</u>	<u>Consultant Costs</u>	<u>0.534</u>	<u>0.632</u>
0.382	Fees (long-term)	0.206	0.200
0.521	Fees (short-term)	0.246	0.350
0.017	Travel	0.082	0.082
<u>0.443</u>	<u>Council Costs</u>	<u>0.597</u>	<u>0.597</u>
0.162	Logistics	0.191	0.191
0.125	Council Travel	0.180	0.180
0.154	NGO Consultations (Logistics and Travel)	0.160	0.160
0.003	Council Member Support Program	0.066	0.066
<u>0.130</u>	<u>Contractual Services</u>	<u>0.052</u>	<u>0.052</u>
0.130	(Contracts with Firms)	0.052	0.052
<u>0.542</u>	<u>Publications, Media, Web and External Outreach</u>	<u>0.721</u>	<u>0.721</u>
<u>1.107</u>	<u>General Operations Costs</u>	<u>1.510</u>	<u>1.510</u>
0.509	Office Space, Equipment, and Supplies	0.869	0.869
0.539	Communications and Internal Computing	0.583	0.583
0.000	Corporate Services	0.000	0.000
0.060	Representation and Hospitality	0.058	0.058
<u>9.831</u>	<u>TOTAL</u>	<u>11.964</u>	<u>10.762</u>

5. The activities and outputs for FY07 are listed below based on the FY07 categorization of activities for ease of comparison.

A. Governance

Council

6. Regular communication was maintained with the Council during the period between Council meetings, including communications regarding decisions by mail.
7. The Third GEF Assembly (August 2006 in Cape Town, South Africa) and three Council meetings were organized (August 2006, December 2006 and June 2007) and considered policies and papers as follows:
 - (a) The CEO presented to the Council a five-point Sustainability Compact to raise the impact of GEF investments to a new level of results and to ensure that the GEF is a leading force for sustainable development for all people.
 - (b) In June 2006, 70 project proposals requesting \$523 million in GEF financing were proposed for approval. After a series of Council decisions, all these proposals were approved by September 2006. For the June 2007 Council meeting, 28 project proposals requiring approximately \$540 million in GEF financing are being proposed for approval.
 - (c) Regular reports on relations with conventions and other institutions provided each Council meeting with information on decisions and discussions relevant to the GEF within the context of the global environmental conventions and other international environmental fora.
 - (d) The Council considered the legal, operational and financial implications of an amendment to the GEF Instrument to reflect the designation of the GEF as a financial mechanism of the UNCCD and recommended that the Instrument be amended to include a new paragraph reflecting the designation. The proposed amendment agreed by the Council will be submitted to the fourth GEF Assembly for approval.
 - (e) Council will be invited to consider in June 2007 a proposal of the Executive Director of UNEP on enhancing the impact of STAP.
 - (f) Progress reports on the implementation of the Resource Allocation Framework (RAF) were presented to the Council. A number of Council Members noted the importance of extensive stakeholder consultations in the preparation of the midterm review of the RAF and recommended that such consultations include dialogue with representatives of the Parties who participate in the deliberations of the conventions.
 - (g) Revised focal area strategies were reviewed by the Council in December 2006 and proposed strategic programming priorities for GEF-4 are to be considered by the Council at its meeting in June 2007

- (h) Results-Based Management Framework (RMF) is to be presented to the Council for review and approval in June 2007. The Council recognized the need to ensure consistency between the results-based management framework and the revised focal area strategies.
- (i) The Third GEF Assembly was convened in Cape Town, South Africa, in August 2006 (see
- (j) GEF support to the International Year of Deserts and Desertification was undertaken (see Annex 5 below for a description of the activities undertaken).
- (k) The Council reviewed and approved a strategy for financing biosafety as an interim basis for the development of projects for implementation of the Cartagena Protocol on Biosafety until such time as the focal area strategies are approved by the Council.
- (l) A strategy to enhance engagement with the private sector (GEF/C.28/14) was presented for Council review at its June 2006 meeting. Council requested the Secretariat to further develop the strategy. As part of its effort to develop a robust strategy, the Secretariat, in consultation with the IFC and the private sector, has embarked on an initiative to establish a GEF for the private sector with substantial private sector financing. The request for \$50 million to fund the public-private partnership fund is presented as part of the June 2007 work program.
- (m) At the December 2006 meeting, the Council welcomed proposals to promote a more focused participation in GEF activities and a level playing field among the Implementing and Executing Agencies. These actions, discussed and approved by the Council at the December 2006 meeting include: (i) abolishing the corporate budget for the three Implementing Agencies beginning in FY08; (ii) increasing the fees for all GEF agencies from 9 percent to 10 percent,¹⁵ with the increased fee amount being used by all GEF agencies to participate in GEF corporate activities; and (iii) ensuring that each agency operates within the scope of comparative advantages that it brings to the GEF partnership. A document responding to the Council request to further elaborate the comparative advantages and primary roles of the agencies is being submitted to the June 2007 Council meeting.
- (n) At its December 2006 meeting, the Council reviewed rules, procedures and criteria for project selection, pipeline management and cancellation. The Council agreed on a number of steps to improve the GEF procedures, and it called upon the Secretariat to prepare a revised project cycle, taking into account the *Evaluation of the GEF Activity Cycle and Modalities*. A revised project cycle will be considered by the Council at its meeting in June 2007.

¹⁵ The total fee amount for any Implementing Agency in a fiscal year will be capped at what it would have received under the present system of a 9% fee plus \$3 million in the corporate budget.

- (o) The Council reviewed the financial statements that had been prepared by the Trustee and took note of the financial statements and auditors report thereon received by the Trustee for IBRD, the GEF Secretariat, UNDP and UNEP.
- (p) Consistent with the request in the Policy Recommendations for the Fourth Replenishment of the GEF Trust Fund, the Trustee will submit to the Council for its review in June 2007 a paper on recommended proposals on minimum fiduciary standards for GEF Implementing and Executing Agencies.
- (q) An information paper on the costs of running the SGP and other comparable small grants programs will be made available at the June 2007 Council meeting.
- (r) A corporate budget is presented to the Council meeting preceding the start of a new fiscal year. The corporate budget for FY08 will be submitted to the Council for approval in June 2007.
- (s) The Council reviewed an *Evaluation of Incremental Cost Assessment*, which confirmed that the application of incremental costs should be adapted to become a more transparent, cost-effective and useful tool in project preparation and implementation. It recommended that the current application of the incremental cost principle, especially the assessment and reporting of incremental costs, be replaced by a more pragmatic and strategic approach. The Council requested the Secretariat to prepare new operational guidelines to implement its decision on the recommendations of the evaluation. The Secretariat will submit new operational guidelines for review by the Council at its meeting in June 2007.
- (t) Following agreement on the GEF-4 replenishment, the initial indicative allocations under the RAF were publicly disclosed in September 2006. GEF/C.30/11, *Progress Report on the Implementation of the RAF*, with details regarding the country and group allocations, was submitted for discussion at the December 2006 meeting.
- (u) Over 15 reports were submitted to the Council by the Evaluation Office.
- (v) Management responses (and associated policy recommendations) were prepared in response to evaluations by the GEF Evaluation Office and presented at the December 2006 and June 2007 Council meetings.

8. At its meeting in August 2006, the Council agreed that with respect to decision making for the Least Developed Countries Fund and the Special Climate Change Fund, the Council will meet as the Council for the LDCF and the SCCF. Any decisions or actions directly affecting only the LDCF and the SCCF are delegated to the LDCF/SCCF Council. The LDCF/SCCF approves the administrative budget to be financed from the two funds. The administrative costs of managing each fund are financed from the resources of the funds.

B. Program Management

9. The following activities and outputs were produced under Program Management in FY07:

- (a) Consistent with the reform agenda outlined by the CEO and the decisions of the Council, the Secretariat worked with the agencies to review all existing concepts in the GEF pipeline and agreed on a clearly defined pipeline of concepts for further development and approval in calendar year 2007.
- (b) In collaboration with the Implementing and Executing Agencies, the Secretariat presented for Council approval two work programs.
- (c) As called for in the policy recommendations for GEF-4 endorsed by the Council, the GEF undertook a revision of the focal area strategies, taking into account cross-cutting issues of sustainable forest and sound chemicals management. Working drafts of strategies for the six focal areas and two additional cross-cutting papers on sustainable forest management and sound chemicals management were presented to Council in December 2006. In order to ensure a broad and consultative process, the Secretariat established five Technical Advisory Groups (on biodiversity, climate change, land degradation, international waters, and sound chemicals management) and a coordinating Strategy Advisory Group. Working with comments and guidance from Council, these groups have further developed the focal area strategies in order to sharpen their focus and to harmonize and integrate approaches in the different focal areas. A proposal for focused strategic programming for GEF-4 will be submitted to the Council for review and approval at its meeting in June 2007.
- (d) In December 2006, the Council approved a set of rules for cancellation, suspension, or termination of proposals in the pipeline to support management of the GEF pipeline. The Secretariat, in collaboration with the GEF Implementing and Executing Agencies, STAP, and Trustee, has redesigned the project cycle and associated business process to process proposals in a timely manner through the project cycle (not exceeding 22 months from project identification to start of project implementation). The new project cycle also has a “disciplining system to monitor and identify concepts and proposals in the project pipeline not meeting agreed elapsed time benchmarks between key milestones. Proposals not meeting these benchmarks may be cancelled, suspended or terminated, following decisions taken by the Council at the December 2006 meeting regarding project cancellations/suspensions/terminations. This monitoring system is being incorporated with an alert mechanism into the new management information system that is under development. As requested by the Council, the Secretariat and the agencies, in consultation with the Trustee, have prepared a revised GEF project cycle for consideration by the Council at its June 2007 meeting.
- (e) The Secretariat has initiated preliminary consultation with the inter-agency focal area task forces to identify appropriate indicators to expand the RAF to other focal areas.

- (f) A forward-looking approach to managing the Small Grants Program (SGP) was developed. Under this approach, the SGP will meet all pending requests from countries that want to join the program, and will work towards enhancing its on-the-ground effectiveness while maintaining a country-based decision making process through the SGP National Steering Committees. The first meeting of the GEF SGP Steering Committee, chaired by the CEO, and comprised of representatives from the Implementing and Executing Agencies and the coordinator of the GEF NGO network was held on December 11, 2006. The Steering Committee agreed on procedures for allocating the resources available to the SGP, both through its GEF-4 core funding of \$110 million and through resources from indicative country allocations under the RAF. For detailed guidelines regarding access to the SGP, refer to Annex 2.

C Constituents

10. The Secretariat initiated a process of direct consultation with countries to discuss programming of GEF-4 resources under the Resource Allocation Framework (RAF). Over 120 countries have been consulted and discussions have resulted in identification of projects for the June 2007 work program and beyond.
11. Eight GEF national dialogue consultations were held and seven sub-regional information and exchange workshops took place. The GEF Secretariat, in collaboration with UNDP and the World Bank, continued to provide support to national focal points under the Country Support Program. 62 countries accessed the Country Support Program during FY07, and the program facilitated 12 constituency meetings.
12. Increased information was provided to focal points and Council Members, enhancing their capacity to communicate with stakeholders and constituency members. Four issues of the GEF newsletter (Talking Points) were produced as a tool to communicate with national focal points, NGOs and other stakeholders.
13. The GEF Familiarization Seminar was held in January 2006 and had 46 participants. The familiarization seminar is to provide information to newly-assigned GEF staff, staff of GEF agencies and selected GEF focal points on GEF strategies, programs, policies and procedures.
14. Staff were available to assist Parties and to respond to questions at the Conference of the Parties serving as the Meeting of the Parties to the Cartagena Protocol on Biosafety, as well as the Conference of the Parties to the Convention on Biological Diversity, the Stockholm Convention, the UN Convention to Combat Desertification, the UN Framework Convention on Climate Change, and other related international conferences and meetings. This included organization of side events, exhibits, and other presentations.
15. Three NGO consultations were convened and the Secretariat initiated collaborative work and a brainstorming session with the NGOs to review the operations of the NGO network and its relationship to the GEF Secretariat.
16. Staff contributed to the CSD-15 and sought ways to strengthen GEF collaboration with the CSD.

17. At the GEF Assembly, the Secretariat participated in a side event organized by the National Dialogue Initiative Steering Committee where focal points discussed issues related to national coordination. The Secretariat also arranged at the Assembly for countries to hold constituency meetings at which Secretariat and agency staff were present to respond to questions and provide guidance.

18. In an effort to enhance and solidify the effectiveness of GEF communications, a number of activities were undertaken: guidelines were disseminated throughout the GEF group to establish a synthesized and coordinated approach for GEF communications throughout the GEF groups; multimedia exhibits were mounted in support of significant GEF-related events; publications reflecting the ongoing work were produced and disseminated, including the Annual Report, the Operational Report on GEF Projects (on CD-Rom), fact kits for every focal area, and publications relating to specialize areas of GEF work, such as adaptation to climate change; and speeches, statements, presentations, press releases, and articles were produced to publicly disseminate the achievements of the GEF.

D. Special Initiatives

Third GEF Assembly

19. The Third GEF Assembly was held in Cape Town, South Africa, from August 20-30, 2006. Generous support and hospitality was provided by the Republic of South Africa with additional support provided by the Governments of Denmark, Finland, Norway and Sweden.

20. There were approximately 700 participants, including 35 ministers, 114 delegations, and representation from 58 NGOs and major groups. The Assembly heard statements from representatives of the GEF constituencies and Ministers gave statements expressing their governments' views on the issues before the Assembly

21. A number of associated meetings were organized prior to and on the margins of the Assembly. A *Forum on Sustainable Land Management* was held on August 28 as part of the GEF's contribution to the IYDD. The Forum discussed achievements of the GEF in combating land degradation over the past 10 years as well as the way forward for the coming decade. An NGO Forum, *Turning Policy into Reality: From the Ground Up*, was organized by the representatives of the NGO Network on August 28, 2006 and several workshops and side events were organized outside of the plenary meetings, and a number of constituency meetings took place.

22. Ministers and Heads of Delegation participated in three roundtables on *Market Mechanisms for Financing Global Environmental Conventions; Climate Change: Mitigation and Adaptation; and Identifying National Priorities and Allocating Resources to Enhance Results at the Country Level*.

23. Site visits were organized to GEF-funded projects in and around Cape Town to provide participants an opportunity to see the impact of GEF funding in South Africa.

24. Cost savings were realized by the Secretariat in the organization of the Assembly and savings of \$1.4m will be returned to the Trust Fund as well as \$0.019m to Norway, Finland, Sweden & Denmark on a pro rata basis based on their contribution amount.

**Host Government/Other Donors Cash Contributions
Third GEF Assembly and Associated Meetings**

**Cape Town, South Africa,
August 27-30, 2006**

	Actual USD
South African Government Cash Contribution	\$231,000
Other Donors (Norway, Finland, Sweden & Denmark) Cash Contribution	<u>\$297,606</u>
Total USD Cash Contribution	<u>\$528,606</u>

**Host Government/Other Donors Cash Costs
Third GEF Assembly and Associated Meetings**

**Cape Town, South Africa,
August 27-30, 2006**

	Estimate ZAR	Actual ZAR	
CTICC Costs:			
Venue Hire	1,240,000	1,097,730	
Simultaneous Interpretation Equipment	800,000	215,750	
Information Technology	650,000	321,689	
Audio Visual	240,000	500,398	
Storage	200,000	0	
Furniture	115,000	30,837	
Catering	100,000	147,914	
Security – Additional	40,000	1,175,515	
Other Local Costs:			
Site Visits	170,000	170,510	
General Office Supplies	25,000	9,120	
USD Estimate:			
Total	USD 551,000	3,580,000	3,669,463
<i>Contingency 20%</i>	USD 110,000	<i>716,000</i>	
GRAND TOTAL	USD 661,000	4,296,000	\$509,338

Actual GEF Costs for the Third GEF Assembly (in US\$)		
	Approved Third Assembly	Actual Third Assembly
Personnel	180,000	192,376
Conference Coordination	150,000	125,168
Office Support	30,000	67,208
Travel	2,230,000	1,047,729
Staff	550,000	230,886
Participants	1,500,000	700,301
NGOs	120,000	96,599
Presenters and special invitees	60,000	19,944
Press and Outreach	193,000	164,030
Design	25,000	18,500
Exhibit	10,000	13,543
Press Conferences	8,000	0
ENB: reporting	35,000	32,663
TVE: multimedia campaign	50,000	48,462
Billboard campaign	10,000	8,714
Publications and Materials	45,000	37,748
Website	10,000	4,400
Hospitality	40,000	52,088
Reception	40,000	52,088
Telecommunications	15,000	13,846
Telephone calls, faxes, email	15,000	13,846
Translation	110,000	102,520
Interpretation	217,000	319,201
NGO Forum	25,000	38,304
Special Council Meeting	25,000	38,304
Assembly	167,000	242,593
General Operations Costs	100,000	48,307
Registration Equipment and Supplies, Freight, Storage, General Supplies, Copying, Postage	100,000	48,307
Subtotal	3,085,000	1,940,098
Contingency (10%)	308,500	0
Total	3,393,500	1,940,098

International Year of Deserts and Desertification

25. The GEF Council in November 2005 agreed that the International Year of Deserts and Desertification offered a unique opportunity for the GEF to contribute to raising global awareness of the threats of land degradation and avenues for addressing the challenges of land degradation and sustainable development. Following is a status report of the activities funded by the GEF as a contribution to the IYDD:

26. A report on *Resource mobilization and the Status of Funding of Activities related to Land Degradation* was prepared in cooperation with the Global Mechanism. The report provides an overview of the extent of land degradation and the financial and economic responses. The report has been disseminated and discussed at the *Sustainable Land and Water Management Forum* at the GEF Assembly in Cape Town, South Africa, August 2006 and at other GEF events (see below).

27. *UNESCO International Scientific Conference on the Future of Arid Lands*, Tunis, Tunisia, June 2006. The GEF organized a side event to discuss the need for, and challenges related to, development and use of indicators on the impact of land degradation and global environmental benefits from sustainable land management.

28. The GEF Secretariat organized a *Sustainable Land and Water Management Forum* at the GEF Assembly in Cape Town, South Africa, August 2006. The forum was attended by 250 experts and policy makers. Discussion focused on the results of the report on *Resource mobilization and the Status of Funding of Activities related to Land Degradation*, the results of the *UNESCO International Scientific Conference on the Future of Arid Lands* and *lessons from GEF land and water activities, including the Country Partnership Programs*. A High Level roundtable meeting summarized the discussions and issued conclusions and recommendations in the Cape Town Statement.

29. The Government of Algeria in cooperation with the United Nations University organized the *Policy Imperative Joint International Conference* in Algiers, Algeria, from December 17 – 19, 2006. GEF contributed with a presentation of the results of the activities under the GEF IYDD Special Initiative as mentioned above. An international and diverse group of experts and decision makers discussed desertification related policy issues and will produce a policy brief summarizing key policy and management recommendations. GEF financed the participation of three representatives of GEF projects and three female representatives from developing countries. The GEF CEO participated in the high-level discussion panel.

30. Burkina Faso hosted a Ministerial Conference in Ouagadougou, Burkina Faso from April 25 – 26, 2007 on Strategic Investment Program for Sustainable Land Management in Sub Saharan Africa – Partnership for Sustainable Land Management. The meeting was organized by GEF and the African Ministerial Conference on Environment (AMCEN) in cooperation with the World Bank, NEPAD and the UNCCD. The objective was to bring to a successful conclusion the intensive process of consultation which has taken place over the last two years on the Strategic Investment Program for Sustainable Land Management in Sub Saharan Africa with a declaration of support and commitment from the highest political level. The conference brought

together donor partners from bilateral and multilateral organizations to also confirm their commitment to continue to support its program in its implementation phase.

IYDD	<i>Approved</i>	<i>Actual</i>
Report	0.050	0.027
Assembly	0.075	0.059
Tunis meeting	0.050	0.006
Algiers meeting	0.050	0.019
Other (Burkina Faso meeting)	0.050	0.163
TOTAL	0.275	0.275

Resource Allocation Framework

31. The Council approved a special initiative budget of \$150,000 towards the development of indicators for the other focal areas (international waters, land degradation, and POPs). During FY07, all of the work of the development of the indicators in other focal areas was carried out within the Secretariat using the baseline corporate budget primarily to scope out and develop the basic approach to be taken. Most of the actual development will be undertaken in FY08. There are no additional budgetary needs beyond what has already been previously approved by Council.

Resource Allocation Framework	<i>Approved</i>	<i>Actual</i>
Staff Costs	0.100	0.000
Staff Travel	0.050	0.000
TOTAL	0.150	0.000

Management Information System

32. The Council approved a special initiative budget in November 2005 for developing a new Management Information System for the GEF. The detailed needs assessment for the MIS took time and was completed only in December 2006. Meanwhile, changes were recommended in the technology architecture to contain costs. Also, it was decided to undertake almost all of the MIS development in-house rather than contracting with an outside firm. A consultant has been selected to assist the Secretariat in this task, and the exercise is expected to be completed by December, 2007. It is expected that this approach will result in considerable cost savings. A total of \$20,845.62 has been spent to date (all on travel).

MIS	<i>Approved</i>	<i>Actual</i>
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SAP Back end	0.430	0.021
J2EE/Web Enabled Front End	0.130	0.000
Capital Expenditure and Licenses	0.080	0.000
Contingency	0.060	0.000
TOTAL	0.700	0.021

Results Management Framework

33. Work was undertaken in FY07 to develop indicators for land degradation and international waters. Work in the other focal areas will be undertaken in FY08 to develop the tools necessary to implement the results based management framework.

34. *Land Degradation:* In June 2006, the GEF Council approved a special initiative for developing sound indicators for GEF projects and the focal area portfolios. For the land degradation focal area, US\$40,000 was allocated.

35. The GEF Secretariat organized an expert consultation in Rome, Italy. FAO hosted the meeting. The 2-day consultation brought together 45 experts and scientists working on tasks related to land degradation and sustainable land management, including forestry-related issues. During the third day, the working group on indicators of the inter-agency taskforce of the land degradation focal area met to discuss the results of the expert consultation and define next steps. The occasion was used to brief the task force members on the process of revising the focal area strategy. The following outcomes were achieved:

- (a) agreement on a sustainable land management framework (merges Millennium Ecosystem Assessment and Drivers, Pressures, Status, Impact Response – DPSIR - frameworks) and its use for defining impact and outcome indicators;
- (b) use of causal networks for indicator selection at project level; and
- (c) creation of informal network (experts, institutions, initiatives).

36. The following feedback and recommendations were provided on key issues:

- (a) undertake peer review of STAP studies on Global Impact of Land Degradation, Global Environmental Benefits using the Millennium Ecosystem Assessment and Trade-offs in Sustainable Land Management (SLM);
- (b) develop definition/principles of sustainable land management (using sustainable forestry management template);
- (c) link of indicators to decision-making process by focusing on outcome and impact, reflect on relevance to other indicators (IPCC and adaptation), discuss sensitivity of indicators to time scales; and

- (d) explore usage for future RAF application to the land degradation focal area.

37. *International Waters*: The international waters focal area has begun to undertake an evaluation of methodologies applicable to international waters investment funds in order to project impacts from the project level to country and basin-wide level. Development of basin or partnership-wide indicator frameworks depends on identifying ways to answer the questions of what overall impact the practices and technologies used in the projects could have if applied to regions/waterbodies. For this purpose, the focal area supported and participated in the *Regional Conference on Nutrient Pollution Control in the Danube – Black Sea Basin* held in Moldova, with the participation of countries, implementers of related GEF and OECD projects, staff from the GEF Secretariat and related EU Agencies, the GEF Evaluation Office, and several independent researchers. Participants agreed on the technical feasibility and scientific soundness of extrapolating impacts expected locally to broader contexts, such as a country or a basin. At the project design phase, the project execution, actual measurements of the reduced stress will be carried out systematically to validate and fine-tune expected final impacts/results. The expected impacts achievable at the country or regional level would then be assessed by extrapolation of the impacts achieved locally too all similar areas or situation.

Results Management Framework	Approved	Actual
Biodiversity Task Force - consultancies & workshops	0.020	0.000
IW Task Force - consultancies & workshops	0.055	0.023
CC Task Force - consultancies & workshops	0.040	0.000
CC - pilot knowledge management program	0.020	0.000
Land Degradation – consultancies	0.040	0.031
Overall supporting consultancies	0.025	0.000
TOTAL	0.200	0.054

ANNEX 6: STAP – FY07 REVIEW OF ACTIVITIES AND ACHIEVEMENTS

1. This fiscal year marked the start of the GEF-4 period and was preceded by significant changes to the membership (GEF/C.28/2) and modus operandi of STAP (GEF/C.28/Inf.5) approved by the June 2006 GEF Council, as recommended by the Executive Director of UNEP. To introduce the implementation of these changes, STAP made a presentation to the GEF Assembly in Cape Town in August 2006 by the Chair of STAP (GEF/A.3/8) on broad scientific and technical issues that emerged during GEF-3 and emerging issues and gaps relevant for GEF-4.

2. At STAP's October 2006 meeting, the new Members of the STAP and the new STAP Secretary were familiarized with GEF procedures by representatives of the Implementing Agencies and GEF Secretariat staff, while major strategic tasks for STAP 4 were agreed on with the CEO of the GEF for the period leading up to the GEF June 2007 Council meeting. These tasks include to:

- (a) help to build the strategies for GEF;
- (b) revise STAP's terms of reference; and
- (c) work on the restructuring of the project cycle including a fundamental rethink of the Roster review mechanism.

3. STAP responded by forming task groups for supporting the work of the GEF in revising each of the focal area strategies, and from each of these STAP groups nominated a STAP member to the GEF to work within the Technical Advisory Groups (TAGs) during the period December 2006 to April 2007. The STAP Chair participated in the work of the overarching Strategy Advisory Group (SAG).

4. At the December 2006 GEF Council meeting STAP presented two reports for Council consideration. The final report on the *GEF-STAP Workshop on Liquid Biofuels* identified key areas for GEF attention, focusing primarily on the GHG benefits of biofuels and on the technology aspects, and examined overall benefits of biofuels and later focused on the context of the transport sector and the recommendations from STAP to the GEF. The second report presented was the synthesis report on *Land Degradation as a Global Environmental Issue*, which analyzed the three STAP studies developed during 2006 to recommend further actions to the GEF, including targeted research to address key knowledge gaps.

5. In November 2006, STAP convened the *Workshop on Small Island Developing States (SIDS), Groundwater and Interlinkages*, hosted by the Government of Trinidad and Tobago, which through a science-based stocktaking developed specific recommendations to the GEF concerning greater integration of its focal area work for SIDS. This workshop built on the findings of two preceding STAP workshops which addressed aquifer systems as an essential ingredient in gaining global environmental sustainability. The final report of the Trinidad and

Tobago workshop, together with the recommendations from STAP will be presented to the GEF June 2007 Council meeting.

6. The February 2007 STAP meeting further developed STAP's contributions to the focal area strategies through review of the work done by the TAGs, by the STAP Chair in the SAG, and by convening group meetings between GEF focal area team leaders and the STAP task groups. The meeting also confirmed the steps required to complete the reconstitution of the roster of experts, to be made active in April 2007.

7. STAP, in March 2007, worked to develop its advice on how STAP's role in the cycle should be revised. The advice was delivered to the GEF Secretariat in a strategic paper, and also provided key material for the proposals for STAP's new Terms of Reference, to be submitted to the GEF Council for its June 2007 meeting. UNEP, as the provider of STAP, has developed proposals for STAP's further reform, in response to previous Council decisions and in consultation with the STAP Chair and the CEO and Chairperson of the GEF, which will also be presented to Council for decision.

ANNEX 7: TRUSTEE – FY07 REVIEW OF ACTIVITIES AND ACHIEVEMENTS

1. The Trustee undertook several major initiatives during FY07. These included:
 - (i) completing GEF-4 replenishment discussions with donors and finalizing the financing framework to replenish the resources of the GEF Trust Fund; (ii) implementing the GEF-4 replenishment resolution; (iii) developing recommended proposals on minimum fiduciary standards for Implementing and Executing Agencies, in consultation with the Agencies; (iv) comprehensive reconciliation of data between the Trustee and the Agencies; and (v) developing draft transaction policies and procedures for the use of non-grant instruments in the GEF.

2. In addition to the special activities noted above, the Trustee provided both standard and customized services consistent with its fiduciary role in the management of the resources of the GEF Trust Fund. Priority areas in this reporting cycle include:
 - (a) financial, risk and investment management of the assets of the GEF Trust Fund;
 - (b) donor contribution management including the encashment of promissory notes, letters of credit and comparable financial instruments;
 - (c) commitment authority management with respect to current and future commitments of the GEF Trust Fund;
 - (d) cash flow management to ensure that the GEF Trust Fund can meet current and future disbursement needs;
 - (e) quality and consistency of financial data management across Agencies and the Secretariat; and
 - (f) collaborating with Agencies to maintain the integrity, transparency and consistency of financial reporting.

Special Initiatives

Trustee Systems Development Project

3. At its June 2006 meeting, the Council approved \$250,000 to help defray the costs of a major overhaul of the Trustee's customized module for the GEF within SAP, the World Bank's main business and accounting system. Total costs for multi-year project, which began in FY07, are projected to come to approximately \$1 million. The bulk of the project will be paid out of the Bank's own resources totaling \$400,000 plus a one-time capital budget allocation by the Bank of \$350,000. In total, the Bank will pay for 75% of total projected costs from its own budget. The development work is being carried out using offshore resources, to the extent possible, to keep overall project costs to a minimum without compromising the quality of the final product.

4. The Trustee’s system design and development work must be coordinated with the Secretariat’s new MIS for the GEF as well as with the data systems of the Agencies. This is to ensure that the relevant systems can interface with each other efficiently and that the data structures and the data elements are compatible across all systems.

5. In FY07, the Trustee completed initial system development consultations with the Secretariat and the Agencies. Based on the outcome of the discussions, the Trustee completed a ‘user needs’ analysis, designed the layout of user screens, prepared the necessary functional technical documents for the application developers, and completed the design of the data model and tables. By June 30, 2007, a total of \$160,000 (64%) is expected to have been spent from the 2006 Council allocation of \$250,000. This comprises approximately \$31,000 (19%) in travel-related costs and \$129,000 (81%) in payments to technical contractors. The balance of \$90,000 will be fully utilized in FY08 during the second phase of the project. In FY08, the Trustee will build, test and implement the new applications related to commitments and disbursements of funds. In addition, major enhancements to the following existing applications will be completed and made operational: (1) donor contribution management; (2) management of promissory notes; (3) calculating commitment authority and funding status; and (4) more comprehensive reporting of business and accounting data.

6. Also during FY08, work will begin on basic system-to-system integration/reconciliation processes with Agency and Secretariat systems. A more comprehensive and fully automated integration will be handled in a subsequent phase.

Trustee Systems Development Project	<i>Approved</i>	<i>Estimated for FY07</i>
Systems Development Project	0.250	0.160
TOTAL	0.250	0.160

ANNEX 8. ESTIMATED FY07 EXPENDITURES FOR IMPLEMENTING AGENCIES

1. In an effort to provide equal access to all Agencies, Council agreed at its December 2006 meeting to eliminate the corporate budget for the Implementing Agencies beginning in FY08, and to increase the project cycle management fees for all agencies from 9% to 10%. Accordingly there are no corporate budget requests for FY08 from the Implementing Agencies.

2. The following three tables provide an accounting of the expenditures financed out of the corporate budgets of the three Implementing Agencies -- UNDP, UNEP, and IBRD -- that Council approved in June 2006. UNDP and UNEP will implement all of the planned corporate activities within the approved budgets. IBRD will not fully utilize the approved budget for FY07 due to fewer commissioned studies (Consultant Costs) compared to prior years. The under run is estimated at \$0.229 million.

Table 1. UNDP-GEF FY07 Budgets and Estimated Expenditures

Expense Category	FY06 Actual \$m	FY07 Budget \$m	FY07 Estimated \$m
<u>Staff Costs</u>	<u>2.210</u>	<u>2.115</u>	<u>2.185</u>
Salaries and Benefits	1.864	1.784	1.862
Travel	0.345	0.321	0.313
Training	0.000	0.010	0.010
<u>Consultant Costs</u>	<u>0.198</u>	<u>0.261</u>	<u>0.261</u>
Fees (long-term)	0.000	0.000	0.000
Fees (short-term)	0.170	0.179	0.225
Travel	0.028	0.082	0.036
<u>Council Costs</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Logistics	0.000	0.000	0.000
Council Travel	0.000	0.000	0.000
NGO Consultations (Logistics and Travel)	0.000	0.000	0.000
<u>Contractual Services</u>	<u>0.000</u>	<u>0.029</u>	<u>0.000</u>
Contracts with Firms	0.000	0.029	0.000
<u>Publications, Media, Web and External Outreach</u>	<u>0.076</u>	<u>0.084</u>	<u>0.084</u>
<u>General Operations Costs</u>	<u>0.449</u>	<u>0.443</u>	<u>0.402</u>
Office Space, Equipment, and Supplies	0.224	0.240	0.159
Communications and Internal Computing	0.016	0.011	0.027
Corporate Services	0.209	0.192	0.216
Representation and Hospitality	0.000	0.000	0.000
TOTAL	<u>2.932</u>	<u>2.932</u>	<u>2.932</u>

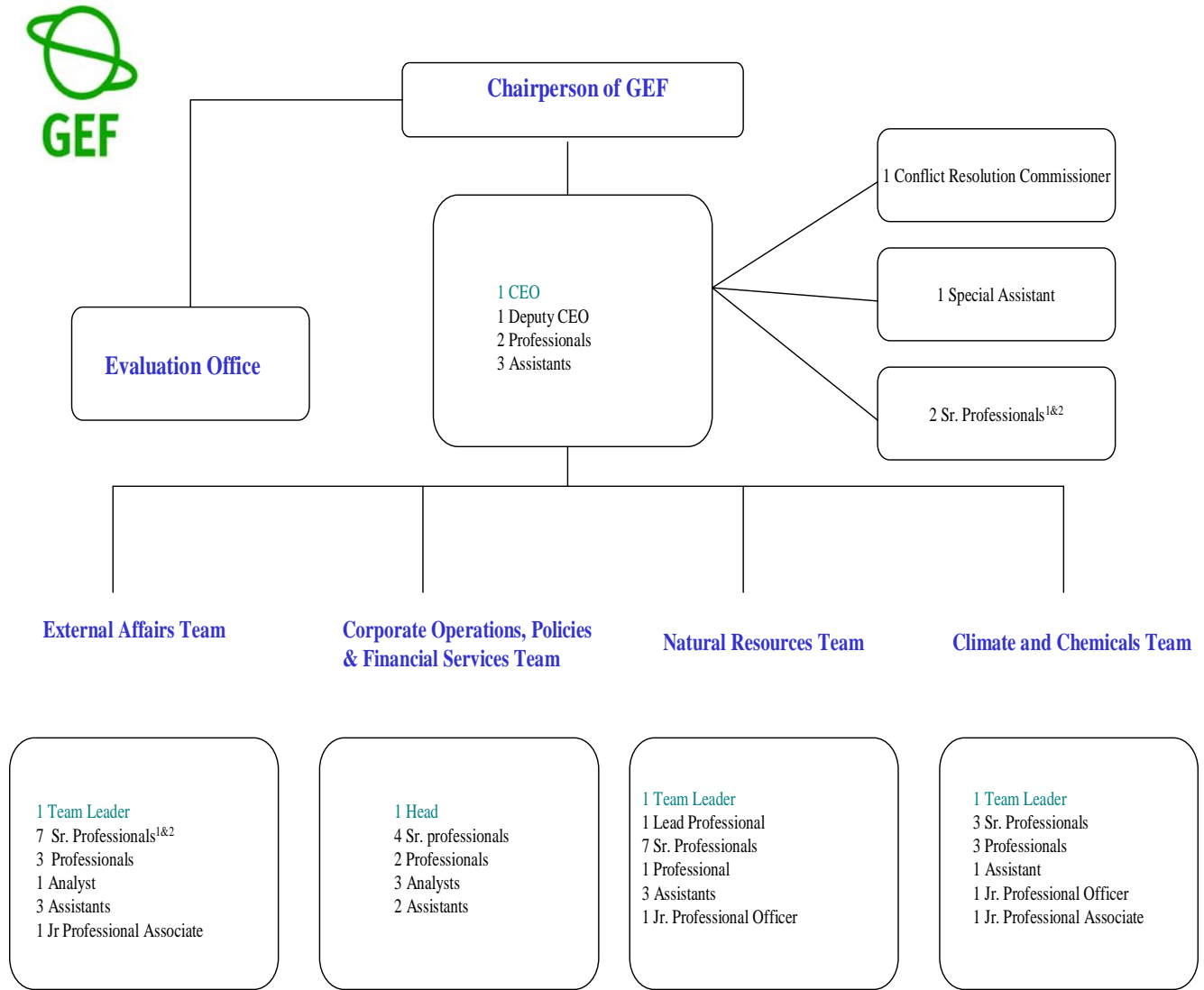
Table 2. UNEP-GEF FY07 Budgets and Estimated Expenditures

Expense Category	<i>FY06 Actual \$m</i>	<i>FY07 Budget \$m</i>	<i>FY07 Estimated \$m</i>
<u>Staff Costs</u>	<u>2.271</u>	<u>2.245</u>	<u>2.245</u>
Salaries and Benefits	1.969	1.895	1.895
Travel	0.289	0.350	0.350
Training	0.013	0.000	0.000
<u>Consultant Costs</u>	<u>0.002</u>	<u>0.005</u>	<u>0.005</u>
Fees (long-term)	0.000	0.000	0.000
Fees (short-term)	0.002	0.005	0.005
Travel	0.000	0.000	0.000
<u>Council Costs</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Logistics	0.000	0.000	0.000
Council Travel	0.000	0.000	0.000
NGO Consultations (Logistics and Travel)	0.000	0.000	0.000
<u>Contractual Services</u>	<u>0.053</u>	<u>0.060</u>	<u>0.060</u>
Contracts with Firms	0.053	0.060	0.060
<u>Publications, Media, Web and External Outreach</u>	<u>0.011</u>	<u>0.040</u>	<u>0.040</u>
<u>General Operations Costs</u>	<u>0.525</u>	<u>0.525</u>	<u>0.525</u>
Office Space, Equipment, and Supplies	0.181	0.175	0.175
Communications and Internal Computing	0.154	0.160	0.160
Corporate Services	0.190	0.190	0.190
Representation and Hospitality	0.000	0.000	0.000
TOTAL	<u>2.862</u>	<u>2.875</u>	<u>2.875</u>

Table 3: IBRD-GEF FY07 Budgets and Estimated Expenditures

Expense Category	<i>FY06 Actual</i> \$m	<i>FY07 Budget</i> \$m	<i>FY07 Estimated</i> \$m
<u>Staff Costs</u>	<u>1.703</u>	<u>2.538</u>	<u>2.194</u>
Salaries and Benefits	1.442	2.129	1.884
Travel	0.248	0.377	0.278
Training	0.014	0.032	0.032
<u>Consultant Costs</u>	<u>0.217</u>	<u>0.276</u>	<u>0.129</u>
Fees (long-term)	0.183	0.113	0.043
Fees (short-term)	0.032	0.107	0.084
Travel	0.002	0.056	0.002
<u>Council Costs</u>	<u>0.000</u>	<u>0.000</u>	<u>0.000</u>
Logistics	0.000	0.000	0.000
Council Travel	0.000	0.000	0.000
NGO Consultations (Logistics and Travel)	0.000	0.000	0.000
<u>Contractual Services</u>	<u>0.201</u>	<u>0.215</u>	<u>0.182</u>
(Contracts with Firms)	0.201	0.215	0.215
<u>Publications, Media, Web and External Outreach</u>	<u>0.029</u>	<u>0.054</u>	<u>0.153</u>
<u>General Operations Costs</u>	<u>0.184</u>	<u>0.167</u>	<u>0.363</u>
Office Space, Equipment, and Supplies	0.114	0.106	0.229
Communications and Internal Computing	0.062	0.051	0.124
Corporate Services	0.000	0.000	0.000
Representation and Hospitality	0.008	0.010	0.010
TOTAL	<u>2.335</u>	<u>3.250</u>	<u>3.021</u>

ANNEX 9: ORGANIZATION CHART OF THE GLOBAL ENVIRONMENT FACILITY SECRETARIAT



¹This is one position with two lines of reporting; ²This is one position with two lines of reporting; ³This is one position with two lines of reporting
Note: green denotes secondees, red denotes new or open positions. Expected additional staff: 2 secondees from France and 1 from Italy

ANNEX 10. TOR FOR SPECIAL INITIATIVE ON REVIEW OF GEF-RELATED ADMINISTRATIVE EXPENSES IN THE IMPLEMENTING AGENCIES

Background

The GEF Council is currently undertaking a review and revision of the project cycle, based on over a decade of operational experience and the findings and recommendations of the *Evaluation of the GEF Activity Cycle and Modalities* (document GEF/ME/C.30/4) conducted jointly by the GEF Evaluation Office and the evaluation offices of the Implementing and Executing Agencies. The Council has taken note of the conclusions of the evaluation that the GEF activity cycle is not effective or efficient, and that the situation has grown worse over time. The activity cycle was also found not to be cost-effective.

In moving forward to review and revise the GEF project cycle as well as other operational policies of the GEF, the CEO has determined that it is essential to have a clear factual basis as to how the administrative resources that have been provided to and through the Implementing Agencies have been utilized so as to have a complete and comprehensive understanding of the GEF's cost of doing business.

The term "administrative expenses" is utilized in these terms of reference to refer to the costs incurred in the delivery of GEF resources towards project activities in recipient countries. For the purposes of this exercise, "administrative expenses" capture three categories of expenses. The first is the corporate budgets that have been provided to the Implementing Agencies to cover their costs in fulfilling corporate responsibilities related to institutional relations, policy and program development/management/coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation.¹⁶

A second category of administrative expenses is the fees that have been provided for project cycle management, including due diligence management of a project through the entire project cycle – development, preparation, supervision, and evaluation.¹⁷

A third category of administrative expenses is related to project management costs included in the GEF project grant. It is recognized that resources to finance these costs are not always provided to the Implementing Agency and that they often flow directly to the executing agency of the project. Nevertheless, in order to have a complete understanding of the cost of doing business, the review is expected, through a review of a sample of projects, to provide information on the level and use of project management resources.

¹⁶ The Council has agreed that the corporate budget for the three implementing agencies will be eliminated beginning FY08.

¹⁷ *Proposal for A Fee-Based System for Funding GEF Project Implementation*, April 7, 1999, GEF/C.13/11.

Scope of the review

The review will focus on the three Implementing Agencies, since the activities of the Executing Agencies in the time frame were not significant.

The review should examine the use of GEF administrative resources as defined in the background section above.

The time period to be examined will be fiscal years 2001 – 2006. This timeframe corresponds largely to GEF-3, and includes the largest pool of projects where the flat fee system has been applied. Information on these years of operation should be readily available.

There are four phases of the “project cycle”: (1) concept development; (2) project preparation and appraisal, (3) project implementation, and (4) completion and evaluation (see Annex 3). Fee use can be determined for the process as a whole (indicates how actual allocation compares to the original fixed percentage) or by project phase. Both should be relevant.

In carrying out the exercise, a sample of projects will be examined. This sample should be comprised of projects approved by the Council or CEO after June 30, 2000 (the fee-based system went into effect for FY00), and have been closed.

Depending on the robustness of the sample, additional projects could be added to the sample for reviewing the costs of the four phases of the cycle.

Overall objective

To collect and review information on the use of GEF administrative resources so as to have comprehensive information on the different elements and drivers of expenses incurred by the Implementing Agencies as partners in the GEF and in managing and implementing GEF projects.

To have a clear break down of cost items financed by administrative resources – staff, consultants, travel, office space, information technology, etc.

To provide a better understanding of the Implementing Agencies’ costs for doing GEF business, an assessment of whether GEF resources are being used effectively and efficiently, and recommendations, as appropriate, to improve the means by which administrative costs are supported.

Specific issues to be addressed

General issues to be addressed:

What are the cost breakdowns for the following expenses: agency staff, project staff, consultants (used for administrative purposes), travel, and other administrative services financed from different GEF resource budgets?

How are fees provided for project cycle management services distinguished from resources provided through project administrative budgets and the corporate budget?

What are comparable practices and expenses, such as administrative fees/overhead costs charged by other donors, such as aid and development agencies, multilateral funds, and non-governmental organizations? How do these compare with expenses charged by the GEF? Can such costs be benchmarked?

What are the cost drivers in the institutional structure, business practices, and operational procedures of the GEF?

Issues related to fees provided for project cycle management services

What are the total fees for project cycle management that the agency received during the period and how were the fees allocated and spent in the agency?

What were the actual costs of delivering the project cycle management services and are fees managed so as to ensure that there are sufficient resources for the delivery of all services throughout the life of the project? What factors directly influence the actual costs?

How did GEF resources compare to other sources of funding for the administration of the project?

Issues related to administrative costs financed through project budgets

What type and level of administrative costs are financed through project budgets? Does this differ among national, regional, global project types?

What is the average percentage of the project budget spent on administrative costs? Does this vary with type of project (enabling activity, medium-sized project, full-sized national project, regional or global project?)

What types of administrative costs are typically financed with GEF financing in a project budget? What types of administrative costs are typically financed by co-funders?

Do project administrative budgets include general overhead for the executing agency? If yes, what is the average overhead provided to executing agencies? Does it differ according to the type of executing agency (e.g., government, NGO, local community group?)

Are all administrative costs included in a project incurred at the national level for project execution? If not, what other types of activities, assets, consultants and staff are financed through the project's administrative costs?

Issues related to the corporate budget

What are the total resources provided under the corporate budget for the period and how have they been spent? What types of services, assets, consultants and staff are financed through the corporate budget?

Did the agency provide any of its own budgetary resources to provide corporate services? How did these compare to the GEF resources?

Organization of work

The GEF Secretariat would recruit an independent reviewer (a firm or a team) to prepare the review.

Methodology

I. Determine Project Sample

- (a) The sample should include projects that have been closed and be comprised of projects approved by the Council or CEO from FY01 onwards (after the new fee system went into effect.) Depending on the robustness of the sample, additional projects could be added to the sample for reviewing the costs of the four phases of the cycle.
- (b) The sample should be divided by implementing agency and project type:
- (c) Full-sized project,
- (d) Medium-sized project,
- (e) Enabling activities.
- (f) Fee use should be determined for the entire project cycle to indicate how actual allocation compares to the original fixed fee.
- (g) Fee use should also be determined for each project by segment of the project cycle - (1) concept development, (2). preparation and appraisal, (3) supervision of implementation, and (4) evaluation - to determine where the costs may be loaded.

II. Review of Budgeting Process

- (a) Through visits to Implementing Agencies, interviews with relevant Implementing Agency staff, and interactions with GEF units, to determine the budgeting process of the agencies.
- (b) The following questions among others should be addressed:
 - How do the agencies manage administrative costs?
 - How do the agencies manage and allocate fees?
 - What is the fee income used to finance?
 - Do GEF resources cover the full costs of doing GEF business? Are the resources used only for GEF business?

III. Review of Use of Administrative Resources on a Project Basis

- (a) From the project sample determine the administrative expenditures financed by GEF fees
- (b) The following questions among others should be addressed:
 - For each project how are administrative resources used?
 - What is the average percentage of the project budget spent on administrative costs?
 - What types of administrative costs are included in a project budget?

IV. Review of Project Cycle Management Services

- (a) Determine which services outlined in Annex 3 were actually provided by the agencies on a project basis (using the overall sample)
- (b) Determine additional services that agencies may have incurred

V. Undertake Benchmark Review

- (a) Compare the administrative fees/overhead costs charged the GEF with those charged other donors, i.e. as aid and development agencies, multilateral funds, and non-governmental organizations.

Review of procedures: through visits to Implementing Agencies, interviews with relevant Implementing Agency staff, and interactions with GEF units and other relevant departments in the agencies, such as the budget unit.

Review of general costs of the Implementing Agencies: this will include reviewing how Implementing Agencies distribute the fees received from the GEF as well as determining total administrative expenses incurred by Implementing Agencies in managing GEF projects.

Undertake Benchmark Review: to compare the administrative fees/overhead costs charged the GEF with those charged other donors.

Review of Projects Managed by each Implementing Agency: select a representative sample of projects to determine what type and level of administrative expenses are financed through project administrative budgets.

ANNEX 10A: BACKGROUND ON GEF AGENCY FEE SYSTEM

1. Prior to fiscal year 2000, the Implementing Agencies' costs of implementing GEF projects were provided for and approved annually both as project-direct and project-indirect costs in GEF's annual Corporate Budget.¹⁸
2. In May 1999, the Council approved the introduction of a fee-based system for the compensation of Implementing Agencies' implementation of GEF projects. Under the fee-based system, upon approval of a project, an Implementing Agency would be assigned a project implementation fee that was intended to cover the implementation costs of that project over the life-time of the project. This fee was based on a formula that recognized four standard GEF project types (i.e., full-size investment, full-size technical assistance, and medium-sized projects, and enabling activities). The formula was developed in consultations with the Implementing Agencies and incorporated project-direct costs and corporate management costs.¹⁹ The approved fee-based system became effective July 1, 1999 and was applied to all GEF projects from FY00.
3. In May 2000, GEF Secretariat reported to Council on the first-year experience with the implementation of the fee-based system. The report discussed the primary issues encountered and presented proposals with the objective of enhancing and reinforcing the fee-based system as the primary mechanism for reimbursing an Implementing Agency's project implementation costs. It was decided to continue operation of the fee-based system in its existing form to gain more experience; and to revise it, if appropriate, after three years of experience, as agreed on initial implementation of a fee structure.²⁰
4. At its June 2005 meeting, the Council reviewed document, GEF/C.23/8/Rev.1, *Proposal for Revising the Fee System*, and agreed to implement a flat fee of 9 percent of the GEF grant.²¹
5. Throughout the above period the three Implementing Agencies received annual funds from the corporate budget in addition to fees. The corporate budget for Implementing Agencies has now been eliminated and the June 2007 Council will be requested to review a flat fee of 10% for both Implementing and Executing Agencies.

In developing these systems, a number of independent studies were undertaken to provide information that would contribute to a better understanding of the administrative expenses associated with managing GEF's project cycle and in implementing projects:

Benchmarking Review (April 2000): In giving approval for the fee-based system, Council requested GEF to carry-out a benchmarking review of GEF's fee structure against the project implementation costs of comparable development agencies, including regional development

¹⁸ *Proposal for a Fee-Based System for Funding GEF Project Implementation* GEF/C.13/11 dated April 7, 1999, p. 3.

¹⁹ Annex 1 of GEF/C.13/11 provides more detail about the types of costs included in Implementing Agency's corporate management and project-direct costs

²⁰ *Report on the Implementation of the Fee-Based System* GEF/C.15/6 dated April 10, 2000.

²¹ *Proposal for Revising the Fee System* GEF/C.23/8/Rev.1 dated April 29, 2005.

banks, aid and development agencies, multilateral funds, and non-governmental organizations. The primary objectives were to determine: (a) the reasonableness and appropriateness of GEF's flat-fee structure; and, (b) the efficiency and effectiveness of GEF's financial management of its project implementation costs. The review confirmed that GEF's project cost management practices were adequately and effectively methodical, rigorous and demanding; and, that GEF's flat-fee structure is neither unreasonable nor inappropriate.²²

Consultants Report on an Independent Review (April 2002): During the fee-based system's third year of operation, the consulting firm of Deloitte & Touche carried out an independent review of the system. The objectives of the review were to: (i) conduct an assessment of the impact of the fee-based system upon the efficiency and effectiveness of project implementation and project cost management; (ii) conduct an assessment and validation of the current flat-fee structure and the respective Implementing Agencies' primary cost driver components; and (iii) develop a proposal for a revised fee structure.²³ In addition to proposing four revised fee options,²⁴ Deloitte & Touche findings included the following:

- i. Compared to the annual corporate budget project-direct cost allocation method that was used prior to FY00, the modality of the fee-based system was found to be beneficial in improving fee determination process transparency and understanding of Implementation Services costs.
- ii. The average fee percentage of grant value across all GEF projects increased from 8.2% in FY00 to 10.0% in FY02 due to GEF project portfolio characteristic changes that were difficult to isolate and manage accordingly.
- iii. Due primarily to differences in Implementing Agency cost accounting approach; it was not possible, at the time, to specifically reconcile the fees paid to the Implementing Agencies under the flat fee system with Implementing Agencies project needs.
- iv. Implementing and Executing Agency accounting and reporting processes were significantly impacted by project cost accounting approaches and capabilities. The three Implementing Agencies were not yet completely able to demonstrate the total incremental costs of providing implementation services for GEF projects or GEF components of blended projects. This was primarily due to the fact that each of the Agencies' cost accounting systems was structured to meet internal management and accounting needs. Those needs did not necessarily include being able to fully capture costs for projects, such as GEF projects, that may be implemented on a global basis. As a result, it was difficult for the Implementing Agencies to fully capture and demonstrate the total costs of project implementation services at a project or portfolio level.

²² *Report on a Benchmarking Review of Implementing Agency Fees* GEF/C.15/Inf.7 dated April 7, 2000.

²³ *Consultant's Report on an Independent Review of the Fee-Based System* GEF/C.19/12 dated April 19, 2002.

²⁴ These options were subsequently studied by the GEF SEC prior to submitting the proposal for a revised Fee System GEF/C.23/8/Rev.1

ANNEX 10B: IMPLEMENTING AGENCIES' CORPORATE MANAGEMENT AND PROJECT DIRECT COSTS²⁵

Project Direct Costs

- all project cycle tasks (e.g., review, appraisal, briefings, consultations, documentation, advice, negotiations, financial/legal administration, reporting, coordination, etc.) *carried out directly in respect of the development , preparation, supervision and evaluation of a specific project*

Corporate Management Costs - Implementing Agencies

- Assembly/Council/COP/STAP/Secretariat-related forums and meetings: participation, policy work, meetings, paper/report preparation/review; internalizing/coordinating GEF and governing bodies policies into IA's GEF work program/operations
- corporate business/work program/budget planning, preparation, monitoring and reporting (incl. quarterly corporate financial reporting to Trustee)
- financial/personnel/operational management and administration (incl. project database management; quarterly corporate financial projections and reports to Trustee; internal and external audit reviews)
- corporate outreach activities (e.g., workshops, publications, videos, orientations, etc.)
- review/evaluation of project/PDF proposals/reports/progress;
- review and preparation of GEF working papers/corporate M&E studies (including PIRs)
- improving technical expertise/network in regions/provide GEF operational guidance to staff
- participation in technical meetings/seminars/conventions/task forces/information dissemination
- mobilization of non-project specific co-financing; arranging bilateral and multilateral collaboration
- inter-agency coordination

Expense Categories Definition

<i>Staff Salaries and Benefits</i>	salaries and benefits paid to parent organization GEF staff
<i>Consultants Salaries/Fees</i>	salaries/fees paid to consultants
<i>Mission Travel</i>	travel and subsistence
<i>General Operating Costs</i> (see Note)	e.g. translation, communications, computing and information systems, general expenses, printing and publications, office equipment and supplies, support/temporary staff, training, seminars, honoraria, representation, contractual services
<i>Institutional & Fixed Costs</i> (see Note)	chargeback services from parent organization (i.e., UNDP, UNEP, WB) for administrative, personnel, accounting, auditing, legal, financial reporting, funds disbursement services and the use of office space/facilities.

Note: Depending on their respective parent organization's administrative and accounting policies and practices, Implementing Agencies may account for and report the expenses incurred under "General Operating Costs" and "Institutional & Fixed Costs" in one of either Expense Category.

²⁵ Taken from Annex 1 *Proposal for A Fee-Based System for Funding GEF Project Implementation*, April 7, 1999, GEF/C.13/11.

ANNEX 10C: PROJECT CYCLE MANAGEMENT SERVICES²⁶

The GEF project cycle consists of four phases: (i) concept development; (ii) project preparation and appraisal; (iii) project implementation; and (iv) project completion and evaluation.

There are also four decision points by the GEF Secretariat in the preparation and approval of a project: (i) Secretariat review and agreement to concept; (ii) Secretariat review and approval of PDF B/C, if requested, (iii) inclusion of project proposal in the work program to be submitted to the Council; and (iv) CEO endorsement.

To manage a project through the various phases of the project cycle, the Implementing Agencies and Executing Agencies (under the Expanded Opportunity Initiative) provide a core set of services for each project. Identified in the following tables are minimum sets of such services for the different types of GEF projects.

These services are carried out in accordance with each agency's applicable operational policies and procedures. In particular, the Instrument mandates the agencies to apply to GEF projects their standard due diligence requirements related to financial, economic, legal, environmental, social, and technical aspects, which vary for project types.

²⁶ Based on Annex 1 *Proposal for Revising the Fee Structure*, 04/29/05, GEF/C.23/8/Rev.1

Project Cycle Management Services
Full-size projects

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Concept Development		
Identification	<ul style="list-style-type: none"> ● Consult with appropriate stakeholders in-country, including the GEF operational focal point, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis. ● Review options for co-financing and partnerships. ● Incorporate GEF opportunity in appropriate planning/country assistance strategy documents of the IA/EA. 	Project ideas
Concept Preparation	<ul style="list-style-type: none"> ● Discuss GEF eligibility criteria with operational focal point and other stakeholders. ● Undertake brief in-country consultation mission using a PDF-A if necessary. ● Consult within IA/EA. ● Assist project proponent prepare Concept /PDF-B document in consultation with appropriate stakeholders, including the GEF operational focal point ● Assist with preparation of brief (particularly, where preparation of a brief is not handled under PDF-A or B) ● Obtain endorsement letter from operational focal point. ● Discuss with GEFSEC on pipeline entry 	Project Concept Document
Preparation		
Detailed Project Preparation	<ul style="list-style-type: none"> ● Prepare and execute legal agreements for PDF-B. Keep operational focal point informed. ● Help project proponent write Terms of Reference for consultant, if required, to undertake PDF-B activities. ● Assist project proponent to identify and recruit consultants to assist with project preparation, if necessary. ● Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field, with particular focus on risk assessment, governance issues, execution arrangements, co-financing, capacity development, partnership building and outreach. ● Help identify and recruit STAP reviewer; remunerate reviewer. ● Negotiate and reach agreement on incremental cost with government and other relevant stakeholders. ● Submit Project Document (with Project Executive Summary) for Council Approval 	1.2 Project Document

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Project Appraisal		
	<ul style="list-style-type: none"> Appraise project and finalize project implementation arrangements, including mission travel. Submit Final Project Document for CEO endorsement 	Final Project Document
Approval and Implementation Supervision		
Project Approval and Start-up	<ul style="list-style-type: none"> Prepare legal and other documentation for approval by IA approval authority Assist project proponent establish project management structure in country. Assist project management agency draft TORs and select experts for implementation. Facilitate project management agency with project start-up workshop. 	<ul style="list-style-type: none"> Project Document for Signature by Country. Project Initiation Report
Implementation Supervision	<ul style="list-style-type: none"> Mount at least one supervision mission per year, including briefing operational focal points on project progress. Provide technical guidance, as necessary, for project implementation. Pay advances to the Executing Agency and review financial reports. Prepare annual project implementation reports for submission to GEFME Prepare and participate in PIRs. Monitor and record project expenditure reports Prepare periodic revisions to reflect changes in annual expense category budgets 	Annual Project Implementation Reports
Mid-term Review	<ul style="list-style-type: none"> Undertake mid-term review, including possible project restructuring. Send copy to GEFME 	Mid-term Review Report
Completion/ Evaluation		
	<ul style="list-style-type: none"> Prepare Project Completion Report/Terminal Evaluation, and submit the report to GEFME. Prepare project closing documents Prepare financial closure of the project 	Project Completion/ Terminal Evaluation Report

**Project Cycle Management Services
Medium-sized Projects**

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Concept Development		
Identification	<ul style="list-style-type: none"> Consult with the GEF Operational Focal point and other appropriate stakeholders in-country, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis. Review options for co-financing and partnerships. Incorporate GEF opportunity in appropriate planning/country assistance strategy documents of the IA/EA. 	Project ideas
Concept Preparation	<ul style="list-style-type: none"> Discuss GEF eligibility criteria with operational focal point and other stakeholders. Consultation within IA/EA. Assist project proponent prepare concept /PDF-A document in consultation with operational focal points and other appropriate stakeholders. Obtain endorsement letter from operational focal point for PDF-A. 	MSP Concept
Preparation		
Detailed Project Preparation	<ul style="list-style-type: none"> Prepare and execute legal agreements for PDF-A. Keep operational focal point informed. Help project proponent write Terms of Reference for consultant, if required, to undertake PDF-A activities. Assist to identify and recruit consultants to assist project proponent with project preparation. Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field. Negotiate and reach agreement on incremental cost with operational focal point and other relevant stakeholders. Submit project brief, with operational focal point endorsement, for CEO approval. 	MSP Brief
Approval and Implementation		
Project Approval and Start-up	<ul style="list-style-type: none"> Prepare legal and other documentation for appraisal and approval by IA approval authority, with special attention to management arrangements, risk assessment, capacity development, partnership building and outreach. Assist project proponent establish project 	<ul style="list-style-type: none"> Project Document for signature by Country Project Initiation

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
	<p>management structure in country.</p> <ul style="list-style-type: none"> • Assist project management agency draft TORs and help select experts for implementation. • Facilitate project management agency with project start-up workshop. 	Report
Implementation Supervision	<ul style="list-style-type: none"> • Mount at least one supervision mission per year, including briefing operational focal points on project progress. • Provide technical guidance, as necessary, for project implementation. • Prepare and pay advances to the Executing Agency and review financial reports. • Prepare annual project implementation reports for submission to GEFME. • Participate in PIR. • Monitor and record project expenditure reports • Prepare periodic revisions to reflect changes in annual expense category budgets 	Annual Project Implementation Reports
Mid-term Review	<ul style="list-style-type: none"> • Undertake mid-term review, including possible project restructuring, with the involvement of the operational focal point. • Send copy to GEFME 	Mid-term Review Report
Completion/Evaluation		
	<ul style="list-style-type: none"> • Prepare Project Completion Report/Terminal Evaluation, with the involvement of the operational focal point. Submit a copy to GEFME • Prepare project closing documents • Prepare financial closure of the project 	Project Completion/Terminal Evaluation Report.

Project Cycle Management Services
Enabling Activities under expedited procedures

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Proposal Development & Approval		
Proposal Preparation	<ul style="list-style-type: none"> • Discuss GEF eligibility criteria with the GEF Operational Focal point and other relevant stakeholders. • Help project proponent prepare proposal following the GEF criteria for the appropriate enabling activity. • Review co-financing opportunities and assist with negotiations. • Obtain endorsement letter from operational focal point • Submit proposal for CEO approval 	Enabling Activity Project Proposal
Approval and Implementation		
Project Approval and Start-up	<ul style="list-style-type: none"> • Prepare legal and other documentation for appraisal and approval by IA approval authority, with particular attention to policy issues and capacity development. • Assist project proponent establish project management structure in country. • Help project management agency draft TORs to select experts for implementation. • Facilitate project management agency with project start-up workshop. 	<ul style="list-style-type: none"> • Project Document for signature by Country • Project Initiation Report.
Implementation Supervision	<ul style="list-style-type: none"> • Mount at least one supervision mission per year, including briefing operational focal points on project progress. • Provide technical guidance, as necessary, for project implementation. • Prepare and pay advances to the Executing Agency and review financial reports. • Prepare annual progress reports. • Participate in annual GEFME stocktaking of EAs. • Monitor and record project expenditure reports • Prepare periodic revisions to reflect changes in annual expense category budgets 	Annual Reports to IA to be included in GEFSEC's annual EA stocktaking.
Completion/Evaluation		
	<ul style="list-style-type: none"> • Prepare Project Completion Report/Terminal Evaluation, with the involvement of the operational focal point. Submit copy to GEFME • Prepare project closing documents • Prepare financial closure of the project 	Project Completion/Terminal Evaluation Report.