

Recommendations concerning the preparation of the GEF Administrative Budget

RECOMMENDED DRAFT COUNCIL DECISION

The Council reviewed document GEF/C.7/9, *Recommendations Concerning the Preparation of the GEF Administrative Budget*, and approves the recommended approach for cost accounting and the preparation of future GEF budgets including the proposal for undertaking additional work on performance measures and outputs.

RECOMMENDED APPROACH FOR STRENGTHENING

THE GEF BUDGET AND COST ACCOUNTING SYSTEM

1. This note lays out the approach recommended by the CEO for future GEF budget preparations and cost accounting procedures across the GEF entities to improve transparency, comparability and accountability of the budgets. It draws on the work of the financial consultant's review and recommendations of the GEF's existing budget and cost accounting systems and the guidance provided by Council members at three informal consultations held in January 1995 on this matter.

BACKGROUND

2. Pursuant to a Council decision at the October 1995 meeting, the Secretariat contracted an external financial consultant from Price Waterhouse to prepare a study, in consultation with the Implementing Agencies and the Secretariat, examining present procedures for preparing the GEF budget and proposing options to increase the transparency, comparability and integration of those procedures in the presentation of the budget. In December 1995, a draft report was prepared by Price Waterhouse (herein cited as the "consultant's report") in accordance with the terms of reference agreed to by the Council at the October meeting. In early January 1996, the report was circulated for Council review and comment.

3. Further to the Council decision, the CEO convened three consultations in January to discuss the report and its recommendations with Members with a view to soliciting their guidance for preparing the proposed FY97 budget and future budgets. These consultations were in Paris (January 15), Washington, D.C. (January 19), and New York (January 22). The consultations were well attended and produced very useful guidance for the Secretariat and the Implementing Agencies ([see endnote 1](#)). Among the points of consensus from those consultations was

agreement that the FY97 budget, because of time constraints, should continue to be presented using the existing 2-tier approach to budget reporting with some improvements, with each Implementing Agency separating out administrative/ coordination unit expenses from project related expenses. The proposed FY97 Budget to be discussed at the April 1996 Council meeting follows that approach.

4. The CEO also indicated at each consultation that based on the guidance received, he would propose to the Council at the April meeting a recommended approach for developing a more transparent, accountable and comparable budget and cost accounting system for future GEF budgets. The following presents the proposed approach.

NEXT STEP -- DEVELOP AND TEST THE THREE-TIER APPROACH ON A TRIAL BASIS

5. In the January consultations with Council representatives, there was broad support for a common classification system with consistent definitions across the Implementing Agencies to report budget items and account for costs. Furthermore, there was consensus on the objectives behind the three-tier approach to cost accounting, namely the need to better understand and differentiate what are the full project-related costs and what are the true administrative costs (i.e., traditional overhead). The three-tier approach, as described in the consultant's report, would classify all expenditures into three cost pools, namely, administrative overhead, direct project costs, and indirect project costs.

6. It is recommended that beginning immediately, the Secretariat and Implementing Agencies work together through the Interagency Budget Committee to develop a common cost accounting format along the lines of the three-tier approach. This expanded format should be simple and straight-forward, and designed with a view to building on existing systems as much as possible while improving transparency, comparability, and accountability. To support this improved cost accounting format, associated procedures to track time and expenses by project also will need to be developed. The cost accounting and associated systems should be feasible and not add undue costs to existing systems.

7. It is further recommended that this improved cost accounting format and its associated time and project code systems be tested during FY97 (beginning July 1996) using actual expenditures for the year. This testing period will provide more concrete information about the actual resource implications of implementation in each entity. The consultant's report indicated that there probably would be some start-up costs but that these would be manageable through the deployment of existing GEF staff because the improvements envisioned were relatively simply and straight-forward. The consultant's report also indicated that maintenance costs should not be material because once the improvements are in place they should be relatively self-sustaining. It will be important to test this assessment with experience based on actual resources expended in building the three-tier cost accounting approach and testing its application during FY97.

8. Applying the three-tier approach across the agencies as a pilot exercise to capture expenses in FY97 also will have the added benefit of beginning to build up compatible historical data on administrative and project related costs, which do not now exist.

DEVELOP AND TEST PERFORMANCE MEASURES FOR A PERFORMANCE BASED BUDGET SYSTEM

9. During the consultations, all members also strongly encouraged additional work on performance measures and outputs or efficiency targets, and how these concepts would be defined and then tied to budgets for a performance-based budgeting system. It was generally recognized that without clearly defined performance measures for different types of projects (taking into account risk, innovation, and other factors), there would be no mechanism available to GEF management and the Council to evaluate accountability and how the GEF is performing. It also was stressed that outputs should not necessarily always be financial-based, but also should include non-financial factors that monitor project quality and substantive results.

10. It is recommended that during FY97, a performance measurement system also be developed for all GEF entities with clearly defined performance measures that can be tied to the budget and monitored to facilitate a performance based budgeting system. This system should include clear definition of outputs or efficiency targets appropriate for each GEF unit. It should be developed in close collaboration with the work of the new Monitoring and Evaluation Program, and be directly linked to the activities of that program. In addition, GEF management, technical and financial staff would need to be involved in this effort, in consultation with Council members and others.

11. Based on experience gained with the three-tier approach during FY97 and progress made with performance measures, it is recommended that the next business plan (covering the period FY98-2000) due this Fall 1996 include a proposal for Council consideration on how the FY98 budget proposal should be presented the following Spring 1997.

Endnotes:

(1) As agreed at the October meeting, the CEO sent all Council Members reports of the three consultations (by cover letter dated February 6).