

FY96 MIDYEAR BUDGET REVIEW

OVERVIEW

1. This document presents a midyear status report of estimated expenditures for the six GEF entities for fiscal year (FY) 1996 pursuant to the May 1995 Council decision that a midyear review of the FY96 budget be undertaken to consider whether adjustments are needed [\(1\)](#).
2. In May 1995, the Council approved a FY96 corporate budget for GEF of \$30.631 million. Subsequently in July, the Council approved 2 amendments -- a) an allocation for IFC for \$.512 million and b) a revised administrative budget for STAP of \$1.032 million. These amendments put the Council-approved revised budget at \$31.073 million. In November, the CEO authorized a small midyear adjustment of \$722,000 or 2% of the approved revised budget for the following special agency requests: for UNDP for one staff year (for the remaining half-year totaling \$122,000), and for the World Bank for 2.5 staff years (for the remainder of the year totaling \$400,000) and for the World Bank for costs of projects delayed from FY95 (totaling \$200,000) which were returned by the Bank to the GEF at the end of last year. It is projected that the GEF aggregate end-year expenditures will be within the July Council-approved budget, and an underrun is currently estimated.
3. Table 1 attached to this text shows a breakdown of projected year-end expenditures by each entity and a corporate underrun of some \$102,000 from the July Council-approved budget or \$825,000 from the CEO adjusted budget. The following paragraphs give a midyear account of the status of each entity's FY96 work program and associated budget, and work program projections for the remainder of the fiscal year.

MIDYEAR STATUS OF WORK PROGRAMS AND BUDGET

4. UNDP

Work Program. UNDP's original projection in the May 1995 paper for its FY96 business plan was to deliver some 60 projects to the Council-approved work program. Using 1995 data as a reference point, and an average project size of \$1.3 million, this resulted in a projection of a work program size totaling about \$80 million. Although a number of projects are under preparation, it now is estimated that up to 18 projects totaling about \$64 million will be delivered to the Council-approved work program for FY96. Of this sum, 12 projects totaling \$45.5 million were in the October work program to Council, and another 6 projects totaling \$18 million are projected for the Council's April work program. In addition, UNDP is a partner with the World Bank and UNEP in an interagency project in the April work program which will support project development workshops, with UNDP's share about \$100,000. These outputs represent a small underdelivery in dollar terms of some \$16 million with a larger underdelivery in terms of project numbers.

Approval of the Operational Strategy in October 1995 as well as the additional time required to further define issues on incremental cost and enabling activities have contributed to a slower than anticipated delivery of projects for the work program. In addition, experience with the project cycle and operations approval process is providing information which will require adjustment of assumptions about capacity to deliver outputs and associated budget needs. At the same time, a significant amount of work has been undertaken (as evidenced by several PDF projects) which serves as an indicator of the substantial work ongoing towards outputs for the coming year's work program.

In other phases of the project cycle, the original business plan projected some additional 40 GEF I projects and some 21 pilot phase projects already in the work program that would be processed to agency approval stage. UNDP's estimate in May 1995 of 40 projects in its GEF I work program portfolio turned out to be high. It currently has 32 projects in GEF I, of which 17 have been approved by UNDP for implementation. Nineteen pilot phase projects also have been processed through this stage and are now in implementation. The remaining 15 GEF I projects and the 2 pilot phase projects expect to be approved by the agency in fiscal 1996, bringing the total number of projects to implementation by the end of FY96 to 53. In addition, at midyear, UNDP projects that 78 pilot phase projects (as compared to the original estimate of 84) and 12 GEF I projects will be under supervision/implementation during a portion or all of FY96. Finally, in evaluation, midyear estimates are that about 8 to 10 pilot phase projects will have completed evaluations by the end of FY96 (as compared to the original estimate of 18).

Budget. UNDP's originally approved budget for FY96 was \$5.98 million. In November 1995, in response to a special UNDP request for midyear assistance to fill a critical skills gap in international waters because of a substantially increased work program in all phases of the project cycle, the CEO authorized a midyear staffing adjustment for six months of approximately \$122,000, resulting in a total budget for the year of \$6.1 million. This midyear adjustment was to be used to recruit an international waters expert to assist UNDP in overseeing development and appraisal of projects in this focal area as well as to provide support in implementation and monitoring of 10 pilot phase projects. UNDP anticipates spending only about \$80,000 of the CEO-authorized adjustment as recruitment is taking longer than planned. At the same time, UNDP will require its full FY96 Council-approved budget for project-related expenses.

5. UNEP

Work Program. UNEP's original FY96 projection in the May 1995 Business Plan was to deliver some 16 projects totaling approximately \$32 million. Although a number of projects are under preparation with PDF resources, it now appears that UNEP will have one project in its work program -- a jointly submitted interagency project with UNDP and the World Bank to support Project Development Workshops -- with UNEP's share being about \$100,000.

The slow delivery of projects is partly due to the need to review and fine-tune proposals in the pipeline to ensure consistency with the newly approved Operational Strategy and the emerging Operational Programmes. Experience has also shown that more effort, time and resources are required for project preparation than in the Pilot Phase and adjustments are needed accordingly in planning assumptions. Moreover, recruitment of a full complement of staff has taken longer

than initially anticipated, resulting in delayed processing of a number of projects submitted to UNEP. Therefore, projects slated for FY96 have been moved to FY97, with project development and preparation expenditures being incurred in the second half of FY96. This will result in a significant increase in the original projections of FY97 outputs outlined in the October 1995 business plan. Due to the slippage in projects, there is likely to be under-expenditure amounting to approximately \$83,000 of the estimated FY96 project-related expenditures.

At the same time, UNEP invested more resources than originally planned in collaboration with other Implementing Agencies' projects, particularly in international waters. UNEP has also been heavily engaged in contributing to operations policy outputs, as well as developing internal data management systems. As a result of experience gained during FY96, UNEP has revised estimates of project and non-project related expenditures. This is now closer to 50%-50% (rather than the 60%-40% estimated for FY96) of the total budget, and more closely reflects UNEP's role in the GEF and comments made by Council members on UNEP's Business Plan.

Budget. UNEP's FY96 projected expenditures are expected to be somewhat below the budget of \$1.67 million approved by the Council. The underrun is estimated to be on the order of \$83,600. There will be savings in staff salaries and travel due to the recruitment of staff later in the fiscal year than originally projected. However, some savings will be offset by a new charge-back system for general operating costs being applied to all UNEP units by the United Nations Office in Nairobi. This system became effective in January 1996 and adds approximately \$60,000 to FY96 expenditures. The charges are for the GEF office's rent, utilities, maintenance contracts, and communications. Some minor adjustments are also expected in the meetings and representation budget lines to take into account changing operational needs. No changes are anticipated for the remainder of FY96 in the number of staff positions.

6. World Bank/IFC

Work Program. The World Bank is anticipated to overdeliver in dollar amounts on its original work program commitment and to underdeliver on project numbers. The original budget was based on a projected work program of \$200 million comprised of approximately 20 projects at an average size of \$10 million per project. At midyear, the only adjustment to this projection involved average project size which increased from the original estimate. Four projects for a total of \$38 million were approved for the FY96 work program at the October 1995 meeting and up to an additional 10 projects totaling some \$210.0 million are projected for the April work program to Council. In addition, the World Bank (together with UNDP and UNEP) is part of the interagency project in the April work program supporting project development workshops.

In other phases of the project cycle, as of the May 1995 projections for FY96, the Bank had planned to deliver 18 GEF projects to its Board of Executive Directors for agency approval. Of this total, 6 projects had been approved through the end of December 1995 and 12 more projects are scheduled for approval for the second half of the fiscal year. Of these latter 12 projects, however, 2-3 projects may slip into the early part of the next fiscal year due to continuing delays and difficulties in establishing country capacity to manage the projects in order to proceed with project processing.

Budget. In May 1995, the Council approved an FY96 budget for the World Bank for delivery of its projected work program of some \$15.1 million. This sum was broken down between administrative and project-related expenses as follows: \$2.4 million for the Bank's core coordination function, \$0.5 million for financial and legal administration of projects, and \$12.2 million for project-related expenditures (i.e. project preparation and supervision). In July 1995 the Council approved the IFC's administrative budget request for \$0.5 million as presented in the Council document entitled *World Bank Accountability for Executing Agency Activities* (GEF/C.5.13/Rev. 1). This totaled a revised Council-approved budget of \$15.66 million.

In November 1995, due to severe staffing constraints in the Bank GEF coordination unit, the Bank submitted a request to the CEO for an upward midyear adjustment in staff. The CEO authorized a budget increase for the Bank of approximately \$400,000 to cover the cost of the 2.5 additional staff (2) for the remainder of the fiscal year (equivalent to about 1.7 staffyears) and the Bank began recruiting for those posts.

A further \$200,000 was authorized in midyear by the CEO to cover project-related processing costs of projects carried over from FY95, whose costs were returned at the end of FY95 and not included in the original FY96 budget (3). These 2 CEO-authorized adjustments further revised the final budget upward to some \$16.26 million.

It is projected that out of the final adjusted budget of \$16.26 million, the Bank will return approximately \$500,000 broken down as follows:

(a) At least \$400,000 is not expected to be utilized as a result of a small underdelivery (about 1-2 projects) in the Bank's outputs on project approvals by the Bank's Board. While the Bank is able to meet its commitment to deliver a \$200 million work program for Council approval, the number of projects may be up to 6 projects less. As project size grows, the relative costs of preparation tend to reduce slightly. At the same time, of this project-related underrun, approximately \$100,000 has been used to fund new project concepts for the GEF pipeline and cover increased supervision costs resulting from the recently issued monitoring and evaluation guidelines and recommendations in the project implementation review. The net effect of these adjustments is a projected underrun of \$300,000.

(b) Out of the \$400,000 budget adjustment for staff authorized by the CEO in November, about \$200,000 will be returned as a result of delays in the recruitment of the new posts. It is expected that these positions will be filled in the latter part of the fiscal year.

7. STAP

Work Program. STAP's outputs for FY96 are on schedule as presented in the FY96 Business Plan.

Budget. STAP's FY96 projected expenditures are expected to remain within the revised budget approved by the Council in October 1995, of \$1.032 million (4). Some savings are expected in staff salaries and consultants due to delayed recruitment and under-filling of the Roster position. However, some of these savings will be offset by the establishment of a new system to recover

general operating costs from all UNEP units by the United Nations Office in Nairobi which became effective in January 1996. These charges are for office rent, utilities, maintenance contracts and communications to be absorbed by UNEP and reflected in future STAP budgets. Some minor adjustments are also expected in the meetings and communications budget lines to take into account changing operational needs. The STAP projects an end-year underrun of \$84,000.

8. Trustee

Work Program. The Trustee's outputs and work program for FY96 are anticipated to be as presented in the FY96 Business Plan.

Budget. The Trustee's approved FY96 Budget is \$812,985. As of midyear, the Trustee projects that there will be an underrun of approximately \$114,000 by the end of the fiscal year due mostly to savings in travel (\$60,000) and lower staff requirements (about \$38,000) than originally planned for. These savings are the result of the fact that, although the Trustee had to budget for the possibility of GEF-2 replenishment negotiations getting underway during FY96, it is now apparent that this will not be necessary.

9. Secretariat

Work Program. The Secretariat's outputs are consistent with those outlined in the FY96 Business Plan. Production of major outputs and documents as indicated in the plan are on schedule and in addition some special Council requests totaling so far about \$210,000 are being supported with savings from delayed recruitment of staff/consultants. The Secretariat anticipates that all staff positions indicated in the FY96 Staffing Plan as amended by the CEO (5) will be filled by the end of the fiscal year.

Budget. The Secretariat estimates year-end expenditures to be within the approved budget of \$5.911 million. Some staff resources were shifted to consultants pursuant to the CEO's amendment of the Secretariat's staffing plan following the July Council discussion. The midyear status of the Secretariat's budget is presented in greater detail in the *Midyear Report on the GEF Secretariat's Budget - FY96* (GEF/C.7/Inf.7), a separate information document for the April Council meeting.

(Table 1 is available on request from the GEF Secretariat).

Endnotes:

1. Council Decision on Agenda Item 6, Joint Chairs' Summary, May 1995 Council Meeting, p.6.
2. Additional 2.5 positions are designated for hiring of specialists to strengthen in-house technical capacity in the fields of biodiversity and international waters.

3. See Report on GEF FY95 additional administrative expenditures (GEF/C.6/Inf.6), para. 9. Specifically, this includes processing costs for projects such as Russia GHG for which processing was stalled during FY95 due to additional GEF required documentation, fulfillment of the Bank's contractual obligation to supervise UNDP GEF projects, project review and preparation of GEF projects eligible for PDF funding.
4. As presented in the document STAP Business Plan and Budget (GEF/C.6/8), [October 5, 1995].
5. Secretariat's FY96 Staffing Plan, as amended in July 1995 Council Meeting (GEF/C.5/4), June 20, 1995.