

GEF Corporate Business Plan FY98-00

Draft Council Decision

The Council reviewed document GEF/C.8/6, GEF Corporate Business Plan FY98-00. The Council requests the Secretariat and the Implementing Agencies to take into account its comments on the business plan when preparing the proposed FY98 budget for approval by the Council at its meeting in May 1997. The Council further requests the Secretariat to continue to work with the Implementing Agencies to develop and apply the improved cost accounting approach for preparing the FY98 budget.

{Please note that formatting of several of the tables contained in this document has been altered from it's original format. Copies of the original tables are available on request from the [GEF Secretariat](#)}.

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GEF Corporate Business Plan FY98-00

PART I -- THE BUSINESS PLANPART I -- THE BUSINESS PLAN

INTRODUCTION

1. This paper presents the GEF corporate business plan for the three-year period covering fiscal years (FY) 1998, 1999, and 00. It is being prepared, on the one hand, as the restructured GEF moves through its third year of operations with better information and experience on which to draw than was available for the prior two plans. On the other, the formal strategic framework is only recently in place and real historical data on GEF projects costs (as compared to estimates or coefficients from development projects in general) remain limited even as more GEF projects now move into implementation. This presents the FY98-00 planning period with special challenges as the GEF moves to replenishment and stakeholders and constituents strive to better understand global benefits of GEF financing and the complex global dimension of sustainable development. Efforts to better understand, manage and inform the process of global environmental protection will need to permeate every aspect of GEF's work program for FY98-00 as this new global initiative prepares to move productively into the 21st century.

2. Within the mandate and objectives of the GEF set out in the Operational Strategy and associated Council and Convention guidance, this business plan combines two themes: improving information and communication for decision-making and action at the country level (e.g., enabling activities) with specific actions arising from country priorities for global environmental improvement (e.g., long-term operations). Continued analyses and dissemination of information about the GEF and its activities is paramount to this effort for meaningful outreach to stakeholders and constituents, on the one hand, and to improve efficiency and effectiveness of GEF programming, on the other.

3. This corporate business plan covers planning and programming for the three Implementing Agencies (UNDP, UNEP, World Bank), the Scientific and Technical Advisory Panel (STAP), Trustee, and Secretariat and incorporates the inputs provided by each of the entities. It is based on broad consensus reached at a special meeting, chaired by the CEO, with IA managers and an outline from the Secretariat on information needed.

4. The plan is organized in two parts. Part One, the bulk of the document, presents the work program. It begins with a review of the existing portfolio as of June 1996, and the broad assumptions and objectives for the FY98-00 period. This is followed by the proposed operational work program, common services, STAP and administrative outputs. Work program information for FY98 is provided in greater detail than in the outer years due to more certainty about convention guidance and the pipeline of potential projects.

5. Part Two discusses resource and budget issues associated with delivering the proposed work program. It reviews the status of work underway, at the request of the Council, to improve the

budget reporting and cost accounting for GEF in order to enhance consistency, transparency, and accountability across the entities. Based on progress of work to date, which will better link budgets to outputs, a format for the proposed FY98 budget (due April/May 1997) is suggested.

6. Annexes to this paper provide additional information important for understanding the projected work program.

STATUS OF EXISTING PORTFOLIO STATUS OF EXISTING PORTFOLIO

7. During the pilot phase and the first two years of permanent operation (FY95-96), the GEF has built a work program portfolio worth \$1.23 billion and, as of June 30, 1996, comprising some 200 projects in various stages of development. As of that date, GEF had committed funds of \$837 million (about 68% of the program) and disbursed \$337 million, or about 40% of the committed funds. The rate of disbursements has been gradually improving as projects have moved into implementation.

Of the total existing GEF portfolio, 12 projects have been completed (see Box 1) and more than 160 are in implementation. The existing portfolio by Implementing Agency and focal area is set out in Tables 1 and 2 below. About 75% of the authorized work program as of June 30, 1996 concerns projects in the climate change and biodiversity focal areas. In dollar amounts, the World Bank portfolio accounts for the largest portion of the combined pilot and existing GEF portfolio, some 68%, while in numbers of projects UNDP manages more than half. While UNEP accounts for only about 2% of the dollar volume for projects and 9% of projects in numbers, a substantial part of its work program involves projects where UNEP is a partner to a UNDP- or World Bank-led project, in addition to having a role backstopping STAP. During the first two years of permanent GEF operation, \$14.6 million in PDF funds have been authorized for the GEF work program. The bulk of these are for PDF B block grants -- \$11.5 million -- which are expected to generate more than \$270-300 million in regular projects during the FY98-00 period.

**Box 1 -- GEF Portfolio of Completed Projects
as of June 1996**

<u>Agency</u> \$ (m)	<u>Project Title</u>
UNEP: 3.3	1. Global Biodiversity Assessment
4.5	2. Country Case Studies on Sources and Sinks of Greenhouse Gases
2.8	3. IPCC Capacity Building

UNDP1	4.	Jordan - Management of Azrac Project Areas	6.30
	5.	Environment Management in the Danube River Basin	8.50
	6.	Environment Management and Protection of Black Sea	9.30
	7.	Institutional Support to protect East African Biodiversity	10.00
	8.	Mauritania Wind Electric Power to Social and Economic Development	2.00
	9.	Peru Technical Assistance to center for Energy conservation	0.90
	10.	China Coal Bed Methane Pilot Project	10.00
	11.	Pilot Phase Small Grants Program	13.00
World Bank2	12.	Poland Forest Biodiversity Protection	4.50
	Total	12	75.1

For UNDP and UNEP, these projects are "operationally completed" but may not yet be considered financially closed by the agency.

2 For World Bank, these projects are considered operationally completed and fully disbursed.

Table 1. GEF Existing Project Portfolio* by Implementing Agency

(as of June 1996)

Pilot Phase		GEF (FY95-96)		Total	
# Projects	(\$m)	# Projects	(\$m)	# Projects	(\$m)

UNDP 350	56	256	49	94	105	
UNEP	6	21	12	7	18	28
World Bank 807	52	454	25	353	77	
Others**	1	3			1	3
Total 1187	115	733	86	454	201	

* Excluding
PDFs, Includes
Small Grants
Program

** PRINCE
project (managed
by Secretariat)

Bank \$ as % of
Total 68%

UNDP \$ as % of
Total 30%

UNEP \$ as % of
Total 2%

100%

Table 2. GEF Existing Project Portfolio* by Focal Area

(as of June 1996)

	Pilot Phase		GEF (FY95-96)		Total	
	# Projects	(\$m)	# Projects	(\$m)	# Projects	(\$m)
Biodiversity 420	57	332	19	88	76	
Climate Change 473	41	259	45	214	86	

International 157 Water	12	118	2	39	14	
Ozone	2	4	18	87	20	91
Cross-cutting 1)	3	20	2	26	5	46
Total 1187	115	733	86	454	201	

* Excludes PDFs

1) Includes Small Grants Program

Planning

Assumptions and Objectives

8. The planning assumptions and objectives for this business plan build on the Operational Strategy and associated Convention guidance while the principles of quality, efficiency, and effectiveness are overriding operational objectives. Annex 2 summarizes individual agency assumptions and objectives specific to their situations. Generic assumptions for this business plan are as follows:

(a) The Need for Steady, Stable Growth of the GEF Work Program to be Sustainable. This principle was introduced in the FY97 Budget Paper and supported by the Council as a long-term strategy appropriate for a continuing financial mechanism for global environmental improvement. It is considered that this pattern of growth can facilitate delivery of high quality projects consistent with the Operational Strategy as countries and agencies gain experience with GEF and information improves through national communications, plans and strategies about country priorities. In the context of steady, stable growth, Annex A to the FY97 Budget Paper proposed a funding envelope of \$450-500 million for the FY98 work program. This range remains a prudent planning assumption from which to estimate potential work program outputs. Except where agency data shows otherwise, FY99 and FY00 projections are based on a planning assumption of 15% estimated growth each year.

(b) Making realistic assessments of potential outputs. Improved data and growing experience with planning and programming the past two years are helping develop more realistic projections in project numbers and dollar volumes of projects. In earlier plans, there has been considerable gap in some instances between what was projected and what was possible to deliver. More realistic assessments of capacity also will facilitate budget planning as costs of project processing become more transparently linked to budget requests under the improved cost accounting approach currently being developed.

(c) Operational Strategy, based on Convention guidance, provides framework for programming resources. The work program for this business planning period is guided by the Operational Strategy approved by the Council in October 1995. In contrast to FY97, when project portfolios were in transition because of the lead time required to adjust pipelines to the Strategy, FY98 programming and tracking will have the full benefit of this strategic framework. Moreover, the Strategy is being translated into ten operational programs with input from STAP and the conventions' secretariats to enable better guidance for project design and selection in a programmatic framework of global objectives and benefits.

(d) Maintaining flexibility for changing needs. As convention guidance and new information develops, the GEF will continue to respond flexibly within the framework of its mandate. For example, the nature and volume of enabling activities over the next 2 to 3 years may be influenced by COP decisions on the content and frequency of national communications, strategies, and plans under the Conventions and that projections made in this business plan may need to be adjusted accordingly at such time. The GEF will position itself to respond flexibly to incorporate improvements in science and technical knowledge (including STAP advice), lessons learned, regional differences and different approaches for focal areas or partners (e.g., the private sector, NGOs).

(e) Emphasis on increased cost-effectiveness, mainstreaming, and leveraging of scarce resources. Productivity gains in operations and administration are underlying management objectives during this planning period in order to make best use of scarce resources as experience grows. One avenue which the GEF will continue to explore is opportunities for leveraging additional financial resources, and building partnerships and joint ventures with the private sector, NGOs, bilaterals, and multilaterals. More importantly, mainstreaming GEF operations into the core work of the Implementing Agencies will be a high priority. This was confirmed by the Heads of the three Implementing Agencies during their annual GEF Heads of Agencies meeting this past June, where "mainstreaming" the GEF into agencies' own activities was a principal topic on the agenda. Among the recorded conclusions of that meeting, the Heads of Agencies emphasized their commitment to the integration of GEF activities and objectives in their own agencies' missions and called upon their senior managers to accord GEF activities the same management attention as those given to the agencies' own activities.

Special IssuesSpecial Issues

9. Finally, as part of the planning framework, this business planning period will give particular attention to some special issues:

(a) dissemination of information and better coordination at country level;

(b) increasing emphasis on helping countries identify joint domestic and global benefits to help integrate GEF activities into a country's own actions for sustainable development;

(c) careful monitoring of the implementation of the growing GEF portfolio through, inter alia, the new Monitoring/Evaluation (M & E) program and expanding communication and outreach

about project experiences to increase lesson sharing and build constituencies among those concerned with the global dimension of sustainable development;

(d) promoting a strategy for support of targeted research at the country, or possibly regional level, where such applied research can clearly inform the GEF decision-making process about projects that benefit the global environment (this issue will benefit from a forthcoming paper from UNEP/STAP);

(e) exploring causes of global environmental problems and seeking demonstration projects that illustrate alternative actions (with advice from STAP and others);

(f) continued monitoring of the administrative budget and improvement of the new cost accounting system to better link budgets with outputs for transparency, effective use of administrative resources and increased productivity as experience is gained in preparing and managing GEF projects; and

(g) staffing issues in the GEF and how to make best use of scarce administrative resources to ensure the efficient and effective performance of the GEF.

PROJECTED OUTPUTS FOR FY98-00 PROJECTED OUTPUTS FOR FY98-2000

10. Outputs for this business plan have been divided along similar lines as last year's business plan for tracking and comparability. Outputs are described in four inter-related categories of activities: a) operational activities (measured by projects entering the work program), b) common services (non-project specific activities that support operations, e.g., project processing systems, training, communications), c) STAP, and d) administrative outputs.

Operational Activities Operational Activities

11. Overview. The Operational Strategy, which is fully consistent with convention guidance, provides the framework for GEF resource programming for FY98-00. It defines three types or categories of activities for GEF financing within the global context of sustainable development -- enabling activities, long-term operations, and short-term response measures. Enabling activities represent a basic building block of GEF assistance to countries to help them fulfill communication requirements to the conventions, assist planning to identify priority activities, and provide improved information for decision making. Enabling activities are relatively predictable both in average project size (normally small) and number of eligible countries. In contrast, long-term operations are larger, more complex projects that are expected to comprise the bulk of work program resources, and are aimed at specific actions arising from country priorities for global environmental improvements. Short-term response measures relate to those few projects that come forward from time to time with potentially significant strategic or programmatic benefits at low cost, but that are not sufficiently related to enabling activities or long-term operations to be considered a priority in those areas.

12. Programming of FY98 resources by long-term operations has been guided by the ten initial operational programs which reflect the priorities of the conventions and are identified in the

Operational Strategy (see Box 2). Based on definitions in the Operational Strategy and work currently underway by the interagency task forces to define the operational programs with input from STAP and the conventions, the Implementing Agencies have been able to use this framework in guiding the project pipelines and estimating outputs. It is envisioned that this operational program framework will facilitate more programmatic learning and more broad-based strategic programming of projects so that the sum value in terms of global impact within a particular operational program may be greater than the sum of discrete projects in that program area.

13. For the FY98-00 planning period, the bulk of the portfolio (about 85-90%) is proposed for long-term operations in biodiversity, climate change, and international waters. Some short-term activities (about 8% for FY98) are proposed for ozone, climate change, and biodiversity with a phase out of ozone activities over the business plan period. Support for enabling activities (about 5% of the portfolio proposed for FY98) would continue to be guided by the conventions and GEF Council with programming remaining as flexible as possible to accommodate new guidance.

Box 2 -- Initial Operational Programs

1. Biodiversity: Arid and, Semi-arid ecosystems
2. Biodiversity: Coastal, marine, and freshwater ecosystem
(including wetlands)
3. Biodiversity: forest ecosystems
4. Biodiversity: Mountain ecosystems
5. Climate Change: Removing barriers to energy conservation and
energy efficiency
6. Climate Change: Promoting the adoption of renewable energy by
removing barriers and reducing implementation costs.
7. Climate Change: Reducing the long-term costs of low greenhouse
gas-emitting energy technologies
8. International Waters: Waterbody-based program
9. International Waters: Integrated land and water multiple focal
area
10. International Waters: Contaminant-based program

Note: In the focal area of ozone layer depletion, all activities are discussed in

the sections on enabling activities and short-term response measures.
 Source: Revised Draft Operational Strategy, GEF/C.6/3, p.9.

14. The aggregate work program proposed for the planning period FY98-00 is estimated at about \$1.6 billion. This projection is broken down by Agency for each of the three years in Table 3.

Table 3. FY98-00 GEF Proposed Operational Activities (\$mil) (est.)

	FY98	FY99	FY00	Total
UNDP	150	172	197	519
UNEP	26	30	31	87
WBank	300	350	350	1000
Total	476	552	578	1606

15. Proposed Operational Outputs for FY98. The proposed operational outputs for FY98 total roughly \$470 million, up some 15% from FY97 revised projections. Due to clearer pipelines and greater certainty about convention guidance for FY98, it is possible to provide some projections about anticipated work program content and distribution. Tables 4 and 5 show the proposed FY98 broken down by type of activity and focal area. Almost 88% of the outputs would be in long-term operations, with the bulk of the program (some 78%) in biodiversity and climate change. This proposed work program, combined with prior years, would produce a cumulative portfolio by agency of about 70% to the World Bank, 26% to UNDP, and 6% to UNEP (see Table 6); by focal area the distribution would be roughly 30% to biodiversity and 45% to climate change, with international waters about 12%, and ozone about 10% (see Table 7). By type of activity, the proposed FY98 work program would have long-term operations continuing to grow in dollar terms (e.g., about 33% over FY97), with enabling activities remaining roughly at FY97 levels, and short-term measures declining (see Table 8).

Table 4. Proposed FY98 Operational Activities by Type of Activity (\$mil) (est.)

	L-T Op.	En. Act.	S-T	Total
UNDP	128	17	5	150
UNEP	22	4	0	26
WBank	268	1	31	300
Total	418	22	36	476

% of Total	88%	5%	7%	100%
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Table 5. Proposed FY98 Operational Activities by Focal Area (\$mil) (est.)

Agency	Bio	Cl. Ch.	Int. Waters*	Ozone	Mixed	Total
UNDP	66	61	22	1	0	150
UNEP	6	5	12	0	3	26
WBank	84	150	44	22	0	300
Total	156	216	78	23	3	476
% of Total	33%	45%	16%	5%	1%	100%

Includes long-term operations, enabling activities (EA), and short-term measures.

* Includes biodiversity components (e.g., coastal and marine) designed into these international waters activities.

Table 6. Cumulative Operational Outputs by Implementing Agency (\$mil) (est.)

Agency	FY95 Actual	FY96 Actual	FY97 Planned	FY98 Proposed Bus. Plan	Cumulative Est. Total	%
UNDP	25	69	100	150	344	26
UNEP	5	2	21	26	54	4
WBank	103	250	258	300	911	70
Total	133	321	379	476	1309	100

Table 7. Cumulative Operational Outputs by Focal Area (\$mil) (est.)

	FY95	FY96	FY97	FY98	Cumulativ e	
	Actual	Actual	Planned	Proposed Bu. Plan	Est. Total	%
Biodiver sity	65	23	138	156	382	30
Cl. Change	31	183	157	216	587	45
Int'l Waters	0	38	39	78	155	12
Ozone	37	49	24	23	133	10
Cross-Cu tting		28	21	3	52	3
Total	133	321	379	476	1309	100

* FY96 includes Small Grants program allocation (\$25.9m).

Table 8. FY96/7/8 Operational Activities compared by Type of Activity (\$ mil)

	FY96	FY97 (rev.)	FY98 (prop.)
En. Act.	10	21	22
L-T Op.	250	313	418
S-T Op.	58	45	36
Total	318	379	476

16. Enabling Activities. For FY98, enabling activities for biodiversity and climate change are projected at about \$22 million (see Table 9). The bulk of this portfolio is being managed by UNDP due to their comparative advantage at the country level. Over the course of the business planning period, all agencies assume a gradual reduction in demand for support with enabling activities as national communications, plans, and strategies move forward, and countries begin to identify specific actions for longer-term GEF financing support. At the same time, there is flexibility to adjust to future guidance from the conventions in this area, with UNDP likely to take on the largest share of continuing work as noted above.

Table 9. FY98 Proposed Enabling Activities (\$mil) (est.)

	Bio	Cl. Ch.	Int'l W.	Ozone	Total
UNDP	10	7	0	0	17
UNEP	2	2	0	0	4
WBank	1	0	0	0	1
Total	13	9	0	0	22

17. Long-term Operations. The FY98 proposed long-term operations in biodiversity, climate change, and international waters are roughly \$417 million. More than half of the proposed portfolio is World Bank projects for investment-related activities, with UNDP technical assistance projects at 30%. UNEP's share would be about 5% with an emphasis on capacity building and regional cooperation, with some targeted research and cross-cutting activities in public awareness building. The agencies' projections of outputs by focal area is indicated in Table 10. Climate change and biodiversity absorb most of the resources.

Table 10. FY98 Proposed Long-Term Operations (\$mil) (est.)

	Bio	Cl. Change	Int. Waters	Multifocal	Total
UNDP	56	50	22	0	128
UNEP	4	3	12	3	22
WBank	77	146	44	0	268
Total	137	199	78	3	418

18. It is expected that during this business planning period, biodiversity and climate change operations will continue to grow while international waters projects will remain relatively stable. Over the near-term, climate change projects will probably absorb resources more rapidly than biodiversity projects because of the nature of climate change actions which are mostly technology-based, capable of absorbing larger sums, and relatively straight-forward to prepare and implement. In contrast, biodiversity projects will continue to outpace climate change in project numbers with a smaller average size due to issues of institutional complexity and absorptive capacity. It is expected that project numbers in biodiversity will continue to substantially outpace numbers of climate change projects during this planning period, with

volume of funds gradually growing in biodiversity as national strategies and plans progress and country priorities are more fully defined.

19. Table 11 shows rough estimates of proposed FY98 long-term operations broken down into the ten operational programs. As noted above, these operational programs provide a strategic framework for programming long-term operations under the Operational Strategy. At this stage of programming, it is possible to identify some trends in programmatic objectives within the framework of the ten operational programs.

Table 11. FY98 Proposed Long-Term Operations by Operational Program (\$mil) (est.)

Operational Program	UNDP	UNEP	World Bank	Total
1. Biodiversity: Arid/semi Arid	7	1	15	23
2. Biodiversity: Coastal, marine, freshwater	20	1	13	34
3. Biodiversity: Forests	23	1	35	59
4. Biodiversity: Mountains	6	1	14	21
Subtotal:	56	4	77	137
5. Climate Change: Energy Conserve. & Efficiency	16	1	22	39
6. Climate Change: Renewable Energy	18	1	93	112
7. Climate Change: GHG reductions	16	1	31	48
Subtotal:	50	3	146	199
8. Int'l Waters: Water bodies	10	4.2	4	18.2
9. Int'l Waters: Land/Water	7	3.6	18	28.6
10. Int'l Waters: Contaminants	5	4.2	22	31.2
Subtotal:	22	12	44	78
Cross-cutting		3		

Total

128

22

268

418

Differences due to rounding.

20. The long-term operations of the agencies in biodiversity expect to cover all four programs: arid and semi-arid ecosystems, coastal/marine/freshwater, forests, and mountains. Pursuant to Convention guidance indicating two broad thrusts for biodiversity activities, these four programs initially emphasize conservation and sustainable use objectives. The Convention Secretariat and the GEF Secretariat have initiated a collaborative effort to explore ways to address the third objective of the Convention, i.e., the joint and equitable sharing of the benefits arising out of the utilization of genetic resources.

21. For FY98 in long-term biodiversity operations, forest ecosystems receive the highest priority in dollar terms, with allocations for coastal/marine/freshwater ecosystems expected to grow in the outer years largely in conjunction with the international waters focal area. Arid zones and mountain ecosystems, which now comprise a relatively small part of the portfolio, also have potential for growth. While all agencies plan operations in all four programs, UNDP's biodiversity portfolio is most heavily weighted in dollar terms on forests, then on coastal and marine ecosystems, and finally on mountains and drylands. UNEP expects to give particular emphasis on migratory species, tourism and biodiversity, and applied research, along with some land degradation projects. The World Bank proposed portfolio for FY98 is also heaviest in forests, with increases expected in coastal and marine programs in the outer years.

22. In climate change, operational programs 5 (energy efficiency) and 6 (renewable energy) are expected to be most active during this planning period with program 7 (greenhouse (GHG) gas reductions) expected to grow later in the period as enabling activities define projects and are expected to continue well into the next decade. Consistent with its investment role, the World Bank has the largest share of projected outputs (almost 70%) covering the three operational programs, with two-thirds of the work program in renewable energy for FY98, and renewable energy and greenhouse gas reduction expected to have equal shares during FY99-00 with less in energy efficiency. UNDP's proposed work program for FY98 focuses more on technical assistance in renewable energy and efficiency, with operational program no. 7 (GHG reduction) growing later in the business plan period. UNEP expects to focus on applied research, with renewable energy and energy efficiency expected to each be about one-third of the focal area and GHG reduction slightly less.

23. In international waters, the integrated land/water operational program (no. 9) is expected to generate the heaviest ongoing demand over the long-term, with some representative projects dealing with waterbodies (no. 8) and the contaminants-based operational program (no.10) being supported over the medium- and long-term. Each of the three Implementing Agencies plan outputs in these three operational programs. The World Bank, with about half of the FY98 projected dollar outputs of the three agencies in this focal area, expects to generate projects primarily in integrated land/water and contaminant-based operations. UNDP's main emphasis

during FY98 will be with the waterbody-based operational program, while UNEP expects most (about 70%) of its international waters long-term operations to be divided between the waterbody and contaminant-based programs. UNEP's emphasis in FY99-00 will be to consolidate implementation of the Strategic Action Programmes (SAPs) initiated during FY97-98.

24. Short-term measures. Short-term measures are expected to require about \$36 million during FY98, mostly related to ozone activities of the World Bank which are expected to be phased down during the course of the business plan. Other short-term measures expected from the Bank are in biodiversity and climate change. UNDP envisions one project in climate change and one project in ozone during FY98. Table 12 sets out the distribution of projected short-term measures by agency.

Table 12. FY98 Proposed Short-Term Measures (\$mil) (est.)

Ag Total en cy	Bio	Cl. Ch.	Int'l W.	Ozone	
UN DP	0	4	0	1	5
UN EP	0	0	0	0	0
Wo rl d Ba nk	5	4	0	22	31
To ta l	5	8	0	23	36

25. Medium-Sized Projects. If the October 1996 GEF Council meeting endorses expedited procedures for processing medium-sized projects (less than \$1 million in size), the agencies envision some adjustments in their operational activities outlined above. UNDP, in particular, foresees a potential demand up to \$10 million dollars for such medium-size projects. The Bank foresees that such type of projects may be appropriate for smaller-scale investment operations that are local and regional in scope. The three Implementing Agencies have not incorporated projections about volume of potential medium size projects into their FY98-00 estimates above. UNDP, however, expects that if demand for enabling activities is lower than estimated, those funds could be reprogrammed to medium-sized projects assuming Council approval.

26. Mainstreaming. "Mainstreaming" GEF into core activities of the Implementing Agencies will be a high priority for this business planning period to ensure that GEF activities are truly integrated into country actions for sustainable development and enhance efficiencies related to project processing. The conclusions of the June 1996 meeting of the GEF Heads of Agencies emphasized the agencies' commitments to mainstreaming GEF activities and objectives into their own missions. The Heads of Agencies agreed at that meeting that GEF grant resources could catalyze creative packaging of finance for environment friendly technologies and activities and that this would call for fewer "freestanding" projects and more co-funded ones.

27. To improve mainstreaming, the agencies plan to intensify information dissemination and communication with their management and operational units to increase understanding about GEF's objectives and approach, and better integrate global environmental concerns into their work plans. Within UNDP, efforts will be undertaken to integrate the new UNDP programming cycle to the GEF work program to produce more projects benefiting from joint financing by UNDP and other donors. In addition, UNDP will continue to mobilize partnerships for project development and execution with UN agencies, NGOs, and other organizations of the civil society. UNEP already has some GEF projects tied to regular UNEP operations and during the business planning period it is expected that UNEP's GEF projects will build on UNEP's regular global and regional projects.

28. Within the Bank, global environmental concerns are increasingly being integrated into country assistance strategies and their underlying sectoral analyses. The Bank also is implementing its own program called "Global Overlays" which aims to test and refine analytical tools and methods for integrating global environmental externalities into planning through country sector studies. The Bank is undertaking this work with client countries and other partners in the international, bilateral, and NGO community to bring as much experience as possible to this challenge.

29. Enhancing Interagency Coordination and Cooperation. This also will be a high priority during the business plan with respect to operational activities. At the June Heads of Agency meeting noted above, the agencies underscored the central importance of demonstrating that they can work together towards the common goals and objectives of the GEF. The Heads of Agencies agreed to circulate a joint note to their senior managers on better coordination and sharing of information early in the project cycle in order to take advantage of possible opportunities for cooperation. They also indicated they would be monitoring this through regular progress reports.

Common Services

30. A number of common services will continue to be provided by the GEF to support the operational activities outlined above. As reflected in previous years' planning and budgeting documents, the main categories of ongoing common services relate to providing operational guidance and coordination on the work program, internal and external communications (including representational travel to COPs and associated meetings), country and staff training, and disseminating lessons through working papers. These are commonly collaborative activities of the GEF entities, under the guidance and direction of the Secretariat. In addition, STAP delivers special technical products and services in support of operations pursuant to its mandate under the Instrument and Council-approved terms of reference.

31. With the strategic framework now in place to guide GEF's work, the FY98-00 planning period will shift its emphasis from foundation building to improving implementation tools and communication. Except where new operational policy guidance may be needed from time to time in response to new convention guidance, the thrust of the common service outputs for this business plan, and especially for FY98, will be in three areas: (a) streamlining the project cycle and work program coordination, (b) information dissemination and communication, and (c) training:

Streamlining the Project Cycle and Work Program Coordination.

32. There is general agreement among GEF management that, with the strategic framework in place, that energy and effort must now flow to improving project processing if the GEF is to effectively meet the needs of countries for global environmental financing. During FY97 the GEF took initial steps toward this end. Pursuant to Council decision and guidance from the conventions, streamlined procedures were set up to expedite the approval and disbursement of financial resources for enabling activities to countries. Expedited procedures for processing medium sized projects also have been proposed, as noted above. Further, GEF management began to test ways to streamline the overall GEFOP process and agencies began to examine internal procedures for ways to reduce their own processing and approval times.

33. These initiatives, taken together, have potential for reducing transaction costs over time and increasing mainstreaming of GEF projects into agency work plans. For the GEF, such streamlining could include earlier coordination and consultation among the Secretariat and Implementing Agencies on project proposals for the work program, more tactical use of technical task forces and STAP roster experts for technical reviews, less "bunching" of project pipelines, and clearer definition of the composition and role of GEFOP.

34. **Improving Information Dissemination and Communications.** During this business planning period, a main objective for GEF management will be to improve the dissemination of information about its activities and to promote a single corporate image for the GEF. GEF corporate communications work has suffered in the last year as policy development and substantive work had to take precedent and an extended recruitment process left the external relations post vacant for longer than expected.

35. With a Senior External Relations Coordinator on board, there will be more capacity to coordinate and initiate outputs and this will be given a high priority during the next three years. Work will focus on traditional and new ways of communicating to stakeholders and constituents about GEF's objectives and approach. The now-familiar corporate and agency-specific publications will continue -- e.g., the Quarterly Operational Report, Quarterly Bulletins, Annual Report, project documents, newsletters and progress reports internal to the Implementing Agencies (especially for in-country offices), and periodic working papers for lessons being learned, e.g., in public involvement, or monitoring and evaluation.

36. A variety of approaches will be explored to spread the GEF message more broadly, including the increased use of agencies' presence in the field (especially UNDP resident representative offices) to inform recipient countries about GEF activities. In addition, increased coordination

and collaboration will occur among the GEF Secretariat and Implementing Agencies with travel to ensure that when someone from a GEF Coordination Unit or Secretariat attends a meeting, they represent the interests of all the GEF, thus easing the burden on each of the entities to attend all meetings, as well as saving travel funds. More use will be made of GEF workshops at COP meetings and related events, and other relevant international gatherings, to update participants on the work of the GEF. The central focus of these workshops will be on projects. Customized modules will be developed by focal area or region for such workshops, and customized information packages will be developed for different audiences. Some of the material for these modules may be able to be adapted from materials already developed for the in-country Project Development Workshops (see paragraph 45).

37. Efforts will be made to reach out to special groups with particular skills important for GEF operations in-country. During the planning period, one special group for such attention will be the scientific and technical community in recipient countries in order to involve them in the development and implementation of GEF projects at national and local levels.

38. Electronic information systems also will be explored more fully for dissemination of information about the GEF and for opportunities to better communicate with countries and other constituents. The GEF "home page" on the World Wide Web of the Internet will continue to provide electronic access to GEF documents and other information, as well as country-specific information relevant for GEF work. In addition, efforts will be made to increase country linkages and explore the potential for electronic dialogue with different groups on specific topics important to the GEF.

39. Use of electronic technology also will be expanded to further improve GEF's project information management and sharing across the GEF entities, both as an in-house tool for project monitoring and to facilitate external communications with recipient countries on project-related issues. All agencies now maintain in-house GEF project databases which are shared with the Secretariat and used as the basis for periodic reports, including the QOR. Initiatives in the agencies will be monitored for promising opportunities to expand the corporate message further.

40. For example, UNDP has a new project information management system under development to provide essential data in a centralized form for the highly decentralized work of the agency, tracking progress of UNDP GEF projects under development and implementation around the world. The objective is to have the system fully operational in FY98, to allow rapid and accurate responses to information requests from donor and host countries, the GEF Secretariat, UNDP management, NGOs and others. Currently, the early version of this system provides the UNDP data for the Quarterly Operational Report (QOR). UNEP is developing a similar, smaller-scale, system building on UNDP's experience.

41. During this business planning period, the Bank's work program and budget systems will be moving from a mainframe-based system to mini-computers and PCs. For the Bank's GEF program, this will involve converting most of the data now in the centralized mainframe to the new system. It is expected that this conversion will be undertaken over about a two year period beginning the last quarter of FY97. The new system will provide enhanced reporting and more options for connecting PC-based programs in the Bank, the Secretariat and other GEF entities.

42. **Training.** It is generally recognized that the level of awareness and understanding of GEF policies and practices by many project-level staff in the agencies continues to be mixed. In some cases both project officers and their managers have limited understanding of the GEF. This issue is further exacerbated by the fact that clients within some countries continue to have a poor understanding of the GEF. This is a serious issue since frontline operational staff need the necessary tools to communicate effectively with country clients in order to explain the GEF and identify high quality global environmental projects.

43. A broader program of information dissemination and communications internal to the agencies will be undertaken during this business planning period both to inform operational staff and their managers and to ensure that country officers play a critical role in advising their counterparts and equipping them with adequate knowledge of the GEF. To date, the GEF Secretariat has played a limited role in providing information and guidance directly to operational staff and their management. Special efforts will be made collaboratively between the Secretariat and Implementing Agencies during the business planning period, and particularly in FY98, to better disseminate information and provide training on GEF objectives and processes to operational staff and their management in the agencies.

44. In addition, increased attention will be paid to training needs in recipient countries. The in-country Project Development Workshops being undertaken by the agencies under the coordination of UNDP will provide officials from government, NGOs, and the agencies country staff with basic information and training on how to develop, execute, and monitor GEF projects.

Outputs of the Scientific and Technical Advisory Panel (STAP) Outputs of the Scientific and Technical Advisory Panel (STAP)

45. The main focus of STAP's work will be to provide strategic advice to the GEF on scientific and technical issues. A smaller part of the work is aimed at the selective review of projects. During FY98-00, priority activities will include contributing to the further development of the GEF Operational Strategy and programs, based on emerging developments in science and technology; providing written reviews to the GEF Secretariat and Implementing Agencies on draft documents submitted for STAP's scientific and technical advice; preparing papers on strategic scientific and technical issues (as identified by STAP, the GEF Secretariat and Implementing Agencies) to assist in further developing GEF operational programs; and, periodic reports to Council as needed on key scientific and technical developments of relevance to the GEF.

46. As part of its mandate, STAP will also contribute to ensuring the scientific soundness and technical quality of GEF projects through selective independent reviews and objective scientific and technical advice. Major areas of emphases in FY98-00 include: participation in the GEFOP and the annual Project Implementation Review in order to advise the GEF Secretariat and Implementing Agencies on scientific and technical issues in the work program; overseeing the use of the STAP Roster of Experts and further developing the Roster; conducting selective reviews of a small number of projects, including ex-post evaluation of the strategic scientific and technical aspects of project implementation, in accordance with criteria approved by the Council; and reporting to regular meetings of the Council as mandated in its Terms of Reference. STAP

will also provide advice on the scientific and technical aspects of the GEF monitoring and evaluation program. STAP's work will be primarily demand driven, by being responsive to requests from Council, the GEF Secretariat and the Implementing Agencies.

Administrative Outputs Administrative Outputs

47. Regular administrative outputs from the six entities covered by this plan are generally identified in last year's plan. Two additional activities of a cyclical nature will be addressed in FY98 -- the Assembly which will be convened in FY98 and the replenishment discussions which will begin in FY97 and continue through FY98. Under the new three-tier approach to cost accounting and budgeting (see Part II) these outputs will mostly be classified as pure administrative costs. Table 13 includes a list of administrative reports expected to be provided to the Council and other bodies during FY98-00 for action or information. In close collaboration with and input from the other GEF entities, particularly the Implementing Agencies, the Secretariat will take the lead in preparing or coordinating most of these outputs, some required on an annual or other periodic basis and others the result of special requests.

48. **Secretariat.** During this business planning period, the Secretariat will continue to be responsible for carrying out its mandate under the Instrument which encompasses seven generic areas of work: (a) coordinating the joint work program formulation and overseeing its implementation, (b) developing operational guidance based on Council-approved policy, (c) coordinating and collaborating with GEF entities, Convention secretariats, and other outside bodies, (d) undertaking financial policy work and cooperating with the Trustee, (e) reporting to the Council, Assembly, Convention COPs, and other institutions as directed by the Council, (f) servicing the Council and Assembly (including Council and Assembly meeting logistics and associated consultations), and (g) undertaking other functions assigned by the Council.

49. During this business planning period, the content of the Secretariat's work program will continue to evolve as the GEF matures. An operational priority will be to oversee work Table 13. Indicative List of GEF Administrative Outputs 1 FY98-00

<u>Outp</u>		<u>FY98</u>		<u>FY99</u>	
<u>FY00</u>					
<u>uts</u>					
1st	2nd	1st	2nd	1st	2nd
half	half	half	half	half	half
1.					
<u>For</u>					
<u>Coun</u>					
<u>cil</u>					
Corporate Business Plans		x		x	x

x	Corporate Budgets		x		x	
x	Midyear Budget Reviews		x		x	
	End-Year Expenditure Reports	x		x		x
x	Secretariat Semi-Annual Expenditure Reviews	x	x	x	x	x
x	Work Prog. for Council Approval	x	x	x	x	x
x	Joint Chair's Summary & Decisions of Council	x	x	x	x	x
x	Council Meetings + NGO Consultations	x	x	x	x	x
x	Annual Audit Reports		x		x	
x	Status of Commitments and Pledges to GEF Trust Fund	x	x	x	x	x
x	Annual Reports	x		x		
x	Reports to Convention COPs	x	x	x	x	
x	Annual Project Implem. Reviews		x		x	
x	M & E Reports	x	x	x	x	x
	STAP Reports (periodic)					

2.
For
Asse
mbly

Assembly Meeting and related docs. x

3.
For
Oper
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ns

x	Formal Operational Policy Guidance. (OGs) as needed. Representation at CoPs, Technical	x	x	x	x	x
	Meetings associated with the Conventions, International UN meetings, International or Regional Workshops/Seminars (ongoing).	x		x		x

4.
Exte
rnal

Comm
unic
atio
ns

2	Quarterly Bulletins	2	2	2	2	2
	GEF Qs & As (Updated annually	(Updated annually		(Updated annually)

2	GEF Inserts to Our Planet	2	2	2	2	2
	GEF Information Kit (ongoing)					
	Information-sharing Events (ongoing)					

1 Most documents in this table benefit from inputs from the six GEF entities, and in particular have significant outputs from the Implementing Agencies. program development and quality control consistent with the Operational Strategy, operational programs, and associated Council and Convention guidance. During this period, an expanding portfolio of GEF projects will be under execution and some will be under evaluation, providing more complete information for early lessons and results. Moreover, Convention guidance will continue to evolve and the Council will advise on how to respond to the guidance. These factors will generate increased demands on the Secretariat's oversight role as projects move forward and programmatic experience produces important feedback for Council policy, operational guidance, and future project development. Monitoring and evaluation (M & E) oversight also will expand. Similarly, in relation to the work program, budget oversight will continue to receive special attention as the cost-accounting system improves and better information is generated to estimate true project costs and relate projected outputs to budgetary needs.

50. A second expanding area of the Secretariat's work program is expected to be institutional relations with the Conventions and other concerned international bodies. Already a growing share of the Secretariat's work program is concerned with Convention-related activities. Workload is expected to increase in reporting and communications, travel and participation at Convention-related meetings, and analytical work on special issues as needed. Finally, the Secretariat will carry out certain special responsibilities delegated to it by the Council from time to time, for example, approval of PDF Bs and Cs, the expedited procedures for enabling activities subject to CEO approval, and special reports.

51. **Trustee.** During this business planning period, the Trustee will continue its mandated work program under the GEF which falls into six generic areas: (a) financial management of donor resources, (b) mobilization of resources, (c) maintenance of appropriate records and accounts of the GEF Trust Fund and providing their audit, (d) monitoring and reporting to the Council, (e) coordination of the Trustee responsibilities within the Bank, and with the Secretariat and outside sources, and (f) provision of legal advice. Trustee expenditures are generally considered to be true administrative costs under the new three-tier cost accounting system.

52. Among the Trustees' main responsibilities for the business planning period will be managing donor contributions to the GEF Trust Fund to ensure legal commitment authority is in place and sufficient cash is on hand to meet disbursement needs, and monitoring the GEF's commitment authority to ensure its legal limits are not exceeded. The Trustee also will continue to monitor the liquidity requirements of the GEF, preparing estimated encashment schedules and calling note encashments as needed, and ensuring that appropriate policies for investment of GEF's liquidity

are in place and implemented. An integral part of this activity for the planning period will be fine-tuning, maintaining, and operating the Capital Management System. In addition, the Trustee will provide support to new donors who often need additional information and other assistance in making their contributions available on terms consistent with the Instrument.

53. The Trustee will continue to maintain the accounts of the GEF Trust Fund separate and apart from the books of the bank and prepare semi-annual consolidated reports to the Council on the financial status and activity of the Fund. Such statements consolidate reported activity from each of the three Implementing Agencies, the Secretariat and the Trustee. The Trustee will continue regular reporting on the status of contributions under the Instruments of Commitment, commitment authority, realized pledges, and progress enclosing the unallocated gaps in the replenishment. Finally, the Trustee will continue to arrange for the external financial audits of the GEF Trust Fund, the Implementing Agency activities of the Bank, and of the Secretariat and forward the audit reports to the Council.

54. **Replenishment.** During the initial period of this business plan, the Trustee and Secretariat will co-manage the replenishment discussions. The Secretariat will take the lead in preparing a number of special reports on work program status (in cooperation with the IAs), burden sharing, financial issues under the trust fund, and others as requested. Considerable staff and managerial effort will be dedicated to the replenishment process. In an effort to broaden the GEF funding base, the Trustee will also be following up with potential donors who have not fully pledged to the GEF or have not yet indicated a willingness to participate in the replenishment discussions. As part of the replenishment effort, the Trustee will provide information on possible alternative financing arrangements to potential donors exploring the possibility of making contributions to the GEF.

55. **GEF Assembly Meeting.** The first Assembly meeting under the restructured GEF will be convened during FY98. This meeting will be considerably larger than regular Council meetings, involving representatives of all Participants, and the venue for the Assembly is likely be outside of Washington, D.C. This activity will involve additional logistic and administrative support from the Secretariat. In addition, special reports and presentations may be prepared for the event. A separate budget allocation will be presented for Council approval once the venue and scope of the meeting have been decided.

SPECIAL PROGRAMS AND INITIATIVES

Small Grants Programme

56. In October 1995, the Council approved a funding level of \$24 million for the Small Grants Programme (SGP) and a continuation of the Programme for two more years which will take it into this business planning period through the first half of FY98. Programme operations are expected to continue during that period in the 33 pilot phase countries and be initiated in 11 additional countries.

57. Also pursuant to that October 1995 Council decision, the Council requested a review of the Small Grants Programme after one year based on goals and criteria included in the final project document which was to address a number of Council concerns including linkage of the programme to the Operational Strategy, focal areas, national GEF-funded activities, sustainability, cost-savings, and effectiveness of regional or subregional modalities. Activities and initiatives under the Small Grants Program beyond the current two-year extension will be defined further pursuant to the findings of the evaluation, which is expected to be undertaken during the second half of FY97.

Monitoring and Evaluation. Monitoring and Evaluation.

58. During this business planning period, the new Monitoring and Evaluation (M & E) Program of the GEF will build upon the monitoring and evaluation policies of the Implementing Agencies. The M & E work program before the Council's October meeting proposes a number of activities to be undertaken in close collaboration with the agencies and their monitoring and evaluation experts. These include developing a GEF monitoring program and common monitoring guidelines for GEF projects, continuing work to identify and develop common indicators in the context of the ten operational programs, developing a joint data base for monitoring project performance, and preparing evaluation and dissemination guidelines for programmatic work, including guidelines for mid-term reviews. Specific priorities for FY98-00 will be identified based on the forthcoming Council decision on the proposal and specific comments that may be received from Members.

59. At the project level, the agencies will continue to enhance and adapt as needed their own monitoring and evaluation guidelines for GEF projects in the four focal areas. The challenge will be to ensure consistency of these guidelines with GEF-wide policy guidance on M&E, oversee that they are effectively applied, assess their effectiveness, revise and update them as needed, and streamline procedures where possible. These activities will be undertaken in support of the goals and principles for the GEF's Monitoring and Evaluation Program as established by the GEF Council and in collaboration with the M & E program of work in the Secretariat.

60. Also, agencies will be responsible for disseminating lessons learned and following through on actions identified in the annual GEF Project Implementation Reviews. It is expected that these reviews will continue to help mainstream GEF operations, identify opportunities for increased responsiveness to client countries' needs, and improve project design for future operations. In the FY96 review, for example, lessons which are currently being incorporated include (i) the value of early and continued stakeholder involvement; (ii) the importance of formulating clear objectives with linkages to national environmental strategies; (iii) the need to develop disbursement schedules that are as realistic as possible; and (iv) the benefits of incorporating information and training about the GEF for relevant in-country groups as part of the project in order to further improve local information and understanding about the GEF.

PART II -- BUDGET ISSUES AND IMPLICATIONS PART II -- BUDGET ISSUES AND IMPLICATIONS

PROGRESS TO IMPROVE COST ACCOUNTING

61. This business planning period will be a turning point for the GEF budget system as an improved cost accounting approach is implemented across the six GEF entities and begins to show concrete results. A number of activities carried out during FY96 and FY97, pursuant to Council decision, have helped prepare the GEF for this move toward a more consistent and transparent budget reporting approach. These have included contracting a financial consultant in 1995 to prepare a study examining GEF's current reporting procedures and options for more transparency, comparability and accountability; three informal consultations with Council in January 1996 on the consultant's report, and Council approval in April 1996 of recommendations on how to proceed with future GEF budgets and cost accounting. These recommendations called for the Secretariat and Implementing Agencies through the Interagency Budget Committee to develop a common cost accounting format for testing in FY97.

62. The driving principle has been to better differentiate project-related costs (work benefiting one or more projects) from true administrative costs (i.e., traditional overhead) and begin to tie budgets to outputs for a performance based budgeting system. In such a system, underruns would trigger return of proportionate funds and, similarly, if additional eligible projects came forward, the availability of supplemental funds could be justified. This would provide more certainty for planning while still retaining flexibility to cover changing needs and new demands so long as clearly associated with new outputs. The principle of linking budgets to outputs has already begun to enter the FY95 and FY96 budget processes, and improved cost data will make that process more automatic and transparent.

63. Following the April 1996 Council decision, the GEF Interagency Budget Committee undertook a series of actions toward this end. In a two-day workshop in May, the Committee agreed on definitions for cost categories using the three-tier approach to budget reporting that had been recommended by the financial consultant and considered worth testing by the agencies and Council. This three-tier approach classifies expenditures into three cost pools: administrative overhead (management/administration/budgeting, Council meetings/mailings and related work required under the governance structure), direct project costs (identifiable time and resources to a specific project), and indirect project costs.

64. The category of "indirect project costs" presented a special challenge because it requires clear delineation of which activities could properly be considered project-related because they benefit multiple projects, but are not reasonable or appropriate to track against a specific project. A good example is GEFOP and task force meetings dealing with multiple project review or project processing issues which may involve only minutes on a specific project. The consensus was to keep the system as reasonable as possible, asking staff to use best judgment whether a specific activity is being performed sufficiently to warrant time recording against a specific project or generally related to benefiting multiple projects and therefore to be charged to the indirect project cost pool, and ultimately allocated across all projects in the pipeline.

65. In order to ensure transparency and consistency of reporting, attendees of the budget workshop agreed on a master reference guide of all GEF activities of staff and consultants

(including travel) and into which cost pool each would fall. It was agreed that non-personnel budget items (e.g., equipment, operating costs, overhead) would generally be apportioned according to staff time across the three cost pools. Based on this guide, each agency developed or fine-tuned, as needed, time sheet and project coding structures to differentiate project activities by project phase. Staff meetings were held in each of the agencies to introduce the new approach. It began to be tested in July and is now into its second month of trial. The plan for FY97 for each agency is to monitor and report administrative costs according to the three-tier structure, and in spring 1997 prepare the proposed FY98 budget in that format drawing from this new preliminary data.

66. Within each agency the amount of preparatory work varied depending on what systems were already in place. UNDP and UNEP had to introduce time sheets, activity codes, and early project tracking for the first time. The World Bank and the Secretariat already had time sheets and activity codes, but these needed to be reviewed and adjusted to reflect the three-tiers and differentiate project work by phase. Each agency plans to continue to refine their tracking system based on early results and feedback from staff. Because the initial months of each fiscal year are heavy vacation months for staff, it will be important to have data through the calendar year to begin meaningful analyses. To build the data to achieve any statistical accuracy for the new systems in UNDP and UNEP, a minimum period of one year will be needed. For the initial months of FY97, data will be analyzed using hard copy standardized spreadsheets. For the future, a simple commercial software has been purchased by UNDP and will be tested in the coming months. If the test is promising, the software may be adopted across the agencies to facilitate more detailed, comparable analyses by the agencies and aggregation by the Secretariat, and reduce or eliminate tasks associated with the manual conversion of time sheets to dollars.

PROPOSAL FOR FY98 BUDGET PROPOSAL FOR FY98 BUDGET

67. For the FY98 budget paper to Council (which will have the benefit of seven or eight months of data from FY97), it is anticipated that preliminary analyses will be available to begin to better relate budget needs to the FY98 work program outputs. Quality of these analyses will improve as real historical data begins to accumulate during this business planning period and beyond. It is planned that the FY98 budget be presented and analyzed in light of this initial data using the three-tier approach. The format for the budget presentation would divide estimated expenses into the three cost pools. The "above-the-line" administrative costs for coordination units of the Implementing Agencies would reflect true administrative overhead as defined in the work outlined above. There would be two "project-related" sections, as compared to the single "below-the-line" project-related section in the FY97 budget, and these would differentiate project indirect costs from project direct costs. Each of the project-related sections would be divided into subcategories for staff, consultants, travel, and other, and by project phase -- as was done for the FY97 project-related budget section. The kinds of activities falling within each of the three cost pools would be explained and, based on this initial effort, special issues or areas needing further definition would be noted. Council feedback at that time could assist in guiding future budget presentations.

68. It should be noted that for these initial efforts, the relationship between the proposed budget and outputs will be mostly financial because that is what the accounting system will generate --

estimates of project processing costs and related support in relation to dollar volumes or numbers of projects moved through the project cycle. One of the key challenges during this business planning period, once a common accounting system is in place, will be to define appropriate performance measures or efficiency targets for different kinds of outputs. It will not be sufficient only to tie outputs to specific financial targets, although this will be informative. Non-financial factors related to substantive global benefits achieved or foreseen, even though a project may be risky and costly, also will need translation into outputs. The cost pool dealing with indirect project activities will be especially important to examine in this regard, where investments in time may produce intangible but critical outputs, such as building consensus, cooperation, better information, stakeholder awareness, or changes in policy frameworks. Non-financial outputs may properly occupy considerable amounts of staff time in some entities (e.g., UNEP, STAP, the Secretariat). UNDP while having significant financial outputs, also is responsible for building consensus and stakeholder awareness, building capacity and advising on national policy, all of which are non-financial outputs. The key will be to provide a framework for planning and programming such activities as legitimate outputs which can be reasonably linked to budget inputs.

69. It is anticipated that work on such a performance based system will be initiated by the beginning of the business planning period, in collaboration with and linked closely to the work of the monitoring and evaluation program. However, because of the scarcity of real data linking costs and results, this work probably will not have meaningful results to apply for the FY98 budget paper.

70. Finally, it is worth noting the advances in output-based accounting already being made in the World Bank output-based budgeting and accounting of the GEF program as they might also benefit the GEF. Bank GEF budgets for FY95 and FY96 were output-based using coefficients derived from estimates of costs of regular Bank projects in the various phases. During that period, the Bank was putting in place an improved Cost Accounting System to provide full cost information on a project by project basis, including the various attributes of each project and expenditures. In FY96, the Bank incorporated its GEF projects into this institution-wide system and it is expected that downloading of GEF project data to a local database system will be completed in FY97. Actual Bank data for FY96 has been entered into this new GEF cost database and will be used for updating coefficients of costs used by the Bank to develop the GEF's annual budget. With the completion of this database, the inclusion of the GEF in the Bank's Cost Accounting System, and the implementation of the three-tier budget reporting approach, the Bank considers it will be in a position to begin to pilot a fee based system by FY98 should that be considered appropriate.

SPECIAL INITIATIVES TO ACHIEVE ADDITIONAL COST SAVINGS AS EXPERIENCE IS GAINED SPECIAL INITIATIVES TO ACHIEVE ADDITIONAL COST SAVINGS AS EXPERIENCE IS GAINED

71. There is a growing view among the GEF entities that efforts to further streamline procedures for project processing and other outputs, so long as consistent with the GEF mandate and Council decisions in delivering quality outputs, could achieve cost savings while still delivering quality outputs. The Bank recently streamlined its project processing procedures by reducing

processing and approval time. The Bank President directed an internal Bank task force in late June 1996 to significantly reduce processing and approval times also for Bank GEF projects, in order to reduce transaction costs.

72. Within UNDP and UNEP some cost savings to the administrative budget continue to be gained through in-kind contributions to the GEF. In UNEP, in particular, the GEF is not charged a standard overhead fee for project supervision or oversight. Similarly, staff time and some travel of UNEP's program and regional staff on GEF business are not charged. For example, all UNEP Regional Offices have designated existing staff members as GEF focal points. The contributions of UNEP staff in project preparation, analysis of UNDP and World Bank proposals, and review of GEF operational policy and strategy papers are not charged to the GEF.

73. Finally, across the six entities, travel budgets associated with administrative and project-related activities will continue to be monitored for cost savings. In particular, opportunities will be sought for one entity to represent the GEF family at appropriate meetings in order to ease the burden on each of the entities attending and to save travel funds. Similarly, efforts will continue to be made to ensure the most efficient and effective use of staff, and to keep core GEF staff numbers as lean as possible to carry out the GEF mandate.

PRELIMINARY BUDGET PROSPECTS FOR FY98 PRELIMINARY BUDGET PROSPECTS FOR FY98

74. In light of the changing nature of the GEF cost-accounting system, and efforts currently underway as explained above to generate better cost information for FY98, it is premature for this business plan to be able to indicate a corporate negotiated figure for the FY98 budget. For the FY98 work program, operational outputs are anticipated to grow some 26% over the FY97 revised projection. It can be expected that project-related expenses may experience some reasonable increase proportionate to growth in outputs; at the same time coordination costs should be expected to hold relatively steady and to gradually decline as a share of the total budget during the course of the business planning period.

ANNEXES

TO FY98-00 BUSINESS PLAN

ANNEX 1: PORTFOLIO STATUS AS OF 30 JUNE 1996 BY IA

ANNEX 2: IA WORK PROGRAM ASSUMPTIONS AND OBJECTIVES

PORTFOLIO STATUS AS OF 30 JUNE 1996

BY IMPLEMENTING AGENCY

UNDP:

PILOT PHASE No. of Projects \$ million

Technical Assistance 55 242.5

PRIFs 28 21.0

Small Grants Program 1 13.0

Sub-total 84 \$276.5

Co-Financing

Sub-total \$13.6

GEF

Technical Assistance 48 67.7

Small Grants Program 1 25.9

PDF - A 32 0.8

PDF - B 24 5.3

PDF - C 1 0.5

Sub-total 106 \$100.2

Co-Financing

Sub-total \$14.0

TOTAL PORTFOLIO 190 \$404.3

UNEP:

PILOT PHASE No. of Projects \$ million

Sub-total 6 21.6

GEF

Sub-total 12 7.2

Co-Financing 4.92

TOTAL PORTFOLIO 18 \$33.72

WORLD BANK:

PILOT PHASE No. of Projects \$ million

Investment Projects 52 453.8

PPA 30 13.1

Sub-total 82 \$466.9

GEF

Investment Projects 25 353.6

PDF 37 7.8

Sub-total 62 \$361.4

Co-financing 3163.0

Sub-total \$3163.0

TOTAL PORTFOLIO 144 \$3991.3

IMPLEMENTING AGENCY WORK PROGRAM

ASSUMPTIONS AND OBJECTIVES

UNITED NATIONS DEVELOPMENT PROGRAMME (UNDP).

Pursuant to the GEF Instrument, UNDP's primary role during this business planning period will continue to be to ensure development and management of capacity building programs and technical assistance projects. Through its global network of field offices, UNDP will continue to draw upon its experience in human resources development, institutional strengthening, and nongovernmental and community participation to assist countries in promoting, designing and implementing activities consistent with the purpose of the GEF and national sustainable development strategies. Also drawing on its intercountry programming experience, UNDP will contribute to the development of regional and global projects within the GEF work program in cooperation with the other Implementing Agencies. The work program takes into consideration a number of factors:

- Cost-effectiveness -- For FY98, the paramount UNDP-GEF objective will be to maintain cost-effective operations to deliver high-quality, high-impact projects. A number of initiatives will further enhance operational effectiveness: streamlining the project approval process; instituting the Project Implementation Management System; gathering and disseminating lessons learned through the Project Implementation Review; and tying administrative costs to outputs through a

time sheet recording system that represents a radical departure from normal UNDP administrative procedure.

- Mainstreaming -- Special emphasis will be given to mainstreaming the GEF work programme throughout UNDP. Efforts are underway to link the new UNDP programming cycle to the GEF work program to produce projects that benefit from joint financing provided by UNDP and other donors. Personnel in the 133 UNDP Country Offices will be trained in GEF policies, project development and monitoring.
- Partnership -- UNDP will continue to mobilize partnerships for project development and execution with UN agencies, NGOs and other organizations of the civil society.
- Medium-Size Grants -- The establishment of a Medium-Size Grants category would fill an important programming gap. If such a category is approved by the GEF Council, UNDP anticipates programme commitments of \$10 million annually for medium-sized activities. The planning figures illustrated in this business plan, however, do not include potential Medium-Size Grants.
- Communication -- Increased use of a variety of communication tools, including the GEF Information Kit and electronic media, will make the UNDP-GEF work program more transparent and coherent internally, (in relation to country offices, bureaus, and senior management), and externally, (to governments, the GEF Council and GEF Secretariat).

UNITED NATIONS ENVIRONMENT PROGRAMME (UNEP).

Pursuant to the GEF Instrument, UNEP's role is in three areas: (i) development of scientific and technical analysis, (ii) advancing environmental management in GEF-financed activities, and (iii) providing guidance on relating GEF-financed activities to global, regional and national environmental assessments, policy frameworks and plans, and to international environmental agreements. More specifically, as indicated at the 1996 GEF Heads of Agency meetings, UNEP's priorities over the new year will be: (i) global environmental assessment including applied research, methodology development, and programme learning in order to contribute to informed strategic and operational decision-making; (ii) "enabling activities" to assist countries in preparing their action plans and strategies for implementing the global environmental conventions; (iii) regional efforts, in collaboration with the other IAs, on transboundary issues such as in the International Waters and Biodiversity focal areas; and (iv) backstopping STAP.

It's FY98-00 program will comprise five categories of activities:

- (a) Implementing Agency for projects -- directly and jointly with other Implementing Agencies or executing agencies, including NGOs, with project management expertise and in-country presence; UNEP's value-added will lie in providing overall strategic coordination, and linking GEF-financed activities to UNEP's regular global and regional programs.
- (b) Source of new project ideas -- through its environmental and scientific networks, assist countries and relevant institutions in identifying project concepts for possible implementation by UNDP and the World Bank; as part of its role in coordinating the environmental activities of the United Nations bodies, encourage participation of the UN agencies, scientific community, NGOs and the private sector in GEF activities.

(c) Project partner with UNDP and the World Bank -- offer its scientific and technical services in the design and implementation of GEF projects, focusing primarily on relating projects and strengthening links to global and regional agreements, assessments, and programs to promote inter-agency synergy and maximize the benefits projects may derive from UNEP's comparative advantage.

(d) Strategic --help identify issues in the GEF Operational Strategy and Operational Programs requiring further elaboration, and work through the GEF inter-agency task forces to refine and develop GEF strategies; help relate expected programmatic benefits of Operational Programs to conclusions of global and regional assessments in the four focal areas, focusing on global impact and cross-cutting issues.

(e) GEF awareness-building -- in collaboration with the GEF family, participate in and organize activities (particularly regional) to increase awareness about the GEF, including public awareness projects, outreach on designing and submitting project proposals and on scientific aspects of the four focal areas and land degradation as it relates to these.

THE WORLD BANK

Pursuant to the GEF Instrument, the World Bank's role during this business planning period will continue to concentrate on ensuring the development and management of investment projects. It will draw upon its investment experience in eligible countries to promote investment opportunities and to mobilize private sector resources that are consistent with GEF objectives and national sustainable development strategies. The Bank's work program projections for FY98-00 were prepared taking the following factors into consideration:

(a) Bank GEF Operations:

i) Average Project Size -- The volume in dollars m is dependent on the number of operations and average project size; the latter is assumed to be limited over the FY98-00 BP period to approximately \$10 m because:

-- ODS projects (with relatively high levels of GEF funding) will end in FY98;

-- There are likely to be more biodiversity projects with smaller grant amounts;

-- Increased leveraging of private capital and other funding sources will help stretch scarce GEF resources;

- The potential for climate change projects of above-average project size in Eastern Europe may be limited because of the need to balance overall GEF resource flows across the regions

ii) Incorporating lessons learned --The Bank will apply lessons learned from the recently concluded GEF Project Implementation Review (PIR) and will ensure consistency with GEF monitoring and evaluation guidelines that will be established during the business plan period.

(b) IA absorptive capacity:

i) The Bank's absorptive capacity for undertaking GEF project work is ultimately determined by its ability to effectively integrate global environment objectives into its regular lending operations. Progress in such mainstreaming is evidenced by an increasing proportion of Bank GEF projects being associated in an integrated way with regular bank operations. Bank operations staff have been and will continue to be primarily responsible for working with recipient countries on project identification, preparation, and implementation for the GEF, as an addition to their portfolio of IBRD/IDA investment work, with the GEF Coordination Unit providing guidance on GEF eligibility and project processing issues. Consequently, with mainstreaming, the Bank should be able to undertake the work program level being projected for this business planning period.

ii) Increased partnerships with other multilateral banks -- One way to expand Bank absorptive capacity for GEF project management is to make increased use of IFC, IFAD and other regional development banks (RDBs). Work program projections for the FY98-00 Business Plan foresee increased participation of these institutions as executing agencies.

iii) Project processing capacity -- experience to date has shown that processing up to 20 new projects per year for entry into the GEF work program is feasible, but that the FY98 projections for up to 30-35 projects averaging \$10 million each will present an increasing challenge in view of overall institutional capacity.

iv) Lead time for projects -- if outer year (99/00) planning assumptions are accepted, adequate and timely allocation of preparation funds will be necessary considering the lead time required to prepare a Bank-managed GEF project.