

GLOBAL
ENVIRONMENT
FACILITY

ISSUES CONCERNING
ADMINISTRATIVE BUDGET
MANAGEMENT

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CONTENTS

I.	INTRODUCTION	1
II.	OBJECTIVES	2
III.	ISSUES AND RECOMMENDATIONS	2
	Overview	2
	Budget Planning, Management and Monitoring	3
	Project-Related Administrative Expenses	5
	Budget Year	6
	Agency Cooperation and Cost Mitigation	6
	Role of the Trustee	7
IV.	COUNCIL GEF ADMINISTRATIVE BUDGET REVIEW	7
V.	COST PERFORMANCE IN THE RESTRUCTURED GEF	8

BOXES

BOX 1	PROPOSAL FOR REVISED BUDGET CATEGORIES	4
BOX 2	SEPARATION OF PROJECT RELATED COSTS DURING THE PILOT PHASE	5

ANNEXES

ANNEX A	SECRETARIAT WORK PROGRAM FOR ESTABLISHING A JOINT BUDGET MANAGEMENT SYSTEM	9
ANNEX B	PILOT PHASE PROCEDURES FOR BUDGET MANAGEMENT	10
ANNEX C	GEF ADMINISTRATIVE EXPENDITURES - FY1991-95	11

I. INTRODUCTION

1. During the Pilot Phase of the GEF, the Administrator's Office reported to the GEF Participants on administrative costs through the semi-annual Chairman's Reports. Following the GEF meeting in Beijing in May 1993, at which time Participants asked for more detailed information on the GEF's administrative costs (and in particular information on each Agency's budget management process), a Technical Note was prepared entitled "GEF Administrative Expenditures - the Pilot Phase Experience" (GEF/PA.93/4). This paper provided an overview of the three Implementing Agencies' practices during the Pilot Phase with regard to calculation of administrative costs and agency-specific cost factors. The subsequent "Independent Evaluation of the Pilot Phase" (December 1993) also made recommendations concerning management and oversight of the GEF Trust Fund (GET), and articulated the need for a "greater central capacity for providing oversight of administrative costs".¹
2. The "Instrument for the Establishment of the Restructured Global Environment Facility" (hereafter referred to as the Instrument) states that the Secretariat "will provide a focal point for coordinating the GEF-financed activities...including...preparation and monitoring of budgets"². Consequently, one responsibility of the Secretariat in the restructured GEF will be to report to the Council periodically on GEF administrative budget resources. This paper sets out a plan for implementation of a budget management system with the goal of achieving transparent reporting and effective management of administrative expenditures in the new GEF. This system has to be compatible with the accounting practices of the three Implementing Agencies as well as conducive to the broader GEF restructuring objectives of streamlining administrative practices.
3. The World Bank, as Trustee of the GEF Trust Fund, has the responsibility of "monitoring the application of budgetary and project funds...so as to ensure that the resources of the Fund are being used in accordance with the Instrument and the decisions taken by the Council, including the regular reporting to the Council on the status of the Fund's resources."³
4. Many of the topics addressed in this paper have come to light during the Pilot Phase, and a number of them were highlighted in the Council document "GEF Council: A proposed statement of work (GEF/C.1/2)".
5. Administrative costs within the context of this paper comprise six sets of accounts: (i) administrative costs of UNDP; (ii) administrative costs of UNEP; (iii) costs of STAP (administratively supported by UNEP); (iv) administrative costs of the World Bank; (v) costs

¹ "The GEF does not have, outside of each agency, a rigorous system for administrative budget reviews and allocations with the requisite authority to assess the overall costs of doing business and set limits. With the projected increases in GEF administrative costs associated with the personnel increases ... it is appropriate for the GEF to have greater central capacity for providing oversight of administrative costs" (Independent Evaluation, p. 144).

²Instrument, Annex D, paragraph 13.

³The Secretariat and the Trustee are collaborating to ensure that reporting on administrative expenditures and operational expenditures are consistent and avoid duplication of reporting requirements.

incurred by the World Bank as Trustee; and (vi) Secretariat costs (including Council-related expenditures).

6. The efforts required to improve the GEF's budget management system need to take into account: (i) lessons learned from the Pilot Phase with regard to administrative budget management and reporting; and (ii) the roles now defined for the Implementing Agencies, the Secretariat, and the Trustee, as a result of the restructuring of the GEF. Among its other functions, the Secretariat is responsible for serving as the conduit through which budget planning and reporting is forwarded to the Council for approval. It will also be required to provide the Trustee with all relevant information to enable it to carry out its responsibilities.⁴

II. OBJECTIVES

7. The overall objective is to institute a strengthened management system that will further the efficient and effective usage of funds. This should permit the tracking of levels of expenditures (both administrative and operational) of the Implementing Agencies and the Secretariat, and regular reporting of results. This system would provide simplified, transparent and comparable information for Council review and would help prevent erroneous charging of costs to the GEF by providing sufficiently detailed, well-defined eligible cost categories.

III. ISSUES AND RECOMMENDATIONS

Overview

8. The fundamental issue underlying the need for a revised administrative budget management system is the fact that at present there is no joint management system which readily allows for aggregation of data from the Implementing Agencies and which can provide adequate reporting as stated in the above objectives. In this regard, the Instrument states that the GEF Secretariat will provide a focal point for coordinating the "preparation and monitoring of budgets".⁵ In carrying out this function, the Secretariat will need to ensure: (i) adherence to procedures in place for budget management with regard to the three Implementing Agencies; and (ii) consistency and comparability of reporting. The Evaluation report emphasized the need for a greater oversight function on the part of the Secretariat and underlines the need to "clarify and establish clear lines of accountability for the GEF".⁶

⁴ Instrument, paragraph 21(h).

⁵ Instrument, Annex D, paragraph 13.

⁶ Evaluation Report, page 10., In particular, it was recommended that the GEF "empower the GEF Secretariat with (i) programming and budgeting oversight functions; (ii) authority to allocate GEF resources for the programs and budgets endorsed by the participants; and (iii) the responsibility to report to the participants regularly on the administration of GEF programs and budgets".

9. Procedures set in place during the Pilot Phase of the GEF to facilitate administrative expenditure reporting and transfer of funds between the Trustee and the Implementing agencies need to be re-evaluated in light of the restructured GEF and the respective roles of the Implementing Agencies, the Trustee, and the Secretariat. An overview of these pilot phase budget management procedures is given in Annex B.

10. The main budget issues -- and the recommendations on how they will be addressed -- are presented below.

Budget Planning, Management and Monitoring

11. **Issue 1:** The lack of a joint budget management system for the GEF is a constraint to effective planning, management and monitoring of budgetary resources.

Recommendation: Institute a new joint budget management system which would largely build upon existing practices and systems currently utilized by the Implementing Agencies. This system will be set in place prior to the FY96 budget approval process⁷. Detailed draft terms of reference for this work are provided in Annex A. As a key step in preparation of this budget system administrative costs need to be defined in detail by products and budget categories.

(i) **Products.** One aim of the budget management system envisaged for the restructured GEF is to establish a system whereby administrative budgets will be determined on the basis of work program priorities. Cost information categories will be designed according to planned work program outputs and defined processes. Detailed budget line reporting of actual expenditures would be provided in a Financial Annex to the Annual Report. This would require defining GEF "products", determining the processes involved in their delivery, and establishing a uniform approach to related budget line items. Product costing would be used for budget planning and monitoring purposes; there would not be a requirement for project-by-project reporting by budget line. A possible listing of GEF products across Implementing Agencies could be:

- (a) Projects:
 - (i) Investment
 - (ii) Technical Assistance/Capacity-Building
 - (iii) Research
- (b) Meetings
- (c) External Affairs
- (d) Training/Workshops
- (e) Policy Development (Secretariat)

⁷ See section IV for timetable.

(ii) **Budget Categories.** One of the modifications to the Pilot Phase's reporting of administrative costs which will need to be implemented in the restructured GEF is a more detailed breakdown of budget categories. At present, the budget categories are overly broad and are subject to wide interpretation by each Agency and the Secretariat. For the benefit of greater transparency and consistency, and to allow for better monitoring and comparison of costs among Implementing Agencies, categories need to be further elaborated. After consultation with the budget staff from the three Implementing Agencies, the Secretariat has proposed a breakdown of budget categories to be used effective FY96⁸ budget planning/approval exercise⁹. This breakdown is presented in Box 1.

BOX 1

PROPOSAL FOR REVISED BUDGET CATEGORIES	
Pilot Phase Budget Categories	Proposed Budget Categories
1. Staff	1. Staff
2. Consultants	2. Consultants
3. Travel	3. Travel (except training-related)
4. Meetings	4. Meetings/Seminars (training, Govt, NGOs, STAP)
5. Equipment	5. Equipment
6. Other	6. Translation
	7. Communications (phones, fax, Email, mailing, etc.)
	8. Management Information System
	9. Representation
	10. General Operating Costs (rent, utilities, supplies)
	11. Contractual Services
	12. Other

12. **Issue 2:** While during the Pilot Phase a certain degree of cost absorption of GEF expenditures occurred, the GEF should anticipate that the tightening of budgetary spending within Agencies may result in pressure towards charging regular Agency expenditures inappropriately to GEF budgets¹⁰.

⁸See also para 20.

⁹The FY95 budget projections and actuals are given in the former format in the Chairman's report. This format will be retained for the remainder of FY95.

¹⁰Present policies within Agencies on cost absorption are as follows. In UNDP, the field office support costs and the central services charges are all based on a single charge, rather than specific charges for each service provided. Actual costs are higher, and these have been absorbed by UNDP. The costs of the UNDP senior management, which includes Bureau for Policy and Programme Support and the Regional Bureaux management (including UN Sudano-Sahelian office), internal audits, and general administration, are completely absorbed by UNDP. In addition, UNDP regular staff in the former Global and Inter-regional Projects Division work for GEF projects without cost reimbursement. UNEP does not charge for management inputs or contributions of staff members in substantive units and outposted offices, central

Recommendation: Implement the new cost categories described in paragraph 10 will help in the control of charges against GEF funds.

Project-Related Administrative Expenditures

13. **Issue 3:** During the Pilot Phase, it became evident that the administrative cost information between Implementing Agencies was not easily comparable due to the differences in treatment of costs related to project preparation, supervision and implementation, as shown in Box 2.

Box 2

SEPARATION OF PROJECT-RELATED COSTS DURING THE PILOT PHASE		
	<u>Project Expenditures Recorded as Admin Cost</u>	<u>Project Cost</u>
WORLD BANK/IFC		
--project development*	X	
--project preparation		X
--project implementation**	X	X
--monitoring/evaluation/review		X
--field office support		X
UNDP		
--project development*	X	
--project preparation		X
--project implementation		X
--monitoring/evaluation/review		X
--field office support		X
UNEP		
--project development*	X	
--project preparation	X	
--project implementation		X
--monitoring/evaluation/review	X	
--field office support	X	

*Pre-GEF Participants' Approval
 **Country project implementation is a project cost whereas staff/consultant supervision and monitoring is designated as an administrative cost.

Recommendations: A task force on administrative costs (consisting of budget staff from the Implementing Agencies and the Secretariat) has recently been established. It will seek to

administrative services of Payroll and Personnel, audits, office space and utilities (in Nairobi), and partially, communications. Management inputs will continue to be absorbed by UNEP, however accounting procedures will be developed to charge GEF for actual costs. The World Bank, during the Pilot Phase agreed to absorb costs for line and senior management time spent on the GEF, and also agreed to reduce benefits and overhead charges. The Bank is currently reviewing its cost absorption policy for the GEF. On field office costs, the Bank does not charge field office support costs except where field staff or consultants undertake project work in which case cost reimbursement is on the same basis as Headquarters staff.

establish a common system for the reporting of administrative costs. The Secretariat will then prepare clear guidelines for defining these costs and for their reporting.

If the recommendations on the proposed Project Development Fund (PDF)¹¹ were to be adopted, specified cost categories of project development and preparation by Implementing Agency would need to be analyzed to distinguish project costs from administrative costs.

Budget Year

14. **Issue 4:** Accounting systems utilized by Implementing Agencies are based on fiscal year (World Bank) and calendar year (UNDP and UNEP).

Recommendation: It is envisaged that the GEF will continue its practice of using the July-June fiscal year. This will permit smooth financial information flows with the Bank in its role as Trustee; it will require a continuation of the transposition by UNDP and UNEP of their calendar year figures as was done in the Pilot Phase.

Agency Cooperation and Cost Mitigation

15. **Issue 5:** There is a need for oversight of Implementing Agency planned expenditures (e.g. GEF staff representation at international meetings) to avoid wasteful use of scarce GEF resources.

Recommendation: Implement proposed new budget categories. This would permit establishing, where appropriate, common parameters or norms for certain activities to help ensure the efficient use of scarce GEF resources. Once the products and processes are clearly defined, the Council can judge the administrative costs against GEF approved work programs. It would also assist the Secretariat in recommending to the Council an overall administrative cost ratio target and, where necessary, establishing budget guidelines for specific activities.

16. **Issue 6:** Administrative costs are largely incurred by the three Implementing Agencies; in cases where they use Regional Development Banks or United Nations Specialized Agencies, this may result in upward pressure on the administrative costs incurred in project implementation.

Recommendation: The Secretariat will develop guidelines which will encourage cost sharing between implementing and executing agencies, so that involving an intermediary executing agency will not result in an unwarranted increase in administrative costs.

¹¹ See Proposed GEF Project Cycle, GEF/C.2/3

Role of the Trustee

17. The World Bank, as Trustee of the GEF Trust Fund, is responsible for ensuring that the resources of the Trust Fund are used in accordance with the Instrument and the decisions taken by the Council.¹² The Secretariat will develop, in consultation with the Trustee, a common program management system to help the Council and Trustee to fulfill its overview responsibilities. In the restructured GEF, the Trustee will seek to obtain needed information from the Implementing Agencies concerning application of budgetary and project funds through the Secretariat. In accordance with paragraph 11 of Annex B of the Instrument, the Trustee may inform the Council, through the CEO, of any concerns that it may have which are not satisfactorily resolved.

18. The Trustee will provide for an audit of the GEF Trust Fund.¹³ The Secretariat will coordinate with the Trustee so that such audits meet the requirements of the Council¹⁴ as well as the Trustee and contribute to enhancements of the proposed budget management system.

IV. COUNCIL GEF ADMINISTRATIVE BUDGET REVIEW

19. Proposed GEF administrative expenditures for FY1995 (July 1994-June 1995) were submitted to the Council at the first meeting in July 1994. These are set forth in Annex C and currently guide Implementing Agencies.¹⁵

20. **Schedule.** In terms of time schedule for budget submissions and approvals, it would seem appropriate to maintain the schedule of Fall and Spring reporting as was done during the Pilot Phase. Reporting at the October Council meetings would include actual expenditures for the prior fiscal year; at the April meeting, proposed budgets for the upcoming June-July FY would be presented. Consequently, proposed FY1996 (July 1995-June 1996) budgets would be presented to the Council at the April 1995 meeting.

21. **Budget Review Process.** In addition to the biannual budget reporting, the Secretariat proposes establishment of a mid-year budget review (January of each year) to allow for mid-year adjustments if needed. This process would be organized by the Secretariat and budgetary adjustments, if needed, would be made at the discretion of the CEO within the overall Council approved budget. Intersessional budget adjustments beyond Council approved parameters would be submitted in writing to Council Members by the CEO for approval.

22. **Reporting Format.** The Secretariat will, in consultation with its inter-agency budget taskforce, develop a reporting format along the lines indicated in this paper.

¹² Instrument, Annex B, paragraph 4(d).

¹³ Instrument, Annex B, paragraph 4(c).

¹⁴ Instrument, paragraph 20(j).

¹⁵ Chairman's Report, Part One, July 1994.

V. COST PERFORMANCE IN THE RESTRUCTURED GEF

23. There is a need to examine a range of factors that may have an effect on cost performance in the restructured GEF. A number of factors may help in reducing costs including:

- Lower start-up costs;
- Greater operational efficiency due to agency efforts to streamline operations in line with proposals in the GEF Project Cycle Paper (GEF/C.2/3); and
- Expected cost reductions resulting from the implementation of recommendations in this paper (e.g. less leakage due to cost category definitions, audit systems, better coordination among Implementing Agencies resulting in less waste, preparation of budget plans and guidelines).

24. However, efforts toward broader information outreach in an expanded number of GEF client countries, as well as the GEFs efforts to cast the net wider for project proposals¹⁶, may tend to increase administrative costs. On balance, it is reasonable to expect that cost ratios¹⁷ in the restructured GEF will show improvement over the Pilot Phase experience. By the time of the adoption of the new joint budget management system, the Secretariat will be better positioned to propose to the Council a reasonable target for reduction of cost ratios¹⁸. However, a target of lowering the overall ratio from 12% to 10% would appear to be a reasonable objective.

¹⁶ See Proposed GEF Project Cycle, GEF/C.2/3.

¹⁷ i.e. the ratio of administrative costs to project funding allocations.

¹⁸ The Secretariat is exploring the various options available in developing a common GEF project/program database. This system may, in the end, be set up parallel to the administrative budget management system. It will be an essential component for the tracking of administrative cost ratios.

**SECRETARIAT WORK PROGRAM FOR ESTABLISHING A
JOINT BUDGET MANAGEMENT SYSTEM**

INTRODUCTION

The Secretariat will develop a joint budget management system to meet the requirements of the Council in providing timely information on (i) operational progress against objectives; (ii) levels of expenditures (administrative and operational and their relationship); and (iii) trends in expenditures that allow for analysis of cost-effectiveness (Implementing Agencies, Trustee, STAP, and Secretariat). In support of these objectives, the Secretariat may seek financial business systems expertise. The draft work program for this work are as follows:

- Step 1. The Secretariat would seek technical expertise in (i) selecting the appropriate technical solution to support the budget; (ii) designing and implementing the budget database and management reports; (iii) developing policies and procedures for budgeting and reporting. This work will commence with a preliminary assessment of what type of reporting is possible within the constraints of the budget/Management Information Systems currently in place within the Implementing Agencies in order to determine whether a *task-based* budget planning/management system is feasible for the GEF. The system would need to allow for easy aggregation of budgetary data from the Implementing Agencies while ensuring comparability between tasks and activities. It would also need to provide sufficient transparency for monitoring and reporting purposes. Further analysis and review of proposed new budget categories will be required and precise definitions (with applicability to all Implementing Agencies, the Secretariat, Trustee, and STAP) will be provided for each. In addition, there will also be a need for a review of the proposed project development fund (PDF) with clear definitions concerning which stages of project development will be reported as administrative rather than project costs for each Implementing Agency. The Secretariat will also seek to determine the feasibility of combining a project/program database with the administrative budget management system. Assuming that parallel systems would need to be established for these distinct functions, it is essential that the systems put in place are complementary and allow for easy analysis of administrative costs in relation to the GEF project portfolio.
- Step 2. The Secretariat, in consultation with the Implementing Agencies and Trustee, will prepare a budgeting procedures/guidelines paper setting forth detailed information on procedures to guide budget formulation and reporting (this would include timetable for submission of budgets). As envisaged, these guidelines would also include detailed definitions of all expenditure categories by function, thereby ensuring consistency of reporting among Implementing Agencies and the Secretariat, Trustee and STAP.
- Step 3. The Secretariat, in consultation with the Implementing Agencies and Trustee, will standardize and enhance the existing reporting formats on project commitments/disbursements. As the GEF project portfolio continues to expand, these data may ultimately be incorporated into the joint project/program database.

PILOT PHASE PROCEDURES FOR BUDGET MANAGEMENT

Based on the Pilot Phase experience, there is a need to clarify several administrative procedures as outlined below:

- (a) Submission and approval of administrative expenditure advances (UNDP, UNEP): In line with procedures established during the Pilot Phase, UNDP submits estimated project expenditures and total estimated cash requirement for administrative expenditures for the next six months plus a cushion of three months. Requests should be sent directly to the Secretariat who will review/approve and forward to the Trust Fund office for disbursement.
- (b) The World Bank is reimbursed based on actual billed and verified administrative budget expenditures. The World Bank's trust fund accounting office effects the transfers.
- (c) The Secretariat costs are reimbursed to the World Bank quarterly based on actual expenditures;
- (d) Submission and approval of Letters of Commitment (UNDP) (this includes funding requests for UNDP GEF programming): UNDP requests written commitment for programming resources to its GEF projects based on allocations and administrative cost projections as authorized by the Council. Requests should be sent directly to the Secretariat who will review/approve and forward to Trust Fund Office;
- (e) Advances for GEF-funded activities to UNEP: Requests should be sent directly to the Secretariat for approval and forwarding to trust fund office.
- (f) Accounting of costs associated with World Bank's trustee role (i.e., financial and legal administration of the GEF Trust Fund): These central costs need to be charged to a separate account rather than combined with the Secretariat costs as was done in the Pilot Phase. This account would represent one of the six sets of accounts comprising overall GEF administrative costs as mentioned in paragraph 5 above.

GEF ADMINISTRATIVE EXPENDITURES - FY1991-95
(JULY 1994 CHAIRMAN'S REPORT)

GEF ADMINISTRATIVE EXPENDITURES FY 1991-95 (\$ thousand)						
		UNDP	UNEP	BANK/IFC	ADM.OFFICE	TOTAL
STAFF	FY91	37.5	0.6	1,264.5	-	1,302.7
	FY92	557.6	289.0	3,116.7	402.3	4,365.6
	FY93	1,803.8	407.2	3,746.2	696.8	6,654.0
	FY94	2,800.0	432.0	3,547.0	1,147.0	7,926.0
	FY95	3,470.0	1,300.0	4,711.0	1,673.0	11,154.0
CONSULTANTS	FY91	311.1	29.3	518.3	128.9	987.6
	FY92	1,475.0	229.0	3,544.0	301.9	5,549.9
	FY93	1,963.3	507.7	2,900.2	500.7	5,871.9
	FY94	830.0	490.0	4,894.0	558.3	6,772.3
	FY95	2,210.0	1,200.0	6,833.4	527.0	10,770.4
TRAVEL	FY91	71.3	27.5	500.8	25.2	624.8
	FY92	572.0	156.8	2,048.9	234.0	3,011.7
	FY93	342.1	143.8	1,574.0	533.5	2,593.4
	FY94	110.0	235.0	2,925.0	656.4	3,926.4
	FY95	370.0	445.0	3,154.2	700.0	4,669.2
MEETINGS	FY91	3.1	125.7	13.4	3.9	146.1
	FY92	69.7	288.0	-	217.6	575.3
	FY93	475.6	292.0	-	427.6	1,195.2
	FY94	150.0	330.0	-	366.6	846.6
	FY95	350.0	800.0	-	450.0	1,600.0
EQUIPMENT	FY91	-	-	16.1	36.7	52.8
	FY92	66.2	104.7	77.2	8.5	256.6
	FY93	56.8	30.6	43.6	20.2	151.2
	FY94	40.0	24.0	60.0	111.7	235.7
	FY95	50.0	80.0	60.0	50.0	240.0
OTHER *	FY91	68.9	1.5	44.5	1.3	106.2
	FY92	647.0	81.3	1,141.9	247.7	2,117.9
	FY93	409.8	85.7	1,409.4	116.1	2,021.0
	FY94	540.0	230.0	1,527.0	600.7	2,897.7
	FY95	1,390.0	350.0	3,154.2	832.0	5,726.2
TOTAL	FY91	491.9	184.6	2,357.7	196.0	3,230.2
	FY92	3,387.5	1,148.8	9,928.7	1,412.0	15,877.0
	FY93	5,051.4	1,467.0	9,673.3	2,294.9	18,486.7
	FY94	4,470.0	1,741.0	12,953.0	3,440.7	22,604.7
	FY95	7,840.0	4,175.0	17,912.8	4,232.0	34,159.8

FY91 = Actual expenditures, July 1, 1990 to June 30, 1991.
 FY92 = Actual expenditures, July 1, 1991 to June 30, 1992.
 FY93 = Actual expenditures, July 1, 1992 to June 30, 1993.

FY94 = Estimated expenditures July 1, 1993 to June 30, 1994.
 FY95 = Projected budget for the period July 1, 1994 to June 30, 1995.