

**GLOBAL
ENVIRONMENT
FACILITY**

**FACILITATING COUNCIL OVERSIGHT OF THE
GEF BUDGET, INCLUDING PROPOSED TERMS
OF REFERENCE FOR A COUNCIL BUDGET
COMMITTEE**

**GEF Council Meeting
Washington, D.C.
October 25 - 27, 1995**

**GEF/C.6/6
September 28, 1995**

RECOMMENDED DRAFT COUNCIL DECISION

The Council reviewed document GEF/C.6/6, *Facilitating Council Oversight of GEF Budget, including proposed terms of reference for a Budget Committee* and considered the options presented therein. The Council agrees to the following:

[Insert agreement on follow-up steps]

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BACKGROUND

1. The responsibilities of the Council, the CEO, the Secretariat and the Implementing Agencies for the preparation, review and approval of a GEF budget and business plan have been defined in the *Instrument for the Establishment of the Restructured GEF* and the Decisions of the Council. This mandate is presented in Annex A to this report.

ISSUE

2. Recognizing the need to strengthen the efficiency and effectiveness of the Council in discharging its responsibility to "review and approve the administrative budget of the GEF and arrange for periodic financial and performance audits of the Secretariat and the Implementing Agencies with regard to activities undertaken for the Facility" what alternatives may be considered?

OPTIONS

Assuming that the present presentation and formulation of the GEF Budget will be maintained, two options may be considered to strengthen the efficiency and effectiveness of the Council in reviewing and approving the GEF Budget.

Option 1: Establish a Council Budget Committee

3. The decision of the Council at its fifth meeting requested the CEO to propose terms of reference for a Council Budget committee to be reviewed at its sixth session in October 1995.
4. The first option would be to establish a Budget committee composed of Members of the Council to review the CEO's proposals concerning the GEF budget and business plan prior to the Council meetings. The committee could also be entrusted to undertake a mid-term review and an annual retrospective review of the GEF budget.
5. A proposal for the terms of reference and other modalities of such a committee is presented in Annex B to this report.

Option 2: Confirm the authority of the CEO to negotiate and prepare a corporate budget and define more clearly the CEO's discretion to make adjustments to that budget, subject to more frequent consultation and reporting to the Council.

6. The Council has agreed that the Secretariat is to negotiate, within a budget committee comprised of the Secretariat and representatives of the Implementing Agencies, a corporate budget and to present it to the Council for approval at its April/May meeting. The Council also requested the Secretariat to ensure that divergent views within the budget committee are made known to the Council.

7. The Council further agreed that the Secretariat, in consultation with the Implementing Agencies, should prepare a business plan for review by the Council at its meeting in October/November each year.
8. The Council has also decided that it should undertake a mid-year review of the administrative budget and consider whether adjustments are needed based on information on actual expenditures and taking into account the recommendations of the budget committee. It is assumed that as an extension of its responsibility to prepare the corporate budget, the Secretariat will be responsible for coordinating the mid-term review with the Implementing Agencies. One practical issue that arises with regard to the mid-term review concerns timing. The mid-point for the GEF fiscal year is December 31. A mid-term review, if it is to be useful in identifying needed adjustments, should be undertaken in January. Since the first regular Council meeting of each calendar year is held in April/May, a means needs to be found through which the Council can review the recommendations of the mid-year review outside of its regular meetings.
9. It is proposed that the Council also consider at its October/November meeting an annual retrospective review of the GEF budget based on actual expenditures.
10. In order to facilitate better management of budgetary resources, it is proposed that the CEO be given the authority to authorize expenditures not provided in the approved budget, particularly in light of the mid-term review, in accordance with the following criteria:
 - (a) within the overall ceiling of the approved budget, the CEO would have the authority to amend allocations across budget lines;
 - (b) the CEO would have the authority to authorize an increase of 5% above the overall budget ceiling, with notification to the Council; and
 - (c) the CEO would have the authority to make recommendations to the Council for increases above 5%. The recommendation should be supported by a full justification for the increase and should be circulated in writing to the Council with an invitation to approve the recommendation on a no-objection basis.
11. In exercising the above authority, the CEO would be responsible for keeping the Council fully informed. This would be accomplished, *inter alia*, by the following:
 - (a) The Council is to review the three-year rolling business plan with a corresponding budget framework for the coming fiscal year at its October/November Council meeting, and the detailed corporate budget proposal for the coming fiscal year at the April/May Council meeting. Documentation presenting the budget and the business plan should include justification for budget requests and adjustments. The CEO should present to the Council alternative views, if any, of the Implementing Agencies on the proposed budget or business plan.

- (b) The CEO has initiated the practice of carrying out informal consultations with Council Members prior to Council meetings. As the Council moves to a schedule of two regular meetings per year, the CEO would consult more frequently with Council Members in the intersessional period between Council meetings (at least twice between meetings).
- (c) a mid-term budget review should be undertaken in January by the interagency budget committee, and the CEO's conclusions and recommendations based on the review should be transmitted to the Council.
- (d) The CEO should prepare an annual retrospective review of the GEF budget for consideration by the Council at its October/November Council meeting.

Option 3. Adopt an alternative method for determining operational and administrative costs which in itself would provide more transparency and simplicity.

- 12. A third option would be for the Council to adopt an alternative method for determining operational and administrative costs which in itself would provide more transparency and simplicity, and by so doing, would alleviate the need to consider major changes as presented in the options presented above. Three proposals for such alternative methods are described below:¹
- 13. *Continue with the FY96 budget format, using a Cost-Basis System* with the following improvements -- each agency would report the two types of cost: 1) administrative costs covering only costs of the core coordination units, using traditional accounting categories; and 2) project-related costs to be incurred by the Agencies, as in the lower section of the FY96 table. Each agency would base their project-related costs on their projections of project operations approved for the work program according to the processing costs of the major project cycle phases. Project-related costs (including PDF) would be included in project budgets. At the end of the year there would be a simple accounting to verify that work was delivered as projected. For presentational purposes in Council papers (both business plan and budget plan), the two types of costs (coordination unit/administration and project-related) would be separated in different tables associated with their respective texts.
- 14. *Initiate a Cost-plus-Fee System:* This approach could serve as a transition for one-year to Option C below (full fee-based system). It would continue to reflect the full costs of the core coordination units as administrative costs, using the traditional accounting categories. To cover project-related costs, the system would move to a fee-based structure, negotiated as some average cost per type of project, size, etc., using best practice data and some average cost estimates during the first years, until more real costs data is available. Again, all project-related costs (including PDF) would need to be included in the project budget. Each

¹ This information is extracted from document GEF/C.6/5, *Business Plan for FY97-99*, which is also before the Council.

fiscal year, the agencies' projected operations to be delivered at different phases of the project cycle would be their bases for calculating the estimated amount of fees they would need for that year.

15. *Develop a Total Fee-Based System:* This approach would broaden the fee-based system mentioned above to cover also all administrative costs, including costs of any coordination units, using a negotiated fee based on an agreed structure per type of project, size, project processing phase, etc. Each year, the projected operational outputs per agency would be the basis for calculating the estimated fee to be authorized for that agency. Again, all project-related costs (including PDF) would be accounted for as part of the project budget. To ensure predictability, the fee structure would be set for a two or three year period at which point it would be reviewed and adjusted based on new data, as needed. UNEP's coordination unit would have special treatment in the absence of major operations.

**POLICY GUIDANCE FROM THE INSTRUMENT AND COUNCIL DECISIONS
CONCERNING RESPONSIBILITIES FOR PREPARATION,
REVIEW AND APPROVAL OF THE GEF BUDGET**

I. ROLE OF COUNCIL IN BUDGET PROCESS

"Review and approve the administrative budget of the GEF and arrange for periodic financial and performance audits of the Secretariat and the Implementing Agencies with regard to activities undertaken for the Facility." (paragraph 20(j) of the Instrument)

II. ROLE OF CEO/SECRETARIAT AND IMPLEMENTING AGENCIES

The GEF Secretariat shall service and report to the Assembly and the Council."(paragraph 21 of the Instrument). ²

Council decision of November 1994:

The Secretariat is requested to prepare a detailed analysis of the administrative expenditures and requirements of each of the Implementing Agencies and the Secretariat and to recommend a process for ensuring regular planning, review and analysis of administrative expenditures.

Council decision of February 1995

During its review of the proposed budget for FY95, there was general agreement that for future fiscal years, the Secretariat should manage the preparation of a single, negotiated corporate budget. This budget should be based upon a two year business plan/work program that will be presented with the budget for the Council's approval. The Council specified that pursuant to Paragraph 21(i) of the Instrument, the Secretariat is mandated to negotiate and present to the Council a corporate budget for its approval.

The Secretariat will establish a GEF Budget Committee as a mechanism to facilitate the preparation of a corporate budget. The Committee will be composed of representatives of the Implementing Agencies and the Secretariat. The Secretariat will chair the committee.

In approving the FY95 budget, the CEO was authorized by the Council to approve additional expenditures, as necessary, in order not to disrupt the agreed work program provided that such expenditures did not exceed 5% of the total approved budget.

² Servicing of the Council includes the preparation of documentation required to support the Council's exercise of its responsibilities.

Council decision of May 1995

The Council reviewed document GEF/C.4/4 and approved the GEF business plan FY96-97 and the FY96 budget, and the proposed future planning/budget cycle described in paragraph 6 of that document³. In approving the budget, the Council agreed, *inter alia*, to the following:

- (1) As agreed at its third Council meeting, the Council confirmed that it has mandated the Secretariat to negotiate, within the budget committee established by the Secretariat, a corporate budget and to present it to the Council for approval. The Council requests the CEO to ensure that divergent views within the budget committee are made known to the Council. In preparing the budget, the CEO and the budget committee are requested to carefully consider the detailed comments made by the Council.
- (2) The Council will undertake a mid-year review of the FY96 budget and consider whether adjustments are needed based on information on actual expenditures and taking into account the recommendations of the Budget Committee.

³ The Budget Cycle proposed in Document GEF/C.4/4 is as follows:

Based on this first experience, it is proposed that future business plan/budget submissions be based on a three-year planning cycle and one-year budget. Following this approach, at each fall meeting of the Council (October/November), a three-year rolling business plan would be presented with corresponding budget estimates for the coming year. Following the Council guidance received at the fall meeting, a detailed corporate budget would be prepared for the coming fiscal year and presented for Council review and approval at the spring meeting (April/May). For fiscal year 1997, this would mean that the Council would review in October 1995 the corporate business plan for FY 97-99 with budget estimates for FY 97; at the April/May 1996 meeting, the Council would have before it for review and approval the detailed FY97 corporate budget. Furthermore, it is proposed that a mid-year review be undertaken each year by the Secretariat, in cooperation with the Implementing Agencies, with results reported to the council. This mid-year review would, in particular, assess the level of outputs delivered by mid-year in relation to projections and anticipated future outputs, and recommend adjustments as needed.

**PROPOSAL FOR TERMS OF REFERENCE AND
MODALITIES FOR A COUNCIL BUDGET COMMITTEE**

1. Objective of the committee

To strengthen the efficiency and effectiveness of the Council in reviewing and approving the administrative budget of the GEF and arrange for periodic financial and performance audits of the Secretariat and the Implementing Agencies with regard to activities undertaken for the Facility

2. Terms of reference of the committee

- (a) To review the CEO's budget proposals as presented to the Council in the following documents and report to the Council prior to its deliberations on them:
 - (i) Review of document to be presented to October/November Council meeting presenting three-year rolling business plan with corresponding budget framework for the coming fiscal year.
 - (ii) Detailed corporate budget for coming fiscal year to be presented for Council review and approval at the April/May Council meeting.
- (b) To undertake mid-year review and annual retrospective review of GEF budget and to report to the Council on such reviews.
- (c) To consider other aspects of the Budget process, at the request of the Council or the CEO, which have a significant impact on the cost effectiveness of the GEF.

3. Composition of the committee

- (a) Two important principles to take into account in appointing the members of the committee are consultation among the Council Members and balanced representation of the Council. Appointments should be made on the basis of informal consultations with the Council. Such informal consultations should be conducted by the CEO in his capacity as Chairperson of the Facility. The committee composition should reflect the geographic diversity of the GEF's participating states and should ensure balanced representation between recipient and non-recipient countries.
- (b) The committee should be comprised of eight members: four Members from recipient countries (one Member from each of the geographic regions listed in Annex E, paragraph 2, of the Instrument) and four Members from non-recipient countries. The CEO should be an *ex officio* member of the committee.

- (c) The following criteria are proposed with respect to the appointment and terms of service on the Council Budget Committee:
- (i) There should be eight Members of the committee. Members of the committee should reflect the geographic diversity of the Council with a view to ensuring balanced representation between recipient and non-recipient constituencies;
 - (ii) Appointments should be made for two years, and committee members may be reappointed for a second term;
 - (iii) Members of the Budget Committee should be appointed by the Council on the nomination of the Chairperson of the Facility following informal consultation with the Council Members;
 - (iv) Membership on the Budget Committee concerns the individual Member. However, when a member of the committee resigns the position as Member of the Council before the end of his/her term, the successor on the Council should normally, subject to the latter's agreement, be expected to be selected as the successor on the committee for the rest of the term.

4. Method of its work

- (a) At its first meeting, the committee should select its Chair and Vice-Chair from among its members. The Chair should serve for one year. The Chair should be succeeded by the Vice-Chair, and a new Vice-Chair should be elected from among the committee members. The position of Chair should alternate between Members representing recipient constituencies and non-recipient constituencies. In the absence of the Chair at a meeting of the committee, the Vice-Chair should preside.
- (b) A quorum for meetings of the committee should be five of its members.
- (c) If a member of the committee cannot attend a meeting, his/her Alternate may attend in his/her place.
- (d) Attendance at meetings of the committee should be open to any Council Member or Alternate. Members of the Council attending a committee meeting who are non-members of the committee will participate as observers.
- (e) Representatives of the Secretariat, and representatives of the Implementing Agencies should be invited to participate in the committee meetings. The Secretariat would service the committee meetings.
- (f) Documentation to be considered by the committee would be distributed by the Secretariat to committee members at least one week before the date of the meeting, unless otherwise agreed.

5. Interaction between the committee, the CEO and the Council

- (a) The committee would consider the CEO's proposals related to the GEF budget, prepared on the basis of negotiations with the Implementing Agencies, prior to their consideration by the Council. To facilitate the Council's discussion of the CEO's proposals, the following procedure is recommended:
 - (i) Where there is consensus in the committee in favor of a CEO proposal, a report from the committee Chair would be distributed to the Council prior to the Council's consideration of the proposal. The report should indicate that there was a consensus, and identify the main issues for further consideration by the Council, as necessary. In such cases, no specific response by the CEO or the Implementing Agencies would be required. Whenever possible, committee recommendations reached by consensus should be sent by the Secretariat to the Council for approval on an absence of objection basis.
 - (ii) In cases where there is a difference of views in the committee and there is no clear conclusion, such views (majority and minority) should be clearly indicated in the committee Chair's written report to the Council. To the extent possible, issues for discussion by the Council would also be identified. The committee Chair, in consultation with the CEO, would decide whether or not any CEO or Implementing Agency response is required.
 - (iii) In cases where the committee is opposed to a CEO proposal or a large majority of the committee is in favor of modifying a CEO proposal, the Chair's report would include a CEO or, as appropriate, an Implementing Agency response.
 - (iv) In cases where new issues are identified as a result of the committee's consideration of a CEO proposal, the committee Chair, in consultation with the CEO, would decide whether or not any CEO or Implementing Agency response is required.

6. Timing of meetings and presentation of its finding to the Council

- (a) The Council is to review the three-year rolling business plan with corresponding budget framework for the coming fiscal year at its October/November Council meeting and the detailed corporate budget proposal for the coming fiscal year at the April/May Council meeting. Recognizing that documentation for these meetings is to be distributed to the Members no later than four weeks before the opening day of the Council meeting, the Budget Committee would meet for one day in the period between one and two weeks after the distribution of the documentation.
- (b) The report of the Chair of the Budget Committee would be distributed to the Council by the Secretariat at least one week before the Council meeting.

- (c) The Committee would undertake the mid-year review at end January/early February. The CEO would prepare for consideration by the Committee recommendations on actions that may be required in light of the mid-term review. If there is consensus in the committee in favor of the proposed recommendations, the report of the Committee Chair should be distributed to the Council for approval on a no-objection basis. If there is no consensus on the CEO's recommendations, the CEO, after consultation with the Committee, may call for a special meeting of the Council.
- (d) The committee would undertake an annual retrospective review of the GEF budget at its meeting prior to the October/November Council meeting.

7. Costs of the committee

- (a) The costs of the committee meetings would be included as a separate line item in the administrative budget of the Secretariat. The proposals under paragraph 6 would require three meetings of the committee each year.
- (b) The costs of the meetings would vary according to several factors:
 - (i) Travel and subsistence costs of committee members: under this item two options may be considered: to cover the travel and subsistence costs of all committee members (estimated at \$29,000 for a one day meeting); or to cover the travel and subsistence costs of committee members from recipient countries (estimated at \$17,000 for a one day meeting).
 - (ii) Working languages: two options may be considered: to arrange for interpretation in English, French and Spanish (interpretation costs \$2,700 per day), or to use English only (no costs).
 - (iii) Duration of meeting: under section f, "Timings of meetings", it has been proposed that meetings of the committee be for one day.
 - (iv) Location of meeting: it is assumed that, like the Council, the Committee will meet in Washington.
 - (v) Travel costs of Implementing Agencies attending the meeting: staff from UNDP and from UNEP would need to travel to Washington for the meeting (estimated total cost: \$13,000 for attendance of two representatives from each agency (only UNDP and UNEP would incur additional costs) at a one day meeting).
- (c) Assuming that the committee meets three times a year for one day, that its working languages are English, French and Spanish, and that the travel of all committee members is provided, the annual costs would be about \$110,000.

- (d) These cost estimates do not include staff time nor reproduction and mailing/faxing expenses.