



Global Environment Facility

GEF/LDCF.SCCF.2/5
May 29, 2007

LDCF/SCCF Council Meeting
June 15, 2007

Agenda Item 6

ADMINISTRATIVE BUDGET FOR THE LEAST DEVELOPED COUNTRIES FUND (LDCF) AND THE SPECIAL CLIMATE CHANGE FUND (SCCF)

Recommended Council Decision

The LDCF/SCCF Council, having reviewed document GEF/LDCF.SCCF.2/5, *Administrative Budget for the Least Developed Countries Fund (LDCF) and the Special Climate Change Fund (SCCF)*, approves the proposed budgets of the Secretariat and the Trustee.

- (a) for the Secretariat, a budget of USD 331,625 from the LDCF and a budget of USD 321,625 from the SCCF;
- (b) for the Trustee, a budget of USD 101,000 from the LDCF and a budget of USD 146,000 from the SCCF; and
- (c) an external audit fee for the SCCF of USD 30,000.

1. The Least Developed Countries Fund for Climate Change (LDCF) and the Special Climate Change Fund (SCCF) were established by the GEF in accordance with the decisions of the United Nations Framework Convention on Climate Change (UNFCCC)¹. In establishing the funds, the Council agreed that the operations and administrative costs incurred in connection with managing both the LDCF and the SCCF are kept separate from the GEF Trust Fund.

2. This paper proposes an administrative budget to cover the costs of the Secretariat and the Trustee in managing the LDCF and the SCCF for FY08.

I. Administrative Costs for the GEF Secretariat

3. The GEF Secretariat is responsible for oversight of the LDCF and SCCF funds; formulation of operational policies and programming strategies; review and processing of project proposals for CEO or Council approval; management of the portfolio of LDCF and SCCF projects; coordination with the GEF Agencies, the Trustee and the Convention Secretariat; and reporting to the Council and the Convention.

4. In June 2005, the Council approved a two year administrative budget for the SCCF and the LDCF. The budget included financing for a staff position, travel and general operating costs necessary for the operations of these funds. It was agreed that the administrative budget, would be financed fifty percent by the LDCF and fifty percent by the SCCF. In December 2006, the LDCF/SCCF Council revised the budget to include the costs of convening the LDCF/SCCF Council meetings.

5. In the last two years the workload associated with these two funds has significantly increased as the resources available in the funds have increased, as the Convention guidance continues to evolve, requiring new programming strategies, and as country interest in accessing the funds has grown. GEF staff responsibilities include the preparation of policy papers to respond to Convention guidance to be submitted to the Council and operational guidelines for the agencies; development of a strategic approach to the LDCF/SCCF adaptation portfolio; extensive upstream consultations with agencies and stakeholders on how to design and develop adaptation projects under the new funds; review of projects proposals submitted for financing from the funds; and evolving work on indicators and a monitoring (and evaluation) system.

6. In addition to the increased demands being presented by the growth of activities under the two climate change funds, the programming for adaptation and review of adaptation projects have posed additional challenges to the staff of the Secretariat. Since adaptation projects seek to address the adverse effects of climate in many sectors, it is important to have staff knowledgeable and experienced in one or more of the especially vulnerable sectors (agriculture, coastal zone management, forest management, hydrology, infrastructure, land degradation, and water) who are able to consider the impacts that will be caused by climate change in the sector.

7. The Secretariat, therefore, proposes to hire an additional senior-level staff member with a strong scientific and technical background in one or more of the vulnerable sectors. This person will be expected to bring to the team a solid scientific basis for future programming and project review work in the adaptation field. He or she will be selected to best complement the

¹ UNFCCC Decisions 7/CP.7; 6/CP9; and 5/CP.9

background and expertise of the existing staff members in order to broaden the knowledge and skills-mix available in the team for programming and project reviews.

8. Recognizing the special interests of SIDS and the Least Developed Countries, the Secretariat is also proposing to recruit a new staff member who would devote 50% of his/her time working on adaptation, and in particular, contributing to the development of programs and projects that respond to the needs of SIDS and LDCs. This staff member would assist in the outreach and communication with SIDS and LDCs. The other 50% of time would be devoted to country relations for the GEF and will be financed from the GEF Secretariat corporate budget.

9. Resources for travel, consultancies and meetings of the LDCF/SCCF Council have also been budgeted.

10. To cover its administrative expenses for FY08, the Secretariat requests USD 331,625 from the LDCF and USD 321,625 from the SCCF. This is a significant increase over the FY07 budgets ((USD 149,100 for the LDCF and USD 139,100 for the SCCF) due primarily to the request for one and a half additional professional staff members. The FY07 budget also did not include any resources for consultants.

11. The following tables show a break down of these costs.

Table 1: LDCF FY07 Administrative costs for the Secretariat

Expense Category	FY07 Approved Budget \$	FY07 Expected Actual \$	FY08 Budget Request \$
Standard Services			
<u>Staff Costs (Salaries and Benefits)</u>			
50% 2 Senior Professionals	94,600	84,963	185,000
25% Professional			35,000
25% ACS			16,875
<u>Travel</u>	30,000	5,052	35000
(3.5 trips @ \$10,000 trip)			
<u>Consultants</u>			7,500
<u>General Operations Costs</u>	18,500	16,653	46,250
Office Space, Equipment, and Supplies			
<u>Cost of meetings</u>	6,000	4,078	6,000
Total	149,100	110,746	331,625

Table 2: SCCF FY07 Administrative costs for the Secretariat

Expense Category	FY07 Approved Budget \$	FY07 Expected Actual \$	FY08 Budget Request \$
Standard Services			
<u>Staff Costs (Salaries and Benefits)</u>			
50% 2 Senior Professionals	94,600	84,963	185,000
25% Professional			35,000
25% ACS			16,875
<u>Travel</u>	30,000	9,641	25000
(2.5 trips @ \$10,000 trip)			
<u>Consultants</u>			7,500
<u>General Operations Costs</u>	18,500	16,653	46,250
Office Space, Equipment, and Supplies			
<u>Cost of meetings</u>	6,000	4,078	6,000
Total	149,100	115,335	321,625

II. Administrative Costs for Trustee Services

Least Developed Countries Fund

12. As agreed with the donors under the Trust Administration Agreements, the Trustee will receive an administrative fee to cover the reasonable actual expenses incurred by the Trustee in carrying out the Trustee function for the LDCF. To cover its administrative expenses for FY08, the Trustee requests USD 101,000.

13. The Trustee's projected costs for FY08 (USD 101,000) represent a decrease of 2.6% from the expected actual costs for FY07 (USD 103,664). This is due to the fact that LDCF has been operational for almost 5 years and therefore requires less demand for legal services. However, the FY08 projected costs reflect a 10.3% overall increase from the approved FY07 budget (USD 91,600). The higher FY08 proposed budget as compared with the FY07 approved budget is due to two main reasons. First, the investment portfolio for the LDCF is growing. As the size of the investment portfolio has increased since the establishment of the LDCF in FY03, the Trustee has not charged the investment management fee to the LDCF. In light of the Bank's increasing emphasis on full cost recovery for its financial services, the investment management fee for FY08 (USD 16,800) reflects the full cost of managing the LDCF investment portfolio (3.5 basis points on an estimated average annual balance of USD 48 million). For reference, the total Trustee budget for FY08 represents 0.21% of the total estimated average annual balance of the LDCF for FY08, and about 6% of the total actual investment income earned to date for FY07 (July 2006 through April 2007), which is approximately USD 1.7 million.

14. Second, due to the increasing number of transactions and fiduciary reporting by the GEF Agencies to the Trustee, more robust information and reporting procedures need to be developed. Currently, all financial data and transactional events are communicated via letter or facsimile. This method of communication is inefficient, prone to error, and increases the risk that financial reporting by the Trustee is incorrect. The Trustee will coordinate with the GEF Agencies to develop a more robust method of sharing all financial data and transactions, for both the LDCF and the SCCF.

15. Core elements of the Trustee work program over the coming year include: (a) management of donor contributions; (b) financial and investment management of resources; (c) commitments and disbursements to the GEF Agencies; (d) infrastructure and systems support; (e) accounting and reporting for the financial and operational activities of the LDCF; (f) preparation and finalization of Financial Procedures Agreements between the Trustee and the GEF Agencies; and (g) development of an electronic messaging system to share financial and transaction information between the GEF Agencies and the Trustee. Budgetary details of the basic services provided by the Trustee are included in Annex 1. Table 3 shows the breakdown of the Trustee fee by expense category.

Table 3: Trustee Costs for the LDCF by Expense Category

Expense Category	FY07 Approved Budget \$	FY07 Expected Actual \$	FY08 Budget Request \$
Standard Services			
<u>Staff Costs</u>	79,642	83,314	73,428
Salaries and Benefits	76,642	79,414	73,428
Travel	3,000	3,900	-
<u>Investment Management Fee</u>	-	8,050	16,800
<u>General Operations Costs</u>	11,958	12,300	10,772
Office Space, Equipment, and Supplies	6,218	6,500	5,779
Communications and Internal Computing	5,740	5,800	4,993
Total Standard Services	91,600	103,664	101,000
<u>External Audit Fee</u>	n/a	n/a	n/a
Total	91,600	103,664	101,000

Special Climate Change Fund

16. As agreed with the donors under the Trust Administration Agreements, the Trustee will receive an administrative fee to cover the reasonable actual expenses incurred by the Trustee in carrying out the Trustee function for the SCCF. To cover its administrative expenses for FY08, the Trustee requests USD 146,000. The Trustee appraises the Council that there is an external audit fee for the SCCF. These fees for FY08 are expected to be in the region of USD 30,000.

17. The Trustee's projected costs for FY08 (USD 146,000) represent an increase of about 10.6% from the expected actual costs for FY07 (USD 131,960). The Trustee's projected costs for FY08 reflect a 43.1% overall increase from the approved FY07 budget (USD 102,000). The latter increase is due to three main reasons. First, the investment portfolio for the SCCF is growing. As the size of the investment portfolio has increased since the establishment of the SCCF in FY05, the Trustee has not charged the investment management fee to the SCCF. In light of the Bank's increasing emphasis on full cost recovery for its financial services, the investment management fee for FY08 (USD 16,800) reflects the full cost of managing the SCCF investment portfolio (3.5 basis points on an estimated average balance of USD 48 million). For reference, the total Trustee budget for FY08 represents 0.3% of the total estimated average annual balance of the SCCF for FY08, and about 8% of the total actual investment income earned to date for FY07 (July 2006 through April 2007), which is approximately USD 1.8 million.

18. Second, due to the increasing number of transactions and fiduciary reporting by the GEF Agencies to the Trustee, more robust information and reporting procedures need to be developed. Currently, all financial data and transactional events are communicated via letter or facsimile. This method of communication is inefficient, prone to error, and increases the risk that financial reporting by the Trustee is incorrect. The Trustee will coordinate with the GEF Agencies to develop a more robust method of sharing all financial data and transactions, for both the LDCF and the SCCF.

19. Third, the cost of auditing the SCCF is increasing. Since inception, the SCCF's financial activity has been limited. Accordingly, the first audit of the SCCF was relatively simple and required minimum effort. However, with the increasing level of financial activity in the SCCF, the audit coordination function is expected to require significantly more resources beginning in FY08. For the same reasons, the external audit fee is expected to be higher than in the past. For FY07, the projected audit fee for the SCCF was USD 14,000; however, the actual audit fee as invoiced and paid to the Bank's external auditors was USD 27,513. The higher cost is attributed to the increased financial activity in the SCCF. For FY08, the audit fee is projected to be USD 30,000.

20. Core elements of the Trustee work program over the coming two years for the SCCF include the following: (a) management of donor contributions; (b) financial and investment management of resources; (c) commitments and disbursements to the GEF Agencies; (d) infrastructure and systems support; (e) accounting and reporting for the financial and operational activities of the SCCF; (f) preparation of unaudited financial statements and provision for their audit; and (g) preparation and finalization of Financial Procedures Agreements between the Trustee and the GEF Agencies; and (h) development of an electronic messaging system to share financial and transaction information between the GEF Agencies and the Trustee. Budgetary details of the basic services provided by the Trustee are included in Annex 2. Table 4 shows the breakdown of the Trustee fee by expense category.

Table 4: Trustee Costs for the SCCF by Expense Category

Expense Category	FY07 Approved Budget \$	FY07 Expected Actual \$	FY08 Budget Request \$
Standard Services			
<u>Staff Costs</u>	90,040	106,360	113,703
Salaries and Benefits	87,040	102,460	113,703
Travel	3,000	3,900	-
<u>Investment Management Fee</u>	-	11,200	16,800
<u>General Operations Costs</u>	11,960	14,400	15,497
Office Space, Equipment, and Supplies	6,220	7,488	8,060
Communications and Internal Computing	5,740	6,912	7,437
Total Standard Services	102,000	131,960	146,000
<u>External Audit Fee</u>	14,000	27,513	30,000
Total	116,000	159,473	176,000

Least Developed Countries Fund
Budgetary Details for Basic Services Provided by the Trustee

Task Description	FY07 Approved Budget	FY07 Estimated Actual	FY08 Proposed Budget
	\$	\$	\$
GEF Financial Management	14,800	14,800	18,191
Investment Management	-	8,050	16,800
GEF Relationship Management	24,320	24,460	24,985
Accounting and Reporting	13,200	15,832	16,382
Legal Services	24,322	24,322	13,870
Infrastructure and Systems	11,958	12,300	10,772
Estimated travel costs	<u>3,000</u>	<u>3,900</u>	<u>-</u>
Total Standard Services	91,600	103,664	101,000
External Audit	n/a	n/a	n/a

**Special Climate Change Fund
 Budgetary Details for Basic Services Provided by the Trustee**

Task Description	FY07 Approved Budget \$	FY07 Estimated Actual \$	FY08 Proposed Budget \$
Financial Management	33,180	33,180	36,773
Investment Management	-	11,200	16,800
Relationship Management	24,460	24,460	24,710
Accounting and Reporting	18,050	31,220	36,625
Legal Services	11,350	13,600	15,595
Infrastructure and Systems	11,960	14,400	15,497
Estimated travel costs	<u>3,000</u>	<u>3,500</u>	<u>-</u>
Total Standard Services	102,000	131,560	146,000
External Audit	14,000	27,513	30,000
Total	116,000	159,073	176,000