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Agenda Item 9

## GEF CORPORATE BUDGET FY99



**Draft Decision**

The Council reviewed document GEF/C.11/4, *GEF Corporate Budget FY99*, and approves the proposed budget for FY99 subject to the comments made during the Council meeting.



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## GEF CORPORATE BUDGET FY99

### I. INTRODUCTION

#### PROPOSED CORPORATE BUDGET FOR FY99

1. The *GEF Corporate Budget FY99* is a budget proposal for fiscal year 1999 (July 1, 1998 - June 30, 1999). It seeks Council approval of a proposed budget of \$39,255,410, which represents an increase over FY98 of 6.1% , or 3% in real terms. The budget will allow GEF to prepare new projects with a projected allocation of \$465 million for FY99, an increase of 18 per cent over revised FY98 estimates; to implement and supervise a maturing portfolio of projects 32 per cent more numerous than in FY98; and to support corporate services such as policy and program development and monitoring and evaluation.<sup>1</sup> This corporate budget proposal covers the six entities of the GEF: UNDP, UNEP, World Bank, Secretariat, Trustee, and STAP.
2. This budget document is based on the approved *GEF Corporate Business Plan*; it uses *corporate* rather than unit specific coefficients and cost norms and it accounts for costs by the nature of the *activity* rather than by the types of inputs or financial transfers internal to each GEF unit. This presentation should make the structure and trends in administrative costs clearer than hitherto, and facilitate the consideration of alternative scenarios, options, and trade-offs. But because it is the first budget proposal to be documented for Council in this way, some additional explanatory material has been included to assist the transition to the new approach. First, the two sections that follow this one set out the general principles used in corporate budgeting and their implications for this document. Second, to show continuity in budgeting, the structure of GEF's administrative costs has first been analyzed for FY98 (on the basis of the previously approved *GEF Corporate Budget for FY98*) before being projected on the new basis for FY99.
3. The budgeted amounts do not take into account any changes that may be agreed later in the scope of GEF activities or Implementing Agency mandates, nor the introduction of any strategic partnerships or fee-based systems that the Council may approve later. Furthermore, at the end of the fiscal year, the Implementing Agency budget are liquidated, and unused funds are returned to the GEF Trust Fund.
4. The CEO can also make adjustments within the approval authority given to him by Council, on the basis of cost experience. This year, there are a number of simultaneous innovations for which there is only limited historical experience and in respect of which some adjustment may be needed at mid-year. First, the use of corporate coefficients is new and may need to be readjusted on the basis of experience and interagency comparison. Second, Medium-Sized Projects are now being piloted and there is very little historical data on which to project either the volume of business or the cost of processing.

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<sup>1</sup> For the second time, the budget incorporates the programmatic monitoring and evaluation budget, approved separately in FY97 and since included within the Secretariat's budget. It is identified separately for comparison with budgets for those previous years.

5. The Implementing Agencies and the Secretariat are working on proposals for a fee-based system. Because such a system would have to be based on a standard and transparent reporting of administrative costs and other related costs (such as Executing Agency fees and procurement costs), experience with the corporate budget, a familiarity with its three-tier approach, and a knowledge of the administrative costs that it reveals will facilitate the introduction of a fee-based system.

#### CORPORATE BUDGETING FOR GEF

6. The GEF Corporate Budget is prepared annually for the following fiscal year. It is prepared six months after, and on the basis of, the rolling three-year *GEF Corporate Business Plan* of operations for implementing the *GEF Operational Strategy*. It should therefore be read in conjunction with the *GEF Corporate Business Plan*, which sets out in more detail the substance of the proposed activities.

7. Once approved by Council, the Corporate Budget becomes the basis the six organizational units of GEF use for programming their operations and for deploying staff and other resources for the fiscal year.

8. Each budgeted activity will either contribute to the overall corporate needs of the GEF or to the development, preparation, implementation, or evaluation of activities that contribute to one of the Operational Programs or meets the operational criteria for Enabling Activities or Short Term Measures. This is set in the three tiers of costs recognized: overhead costs, indirect project costs, and direct project costs.

#### PRINCIPLES

9. The budget is consistent with the general planning principles used for the *GEF Corporate Business Plan FY99-FY01*:<sup>2</sup>

##### Principle 1: Integration of planning

10. The various planning processes of the GEF are integrated. The *GEF Corporate Budget* sets out the resources needed for activities in one year of the three-year period of the *GEF Corporate Business Plan*,<sup>3</sup> which in turn is a plan for implementing the programs<sup>4</sup> of the *GEF Operational Strategy*.<sup>5</sup> The programs are managed by Program Managers in the GEF

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<sup>2</sup> *GEF Corporate Business Plan FY99-FY01*. GEF/C.10./4, October 3, 1997. See "Principles used in GEF Corporate Planning," para. 5 ff. In the present document, the order of the principles has been changed to mirror the sequence of the argument presented.

<sup>3</sup> At its May 1995 meeting, the Council approved a corporate business planning/budgeting approach involving a three-year business planning cycle and an annual budget as proposed in Council document GEF/C.4/4, *GEF Business Plan FY96-97 and Budget FY96*. According to this decision, at the second regular meeting of the Council each calendar year (October/November), a three-year rolling business plan would be presented to the Council, and following Council guidance on the work program, a detailed corporate budget would be prepared for the coming fiscal year and presented for Council review and approval at the first meeting of the following year (April/May).

<sup>4</sup> Including the ten Operational Programs, two portfolios of Enabling Activities, and the portfolios of Short-Term Measures in biodiversity, climate change, and ozone depletion.

<sup>5</sup> *Operational Strategy*, Global Environment Facility, Washington, D.C.: February 1996

Secretariat who, with the assistance of the Implementing Agencies and the Monitoring and Evaluation Unit, are devising program performance indicators of the success of GEF. In this way, the budgeted activities of the GEF will be linked not only to individual project outputs but to overall achievement of GEF's global environmental objectives. (See Table 1 for the GEF programs.)

11. The *GEF Corporate Budget FY99* proposal is based on Implementing Agencies' proposed activity levels for delivering the products expected within the first year of the *GEF Corporate Business Plan FY99 - FY01*.

#### **Principle 2: Corporate identity**

12. The *GEF Corporate Budget* is based on the activities of GEF as a corporate entity comprising six organizational units: the three Implementing Agencies (UNDP, UNEP, World Bank), the Secretariat, the Trustee, and the Scientific and Technical Advisory Panel (STAP). This approach should facilitate agency planning and Council decision-making, improve transparency, and facilitate interagency comparison.

13. To present a budget proposal in a corporate way, the budgeted activities are initially aggregated without distinguishing the GEF units that would carry them out, and disaggregated by unit only as a final step to draw out the implications for individual budgets. This is to improve clarity relative to previous GEF budget proposals which had conjoined budget proposals prepared separately by the GEF units using their own conventions. The advantage of presenting costs corporately is that the broad cost drivers can be seen more clearly when Implementing Agency detail is omitted; alternative scenarios, options, and trade-offs can also be analyzed at this stage.

14. This corporate budget proposal has therefore been prepared using a common staff week rate and corporate average coefficients for project work that are reasonable on the basis of empirical data and projected cost savings. The staff week rate proposed for budgeting purposes is the same for each Implementing Agency, despite some actual differences. The coefficients distinguish categories of activity that require different levels of effort, but do not distinguish among Implementing Agencies. The advantage of this common approach, apart from simplifying the presentation and facilitating the analysis of broad alternatives, is that the Implementing Agencies have a common framework for comparing their experiences so that they can continue to seek cost savings and to focus on activities where they have a comparative advantage.<sup>6</sup>

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<sup>6</sup> The risk that GEF may either under-budget or over-budget for an Implementing Agency is reduced by the fact the overall Implementing Agency budgets would reflect the impact of a mix of assumptions and corporate coefficients, some of which may be slightly lower and some of which may be slightly higher than the corresponding historical coefficients of that agency. In any case, the difference between the agency-specific and the corporate average cost for a given activity type (such as "preparation of technical assistance project") may not be as large as the differences between different activities of the same type, even within the same agency (such as the difference between the costs of preparing technical assistances on different focal areas or in different regions). For overall budgets therefore, corporate averages should suffice.

15. Only after the structure and trends of the corporate costs are set out, is a specific proposal made concerning the allocation of the resources to individual GEF units. This subsequent allocation is based on the planned activity levels of the units in accordance with Business Plan projections. It makes more transparent the division of work and any agency differentials in costs and in cases where activities are common to more than one agency (such as medium-sized projects), it applies common assumptions on the level of effort.

### **Principle 3: Realism**

16. The budget is now more realistically tied to the costs of activities as a result of progress on three fronts. First, costs are now allocated to projects and corporate outputs through the three-tier cost accounting framework recommended by Price Waterhouse and endorsed by the Council on a pilot basis<sup>7</sup> for FY97. Second, the budget now uses project categories that reflect known differences in cost (categories such as "investment project" and "Enabling Activity subject to expedited procedures"). It no longer uses categories that reflect substantive distinctions (categories such as the focal area) nor makes a distinction between projects in Operational Programs and those meeting short-term criteria.<sup>8</sup> Third, because of improved data and growing experience within the three-tier framework, the GEF units are now able to make more accurate estimates about the level of effort required for the various activities.

17. The Secretariat and the Implementing Agencies will further improve the accuracy and transparency of the cost information through two current efforts. The first effort is to propose a fee-based system, initially to supplement and ultimately to replace the current annual budgeting exercise. Mechanisms to ensure the release and updating of accurate cost information need to be built into such a system. The second is a review and analysis of executing agency costs. These are approved as part of the project allocation rather than the administrative budget but need to be considered together if the overall costs of achieving a project objective are to be gauged realistically.

### **Principle 4: Steady, stable growth**

18. For the GEF Work Program to be sustainable, changes from year to year need to be as smooth as possible. This principle was introduced in the FY97 Budget Paper and supported by the Council as a long-term principle appropriate for operating a financial mechanism as a going concern. Business Plans are prepared on the assumption of steady, stable growth, and the *GEF Corporate Business Plan FY99-FY01* projected three-year average corporate growth at a steady 15 per cent per annum in allocations made. In any given year, the level of *activities* reflects both the current growth in project preparation and development work and the legacy of past growth in terms of the effort required for implementation and evaluation. Over time, as the portfolio matures, the steady, stable growth in allocations will also be reflected in steady, stable growth in overall activity levels.

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<sup>7</sup> See Decisions of the Council, Agenda Item 9, *GEF Administrative Budget*, para. 23, approving the recommendations in document GEF/C.7/9, *Recommendations Concerning the Preparation of the GEF Administrative Budget*, GEF Council Meeting April 2-4, 1996.

<sup>8</sup> Data on the substantive categories is of course included in the Corporate Business Plan.

#### **Principle 5: Cost-effectiveness**

19. To improve administrative cost-effectiveness, it is first necessary to understand both the underlying structure of and trends in administrative costs in GEF. These are set out respectively in Section II and Section III, corporately and realistically. Actions to improve cost-effectiveness are then discussed in Section IV in terms of their impact on the underlying structure and trends. The budget proposal assumes that cost-effectiveness continues to improve through the following management actions: mainstreaming, leveraging, improved application of incremental cost financing principles, productivity gains, and partnership.

20. To improve the *overall* cost-effectiveness of achieving a desired output, it is necessary to understand all the costs – not only the administrative costs financed through the corporate budget but also the various project-related costs financed through the project allocation. The total cost incurred by the GEF includes: project direct and project indirect costs, which are financed through the corporate budget; executing agency fees and procurement costs, which are financed through the project allocation; and the incremental cost of the project itself. To improve overall cost-effectiveness, the various trade-offs among these costs need to be considered. These trade-offs will be analyzed, and are not reported in this document. One possible trade-off concerns the costs incurred by the Implementing Agency and those of its Executing Agency under alternative arrangements for project execution; another concerns the resources devoted to the accurate estimation of incremental cost by Implementing Agency staff and country officials and the incremental cost itself.

#### **Principle 6: Flexibility**

21. While GEF will need to be most flexible in the two outer years of each three-year Business Plan rather than in a given budget year where firm commitments have often been made, some flexibility will also be needed in FY99 if assumptions about external circumstances are not borne out or if Council requests alternative approaches in the light of the budget trade-offs. The approach outlined above, which makes use of common effort and cost coefficients, should facilitate discussion on any trade-offs. Alternative scenarios that embody cost saving assumptions that differ from those adopted for the budget request allow us to examine the budget implications of eventualities beyond the immediate control of the six organizational units of the GEF; and alternative courses of action for the GEF illustrate the budgetary and other trade-offs that can be made using the same basic information.

22. Flexibility in the use of resources is important for improving cost-effectiveness. The budget implicitly invites flexibility in matters for which details are not specified. For example, it no longer records any specific mix of the staff time of central coordinating unit staff, of mainstream staff on a cost-sharing basis, of field staff on a reimbursement basis, and of consultants on a fee for service basis. As a corporate proposal, the budget does not need to specify the internal financial transactions within each unit, because these are not relevant for overall planning purposes. UNDP, for example, has a system of reimbursing direct and indirect costs for core operations support. No distinction is made in the budget between costs incurred at UNDP headquarters and those incurred in the field, and in fact

UNDP will shift additional resources from the center to the field in FY99. The World Bank also has a system for reimbursing costs incurred by IFC and regional units of the Bank. In this case too, no distinction is recorded in the budget between costs incurred by the coordinating unit and those incurred elsewhere in the Bank, and in fact the Bank is expected to continue its efforts in decentralization in FY99.

23. The GEF budget process has the flexibility to accommodate the uncertainties the Implementing Agencies face in budgeting on the basis of corporate averages, relying on future cost savings that are estimated, and planning for a changing mix of products, some of them new.

- Initially at least, the use of corporate coefficients and staff week rates will mean that the actual costs for an *agency* in any given line item will differ somewhat from the costs budgeted for that line item. Due to averaging, some of these line item costs will be higher, and some will be lower, than the corresponding budgeted amount. However, as in earlier years, the agencies retain line item flexibility among the project direct costs, so that lower costs in one item can offset higher costs in another.
- The projected improvements in efficiency over FY98 introduce some uncertainty. On the one hand, there may be some uncertainty over the projected administrative cost savings on GEF projects and therefore on the coefficients used. On the other hand, however, the projected staff week rate may be underestimated because no account has been taken of any overall institutional efficiencies that should result from current renewal programs in the Implementing Agencies. To accommodate these uncertainties, adjustments to the budget can be made within the CEO's discretionary limit (5%) or through the mid-year budget review. Such adjustments would be made on the basis of actual costs monitored by the Implementing Agencies.
- Deviations in the volume or mix of project activities may also require budget adjustment, within the CEO's discretionary limit or through the mid-year review.

Table 1. GEF Programs

<b>Focal Area</b>	<b>Type of Activity</b>	<b>Portfolio</b>
<b>Biodiversity</b>	Operational Programs	OP#1: Arid and semi-arid ecosystems OP#2: Coastal, marine, and freshwater ecosystems (including wetlands) OP#3: Forest ecosystems OP#4: Mountain ecosystems Biodiversity Enabling Activities Biodiversity Short-Term Measures
<b>Climate Change</b>	Enabling Activities Short-Term Measures Operational Programs	OP#5: Removing barriers to energy conservation and energy efficiency OP#6: Promoting the adoption of renewable energy by removing barriers and reducing implementation costs OP#7: Reducing the long-term costs of low greenhouse gas-emitting energy technologies OP#11: Transport energy (Being developed) OP#12: Carbon sequestration (Being developed) Climate Change Enabling Activities Climate Change Short-Term Measures
<b>International Waters</b>	Enabling Activities Short-Term Measures Operational Programs	OP#8: Waterbody-based program  OP#9: Integrated land and water multiple focal area OP#10: Contaminant-based program
<b>Ozone Depletion</b>	Short-Term Measures  Enabling Activities	Projects  Country Programs to identify and prepare eligible projects

## II. STRUCTURE OF ADMINISTRATIVE COSTS

24. To separate description of costs from current policy options, the structure of administrative costs is best illustrated using the historical FY98 budget proposal.<sup>9</sup> The FY98 budget has been disaggregated in Table 2 to reflect the underlying cost structure described below, using the coefficients of effort recently reported by the agencies.

### FIXED AND VARIABLE COSTS

25. At the broadest level, costs are reported on three tiers: project direct, project indirect, and overheads.

#### Project direct costs

26. These are ascribed to individual projects, and are thus variable costs that depend on the nature and volume of work. These are the costs of activities and tasks directed to a specific identifiable project for a material amount of time, to be determined by the staff member, which would warrant time tracking against that concept or project by phase of the project cycle.

#### Project indirect costs

27. These are ascribed to work program preparation and coordination (which is determined by the overall expected level of effort, rather than project-by-project), and so are partly fixed. These are the costs of activities and tasks associated with GEF programming, including bilateral project review meetings, project review, and advice associated with Interagency and GEFOP meetings; other project-related work involving activities relevant for multiple projects but not distinguishable to one or a few projects, e.g. Project Implementation Reviews, the focal area Task Forces, and country project development workshops. For STAP, it was agreed that all project-related activities could be classified as project indirect to avoid the need for time sheets from STAP panel members.

#### Overhead costs

28. These are ascribed to corporate outputs (such as program management, policy and program development, administrative services needed to support the governance and decision-making processes of the GEF, and programmatic monitoring and evaluation, corporate outreach), and so are fixed costs in a given year. The level of these activities remains relatively constant from year to year (with the exception of cyclical activity of the Assembly and Replenishment). These costs include management, budget and business planning, personnel, finance, preparation of Council-requested documents and attendance at meetings required to support the decision-making and governance structure, e.g. Annual Report, policy papers, Council meetings, CoPs, and basic communications.

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<sup>9</sup> *GEF Corporate for FY98*, GEF/C.9/4, April 1, 1997. See Table 11.



#### OUTPUT TYPE

29. Costs vary by the type of output. There are four main *cost* categories; costs are similar within a cost category but vary considerably between cost categories because of different project cycles or effort levels.

#### Investment (INV)

30. Large, regular projects are processed according to the full GEF project cycle. Investment projects are implemented by the World Bank and, because of their size and complexity, generally require longer and more costly development, preparation, implementation, and evaluation than the other types of GEF project.

#### Technical assistance (TA)

31. Regular projects comprising technical assistance, capacity-building, institutional strengthening, and those enabling activities connected to the Operational Programs rather than the preparation of National Communications, tend to be smaller, more standardized and less costly to administer. Technical assistance projects are mainly implemented by UNDP and UNEP, although some World Bank investment projects have technical assistance components.

#### Medium-sized project (MSP)

32. At their meeting in October 1996, the GEF Council meeting approved expedited procedures for processing medium-sized projects (less than \$1 million in size).<sup>10</sup> Although this simplified cycle reduces the cost per project, the cost as a proportion of the allocation is higher than for larger projects. The administrative costs of medium-sized projects are also somewhat uncertain, as the Implementing Agencies have had very limited experience with this newly introduced modality.

#### Expedited Enabling Activity (EEA)

33. Enabling Activities for the preparation of National Communications that meet the operational criteria and do not exceed the established cost norms can be approved by the CEO using expedited procedures. These are very standardized activities. Some "retrofits" (additions to existing enabling activities to accommodate new guidance from a Conference of the Parties) are also included in this category. Enabling activities that exceed the cost limits for expedited approval and any enabling activity not directly associated with the preparation of national communications, are regarded as having cost and effort levels that are comparable to technical assistance projects.

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<sup>10</sup> *Proposal for Medium-Sized Projects*. GEF/C.8/5

**Table 2: Structure of Administrative Costs, FY98**

Tier	Activity	Note	Type	Number	Coefficient (Staff Weeks/act.)	Effort (Staff Weeks)	Cost (\$'000)
First (Corporate Outputs)	Program Management		1 Programs	18	16.0	208.0	1076.4
	Program and Policy Development		2 Papers	10	23.3	182.5	953.7
	External - Outreach		3			175.0	914.4
	- Training		4			0.0	0.0
	GEF Council/NGO consultations/Replenishment		5 Meetings	2		156.5	817.6
	CoPs and Subsidiary Bodies		6 Meetings	9		80.0	418.0
	IA administration		7			764.0	3992.0
	Subtotal					1564.0	8172.0
	Trust Fund Management		8			160.4	838.0
	STAP Secretariat		9			72.5	379.0
Second (Project Indirect)	Monitoring and Evaluation		10			183.7	960.0
	- Development of Indicators		11 Focal Areas			0.0	0.0
	Subtotal					1880.7	10349.0
	Coordination		12 Activities			940.6	4914.6
	STAP Workshops/Meetings/Selective Reviews		13 Reviews			149.7	782.0
	Subtotal					1090.3	5696.6
	Phase I (Project Development)		14 INV	28	52.0	1456.0	
			15 TA	26	10.0	260.0	
			16 MSP	27	4.0	108.0	
			17 EEA	62	3.5	217.0	
Third (Project Direct)	Subtotal			143		2041.0	10755.4
	Phase II (Project Preparation)		18 INV	20	17.0	340.0	
			TA	13	11.0	143.0	
			MSP	4	2.0	8.0	
			EEA	30	1.5	45.0	
	Subtotal			67	8.0	536.0	2814.7
	Phase III (Project Implementation)		19 INV	79	13.0	1027.0	
			TA	66	2.0	132.0	
			MSP	4	4.0	16.0	
			EEA	60	1.5	90.0	
TOTAL	Subtotal			209	6.1	1265.0	6741.5
	Phase IV (Project Evaluation)		20 INV	5	12.0	60.0	
			TA	22	3.0	66.0	
	Subtotal			424	9.46	126.0	652
						4012.2	20983.6
							37009.2

See GEF/C.9/4, April 1, 1997 and Appendix to GEF/C.9/9/Rev.1, May 6, 1997

Notes for Table 2

1	The 16 programs are listed in Table 1.
2	Currently, two operational programs are under development: OP#11 on transport and OP#12 on carbon sequestration. Other policy work in the period, and still ongoing in FY99, includes joint work with the CBD secretariat on benefit-sharing, and work on agrobiodiversity.
3	Outreach includes publications, books, external affairs, and NGO relations.
4	Training for task managers and new recruits is planned for FY99. Training on special topics like incremental cost is also planned.
5	There are two Council Meetings a year, each preceded by an NGO consultation. This category includes all work on Council relations and preparations.
6	Conferences of the Parties and relevant subsidiary bodies.
7	Administration by the agencies, including their participation on task forces, retreats etc., and responses to Secretariat requests
8	Trust Fund management by the GEF Trustee, replenishment, and donor relations
9	STAP Secretariat, including maintenance of the Roster
10	Monitoring and Evaluation is a separate budget
11	This line indicates a special emphasis on program indicator development in FY99 for biodiversity and barrier removal.
12	Coordination of Work Programs, project review, and GEFOP.
13	STAP's work program, related to meetings (typically three annually), workshops, and selective project reviews.
14	Project development includes work up to Council approval. INV = Regular investment projects, which may also include technical assistance components. Typically implemented by the Bank.
15	TA = Technical assistance projects, including capacity-building, institutional strengthening, and enabling activities justified in the context of an operational program, and enabling activities for the preparation of National Communications or Reports that do not qualify for expedited procedures. Typically implemented by UNDP and UNEP. A single (corporate) set of coefficients is used, irrespective of agency.
16	MSP = Medium-sized project. Any of the Implementing Agencies may process. A single (corporate) set of coefficients are used for all.
17	EEA = Expedited Enabling Activity. One supporting the preparation of a National Communication or National Report that conforms to the operational criteria and cost norms and therefore qualifies for expedited procedures.
18	Project preparation includes processing after Council approval but prior to agency approval.
19	Implementation includes supervision and monitoring.
20	Evaluation includes completion reporting.

34. Over the lifetime of a project, the current reported administrative costs in the above categories are:

Cost Category	Cost/Allocation
INV	7 - 8%
MSP	10%
EEA	10% - 20%

35. The above categorization is for purposes of *costing* only. Projects are considered on their substantive merits according to the categories established in the Operational Strategy. Only three types of projects can be accommodated within the current strategy:

- projects, including targeted research and enabling activities other than those in support of the National Communications, that conform to the objectives and scope of an Operational Program;
- short-term measures that meet the relevant criteria; and
- enabling activities for the preparation of National Communications, that meet the operational criteria for such activities.

The relationship between project and cost categories is shown below:

Project Categories in the GEF Operational Strategy	Cost Categories applicable
Operational Program	INV; TA; MSP
Short Term Measures	INV; TA; MSP
Enabling Activities in support of National Communications	EEA; TA

#### PROCESSING PHASE

36. Project direct costs are incurred at different points of their processing within the GEF project cycle.

- *Phase I (Development)* – Processing up to Council approval, and developing the pipeline for the next and following financial years.
- *Phase II (Preparation)* – Processing up to Implementing Agency approval.
- *Phase III (Implementation)* – Supervision and monitoring.
- *Phase IV (Evaluation)* – Completion reporting and evaluation.

Although costs vary by project type and agency, the typical pattern is for half the costs to be incurred in Phase I, with the remainder spread over a number of years (5 or 6 in the case of an investment, 2 or 3 for an MSP).

37. Under the current budget process, costs are budgeted for the year in which they occur. That is, the annual budget covers Phase I and perhaps Phase II of new projects, but also includes amounts related to Phase II and Phase IV of projects approved by Council in earlier years. That is, there is an implied commitment at the time of approval for costs that

will be incurred in subsequent years as well -- for Phase II and Phase IV. To cover for these costs, the Trustee provisions for GEF as a whole. In future, if budgeting were done on a fee basis, lifetime administrative costs could be transparently reserved project-by-project at the time of approval, to provide resources for the Implementing Agencies to do their own provisioning for future costs.

#### AGENCY DIFFERENTIALS

38. Budgeting is done in staff weeks and dollars to carry out an activity. Staff weeks (both professional higher level staff and consultants) are translated into dollar amounts based on typical costs associated with supporting staff (salary and benefits, consultants fees, secretarial support, contractual services, office rental, communications, equipment, supplies, translation services, travel, expenses and institutional costs for utilities, maintenance, insurance, security, etc.). Differences in costs between agencies reflect different ways of doing business in each agency (i.e., the mix of these components), the different cost structure in each institution, and location-specific costs (such as secretarial support, travel, and communications). In FY98 the agency costs per staff week were as shown below.

Implementing Agency	Cost per Staff Week, FY98	Differential
UNDP	\$4720	0.90
UNEP, STAP	\$4800	0.92
World Bank, Trustee, Secretariat	\$5400	1.03
Weighted Average	\$5225	1.00

#### EXECUTION COSTS

39. The costs of project execution are of a quasi-administrative nature. On the one hand they are related to incremental costs of administering a specific project; on the other, they are costs not of measures "on the ground" but of administration or project coordination. In some projects, execution costs may be incurred in an eligible recipient country, for example procurement fees and where there is a project management unit at the project site. But in other projects (particularly global, regional, umbrella, trust fund or multi-country projects), execution costs may be incurred in a project management unit elsewhere. These costs do not appear on the GEF Corporate Budget but are included in the relevant project budget at the time of approval.

40. Currently, the costs of execution vary considerably by project type and choice of Executing Agency, as illustrated below.

Executing Agency	Costs
Global and regional projects, funds	15%+
NGOs (typical)	12%
Regional Development Banks, Development Finance Institutions, UNOPS and other UN agencies (typical)	8-10%
Government agencies (typical)	3%

Clearly, there are a number of choices and potential trade-offs. One is between executing a number of similar but separate country projects and executing a single multi-country project. The latter may achieve administrative efficiencies through scale, but could require complex executing agency arrangements. The choice between the two could be biased in favor of the latter if the execution costs were regarded as "off-budget." Another choice is between using government agencies instead of an international institution. There is no general practice of explicitly trading off against other considerations the higher cost of one means of execution relative to an alternative means. In future, a fee-based system could include an overall assessment of the costs of implementation (i.e., including all execution costs, no matter where incurred) to increase transparency and the understanding of such options and tradeoffs. Although cost will be an important element, other factors such as technical expertise and experience will determine the choice of Executing Agency.

### III. TRENDS IN ADMINISTRATIVE COSTS

41. External cost drivers are factors that are largely outside management control (such as agreed projected growth, the existing portfolio composition, and inflation). These factors drive the underlying trend in costs (i.e., the projected level of costs in the absence of special management effort). This trend is a baseline against which one can estimate the impact of internal cost drivers (such as institutional change, learning, and cost efficiency measures that were foreshadowed in the Business Plan).

#### COST DRIVERS

42. The factors pushing up costs can be inferred from the structure of costs set out in Section II.

#### Growth

43. Variable costs (direct and indirect project costs) will grow with a growing work program. Growth in the work program allocations was projected at 18 per cent in FY99 over revised projections for FY98, bringing the proposed total allocation to \$485 million. Although, as described in the Business Plan, there would be a change in emphasis (toward program management, corporate outreach, and monitoring and evaluation), no overall growth is assumed in the level of activity related to corporate products.

#### Product mix

44. Growth in MSPs will tend to push administrative costs up faster than overall growth in work program allocations. The reason is that administrative costs as a percentage of total costs are lower for larger projects than smaller ones, which still require a minimum number of processing steps no matter how small the resulting allocation.

#### Portfolio maturation

45. The mix of projects in the various stages of the project cycle will change. A large percentage of projects will enter later phases, such as implementation. Even though allocations are projected to increase by 18 per cent, the increase in the number of projects under implementation will be 58 per cent, an increase that would occur even in the absence of any FY99 project development and preparation work because it reflects a legacy of earlier work programs.

46. The number of projects under implementation will increase greatly. The growth is the difference between the number of projects approved by the Implementing Agencies in the work plans in the year and the number of projects that are "closed" (fully implemented). UNDP is currently supervising a portfolio of 66 technical assistance projects and about 80 enabling activities. The number under supervision is expected to grow annually by 20 to 25 in technical assistance, and by 20 to 30 in medium size projects. In addition, UNDP is supervising 110 enabling activities. Given UNDP's highly decentralized structure, effective portfolio development and monitoring requires investment in enhancing country offices' implementation capabilities in GEF's strategy, programs, policies, and procedures. UNEP estimates that the number of technical assistances under implementation will grow annually by between 3 and 5, medium-sized projects by between

5 and 7, and Enabling Activities by between 8 and 10. In the case of the World Bank, the number of projects under supervision is expected to grow annually by between 10 to 15, as the average estimated time for an investment project to be implemented is 5 to 6 years. Medium sized projects are expected to take an average of 2.5 years to implement.

#### **Agency mix**

47. No major change is anticipated in the proportion of the work program implemented by the three Implementing Agencies, and so this is unlikely to affect cost trends.

#### **Inflation**

48. An underlying dollar inflation rate of 3 per cent over FY98 is assumed. Expenditures in local currencies may inflate at higher levels but, for budgeting purposes, it is expected that foreign exchange rates will adjust so that in dollar terms the same average rate will apply internationally.

#### **UNDERLYING TREND**

49. Section IV, which follows, sets out the efforts of the GEF units to manage these cost drivers and so reduce administrative costs. Given the portfolio and the expected growth in the volume of work, these management efforts will result in 6.1% budget increase over the FY98 budget amount. These management efforts will be strenuous: to illustrate just how strenuous, it is useful to contrast this requested 6.1% budget increase with the underlying trend, i.e., with what the costs *would have been* had no such effort been made. This underlying trend, shown in Table 5, would have pushed the administrative cost to a level 20.3% higher than the FY98 budget. The trend was derived from:

- the projected activities required to meet delivery expectations for FY99 set out in the Corporate Business Plan (Table 3);
- the unadjusted FY98 coefficients of effort (Table 4);
- a level of effort on corporate products and work program coordination (Items 1 to 12 in Table 2) that grows at the rolling corporate average rate assumed for the work program as a whole (namely, 15 %); and
- the expected FY99 corporate average staff week derived from the FY98 level using an expected inflation rate of 3%.



**Table 3: Projected Activities, FY99**

Activity	Type	UNDP	UNEP	WB/IFC	All IAs	Sect.	M&E	Truste	STAP
<b>Corporate (Staff Weeks)</b>									
Program Management	Programs					287.5			
Program and Policy Development	Papers					244.4			
External - Outreach	Workshops					138.0			
- Training						57.5			
GEF Council	Meetings					134.0			
CoPs and Subsidiary Bodies	Meetings					57.5			
IA Administration (@15% growth)		367.6	132.5	378.6	878.6				
<i>Subtotal</i>		367.6	132.5	378.6	878.6	918.9		184.5	
Trust Fund Management									83.38
STAP Secretariat							211.3		
Monitoring and Evaluation							40		
- Incr. development of GEF-wide M&E	Focal Areas	22	14	39	75				
<i>Subtotal</i>		389.6	146.5	417.6	953.6	918.9	251.3	184.5	83.38
<b>Project Indirect (Staff Weeks)</b>									
Coordination (@15% growth)	Activities	281.7	116	259.4	657.1	425.5			149.7
STAP Wshops/Mtings/Sel.Reviews	Reviews								
<i>Subtotal</i>		281.7	116	259.4	657.1	425.5	0	0	149.7
<b>Project Direct (Activities)</b>									
Phase I (Project Development)	INV			29	29				
	TA	24	7		31				
	MSP	21	6	15	42				
	EEA	11	7	5	23				
	<i>Subtotal</i>	56	20	49	125				
Phase II (Project Preparation)	INV			22	22				
	TA	16	5		21				
	MSP	13	3	15	31				
	EEA	30	5	5	40				
	<i>Subtotal</i>	59	13	42	114				
Phase III (Project Implementation)	INV			91	91				
	TA	83	13		96				
	MSP	15	7	8	30				
	EEA	110	10	5	125				
	<i>Subtotal</i>	208	30	104	342				
Phase IV (Project Evaluation)	INV	0	0	10	10				
	TA	15	3	0	18				
	<i>Subtotal</i>	15	3	10	28				
<i>Subtotal</i>		338	66	205	609				

**Table 4: Coefficients of Effort, FY98 and FY99**

<b>Phase</b>	<b>Activity Type</b>	<b>Staff Weeks FY98</b>	<b>Staff Weeks FY99</b>
Phase I (Project Development)	INV	52.0	49.0
	TA	10.0	9.0
	MSP	4.0	4.0
	EEA	3.5	2.2
Phase II (Project Preparation)	INV	17.0	14.0
	TA	11.0	6.3
	MSP	2.0	2.0
	EEA	1.5	0.9
Phase III (Project Implementation)	INV	13.0	13.0
	TA	2.0	3.2
	MSP	4.0	4.0
	EEA	1.5	1.5
Phase IV (Project Evaluation)	INV	12.0	8.0
	TA	3.0	2.0
<b>Inflation (estimate)</b>		3.00%	
<b>Staff Week FY98</b>		\$5,225	
<b>Staff Week FY99</b>		\$5,382	

**Table 5: Trends in Administrative Costs, FY99**

Tier	Activity	Type	Number	Coefficient (Staff/Weeks/act.)	Effort (Staff/Weeks)	Cost (\$'000)
First (Corporate Outputs)	Program Management	Programs	16		287.5	1547.3
	Program and Policy Development	Papers	8		244.4	1315.3
	External - Outreach				138.0	742.7
	- Training				57.5	309.5
	GEF Council/NGO consultations	Meetings	2		134.0	720.9
	CoPs and Subsidiary Bodies	Meetings	9		57.5	309.5
	IA Administration				878.6	4728.6
	Subtotal				1797.5	9873.6
	Trust Fund Management				184.5	992.7
	STAP Secretariat				83.4	448.7
Second (Project Indirect)	Monitoring and Evaluation				211.3	1137.1
	- Development of Indicators				115.0	618.9
	Subtotal	Focal Areas	2		2391.6	12871.1
	Coordination	Activities			1082.6	5826.4
	STAP Workshops/Meetings/Selective Reviews	Reviews			149.7	805.5
	Subtotal				1232.3	6631.9
	Phase I (Project Development)	INV	29	52.0	1508.0	
		TA	31	10.0	310.0	
		MSP	42	4.0	168.0	
		EEA	23	3.5	80.5	
Third (Project Direct)	Subtotal		125		2066.5	11121.4
	Phase II (Project Preparation)	INV	22	17.0	374.0	
		TA	21	11.0	231.0	
		MSP	31	2.0	82.0	
		EEA	40	1.5	60.0	
	Subtotal		114		727.0	3912.5
	Phase III (Project Implementation)	INV	91	13.0	1183.0	
		TA	96	2.0	192.0	
		MSP	30	4.0	120.0	
		EEA	125	1.5	187.5	
TOTAL	Subtotal		342		1682.5	9054.8
	Phase IV (Project Evaluation)	INV	10	12.0	120.0	645.8
		TA	18	3.0	54.0	290.6
	Subtotal		609		936.4	25025.1
						44528.1
						20.3%
Unmanaged growth in costs over FY98 would have been =						

#### IV: MANAGEMENT OF ADMINISTRATIVE COSTS

50. Internal cost drivers are factors within management control (such as institutional change, learning, and cost efficiency measures). These drivers will affect the coefficients of effort used to budget for projected activities and staff week costs, and the overall effect can be illustrated by comparing the resulting costs with the underlying trend that reflects only the external cost drivers.

##### FACTORS AFFECTING UNIT RESOURCE NEEDS

51. Management can reduce administrative costs by
- a) mainstreaming the global environment;
  - b) sharing administrative costs;
  - c) streamlining the project cycle;
  - d) improving agency productivity;
  - e) collaborating with other agencies;
  - f) learning;
  - g) using efficient modalities;
  - h) containing growth in overheads and indirect costs.

##### Mainstreaming the global environment

52. One of the distinguishing factors in favor of UNDP, UNEP, and the World Bank becoming Implementing Agencies of the GEF was the complementary nature of their regular work programs, which was expected to result in cost savings. In fact the Heads of Agency have agreed that GEF grant resources should catalyze creative packaging of finance for environment friendly technologies and activities and that this would call for fewer free-standing projects and more cofunded ones. To facilitate this "mainstreaming," the agencies planned to intensify information dissemination and communication with their management and operational units to increase understanding about GEF's objectives and approach, and to integrate better global environmental concerns into their regular work programs. Despite difficulties in mainstreaming, all the Implementing Agencies remain committed to it.

53. As mainstreaming proceeds, one would expect increasing evidence of institutional commitment to GEF projects and of more resources being committed to the GEF programs by the Implementing Agencies. One indicator is the number of **associated projects**, which would increase as more GEF activities are developed as substitutes for or additions to regular, or "baseline," activities implemented by the agencies. UNDP expects the number of associated projects to increase to about 40% in FY99. UNDP regards a GEF project as associated

- if UNDP and/or UNDP-managed resources and GEF resources are blended;
- if the project evolved from an approved UNDP funded or managed project; or
- if the GEF project is a component of a UNDP funded or managed project.

UNEP projects that the percentage of its GEF projects receiving cofunding will increase from 89% in FY98 to about 93% by FY00. The World Bank expects the number of its associated projects to rise from 60 per cent of GEF operations in FY99 to 65 per cent in FY00. The Bank defines association broadly though, and regards a GEF project as being associated

- if GEF and Bank funds are blended;
- if the GEF project is a discrete component of a Bank project whether or not it is processed in parallel; or
- if the project evolved from an approved Bank sector adjustment loan or project.

54. Another indicator is the level of **integrated planning** for specific mainstream efforts within the GEF operational programs. So far, however, no planning data are available that would yet identify:

- countries in which UNDP has programmed TRAC (Target for Resource Assignment from the Core) or cofunded resources for specific activities on which GEF could build;
  - regular work programs of UNEP that include activities that could be expanded or modified with GEF resources to specifically accommodate objectives of the GEF programs;
- nor
- countries in which the World Bank is likely to mainstream operations in support of specific GEF programs by using (say) its Country Assistance Strategy work.

55. UNDP is undergoing a major effort to mainstream the global environmental concerns, and these efforts will require major investment in FY99. There are initiatives to improve communications at all levels; to disseminate lessons; and to develop information systems to track project development and implementation. Cost savings will result from ongoing training programs, systems development, and enhanced country-level capacity to manage GEF operations. UNDP expects its new programming cycle to be more integrated with the GEF work program and that this will produce more projects benefiting from joint financing by UNDP and other donors. For example: the UNDP focus on sustainable human development should provide baseline opportunities for GEF activities, and UNDP can enter partnerships for project development and execution with UN agencies, NGOs, and other organizations of civil society.

56. As in previous years, UNEP expects that during the Business Plan period GEF projects will be able to build on UNEP's regular global and regional projects. The Committee of Permanent Representatives has, however, raised strong concern on the use of UNEP's Environment Fund resources including staff time in support of GEF activities.

57. The 1998 *Study of GEF's Overall Performance* was particularly critical of the limited extent to which the World Bank had integrated global environmental concerns into Country Assistance Strategies and their underlying sectoral analyses. Yet the World Bank has recently renewed its commitment to mainstreaming in its report "Our Global Environment," to which the World Bank President Mr. Wolfensohn referred at the United Nations General Assembly Special Session on the Environment (UNGASS) in June 1997. Mainstreaming global environment in Bank operations is therefore expected, and would result in a more systematic and effective way for GEF to build on or modify regular Bank projects. More specifically, the Bank plans to integrate GEF operations in Bank country dialogue, country assistance strategy, programming, budgeting, and system processes. This will make regional units and task managers more accountable for outputs and resource use, and further increase their incentives for engaging in GEF work. The Bank will

also demonstrate through sector studies how global environmental impacts and mitigation options can be assessed.

#### **Sharing administrative costs**

58. GEF reimburses the IAs for the costs incurred by them for activities undertaken on behalf of GEF on the basis of the Work Program and the budget approved by Council. Therefore, in cases where these activities are for associated projects, GEF should bear only the incremental cost of administration. As efforts on mainstreaming intensify, the agencies will give special attention to the way the costs of operations are shared among GEF, the agency, and other cofinanciers (if any).

59. However the IAs have reported that they have also been absorbing part of this incremental administrative cost.

- UNDP reports that it absorbs costs related to developing and managing the GEF portfolio. This includes time committed by UNDP staff at different levels, as well as some infrastructure costs.
- UNEP reports that it does not charge GEF for the time of staff of the Environment Fund who work on GEF activities, and values this at \$600,000 annually.
- The World Bank reports that it has, since the inception of GEF, been subsidizing the a portion of its indirect and overhead costs associated with GEF activities. The costs it absorbs could be as much as \$3 million. In addition, the Bank has specifically allocated \$200,000 of its own resources to make major changes in its institutional systems to accommodate the GEF requirements. The Bank also shares direct project costs, and experience to date is that administrative costs borne by GEF compared to those of the Bank, in respect its associated projects, range between 1:5 and 1:1. The Bank tracks the allocation of administrative costs and holds task managers accountable.

#### **Streamlining the project cycle**

60. Streamlining will reduce indirect project costs by reducing the effort spent on activities that do not ultimately result in projects and by reducing project processing time. In the last few months, the Secretariat re-aligned its program work to the project preparation work of the IAs. The Secretariat now holds upstream discussions on the project pipeline with the Implementing Agencies in an effort to reach early agreements on those project aspects that are directly related to the overall Secretariat responsibility for ensuring conformity with the strategies, programs, and policies of the GEF and for the development of its portfolios. Upstream agreements, including confirmation of GEF funding eligibility based on project concepts, shorter communication channels, clearer definitions of the Secretariat's role in project review, clearer, more timely, and more operationally relevant policy guidance and greater use of the interagency Task Forces are expected to make downstream reviews of project proposals simpler and more predictable and facilitate the making of corrections because it will be less necessary for the Secretariat to become involved in project details.

61. Likewise the IAs also began to streamline their own documentation to facilitate the work of the Secretariat on such issues as eligibility, program fit, incremental cost, and conformity with GEF policy. Formats for pipeline discussions, upstream agreements on

project concepts, change listings prior to work program inclusion and CEO endorsement, will all help streamlining.

62. Expedited procedures have already led to cost savings in processing relative to non-expedited processing of the same category of activity. However the growth in the volume of medium sized projects will increase costs as a ratio of funds disbursed at country level relative to the regular projects, despite the use of expedited procedures, just because they are smaller.

63. UNDP will be implementing in FY99 the recommendations of a task force led by a UNDP Senior Operational Manager to harmonize the GEF and UNDP project cycles with a view to streamlining processes while meeting GEF requirements in a highly decentralized UNDP environment.

64. UNEP's Project Approval Committee has agreed to simplify the procedures for internal review and approval of GEF expedited enabling activities and regular projects. As a result, UNEP expects to reduce processing time, documentation requirements, and staff weeks needed for regular projects and expedited enabling activities. Efforts also are underway to supplement the GEF administrative budget with cofinancing from bilaterals and other sources, helping to keep the GEF administrative budget growth at modest levels.

65. The World Bank, after a major internal study, has also begun to streamline the processing of GEF projects in FY98. Internal procedures for processing GEF operations have been harmonized with the revised and shortened Bank project cycle. The Bank now also uses logical frameworks for its projects and this has further harmonized the Bank's approach to that of the GEF.

66. In a more far-reaching streamlining effort, the GEF Secretariat and the Bank are developing for Council a proposal for a strategic partnership on renewable energy. If approved, such a partnership would not only strengthen the delivery of global environmental benefits through mainstreaming and leverage, but also reduce direct costs. It would do this by replacing project by project approvals with negotiated programs of action, e.g., to implement one of the Operational Programs in a specific region or specific way. As this proposal has not yet been considered by Council nor yet fully developed, the implications for the budget and for the introduction of a fee-based system will be presented later.

#### **Improving agency productivity**

67. Recent institutional changes within the Implementing Agencies will also affect the cost-effectiveness of GEF operations. The change process in UNDP emphasizes an enhanced decentralized system. The GEF operations will benefit from this process should resources be invested in strengthening UNDP country offices' capacity to manage the GEF project cycle. The change process in the World Bank also emphasizes decentralization, as well as client orientation and shortened communication and approval processes generally. It is expected that it will result in greater country-drivenness and reduced overhead costs.

### **Collaborating with other agencies**

68. The Implementing Agencies have been developing some land degradation and other activities in collaboration. They are also implementing a number of projects and Enabling Activities collaboratively. Examples of such collaboration are biodiversity activities within Operational Programs for Ecuador, Madagascar, and Honduras; biodiversity Enabling Activities for Kenya and Georgia; and international waters activities for Lake Victoria, the Black Sea, and the Danube River. UNDP and UNEP are also collaborating on ozone projects.

69. Interagency collaboration,<sup>11</sup> coordination, and consultation can result in both increased benefits and increased costs. The increased benefits would be in the form of improved project quality and sustainability. The increased costs are attributable to the need to synchronize activities and to process the same project through the project approval processes of more than one agency. It is still an open issue whether the increased costs are commensurate with any increased benefits. (One positive example that has been cited is the Meso-American Corridor project, the high quality and strategic nature of which has been said to justify the higher administrative costs of the interagency collaboration that was necessary.) For this reason, both the modalities and the costs of collaboration warrant further examination.

### **Learning**

70. Efficiency gains are expected through learning and feedback from the Monitoring and Evaluation program, but no specific data on this are available yet.

### **Using efficient modalities**

71. Choices can be made within the following:

- a) *Relative strengths.* It is expected that the Implementing Agencies will concentrate more in areas of their comparative advantage. For example, the Bank will reduce its role in the preparation of Enabling Activities from ten projects in FY98 to five in FY99, as originally projected in last year's Corporate Business Plan, and UNDP is expected to remain the major player here. Likewise, and in accordance with its role in the GEF, UNEP will concentrate on areas where it has a comparative advantage: scientific and technical analyses through targeted research, assessments and structured learning, relating national plans to global objectives through Enabling Activities and awareness-raising, and regional and transboundary projects. These comparative advantages are reflected in the budgeted activities of each IA.
- b) *Project size.* Larger projects, particularly those in climate change that are most easily scaled up, are often less costly to implement and can help leverage more external resources. However, project size is only partly under management control because IAs must respond to country-driven requests and are expected to deploy the new MSP modality. Future convention guidance on program priorities might also affect project size incidentally. For

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<sup>11</sup> At their meeting on June 19, 1996 the Heads of Agency agreed to promote closer agency collaboration on GEF operations and to provide a semi-annual report on progress. Initially three areas were emphasized: client outreach, project pipeline development, and project implementation. This collaborative approach is also reflected in *GEF Corporate Business Plan*.



this reason, changes in product mix were treated as external factors that set the underlying trend in costs.

c) *Flexible funding.* A number of flexible funding arrangements have the potential to reduce the transaction costs of the Implementing Agencies as a proportion the funds committed. Such arrangements include the use of trust funds, venture capital funds, projects with tranches or phases, global and regional projects, and umbrella projects.<sup>12</sup>

d) *Replication and innovation.* There is an essential tension between replication and innovation. In the Operational Programs, it is explicitly assumed that once certain approaches have been demonstrated, there would be replication in other countries or sectors. In some cases, such as the Operational Program "Reducing the Long-Term Costs of Low Greenhouse Gas-Emitting Energy Technologies" (OP#7), a number of similar projects need to be incrementally funded by the GEF until their costs are reduced enough for further replication to be automatic. In others, such as the barrier removal programs, the same approach may need to be funded in many countries. In these cases the costs of implementing the replicated project will decline as a result of organizational learning.

#### **Containing growth in overheads and indirect costs**

72. The Secretariat and the Implementing Agencies have been examining ways to contain growth in their overheads and administrative costs, with a view towards managing an ever-growing portfolio without major real growth in these costs. The Secretariat aims to improve efficiency through refocusing its work priorities and through streamlining its procedures. In this way, the Secretariat plans to offset the expansion in the resources required for program management and for the preparation of program and policy responses to Council and convention guidance, and to follow up to the Overall Performance Study. The shift of emphasis towards program management will require changes in the staff skill mix, which will be managed during staff turnover. Likewise the Implementing Agencies expect to generate internal savings to minimize growth in project indirect costs in their regional bureaus and country offices.

73. Overhead costs, project indirect costs, and costs associated with contributions the IAs make to programmatic monitoring and evaluation work have been maintained at earlier levels. Because the level of work is related to the size of the portfolio, the Implementing Agencies' relative shares of these costs would maintain a relationship to their shares in the overall cumulative allocations. The cumulative allocations for FY95-FY99 were estimated in the Business Plan as 27:5:67 for UNDP:UNEP:World Bank/IFC respectively. Although the pattern of costs is expected to reflect this trend, it would not be proportionate relationship, because a small Implementing Agency would have certain minimal or fixed costs to carry in order to be a full member of the GEF whereas a large one could achieve some economies of scale. On the basis of recent agency cost experience, the

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<sup>12</sup> Some of these raise important policy issues, such as delegating Council authority, ensuring country-drivenness and programmatic fit, and providing incentives for sustainability. In particular, at its meeting in October 1996, the Council requested the Secretariat to prepare an issues note for its consideration on trust funds, including information on the lessons that are emerging from the funds that have been financed by the GEF. This paper would be used as the basis for the Council's review of the issues, and its guidance in resolving the policy issues will determine the subsequent use of such funding arrangements.

ratio 30:18:52 was adopted for respective overhead costs of UNDP:UNEP:World Bank/IFC, as well as for their project indirect and programmatic M&E costs.

#### COEFFICIENTS OF EFFORT

74. The overall effect of the above measures is reduced levels of effort for the given outputs compared to the trend levels (shown in Table 5). The overall effort ascribed to the corporate outputs and to program coordination by the agencies would remain steady, instead of growing at the 15 per cent trend level. The effort required per project activity would also decline, and this is reflected in the coefficients summarized in Table 4 for FY98 and FY99. (These corporate coefficients of effort were based on those projected individually by each of the three Implementing Agencies.) Where essentially the same activity is performed by more than one Implementing Agency, a single corporate coefficient has been estimated.

75. Complementing this use of common rather than IA-specific coefficients of effort, a uniform corporate staff week rate has been used for *budgeting* (\$5,382, which is equivalent to the weighted corporate average for FY98 in real terms). As noted above, the use of this corporate rate, in conjunction with corporate coefficients, is for budgeting purposes and does not prejudice the basis on which the Implementing Agencies may make internal *transfers* to their operational divisions. The World Bank, for example, will use a staff week rate of \$5,560 in FY99, which is 3.3% higher than the corporate average.

76. The overall effectiveness of the cost saving measures is illustrated in the corporate budget projection in Table 6. In this projection, the activity levels are taken from the Business Plan, as they were for the underlying trend, but the coefficients and staff week rate reflect the special management efforts above. The overall growth of the budget compared to FY98 is 6.1%.

**Table 6: Management of Administrative Costs, FY99**

Tier	Activity	Type	Number	Coefficient (Staff Weeks/act.)	Effort (Staff Weeks)	Cost (\$'000)
First (Corporate Outputs)	Program Management	Programs	16		250.0	1345.4
	Program and Policy Development	Papers	8		212.5	1143.7
	External - Outreach				120.0	645.8
	- Training				50.0	269.1
	GEF Council/NGO consultations	Meetings	2		116.5	626.9
	CoPs and Subsidiary Bodies	Meetings	9		50.0	269.1
	IA Administration				636.6	3425.8
	Subtotal				1435.6	7725.8
	Trust Fund Management				160.4	863.2
	STAP Secretariat				72.5	390.2
Second (Project Indirect)	Monitoring and Evaluation				183.7	988.8
	- Development of Indicators	Focal Areas			115.0	618.9
	Subtotal				1967.2	10586.9
	Coordination	Activities			806.7	4341.5
	STAP Workshops/Meetings/Selective Reviews	Reviews			149.7	805.5
	Subtotal				956.4	5147.0
	Phase	INV	29	49.0	1421.0	
	Phase I (Project Development)	TA	31	9.0	279.0	
		MSP	42	4.0	168.0	
		EEA	23	2.2	50.6	
Third (Project Direct)	Subtotal				1918.6	10325.4
	Phase II (Project Preparation)	INV	22	14.0	308.0	
		TA	21	6.3	132.3	
		MSP	31	2.0	62.0	
		EEA	40	0.9	36.0	
	Subtotal				538.3	2897.0
	Phase III (Project Implementation)	INV	114	13.0	1183.0	
		TA	96	3.2	307.2	
		MSP	30	4.0	120.0	
		EEA	125	1.5	187.5	
TOTAL	Subtotal				1797.7	9674.8
	Phase IV (Project Evaluation)	INV	342			
		TA	10	8.0	80.0	430.5
			18	2.0	36.0	193.7
	Subtotal					624.3
			609			23521.5
						39255.4
				Increase over FY98 =		6.1%

## V. PROPOSED BUDGETS FOR THE GEF UNITS

77. The proposed budgets for individual GEF units are derived from the corporate budget projection in Table 6. This projection assumes that costs are managed using measures set out in Part IV and that the nature of tasks and mandates is unchanged. No fundamentally new tasks, such as might arise as a response to the Overall Performance Study, have been identified for budget purposes. The budgets of individual GEF units have been split out from the total on the basis of the division of work between the agencies set out in Table 3. A uniform corporate staff week rate is proposed, so no agency differentials are applied.

78. During the Pilot Phase and the first three years of permanent operation (FY95-FY97), the GEF built an overall portfolio worth \$1.6 billion overall and comprising 337 projects (including 107 enabling activities) in various stages of development. (This portfolio is set out in the GEF Corporate Business Plan.) About three-quarters of the work is in projects in the climate change and biodiversity focal areas. In financial terms, the World Bank accounts for the largest portion of the combined Pilot Phase and permanent operation portfolio (66 percent), followed by UNDP (29 per cent) and UNEP (3 per cent). Joint projects involving all three Implementing Agencies account for the remainder (2 per cent).

79. The primary focus is on direct project costs for project development, preparation, implementation, and evaluation, as these account for the bulk of the budget request. Budgets for indirect costs and for corporate outputs (common services, administration, STAP workshops, programmatic monitoring and evaluation work, and Trustee services) are relatively stable from year to year, and the activities are set out in the Business Plan, which highlights areas of special emphasis and initiatives.

# UNDP

80. UNDP's budget accommodates major growth in the development of new projects; the 24 regular and 21 medium-sized projects are expected to result in a 36% growth in allocations over FY98. In addition the 83 regular, 15 medium-sized projects, and 110 expedited Enabling Activities under implementation would represent a growth of 60% in the number of projects under implementation over FY98. Resources follow the emphasis in mainstreaming of country office operations, and in enhancing the project information tracking process and the dissemination of lessons. See Table 7.

**Table 7: Proposed Budget FY99 UNDP**

Tier	Activity Type	Activities	Coefficient	Staff Weeks
<b>Corporate</b>				194
- Monitoring				22
<b>Project Indirect</b>				133
<b>Project Direct</b>				
Phase I (Project Development)	INV	0	49	0
	TA	24	9	216
	MSP	21	4	84
	EEA	11	2.2	24.2
	<b>Subtotal</b>	56		324.2
Phase II (Project Preparation)	INV	0	14	0
	TA	16	6.3	100.8
	MSP	13	2	26
	EEA	30	0.9	27
	<b>Subtotal</b>	59		153.8
Phase III (Project Implementation)	INV	0	13	0
	TA	83	3.2	265.6
	MSP	15	4	60
	EEA	110	1.5	165
	<b>Subtotal</b>	208		490.6
Phase IV (Project Evaluation)		15	2	30
<b>Subtotal</b>		338		998.6
<b>Total</b>				1347
				\$7,249,594

# UNEP

81. The resources budgeted for UNEP reflect the increase in UNEP's outputs for and growth in new activities as indicated in the Corporate Business Plan. See Table 8.

**Table 8: Proposed Budget FY99 UNEP**

<b>Tier</b>	<b>Activity Type</b>	<b>Activities</b>	<b>Coefficient</b>	<b>Staff Weeks</b>
				114
<b>Corporate</b>				14
- Monitoring				78
<b>Project Indirect</b>				
<b>Project Direct</b>				
Phase I (Project Development)	INV	0	49	0
	TA	7	9	63
	MSP	6	4	24
	EEA	7	2.2	15.4
	<b>Subtotal</b>	20		102.4
Phase II (Project Preparation)	INV	0	14	0
	TA	5	6.3	31.5
	MSP	3	2	6
	EEA	5	0.9	4.5
	<b>Subtotal</b>	13		42
Phase III (Project Implementation)	INV	0	13	0
	TA	13	3.2	41.6
	MSP	7	4	28
	EEA	10	1.5	15
	<b>Subtotal</b>	30		84.6
Phase IV (Project Evaluation)	TA	3	2	6
		66	2	235
<b>Subtotal</b>				441
<b>Total</b>				\$2,373,567

**World Bank**

82. The resources show a similar pattern to previous years. This administrative budget also includes IFC. See Table 9.

**Table 9: Proposed Budget FY99 World Bank/IFC**

<b>Tier</b>	<b>Activity Type</b>	<b>Activities</b>	<b>Coefficient</b>	<b>Staff Weeks</b>
<b>Corporate</b>				329
- Monitoring				39
<b>Project Indirect</b>				226
<b>Project Direct</b>				
Phase I (Project Development)	INV	29	49	1421
	TA	0	9	0
	MSP	15	4	60
	EEA	5	2.2	11
	<b>Subtotal</b>	49		1492
Phase II (Project Preparation)	INV	22	14	308
	TA	0	6.3	0
	MSP	15	2	30
	EEA	5	0.9	4.5
	<b>Subtotal</b>	42		342.5
Phase III (Project Implementation)	INV	91	13	1183
	TA	0	3.2	0
	MSP	8	4	32
	EEA	5	1.5	7.5
	<b>Subtotal</b>	104		1222.5
Phase IV (Project Evaluation)		10	8	80
<b>Subtotal</b>		205		3137
<b>Total</b>				3731
				\$20,078,018

Note: Phase I (Development) includes pipeline development for the next and the following financial year, as well as processing for Council approval in the current financial year.

83. Because this budget was generated using a corporate staff week rate that is 3.3% lower than the rate the Bank proposes, the Bank foresees a potential funding shortfall. Should such a shortfall occur, an important consequence would be the reduction in the ability to deliver the planned work program for Council as set out under the current GEF Corporate Business Plan presented to Council last November. According to that plan, the Bank had planned to deliver \$300 million in project allocations for FY99. Under the budget presented in Table 9, the Bank estimates that this might have to be scaled back to \$290 million. If a budget review is in fact needed, then the trade-off between the size of the work program (including any unexpected changes in demand or product mix) and the administrative resources (in recognition of the actual cost structure) would be examined. In any such review, the coefficients and staff week rates would be revised according to the historical experience available at that time and on any changes projected for the remainder of the budget year.

### Secretariat

84. The proposed budget for the Secretariat in FY99 is maintained in real terms at the FY98 levels<sup>13</sup> for the Secretariat. Corporate outputs are listed in Table 2, and the proposed budget is in Table 10.

**Table 10: Proposed Budget FY99 Secretariat and M&E**

<b>Tier</b>	<b>Staff Weeks</b>
<b>Corporate</b>	799
<b>Project Indirect</b>	370
<b>Total Secretariat</b>	1169
	\$6,291,266
<b>Corporate - General M&amp;E</b>	184
<b>- Improved systems</b>	40
<b>Total M&amp;E</b>	224
	\$1,204,070

85. **Monitoring and Evaluation Unit.** The FY99 Monitoring and Evaluation (M&E) work program continues the FY98 work program that was approved by Council at its May 1997 meeting and defined in the *Framework and Work Program for GEF's Monitoring, Evaluation and Dissemination Activities* (GEF/C.8/4/Rev.1). In FY99 high priority will be given to continued work on defining and incorporating M&E components in projects, the development of program indicators and further guidelines for project and program evaluations, including evaluations required for projects which seek second phase or extended funding. The annual Project Implementation Review will be further deepened and expanded to provide for more rigorous assessment. The series of GEF Lessons Notes begun in FY98 will continue, with an estimated six to eight issues completed in FY99. Finally, a number of evaluation studies (listed in Table 11) will be carried out.

86. In FY99 all GEF entities will be involved in the M&E work more systematically than before. In addition to external consultants, extensive inputs will be made by the Implementing Agencies and other cooperating partners. For this reason an additional 75 staff weeks have been proposed for IA participation (see Table 3). The use of these staff weeks in the various corporate M&E assignments is additional to the existing specific project evaluations and reviews already carried out by the IAs, and will be carefully planned and formalized before the start of the financial year. (See Table 12 for the proposed budget.)

<sup>13</sup> The special budget approved in FY98 respect of the GEF Assembly is not part of the basis for projecting the Secretariat budget and is not included in Table 2.



**Table 11: Proposed Activities FY99 M&E Unit**

<b>Activity</b>	<b>Staff Weeks</b>
GEF's Project Development and Preparation Process	57
Biodiversity: Evaluation of Conservation Trust Funds	45
Climate Change: Study of Replication of GEF Projects	20
Evaluation of Enabling Activities	27
Joint Evaluation with UNEP: Biodiversity Data Mgt Proj	10
Unallocated	25
<b>Subtotal</b>	<b>184</b>
Increased Development of GEF-Wide M&E Systems (including indicators)	40
<b>Total</b>	<b>224</b>
<b>Budget</b>	<b>\$1,204,070</b>

#### **Trustee**

87. Trustee activities will continue to include: (a) financial management of donor resources; (b) mobilization of resources; (c) maintenance of appropriate records and accounts of the Fund and providing for their audit; (d) monitoring and reporting to the Council; (e) coordination of the Trustee responsibilities with the Secretariat and outside sources; and (f) provision of legal advice. The Trustee is holding relatively steady with only a very small increase to cover fixed costs. See Table 12.

#### **STAP**

88. STAP will also continue a number of specialized scientific and technical activities, closely integrated with GEF policy and program development and with selective project review. Inputs to the planned priorities of STAP were provided by the Eleventh Meeting of STAP held on January 21-23, 1998. See Table 13.

**Table 12: Proposed Budget FY99 Trustee**

<b>Tier</b>	<b>Staff Weeks</b>
<i>Corporate</i>	160
<b>Total</b>	160
	\$863,233

**Table 13: Proposed Budget FY99 STAP**

<b>Tier</b>	<b>Staff Weeks</b>
<i>Corporate</i>	73
<i>Project Indirect</i>	150
<b>Total</b>	222
	\$1,195,663

**Table 14: Summary of Proposed Budgets, FY99**

<b>GEF Unit</b>	<b>Budget</b>	<b>Increase over FY98</b>
UNDP	\$7,249,594	9.6%
UNEP	\$2,373,567	12.7%
World Bank/IFC	\$20,078,018	4.5%
Secretariat	\$6,291,266	3.0%
- M&E Unit	\$1,204,070	25.4%
Trustee	\$863,233	3.0%
STAP	\$1,195,663	3.0%
<b>Total</b>	<b>\$39,255,410</b>	<b>6.1%</b>