

**ESTABLISHMENT OF THE SECRETARIAT AND OPERATING EXPENSES BUDGET
FOR 1 JANUARY - 31 DECEMBER 2015**

1. PURPOSE

The purpose of this paper is to seek a decision from the Board on: (i) the establishment of the Secretariat of GCERF; and (ii) the operating expenses budget of GCERF. It aims to provide the Board with an overview of the substantive scope of work required and steps proposed to transition from the current arrangements to a permanent Secretariat of GCERF and the financial implications of doing so.

2. DECISION REQUESTED

The Board is requested to approve the following decisions:

BM.01/DEC.XX: *The Board:*

- a. recognizes the need to facilitate the earliest possible autonomous functioning of the Global Community Engagement and Resilience Fund (GCERF) and operationalization of its funding mechanism;*
- b. notes with gratitude the contributions of the Swiss Government, the United States Government and the Geneva Centre for Security Policy (GCSP) in establishing interim arrangements to assist in the establishment of the GCERF and its Secretariat;*
- c. acknowledges the willingness of GCSP to continue to provide human resources and other administrative services to GCERF until such time as the Headquarters Agreement between the GCERF and the Swiss Federal Council is in force; and*
- d. authorizes the Executive Director (to be appointed) to:*
 - i. execute the Headquarters Agreement with the Swiss Federal Council granting GCERF with privileges and immunities in Switzerland;*
 - ii. oversee the establishment of the Secretariat, including the transfer from GCSP to GCERF of the GCERF project team employment contracts, the office rental contract and other service agreements; and*
 - iii. present to the Board for its approval as soon as possible human resources, financial and administrative policies for the GCERF.*

BM.01/DEC.XX: *The Board approves an operating expenses budget for the GCERF of up to USD 2'335'790 for the period of 1 January to 31 December 2015, as presented in Part 2 of BM.01/DOC.07.*

BM.01/DEC.XX: The Board:

- a. notes that dedicated resources will be required to implement the proposed Accelerated Funding Mechanism (AFM), including for operating expenses related directly to the AFM, as set out in Part 2 of BM.01/DOC.07;*
- b. requests the Executive Director (to be appointed) to identify and secure no less than USD 3.5 million to launch the AFM and to inform the Board as soon as such funds are secured; and*
- c. approves, effective subject to paragraph b. above, an operating expenses budget for the AFM of up to USD 708'982 for the period of 1 January 2015 to 31 December 2015, as presented in Part 3 of BM.01/DOC.07.*

3. BACKGROUND AND REASON FOR RECOMMENDATIONS

Part 1: Establishment of Secretariat

3.1 The background to the establishment of the GCERF is discussed in BM.01/DOC.02.

3.2 In order to establish the Interim Secretariat contemplated in the Framework Document (Annex 1 to BM.01/DOC.02), in early 2014, the Swiss Government requested the Geneva Centre for Security Policy (GCSP) to host a special project using its administrative systems. This included receiving and paying the salary of the Executive Director of the Interim Secretariat funded with the financial support of the Swiss Government from 15 May 2014, and which the Swiss government has committed to continuing for 12.5 months. The Swiss government also provided an office for the Secretariat of 251 m² in central Geneva, which was opened in June 2014. The Swiss government has committed to cover rental obligations for an initial period of four years.

3.3 Between June and September 2014, GCSP appointed five additional staff members to the GCERF project with the financial support of the United States Government and GCSP. The GCERF team now consists of six full-time expert staff (four female, two male) who between them represent nine nationalities and speak seven languages. They have been carefully selected to bring together the unique set of skills required to make GCERF a success and represent the foundations of a Secretariat that can be scaled up from a solid initial base. During this period, the GCERF project has also benefited from additional financial support from the New Zealand and Moroccan Governments.

3.4 On 9 September 2014, GCERF became a legal entity in Switzerland. While it is currently legally possible for GCERF to employ its own staff, it is advisable to wait until

the Headquarters Agreement (described in BM.01/DOC.02) is signed with the Swiss Government before it employs staff. This is in order to avoid the unnecessary administrative burden and costs of obtaining new work permits for the international staff currently working in the Interim Secretariat. Once the Headquarters Agreement comes into force in the first quarter of 2015, GCERF will benefit from, among other things, exemptions from immigration restrictions and requirements for its international staff to obtain work permits in Switzerland.

3.5 In addition to acting as the employer of five of the six dedicated staff of GCERF (the sixth member being on loan from the State Department and paid directly by the Government of the United States), GCSP is prepared to continue to provide the following support services until the Headquarters Agreement is in force:

- (a) Human resources management: including recruitment, contracting and payroll services;
- (b) Financial management services: including for budget control and accounting, grant management and reporting; and
- (c) Information technology services: including infrastructure setup, installation and support.

The monthly fees charged by GCSP for these services to date are included in the expenditure report in the Report of the Interim Executive Director (BM.01/DOC.03). The fees from 1 January 2015 forward are included in the proposed budget in this paper.

Work plan of the Secretariat 2015

3.6 To guide the Secretariat's work in 2015, a detailed work plan has been developed, guided by Article 10 of GCERF's Statutes (Annex 2 to BM.01/DOC.02), and further elaborated in the proposed Bylaws (Article 3) (Annex 1 to BM.01/DOC.04 (Part 2)). Appropriate revisions of this work plan will be made in line with the decisions of the Board emerging from GCERF's 1st Board Meeting.

3.7 Overall identified priorities by functional area for the Secretariat in 2015 are:

- (a) Governance:
 - (i) facilitating the expansion of membership of the Governing Board;
 - (ii) supporting the Chair and Executive Director (both to be appointed) in managing the work plan of the Board;
 - (iii) implementing the decisions of the Board, and
 - (iv) providing support on all matters pertaining to the work of Board and any established committees.

- (b) Resource Mobilization:

- (i) cultivating sustainable long-term relations with existing and prospective governmental and private sector (including corporations and foundations) donors,
- (ii) promoting the participation and engagement of private sector actors in beneficiary countries, and
- (iii) mobilizing and leveraging non-financial resources in particular from the private sector.

(c) Grant Management:

- (i) Developing the management systems, policies and procedures for the establishment of GCERF's Core Funding Model (as approved) in multiple countries,
- (ii) facilitating the establishment of Country Support Mechanisms and ongoing relationship management,
- (iii) supporting the establishment of the international Independent Review Panel and facilitating its work,
- (iv) managing the different stages of the grant application process from pre-selection of Principal Recipients to Board approval,
- (v) negotiating grant agreements,
- (vi) preparing for grant management during implementation, and
- (vii) preparing for programme and financial performance monitoring and evaluation.

(d) Operations Development:

- (i) strategically guiding the operationalization of the Core Funding Model (as approved);
- (ii) ensuring emerging challenges to the efficacy of the Core Funding Mechanism (as approved) are mitigated through effective adaptations and developments; and
- (iii) facilitating organizational accountability, learning and knowledge management.

(e) Communications:

- (i) developing GCERF's communications and outreach strategy, including media and public relations, the development of GCERF's website, online presence and social media, and
- (ii) coordinating the speaking engagements and related activities of the Executive Director (to be appointed).

(f) Finance:

- (i) establishing GCERF's financial and risk management systems,
- (ii) managing GCERF's budget, operational finances and controls and expenditure accounting.

(g) Human Resources:

- (i) establishing GCERF's human resources management systems,
- (ii) recruitment,
- (iii) administering staff salaries and benefits, and
- (iv) fostering high level performance and staff development.

(h) Administration:

- (i) establishing the day-to-day administrative support systems to facilitate operational efficiency,
- (ii) establishing and managing relations with information and communication technology service providers,
- (iii) managing relations with other administrative service providers.

3.8 Implementing the ambitious work plan for the efficient operationalization of the Secretariat in 2015 and beyond will require continuity and adaptability with the approval and support of the Board.

Transfer from GCSP to GCERF

3.9 Once GCERF's Headquarters Agreement enters into force, the human resources (staff) and commitments (rental and service agreements) of the Secretariat will need to be transferred from GCSP to GCERF. The Executive Director (to be appointed) will be responsible for overseeing this process.

3.10 In advance of the transfer; policies and rules and regulations in the following areas will be required:

- (a) Human resource management (including recruitment, compensation (salaries and benefits), dispute resolution);
- (b) Financial management (including key performance indicators, assets and liabilities, fiduciary control, budget and cash flow management, resource mobilization and audit management); and
- (c) Operations and administration (including operational risk management (business continuity management), enterprise resource planning (primarily for contribution and grant management), procurement of goods and external expertise, logistics support, travel related booking services, information technology services and insurances.

The Board will be requested to approve these policies before the end of March 2015, probably at an audio-conference meeting to be convened.

3.11 An external financial audit of the GCERF project of the GCSP will be undertaken upon completion of the transfer for financial reporting purposes on this phase of GCERF's establishment. The cost of this audit is included in the proposed budget in the next section.

Part 2: Proposed Budget: 1 January 2015 – 31 December 2016

3.12 The operating expenses budget of the GCERF project of the GCSP from 15 May to 31 December 2014 is USD 840'330. This budget was presented alongside expenditure-to-date up to 31 October 2014 contained in the Report of the Executive Director (BM.01/DOC.03).

3.13 The proposed operating expenses budget is USD 2'335'790 for 2015, with only a 12% increase to USD 2'621'042 in 2016.

3.14 The proposed operating expenses budgets for 2015 and 2016 have been constructed on a bottom-up basis from detailed work plans for each functional area of the Secretariat's activity. Budgeted functional areas include governance, resource mobilization, grant management, operations development, communications, finance, human resources and administration.

3.15 The key factors influencing the proposed operating expenses budgets for 2015 and 2016 are:

- (a) The need to ensure the earliest possible autonomous functioning of GCERF and operationalization of its Core Funding Mechanism;
- (b) The implications of the establishment of the envisaged small and streamlined permanent Secretariat, including the transfer of staff and assets from GCSP to GCERF and execution of the Headquarters Agreement;
- (c) The implications of the operationalization of GCERF's proposed Core Funding Mechanism (as approved); and
- (d) The unique contextual challenges that differentiate GCERF from other multi-stakeholder funding mechanisms, and commitment to piloting and subsequently evaluating different approaches to inform organisational design and development.

3.16 The proposed operating expenses budgets for 2015 and 2016 are also based on the indicative assumption that GCERF will have contributions of not less than USD 15.5 million in 2015 (based on current commitments and pledges) and USD 20 million in 2016 (indicative based on 2015 figures). Table 1 below shows the proposed total operating expenses budgets as a percentage of total available funds in USD in 2015 and 2016. A key determinant in 2015 and 2016 will be the grant commitments made in the year. This will depend on how much the Board will approve in each annual funding cycle of the available funds. It is anticipated for budgetary purposes that the Board will approve the commitment of all available funds (as previously assumed) to grants, less the Secretariat's approved total operating expenses budget.

Table 1: Operating Expense Ratios

Year	Total Operating Expenses Budget (OEB) in USD	Projected Total Available Funds	OEB as % of Total Available Funds
2014	840'330	-	-
2015	2'335'790	15'500'000	15%
2016	2'621'042	20'000'000	13%

3.17 The composition by type of the proposed operating expenses budget (OEB) for years 1-3 are summarized below in Table 2 and illustrated in Annex 1.

Table 2: Operating Expenses Budget Breakdown

Total Budget in USD	YEAR 1		YEAR 2		YEAR 3	
	15.05.2014 - 31.12.2014	%	01.01.2015 - 31.12.2015	%	01.01.2016 - 31.01.2016	%
Total Staff	525'211	63%	1'564'740	67%	1'850'530	71%
Total Office	247'853	29%	463'792	20%	348'213	13%
Total Travel	67'267	8%	307'259	13%	422'299	16%
Total:	USD 840'330	100%	USD 2'335'790	100%	USD 2'621'042	100%

3.18 Staff costs include salaries, health and pension contributions and allowances. Office costs include but are not limited to office rental, utilities, telecommunications and internet provision, computers and IT support, start-up and development service fees, and office supplies. Travel costs include flights, visas, accommodation and per diems.

3.19 Based on assumptions made concerning the operationalization of GCERF's Core Funding Mechanism, the expenditure split achieved in 2016 will be indicative of future operational expenditure breakdowns.

3.20 The year on year increase in the proposed total operating expenses budget is summarized below in Table 3.

Table 3: Changes in Operating Expenses Budget

Year	Total Operating Expenses Budget in USD	Increase over previous period
2014	840'330	-
2015	2'335'790	178%
2016	2'621'042	12%

3.21 The primary elements of the increases between 2014 and 2015 in the proposed operating expenses budget are:

- (a) The operationalization of GCERF's Core Funding Mechanism, based on working with five pilot countries (significant impact on travel expenses).
- (b) Initial start-up investment in grant management systems and other core management systems (significant impact on office expenses, no longer present in 2016).
- (c) The full cost of current 6 full time equivalents (FTE) staff positions for the entire year (2014: 2.7 FTE) (significant impact on staff expenses).

- (d) The recruitment of two additional staff members to bring required expertise into the team to complement established institutional, managerial and technical capacities, before the Secretariat becomes fully operational. Specifically, expertise in: (i) fundraising/resource mobilization during this critical period in the growth of GCERF, and (ii) financial and risk management, including budgetary and operational finances, and accounting services (significant impact on staff expenses).

3.22 The primary elements of the increases between 2015 and 2016 in the proposed operating expenses budget are:

- (a) The extension of GCERF's Core Funding Mechanism from working with 5 pilot countries to working with 10 countries (significant impact on travel expenses)
(b) The recruitment of one additional staff member to bring additional capacity and expertise in performance monitoring and evaluation (significant impact on staff expenses).

3.23 The composition of the budget by function of expense is summarized below in Table 4 and illustrated in Attachment 2.

Table 4: Operating Expenses Budget Breakdown by Function

Total Budget in USD	YEAR 1		YEAR 2		YEAR 3	
	15.05.2014 - 31.12.2014	%	01.01.2015 - 31.12.2015	%	01.01.2016 - 31.01.2016	%
Governance	187'212	22%	228'417	10%	289'148	11%
Resource Mobilization	158'960	19%	373'300	16%	349'072	13%
Grant Management	0	0%	1'158'788	50%	1'462'647	56%
Operations Development	141'475	17%	54'783	2%	53'074	2%
Communications	136'287	16%	159'881	7%	171'709	7%
Finance	60'757	7%	131'086	6%	128'617	5%
Human Resources	66'482	8%	184'991	8%	123'263	5%
Administration	89'157	11%	44'544	2%	43'512	2%
Total:	USD 840'330	100%	USD 2'335'790	100%	USD 2'621'042	100%

3.24 The most significant and notable changes in the functional use of the proposed operating expenses budget from 2015 to 2016 are:

- (a) Direct grant management, including Country Support Mechanism and IRP management, application processing, grant agreement management and performance monitoring and evaluation, which will represent 50% of the total operating budget in 2015;
(b) Direct grant management increasing in 2016 to 56% reflecting an expected trend in the proportion of the Secretariat's budget spent directly on grant management; and
(c) In 2015 significant additional start-up costs in the areas of finance, human resources and grant management which give way to regular expenditure in those areas in 2016.

Part 3: Proposed Accelerated Funding Mechanism Budget: 1 January 2015 – 31 December 2016

3.25 Implementing the proposed Accelerated Funding Mechanism will require additional dedicated resources. Depending on its scale, these are envisaged to include three additional staff beyond the two additional staff required in 2015 for the Core Funding Mechanism, as well as amounts to pay for service providers (for external evaluation and audit functions), office expenses and additional travel. The Accelerated Funding Mechanism's proposed operating expenses are therefore presented as a discrete and separate budget.

3.26 The proposed operating expenses budget for the Accelerated Funding Mechanism is USD 708,982 in 2015, decreasing slightly to USD 704,482 in 2016.

3.27 In practice, the Accelerated Funding Mechanism will be managed as a programme and integrated within the Secretariat's core operating structure and systems. It will also benefit from synergies and cost-sharing from the Secretariat's core operating expenses budget, notably in the areas of office expenses.

3.28 The proposed operating expenses budgets for the Accelerated Funding Mechanism for 2015 and 2016 have been constructed on a bottom-up basis from detailed work plans for the dedicated staff who will implement it. Budgeted functional areas within the broad area of grant management include: solicitation of applications, facilitation of the application process, grant review and Board submission, grant agreement management, grant management, and programme and financial performance monitoring and evaluation. It is also envisioned staff of the Secretariat will also contribute in certain functional areas to the Accelerated Funding Mechanism's operations (such as management, finance, human resources, communications), and vice versa.

3.29 The key factors influencing the proposed operating expenses budgets of the Accelerated Funding Mechanism for 2015 and 2016 are:

- (a) The need to provide an efficient and effective way for the global community to provide fast and flexible support to projects responding to the recent escalation in violent extremism worldwide and its current manifestations;
- (b) Recognition of the challenges associated with the rapid implementation of a new funding mechanism such as this;
- (c) The importance of reaching economies of scale in terms of associated operating expenses as a percentage of grants made;
- (d) The need to ensure the earliest possible operationalization of GCERF's Core Funding Mechanism and importance of not undermining the capacity of the Secretariat to implement its work plan associated with this task; and
- (e) The complementary role of the Accelerated Funding Mechanism to GCERF's Core Funding Mechanism and operational benefits derived from the synergies that exist.

3.30 A key determinant for whether to launch the Accelerated Funding Mechanism will be the operating expenses budget to expected disbursements ratio that can be achieved. It is estimated that this ratio will be limited to approximately 20%.

Table 5: AFM Operating Expense Ratios

Year	Total Operating Expenses Budget (OEB) in USD	Total Available Funds	OEB as % of Total Available Funds
2015	708'982	3'500'000	20.3%
2016	704'482	3'500'000	20.1%

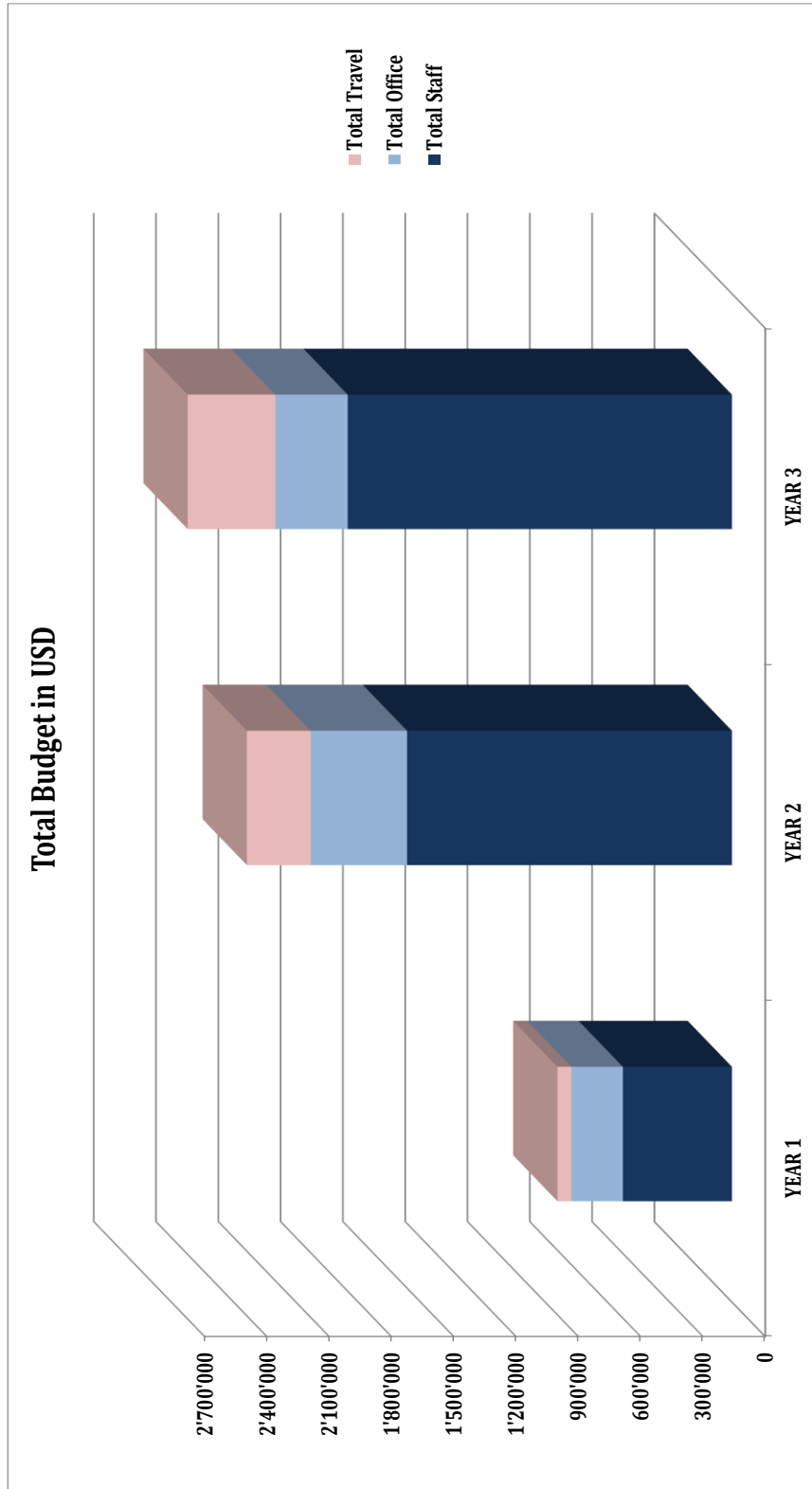
3.31 In order to justify the associated operating expense budget, it is proposed that the launch of the Accelerated Funding Mechanism should be subject to securing a minimum of USD 3.5 million in both 2015 and 2016 specifically for this purpose. Table 5 above shows the proposed total operating expenses budget for the Accelerated Funding Mechanism as a percentage of the proposed minimum funds to be secured in 2015 and 2016 for its launch.

3.32 The composition of the Accelerated Funding Mechanism budget by function of expense is summarized below in Table 6.

Table 6: AFM Operating Expenses Budget Breakdown by Function

Total Budget in USD	YEAR 1		YEAR 2	
	15.05.2014 - 31.12.2014	%	01.01.2015 - 31.12.2015	%
Total Staff	488'773	69%	488'773	69%
Total Additional Office	23'662	3%	13'331	2%
Total Audit & Evaluation	78'947	11%	89'474	13%
Total Travel	117'600	17%	112'905	16%
Total:	USD 708'982	100%	USD 704'482	100%

Annex 1



Annex 2

