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Agenda Item 11

A PROPOSAL FOR A REVISED FEE STRUCTURE

Recommended Council Decision

Council reviewed document GEF/C.21/10 *A Proposal for a Revised Fee Structure* and, subject to the comments made during the Council meeting, approves:

- (a) the proposed fee structure, which is based on (i) an agency-specific parametric fee for full-size investment-type and technical assistance-type projects; and (ii) standard flat fees for medium-sized projects and expedited enabling activities; and
- (b) the updated fee-based system policy and procedure guidelines, including proposed amendments for full-sized projects, which provide for (i) adjustments to the computed parametric fee to recognize the additional resource demands of multi-country projects; and (ii) approval and allocation, on entry of a project concept into the GEF pipeline, of the portion of the fee pertaining to the project development and preparation phases.

Council requests the Secretariat to monitor and report the trend in fees over the next four work programs.

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EXECUTIVE SUMMARY

- i. This document presents a proposal for a revised fee structure for the compensation of the agencies for their provision of project-cycle management services on all GEF projects approved by Council/CEO from July 1, 2003.
- ii. Council approval is sought for the proposed fee structure, which is based on (i) an agency-specific Parametric Fee for full-size Investment-type and Technical Assistance-type projects; and (ii) standard Flat Fees for Medium-Sized Projects and Expedited Enabling Activities. Concurrently, Council approval is also sought for updated Fee-Based System policy and procedure guidelines, including proposed amendments for full-sized projects, providing for (i) adjustments to the parametric fee to recognize the additional resource demands of multi-country projects; and (ii) approval and allocation, on entry of a project concept into the GEF pipeline, of the portion of the fee pertaining to the project development and preparation phases. Council also requests GEF Secretariat to monitor and report the trend in fees over the next four work programs.
- iii. The proposed fee structure has been developed on the basis of (i) guidance from Council; (ii) an analysis of GEF's experience with its Fee-Based System during the period FY00-FY03; (iii) a review of the fee options proposed by the independent review of the Fee-Based System; (iv) the agencies' updated staffweek costs and project coefficients; and (v) consultations between GEF Secretariat and the three Implementing Agencies and the seven Executing Agencies acting under expanded opportunities.
- iv. The three fee options recommended by the Independent Review were analyzed to evaluate their respective impact and implications: a Flat Fee, which is a pre-established flat dollar-amount fee for a project type; a Flat Percentage Fee, which is based on a pre-established fixed percentage of a project's grant value; and a Parametric Fee, which is based on an established formula to compute a specific fee for each project by factoring for agency and project-specific grant value and duration. In evaluating the various fee options, a number of evaluation criteria, based on the governing objectives and principles identified at the initial design and establishment of the Fee-Based System, were taken into consideration.
- v. For full-size Investment and Technical Assistance projects, the use of a standard all-agencies Flat Fee is no longer suitable because of (i) the considerable variances in the characteristics of projects; (ii) changes in Implementing Agencies' work program profiles; and (iii) the introduction of Executing Agencies without a work program profile. An agency-specific parametric fee, therefore, would appear to be more appropriate in determining the relevant fee for each project. Such a fee would minimize any need for fee adjustments and recognize each agency's project implementation processes. As Medium Sized Projects and Expedited Enabling Activities tend to have more consistent project profiles for all

agencies, a standard Flat Fee would adequately provide the agencies with appropriate funds to ensure the minimum level of project-cycle management services, regardless of the grant value.

I. INTRODUCTION

1. This document presents a proposal for a revised fee structure for the compensation of the agencies for their provision of project-cycle management services on all GEF projects approved by Council/CEO from July 1, 2003.
2. Council approval is sought for the proposed fee structure (discussed in greater details in paragraphs 33-34), which is based on (i) an Agency-specific Parametric Fee for full-size Investment-type and Technical Assistance-type projects; and (ii) Standard Flat Fees for Medium-Sized Projects and Expedited Enabling Activities. Concurrently, Council approval is also sought for updated Fee-Based System policy and procedure guidelines. These include proposed amendments pertaining to full-sized projects, which provide for (i) adjustments to the computed parametric fee to recognize the additional resource demands of multi-country projects; and (ii) approval and allocation, on entry of a project concept into the GEF pipeline, of the portion of the fee pertaining to the project development/preparation-cycle phases.
3. The proposed fee structure has been developed on the basis of (i) guidance from Council; (ii) an analysis of GEF's experience with its Fee-Based System during the period FY00-FY03; (iii) a review of the fee options proposed by the independent review of the Fee-Based System; (iv) the agencies' updated staffweek costs and project coefficients; and (v) consultations between GEF Secretariat and the Implementing Agencies and the executing agencies acting under expanded opportunities¹ (Executing Agencies). This document expands on the October 2002 Council meeting discussions based on the document GEF/C.20/5 *An Interim Report on a Revision of the Fee Structure*, and has taken into account the guidance and comments provided by Council at that meeting.

Background

4. The Fee-Based System was introduced in FY00 as a methodology for compensating the Implementing Agencies for the provision of project cycle management services on GEF funded projects. To reinforce the implementation of the proposed fee structure, GEF Secretariat carried out a Benchmarking Review² in 1999. During its third year of operation, in January - March 2002, an independent review of the Fee-Based System was carried out by the consulting firm of Deloitte & Touche. On discussing the outcome of this review³ at its meeting in May 2002, Council requested GEF Secretariat, in consultation with the Implementing Agencies and Executing Agencies, to (i) prepare a proposal for improving the fee structure, taking into account Council's concerns over the rising trend in administrative fees and other comments that were made during the Council meeting, together with the findings and recommendations of the Consultant's Report and the Second Overall Performance Study; and (ii) submit a paper to the Council for its consideration at its meeting in October 2002. On discussing the paper at its October 2002 meeting, Council provided further guidance and asked that GEF Secretariat, in

¹ *Expanded Opportunities for Executing Agencies* GEF/C.13/3 dated April 7, 1999 and *Joint Summary of the Chairs*, GEF Council Meeting, May 5-7, 1999 dated May 10, 1999.

² *Report on a Benchmarking Review of Implementing Agency Fees* GEF/C.15/Inf.7 dated April 7, 2000.

³ *Consultant's Report on an Independent Review of the Fee-Based System* GEF/C.19/12 dated April 19, 2002

consultation with the Implementing and Executing Agencies, to present a proposal for review at its May 2003 meeting.

II. FEE-BASED SYSTEM ISSUES

Council's Guidance at its October 2002 Meeting

5. At its meeting in October 2002, Council had requested that GEF Secretariat and the agencies, consider the following:

- (a) A mixed system that combines proposed options depending on the type of project;
- (b) Incentives for the agencies to reduce their fees;
- (c) A better assessment of the financial costs of the options;
- (d) The comparative advantage of each agency to implement different types of projects;
- (e) A clearer indication of what services should be provided for the fees;
- (f) Whether the fee system favors or discriminates against certain types of projects; and
- (g) Caps on fees.

Operational Issues

6. GEF/C.20/5 *An Interim Report on a Revision of the Fee Structure* had identified a number of important operational issues that were experienced during the implementation of the fee-based system over FY00 - FY02, which are summarized below. In reviewing and evaluating the fee options, agencies had further provided suggestions and comments to address these issues and considered how each fee option would address these issues:

- (c) Clear definitions and distinctions between Investment-type (INV) and Technical Assistance-type (TA) projects,
- (d) Agencies' expectation that the allocated fee is expected to enable an agency to fully recover the total costs of its implementation services;
- (e) Establishment of commonly agreed and defined project implementation services encompassing GEF's project cycle phases and activities;
- (f) Fee should compensate only the additional project cycle management services that are required by and resulting from the incrementality of the GEF component of a project;

- (g) In the case of some projects, the lack of transparency of computation of the flat-fee's associated premium/discount adjustments and the relatively time-consuming fee negotiation and agreement processes;
- (h) Project cost accounting systems within many agencies are not set up to record and monitor specifically the costs of implementation services on individual GEF project components and, consequently, do not have substantive cost data readily available in respect of their GEF projects;
- (i) Expenses are often incurred in developing and preparing of project proposals well in advance of the approval of the project and associated fees;
- (j) Agencies without a substantive committed annual work program would not be able to support a flat-fee structure that is dependent upon a work program.

Project-Cycle Management Services Provided by the Agencies

7. Under the Fee-Based System, a fee is specifically approved and allocated to an agency for the provision of project cycle management services⁴ on an approved GEF-funded project. The project-cycle management services that are expected and required on GEF projects have previously only been defined in outline and have loosely been deemed to be similar to those performed by each agency, in accordance with their respective agency's project implementation processes. With the introduction of the Fee-Based System and the increased number of agencies, the identification and definition of the project-cycle management services to be provided by the agencies on GEF-funded projects becomes increasingly critical to:

- (a) Facilitate a clear understanding and ensure consistency of project cycle management services to be provided by the agencies;
- (b) Demonstrate that the fee compensates only the additional project cycle management services that are required by and result from the incrementality of the GEF component of a project;
- (c) Clearly identify and distinguish project cycle management services (covered by the fee) from project execution services (covered by the project grant); and
- (d) Support the accountability for services provided where the same agency provides both project-cycle management services (covered by the fee) and project execution services (covered by the project grant).

8. GEF Secretariat, in consultation with the Implementing Agencies and Executing Agencies, have defined and established the core (minimum) project cycle management services which are to be provided by the agencies on GEF projects (see Annex 1). This clarification

⁴ In previous discussions of the Fee-Based System, these services have been referred to as "project implementation services". However, to more correctly reflect the nature of these services and to distinguish them from direct project implementation, it was deemed more appropriate to define such services as "project cycle management services".

allows the agencies to ensure that their respective organization's project implementation processes encompass these activities. Clear concise definitions of the core project-cycle management services would give due recognition and consideration of the project implementation processes of each respective agency, and the management and cost efficiency of these processes; which ultimately impacts upon the cost of these project-cycle management services. These services are carried out in accordance with each agencies' operational policies and procedures as they may be applicable to the different project types. In particular, the Instrument mandates the agencies to apply to GEF projects their standard due diligence requirements related to financial, economic, legal, environmental, social, and technical aspects, which vary for project types.

Definitions of Investment and Technical Assistance Projects

9. Historically, for financial and budgetary management purposes, all GEF full-size projects had been categorized either as an Investment or as a Technical Assistance project. There are, however, no established or agreed definitions that identify a project as an Investment or Technical Assistance projects, and some projects are deemed to encompass investment and technical assistance elements in varying combinations. Projects were classified as such according to each Implementing Agency's traditional operational predominance (i.e., Investment projects for IBRD and Technical Assistance projects for UNDP and UNEP).

10. Clearly distinguishing and defining full-size investment-type and technical assistance-type GEF projects would allow more exacting substantiation of the different project coefficients between these two types of projects. Such a distinction, recognizes these project types' respective objectives and activities, and the scope and level of project cycle management services required. With the evolution of GEF's operational strategy, work program and project profiles -- and the increased involvement of the executing agencies under expanded opportunities-- it would be more appropriate and relevant that the definition of GEF project-types be carried out in a strategic and operational context and not be driven by the design and establishment of a fee structure. During the fee revision review, this issue was discussed among GEF Secretariat and the agencies. Draft definitions of GEF Investment-type and Technical Assistance-type projects, as they currently exist, were prepared by IBRD and UNDP/UNEP respectively, and were circulated among the agencies to facilitate further discussion and comment.

Understanding the Fee Ratio

11. The Fee Ratio is simply a project's approved fee expressed as a percentage of the underlying project's grant value. Average fee ratios can be determined for project types, a portfolio, a work program, or an agency. The Fee Ratio may therefore be used for monitoring and reporting the trend in the fee-to-grant relationship for the GEF portfolio, work program, agency and project type. It also provides a consistent and comparable basis for benchmarking:

- (a) the reasonableness of the level of fees paid by GEF, compared to the level of fees paid by other development agencies and organizations for project cycle management services; and

- (b) project fee performance and behavior between project types, fiscal years and Implementing Agencies and Executing Agencies.

12. However, to interpret and utilize the fee ratio as a monitoring tool, it is important to recognize and understand (i) the method by which the fee had been computed (i.e., flat-fee, flat-percentage fee or parametric fee); and (ii) the impact of the relative changes (i.e., increase or decrease) in values of the fee ratio's two components (i.e., the project grant and the fee) upon the resulting fee ratio. An increase in the Fee Ratio may arise from a decrease in the average grant; this does not necessarily indicate an increase in absolute dollar cost of implementing projects. Also, project cycle management costs do not decrease proportionately with a decrease in grant value.

Cap on Fees

13. At its October 2002 meeting, Council had asked that the revision of GEF's fee structure should consider establishing a cap per work program on the fees paid to the agencies. As part of the fee revision review, GEF Secretariat and the agencies examined how such a cap on fees could be established and implemented, while ensuring that the agencies are provided with adequate resources to comply with both GEF's project-cycle management services and the respective agency's operational guidelines. It was also not clear if a cap should be established in terms of a dollar amount or the Fee Ratio. On a work program level, a dollar cap on total fees payable would constrain the GEF work program to the extent of this dollar cap (i.e., the size of the work program would depend upon the fee amount available). On the other hand, it would not be realistic nor feasible to pre-establish a Fee Ratio cap as the actual Fee Ratio essentially results from the approved projects' grant values and their associated fees.

14. After much discussion it was deemed that, taking into consideration the objectives of the Fee-Based System and the expected recovery of reasonable project cycle management costs by the agencies, it would be neither feasible nor practical to realistically impose and maintain a cap on fees per work program. In particular, because of the work program variations in the composition of project-types and in the project grant values. However, the agencies recognized the usefulness of a reference Fee Ratio as a management tool for monitoring the fee efficiency in relation to the underlying project grant values. Therefore, GEF Secretariat, in consultation with the agencies, will monitor the Fee Ratio trends over the four work programs of FY04, and provide Council with empirical data upon which to further address this issue, if Council so chooses.

III. REVIEW OF FEE OPTIONS

Analyses of Fee Structure Options

15. The following paragraphs discuss and analyse three options that were recommended by the Independent Review: the Flat Fee, the Flat Percentage, and the Parametric Fee structures. These analyses provide the basis upon which to evaluate the impact and implications of the various fee structure options. For the purposes of the quantitative analyses, the relevant empirical data (i.e., agencies involved, number of projects, project types, project grants and fees)

pertaining to the FY00-FY03 work program-to-date have been used (i.e., all GEF projects approved under the Fee-Based System). As such, the staffweek costs and project coefficient data pertaining to agencies that were not involved in the FY00 - FY03 work program have not been considered in the various quantitative analyses.

16. To better understand and appreciate the quantitative analyses provided on the three fee options, in the following paragraphs, it is critically important to keep in consideration the following provisos:

- (a) Project grant value totals and averages are based on GEF's FY00-FY03 work program-to-date, for which the underlying grant values are based on 1999, 2000, 2001, 2002 and 2003 dollars. However, the agencies' estimated current project-cycle management costs are based on 2003 dollars;
- (b) Average project durations are based on GEF's FY00-FY03 work program-to-date. However, average project durations of future projects may differ as a result of strategic, operational, and funding developments; and
- (c) Agencies' project coefficients embedded in the FY00-FY03 work program-to-date differ from the agencies' current project coefficients which have responded to changing project parameters and project implementation demands.

17. Consequently, in reviewing the estimated fee ratios discussed in the following paragraphs and the fee scenarios discussed in paragraphs 29-30, it would be necessary to recognize that the estimated fee ratios would therefore appear to be a little higher than those resulting from the FY00-FY03 work program-to-date, even though they do not reflect any real increase in costs.

Flat Fee

18. Under this option, a pre-established flat dollar-amount fee is allocated to a project type, irrespective of project-specific variations within each project type. Certain project-specific circumstances (e.g., untypical project duration, multi-agency, multi-country, innovative) may necessitate project-by-project negotiations of appropriate premium or discount adjustments to the flat fee. During its implementation in FY00 - FY03, adjustments were made to the flat fee structure, as premiums or discounts, to accommodate project-specific parameters when these deviated from the typical project profiles used in the flat-fee computation. It is important to note that to enable each agency to appropriately recover its costs, the use of a flat fee structure is very critically premised upon (i) the assured allocation of identified substantive committed annual work programs; and (ii) stable and consistent project profiles. The use of a standard flat fee could also over-compensate or under-compensate agencies for their services.

19. The flat fee for each project type is computed on the weighted average (weighted by the number of approved projects) of the respective Implementing Agency's cost estimate for those project types in which they have been involved⁵, as summarized in Table 1.

Table 1: Flat Fee Computation

Project Type	Flat-Fee Formula
INV	$\frac{(\text{ADB Cost Estimate}^6 \times \text{no. of projects}) + (\text{IBRD Cost Estimate} \times \text{no. of projects})}{\text{Total No. of ADB + IBRD Projects}}$
TA	$\frac{(\text{UNDP Cost Estimate} \times \text{no. of projects}) + (\text{UNEP Cost Estimate} \times \text{no. of projects})}{\text{Total No. of UNDP + UNEP Projects}}$
MSP	$\frac{(\text{UNDP Cost Estimate} \times \text{no. of projects}) + (\text{UNEP Cost Estimate} \times \text{no. of projects}) + (\text{WB Cost Estimate} \times \text{no. of projects})}{\text{Total No. of UNDP + UNEP + WB Projects}}$
EEA	$\frac{(\text{UNDP Cost Estimate} \times \text{no. of projects}) + (\text{UNEP Cost Estimate} \times \text{no. of projects}) + (\text{WB Cost Estimate} \times \text{no. of projects}) + (\text{UNIDO Cost Estimate} \times \text{no. of projects})}{\text{Total No. of UNDP + UNEP + WB + UNIDO Projects}}$

20. On the basis of the (i) FY00 - FY03 work program-to-date project profiles; and (ii) current updated staffweek costs and project staffweek coefficients which were provided by the relevant agencies, the flat fees that could be applied to all agencies for each project type are computed in the following Table 2:

Table 2: Flat Fee Computation

Project Type	Flat Fee Computation	Flat Fee \$
INV	$\frac{(\$5260 \times 163.5 \text{ wks} \times 4) + (\$6381 \times 164.8 \text{ wks} \times 62)}{66}$	1,039,978
TA	$\frac{(\$6050 \times 65.5 \text{ wks} \times 57) + (\$6100 \times 65.8 \text{ wks} \times 5)}{62}$	396,687
MSP	$\frac{(\$6050 \times 30.5 \text{ wks} \times 64) + (\$6100 \times 26.5 \text{ wks} \times 37) + (\$6381 \times 28.1 \text{ wks} \times 52)}{153}$	177,219
EEA	$\frac{(\$6050 \times 11.1 \text{ wks} \times 72) + (\$6100 \times 10.3 \text{ wks} \times 40) + (\$6381 \times 13.8 \text{ wks} \times 12) + (\$5200 \times 12 \text{ wks} \times 33)}{157}$	66,651

21. Agency-specific flat fees for each project type, computed solely on the basis of each respective agency's current updated staffweek costs and project staffweek coefficients, are summarized in Table 3.

Table 3: Agency-Specific Flat Fees

	ADB	IBRD	UNDP	UNEP	UNIDO
	\$	\$	\$	\$	\$
INV	860,010	1,051,589	-	-	-
TA	-	-	396,275	401,380	-
MSP	-	179,306	184,525	161,650	-
EEA	-	88,058	67,155	62,830	62,400

⁵ Specifically, IBRD and ADB for Investment-type projects; UNDP and UNEP for Technical Assistance-type projects; UNDP, UNEP, UNIDO and IBRD for expedited enabling activities and medium-sized projects.

⁶ An agency's estimated costs for a project-type is a function of its total project "Staff Week-coefficient" and "Staff Week-cost".

Flat Percentage Fee

22. The fee for a specific project is established by applying a pre-established fixed percentage to the grant value of that project. Most development funding agencies provide compensation for project management or implementation services in terms of a pre-established fixed percentage of the grant value, without any identification, categorization or classification between project types. By being computed on the basis of a flat percentage referenced to a project's grant value, an assumption is being made, rightly or wrongly, that the resulting fee would have intrinsically taken into account the project's complexity and duration, which reasonably can be deemed to be reflected in the size of the project grant. On this premise, the use of such a pre-established flat percentage should then reduce any need for subsequent negotiations to factor for individual projects circumstances. It will also facilitate and ensure the maintenance of an established fee ratio ceiling on the overall work program and portfolio. However, the use of a flat percentage fee may necessitate establishing a minimum fee (i.e., a flat fee flooring) to ensure that even low-value projects would cover their project-cycle management costs.

23. For each project-type, based on the (i) average project grants approved under the FY00 - FY03 work program-to-date; and (ii) each agency's updated current project cycle management costs, the following estimated average fee ratios for the GEF portfolio and for each respective agency, by project-type, were determined:

Table 4: Estimated Average Fee Ratios

	ADB	IBRD	UNDP	UNEP	UNIDO	Average
	%	%	%	%	%	%
INV	9.39	10.67	-	-	-	10.60
TA	-	-	6.21	7.54	-	6.50
MSP	-	22.04	22.24	23.17	-	22.36
EA	-	31.76	19.08	20.81	13.19	18.57
Average	9.39	11.51	8.11	10.54	13.19	9.97

24. These estimated average fee ratios could be used to provide a reference basis for establishing a Flat Percentage Fees structure, in terms of either:

- (a) A standard flat percentage fee for all project-types (i.e., 9.97 %); or
- (b) Standard flat percentage fees for each respective project type (i.e., Investment: 10.60%; Technical Assistance: 6.5%; Medium-Sized projects: 22.36 %; Enabling Activities: 18.57 %); or
- (c) Specific flat percentage fees for each respective project type for each respective agency (i.e., in the case of UNDP - Technical Assistance project: 6.2 %; Medium-Sized projects: 22.2 %; Enabling Activities: 19.0 %).

25. Also, given that certain project cycle management services may not increase in direct proportion to the grant value, consideration could also be given to a graduated scale of flat

percentages based on a project's grant value may be more appropriate; particularly for the larger full-size Investment-type and Technical Assistance-type projects.

Parametric Fee

26. A parametric fee is based on the use of an established formula to compute a specific fee for each project by factoring for certain identified project-specific variables (e.g., grant size, project duration, etc.). In FY01, when it became apparent that sufficient data was not readily available to provide an empirical basis for establishing flat-fee premium/discount parameters for Full-Size Projects, GEF Secretariat developed a parametric fee formula for INV and TA projects as a model for exploratory consultations, analysis and evaluation with the Implementing Agencies. This "pilot" formula was based on an assumption, rightly or wrongly, that a project's primary cost drivers are its (i) grant value - as a proxy for project characteristics and complexity; and (ii) duration - to reflect the required supervision effort over the life of the project. The use of a parametric fee would establish a fee computation formula that mechanistically determines a project's fee by factoring for the project-specific parameters of *grant-value* and *duration*.

27. The "pilot" formula was expressed as "Project Fee" = (**Gr** x *Pm* x *Sw*\$) + (**Yr** x *Sm* x *Sw*\$) + (*Em* x *Sw*\$), where:

- (a) (**Gr**) a project's grant value and (**Yr**) its duration would provide the project-specific variables in the computation of a project's fee;
- (b) *Pm*, *Sm* and *Em* are pre-determined fixed multipliers based on the project staffweek coefficients for each project-cycle phase, and on the average grant size and average planned project duration:
 - (i) *Pm* (Development/Preparation/Appraisal Multiplier): the number of Staff Weeks required for preparation/development per \$1.0 million of grant
 - (ii) *Sm* (Annual Supervision Multiplier): the number of Staff Weeks required for supervision during each year of the project's life
 - (iii) *Em* (Evaluation Multiplier): the number of Staff Weeks required for ICR, audits, etc.; and
- (c) *Sw*\$ = the fully loaded Staff Week cost⁷.

28. Essentially, the formula's components of (**Gr** x *Pm* x *Sw*\$), (**Yr** x *Sm* x *Sw*\$) and (*Em* x *Sw*\$) represent the respective portion of the fee covering an agency's project implementation services for a project's "development/preparation/appraisal", "supervision" and "evaluation" phases. An assumption is made that the variation in effort resulting from a project's complexity is adequately reflected in the Preparation/Development/Appraisal Multiplier (*Pm*) applied to a project's grant value. For simplicity, the "evaluation" effort is also assumed to be consistent across projects and, therefore, does not require a project-specific variable.

⁷ The Staff Week cost could be adjusted annually to account for inflation/price increases.

29. For this Fee Revision exercise, the values of the pre-determined fixed multipliers for Pm^8 , Sm^9 and Em^{10} were computed for full-size INV and TA projects (Annexes 2 to 4), based on each involved agency's estimated average cost of implementing a project and utilizing the following available empirical data pertaining to the implementation of GEF projects:

- (a) GEF's FY00-FY03 work program-to-date for project grant-size and duration profiles for full-size projects; and
- (b) Each Implementing Agency's current updated Staff Week costs and project Staff Week coefficients for full-size projects.

Possible Variations of the Recommended Fee Options

30. For FY00 – FY03, a standard flat-fee structure by project-type was applied to all GEF projects. During this fee revision exercise, a number of alternative fee structures were considered which could incorporate standard fee, agency-specific fees and/or combinations of the following fee structures:

- (a) Standard Flat Fee by Project-type
- (b) Agency-Specific Flat Fee by Project-type
- (c) Standard Flat Percentage for all projects (regardless of Project-type)
- (d) Flat Percentage by Project-type
- (e) Agency-Specific Flat Percentage by Project-type
- (f) Parametric Fee by Full-Size Project-type
- (g) Agency-Specific Parametric Fee by Full-Size Project-type

All-Agencies Discussion of Fee Options/Issues

31. In February 2003, an all-agencies meeting was held with the objective of providing the GEF Secretariat, the three Implementing Agencies and the seven Executing Agencies with a forum to consult on and discuss GEF's Fee-Based System, and to collaboratively review:

- (a) Design and implementation issues;
- (b) Governing policies and procedures; and
- (c) The revised fee structure to be proposed to Council in May 2003.

32. This meeting was attended by representatives of GEF Secretariat and GEF Implementing Agencies and Executing Agencies, with the exception of the Asian Development Bank and the African Development Bank, which were unable to participate for operational reasons. The

⁸ An agency's Preparation/Development Staffweek Coefficient divided by the agency's FY00-FY02 average project grant value.

⁹ An agency's Supervision Staffweek Coefficient divided by the agency's FY00-FY02 average project duration.

¹⁰ An agency's Evaluation Staffweek Coefficient.

discussions, comments and recommendations from this meeting have been incorporated into this proposal.

Evaluation Criteria For Selection of the Fee Option

33. In evaluating the various fee options and combinations thereof, a number of evaluation criteria, based on the governing objectives and principles identified at the initial design and establishment of the Fee-Based System, were taken into consideration. These evaluation criteria are as follows:

- (a) Enhance Resource and Cost Management: The fee structure should facilitate and support the efficient management of GEF resources and agency costs in the implementation of GEF projects. To enable this, the fee has to be structured, computed, measured on the basis of definable and quantifiable resource/cost drivers, such as staffweek costs and time-effort.
- (b) Reinforce Comparative Advantages of the Agencies: The fee structure should encourage the agencies to achieve and sustain cost efficiencies in order to emphasize their respective comparative advantages in the implementation of the different types of projects. To do so, the fee structure has to provide for clear identification and definition of its component quantifiable cost drivers.
- (c) Provide Reasonable Cost recovery: The fee value should enable an agency to recover its costs reasonably incurred in the implementation of their GEF work program. The Instrument provides for “the reasonable expenses incurred by the Implementing Agencies and any executing agency in the performance of their responsibilities”.
- (d) Ensure Transparency of Fee Computation: The fee methodology must be clearly understandable and should demonstrate a distinct relationship to recognized project parameters (such as grant values, duration, etc.). This will facilitate a better understanding of the fee-based system and substantiate the appropriateness and correctness of the fee allocated to a project.
- (e) Minimize Transaction Costs: The process for determining the fee for each project should be time and resource efficient and should avoid, as much as possible, any necessity for negotiations, particularly those of a subjective nature.

Fee Structure Scenarios

34. To facilitate the evaluation of the different fee structure options, a number of scenarios were prepared to provide a better understanding of the quantitative implications. However, in reviewing these scenarios, it is equally important to recognize and take into account non-quantitative organizational and operational considerations. The outcome of these scenarios, which is summarized in Annex 5, is only one factor that should be considered in evaluating the different fee options. These scenarios are based on the profile of the GEF projects, which were

approved during FY00-03 under the Fee-Based System. The average fee approved during this period for each project-type by agency is also provided as a benchmark reference.

35. Further, sensitivity analyses were carried out to better understand the relative impact and implications upon the different fee options of changes in project profiles. Analysis of the Parametric Fee determined that (i) a 10% increase in grant values, with project duration constant, will result in fee increases between 2% and 5%; (ii) a 10% increase in project duration, with grant values constant, will result in fee increases between 4.9% and 6.2%; and (iii) a 10% increase in both grant values and project duration will result in fee increases between 9.1% and 9.9%. With the Flat Percentage Fee, any increase/decrease in the grant value will be accompanied by an exact proportionate increase/decrease in the fee (i.e., a 10% increase/decrease in grant values will result in a 10% increase/decrease in fees); changes in project duration having no impact at all on the fee. For Flat Fees, changes in grant value and project duration will have no impact upon the fee. However, changes in the grant value will impact upon and be reflected in the resulting Fee Ratio; an increase in average grant value will lower the Fee Ratio percentage while decreases in average grant value will increase the Fee Ratio percentage. Although, in both cases, it should be noted that the absolute dollar amount of the fees remain the same.

IV. PROPOSAL FOR A REVISED FEE STRUCTURE

36. The proposed fee structure recognizes that the project profiles/characteristics for full-sized projects (i.e., INV and TA projects) vary substantially between projects and between agencies to a much greater extent; while the project profiles and characteristics for Medium-Sized Projects (MSPs) and Expedited Enabling Activities (EEAs) tend to be more consistent among the agencies. Determining a fee for a full-sized project therefore would demand a greater flexibility for accommodating project specificity than determining fees for MSPs and EEAs.

Full-Size Projects

37. For full-size Investment-type and Technical Assistance-type projects, the use of a standard flat-fee for all agencies is seen as no longer suitable because of (i) the considerable variances in the characteristics of projects, including grant values and duration of such projects; (ii) changes in work program profiles of the Implementing Agencies; and (iii) the introduction of Executing Agencies without a definitive work program or work program profile. The parametric fee structure, which takes into account each individual project's respective grant value and duration, therefore, would appear to be more appropriate in determining the relevant fee for a project. Also, if the grant value of a project is accepted as being an approximate proxy for that project's characteristics and complexity, this fee option would minimize any need for the negotiations of fee adjustments to further accommodate project-unique circumstances. The use of agency-specific parametric fees would additionally give due recognition and consideration of the project implementation processes of each respective agency, and the management and cost efficiency of these processes.

38. In proposing the use of agency-specific parametric fees as the fee structure for full-size projects, the agencies recognized that:

- (a) The parametric fee would be determined on the basis of (i) the average grant size and average duration of a GEF project (based on GEF's work program to date under the Fee-Based System); and (ii) the project-cycle management costs of each agency (based on their respective staffweek costs and project coefficients); subject to any adjustments for multi-country projects noted in paragraph 31 below;
- (b) There are other relevant cost drivers but for which clearly identifiable, measurable and quantifiable empirical data are not readily available;
- (c) The use of grant size and duration provides, currently, the best quantifiable approximation of a project's implementation costs;
- (d) A fee based directly on readily identifiable factors (i.e., project grant value, project duration and agency staffweek costs) provides greater transparency than a flat fee or flat percentage fee;
- (e) While some agencies would prefer a flat percentage fee, a parametric fee provides a closer relationship to reasonable recovery of implementation costs because it also takes into consideration an additional project parameter that is readily identifiable and available; i.e., the project's duration; and
- (f) Executing Agencies with limited or no GEF experience may utilize a parametric fee structure referenced to a comparable agency, but will have the flexibility to propose their own parametric coefficients if they have the empirical data to establish and support them.

39. ***Fee Adjustments:*** With a parametric fee, an assumption is made that factoring for the grant value will account for most intrinsic project complexities. However, based on their experiences, the agencies maintain that the grant value does not reflect the additional project-cycle management resources demanded by a multi-country project¹¹ in relation to a similar single-country project. Intuitively, a project with multiple in-country involvements will require more resource efforts in development, preparation and supervision. Consequently, only the parametric fee for such multi-country projects will be adjusted to account for their additional resource demands, recognizing that:

- (a) Fee adjustment guidelines/parameters have to be clearly established and consistently applied across agencies and projects so as to minimize any need for subjective negotiations on a case-by-case basis; and
- (b) It may not be readily possible to identify and establish direct resource relationships to the number of countries involved in a project, because of other project parameters or characteristics, inherent in each multi-country project, the cost impact of which cannot be segregated; and

¹¹ Multi-country projects are simply defined as those requiring in-country involvement in a number of countries; and may be categorized as trans-boundary, regional multi-country or global multi-country projects.

- (c) Certain global projects may not necessitate in-country involvement in multiple countries and their project profile matches more suitably with a single country project (e.g., projects focusing on compilation and/or management of environmental information).

40. ***Development and Preparation Fee for Full-Size Projects:*** Quite substantive resources are typically expended by the agencies in the development and preparation of a project before it is proposed to Council and a fee is approved and allocated. Also, in the case of UN agencies acting under the expanded opportunities initiative, their regulatory and budgetary policies require that relevant funding be available before such expenditures can be incurred. With the introduction of POPs activities and with the expanded participation of the specialized UN agencies, additionally, it is expected that there will be certain projects for which an agency may be involved only in the project-cycle phases of development and preparation. To address these issues of pre-project approval funding, it is proposed that the portion of the fee, pertaining to the project-cycle management activities of the project development and preparation cycle phases, be approved concurrent with the approval of entry of a project concept into the GEF pipeline. Subsequently, on approval of the resulting project, the amount of this preparation/development fee will be deducted from the approved fee for that project.

Medium-Sized Projects and Expedited Enabling Activities

41. For all agencies, MSPs and EEAs tend to have more consistent project profiles, as further defined by the financial limitations upon their respective grant values. The use of Standard Flat Fees for MSPs and EEAs respectively, for all agencies, would adequately take into account and assure reasonable compensation for the costs of providing the minimum required level of project-cycle management activities for these projects. Flat fees ensure that IAs are assured adequate funds to provide the minimum level of project-cycle management services, regardless of the grant value. The use of flat percentage fees could weaken project implementation by providing inadequate funds or, unnecessarily, make available excess funds to the agencies. The agencies' experience with the flat fees allocated to MSPs and EEAs during the FY00-03, and the stabilization of these project-types, also support the continued use of flat fees for these project types. Some agencies would have preferred a Flat Percentage Fee but other agencies were concerned that a fee based upon the value of the underlying grant may not necessarily provide the funds to cover the minimum required level of project-cycle management activities required. Such a percentage fee could also create a disincentive to develop projects that require a relatively small grant, since this would provide a fee insufficient to cover the required project-cycle management costs. Any such disincentive would be avoided if a Flat Fee could assure the agencies that their project-cycle management costs would be reasonably covered.

Proposed Policy and Procedure Guidelines

42. In revising the fee structure, the policy and procedure guidelines governing the operation of the Fee-Based System was also reviewed to ensure the currency of these guidelines and, if appropriate, to amend them to accommodate changed circumstances. The following policy and procedure guidelines were discussed and are proposed:

- (a) ***Applicability of Fee Structure:*** The approved fee structure will be applicable to approved GEF projects, from July 1st 2003, commencing with the July 2003 Intersessional work program. The approved fee is a one-time fee intended to cover the objectives, scope and duration of the project, as established in the approved project proposal; no subsequent additional fee will be considered nor granted.
- (b) ***Review and Revision of Fee Structure:*** The fee structure may be reviewed periodically to determine its continued appropriateness. If material changes occur (for example, changes in organizational arrangements, work program strategy and composition, project cycle phases, project-type nature/scope, project implementation services, etc.) that could substantively impact upon the continued appropriateness of the fee structure, GEF Secretariat and the agencies will jointly agree to an immediate review and revision, if necessary, of the existing fee structure.
- (c) ***Approval and Allocation of Fee:*** Fees for projects will be approved by Council or CEO, concurrent with presentation to and approval of the relevant projects by Council or CEO. The Development and Preparation Fee portion will be approved by CEO, concurrent with approval of entry of the concept proposal in to the GEF Project Pipeline; the amount of the Development and Preparation Fee to be subsequently deducted from the fee for the resulting project. The fee is disbursable on approval of the project proposal by Council or the CEO.
- (d) ***Adjustments to Fee:*** For full-sized Investment-type and Technical Assistance-type projects, adjustments to the computed project fee will only be considered for the multi-country scope of a project based on either (i) non-negotiable pre-established agency coefficients; or (ii) project-specific parameters negotiated on a case-by-case basis, as appropriate. No fee adjustments will be considered for Medium-Sized Projects and Enabling Activities.
- (e) ***Pass-Through to Executing Agency:*** For projects being implemented by an Executing Agency under the Expanded Opportunity Initiative, the presumption is that the relevant fee should be passed through in its entirety to the Executing Agency through the “sponsoring” Implementing Agency. Only when the Implementing Agency has been or will be substantially involved in the project, the fee will be shared between them as jointly agreed by both agencies, in consultation with GEF Secretariat as necessary. However, typically, the total fee for both agencies should not be more than the fee if only one agency was involved. This is distinguished from joint initiatives where two or more agencies are involved in an overall GEF co-financed program/project, where each agency is effectively responsible for its own components of the program/project; in which case, each agency receives an appropriate fee for its respective project-cycle management services.

- (f) ***Separate Accounting of Funds pertaining to Fees:*** GEF funds received by the agencies in respect of fees should be accounted for separately from GEF funds received in respect of project grants, corporate budgets and special initiatives.
- (g) ***Fee Refunds:*** On the termination/cancellation of a project for which a fee has been approved and allocated, the unused balance of the fee will be returned to GEF Trust Fund; the agencies' project cost accounting system are deemed to be able to determine the unused fee balance for each project.
- (h) ***Interest Earned on Fee Fund:*** Interest earned on the disbursed balance of the funds pertaining to fees shall accrue to the agency as a means of offsetting future annual price increases.

Proposed Fee Structure

43. The fee structure, summarized in Table 6 below, is proposed for the compensation of the agencies for their provision of project cycle management services on all GEF projects approved by Council/CEO from July 1, 2003.

Table 6: Proposed Fee Structure

INV	TA	MSP	EEA
Agency-Specific Parametric Fee (as per Annex 2)	Agency-Specific Parametric Fee (as per Annexes 3-4)	Standard Flat Fee US\$177,000	Standard Flat Fee US\$66,500

44. In conjunction with this proposed revised fee structure, the following substantive amendments to the operation of the Fee-Based System are also proposed:

- (a) For Full-Size Projects, adjustments to the computed parametric fee will only be granted to account for the additional resource demands of multi-country projects, based on pre-established project coefficients where an agency has adequate empirical data to determine such; or on case-by-case negotiations, if otherwise;
- (b) For Full-Size Projects, the portion of the fee, pertaining to the project-cycle management services of the project development and preparation cycle phases, will be approved and allocated on entry of a project concept into the GEF pipeline; the amount of this preparation/development fee, to be based on an agency's project coefficients for the Development/Preparation project-cycle phases, will subsequently be deducted from the approved fee for the resulting project; and
- (c) The updated Fee-Based System policy and procedure guidelines, as discussed above, will apply to its operation.

ANNEX 1: PROJECT CYCLE MANAGEMENT SERVICES

45. The GEF project cycle consists of four phases: (i) project concept development; (ii) project preparation; (iii) project appraisal; and (iv) project approval and implementation supervision. These four phases are marked by three decision points: (i) Secretariat review for Concept Agreement; (ii) Work Program Inclusion; and (iii) CEO Endorsement.

46. To manage a project through the various phases of the project cycle, the Implementing Agencies and Executing Agencies (under the Expanded Opportunity Initiative) have to provide a core set of services for each project. Identified in the following tables are minimum sets of such services for the different types of GEF projects.

47. These services are carried out in accordance with each agencies' operational policies and procedures as they may be applicable to the different project types. In particular, the Instrument mandates the agencies to apply to GEF projects their standard due diligence requirements related to financial, economic, legal, environmental, social, and technical aspects, which vary for project types.

Project Cycle Management Activities
Investment/Technical Assistance Projects (Full-size project)

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Concept Development		
Identification	<ul style="list-style-type: none"> Consult with appropriate stakeholders in-country, including the GEF operational focal point, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis. Review options for co-financing and partnerships. Incorporate GEF opportunity in appropriate planning/country assistance strategy documents of the IA/EA. 	Project ideas
Concept Preparation	<ul style="list-style-type: none"> Discuss GEF eligibility criteria with operational focal point and other stakeholders. Undertake brief in-country consultation mission using a PDF-A if necessary. Consult within IA/EA. Assist project proponent prepare Concept /PDF-B document in consultation with appropriate stakeholders, including the GEF operational focal point Assist with preparation of brief (particularly, where preparation of a brief is not handled under PDF-A or B) Obtain endorsement letter from operational focal point. Discuss with GEFSEC on pipeline entry 	Project Concept Document
Preparation		
Detailed Project Preparation	<ul style="list-style-type: none"> Prepare and execute legal agreements for PDF-B. Keep operational focal point informed. Help project proponent write Terms of Reference for consultant, if required, to undertake PDF-B activities. Assist project proponent to identify and recruit consultants to assist with project preparation, if necessary. Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field, with particular focus on risk assessment, governance issues, execution arrangements, co-financing, capacity development, partnership building and outreach. Help identify and recruit STAP reviewer; remunerate reviewer. Negotiate and reach agreement on incremental cost with government and other relevant stakeholders. Submit Project Document (with Project Executive Summary) for Council Approval 	Project Document

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Project Appraisal		
	<ul style="list-style-type: none"> Appraise project and finalize project implementation arrangements, including mission travel. Submit Final Project Document for CEO endorsement 	Final Project Document
Approval and Implementation Supervision		
Project Approval and Start-up	<ul style="list-style-type: none"> Prepare legal and other documentation for approval by IA approval authority Assist project proponent establish project management structure in country. Assist project management agency draft TORs and select experts for implementation. Facilitate project management agency with project start-up workshop. 	<ul style="list-style-type: none"> Project Document for Signature by Country. Project Initiation Report
Implementation Supervision	<ul style="list-style-type: none"> Mount at least one supervision mission per year, including briefing operational focal points on project progress. Provide technical guidance, as necessary, for project implementation. Pay advances to the Executing Agency and review financial reports. Prepare annual project implementation reports for submission to GEFME Prepare and participate in PIRs. 	Annual Project Implementation Reports
Mid-term Review	<ul style="list-style-type: none"> Undertake mid-term review, including possible project restructuring. Send copy to GEFME 	Mid-term Review Report
Completion/Evaluation	<ul style="list-style-type: none"> Prepare Project Completion Report/Terminal Evaluation, and submit the report to GEFME. Prepare project closing documents 	Project Completion/Terminal Evaluation Report

**Project Cycle Management Activities
Medium-sized Projects**

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Concept Development		
Identification	<ul style="list-style-type: none"> Consult with the GEF Operational Focal point and other appropriate stakeholders in-country, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis. Review options for co-financing and partnerships. Incorporate GEF opportunity in appropriate planning/country assistance strategy documents of the IA/EA. 	Project ideas
Concept Preparation	<ul style="list-style-type: none"> Discuss GEF eligibility criteria with operational focal point and other stakeholders. Consultation within IA/EA. Assist project proponent prepare concept /PDF-A document in consultation with operational focal points and other appropriate stakeholders. Obtain endorsement letter from operational focal point for PDF-A. 	MSP Concept
Preparation		
Detailed Project Preparation	<ul style="list-style-type: none"> Prepare and execute legal agreements for PDF-A. Keep operational focal point informed. Help project proponent write Terms of Reference for consultant, if required, to undertake PDF-A activities. Assist to identify and recruit consultants to assist project proponent with project preparation. Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field. Negotiate and reach agreement on incremental cost with operational focal point and other relevant stakeholders. Submit project brief, with operational focal point endorsement, for CEO approval. 	MSP Brief
Approval and Implementation		
Project Approval and Start-up	<ul style="list-style-type: none"> Prepare legal and other documentation for appraisal and approval by IA approval authority, with special attention to management 	<ul style="list-style-type: none"> Project Document for signature

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
	arrangements, risk assessment, capacity development, partnership building and outreach. <ul style="list-style-type: none"> Assist project proponent establish project management structure in country. Assist project management agency draft TORs and help select experts for implementation. Facilitate project management agency with project start-up workshop. 	by Country <ul style="list-style-type: none"> Project Initiation Report
Implementation Supervision	<ul style="list-style-type: none"> Mount at least one supervision mission per year, including briefing operational focal points on project progress. Provide technical guidance, as necessary, for project implementation. Prepare and pay advances to the Executing Agency and review financial reports. Prepare annual project implementation reports for submission to GEFME. Participate in PIR. 	Annual Project Implementation Reports
Mid-term Review	<ul style="list-style-type: none"> Undertake mid-term review, including possible project restructuring, with the involvement of the operational focal point. Send copy to GEFME 	Mid-term Review Report
Completion/Evaluation	<ul style="list-style-type: none"> Prepare Project Completion Report/Terminal Evaluation, with the involvement of the operational focal point. Submit a copy to GEFME Prepare project closing documents 	Project Completion/Terminal Evaluation Report.

Project Cycle Management Activities
Enabling Activities under expedited procedures

Phase of Project Cycle	Minimum Role of Implementing Agency/Executing Agency	Output
Proposal Development & Approval		
Proposal Preparation	<ul style="list-style-type: none"> • Discuss GEF eligibility criteria with the GEF Operational Focal point and other relevant stakeholders. • Help project proponent prepare proposal following the GEF criteria for the appropriate enabling activity. • Review co-financing opportunities and assist with negotiations. • Obtain endorsement letter from operational focal point • Submit proposal for CEO approval 	Enabling Activity Project Proposal
Approval and Implementation		
Project Approval and Start-up	<ul style="list-style-type: none"> • Prepare legal and other documentation for appraisal and approval by IA approval authority, with particular attention to policy issues and capacity development. • Assist project proponent establish project management structure in country. • Help project management agency draft TORs to select experts for implementation. • Facilitate project management agency with project start-up workshop. 	<ul style="list-style-type: none"> • Project Document for signature by Country • Project Initiation Report.
Implementation Supervision	<ul style="list-style-type: none"> • Mount at least one supervision mission per year, including briefing operational focal points on project progress. • Provide technical guidance, as necessary, for project implementation. • Prepare and pay advances to the Executing Agency and review financial reports. • Prepare annual progress reports. • Participate in annual GEFME stocktaking of EAs. 	Annual Reports to IA to be included in GEFSEC's annual EA stocktaking.
Completion/Evaluation	<ul style="list-style-type: none"> • Prepare Project Completion Report/Terminal Evaluation, with the involvement of the operational focal point. Submit copy to GEFME • Prepare project closing documents 	Project Completion/ Terminal Evaluation Report.

ANNEX 2: PROPOSED PARAMETRIC MODEL FOR INVESTMENT-TYPE PROJECTS

1. FY00-FY03 Work Program - IA Staffweek Cost and Coefficients

	ADB	IBRD	Total
No of Projects	4	62	66
Average Project Life	4.50	5.31	5.27
Total Value of Grants (\$m)	36.650	611.150	647.800
Average Grant (\$m)	9.163	9.857	9.815
Total Fees (\$m)	3.402	55.528	58.930
Average Fee (\$m)	0.851	0.896	0.893
Staffweek Cost (\$)	5,260	6,381	6,313
Staffweek Coefficients			
Development/Preparation	56.80	81.50	80.00
supervision	101.20	80.80	82.04
evaluation	5.50	2.50	2.68
Total	163.50	164.80	164.72
Cost Estimate (\$)	860,010	1,051,589	1,039,895

** The average are calculated on the basis of weighted averages*

2. Fee Computation based on Proposed Formula

Fee Computation based on ADB Projects:		\$
preparation/development:	\$9.163 x 6.20 stfwks x \$5,260	298,768
supervision:	4.5 yrs x 22.49 stfwks x \$5,260	532,312
evaluation:	5.5 stfwks x \$5,260	28,930
*Cost Estimate (\$)		<u>860,010</u>

Fee Computation based on IBRD Projects:		\$
preparation/development:	\$9.857 x 8.27 stfwks x \$6,381	520,052
supervision:	5.31 yrs x 15.22 stfwks x \$6,381	515,585
evaluation:	2.5 stfwks x \$6,381	15,953
*Cost Estimate (\$)		<u>1,051,589</u>

Fee Computation based ADB/IBRD Projects:		\$
preparation/development:	\$9.815 x 8.15 stfwks x \$6,313	505,064
supervision:	5.27 yrs x 15.57 stfwks x \$6,313	517,901
evaluation:	2.68 stfwks x \$6,313	16,930
Weighted Average (\$)		<u>1,039,895</u>

** Cost Estimates are based on Staffweek Cost and Staffweek Coefficients (provided by the agencies)*

ANNEX 3: PROPOSED PARAMETRIC MODEL FOR SINGLE-COUNTRY TECHNICAL ASSISTANCE-TYPE PROJECTS

1. FY00-FY03 Work Program - IA Staffweek Cost and Coefficients

	UNDP Single Country	UNEP Single Country	UNDP/UNEP Single Cntry Average *
No of Projects	57	5	62
Average Project Life	5.32	3.60	5.19
Total Value of Grants (\$m)	348.784	28.286	377.070
Average Grant (\$m)	6.119	5.657	6.082
Total Fees (\$m)	26.075	2.015	28.090
Average Fee (\$m)	0.457	0.403	0.453
Staffweek Cost (\$)	6,050	6,100	6,054
Staffweek Coefficients			
development	13.6	21.3	14.2
preparation	11.8	0.0	10.8
supervision	34.1	40.3	34.6
evaluation	6.0	4.2	5.9
Total	65.45	65.80	65.48
Cost Estimates (\$) (See Notes)	395,973	401,380	396,407

* The average are calculated on the basis of weighted averages

2. Fee Computation based on Proposed Formula

Fee Computation based on UNDP Single-Country Projects (\$m):		\$
preparation/development:	\$6.119 x 4.15 stfwks x \$6,050	153,670
supervision:	5.32 yrs x 6.40 stfwks x \$6,050	206,003
evaluation:	6.0 stfwks x \$6,050	36,300
Cost Estimate (\$)		<u>395,973</u>

Fee Computation based on UNEP Single-Country Projects (\$m):		\$
preparation/development:	\$5.657 x 3.77 stfwks x \$6,100	129,930
supervision:	3.60 yrs x 11.19 stfwks x \$6,100	245,830
evaluation:	4.2stfwks x \$6,100	25,620
Cost Estimate (\$)		<u>401,380</u>

Fee Computation based on UNDP/UNEP Single-Country Projects (\$m):		
preparation/development:	\$6.082 x 4.12 stfwks x \$6,054	151,771
supervision:	5.19 yrs x 6.67 stfwks x \$6,054	209,191
evaluation:	5.9 stfwks x \$6,054	35,445
Cost Estimate (\$)		<u>396,407</u>

Notes:

1. Cost Estimates are based on Staffweek Cost and Staffweek Coefficients provided by the agencies.
2. UNEP's GEF project portfolio comprises primarily of multi-country, regional and global projects.
- 3 UNDP's coefficients are based on latest data submitted Feb 27, 2003, found in sheet "Coeff"

ANNEX 4: PROPOSED PARAMETRIC MODEL FOR MULTI-COUNTRY TECHNICAL ASSISTANCE- TYPE PROJECTS

1. FY00-FY03 Work Program - IA Staffweek Cost and Coefficients

	UNDP Multi Country	UNEP Multi Country	UNDP/UNEP Multi Country Average
No of Projects	18	15	33
Average Project Life	3.61	4.10	3.83
Total Value of Grants (\$m)	190.425	121.764	312.188
Average Grant (\$m)	10.579	8.118	9.460
Total Fees (\$m)	9.954	6.554	16.508
Average Fee (\$m)	0.553	0.437	0.500
Staffweek Cost (\$)	6,050	6,100	6,073
Staffweek Coefficients			
Development/Preparation	36.0	37.0	36.5
Supervision	58.0	56.1	57.1
Evaluation	6.0	8.6	7.2
Total	100.00	101.70	100.77
Cost Estimates (\$) (Note 1)	605,000	620,370	611,965

* The average are calculated on the basis of weighted averages

2. Fee Computation based on Proposed Formula

Fee Computation based on UNDP Multi-Country Projects:		\$
preparation/development:	\$10.579 x 3.40 stfwks x \$6,050	217,800
supervision:	3.61 yrs x 16.07 stfwks x \$6,050	350,900
evaluation:	6.0 stfwks x \$6,050	36,300
Cost Estimate (\$)		<u>605,000</u>

Fee Computation based on UNEP Multi-Country Projects:		\$
preparation/development:	\$8.118 x 4.56 stfwks x \$6,100	225,700
supervision:	4.10 yrs x 13.68 stfwks x \$6,100	342,210
evaluation:	8.6 stfwks x \$6,100	52,460
Cost Estimate (\$)		<u>620,370</u>

Fee Computation based on UNDP/UNEP Multi-Country Projects (Weighted Average):		\$
preparation/development:	\$9.460 x 3.86 stfwks x \$6,073	221,379
supervision:	3.83 yrs x 14.91 stfwks x \$6,073	346,974
evaluation:	7.2 stfwks x \$6,073	43,613
Cost Estimate (\$)		<u>611,965</u>

ANNEX 5: FEE STRUCTURE SCENARIOS

FY00-FY02 Work Program				Fee Structure Scenarios				
Project-Type IA	Average Duration	Average Grant	Average Flat Fee	Flat Fee	Agency-Specific Flat Fee	Flat %	Agency-Specific Flat %	Agency-Specific Formula
	Yrs	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m	US\$m
INV								
ADB	4.5	9.163	0.851	1.040	0.860	0.971	0.860	0.860
<i>Fee Ratio</i>			9.28	11.35	9.39	10.60	9.39	9.39
IBRD	5.3	9.857	0.896	1.040	1.052	1.044	1.052	1.053
<i>Fee Ratio</i>			9.09	10.55	10.67	10.60	10.67	10.69
TA Single-Country								
UNDP	5.3	6.119	0.457	0.397	0.396	0.399	0.396	0.396
<i>Fee Ratio %</i>			7.48	6.48	6.48	6.52	6.48	6.47
UNEP	3.6	5.657	0.403	0.397	0.401	0.369	0.401	0.401
<i>Fee Ratio %</i>			7.12	7.01	7.10	6.52	7.10	7.10
TA Multi-Country								
UNDP	3.6	10.579	0.553	0.612	0.605	0.684	0.605	0.606
<i>Fee Ratio %</i>			5.23	5.78	5.72	6.47	5.72	5.72
UNEP	4.1	8.118	0.437	0.612	0.620	0.525	0.620	0.620
<i>Fee Ratio %</i>			5.38	7.54	7.64	6.47	7.64	7.64
MSP								
IBRD		0.814	0.149	0.177	0.179	0.182	0.179	
<i>Fee Ratio %</i>			18.28	21.78	22.04	22.36	22.04	
UNDP		0.830	0.144	0.177	0.185	0.186	0.185	
<i>Fee Ratio %</i>			17.41	21.36	22.24	22.36	22.24	
UNEP		0.698	0.143	0.177	0.162	0.156	0.162	
<i>Fee Ratio %</i>			20.44	25.40	23.17	22.36	23.17	
EEA								
IBRD		0.277	0.050	0.067	0.088	0.051	0.088	
<i>Fee Ratio %</i>			16.68	20.03	31.76	18.21	31.76	
UNDP		0.352	0.054	0.067	0.067	0.064	0.067	
<i>Fee Ratio %</i>			15.41	18.94	19.08	18.21	19.08	
UNEP		0.302	0.050	0.067	0.063	0.055	0.063	
<i>Fee Ratio %</i>			15.77	20.97	20.81	18.21	20.81	
UNIDO		0.473	0.054	0.067	0.062	0.086	0.062	
<i>Fee Ratio %</i>			11.41	14.09	13.19	18.21	13.19	