Global Environment Facility

GEF/C.33/8
March 24, 2008

GEF Council
April 22-25, 2008

Agenda Item 14

# REVIEW OF ADMINISTRATIVE EXPENSES ALLOCATED TO GEF IMPLEMENTING AGENCIES

## COVER NOTE

**Recommended Council Decision**

Council reviewed document GEF/C.33/8, *Review of Administrative Expenses Allocated to GEF Implementing Agencies*, and requests:

(a) the Secretariat to convene an inter-agency working group to develop a glossary of terms and reporting guidelines that would enable comparability between the Agencies with respect to reporting on administrative expenses and that would allow a consistent approach to tracking actual administrative costs across Agencies;

(b) the Secretariat to provide recommendations from the working group to Council in Spring 2009;

(c) each GEF Agency to provide to the Secretariat on an annual basis a list of staff (in Headquarter, as well as in field offices) that work full time or part time for the GEF, or if such data is not available, to provide an estimate of the number of staff years spent on corporate activities and project cycle management for the GEF;

(d) each GEF Agency to report annually on services provided and actual aggregated expenditures on corporate activities and project cycle management with breakdowns by the categories of staff, consultants, travel, and other expenditures (e.g. office space, IT, etc.);

(e) the Secretariat to collect this information and include it in the business plans presented to Council.

1. In June 2007, Council approved as a special initiative of the GEF Business Plan for FY08-10, Terms of Reference (ToR), and a budget for conducting a review of GEF-related administrative costs in the Implementing Agencies. The purpose of this special initiative was to provide a more factual and comprehensive understanding of the GEF's cost of doing business. The review was intended to provide a basis for moving forward to implement the new GEF project cycle as well as other operational policies of the GEF, with an aim to increase cost effectiveness, as laid out in the Paris Declaration on Aid Effectiveness.

2. The specific objectives of the review as stated in the ToR were:

(a) to collect and review information on the use of GEF administrative resources, so as to have comprehensive information on the different elements and drivers of expenses incurred by the Implementing Agencies as partners of the GEF and in managing and implementing GEF projects;

(b) to have a clear break-down of cost items financed by administrative resources – staff, consultants, travel, office space, information technology, etc; and

(c) to provide a better understanding of the Implementing Agencies' costs for doing GEF business, an assessment of whether GEF resources are being used effectively and efficiently, and recommendations, as appropriate, to improve the means by which administrative costs are supported.

3. The ToR stipulated that the review would capture three categories of administrative expenses:

(a) corporate budgets that have been provided to the Implementing Agencies to cover their costs in fulfilling corporate responsibilities related to institutional relations, policy and program development/management/coordination, outreach/knowledge management/external relations, management and finance, and monitoring and evaluation;

(b) fees that have been provided for project cycle management, including due diligence management of a project through the entire project cycle – development, preparation, supervision, and evaluation; and

(c) possible administrative expenses related to project management costs included in the GEF project grant.

4. It is recognized that resources to finance the last cost category (3.c) are not always provided to the Implementing Agency and that they usually flow directly to the executing agency of the project. Nevertheless, in order to have a complete understanding of the cost of doing business, the review was expected, through a review of a sample of projects, to provide information on the level and use of project management resources.

5. Thus, the review was expected to map the actual administrative costs in each of the three Implementing Agencies according to the categories given above, during a reporting period

covering FY01-06. Based on this data, the review was expected to address a number of specific issues and questions laid out in the ToR.

6. The Secretariat contracted an external Consultant through an open bidding process to undertake the review. The Consultant analyzed data provided by the three Implementing Agencies and conducted interviews with staff members of the Agencies, the Secretariat, the Trustee, and the Evaluation Office. The Consultant also benchmarked with information provided by four other donor agencies. The Consultant's review report is attached as Annex A. Comments from the three Agencies on the final report from the Consultant are attached as Annexes B – D.

7. Although the Agencies were cooperative with the Consultant, the Consultant encountered significant difficulties in acquiring and assembling comparable data on administrative costs from the three Agencies. For example, the Consultant was unable to extract data on administrative expenses related to project management costs under the individual project grants. For the two other categories (i.e. fees and corporate budgets), the Consultant relied largely on estimated budget breakdowns of the corporate budgets and project fees granted to the Agencies during the period. These budget breakdowns only partly follow the cost items and the project cycle stages defined in paragraphs 2(b) and 3(b) above, primarily because each Agency follows its own budgeting, accounting, and reporting standards and fiduciary requirements.

8. The Consultant has attempted to fill these data gaps by using estimated cost distributions or by extrapolating from one category to others. The review consequently yields only an approximate picture of the Agencies' administrative costs of doing GEF business, offering little factual evidence to elucidate whether GEF resources have been spent efficiently and effectively, or of the extent Agencies have co-financed GEF-related administrative costs from other sources.

9. In spite of these significant shortcomings, the data does allow some comparative analysis between the three Agencies, for example, on the distribution between labor and non-labor costs. It should be borne in mind, however, that most of the apparent differences between Agencies regarding these 'efficiency indicators' reflect the fee structure that was in effect during the reporting period rather than differences in actual costs.

10. The review report also includes a limited benchmarking analysis with four other donor agencies, focusing on overhead costs, defined as administrative costs that cannot be directly attributed to a specific project. The GEF, with an estimated 5% average overhead rate, lies in the middle of the selected benchmarking partners.

11. The Consultant has acknowledged that the GEF was established as a network organization that was intended to operate through the systems and processes within the Implementing Agencies. There has been less recognition by the Consultant that the different Implementing Agencies have been fully accountable to their own boards or equivalent and have exercised fiduciary standards in their handling of GEF funds as with any other funds.

12. However, it has become evident over the sixteen years since the GEF's inception, that there needs to be a common understanding across the GEF of the services provided by the Agencies for corporate activities and project cycle management related to the GEF, in order to ensure accountability, cost effectiveness and transparency in the GEF.

13. Therefore, the Consultant recommends that the GEF Secretariat should work with the Implementing Agencies to:

(a) provide clear guidance on the data categories and level of detail to be reported;

(b) identify and agree upon a common terminology for all activities funded by the GEF in the areas of corporate management and project cycle management at the portfolio, program, and project execution levels; and

(c) collaborate with the Agencies to develop consistent approaches for provision of financial information.

14. As each GEF Agency continues to operate under its own individual policies and procedures, the Consultant makes some additional recommendations to enable the Agencies to provide comparable financial information on administrative expenses based on the following principles:

(a) consistent standards for GEF financial policies, procedures, and information requirements;

(b) consistent costing approaches;

(c) standardized costs and performance reports;

(d) corporate budgeting to follow a requirements-based process; and

(e) a fixed cost plus incremental percentage approach to project cycle management fees.

15. The GEF Secretariat stands ready to follow up on the recommendations given in the review report. The GEF Secretariat will lead an inter-agency working group to develop a common understanding of the varied terms and categories used by the different Agencies for administrative costs. The working group will also define a common set of reporting requirements for administrative costs, for project status, and for project closure, with a perspective to improve transparency and lay the ground for increased cost-effectiveness through the exchange and adoption of good administrative practices.

16. The present reporting system concentrates on an input based budget, but the Secretariat is interested to investigate the relative merits of working in line with its results based management policy, and requesting GEF Agencies to report back on the level and scope of services provided to the GEF against the fees received.

# ANNEX A

## REVIEW OF ADMINISTRATIVE EXPENSES ALLOCATED TO GEF IMPLEMENTING AGENCIES

**(Prepared by Grant Thornton LLP)**

Accountants and
Business Advisors

Grant Thornton LLP
US Member Firm of Grant Thornton International

March 14, 2008

Ms. Monique Barbut
Chief Executive Officer and Chairman
Global Environment Facility (GEF)
1818 H Street, NW
Washington, DC  20433

Dear Ms. Barbut:

Grant Thornton is pleased to provide our final report; *Review of Administrative Expenses Allocated to GEF Implementing Agencies* representing completion of our work under contract number 8003023. In completing this task, we have provided information on the use of GEF administrative resources by the GEF Implementing Agencies. We have also identified barriers to information collection and sharing and made recommendations to overcome them.

We thank you and your staff for choosing Grant Thornton Global Public Sector to perform this study. Should you have any questions concerning this project, please call me at 703-637-2854. We look forward to working with you and Global Environment Facility again.

Sincerely,

Paul Trampert, Director
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# The Global Environment Facility

Review of Administrative Expenses Allocated to GEF Implementing Agencies

## Final Report

March 14, 2008

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# Executive Summary

## Background

The Grant Thornton Team was charged with conducting a comprehensive review of the full costs related to the IAs' participation in GEF corporate activities and implementing GEF projects. The main objective was to provide a clear understanding of how the IAs used administrative resources to conduct GEF-related business. This effort facilitated the identification and documentation of issues that stemmed from the use of the Corporate Budget, the Implementing Agency Fee as well as overhead expenses paid from GEF project grant allocations. The assessment also serves as a starting point in the development of short-term and long-term plans for resolving critical management, budgeting, and accounting issues related to administrative expenses.

The objectives of the analysis were to:

- Provide a clear, factual basis for understanding the use of administrative resources provided to and through the Implementing Agencies (IAs).
- Define and identify administrative costs and how they are used.
- Gain a complete and comprehensive understanding of the GEF's cost of doing business as a network organization.
- Identify cost drivers that are inherent in managing GEF projects.
- Compare and analyze practices and administrative/overhead costs from other donor organizations.
- Evaluate whether a fee structure or an administrative cost budget, or both should be used.

A systematic approach was applied to evaluate the Implementing Agencies' current administrative expenses, and develop data for analyzing the use, appropriateness, drivers, and stewardship of those resources. A four phased project approach (Conduct Planning, Conduct Review, Conduct Benchmark Analysis and Conduct Analysis & Develop Report) was utilized to facilitate the analysis. Each of these phases provided the necessary building blocks required to collect, assimilate, analyze and report on the Corporate, Project Cycle Management (PCM) and Project Grant expenditures. Additionally, benchmark data was collected from the following international donor organizations and non-governmental organizations for comparative analysis:

- Agence Française de Développement (AFD)
- The Global Fund
- United Kingdom Department for International Development (DFID)

- The World Bank.

In addition to collecting a significant amount of budget and expenditure data from the three IAs, the Grant Thornton Team conducted interviews and meetings with over 40 staff members at the IAs and the GEF Secretariat. The information gathered served to identify issues and provide context around which the raw numbers can be understood and issues highlighted.

## Results

The GEF was established as a facility intended to operate through the systems and processes then in existence within the constituting Implementing Agencies. However, over the sixteen years since its inception, the GEF Secretariat's financial and operational information needs have increased to meet the expectations of donor countries and other stakeholders for greater accountability and transparency. The assessment highlights several challenges the GEF and the IAs' face in their efforts to manage and report on administrative expenses. The key point of all the findings and recommendations contained in this report is:

> *While GEF was intended to operate through the systems and processes in existence within the IAs, the GEF's financial and management information needs have increased over time, while the mechanisms, technology, policies, and procedures have not kept pace.*

To minimize the gap between the GEF's information needs and the IAs' ability to meet these needs, we recommend that the GEF:

- Provide clear guidance on the data type and level of detail to be provided;
- Identify and define what activities are to be funded by the GEF in the areas of Corporate Management and Project Cycle Management at the portfolio and project execution levels; and
- Collaborate with IAs to develop consistent approaches to facilitate provision of financial information.

As each IA continues to operate under its own varying policies and procedures, the following recommendations are made to enable them to develop supplemental systems:

- Communicate a consistent standard for the GEF financial policies, procedures, and information requirements;
- Agree on consistent costing approaches;
- Standardize cost and performance reports;
- Reinstate corporate budgeting under a requirements-based process; and
- Adopt a fixed cost plus incremental percentage approach to project cycle management fees.

## Findings and Recommendations

The challenges facing the GEF today can be categorized under two underlying themes. First, the GEF needs a systematic approach to capturing, monitoring, reporting and evaluating information to streamline data collection and facilitate informed decision making. Second, the GEF should adopt consistent policies, practices, procedures and definitions to ease information flow. The following lists each of the main findings and sub-findings, as well as recommendations.

Finding 1: There is a divergence between the GEF Secretariat's information requirements, and the IAs' ability to provide information to satisfy those requirements

- The GEF Secretariat's information requirements are unclear
- The GEF Secretariat's information definitions and use of Project Cycle Management and Corporate Management activities between the IAs are inconsistent, given their different management structures, corporate cultures and institutional mandates
- There is a lack of definition or agreement on what constitutes cost categories such as administrative or overhead costs
- The IAs classify and record administrative expenses differently
- A cost accounting model has not been widely deployed
- Individual policies and structural barriers exist in the IAs the hinder and/or prevent sharing data across the GEF

Recommendations

- Determine the type and level of data required for decision making
- Identify and define authorized activities for Corporate Management, Project Cycle Management and Project Management
- Develop and implement standard cost accounting methodology
- Define and identify what constitutes "administrative costs" and their uses

Finding 2: The IAs operate under different financial reporting and program management policies and procedures

- There is not a common approach to developing budgets and tracking costs
- Project Status Reporting is inconsistent
- Corporate Budget requirements lack transparency and justification
- There are disagreements and differences on the adequacy and application of the Project Cycle Management Fee

Recommendations

- Develop and implement a common approach to cost accounting and management
- Standardize annual project status and project completion reports
- Adopt a requirements-based budgeting approach to Corporate Management activities
- Adopt a fixed baseline plus percentage basis fee for Project Cycle Management services

Details of the analysis we undertook to reach these findings and recommendations are contained in the report. Many of the issues we found within the GEF operations and at the IAs are not unique to these organizations. Through our interviews, meetings and data collection we found that the employees at the GEF and the respective IAs are deeply committed to GEF and its mission and our recommendations are intended to build off that commitment and dedication.

# Section 1: Background

## 1.1 Purpose

The Global Environment Facility (GEF) engaged Grant Thornton to review administrative expenses incurred by the GEF Implementing Agencies (IAs) during fiscal years (FY) 2001 - 2006. Administrative expenses were categorized into three areas: 1) Corporate Budgets, 2) Implementing Agency Fees and, 3) Project Management costs included in the Project Grants.[1] These expenses were to be further segregated into agency staff, consultants, travel, and other administrative services sub-categories.

The objectives of the analysis were to:

- Provide a clear, factual basis for understanding the use of administrative resources provided to and through the IAs
- Define and identify administrative costs and how they are used in the IAs
- Gain a complete and comprehensive understanding of GEF's cost of doing business as a network organization
- Identify cost drivers that are inherent in managing GEF projects
- Compare and analyze practices and administrative/overhead costs from other donor organizations
- Evaluate whether a fee structure or an administrative cost budget, or both should be used

## 1.2 Organizational Overview

GEF was designed to operate in collaboration and partnership with the Implementing Agencies (IA) to facilitate financing to achieve global environmental benefits in biological diversity, climate change, international waters, land degradation, ozone layer depletion, and persistent organic pollutants. The IAs are United Nations Development Programme (UNDP), United Nations Environment Programme (UNEP), and the World Bank. Each of these entities is accountable to the GEF Council for activities financed by the GEF.

### United Nations Development Programme (UNDP)

UNDP is headquartered in New York City, NY, with decentralized regional and local offices. UNDP is a grant-making organization and an implementing agency. It has projects underway in 166 countries to promote democratic governance, poverty reduction, crisis prevention and recovery, energy and environment, and HIV/AIDS awareness. UNDP areas of competence related to GEF activities

[1] GEF RFP No. 08-016

include capacity building and technical assistance projects. UNDP's GEF Unit (UNDP-GEF) operates within UNDP's Energy & Environment Group.

### United Nations Environment Programme (UNEP)

UNEP is headquartered in Nairobi, Kenya, and is comprised of seven divisions and six regional offices. The areas of competence related to GEF activities include policy development, scientific and technical knowledge, capacity building and environmental management. As UNEP's sole mandate is environment its projects are in close alignment with GEF's focal areas.

### The World Bank

The World Bank is headquartered in Washington, DC and has central departments, regional vice-presidencies, and country offices. The World Bank conducts projects in a broad range of sectors, such as, environment, health, education, economic management; energy, water, transport, agriculture and rural development; and financial and private sector development. It is a loan/grant-making organization as well as an implementing agency and currently has projects in 112 countries. The World Bank's areas of competence related to GEF activities include the development and management of investment projects and mobilizing private sector resources.

## 1.3 Approach

Our technical approach was tailored to meet the specific requirements needed to analyze the administrative resources for GEF-related activities. Figure 1.1 presents a systematic approach to evaluate the Implementing Agencies' current administrative expenses, and develop data necessary to perform analyses, develop conclusions, and provide recommendations.

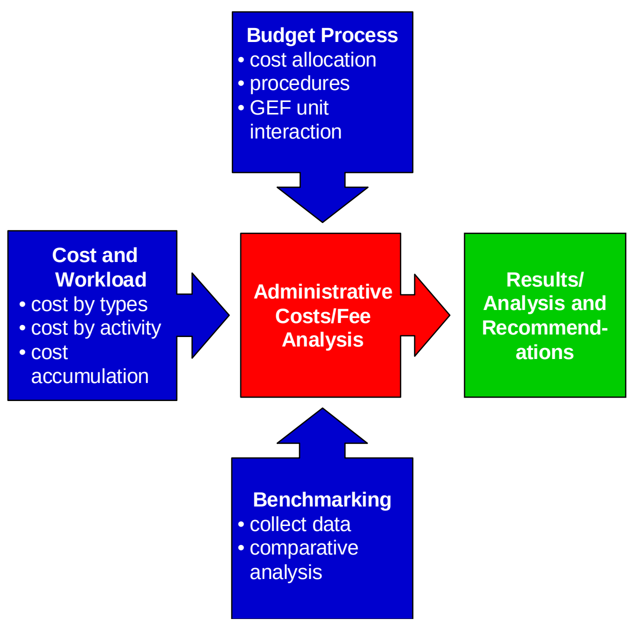


**Figure 1.1: Fee Setting Methodology**

A four phased project outline, depicted in Figure 1.2, was utilized to facilitate analysis of the GEF administrative expenses. Each of these phases provided the necessary building blocks required to collect, assimilate, analyze and report on the Corporate, Project Cycle Management (PCM) and Project Grant Management.

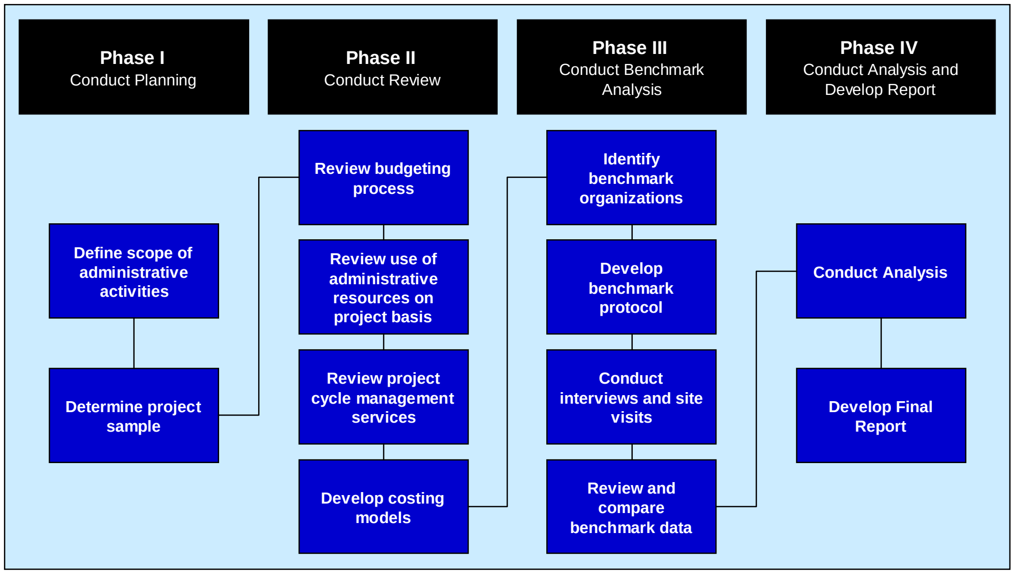


**Figure 1.2: Project Outline**

The following sections detail the step-by-step approach that was used to conduct the study.

### 1.3.1 Phase I: Conduct Planning

This phase began with a kick-off meeting between GEF and the Grant Thornton Team, which was held on October 2, 2007. The purpose was to establish overall expectations, objectives, scope, and deliverables for the project. Additionally, key personnel, organizational structures, pertinent documents and data sources were identified. This then led to the development of an overall strategy and project plan to facilitate the study and establish milestones.

### 1.3.2 Phase II: Conduct Review

The second phase of the assessment involved understanding and documenting the current costs and allocation methodologies, established practices and procedures, and published policies employed by the GEF and the respective IAs. The assessment was based on the best available cost data from source data systems, standard reports, official documents, and institutional knowledge. This information was gathered and assimilated through a Review, Stakeholder Interview, and Data Collection process, which are described below.

#### Review

A comprehensive review of background materials that included organizational profiles, budget reports, council documents, fee studies, internal working papers, project data, policies, business plans and evaluation reports was conducted. The purpose of this step was to provide the Grant Thornton Team with an in-depth understanding of the organization, current practices, outstanding issues, and data availability.

### Stakeholder Interviews

Interviews were conducted with key personnel from each of the IAs, the GEF Secretariat staff and the Trustee. The interview questions were designed to gain insight into the processes and procedures with respect to Corporate Management, Project Cycle Management, and Project Grant Management. The knowledge learned from the interviews was to augment information from the data collection tool, and to enlighten the Grant Thornton Team on cost drivers, budgeting practices, internal controls, monitoring and reporting practices, and policy promulgation.

The Grant Thornton Team conducted initial interviews with the World Bank in Washington, DC. The interviewees included the GEF Executive Coordinator, Senior Operations Officer for the GEF Coordination team, and the Senior Resource Management Officer. Additional interviews were scheduled to validate data and to address follow-up questions.

Pre-interviews were conducted telephonically with UNDP to introduce the Grant Thornton Team and to develop the agenda and participants required for on-site discussions. During December 17 – 19, 2007, interviews were conducted at UNDP offices in New York City, NY. These interviewees were the Acting Deputy Executive Coordinator of the GEF Section, Implementing Oversight Advisor (GEF Section), Chief of Administrative and Finance Unit (GEF Section), Director of Finance and Administration, Chief of Internal Audits, Senior Evaluation Officer, and GEF Executive Coordinator.

A series of interviews was conducted between UNEP and the Grant Thornton Team. An introductory meeting was held in Washington, DC with UNEP's Director of GEF Coordination and Portfolio Manager on November 16, 2007. Additional interviews were conducted in Paris, France with the Portfolio Manager and the Senior Fund Management Officer for UNEP's Division of GEF Coordination. A member of the Grant Thornton Team then traveled to Nairobi, Kenya to conduct interviews with key staff members from UNEP and the UN Office of Internal Oversight Services (OIOS), Nairobi. These interviews were held with the Director of UNEP's Division of GEF Coordination, Portfolio Manager, Senior Fund Management Officer, Head of Corporate Services, Chief of OIOS, the Chief of the Evaluation and Oversight Unit (EOU), and a member of the Evaluation team.

In addition to discussions with the IAs, we also interviewed representatives of the Trustee, Evaluation Office, and the GEF Secretariat. These interviews were valuable in gaining a better understanding of the disbursement process, reporting and monitoring procedures, project performance, key roles, and oversight responsibilities.

### Data Collection

The information ascertained in the initial planning and review process enabled the Grant Thornton Team to identify the financial data required to conduct this study. Subsequently, a custom tailored data collection template was designed around specific cost elements to facilitate the capture and assimilation of administrative expenses by account type and activity. This template, designed in MS Excel, contained data elements, account structures, definitions and instructions. The templates were sent to each of the respective IAs for population. The Grant Thornton Team worked closely with the IAs to answer questions, provide guidance, and resolve issues with regards to the data. The information provided in the templates provided the foundation for the analysis of the administrative expenses.

### 1.3.3 Phase III: Conduct Benchmarking Analysis

The Grant Thornton Team conducted a benchmarking analysis to compare the processes and best practices of GEF with multinational aid and international donor organizations. Section 3 of this report provides the results and analysis of the benchmarking effort.

## 1.4 Report Layout

The remainder of the report examines administrative expenses, evaluates benchmarking results, addresses key findings, provides recommendations and draws conclusions. It is organized as follows:

- **Section 2 (The GEF Implementing Agencies' Administrative Expenses)** is a comprehensive analysis of the administrative expenditures incurred by the IAs in Corporate, Project Cycle and Project Management.
- **Section 3 (Benchmarking Analysis)** examines the practices and procedures, as well as overhead rates of four different organizations in comparison to GEF.
- **Section 4 (Findings/Recommendations)** addresses several key areas that surfaced as potential issues during the study. It also provides recommendations on how to manage and/or overcome those challenges.
- **Section 5 (Conclusion)** summarizes the critical areas of the report and provides an overarching approach for GEF to map a strategy for the future.

# Section 2: The GEF Implementing Agencies' Administrative Expenses

The Implementing Agencies (IA) utilized the GEF resources to assist with the implementation of projects and programs that protect the environment. During the period FY 2001 – 2006, approximately $267.4M was expended in this effort (see Figure 2.1). This consisted of resources the GEF allocated to the IAs for Corporate Management ($48.6M) and Project Cycle Management ($218.8M). These resources were used to manage a cumulative Portfolio of over $6.6B. Additionally, there was approximately $74M in expenditures that was incurred by the GEF Secretariat, Trustee, and Evaluation Office. However, for the purposes of this analysis, as stated in the Terms of Reference (TOR), only the IA expenditures were reviewed. Additionally, there was insufficient data available to analyze the Project Management expenditures, which is further discussed in Section 2.3 of this report.

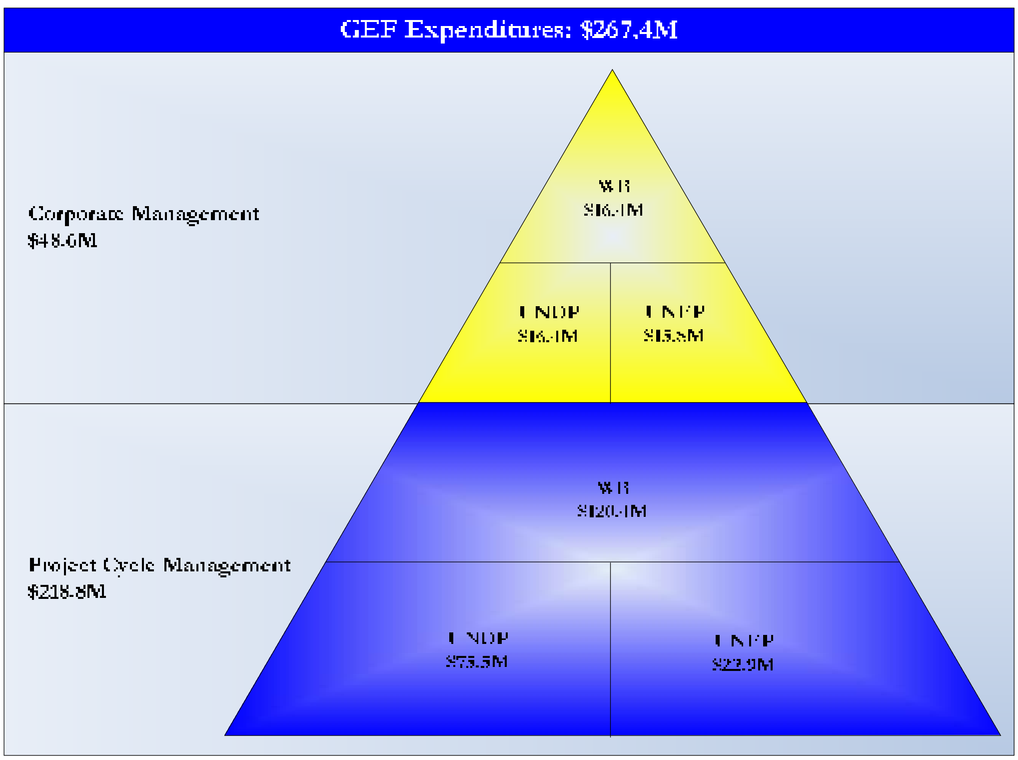


**Figure 2.1: GEF FY 2001-2006 Expenditures by Administrative Category**

The following sections will further define and provide analysis of each of the three categories of Administrative Expenses: **Corporate Management**, **Project Cycle Management (PCM), and Project Management.** These categories were identified and characterized in GEF RFP No. 08-016, Annex B.

Corporate Management expenses will be addressed in Section 2.1 and will examine the various types of expenditures that were incurred to perform Corporate Management activities. Section 2.2 will analyze PCM, with regard to the IA Fee and it how is used by the respective IAs to perform PCM services. Section 2.3 will detail the challenges with collecting data on Project Management with regards to the grants provided to Recipients.

## 2.1 Corporate Management

The Corporate Budget provided funding to the IAs to perform activities and initiatives in support of the objectives of the GEF business plan. During the study period, FY 2001 - 2006, the Corporate Budget was developed through a specific process. It commenced with the promulgation of the budget submission requirements that were sent by the GEF Secretariat before the May/June Council meeting each year to each IA. The IAs would then submit their corporate budget proposals to the GEF Secretariat for incorporation in the overall GEF Corporate Budget, which was presented to Council for approval. After the Council approved the budgets, the Trustee would remit funds to the IAs to for their respective budget expenditures. Corporate Management expenditures were then reported to the Council based on the GEF Secretariat's annual requirements.[2]

The Corporate Budget was intended to fund common participation in GEF Corporate activities for the purpose of meeting Council requirements. These activities include Policy and Program Development, Management and Finance, Monitoring and Evaluation, Institutional Relations, and Outreach and External Relations.[3] These activities, defined by the GEF Secretariat, are as follows:

- **Policy and Program Development/Coordination**: Activities related to GEF inter-agency task forces, composed of the GEF Secretariat and IAs, established to develop and review GEF operational policies and programs, focal area strategic priorities, the project cycle, standard portfolio and project performance reviews, and preparation of the GEF Business Plan.
- **Management and Finance**: Activities dealing with daily operations and finance issues such as the management/coordination of Work Program submissions and Pipeline entries; database management; preparation of GEF Annual Report and the GEF Corporate Budget; audits and the oversight of the fee system.
- **Monitoring and Evaluation**: Activities contributing towards the Project Implementation Review, GEF Lessons Notes, thematic review/development/revision of program-level indicators, and development/dissemination of lessons learned/best practices. Monitoring and evaluation activities also include IAs engagement in the Specially Managed Project Reviews, knowledge management, and development of program studies and special evaluations.
- **Institutional Relations**: Activities relating to governance of GEF, such as preparation for and participation in GEF Council meetings, STAP meetings and workshops, and Conferences of the

[2] The process was described by the IAs during the interviews

[3] GEF RFP No. 08-016, Annex B

Parties to the conventions that GEF serves and efforts towards promoting partnerships with the Executing Agencies.

- **Outreach/Knowledge Management/External Relations**: Activities concerning the coordination plan to cover media relations, partnerships with federations of environmental journalists, publications production and distribution, web site maintenance, and outreach support for participation in major environmental conferences and conventions (preparation of supplemental publications, exhibitions, and videos) and includes support in informing the general public, key stakeholders, and other institutions about GEF's mandate and activities.

The IAs reported a total of $48.6M in Corporate Management expenditures during the period from FY 2001 – 2006, as reflected in Figure 2.2 below. These expenditures were comprised of both labor (cost of staff and consultants) and non-labor (cost of travel, contractual services, institutional services, facilities and equipment rental) components. Each IA had relatively the same amount of expenditures, at approximately $16M each.

Additionally, the IAs indicated during the interviews that they provide some of their own resources to augment the GEF resources to provide corporate services. None of them, though, were able to quantify the amount. However, the IA interviewees were able to provide qualitative descriptors of the services that are provided. Some IAs included items such as participation of senior management in GEF meetings, review and evaluation of GEF projects, archiving and records management, health services, human resources, mail, security, procurement, etc. Additionally, UNEP indicated that annual increases to the Corporate Budget merely kept pace with inflation and were not substantial to cover the costs of increasing GEF-related demands.

Further, the cost drivers for Corporate Management are driven by participation in GEF management and sponsored regional meetings, unique reporting requirements, supporting data calls and participating in studies.

The following analysis will examine these expenditures in further detail.

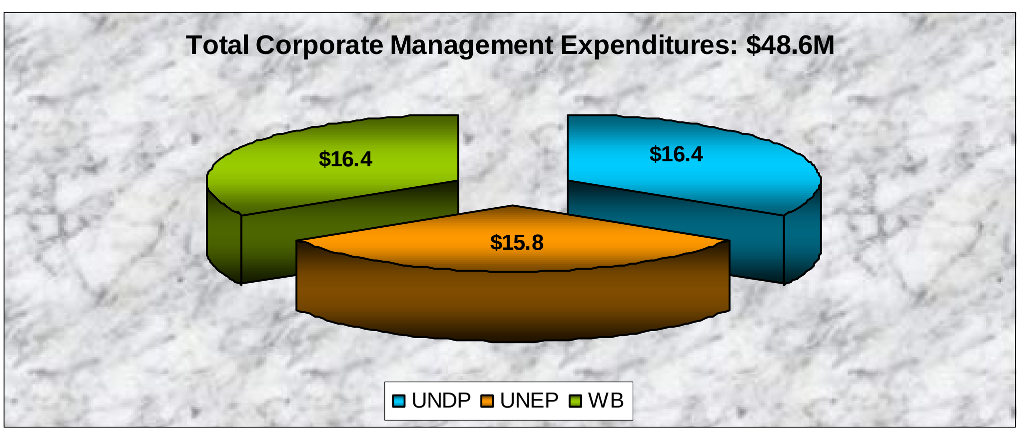


**Figure 2.2: GEF Corporate Management Expenditures by IA**

Figure 2.3 depicts the spread of these expenditures over the Corporate Management activities. The largest total expenditure category was Policy and Program Development at 46% of the resources. Management and Finance was the second largest activity where expenditures occurred, consuming 17% of the resources. The remaining activities of Outreach and External Relations, Institutional Relations, and Monitoring and Evaluation, and Other accounted for the remaining 37%.[4]

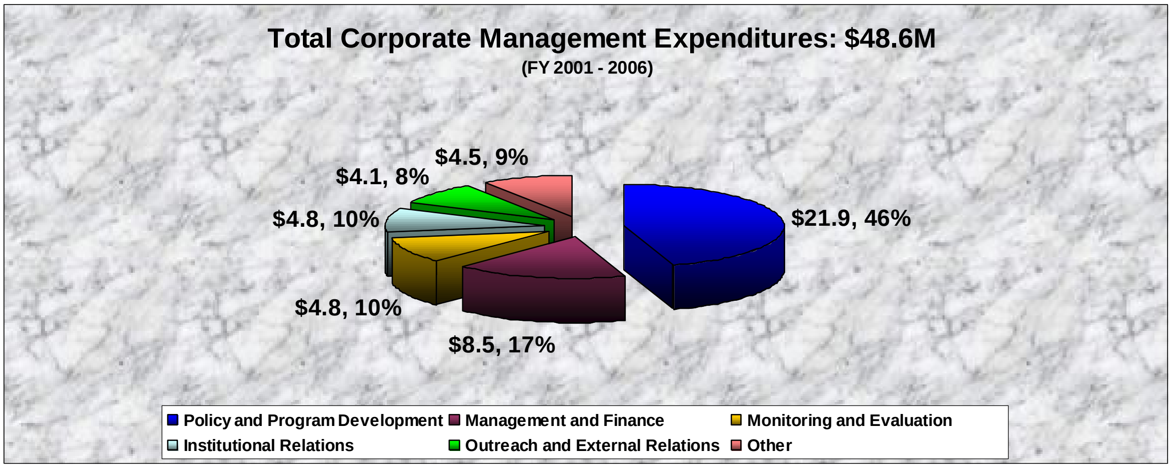


**Figure 2.3: Total Corporate Management Expenditures by Activity**

Figure 2.4 displays the total expenditures by Corporate Management activity for each IA. Examination of the information reveals that the UNDP and UNEP expended their corporate budgets in a similar manner. However, the World Bank devoted about twice the effort of those agencies (measured by expenditure as proxy) to outreach and external relations activities and about half the effort to policy and program development efforts, instead paying for "other" activities.

| Total Corporate Expenditures by Activity ($ Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Policy and Program Development | Management and Finance | Monitoring and Evaluation | Institutional Relations | Outreach and External Relations | Other |
| UNDP | $9.4 | $3.3 | $1.8 | $1.0 | $0.9 | $0.0 |
| UNEP | $7.8 | $3.1 | $1.6 | $2.1 | $1.2 | $0.0 |
| WB | $4.7 | $2.1 | $1.4 | $1.7 | $2.0 | $4.5 |
| TOTAL | $21.9 | $8.5 | $4.8 | $4.8 | $4.1 | $4.5 |

**Figure 2.4: IA Corporate Management Expenditures by Activity**

[4] As defined by the World Bank, "Other" activity included expenditures for institutional services such as CEO Search Committee, corporate-level regional coordination, legal services and external audit services, which in the Bank's view did not fit neatly into the other five categories.

IAs provided information on the GEF Corporate Management expenditures by labor and non-labor categories (see Figure 2.5). Labor expenditures accounted for $35.6M, or 73% of total costs, averaging $5.9M per year. Non-labor expenditures reported by the IAs totaled $13.0M, or 27% of total costs, averaging $2.2M per year.

IAs had difficulties providing staff years worked supporting GEF Corporate Management activities.[5] Therefore, these years were calculated using a formula approach based on each IA's average salary costs.[6] Using the 1999 figures as a baseline, an annual inflation factor was applied to each year up through 2006.[7] This figure was then divided by the total labor expenditures incurred by the IAs each year to proxy a staff year count.

As the chart shows, the World Bank contributed five and six staff years more per year to the GEF Corporate Management than UNEP and UNDP, respectively. Additionally, in each of the IAs Agency Staff makes up over 90% of the total labor expenditures. UNEP's location resulted in comparatively high Institutional Relations expenses on participation in the GEF Council meetings, etc.

| Corporate Management Labor Expenditures and Staff Years ($ millions) FY2001 - 2006 | | | | |
|---|---|---|---|---|
| | **UNDP** | **UNEP** | **WB** | **Total** |
| **Total Labor** | **$10.7** | **$10.7** | **$14.2** | **$35.6** |
| Agency Staff | $9.7 | $10.6 | $13.4 | $33.7 |
| Consultants | $1.0 | $0.1 | $0.8 | $1.9 |
| **Total Staff Years** | **68.2** | **76** | **109.8** | **254** |
| Average Staff Years | 11.4 | 12.7 | 18.3 | 42.3 |

**Figure 2.5: Labor Expenditures by IA**

Non-labor expenditures consisted of travel, contractual services, and general overhead totaling $13.0M (see Figure 2.6). The majority of these expenditures, 56.9%, were recorded as general overhead, which is made up of items such as legal services, financial oversight, human resource management, office equipment, office space, communications/internal computing, representation and hospitality, and publications/media/outreach. The second largest category was travel at 39.2% and $5.1M. Contractual service was the least, consuming 3.8% of the resources. Again, the UNDP and UNEP expense ratios were similar, while the World Bank's non-labor expense ratio was inverted from the other IAs.

[5] A staff year worked represents the level of effort expended by one full time person for one year, regardless of the number of people actually involved.

[6] "Proposal for a Fee-Based System for Funding Project Implementation," April 1999 (GEF/C.13/11)

[7] Consumer Price Index, published by the US Bureau of Labor Statistics

| Corporate Management Non-Labor Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UNDP | | UNEP | | WB | | Total | |
| Travel | $1.80 | 31.6% | $1.80 | 35.3% | $1.50 | 68.2% | $5.10 | 39.2% |
| Contractual Service | $0.20 | 3.5% | $0.40 | 7.8% | $0.00 | 0.0% | $0.50 | 3.8% |
| General Overhead | $3.70 | 64.9% | $2.90 | 56.9% | $0.70 | 31.8% | $7.40 | 56.9% |
| **Total** | **$5.70** | **100.0%** | **$5.10** | **100.0%** | **$2.20** | **100.0%** | **$13.00** | **100.0%** |

**Figure 2.6: Non-Labor Expenditures by IA**

### 2.1.1 Corporate Management Expenditures by IA

The following sections will address the individual expenditures of each IA, covering labor and non-labor expenses, staff years, and distribution of costs by activity.

#### United Nations Development Programme (UNDP)

UNDP expended $16.4M in labor and non-labor and a total of 68.2 staff years performing Corporate Management activities. Labor accounted for approximately two-thirds of the expenditures, with non-labor accounting for the rest. On average, $1.8M in total expenditures and 11.4 staff years were used to conduct these activities. Policy and Program Development was the largest activity, consuming $9.4M or 58% of the total expenditures. It was followed by Management and Finance at $3.3M and 20% of the resources. The remaining three activities consumed the rest of the resources (see Figure 2.7).

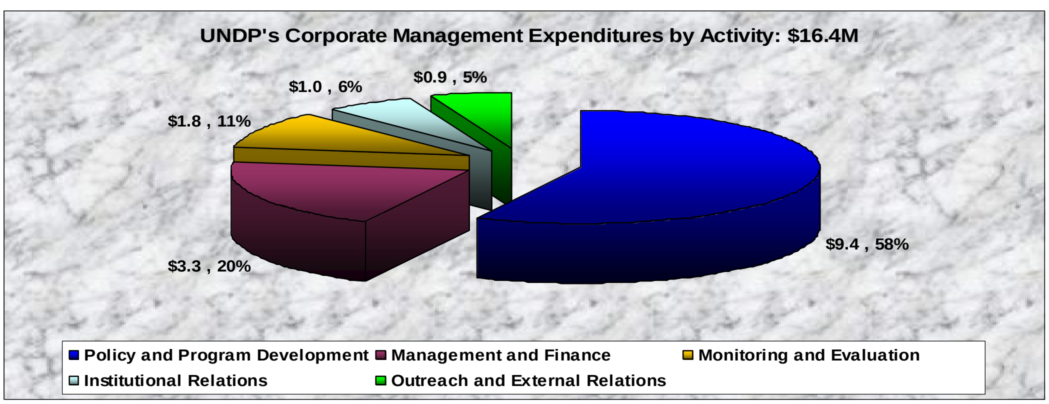


**Figure 2.7: UNDP's Distribution of Expenditures by Corporate Management Activity**

#### United Nations Environment Programme

UNEP expended $15.8M in labor and non-labor and a total of 76.0 staff years performing Corporate Management activities. Labor accounted for approximately two-thirds of the expenditures, with non-labor accounting for the rest. Due to their location, they incurred high labor and travel costs on participation in GEF meetings, which were mainly held in Washington DC. On average, $2.4M in total expenditures and 18.3 staff years were used to conduct these activities. Figure 2.8 reflects the distribution of expenditures in each of the Corporate Management activities.

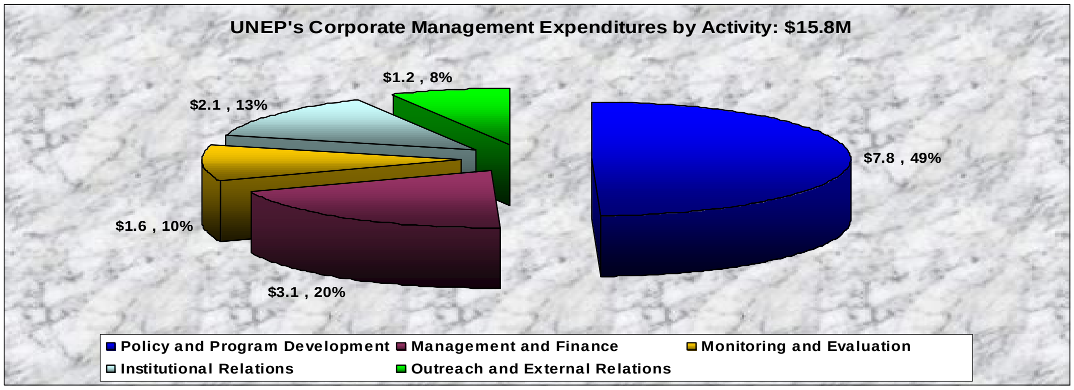


**Figure 2.8: UNEP's Distribution of Expenditures by Corporate Management Activity**

## The World Bank

The World Bank expended $16.4M in labor and non-labor performing Corporate Management activities. Labor accounted for 87% of the expenditures, totaling 109.8 staff years, with non-labor accounting for the rest. On average, $2.7M in total expenditures and 18.3 staff years were used to conduct these activities each year.

The World Bank used six Corporate Management activities. This included the five defined by the GEF and another activity titled "Other." The "Other" activity included expenditures for institutional services such as CEO Search Committee, corporate-level regional coordination, legal services and external audit services. (This activity was instituted by the World Bank because some applicable costs were not easily allocated to the prescribed Corporate Management activities.) Policy and Program Development consumed the most resources at $4.7M or 29% of the total expenditures. It was closely followed by "Other," at $4.5M, which accounted for 27% of the resources. The remaining four activities consumed the rest of the resources (see Figure 2.9).

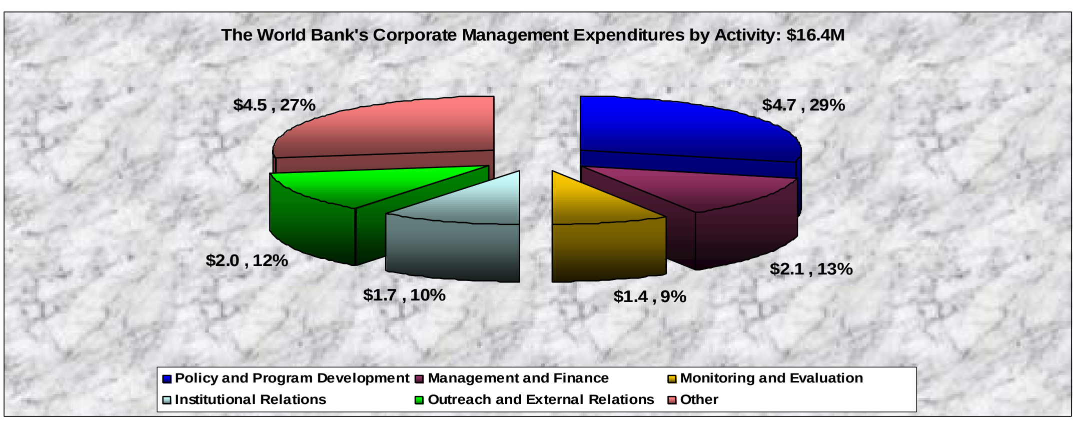


**Figure 2.9: The World Bank's Distribution of Expenditures by Corporate Management Activity**

## 2.2 Project Cycle Management (PCM) Overview

The GEF has described PCM as the collective management of all projects within a respective IA's portfolio and is made up of four distinct phases: Concept Development, Preparation and Appraisal, Implementation, and Completion and Evaluation. These phases are defined as follows:[8]

- **Concept Development:** Activities that include project formulation; project development; project design; and review by the GEF partners (Country, Secretariat, Council, Scientific and Technical Advisory Panel, IAs and Convention Secretariats).
- **Preparation and Appraisal:** Activities that involve addressing GEF Secretariat review concerns, securing co-financing, finalizing institutional arrangements and modifying project documents to meet the IA organizational requirements.
- **Implementation:** IA support for the actual implementation, supervision, and monitoring of a project. For some IAs this may include providing technical support and advice to assist in project execution
- **Completion and Evaluation:** Activities that include the development of the evaluation report and project completion report.

The GEF provides each IA with funding (IA Fee) to provide these services. During the period from FY 2001 - 2005, a project type-specific flat fee was allocated to each IA. A variable premium on top of the flat fee was negotiated for global, regional, joint and other complex projects.[9] However, in FY 2006 the fee was changed to a straight 9% of the grant amount of each project.[10]

The average annual fee over the study period was 9.7% for the entire portfolio of projects, and the total GEF grant approvals were $3.2B which averaged $534M per year. In FY 2002, the fee percentage was at its highest level, while grants were at the lowest level over the six year period due to GEF funding constraints.[11] Conversely, the fee percentage remained relatively flat at 9.7% in FY 2003 and 9.9% in FY 2004 despite growing grant value. Moreover, the average IA Fee percentage over the period FY 2001 through FY 2005 was about 9.6%. Thus, moving to the fixed 9% fee amount FY 2006 represents slightly more than a 6% reduction in the IA Fee from the average of the previous 5 years.

Interviewees from the respective IAs conveyed to the Grant Thornton Team that fixing the fee at 9% was a result of strong feedback from the Council arising from dissatisfaction with the fee level reached in FY 2002, the highest point of all the study years at 11.1%. This resulted in a reduction of the premiums, and eventually their elimination.

Figure 2.10 reflects the fee allocation percentage for each of the studied years. This percentage was calculated by dividing the total IA fee allocation by the total Project Grant amount. The fee allocation is expended over the life of the project cycle, usually multiple years depending on the size and

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[8] *Evaluation of GEF Activity Cycle and Modalities report to the GEF Council*, Nov. 2006, (GEF/C.30/6);May 2007 Joint Evaluation of GEF Activity Cycle and Modalities report (Evaluation Report no. 33)

[9] *Proposal for Revising the Fee System*, Apr 2004, GEF C.23.8

[10] *Review of the Fee Policy*, May 2006, GEF C.28.11

[11] Input received from UNEP

complexity of projects. Therefore, the approved IA fee allocation and actual expenditure amounts were not equal during any of the years studied.

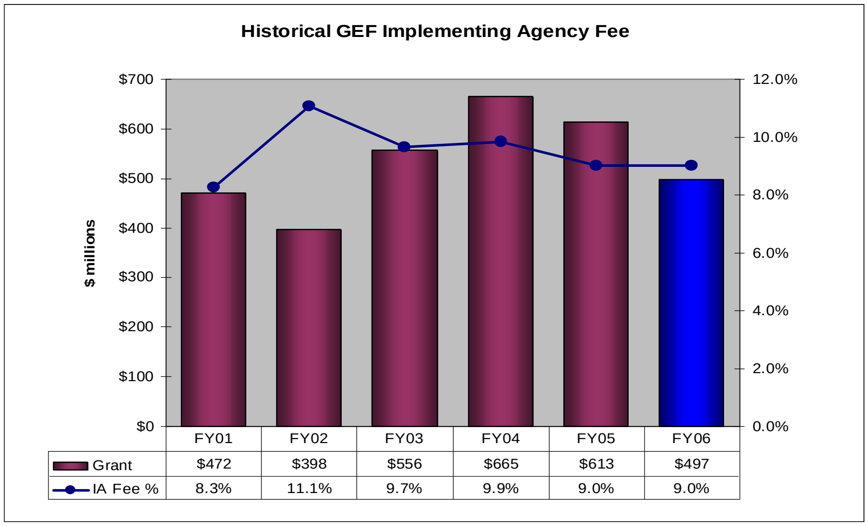


**Figure 2.10: IA Fee as a Percentage of Project Grants**

### IA Fee Allocation Process

The budget allocation processes used by the IAs are unique to their respective organizations. Specifically, UNDP allocated the 9% IA fee into four components. On average, UNDP allocated 2% to UNDP Central Services and Regional Bureaus, which support key services including financial oversight, IT support, legal services, human resources, etc. Three percent is allocated directly to UNDP country offices for their project management services provided throughout the whole project cycle. Another 3% is allocated to Regional Coordination Units which provide technical guidance and support to country offices. The remaining 1% is allocated to the UNDP/GEF Unit at HQ which develops the UNDP GEF Work Programmes and Strategic Plans. UNDP units provide project cycle management services at various levels based on the established organizational structure and the UNDP Financial Regulations and Rules. In consequence, costs for providing these services are spread across the entire organization.

The World Bank uses a three step methodology to allocate the IA fee into budgets for project task teams and central operational support units. First, it develops a standard budget allocation by project-type based on a three-year average project grant size. Second, the costs of operational support services (includes project legal services, project accounting, disbursement and independent evaluation group), about $40K per project, are taken off the top and budgeted to the relevant units. Third, the balance is converted into a budget coefficient for each region's project deliverables. 45% of the budget coefficient is allocated upon project approval and 55% covers the supervision phase (which is amortized over the average project duration of the portfolio to cover the entire life cycle of the project). The allocation is distributed to regions and IFC on a portfolio basis, based on the number of projects to be delivered for approval and under supervision in a given year. Each region and IFC then further allocates its budget to individual task teams, based on operational requirements and following their budget management procedures.

UNEP segregates the IA fee from the rest of the organization, and uses its funding solely within the GEF Division to provide PCM activities on a portfolio basis. Many costs are analyzed by GEF focal area but not by specific project.

### IA Fee Expenditures

This section analyzed the actual expenditures that each IA incurred from FY 2001 – 2006. As stated above, the approved IA fee allocation and actual expenditure amounts were not equal during any of the years studied. The IAs had combined expenditures of $218.8M to perform PCM services. These expenditures were segregated into labor ($174.9M) and non-labor ($43.9M) categories, as reflected in Figure 2.11 below. Labor is comprised of agency staff of the respective IAs and consultants. The consultant expenditures were $28.7M for the period, which was 16.4% of total expenditures. Non-labor accounts are made up of travel, contractual services and other (equipment and facilities rental, communications, outreach, conference attendance, and training).

| PCM Expenditures and Staff Years ($ millions) FY 2001 – 2006 | | | | |
|---|---|---|---|---|
| | **UNDP** | **UNEP** | **WB** | **Total** |
| **Total Labor** | **$62.5** | **$20.4** | **$92.0** | **$174.9** |
| Agency Staff | $54.3 | $19.4 | $72.5 | $146.2 |
| Consultants | $8.2 | $1.0 | $19.5 | $28.7 |
| **Total Non-Labor** | **$13.0** | **$2.5** | **$28.4** | **$43.9** |
| Travel | $12.3 | $2.1 | $26.2 | $40.6 |
| Other | $0.7 | $0.4 | $2.2 | $3.3 |
| **Grand Total** | **$75.5** | **$22.9** | **$120.4** | **$218.8** |
| **Average Staff Years** | **65.8** | **24.2** | **119.7** | **209.6** |

**Figure 2.11: IA Fee Expenditures**

### IA Fee Cost Drivers

- **Project development and approval**: IAs stated in interviews that these processes drive the cost of GEF projects higher as compared to other projects in the IAs' respective portfolios. Specifically, the processing time to obtain project approval was of significant concern and reported to Council in November 2006.[12] The IAs indicated that projects can take so long to be approved that countries sometimes cancel projects because governments, and therefore priorities, have changed. The World Bank stated that it conducted an analysis of estimated elapsed time and concluded that the GEF project cycle added about six months to the processing time for the GEF grants. Further, documentation required by the GEF is considered voluminous with multiple submission and revision cycles.

[12] UNDP interviews

- **GEF reporting requirements:** Each of the IAs indicated during the interviews that the GEF reporting requirements were more arduous and time consuming than those of their other donor agencies. They believe that the increased time and effort required to perform this function significantly drives up their costs. For example, UNDP indicated that their non-GEF projects cost approximately 7% to 9%, while the GEF projects were about 15%. No expenditure data were provided to support this assertion; however a comparison table of all the steps involved throughout the project cycle was provided.

- **Increased coordination required by co-financing/co-managed arrangements**: Co-financed and/or Co-managed projects are much more complex and difficult to administer because they require increased coordination and layers of management with other entities. Specifically, the degree of co-financing, number of participating agencies, institutional support (invoicing and financial reporting from country offices), and capability of Executing Agency (EA) are contributing factors. This is further increased when the projects span multiple countries and/or regions. The majority of UNEP's projects are conducted at a regional level, often in cooperation with other agencies. UNEP cited one example of a project that had 150 participating countries and the resulting administrative complexities.

### 2.2.1 Root Cause Analysis

During the review, the Grant Thornton Team discovered that none of the IAs used the GEF's four activity framework to capture PCM costs. Rather, there were disparities between the IAs in the way in which they defined PCM activities and allocated expenditures to them (see Figure 2.12). The following describes the allocation methodologies and classification of activities for each IA:

- UNDP distributed expenditures into two groups: 40% of expenditures were attributed to Concept Development and Preparation and Appraisal; and the remaining 60% were attributed to Implementation and Completion and Evaluation.
- UNEP referred the Grant Thornton team to rates calculated and included in the May 2003 fee study to allocate expenditures. For UNEP full sized projects the percentages were: 37.2% for Concept Development and Preparation & Appraisal; 54.8% for Implementation; and 8% for Completion and Evaluation.[13]
- The World Bank took an amount off the top, based on a calculated coefficient, to cover central operational costs, such as legal services, disbursement, accounting and independent evaluation. The remaining amount was then split between the Lending and Supervision activities at 45% and 55%, respectively.

[13] *A Proposal for a Revised Fee Structure*, May 2003, GEF C.21.10.

<table>
<tr><th>Organization</th><th colspan="4">PCM Services</th></tr>
<tr><td>GEF</td><td>Concept Development</td><td>Preparation & Appraisal</td><td>Implementation</td><td>Completion & Evaluation</td></tr>
<tr><td>UNDP</td><td colspan="2">Concept Development and Preparation & Appraisal</td><td colspan="2">Implementation and Completion & Evaluation</td></tr>
<tr><td>UNEP</td><td colspan="2">Concept Development and Preparation & Appraisal</td><td>Implementation</td><td>Completion & Evaluation</td></tr>
<tr><td>The World Bank</td><td colspan="2">Lending</td><td>Supervision</td><td>Other</td></tr>
</table>

**Figure 2.12: PCM Services**

Additionally, there were difficulties in obtaining the number of staff years (a portion of a larger number of personnel in various positions) from the IAs for the PCM activities performed. Other than the World Bank, the IAs did not have a system in place to track and report labor expenditures by Corporate Management and/or PCM activities specific to the needs of this study. Therefore, staff years were calculated using a formula approach based on each IA's average salary costs.[14] Using the 1999 figures as a baseline, the Grant Thornton Team applied an annual inflation factor to each year up through 2006.[15] This figure was then divided by the total labor expenditures incurred each year by the IAs to proxy a staff year count.

The Grant Thornton Team attempted to analyze the four phases of PCM and compare the respective IA's efficiency and productivity in each of the phases. However, the dissimilarities in the way IAs define PCM services and capture data within them does not enable comparison by project phase. Therefore, the analysis focused on the PCM process as a whole rather than on each PCM phase. This enabled similar comparisons when analyzing expenditures (labor and non-labor) and total staff years. The information was put into context with respect to the portfolio value of each IA contained in the GEF Secretariat's Project Management Information System as of November 2007 (see Figure 2.13 below).

| GEF Project Portfolio | | | | |
|---|---|---|---|---|
| | **UNDP** | **UNEP** | **WB** | **Total** |
| **Portfolio Value ($ millions)** | **$2,453** | **$556** | **$3,630** | **$6,639** |
| % of Total | 36.9% | 8.4% | 54.7% | 100.0% |
| **Equivalent Staff Years** | **15,499** | **3,949** | **28,328** | **47,776** |

**Figure 2.13: IA Project Portfolio Distribution**

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14 "Proposal for a Fee-Based System for Funding Project Implementation," April 1999 (GEF/C.13/11)

15 Consumer Price Index, published by the US Bureau of Labor Statistics

Ratio analysis was then performed comparing the different expenditure components and staff years of each IA in order to gauge the efficiency and productivity of the resources the IAs employed to perform PCM services.

The expenditures were examined using the following ratios: **IA Fee Expenditures to Portfolio Value Ratio, Labor Expenditures to Portfolio Value Ratio, Travel Expenditures to Portfolio Value Ratio, and Staff Years to Portfolio Value Ratio.** These ratios are useful *indicators* that can be used to gain understanding of costs incurred by the IAs. However, care must be taken to when making comparison because each IA's business model, product lines, environment, and structure are not exactly the same. For example, the nature of UNEP's engagement in the GEF dictates that average project size is comparatively lower with a high ratio of multi-country projects, both which have a higher cost to implement. The IAs also have different operational policies and procedures, including those related to fiduciary requirements. Nevertheless, the ratios provide a method to compare and contrast, which can facilitate further discussion as to root causes.

**IA Fee Expenditures to Portfolio Value Ratio:** An efficiency indicator, measuring the ratio of IA Fee expenditures to total project portfolio value. This ratio was calculated by dividing the total expenditures of each IA from Figure 2.11 in Section 2.2 of this report by the Portfolio Value in Figure 2.13 above.

As reflected in Figure 2.14 below, UNEP's ratio is 4.1%, compared to UNDP and the World Bank at 3.1% and 3.3%, respectively. The disparity between UNEP and the other two IAs ranges from 24% on the low end (UNDP) to 32% on the high end (the World Bank). When analyzing UNEP's portfolio composition, its percentages of portfolio value of Full Size Projects (FSPs) is lower than the other two IAs. Specifically, FSPs made up 70.9% of UNEP's portfolio, whereas UNDP and the World Bank were composed of 86.7% and 97.3%, respectively. In addition, UNEP had the highest percentage of Enabling Activities (EA) project value to its total portfolio (17.0%) compared to UNDP (8.0%) and the World Bank (0.2%). Therefore, it appears that FSPs have greater economies of scale, or that the management of EA projects is less efficient than other project types. However, the level of complexity, regionalization and co-financing impact the efficiency level, as discussed in Section 2.2. UNEP is unique among the IAs in that most of its projects are regionally managed, and multi-country as these projects have the highest costs. It is not possible, however, to draw definitive conclusions without examining all of the projects within the GEF portfolio, which is outside the scope of this review.

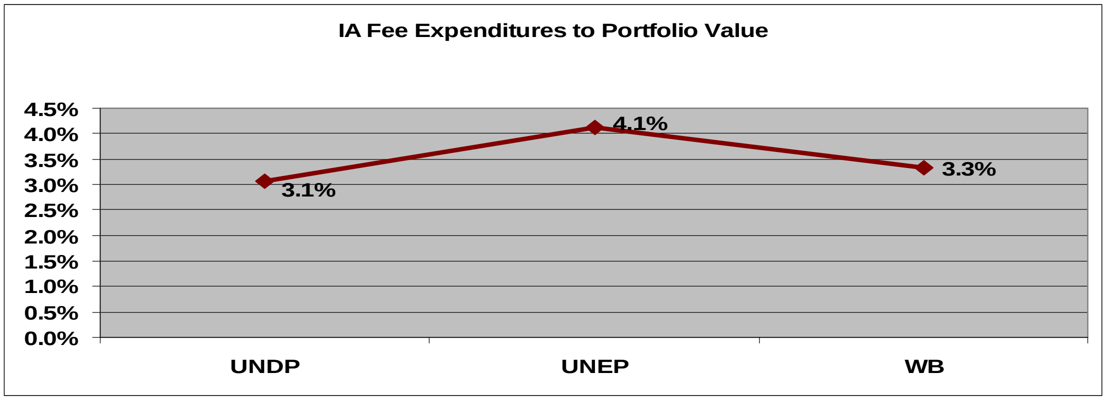


**Figure 2.14: IA Fee Expenditures' Ratio**

**<u>Labor Expenditures to Portfolio Value Ratio</u>:** An efficiency measure that reflects the amount of labor expenditures required for every dollar of Project Grants. This ratio was calculated by dividing the labor expenditures of each IA from Figure 2.11 in Section 2.2 of this report by total project portfolio value in Figure 2.13 above.

The ratios reflected in Figure 2.15 below are very similar to those in Figure 2.14. More than likely, there is a cause and effect relationship attributed to the portfolio composition of each IA. Therefore, the same conclusions can be drawn here as with the IA Fee Expenditures to Portfolio Value Ratio.

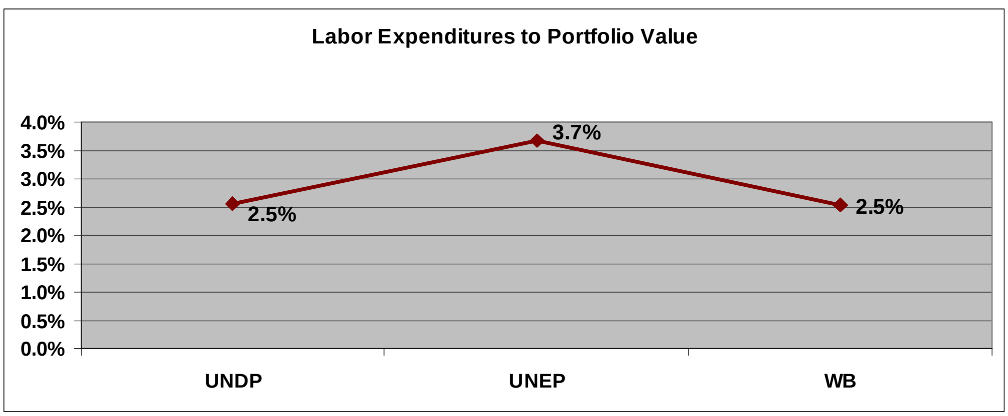


**Figure 2.15: IA Labor Expenditures' Ratio**

**<u>Travel Expenditures to Portfolio Value Ratio</u>:** Measures the efficiency of travel expenditures incurred in the performance of PCM services. This ratio was calculated by dividing the travel expenditures of each IA from Figure 2.11 in Section 2.2 of this report by the total project portfolio value in Figure 2.13 above.

As reflected in Figure 2.16 below, UNEP had lower travel expenditures compared to UNDP and the World Bank. Its 0.38% ratio is lower than UNDP's and the World Bank's. This reason behind this is probably attributed to the mix of projects in each IA's portfolio. As stated previously, UNEP has the lowest percentage of FSPs with regards to portfolio value. By their nature, FSPs tend to be larger and more complex than the other types. Therefore, a higher level of travel is likely required to coordinate and manage these projects. The high concentration of FSPs at UNDP and the World Bank may be the reason why their travel expenditures are higher than those of UNEP.

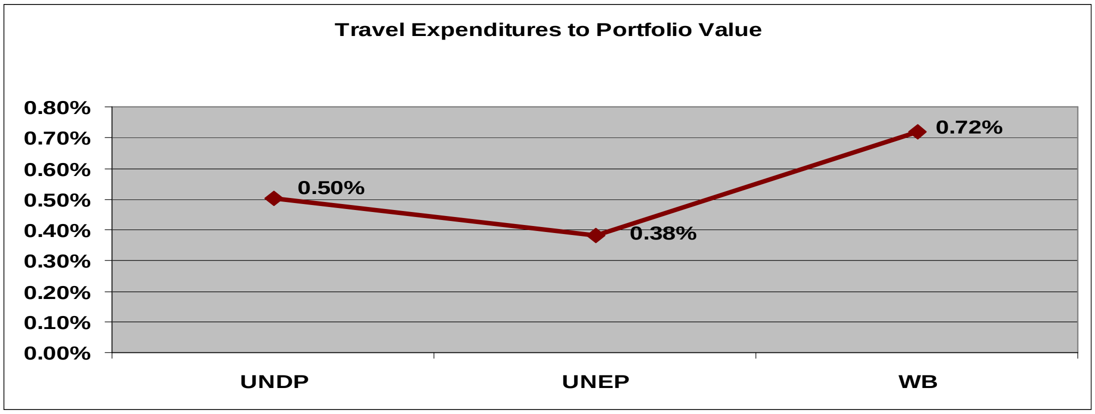


**Figure 2.16: IA Travel Expenditures' Ratio**

**<u>Staff Years to Portfolio Value Ratio</u>:** Evaluates the productivity of staff years with regards to Portfolio Value. This ratio was calculated by dividing the average staff years of each IA from Figure 2.11 in Section 2.2 of this report by the total project portfolio value in Figure 2.13 above.

UNDP and the World Bank have equivalent staff year productivity at 2.5% each (see Figure 2.17). UNEP differs at 3.7%. In other words, it requires UNEP to utilize an additional 1.2% (3.7% - 2.5%) in staff years to manage its portfolio value compared to UNDP and the World Bank, or 48% more in staff year requirements. This is largely due to the nature of its GEF project portfolio and the fact that they employ environmental experts to implement their projects with limited use of consultants. There is also a difference in the use of consultants to deliver PCM services at each IA, which may also impact the level of efficiency. Specifically, UNDP consultants make up 13.1% of their labor resources and the World Bank uses 21.2%. UNEP on the other hand, only has 4.9% of consultant expenditures in their total labor. The remainder is agency staff.

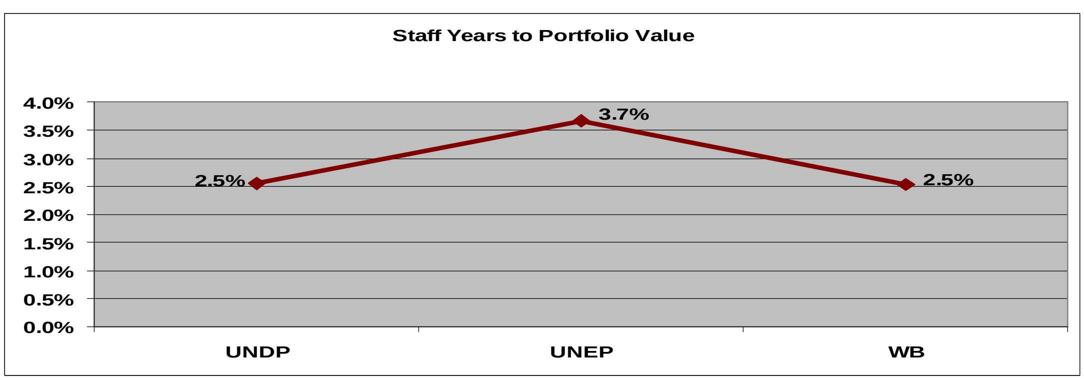


**Figure 2.17: IA Staff Years' Ratio**

### 2.2.2 PCM Expenditures by IA

The following sections present the specific expenditures that each IA incurred during the study period, FY 2001-2006 by both labor and non-labor categories. Additionally, the distribution of these expenditures by PCM services is depicted, as well as the annual average staff years used to perform these services.

#### United Nations Development Programme (UNDP)

UNDP provided aggregate level portfolio expenditure for each fiscal year to perform PCM. The UNDP/GEF Trust Fund tracks and reports labor and non-labor expenditures in accordance with financial and budgetary policies established by UNDP. With the exception of the UNDP/GEF Trust Fund Units, all the other Units (e.g. Country Offices, Central Services, Regional Bureaus, etc.) are not required to track and report labor and non-labor expenditures financed by the IA Fee. Therefore, to determine the breakdown by cost category, the Grant Thornton Team used the average distribution of labor and non-labor within the World Bank and UNEP portfolio management as a proxy.

UNDP expended $75.5M in IA fees during the period from FY 2001 – 2006 performing PCM services (see Figure 2.18). Labor comprised 82.8% ($62.5M), averaging $12.6M per year. The remaining expenditures were in non-labor, which accounted for 17.2% ($13M), averaging $2.2M per year. Of the non-labor amount, 94.6% was consumed by travel, while 5.4% was consumed by non-travel.

| UNDP ($ millions) FY 2001 – 2006 | Concept Development and Preparation & Appraisal | Implementation and Completion & Evaluation | Total |
|---|---|---|---|
| **Labor** | **$25.0** | **$37.5** | **$62.5** |
| Agency Staff | $21.7 | $32.6 | $54.3 |
| Consultants | $3.3 | $4.9 | $8.2 |
| **Non-Labor** | **$5.2** | **$7.8** | **$13.0** |
| Travel | $4.9 | $7.4 | $12.3 |
| Other | $0.3 | $0.4 | $0.7 |
| **Total** | **$30.2** | **$45.3** | **$75.5** |
| **Annual Average Staff Years** | **157.9** | **236.9** | **394.8** |

**Figure 2.18: UNDP's PCM Expenditures by Activity**

As reflected in Figure 2.19 below, UNDP had a mix of 995 projects, totaling approximately $2.4B. Full–Sized Projects (FSP) comprised the majority of the portfolio value at 86.7%, with Enabling Activities (EA) at 8.0%, and Medium-Sized Projects (MSP) accounting for the fewest at 5.3%. However, the greatest volume of projects was EAs (50.9%), followed by FSPs (33.9%) and MSPs (15.2%).

| United Nations Development Programme (UNDP) | | | | |
|---|---|---|---|---|
| | **Full-Sized Projects** | **Medium-Sized Projects** | **Enabling Activities** | **Total** |
| **Value of GEF Projects (US $M)** | **$2,126** | **$131** | **$195** | **$2,452** |
| Percentage of above | 86.7% | 5.3% | 8.0% | 100.0% |
| **# of GEF Projects** | **337** | **152** | **506** | **995** |
| Percentage of above | 33.9% | 15.2% | 50.9% | 100.0% |

**Figure 2.19: UNDP Project Portfolio**

### United Nations Environment Programme (UNEP)

UNEP provided the Grant Thornton Team with aggregate expenditures that were distributed into labor and non-labor cost categories, but were not distributed across the PCM phases. Therefore UNEP's expenditures were allocated based on the percentages described in Section 2.2.1. UNEP also combined the four established PCM phases identified in Section 2.1 above into three groups:

- Concept Development and Preparation & Appraisal
- Implementation
- Completion and Evaluation

As depicted in Figure 2.20, UNEP expended $22.9M in IA fees during the period from FY 2001 - 2006 performing PCM services. Labor comprised 89.5%, ($20.4M), averaging $3.4M per year. The remaining expenditures were in non-labor, which accounted for 11.0% ($2.5M), averaging $0.4M per year. Of the non-labor amount, 83.0% was consumed by travel, while 17.0% was consumed by non-travel.

| UNEP ($ millions) FY 2001 – 2006 | Concept Development and Preparation & Appraisal | Implementation | Completion and Evaluation | Total |
|---|---|---|---|---|
| **Labor** | **$7.6** | **$11.2** | **$1.6** | **$20.4** |
| Agency Staff | $7.2 | $10.6 | $1.5 | $19.3 |
| Consultants | $0.4 | $0.6 | $0.1 | $1.1 |
| **Non-Labor** | **$0.9** | **$1.4** | **$0.2** | **$2.5** |
| Travel | $0.7 | $1.2 | $0.2 | $2.1 |
| Other | $0.2 | $0.2 | $0.0 | $0.4 |
| **Total** | **$8.5** | **$12.6** | **$1.8** | **$22.9** |
| **Annual Average Staff Years** | **9.0** | **13.3** | **1.9** | **24.2** |

**Figure 2.20: UNEP's PCM Expenditures by Activity**

As reflected in Figure 2.21 below, UNEP managed 356 projects, totaling approximately $556M. FSPs comprised the majority of the portfolio value at 70.9%, with MSPs accounting for the fewest (12.1%). However, the greatest volume of projects was EAs (55.9%), followed by MSPs (25.0%) and FSPs (19.1%).

| United Nations Environment Programme (UNEP) | | | | |
|---|---|---|---|---|
| | **Full-Sized Projects** | **Medium-Sized Projects** | **Enabling Activities** | **Total** |
| **Value of GEF Projects (US $M)** | **$394** | **$67** | **$95** | **$556** |
| Percentage of above | 70.9% | 12.1% | 17.0% | 100.0% |
| **# of GEF Projects** | **68** | **89** | **199** | **356** |
| Percentage of above | 19.1% | 25.0% | 55.9% | 100.0% |

**Figure 2.21: UNEP Project Portfolio**

### The World Bank

The World Bank submitted their portfolio expenditures within the activities of Lending, Supervision and Other (covers portfolio-related costs of regional coordination, accounting, disbursement, legal services, and Independent Evaluation Group).

The World Bank expended $196.0M in IA fees during the period from FY 2001 - 2006 performing PCM services, as reflected in Figure 2.22. Labor comprised 76% ($92.0M), averaging $15.3M per year. The remaining expenditures were for non-labor, which accounted for 24.0% ($28.4M), averaging $4.7M per year. The majority (92%) of the non-labor expenditures were consumed by travel.

| The World Bank ($ millions) FY 2001 - 2006 | Lending | Supervision | Other | Total |
|---|---|---|---|---|
| **Total Labor** | **$44.0** | **$34.3** | **$13.7** | **$92.0** |
| Labor | $32.6 | $27.7 | $12.2 | $72.5 |
| Consultants | $11.4 | $6.6 | $1.5 | $19.5 |
| **Non-Labor** | **$15.5** | **$11.2** | **$1.7** | **$28.4** |
| Travel | $14.3 | $10.3 | $1.6 | $26.2 |
| Other | $1.2 | $0.9 | $0.1 | $2.2 |
| **Grand Total** | **$59.5** | **$45.5** | **$15.4** | **$120.4** |
| **Annual Average Staff Years** | **57.2** | **44.6** | **17.8** | **119.7** |

**Figure 2.22: The World Bank's PCM Expenditures by Activity**

As reflected in Figure 2.23 below, the World Bank had a mix of 502 projects, totaling approximately $3.6B. FSPs comprised the majority of the portfolio value at 97.3%, with EAs accounting for the fewest (0.2%). With regards to the number of projects, FSPs were the highest at 70.5%, followed by MSPs at 22.1% and EAs at 7.4%.

| The World Bank | | | | |
|---|---|---|---|---|
| | **Full-Sized Projects** | **Medium-Sized Projects** | **Enabling Activities** | **Total** |
| **Value of GEF Projects (US $M)** | **$3,531** | **$90** | **$9** | **$3,630** |
| Percentage of above | 97.3% | 2.5% | 0.2% | 100.0% |
| **# of GEF Projects** | **354** | **111** | **37** | **502** |
| Percentage of above | 70.5% | 22.1% | 7.4% | 100.0% |

**Figure 2.23: The World Bank's Project Portfolio**

## 2.3 Project Management

The level of detail required to answer questions on administrative expenses on the project execution side could not be reported since expenditure information at this level of granularity was not available. Additionally, there is no standard definition of administrative costs of project management. UNDP stated that the Country Offices collect this information but due to the way the systems are designed it is not feasible to roll it up. For the World Bank projects, "Project Management" is not a standard budget-line in project budgets, particularly as the Bank is trying to reduce the dependence on stand-alone "Project Management Units." Furthermore, the Bank uses disbursement categories such as goods, works, consulting and non-consulting services, and incremental operating costs, rather than "Project Management" to monitor and report expenditures. In order to draw out the information specifically required for this study, the World Bank indicated that it would take 3 to 4 months to collect, validate and analyze this type of information. Project budget and expenditure details are available at UNEP. UNEP indicated that overhead is buried in project costs and not segregated. UNEP also noted that some executing agencies allocate overhead costs across budget lines, whereas others report them separately.

The RFP recognized that "resources to finance these costs are not always provided to the Implementing Agency and that they often flow directly to the executing agency of the project." This was determined to be the case for all the IAs which resulted in challenges in obtaining answers to questions in the RFP. Specifically, the break down of cost items (staff, consultants, travel, office space, information technology, etc.) was not available from all the IAs at the level of detail requested by the RFP. Furthermore, the timeliness of retrieving this data was estimated in some cases to take up to 4 months because of the decentralized structure of the IAs.

During the interviews, it was also noted that the Recipients, or project executing agencies, did not capture the data on project expenditures in a consistent or uniform manner. There does not appear to be a standard template or written guidance to develop and prepare reports upon completion of a project. The Grant Thornton Team extracted data from Terminal Evaluation Reports (TER) off of the GEF web site. However, upon reviewing the reports on the GEF website, the Grant Thornton Team determined that the reports did not contain the information that was sufficient to perform the analysis and answer the questions to the level of detail stipulated within the TOR.

## 2.4 Summary of Corporate Management and Project Cycle Management Expenditures by IA

The figures provide a summary of each IA's Corporate Management and Project Cycle Management expenditures for the study period, FY 2001 – 2006.

Figure 2.24 shows UNDP's expenditures, broken down by cost category, in each area.

| UNDP's Total Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| **Administrative Expenses** | **Labor** | | | **Non-labor** | | | | **Combined Total** |
| | Staff | Consultants | Total | Travel | Contracts | Other | Total | |
| Corporate Management | $9.7 | $1.0 | $10.7 | $1.8 | $0.2 | $3.7 | $5.7 | $16.4 |
| Project Cycle Management | $54.3 | $8.2 | $62.5 | $12.3 | $0.0 | $0.7 | $13.0 | $75.5 |

**Figure 2.24: UNDP's Expenditures By Category**

Figure 2.25 depicts the percentages absorbed by each cost category within UNDP's total Corporate Management and Project Cycle Management expenditures.

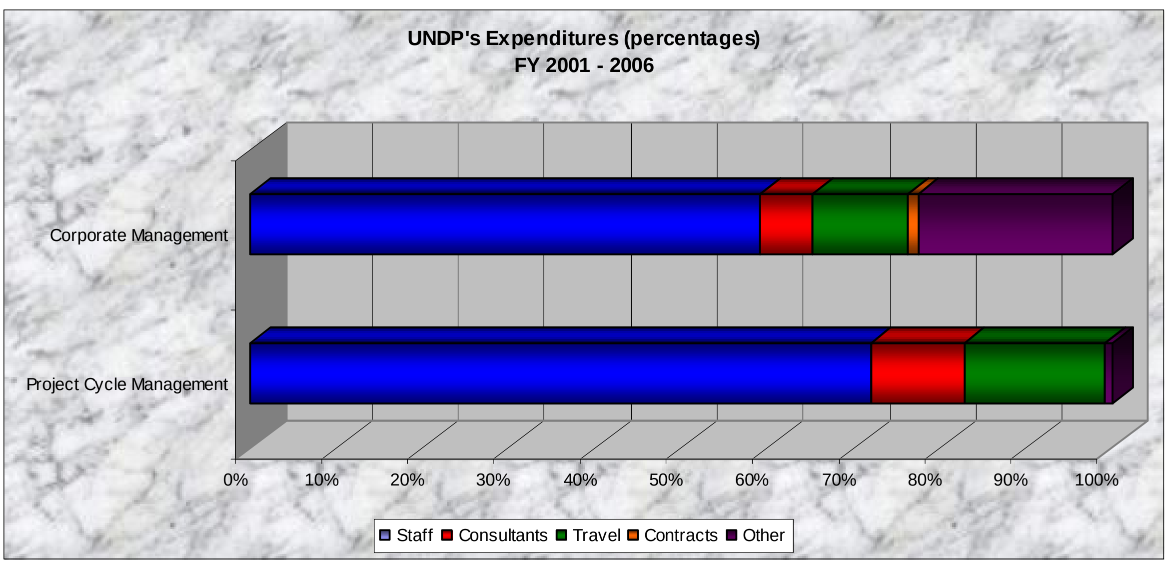


**Figure 2.25: UNDP's Expenditures (percentages)**

Figure 2.26 shows UNEP's expenditures, broken down by cost category, in each area.

| UNEP's Total Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Administrative Expenses | Labor | | | Non-labor | | | | Combined Total |
| | Staff | Consultants | Total | Travel | Contracts | Other | Total | |
| Corporate Management | $10.6 | $0.1 | $10.7 | $1.8 | $0.4 | $2.9 | $5.1 | $15.8 |
| Project Cycle Management | $19.4 | $1.0 | $20.4 | $2.1 | -- | $0.4 | $2.5 | $22.9 |

**Figure 2.26: UNEP's Expenditures by Category**

Figure 2.27 depicts the percentages absorbed by each cost category within UNEP's total Corporate Management and Project Cycle Management expenditures.

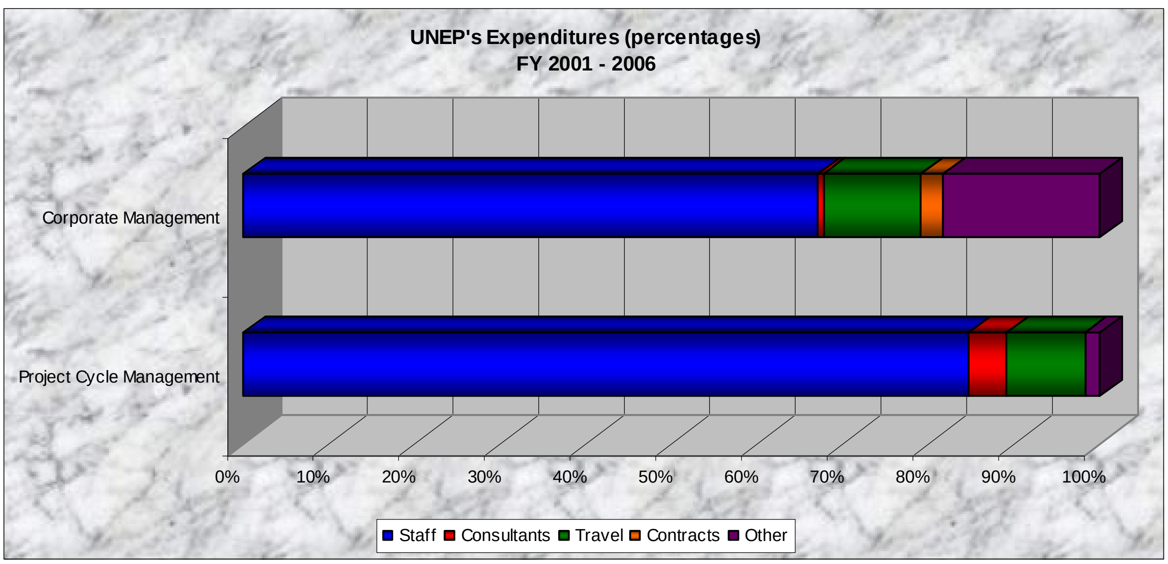


**Figure 2.27: UNEP's Expenditures (percentages)**

Figure 2.28 shows the World Bank's expenditures, broken down by cost category, in each area.

| The World Bank's Total Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Administrative Expenses | Labor | | | Non-labor | | | | Combined Total |
| | Staff | Consultants | Total | Travel | Contracts | Other | Total | |
| Corporate Management | $13.4 | $0.7 | $14.2 | $1.5 | -- | $0.7 | $2.2 | $16.4 |
| Project Cycle Management | $72.5 | $19.5 | $92.0 | $26.2 | -- | $2.2 | $28.4 | $120.4 |

**Figure 2.28: The World Bank's Expenditures by Category (millions)**

Figure 2.29 depicts the percentages absorbed by each cost category within the World Bank's total Corporate Management and Project Cycle Management expenditures.

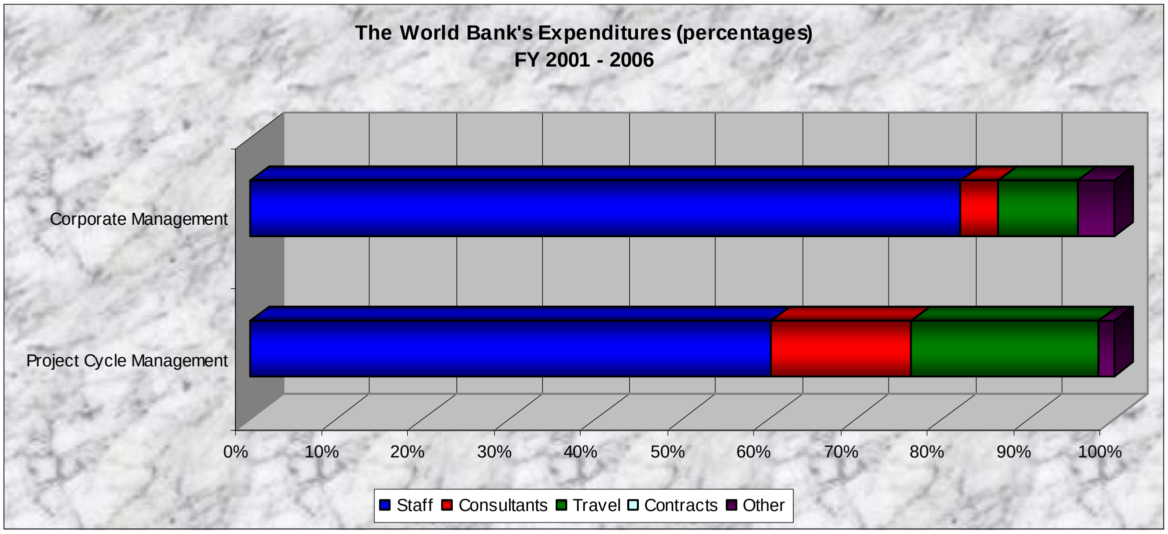


**Figure 2.29: The World Bank's Expenditures (percentages)**

# Section 3: Benchmarking Analysis

Benchmarking refers to an ongoing process which seeks to identify and understand the practices, methods, and processes of others; and to customize such practices to one's own organization. The goals of benchmarking are to improve performance and efficient use of resources through the identification and implementation of best practices modified to local circumstances. Benchmarking is distinct from program evaluation and performance measurement in that it focuses on comparing internal processes and impacts with those of other organizations rather than with predetermined internal standards, indicators or objectives. In this context, program evaluation and performance measurement data actually provide the baseline data for benchmarking, which then identifies how results can be improved.

The Grant Thornton Team conducted a limited benchmarking analysis to compare the processes and cost elements of GEF with other benchmarking partners. The goal was to determine how GEF's administrative fees/overhead costs compared to other multinational aid and international donor organizations, and to identify practices that could potentially be adopted. The Grant Thornton Team researched and compiled a list of twenty donor organizations and private charitable foundations as potential benchmarking partners (see Figure 3.1 below and Appendix D for further information on the benchmarking partners). A matrix was then developed that profiled each of these entities with respect to organizational structure, mission, program focus, operating costs and portfolio of projects. Subsequently, the list of potential benchmarking partners was reviewed with the GEF Secretariat, and the following organizations were selected for the study: Agence Francaise de Développement (AFD), the Global Fund, United Kingdom Department for International Development (DFID), and the World Bank.

| Organization (established) | HQs | Other Offices | Organization Type | Geographic Distribution of Projects | Types of Support | Program Focus |
|---|---|---|---|---|---|---|
| **Global Environment Facility** (1991) | Washington, DC, United States | None | Financial Instrument | Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, and Africa. | Grants | Global Environment |
| | | | | | | |
| **Global Fund** (2002) | Geneva, Switzerland | None | Financial Instrument | East Asia & the Pacific, Eastern Europe & Central Asia, Latin America & the Caribbean, North Africa & the Middle East, South Asia, Sub-Saharan Africa (East, Southern, and West & Central Africa) | Grants | Disease: Prevention, treatment and care of AIDS, tuberculosis and malaria |
| **World Bank** (1945) | Washington, DC, United States | 6 regions and over 100 country offices | Financial Instrument and Implementing Agency | East Asia & the Pacific, Eastern Europe & Central Asia, Latin America & the Caribbean, Middle East & North Africa, South Asia, Sub-Saharan Africa (East, Southern, and West & Central Africa) | Grants and Loans | Health, Education, Economic Management, Energy, Water, Transport, Agriculture and Rural Development, Urban Development, Financial Aid and Private Sector Development |
| **Agence Francaise de Developpement (AFD)** (1941) | Paris, France | 44 offices overseas | Financial Instrument and Implementing Agency | Africa (52% of foreign countries in 2006), the Mediterranean Basin (27%), Asia (18%), in the Middle East, and in Overseas France. | Aid, Grants and Loans | Supporting growth, alleviating poverty and inequalities, and finance the common challenges to humanity |
| **United Kingdom Department for International Development (DFID)** (1997) | London and East Kilbride, United Kingdom | 64 offices overseas | Financial Instrument and Implementing Agency | 46% Africa, 39% Asia, 8% Americas, 8% Europe, 0.4% Pacific (2001/2002) | Aid, Grants and Loans | Worldwide poverty |

**Figure 3.1: Organizational Profile of GEF and the Benchmarking Partners**

The Grant Thornton Team developed an interview questionnaire and data collection template to capture information on the processes and cost elements of each organization. This included qualitative topics, such as organizational structure and mission; project lifecycle processes; financial management and control; reporting mechanisms; and enabling technology. Additionally, quantitative data was collected to measure each benchmarking partner's administrative fees/overhead costs to those of GEF.

### 3.1 Analysis of Overhead and Project Expenditures

The advantage of benchmarking is that through identifying differences in the processes and practices that similar organizations employ to accomplish their missions, each organization can learn from one another. However, it is also important to ensure that quantifiable data is compared in the same manner. Therefore, it is essential to normalize quantifiable data when conducting a benchmarking study to make "like" comparisons between organizations.

To facilitate the receipt of comparable data, agreement on common terminology is paramount. The challenges of quantifying and defining the GEF administrative fees/overhead costs required the Grant Thornton Team to provide the benchmarking partners with common definitions for overhead and project expenditures. Overhead expenditures were defined as "Administrative expenses not directly attributable to a project (e.g. rent, utilities, insurance, human resources, accounting, payroll, etc.)." The definition of project expenditures was "All expenses directly attributable to a project." In addition, the benchmarking partners were asked to provide their process for capturing these costs.

Distinguishing between overhead and project expenditures at the GEF required analysis of the components of administrative costs. The GEF's administrative costs refer to expenditures related to Corporate Management, Project Cycle Management and the administrative support at the recipient country level for project implementation. Expenditures related to corporate budgets of the GEF Secretariat, Office of Evaluation, Scientific and Technical Advisory Panel (STAP), and the IAs were attributed to overhead. The GEF's provision of IA fees was unique amongst the benchmarking partners. The majority of the IA fee was used to perform PCM activities in support of projects. Based on information provided by the IAs, a portion of the IA fee expenditures were included in overhead expenditures. These included UNEP's IA fee that covers "common" administrative services, the portion of UNDP's IA fee that pays for "central services" and the portion the World Bank identified as "Other" costs. Owing to the information availability constraints discussed earlier, the study could not quantify the portion of project budgets attributable to administrative costs and therefore all project grant funding was included in the project expenditure category.

The benchmarking partners' overhead and project expenditures were normalized to ensure their comparability. AFD and DFID overhead and project expenditures were clearly identifiable and comparable. However, the Grant Thornton Team had to convert their values to U.S. currency to enable the comparison. To normalize the Global Fund's data, a portion of its operating expenses was applied to project expenditures. This redistribution occurred because the activity performed was directly related to project management.

### Benchmarks

Once the data was collected and normalized, it was then used to calculate the average overhead rates for the benchmarking partners during fiscal years 2005 and 2006. The calculation was a ratio of each organization's overhead expenditures to its project expenditures (see Figure 3.2 below).

The Grant Thornton Team identified two sets of organizations with similar characteristics among the benchmarking partners. Group A consisted of Global Fund and GEF. Group B consisted of AFD, DFID and the World Bank. Group A were solely financial instruments while Group B were financial instruments and implementing agencies. Group A had a headquarters and no peripheral locations while Group B had a headquarters, regional offices and a minimum of 44 country offices each. Group A's program areas were typically focused in one area (e.g. disease; environment) while Group B organizations typically had multiple program areas. Group A offered financial assistance to countries through grants while Group B had a large number of financial options which may include grants, global budgetary aid, debt reduction-development contracts, guarantees, equity, concessional and non-concessional loans, local currency financing, etc. Group A's average annual project expenditures ($1.15B) were 10 times smaller than Group B's ($11.5B). Given all these differentiating characteristics, both groups of donor organizations had remarkably similar levels of overhead rates (4.4% for Group A; 5.9% for Group B). This result suggests it is reasonable to compare both sets of donor organizations.

As reflected in Figure 3.2, the overhead rates ranged from a low of 3.9% for Global Fund, to a high of 7.5% for the World Bank. The GEF's overhead rate was the median for the study group and slightly below the average of 5.3%.

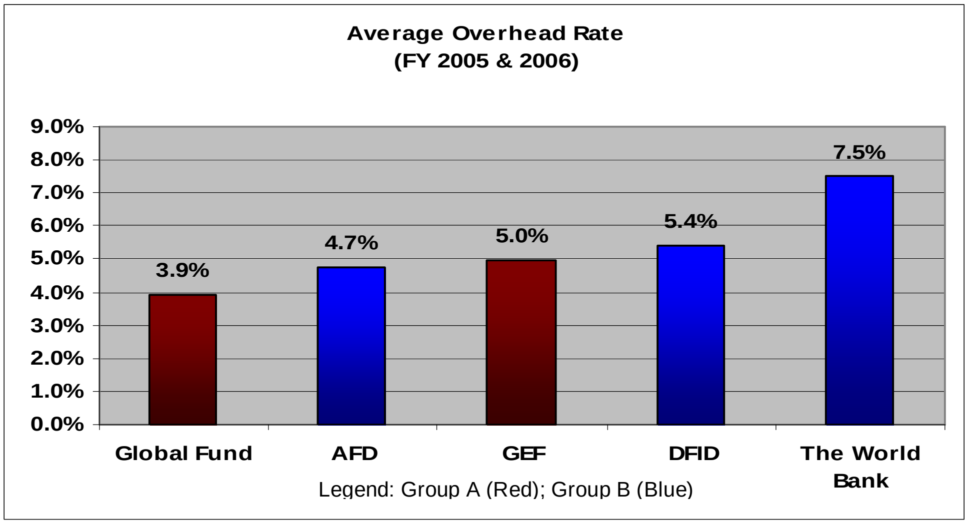


**Figure 3.2: Overhead Rate of Donor Organizations**

## 3.2 Comparative Practices

The Grant Thornton Team used comparative analysis to identify processes used by the benchmarking partners for possible adoption by the GEF to facilitate performance improvement. This section explains the different practices that are in place at the various benchmarking organizations that were examined in this study.

### Financing Proposal Development

Among solely financial instruments (the GEF and the Global Fund), the GEF's practice of financing proposal development prior to project approval is unique. Global Fund does not provide similar funding. The other organizations may or may not provide funding to outside organizations to prepare proposals. This section will describe the portions of the proposal process that the GEF finances, the financing mechanisms, and concerns for changing this process.

The first two phases in the GEF's Project Cycle Management model support development of projects from concept to approval. Two forms of funding are available to support the Concept Development and Project Preparation & Appraisal phases: Project Development Facility (PDF) and a portion of the IA fees. [16]

PDF funds help organizations that execute the GEF projects (e.g. countries, NGOs, etc.) develop the initial project proposal. The GEF committed an average of $17M annually to PDF funding according to the GEF Project Management Information System between FY 2001 and 2006. There are a number of concerns for changing the policy of providing PDF funding including: will grant requesting organizations be willing to pay the price of preparing the proposals; will an increased role fall on the

[16] PDF has been renamed Project Preparation Grant (PPG)

IAs to support preparation of proposals; and without PDF funds will this extend the previously studied project approval process? [17]

Although removing PDF funding may be untenable, the GEF may want to consider whether to address the current growth of PDF funds. As documented in the GEF Project Management Information System, the percentage of projects receiving PDF funds has increased over time (see Figure 3.3). Of the projects approved before FY 2001, 23% received PDF funds, while 67% of projects approved after FY 2006 received PDF funds.

| Period | Total Projects Approved | Projects with PDF Funding | PDF Funding ($ Millions) | Percentage with PDF Funding |
|---|---|---|---|---|
| Before FY 2001 | 719 | 167 | $32 | 23% |
| FY 2001 to 2006 | 1,004 | 459 | $101 | 46% |
| After FY 2006 | 130 | 87 | $28 | 67% |

**Figure 3.3: Projects receiving Project Development Facility (PDF)**

The GEF provides IAs funding for the first two phases of PCM only upon approval of the project by the GEF CEO or Council. An average of $15.4M is expended annually in IA fees to support the first two phases of Project Cycle Management according to information provided by the IAs in this report. In addition, the cancellation rate of projects prior to approval (up to 18% of Full sized projects according to the Evaluation Office study) and the 2 to 4 years a project may require to be approved, require the IAs to closely manage their IA fee budgets.

### Delegation of Authority

At the GEF, only the GEF CEO or Council can approve projects. A recent study by the GEF Evaluation Office determined the GEF project cycle was neither effective nor efficient and one of the main challenges was processing time.[18] DFID's process of delegating authority to approve projects across the organization enables the organization to mobilize quickly on the ground and provide funding more quickly than others.[19] The GEF should consider DFID's process of delegating authority (see Figure 3.4) to help it approve projects more efficiently.

| Organizational Position | Approval Level (US $ millions) |
|---|---|
| Directors | $36.8 |
| Deputy Directors | $23.0 |
| SCS | $13.8 |
| A1 | $9.2 |
| A2/A3 | $2.8 |
| B1 | $0.2 |

**Figure 3.4: Level of Delegated Authority for Programme Spending at DFID**

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[17] *Evaluation of GEF Activity Cycle and Modalities report to the GEF Council*, Nov. 2006, (GEF/C.30/6)

[18] *Evaluation of GEF Activity Cycle and Modalities report to the GEF Council*, Nov. 2006, (GEF/C.30/6)

[19] *Blue Book of Essential Guide to Tools and Rules*, 2005, DFID

### Financial Performance and Reporting

One of the missing components in the GEF's performance reporting process appears to be financial accountability. For example, the emphasis in the GEF's 2006 Monitoring and Evaluation Policy is non-financial project performance. [20] The individual financial policies of the IAs hold projects accountable but GEF has no visibility of the effectiveness of the resources it provides. In contrast, the Global Fund performance framework requires grantees to demonstrate financial accountability and achieve country-proposed performance targets prior to receiving funds for follow-on phases. According to Global Fund, "performance is high, disbursements mainly follow performance and there are early signs of impact related to the three diseases in several countries." [21]

In addition, Global Fund increases transparency of country activities through the use of the Grant Performance Report. The report populates every time the Global Fund receives disbursement requests from the grantees. The report includes information on disbursement, approvals, pledged and donated amounts. Much of this information is available on Global Fund's interactive website.

### Project Performance Tracking

Monitoring project performance at DFID is accomplished by reviewing and scoring a number of indicators including accomplishment of project milestones.[22] This information is captured in DFID's Performance Reporting Information System for Management (PRISM). Managed by DFID's Evaluation Office, PRISM is an online tool for recording, analyzing and disseminating project performance information.[23] The system is linked to DFID's financial accounting system and project records located in the Management Information System.

Currently, the GEF and IAs maintain separate stand-alone project databases. Project performance is captured in reports such as Terminal Evaluation Reports and Annual Performance Reports. DFID's approach to information management may be something for GEF to further evaluate when undertaking our recommendations for a consistent approach to project management, costing and reporting.

### Monitoring and Evaluation

Based on our analysis, the AFD and GEF evaluation processes appear to be in alignment. The AFD seeks to strengthen its evaluation actions to meet requirements in terms of transparency and enhance performance in development financing. AFD focuses on projects that contribute to targeting the Millennium Development Goals (MDGs). AFD has developed evaluation tools to be completed at three projects stages: evaluation before expected outcomes; monitoring during project implementation; and checking after objectives have been met. The tools result in a project rating that helps AFD highlight successful projects; take remedial actions for struggling projects; and close projects when necessary. The GEF should consider the tools used by AFD to help it improve its performance.

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[20] *The GEF Monitoring and Evaluation Policy*, Evaluation Document 2006, No. 1

[21] *2006 Annual Report – Portfolio Management*, The Global Fund

[22] *Blue Book of Essential Guide to Tools and Rules*, 2005, DFID

[23] *eBusiness Strategy*, July 2001, DFID

### Risk Management

The challenge of managing risk at DFID is exemplified by the complexity of providing direct budgetary support to governments and requiring accurate records of the government's expenditures. DFID wants to ensure its numerous stakeholders that its actions are compliant with all rules and regulations. DFID's Blue Book does an admirable job of identifying tasks required for compliance and the risks associated with non-compliance. Potential risks include financial loss, fraud, damage to DFID's reputation, criticism from auditors or parliament, inaccurate information to the public, legal challenges, and fines. There may be merit to adopting this practice at the GEF and it should consider it for incorporation into its risk management policy.

# Section 4: Findings/Recommendations

The information gathered during the analysis served to identify issues and provide context around which the raw numbers could be understood and issues highlighted. This section presents two major findings that illuminate issues in the management of administrative expenses and provides actionable recommendations that, if implemented, will enable the level of accuracy, transparency and control that the GEF Secretariat needs to perform its management and operational.

## 4.1 Information Requirements

**FINDING: There is a divergence between the GEF Secretariat's information requirements, and the IAs' ability to provide information to satisfy those requirements.**

The GEF Secretariat's ability to collect, analyze and report on financial and operational data is degraded by a significant gap between the necessity of operational and financial information and the ability of the IAs to provide that information in a timely manner. This is primarily due to agency-specific standards with regards to their respective processes. By design, each IA develops and maintains its own financial system, data management policies, and collection and reporting regime that are tailored to meeting its unique operational and informational requirements. This has led to definitional differences, as demonstrated in Section 2 of this report, which makes data collection, provision and aggregation difficult. Additionally, policy guidance is evolutionary, which further exacerbates the issue. The combination of these and other factors make it difficult to share information efficiently and effectively throughout the network. Often, information that is available is inconsistent in format and definition, difficult to access, and nearly impossible to consolidate for reporting and analysis.

**Sub-Finding: The GEF Secretariat's information requirements are unclear.** The GEF Evaluation Office published "The GEF Monitoring and Evaluation Policy" dated 3 February 2006, which defines a process for monitoring and evaluating GEF activities. However, this lacks specific definitions and consistent reporting requirements. For example, a review of selected Project Implementation Reviews (PIRs) revealed that the content was inconsistent and lacking in financial detail.

Additionally, there is a significant disparity in the level of detail captured by data systems at each of the IAs, making comparisons and analysis extremely difficult. The lack of policy guidance regarding specific data definitions and requirements is not conducive to effective information reporting and management.

**Sub-Finding: The GEF Secretariat's information definitions and use of Project Cycle Management and Corporate Management activities between the IAs are inconsistent, given their different management structures, corporate cultures and institutional mandates.** During the data collection period, one of the Grant Thornton Team's initial observations was the different grouping and definitions of activities used at the IAs. Among the issues that have surfaced are the following:

- The World Bank used two activities, Lending and Supervision, to describe all work performed under Project Cycle Management.
- UNDP used the four standard Project Cycle Management activities defined by the GEF, but grouped the activities into two areas – one encompassing (1) Concept Development and (2) Preparation and Appraisal, and the other encompassing (3) Implementation and (4) Completion and Evaluation.
- UNEP used the four standard Project Cycle Management activities kept Implementation and Completion and Evaluation separate, but grouped Concept Development and Preparation and Appraisal.

Corporate Management activities are identified in the Corporate Budgets and defined as: (1) Policy and Program Development; (2) Management and Finance; (3) Monitoring and Evaluation; (4) Institutional Relations; and (5) Outreach and External Relations.

- The World Bank created a sixth activity called "Other" to use in Corporate Management. Included in this activity are services such as regional coordination, legal and accounting services.
- The corporate budgets appeared to reconstitute the corporate management activities every few years, or not use them at all.

**Sub-Finding: There is a lack of definition or agreement on what constitutes cost categories such as administrative or overhead costs.** The Terms of Reference (TOR) listed several questions regarding how agencies manage administrative costs and how administrative resources are used. However, our discussions with the GEF Secretariat and the IAs revealed that there different understanding over what administrative costs actually are and how they are to be used. Making a clear distinction is especially important in the case of the GEF, since it operates within a network organization involving many different partners and stakeholders. The following are some examples:

- UNEP receives "common" administrative support services (e.g. accounting, payroll, recruitment, procurement, etc.) from the United Nations Offices in Nairobi (UNON) which could be categorized as administrative costs, and are only partially reimbursed. During our interviews they noted disagreement between themselves and the GEF Secretariat over: (i) whether personnel costs relating to technical experts employed to manage project execution are overheads; (ii) instances where the GEF Secretariat have instructed that project execution costs that they consider to be of an administrative nature, which are over 10% of the proposed project budget allocation, must be paid from the IA fee.

- UNDP identified a "central services" charge to the GEF in order to pay for common support services including financial oversight, information technology support, legal services, and human resources.
- There has been no clear definition of which costs relating to quality control should be charged to the project budget, the project IA fee or the GEF Corporate Budget (quality control exercises occur at all three levels).
- The GEF Secretariat reported to the council with two calculations of overhead for GEF in the FY07 Corporate Budget. The formulas compared various organizational costs with the project grant allocation.

**Sub-Finding: The IAs classify and record administrative expenses differently.** The GEF requires visibility of Corporate Management, Project Cycle Management, and Project Grant expenditures in an enterprise-wide manner. This requires well-defined activities and clear reporting requirements of labor and non-labor expenses by activity. It is also underpinned by periodic, independent review to provide reasonable assurance that data is being captured accurately. The IAs have internal review and control mechanisms in place. However, the IAs have varying levels of data collection capability currently in place. Among the issues that have surfaced are the following:

- The World Bank has a time and attendance reporting system in place which is configured to meet the internal budgeting, accounting, reporting and control requirements of the Bank. It has not yet been configured to report information useful to the GEF. The system in place has the potential for highly sophisticated data mining and reporting, and could be configured for use. However, the costs might be significant, and the World Bank representative believes that the GEF-specific changes may not be feasible.
- UNDP has no time recording system currently in place; however, a time sheet system is in the process of being introduced. UNDP has an ERP system to capture project/activity codes, but it is not yet in alignment with the GEF's reporting needs. The ERP system has the potential for highly sophisticated data mining and reporting, and could be configured for use.
- During the period of this study, UNEP had no time recording system. An exercise is currently underway to identify and implement an appropriate cost center accounting system for funds received from the GEF for corporate management, project cycle management services, and related expenditures. This will also incorporate a time recording system.

**Sub-Finding: A cost accounting model has not been widely deployed.** The financial systems used by the Implementing Agencies have varying capabilities to perform cost accounting. For example, UNON maintains UNEP accounts in the UN's Integrated Management Information System (IMIS). IMIS contains financial, payroll and limited procurement information within a standard general ledger hierarchy. The scope of IMIS' financial information is limited to recording of amounts by budget line. IMIS was not intended to be a project accounting or management system, but rather to meet the needs of the UN Secretariat and General Assembly. UNEP's Division of GEF (DGEF) has adapted IMIS to provide project financial information.

The World Bank has a cost accounting system in place that enables individual time charging and facilitates monitoring to ensure that charges are accurately billed. Only individuals directly supporting a project can charge to a project account. This system was recently reviewed by the internal Auditor. "Lending" and "Supervision" charge codes are established for each project, as well as portfolio-level regional codes to which staff charge their time for project cycle management. Additionally, their personnel also charge to codes for performing GEF Corporate Management activities.

The UNDP GEF section is in the process of introducing a time tracking system. This presents the GEF participants with an opportunity to establish a common set of costing principles that can be employed within each IA that could improve accountability and transparency of administrative cost.

**Sub-Finding: Individual policies and structural barriers exist in the IAs that hinder and/or prevent sharing data across the GEF.** Throughout the IAs there are barriers due to organizational structures and individual policies that impede collecting, managing and reporting information the GEF needs for management and decision making. The following are some of these challenges:

- The UN Board of Auditors has the sole mandate to audit UNEP who are governed by the rules of the UN Secretariat. The Chief Officer of Internal Oversight Services, Nairobi, was concerned that some information requested constituted an audit. Part of the information requested was provided by UNEP in December 2007, but other information was only released in February 2008 following agreement of content with the Grant Thornton Team during a member's January 28-30 visit to Nairobi, Kenya.
- Collecting project level fee information at UNEP is difficult because fee income and expenditures are presently tracked only at portfolio and GEF focal area level.
- Collecting UNDP project data is difficult because authority and execution of GEF projects is normally delegated to UNDP country offices. Although UNDP systems capture project data at the detailed level the study requested, the data that is captured at the country level is not rolled up to allow Region and HQ level access. Access to cumulative expenditure figures from the country offices may be available; however cost category details (labor, travel, etc) are not.
- At the World Bank, validating the large volume of project data that was related to this review and available in institutional systems was estimated to take two months because data are controlled by project teams in the regions.
- The Trustee indicated that they have no data that would be useful for the analysis of actual expenditures to Agencies. The Trustee records Council decisions and commits and transfers the funds, but does not maintain details of the expenditures amounts by Agencies.

**RECOMMENDATION: Determine the type and level of data required for decision making.**

It is important that the GEF Secretariat, in conjunction with the IAs and further guidance from the GEF Council, determine its specific and minimum information needs to fulfill its management and operational oversight role. This data should be linked to and driven by the objectives set forth by the GEF Monitoring and Evaluation Policy, while taking into account that the IAs have well-established fiduciary standards, and the transaction costs of additional reporting requirements. By creating a standard for data collection, the Secretariat will be able to view parallel information across the IAs and create a profile of the GEF's overall performance, which will facilitate informed decision making.

**RECOMMENDATION: Identify and define authorized activities for Corporate Management, Project Cycle Management and Project Management.**

To successfully communicate project status, the GEF needs to clearly identify what the activities are and what tasks are associated with these activities. Decision-makers will then be better able to see what work consumes the most cost across the organization. Furthermore, by creating and defining a universally applicable set of activities, the GEF Secretariat will have more transparency into what corporate budget requests are intended to achieve. Comparability of data across the IAs can only be achieved if there is a standard way to translate the activities within each organization.

The GEF should take special care, though, to include representatives from the IAs during the process of identifying and defining activities. For activities to be effective, members of the organization must be comfortable with and understand the definitions. Additionally, these experts can provide valuable insight into processes and work flow that consumes the GEF resources. The Grant Thornton Team recommends that the GEF Secretariat establish a working group with delegates from the IAs to identify and define activities under Corporate Management, Project Cycle Management, and Project Management. Each IA can then collaborate with the GEF to establish a glossary that will crosswalk the processes in place at their respective organizations to the activities identified and defined by the working group.

**RECOMMENDATION: Define and identify what constitutes "Administrative Costs" and their uses.**

Our discussions with the GEF Secretariat and the IAs reveal that there is confusion over what an administrative cost actually is and how they are to be used. Making a clear distinction is especially important in the case of the GEF, since it operates within a network organization involving many different partners and stakeholders.

## 4.2 Policies and Procedures

**FINDING: The IAs operate under different financial reporting and program management policies and procedures.**

Financial policies and procedures are under constant review. One of the challenges with the GEF's network organization is that each IA operates under different policies and procedures with respect to financial reporting and program management. This is further complicated when the GEF policies are constantly under review or being revised. For example, Implementing Agency fees have been through eight reviews and three revisions since 1999. Additionally, multiple changes occurred in the instructions to the Implementing Agencies with regard to the preparation of corporate budgets from FY 2001 – 2006.

**Sub-Finding: There is not a common approach to developing budgets and tracking costs.** The GEF has not developed and published a common approach to developing budgets and reporting expenditures for work associated with the GEF activities. Without such guidance, the IAs use their institutional systems to track these costs, which has led to wide disparities between the IAs. Furthermore, the GEF has only ad hoc ability to understand the basis of IAs' fee and budget requirements.

**Sub-Finding: Project Status Reporting is inconsistent**. There does not appear to be consistency in the development and preparation of reports upon the completion of a project. The reports are composed based on the IAs' established practices and policies, applying the norms and standards of the individual organization. This has led to inconsistent format, content and structure of the reports. The GEF Evaluation Office published "Guidelines for Implementing and Executing Agencies to Conduct Terminal Evaluations" in May of 2007. However, these guidelines are procedural in nature and do not explicitly detail the financial reporting requirements.

**Sub-Finding: Corporate Budget requirements lack transparency and justification.** During the period FY 2001 - 2006, the GEF Council approved a corporate budget which included allocations for each of the IAs. For a number of years in the period covered by the review, each IA's total allocation was the same as for the previous year with only a 3% increase for inflation. Since the period under review, the GEF has decided to cease providing IAs with a separate Corporate Budget, and instead chose to increase the fee amount to 10% of total Project Grants. The 10% is to provide the IAs with funding to perform PCM and the GEF-related Corporate Management activities. This solution, while doing away with providing budgets to the IAs does not provide the GEF with the transparency it initially sought in the Corporate Budget requests. Moreover, it creates an inappropriate relationship between funding to support Corporate Management activities and portfolio size.

**Sub-Finding: There are disagreements and differences on the adequacy and application of the Project Cycle Management Fee.** During the period under study, the GEF Secretariat migrated from a "flat fee" system to a percentage fee basis based on an internal analysis of the costs involved in executing the project cycle management at the IAs. However, the corresponding policy guidance detailing the specific items that are to be included in this fee has not been issued, leading to inconsistency in application and disagreement among the parties as to the adequacy of the fee.

**RECOMMENDATION: Develop and implement a common approach to cost accounting and management.**

Pursuant to the mandate of the Instrument, each of the IAs has, rightfully, financial accounting systems intended to meet the needs of its own organization. The World Bank is the only IA with a cost accounting system. By implementing a consistent costing approach among the IAs, the GEF will create a uniform approach to capturing expenditures. We do not recommend implementation of common financial or costing systems. Rather, an agreed *approach* that can be implemented within the IAs existing or planned data capture activities (such as time capture systems) provides the GEF with the ability to capture the management information it needs in a consistent, repeatable way. Whether activity-based, project-based or standard costing is employed, it will be important for the GEF to work with representatives from the IAs to ensure that the costing approach employed is flexible enough to allow alignment with practices and capabilities in place at each organization, while still providing consistent and comparable information necessary for the GEF Secretariat to achieve its fiduciary responsibility.

**RECOMMENDATION: Standardize annual project status and project completion reports.**

The GEF Evaluation Office should revise its "Guidelines for Implementing and Executing Agencies to Conduct Terminal Evaluations" dated May 2007. Specifically, it should include standard templates that include cost elements and categories that can facilitate standardization and ease of use. Currently, these guidelines only provide a template (Annex 1) for Co-financing, which is at a summary level. Implementing clear operating procedures, and a standard evaluation template can potentially improve the transparency and ease of use of the reports.

**RECOMMENDATION: Adopt a requirements-based budgeting approach to Corporate Management activities.**

The GEF should reinstate a Corporate Budget. However, it should be a requirements-based budgeting approach, as opposed to the traditional approach of approving annual increases. The traditional approach gives little to no attention to the prior year's actual expenditures, and automatically sanctions at least the amount requested and disbursed the year before. The requirements approach, on the other hand, requires that the GEF establish baseline expectations in the budget guidance, and that the IAs provide justification for all the funds requested. These requests can either be rejected or approved by the Council. This approach enables the GEF Secretariat to monitor execution activity, compare it to plan and act on identified variances, with less ambiguity and confusion as to whether the GEF is covering an expense that should be covered by the IA itself. This approach provides the most transparency and accountability, but is difficult and expensive to manage on a large scale. .

**RECOMMENDATION: Adopt a fixed baseline plus percentage basis fee for Project Cycle Management services.**

We recommend the GEF Secretariat continue funding the project cycle management fee on a percentage basis to cover the variable costs associated with implementing the GEF projects. This should be done by establishing a "baseline" cost for each IA, and a percentage fee basis based on project volume. Each IA has a basic fixed requirement just to "open the door." This cost might consist of a set number of staff and office space. The variable component of the cost, managing the project cycle, is dependent on project volume and complexity. We believe this to be the best approach, as it is about as simple and least costly as the straight percentage fee basis, but allows the IAs predictability in covering agreed-to fixed costs.

# Section 5: Conclusion

The GEF was established in 1991 to help developing countries fund projects and programs that protect the global environment. As a network organization, the GEF is mandated to operate on the basis of "collaboration and partnership amongst the Implementing Agencies."[24] The Instrument specified that the Secretariat is to provide a focal point for coordinating the GEF-financed activities of the IAs. In its role as the focal point for the IAs, the Secretariat is responsible for providing reports to the Council, containing all information necessary to meet standards of accountability and transparency. To date, the interpretation of the Instrument has put minimal importance on the Secretariat's access to comparable data. Given that the network organization has extended beyond the three Implementing Agencies to include seven additional Executing Agencies, the demands for the Secretariat's reporting standards have grown in the past sixteen years. Stronger efforts towards data reporting and comparability need to be made to allow the Secretariat the oversight necessary for its role as the central coordinator for funding the GEF-related activities to the IAs.

The analysis performed on the quantitative and qualitative data collected highlighted a significant systemic gap between the GEF Secretariat's information requirements and the IAs' ability to provide the information to satisfy those requirements. This is mainly attributed to the differing program management policies, systems and procedures within each IA. These challenges will impede the GEF's progress as it moves forward and expands its portfolio size and reach.

The main foci of the recommendations are consistency and guidance from the GEF, providing the means for comparability across the IAs. The Grant Thornton Team advises the rapid implementation of these recommendations to afford the GEF an opportunity to make visible changes in the policies, practices, and procedures that affect the management and decision-making in a full cost environment. Maintaining strong communication between the GEF and the IAs will be a key component for ensuring smooth transitions and increased understanding between stakeholders. The Grant Thornton Team believes that these changes will strengthen the overall organizational culture and environment, which will lead to a more efficient and transparent working relationship, and increased success.

[24] Instrument for the Establishment of the Restructured Global Environment Facility, May 2004

# Appendix A: Terms of Reference Q & A

The purpose of this appendix is to lay out the questions that were presented in the Request for Proposal under the Terms of Reference (TOR) and address each one of them. The TOR had a total of 41 questions that were grouped into the following categories: Background, Scope of Review, Overall Objective, Specific Issues to be Addressed, Methodology, and Milestones and Timeframe.

The questions that required an answer from the study were contained in the "Specific Issues to be Addressed" category and included questions 14-28. Therefore, the below sections will address each one of these questions and will reference where they are located within the report.

***Issues to be addressed:***

**14.** ***What are the cost breakdowns for the following expenses: agency staff, project staff, consultants (used for administrative consulting purposes), travel, and other administrative services financed from different GEF resource budgets?***

**This is addressed in Section 2.1 of the report.**

The below figures provide cost breakdowns for corporate management by labor (cost of staff and consultants) and non-labor (cost of travel, contractual services, institutional services, facilities and equipment rental). IAs provided information on the number of staff years worked supporting GEF Corporate Management.

| Corporate Management Labor Expenditures and Staff Years ($ millions) FY2001 - 2006 | | | | |
|---|---|---|---|---|
| | **UNDP** | **UNEP** | **WB** | **Total** |
| **Total Labor** | **$10.7** | **$10.7** | **$14.2** | **$35.6** |
| Agency Staff | $9.7 | $10.6 | $13.4 | $33.7 |
| Consultants | $1.0 | $0.1 | $0.8 | $1.9 |
| **Total Staff Years** | **68.2** | **76** | **109.8** | **254** |
| Average Staff Years | 11.4 | 12.7 | 18.3 | 42.3 |

**Figure A.1: Labor Expenditures by IA**

| Corporate Management Non-Labor Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UNDP | | UNEP | | WB | | Total | |
| Travel | $1.80 | 31.6% | $1.80 | 35.3% | $1.50 | 68.2% | $5.10 | 39.2% |
| Contractual Service | $0.20 | 3.5% | $0.40 | 7.8% | $0.00 | 0.0% | $0.50 | 3.8% |
| General Overhead | $3.70 | 64.9% | $2.90 | 56.9% | $0.70 | 31.8% | $7.40 | 56.9% |
| **Total** | **$5.70** | **100.0%** | **$5.10** | **100.0%** | **$2.20** | **100.0%** | **$13.00** | **100.0%** |

**Figure A.2: Non-Labor Expenditures by IA**

Section 2.2 provides cost breakdowns for project cycle management by labor and non-labor. Labor is comprised of employees of the respective IAs and consultants. Non-labor consists of travel, contractual services and other (equipment and facilities rental, communications, outreach, conference attendance, and training).

| PCM Expenditures and Staff Years ($ millions) FY 2001 – 2006 | | | | |
|---|---|---|---|---|
| | UNDP | UNEP | WB | Total |
| **Total Labor** | **$62.5** | **$20.4** | **$92.0** | **$174.9** |
| Agency Staff | $54.3 | $19.4 | $72.5 | $146.2 |
| Consultants | $8.2 | $1.0 | $19.5 | $28.7 |
| **Total Non-Labor** | **$13.0** | **$2.5** | **$28.4** | **$43.9** |
| Travel | $12.3 | $2.1 | $26.2 | $40.6 |
| Other | $0.7 | $0.4 | $2.2 | $3.3 |
| **Grand Total** | **$75.5** | **$22.9** | **$120.4** | **$218.8** |
| **Average Staff Years** | **65.8** | **24.2** | **119.7** | **209.6** |

**Figure A.3: IA Fee Expenditures**

**15.** ***How are fees provided for project cycle management services distinguished from resources provided through project management costs and the corporate budget?***

**This question is addressed in the answer to question 14 above.**

**16.** ***What are comparable practices and expenses, such as administrative fees/overhead costs charged by other donors, such as aid and development agencies, multilateral funds, and non-governmental organizations? How do these compare with expenses charged by the GEF? Can such costs be benchmarked?***

**This question is addressed in Section 3 of the report.**

The Grant Thornton Team used comparative analysis to identify processes used by the benchmarking partners for possible adoption by GEF to facilitate performance improvement. Once the data was collected and normalized, it was then used to calculate the average overhead rates for the benchmarking partners during fiscal years 2005 and 2006. The calculation was a ratio of each organization's overhead expenditures to its project expenditures (see Figure A.7 below).

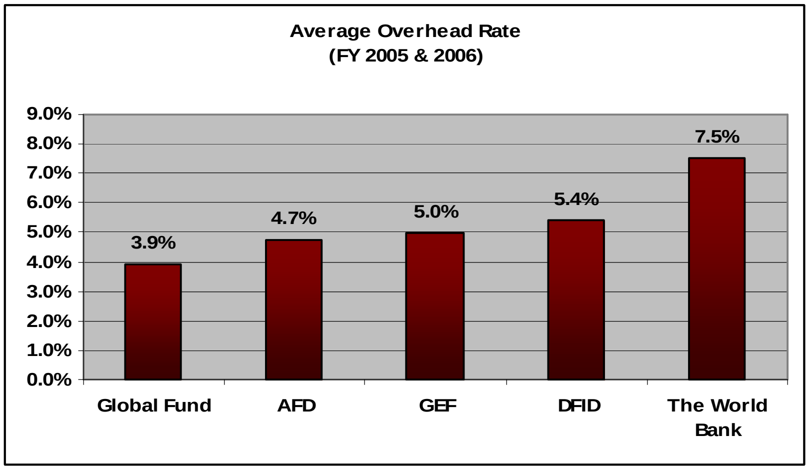


**Figure A.4: Overhead Rate of Donor Organizations**

**17.** ***What are the cost drivers in the network institutional structure, the policies, procedures and business practices of the agency, and the operational procedures and reporting requirements of the GEF?***

**This question is addressed in Section 2.2 of the report.**

**IA Fee Cost Drivers**

- **Project Approval and Evaluation**: IAs stated in interviews that these processes drive the cost of GEF projects higher as compared to other projects in the IAs' respective portfolios. Specifically, the processing time to obtain project approval was of significant concern and reported to Council in November 2006.[25] One IA related that projects can take so long to be approved that countries sometimes cancel projects because governments, and therefore priorities, have changed. Further, documentation required by GEF is considered voluminous with multiple submission and revision cycles.

- **GEF reporting requirements:** Each of the IAs indicated during the interviews that the GEF reporting requirements are more arduous and time consuming than those of their other donor agencies. They believe that the increased time and effort required to perform this function significantly drives up their costs. For example, UNDP indicated that their non-GEF projects cost approximately 7% to 9%, while GEF projects were about 15%. No expenditure data were provided to support this assertion.

[25] UNDP interviews

- **Increased coordination required by co-financing / co-managed arrangements**: Co-financed and / or Co-managed projects are much more complex and difficult to administer because they require increased coordination and layers of management with other entities. Specifically, the degree of co-financing; number of participating agencies; institutional support (invoicing and financial reporting from country offices); and capability of Enabling Agency (EA) are contributing factors. This is further increased when the projects span multiple countries and / or regions. The majority of UNEP's projects are conducted at a regional level, often in cooperation with other agencies. UNEP cited one example of a project that had 150 participating agencies and the resulting complexity of attempting to achieve consensus.

**18.** ***Does the co-operation of two or more Agencies for one project affect the level and use of administrative costs? And if so, how?***

**This question is addressed in Section 2.2 of the report.**

**Increased coordination required by co-financing / co-managed arrangements**: Co-financed and / or Co-managed projects are much more complex and difficult to administer because they require increased coordination and layers of management with other entities. Specifically, the degree of co-financing; number of participating agencies; institutional support (invoicing and financial reporting from country offices); and capability of Enabling Agency (EA) are contributing factors. This is further increased when the projects span multiple countries and / or regions. UNEP's projects are conducted at a regional level, often in cooperation with other agencies. UNEP cited one example of a project that had 150 participating agencies and the resulting complexity of attempting to achieve consensus.

***Issues related to fees provided for project cycle management services:***

**19.** ***What are the total fees for project cycle management that the agency received during the period and how were the fees allocated and spent in the agency?***

**This question was discussed in Section 2.2 and subsection 2.2.2 of the report**.

The below figures depict the individual expenditures for each IA to perform PCM services.

| Portfolio Management Expenditures and Staff Years ($ millions) FY 2001 – 2006 | | | | |
|---|---|---|---|---|
| | UNDP | UNEP | WB | Total |
| **Total Labor** | **$62.5** | **$20.4** | **$92.0** | **$174.9** |
| Agency Staff | $54.3 | $19.4 | $72.5 | $146.2 |
| Consultants | $8.2 | $1.0 | $19.5 | $28.7 |
| **Total Non-Labor** | **$13.0** | **$2.5** | **$28.4** | **$43.9** |
| Travel | $12.3 | $2.1 | $26.2 | $40.6 |
| Other | $0.7 | $0.4 | $2.2 | $3.3 |
| **Grand Total** | **$75.5** | **$22.9** | **$120.4** | **$218.8** |
| **Average Staff Years** | **65.8** | **24.2** | **119.7** | **209.6** |

**Figure A.5: IA Fee Expenditures**

| UNDP ($ millions) FY 2001 – 2006 | Concept Development and Preparation & Appraisal | Implementation and Completion & Evaluation | Total |
|---|---|---|---|
| **Labor** | **$25.0** | **$37.5** | **$62.5** |
| Agency Staff | $21.7 | $32.6 | $54.3 |
| Consultants | $3.3 | $4.9 | $8.2 |
| **Non-Labor** | **$5.2** | **$7.8** | **$13.0** |
| Travel | $4.9 | $7.4 | $12.3 |
| Other | $0.3 | $0.4 | $0.7 |
| **Total** | **$30.2** | **$45.3** | **$75.5** |
| **Annual Average Staff Years** | **157.9** | **236.9** | **394.8** |

**Figure A.6 UNDP's PCM Expenditures by Activity**

| UNEP ($ millions) FY 2001 – 2006 | Concept Development and Preparation & Appraisal | Implementation | Completion and Evaluation | Total |
|---|---|---|---|---|
| **Labor** | **$7.6** | **$11.2** | **$1.6** | **$20.4** |
| Agency Staff | $7.2 | $10.6 | $1.5 | $19.3 |
| Consultants | $0.4 | $0.6 | $0.1 | $1.1 |
| **Non-Labor** | **$0.9** | **$1.4** | **$0.2** | **$2.5** |
| Travel | $0.7 | $1.2 | $0.2 | $2.1 |
| Other | $0.2 | $0.2 | $0.0 | $0.4 |
| **Total** | **$8.5** | **$12.6** | **$1.8** | **$22.9** |
| **Annual Average Staff Years** | **9.0** | **13.3** | **1.9** | **24.2** |

**Figure A.7: UNEP's PCM Expenditures by Activity**

| The World Bank FY 2001 – 2006 ($ millions) | Lending | Supervision | Other | Total |
|---|---|---|---|---|
| **Total Labor** | **$44.0** | **$34.3** | **$13.7** | **$92.0** |
| Labor | $32.6 | $27.7 | $12.2 | $72.5 |
| Consultants | $11.4 | $6.6 | $1.5 | $19.5 |
| **Non-Labor** | **$15.5** | **$11.2** | **$1.7** | **$28.4** |
| Travel | $14.3 | $10.3 | $1.6 | $26.2 |
| Other | $1.2 | $0.9 | $0.1 | $2.2 |
| **Grand Total** | **$59.5** | **$45.5** | **$15.4** | **$120.4** |
| **Annual Average Staff Years** | **57.2** | **44.6** | **17.8** | **119.7** |

**Figure A.8: The World Bank's PCM Expenditures by Activity**

**20.** ***What were the actual costs of delivering the project cycle management services and are fees managed so as to ensure that there are sufficient resources for the delivery of all services throughout the life of the project? What factors directly influence the actual costs? Does the co-management of projects by two or more Agencies influence the actual costs?***

**This question is addressed in the answers to questions 17, 18 and 19 above.**

**21.** How did GEF resources compare to other sources of funding for the administration of the project?

**This question is discussed in Section 2.2 of the report.**

During the data collection process of this study, each IA was given data template to complete that specified GEF and non-GEF expenditures for PCM services. However, the IAs only provided expenditures pertaining to GEF resources only. During the analysis, the Grant Thornton Team learned that the IAs account for these expenditures in different ways. UNDP does not distinguish the IA fee from other UNDP funding sources; rather they pool funds. UNDP units provide project cycle management services at various levels based on the established organizational structure and the UNDP Financial Regulations and Rules. UNDP indicated during the interviews, though, that the GEF IA fee is not enough to fund the administration of projects but would not quantify the amount that is augmented by other donors. UNEP segregates the IA fee from the rest of the organization, and uses its funding solely within the GEF Division to provide PCM activities on a portfolio basis. However, they do not have the ability to identify costs to specific projects. The World Bank segregates GEF and non-GEF resources and tracks these expenditures by donor. Due to the above factors, the analysis could compare the different sources of funding with GEF's.

***Issues related to administrative costs financed through project budgets:***

**Questions 22 through 26 are discussed in Section 2.3 of the report.**

Questions 22 through 26 are pertaining to different aspects of the project budgets. The answer that responds to each of these questions is the same. Therefore, the below answer will serve to address all of them.

The level of detail required to answer questions on administrative expenses on the project execution side could not be reported since expenditure information at this level of granularity was not available. There were various reasons as to why this was the case. The World Bank and UNDP stated that the Country Offices collect this information but due to the way the systems are designed it is not feasible to roll it up. Additionally, the World Bank indicated that it would take 3 to 4 months to collect this type of information. UNDP was able to provide the required cumulative data with breakdowns of cost category as requested. UNEP noted that some executing agencies allocate overhead costs across budget lines, whereas others report them separately.

The RFP recognized that "resources to finance these costs are not always provided to the Implementing Agency and that they often flow directly to the executing agency of the project." This was determined to be the case for all the IAs which resulted in challenges in obtaining answers to questions in the RFP. Specifically, the break down of cost items (staff, consultants, travel, office space, information technology, etc.) was not available from all the IAs at the level of detail requested by the RFP. Furthermore, the timeliness of retrieving this data was estimated in some cases to take up to 2 months because of the decentralized structure of the IAs.

During the interviews, it was also noted that the Recipients, or project executing agencies, did not capture the data on project expenditures in a consistent or uniform manner. There does not appear to be a standard template or written guidance to develop and prepare reports upon completion of a project. The Grant Thornton Team extracted data from Terminal Evaluation Reports (TER) off of the GEF web site. However, upon reviewing the reports on the GEF website, the Grant Thornton Team determined that the reports did not contain the information that was sufficient to perform the analysis and answer the questions to the level of detail stipulated within the TOR.

**22.** ***What type and level of administrative costs are financed through project budgets? Does this differ among national, regional, global project types?***

**23.** ***What is the average percentage of the project budget spent on administrative costs? Does this vary with type of project (enabling activity, medium-sized project, full-sized national project, regional or global project?) Does this vary in case of co-management of a project?***

**24.** ***What types of administrative costs are typically financed with GEF financing in a project budget? What types of administrative costs are typically financed by co-fenders?***

**25.** ***Do project administrative budgets include general overhead for the executing agency? If yes, what is the average overhead provided to executing agencies? Does it differ according to the type of executing agency (e.g., government, NGO, local community group?)***

**26.** ***Are all administrative costs included in a project incurred at the national level for project execution? If not, what other types of activities, assets, consultants and staff are financed through the project's administrative costs?***

***Issues related to the corporate budget:***

**27.** ***What are the total resources provided under the corporate budget for the period and how have they been spent? What types of services, assets, consultants and staff are financed through the corporate budget?***

**This is addressed in Section 2.1 of the report.**

The below figures depict the expenditures of each IA by Corporate Management activity and cost element.

| Total Corporate Expenditures by Activity ($ Millions) | | | | | | |
|---|---|---|---|---|---|---|
| | Policy and Program Development | Management and Finance | Monitoring and Evaluation | Institutional Relations | Outreach and External Relations | Other |
| UNDP | $9.4 | $3.3 | $1.8 | $1.0 | $0.9 | $0.0 |
| UNEP | $7.8 | $3.1 | $1.6 | $2.1 | $1.2 | $0.0 |
| WB | $4.7 | $2.1 | $1.4 | $1.7 | $2.0 | $4.5 |
| TOTAL | $21.9 | $8.5 | $4.8 | $4.8 | $4.1 | $4.5 |

**Figure A.9: IA Corporate Management Expenditures by Activity**

| Corporate Management Labor Expenditures and Staff Years ($ millions) FY2001 - 2006 | | | | |
|---|---|---|---|---|
| | **UNDP** | **UNEP** | **WB** | **Total** |
| **Total Labor** | **$10.7** | **$10.7** | **$14.2** | **$35.6** |
| Agency Staff | $9.7 | $10.6 | $13.4 | $33.7 |
| Consultants | $1.0 | $0.1 | $0.7 | $1.8 |
| **Total Staff Years** | **68.2** | **76** | **109.8** | **254** |
| Average Staff Years | 11.4 | 12.7 | 18.3 | 42.3 |

**Figure A.10: Labor Expenditures by IA**

| Corporate Management Non-Labor Expenditures ($ millions) FY 2001 - 2006 | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| | UNDP | | UNEP | | WB | | Total | |
| Travel | $1.80 | 31.6% | $1.80 | 35.3% | $1.50 | 68.2% | $5.10 | 39.2% |
| Contractual Service | $0.20 | 3.5% | $0.40 | 7.8% | $0.00 | 0.0% | $0.50 | 3.8% |
| General Overhead | $3.70 | 64.9% | $2.90 | 56.9% | $0.70 | 31.8% | $7.40 | 56.9% |
| **Total** | **$5.70** | **100.0%** | **$5.10** | **100.0%** | **$2.20** | **100.0%** | **$13.00** | **100.0%** |

**Figure A.11: Non-Labor Expenditures by IA**

**28.** ***Did the Implementing Agency provide any of its own budgetary resources to provide corporate services? How did these compare to the GEF resources?***

**This is addressed in Section 2.1 of the report.**

Each IA stated during the interviews that they provide some of their own resources to augment the GEF resources to provide corporate services. None of them, though, were able to quantify the amount. However, they were able to provide qualitative descriptors of the services that are provided. This includes items such as archiving and records management, health services, human resources, mail, security, procurement, etc.

# Appendix B: Chart of Interviews

| Date(s) | Location | Topics Discussed | Attendee(s) |
|---|---|---|---|
| **Trustee of GEF Trust Fund** | | | |
| Thu, Nov 1, 2007 | GEF Headquarters | Discussed the purpose of the study; role of the Trustee; disbursement process; IA reports to Trustee; and Trustee reports to Council. | Andrina Ambrose - Senior Finance Officer<br>Lesley Wilson - Quality Control Analyst |
| Mon, Nov 12, 2007 | GEF Headquarters | Discussed the purpose of the study and release of disbursement and reconciliation reports. | Pamela Crivelli, Lead Financial Officer |
| **GEF Evaluation Office** | | | |
| Thu, Nov 1, 2007 | GEF Headquarters | Discussed the purpose of the study; Evaluation Office studies; and Project Completion Reports. | Juan Portillo - Operations Evaluation Officer<br>Aaron Zazueta - Senior Evaluation Officer |
| **GEF Secretariat** | | | |
| Thu, Jan 31, 2008 | GEF Headquarters | Discussed the purpose of the study; role of the Financial Assistant/Trustee Liaison; financial policies/procedures; and interaction with Trustee. | Susan Mburu - GEF Financial Assistant/Trustee Liaison |
| Mon, Feb 4, 2008 | GEF Headquarters | Discussed the purpose of the study; role of the GEF Secretariat Resource Manager; financial policies/procedures; financial system; and interaction with Trustee. | Anne Miduch - GEF Secretariat Resource Manager |

| Date(s) | Location | Topics Discussed | Attendee(s) |
|---|---|---|---|
| **Global Fund** | | | |
| Wed, Jan 2, 2008 | Teleconference | Discussed the purpose of the benchmark review. See Benchmark Interview Questionnaire for additional discussion. | Barry Greene - Chief Financial Officer |
| **United Nations Development Programme (UNDP)** | | | |
| Thu, Dec 13, 2007 | Teleconference | Discussed agenda for visit to UNDP headquarters | John Hough - Acting Deputy Executive Coordinator, Principal Technical Advisor, Biodiversity, GEF Unit<br>Xiumei Zhang - Finance Specialist and Chief, Finance & Administration Unit<br>Laurence Reno - Special Advisor, Operations, GEF Unit<br>Margarita Bernardo - Programme Assistant, GEF Unit |
| Mon-Wed, Dec 17-19, 2007 | UNDP Headquarters | See Implementing Agency Interview Questionnaire for additional discussion. | Yannick Glemarec - Executive Coordinator, GEF Unit<br>John Hough<br>Xiumei Zhang<br>Laurence Reno<br>Darshak Shah - Director and Comptroller, Office of Finance and Administration<br>Antoine Khoury - Chief, Internal Audit Section<br>Juha Uitto, Ph. D. - Senior Monitoring & Evaluation Adviser, Monitoring and Evaluation Unit<br>Howard Stewart - Evaluation Advisor |
| **United Nations Environment Programme (UNEP)** | | | |
| Thu, Nov 29, 2007 | Teleconference | Discussed data collection templates | Carmen Tavera - Portfolio Manager/Ag. Deputy Director UNEP Division of GEF Coordination, Monitoring & Evaluation<br>Chris Taylor - Senior Fund Management Officer, Administration and Fund Management, UNEP DGEF |
| Mon, Jan 14, 2008 | Teleconference | Discussed agenda for meeting in Paris. Discussed Implementing Agency Interview Questionnaire. | Carmen Tavera<br>Chris Taylor |
| Mon, Jan 21, 2008 | Paris, France | See Implementing Agency Interview Questionnaire for additional discussion. | Carmen Tavera<br>Chris Taylor |

| Date(s) | Location | Topics Discussed | Attendee(s) |
|---|---|---|---|
| **United Nations Environment Programme (UNEP)** | | | |
| Mon-Wed, Jan 28-30, 2008 | UNEP Headquarters | See Implementing Agency Interview Questionnaire for additional discussion. | Dr. Maryam Niamir-Fuller - Director, UNEP Division of GEF Coordination<br>Carmen Tavera<br>Chris Taylor<br>Sandeep Bhambra - Fund Management Officer, Administration and Fund Management, UNEP DGEF<br>Elaine King - Fund Management Officer, Administration and Fund Management<br>Christopher Bagot - Acting Chief, Nairobi Audit Service, Internal Division<br>Theodor Kapiga - Head of Corporate Services Section, UNEP<br>Segbedzi Norgbey - Chief, Evaluation and Oversight Unit, UNEP<br>Michael Spilsbury - M&E Officer, DGEF, Monitoring & Evaluation |
| **World Bank** | | | |
| Wed, Nov 28, 2007 | World Bank Headquarters | Discussed purpose of the study. See Implementing Agency Interview Questionnaire for additional discussion. | Steve Gorman - GEF Executive Coordinator and Team Leader, POPs/MP operations, Environment Department<br>Rohit Khanna - Senior Operations Officer, GEF Coordination Team<br>Carol Fillar Bonney - Senior Resource Management Officer, Office of the VP - Environment and Socially Responsible Development<br>Brenda Manuel - Resource Management Officer, GEF Coordination Team |
| Mon, Dec 10, 2007 | World Bank Headquarters | Discussed data collection templates | Rohit Khanna |
| Mon, Jan 14, 2008 | World Bank Headquarters | Discussed data collection templates and follow-up questions from interview questionnaire | Steve Gorman<br>Rohit Khanna<br>Carol Fillar Bonney<br>Brenda Manuel |
| Thu, Jan 31, 2008 | World Bank Headquarters | Discussed follow-up questions | Rohit Khanna<br>Carol Fillar Bonney<br>Brenda Manuel |

# Appendix C: Summaries of Benchmarking Agencies

| Organization (established) | HQs | Other Offices | Organization Type | Geographic Distribution of Projects | Types of Support | Program Focus |
|---|---|---|---|---|---|---|
| **Global Environment Facility** (1991) | Washington, DC, United States | None | Financial Instrument | Asia and Pacific, Europe and Central Asia, Latin America and Caribbean, and Africa. | Grants | Global Environment |
| | | | | | | |
| **Global Fund** (2002) | Geneva, Switzerland | None | Financial Instrument | East Asia & the Pacific, Eastern Europe & Central Asia, Latin America & the Caribbean, North Africa & the Middle East, South Asia, Sub-Saharan Africa (East, Southern, and West & Central Africa) | Grants | Disease: Prevention, treatment and care of AIDS, tuberculosis and malaria |
| **World Bank** (1945) | Washington, DC, United States | 6 regions and over 100 country offices | Financial Instrument and Implementing Agency | East Asia & the Pacific, Eastern Europe & Central Asia, Latin America & the Caribbean, Middle East & North Africa, South Asia, Sub-Saharan Africa (East, Southern, and West & Central Africa) | Grants and Loans | Health, Education, Economic Management, Energy, Water, Transport, Agriculture and Rural Development, Urban Development, Financial Aid and Private Sector Development |
| **Agence Francaise de Developpement (AFD)** (1941) | Paris, France | 44 offices overseas | Financial Instrument and Implementing Agency | Africa (52% of foreign countries in 2006), the Mediterranean Basin (27%), Asia (18%), in the Middle East, and in Overseas France. | Aid, Grants and Loans | Supporting growth, alleviating poverty and inequalities, and finance the common challenges to humanity |
| **United Kingdom Department for International Development (DFID)** (1997) | London and East Kilbride, United Kingdom | 64 offices overseas | Financial Instrument and Implementing Agency | 46% Africa, 39% Asia, 8% Americas, 8% Europe, 0.4% Pacific (2001/2002) | Aid, Grants and Loans | Worldwide poverty |

**Figure C.1: Organizational Profile of GEF and the Benchmarking Partners**

### Global Environment Facility (GEF)

GEF helps developing countries fund projects and programs that protect the global environment. GEF grants support projects related to biodiversity, climate change, international waters, land degradation, the ozone layer, and persistent organic pollutants.

The operation and structure of the GEF are defined by the *Instrument for the Establishment of the Restructured Global Environment Facility* adopted in 1994 and amended in 2003 subsequent to agreements of the second GEF Assembly held in 2002[26]. GEF is a network organization managed by a Secretariat. Six units of the GEF are supported through the corporate budget (the Secretariat, the Scientific and Technical Advisory Panel (STAP), the Trustee, and the three Implementing Agencies). An independent Evaluation Office reports directly to the Council.

The Secretariat provides overall policy and direction through the following teams: biodiversity, climate and chemicals, land and waters, communications and outreach, corporate affairs, and operations and business strategy. The Secretariat reports to the GEF Assembly, the GEF Council, and a number of UN Conventions.

The four major functions of the units of the GEF include governance (supporting the work of the Assembly and Council), program management (coordinating the formulation and overseeing the implementation of business plans, operational procedures, focal area strategies and work programs), relations with constituents (managing relations and enhancing cooperation with conventions and other bodies), and financial and administrative management of the GEF Trust Fund. [27]

The Instrument identifies the key roles played by the three Implementing Agencies (World Bank, UNDP and UNEP) in project implementation within their respective spheres of competence, and in facilitating cooperation of banks, UN agencies, countries, non-governmental organizations, and other institutions. The Secretariat shares GEF corporate responsibilities with the three Implementing Agencies. These responsibilities include Institutional Relations, Policy and Program Development, Outreach, Knowledge Management, External Relations, Management and Finance, and Monitoring and Evaluation.

The Secretariat operates as a financial instrument allowing GEF projects to be managed by Implementing Agencies and Executing Agencies (e.g. regional banks). The Agencies work directly with country recipients to execute projects[28].

### Global Fund

The mission of Global Fund is to dramatically increase resources to fight three of the world's most devastating diseases (AIDS, Tuberculosis and Malaria), and to direct those resources to areas of greatest need.

Global Fund is governed by a Board which receives input from the Technical Evaluation Reference Group (TERG), Technical Review Panel, Partnership Forum, Committees of the Board, and a Secretariat. The committees are Policy & Strategy, Portfolio, Finance & Audit, and Ethics[29].

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[26] *UNEP Partner in the GEF*, August 2006, http://dgef.unep.org/publications/brochures/Par_GEF.pdf

[27] *Corporate Budget FY07*, May 10, 2006, GEF/C.28/8

[28] *A Proposal for a Revised Fee Structure*, April 11, 2003, GEF/C.21/10

[29] *An Overview of Global Fund Governance*,

http://www.theglobalfund.org/en/files/about/governance/TGF_Governance%20.pdf

The Global Fund's Secretariat is responsible for day-to-day operations, including mobilizing resources from the public and private sectors, mobilizing grants, providing financial, legal and administrative support as well as providing information on the Global Fund's activities to the Board and the public[30]. The Global Fund is not an implementing entity; it is a financial instrument.

The Global Fund grant application and approval process is conducted through funding rounds[31]. Once the funding target has been achieved, Global Fund invites proposals from eligible countries. The next funding round is set for March 2008. Countries submit proposals outlining their need for additional financing, which are assessed by the Technical Review Panel (TRP). The TRP then recommends the proposals that meet its strict technical criteria to the Board for its approval. The next Board review will occur in Nov. 2008. To this point, the board has had enough funding to approve all projects recommended by the TRP.

The Global Fund's model is based on the principle of country ownership. This key role is performed by a country coordination and partnership mechanism (CCM). CCMs should include broad representation from governments, NGOs, civil society, multilateral and bilateral agencies and the private sector. The CCM's responsibilities include oversight and preparation and submission of grant proposals.

The Principal Recipients (PR) of Global Fund grants are typically local stakeholders from the public or private sector or civil society. PRs ensure effective arrangements are in place for disbursement of funds to all implementing entities (sub-recipients), procurement and supply management, monitoring and evaluation, and reporting on programme results and financial accountability to the Global Fund and CCM.

The Global Fund allocates funds on the basis of strict performance criteria. To support this focus on performance, the Global Fund hires Local Fund Agents (LFAs) to oversee, verify and report on grant performance.

### Agence Française de Développement (AFD)

AFD, under the supervision of the MINEFI (French Ministry for the Economy, Finance and Industry), MAE (French Ministry of Foreign Affairs) and French Ministry of Overseas France, has a dual nature as both a specialized financial institution (development bank) and the central operator for French cooperation[32].

It also undertakes missions in developing countries (over 60) and Overseas France. AFD promotes economic development and financial stability, with a particular concern for social cohesion and respecting the environment, by contributing to the development of infrastructure and enterprises. It also builds partnerships and cofinancing with other donors.

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30 *2006 Annual Report – Secretariat Management,* Global Fund

31 *2006 Annual Report – Portfolio Management,* Global Fund

32 *The dual nature of AFD under joint ministry supervision,* http://www.afd.fr/jahia/Jahia/lang/en/home/Qui-Sommes-Nous/Nos-tutelles, AFD

AFD has a range of financial options including grants, global budgetary aid, debt reduction-development contracts, guarantees, equity, concessional and non-concessional loans, local currency financing, etc.

### United Kingdom Department for International Development (DFID)

Department for International Development (DFID) manages Britain's aid to poor countries and works to eliminate extreme poverty. DFID is headed by a Secretary of State with cabinet rank, assisted by (from June 2003) a Minister of State and (from June 2007) three Parliamentary Under Secretaries of State. Reformed in 1997, a 2005 Canadian Government study found that the development agency was the "best in the world". The non-governmental organization Oxfam described DFID as the "best bilateral development agency." [33]

DFID provides many forms of assistance. Poverty Reduction Budget Support (PRBS) is a form of financial aid (grant) in which funds are provided in support of a government programme typically focusing on growth, poverty reduction, and strengthening institutions, especially budgetary processes; and directly to a partner government's central exchequer, to spend using its own financial management, procurement and accountability systems. PBRS can take the form of a general contribution to the overall budget or earmarked to a discrete sector or non-budget support to meet the costs of specified projects.

In addition, DFID can channel funds to International/Multilateral Organizations, other donors, Civil Society Organizations/NGOs, Emergency Humanitarian Assistance, and the Private Sector. Finally, DFID can purchase goods or services in support of developmental projects for a partner Government. This support is termed Technical Cooperation.

### World Bank

The International Bank for Reconstruction and Development (IBRD) and the International Development Association (IDA) are collectively known as the World Bank. The World Bank is headquartered in Washington, DC. 57% of its staff works in 6 regions[34].

World Bank conducts projects in health, education and gender; infrastructure and clean energy; strengthening governance and reducing corruption; financial and private sector development; and middle income countries. It is a loan/grant-making organization, as well as an implementing agency and currently has projects in 112 countries. World Bank areas of competence related to GEF activities include the development and management of investment projects and mobilizing private sector resources. The GEF Coordination Team operates within the Environment Department.

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33 *Reforming Development Assistance*, Oct. 2005, Center for Global Development, Working Paper 70

34 *World Bank Staff: Where Do They Work?*, http://go.worldbank.org/GLJ5FZ2LQ0

# Appendix D: Implementing Agency Portfolio of GEF Projects

| GEF Project Portfolio | | | | | |
|---|---|---|---|---|---|
| Implementing Agency | | Full-Sized Projects | Medium-Sized Projects | Enabling Activities | IA Total |
| UNDP | **Grants ($ millions)** | **$2,126** | **$131** | **$195** | **$2,452** |
| | % of UNDP Total | 86.7% | 5.3% | 8.0% | 100.0% |
| | **# of projects** | **337** | **152** | **506** | **995** |
| | % of UNDP Total | 33.9% | 15.3% | 50.9% | 100.0% |
| | | | | | |
| UNEP | **Grants ($ millions)** | **$394** | **$67** | **$95** | **$556** |
| | % of UNEP Total | 70.9% | 12.1% | 17.0% | 100.0% |
| | **# of projects** | **68** | **89** | **199** | **356** |
| | % of UNEP Total | 19.1% | 25.0% | 55.9% | 100.0% |
| | | | | | |
| The World Bank | **Grants ($ millions)** | **$3,531** | **$90** | **$9** | **$3,630** |
| | % of The World Bank Total | 97.3% | 2.5% | 0.2% | 100.0% |
| | **# of projects** | **354** | **111** | **37** | **502** |
| | % of The World Bank Total | 70.5% | 22.1% | 7.4% | 100.0% |
| | | | | | |
| Portfolio Total Value and Percentage | **Grants ($ millions)** | **$6,051** | **$288** | **$299** | **$6,638** |
| | % of Total Portfolio | 91.2% | 4.3% | 4.5% | 100.0% |
| | **# of projects** | **759** | **352** | **742** | **1853** |
| | % of Total Portfolio | 41.0% | 19.0% | 40.0% | 100.0% |

**Figure E.1: IA Portfolio of GEF Projects**

# Appendix E: Glossary of Terms

**Activity-Based Costing:** A method of assigning the organization's resource costs through activities to the products and services provided.

**Administrative Expenses:** Costs associated with administering GEF business.

**Approval and Implementation:** Third phase of GEF's project cycle management process. This phase includes the preparation of legal documents for IA approval authority, establishing project management standards, and overseeing the project through its lifecycle. Supervision includes periodic review of budgets, and preparation of mid-term and annual reviews.

**Completion/Evaluation:** Final phase of GEF's project cycle management process. This phase includes the preparation/submission of the Terminal Evaluation reports, preparation of project closing documents, and preparation of financial closure of the project.

**Concept Development:** First phase of GEF's project cycle management process. This phase includes identification of a project and concept preparation for submission to the GEF Secretariat for consideration. During this phase, focal areas and eligibility requirements are identified. Subject matter experts are consulted and co-financiers/potential partners are identified.

**Corporate Management Activities**: Common activities that are performed to accomplish the overall operation of GEF. These activities include Policy and Program Development, Management and Finance, Monitoring and Evaluation, Institutional Relations, and Outreach and External Relations.

**Cost Accounting:** The process of collecting, reporting, and analyzing data associated with production costs. Management decisions are facilitated through the enhanced view of drivers, allocation methods, and trends.

**Enabling Activity:** GEF funded projects that provide financing for the preparation of a plan, strategy, or program to fulfill commitments under a global environmental convention. Funding can also involve a national communication or report to a relevant convention.

**Expenditure:** Actual cost of delivering services (in comparison to the requested budget amount).

**Full-Sized Projects:** GEF projects receiving more that one million dollars in GEF grants. FSPs must satisfy eligibility requirements under the Conventions, meet a strategic priority and fulfill either an operational program or a short term response measure.

**General Overhead:** Non-labor cost category that includes office equipment, office space, communications/internal computing, representation and hospitality, and publications/media/outreach.

**Institutional Relations**: Corporate Management activities relating to governance of GEF, such as preparation for and participation in GEF Council meetings, STAP meetings and workshops, and Conferences of the Parties to the conventions that GEF serves. Also includes IAs efforts towards promoting partnerships with the Executing Agencies.

**Labor Cost:** Cost of staff and consultants.

**Lending Phase:** First part of the World Bank's project cycle management process. This includes activities under the (1) Concept Development and (2) Preparation and Appraisal phases of GEF's project cycle management process. This phase absorbs about 45% of the World Bank's project cycle management resources.

**Management and Finance**: Corporate Management activities dealing with daily operations and finance issues such as the management/coordination of Work Program submissions and Pipeline entries; database management; preparation of GEF Annual Report and the GEF Corporate Budget; audits and the oversight of the fee system.

**Medium Sized Projects:** GEF projects that satisfy the GEF requirements of a Strategic Priority and Operational or Short-Term Response Measure. These projects are limited to a maximum of $1 million in GEF funds. Approval is delegated by the Council to the CEO, and is subject to Project Review Criteria similar to full-sized projects.

**Monitoring and Evaluation**: Corporate Management activities contributing towards the Project Implementation Review, GEF Lessons Notes, thematic review/development/revision of program-level indicators, and development/dissemination of lessons learned/best practices. Also includes IAS engagement in the Specially Managed Project Reviews, knowledge management, and development of program studies and special evaluations.

**Non-labor:** Cost not related to personnel, including travel, contractual services, institutional services, and facilities and equipment rental.

**Non-Travel:** Aggregate Non-labor expenditures, excluding those for travel.

**Other:** Activity identified by the World Bank for Corporate Management and Project Cycle Management. This service included expenditures for institutional services such as CEO Search Committee, corporate-level regional coordination, legal services and external audit services. This activity was instituted because the World Bank indicated that these expenditures were not easily allocated to the Corporate Management or Project Cycle Management activities.

**Outreach/Knowledge Management/External Relations**: Corporate Management activities concerning the coordination plan to cover media relations, partnerships with federations of environmental journalists, publications production and distribution, web site maintenance, and outreach support for participation in major environmental conferences and conventions (preparation of supplemental publications, exhibitions, and videos). Also includes support in informing the general public, key stakeholders, and other institutions about GEF's mandate and activities.

**Overhead Costs:** Costs that are not directly or indirectly attributed to running a project. These costs contribute to supporting the IAs so that they can perform direct and indirect duties on behalf of GEF projects.

**Policy and Program Development/Coordination**: Corporate Management activities related to GEF inter-agency task forces, composed of the GEF Secretariat and IAs, established to develop and review GEF operational policies and programs, focal area strategic priorities, the project cycle, standard portfolio and project performance reviews, and preparation of the GEF Business Plan.

**Preparation and Appraisal:** Second phase of GEF's project cycle management process. This phase includes preparation of a detailed project plan and development of TOR. During this phase, all resources needed for the project are identified and incremental costs are negotiated with stakeholders.

**Project Cycle Management (PCM)**: The collective management of all projects within a respective IA's portfolio. PCM is made up of four distinct phases: 1) Concept Development, 2) Preparation and Appraisal, 3) Implementation, and 4) Completion and Evaluation.

**Project Grant Management:** The management of the grant for one project.

**Project Sample:** Projects selected for analysis based on criteria set by the TOR.

**Requirements-Based Budgeting:** A technique of planning and decision-making which requires the budget request justified in complete detail. All functions are reviewed and all expenditures must be approved.

**Staff Year:** Represents the level of effort expended by one full time person for one year, regardless of the number of people actually involved.

**Supervision Phase:** Second part of the World Bank's project cycle management process. This includes 1) Implementation, and 2) Completion and Evaluation phases of GEF's project cycle management process. This phase absorbs about 55% of the World Bank's project cycle management resources.

## ANNEX B

## UNDP Comments on the Review of Administrative Expenses Allocated to GEF Implementing Agencies

1. UNDP welcomes any efforts that help to increase efficiency and transparency in the GEF system as a whole. The Grant Thornton study addresses a part of this question, going into some detail on how the Implementing Agencies use fees.

2. A key challenge experienced by the consultant was the difference in terminology used by both the different Implementing Agencies and the GEF. Similarly, while UNDP made available significant quantities of data and information from our own systems, it was challenging to reformat this into the various reporting categories and matrixes defined by the consultants.

3. UNDP welcomes the recommended decision to convene an Inter-Agency working group to clarify terminologies and reporting requirements. We would also suggest that its mandate be expanded to address another question from the Grant Thornton TOR which the study only touched on in a fairly narrow way, the question of "what are the cost-drivers in the institutional structure, business practices, and operational procedures of the GEF?"

4. Like other agencies, UNDP's financial systems are designed in accordance with our mandate and the associated requirements for financial management, control and reporting. UNDP manages a large number of different Trust Funds and to suggest that UNDP sets up different financial systems for each is not really practical. Requiring different financial systems just for the GEF Trust Fund would also tend to be counterproductive in terms of mainstreaming GEF assistance for the global environment into existing development assistance mechanisms.

5. Each agency already has its own terminologies, fiduciary standards, and reporting requirements to their own governing boards. In order to avoid the risk of both duplication and further raising administrative costs it will be important to identify the additional information required for GEF Council decision making and what are reasonable reporting burdens for the agencies. The administrative costs of the GEF Secretariat in processing this information should also be considered.

6. UNDP's own focus is on results and services, and ensuring efficiency in their delivery. In addition to tracking inputs and avoiding micromanagement, important performance indicators are impact, the quality and quantity of service we are able to provide, and our overall efficiency in converting inputs to results.

## ANNEX C

## UNEP Comments on the Review of Administrative Expenses Allocated to GEF Implementing Agencies

1. UNEP welcomes any initiative that helps to build greater cost efficiency, clarity and transparency in the system of the GEF. It is a core objective of the current reform process within UNEP and its newly approved Medium Term Strategy, with result based management as one of its central concepts.

2. UNEP welcomes the finding of the Report that "IAs are deeply committed to GEF and its mission." We had looked forward to the results of this Review expecting it to help clarify the agreed eligible costs under the three administrative expense categories, as that would have helped bring clarity and consistency in the GEF project approval process, and would have enabled all of us to better capture the actual costs of the IAs in performing Corporate and Project Cycle Management activities.

3. UNEP's overall assessment of the Review is that while it has helped to shed light on some issues related to the Corporate Budget and the Project Cycle Management fee, it has not been able to fully complete its mandate. Certain recommendations are sometimes at odds with the findings or do not take into account the special structure of the GEF. Furthermore, some of the proxy indicators used are not comparable across Agencies, given our different size and shape of portfolios (e.g. more normative, regional and global projects in UNEP).

4. UNEP agrees with the recommended decision to convene an Inter-Agency Group, and would suggest that it be mandated to arrive at common definitions, common understanding of cost categories, an improved system of calculating fees at all three levels (corporate, project cycle, and project management), and improved and transparent reporting to the Council on these fees.

5. UNEP agrees with the GEFSEC that the Report gives little factual evidence to conclude on efficiency and effectiveness of use of the fees. But to have done so would have brought the Review much closer to an Audit. The IAs are held accountable to the GEF and therefore have the responsibility to use project cycle management fees to provide that accountability. UNEP has met the reporting requirements and fiduciary standards not only set by the GEF, but also by its own governing body and regulations. The Review does not question the transparency or effectiveness of these standards, and yet recommends greater controls. UNEP believes that its standards provide the Council with sufficient indication of transparency, accountability and quality assurance.

6. The Review is correct in recognizing that the cancellation of the corporate budget in 2006, and increase in the fee by 1%, was not able to fully compensate UNEP for its corporate activities. This cancellation resulted in a net loss of over 70% to UNEP. Given UNEP's role and comparative advantage as a scientific and normative institution, we support the recommendation to reinstate the Corporate fee, but on a requirement/outcome basis. Such a move would not only help better differentiate services/activities in the two categories (corporate vs project cycle), but

would also move us from input-based budgeting to output based budgeting as required by result based management principles.

7. It would have been helpful if the Review had better addressed the crucial issue of what constitutes eligible project management costs. Providing definitions of admissible administrative costs financed through project budgets would have allowed for a more expedient project approval process within GEF, and better differentiation of Project (Portfolio) Cycle Management costs (covered through the IA fee) from actual project management and administration. It would have been very useful if the Review had recommended best practice for such cost standards, and how the executing agency overheads were to be factored in.

8. GEF is a networked institution, relying on the structures of its partner Agencies for operationalization of the Trust Fund. The Review assumes that the GEF Secretariat and the GEF Agencies have the same level of operational oversight. It would have been helpful if the Reviewers had taken into account, when comparing their findings with the benchmarks chosen, the distinction between the roles and responsibilities of the different entities within the GEF network.

9. One of the overarching goals of the GEF is the mainstreaming of global environmental concerns into participating agencies. Mainstreaming and integration has been the cornerstone of UNEP's recent reforms, and has been aided by our efforts to align existing GEF requirements with UNEP's own formats and procedures. We believe that many of the recommendations of the Review are contrary to this trend, and will likely increase our transaction costs, much more than the costs we incur for other trust funds and bilateral funds. It is UNEP's concern that the Review has missed many opportunities to recommend reduction of transaction costs. We welcome Council guidance as to what is the adequate level of information and reasonable reporting requirements needed. Such guidance would greatly assist the deliberations of the recommended Inter-Agency Group.

10. UNEP looks forward to advancing the effectiveness goals at all levels of GEF operations, and thanks the GEFSEC for the opportunity to provide these comments.

## ANNEX D

## World Bank Comments on the Review of Administrative Expenses Allocated to GEF Implementing Agencies

1. The World Bank agrees with Grant Thornton that the fundamental nature of the GEF has not changed; it continues to operate through the systems and processes of the GEF Agencies, who apply their fiduciary standards and practices to GEF funds administered by them. However, the GEF now has minimum fiduciary standards, with a view to ensuring that the Agencies' management of GEF funds is consistent with Council's expectations of accountability and transparency. We believe that the World Bank's fiduciary policies and procedures provide Council with sufficient comfort in managing, budgeting and accounting of GEF administrative resources. The Grant Thornton report did not identify weaknesses in the World Bank's systems that would suggest the need for changes proposed by the report. On the other hand, the report did not consider whether and how increased GEF-specific reporting and standardization would in fact lead to increased transaction costs of doing GEF business for the Agencies.

2. The World Bank agrees that there needs to be a common understanding across the GEF of the services provided by the Agencies for corporate activities and project cycle management related to the GEF, in order to ensure accountability, cost effectiveness and transparency in the GEF.

3. We agree with these recommendations, and welcome the establishment of an inter-agency committee to follow up, with the understanding that the objective is not to increase GEF-specific reporting requirements, introduce systems changes in the Agencies, and impose standardization of documentation across ten Agencies, but to establish a common understanding of terminology and minimum information standards, consistent with the Agencies' fiduciary policies and procedures.

4. The Grant Thornton report would have been more useful to Council if it had helped define what realistic and reasonable amount of information a Secretariat in a "network" organization could collect and analyze, and at what cost. The GEF is not a unitary institution. We are concerned that Grant Thornton assumed that the GEF Secretariat and the Agencies have the same level of operational oversight responsibilities, rather than making a distinction between their relative roles and responsibilities. It will be important for Council to consider the overall cost implications for Agencies and grant recipients in implementing the recommendations of the review.

5. Given the multiplicity of trust fund resources administered by the World Bank, we cannot change budgeting and costing approaches for individual co-financiers, such as the GEF. Furthermore, the Bank currently uses its institutional cost and performance reports for GEF operations, which enhances mainstreaming of the GEF program in the Bank. Setting up GEF-specific cost and performance reports could increase the transaction costs of GEF business and take GEF operations outside of mainstream Bank management systems. We also have significant concerns about yet another change in GEF cost-recovery policies, which would amount to the

third revision in two years. Such changes are not without costs and create a sense of lack of predictability among operational staff.

6. It would have been helpful for Council's deliberations if Grant Thornton had provided a more detailed accounting and analysis of the corporate management deliverables of the Agencies for the funds utilized. These were presented in the annual corporate budget reports prepared by the Agencies and submitted to the Secretariat. In the case of the World Bank, for example, corporate management activities included contributing to preparation of GEF Council papers; participating in GEF inter-agency focal area task forces, GEF M&E studies, and GEF-sponsored regional and national workshops; delivering an annual Project Implementation Review and developing a portfolio improvement plan; and, attending Council and STAP meetings.

7. The World Bank considers the ratio analysis presented in the report as an incomplete basis for comparing and contrasting. In particular, an analysis of "efficiency and productivity" should be accompanied by a review of the Agencies' operational policies and procedures (such as for appraisal, environmental and social safeguards, procurement, monitoring , evaluation, and risk management), an analysis of quality at entry, quality of supervision and quality of terminal evaluations, as well as overall portfolio performance indicators,

8. The World Bank considers the benchmarking analysis not comparable, because it does not take into account the fact that the GEF, unlike the other institutions, is a network organization. The GEF relies on the financial performance reporting, project performance tracking, monitoring and evaluation, and risk management systems of the GEF Agencies. Grant Thornton should have reviewed the fiduciary standards and practices matrices prepared by each agency for the Council.

9. For example, the World Bank has fiduciary policies and standards that cover each of the points mentioned in the Grant Thornton report, so it is not clear why the GEF would need to adopt additional procedures that would duplicate existing requirements in the Agencies:

10. The World Bank's disbursement guidelines ensure financial accountability of grant recipients, in the same manner as borrowers of IBRD/IDA loans/credits.

11. The World Bank's Implementation Completion Reports (which are submitted to the GEF Evaluation office) are required to have financial information on the use of the GEF grant and the Bank's costs related to the operation.

12. The World Bank already has institutional systems that track project performance, linked to financial information.

13. The World Bank has procedures in place to ensure management review of risks, systems for monitoring risk, and quality assurance systems for projects at-risk.

14. Finally, it is important to clarify some points with respect to the cover note prepared by the GEF Secretariat.

15. The inability of the Consultant to extract data on administrative expenses related to project management costs under individual project grants was due to the fact that the GEF does not have commonly agreed definition of such expenses. We would have expected the Consultant to develop such a standardized definition as part of the review, which would have been an important contribution to consistency and transparency in GEF operational practices.

16. Most of the apparent differences between Agencies regarding their distribution of labor and non-labor costs reflect the differences across Agencies in their fiduciary standards, as well as their operational policies and procedures for project cycle management.

17. Revisions to reporting requirements for project status and closure should be consistent with the GEF M&E policy, which emphasizes agreed minimum reporting requirements, while utilizing the Agencies' own standards and templates.