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October 07, 2011

GEF Council Meeting
November 8 – 10, 2011
Washington D.C.

Agenda Item 12

GEF Administrative Expenses – Fees and Project Management Costs

External Review

Recommended Council Decision

The Council, having considered document GEF/C.41/07, *GEF Administrative Expenses – Fees and Project Management Cost: External Review* takes note of the findings of the review undertaken by an external consultant.

The Council decides the following to be implemented beginning FY13: (i) a corporate budget of \$250,000 be provided to all 10 GEF Agencies to participate in corporate activities; the request for this budget should be part of the Business Plan and Budget presented to the Council at the June 2012 meeting; (ii) project cycle management fees be provided at 9% of the GEF grant for stand-alone projects and at 8% of the GEF grant for programs implemented through GEF Agencies where Boards approve projects; the fee should be provided at CEO endorsement; and (iii) the Secretariat continues to keep a close scrutiny of project management budgets.

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Introduction

1. During the 39th GEF Council Meeting (November 16-18, 2010), the Council, having reviewed GEF/C.39/9, *Rules and Guidelines for Agency Fees and Project Management Costs*, welcomed the clarifications provided in the paper regarding the use of these resources provided by the GEF to meet the administrative costs of both GEF Agencies and projects.
2. The Council requested the Secretariat, in consultation with the Agencies and the Council, to arrange for an external review to establish the current usage of Agency fees. The Council further requested the Secretariat, in collaboration with the Agencies, to present options and/or recommendations to rationalize Agency fees, as appropriate.
3. In January 2011, the Council and the Agencies provided feedback on a Term of Reference (TOR) that was finalized by the Secretariat for a Review of GEF Administrative Expenses (Fees and Project Management Costs).

Objectives of the Review

4. The overall objective of the TOR was to establish the current usage of fees and determine whether services expected from the use of those resources are being delivered. The review aimed to provide an assessment of whether GEF resources are being used effectively and efficiently, and recommendations, as appropriate, on ways to improve the management of administrative costs. The review considered the following questions and issues:
 - (a) Are the resources provided through fees and project management costs (in the projects sampled) in compliance with the GEF Secretariat's rules and guidelines? If not, identify the specific issues where the use of GEF administrative funds (fees and project management costs) are not properly used or applied.
 - (b) Are the ten GEF Agencies using GEF project cycle management costs to pay part of their own administrative expenses for non-GEF activities (in particular staff time)?
 - (c) What expenses are included in the project management costs, and which are integrated with other components of the project financing request?
 - (d) Are the ten Agencies delivering expected services for the level of resources they receive? For example: Some project level funds may be used by the Agency's GEF coordinating unit. By the time the funds are received by the task manager of the project, is the level of funds adequate to perform proper supervision?
 - (e) Is the 1% corporate fee levied on the overall project amount used for corporate activities only?
 - (f) Are there overlaps among the different resources provided by the GEF? Are there alternative ways to manage these resources?

- (g) Can there be a cost-neutral systematic tracking and reporting of usage of resources at a project level? Clarify why this may or may not be desirable, at what stage would it be most informative? Clarify how benefits compare to costs of introducing additional reporting and transaction costs of receiving a GEF grant.
- (h) How are other similar institutions tracking the proper use and management of administrative resources provided to implementing and executing entities?

5. The Secretariat contracted an external consultant, *Rideau Strategy Consultants Ltd*, through an open bidding process to undertake the review.

6. The consultant's report is attached in Annex A for your reference.

Secretariat's Views

7. The Secretariat is thankful to the consultant for undertaking this very important review, and also would like to place on record the good cooperation of the GEF Agencies with the consultant in undertaking this exercise.

8. We agree with the overall recommendation of the consultant that the resources for corporate activities be provided independently of project oversight (or project cycle management). We also agree with the recommendation of a threshold-based management for the review of project management costs in proposals.

9. We would like to emphasize that as the Council considers options to provide resources for GEF Agencies to engage with the GEF, it is important to aim for simplicity and transparency. With additional Project Agencies slated to join the network under the reform of broadening the GEF network, it is imperative that the network is not weighed down by the complexity of resource administration systems. With this context, we would like to make the following recommendations.

Corporate Activities

10. In this regard, we would like to propose (in line with the consultant's report) that \$250,000 be provided per annum per agency for their participation in GEF corporate activities, strictly defined as follows:

- (a) Scientific and Technical Advisory Panel meetings;
- (b) Focal Area Task Force meetings, GEFOP meetings;
- (c) GEF Network meetings, Working Group meetings;
- (d) Convention activities;
- (e) Review of selected Council documents;
- (f) Participation in Council meetings;
- (g) Engagement with the Evaluation Office;
- (h) Replenishment meetings and Assembly (once every four years);

- (i) Participation in Country Support Program activities; and
- (j) Knowledge management.

Project Oversight

11. We are in agreement with the consultant's major recommendation that the project cycle management fee be maintained at 9 percent with the understanding that in addition to covering individual project oversight (management and technical), it will also cover portfolio management costs, including engagement with the Results-based Management (RBM) processes of the GEF Secretariat.

12. Among the "other options" suggested by the consultant, we concur with the option on lower fee for program-based approaches. In fact, this has been approved by the Council and is already under implementation. Regarding the suggestion of lower fee for a project where a GEF Agency is undertaking both implementation and execution responsibilities, we await a discussion on the segregation and implementation functions at the November 2011 Council meeting. Other options suggested by the consultant for complementing the basic 9% fee for project oversight are bound to add complexity.

Project Management Costs

13. The Secretariat is already implementing the approach suggested by the consultant of employing a threshold for the project management budget – 10 % of the GEF grant for grants up to \$2 million, and 5% of the GEF grant for grants above \$2 million – if project proposals request above these thresholds, then additional details have to be provided regarding the project management budget for scrutiny by the Secretariat. This approach has been fully employed in the constitution of the current work program and the results speak for themselves.

Annex A: Consultant's Report

GEF Administrative Expenses – Fees and Project Management Costs

External Review

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Ms Joan Barclay

October 2011

Rideau Strategy Consultants Ltd.
Ottawa, Canada

Le 7 octobre, 2011

Mme. M. Barbut
Présidente-directrice Générale et Présidente du Conseil d'Administration
Fonds pour l'environnement mondial

Chère Mme Barbut,

J'ai l'honneur de vous transmettre le rapport final de la vérification des coûts administratifs du Fonds pour l'environnement mondial.

Je vous remercie pour l'opportunité de travailler sur un projet aussi intéressant et important. J'aimerais remercier également votre équipe pour son appui, notamment à chaque étape de cette étude.

Avec mes salutations les plus distinguées



Kenneth Watson,
Managing Partner
Rideau Strategy Consultants Ltd.

Disclaimer

This report states the views, conclusions and recommendations of the consulting Review Team. It does not represent the views of the GEF Council or Secretariat, or the GEF Agencies, or any of the other organizations that gave generously of their time to provide information. Where such views are expressed they are explicitly referenced in the report.

Acknowledgements

A large number of people in the GEFSEC and the GEF Agencies gave their time to assist the Review. In many instances the amounts of time were substantial. Their inputs were very useful to the Review and essential to minimizing the errors and omissions by the Review Team. A partial list of participants is noted in Annex 2. They have our thanks.

The consulting review Team was led by Dr. Kenneth Watson. Financial analysis and interpretation was led by Ms Joan Barclay. Mr. Allan Barry researched and wrote the history of GEF fees (Annex 4). Mr. Ramesh Ramankutty was the principal liaison between GEFSEC and the external Review Team. Ms Lilly Hale provided information on policy. Ms Quynh Phan provided financial data and supporting information. Madame Monique Barbut, GEF CEO and Chairperson, made her time generously available to the Review Team. Of course only the Review Team is responsible for this report and for errors that may remain in regard to the complex issues addressed.

GLOSSARY

CIF	Climate Investment Fund
FSP	Full Size Project
MSP	Medium Size Project
GEF	Global Environment Facility
GEFSEC	GEF Secretariat
PCMC	Project Cycle Management Costs
PMC	Project Management Costs

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Executive Summary

The Global Environment Facility (GEF) pays fees to its Agencies, based on a percentage of grants, to cover their costs of project cycle management and corporate support to the GEF. GEF also provides resources as part of its grants to cover the project management costs of executing agencies. For a sample of 472 projects financed by GEF-4 from FY07 to FY10 the GEF paid approximately \$132 million in fees. (Main Report, Table 2.2-2) Between FY08 and FY10 the annual total grants, and, consequently, the fees paid by the GEF, more than doubled.

The objective of this External Review is to examine and make recommendations about the payments by the GEF to cover the corporate costs and project cycle management costs of implementing agencies (GEF Agencies) and the project management costs of executing agencies.

The methodology of the Review included consultations with the GEF Secretariat (GEFSEC), the Trustee, the GEF Evaluation Office and GEF Agencies. The Review Team visited some Agencies and convened a two day meeting of Agencies hosted by IFAD in Rome. In addition the GEF Agencies each completed three questionnaires, one on corporate activities and costs, one on project cycle management activities and costs, and one on project management activities and costs. The Review Team reviewed documents, analyzed data provided by GEFSEC and by Agencies, and reviewed the practices of two other funds (the Adaptation Fund and the Climate Investment Fund). The Agencies were asked to substantiate data where appropriate, and there was some cross-checking of data and plausibility review, but Agency data was not audited.

Issues

The key issues noted in the Terms of Reference for this Review of Administrative Expenses are:

- Are the administrative costs covered by fees paid by the GEF to its Agencies reasonable?
- Are there overlaps in the cost categories covered by GEF fees?
- What alternatives does the GEF have in regard to fees?

Criteria and Premises

The Review applied the following criteria to assessing options:

1. Is the option reasonable (are resources adequate to cover tasks required by the GEF)?
2. Is it functional? Is there appropriate control and accountability for costs?
3. Does the option provide incentives to be cost-efficient?
4. Does the option have low transaction costs?
5. Can it be scaled up? Can the option be easily extended to new GEF agencies if necessary?

The Review assumed that the GEF has an obligation to cover the costs of tasks that it requires of its implementing agencies. However we also take the position that some things are policy matters not empirical questions. In particular GEF needs to make a policy decision in regard to its contribution towards covering Agencies' costs to undertake valuable programming tasks in

GEF Focal Areas that are important to building capability, and which underpin the building of a GEF portfolio, but are not specific to individual GEF-financed projects.

GEF Secretariat communicated to the Review Team a strong desire to find economies in regard to its payments to cover Agency corporate activities that in the past have, in our opinion, included both ‘GEF required’ activities and ‘valuable but discretionary’ programming activities. GEFSEC has put forward the proposition that a 9% PCMC fee includes a sufficient contribution to Agency (corporate) environmental programming costs in addition to the costs of technical and managerial oversight of the project in question; and that corporate activities specifically required by the GEF of its Agencies would be adequately covered by a standard annual payment of approximately \$250,000 per annum per Agency, which we think is a conservative estimate. (See Section 3 for more detail.)

Summary of Observations and Conclusions on the Issues

Issue 1: Are the administrative costs covered by fees paid by the GEF to its Agencies reasonable?

The Review found that it was not possible to track actual expenses against the GEF fee for individual projects for two reasons. First fees are pooled, starting at the level of the Trustee, and, broadly speaking, most Agencies pool the funds received as well and allocate those funds to various parts of their organization. The systems do not track actual expenses for each GEF-financed project for purposes of reimbursing them from the specific fee received for that project. Second, most GEF Agencies do not have a reporting system for professional time of the staff so even in the absence of pooling of funds only estimates could be made of the PCMCs of individual projects.

We found that there were severe limitations in what could be done to compare individual project fees with their specific project PCMCs. Therefore we looked for broader measures of economy. There have been three benchmarking studies that are relevant, one by Grant Thornton LLP commissioned by the GEFSEC in 2008,¹ one undertaken by the World Bank² (benchmarking GEF with the CIF) and one by commissioned the GEF Evaluation Office³ (benchmarking the GEF against five other major funds). All found that the level and use of GEF administrative resources are reasonable.

Issue 2: Are there overlaps in the cost categories covered by GEF fees?

The Review found significant overlaps in the cost categories covered by GEF fees. One cause of overlaps is the division of costs into only two general categories - “corporate costs” and “project cycle management costs” (PCMCs). In our opinion this obscures the importance of “programming costs”. These are the costs of general programming in GEF Focal Areas. These activities provide an important part of the platform on which GEF-funded projects are later founded, but they are not GEF-project-specific, on the one hand, and not “corporate” in the sense

¹ GEF/C.33/8, 2008, Review of Administrative Expenses Allocated to GEF Implementing Agencies.

² World Bank, CTF-SCF/TFC.4/Inf.2 “Benchmarking CIF’s Administrative Costs”, March 13, 2010.

³ Watson, K. (August 2009) *Some Cost Comparisons Among Five Funds and Facilities*. GEF Evaluation Office.

of involving direct engagement between the Agency and the GEF administrative and policy apparatus. We believe that a three-part categorization of “administrative” costs would capture these distinctions more clearly and perhaps be a better framework for thinking about the use of resources.

1. Corporate costs of direct engagement with the GEF administrative and policy apparatus
2. Programming costs (substantive programming activities in GEF Focal Areas prior to and not specific to an individual GEF-funded project), and
3. Project oversight costs (management and technical oversight by the IA of an individual project – in the terminology of some Agencies, “lending” and “supervision” costs)

We would define these categories roughly as follows:

GEF Agency Responsibility 1: Corporate Support to the GEF Administration and Policy Process
(activities required of a GEF Agency)

- a) Policy support to the GEF. Includes participation in the meetings of the GEF Governing bodies. It also includes participation, on occasion, in the development, revision and operationalization of GEF policies, strategies, business plans and guidelines.
- b) Support to the GEF Evaluation Office that includes providing information and other support to evaluations, reviews and studies initiated by the GEF Evaluation Office.
- c) Outreach and knowledge sharing in cooperation with the GEF. This includes participation in GEF sub-regional consultations and STAP (technical) meetings.
- d) Portfolio-level Reporting, Management for Results and Financial Management. This includes data management and preparation of the *Annual Monitoring Report* (AMR) to the GEF and the *Annual Portfolio Review* for the GEF Evaluation Office (APR). It includes participation in financial consultations organized by the Trustee.

GEF Agency Responsibility 2: Programming in GEF Focal Areas (Substantive work that is not specifically required for corporate engagement with the GEF and is not specific to a particular GEF-funded project, but is important to building Agency capability in environmental matters, to mainstreaming attention to the environment, and to building a platform of expertise and analysis on which GEF-financed projects can later be identified and designed.)

- a) Strategic planning for the Agency’s activities in each of GEF’s Focal Areas
- b) Global, regional and country research and monitoring by the Agency of trends in each GEF Focal Area
- c) Thematic evaluations by the Agency in GEF Focal Areas
- d) Country consultations, needs analysis and opportunity identification (early pipeline development prior to the identification of specific projects) in each of the GEF Focal Areas, including some joint planning/identifications missions and country dialogues. Writing of general concept notes before the development of project PIFs.

GEF Agency Responsibility 3: Individual project preparation and supervision. The GEF Agency’s technical and managerial oversight of the executing agency’s management of a GEF-funded project.

- a) Preparation of a specific project culminating in the PIF.
- b) Further project design, appraisal and preparation after the PIF (with oversight of the GEF *Project Preparation Grant* where applicable)
- c) Preparation of detailed project documents for GEF Council approval or GEF CEO endorsement
- d) Oversight of project approval and start-up.

- e) Supervision of the Executing agency’s implementation of the project.
- f) Monitoring, evaluation and reporting of the results of the project at mid-term and/or at completion.

Issue 3: What Agencies’ Corporate Activities should be covered by GEF payments and how?

“Corporate activities” are covered at present by a notional one tenth of the fee paid by GEF to its Agencies.⁴ The Review found that ‘corporate’ activities as defined by Agencies were broader than those envisaged by the GEFSEC. In particular Agencies included what we categorize as “programming costs” as part of their corporate costs. Some Agencies stated to the Review Team (Questionnaire 1) that the main components of their corporate activities were approximately as follows:

- “portfolio management” (in part, programming activities), which they report accounts for about 40% of their GEF-related expenses,
- “policy support” which accounts for about one third (33%-35%) of expenses, and
- “outreach and knowledge sharing” which accounts for approximately 15% of expenditures.

We conclude that a substantial part of what some Agencies think of as “corporate costs” is not included in GEFSEC’s thinking about the same category. Some of the difference appears to relate to differences of opinion in regard to the portion of general programming costs that should be covered by the Agency itself and what by the GEF; but some relates to other matters as well, such as time spend by GEF Agencies with country partners on GEF-relevant matters.

GEFSEC provided to the Review a statement of the narrowly-defined corporate tasks that it expects every GEF Agency to undertake in direct support of the GEF. GEFSEC has estimated the costs of these activities that would be covered by a base budget of about 46 person weeks of staff time (the same for every Agency) and a variable travel cost. Taking these costs together,

⁴ Over the twelve years from FY00 to FY11, inclusive, total GEF disbursements to cover the corporate expenses of its Agencies amounted to about \$86.5 million. In response to our survey Agencies reported spending more money on corporate activities in support of the GEF than they receive at present from the notional one tenth of fees. In FY10, for example, GEF payments to Agencies to cover all or part of their corporate expenses totaled approximately \$4.87 million and Agencies report corporate costs of \$12.37 million in that year. However these figures need to be qualified. First, some Agencies include most of their programming costs in this figure (others include those costs under “project cycle management costs”). The classification system creates some confusion on this point. Second, the figure for “corporate expenses” is based on unverified estimates because most Agencies do not have a staff time reporting system and therefore accurate figures are not available. In practice, the GEF fee is typically pooled and the pool is allocated throughout the GEF Agency (IA) on general principles and general experience, not paid out specifically to reimburse expenses of individual projects. This is economical but it limits accountability at the level of the individual projects. GEF payments to cover Agencies’ corporate expenses fell by 43% in FY07. This was a transition year in which, for the first time, Agencies other than the original three received a payment to cover corporate expenses. From the beginning of FY08 GEF no longer paid any Agency an annual lump sum for corporate expenses – all received the 10% fee on grants, including a notional allocation of 1% for corporate expenses. How much this affected Agencies varied. There are large differences in the amount of money that Agencies report spending on corporate activities in support of the GEF. Amounts vary by a factor of more than 12, approximately, from about \$311,000 (IDB) to about \$3.9 million (UNDP). Agencies, in general, they take a broad view of what corporate expenses should be recoverable from the GEF and the GEFSEC takes a narrower view.

GEFSEC estimates that expenses for corporate activities that it believes to be necessary (over and above the management of projects which is separately compensated, but not including programming costs) would be about \$242,000 per annum for the three largest Agencies and about \$211,000 per annum for other Agencies.

In summary, the GEFSEC estimates that expenses related to corporate activities that it believes should be covered by GEF monies would amount to about \$2.2 million per year in total, compared with current expenditures (based on the notional one tenth of fees) of \$5.475 million in FY11 and compared with the recent low of \$3.124 million in FY09 (Main Report Table 3.3-1). The basis of this substantial decrease would be a GEF policy decision to limit payment for corporate activities to those strictly required of each GEF Agency and thereby to limit the GEF contribution to programming costs to whatever part of the 9% PCMC fee Agencies see fit to use for that purpose (rather than for project oversight).

There are several alternatives for covering Agency costs for substantive programming in GEF Focal Areas. The costs could be covered (a) by the Agency alone without GEF assistance; (b) by part of the percentage fee on top of project budgets; or (c) as a separate category of expenses with its own fee (complementing a lower PCMC fee). There is also the question whether corporate costs (programming expenses), if covered in whole or part by the GEF, would best be covered by a flat percentage fee or by customized subventions in response to Agency proposals. The first has the virtue of simplicity but the second has the advantage of requiring each Agency and the GEF to agree on what programming activities the Agency will undertake in the coming year, rather than remain at the level of generalities.

In summary we conclude that GEFSEC's preliminary estimate of the likely costs of narrowly defined corporate support required from each GEF Agency is probably at the lower end of the range of possible costs, depending on Agency circumstances. Taking another view of the likely time requirements for various tasks, the average cost across Agencies may be greater than this and variations across Agencies may be significant. (See Section 3.4)

We also think that it is worth noting again that a standard payment to cover the costs of core corporate activities common to all Agencies, as sensible as it is in many ways, faces the challenge that the involvement of the GEF Agencies is in fact not equal, with close to 90% of the total GEF-financed projects under implementation by three Agencies and most of that by two. Also, the character of the GEF-financed portfolio, its focus and types of projects, varies from one Agency to another. This variety does not negate the proposition that there is a core of 'corporate' activities common to all Agencies; but it does mean that some Agencies presently undertake in other activities, or engage in similarly categorized activities in greater depth, that they consider as part of their 'corporate costs'.

Issue 4: What Project Cycle Management Costs should GEF cover?

“Project cycle management costs” (PCMCs) is a term used by GEF to describe the costs of managerial and technical oversight provided by the implementing agencies throughout two major phases of the project, (1) project preparation and approval and (2) project supervision, monitoring, and evaluation. Currently, GEF pays implementing Agencies a fee of 10% of the grant amount, which includes a notional 1% for corporate expenses and 9% for project cycle management expenses. Total PCMCs for FY10 reported by the Agencies to the Review was \$65

million. Two Agencies accounted for 76% of the total. The reported split between preparation and supervisory costs was about 50/50 on average. However practices vary across Agencies and the general practice of pooling the GEF fees and allocating them by formula obscures the degree to which “preparation” costs are “programming costs” as distinct from project-specific costs.

In general Agencies reported that the 9% fee covered their PCMCs for full-size grants over \$5 million, but was less than reported costs for grants under \$5 million. However it is worth reiterating two things: first, this generally reflects an allocation system not a reimbursement of actual costs within the Agency⁵; and second, there is no clear consensus among Agencies as to what ‘corporate (programming) costs’ should be counted among the PCMCs. Agreement on the categories sometimes obscures quite different activities by different agencies within a category. Partly as a consequence there were major differences reported in ‘PCMCs as a percentage of project budgets’, both across projects and across Agencies. Average PCMCs reported by Agencies ranged from 5.7% to 19.1%.

In the present situation Agencies are receiving a single fee (10% of the project budget) to cover both corporate costs and project-cycle management costs. If the notional one tenth of this fee were discontinued in favor of a lower fixed annual payment to each GEF Agency then coverage of programming costs would be substantially less for some Agencies. GEFSECs position is that it is a natural evolution of the GEF-Agency relationship that the Agencies should take more responsibility for their general programming costs as distinct from costs that are specific to GEF projects or specific to strictly defined required interactions with the GEF.

Issue 5: Should programmatic approaches receive a lower fee?

Five grants in our sample were part of a ‘programmatic approach’. However they do not provide a sufficient basis for deciding whether a lower 8% fee for PCMCs in projects within a programmatic approach is appropriate. Some Agencies reported to the Review, in responding to a questionnaire on PCMCs, that there is no difference between PCMCs for “program approach” projects and for other projects.⁶ However all this indicates is that the fee allocations made by the Agencies were the same for programmatic and non-programmatic grants. That is, all fees, programmatic or not, generally go into a single pool and are allocated to various parts of the Agency by a single formula. This tells us nothing about whether the underlying actual costs of the two modes (programmatic and non-programmatic) are the same or not.

⁵ It is important to understand that the fees received by GEF are managed by the Agencies on a portfolio basis and through an allocation system not a ‘fee for service’ reimbursement system. Each Agency has a specific allocation methodology. The allocation formula is generally based on historical experience with administrative costs in different parts of the Agency. For Agencies that have time and labor systems, more tracking of labor or other types of major expense categories is possible; but, by and large the system is still best understood as an allocation system, not a system that reimburses actual costs after the fact. As an example, of the 9% fee, one agency allocates 2% (from a central ‘pot’) to Central Services such as budgeting, planning, and legal, 3% to Country Offices, 3% to Regional Teams, and 1% to Headquarters staff. The percentages allocated to different offices vary by Agency and details were not provided to us by all Agencies. Once departments receive their allocated share of the fee, they use it as they wish.

⁶ In fact, some Agencies reported that the additional paperwork and approvals needed ‘upfront’ for programmatic approaches have not resulted in time or cost savings for individual project approvals that fall under the pre-approved program.

Issue 6: Do Project Preparation Grants affect the appropriate fee?

Roughly two-thirds of the projects in our sample received Project Preparation Grants (PPGs), which on average were equivalent to 8.2% of the main grant. Without a detailed audit that is beyond the scope of this Review it is impossible to say whether the PPGs were used to pay, in part, for some activities that otherwise would have later drawn upon resources allocated for “project preparation and approval” under the PCMC fee. Nevertheless it seems reasonable to suppose that PPGs, by enabling more thorough project preparation, do take some pressure off the PCMC fee.

Issue 7: Is there Cross-Subsidization?

Information from GEF Agencies indicates that the fees on full-size projects subsidize smaller projects to some extent and are used by some Agencies in part to cover some general programming expenses in GEF Focal Areas. However there are two reasons why we do not recommend varying the GEF fee by project size – first, the fee is typically managed/allocated on a (pooled) portfolio basis not a single project basis; and, second, economies of scale appear to be variable and, overall, modest. GEF Agencies tell us that there is no cross-subsidization among donors and co-financiers. Proportionate allocation of administrative expenses (PCMCs) is the rule. We found no evidence that this was not the case.

Issue 8: How should Project Management Costs be controlled?

Project Management Costs (PMCs) are incurred by an executing agency in managing projects. They are part of the operating budget covered by the grant. They may include any legitimate cost necessary to manage the project. Proposed PMC budgets are included in project documents and are subject to more intensive review by the GEF if they are greater than 5% (previously 10%) of the total grant. Another guideline indicates that the PMCs funded by GEF are expected to be proportionate to GEF’s share of the total project cost, including co-financing.

The PMC rates reported to us by Agencies varied. The projects overseen by the World Bank had PMCs that were on average 5.1% of the project budget. The other Agencies’ PMC rate averaged 9.4%; and the combined average was 7.9%. Variance around these averages was high. There were nine grants in the data base of 41 where the reported PMCs (actual to-date and projected for the whole life of the project) exceeded 10%. Five of the nine grants were budgeted and approved at a rate higher than 10% and four were ‘over-runs’.

A 5% PMC threshold that triggers higher scrutiny by GEFSEC signals how seriously the Secretariat takes this issue. We observe that the choice of threshold is largely a matter of the resources that GEFSEC can devote to reviewing PMCs in budget proposals. These need to be balanced with likely effectiveness. We are not optimistic that a lower threshold, in itself, will be a significant constraint on total project costs including PMCs because many PMCs are fungible to a considerable extent with other categories of costs within the total budget of the project. Therefore the primary fiduciary responsibility for review and control must be exercised by the

GEF Agency.⁷ Only oversight by the IA that is in frequent touch with the work and expenditures of the EA can ensure effective and economical practices. We conclude that while a threshold percentage for PMCs that triggers higher scrutiny is a good idea GEFSEC should limit its intensive review to the proposals that have a high risk of excessive PMCs and that having PMCs greater than 5% is not the only indicator of risk. GEFSEC should further develop its tools for identifying high risk proposals.

Issue 9: What fees are appropriate when the Implementing Agency is also the Executing Agency?

FAO, IFAD, UNIDO, and UNEP had a combined total of 11 self-executed projects in our PMC sample of 41. In certain cases, the GEF Agency was not the sole EA. The PMC costs for this subgroup of 11 grants was 9.7%, slightly but not significantly higher than the 9.4% overall average of our whole sample of grants for these Agencies. In principle there should be some administrative savings if the same organization is both IA and EA. The savings are expected in the area of ‘management and technical oversight’. However the savings would probably be small because good practice indicates that independent oversight should be provided even if by another part of the same Agency.

Issue 10: What can be learned from Other Funds?

This Review included comparisons between the GEF and the *Adaptation Fund* (AF) and the *Climate Investment Fund* (CIF). It found certain similarities between the GEF and these Funds but major differences as well.⁸ Despite those differences, we believe that some useful lessons may be learned from comparisons. For example CIF disaggregates costs more than GEF. In particular it is clearer about “programming costs”. It also makes the GEF Agency (IA) an accountable supplier of oversight services to the country, which is how it should be, with the country paying (albeit a small part of) the bill for services. Both country ownership and the incentives for IA efficiency are, therefore, enhanced. Finally the MDBs that deliver the CIF have agreed to charge only the marginal cost of lending and supervision that result from the

⁷ It is difficult to separate PMCs from other project costs. Some activities are planned and budgeted under both “outcomes” of the project and under project management. Allocating labor and travel costs, for instance, is inherently subject to discretion when the same staff are responsible for substantive and management functions. GEF can have guidelines for the percentage of PMCs that it thinks reasonable, but oversight has to be conducted as close as possible to the Executing Agency to be effective, which means that the IAs must have the primary responsibility for controlling PMCs; and GEF should, ideally, focus on obtaining assurance from the GEF Agencies (IAs) that GEF can rely on them to control PMCs through their oversight (supervision) systems. A ‘percentage of budget’ PMC threshold for higher scrutiny by GEFSEC at the proposal stage is a useful device but we are not optimistic that it can be the main controlling device – there are too many opportunities for EA’s discretionary allocation of expenses to various part of the project budget. Only detailed on-going oversight by the GEF Agency (IA) is likely to be an effective control of the executing agency’s PMCs.

⁸ For example both GEF and CIF both provide concessionary financing for environmental interventions. Over the expected life of the CIF the two funds will disburse large amounts of funds at a roughly similar scale. Both work through intermediary organizations to deliver the projects that they finance. However there are major differences between them as well. The CIF pattern of a quick growth of project funding over a short period, with a relatively small number of large funding decisions, followed by an equally quick scaling down over a short time period. This CIF pattern is completely different from a long-term and mature Fund such as the GEF. The administrative tasks to operate such Funds are significantly different, and the CIF has been organized along different lines and is much more closely integrated with its implementing organizations.

addition of CIF funds to the established base of the loan project. It seems that MDBs decided that they can do this on a short-term basis in regard to the small number of large CIF projects. Of course if all donors paid only the marginal administrative costs of their inputs to a project then a lot of costs would not be covered. Therefore marginal cost pricing of administrative activities is not a viable model for a long-term mature program with a lot of stand-alone grants like the GEF. It might be a model for some of GEF’s full-size grants that are fully blended with a (larger) loan by a GEF Agency. However we think that this has to be negotiated on a case-by-case basis as an exception to the normal fee.

The second case considered was the *Adaptation Fund* to help developing country that are parties to the Kyoto Protocol to reduce their vulnerability to the adverse effects of climate change. It provides direct access to funds by developing countries through National Implementing Entities, as well as through Multilateral Implementing Entities. It operates at a relatively small scale. At the end of July 2010, the Fund had around \$160 million available to support adaptation. There is no compensation for corporate support of the Adaptation Fund by the Implementing Entities because none is required. We note that the Adaptation Fund projects approved so far have relatively high project management costs and a fee to cover PCMCs that is capped at 8.5%.

In summary the recommendations of the Review are:

Table 1: Summary of Recommendations and Other Options

Cost Area	Recommendation	Other Options
(1) Corporate costs	On the assumption the GEF wishes to pay only those “corporate costs” strictly required of each GEF Agency in regard to its direct engagement with the GEF on administrative and policy matters, and the assumption that these core corporate tasks and their costs are very similar across Agencies, a standard annual payment per Agency is an appropriate instrument. GEFSEC has made an estimate of average corporate costs under these assumptions. However the complexities and uncertainties are sufficient in our opinion to justify further study and discussion of the approach and the amount of the subvention.	<ul style="list-style-type: none"> • The status quo of a notional one tenth of the fee allocated to corporate cost or some variant of that approach such as a higher or lower notional percentage within a 10% fee or a 9% fee. • Customized subventions that have been tried before and found less satisfactory than a fixed fee approach. • An additional supplement provided to GEF Agencies in a replenishment year, either a standard amount for all Agencies or a variable amount linked to their individual plans to participate.
(2) Project oversight (management and technical oversight of the EA by the IA)	Fee of 9% on top of each project budget available to the GEF Agency upon project endorsement by the GEF CEO.	<ul style="list-style-type: none"> • Supplementary “Development Grants” to Agencies that propose to upgrade their portfolio in a particular GEF Focal Area, and propose a detailed work plan to do so in the coming year. Activities and outputs could include thematic evaluations or reviews, producing strategy documents, general programming plans, or “Country Investment Plans” in a GEF Focal Area. • Lower fee for program-based approaches involving a series or cluster of projects.

		<ul style="list-style-type: none"> • Lower fee for a project where the IA is also the executing agency. • Lower fee when the GEF grant is fully blended with a larger loan. (not as a strict rule but open to GEFSEC or Agencies to negotiate on a case-by-case basis). • An additional fee, similar to the CIF fee of 0.25% of the project budget paid to the IA by the recipient country out of its own resources.
<p>(3) Project management by the executing agency.</p>	<p>A ceiling of 5% of the project budget above which the financial proposal to the GEF would be subject to additional scrutiny.</p>	<ul style="list-style-type: none"> • A somewhat higher ceiling, in the range of 5% to 10%, not to signal that a higher PMC can be routinely applied but to limit the demand on GEFSEC resources for review time. • Over time, the development by GEFSEC of a risk-based approach to identifying grant proposals that require higher levels of budget scrutiny prior to approval, including but not limited to scrutiny of PMCs.

1.0 INTRODUCTION

1.1 Introduction

In 2008, the Instrument for the Establishment of the Restructured Global Environment Facility described the Global Environment Facility (GEF) as follows: “The GEF shall operate, on the basis of collaboration and partnership among the GEF Agencies, as a mechanism for international cooperation for the purpose of providing new and additional grant and concessional funding to meet the agreed incremental costs of measures to achieve agreed global environmental benefits...” The GEF makes grants⁹ in six focal areas.¹⁰ It is the financial mechanism for four international environmental conventions.¹¹ An Assembly of representatives from 177 member countries meets every three to four years to review GEF’s policies and operations. Between meetings of the Assembly the GEF is governed by a Council.¹² The GEF has a performance-based resource allocation system that allocates funds in each replenishment period to eligible countries and focal areas.¹³ The GEF also has fiduciary standards for its GEF Agencies, and expects them to manage cost-effectively for results.¹⁴

The World Bank (IBRD) serves as GEF Trustee, hosts the Secretariat (GEFSEC) and provides administrative services. An Evaluation Office also hosted by the World Bank reviews the GEF’s work. The United Nations Environment Program (UNEP) hosts the secretariat for the GEF Scientific and Technical Advisory Panel (STAP) that provides scientific and technical advice to the GEF. There are ten GEF Agencies. These agencies handle all grants from the GEF Fund. However the opportunities for direct access to GEF grants are expanding and the number of organizations that are able to access GEF is expanding. In November 2010, the GEF Council agreed to a pilot accreditation of “GEF Project Agencies” that will work with the GEF Secretariat and Trustee to help countries prepare and execute GEF projects.¹⁵ The GEF Project Agencies will receive fees to cover *project cycle management costs* but they will not be compensated additionally for corporate activities.

⁹ From its inception the GEF has provided more than \$9.6 billion in grants and leveraged more than \$42 billion in co-financing for more than 2,750 projects in about 165 countries. There are approximately 650-700 projects under supervision each year. The most recent replenishment negotiations concluded in May 2010 when 34 countries pledged \$4.34 billion to support programming for GEF-5 (1 July 2010 to 30 June 2014). The ratio of the GEF’s administrative expenditures (internal costs plus fees to GEF Agencies) to total expenditures was estimated to be 12.3% in fiscal 2008.⁹ Watson, K. (August 2009) *Some Cost Comparisons Among Five Funds and Facilities*. GEF Evaluation Office.

¹⁰ These are (a) Biodiversity, (b) Climate Change, (c) International Waters, (d) Land Degradation, (e) Ozone Depleting Substances and (f). Persistent Organic Pollutants.

¹¹ These Conventions are the Convention on Biological Diversity (CBD), United Nations Framework Convention on Climate Change (UNFCCC), Stockholm Convention on Persistent Organic Pollutants (POPs), and the UN Convention to Combat Desertification (UNCCD).

¹² The 32 constituencies are comprised of 16 from developing countries, 14 from developed countries, and 2 from countries with transitional economies.

¹³ “*GEF-5 Operational Procedures for the System for a Transparent Allocation of Resources (STAR)*” (GEF/C.38/9).

¹⁴ “The GEF Agencies shall be accountable to the Council for their GEF-financed activities, including the preparation and cost-effectiveness of GEF projects.” *Instrument for the Establishment of the Restructured Global Environment Facility*. March 2008.

¹⁵ Under the provisions of paragraph 28 of the GEF Instrument.

1.2 Objectives of this Review

The Terms of Reference for this External Review states that its objective is to examine the current level of fees paid by the GEF to Agencies to cover project cycle management costs and corporate costs. As well the Terms of Reference require an examination of “project management costs” of executing agencies. The objective is to determine whether administrative costs are reasonable relative to the services provided. As far as possible within its constraints the External Review was to provide an assessment of whether GEF resources are being used effectively and efficiently, and to make recommendations, as appropriate, on ways to improve the management of administrative costs. (See Annex 1 of this Report for the Terms of Reference)

1.3 Methodology and Constraints

The methodology of this Review included the following:

- Review the pertinent literature, including past GEF studies; and consult with stakeholders, including the GEF Secretariat, the GEF Evaluation Office, the GEF Trustee, and Agencies. This was done through individual interviews and a general meeting of Agencies hosted by IFAD in Rome.
- Review GEFSEC data on grants and fees.
- Circulate three questionnaires (See Annex 3) to GEF Agencies, one each on corporate costs, project cycle management costs (PCMCs) and project management costs (PMCs).

The Review was divided into three phases: Phase 1: Initial Study Phase.¹⁶ Phase 2: Field Work Phase.¹⁷ Phase 3: Analysis and Reporting.¹⁸ It began in July 2011 and its final report was submitted in October 2011. Visits to Agencies and the general meeting of Agencies hosted by IFAD in Rome were held in August 2011. Agencies were asked for substantiation of data where appropriate, and there was some cross-checking of data and plausibility review, but Agency responses were not audited. The Review included case studies of two other Funds. GEFSEC asked the review team to examine the *Adaptation Fund* and the *Climate Investment Fund*. This Review included two kinds of data analysis: (1) tabulations from the data for all GEF-4 grants

¹⁶ Kick-off Meetings with GEF (Secretariat, Evaluation Office) and Trustee; Review previous GEF studies and other pertinent literature (including MF Montreal Protocol); Develop methodology, including interview instruments, sampling plan and comparisons plan; Research and write description of current fees and usage of fees; Draw a sample of GEF 4 Projects (approved FY 2008-FY 2010); Design two case studies of organizations that use implementing and executing agencies; Develop data collection instruments (project data, interview protocols, database design); Write Inception Report (including methodology)

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approved or endorsed during four years, FY07 to FY10, as provided to the Review team by GEFSEC;¹⁹ and (2) tabulations from data collected from by the Review Team from GEF Agencies, using questionnaires, for a sample of projects.

1.4 Sample of Projects

The Review team selected a sample of 51 grants that were funded by GEF-4 during FY07-FY10 for detailed review. Data was collected using three questionnaires, one on corporate activities and costs, one on project cycle management costs and another on project management costs. The sampling frame from which projects were selected was the GEFSEC database for GEF-4-funded grants during FYs 07-10, stratified by Agency and by size and type of grant.²⁰

The sample of grants was selected in the following way. First one grant was selected for each Agency and for each type/size. If there was more than one appropriate project in a particular group then one was selected at random.²¹ Second additional projects were selected to reflect the size of each Agency's portfolio to some extent. Specifically the three Agencies with the largest portfolios each had nine or ten projects in the sample. The Agencies with a medium number of projects in their portfolios had three to five projects in the sample, and the Agencies with the smallest portfolios had one project in the sample. When there was more than one candidate in the GEF database (for example, more than one mid-size project implemented by the World Bank), then the candidates were screened for other relevant characteristics²² including when they were approved or endorsed - projects started earlier in the period were preferred since they were likely to offer better data about actual administrative costs. Thereafter if there was a choice between equally appropriate projects then one was selected at random.

Agencies were asked to review the preliminary sample from a practical point of view. A project was kept in the sample only if the implementing GEF Agency, and one Executing agency, could provide a minimum of one full year of actual administrative costs (PCMCs and PMCs) plus an estimate (forecast) of expected costs for the other years of the project cycle. If a project did not meet this requirement, the Agency proposed an alternative project that did. Therefore the sample of projects provides information on a good cross-section of grants but is not entirely random. Therefore generalizations should be made with care.

¹⁹ GEFSEC data provided for this Review was not always exactly the same as Agency data for a similar time period because of the different assumptions about approvals vs disbursements by the Trustee.

²⁰ There are four project types/sizes in the sampling matrix: Full-size projects (\$5 million or greater); Full-size projects (more than \$1 million but less than \$5 million); Mid-size projects (equal to or less than \$1 million); and Enabling Activities. The distinction between two types of Full Size grants is one made by the review team in order to smooth the selection of projects across size categories, not one made by GEF.

²¹ A random number generator was used for random selection of projects at the level of each cell of the sampling matrix.

²² Other considerations that were taken into consideration where appropriate included focal-area balance, blended and unblended projects, and the practicality of including programmatic or umbrella projects given time constraints for the review and response burden constraints for the Agencies.

Table 1.1-1: Sample of Grants by Agency and Project Type/Size

Agency	(GEF ID and Year Approved/Endorsed in Brackets)				
	Full Size (\$5M or Greater)	Full Size (>\$1M and <\$5)	Mid-Size (to \$1M)	Enabling Activities	All
ADB	1 (1185,2007)	2 (2788, 2008),(3484,2009)			3
AfDB		1 (3368,2010)			1
EBRD	1 (3535,2010)				1
FAO		1 (2127,2008, multiple countries)	1 (3212,2008)		2
IADB		4 (2687,2008),(3532,2009), (2517,2007), (2686,2006)	1 (3875,2009)		5
IFAD	2 (2631,2008, multiple countries) (2751, 2008 multiple countries)	1 (2369,2009)	2 (3363,2008) (3628,2009)		5
UNDP	4 (2700,2007)(3100,2009)(26 15,2007)(2703,2008)	3 (1027,2008), (2772,2008)(3082,2008)	2 (3793,2010), (2550,2007)	1 (2213,2008)	10
UNEP	2 (2123,2008, multiple countries) (3907,2009, Global)	3 (2683,2007, multiple countries) (2377,2007, Regional trans- boundary) (3183,2009, Regional trans- boundary)	3 (3185,2007) (3187,2010) (3342,2009, Global)	1 (4069,2009)	9
UNIDO	1 (2927,2007)	1 (2600,2008)	2 (3571,2008) (2715,2007)	1 (3139,2007)	5
World Bank (non-IFC ²³)	5 (2132,2008),(2794,2008),(2 951,2008),(3551,2010) (3772,2009)	3 (3296, Apr. 2008), (2133,2008) (2765,2008)	2 (3708,2008) (2896,2007)		10
TOTALS	16	19	13	3	51

Notes:

- The sampling unit was the GEF project (single GEF ID number). There may be several grants for one GEF ID (project).
- Projects were sampled from four GEF fiscal years FY07 to FY10.
- GEF ID number and calendar year of approval/endorsement are given above, in brackets, for each sampled project.

²³ At the World Bank GEF grants to IFC are managed in a particular system and the GEF Coordination Unit did not have access to this system. Therefore projects implemented by the IFC were not included in the sample on practical grounds related to time constraints for the Review.

2.0 Agency Portfolios and GEF Grants and Fees

This Chapter describes the grants and fees paid by the GEF as context for the following chapters that describe each type of fee and payment in more detail.

2.1 Agency Portfolios and GEF Grants and Fees, FY07-FY10

Agency Portfolios

The Review Team asked Agencies to report the dollar value and number of projects in their portfolios using the following three categories: *Projects in Preparation*- an estimate of the total number and dollar value of ‘projects’ that are in the pipeline but have not yet received PIF approval.²⁴ *Projects Awaiting Implementation*- projects that have been PIF approved but not yet endorsed by the CEO. *Projects Under Implementation* - projects that have been endorsed and have not yet been completed. However obtaining comparable estimates of “projects in preparation” (pre-PIF) proved difficult, so only projects that have received PIF approval but were not yet complete are reported in Table 2.1-1 below.

The aggregate portfolio value, not including projects in development in the pipeline, for the nine Agencies that reported was \$5.214 billion. Of this, \$690.173 million (13%) related to projects with approved PIFs but not yet CEO endorsed, and 87% were under implementation. The three largest agencies, World Bank, UNDP, and UNEP together accounted for 89% of the total value of projects. Other agencies accounted for small amounts, none larger than 4%.

Table 2.1-1 Portfolio Size by Agency and Category of Projects

	Projects (\$) Awaiting Implementation	Projects (\$) Under Implementation	Total	%
AfDB	3,080,000	7,400,000	10,480,000	0.20%
ADB	43,234,972	117,351,467	160,586,439	3.08%
EBRD	Not reported			
IBRD	329,000,000	2,147,000,000	2,476,000,000	47.49%
IDB	32,136,364	34,461,364	66,597,728	1.28%
IFAD		103,200,000	103,200,000	1.98%
FAO		34,716,839	34,716,839	0.67%
UNIDO	133,262,974	65,138,687	198,401,661	3.81%
UNDP	37,367,485	1,451,163,779	1,488,531,264	28.55%
UNEP	112,091,337	563,281,281	675,372,618	12.95%
TOTAL	690,173,132	4,523,713,417	5,213,886,549	100.00%
%	13%	87%	100%	

Unit: US\$

Sources: Survey, August 2011

²⁴ Agency practices for valuing and reporting projects in preparation (pipeline) varied.

GEF Grants

The timeframe for this Review is from FY07 (partial year for GEF-4) to FY 2010. Therefore the data presented below covers three fiscal years of GEF-4 activity and one partial year.²⁵ The Global Environment Facility made \$704,245,308 in grants in FY10. From FY07 to FY10 the total amount of GEF grants and the average size of grants increased each year.²⁶

Table 2.1-2: GEF-4 Grants Approved/Endorsed, by Year, FYs 2007/10

Fiscal Year	# Grants	Total \$ Grants	% (number)	% (\$)	Average Grant (\$)
2006-7	17	\$ 20,251,089	4%	1%	\$ 1,191,241
2007-8	111	\$ 296,799,601	24%	21%	\$ 2,673,870
2008-9	137	\$ 418,546,640	29%	29%	\$ 3,055,085
2009-10	207	\$ 704,245,308	44%	49%	\$ 3,402,151
Totals	472	\$ 1,439,842,638	100%	100%	\$ 3,050,514

Notes:

"Grants" include full size, medium size and enabling activities, but not project preparation grants. "Fiscal year" is the GEF fiscal year, July 1 to June 30. Only grants approved or endorsed by the GEF CEO, as applicable, are included. Monetary Unit: \$US millions All Grants under the same GEF ID # are treated as a single grant. The Small Grants Program is not included in this table

Three Agencies, together, received approximately 85% of the grants made from the GEF Fund (World Bank, UNDP and UNEP). UNDP alone was the implementing agency for approximately 42% of GEF grants, by dollar value. (See Table 2.1-2). The average size of grant varied among agencies from approximately \$2 million dollars (UNEP) to approximately \$5.87 million (World Bank). Approximately half of the grants were “full size” - that is over \$1 million. The majority of these were between \$1 million and \$5 million.²⁷

²⁵ The sample of grants examined in this review was restricted to grants funded with GEF-4 funds; and consequently the data presented for FY2007 are few because GEF-4 became operational only in February 2007.

²⁶ We do not know whether this is a trend or only reflects the normal pattern of activity over a whole replenishment cycle with funds becoming available over time.

²⁷ The distinction below between full-size grants that are budgeted at less than \$5 million and those budgeted at more than \$5 million is introduced in this Review only to show more precisely the range of project sizes – the distinction has no other purpose.

Table 2.1-3: GEF-4 Grants Approved/Endorsed, by Agency, FYs 2007/10

Agency	# Grants	Total \$ Grants	% (#)	% (\$)	Average Grant (\$)
ADB	6	24,917,006	1.3%	1.7%	\$ 4,152,834
AfDB	1	4,400,000	0.2%	0.3%	\$ 4,400,000
EBRD	1	8,450,000	0.2%	0.6%	\$ 8,450,000
FAO	8	24,245,371	1.7%	1.7%	\$ 3,030,671
IADB	11	37,427,728	2.3%	2.6%	\$ 3,402,521
IFAD	13	47,722,221	2.8%	3.3%	\$ 3,670,940
UNDP	248	602,543,556	52.5%	41.8%	\$ 2,429,611
UNEP	81	160,214,379	17.2%	11.1%	\$ 1,977,955
UNIDO	25	72,151,900	5.3%	5.0%	\$ 2,886,076
World Bank	78	457,770,477	16.5%	31.8%	\$ 5,868,852
Totals	472	1,439,842,638	100.0%	100.0%	\$ 3,050,514

Notes:

"Grants" in this table do not include project preparation grants. "Fiscal year" is the GEF fiscal year, July 1 to June 30. The Small Grants Program is not included in this table. Monetary Unit: \$US millions

Table 2.1-4: Number GEF-4 Grants by Project Size/Type, FYs 2007/10

Agency	Number of Grants				Total Number
	Full Size (\$5M or greater)	Full Size (>\$1M but <\$5M)	Mid-Size (\$1M or less)	Enabling Activities	
ADB	1	5	0	0	6
AfDB	0	1	0	0	1
EBRD	1	0	0	0	1
FAO	2	2	4	0	8
IADB	2	6	3	0	11
IFAD	2	8	3	0	13
UNDP	32	87	111	18	248
UNEP	7	17	41	16	81
UNIDO	4	9	9	3	25
World Bank	38	19	21	0	78
Totals	89	154	192	37	472
%	18.9%	32.6%	40.7%	7.8%	100.0%

Notes:

"Grants" include full size, medium size and enabling activities, but not project preparation grants. "Fiscal year" is the GEF fiscal year, July 1 to June 30. Only grants approved or endorsed by the GEF CEO, as applicable, are included.

2.1.1 Administrative Costs

In this Review, the term "administrative costs" includes three categories of costs – project management costs of executing agencies, and project cycle management costs and corporate costs of GEF Agencies. The latter are covered by a fee²⁸ (currently 10% of the project budget) that GEF pays to GEF Agencies.²⁹ A notional part of the fee (one tenth) provides resources for Agencies' corporate activities in support of the GEF.³⁰ The administrative expenses of the GEFSEC, the GEF Evaluation Office and of the GEF Trustee are not addressed in this Review.

2.2 Overview of GEF Fees, FY07-FY10

The GEF paid approximately \$132 million in fees to its GEF Agencies, from FY2007 to FY2010, to cover project cycle management services for GEF-4 projects and, in part, to cover corporate activities in support of the GEF. (Table 2.2-1) Between FY2008 and FY2010 the amount of grants and, consequently, the total fees paid by the GEF annually more than doubled.

Table 2.2-1: GEF-4 Fees Approved/Endorsed, Totals by Year, FY 2007 to FY 2010

Fiscal Year	# GEF-4 Grants	Total \$ Fees	Average Fee Per Grant
FY2007	17	1,113,579	\$65,505
FY2008	111	27,475,243	\$247,525
FY2009	137	38,708,035	\$282,540
FY2010	201	64,685,824	\$321,820
Totals	466	131,982,681	\$283,225

Notes:

"Grants" include full size, medium size and enabling activities, but not project preparation grants or Small Grants Program. "Fiscal year" is the GEF fiscal year, July 1 to June 30. "Fees" cover project cycle management (generally 9%) and corporate activities (generally 1%). Only grants approved or endorsed by the GEF CEO, as applicable, are included. Monetary Unit: \$US millions

The GEF Agencies received fees in proportion to their grants. The largest amount of fees was received by the UNDP, approximately \$59.4 million from GEF-4 funds over three full fiscal years (FY08-FY10) and one partial fiscal year (FY07). The next largest amounts of fees were received by the World Bank and UNEP. UNIDO received a little more than 5% of the total GEF fees and the other Agencies received less than 3% each. (Table 2.2-2).

²⁸ *Proposal for a Fee-Based System for Funding GEF Project Implementation*, April 7, 1999, GEF/C.13/11.

²⁹ These include due diligence management, quality assurance and oversight of a project through the entire project cycle – development, preparation, supervision, and evaluation.

³⁰ Corporate responsibilities are related to institutional relations, policy and program development and /management/coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation.

Table 2.2-2: GEF-4 Fees Approved/Endorsed, by Agency, FY 2007 to FY 2010

Agency	# Grants	Total \$ Fees	% (#)	% (\$fees)	Average Fee(\$)
ADB	6	2,575,200	1.3%	2.0%	\$ 429,200
AfDB	1	0	0.2%	0.0%	\$ -
EBRD	1	845,000	0.2%	0.6%	\$ 845,000
FAO	8	1,910,667	1.7%	1.4%	\$ 238,833
IADB	11	3,503,772	2.3%	2.7%	\$ 318,525
IFAD	13	2,708,800	2.8%	2.1%	\$ 208,369
UNDP	248	59,405,992	52.5%	45.0%	\$ 239,540
UNEP	81	15,889,691	17.2%	12.0%	\$ 196,169
UNIDO	25	7,749,911	5.3%	5.9%	\$ 309,996
World Bank	78	37,393,648	16.5%	28.3%	\$ 479,406
Totals	472	131,982,681	100.0%	100.0%	\$ 279,624

Notes:

"Grants" include full size, medium size and enabling activities, but not project preparation grants or Small Grants Program. "Fiscal year" is the GEF fiscal year, July 1 to June 30. GEF-4 became effective in February 2007. The figures above are not adjusted for projects that are later dropped or cancelled. "Fees" cover project cycle management (generally 9%) and corporate activities (generally 1%). Only grants approved or endorsed by the GEF CEO, as applicable, are included. Monetary Unit: \$US millions

2.3 Project Preparation Grants

In addition to ordinary grants the GEF also made “project preparation grants” (PPGs) that totaled approximately \$50.4 million from February 2007 to June 30, 2010 (the timeframe of this review). The average size of a PPG during this period was approximately \$110,000. PPGs declined in size over this period. (Table 2.3-1)

Table 2.3-1: GEF-4 Project Preparation Grants, by Year, FYs 2007/10

Fiscal Year	# PPGs	Total \$ PP Grants	% (number)	% (\$)	Average Grant (\$)
2006-7	18	\$ 3,672,000	4%	7%	\$ 204,000
2007-8	97	\$ 13,493,654	21%	27%	\$ 139,110
2008-9	176	\$ 18,231,726	39%	36%	\$ 103,589
2009-10	166	\$ 15,020,554	36%	30%	\$ 90,485
Totals	457	\$ 50,417,934	100%	100%	\$ 110,324

The UNDP received by far the largest dollar amount of PPGs. This was made up by a large number of relatively small PPGs. By number UNDP received 46.2% of the PPGs and 39.7% by dollar value. By number of grants UNEP was the second largest recipient and the World Bank the third; and vice versa by dollar value. (Table 2.3-2).

Table 2.3-2: GEF-4 Project Preparation Grants, by Agency, FYs 2007/10

Agency	# PPGs	Total \$ Grants	% (#)	% (\$)	Average Grant (\$)
ADB	11	2,823,000	2.4%	5.6%	\$ 256,636
AfDB	3	454,000	0.7%	0.9%	\$ 151,333
EBRD	5	713,870	1.1%	1.4%	\$ 142,774
FAO	16	1,815,000	3.5%	3.6%	\$ 113,438
IADB	10	1,594,952	2.2%	3.2%	\$ 159,495
IFAD	20	2,134,909	4.4%	4.2%	\$ 106,745
UNDP	211	20,000,042	46.2%	39.7%	\$ 94,787
UNEP	86	5,925,101	18.8%	11.8%	\$ 68,897
UNIDO	41	4,273,650	9.0%	8.5%	\$ 104,235
World Bank	54	10,683,410	11.8%	21.2%	\$ 197,841
Totals	457	50,417,934	100.0%	100.0%	\$ 110,324

The GEF paid the normal percentage fee on PPGs, which is not large in dollar terms, given the relatively small size of PPGs.

3.0 Corporate Activities and Expenses to Support the GEF

3.1 What are the Agencies' Corporate Activities in Support of the GEF?

The term “corporate activities” has been somewhat ambiguous. In a narrow sense it describes only activities where Agencies engage directly with the GEF Secretariat (GEFSEC), the GEF Trustee, the GEF Evaluation Office or the GEF Council in relation to the formulation of policy and strategy.³¹ In a broader sense, “corporate activities” have included “programming activities” by the Agency – that is, activities to develop the Agency’s strategy and portfolio in a GEF Focal area that are not specific to a particular individual project. The mix of these two kinds of activities can be seen in the definition of “corporate activities” employed by the GEF, as follows:

- a) Policy support includes the development, revision and operationalization of GEF policies, strategies, business plans and guidelines. It also includes participation in the meetings of the GEF governing bodies.
- b) Portfolio management includes pipeline and program management, financial management and data management. It includes participation in financial consultations organized by the Trustee. It also comprises preparation of the Annual Monitoring Report (AMR), the Annual Portfolio Review for the Evaluation Office (APR) and the overall management of the portfolio regardless of the number of projects undertaken.
- c) Reporting includes all the reporting requirements related to the project.³²
- d) Outreach and knowledge sharing includes participation in sub-regional consultations, country dialogues and STAP meetings.
- e) Support to Evaluation Office includes evaluations, reviews and studies initiated by the GEF Evaluation Office.

In practice, Agencies have devoted more of their resources to the “programming” side of corporate activities than to the “direct engagement with the GEF administration” side. The largest “corporate activity” reported by Agencies is “portfolio management” which Agencies report accounts for about 40% of their “corporate” expenses. (See Table 3.1-1 for one example year, FY10). The next largest is “policy support” which accounts for about one third of corporate expenses. The third is “outreach and knowledge sharing” at approximately 15% of expenditures. Agencies report a total of approximately \$12.136 million in corporate costs related to support of the GEF in FY10.

³¹ Corporate Activities are defined in GEF/C.39/9, Annex 1. Agencies currently report administrative costs in their Annual Monitoring Report.

³² A full list of reporting requirements is listed in Annex 1 of GEF /C.39/9.

Table 3.1-1: Components of Corporate Costs Reported by Agencies, (Fiscal year 2010)

	Policy Support	Portfolio Management	Reporting	Outreach and Knowledge Sharing	Support to the GEF Evaluation Office	Communications	Total	%	
AfDB	Not reported								
ADB	156263	185866		35989	8198		386316	3.2%	
EBRD	Reported in a different format								
IBRD	1135391	991381		327242			2454014	20.2%	
IDB	121983	71699	39485	76321	1283		310771	2.6%	
IFAD	Reported in a different format								
FAO	260708	446362	22300	149912	6020	57067	942369	7.8%	
UNIDO	287758	119646	92760	158495	7892		666551	5.5%	
UNDP	1596955	720711	517056	694632	382469		3911823	32.2%	
UNEP	433360	2381872	143221	436742	69343		3464538	28.5%	
TOTAL	3992418	4917537	814822	1879333	475205	57067	12136382	100.0%	
%	32.9%	40.5%	6.7%	15.5%	3.9%	0.5%	100.0%		

Unit: US\$ million

Sources: Agencies, "Reported Corporate Costs" (2011 Survey)

3.2 Agencies' Reported Costs of Corporate Activities Compared with the Fees Received

Agencies reported spending more money on corporate activities in support of the GEF than they received from the notional one tenth of fees. The largest reported gaps between the GEF payment and the Agency's estimated corporate expenditures were for UNIDO and UNEP. (Table 3.3-1) Although fees and costs are meant to match on a cumulative basis over time, they will not necessarily do so in a particular year. Nevertheless it is worth noting that the apparent gap is large. For example GEF payments to Agencies to cover all or part of their corporate expenses in FY10 totaled approximately \$4.87 million and Agencies report corporate costs of \$12.37 million in that year.

These figures need to be qualified. First, the latter figure is based on unverified estimates and even a full audit would have difficulty establishing firm figures because most Agencies do not have a staff time reporting system, and generally pool their fees. Second, some Agencies report needing relatively less for PCMCs and relatively more for corporate costs and therefore they use a larger part of the 10% fee to cover corporate activities. Third it is not unexpected that an Agency's activities in a GEF focal area would total more than the funds provided by the GEF. There is no reason why Agencies should not use their own funds to some extent in these important areas.

Table 3.2-1: Reported Corporate Costs and Related GEF Payments, (FY10)

	GEF Payment	Reported Corporate Costs	Increment of reported expenses greater than the GEF payment	Increment of expenses as a % of GEF payment
AfDB	0.024			
ADB	0.175	0.619	0.444	253%
EBRD	0.087	Reported in a different format		
IBRD	1.142	2.454	1.312	115%
IDB	0.172	0.311	0.139	81%
IFAD	0.121	Reported in a different format		
FAO	0.000	0.942	0.942	
UNIDO	0.144	0.667	0.523	363%
UNDP	2.245	3.912	1.667	74%
UNEP	0.755	3.465	2.710	359%
Total	4.865	12.369	7.504	154%

Unit: US\$ million

Sources: GEFSEC "Related GEF Payments"; Agencies, "Reported Corporate Costs" (2011 Survey)

3.3 GEF payments to Agencies to Cover Corporate Expenses, FY00-FY11

Both project cycle management costs (PCMCs) and the Agencies' corporate costs are covered by a fee³³ (currently 10% on top of the project budget). The Agencies' corporate expenses are covered, in full or in part, by a notional part of the 10% fee (one tenth of the fee equivalent to 1% of the project budget).³⁴

Until FY07 only three Agencies, UNDP, UNEP and IBRD, received payments from the GEF to cover their corporate expenses in addition to their project-specific expenses. These Agencies made a proposal to the GEF Council annually and received a lump sum to cover corporate expenses. (See Annex 4: *History of GEF Payments to Agencies*). These payments totaled \$7.564 million in FY00 and \$9.39 million in FY07.

If one assumes 3% general inflation per annum over this period then the total GEF payments for corporate expenses remained approximately constant in real dollars. Over this period payments to UNEP increased somewhat less than payments to UNDP and to IBRD. (Table 3.3-1)

³³ *Proposal for a Fee-Based System for Funding GEF Project Implementation*, April 7, 1999, GEF/C.13/11.

³⁴ Corporate responsibilities are related to institutional relations, policy and program development and /management/coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation.

Table 3.3-1: Coverage of the Costs of Corporate Support to the GEF, FY00-FY10

	UNDP	UNEP	IBRD	Sub-Total	AfDB	ADB	EBRD	IDB	IFAD	FAO	UNIDO	Total
FY00	2.457	2.555	2.552	7.564	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.564
FY01	2.531	2.480	2.837	7.848	N/A	N/A	N/A	N/A	N/A	N/A	N/A	7.848
FY02	2.607	2.554	2.925	8.086	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.086
FY03	2.685	2.632	2.975	8.292	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.292
FY04	2.765	2.710	3.064	8.539	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.539
FY05	2.848	2.791	3.156	8.795	N/A	N/A	N/A	N/A	N/A	N/A	N/A	8.795
FY06	2.932	2.875	3.250	9.057	N/A	N/A	N/A	N/A	N/A	N/A	N/A	9.057
FY07	3.020	2.961	3.348	9.329	0.000	0.000	0.000	0.069	0.071	0.000	0.037	9.506
FY08	3.178	0.473	1.153	4.804	0.000	0.148	0.000	0.160	0.034	0.000	0.236	5.382
FY09	1.266	0.298	0.852	2.416	0.000	0.040	0.006	0.000	0.325	0.224	0.113	3.124
FY10	2.245	0.755	1.142	4.143	0.024	0.175	0.087	0.172	0.121	0.000	0.144	4.865
FY11	2.383	0.964	0.930	4.277	0.054	0.131	0.215	0.089	0.025	0.276	0.407	5.475
Total	30.918	24.048	28.184	83.150	0.078	0.494	0.308	0.490	0.575	0.501	0.937	86.533

Source: GEFSEC, September 2011

For UNDP, UNEP and IBRD the FY00 to FY07 figures are annual lump sums (shaded area)

For seven Agencies that started receiving a notional 1% of grants to cover corporate costs in FY07, the first year was a partial year (one half year).

For all Agencies, FY08 to FY10 figures are based on a notional 1% of Trustee's Fee Disbursements (adjusted for dropped/cancelled projects)

Fiscal year 2007 was a transition year in which, for the first time, GEF Agencies other than the original three received a payment to cover corporate expenses. For this year the UNDP, UNEP and IBRD received a lump sum payment, as usual, but after January 2007 (that is, for one half year) the other seven Agencies were eligible to receive a fee of 10% rather than 9%, with the additional 1% notionally to cover corporate expenses. From the beginning of FY08 there were no longer any annual lump sum payments to any Agencies – all received the 10% fee on grant.

The effect of the change was a 43% decrease in the total GEF payments to cover Agencies' corporate costs. Most of this immediate decrease affected the UNEP and the IBRD. The receipts of the UNDP to cover corporate expenses in fact increased in the first year after the change; but in the following year UNDP receipts also declined, by more than half. Total GEF payment to cover corporate expenses reached a low of \$3.124 million in FY09, and has since increased to \$5.475 million in FY11 driven by increases in approvals and consequently increases in the total annual amounts of Trustee disbursement of GEF grant funds. Over the twelve years from FY00 to FY11, inclusive, total GEF disbursements targeted to cover corporate expenses amounted to \$86.533 million.

3.4 Some Questions and Answers (Corporate Expenses)

Are Agency corporate activities commensurate with their costs to GEF?

This Review is not an audit; but even if it were it is doubtful whether the Agencies' reported expenses for corporate activities are strictly verifiable. As noted earlier, they are good faith estimates, not based on actual staff time records because such records generally do not exist. Also most Agencies pool their GEF fees and allocate them to various parts of their organization – they do not track expenses against individual project fees.

Nevertheless some observations can be made on the relationship between corporate activities and reported costs. First, there are large differences in the amount of money that Agencies report spending on corporate activities in support of the GEF. Amounts vary by a factor of more than 12, approximately, from about \$311,000 (IDB) to about \$3.9 million (UNDP). The greatest part of these differences relates to large differences in programming activities (based on many factors, including the number of GEF focal areas in which the Agency is involved, the size of each Agency's portfolio, the types of projects financed, the degree to which the Agency blends the GEF grant with larger projects, and on differences in the roles that Agencies see themselves playing relative to the GEF). There is not yet a meeting of the minds on this and it is not solely a matter of definition. There are substantive issues. Some of the corporate activities envisaged by UNDP, UNEP and IBRD, for example, differ from each other and from those envisaged by the GEFSEC.³⁵

The main disagreement between the GEFSEC and some Agencies is not so much whether the Agencies actually spend the monies reported for corporate activities, or whether the Agencies received good value for those expenditures, but rather what is in fact required and desirable and what part of the expenditures should be borne by the Agency itself and what part by the GEF. Some Agencies take a broad view of what "corporate" expenses should, in their opinion, be recoverable from the GEF, and the GEFSEC takes a narrower view.

What core 'corporate services' does the GEFSEC require of every GEF Agency and what should they cost?

GEFSEC has provided to the Review a statement of the corporate tasks that it expects every Agency to undertake. (See Annex 6) The costs are estimated as a base budget that is the same for every Agency and a variable travel cost. The base budget was estimated to be approximately 46 staff weeks³⁶ each year spent on corporate activities at a cost of \$4030³⁷ per staff week. This

³⁵ The differences are substantive not just a matter of accounting definitions. To simplify somewhat, the UNDP sees its worldwide network of offices as a resource in direct support of the GEF; the UNEP sees its technical expertise as a support to the GEF; and the IBRD sees the integration of technical assistance grants in all GEF focal areas with its investment lending as being much more than ordinary portfolio management.

³⁶ GEFSEC estimates that approximately 46 staff weeks are needed to undertake the following tasks. (The assumption is that one person will attend each required meeting.) (1) Attend focal area task force meetings; (2) attend a STAP meeting; (3) attend convention activities; (4) attend Council meetings and review Council papers; (5) attend network meetings/executive coordination meetings; (6) support the GEF Evaluation Office; (7) attend GEFOP meetings to discuss work programs; and (8) attend expanded constituency meetings.

is equivalent to \$186,500. In addition, GEFSEC estimates a variable travel cost of about \$55,500 for UNDP, UNEP and IBRD, and about \$24,600 for other Agencies since Agencies with smaller GEF portfolios do not attend all meetings. As well, GEFSEC estimates that in replenishment years the time requirements for Agencies to provide corporate support would be about 10% higher and additional travel would be about \$18,300 on average.

Taking these costs together, GEFSEC estimates that the expenses for those corporate activities that it believes to be required of all Agencies would total about \$242,000 per annum for the three largest Agencies and about \$211,000 per annum for other Agencies. Therefore the total GEF contribution to cover Agency corporate activities would be about \$2.2 million per year, compared with current GEF payment (based on the notional one tenth of fees) of approximately \$5 million. Under such a regime seven Agencies would receive more than they received from the 1% notional coverage in FY10, with the incremental amounts varying from about \$36,000 to about \$187,000. These are not significant amounts. On the other hand, the three Agencies with the largest portfolios would receive significantly less than they did in FY10. UNDP would receive about \$2 million dollars less, the World Bank about \$900,000 less and the UNEP about \$500,000 less. (See Annex 6)

Are there overlaps between the categories of project cycle management expenses and corporate expenses?

There are important overlaps between the cost categories. We do not find the division of costs into “corporate costs” and “project cycle management costs” (PCMCs) to be a satisfactory conceptual scheme. Programming costs can be interpreted as belonging in either category or both. The categories do not adequately distinguish between costs that are specific to an individual project and different types of costs that are not; and this has led to confusions and disagreements. We believe that a three part division of costs would be a better framework. It would distinguish between:

- Corporate costs of direct engagement with the GEF administratively
- Programming costs in environmental areas, and
- Project oversight costs (management and technical oversight by the IA of individual projects)

The “project management costs” incurred by the executing agencies are additional.

3.5 Options – Alternative Ways to Cover Corporate Expenses of Agencies

At different times the GEF has tried various ways to cover the corporate expenses of its Agencies. (See Annex 4 for a description of the various approaches considered and tried.) The approaches have fallen broadly into two categories – (1) annual lump sums customized to each Agency or (2) a fixed percentage of the fee attached to each grant. Financial options have varied from the GEF covering all of the relevant corporate costs of Agencies to the Agencies covering all corporate costs themselves.

³⁷ The “cost per staff week” is an average of the World Bank costs for an officer and a senior officer, including overhead.

There are no “correct” shares of corporate costs that should be borne by the GEF or, alternatively, by its Agencies. We note that granting organizations in general, including the major research granting agencies of the advanced economies and some bilateral aid agencies, sometimes but not always make “sustaining grants” (to cover costs not specific to a single project) as well as “project grants”.

There is, of course, a history of the GEF covering corporate costs incurred by its Agencies and these precedents are not easy to change without damage to the relationship. The Agencies told us that they will work less with the GEF if they receive less to cover their corporate costs. It is impossible for us to tell the degree to which this is true. There are two factors that seem to us important:

- (1) Within certain limits, there are economies of scale in regard to corporate costs. As an Agency increases its portfolio of GEF projects, its corporate costs do not necessarily increase in proportion. The 1% system misses this to some extent, although some would argue that larger Agencies do in fact have proportionately larger corporate responsibilities both for programming and for direct administrative support of the GEF.
- (2) Some smaller Agencies find it difficult to build their GEF portfolio, starting from a low base, without assistance on corporate costs. However all agencies are well established financially and some are willing to invest significantly in the relationship with the GEF.

With these factors in mind, we applied the following criteria to assessing options:

- Is the option reasonable (are resources adequate to cover tasks required by the GEF)?
- Is it functional? Is there appropriate control and accountability for costs?
- Does the option provide incentives to be cost-efficient?
- Does the option have low transaction costs?
- Can it be scaled up? Can the option be easily extended to new GEF agencies if necessary?

We have applied these criteria, with equal weights, to four options for GEF coverage of Agencies’ corporate costs. The ratings, on a scale of 0-5, represent our considered judgment of the likely performance of each option. They are based on extensive consultations and information collection, and are disinterested, but the ratings are still judgments that others might make differently.

Corporate Costs Option 1: Status quo - a “Notional Percentage of the Project Budgets that are approved or endorsed that year”. This percentage is presently 1%.

The strengths of this approach are simplicity and fairness to Agencies that have both large and small GEF portfolios. The weaknesses are that it may provide an insignificant sum to Agencies that have only small approvals/endorsements in a particular year, and may be unpredictable if an Agency’s approvals and endorsements vary a lot from year to year.

Criteria	Note	Rating (0-5)
Reasonable	Agreement has been reached between GEF and Agencies albeit provisionally one case.	4
Functional	The link to actual level of Agency corporate engagement with the GEF is indirect.	3
Incentives	Modest incentive for small agencies to engage actively with GEF. A floor (minimum) might help.	3.5
Transaction Costs	No incremental transaction costs	4.5
Scalable	Easily scalable	4.5
Overall		3.9

Corporate Costs Option 2: A smaller percentage fee could be applied to the size of the Agency’s whole portfolio under implementation at the start of each year. (In addition there could be a minimum and maximum fee.)

The strengths of this option are that the size of the portfolio is, first, a more direct measure of total engagement of the Agency with the GEF and a single year’s project approvals; second, the portfolio is probably more stable year to year than are current approvals/endorsements. Second, the “percentage of the portfolio amount” would be very small in most cases; and it would not appear to inflate Project Cycle Management Costs as is presently the case. Finally, the incentive for corporate engagement with the GEF would be more visible to Agencies because there would be a visible single sum at the start of each year and an accounting at the end of the year.

The weaknesses of this option are its relative complexity (for instance, a definition of “the portfolio” would have to be agreed; and calculated each year). Also small Agencies that are tying trying to build a GEF portfolio would be disadvantaged.

Criteria	Note	Rating (0-5)
Reasonable	A reasonable balance of GEF and Agencies interests.	4.0
Functional	The link to actual level of Agency corporate engagement with the GEF is fairly direct.	4.0
Incentives	A floor (minimum) would give an incentive for small agencies to engage actively with GEF.	3.5
Transaction Costs	Some incremental transaction costs	3.0
Scalable	Fairly scalable	4.0
Overall		3.7

Corporate Costs Option 3A: A Standard Corporate Budget (fixed annual \$amount for all IAs). In addition, to reflect the different circumstances there could be annual “Supplements” where appropriate (such supplements could include, for example, an expenses budget during a

replenishment year for the IAs actively involved in supporting the negotiations, or a representation budget for IAs that have a network of offices that is utilized by the GEF for in-country work).

The strengths of this approach are that it would be simple without supplements, and accurate but complex with them. If it were customized with supplements, it would involve negotiations each year between the GEF and each Agency and therefore it would have large transaction costs.

3A. Standard Corporate Budget for All Agencies + Supplements where justified

Criteria	Note	Rating (0-5)
Reasonable	A reasonable balance of GEF and Agencies interests.	5
Functional	The link to the actual level of Agency corporate engagement with the GEF would be direct.	4.5
Incentives	The Standard Corporate Budget would encourage small Agencies and the Engagement Supplements would encourage active Agencies.	4.5
Transaction Costs	Considerable incremental transaction costs (in regard to the Engagement Supplements)	3
Scalable	Not easily scalable	3.5
Overall		4.1

3B Standard Corporate Budget for All Agencies (no customization)

Criteria	Note	Rating (0-5)
Reasonable	Some Agencies would perceive a standard payment as unfair.	3.5
Functional	The link to the actual level of Agency corporate engagement with the GEF would be indirect.	4
Incentives	No significant incentives apart from budget constraint.	3
Transaction Costs	No significant transaction costs.	5
Scalable	Easily scalable	5
Overall		4.1

3.6 General Recommendations – Coverage of Corporate Costs

It is a policy matter whether the GEF wishes to provide a corporate management budget to its Agencies in addition to the 9% project cycle management fee attached to each grant. Best practice among granting agencies in this regard is mixed. Not all granting agencies provide sustaining grants for corporate administration to organizations to which they also provide grants for projects. However those that do provide sustaining grants generally elicit greater engagement from their grantees at the corporate level. The purpose of a sustaining grant is to foster the

interest and capability of the grantee organization (an important consideration in the case of GEF and its Agencies) and to improve the resourcing of the relationship between grantor and grantee (less important because all of the Agencies have substantial resources themselves). The maintenance of a consensus among the stakeholders that the system is fair is important.

Three options for covering corporate costs are attractive but in different ways:

- The status quo – a notional part of the fee on each grant
- A standard payment to all Agencies, with some flexibility for customized supplements.
- A standard payment to all Agencies, without flexibility.

They are not easy to compare because they have different strengths and weaknesses, and much depends on how one conceptualizes the roles and relationships between the GEF and its Agencies; and how one defines “corporate costs”.

3.7 Recommended Option – Coverage of Corporate Costs

The GEF may decide, as a matter of policy, to contribute to Agencies’ corporate costs by a standard annual payment to each Agency for clearly defined “corporate costs” that do not include significant substantive programming costs, which would be covered in part by a component of the 9% fee, or separately or, alternatively, left to the Agencies to pay themselves, probably with some diminution of their corporate involvement with the GEF.

There is no “correct” level of investment in programming that can be established by empirical analysis. It is a policy matter how much the GEF wishes to contribute to Agencies’ programming costs in GEF focal areas. There are several options including: (1) leaving the matter entirely to Agencies; (2) splitting the GEF fee into two components (one for programming and one for project oversight); or (3) making special provision for GEF programming grants in some circumstances. An approach that is regarded as fair by both the GEF and its Agencies is essential.

4.0 Project Cycle Management Costs

GEF Agencies incur “project cycle management costs” (PCMCs) that relate programming costs and to managerial and technical oversight of the project. That is, PMCs may include costs for project identification, preparation, or implementation. The GEF provides a fee to Agencies of 10% of the total grant amount, which includes a notional 1% for corporate expenses and 9% for project cycle management expenses. Fees are made available to Agencies at the time of project endorsement by the GEF CEO.³⁸

4.1 What are Project Cycle Management Activities?

The GEF has established guidelines that define a set of PCM activities to be provided by GEF Agencies for each project. Each PCM activity is defined in GEF/C.39/9. A summary of the activities is provided in Table 4.1-3. However we believe that the inclusion of substantive programming costs in both “corporate costs” and “project cycle management costs” confuses the issue. Agencies report that they spend a considerable portion of their total PCMCs, in the order of 40% or more, during the “pipeline”, pre-PIF-approval stage. It is during this stage, however, that the distinction between programming activities and project-specific activities is unclear.

Agencies report annually on the PCMCs incurred for their portfolio of GEF projects. (*Annual Monitoring Report*). This report does not disaggregate PCMCs beyond a split into two categories; (1) expenses related to project preparation and approval; and, (2) expenses related to project supervision, monitoring and evaluation. Eight Agencies provided the Review Team with PCMC data (Questionnaire #1) for FY10 using the same format that is used in the GEF *Annual Monitoring Report*. Agencies were also asked to update the data to capture full costs of providing services where appropriate. In some cases, the information already provided to GEF in the Agency AMR was returned as still valid (or at least no better data was available).

Total PCMCs for FY10 reported by the Agencies to the Review team (for their whole set of projects that year (Questionnaire 1) was \$65 million. The two largest Agencies, IBRD and UNDP, accounted for 77% of the total. Total PCMCs for the sample, by Agency, ranged from \$300 thousand (IFAD) to \$28 million (UNDP). The split between preparation activities and supervisory activities was about 50/50 on average. However practices vary across Agencies. For example UNDP reported spending a high proportion of PCMCs on supervision, and the IBRD a high proportion on project preparation. Tables 4.1-1 and 4.1-2 show details for each Agency.

³⁸ Fees on PPGs are available at the time of PPG approval effective 12/01/2008 based on memo dated 11/17/2008 from GEF CEO.

Table 4.1-1: Components of PCMCs, by Agency, %, (FY10)

	Project Preparation and Approval	Project Supervision, Monitoring and Evaluation	Other	Total	Agency % of Total
AfDB	Not Reported				
ADB	0.77	0.37	0.37	1.51	2.3%
EBRD	Not Reported				
IBRD	12.70	6.80	2.00	21.50	33.1%
IDB	0.86	0.61	0.00	1.47	2.3%
IFAD	0.16	0.14	0.00	0.30	.5%
FAO	1.74	0.91	0.00	2.65	4.1%
UNIDO	1.82	1.69	0.00	3.51	5.4%
UNDP	11.73	16.65	0.00	28.38	43.8%
UNEP	2.18	3.36	0.00	5.54	8.5%
TOTAL	31.96	30.53	2.37	64.86	100.0%

Unit: US\$ millions

Sources: Agency "Reported PCMCs" in Q1; IFAD reported to GEF in 2010 AMR.

Table 4.1-2: Components of PCMCs, by Agency, \$, (FY10)

	Project Preparation and Approval	Project Supervision, Monitoring and Evaluation	Other	Total
AfDB	Not Reported			
ADB	51%	25%	25%	100%
EBRD	Not Reported			
IBRD	59%	32%	9%	100%
IDB	59%	41%	0%	100%
IFAD	52%	48%	0%	100%
FAO	66%	34%	0%	100%
UNIDO	52%	48%	0%	100%
UNDP	41%	59%	0%	100%
UNEP	39%	61%	0%	100%
TOTAL	49%	47%	4%	100%

Unit: US\$ millions

Sources: Agency "Reported PCMCs" in Q1; IFAD reported to GEF in 2010 AMR.

Table 4.1-3: Summary of Project Cycle Management Activities

	Descriptions of PMC Activities
Project Identification	<ul style="list-style-type: none"> • Consult with appropriate stakeholders in-country, including the GEF operational focal point, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis. • Review options for co-financing and partnerships. • Incorporate GEF opportunities in appropriate planning/country assistance strategy documents of the GEF Agency.
Preparation of Project Concept	<ul style="list-style-type: none"> • Discuss GEF eligibility criteria with the recipient country's operational focal point and other stakeholders. • Undertake brief in-country consultation mission if necessary. • Consult within the GEF Agency. • Assist project proponent to prepare PIF, in consultation with appropriate stakeholders, including the GEF operational focal point and the GEF Secretariat. • Assist with the preparation of the PPG. • Obtain endorsement letter(s) from the operational focal point(s). • Discuss with the GEF Secretariat PIF clearance and PPG approval.
Preparation of the detailed Project Document	<ul style="list-style-type: none"> • Prepare and execute legal agreements for PPG activities. Keep the operational focal point informed. • Help the project proponent write Terms of Reference for consultant(s), if required, to undertake PPG activities. • Assist the project proponent to identify and recruit consultants to assist with project preparation, if necessary. • Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field, with particular focus on risk assessment, governance issues, execution arrangements, co-financing, capacity development, partnership building and outreach. • Negotiate and reach agreement on incremental cost with government and other relevant stakeholders • Submit Project Document with Request for CEO endorsement template to the GEF Secretariat • Coordinate with relevant stakeholders in formulating a programmatic approach (PA); prepare a Program Framework Document (PFD) for submission to the GEF Secretariat for work program entry and Council approval; implement the PA; monitor and report on progress of the PA, prepare and submit for approval all PIFs under the PA; complete implementation of all project under the PA.
Project Implementation and Supervision	<ul style="list-style-type: none"> • Mount at least one supervision mission per year, including briefing operational focal points on project progress. • Provide technical guidance, as necessary, for project implementation. • As necessary, include technical consultants during supervision missions to advise government officials on technical matters and provide technical assistance for the project as needed. • Pay advances to the executing entity and review financial reports. • Oversee the preparation of annual project implementation reports for submission to the GEF Secretariat. • Monitor and review project expenditure reports. • Prepare periodic revisions to reflect changes in annual expense category budgets. • Undertake the mid-term review, including possible project restructuring. Send a copy to the GEF Secretariat.
Project Completion and Evaluation	<ul style="list-style-type: none"> • Oversee the preparation of the Project Completion Report/Independent Terminal Evaluation, submit the report to the GEFO and send a copy to the GEF Secretariat • Prepare project closing documents • Prepare the financial closure of the project.

Source: GEF/C.39/9

4.2 Agencies' Reported Project Cycle Management Costs

In general Agencies reported that the fee paid for PCMCs covered their costs for full-size grants over \$5 million, but was less than their reported PCMCs for grants under \$5 million. However it is worth reiterating that the results of our survey reflect the fact that agencies manage the fee through an allocation system, not through a reimbursement of actual costs within the Agency. As a result, the costs reported are more a reflection of how the fee was allocated, not actual costs incurred. Under an allocation system, obviously, the resources allocated will be the same as those reported as "actual costs".

Table 4.2-1: Project Cycle Management Fees and Costs by Grant Size

Grant Category	Number of Grants in the Sample	Total Grant Value (including PPGs/PDFs)	Fees Paid for PCMCs by GEF	Total Fees Paid for PCMCs As %	PCMCs Reported by Agencies		Variance	
					\$	%	\$	%
FSP > \$5million*	12	101,490,816	9,134,175	9.0%	7,446,671	7.3%	1,687,504	1.7%
FSP < \$5million	13	47,229,667	4,250,669	9.0%	6,335,255	13.4%	(2,084,586)	-4.4%
MSP	9	7,948,777	715,041	9.0%	1,734,550	21.8%	(1,019,509)	-12.8%
EA	2	725,000	65,250	9.0%	262,927	36.3%	(197,677)	-27.3%
Total	36	157,394,260	14,165,135	9.0%	15,779,403	10.0%	(1,614,268)	-1.0%

Unit: US \$

Source: Survey, August 2011

Table 4.2-2: Project Cycle Management Fees and Costs by Grant Size - Averages

Grant Category	# Grants	Total Grant Value (including PPGs/PDFs)	Average Grant Size	Average Fee Paid for PCMCs (\$)	Fee Paid %	Average Cost Reported by Agency for PCMC	PCMC Costs Reported by Agencies	Variance (\$)	Variance (%)
FSP > \$5million*	12	101,490,816	8,457,568	761,181	9.0%	620,556	7.3%	140,625	1.7%
FSP < \$5million	13	47,229,667	3,633,051	326,975	9.0%	487,327	13.4%	(160,353)	-4.4%
MSP	9	7,948,777	883,197	79,449	9.0%	192,728	21.8%	(113,279)	-12.8%
EA	2	725,000	362,500	32,625	9.0%	131,464	36.3%	(98,839)	-27.3%
Total	36	157,394,260	4,372,063	393,476	9.0%	438,317	10.0%	(44,841)	-1.0%

Unit: US\$

Source: Survey, August 2011

There were major differences in reported PCMCs as a percentage of project budgets, both across individual projects and across Agencies. Average reported PCMCs by Agency ranged from 5.7% to 19.1%. The average percentages are affected by various factors, including the number and size of grants in the sample. In some cases, major variances are attributable to how each Agency allocates expenses to either PCMCs or to corporate expenses. The UNEP, for example, reports a relatively low PCMC figure due, in part, to its practice of allocating a more substantial part of the fee to cover 'corporate expenditures'. There is considerable variation in Agency

practice, both in terms of how expenses are categorized and in terms of other factors such as when the ‘meter starts ticking’ in the early pre-PIF stage of a project. Some Agencies count PCMCs for several years before the PIF submission for some projects (including a large part of general programming activities) and others restrict the use of the fee more narrowly to project-specific expenses.

Table 4.2-3: Project Cycle Management Fees and costs by Agency

Grant Category	# Grants	Total Grant Value (including PPGs/PDFs)	PCMC Fees Paid by GEF	PCMC Costs Reported by Agency	Reported PCMCs (%)	Variance (\$)	Variance (%)
FAO	2	5,225,000	470,250	996,420	19.1%	(526,170)	-10.1%
IADB	5	15,810,000	1,422,900	921,354	5.8%	501,546	3.2%
UNDP	10	42,936,561	3,864,291	5,630,796	13.1%	(1,766,505)	-4.1%
UNEP	9	29,755,307	2,677,629	1,683,833	5.7%	993,796	3.3%
World Bank	10	63,667,392	5,730,066	6,547,000	10.3%	(816,934)	-1.3%
Total	36	157,394,260	14,165,136	15,779,403	10.0%	(1,614,267)	-1.0%

Unit: US \$

Source: Survey, August 2011

Table 4.2-4: Project Cycle Management Fees and Costs by Agency – Averages

Grant Category	# Grants	Total Grant Value (including PPGs/PDFs)	Average Grant Size	Average Fee PCMC Paid	Average PCMC Reported by Agencies	Average Variance (\$)	Variance (%)
FAO	2	5,225,000	2,612,500	235,125	498,210	(263,085)	-10.1%
IADB	5	15,810,000	3,162,000	284,580	184,271	100,309	3.2%
UNDP	10	42,936,561	4,293,656	386,429	563,080	(176,651)	-4.1%
UNEP	9	29,755,307	3,306,145	297,514	187,093	110,421	3.3%
World Bank	10	63,667,392	6,366,739	573,007	654,700	(81,693)	-1.3%
Total	36	157,394,260	4,372,063	393,476	438,317	(44,841)	-1.0%

Unit: US\$

Source: Survey, August 2011

4.3 Grants and Fees for Programmatic Approaches

A small number of grants in our sample were part of a ‘programmatic approach’. GEF has discussed whether such projects should receive a fee lower than 9%.³⁹ The lower rate for programmatic approaches (8%) was not effective until 2011 so no grants in our sample were affected by this policy.

Table 4.3-1: Grants and Fees for Projects under a Programmatic Approach

Grant Category	# Grants	Grant Amount	PPG/PDF	Total Grant Value (including PPGs/PDFs)	PCMCs Reported by Agencies(\$)	PCMCs Reported by Agencies (%)
Programmatic Grants	5	37,800,000	1,505,000	39,305,000	3,756,208	9.6%
Regular Grants	31	111,250,620	6,838,640	118,089,260	12,023,195	10.2%
Total	36	149,050,620	8,343,640	157,394,260	15,779,403	10.0%

With respect to programmatic approaches, we have two points to suggest. If GEF wants to encourage programmatic approaches then it is counter-productive to pay IAs a lower fee to oversee them. We cannot settle the debate about whether programmatic approaches are in fact cheaper to oversee than other projects. GEF Agencies report much the same costs for the projects operated in a program as for other projects. However all this indicates is that the fee allocations made by the Agencies were the same. That is, all fees, programmatic or not, generally go into a single pool and are allocated according to a single formula. This tells us nothing about whether the underlying actual costs of the two modes (programmatic and non-programmatic) are the same or not. However, some Agencies did indicate to us that their experience has been that the additional paperwork required for the approval of a “parent” programmatic approach has not necessarily resulted in reduced work for the ‘child’ grants that are subsequently approved under the program.

4.4 Project Preparation Grants

Roughly 69% (25 of 36 grants) of our sample of grants received Project Preparation Grants (PPGs). The grants were substantial. On average they were equivalent to 8.2% of the grant. PPGs were loaded with the same 10% fee as the main grant. Effective 12/01/2008, fees for PPGs were made available at the time of PPG/PIF approval.⁴⁰

Without a detailed audit that is beyond the scope of this Review it is impossible to say whether the PPGs were used to pay, in part, for some activities that otherwise would have drawn upon resources allocated for “project preparation and approval” in the fee. Nevertheless it seems reasonable to suppose that PPGs do take some of the pressure off the fee for the main grant.

³⁹ GEF/C.38/5/Rev1, notes that an 8% fee will apply to grants submitted by a Qualified GEF Agency..

⁴⁰ Per GEFSEC and GEF CEO letter to Executive Coordinators dated 11/17/2008.

Table 4.4-1: Project Preparation Grants (PPGs)

Grant Category	# Grants	Grant Value	PPG/PDF	Total Grant Value (including PPGs/PDFs)	Average PPG	PPG as % of Grant Amount
FAO	1	3,500,000	725,000	4,225,000	725,000	20.7%
IADB	4	13,660,000	1,150,000	14,810,000	287,500	8.4%
UNDP	10	40,130,821	2,805,740	42,936,561	280,574	7.0%
UNEP	5	17,648,689	2,182,900	19,831,589	436,580	12.4%
World Bank	5	26,387,392	1,480,000	27,867,392	296,000	5.6%
Total	25	101,326,902	8,343,640	109,670,542	333,746	8.2%

Table 4.4-2: Project Preparation Grants (PPGs) -Averages

Grant Category	# Grants /PPGs	Grant Amount	PPG/PDF	Total Grant Value (including PPGs/PDFs)	Average PPG (\$)	PPG as % of Grant Amount
FSPs \$5million or greater*	8	58,986,998	3,522,000	62,508,998	440,250	6.0%
FSPs Less than \$5million	12	38,596,027	4,633,640	43,229,667	386,137	12.0%
MSPs	4	3,543,877	163,000	3,706,877	40,750	4.6%
EAs	1	200,000	25,000	225,000	25,000	12.5%
Total	25	101,326,902	8,343,640	109,670,542	333,746	8.2%

4.5 Fees Paid During the Transition Period

Our survey covers a period during which the fees changed from 9% to 10%, the additional 1% intended notionally for corporate services. The new (10%) policy became effective January 1, 2007 for the Executing Agencies and on July 01, 2007 for the World Bank, UNDP, and UNEP. The effective date of the change to 10% was based on the date of PIF approval. Therefore there were 12 grants in our sample that fell under the old policy (9%).

4.6 How fees are allocated within Agencies

It is important to understand that the fees received by GEF are managed by the Agencies on a portfolio basis and through an allocation system not a specific-project-based reimbursement system. Each Agency has an allocation methodology. As an example, one agency allocates the 9% fee in the following way - 2% (from a central 'pool' of GEF fees) to Central Services such as budgeting, planning, and legal, 3% to Country Offices, 3% to Regional Teams, and 1% to Headquarters staff. Another Agency allocates about sixty percent of the fee to project oversight; and keeps the rest unallocated – essentially keeps it available for programming activities and sometimes for corporate activities more narrowly defined. The percentages allocated to different offices vary by Agency and details were not provided to us by all Agencies. Once departments

receive their allocated share of the fee, they use it to provide services required by their projects or for relevant programming.

4.7 Some Questions and Answers

4.7.1 Are Agencies delivering services commensurate with the resources received?

The total amounts spent on administration by the GEF and its Agencies are within reasonable norms. Benchmarking studies that have been done by GEF,⁴¹ the World Bank⁴² (benchmarking GEF with the CIF) and by the GEF Evaluation Office⁴³ (benchmarking the GEF against five other major funds) concluded that the overall level and use of GEF administrative resources is reasonable.

The information on services and their costs is, however, not accurate enough for one to determine fine distinctions in the appropriate fee – within say one half a percent up or down from the current 9% for PCMCs. There are two reasons. First, Agencies operate fee allocation systems, not expense reimbursement systems. That is, GEF fees typically come into a single pooled account and are allocated, informally or by formula, to various parts of the organization that are involved in project oversight and/or GEF-relevant programming. Most often that allocation is not on a project-specific basis and is not a reimbursement of the actual expenses of a particular project.

4.7.2 Are Agencies compliant with GEF Guidelines for Project Cycle Management?

Agencies appear to be compliant with GEF Guidelines for project cycle management, but those guidelines need improvement. At least two issues need to be addressed:

- How long before the PIF approval should the Agency's expenses for project identification and development, which are in some part 'programming costs', be covered by the GEF fee? (Our preliminary position would be that oversight expenses in the year of the PIF and the preceding year should be counted; but before that it is a GEF policy matter to decide who should bear the expenses of programming that is GEF-relevant but not exclusive to a particular project.
- In the absence of a staff time recording and reporting system, what are reasonable guidelines as to the percentages of the fee that should be allocated to various project cycle management activities?

4.7.3 Is there any evidence of cross-subsidization?

The fee on full-size projects probably subsidizes smaller projects to some extent, even if on average the fee is reasonable.

⁴¹ Grant Thornton, 2008.

⁴² World Bank, CTF-SCF/TFC.4/Inf.2 "Benchmarking CIF's Administrative Costs", March 13, 2010.

⁴³ Watson, K. (August 2009) *Some Cost Comparisons Among Five Funds and Facilities*. GEF Evaluation Office.

Agencies tell us that there is no cross-subsidization among donors and co-financiers. Proportionate allocation of administrative expenses (PCMCs) is the rule. We found no reason to doubt this.

4.7.4 Are there economies of scale? (Do PCMCs increase in proportion to project size?)

PCMCs, like PMCs, have economies of scale. The economies of scale for PCMCs are partly at the portfolio level and partly at the project level. Larger projects and larger portfolios entail less expense to manage, per grant dollar. We did not obtain data that would enable a precise analysis of the economies of scale because GEF fees are pooled not managed and tracked on an individual project basis.

4.8 Options for Coverage of PCMCs

As with corporate costs and PMCs, we identified the main options that have been suggested for PCMCs and applied the following criteria to them:

- Is the option reasonable (are resources adequate to cover tasks required by the GEF)?
- Is it functional? Is there appropriate control and accountability for costs?
- Does the option provide incentives to be cost-efficient?
- Does the option have low transaction costs?
- Can it be scaled up? Can the option be easily extended to new GEF agencies if necessary?

PCMC Option 1: A percentage fee on the project⁴⁴ budget (presently 9%).

The strengths of this option are that it is simple, involves no incremental transaction costs and is accepted by the GEF and Agencies. The weakness of this approach is that it does not take into account the different levels of effort necessary to manage projects of varying sizes and complexity. It may under-resource the management of a portfolio of small projects and over-resource the management of a portfolio of large projects.

A subsidiary question is whether the 9% is the appropriate percentage.

Criteria	Note	Rating (0-5)
Reasonable	A set percentage can be a reasonable reflection of average costs although there is still debate about what should be considered project cycle management costs. A (revenue neutral?) floor and/or cap are possible.	4.5
Functional	The IA receives the funds and undertakes the tasks.	4.5
Incentives	There is an incentive to stay within the resources provided on average; but only a weak link with the resources required for a specific project.	4
Transaction Costs	None	5

⁴⁴ PPGs. Same options + an option to have a lower fee or no administrative fee on PPGs, since project preparation may be in some part an ‘administrative’ activity itself.

Criteria	Note	Rating (0-5)
Scalable	Easily scalable	5
Overall		4.6

PCMCs Option 2: A customized dollar amount for each project, either fixed or variable depending on the size and/or complexity of the project.

The strength of this option is that it would better reflect the differential PCMCs for portfolios of projects of different sizes and complexities. Its weakness is mainly that it involves high transaction costs – GEF tried this approach and abandoned it for this reason.

Criteria	Note	Rating (0-5)
Reasonable	A customized dollar amount would reflect the circumstances of the project well.	4.5
Functional	The IA receives the funds and undertakes the PCM tasks.	4.5
Incentives	Strong link with actual expenses provides an incentive for economy.	4
Transaction Costs	Very high	1
Scalable	Not easily scalable	5
Overall		3.8

4.9 Recommendation

On balance we find that the existing system of a 9% fee on each project budget is a good one. It is simple and cost-effective to administer, and overall costs are within reasonable norms. There is some precedent for an 8.5% fee on the basis of the *Adaptation Fund*, but the circumstances are different from GEF grants, in particular in regard to programming costs incurred by the implementing entities.

5.0 Project Management Costs

Project Management Costs (PMCs) are incurred by executing agencies. They are part of the budget funded by the GEF grant. They may be any legitimate costs necessary to manage the project. The GEF Agencies do not incur these expenses unless they are also the executing agency. Proposed PMC budgets are included in project documents and, until recently, were subject to more intensive review by the GEF if they were greater than 10% (now 5%) of the total grant.⁴⁵ PMCs funded by GEF are expected to be proportionate to GEF's share of the total project cost, including co-financing.⁴⁶

5.1 What activities are included in Project Management Costs (PMCs)?

Despite significant differences among projects and agencies, Agency returns of questionnaires for this Review indicate that the main categories of PMCs are:⁴⁷

*Labor for Project Management Unit PMUs*⁴⁸. This is typically the largest category of expenses ranging from 64%-91% of PMCs.

Non-Labor Administrative Costs for Communications, Office Supplies, and Office Equipment.⁴⁹ The range of costs in this area varies significantly by agency and project. These costs ranged from 0-14%.

Meetings and Travel. This category is almost always included in the PMC budget. Travel budgets included within PMCs ranged from 2% to 16% for sample of grants reviewed.

5.2 What are the Budgeted and Reported Costs for PMCs?

Agencies reported to PMC expenses for 41 out of 51 grants in the sample.⁵⁰ On the basis of this data we calculate that PMCs were on average 7.9% of the project budget.⁵¹ One full-size project (\$6 million) did not allocate any PMCs to GEF on either a budgeted or reported basis.

⁴⁵ Global Environmental Fund, (10/20/2010), Rules and Guidelines for Agency Fees and Project Management Costs, GEF/C.39.9

⁴⁶ Date of this policy pending request from GEFSEC.

⁴⁷ Actual ranges were evaluated for 27 sample grants based on Questionnaire #3 data. Because some agencies did not provide data that included actual by activity or category, an additional group of budgeted PMC categories were reviewed for 13 of the sample grants.

⁴⁸ Costs related to the creation of a Project Management Unit (PMU) to administer the project at the local level. Labor allocated can be technical or administrative. Not all PMU staff costs are allocated to PMCs but typically a portion of labor for the project manager or coordinator, an office manager, an administrative assistant, and other administrative functions such as procurement and finance are included in the costs allocated to PMCs. The size of the PMU, the number of PMUs, and the need to establish PMUs at a national or global level varies by project and agency.

⁴⁹ In addition to labor for the PMU, project management costs also include an allocation of costs for office supplies, furniture, equipment, information technology and communications.

⁵⁰ Data from EBRD, AfDB, and EBRD was not provided in a format that could be used in the detailed analysis.

⁵¹ The average grant size for the sample group was \$4.3 million, with average budgeted PMCs of \$335 thousand and reported total PMCs of \$342 thousand (7.9%).

All projects require certain administrative services such as accounting support, periodic reporting, procurement, office space, and supplies. The review reflected average budgeted PMCs for MSPs and EAs of \$75,000 and \$44,000, respectively. See Table 5.2-1 below for details related to PMC by grant size and category.

Table 5.2-1: PMCs by Grant Size

Grant Category	# Grants	Total Grant Value	Average Grant Value	Average Budgeted PMC	Average Reported PMC	Variance	Reported Rate
FSP >\$5million*	14	119,913,836	8,565,274	635,426	642,913	(7,487)	7.5%
FSP <\$5million	14	47,235,191	3,373,942	283,665	292,830	(9,165)	8.7%
MSP	10	8,922,677	892,268	74,664	81,858	(7,194)	9.2%
EA	3	1,046,500	348,833	44,000	28,066	15,934	8.0%
Totals	41	177,118,204	4,319,956	335,266	341,541	(6,275)	7.9%

Unit: US\$

Source: Survey, August 2015

The average PMC rates by Agency varied from 5.1% to 11.5% of the grant. The average for the World Bank's \$62 million (10 grants) was 5.1%. The average for the six Agencies that reported, other than the World Bank, was 9.4%. The overall average for all Agencies was 7.9%.

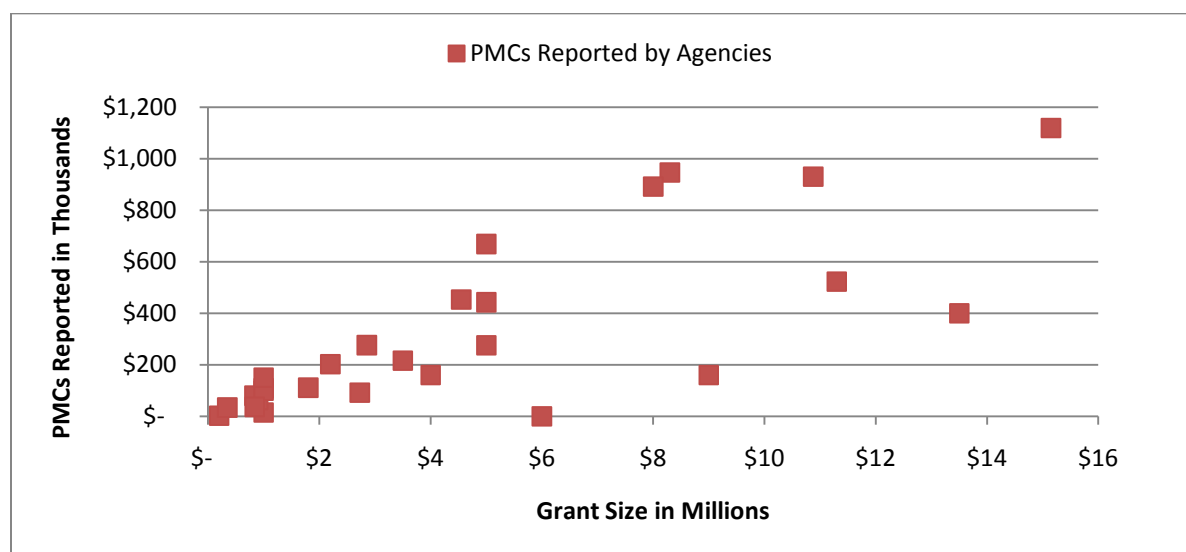
Table 5.2-2: PMCs by Agency

Grant Category	# Grants	Total Grant Value	Average Grant Value	Average Budgeted PMC	Average Reported PMC	Variance	Reported PMC Rate
FAO	2	4,500,000	2,250,000	167,610	115,688	51,922	5.1%
IADB	4	13,660,000	3,415,000	336,500	370,906	(34,406)	10.9%
IFAD	3	12,434,164	4,144,721	326,572	326,572	0	7.9%
UNDP	9	39,272,181	4,363,576	391,095	404,777	(13,682)	9.3%
UNEP	8	26,737,427	3,342,178	355,019	383,888	(28,869)	11.5%
UNIDO	5	18,326,500	3,665,300	288,354	288,153	201	7.9%
World Bank	10	62,187,932	6,218,793	328,319	315,360	12,959	5.1%
Totals	41	177,118,204	4,319,956	335,266	341,541	(6,275)	7.9%

Table 5.2-3: PMCs by Agency Group

Grant Category	# Grants	Total Grant Value	Average Grant Value	Average Budgeted PMC	Average Actual PMC	Variance	Actual PMC Rate
FAO,IADB,IFAD,UNDP,UNEP,UNIDO	31	114,930,272	3,707,428	337,507	349,986	(12,479.00)	9.4%
World Bank	10	62,187,932	6,218,793	328,319	315,360	12,959.00	5.1%
Totals	41	177,118,204	4,319,956	335,266	341,541	(6,275.00)	7.9%

Our Review suggests that, on the whole, Project Management Costs are generally within the guidelines previously established by GEF and vary by project size (Figure 5.2-1).⁵² There were only 9 grants in the data base of 41 where the PMCs (actual to-date and projected for the whole life of the project) exceeded 10%. Five of these grants were budgeted and approved with rates higher than 10% and the rest were over-runs. There was little variance between reported costs compared with original budgets or by project type.⁵³ However this may be somewhat artificial. More than one Agency reported costs for all projects that were exactly equal to budget. This suggests that PMCs are simply being reported up to the budget limit and might tell one little about actual costs, which may in part be covered by other parts of the project budget or, when needed, covered from other sources.

Figure 5.2-1: Reported PMCs related to the Size of Grant

Source: Survey, August, 2011. N=41

⁵² The sample data included a wide variety of grant type', such as piggy backed, blended, co-financed, and stand-alone. There were no apparent patterns for amounts budgeted for PMCs for specific types of grants.

⁵³ The negligible variance between budgeted and actual total PMCs is also inconsistent with other major findings of the study. First, feedback from agencies clearly states that the actual costs incurred for a particular project are not driven by the size of the grant, but driven by the complexity of the project. Examples were given where a project operating in a single country cannot be compared to the same size grant operating in multiple countries. Also, specific regions were noted as having higher costs than others, regardless of grant size. If costs are driven not by the size of the grant but vary widely based on other grant characteristics, then one would expect a higher level of variability in the rates of reported costs than was observed in our sample.

5.3 When the Implementing Agency is also the Executing Agency

FAO, IFAD, UNIDO, and UNEP had a combined total of 11 self-executed grants in our sample. UNIDO was the IA and EA for each of its five grants in the sample. FAO, IFAD, and UNDP each had one grant of this type, while UNEP had three.⁵⁴ In certain cases, the GEF Agency was not the sole EA. The PMC costs for this subgroup of grants was not significantly different from other grants within the same Agency where the Agency did not have an EA role. The PMCs for this sub-group averaged 9.7%, slightly higher than the overall 9.4% for non-World Bank agencies. The size of grant in this category averaged \$3.9 million, with PMCs reported, on average of \$381 thousand (9.7%).

In principle there should be some administrative savings if the same organization is both IA and EA. The savings would mainly be in the area of ‘management and technical oversight’. However good practice indicates that such oversight should be provided even by another part of the same agency and firewalls that prevent any apparent or perceived conflict of interest may also prevent economies from being realized.

5.4 Challenges of Managing and Reporting Project Management Costs

It is not possible to track and report actual PMCs in a consistent format across Agencies. This is, first, due to the lack of systems to track time and labor costs (IAs and EAs); and, second, due to inherent differences in how each Agency does business. The idea put forward in previous studies suggesting that GEF Agencies should adopt common accounting systems is not practical.

Another challenge in managing PMC costs is separating PMCs activities from other management and labor costs in the project budget that are organized by “outcome”. Allocating labor and designating the purpose of travel, for instance, is inherently subject to discretion. Determining a precise amount of time the project coordinator spends on ‘Outcome 1’ vs. administrative duties is often a guesstimate.

GEF can have guidelines for the percentage of PMCs that it thinks reasonable, but oversight has to be by the IA to be as close as possible to the Executing Agency and to be effective, which means that the IAs should take the primary responsibility for controlling PMCs and GEF should, ideally, receive assurance from the IAs that they have adequate systems and practices to control PMCs and that GEF can rely on them.

5.5 Methodology for Budgeting and Tracking Project Management Costs is Imprecise

As mentioned previously, the methodology used by most Agencies to determine how much labor is spent on project management activities is imprecise. Since Agencies are generally allocating costs from a project management or coordinating unit, the estimate for budgets and even the actual costs provided for purposes of this Review are based on assumptions that result in a pro-rated share of the project staff, both technical and non-technical, to “substantive” and to “project management” tasks. At the project level, it is particularly difficult to distinguish between

⁵⁴ UNEP EA role in GEFID#2377 described as “In collaboration”.

activities that should be allocated to a particular (substantive) outcome or, at times, allocated to project management. If Agencies regard an expense as legitimate, and it cannot be fitted with the PMC limit, then they may exercise some discretion in finding another budget line item against which to charge the expense. This problem of ‘fungibility’ does not apply to PCMCs because in that case, with minor exceptions, the fee to cover PCMCs and the project budget go to different organizations.

Our discussions with Agencies indicate that costs related to monitoring and evaluation by the EAs are typically not included in PMCs. The World Bank and UNIDO appear to be exceptions to this practice as monitoring and evaluation activities are described regularly in their PMC data. In the current GEF project documents, M&E costs are budgeted in a separate schedule. However, the schedule usually excludes labor for the project management team so that it is not possible to determine total estimated cost of M&E activities. Further complicating the situation is the fact that some agencies include portions of M&E in the PMCs allocated to GEF, some agencies only allocate M&E to ‘other’ project management costs outside the GEF cap, and some agencies allocate all labor related to M&E to specific outcomes of the project. When one examines cases it becomes clear that costs that are not called PMCs in one project are very similar or identical to costs that are called PMCs in other cases.

Activities drive costs and the activities that are required to manage and administer GEF grants are dictated by three factors:

- Complexities of the project⁵⁵
- Agency infrastructure and policies and procedures for doing business.
- GEF policies and reporting requirements

Table 5.5-1: Key Drivers of Project Management Costs

Key Drivers of Project Management Costs	
Complexity of Grant	<ul style="list-style-type: none"> • How complex is the project? Level of technical expertise required • Number of countries and regions that grant is operating • Duration of project
Infrastructure, Policies, and Procedures of IA and EA	<ul style="list-style-type: none"> • Policies and procedures for managing PMUs- are PMUs required for each country, required at the national level, etc. • Cost structure and efficiency of EA (which can be IA in some cases) • Example- UNEP claims a full year of operation for the staff after the project is completed- IDB doesn't capture any costs after implementation
GEF Reporting Requirements	<ul style="list-style-type: none"> • What are the costs of GEF's reporting requirements • Are the costs commensurate with value added?

⁵⁵ Project management costs are driven by the complexities of the project. Some projects require a high level of technical expertise to administer and oversee the grant. A major cost factor is the number of countries where a project is implemented. In the case of multiple countries, national project management units may be established for each country which significantly adds to costs. Although the grant, in total, may be large, the creation of multiple PMUs to manage much smaller grant increments results in a loss of any scale economies that might otherwise exist. Another major factor described by Agencies as a driver of costs is the relative cost of doing business in certain regions where travel, access to skilled labor, etc. are much higher than average. For these and other reasons, there are no apparent economies of scale noted in reviewing the 41 sample grants.

5.6 How Controllable are Project Management Costs?

Due diligence in controlling PMCs is an important obligation of all parties – GEF, the IAs and the EAs. The most important level of control is the Implementing Agency because it is disinterested and also has the frequent contact with the EA that is essential to effective control.⁵⁶ Guidelines at the level of GEF review are useful but we are not optimistic that percentage caps can be the main controlling device – the opportunities for discretionary allocation of expenses to various part of the budget are too large.

Some efficiency studies of specific issues would be useful. For example the proliferation of PMUs undertaking some functions that might better be done centrally is worth examination.

GEF has the opportunity to review and question PMCs at the time the grant is approved. It is GEFs fiduciary responsibility at this time to challenge PMCs that appear unreasonable. This means that GEFSEC staff needs to be experienced and knowledgeable enough to identify ‘reasonable’ costs for PMCs for a wide variety of grant types and sizes.

5.7 Options for Controlling PMCs

As with corporate costs in Chapter 3, we applied a set of criteria to assessing approaches to managing PMCs, as follows:

1. Is the option reasonable (are resources adequate to cover tasks required by the GEF)?
2. Is it functional? Is there appropriate control and accountability for costs?
3. Does the option provide incentives to be cost-efficient?
4. Does the option have low transaction costs?
5. Can it be scaled up? Can the option be easily extended to new GEF agencies if necessary?

PMC Option 1: Status Quo – a stated percentage threshold above which PMCs are subject to more stringent requirements for substantiation.

The strengths of this option are simplicity. The weaknesses are lack of flexibility and its limited ability to control PMCs by imposing an overall percentage limit because of the inherent fungibility of some PMCs with other items in the project budget. The current threshold that triggers higher scrutiny is PMCs that are higher than 5% of the project budget. The choice of percentage depends mainly on how much time GEFSEC staff can cost-effectively devote to scrutinizing PMCs in grant proposals. We found that PMCs submitted by most Agencies tend to be higher than 5% (75% of the sample). If this pattern holds, a 5% threshold will involve GEFSEF staff in a lot of reviewing of PMCs. GEFSEC has to consider the appropriate level of

⁵⁶ All costs can and should be managed and controlled. The first requirement for managing the costs is having total transparency as to what the costs are and a clear understanding of what activities drive them up or down. Because PMCs are incurred at the project level, the EA is the single most important stakeholder in controlling project management costs. It is the IAs responsibility to track and monitor the spending by the EA but only the day to day actions of the EA can effectively change the course of spending and costs.

effort, given that IAs should have the primary fiduciary responsibility for controlling PMCs, and given the inherent fungibility of many PMCs.

Criteria	Note	Rating (0-5)
Reasonable	The threshold and range are within the historical experience of PMC budgets in GEF grants.	3.5
Functional	Simplifies the chain of fiduciary responsibilities: EA-IA-GEF	4.5
Incentives	Good incentive for economy.	4
Transaction Costs	Low transaction costs.	4.5
Scalable	Easily extended to other GEF-Agency relationships.	4.5
Overall		4.2

PMC Option 2: A customized dollar amount for each type of project that bases the PMC budget on the typical characteristics of the project size and type.

The strengths of this approach include accuracy and flexibility. The main weakness is very large transaction costs.

Criteria	Note	Rating (0-5)
Reasonable	Customization provides a direct link to project characteristics.	4.5
Functional	Limited by the fact that the GEF is not normally dealing directly with the EA.	3
Incentives	Incentives to economize not clear.	2.5
Transaction Costs	Very high.	2
Scalable	Very difficult.	2
Overall		2.8

PMC Option 3: Place the onus for due diligence on IAs to control the administrative expenses of EAs, under guidelines agreed with GEF.⁵⁷ However when the IA is its own EA different rules and higher scrutiny by GEF would apply.

The main strength of this approach is that it recognizes that only IAs can effectively control the PMCs of the EA. The main weakness is the IA may not have as strong an incentive to control costs as the GEF.

⁵⁷ IAs collectively could propose Guidelines and, assuming they were reasonable, GEF could concur. Thereafter IAs would provide an affidavit with each grant proposal that the EA's proposed administrative expenses had been reviewed and were within the guidelines, and would report each year on efficiencies achieved. No specific percentages or dollar amounts would necessarily be presupposed.

Criteria	Note	Rating (0-5)
Reasonable	Good alignment of responsibility, authority and resources.	5
Functional	The IA exercises PCM control.	4.5
Incentives	Incentives to economize not clear.	3
Transaction Costs	Low for GEF. Higher for the IA.	4
Scalable	Easily scalable for GEF. Not easy for the IA.	4
Overall		4.1

5.8 Recommendations on PMCs

This Review of PMC levels and of the practices of IAs and EAs indicates two things:

- The primary fiduciary responsibility for controlling PMCs should rest with the IA; but GEF should require strong assurances from the IAs that they have systems and practices that are adequate to fulfill this responsibility.
- A “tripwire” percentage for PMCs above which they come under greater GEF scrutiny is a good idea. The choice of the percentage hinges, in our opinion, mainly on how much time and effort GEFSEC is willing to devote to reviewing proposed PMCs. If the threshold percentage is set much below the average level of PMCs then GEFSEC will be reviewing PMCs in a majority of grant proposals. Given the inherent fungibility of some PMCs with other parts of the project budget, the balance of costs and benefits for GEFSEC should limit review to the proposals that have a high risk of excessive PMCs. A 5% threshold is fine if GEFSEC is willing to invest the review time it creates, but the limits to the potential benefits of GEF review of proposed PMCs need to be considered.

6.0 Two Other Funds' Practices

6.1 Climate Investment Fund (CIF)

The Climate Investment Fund (CIF) is composed of two Trust Funds⁵⁸: the Clean Technology Fund (CTF); and the Strategic Climate Fund (SCF). They are overseen by a CTF Trust Fund Committee and an SCF Trust Fund Committee, and Sub-Committees. The CIF are a partnership among five multilateral development banks (MDBs).⁵⁹ The partnership is managed by an Administrative Unit, housed in the World Bank (IBRD) working with a committee of the participating multilateral development banks.⁶⁰ The resources of the CIF (pledges), which by 2011 had reached approximately US\$ 6.1 billion, are managed by the World Bank acting as Trustee.

The **Clean Technology Fund (CTF)** offers financing for low carbon programs and projects that reduce Green House Gas (GHGs) emissions and also support national development objectives. It includes programs in the power sector (renewable energy and efficient technologies to reduce carbon intensity); the transport sector (efficiency and modal shifts); and in energy efficiency (buildings, industry and agriculture). CTF offers products that include a grant element to make the investment viable. These products can include grants, concessional loans and/or guarantees. The CTF Trust Fund Committee has decided that CTF resources (US\$ 5 billion) will be allocated to 15 to 20 countries, which implies an average of about US\$ 300 million per country.⁶¹

The **Strategic Climate Fund (SCF)** finances projects aimed at a specific climate change challenge. Programs designed under the SCF include:

- *Pilot Program for Climate Resilience (PPCR)* to provide incentives for demonstrating ways to integrate climate risk and resilience into development planning (\$1,120 million).⁶²

⁵⁸ The Bank's roles in administering a trust fund can vary, depending on its type. The Bank always performs some financial or administrative roles, and may also perform one or more operational or partnership support roles. Based on these roles, the Bank categorizes trust funds into three types: (i) *Recipient-Executed Trust Funds (RETFs)*—funds that the Bank passes on to a third party and for which the Bank plays an operational role—i.e., the Bank normally appraises and supervises activities financed by these funds; (ii) *Bank-Executed Trust Funds (BETFs)*—funds that support the Bank's work program or for projects in special circumstances where RETF would not be feasible, and for country projects in other exceptional circumstances such as emergency etc]; (iii) *Financial Intermediary Funds (FIFs)*—funds that involve financial engineering or complex finance schemes, or where the Bank provides a specified set of administrative, financial or operational services. Trust funds involve three levels of administration—the trustee level at which funds are contributed, the program level at which they are allocated, and the disbursement level at which they are disbursed through grant accounts. While a grant account can be of only one type, at the trustee or program level a trust fund may be a hybrid—that is, it may involve more than one type.

⁵⁹ ADB, AfDB, EBRD, IADB, and the World Bank (IBRD and IFC).

⁶⁰ Monitoring and evaluation of initiatives is conducted by the implementing multilateral development banks in accordance with their own procedures. Each of the MDBs reports annually to the Strategic Climate Trust Fund Committee.

⁶¹ Climate Investment Funds: Business Plan and FY10 Budget Paper. April 29, 2009, p.12

⁶² The program involves nine countries and two regional groupings (approximately \$45 million per country and \$15 million for each program activity).

- *Forest Investment Program (FIP)*, 8 countries, \$420 million.
- *Program for Scaling-Up Renewable Energy in Low Income Countries (SREP)* aims to demonstrate the economic, social and environmental viability of low carbon development pathways in the energy sector. (\$ 240 million and six countries).

The concessionality of CIF products and services depends on the concessionality of donors' contributions to the Fund, some of which are in the form of capital contributions and some in the form of loans. The result is a complex system in which incoming loans and contributions are matched against the outgoing products and services of the CIF.⁶³

6.1.1 CIF Portfolio

The CIF intends to fund approximately 162 projects over six years, FY09 to FY14.⁶⁴ One hundred and thirteen of these are projected for TFC/SC review in two peak years, FY12 and FY13. Project funding is expected to total \$6.104 billion. The expected average of CIF and SCF projects are about \$70 million and \$18 million respectively. However, within each of these programs average CIF funding will vary considerably. For example, projects approved under the Clean Technology Fund as of May 2011 vary from \$6.1 million for a Sustainable Energy Finance Program in Columbia to \$350 million for the ESKOM Renewable Support Project in South Africa (two MDBs involved).

6.1.2 Administrative Unit

The Administrative Unit comprises a team of professional and administrative staff employed by the World Bank. Working with the MDB Committee it (i) facilitates the work of the two Trust Fund Committees and the SCF Sub-Committees [note there are no other CIF bodies/management entities] (ii) supports the development and implementation of operational policies and guidelines (iii) coordinates, monitors and reports on the implementation of the CTF and the three targeted programs under SCF, (iv) manages institutional relations, partnership building and stakeholder outreach, and (v) promotes information sharing and lessons learning, in part through the Global Support Program, and results management and monitoring. The *Global Support Program* provides the “glue” to bring together all of the individual pilot programs and to promote a community of practice and South-South learning. It supports exchanges and dialogue among pilot activities, provides tools and expertise to the participating countries, and

⁶³ In November 2008 the CIF Trust Fund Committees approved its first administrative budget, for FY 2009. The budget totaled \$11.4 million, \$7.2 million to pay the Trustee, the Administrative Unit and the six participating Multilateral Development Banks to put policies and procedures in place; and \$4.2 million for the six MDBs to help countries develop plans to use CIF funds. In August 2011 the *CIF FY12 Business Plan and Administrative Budget*⁶³ proposed an administrative services budget for FY12 totaling \$16.817 million. Of this the Trustee budget was \$2.956 million, a similar figure [correct] to the GEF Trustee budget. The CIF Administrative Unit budget was \$7.438 million, an increase of approximately 68% over the FY10 budget.⁶³ The proposed FY12 budget for the six MDBs combined was \$6.422 million for administrative services and \$2.608 million for their support to country programming. Therefore, in total the MDB's budget for FY12 (\$9.03 million) for the coming year is about 20% greater than the budget for the CIF Administrative Unit. These relative budget shares reflect a large increase in the costs of the Administrative Unit in FY11 and a simultaneous large decrease in the costs of MDB support for country programming. Project funding went from \$116 million in FY09, to \$508 million in FY10, to \$1.275 billion in FY 11, and is projected to peak at \$2.004 million in FY 12.

⁶⁴ CIF Business Plan and FY12 Budget.

disseminates lessons among stakeholders. The CIF provides an annual budget to cover the estimated administrative costs of these functions.

6.1.3 Grant Funding for Country Preparation of Investment Plans [SCF]

The CTF and the SCF both provide for grant funding to countries for preparation of *Country Investment Plans*. Up to now no CTF country has availed itself of this facility. Under SCF these grants are expected to total approximately \$15.257 million. In some ways this task is analogous to the ‘portfolio management’ component of both the Corporate Costs and the Project Cycle Management Costs of the GEF.⁶⁵

6.1.4 CIF’s Approach to Covering Administrative Costs

The CIF governance framework establishes that “compensation for administrative services and project related activities will be on the basis of full cost recovery for the [management] entities, but should be guided by the principles of value for money, reasonableness and transparency.”

The five multilateral development banks are compensated separately for each of the following:

- Corporate support of the CIF
- Support to country led programming of CIF funds
- Managing CIF funded projects through their life-cycles (preparation, supervision, and evaluation)

CIF reimburses its MDBs for their full incremental costs. These are expected to be modest because the participating MDBs would “support preparation of CIF-funded activities as part of their regular operational programs.”⁶⁶ This is particularly relevant to CTF operations where CTF funding supports MDB funding in scaling up climate mitigation action using established technologies and approaches to project design. And where CIF-funded components are fully blended with MDB loans and administered as part of those loan projects. The main elements of CTF incremental activities typically include analysis of consistency with CTF investment criteria, additional financial analysis to justify CTF concessional financing, calculation of GHG emission reductions benefits, monitoring and evaluation of CTF results measurements systems.

For example the World Bank CTF Focal Point in SDN reimburses the regions for the incremental costs of processing CTF co-financed IBRD/IDA operations. The lending and supervision budget allocations are based on the assumption that CTF financing is fully blended with IBRD/IDA financing. For example there is a single project appraisal document (PAD) for the project, nothing separate for the CIF funding. There are no stand-alone CTF projects. The “parent” IBRD/IDA operation is fully budgeted; and the blended CTF activities are incremental. These normally comprise: (a) commissioning an external peer reviewer for the PCN review or QER steps; (b) preparing a CTF Annex in the PAD; (c) preparing and negotiating the CTF loan agreement; and (d) reporting on CTF-specific results.

For purposes of establishing the CTF project fee, the average MDB incremental life-cycle cost for a CTF project cost is estimated to be \$250,000 derived as follows: 20% on top of IBRD’s

⁶⁵ Ibid, Annex 2b. Page 40.

⁶⁶ Business Plan and FY10 Budget, op. cit., p.14

life-cycle project management cost of \$911,000 (preparation \$347,000 + supervision \$564,000 (6 years@ \$94,000) plus \$25,000 for central legal and loan department costs (6 years) and a \$43,000 contingency/allowance for dropped projects.

Table 6.1-1: Comparison of GEF and CIF Coverage of Costs

Activity and Cost Area	Mode of Payment	
	GEF	CIF
(1) Corporate support of the Fund (Admin/Committee Participation; Policy inputs; Replenishment Support etc.)	Notional one tenth of the 10% fee on top of each grant (that is, 1% of project budgets). Part of this may also cover (2) Programming ⁶⁷ .	Annual budget allocation to Trustee, Administrative Unit and each of six MDB for “administrative services” ⁶⁸ ; allocations (separate for STF and CTF) are approved based on the management entities’ estimates of expenses for activities set out in the annual business plan. Unused allocations are returned to the Trust Funds. Budget allocations. ⁶⁹
(2) Programming (Portfolio strategy, country programming, and general program support (legal, financial and operational etc.)	Part of the 9% fee to cover Project Cycle Management Cost	Grants to countries for preparation of Country Investment Plans ⁷⁰ . MDBs through joint missions support the preparation of these plans and are reimbursed for their substantial actual costs ⁷¹ . Allocations to such joint missions are based on established budget norms. Actual utilization of such allocations for completed joint missions show costs coming in below norm. ⁷²

⁶⁷ To compare the World Bank Group (as an IA for GEF) with its participation in CIF, one must take account of IFC. For the GEF, IFC is part of WBG and not a separate Agency and the ‘1% corporate top-up’ covers IFC corporate as well. For CIF, IBRD and IFC receive separate budgets; the CIF administrative services budget for IBRD and IFC amount to estimated 3,130.1M\$ for FY12.

⁶⁸ *In IBRD this is reported to cover (a) outreach to various parts of the MBD and integration of CIF in MDB policies, procedures and systems; (b) CIF operational reporting; and (d) participation in CIF committees and for a; and financial management and relations with the CIF Trustee. CIF staff report that (a) is the largest of these categories. Costs differ between CTF and SCF. For example, for SCF, committee work is second most costly category, and for CTF it is reporting.

⁶⁹ For CTF, the annual budget (revised FY11 budget) ranges from 206M\$ for AfDB to 555M to 546.9M for IFC (IBRD 404.2M). For SCF, annual budget (revised FY11 budget) ranges from 187.1M for EBRD to for 1,344.3M for IBRD. Note: Estimated expenditures for any given FY are generally revised upwards for each Agency based on actual experience. For IBRD, proposed budget for FY12 is total 1,960.9M\$ for both SCF and CTF (508.4M and 1,452.2M respectively).

⁷⁰ FYI: Grants: (a) As of June 30, 2011 the CTF Trust Fund Committee has endorsed 14 country investment plans for indicative CTF funding of a total of US\$ 4.35 billion involving an expected total of over 60 individual projects and programs; (b) As of June 30, 2011, PPCR contributor country commitments to the program totaled US\$ 1.12 billion million of which US 767 million had been endorsed as indicative funding for Strategic Programs for Climate Resilience (SPCRs) in 11 countries involving an expected 23 individual projects or programs. Nine additional countries are expected to request PPCR funding totaling US\$353 million; (c) As of June 30 2011, contributor country commitments totaled US\$420 million of which US\$90 million had been endorsed as indicative funding for investment plans in two countries. The remaining 6 countries are working to seek FIP funding for investment plans totaling US\$330 million.

⁷¹ The MDBs support the country-led preparation of country investment plans and strategies through joint-mission work. This work involves several missions over an extended period. The annual CIF administrative budget provides for funding to meet the MDBs’ expenditures for providing such support. This funding is provided in the form of a multi-year country programming budget, which is topped up annually if needed.

⁷² Such costs vary between CTF and the other SCF windows. For FY09-11, the totals amount to (for all MDBs) 2,903M\$ for CIF and 9,386M\$ for the three SCF windows (12,289M total). MDB costs incurred in supporting country programming under SCF/PPCR pilots have exceeded the current budget norm of \$388,000 established in

Activity and Cost Area	Mode of Payment	
	GEF	CIF
(3) Project Management		
(a) Project preparation - by the MDB (CIF) or the IA (GEF)	Part of the 9% fee to cover Project Cycle Management Cost	<p>CTF: Reimbursement through borrower payment of project fee, which in part includes estimated MDB incremental costs for project preparation (determined based on a 20% top-up for IBRD LENDING + actual costs of the Loans Dept. and the Legal Dept. plus a contingency)⁷³. SCF MDBs recover preparation costs as part of a payment received for project implementation support (incl. preparation) and supervision services [not paid by the borrow] (MPIS payment) based on benchmark costs determined on the basis of IBRD data on project management costs.</p> <p>Under both CTF and SCF, management of the CIF inputs follows the MDB ordinary project cycle. Under CTF, funding fully blended with the loan by the MDB. Therefore the project preparation costs are less than would be expected of a stand-alone project. Under the SCF preparation costs will be higher given less than full blending and admission of stand-alone projects.</p>
(b) Project supervision, technical and managerial oversight, monitoring and evaluation	Part of the 9% fee to cover Project Cycle Management Cost	<ul style="list-style-type: none"> Follows the MDB regular cycle and is fully blended with MDB loan under CTF and less so under SCF⁷⁴. CTF: Reimbursement for MDB's incremental supervision costs through borrower payment of project fee (see above) which provides for supervision costs estimated at 20% on IBRD's average costs of supervising its regular operations.)⁷⁵. SCF; MDBs recover supervision costs as part of the MPIS payment referred to above. For CTF: Fee paid to MDB by the country – either 0.25% at project becoming active

FY10, and is being revised upwards. Funding of MDB support has averaged \$404,000 (ranging from \$370,000 to \$450,000) for three completed single country PPCR pilots and \$412,000 (with variations between \$299,000 and \$484,000) for six PPCR single country pilots under preparation. For CTF, for example, costs for Egypt, which already has a CTF loan approved, were 65,933 USD for IBRD.

⁷³ The average preparation costs for IBRD CTF loans approved so far is 488K.

⁷⁴ This includes MDBs' technical and operational staff to (i) assist country partners in preparing activities, foreseen in investment plans, for CIF funding, (ii) help process these opportunities through funding approval, (iii) subsequently monitor implementation, and (iv) evaluate project outcomes, lessons and impacts of these projects. The MDBs recover their costs for these services through a project fee paid by the partner country out of the loan amount in the case of CTF and a payment for project implementation support and supervision services in the case of SCF.

⁷⁵ The average supervision costs for IBRD CTF loans approved so far is 154K. However, these projects have just started so the supervision costs will rise considerably over the life of the projects.

Activity and Cost Area	Mode of Payment	
	GEF	CIF
		or 0.1% bi-annually for the term of the project ⁷⁶ . <ul style="list-style-type: none"> • For SCF: Payment for project implementation support and supervision services⁷⁷.

6.1.5 Country Payments to MDBs

When a country receives funding from the CIF, it pays the implementing MDB a fee for technical and operational assistance with planning, implementation, monitoring and evaluation. The country pays this fee out of its own resources or from the loan amount in the case of CTF or from a related CIF grant for project implementation support and supervision services in the case of SCF.

The country has two options for payment of the fee: (a) 0.1% of the undisbursed balance of the loan bi-annually for the term of the loan, or (b) 0.25% of the total loan amount, payable in a single lump sum as soon as the loan is effective. In the World Bank the CTF Anchor in Supervision (SDN) maintains a deferred fee account in which all such fees are pooled. The Bank’s regional operations then receive allocations to cover their CIF-related lending and supervision costs in proportion to their total CIF funds under implementation.

6.1.6 Benchmarking CIF’s Administrative Costs

In March 2010 the CIF Trust Fund Committees considered a paper⁷⁸ that compared CIF’s administrative costs with four other trust funds – the GEF (2002-2005), the Global Fund (GFATM), the International Finance Facility for Immunization (IFFIm) and the Multilateral Fund for Implementation of the Montreal Protocol (MLEFMP). The Paper analyzed “program-related administrative costs” but not “project-related administrative costs”. The former included the expenses of the Trustee as manager of the financial assets of CIF, the costs of the CIF Administrative Unit, and the administrative costs of the six multilateral development banks that are the CIF GEF Agencies. Because the division of responsibilities between the CIF Administrative Unit and the MDBs, and the division of responsibilities between the GEFSEC and its IAs, are so different, comparisons are difficult.

The Paper compares Funds on the basis of an “efficiency ratio” – that is, the ratio of “non-project administrative costs” to “project funding transferred to GEF Agencies”. The study estimated that GEF’s efficiency ratio was 6.1%, which was the lowest of the Funds operating at a comparable scale to the CIF. The GFATM was a little lower (5.7%) but that comparison is limited by the fact that the GFATM scale of operations was about five times larger than GEF, so some

⁷⁶ There is no standard duration of these loans, the ones approved so far under CTF range from 3.6 to 7.3 years. Turkey has 5.6 years duration.] For example, for Turkey CTF *Private Sector RE and EE Project*, the client has paid IBRD to date 103,914 USD.

⁷⁷ General SCF norms for Project implementation Support and Supervision services are: Additional SCF financing for ongoing MDB projects 440K; Blending SCF financing with MDB and other financing 428K; Capacity-building projects 445K; Stand-alone SCF financing for investment projects (exception) 777K.

⁷⁸ World Bank, CTF-SCF/TFC.4/Inf.2 “Benchmarking CIF’s Administrative Costs”, March 13, 2010.

economies of scale were to be expected. In comparison, the cumulative CIF efficiency ratios were 9.2% in FY2009, 4.7% in FY10 and 2.2% in FY11. The projected cumulative efficiency ratio for the CIF for five years of operations, FY09-FY14 is 2%.

6.1.7 Comparing the CIF and the GEF

There are certain similarities between the GEF and the CIF. They both provide concessionary financing for environmental interventions. Over the expected life of the CIF the two funds will disburse large amounts of funds at a roughly similar scale. Both work through intermediary organizations to deliver the projects that they finance.

However there are major differences between them as well. The CIF pattern of a quick growth of project funding over a short period, with a relatively small number of large funding decisions, followed by an equally quick scaling down over an equally short time period. This CIF pattern is completely different from a long-term and mature Fund such as the GEF. The administrative tasks to operate such Funds are significantly different, and the CIF has been organized along different lines and is much more closely integrated with its implementing organizations.

6.1.8 Does the CIF Offer any Lessons to the GEF?

The CIF was designed after the GEF; and Donors, with the benefit of more experiences to draw upon, took some different approaches.

- (a) *Distinguishing between “programming expenses” and “project-specific expenses”*. The GEF has defined two categories of expenses incurred by its GEF Agencies (corporate costs and project cycle management costs). In contrast CIF disaggregates costs more and distinguishes more between corporate costs, programming costs and project preparation/supervision costs. This has several advantages. It enables a clearer description of costs, solving some definitional problems, and it disaggregates and separates general programming costs from costs that are specific to individual projects. This helps avoid the misperception that the costs of managing individual projects are unreasonably high.
- (b) *Client country empowerment*. CIF makes the IA a supplier of services to the country EA, which is how it should be, with the country EA (partly) paying the bills. The incentives for IA efficiency are, therefore, better.
- (c) *Coverage of marginal costs only*. The MDBs that deliver the CIF have agreed to charge only the marginal cost of lending and supervision that result from the addition of CIF funds to the established base of a larger project. For example, the IBRD has agreed to a 20% “top up” of project costs that would be incurred in the absence of CIF. The implication is that even when the CIF funds are, say, 30% of the total project budget (or some higher figure) the top up of ‘administrative funds’ by CIF will still be only the 20% agreed. It seems that the MDBs decided that they could do this on a short-term basis in regard to the small number of large CIF projects. However, obviously, if all donors paid only the marginal administrative costs of their inputs to a project then a lot of costs would not be covered. Therefore it might not be a model for a long-term mature program with a lot of stand-alone grants, like the GEF. It might be a model for some of GEF’s full-size

grants that are fully blended with a loan by the IA. However we think that this would have to be negotiated on a case-by-case basis as an exception to the normal fee.

6.2 The Adaptation Fund

The Adaptation Fund was established to finance adaptation projects and programmes in developing country that are parties to the Kyoto Protocol, reducing their vulnerability to the adverse effects of climate change.⁷⁹ The Fund was officially launched in 2007 although it was established in 2001 at the 7th Conference of the Parties (COP7) to the UNFCCC in Marrakech, Morocco. At the 4th Meeting of the Parties to the Kyoto Protocol in Poznan in 2008, it was decided that the AFB would be conferred legal capacity to facilitate its functions, namely “direct access” to its funds by developing countries. The Adaptation Fund Board accepted Germany's offer to confer legal capacity. In February 2011 the German Government passed the necessary legislation.

The Adaptation Fund is managed by the Adaptation Fund Board (AFB). The Global Environment Facility (GEF) provides secretariat services to the Board,⁸⁰ and the World Bank serves as the Trustee.⁸¹ Any grant application to the Adaptation Fund Board must be endorsed by the host government through the Designated Authority (DA). The Adaptation Fund promotes direct access to funds by developing countries through National Implementing Entities, as well as through Multilateral Implementing Entities.⁸² Implementing entities are accredited by the Adaptation Fund Board.

The Fund is financed mainly from a share of the proceeds of the clean development mechanism (CDM). The share of proceeds amounts to 2% of certified emission reductions (CERs) issued for a CDM project activity. At the end of July 2010, the AFB had around \$160 million available to support adaptation. By the end of 2012 the resources available to the fund from CER

⁷⁹ Adaptation is the process of reducing the adverse effects of climate change on human and natural systems. It refers to the efforts made to cope with actual change as well as of adjusting to expected change. In practice, adaptation is climate-resilient development and natural resources management. In recent years, adaptation has emerged as a top priority on the international development agenda. At the 2010 climate conference in Cancun, Mexico, parties to the United Nations Framework Convention on Climate Change (UNFCCC) affirmed that adaptation must be placed on a par with climate change mitigation. In the Cancun Adaptation Framework, parties committed to “reducing vulnerability and building resilience in developing country Parties, taking into account the urgent and immediate needs of those developing countries that are particularly vulnerable”.

⁸⁰ GEF administers other trust funds including: (1) The Least Developed Countries Fund (LDCF); (2) The Special Climate Change Fund (SCCF); and (3) The Strategic Priority on Adaptation (SPA), under the GEF Trust Fund. The LDCF and SCCF now hold the largest and most mature portfolios of adaptation projects in the developing world.

⁸¹ The AFB is composed of 16 members and 16 alternates representing Annex I countries, Non-Annex I countries, Least Developed Countries (LDCs), Small Island Developing States (SIDS), and regional constituencies. The AFB meets every three months, during which the Board makes decisions on procedural issues and project approvals. The German Parliament has approved a bill that conferred legal capacity to the AFB; it was signed by the President of Germany and subsequently entered into force in February, 2011.

⁸² By June 30, 2011, the AFB has accredited the following Implementing Entities: (1) National Implementing Entities (NIEs): Agencia Nacional de Investigacion e Innovacion – Uruguay; (2) Centre de Suivi Ecologique – Senegal; Planning Institute of Jamaica – Jamaica.; and Fonds National pour l'Environnement, Benin (2) Multilateral Implementing Entities (MIEs): Asian Development Bank (ADB); International Fund for Agricultural Development (IFAD); The World Bank (International Bank for Reconstruction and Development); World Meteorological Organization (WMO); United Nations Development Programme (UNDP); United Nations Environmental Programme (UNEP); United Nations World Food Programme (WFP).

monetization are expected to be around \$350 million. Other funding sources include donations from Annex 1 countries, which amounted to \$70.95 million as of July 31, 2010.

6.2.1 Compensation for Administrative Expenses

The management fee on top of the project budget has been capped at 8.5%. In two cases fees requested by Implementing Entities have been at a lower level. There is no compensation for corporate support of the Adaptation Fund by the Implementing Entities because none is required.

6.2.2 Levels of Management Fees

To July 2011 the AFB has approved funding for 10 projects (See Table 6.2-1). The management fees are requested as a dollar amount. For comparison purposes they can be expressed as a percentage of the project budget (where the ‘project budget’ includes “execution costs”, which are called Project Management Costs in the context of the general GEF grants considered in this Review).

Table 6.2-1: PMCs and PCMCs for Adaptation Fund Projects

Project	Cost of Components	Execution Cost (PMCs)	PMCs as % of total project costs	Total Project Cost	Management Fee (PCMCs)		Total Financing Requested
Mongolia Water Security (UNDP)	\$4,589,124	\$480,000	9.5%	\$5,069,124	\$430,876	8.5%	\$5,500,000
Maldives Water Resources (UNDP)	\$7,510,398	\$774,602	9.3%	\$8,285,000	\$704,225	8.5%	\$8,989,225
Turkmenistan Farming Risk (UNDP)	\$2,450,000	\$250,000	9.3%	\$2,700,000	\$229,500	8.5%	\$2,929,500
Ecuador Food Security (UNDP)	\$6,329,200	\$632,920	9.1%	\$6,962,120	\$487,348	7.0%	\$7,449,468
Eritrea Water & Agriculture (UNDP)	\$5,423,000	\$587,000	9.8%	\$6,010,000	\$510,850	8.5%	\$6,520,850
Solomon Islands Agric. Food Security (UNDP)	\$4,600,000	\$500,000	9.8%	\$5,100,000	\$433,500	8.5%	\$5,533,500
Nicaragua Flood/Drought (UNDP)	\$4,620,000	\$450,000	8.9%	\$5,070,000	\$430,950	8.5%	\$5,500,950
Pakistan Glacial Lakes Floods (UNDP)	\$3,240,000	\$360,000	10.0%	\$3,600,000	\$306,000	8.5%	\$3,906,000
Senegal Coastal Erosion (CSE)	\$7,781,000	\$419,000	5.1%	\$8,200,000	\$419,000	5.1%	\$8,619,000
Honduras Water/Urban Poor (UNDP)	\$4,618,500	\$561,500	10.8%	\$5,180,000	\$440,300	8.5%	\$5,620,300

Implications for the GEF?

We note that projects funded by the *Adaptation Fund* so far have relatively high PMCs and a somewhat lower fee to cover PCMCs. The fee for Adaptation Fund projects is capped at 8.5%. The degree to which this is a precedent for the GEF depends largely on assumptions about what programming costs, as distinct from specific project management costs, are to be covered by the fee.

7.0 Summary of Recommendations

The key issues noted in the Terms of Reference for this Review of Administrative Expenses are:

- Are the administrative costs covered by fees paid by the GEF to its Agencies reasonable?
- Are there overlaps in the cost categories covered by GEF fees?
- What alternatives does the GEF have in regard to fees?

The Review found that it was not possible to track actual expenses against the GEF fee for individual projects for two reasons. First fees are pooled, starting at the level of the Trustee, and the pool is allocated within the GEF Agency, rather than actual expenses for each project being reimbursed. Second, most GEF Agencies do not have a reporting system for professional time of the staff so even in the absence of pooling of funds only estimates could be made of the actual PCMCs of individual projects. Therefore, in the absence of being able to compare individual project fees with actual project PCMCs, we looked for other measures of economy. There have been three benchmarking studies that are relevant, one by Grant Thornton LLP commissioned by the GEFSEC in 2008,⁸³ one undertaken by the World Bank⁸⁴ (benchmarking GEF with the CIF) and one by commissioned the GEF Evaluation Office⁸⁵ (benchmarking the GEF against five other major funds). All found that the overall level and use of GEF administrative resources are reasonable.

The Review found significant overlaps in the cost categories covered by GEF fees. One cause of overlaps is the division of costs into only two general categories - “corporate costs” and “project cycle management costs” (PCMCs). This obscures the importance of “programming costs”, which are not project-specific and not “corporate” in the narrow sense of direct engagement with the GEF administrative and policy apparatus.⁸⁶ We conclude that a three-part categorization of administrative costs would be a better framework:

- Corporate costs of direct engagement with the GEF administrative and policy apparatus
- Programming costs (substantive programming activities in GEF Focal Areas prior to specific projects), and
- Project oversight costs (management and technical oversight by the IA of individual projects – in the terminology of some Agencies, “lending” and “supervision” costs)

The Review suggests a categorization somewhat as follows:

GEF Agency Responsibility 1: Corporate Support to the GEF Administration and Policy

- a) Policy support to the GEF. Includes participation in the meetings of the GEF Governing bodies. It also includes participation, on occasion, in the development, revision and operationalization of GEF policies, strategies, business plans and guidelines.

⁸³ GEF/C.33/8, 2008, Review of Administrative Expenses Allocated to GEF Implementing Agencies.

⁸⁴ World Bank, CTF-SCF/TFC.4/Inf.2 “Benchmarking CIF’s Administrative Costs”, March 13, 2010.

⁸⁵ Watson, K. (August 2009) *Some Cost Comparisons Among Five Funds and Facilities*. GEF Evaluation Office.

⁸⁶ See Section 7.4.3 of the Main Report for a discussion of this issue.

- b) Support to the GEF Evaluation Office that includes providing information and other support to evaluations, reviews and studies initiated by the GEF Evaluation Office.
- c) Portfolio-level Reporting, Management for Results and Financial Management. This includes data management and preparation of the *Annual Monitoring Report (AMR)* to the GEF and the *Annual Portfolio Review* for the GEF Evaluation Office (APR). It includes participation in financial consultations organized by the Trustee

GEF Agency Responsibility 2: Programming in GEF Focal Areas (Substantive work that is not specific to a particular project)

- a) General portfolio management, including strategic planning for the GEF portfolio as part of the Agency's strategy in each of GEF's Focal Areas
- b) Global, regional and country research and monitoring by the Agency of trends in each GEF Focal Area
- c) Thematic and country evaluations by the Agency in GEF Focal Areas
- d) Outreach and knowledge sharing in cooperation with the GEF. This includes participation in GEF sub-regional consultations and STAP (technical) meetings.
- e) Country consultations, needs analysis and opportunity identification (early pipeline development prior to the identification of specific projects) in each of the GEF Focal Areas, including joint planning/identifications missions and country dialogues with GEF staff. Writing of concept notes before the development of project PIFs.

GEF Agency Responsibility 3: Individual project preparation and oversight by the GEF Agency of the executing agency's project management

- a) Preparation of a specific project culminating in the PIF.
- b) Further project design, appraisal and preparation after the PIF (with oversight of the *GEF Project Preparation Grant* where applicable)
- c) Preparation of detailed project documents for GEF Council approval or GEF CEO endorsement
- d) Oversight of project approval and start-up.
- e) Supervision of the Executing agency's implementation of the project.
- f) Monitoring, evaluation and reporting of the results of the project at mid-term and/or at completion.

Keeping this more disaggregated categorization of expenses in mind, the Review makes the following recommendations. (Summary Table)

Table 7-1: Summary of Recommendations and Other Options

Cost Area	Recommendation	Other Options
(4) Corporate costs	On the assumption the GEF wishes to pay only those “corporate costs” strictly required of each GEF Agency in regard to its direct engagement with the GEF on administrative and policy matters, and the assumption that these core corporate tasks and their costs are very similar across Agencies, a standard annual payment per Agency is an appropriate instrument. GEFSEC has made an estimate of average corporate costs under these assumptions. However the complexities and uncertainties are sufficient in our opinion to justify further study and discussion of the approach and the amount of the subvention.	<ul style="list-style-type: none"> • The status quo of a notional one tenth of the fee allocated to corporate cost or some variant of that approach such as a higher or lower notional percentage within a 10% fee, or within a 9% fee. • Customized subventions that have been tried before and found less satisfactory than a fixed fee approach. • An additional supplement provided to GEF Agencies in a replenishment year, either a standard amount for all Agencies or a variable amount linked to their individual plans to participate.
(5) Project oversight (management and technical oversight of the EA by the IA)	Fee of 9% on top of each project budget available to the GEF Agency upon project endorsement by the GEF CEO.	<ul style="list-style-type: none"> • Supplementary “Development Grants” to Agencies that propose to upgrade their portfolio in a particular GEF Focal Area, and propose a detailed work plan to do so in the coming year. Activities and outputs could include thematic evaluations or reviews, producing strategy documents, general programming plans, or “Country Investment Plans” in a GEF Focal Area. • Lower fee for program-based approaches involving a series or cluster of projects. • Lower fee for a project where the IA is also the executing agency. • Lower fee when the GEF grant is fully blended with a larger loan. (not as a strict rule but open to GEFSEC or Agencies to negotiate on a case-by-case basis). • An additional fee, similar to the CIF fee of 0.25% of the project budget paid to the IA by the recipient country out of its own resources.
(6) Project management by the executing agency.	A ceiling of 5% of the project budget above which the financial proposal to the GEF would be subject to additional scrutiny.	<ul style="list-style-type: none"> • A somewhat higher ceiling, in the range of 5% to 10%, not to signal that a higher PMC can be routinely applied but to limit the demand on GEFSEC resources for review time. • Over time, the development by GEFSEC of a risk-based approach to identifying grant proposals that require higher levels of budget scrutiny prior to approval, including but not limited to scrutiny of PMCs.

ANNEX 1 – TERMS OF REFERENCE

In 2007, the GEF Secretariat, in response to a request from the GEF Council, contracted an external consulting firm to review administrative costs at the three GEF Agencies (UNDP, UNEP, and the World Bank) in order to estimate the costs of undertaking GEF-financed projects and engaging with the GEF partnership. Despite cooperation from the Agencies, the Consultant encountered difficulties in acquiring and assembling comparable data on administrative costs across the three agencies. The report from the consultant will be provided as background to the selected consultant undertaking this review of GEF Administrative Expenses.

Subsequently, a working group comprised of staff from the GEF Secretariat and all ten GEF Agencies convened in 2008 and agreed on common definitions of project cycle activities and a reporting format that would allow for an assessment of GEF administrative costs across Agencies. However, this agreed reporting format was insufficient to allow a comparison among agencies, and a recent paper presented to the GEF Council in November 2010⁸⁷ once again highlighted the commonality issues among Agencies and the difficulty to compile comparable information with regard to administrative expenses. The GEF Secretariat and all ten Agencies are now engaged through another inter-agency working group to develop an agreed common format to report on expenditures related to administrative resources provided by the GEF. This exercise is expected to be completed by mid-April 2011.

The term "administrative costs/expenses" is utilized in these terms of reference to refer to the costs incurred by all ten Agencies in the delivery of results using GEF resources towards project activities in recipient countries. For the purposes of this exercise, "administrative costs/expenses" capture two categories of expenses. The first category of administrative costs is met from the fees that are provided to Agencies. The fees are provided to the Agencies to cover their costs for two purposes: (a) to fulfill corporate responsibilities related to institutional relations, policy and program development/ management/ coordination, outreach/knowledge management/external relations, management and finance and monitoring and evaluation; and (b) to provide project cycle management services, including due diligence management, quality assurance and oversight of a project through the entire project cycle – development, preparation, supervision, and evaluation.⁸⁸

A second category relates to project management costs included in the GEF project grant. It is recognized that resources to finance these costs are not always provided to the Agency and that they often flow directly to the executing entity of the project. Nevertheless, the review is expected, through a review of a sample of projects, to provide information on the level and use of project management resources.

Objectives of the Review

The overall objective of the Review was to examine the current level of fees paid by the GEF to Agencies to cover project cycle management costs and corporate costs, and project management

⁸⁷ *Rules and Guidelines for Agency Fees and Project Management Costs*: October 20, 2010, GEF/C.39/09

⁸⁸ *Proposal for A Fee-Based System for Funding GEF Project Implementation*, April 7, 1999, GEF/C.13/11.

costs; and to determine whether those administrative costs are reasonable relative to the services provided.

As far as possible within its constraints the External Review provides an assessment of whether GEF resources are being used effectively and efficiently, and makes recommendations, as appropriate, on ways to improve the management of administrative costs.

The consultant is required to prepare a brief report (about 50 pages + annexes) focusing on the following:

- a) Establish the current usage of fees (including provisions for corporate activities) and project management costs provided to Agencies;
- b) Estimate the core corporate activity costs required of all Agencies, based on GEF specifications of requirements.⁸⁹ (Requested by GEFSEC.)
- c) Assess whether deliverables in each category are in-line with the expenditures;
- d) Determine options and measures needed to rationalize Agency fees as appropriate;
- e) In carrying out this exercise, a sample of projects will be examined. This sample should be extracted from GEF-4 projects approved between fiscal years 2007 and 2010. The GEF Secretariat shall provide access to project information from the project database to facilitate the exercise.
- f) Review and apply the lessons learned from a previously conducted study by an independent consultant for the Multilateral Fund for the Implementation of the Montreal Protocol on Substances that Deplete the Ozone Layer.
- g) Compare the GEF's fee system to other similar institutions to be selected by the consultant based on past experience.

Specific Questions and Issues to be Addressed

As the contractor develops the specific recommendations, the following questions and issues need to be considered:

Are the resources provided through fees and project management costs (in the projects sampled) in compliance with the GEF Secretariat's rules and guidelines? (See Annex 1) If not, identify the specific issues where the use of GEF administrative funds (fees and project management costs) are not properly used or applied.

Are the ten GEF Agencies using GEF project management costs to pay part of their own administrative expenses for non-GEF activities (in particular staff time)?⁹⁰

⁸⁹ Corporate activities would include *inter alia* participation in Council meetings, task force meetings, network meetings, and review of documents.

What expenses are included in the project management costs, and which are integrated with other components of the project financing request?

Are the ten Agencies delivering expected services for the level of resources they receive? *For example: Some project level funds may be used by the Agency's GEF coordinating unit. By the time the funds are received by the task manager of the project, is the level of funds adequate to perform proper supervision?*

Is the 1% corporate fee levied on the overall project amount used for corporate activities only?

Are there overlaps among the different resources provided by the GEF? Are there alternative ways to manage these resources?

Can there be a cost-neutral systematic tracking and reporting of usage of resources at a project level? Clarify why this may or may not be desirable, at what stage would it be most informative? Clarify how benefits compare to costs of introducing additional reporting and transaction costs of receiving a GEF grant.

How are other similar institutions tracking the proper use and management of administrative resources provided to implementing and executing entities?

Methodology

Meet with GEF Secretariat, all ten GEF Agencies and GEF Trustee to gather information and further refine the review approach.

In coordination with stakeholders, determine an appropriate methodology and sampling size of projects and obtain specific information on fees and project management costs provided for each of the sampled project. Assess how the resources provided by the GEF to cover Agencies' costs for project management and corporate activities are used.

The project samples should include projects from all Agencies and for all project types (full-sized, medium-sized and enabling activities) including SGP (Small Grant Program) projects. The samples should cover projects endorsed between FY2008 and FY2010. A relevant sampling size should be taken for each fiscal year to properly capture corporate expenditures related to the GEF-5 replenishment, more specifically in FY2009 and FY2010.

For each fiscal year, the 1% corporate fee should be computed for all CEO endorsed projects. Subsequently, the consultant should obtain the actual expenditures on corporate activities incurred by all GEF Agencies and provide an analysis on how the resources were used.

Similarly, for project cycle activities, the consultant should determine the activities that were undertaken for each project by the Agencies and analyze how they were delivered.

⁹⁰ See Appendix 12 of GEF Operations Manual: "The treatment of any projects that are to be implemented and internally executed by GEF Agencies", November 3, 2009.

The review should look at the resources allocated for project management costs and analyze how they were expended.

Conduct a comparative study with one or two similar institutions selected by the consultant to help assess the adequacy of the fee level.

Review the commonalities and differences in the data across Agencies to allow a more uniform reporting matrix and the ability to compare data across Agencies.

Time Frame/Milestones

- Initial meetings with GEF Secretariat, GEF Evaluation Office, GEF Agencies and GEF Trustee. Include meetings with other institutions as necessary.
- Assessment of existing usage of fees.⁹¹
- Interim report with initial findings and possible options to rationalize fees as appropriate.
- Circulate interim report to the working group on GEF Fees for comments and feedback.
- Further meetings with GEF Secretariat and GEF Agencies.
- Final report. Report should include all findings identified in c) above and an Executive summary of the findings Due by October 14, 2011. (Changed to October 1 during the Inception Phase.)

⁹¹ The report should include but is not limited to the following; identification of existing usage of fee, assessment of appropriation of fees and project management costs in line with established rules and guidelines, analysis of existing overlap issues among agency fee and project management costs, assessment of deliverable of expected services by GEF Agencies, draft findings and recommendations regarding management of administrative resources at the GEF Agencies, draft findings and recommendations regarding the fee-based system of the GEF. a sample tool to track and report uses of resources at a project level.

ANNEX 2 – AGENCY REPRESENTATIVES FOR THE ADMINISTRATIVE COST REVIEW

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ANNEX 3 – QUESTIONNAIRES

The Administrative Costs Review describes administration costs as reported by Agencies. Agencies were asked to provide and/or verify information at three levels:

1. General systems and practices of the Agency⁹² and corporate-level activities in support of the GEF, and the expenses associated with those activities (for at least one fiscal year and preferably two, 2009 and 2010. (Questionnaire 1, below.)
2. Information on project cycle management by the IA for a sample of projects. (Questionnaire 2, below.)
3. Information on project management activities and costs by the EA

The Questionnaires supplement information already provided by the Agencies to GEF. Agencies are asked to bring their submissions to GEF up to date and to fill out three questionnaires (below).

Questionnaire 1: Corporate Activities and Costs

Preamble

The intent of this questionnaire is to enable GEF Agencies (IAs) to present a complete picture of their full costs of administrative activities of all kinds related to the GEF. The questionnaire attempts to provide structure and to be consistent with information already provided by Agencies to GEF annually. It also tries to go into greater depth, on a one-time basis, for FY2010 (July 1, 2009-June 30, 2010); and is flexible. Agencies can provide information in ways and formats that are possible, within the study time frame, given their existing systems and practices.

Background

The GEF definitions for Corporate and Project Cycle Management Activities are defined in GEF/C.39/9. (Annex 1). Agencies currently report administrative costs in their Annual Monitoring Report. That table is largely repeated below, since not all Agencies have completed it, and, in addition, we have listed some supplementary questions to enable Agencies to provide more detail if they are able to do so.

If the information already submitted to GEF does not reflect full costs for FY2010, we ask that Agencies bring their submission up to date. Table 1 includes a category for ‘other’ activities that may not be reflected in information previously submitted to GEF. Where the ‘other’ categories are used, please provide details on the activities.

Questions

Please complete the following table for FY 2010 (using or updating figures previously submitted to GEF where appropriate). Please include and substantiate your Agency’s full costs, putting aside for the moment consideration of the GEF fee.

⁹² Some questions might include: (a) Does your agency have a dedicated team that works on the GEF grants? If so, how many full time staff and/or consultants are dedicated to GEF projects? Where is the dedicated staff located? If you do not have a dedicated GEF staff, please describe how your staff are organized, the size of the team (both staff and consultants) and how the GEF functions are allocated across the team(regional, by type of grant, by function). (b) Is the staff that spends time on GEF-related corporate administration and the staff that spends time on Project Cycle Management different? For example, are Corporate Administrative expenditures incurred by headquarters staff and Project Cycle Management costs incurred by regional staff? (c) In the staff costs provided, please identify the rate at which overheads or indirect costs are allocated to the direct labor hours.

Table 1. Total Administrative Expenses for GEF Grants, Fiscal Year 2010, Corporate Activities and Project Cycle Management Activities for the Agency’s Whole GEF Portfolio*

Items	Staff		Consultant		Staff Travel Costs	Consultants Travel costs	General Operating costs	Total Cost
	Staff Hours	Staff Cost (\$)	Consultants Hours	Consultant cost (\$)				
1. Corporate Activities:								
A. Policy support								
B. Portfolio management								
C. Outreach and knowledge sharing								
D. Support to the GEF Evaluation Office								
E. Other								
Subtotal Corporate								
2. Project Cycle Management:								
a) Project identification, preparation and coordination								
b) Project supervision, monitoring and evaluation								
c) Other								
Subtotal Project Cycle Activities (whole portfolio)								
Total:								

* The Agency’s GEF portfolio will include projects under preparation (with an approved PIF) and projects under implementation or awaiting implementation that have received GEF CEO approval/endorsement.

Questions Related to Total Administrative Expenses

In addition please answer the following questions to help provide a full picture of administrative costs.

SIZE OF GEF PORTFOLIO AND LEVEL OF ACTIVITIES

1. How large was your GEF portfolio in FY2010, in preparation, awaiting implementation and under implementation? (Please give number of projects/grants and total dollar values, and state whether these are average figures or a figures at one time in the year.)
2. Does the size of your GEF portfolio vary significantly from year to year? [] no [] yes. If yes, please give figures to illustrate the size of the variations over time. Also, if possible, please describe significant fluctuations in the type of grants, the size of grants or other characteristics and describe how these affect your administration costs.
3. Please describe how your Agency manages administrative activities in support of the GEF. For example, do you have a dedicated unit to administer GEF projects and/or to provide general support to the GEF? How is the staff organized? How are the responsibilities and functions for GEF administration delegated across staff?
4. Were your expenses to support GEF -5 replenishment negotiations a significant factor in your administration expenses for FY2010? [] no [] yes. If yes please give details ...

STAFF TIME AND RELATED COSTS

1. Does your Agency have a time and labor reporting system? If so, please describe how costs are captured by the system.

2. How much staff time (permanent staff and consultants) did your Agency spend on GEF activities and how much did this cost, in FY2010. (This may be adequately described by Table 1 above. If so, please say so.)
3. Number of people dedicated full-time to administration of GEF activities?
4. Number of people whose time is partly dedicated to administration of GEF-related activities, and approximately the amount of time spent (in total hours or expressed as FTEs for the whole Agency)?

(Please explain how you have converted time data (hours/days) to dollar cost figures. For instance if you use a multiplier on actual or average base salaries, or an average or actual cost per unit of time, or some other procedure, please explain.)

Definitions

These definitions are drawn from GEFSEC sources. Some Agencies may have additional views on some definitions.

Definition of Corporate Activities- Corporate activities are such activities where the GEF Agencies engage with the GEF Secretariat (GEFSEC), the GEF Trustee, the GEF Evaluation Office and the GEF Council in relation to the formulation of policy and strategy. Activities covered by the notional 1% corporate fee include policy support, portfolio management, reporting, outreach and knowledge sharing, and support to the Evaluation Office, as described below.

- d) Policy support includes the development, revision and operationalization of GEF policies, strategies, business plans and guidelines. It also includes participation in the meetings of the GEF governing bodies.
- e) Portfolio management includes pipeline and program management, financial management and data management. It includes participation in financial consultations organized by the Trustee. It also comprises preparation of the Annual Monitoring Report (AMR), the Annual Portfolio Review for the Evaluation Office (APR) and the overall management of the portfolio regardless of the number of projects undertaken.
- f) Reporting includes all the reporting requirements related to the project.⁹³
- g) Outreach and knowledge sharing includes participation in sub-regional consultations, country dialogues and STAP meetings.
- h) Support to Evaluation Office includes evaluations, reviews and studies initiated by the GEF Evaluation Office.

Definition of Project Cycle Management Activities- The core set of services to be provided by the GEF agencies for each project include project identification, preparation of project concept, preparation of detailed project document, project approval and start-up, project implementation and supervision, and project completion and evaluation.

- a) Project identification
 - (i) Consult with appropriate stakeholders in-country, including the GEF operational focal point, identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis.
 - (ii) Review options for co-financing and partnerships.
 - (iii) Incorporate GEF opportunities in appropriate planning/country assistance strategy documents of the GEF Agency.
- b) Preparation of project concept
 - (i) Discuss GEF eligibility criteria with the recipient country's operational focal point and other stakeholders.
 - (ii) Undertake brief in-country consultation mission if necessary.
 - (iii) Consult within the GEF Agency.
 - (iv) Assist project proponent to prepare PIF, in consultation with appropriate stakeholders, including the GEF operational focal point and the GEF Secretariat.

⁹³ A full list of reporting requirements is listed in Annex 1 of GEF /C.39/9.

- (v) Assist with the preparation of the PPG.
- (vi) Obtain endorsement letter(s) from the operational focal point(s).
- (vii) Discuss with the GEF Secretariat PIF clearance and PPG approval.
- c) Preparation of the detailed Project Document
 - (i) Prepare and execute legal agreements for PPG activities. Keep the operational focal point informed.
 - (ii) Help the project proponent write Terms of Reference for consultant(s), if required, to undertake PPG activities.
 - (iii) Assist the project proponent to identify and recruit consultants to assist with project preparation, if necessary.
 - (iv) Supervise project preparation, in consultation with all appropriate stakeholders, including missions to the field, with particular focus on risk assessment, governance issues, execution arrangements, co-financing, capacity development, partnership building and outreach.
 - (v) Negotiate and reach agreement on incremental cost with government and other relevant stakeholders.
 - (vi) Submit Project Document with Request for CEO endorsement template to the GEF Secretariat.
 - (vii) Coordinate with relevant stakeholders in formulating a programmatic approach (PA); prepare a Program Framework Document (PFD) for submission to the GEF Secretariat for work program entry and Council approval; implement the PA; monitor and report on progress of the PA, prepare and submit for approval all PIFs under the PA; complete implementation of all projects under the PA.
- d) Project Approval and Start-up
 - (i) Appraise the project and finalize project implementation arrangements, including mission travel.
 - (ii) Prepare legal and other documentation for approval by the GEF Agency approval authority.
 - (iii) Advise the project proponent on the establishment of a project management structure in the recipient country.
 - (iv) Assist project management to draft TORs and advise on the selection of experts for implementation.
 - (v) Advise on and participate in project start-up workshop.
- e) Project implementation and supervision
 - (i) Mount at least one supervision mission per year, including briefing operational focal points on project progress.
 - (ii) Provide technical guidance, as necessary, for project implementation.
 - (iii) As necessary, include technical consultants during supervision missions to advise government officials on technical matters and provide technical assistance for the project as needed.
 - (iv) Pay advances to the executing entity and review financial reports.
 - (v) Oversee the preparation of annual project implementation reports for submission to the GEF Secretariat.
 - (vi) Monitor and review project expenditure reports.
 - (vii) Prepare periodic revisions to reflect changes in annual expense category budgets.
 - (viii) Undertake the mid-term review, including possible project restructuring. Send a copy to the GEF Secretariat.
- f) Project completion and evaluation
 - (i) Oversee the preparation of the Project Completion Report/Independent Terminal Evaluation, submit the report to the GEFEO and send a copy to the GEF Secretariat.
 - (ii) Prepare project closing documents.
 - (iii) Prepare the financial closure of the project.

Questionnaire 2: Project Cycle Management Costs

A separate questionnaire should be completed for each project in the study sample.

Preamble

The intent of this questionnaire is to collect Project Cycle Management Costs for each of the sampled grants. The data requested is similar to but more detailed than the data the Agencies have agreed to provide to the GEF in their Annual Monitoring Reports.

You will note that tables below include categories for ‘other’ activities to provide flexibility and, also, to enable the Agency responding to be comprehensive. Where the ‘other’ categories are used, please provide details on the activities.

The GEF definitions for Project Cycle Management Activities are from GEF/C.39/9. See Annex 1 to this Questionnaire.

PROJECT DATA

Project Title: ...

GEF ID Number: ...

Total Grant Amount (\$US), excluding fee: ...

Fee: ...

Implementing GEF Agency(ies): ...

Implementing GEF Agency Project ID Number: ...

Size/Type of Project: [] FS, [] MSP, [] EA

Date of GEF CEO approval/endorsement of the project:

Date Implementation Began:

Was there an associated Project Preparation Grant? [] No [] Yes

If yes, the PPG amount was: \$.....

the fee on the PPG grant was: \$.....

date of GEF CEO approval of the PPG was

Is this project implemented jointly with another Agency or Agencies? [] No [] Yes If yes, with whom?

..... If this is a jointly implemented project, what part of the Grant Amount is implemented by the GEF Agency completing this questionnaire? ...

Were all or part of the administrative costs for this project borne by another donor or co-financier? If so, please describe the arrangements...

Who are the Executing agencies or Agency for the Grant? Please state the name of each EA and the size of each sub-project.

Is this an Umbrella/Parent grant? [] No [] Yes If yes, umbrella ID number

Is this grant for a Program? [] No [] Yes If yes, please explain.

Please describe any other relevant factors that might affect the cost of administration of the project(s) funded by this grant. For example, is the grant blended with a loan and the administration of the grant blended with the administration of the loan? If so, what is the size and nature of the loan, and is the administrative cost of the grant affected by its being blended with, or piggy-backed on, a larger loan-funded project? Are there any economies of scale or scope? Alternatively if the grant funds stand-alone technical assistance or capacity development, please describe whether that affects administrative costs.

In your estimation is this project at the high cost end of the administrative cost spectrum, because of its characteristics, or at the lower cost end? Please explain.

Please describe the Project Cycle Management Costs for this Project.

Our intent is to obtain a picture of the IA’s full administrative costs for the project, without addressing here how they relate to the fee actually paid by GEF.

- (1) Detailed administrative costs incurred during the period of the Project Preparation Grant if there was a PPG. (Table 1)
- (2) Detailed PCM costs for one year of Project Implementation (Table 2)
- (3) PCM annual total costs for all years of project implementation that are complete; and estimated total PCM costs for years not yet complete (Table 3)

Table 1: Actual Costs of Project Preparation Activities (for activities covered by the Project Preparation Grant – if there was no PPG skip to Table 2).

Fiscal Year for the data in this table is:

(Feel free to adjust the categories of activities in Table 1. For example, “project identification” may be complete before the PPG.)

Activities*	Staff		Consultant		Staff Travel Costs	Consultants Travel costs	Other Costs	Total Costs
	Staff Hours	Staff Cost (\$)	Consultant Hours	Consultant cost (\$)				
<i>Project Identification</i>								
<i>Preparation of project concept</i>								
<i>Preparation of detailed project document</i>								
<i>Project approval and startup</i>								
<i>Other</i>								
Total:								

Notes:

* See Annex 1 for definitions of these activities.

Table 2: Actual Project Cycle Management Costs for One Fiscal Year of Project Implementation

(only costs not stated in Table 1 above)

Fiscal Year of the information in Table 2 is:

Please provide information for (1) project identification, preparation and coordination; (2) project supervision, monitoring and evaluation; and (3) Other. To the extent possible please disaggregate these as shown, or, if necessary, in another way that fits your systems and practices.

Activities*	Staff		Consultant		Staff Travel Costs	Consultants Travel costs	Other Costs	Total Costs
	Staff Hours	Staff Cost (\$)	Consultant Hours	Consultant cost (\$)				
(1) Project identification, preparation** and coordination								
<i>Project Identification</i>								
<i>Preparation of project concept</i>								
<i>Preparation of detailed project document</i>								
<i>Project approval and startup</i>								

(2) Project supervision, monitoring and evaluation								
<i>Project implementation and supervision</i>								
<i>Project completion and evaluation</i>								
(3) Other								
Total:								

Notes:

* See Annex 1 for definitions of these activities.

** If there was a PPG there is no need to repeat in Table 2 the information provided related to that PPG in Table 1

Table 3: Total Annual Project Cycle Management Costs for Each Fiscal Year of Project Preparation and Implementation, including costs in the year of the PPG, if any (from Table 1); and costs in the example year of implementation (from Table 2).

(Where actual PCM costs are available for a particular year, please put them in the “Actual Costs” column and, where they are not yet available, please put an estimate in the “Estimated Costs” column.)

Fiscal Year	Actual Costs	Estimated Costs	Totals (USD)
Totals:			

Questionnaire 3: Project Management Costs

(Incurred by Executing agency)

(This questionnaire is to be completed by one executing agency for one project or sub-project executed.)

The intent of this questionnaire is to collect data on actual Project Management Costs (PMCs) incurred by Executing agencies (EAs), as distinct from those budgeted. PMCs are included in project budgets and are part of the total amount approved or endorsed for the grant.

You will note that Table 1 below includes categories for ‘other’ activities. Where the ‘other’ categories are used, please provide details of those activities. (The GEF’s definition of PMCs as reported in GEF /C.39/9 is included in Annex 1 for reference.)

PROJECT DATA

Title of GEF Project: ...
 GEF ID Number: ...
 Amount of GEF Grant: ...
 Implementing Agency: ...
 Implementing GEF Agency ID Number: ...

Name of the Project/Sub-Project reported in this Questionnaire: ...
 Name of Executing agency: ...
 Executing agency ID Number: ...
 Project/Sub-Project/Budget (\$): ...
 PMCs (\$total) budgeted/for this Project by the Executing agency: ...

Please provide information about the PMCs for the project. The project management activities should include those listed in the original project budget plus any that have become apparent since the project began implementation. Table 1 asks for detailed costs both budgeted and actual for one fiscal year. Table 2, asks only for a total PMC amount for this project for each year of the project being executed.

Table 1: Project Management Activities and Costs for One Fiscal Year (preferably FY2010)

Fiscal year is

Project Management Activities (please list)	Budgeted Originally (\$)	Actual Costs (\$)
Totals:		

If the actual costs were significantly different from those originally budgeted, please explain the reasons:

Annual PMCs over the Whole Period of the Project

For the purposes of this study the “project” includes the “main project” plus the execution of the PPG, if any, if both are executed by the same Agency. Please describe the situation; and explain, where necessary, what information covers the project alone or the project plus PPG.)

In Table 2 please state a \$ figure for the total project management costs for each year of the project. If the figure for a particular year is based on actual experience please put it in that column. If it is an estimate for current or future years, please put the figure in the “estimated costs” column.

Please provide information by GEF fiscal year is possible (end June 30) but by calendar year or another annual fiscal period if records are kept that way. Please tell us how you define the annual period.....

Table 2: Project Management Costs for Each Year of Project Execution.

Year	Project Management Costs (total for each year)	
	Actual (\$)	Estimated (\$)
Total:		

Annex 1 Definitions

These definitions are taken from GEFSEC sources. Some agencies have suggested relevant points that the study will take into account in the study.

Definition of Project Management Costs - PMCs represent the actual costs associated with the unit executing the project on the ground and are included in the project budget. PMCs are usually financed from the GEF project grant and co-financing sources.

Activities Covered- PMCs finance project management activities undertaken by the executing entity to oversee the execution of the project. PMCs can include staffing costs and project related activity expenditures. Staffing costs may include the hiring of a project manager, a project assistant technical specialist(s), a procurement specialist and/or a financial specialist to help with the management and execution of the project. Project related activities may include the preparation of procurement plans, terms of reference and procurement packages, the oversight of consultant activities, monitoring and evaluation, knowledge management, the preparation of progress reports and financial reports for the project, and consultation with project stakeholders.

Source: GEF/C.39/9

ANNEX 4 – HISTORY OF GEF FEES

By Mr. Allan Barry, Member, Review Team.

GEF introduced a fee-based system for compensating its Implementing Agents (IAs) for administrative costs in fiscal year 2000 (FY00). In previous years, IA costs in implementing GEF projects were provided for in two ways, as project-direct costs in GEF’s annual Corporate Budget, and as a component of each project grant.⁹⁴ The fee was initially set on a fixed fee basis, but was changed to a fixed percentage of the GEF project grant in June 2006. This percentage was initially set at 9%, but was adjusted to 10% in June 2007, with the additional 1% intended to compensate GEF Agencies for certain corporate costs that might not otherwise be fully covered.

Figure A4-1: Components of GEF Compensation to Agencies (2011)

Corporate Costs	1%	Fixed Percent Fee (10% of OPCs+PMCs)
Project Cycle Costs	9%	
Project Management Costs (PMCs)	5%	PMC Guideline
Other Project Costs (OPCs)		

The Initial Fee-based System (May 1999)⁹⁵

A fixed fee system was approved in 1999 (to be effective July 1 2009 for FY00). It applied to the three IAs and encompassed all GEF projects. It was intended to strengthen financial management and cost-efficiency through:

- transparency of project-direct and corporate management costs,
- accountability for project output and performance,
- comparability of project implementation cost performance among the IAs and GEF projects and with external comparators, and
- predictability and stability in the flow of GEF funds.

It was expected that a fee-based system would encourage IAs to manage projects efficiently and effectively within the agreed fee.

⁹⁴ *Proposal for a Fee-Based System for Funding GEF Project Implementation* (GEF/C.13/11 April 1, 1999), para.10. Discussion of the system prior to 1999 will be expanded in the final version of this Note.

⁹⁵ Except where otherwise indicated, the discussion in this section draws on the *Proposal for a Fee-Based System* (GEF/C.13/11), as approved by the Council (*Joint Summary of the Chairs, GEF Council Meeting, May 5-7, 1999*, Decision on Agenda Item 11). The paper drew on the work of an Inter-Agency Working Group of the three IAs and the GEF Secretariat.

There was a one-time fee to the IAs to cover outstanding life-time implementation costs of then current GEF projects.⁹⁶ The fee-based system did not affect the “project management costs” (PMCs) paid by IAs to other agencies or national bodies, or on occasion kept to cover execution by itself. These PMs continued to be part of the project budgets. They continued to be negotiated project-by-project, although in the longer term consideration was to be given to integrating all fees and project management costs into a single fee structure.

One consequence of the new system was that GEF’s annual budget would now include provision of fees for all newly approved and endorsed projects, no matter how long the project life cycles were, because the full fee would be paid at the time of project approval/endorsement. If an approved project was terminated, and outstanding balance was to be refunded to GEF.

The fee methodology was based on the allocation of all IA costs into two categories: (a) *project cycle costs* relating to all project cycle tasks carried out directly in the development, preparation, supervision and evaluation of a specific project, and (b) *corporate management costs* relating to corporate responsibilities of institutional relations, policy and program development/ management/ coordination, outreach/knowledge management/external relations, management and finance, and monitoring and evaluation.⁹⁷

The fee was to encompass all IA *project-direct* costs. Project preparation costs would continue to be funded separately through the Project Development and Preparation Facility (PDF). Each IA’s GEF expenditures could now be organized into the following categories: project grant allocation, PDF funds, IA fees, EA fees and IA corporate management costs.⁹⁸

For financial/budgetary management purposes, all GEF projects were categorized as one of four standard GEF project types: Investment (INV), Technical Assistance (TA), Medium-Size Projects (MSPs) and Expedited Enabling Activities (EEAs), with a fee established for each project type. The classification of projects would determine the applicable fee.

It was recognized, however, that there were project-scope variations of regional, global, joint and add-on projects, and a premium expressed as a percentage of the fee would be allowed for these, based on a substantiated application by the IA. *In the longer-term*, on the basis of experience, fixed premiums were to be established and built into the fee structure, with such premiums to provide for appropriate incentives for innovative and global/regional/joint projects in expanding global environment efforts, and consideration could also be given to factoring in the work program and cost implications of other variables.

The flat fee schedule for a standard project (see table below) was based on a weighted average of the respective IA fees for those project types in which the IAs had been involved (WB for investment projects, UNDP and UNEP for technical assistance, and UNDP, UNEP and WB for enabling activities and medium-sized projects).⁹⁹ The fee computation was based on a weighted average staff-week coefficient (weighted for the agencies’ fees and total number of projects as of December 31, 1998) of the WB fee for INV projects, UNDP and UNEP fees for TAs, and UNDP, UNEP and WB fees for EEAs.¹⁰⁰

⁹⁶ Resources for subsequent years’ costs had already been committed and provisioned by the Trustee.

⁹⁷ Annex 1 of the paper listed the separate elements of Project-Direct Cost and Corporate Management Costs as well as those of the Expense Categories Definition.

⁹⁸ Which continued to be financed from the GEF corporate budget.

⁹⁹ Based on the total number of approved GEF projects as of December 31, 1998.

¹⁰⁰ Differences between the IAs were, therefore, taken into account only insofar as they affected the averages.

Flat Fee for a Standard Project

Project Type	INV	TA	MSP	EEA
Flat Fee	\$942,000	\$382,000	\$146,000	\$54,000

The fee methodology and structure were to be reviewed by the GEF Secretariat and the IAs at three-yearly intervals, or earlier if there were a material change in a project type's operational or cost profile. The fee for MSPs could be reviewed after experience was gained during the first year.

During the first year of operation, the GEF Secretariat and the IAs would monitor the operation and performance of the fee-based system and continue to enhance and standardize their financial and cost management practices. Towards the end of FY00, a joint review would be undertaken of the operation of the system and factoring for the impact of variables such as innovativeness, complexity and risk, and of fee structure performance benchmarked against the fee structures of comparator agencies. Financial management reviews would also be undertaken of representative projects to better understand expenditure patterns and cost profiles.

The GEF Council approved the application of the fee-based system, but recognized that there were a number of uncertainties and requested the Secretariat in consultation with IAs to:

- enhance the fee structure by identifying and defining common project variables and their impacts on project implementation costs to establish standard fee premiums and discounts,
- prepare a benchmarking review of the fee structure against project implementation costs of comparable development agencies, including where appropriate bilateral agencies or regional development banks or Funds, and
- review each IA's financial and cost management practices,
- commission an independent audit of selected projects from all three IAs to evaluate their expenditure accounting for the respective cost categories, and
- coordinate knowledge sharing and exchange of best practices in project implementation funding with other organizations.¹⁰¹

Report on Implementation of the Fee-Based System (May 2000)

A review of the new system was submitted to the GEF Council in May 2000. This covered fee adjustments for identified project variables, the benchmarking review, and first year application of the fee-based system, and proposed a revision to the fee structure.¹⁰²

Project variables that could materially affect implementation costs had been reviewed by the IAs and the Secretariat. It was agreed that the new system, in its immediate operation, would provide only for the impact of the variables of regional, global, joint and innovative projects. Sufficient data/experience did not exist to support pre-determined adjustment factors for these variables, and IAs had been asked to substantiate any such adjustments. It was expected that fee adjustments of this type would continue until sufficient historical cost data was accumulated.

¹⁰¹ *Joint Summary of the Chairs, GEF Council Meeting, May 5-7, 1999, Decision and Highlights of Discussion on Agenda Item 11.*

¹⁰² The text of the Joint Summary of the Chairs was not available for preparation of this Note. The discussion that follows is based on the submitted Report and needs to be updated to reflect the discussion and decision/disposition of Council.

The benchmarking review of comparator organizations was reported on separately.¹⁰³ This had confirmed that, overall, GEF's project cost management practices were methodical and rigorous. The review also found that comparator organizations employed quite different extents and degrees of project cost management.¹⁰⁴

In terms of first year experience, UNEP, whose projects consisted mainly of MSPs and EEAs, had not experienced substantive difficulties with the new system. The concerns of UNDP and the World Bank focused on categorizing projects as INV or TA, as there were no agreed definitions, and some projects had both investment and technical assistance elements. The majority of full-size projects proposed by UNDP and the WB had accordingly been categorized based on their traditional work program profiles, although a small number of projects had required negotiation to determine the appropriate fee. Categorization of MSPs and EEAs had not presented any issues, as these had established financial thresholds.

The fee-based system had been developed on the basis that an IA would recover its GEF project implementation costs by fully accomplishing the planned numbers of each project type in a typical work program portfolio based on GEF Business Plan projections. Consequently, the same fee had been assigned to all projects within a project type, regardless of size of the grant allocation or duration of implementation. In practice, this resulted in (a) a situation where the assigned fee did not seem correct for the size/duration of the project, and (b) an issue as to whether the fee should be intended to recover overall project implementation costs or each project's specific implementation costs.

The key recommendation of the review, based on the first year of experience, was that full-sized GEF projects should no longer be categorized as investment or technical assistance projects for fee purposes, but instead be categorized simply as full-sized projects, with a different fee basis. MSPs and enabling activities would continue to be assigned fees based on a flat fee.

The proposed revision would continue to ensure the accepted principles of *transparency of computation, simplicity and objectivity of application, cost efficiency of project implementation, and enhanced effectiveness of financial management of GEF resources.*

Under the initial flat fee structure, a project's allocated fee did not necessarily reflect its actual implementation costs because the fee structure and its computation were (a) conditional on each agency delivering its planned annual work program driven by GEF's project pipeline, (b) designed to cover each agency's total annual project implementation costs, and (c) premised on its utilization only as an internal pricing mechanism among the three IAs. Experience had shown, however, that operational circumstances demanded a fee structure that *established a direct and relevant relationship between a project's implementation costs and its corresponding fee*, thus providing more appropriate signals for cost and portfolio management.

Under the proposed revision, the fee for a full GEF project would be computed individually, using a formula that would account separately for the costs of the identified project implementation components.¹⁰⁵

¹⁰³ *Report on a Benchmark Review of Implementing Agency Fees* (GEF/C.15/Inf 7, April 7, 2000).

¹⁰⁴ *Ibid.*, para. 16.

¹⁰⁵ Described in para. 17 of GEF/C.15/6. This used the project grant allocation as a proxy for intrinsic complexities of the project, a fixed average amount for project/grant administration costs, a fixed average amount for each year of supervision cost required by the estimated duration of the project, and a (at least initially) negotiated amount to

Interim Report on a Revision of the Fee Structure (October 2002)

At its meeting in May, 2002, the GEF Council considered an Independent Review of the fee-based system,¹⁰⁶ and requested the Secretariat, in consultation with IAs and EAs, to prepare a paper with proposals for improving the fee structure, taking into account the concerns raised by Council Members on the rising trend in administrative fees, together with the findings and recommendations of the Consultant's Report and the Second Overall Performance Study. To better understand why fees were increasing, the Secretariat was asked to include more complete information and to provide an analysis of the trends and the fees with regard to types of projects, size of projects and focal areas.¹⁰⁷

The paper submitted to Council in October 2002¹⁰⁸ presented results of (i) an analysis of GEF's experience with its fee-based system, (ii) a review of four fee options proposed by the Independent Review, and (iii) consultations between the Secretariat and the IAs and EAs. Comment and guidance was sought from Council on the resolution of the issues experienced and finalization of the design of a revised fee structure for compensation of project implementation services by the three IAs and seven EAs.

The paper reviewed the fee structure approved in 1999 and its computation, and noted that although this was based on a flat fee for each of four identified project types, a 'fee ratio' was computed for reporting purposes. This was the fee expressed as a percentage of the project grant value, and was intended to provide a basis for benchmarking of (a) the reasonableness of the fee paid compared to fees paid by other development organizations for similar services, and (b) project fee performance and behavior between project types, fiscal years and implementing/executing agencies.

The paper reported that under the fee-based system, the IAs and EAs had made significant efforts to enhance their project cost accounting capabilities to allocate, manage and account for fees received, and this had been confirmed by the Independent Review.¹⁰⁹

For FY00 to FY02, an average Fee Ratio of 9.1% had been paid to the IAs for implementing GEF projects, *compared to a range of 8% to 20% typically paid by other agencies/organizations* (this range had been confirmed during the 1999 benchmarking review). Over the period, however, the overall fee ratio for GEF's annual work program had risen from 7.9% in FY00 to 11.3% in FY02, although the *average project fee*, particularly for full-size projects, had declined. This reflected the impact of:

- a changing mix of project types in the work program, with differing grant and fee profiles,
- a decline in average grant size, in particular those of the WB's full size projects, and
- an increase in requests for premium adjustments, particularly on full-size projects by UNDP.

The project and work program mix profiles had also been impacted by factors such as:

- the constrained level of available funding,
- increased release of accumulated projects from the GEF project pipeline,

provide for the cost impact of (i) joint, regional/global and innovative project variables, and (ii) partnering with regional development banks or other executing agencies.

¹⁰⁶ *Consultant's Report on an Independent Review of the Fee-Based System* (GEF/C.19/12, April 19, 2002).

¹⁰⁷ *Joint Summary of the Chairs, GEF Council Meeting, May 15-17, 2002, Decision and Highlights of Discussion on Agenda Item 13.*

¹⁰⁸ *An Interim Report on a Revision of the Fee Structure* (GEF/C.20/5, September 16, 2002). The discussion that follows is based on that paper, together with the discussion and decision of Council.

¹⁰⁹ For discussion of this, see *ibid.*, para. 10 and Annex 2.

- changes in the nature of projects,
- GEF Agencies' operational strategies, and
- introduction of the Expanded Opportunity executing agencies.

The changes in overall project profiles were mainly in the average size of project grants and to a lesser extent in the average duration of a GEF project. Average project size had decreased because of funding constraints, combined with an increasing number of projects flowing from a pipeline built up over several years. Thus, while FY02 had a 23% lower level in the work program than FY00, there were 15% more full-sized projects. While average project duration has declined, the costs of preparing and supervising projects did not decrease proportionately to the size of the project.

There had been a decline of almost 43% in the average grant value of full-size investment and TA-type projects, although an increase of 47% in the average grant size of the much smaller average value of enabling activities. In terms of impact on the overall average fee ratio, the decrease in the value of full-size projects had a much greater influence than the far smaller increase in average values of enabling activities.

The two trends with the most impact on the average fee ratio were (i) an increase in the number of full-size projects, together with the very substantial decrease in total grant value, and (ii) a substantial increase in the number of enabling activities, but with a much greater increase in the underlying total grant value. These trends together resulted in a greater increase in the total dollar value of fees relative to the total dollar value of the underlying grants.

Operational issues that had arisen during implementation of the fee-based system included:

- the absence of clear definitions and distinctions between Investment-type and TA-type projects,
 - an inability to determine clearly that the fee compensates only for additional project implementation services required by the GEF component of a project,
 - a lack of transparency in the determination of the flat fee and associated premium/ discount adjustments,
 - that project accounting systems in many agencies were not set up to record and monitor specifically the costs of implementation services for individual GEF project components,
 - that expenses are incurred in advance by the EAs for development and preparation of project proposals, which are covered only much later at the time of project approval, and
 - the EAs would not be able to support a flat fee structure dependent on a work program or portfolio for the recovery of total costs, as was possible with the three IAs.
1. To address these implementation issues, which had also been raised by the Independent Review, the design of a revised fee structure should to the extent possible take into account the following considerations:
 - the fee should compensate agencies on a project-by-project basis and not be dependent on execution of an annual work program,
 - fee determination should be based on technical criteria and be non-subjective,
 - fee administration should be simple and, if possible, premium/discount negotiations should be eliminated, and
 - the fee should demonstrate a relationship to a project's grant value and duration.

The review assessed the options suggested by the Independent Review:

- a *flat fee structure* (with or without adjustments), with agency-specific levels based on project types,
- a *flat percentage of grant size* (with or w/o adjustments), utilizing agency-specific rates,

- a *parametric model approach* that utilized a limited number of project cost drivers,¹¹⁰ and
- *project-specific fees* based on project-specific estimates.

The assessment of the *flat fee option* concluded that “The continued use of a flat fee structure may no longer be optimal because of the more dynamic evolution and nature of GEF’s work program and project profiles as a result of a less predictable funding situation, a more diversified, strategically-oriented work program, the introduction of seven additional agencies, and inadequate identifiable parameters or empirical data for determining premium/discount adjustments.”¹¹¹

On the *flat percentage option*, the Benchmarking Review had determined that, while most development agencies provided compensation for project implementation services by a fixed percentage of the total funding amount, none of these agencies could explain the calculation of the fixed percentage or if the percentage fairly covered the costs of their GEF Agencies. The implicit assumption was that the fee would take into account a project’s complexity and duration, which would be reflected in the amount of the project funding. Given, however, that implementation services do not increase in direct proportion to a project’s value, a graduated scale of fixed fee percentages might be more appropriate. Such an option could acknowledge a fee percentage ‘ceiling’ for each project type, but not a dollar value ceiling. Definitions, however, would need to be established for each project type.

A *parametric model* would be based on use of a formula to compute the fee for each project by factoring in certain identified project-specific parameters, such as grant size and project duration. The Secretariat had developed a parametric formula for Investment-type and TA-type projects as a model for consultations with the IAs. This test formula was based simplistically on an assumption that a project’s primary cost drivers were its grant value (as a proxy for project complexity) and its duration (as an indication of required supervision effort). The formula was developed utilizing available data.¹¹²

The paper noted that a parametric model would establish a fee computation formula that mechanistically determines a project’s fee by factoring for project-specific parameters. It concludes that this option would be more suitable for full-size Investment-type and TA-type projects, whose project-specific characteristics can vary quite substantially, than for Medium-Size Projects and Enabling Activities, which have more constant characteristics. The option could avoid the need for negotiations of fee adjustments to accommodate project-unique characteristics.

The paper also considered three variations of the fee options:

- fees for all project types for all agencies based on a single pre-established fixed percentage of a project's grant value,
- fees for all project types based on a fixed percentage of a project’s grant value for each respective agency, and
- fees of all project types based on a fee option deemed most appropriate and relevant to each respective agency.

¹¹⁰ The approach proposed in the Secretariat's May 2000 Report to the GEF Council (see above).

¹¹¹ GEF/C.20/5, para. 28.

¹¹² The formula is presented in GEF/C.20/5, paras. 31 and 32. It is similar to that proposed in the May 2000 Report to the GEF Council, but uses a preparation/development multiplier and an annual supervision multiplier for staff weeks, and avoids the need for a negotiated amount for the cost impact of joint, regional/global and innovative project variables and/or partnering with regional development banks or other executing agencies.

The GEF Council reviewed the document and asked the Secretariat, in consultation with the IAs and EAs, to prepare a proposal for a revised fee structure for Council review and approval, taking into account comments made by the Council. In preparing the proposal, they were also to consider:

- a mixed system that combined proposed options depending on the type of project,
- incentives for the agencies to reduce their fees,
- a better assessment of the financial costs of the options,
- the comparative advantage of each agency to implement different types of projects,
- a clearer indication of what services should be provided for the fees,
- whether the fee system favored or discriminated against certain types of projects, and
- caps on fees.¹¹³

Proposal for a Revised Fee Structure (May 2003)

The paper submitted to Council in May 2003 proposed a revised fee structure to compensate the agencies for provision of project cycle management services based on:

- (i) An agency-specific *Parametric Fee* for full-size Investment-type and Technical Assistance-type projects, and
- (ii) Standard *Flat Fees* for Medium-Sized Projects and Expedited Enabling Activities.¹¹⁴

Council approval was also sought for updated policy and procedure guidelines, including amendment for full-sized projects to provide for (i) adjustments to the parametric fee to recognize the additional resource demands of multi-country projects, and (ii) approval and allocation, on entry of a project concept into the GEF pipeline, of the portion of the fee related to project development and preparation. The Secretariat was to report on the trend in fees over the following four work programs.

For full-size Investment and TA projects, the use of a standard all-agencies Flat Fee was no longer suitable because of the considerable variances in the characteristics of projects, changes in work program profiles of the IAs, and the introduction of EAs without a work program profile. An agency-specific parametric fee would be more appropriate in determining the fee for each project. Such a fee would minimize the need for fee adjustments and recognize each agency's project implementation processes.

As Medium Sized Projects and Expedited Enabling Activities had more consistent project profiles for all agencies, a standard Flat Fee would adequately provide the agencies with appropriate funds to ensure a minimum level of project cycle management services, regardless of grant value.

The assessment of options had considered how each option would address a number of operational issues:

- Clear definitions and distinctions between Investment-type (INV) and Technical Assistance-type (TA) projects;
- The expectation of agencies that the fee should enable an agency to fully recover the costs of its implementation services;
- Establishment of commonly agreed and defined project implementation services encompassing GEF's project cycle phases and activities;
- The fee should compensate only the additional project cycle management services required by the incrementality of the GEF component of a project;

¹¹³ *Joint Summary of the Chairs, GEF Council Meeting, October 14-15, 2003, Decision and Highlights of Discussion on Agenda Item 8.*

¹¹⁴ *A Proposal for a Revised Fee Structure, (GEF/C.21/10, April 11, 2003).*

- In the case of some projects, the lack of transparency of computation of the flat fee's associated premium/discount adjustments;
- Project cost accounting systems in many agencies were not set up to record and monitor specifically the costs of implementation services on individual GEF project components;
- Expenses were often incurred in developing and preparing proposals well in advance of the approval of the project and associated fees; and
- Agencies without a substantive committed annual work program would not be able to support a flat fee structure that was dependent on a work program.

The paper identified the need for a clearer definition of the project cycle management services¹¹⁵ to be provided by the Agencies, including the distinction between project cycle management services (covered by the fee) and project execution services (covered by the project grant). A listing of these services for each type of project was provided in Annex 1.

There was also a discussion of the *Fee Ratio* that was computed as a basis for benchmarking, with an explanation that in interpreting and using the ratio as a monitoring tool, it was important to understand the method by which the fee had been computed, and the impact of the relative changes in values of the fee ratio's two components. An increase in the Fee Ratio could arise from a decrease in the average grant, but did not indicate an increase in the dollar cost of implementing projects. Also, project cycle management costs did not decrease proportionately with a decrease in grant value.

In the paper's analysis of the three fee options proposed by the Independent Review, it covered certain issues with respect to the flat percentage fee, including the need for a minimum fee to ensure that even low-value projects would cover their project cycle management costs, the options with respect to how such a percentage fee could be applied, and, since project cycle management services might not increase in direct proportion to the grant value, the case for a graduated scale of flat percentages.

In the case of the Parametric Fee option, which was the option proposed for full-size INV and TA projects, the paper presented in some detail the formula that had been discussed in the previous paper. This included separate computations for Investment-type projects, single-country TA-type projects and multi-country TA-type projects.¹¹⁶

The proposed fee structure, however, was not approved by the GEF Council. Council agreed instead that the current system for determining project fees should continue to be applied, and that this should include a freeze on the flat fees for enabling activities and medium size projects at current levels. Council also requested a further paper on the fee system that would consider:

- a distinction in fees depending on project type (e.g. full size, freestanding projects, full size projects associated with a larger project of an agency, full size projects with cofinancing, medium size projects and enabling activities);
- in reviewing fees for medium size projects and enabling activities, the comparative advantages of the agencies and mechanisms designed to address the expected growth in the number of medium size projects;
- mechanisms that could lead to more administrative efficiency; and

¹¹⁵ A change from the previous term "project implementation services" to better reflect the nature of these services and to distinguish them from direct project implementation.

¹¹⁶ GEF/C.21/10, paras. 26-29 and Annexes 2, 3 and 4.

- different incentives to reduce fees such as competitive bidding, a set level of fees with the possibility of bonuses based on defined criteria, a floor for fees above which greater scrutiny would be given to the justification for higher fees, and use of the corporate budget as an incentive to reduce fees.¹¹⁷

Council expressed its concern at the rising trend in fees, and noted that in particular the proposed flat fee for medium size projects and enabling activities was unacceptably high. Some Council members also noted that they might wish to consider a cap on the fee-grant ratio. More information was also requested on the specific costs related to medium size projects and enabling activities.¹¹⁸

Proposal for Revising the Fee System (June 2005)

The requested further paper was initially presented for Council discussion in May 2004,¹¹⁹ but was deferred due to time constraints, and a revised version was presented in June 2005.¹²⁰ The new fee system proposed was to apply a flat percentage fee at the same rate (9% of the GEF grant) to all project types. This was a portfolio level fee structure that would apply to all IAs and EAs. In addition, it was proposed to provide the Agencies with the option to request an advance on the fee upon approval of a Project Development Facility (PDF) B or C to cover project cycle management costs related to project development/preparation.

Consideration of fee options had taken into account most of the points identified by Council members. Three of the points, however – a competitive bidding process, a set level of fees with possible bonuses, and use of the corporate budget as an incentive to reduce fees – had been assessed as not compatible with the objectives of the fee structure or the structural operation of the GEF.

Options considered had been:

- A flat percentage fee for both EEAs and MSPs and a lower percentage for Full Size Projects (FSPs).
- A flat percentage fee for EEAs and MSPs and a scaled percentage for FSPs, at the same level as for EEAs and MSPs for the first \$1 million of the grant, with a lower percentage for the remainder of the grant.
- A single flat percentage fee applied to all project types. This option recognized that implementation costs of different types of projects varied on a project by project basis, but rather than seeking to provide cost recovery on a project basis, it would seek to provide cost recovery on the portfolio as a whole. Provision for floors, caps and premiums would not be applicable to such a system.

Based on an evaluation of the three percentage fee options, a flat percentage fee was considered to have net advantages. The percentage proposed of 9% was considered to be broadly in line with the historical overall fee ratio of 9.59% and was much below the average for the previous four years. A fee of 9% was also much lower than the percentages used in a set of comparator organizations, which varied between 11.6% and 18.4%.¹²¹ The low ratio allocated to EEAs and MSPs would be offset on a portfolio basis by relatively higher fees paid for Full-Sized Projects (FSPs).

¹¹⁷ *Joint Summary of the Chairs, GEF Council Meeting, May 14-16, 2003, Decision on Agenda Item 11.*

¹¹⁸ *Ibid.*, Highlights of Discussion on Agenda Item 11.

¹¹⁹ *Proposal for Revising the Fee System* (GEF/C.23/8, April 20, 2004).

¹²⁰ *Proposal for Revising the Fee System* (GEF/C.23/8/Rev.1, April 29, 2005).

¹²¹ The comparator organizations were the United Nations, the National Audubon Society, Conservation International, National Wildlife Federation, Environment Defence Fund, World Wildlife Fund and Friends of the

Proposed Fee Structure

Agency	PDF-B or C	EEAs	MSPs	FSPs	Premiums/ Discounts
GEF Agencies (UNDP, UNEP, World Bank) Executing agencies (ADB, AfDB, EBRD, IFAD, IADB, FAO, UNIDO)	Optional 9% advance on PDF-B and C	9%	9%	9%	None

Data presented in an Annex suggested that the historical Fee Ratio for two of the four project types (EEAs and MSPs) was much higher, at 14% and 17.5%, as appears also to have been the case for some of the Executing agencies (as distinct from the IAs). No evidence was provided to suggest that these higher ratios, even on a portfolio basis for many of the Executing agencies, were necessarily unreasonable or at odds with actual costs.¹²²

The portfolio-based fee system would apply to all projects approved commencing July 1, 2005. Any influences on portfolio balance would be closely monitored, and efforts would be made to maintain an appropriate balance among EEAs, MSPs and FSPs.

Fees had been paid only after approval of projects, which was often some years after a project entered the pipeline. This meant that the Agencies had had to bear preparation/ development costs related to Project Cycle Management Services for the first few years of a project. A new provision was, therefore, proposed to allow Agencies to request an advance on the project fee at the time of approval of a PDF-B or PDF-C. The suggested fee would be 9% of the value of the PDF-B or PDF-C. The remaining fee would be paid on project approval.

It was also recommended that the GEF project cycle be simplified to make it possible for the Agencies to reduce their costs related to the Project Cycle. Transaction costs of GEF business had increased since FY00 due to new steps in the project cycle, additional documentation requirements, mobilizing co-financing, and coordination with multiple agencies. A simplified project cycle could create faster and more efficient project processing and help to reduce preparation/development costs.

Earth. With the exception of the National Audubon Society, the fee percentages for the others varied between 13% (United Nations) and 18.4%.

¹²² The 2005 paper makes the statement that “even when allocating fees on a project type basis, in the long term, agency fee ratios converge to about 9% on a portfolio basis” and “individual Agency overall fee ratios are very similar to the overall fee ratio of the portfolio.” (GEF/C.23/8/Rev.1, pp. 17-18, Annex 2, para. 8.) This groups all four types of projects together and considers 7 of the 10 agencies, but it is not clear that even on this basis it is entirely borne out by the evidence presented. The decision was clearly to reduce the Fee Ratio, although earlier papers had argued that use of the fee ratio had certain weaknesses. The data presented in the two papers indicates that, although the average fee ratio for all agencies across all types of projects had been 9.59% over the 6 year period, this had been much higher in the most recent 4 years (presumably reflecting changes in the nature of the project mix, as discussed in earlier papers). For the 3 of the most recent 4 years for which complete data was available, the Fee Ratio had been 10.6%, which was not exactly a convergence towards 9%. No evidence was provided to suggest that this was necessarily unreasonable. On the basis of types of projects, the averages shown for the 6 year period (covering 4 to 7 of the agencies in each case) were 14% in the case of Enabling Activities, 17.5% for Medium Sized Projects, and 8.8% for Full-Sized Projects (INVs and TAs taken together). Overall averages are provided for seven agencies (ADB, IADB, IFAD, UNIDO, UNDP, UNEP and WB), ranging from roughly 8.9% to 11.1%, with all except one being 9.4% or higher. (GEF/C.23/8/Rev.1, Annex 2, p.18). Historical data provided in the initial paper showed the average for the Executing agencies (presumably all 7) at 10.3% (GEF/C.23/8, Annex 2, p. 19).

The acceptance by the Agencies of the reduced fees being proposed was in fact linked to an expectation that such simplification would take place.

The GEF Council agreed with the proposal to implement a flat fee of 9% of the GEF grant.¹²³ It was, however, clearly understood that the new system would be reviewed and discussed in June 2006. The Secretariat was requested to monitor the configuration of projects entering the project pipeline with a view to determining whether the new fee system was having any adverse impacts and to report to Council at each of its meetings on the results of its monitoring. The Secretariat was requested to pay particular attention to medium size projects and to the project mix and distribution of projects among the agencies. The Secretariat was also requested to report to Council in June 2006 on any difficulties the Executing agencies might be experiencing under the new fee structure with a view to allowing the Council to consider options to address those difficulties.¹²⁴

Some Council Members expressed the opinion that there was insufficient evidence and analysis to justify the proposed 9% level. Some Members expressed a concern that a flat percentage might act as an incentive to develop large projects and serve as a disincentive to develop medium sized projects.

The Executing agencies themselves expressed their concern that as new partners in the GEF, with small emerging portfolios and no provision for corporate costs as such, a 9% flat fee on projects would not be sufficient to cover their costs of doing business with the GEF.¹²⁵

Review of the Fee Policy (June 2006 and December 2006)

A paper reviewing the fee policy was submitted to GEF Council in June 2006, but consideration was deferred to December 2006. It was, not, however, placed on the agenda for that meeting. A related paper, however, on comparative advantages and complementary roles of the GEF Agencies,¹²⁶ which had also been deferred at the June meeting, was resubmitted in a revised form, with recommendations with respect to the Fee Policy as well as the role of the Executing agencies, and this was considered at the December meeting. The *Review paper*¹²⁷ was a report to Council on issues highlighted by Council Members.

Council had requested that the configuration of projects entering the pipeline be monitored to determine whether the new fee system had any adverse impact, particularly with respect to the number or quality of medium sized projects. The conclusion of the paper was that in the relatively short period of a few months since the new policy had come into effect, there was no evidence of an adverse impact in terms of the share of medium sized projects, either in numbers or in resource allocations.

The review covered the 9 months from July 2005 to March 2006, not including approvals during the period April to June 2006 or the proposed June 2006 work program. A significant part of the project approvals during the period were probably from the pipeline preceding the new fee policy, and, therefore, might not be expected to have been influenced significantly by the new policy.

¹²³ The Council Member representing the United States opposed the decision to move to a flat rate system, due to concerns about the appropriate rate, the impact this might have on executing agencies, the portfolio mix and the potential risk of agencies moving to areas not in their comparative advantage.

¹²⁴ *Joint Summary of the Chairs, GEF Council Meeting, June 3-8, 2005, Decision on Agenda Item 14.*

¹²⁵ *Ibid.*, Highlights of Discussion on Agenda Item 14.

¹²⁶ *Comparative Advantages and Complementary Roles of the GEF Agencies and Executing agencies of the GEF* (GEF/C.28/15, May 9, 2006).

¹²⁷ *Review of the Fee Policy* (GEF/C.28/11/Rev.1, May 10, 2006).

Nevertheless, there were some changes, although the paper judged that these were not significant. Enabling Activities, which had declined significantly in both number and portfolio share in FY05, declined only slightly further in the first 9 months of FY06.¹²⁸ Medium-sized projects had increased in both numbers and share in 2005, and the decline in the first few months of FY06 was relatively small in terms of numbers, from 29.8% to 28.3%, although slightly more in terms of portfolio share, from 7.3% to 5.8%. Full-sized projects had corresponding increases in both numbers and share, but not significantly.

The paper noted that the Executing agencies had expressed their concern that since they did not have access to GEF corporate budgets, they could be forced to use their own resources to participate in GEF inter-agency activities. The Executing agencies continued to express this concern, although their staff members did participate in several GEF inter-agency task forces and other GEF activities.

The revised paper on comparative advantages of the GEF Agencies¹²⁹ made a number of significant recommendations:

- The seven Executing agencies under Expanded Opportunities be granted direct access to GEF funding based on their comparative advantages;¹³⁰
- The current corporate budget for the GEF Agencies be eliminated as of FY08;
- The project cycle management fee for all GEF Agencies be increased from 9% to 10%;¹³¹
- The increase in fee of 1% would be used for GEF Agencies to participate in the corporate activities of GEF;¹³²
- All GEF Agencies should focus their involvement in GEF project activities within their respective comparative advantages and assigned primary roles; and
- The comparative advantage of a GEF Agency to manage a GEF-financed project should be assessed during the project concept review.

These recommendations were accepted by the GEF Council, and the recommendation on focusing the involvement of the Agencies in GEF project activities within their respective comparative advantages was to be further elaborated in a paper to be prepared for the Council.¹³³

¹²⁸ The decline had already largely taken place, in terms of numbers from 53% in FY03 to 45.8% in FY04 and 27.3% in FY 05, with a marginal further change to 25.8% in FY06. In terms of portfolio share, the decline had been from 5.6% in FY03 to 3.2% in FY04 and 1.8% in FY0, with a marginal further decline to 1.5% in FY06.

¹²⁹ *Roles and Comparative Advantages of the GEF Agencies* (GEF/C.30/9 November 7, 2006).

¹³⁰ This was particularly significant for FAO, IFAD and UNIDO in their respective areas.

¹³¹ The total fee for any Implementing Agency in a fiscal year would be capped at what it would have received with a 9% fee plus \$3 million from the corporate budget.

¹³² The GEF corporate activities with which the GEF Agencies would be expected to assist the Secretariat were listed in Annex 2 of the paper. The combined effect of these various changes was expected to save \$12 million in administrative overheads over a 4-year replenishment period.

¹³³ *Comparative Advantages of the GEF Agencies* (GEF/C.31/5, May 15, 2007), submitted to the GEF Council meeting in June 2007.

ANNEX 5 – PREVIOUS STUDIES

In 2007, the GEF Secretariat, in response to a request from the GEF Council, contracted an external consulting firm to review administrative costs at the three GEF Agencies (UNDP, UNEP, and the World Bank) in order to estimate the costs of undertaking GEF-financed projects and engaging with the GEF partnership. Subsequently, a working group was convened in 2008. A recent paper presented to the GEF Council in November 2010¹³⁴ once again highlighted the difficulty in compiling comparable information on the administrative expenses of GEF Agencies. The GEF Secretariat and Agencies are engaged through another inter-agency working group to develop an agreed common format to report on expenditures related to administrative resources provided by the GEF.

There have been several relevant studies in recent years, both by the GEF Secretariat and by the GEF Evaluation Office, which sought to throw light on the topic. For example the Evaluation Office produced a paper comparing GEF overhead in general (including fees) with four other major funds.¹³⁵

The review team has reviewed the (relatively scanty) literature on the topic of the cost efficiency of granting agencies. This scan will include a review of the methodologies that have been used in the past to make costs comparisons. Some documents that may be useful in whole or part include the following: (1) Small grants program joint evaluation by the GEF Evaluation Office and UNDP. (2) Three World Bank studies of its cost-effectiveness.¹³⁶ (3) A Government of Canada study of the relative cost-effectiveness of four multilateral development banks. (4) A cost-comparison Guideline of the US Government (describing procedures to be followed in comparing the costs of delivering the same service or similar services through different channels – a government department or contracted out to a private firm, for example). (5) Some published literature, including the following. William Easterly and Tobias Pfitze (Spring 2008) “Where does the Money Go? Best and Worst Practices in Foreign Aid”. *Journal of Economic Perspectives*. Vol. 22 Number 2.

There have been various publications related to donor organization efficiency.¹³⁷ For example in 2008 William Easterly and Tobias Pfitze published an article (referenced above) that, among other things, examined the relative overhead expenses of a large sample of multilateral and bilateral donors.¹³⁸

¹³⁴ *Rules and Guidelines for Agency Fees and Project Management Costs*: October 20, 2010, GEF/C.39/09

¹³⁵ Watson, K. (August 2009) *Some Cost Comparisons Among Five Funds and Facilities*. GEF Evaluation Office. The Funds and Facilities included: Global Environment Facility, Global Fund to Fight AIDS, Tuberculosis and Malaria, GAVI Alliance, International Fund for Agricultural Development (IFAD), The World Bank Climate Investment Funds (CIF, both the Clean Technology Fund and the Strategic Climate Fund). This study found seven factors that influenced cost efficiency of granting agencies: (1) An organization’s mandate and reach. (2) Types of services. Project vs. program-based activities. Capacity-building and technical assistance. Country presence. (3) Scale of operations. Efficiency ratios of organizations of similar sizes. Economies of scale. Grant productivity related to staff. Average grant size and delivery costs. (4) Being marginal to a larger project. (5) Efficiency of delivery systems and practices. (6) Mode of financing. (7) Administrative/delivery costs may be decreased by a pay-by-results approach.

¹³⁶ World Bank (2005). *The Costs and Benefits of Bank Decentralization: A Review of Qualitative and Quantitative Data, FY01-04*. World Bank (1997). *Cost-Effectiveness Review*. Washington DC. World Bank (2005). *Organizational Effectiveness Task Force*. Washington DC.

¹³⁷ Archarya, A. et al (2004) “Proliferation and Fragmentation: Transaction Costs and the Value of Aid”. *Journal of Development Studies* 42(1):1-21; Martins, B. et al (2002) “The Institutional Economics of Foreign Aid”, Cambridge University Press; Roodman, D. (2006) *An Index of Donor Performance*. Centre for Global Development. Working Paper 67.

¹³⁸ William Easterly and Tobias Pfitze (2008) “Where does the Money Go? Best and Worst Practices in Foreign Aid”. *Journal of Economic Perspectives*. Vol. 22, Number 2. Spring. Easterly et al generally drew comparisons and conclusions to the detriment of the GEF. For example, with the exception of the UNDP, he rated GEF as having the

Easterly said that the data available is “terrible” and that of all the indicators that he examined data on overhead costs is the “least trustworthy” because “there does not seem to be completely standard definitions of concepts like number of aid agency employees and administrative costs.”¹³⁹ Easterly and Williamson have since expanded on this work. (2011) “Rhetoric versus Reality: The Best and Worst of Aid Agency Practices”.

Multilateral Fund for the Implementation of the Montreal Protocol

In 2008 the Executive Committee of the Multilateral Fund for the Implementation of the Montreal Protocol commissioned a study of administrative costs.¹⁴⁰ We reviewed this study for possible relevance to the GEF. The figure that appears most relevant is the “total administrative costs” of the implementing agencies. This was defined as “core unit costs” (similar to “corporate costs” in the case of the GEF) plus “project support costs” (similar to “project cycle management costs” in the case of the GEF). This percentage was 14.6% in 2004 and declined to 12.5% in 2007.¹⁴¹ However the comparability of this figure with the 10% GEF fee is unknown because, as the consultants pointed out, the Montreal Protocol had not defined “administrative costs”. It is also the case that the average percentages for the Montreal Protocol were significantly increased by high numbers for UNEP. The average rate for the World Bank over the period 2004 to 2007 was 10.1%.

Grant Thornton Study of GEF Agency Administrative Expenses

In 2008 GEF Secretariat commissioned a study of the administrative expenses of the GEF Agencies by Grant Thornton LLP.¹⁴² That study found that GEFSEC information requirements were unclear.¹⁴³ Their recommendation was that GEFSEC determine the “type and level of data required for decision making”.¹⁴⁴ Other recommendations included: “Identify and define authorized activities for Corporate Management, Project Cycle Management and Project Management.” “Define and identify what constitutes ‘Administrative Costs’ and their uses.”

The second finding of the study was that IAs operate under different financial reporting and program management policies and procedures. The recommendations were that GEF Agencies should “develop and implement a common approach to cost accounting.” “Standardize annual project status and project completion reports.” “Adopt a requirements-based budgeting approach to Corporate Management activities.” and “Adopt a fixed baseline plus percentage basis fee for Project Cycle Management Costs”.

worst ratio of administrative expense to official development financing (grants and loans) of any multilateral institution. (Easterly, Table 4) He also ranked the GEF as the worst agency among the 40 examined in terms of transparency of operating costs. (Easterly, Table 2) The GEF Secretariat disagreed with the article and responded. In addition, the review team has noted that the article, among other debatable assumptions, proceeds from the premise that technical assistance is one of the three most inefficient types of aid (the others being food aid and tied aid). This seems to be a singular view of technical assistance, may relate mainly to staff displacement types of technical assistance, and is probably incorrect in regard to the types of technical assistance supported by GEF grants.

¹³⁹ Ibid, p.18

¹⁴⁰ United Nations Environment Program, *Assessment of the Administrative Costs Required for the 2009-2011 Triennium*. UNEP/OzL.Pro/ExCom/55/48.

¹⁴¹ Ibid. Figure 4.8, page 22.

¹⁴² GEF Council, GEF/C.33/8, 2008, Review of Administrative Expenses Allocated to GEF Implementing Agencies.

¹⁴³ Ibid, Section 4.1, Page 42.

¹⁴⁴ Ibid, Page 45.

ANNEX 6- GEFSEC CALCULATIONS OF AGENCIES' AVERAGE ANNUAL CORPORATE COSTS

Table A6-1 GEFSEC Estimates of Average Annual Corporate Expenditures

			Average SWs	Cost/SW	Base Budget	Travel***	Total Budget Proposed
			46.25	\$4,030	\$186,388		
Base Budget Estimate of time spent on corporate activities							
Variable Budget							
a) Replenishment/Assembly cost every four years**							
b) Travel related to corporate activities***:							
	WB					\$ 55,463	\$ 241,851
	UNDP					\$ 55,463	\$ 241,851
	UNEP					\$ 55,463	\$ 241,851
	UNIDO					\$ 24,612	\$ 211,000
	ADB					\$ 24,612	\$ 211,000
	IFAD					\$ 24,612	\$ 211,000
	FAO					\$ 24,612	\$ 211,000
	IADB					\$ 24,612	\$ 211,000
	EBRD					\$ 24,612	\$ 211,000
	AfDB					\$ 24,612	\$ 211,000
					Total		\$ 2,202,548
* Total Corporate Budget will be based on two parts: base budget same for all, plus travel cost varied by Agencies.							
** Every replenishment, an estimated 4.6 SWs time plus travel cost will add to the budget of approximately \$36,803. 4.6SWs x \$4030 = \$18,538 + travel of \$18,265 = \$36,803.							
*** Travel includes for 1 staff only, all related cost, such as ticket, hotel and per diem: Council meeting, STAP meeting, familiarization seminar. And NDI/ECW/CM.							
			<u>3 IAs</u>	<u>Others</u>			
2 Council Meetings	\$	7,306	\$	7,306			
STAP meeting	\$	3,653	\$	3,653			
Familiarization	\$	3,653	\$	3,653			
NDI/ECW/CM	\$	40,851	\$	10,000	(not all Agencies participated in these meetings,		
Total	\$	55,463	\$	24,612	hence, 25% budget assumed)		
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(See over page for some detailed task/time estimates)

Table A6-2 GEFSEC Estimates of Agency Involvement in Corporate Activities each year

9/8/2011

Corporate activities	Tasks for Each Agency	Staff time for Agency (by staff weeks)	Agency staff travel (\$)
STAP	Meetings, comments on papers, other tasks	1 SW	Ticket=\$2807=\$2807 Hotel=3x\$211=\$633 Per diem=3x\$71=\$213 \$3,653
Focal area task force ¹⁴⁵	Task force Meetings	BD-1SW; CC-0.45SW; LD=0.3SW; Chemicals=0.1SW; IW=3.8 SWs Cap. Bldg. = 2 SWs Total = 2.95 SWs	IWTF travel: Ticket=\$2,807 Hotel: \$211x5=\$1055 Per diem= \$71x5=\$355 \$4,217
Convention Activities	Only if Agencies are invited by GEFSEC to either participate in meetings or specific tasks	2 SWs	
Council documents	Review of Council papers, meetings to discuss papers	8 SWs	
Council meetings	Participation in meetings (2 meetings x3days=6 days=1.2 SWs)	1.2 SWs	Ticket=\$2,807x2=\$5,614 Hotel: \$211x3=\$633x2=\$1,266 Per diem= \$71x3=\$213x2=\$426 \$7,306
Network meetings/ Executive Coordination/ working groups	Participation in telecom meetings, estimated 20 meetings/yr. One staff/meeting for ½ day	1.0 SWs	
Support to Evaluation office	Thematic evaluations, performance, impact and CPE	10.2 SWs	Ticket: \$2807 x 2 x 2 = \$11228 Hotel: \$213 x 2 x 2days = \$852 Per diem: \$71 x 2 x 2days=\$284 Total = \$12,364
Replenishment meetings/Assembly	Replenishment: 4 SWs Assembly: 3 days = 0.6 SWs	Total=4.6 SWs	Replenishment: 4 trips Ticket=\$2807x4=\$11228 Hotel= \$211x 4 x 3 days=\$ 2532 Per diem=\$71x4 x 3 days=\$ 852 Assembly: 1 trip Ticket=\$2,807 Hotel: \$211x3days=\$633 Per diem= \$71x3days=\$213 \$18,265
<ul style="list-style-type: none"> •Expanded Constituency Workshops(ECW), •Constituency Meetings (CM), •Nat'l Diag Initiatives (NDI) 		Total of the three 15 SWs	3 trips: Ticket=\$2,807x3=\$8421 Hotel: \$211x115=\$24,265 Per diem= \$71x115=\$8,165 \$40,851
Familiarization seminar	3 days = 0.6 SWs	0.6 SW	Ticket=\$2,807 Hotel: \$211x3=\$633 Per diem= \$71x3=\$213 \$3,653
Knowledge management	Provide lessons learned at portfolio level	4 SWs	

¹⁴⁵ Estimates based on the number of meetings in FY10

BDTF: 12 meetings/year: each for 1.5 hours + 1-2 hours preparation = 3 hrs x 12 =36 hrs = 1 SW

LDTF: 4 meetings/yr x 2 hours + 1 hr preparation = 12 hours/yr=0.3 SW

CCTF: 12 meetings/yr: for 1.5 hrs x 12 = 18 hrs =0.45 SW;

Chemicals: 4 meetings/yr for 1 hr. = 4 hrs =0.1 SW;

IW: 8 meetings/yr x 7hrs=56hrs=1.4 SWs; subcommittee TF on IW TT = 1 SW; IW Biennial Portfolio meetings: 6 x 5 hrs = 30 hrs = 0.75 SW/2=0.37 SW;

Only IWTF provided information on a face-to-face biennial meeting: 5 days= 1 SW + travel.

External Review of GEF Administrative Expenses – Fees and Project Management Costs

GEFOP meetings to discuss work program	4 GEFOP meetings/yr 4 x 3 hours =12 hours=0.3 SW	0.3 SW	
Total SWs		46.25 SWs	

All estimates are based on the following:

- Estimates of the number of meetings are based on FY10
- Assumed one participant per GEF Agency per meeting;
- Travel is based on 1 staff travel to Washington, DC, average travel cost, ticket=\$2807, hotel (\$211/night) and per diem (\$71/day)

Note: Replenishment activities are estimated for every four years. The 46.25 SW estimate does not include an estimated additional 4.6 SWs during replenishment years.