Global Environment Facility

GEF/C.12/10
September 10, 1998

GEF Council
October 14-16, 1998
Agenda Item 11

EXPANDED OPPORTUNITIES FOR EXECUTING AGENCIES

Draft Decision

The Council reviewed document GEF/C.12/10, *Expanded Opportunities for Executing Agencies.* The Council notes the current efforts of the Implementing Agencies and the Secretariat to expand the opportunities for all executing agencies, including NGOs. The Council agrees with the initial proposals outlined in the paper for further deepening of the opportunities for RDBs and bilateral assistance agencies in implementing GEF projects and requests the Secretariat, based on Council discussion, to prepare a detailed proposal on modalities and fees for Council consideration at its next meeting

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Glossary

ADB	Asian Development Bank
AfDB	African Development Bank
EBRD	European Bank for Reconstruction and Development
FAO	Food and Agriculture Organization
IDB	Inter American Development Bank
IFAD	International Fund for Agriculture and Development
IIEC	International Institute for Energy Conservation
IMO	International Maritime Organization
IUCN	World Conservation Union
KfW	Kreditanstalt für Wiederaufbau (German bilateral assistance agency)
MSP	Medium sized project (of GEF)
RDB	Regional Development Bank
TNC	The Nature Conservancy
UNOPS	United Nations Office for Project Services
WWF	Worldwide Fund for Nature / World Wildlife Fund

EXPANDED OPPORTUNITIES FOR EXECUTING AGENCIES

I. INTRODUCTION

1. Expanding the opportunities for executing agencies to help implement GEF projects is expected to provide financial and operational benefits to the GEF. It would leverage additional resources for the protection of the global environment, expand capacity to deliver high quality projects, diversify the range and increase the number of innovative project ideas, and help stabilize the administrative budget.

2. First, expanding opportunities to executing agencies with the capacity to cofinance GEF projects (such as Regional Development Banks and bilateral donors) will leverage additional resources for the global environment. Second, deepening the collaboration with executing agencies having special expertise and close contacts in recipient countries will increase the capacity to deliver high quality projects, which is essential given the continued expansion in country driven demand. Third, broadening the range of organizations with which GEF collaborates will diversify the ideas and experience on which GEF as a whole can draw.

3. Fourth, expanding such opportunities is expected to help stabilize the budget through reducing and sharing the administrative costs of project implementation. Council had approved the principle of "steady, stable growth" in operations as a long term principle appropriate for GEF,[1] and corporate business planning has been based on the assumption that an annual growth of about 15 per cent is appropriate to help countries meet their commitments to the conventions and to undertake actions to protect the global environment. Yet such growth in project activity, under existing ways of doing business, will require corresponding growth in the administrative budget as well. At its meeting in New Delhi in March 1998, Council expressed its concern about the "unsustainable rate of growth of the GEF corporate budget and overhead costs." For this reason it is important to explore how an expansion of opportunities for executing agencies would contribute to the stabilization of the GEF corporate budget.

4. Recognizing these potential benefits, Council requested further action at its meeting in March 1998. Specifically, Council endorsed the following recommendation (among others for the Second GEF Replenishment Period[2]) as a statement of the Council on an action to be undertaken by the GEF to maximize its effectiveness and impacts, while respecting the prerogatives of the governing bodies of the Implementing Agencies:

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[1] This principle was first introduced in the FY97 budget, and is used for business planning and budget preparation.
[2] GEF/C.11/6, Annex B

> Participants reconfirm the responsibilities of the Implementing Agencies under the Instrument and emphasize the need for increasing responsiveness, efficiency and diversity in projects and approaches. In recognizing the potential benefits of competition, Participants recommend the Secretariat, in consultation with the Implementing Agencies, review the experience of executing agencies' participation in GEF activities and prepare costed options, for consideration by the Council, on ways to promote greater participation of those entities referred to in paragraph 28 of the Instrument, in particular the Regional Development Banks. The proposal should also address modalities for how these organizations should work, on a fee basis, through the Implementing Agencies or directly with the Secretariat and the Council.

5. In response to this request, this report presents a review of the experience of executing agency participation in GEF activities (Section II), identifies and costs options (Section III and IV), and describes associated modalities (Section V). Particular attention is given to Regional Development Banks and to the use of a fee-based system to cover the administrative costs of executing agencies.

II. REVIEW OF THE EXPERIENCE OF EXECUTING AGENCY PARTICIPATION

6. When GEF was established, participants invited UNDP, UNEP, and the World Bank to act as Implementing Agencies on account of their institutional infrastructure, knowledge and experience, network of contacts, and country presence. This arrangement is as important for the success of GEF today as it was then. In turn, these Implementing Agencies have been proactive in strengthening the participation of executing agencies in the work of GEF. They now have a large body of experience in mobilizing a broad partnership of executing agencies and in leveraging action by governments, bilateral donors, NGOs, private sector entities, and Regional Development Banks generally. (The Implementing Agencies have supplied information on examples of strong collaboration by executing agencies on GEF projects – see Annex 1.)

UNDP

7. While UNDP manages all its projects, it delegates the execution to a government agency, NGO, UN specialized agency or UNOPS, or a Regional Development Bank. A few examples are: NGOs participate in most UNDP-implemented GEF projects; as of March 12, 1998, NGOs were participating in 73 per cent of UNDP's full projects, 67 per cent overall, and the services they provided under contract was over $82 million. NGOs are likewise an important part of medium-sized projects; of the 98 considered for eligibility, 45 were from NGOs. The *Small Grants Programme* works almost exclusively with community-based organizations, NGOs, and other organizations of the civil society -- more than a thousand community-based projects have been funded under this program. UNDP procedures have also been changed to allow direct execution by NGOs – the first major UNDP project to be so executed is the GEF project *Conservation International Upper Guinea Rainforest Project*.

UNEP

8. UNEP's normal mode of operations for regular programs is through partnership, collaboration, and networking. To this end, memoranda of understanding and legal agreements have been signed by UNEP throughout its existence with a number of key scientific and technical organizations and institutions aiming at building complementarity and synergy with their respective operations. In addition, UNEP provides Secretariat

support to more than sixteen regional and international legal instruments including regional seas conventions.

9. For example, it is normal practice in the Regional Seas Programmes financed from the Environment Fund to involve partner organizations at the Steering Group/management level in decision-making and direction. Such organizations include FAO, IMO, and WHO in the Mediterranean MEDPOL Programme. These existing linkages are built into the GEF Mediterranean Strategic Action Programme project, where FAO and WHO have defined roles and responsibilities regarding execution of those components of the project that involve them in direct partnerships with national institutions and organizations. UNEP retains overall responsibility and accountability to the Council for the execution of its GEF projects, while the partner organizations are responsible for their components and answerable to the periodic meetings of the Contracting Parties.

10. UNEP also involves many organizations in its GEF activities. In a number of instances, executing agencies assume an expanded role; for example, in the case of the Organization of American States in the Bermejo, Sao Francisco, and Pantanal projects; and in the case of the FAO in the Shrimp Trawling PDF-B, where substantive actions and responsibilities are undertaken by OAS and FAO beyond those of simple execution. The distribution of administrative costs between UNEP, and these executing agencies reflects this expanded role.

WORLD BANK/IFC

11. In the Pilot Phase, the World Bank cooperated with the Inter-American Development Bank (IDB) for the *Costa Rica: Tejona Wind Power* project. Since then, in the March 1998 Work Program, it has entrusted the lead role on the design and preparation of the *Bangladesh: Biodiversity Conservation in the Sundarbans Reserved Forest* to ADB. (In the latter project, because some of the tasks that would otherwise be undertaken by the operational staff of the World Bank will be undertaken by their counterparts at the ADB, the World Bank will make a negotiated budgetary transfer to the ADB -- effectively a fee in respect of those tasks.) The Bank is now systematically empowering the RDBs to play a more substantive role in helping their clients access GEF resources; this effort began with the Asian Development Bank and has been extended to the African Development Bank, where discussions are currently underway for collaboration on a Guinea rural energy project. In all these cases, the World Bank's direct project costs were less than they would have been if the World Bank had led the implementation.

12. The World Bank has also entrusted a lead role in implementation to KfW, FAO, IFAD, and IUCN, and has also collaborated substantively with a long list of other organizations, including the Rockefeller Foundation, Shell International, IIEC, IMO, IPIECA, WWF, and TNC in GEF project preparation and execution.[3]

13. Currently, the Bank has a number of upstream but substantive initiatives.

[3] Some arrangements are special in a number of ways. World Bank/IFC often identifies or sets up an external management agency to manage a fund, and sometimes shares the responsibility for execution with such an agency.

- KfW is cofinancing and acting as an executing agency or collaborating partner in eight GEF investment projects. In particular, The *India: Solar-Thermal Electric* project is a good example of successful collaboration between the Bank and KfW in the preparation of a large and complex GEF project;
- FAO prepared the Bay of Bengal PDF B proposal and will coordinate the project preparation work;
- IFAD is leading preparation of the Belize Sarstoon Temash MSP and has led preparation of a draft PDF B for a Mali Niger Delta biodiversity proposal that is awaiting focal point endorsement;
- IUCN is leading the preparation of three marine protected area proposals: Vietnam, Tanzania and Western Samoa;
- TNC is leading the design work for the PNG biodiversity trust fund; and
- WWF is leading the design of several MSPs, including the Pacific Marine Aquarium Fish and Vietnam Bach Ma-Hai Green Corridor proposals.

14. In some cases (IFAD, IUCN, TNC) GEF resources were provided to cover part of the those agencies' costs through a PDF. In the case of FAO, the World Bank provided partial cost reimbursement from their share of the GEF Corporate Budget. In the other cases, the executing agencies are funding all their preparation assistance from their own resources. The World Bank has agreements with IFAD and IUCN on their roles and responsibilities for their PDF-funded work and an agreement with ADB on the Sundarbans Project. It will develop similar agreements with FAO on the Bay of Bengal and with AfDB on Guinea if the latter project goes ahead.

FURTHER EXPANSION OF OPPORTUNITIES

15. The Secretariat and the Implementing Agencies have already taken a number of specific steps described below to further expand opportunities for executing agencies and to facilitate a deeper and more diverse collaboration with the GEF. The executing agencies benefiting from these expanded opportunities are those referred to in paragraph 28 of the GEF *Instrument*: namely, multilateral development banks, bilateral assistance agencies, specialized agencies of the United Nations, other international organizations, national institutions, non-governmental organizations, private sector entities, and academic institutions.

Pipeline information

16. In consultation with the Implementing Agencies, the Secretariat now prepares a consolidated report on the GEF pipeline. This report, which will be refined and updated continually, will provide a common and transparent listing of projects that are still under conceptual development, thereby facilitating early dialogue between executing agencies and other organizations that are interested in the opportunities of collaboration.

Programmatic consultation

17. The Secretariat will continue its discussions with executing agencies on (i) the status of GEF programs; (ii) known country driven opportunities and national priorities; and (iii) GEF strategy, programs, policies, and procedures. Likewise, executing agencies have begun to share their experience with the Secretariat on (i) the status of GEF projects they execute or jointly implement; (ii) “best practice”

collaboration arrangements with Implementing Agencies; (iii) principles and modalities of future collaboration; and (iv) specific project proposals. The Secretariat will now make such consultations more regular and formal, to improve communication and share information and lessons more widely.

Referral to Implementing Agencies

18. When an executing agency expresses an interest in working with the GEF, and following discussions with them on their comparative advantages in addressing GEF programmatic needs, the Secretariat will refer the agency to one or more of the Implementing Agencies for follow up discussions on potential collaboration.

Implementing Agency action to expand opportunities

19. The Implementing Agencies have been expanding, deepening, and diversifying their collaboration with capable executing agencies for project execution, and building continuously on their experience. Given this objective, there is a clear need for:

- setting targets and timetables for expanding opportunities for executing agencies to participate in the implementation of the project cycle, particularly on concept development and project preparation;
- establishing common criteria for the selection of executing agencies;
- estimating the administrative cost savings such expansion will bring to the GEF;
- reviewing the multiplicity of existing modalities, success factors, and the causes of any failures in collaboration;
- assessing the comparative advantages of the executing agencies used so far and the opportunities for further deepening their roles;
- including executing agencies in upstream pipeline discussions and outreach; and
- setting criteria for monitoring progress and evaluating the success of these efforts.

III. IDENTIFYING THE OPTIONS

20. There are still further options for expanding opportunities for executing agencies. In this section, the types of executing agencies are first identified, the differences between their roles and those of Implementing Agencies are described, and the specific options for expanding their opportunities are set out and costed.

EXECUTING AGENCIES

21. Further significant contributions can be made by all the executing agencies, particularly NGOs, RDBs, and bilateral assistance agencies.

Non-Government Organizations

22. One of the most significant opportunities for NGO contribution is in medium-sized projects (MSPs). Although MSPs are not exclusively for NGOs (also being available for governments and other executing agencies) the size range of the projects makes it especially suited to the scale at which NGOs typically operate. At its meeting in October 1996, the GEF Council approved expedited procedures for MSPs, and requested a review of the procedures and their effectiveness in promoting approval and implementation of MSPs in 1998. This review has now been completed,[4] the key issues

[4] GEF/C.12/Inf.7

and modalities have already been set out, and a number of steps will now be taken to streamline the expansion of opportunities that this pathway represents.

Regional Development Banks and Bilateral Assistance Agencies

23. The opportunities for the larger executing agencies, notably the RDBs and the bilateral assistance agencies, lie in their capacity to undertake some of the tasks of an Implementing Agency – as indeed some have already done in collaboration with one or other of the Implementing Agencies. It is these options for deepening the involvement of executing agencies in the project cycle that are described below. These options will involve some change in procedures and have financial implications.

ROLES OF IMPLEMENTING AGENCIES AND EXECUTING AGENCIES

Tasks of the Implementing Agencies

24. The *Instrument* sets out the broad roles of the Implementing Agencies, the *GEF Project Cycle* lists their responsibilities in relation to the project cycle, and the *GEF Corporate Budget* elaborates on the administrative costs of their tasks.[5] Implementing Agencies undertake the following types of task:

- corporate activities, in support of the GEF in the widest sense;
- pipeline and program development; and
- managing the implementation of specific projects.

(See the first three tiers in Annex 2.)

25. It is important to note that the first two types are features that distinguish Implementing Agencies from executing agencies. These distinguishing tasks, integral to the GEF, are financed through the GEF Corporate Budget. Even in the options described below for expanding the opportunities for executing agencies, it is not proposed that any of these distinguishing tasks be required of executing agencies or paid for by the GEF.

26. Unlike any executing agency, Implementing Agencies:

- regularly consult with the Secretariat and contribute to policy formulation and to Council papers and programs -- and therefore receive, through the GEF Corporate Budget, compensation for the overhead costs associated with such tasks;
- program their own activities on the expectation of a certain volume of business that is set out in the GEF Corporate Business Plan, rather than project-by-project; contribute to corporate programming through the GEF Task Forces; coordinate the overall preparation of the Work Program within their organizations; and collect relevant data -- and receive, also through the GEF Corporate Budget, compensation for the project indirect costs of such tasks;
- maintain within their organizations a GEF coordinating unit -- the costs of which are also borne by the GEF Corporate Budget.

[5] See *Instrument for the Establishment of the Restructured Global Environment Facility*, paragraph 22 and *The GEF Project Cycle*, "Actors and Roles" for broad roles, and GEF Corporate Budget FY99 for the division of tasks and associated administrative costs into three tiers.

27. While many executing agencies also integrate an understanding of the global environment and of GEF procedures into their regular work programs, and periodically propose projects for GEF collaboration and funding, their costs of doing so are not borne by the GEF.

Regular tasks of executing agencies

28. Project execution is normally carried out by an executing agency under contract with an Implementing Agency in respect of specific tasks such as preparation of bid documents, procurement, and contract administration. The costs of project execution are of a quasi-administrative nature. On the one hand they are related to incremental costs of administering a specific project; on the other, they are costs not of measures "on the ground" but of administration or project coordination. In some projects, execution costs may be incurred in an eligible recipient country, for example procurement fees and where there is a project management unit at the project site. But in other projects (particularly global, regional, umbrella, trust fund or multi-country projects), execution costs may be incurred in a executing unit elsewhere. Such costs do not appear on the GEF Corporate Budget but are included in the relevant project budget and are approved at the time the project is approved. Under a fee based approach, executing agency costs would be covered by an explicit fee.

Areas of expanded opportunities

29. Beyond the regular executing agency tasks described above but short of the essential and distinguishing tasks of the Implementing Agencies, there are many other project specific tasks that are normally undertaken by an Implementing Agency. It is these "implementation" tasks, the third category of tasks described in paragraph 24, that represent potential new opportunities for executing agencies.

OPTIONS

30. To expand the opportunities for executing agencies -- specifically for RDBs and bilateral assistance agencies -- two sequential decisions need to be considered.

- The first concerns the extent to which these agencies should be encouraged to undertake the "implementation" tasks of the Implementing Agencies.
- The second concerns the extent to which agencies undertaking these "implementation" tasks assume full accountability to Council.

Three options

31. These two decision-points separate three scenarios, and these scenarios can be costed.

- The first scenario, "business-as-usual" (BAU), assumes for simplicity that implementation will not be shared.[6]
- The second assumes, for analytical clarity and for ease of comparison with the current situation, that all growth in the GEF beyond the FY99 levels of activity will be taken up by executing agencies that share implementation tasks. (Such a high level of uptake may not in fact happen, but the cost of any other assumed level can always be found from this analysis by interpolation.)

[6] Sharing is however already happening to a limited extent, for example the ADB through the World Bank.

- The third assumes not only that executing agencies implement projects accounting for all the growth but that they are all fully and directly accountable to Council. (As with the second scenario above, other assumptions about the extent to which this is done can also be made and their consequences found by interpolation.)

Factors affecting costs and their distribution

32. The different options have implications both for the overall <u>level</u> of administrative costs (i.e., the total administrative costs of the GEF units and the executing agencies, whether financed through the budget or through fees) and the <u>distribution</u> of those costs (i.e., the division of those administrative costs between GEF units – the Secretariat together with the Implementing Agencies -- and the non-GEF units – the executing agencies).

33. For all options, the level of costs will rise because of the increasing volume of business, although this rise will be less than proportionate due to continual learning, improvements in procedures, and management efficiencies. This level of costs will depend, for all options, on the exact mix of products (full investment projects, full technical assistance projects, medium-size projects, and expedited enabling activities).

34. There are differential effects as well. Where executing agencies take up some implementation tasks normally undertaken by the Implementing Agencies, one would expect that some costs would initially rise (initial needs for familiarization) but that over time these would decline (the dynamic effects of competition). Where Implementing Agencies remain accountable to Council for the executing agencies, some additional costs would be incurred for the extra supervision, joint decision-making, coordination, and additional monitoring and evaluation needed to maintain that accountability.

35. Unlike in the BAU case, where executing agencies take up some implementation tasks normally undertaken by the Implementing Agencies, a major effect will be the distribution of costs. Costs that would otherwise be incurred by the Implementing Agencies are under these options incurred by executing agencies, and so costs that would otherwise be administrative costs of the GEF units would become fees for non-GEF units.

36. Where the amount of implementation undertaken by executing agencies is sufficiently large, the net effect of the cost savings and the transfer of costs from Implementing Agencies to executing agencies could be large enough to stabilize the level of the GEF Corporate Budget even in a situation of "steady, stable growth." Details of the individual options and their costs are given below.

Secretariat costs

37. Under <u>all</u> options, the Secretariat itself would undertake a number of corporate tasks (see paragraphs 16-18) such as

- preparing a consolidated report on the GEF pipeline, including information from and of use to, executing agencies;

- consulting in a formal and regular way with the executing agencies on GEF programs; country driven opportunities and national priorities; and GEF strategy, programs, policies, and procedures; and
- referring interested executing agencies to Implementing Agencies on the basis of their comparative advantages in addressing GEF programmatic needs.

The cost of these tasks is in the overheads, common to all options.

38. Also under all options, the Secretariat would need to review project proposals and coordinate work program preparation. The costs of doing so (the Secretariat's project indirect costs) are likewise dependent on the *volume* rather than the source of proposals.

- If executing agencies share implementation tasks with the Implementing Agencies (meeting their standards and remaining accountable through them), the costs incurred by the Secretariat would not be higher than in BAU because the Secretariat would interact directly only with the Implementing Agency concerned.
- Even if executing agencies were directly accountable to Council, the costs incurred by the Secretariat would not be higher than in BAU because (i) the only executing agencies eligible to follow this path of direct accountability would be those that met very strict criteria (including the criterion of previous successful experience with the GEF – see paragraphs 57 and 58). (ii) It is also expected that executing agencies wishing to follow this more direct path would be willing to finance any additional internal costs their agencies would incur for staff training. It should be noted that even in the BAU (current) situation, the Secretariat spends considerable effort with the Implementing Agencies and their task managers on GEF policies, programs, and procedures and it is anticipated that no greater level of effort would be needed in respect of executing agencies which meet the strict criteria and willing to finance the costs of their own staff training.

These project indirect costs are reflected in all the costed options in Table 1.

Quantifying the cost implications

39. Although there are a number of uncertainties about costs and their future direction, it is possible to analyze the general cost implications of the various options. This analysis builds on the common cost accounting that has been introduced in the Implementing Agencies, the identification of different cost tiers on the basis of types of activity, and the development of corporate average coefficients of effort and staff week rates in the last Corporate Budget. Some of the cost uncertainties (such as the level of cost reduction that can be expected from management efficiency) will affect all options rather than the differences between them. Others (such as the additional cost due to joint supervision) affect one option but not the robustness of the qualitative argument that there are differential costs.

IV. Costing the Options

Business-As-Usual

40. Current efforts to expand opportunities for project execution build on the Implementing Agencies' broad operational experience and their existing network of

contacts. The Implementing Agencies are free to contract whatever partner is best qualified to execute a project, including those mentioned in paragraph 28 of the GEF *Instrument*, namely: "multilateral development banks, specialized agencies and programs of the United Nations, other international organizations, bilateral development agencies, national institutions, non-governmental institutions, private sector entities and academic institutions, taking into account their comparative advantages in efficient and cost-effective project execution."

Costs

41. As executing agencies continue expanding their role, the Implementing Agencies' *direct* costs of that portion of project implementation will fall because appraisal, supervision, and evaluation of these projects would require less of their staff effort and executing agencies would be recompensed through fees. On the other hand, the Implementing Agencies' expect that under BAU their project *indirect* costs would rise (although only "marginally"). This rise in indirect costs would result from the additional work needed on outreach to, and assistance for, the executing agencies so that they can internalize GEF requirements (which differ in many ways from the regular development assistance criteria). The net result is not known yet, but the Implementing Agencies are reviewing their experience and will estimate their net administrative cost savings or net costs of the current efforts to expand opportunities to executing agencies.

EXPANDING SHARED IMPLEMENTATION ARRANGEMENTS

42. This scenario, which departs radically from "business-as-usual," assumes that project implementation responsibility is shared with executing agencies.

Piloting shared implementation arrangements

43. Sharing implementation has already been piloted. After the GEF restructuring, the World Bank drafted a framework for RDB collaboration in consultation with representatives of the AfDB, ADB, IFAD, and IDB.[7] At that time, the major outstanding issue concerned accountability. Council then requested the Secretariat to prepare a paper on the relationship between Implementing Agencies and executing agencies identified in paragraph 28 of the *Instrument*.[8] Council reviewed the submissions of the Implementing Agencies in that paper[9] concerning their accountability for the executing agencies working for them; welcomed the confirmation of UNDP and UNEP that they assume full accountability for GEF projects executed under their sponsorship; and confirmed that the World Bank as an Implementing Agency shall be accountable to Council for its GEF-financed activities. In considering the submission by the World Bank, the Council reiterated its desire to facilitate the role of Regional Development Banks as executing Agencies of the GEF.[10]

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[7] Collaboration between the World Bank and Regional Development Banks in GEF Implementation: A Status Report, GEF/C.2/Inf.2

[8] Summary of the Joint Chairs, Second GEF Council Meeting. Decision on Agenda Item 14.

[9] *Accountability of Implementing Agencies for Activities of Executing Agencies*, GEF/C.3/9

[10] Summary of the Joint Chairs, Third GEF Council Meeting. Decision on Agenda Item 12.

Expanding shared implementation

44. The option of expanding shared implementation arrangements builds on the pilot efforts of the Implementing Agencies to expand the opportunities for executing agencies to share in the work of project implementation. It is an attractive option because it will help to mobilize additional resources and simultaneously relieve emerging capacity constraints on project delivery. Under this option, it is assumed that all growth in country demand (i.e., beyond the anticipated FY99 levels of about $420 million) can be accommodated by executing agencies working with Implementing Agencies.

Accountability

45. The Implementing Agencies would share responsibility for specific implementation tasks assigned to them in the project cycle (and for which administrative resources are budgeted), but would nevertheless remain fully accountable to Council for the projects. As at present, the Implementing Agencies would use a combination of means to ensure overall accountability. To accomplish this, the Implementing Agency may need:

- to select operationally experienced executing agencies according to their own criteria;
- to put in place additional monitoring and evaluation systems;
- to share the responsibility for critical missions (e.g., the Implementing Agency may need to add its own staff to executing agency appraisal and supervision missions and to re-work essential calculations and proposals); and
- to coordinate and share in operational decision-making.

Costs

46. If Implementing Agencies share the task of project implementation with another organization, there would be several financial implications:

- First, assuming that the executing agency and the Implementing Agency are equally efficient, the *project direct* (tier 3) costs would rise because of the need for some duplication by the Implementing Agency in order to remain accountable. For example, the Implementing Agency may need to join appraisal and supervision missions fielded by the executing agency, and to set in place institutional and project monitoring systems that would allow it to retain overall control of project quality. The World Bank estimates that the project direct costs are expected to rise by 25 per cent.
- Second, the executing agencies would bear their own costs and cover their own risks of developing a pipeline and of coordinating a program of GEF activities. For this reason, the *project indirect* costs of the Implementing Agency would fall.
- Third, some of the costs that would have appeared on the administrative budget of the Implementing Agency would, under a fee-based system, be *transferred* to the agreed fee paid to the executing agency to cover their project direct costs.

INTRODUCING FULL RESPONSIBILITY FOR IMPLEMENTATION

47. This third scenario is similar to the second one above, except that certain executing agencies would be given the opportunity of fully implementing a GEF

project and being directly accountable to the Council.[11] This option is similarly attractive in that it will help to mobilize additional resources and simultaneously relieve emerging capacity constraints on project delivery. As in the first option, it is assumed that all growth in country demand (i.e., beyond the anticipated FY99 levels of about $420 million) can be accommodated by executing agencies, but in this case they would be carefully selected to be directly accountable to Council. (Council would need to be assured that the executing agency granted "full accountability" met exacting criteria, and these are discussed further in Section IV on modalities.)

Costs

48. The costs of this option are lower than those of the option of "expanding shared implementation arrangements" above. This is because once an executing agency met exacting criteria justifying full responsibility and direct accountability to Council, it would not be necessary for any Implementing Agency to put additional monitoring and evaluation systems in place, to duplicate the performance of critical tasks, or to coordinate and share operational decision-making. Over time, the dynamic effect of learning and competition would also be expected to reduce the coefficients of staff effort and other costs, so that costs would be even lower than conservatively estimated here. The Secretariat's own project indirect costs (for project reviews and work program preparation) are the same for both options, and indeed the same under "business-as-usual" assumptions for any given volume of business. These costs do depend on the overall level of business -- which is projected to rise over time -- but not on the implementation arrangements.

BUDGET STABILIZATION

49. Providing expanded opportunities to executing agencies is expected to help stabilize the GEF Corporate Budget. Two options were described above, and each has different budget implications. Note that the options are not exclusive; in fact either or both of them can be simultaneously put into practice in different ratios. However, to isolate their budget implications, each is assumed in Table 1 to be the sole option implemented during the business planning period FY00-FY02.[12] The implications of mixed options can be found by interpolation.

50. The project allocations are expected to grow from the currently projected $420 million in FY99 to about $640 million in FY02.[13] The budget approved for FY99 is included as a reference point for judging the impact on the budget of these options. In FY99, the approved budget included overheads (tier 1 costs), project indirect costs of the Implementing Agencies and the Secretariat related to the overall volume of business (tier 2

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[11] This option responds to that part of the Council decision that the proposal for expanding the opportunities for executing agencies also address how these organizations could work directly through the Secretariat and Council. Council can approve such arrangements in accordance with the decision paragraph 28 of the Instrument: "Pursuant to paragraph 20(f), the Council may request the Secretariat to make similar arrangements [for GEF project preparation and execution] in accordance with national priorities."

[12] All costs are estimated in real terms and quoted in FY99 dollar amounts to assist comparison with the FY99 budget.

[13] See *GEF Corporate Business Plan, FY00 – FY02*, GEF/C.12/11.

costs), and project direct costs of implementation related to individual projects (tier 3 costs).[14] The total budgeted amount for FY99 was $39.2 million. Both options will affect project indirect (tier 2) and project direct (tier 3) costs. It is also assumed for both options that overheads (tier 1) will be frozen at FY99 levels.

51. The scenario for business-as-usual ("BAU") describes the impact on the FY02 budget of the projected increase in project activity and of the actions currently being taken to expand the opportunities for executing agencies in project execution. It is assumed that the direct and indirect costs rise in direct proportion to the volume of business (although in practice, increasing management efficiency is expected to reduce this slightly). There is presently insufficient data to project a net impact of expanding opportunities on the administrative budget – indirect costs would rise and direct costs would fall – so that a neutral assumption in used for this projection. Under these assumptions, and ***current coefficients of staff effort and other costs***, the GEF Corporate Budget would rise from its current FY99 level of $39.2 million to $54.2 million in FY02 in real terms. The Implementing Agencies have noted, however, that some cost savings are possible in future budgets, and that coefficients for indirect costs and direct costs will fall as the volume of business expands. This would reduce the budget estimate for all options.

52. The scenario for the first option ("Shared") assumes for comparative purposes that the entire growth in allocation in FY02 beyond the FY99 level (i.e., $220 million) is accounted for by projects in which responsibility is shared between an Implementing Agency and an executing agency, with the Implementing Agency retaining full accountability to Council. There are three financial implications:

- First, fees amounting to $12.3 million would be paid out to executing agencies for the implementation tasks they performed. These are tasks (appraisal, supervision, monitoring, evaluation etc.) that would otherwise have been performed by the Implementing Agency and for which the Implementing Agency would have been compensated through the budget.[15]
- Second, indirect costs would be reduced because the executing agency would be expected to cover much of the project and program coordination costs of the projects they help implement. The Implementing Agency would have to incur some additional project indirect costs in order to provide assistance to the executing agencies, but this would less than if they were fully implementing the projects themselves.
- Third, to maintain their accountability, the Implementing Agencies would incur some project direct costs as well – estimated at 25 per cent of the project direct costs incurred by the executing agency.

[14] In a fee-based system, the project direct costs would be included in a fee to the Implementing Agencies and approved at the time of project approval. While the project direct costs would strictly cover only those projects approved in the budget year, they would include provision for all future costs of implementation. Had the fee system been in place in FY99, the provision for Implementing Agency costs would in practice have been very similar to the amount budgeted.

[15] Under a fee-based system, a fee would be paid to the Implementing Agency for project direct costs. In this table, fees paid to Implementing Agencies are included as if they were part of the administrative budget.

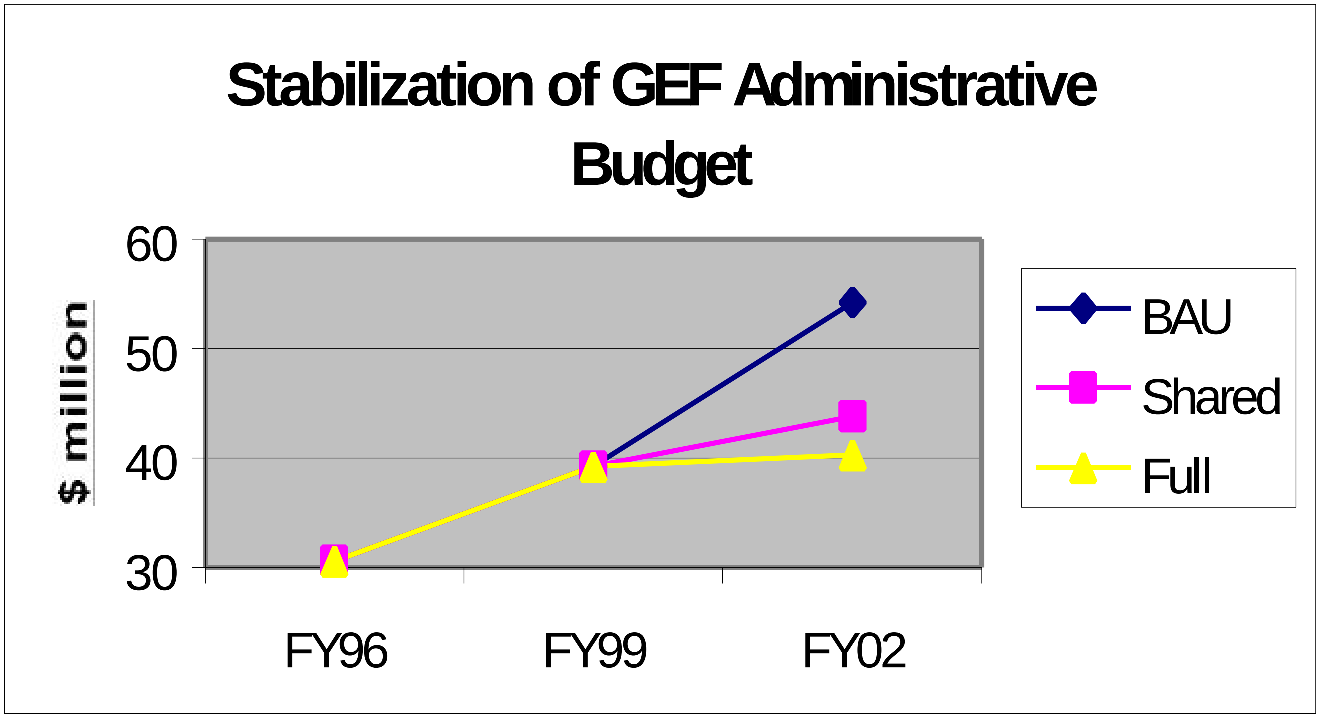
	$ million	$ million
Budget under “BAU” scenario		$54.2
• *Less* fees to EAs for direct costs of implementing	-$12.3	
• *Less* savings on project indirect (coordination) costs	-$1.2	
• *Plus* additional project direct costs to maintain IA accountability	+$3.1	
Budget under “Shared” scenario		$43.8

53. The scenario for the second option (“Full”) assumes for comparative purposes that the entire growth in allocation in FY02 beyond the FY99 level (i.e., $220 million) is accounted for by projects in which executing agencies take full responsibility and are directly accountable to Council. This is similar to the first option except that direct costs of maintaining Implementing Agency accountability are eliminated, since they would not be involved, and the Implementing Agency indirect costs for coordinating the program would likewise be reduced.

	$ million	$ million
Budget for “BAU” scenario		$54.2
Budget under “Shared” scenario		$43.8
• *Less* savings on IA project indirect (coordination) costs	-$0.4	
• *Avoided* need for any additional IA project direct costs	-$3.1	
Budget under “Full” scenario		$40.3

Table 1: Costed Options for Promoting Expanded Opprtunities for Executing Agencies

	FY99 $m	FY02 $m *BAU*	FY02 $m *Shared* option	FY02 $m *Full* option
Projected Allocations to Projects				
Implementing Agencies	$420	$640	$420	$420
RDBs, Bilaterals			$220	$220
Total Allocation	$420	$640	$640	$640
GEF Units				
(GEF Corporate Budget and fees to IAs)				
Corporate Outputs (overheads)	$10.6	$10.6	$10.6	$10.6
IA Coordination (project indirect costs)	$3.2	$4.8	$3.6	$3.2
Secretariat Coordination (project indirect costs)	$2.0	$3.0	$3.0	$3.0
Implementation (project direct costs)	$23.5	$35.8	$26.6	$23.5
Total -- GEF Units	**$39.2**	**$54.2**	**$43.8**	**$40.3**
Executing Agencies				
(Fees included in the project allocation)				
Fee for Implementation by an EA			$12.3	$12.3
Fee for Execution	$18.5	$28.2	$28.2	$28.2
Total -- Executing Agencies	$18.5	$28.2	$40.5	$40.5
Total operating costs (budget and fees)	$57.7	$82.4	$84.2	$80.7


Stabilization of GEF Administrative Budget
60
50
40
30
$ million
FY96
FY99
FY02
BAU
Shared
Full

V. MODALITIES AND FEE BASIS FOR EXPANDED OPPORTUNITIES

54. In relation to the two new options identified, the following modalities would be used:

EXPANDING SHARED IMPLEMENTATION ARRANGEMENTS

55. Some agencies, such as RDBs and bilateral assistance agencies, are capable of performing implementation tasks throughout the GEF project cycle, and (as noted in Section II) the Implementing Agencies are currently working with such agencies to share responsibilities for project implementation. In the future, all such operations would be put on an explicit fee basis (as proposed in the *GEF Corporate Business Plan FY00 – FY02*). Those costs associated with project execution will be paid out as fees to the executing agencies. To facilitate this, project documents will identify all administrative costs, including:

- the proposed fees to the executing agencies for project implementation tasks;
- the proposed fees to executing agencies for project execution;
- the project direct costs of the Implementing Agency.

56. Approval would be sought from Council for the project direct costs to be provisioned and disbursed according to a schedule to the Implementing Agency as a fee. These project direct costs will not be charged to the administrative budget, which will be amended appropriately to reflect such an agreement.

INTRODUCING FULL RESPONSIBILITY FOR IMPLEMENTATION

57. Several Regional Development Banks and bilateral assistance agencies have already collaborated successfully with the GEF, through cofinancing, executing, or jointly implementing GEF projects. Under this option, such organizations could, at their discretion, approach the GEF Secretariat to be considered for assuming full responsibility for project implementation and direct accountability to Council.

58. For Council to be assured that the agency in question was "fully qualified" to undertake this responsibility, the Secretariat would prepare a note for Council at the time the first project for a given executing agency was presented for Council approval. The note would assess the agency against exacting criteria concerning:

- relevant operational experience;
- country presence;
- financial resource mobilization and ability to leverage funds for global environmental protection;
- demonstrated financial accountability;
- comparative advantage in efficient and cost-effective project execution;
- expected value added to GEF projects through the use of the organization's specialized expertise, country presence, association with the organization's regular work programs and project pipelines, convening power, delivery capacity, and level of resources; and

- compatibility of the organization's project execution procedures and policies including policies on environmental protection, public involvement, and information disclosure, with the policies of the GEF.

59. The note would also attach a Memorandum of Understanding (or other suitable instrument) between the executing agency and the Secretariat on their commitments to work together. The executing agency would be expected to commit, as a partner of the GEF, to

- applying GEF policies and procedures;
- prescreening and coordinating all proposals within the institution and at the country level;
- monitoring and evaluating all GEF projects;
- cofunding GEF projects;
- sharing information on projects and pipelines;
- integrating global environmental considerations into their regular work programs; and
- cooperating with the GEF's Monitoring and Evaluation unit in their evaluations of the agency's commitments and GEF projects.

For its part, the GEF Secretariat would assist each such executing agency on matters such as familiarization with GEF strategy, principles, policies, operational programs, project cycle, project screening and review criteria, pipeline and project status reporting, M&E systems requirements, outreach, and communications.

REPORTING AND EVALUATION

60. Each year, the Secretariat, in consultation with the Implementing Agencies and executing agencies, would report to Council on progress on any option(s) approved for expanding the opportunities for executing agencies. The report would cover:

- the executing agencies participating in the work of GEF and the nature of that participation;
- executing agencies' experience in applying GEF criteria and participating in the GEF;
- the views of the Implementing Agencies and executing agencies on the nature and value of their collaborations, and their expectations of future opportunities for collaboration;
- emerging best practice, any operational issues, and proposals for improving modalities;
- the number and nature of any cooperative agreements between Implementing Agencies and executing agencies on sharing project implementation, and their experience in project implementation; and
- the assessments of executing agencies according to criteria for "full responsibility."

61. In FY02, the Monitoring and Evaluation unit would undertake an independent evaluation of the arrangements for expanded opportunities. If necessary, the Secretariat would propose revisions to the modalities and procedures.

ANNEX 1. COLLABORATION WITH RDBS AND BILATERAL ASSISTANCE AGENCIES

Organization	Focal Area	Country	Project Name	Entry into WP	GEF IA
Regional Development Banks					
ADB	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
ADB	Biodiversity	Bangladesh	Sundarbans Forest Biodiversity Conservation	98/04	World Bank/ADB
ADB	Biodiversity	Indonesia	Coral Reef Rehabilitation and Management Project (COREMAP)	97/05	World Bank
ADB	Climate Change	Regional	Asia Least-Cost Greenhouse Gas Abatement Strategy (ALGAS)	91/12	UNDP
IDB	Biodiversity	Guyana	National Protected Areas System	97/03	World Bank
IDB	Biodiversity	Honduras	Biodiversity in Priority Areas	97/03	World Bank/UNDP
IDB	Climate Change	Costa Rica	Tejona Wind Power	92/12	World Bank/IDB
IDB	Climate Change	Jamaica	Demand Side Management Demonstration	93/05	World Bank
Bilateral Assistance Agencies					
AusAID	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
Belgian Agency for Development Cooperation	Biodiversity	Regional	West Africa Pilot Community-Based Natural Resource and Wildlife Management	92/12	World Bank
CIDA	Biodiversity	Cameroon	Biodiversity Conservation and	93/05	World Bank

Organization	Focal Area	Country	Project Name	Entry into WP	GEF IA
			Management		
CIDA	Climate Change	Brazil	Energy Efficiency	97/08	World Bank
DANIDA	Biodiversity	Belize	Sustainable Development and Management of Biologically Diverse Coastal Resources	91/12	UNDP
Dutch Foreign Assistance	Biodiversity	Costa Rica	Biodiversity Resources Development	97/03	World Bank
European Union	Biodiversity	Madagascar	Environment Program Support	96/10	World Bank/UNDP
European Union	International Waters	Regional	Developing the Implementation of the Black Sea Strategic Action Plan	96/10	UNDP
European Union	International Waters	Regional	Developing the Danube River Basin Pollution Reduction Programme	96/10	UNDP
GTZ	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
GTZ	Biodiversity	Cameroon	Biodiversity Conservation and Management	93/05	World Bank
KfW	Biodiversity	Regional	Lake Ohrid Management	97/05	World Bank
KfW	Biodiversity	Benin	National Parks Conservation and Management Project	98/01	World Bank
KfW	Biodiversity	Guyana	National Protected Areas System	97/03	World Bank
KfW	Biodiversity	Madagascar	Environment Program Support	96/10	World Bank/UNDP
KfW	Biodiversity	Peru	National Trust Fund for Protected Areas	91/12	World Bank
KfW	Climate Change	India	Solar Thermal-Electric	96/04	World Bank
KfW	International Waters	Regional	Integrated Management of the Okavango River Basin	96/06	UNDP

Organization	Focal Area	Country	Project Name	Entry into WP	GEF IA
New Zealand Aid (MERT)	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
NORAD	Biodiversity	Costa Rica	Biodiversity Resources Development	97/03	World Bank
ODA	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
ODA	Biodiversity	Belize	Sustainable Development and Management of Biologically Diverse Coastal Resources	91/12	UNDP
ODA	Biodiversity	Cameroon	Biodiversity Conservation and Management	93/05	World Bank
ODA	Biodiversity	Ghana	Natural Resource Management	97/08	World Bank
ODA	Biodiversity	Malawi	Lake Malawi	91/12	World Bank
SIDA	Climate Change	Latvia	Solid Waste Management and Landfill Gas Recovery	97/03	World Bank
USAID	Biodiversity	Regional	South Pacific Biodiversity Conservation Programme	91/05	UNDP
USAID	Biodiversity	Belize	Sustainable Development and Management of Biologically Diverse Coastal Resources	91/12	UNDP
USAID	Biodiversity	Madagascar	Environment Program Support	96/10	World Bank/UNDP
USAID	Biodiversity	Uganda	Bwindi Impenetrable National Park and Mgahinga Gorilla National Park Conservation	91/05	World Bank
USAID	Climate Change	Regional	Planning for Adaptation to Climate Change (CARICOM)	95/05	World Bank

ANNEX 2: PROJECT IMPLEMENTATION AND EXECUTION: TASKS AND COST TIERS

Tier	Task Type *Institution*	Administrative Cost	Examples of Tasks
1	**Corporate** ***Implementing Agency***	Overhead costs (Tier 1 in the administrative budget)	• Contributing to policy formulation, Council policy papers and programs • Coordinating internally; training staff on GEF procedures • Ensuring consistency of organizational goals and global environmental objectives • Cooperation with the Participants, the Secretariat, parties receiving assistance from the GEF, and other interested parties, including local communities and non-governmental organizations, to promote the purposes of the GEF
2	**Pipeline and program development** ***Implementing Agency***	Project indirect costs (Tier 2 in the administrative budget)	• Assisting with project identification • Coordinating overall preparation of Work Programs • Collecting data on GEF activities • Contributing to corporate programming through Task Forces
3	**Project implementation** ***Implementing Agency/ Executing Agency***	Project direct costs (Tier 3 in the administrative budget; part of the fee under a fee-based system)	• Manage concept development, including submission for Secretariat review • Manage project preparation, including country coordination, contractual aspects, and Secretariat review • Supervise project implementation • Monitor and evaluate project performance, prepare implementation review
4	**Project execution** ***Executing Agency***	Executing agency costs or fees; procurement costs; management incentives (covered by part of the fee in a fee-based system)	• Preparation of bid documents • Procurement process • Contract administration • Progress monitoring and review • Management of performance incentives • Government liaison • Management of activities
5	**Project management** ***Project Management Unit***	PMU costs, as part of project allocation	• Site coordination