

GEF Council Meeting  
June 5 – 7, 2012  
Washington, D.C.

Agenda Item 15

## **Fee Structure for Agencies: Part I**

## **Recommended Council Decision**

The Council, having considered document GEF/C.42/08, *Fee Structure for Agencies: Part I*, expresses its appreciation to the Fee Working Group on further developing this structure.

The Council accepts the fee structure as proposed by the Fee Working Group and outlined in this document.

The Council requests the Secretariat to begin implementation of the new structure in the new fiscal year beginning July 1, 2012.

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## **I. Introduction**

1. The GEF Council, at its November 2011 meeting, discussed GEF/C.41/07, *GEF Administrative Expenses – Fees and Project Management Costs: External Review*. After taking note of the findings of the review undertaken by an external consultant, the Council requested the Secretariat to establish a working group comprised of four Council Members (two from donor constituencies, and two from recipient constituencies), GEF Secretariat, and GEF Agencies, to review the full fee structure, including the corporate fee, with a view to decrease the total cost of the fee structure and present a proposal for a new fee policy at the June 2012 Council meeting.

2. Following the direction of the Council, the GEF CEO established a Fee Working Group on November 30, 2011, comprised of the GEF CEO, four Council Members,<sup>1</sup> and two representatives of GEF Agencies.<sup>2</sup> The Working Group held three meetings during January – April 2012;<sup>3</sup> between meetings, the Secretariat and the representatives of the GEF Agencies worked closely together to undertake data analysis and prepare options for consideration by the Working Group. The Secretariat prepared this final paper reflecting the discussions of the Working Group for the new fee structure for submission to Council.

## **II. Current Fee Structure**

3. Under the current fee structure (in place since 2007), GEF Agencies are provided with 10 percent of a GEF project grant to support activities associated with project cycle management and their participation in corporate activities; fee for a programmatic approach is either 8.0 percent or 9.0 percent depending upon the type of program.<sup>4</sup> The fees for the Small Grants Program is at 4.0 percent.

4. The current effective fee rate is 9.68 percent.<sup>5</sup>

## **III. Fee Structure Proposed by the Working Group**

5. Having considered various approaches to reducing the administrative costs associated with project cycle management and corporate activities of the GEF Agencies, Council Members recommend the following fee structure for approval by the Council.<sup>6</sup>

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<sup>1</sup> Her Excellency Silvia Maria Meregá, for Argentina, Bolivia, Chile, Paraguay, Peru, and Uruguay; Mr. Nuritdin R. Inamov, for Armenia, Belarus and the Russian Federation; Mr. Gilbert Metcalf, from the United States; and Mr. Remy Rioux, from France.

<sup>2</sup> Ms. Karin Shepardson, from the World Bank; and Ms. Maryam Niamir-Fuller, from the United Nations Environment Program.

<sup>3</sup> The Summaries of the three meetings held on January 11, February 29, and April 04, have been shared with the GEF Council.

<sup>4</sup> For programmatic approaches implemented by a GEF Agency where projects are approved by an executive board the fee is 8 percent, while it is 9 percent for programs implemented by other Agencies.

<sup>5</sup> Effective Fee Rate = (Total Fees for GEF-4+GEF-5)/(Total GEF grants approved for GEF-4+GEF-5). The effective fee rate depends upon the profile of the approved portfolio of GEF grants and currently varies among Agencies from 9.34% to 9.99%.

<sup>6</sup> The fees for PPG will follow the same rate as related to the amount of the GEF project grant.

- (a) For GEF project grants up to, and including, \$10 million, GEF Agencies will receive fees at 9.5 percent of the grant;
- (b) For GEF project grants above \$10 million, GEF Agencies will receive fees at 9.0 percent of the grant;
- (c) No changes are proposed for fees for programmatic approaches (as noted in footnote # 4) and the Small Grants Program; and
- (d) Fees for new project agencies accredited under the policy of broadening the GEF network would be at 9.0 percent of the GEF grant.

6. Simulations conducted by the Secretariat of the proposed fee structure against actual GEF approvals during GEF-4 and GEF-5 estimate a savings of about \$16.5 million over a period of 5 years. The effective fee rate is estimated at 9.2 percent.<sup>7</sup>

7. The fees provided to the current GEF Agencies would cover both: (i) project cycle management services; and (ii) participation in GEF corporate activities. The new project agencies will not participate in GEF corporate activities and the fees they will be provided with will only cover project cycle management costs. The major items to be covered are listed in Annex A. All of these services provided by a GEF Agency to a recipient country are to be met from the fees provided to the Agency, unless otherwise specified in Council decisions.

8. The Secretariat has also identified streamlining measures that could be implemented in the near future. As presented in Annex B, a few of them require Council approval before the Secretariat can begin implementation, and the Secretariat will bring detailed proposals for Council consideration in FY13.

9. The GEF Agencies have identified some potential consequences and risks, as listed in Annex C that may accompany the reduction of fees. However, it is the Secretariat's view that these risks are easily manageable and can be mitigated. The GEF Agencies have to find new ways of doing business that improve efficiency without undermining effectiveness.

10. Finally, the proposed structure will not increase the costs of the Secretariat in the short-run. To note, the Secretariat's request for administrative budget for FY13 does not contain any nominal increase, viz., it does not even cover the cost of inflation. The Secretariat had taken a similar approach since FY11.

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<sup>7</sup> Under the proposed graduated fee, the effective fee rate varies among Agencies from 8.48% to 9.43%.

## Annex A: Project Cycle Management Services & Corporate Activities to be covered under Fees

### Project Cycle Management Services<sup>8</sup>

#### A. Project Identification and Preparation of Proposal

Generally assist project proponent in all relevant project preparation activities, including:

- Consult with appropriate stakeholders in-country, including Operational Focal Points, or other relevant GEF Agencies, and keep them informed of the project activities throughout the project cycle.
- Identify opportunities for GEF financing, using country dialogue and other country planning/sector strategy documents as a basis and also through NPFs prepared by countries or through countries' programming documents.
- Discuss GEF eligibility criteria with the GEF Operational Focal point and other relevant stakeholders.
- Help project proponents prepare proposal following the GEF criteria, including agreement on incremental cost with government and relevant stakeholders.
- Consult within the GEF Agency on: (a) Internal quality assurance on draft PIF, on technical quality and consistency with GEF requirements; and (b) Co-financing resource identification.
- Undertake in-country consultation mission and convene meeting and stakeholder consultations to discuss: overall strategy for preparing the project; possible implementing agencies; apparent key risks and mitigation measures; alignment with the Agency country program, regional strategies; multi-sectoral approaches and regional solutions.
- Assist project proponent to prepare PIF, in consultation with appropriate stakeholders, including the GEF operational focal point and the GEF Secretariat, in line with the *National GEF Portfolio Formulation Document, national priorities, GEF requirements*; (a) Oversee the Collection of financial information on the 'baseline project'; (b) provide scientific and technical advice in defining project strategy, outcome indicators and collecting information to define target and baseline; (c) Assist the proponent to fill out PIF template; and (d) Oversee the undertaking of initial environmental and social screening
- Assist with the preparation of PPGs, if any: (a) Assist Country proponents in identifying assessments and analysis needed and related inputs to achieve sound detailed design of PIF proposed components; and (b) Assist the proponent to fill out template for PPG request.
- Review co-financing opportunities and assist with negotiations.
- Obtain endorsement letter from operational focal point.
- Provide technical oversight on project preparation: (a) Oversee GEF specific analysis and data collection; review and comment on consultancy draft reports; (b) Assist the proponents to develop detailed project design and final project documents, including the GEF tracking tools for different focal areas; (c) Review proposed execution arrangement; (d) conduct a Fiduciary Risk Assessment

<sup>8</sup> Please note that A, B, C, and D are individual project specific Agency functions while E, and F are aggregated functions for the full GEF Portfolio of any given Agency. The latter two categories were earlier included in the list of GEF Agency Corporate Functions. These have been separated to distinguish them from Corporate Functions that only the existing 10 GEF Agencies are expected to perform.

of proposed executing partner; (e) manage and track process according to GEF milestones; review and submission of milestone extension request, responding to GEF Secretariat queries, obtain CEO clearance; and (f) Obtain co-financing letters from donors, NGOs, Agency and government;

- Ensure quality of concepts and proposals through Agency Quality Assurance Processes;
- Fill out GEF-5 Agency Notification for Dropping/Cancelling PIF/PPG (when needed).
- Obtain Agency internal approval of the PIF and PPG documents prior to submission to the GEF.
- Submit proposal (PIF/PDF/PPG) for CEO clearance/approval and work program inclusion.

## **B. Agency Project Approval**

- Conduct project appraisal and finalize project implementation arrangements, including mission travel.
- Prepare negotiation package, including final project documents, legal agreements, disbursement letters, invitation to negotiate, etc., and obtain internal clearance from relevant departments
- Prepare and execute legal and other documents for appraisal and approval by the GEF Agency internal approval authority, with particular attention to policy issues and capacity development.
- Assist project proponent establish project management structure in country, including assist the project management unit identify staff for the unit and ensure adequate staff capacity in executing the project;
- Finalize project documents for CEO approval/endorsement prior to Agency approval.
- Help project management agency draft TORs to select experts for implementation.
- Assist the project proponent to identify consultants to assist project preparation and implementation, if necessary.
- Assist project management agency with project start-up workshop.

## **C. Project Implementation/Supervision**

Generally oversee activities undertaken by local executing agency and assist the agency in all relevant activities related to project implementation, including:

- Conduct at least one supervision mission per year to supervise project implementation, including briefing OFPs on project progress.
- Provide technical oversight, as necessary, for project implementation; and as necessary, include technical consultants during supervision missions to advise government officials
- Prepare all relevant tracking tools with input from proponents.
- Oversee procurement to ensure implementation is in line with Agency policy.
- Financial Management and Control Framework of project expenditures; control environment, risk assessment, internal controls, monitoring, and information sharing and supervision of roles and responsibilities of fiscal agents and fiduciary trustees; risk assessment and proactive risk response.
- Prepare and pay advances to the executing agency and review financial reports.
- Arrange disbursement for projects, including disbursement to country executing agency and for direct payment to suppliers of goods and services and other financial transactions,
- Monitor and review project expenditure reports.
- Review and/or prepare annual project progress reports.
- Review and/or prepare periodic revisions to reflect changes in annual expense category budgets.

- Conduct mid-term review for projects, programs and enabling activities as appropriate, work with executing body to prepare mid-term tracking tools, and submission of mid-term review reports to GEFSEC.

#### **D. Project Completion/Evaluation**

- Oversee preparation of project evaluation report prepared by the local executing agency for the project and provide technical oversights for the evaluation in close consultation with the country evaluation offices.
- Help prepare Terms of Reference for the mid-term and final evaluations incorporating GEF Evaluation Office Monitoring and Evaluation Policy, ‘Guidelines for GEF Agencies in Conducting Terminal Evaluations’ and GEF Agency Evaluation Policy in the Terms of Reference of the Evaluation. Translate project evaluations into English.
- Prepare Project Completion Report/Terminal Evaluation, with the involvement of the OFP and submit the report to the GEF Evaluation Office.
- Prepare all relevant tracking tools.
- Prepare project closing documents
- Prepare financial closure of the project

#### **E. Portfolio Management**

- Overall management of Agency project portfolio.
- Coordination of mobilization of project and program co-financing at country, regional or portfolio level.
- Review and acceptance of STAP advice on portfolio and project design.
- Response to queries from country GEF OFPs and others on GEF portfolio and policies.
- Maintain database for GEF project portfolio and Agencies’ internal website management.
- Liaison with GEF Trustee, reconciliation and participation in financial consultations.
- Compliance with GEF fiduciary standards and periodic reports to Council.
- Ensure appropriate mechanisms and budgets for monitoring, evaluation and supervision of the implementation of the portfolio, through periodic assessments, mid-term reviews, indicator and risk assessment and management.
- Support GEF portfolio monitoring and reporting, and activities associated with implementation of GEF Results-based Management (RBM) Framework guidance, including participation of project implementation review (PIR) exercise and submission of PIR reports.
- Ensure Monitoring and Project-At-Risk Systems in line with requirements of the GEF monitoring and evaluation policy; with Monitoring reports and a process to flag problems and response; and fiduciary oversight to guide the project risk assessment process.
- Support the mediation, and conflict and dispute resolution for issues brought to the attention of the GEF Secretariat.
- Fill out GEF Agency Notification for Amending / Dropping/Cancelling of projects and submission of relevant Trustee Report (as needed).

#### **F. Reporting**

- Prepare and submit annual financial statements and audit reports to Trustee.
- Submit periodic financial reports to Trustee, including Agency approval of projects, cancellation or

amendment of projects.

- Submit financial closure reports to Trustee and copy GEFSEC.
- Implement other relevant financial provisions included in the Financial Procedures Agreement between Agencies and Trustee, including among others, cash transfer request for projects and/or Agency fees, investment income statements, and conduct financial reconciliation between Agency and Trustee.

## **Corporate Activities<sup>9</sup>**

### **G. Policy Support**

- Ensure implementation of Council and Assembly decisions into Agency operational policies and procedures.
- As requested, support and participate in reviews and analyses of projects, programs, and GEF special initiatives, requested by Council.
- Participate in convention meetings and activities at the request of GEF Secretariat, or after consultation and agreement with the GEFSEC.
- Participation in GEF Council meetings, network, inter-agency working group, focal area task force and STAP meetings; contribute to the preparation and discussion for the meetings as appropriate.
- Participation in the Assembly meetings and replenishment process, such as the preparation of GEF focal area and other strategies.
- As requested, provide technical and legal inputs and comments for preparation of GEF policy, program, strategies, business plan and other documents for Council meetings.

### **H. Support to Evaluation Office**

- Support to evaluations, reviews and studies initiated by the GEF Evaluation Office
- Comments to approach papers, technical papers and evaluation drafts.
- Annual preparation of terminal evaluation reviews of completed projects by Agency independent evaluation groups per existing mutual agreement with the GEF Evaluation Office.
- Participation in inter-Agency meetings and stakeholder consultations to discuss approaches and findings of evaluations.
- Engagement for the Overall Performance Study (periodic).
- Support to the development and periodic revision of GEF Monitoring and Evaluation Policy.
- Reconciliation of TE list and overall coordination with Agency evaluation office for TE/MTE reviews.
- Integration of GEF evaluation requirements into Agency systems.
- Support EO in oversight of Monitoring and evaluation.
- Response to evaluations and MAR.
- Undertake Corporate Agency evaluations, project and program evaluations.

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<sup>9</sup> Outreach and Knowledge Management Activities have been removed.

## Annex B: Further Streamlining Measures

Measures in the Project Cycle management activities	Required Actions
1. PPG simplification: combined PIF and PPG in one submission	The current GEF procedures allow Agencies to submit PIF and PPG at the same time.
2. MSP: simplify template and screening requirements, and require only portfolio level evaluation, not evaluation on individual projects	Need discussion within GEFSEC regarding the template and with Evaluation Office regarding portfolio level evaluation.
3. Enabling Activities: no PIF required for individual projects under an umbrella project and submit only the final project document for CEO approval.	This is already current practice.
4. Reduce supervision mission to once a year, rather than 2 a year as is the current practice of the WB.	Need Agencies action and implementation. GEFSEC is of the view that with one supervision once a year on a GEF project will not affect project quality.
5. Limit stakeholder consultation to once during the lifetime of the project, rather than holding multiple stakeholder consultations;	Need Agencies action and implementation which will result in staff time and travel cost savings.
Measures in the Corporate Activities	Required Actions
6. Eliminate outreach and knowledge sharing activities currently performed by Agencies	As proposed, Agencies should stop performing related outreach and knowledge sharing activities as relate to the GEF. GEFSEC is currently performing such functions through taking the lead in the Country Support Programs, Extended Constituency Meetings, launching of Knowledge Management Policy and participation in conventions, as well as engaging Civil Society Organizations. This can also avoid duplication of work by Agencies for functions that GEFSEC is performing.
7. Consolidate financial reporting to Trustee	Merge five reports into one semi-annual report (Consolidation of reporting to Trustee): need discussion with Trustee. (Future streamlining if IT systems are made electronic with interface with Trustee STAR system)

## **Annex C: Consequences of Proposed Fee Revision as identified by the GEF Agencies**

**The Agencies recognize the need for cost-effectiveness, and welcome reduced costs in the GEF network.** Because the fee reduction is not accompanied by any reduction in *costs* of GEF requirements or transactions, the Agencies cannot continue to provide the expected level of services without some consequences or shifting costs elsewhere.

**The proposed structure would result in cuts below financially sustainable levels for several Agency programs.** The 2006 elimination of corporate budget already resulted in a 43% decrease in total GEF payments to Implementing Agencies, and new Agency programs subsidizing GEF in start-up years in anticipation of future fees covering costs, must re-align expectations for ever reaching cost recovery. Programmatic approaches in GEF-5 have resulted in fee savings of more than 9M\$ to GEF with no significant reduction in transaction costs for the Agencies. There has been increased complexity in the project cycle that increased transaction costs of Agencies, Secretariat, and Countries.

The proposal by the GEF Secretariat to streamline (Annex B) is too modest and will not reduce transaction costs sufficiently. The definition of services proposed (Annex A) reduces one service (Outreach and Knowledge Management which currently occupies less than 0.1% of the fee), but also introduces some additional services that blur the segregation of duties between Implementing Agencies and project executing agencies. The graduated two-tier system proposed does not improve alignment of fees to actual costs, and instead increases the underfunding of small projects. Many of the consequences will only push the tasks or costs elsewhere, casting doubt that the GEF Secretariat budget could remain at zero nominal growth for long.

Fee reductions will impact the current portfolio of projects under implementation, not just new projects, because the payment of GEF fees must meet expenses of the entire program over multiple years. Without a commensurate reduction in the transaction costs of the GEF and fundamental streamlining of operations, the current proposal is expected to have the following broad consequences:

- a. **Weaken the ability of some Agencies to meet fiduciary and other GEF standards.** Response to additional and new GEF requirements - on safeguards, indigenous peoples, gender and impact - will be difficult, especially where the GEF requirements for standards not already embedded in Agency systems. Proposals to reduce efforts and frequency of supervision will increase risk of not catching problems in time to resolve them preemptively and is not likely to be acceptable to agency management bodies given weakened fiduciary oversight. Limitations on stakeholder consultations would weaken project designs and impact ownership, running counter to the GEF Public Participation Policy.
- b. **Weaken the organization, effectiveness and transparency of the GEF Partnership.** Agencies with significant portfolios will have to drastically cut back on corporate coordination and portfolio management resulting in a fragmented GEF portfolio. Those Agencies with traditionally extensive corporate policy and outreach support to the GEF will

have to cut back on such support, weakening the robustness and transparency of the GEF Partnership. Elimination of outreach and knowledge management undermines the concept of a partnership network, in that Agencies will not be able to effectively oversee how projects meet the GEF Policy on Visibility; engage in knowledge sharing as repositories of knowledge and best practices resulting from their portfolios; or interact with stakeholders for country support. If the Agencies are excluded from this important corporate activity, opportunities to share information and experiences across regions and well as to respond to country priorities and concerns will be lost. With policy support only being done on request by the GEF, there will be reduced opportunities to match Agency priorities with GEF priorities, or to ensure coherence in global mandates and agenda. The collaborative spirit of the Partnership that allows Agencies to take the initiative to bring new ideas to the table will be weakened.

- c. **No longer leverage technical or strategic expertise and mandates in GEF Agencies.** Agencies that have provided expertise may need to cut back on the technical support to the GEFSEC, STAP, and GEF EO through inter-agency task forces, technical meetings, and peer review of evaluations, advisory products, etc. These corporate bodies will likely have to outsource their technical requirements or hire more technical staff themselves, shifting costs.
- d. **Weaken mainstreaming global environment issues into key multi-lateral agency programs in line with the Accra Agenda for harmonization.** Corporate efforts to bring GEF projects into the programming systems of the Agencies and countries will be weakened, and GEF projects will remain outside the mainstream of Agency efforts. Engagement in larger programs, sector or focal area initiatives will also be reduced.
- e. **Reduce responsiveness to requested capacity building of countries, and engagement with smaller projects.** The proposed reduction will disproportionately impact countries that need the most support. Agencies will need to cut back on providing the “hands-on” capacity and technical support that is often provided as client support in addition to specific activities captured within project budgets. Costs of project preparation and implementation are relatively fixed, resulting in a need to subsidize smaller projects with lower fees, which will become increasingly difficult with a reduced fee *across* the portfolio. Several agencies may have to shift to a more selective focus on projects in the \$7-10 million or \$10 million and up range, with the consequence that projects smaller than \$5 million favored by LDCs and SIDs under the STAR system will not be serviced adequately.
- f. **Reduce quality of GEF projects and programs.** Where reductions in corporate tasks will be insufficient to make up for reduced fees, cuts will have to be made to project preparation and supervision, reducing level of effort on independent evaluations and reducing technical staff support to countries. This will also lower quantity and quality of support to countries to design and implement projects. Insufficient funds to address implementation problems will ultimately lead to premature cancellation of projects.

The **actual consequences** of the proposed system will depend on how each Agency finds ways to respond to the reductions that are *least* detrimental to their GEF operations and minimize the consequences above. As Agencies have different portfolio size, GEF corporate activity

engagement, business models, and average project sizes, the fee reduction impacts will vary greatly. The effect on the agencies with large portfolios may include dismantling of the central GEF coordination, reducing staff functions that focus on quality assurance, and eliminating engagement in corporate activities. A few Agencies that currently conduct less corporate functions may be less impacted. A few Agencies may be able to absorb shortfalls by increasing the subsidy to the GEF, however, most Agencies will not be able to do so without a formal approval from their governing bodies.