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**PROGRESS REPORT
ON
BENCHMARKING REVIEW OF IMPLEMENTING AGENCY FEES**

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BACKGROUND

1. In summary, at its May 1999 meeting, the GEF Council approved the introduction and use of a fee-based system¹ to reimburse the project implementation costs incurred by an Implementing Agency (IA) with respect to GEF projects. Under this approach, on Council/CEO approval of a project, the Implementing Agency would be provided with a fee (IA fee) that is intended to cover the entire life time implementation costs of that project, even in the case of a multi-year project. This fee is based on a flat-fee structure that recognizes four standard GEF project types. In giving its approval for the fee-based system, Council requested GEF Secretariat to carry out a benchmarking review of GEF's fee structure against the project implementation costs of comparable development agencies, including bilaterals funds and regional development banks.

OBJECTIVES

2. The primary objectives in benchmarking GEF's fee structure against the project implementation costs and project implementation cost reimbursement methods of other comparable organizations were to determine:

- (a) the reasonableness and appropriateness of GEF's flat-fee structure; and,
- (b) the efficiency and effectiveness of GEF's financial management of its project implementation costs.

SCOPE OF REVIEW

3. The following scope established the broad parameters of the discussions with the benchmarking review's comparator organizations:

- (a) guidelines and methodologies that govern/support the managing and

(c) basis of computation of any internal/external staff charge rate, if such is used;
and

(d) tracking and monitoring of the staff time expended on its projects.

The benchmarking review examined the project implementation cost practices for all projects that were managed by each comparator organization in general, not only GEF projects.

COMPARATOR ORGANIZATIONS INVOLVED

4. The review has encompassed a total of 14 organizations so far, including regional development banks, aid and development agencies, multilateral funds, and non-governmental organizations (these are listed in Annex 1). Some of the organizations have been or are involved in executing GEF-funded projects; others are planning to do so. The review was conducted primarily through discussions with staff from the organizations' project management/accounting and corporate planning and budgeting functions. The pertinent aspects of the outcome of our review will be shared with all participating organizations. This would enable each organization to use the information, if appropriate, to review its respective management and monitoring of project implementation costs.

ORGANIZATIONAL AND OPERATIONAL FACTORS INFLUENCING REVIEW

5. As the benchmark review progressed, it became apparent that institutional and operational differences among the various organizations and also between the organizations and GEF would materially affect the validity of a quantitative benchmarking of the structure and competitiveness of GEF's fee. Also, such a quantitative benchmarking would have limited coverage because of the understandable reluctance of some of the organizations to disclose or discuss their financial cost and fee information. Additionally, quantitative benchmarking of the components of GEF's fee structure (i.e., staffweek costs and project coefficients) proved both unsuitable and irrelevant because of fundamental structural differences in institutional costs, expense classifications, and administrative overhead/project cost accounting methods. Given these provisos, the review was able to establish, to a very limited extent, some quantitative benchmarks. The review, therefore, focused primarily on benchmarking

- (b) organization processes, scope and content of project implementation and supervision responsibilities;
- (c) project-cycle phases and components in terms of development, preparation, supervision and evaluation; and
- (d) categorization/definition/accounting of project cost, project implementation cost (i.e., costs of project development, preparation, supervision/implementation, and evaluation), and administrative overhead costs (costs of headquarters services, coordination unit, and central support services).

REVIEW FINDINGS

7. The preliminary findings of the review are discussed below. These pertain primarily to GEF's fee methodology, its management and control of project implementation costs, and, to a limited extent, some comparative quantitative data on project implementation costs and its recovery.

Reimbursement of Project Implementation Costs

8. The most common method for the reimbursement of project implementation costs appears to be allowing a percentage of the project value/grant allocation. The annual administrative overhead costs of some organizations are also reimbursed as a percentage of the total project grants actually disbursed during the year. In other cases, the percentage reimbursement covers both project implementation and administrative overhead costs. For project implementation costs, this percentage effectively establishes a ceiling; actual disbursements of project implementation costs are based on the project's annual requirements. The percentage used is usually based on historical cost experience. In cases, the percentage is retroactively reviewed and revised annually so as to reflect actual costs or reviewed periodically to ensure the continued adequacy of the percent to cover actual costs. This percentage may or may not be adjusted annually depending upon the policies and practices of the organization. Organizations that do use the percentage basis admit that there is not a direct proportional relationship between project implementation costs and the project value.

Council approval in December 1999 is computed at 7.34 percent of total project value/grant allocations.

10. Additionally, based on the regional development bank (RDB) comparators, the review was able to benchmark (i) GEF's flat fee for a GEF investment project against the project implementation cost (i.e., from concept to project completion) for an investment/lending-type project, and (ii) GEF's staffweek cost against the RDBs' staffyear/staffhour costs. There may be some discrepancies, on the margin, because of differences inherent in the respective structures and definitions of the cost components. GEF's flat fee of \$942.0K for a GEF investment project is compared with a comparator's project implementation costs of \$948.1K. Very importantly, however, GEF's flat fee is based on fully loaded staff costs while the comparator's project implementation costs have not been factored for overhead and indirect costs. GEF's average fully loaded staffweek cost of \$5,612 is compared with comparators' fully loaded staffweek costs of \$6,550; \$6,156, and \$8,513, respectively.

Identification and Definition of Project Implementation Costs

11. Most agencies do not separately identify, distinguish, or define project implementation costs from other project-direct costs. Organizational costs are usually categorized either as project costs (encompassing project-direct and project-implementation) or administrative overhead costs (generally covering headquarters management and support services). Thus, the project grant allocation is intended and expected to cover all costs related to the project. GEF maintains strict and distinct categorization of costs - project allocation, project implementation costs (fees), executing agency costs, and project preparation facility and corporate management costs (administrative overhead), which enables more specific cost management, monitoring, and reporting.

Monitoring and Reporting of Project Implementation Cost

12. Where organizations do not separately identify project implementation costs, these are not accounted or monitored or reported as such. Additionally, some organizations do not monitor project-related costs on a project-by-project basis. Only one of the comparator organizations maintains project coefficients as a method of measuring and monitoring project implementation resource requirements and costs. GEF requires that project implementation costs be

Internal Staff Charge Rate

13. Very few of the organizations compute and use an internal staff charge rate (e.g., staffweek/month cost) as a basis for costing and planning/budgeting purposes. In particular, the smaller organizations do not find any operational use for an internal charge rate. Some organizations have, on occasion, computed their staff charge rate for ad hoc/one-off studies or reviews. GEF's fee structure is based on each IA's fully loaded staffweek cost, which allows a complete and transparent analysis of the cost components of the staff resources employed in project implementation and their expenditure behavior patterns.

Staff-Time Recording and Charging

14. The practice of reporting and charging staff time to identified activities and to cost centers/objects is not widespread among the organizations. None of the organizations maintained two-level time reporting, which reports staff time to activity and to project/cost center. Where time reporting is carried out, staff charge their time to either the activities or the specific projects/cost centers in which they have been involved. As from July 1, 1999, all GEF corporate units and project staff are required to report their time by corporate activities and by projects in order to properly allocate their costs between corporate management budget and project budgets and to provide the basis for efficiently managing the respective staff resources.

Categorization of Project Types

15. For the purposes of reimbursing project implementation costs, in general, the organizations do not differentiate between nor categorize the different types of projects being funded. The same cost-recovery percentage would be applied to all projects, regardless of the project's purpose, value, sector or focal area, nature, location, or duration. GEF's flat-fee structure recognizes four project types (which accounts for their quite different cost profiles) as well as a limited number of project variables (which can have substantive cost implications) through case-by-case adjustments to the established flat fee.

INITIAL CONCLUSIONS

Annex 1

Comparator Organizations Involved

Asian Development Bank
Deutsche Gesellschaft für Technische Zusammenarbeit (GTZ)
European Bank for Reconstruction and Development
German Foundation for International Development
Inter-American Development Bank
Kreditanstalt für Wiederaufbau (KfW)
Multilateral Fund for the Implementation of the Montreal Protocol
Multilateral Investment Fund
The Nature Conservancy
United Nations Office for Project Services
United Nations Development Programme
United Nations Environment Programme
USAid
World Wildlife Fund