



ADAPTATION FUND

AFB/B.11/Inf.6
September 9, 2010

Adaptation Fund Board
Eleventh Meeting
Bonn, September 16 – 17, 2010

**INFORMATION SUBMITTED BY IMPLEMENTING ENTITIES
ON THE REQUESTED FEES FOR PROJECT/PROGRAMME
IMPLEMENTATION**

BACKGROUND

At the 10th Adaptation Fund Board meeting (15-16 June 2010), the Board decided to defer all discussion regarding management fee charges until the 11th meeting. The Chair noted that the report of the PPRC had indicated that there was a variation in the management fees being charged by implementing entities. The Board agreed that before a decision could be made, more information was needed to understand the variation in the practice of charging management fees.

The Chair requested that Multilateral Implementing Entities (MIEs) submit an explanation of their respective fee structures. As of September 9, 2010, three agencies, UNDP, UNEP, and WFP submitted a response to the secretariat detailing how a fee was generated. None has provided a definite cost breakdown, but instead, offered a general idea of fees by using specific examples. Table 1 below provides a summary by MIE of how each entity explains its management fee. Tables 2 and 3 provide greater detail from UNDP and UNEP on the specific technical services each provides for its management fee. The documentation submitted by the MIEs can be found in Annex 1.

Table 1: MIE Management Fee Breakdown

MIE	Proposed Fee	Technical Service Provided	Notes
UNDP	10%	<ol style="list-style-type: none"> 1. Identification, Sourcing and Screening of Ideas 2. Feasibility Assessment / Due Diligence Review 3. Development & Preparation 4. Implementation 5. Evaluation and Reporting 	<ul style="list-style-type: none"> • Direct services in the context of programme and project implementation/execution (ISS) • General oversight, management and quality control (GMS) • The standard UNDP GMS fee is 7% • Usually, the cost of providing specialized technical services is about 5%, giving us a total fee of 12% (7% GMS + 3% for specialized technical services) • Taking into account that the planned projects being presented to the Adaptation Fund Board have similar technical profiles to the SCCF and LDCF projects, it was however decided to calculate these fees on the same basis, and reduce them from 12% to 10%.

<p>UNEP</p>	<p>9.7%</p>	<ol style="list-style-type: none"> 1. Overall coordination and management 2. Oversight and management of project development and project implementation 3. Financial management, including accounting, treasury, grant and trust fund management 4. Information and communication management. 5. Quality assurance, including internal and external audits. 6. Overall administration and support costs 	<ul style="list-style-type: none"> • Overall management of AF projects will be charged as a percentage applied to the expenditure, in accordance with UNEP procedure. • MIEs will incur costs that are not directly attributable to a specific project or specific project activity, but nonetheless support the implementation of AF projects. • Examples of such 'indirect costs' include IT /communications systems support; auditing services; accounting services; production of financial statements, legal services. In accordance with UNEP procedures such indirect costs are usually charged as a percentage applied to the expenditure. • UNEP estimates that the costs associated with implementing an AF concrete adaptation project will come to 9.7%
<p>WFP</p>	<p>9%</p>		<ul style="list-style-type: none"> • Includes WFP's standard 7% on projects. • Additional 2% to reflect the higher overhead costs usually associated with FAO and UNDP partners. • Division of work will be decided during project development, but most of implementation will be by WFP • Willing to negotiate if UNDP and FAO come into the current AF allocation round with lower fees on other projects

Table 2: UNDP Technical Services Provided

UNDP Environmental Finance: Specialized Technical Services

Stage	Specialized Technical Services Provided
Identification, Sourcing and Screening of Ideas	<ul style="list-style-type: none">• Provide information on substantive issues and specialized funding opportunities (SOFs)• Verify soundness and potential eligibility of identified idea
Feasibility Assessment / Due Diligence Review	<ul style="list-style-type: none">• Technical support: provide up-front guidance; sourcing of technical expertise; verification of technical reports and project conceptualization; guidance on SOF expectations and requirements• Provide detailed screening against technical, financial, social and risk criteria and provide statement of likely eligibility against identified SOF• Assist in identifying technical partners;• Validate partner technical abilities.• Obtain clearances – SOF
Development & Preparation	<ul style="list-style-type: none">• Technical support, backstopping and troubleshooting• Technical support: sourcing of technical expertise; verification of technical reports and project conceptualization; guidance on SOF expectations and requirements• Verify technical soundness, quality of preparation, and match with SOF expectations• Negotiate and obtain clearances by SOF• Respond to information requests, arrange revisions etc.• Verify technical soundness, quality of preparation, and match with SOF expectations

Implementation	<ul style="list-style-type: none"> • Technical and SOF Oversight and support • Technical support in preparing TOR and verifying expertise for technical positions. Verification of technical validity / match with SOF expectations of inception report. Participate in Inception Workshop • Technical information and support as needed • Technical support, participation as necessary • Advisory services as required • Allocation of ASLs • Technical support and troubleshooting, Support missions as necessary. • Project visits – at least one technical support visit per year. • Technical support, validation, quality assurance • Return of unspent funds
Evaluation and Reporting	<ul style="list-style-type: none"> • Technical support, progress monitoring, validation, quality assurance • Technical support, participation as necessary • Technical support in preparing TOR and verifying expertise for technical positions. Verification of technical validity / match with SOF expectations of inception report. Participate in briefing / debriefing • Technical analysis, compilation of lessons, validation of results • Dissemination of technical findings

Table 3: UNEP Technical Services Provided

Stage	Specialized Technical Services Provided
Overall coordination and management	<ul style="list-style-type: none"> • To manage and facilitate UNEP’s MIE functions and responsibilities, • To facilitate interactions with the AFB and other stakeholders
Oversight and management of project development and project implementation	<ul style="list-style-type: none"> • Provides countries with the support for the development of project proposals and full project documents. • Oversees and monitors the implementation of AF projects at country-level (this will include visits to project sites), through providing quality technical and advisory services, as well as backstopping support. • Ensuring measurable results and impacts of identified project activities and components.
Financial management, including accounting, treasury, grant and trust fund management	<ul style="list-style-type: none"> • Ensure that financial management practices comply with AF requirements and manage, monitor and track financial transactions. • Manage all AF financial resources through a dedicated Trust Fund. Ensure financial reporting complies with AF standards

Information and communication management.	<ul style="list-style-type: none"> • Includes maintaining information management systems and maintaining specific project management databases to track and monitor project implementation.
Quality Assurance, including internal and external audits	<ul style="list-style-type: none"> • UNEP as MIE will play a critical role in project monitoring and evaluation. • Quality assurance will be carried out at the project development phase. • Implementation phase and project performance will be evaluated and improved to ensure accountability and incorporation of lessons learned.
Overall administration and support costs	<ul style="list-style-type: none"> • Includes legal services, procurement and supply management, and human resource management.

Annex 1: MIE's Reports to AF Secretariat

UNDP

UNDP: Email Dated: 5/20/10

“Please allow me to provide some further information which hopefully clarifies the rationale for a 10% fee for AF projects and not a 9% fee.

As stated earlier, the UNDP Executive Board requires that the costs of any services provided by UNDP on behalf of “other resources” (i.e. non-UNDP core resources) be fully recovered from that source of funds. Careful internal analysis has shown that our costs in providing the general management support (GMS) and specialized policy, programming, and implementation support services for these services is 12% (7% GMS and 5% specialized technical services). To put this 12% fee in perspective, please note that the GEF OPS 4 (Overall Performance Study of GEF-4 i.e. 2006-2010) report prepared by the GEF Evaluation Office made note of the higher implementation fees and costs (between 13 and 18%) normally charged by other entities(see page 169 of

http://www.thegef.org/gef/sites/thegef.org/files/documents/FULL%20REPORT_OPS4%20Progress%20Toward%20Impact.pdf).

Direct comparisons to the GEF Trust Fund (where we receive a 1% fee for corporate service and 9% for project implementation) are somewhat difficult to make. UNDP has been an implementing agency of the GEF for over 15 years. Over this time we have developed strong efficiencies of scale in working with the GEF, which enable us to keep operating on a 10% fee with some direct support from UNDP.

Accordingly, we assume that the costs of servicing AF projects would be more similar to the costs of our work with the LDCF/SCCF. The implementing fee for these funds is also set at 10%. Like for the AF, co-financing requirements are not a major implementing cost issue for LDCF/SCCF. On the other hand, a key objective of LDCF/SCCF projects is to help vulnerable segments of the population to identify and implement development strategies robust to a range of possible climate outcomes and require an intense engagement with project stakeholders. We expect the AF projects submitted by our government partners to the June AF Board to need a similar involvement with concerned parties.

For the above reasons, we hope you can understand that it would be very difficult for us to reduce our standard fee by more than 2% as it will mean that we cannot provide adequate support to recipient countries”

Email Dated: 5/14/10

“The UNDP Executive Board requires that the costs of any services provided by UNDP on behalf of “other” (ie. non-UNDP core) resources be fully recovered from that source of funds (SOF), as well contributing to the overall costs of UNDP's operations^[1]. UNDP normally provides two categories of such service:

- Direct services in the context of programme and project implementation/execution (ISS)
- General oversight, management and quality control (GMS).

The standard UNDP GMS fee is 7%. In addition to the standard general oversight, management and quality control services, UNDP can also provide specialized policy, programming, and implementation support services for highly specialized, complex and innovative projects. These specialized technical services complement the standard project management services provided by UNDP Environment and Energy Programme Officers at the country level, and are provided through UNDP Environment and Energy specialized technical teams located in both UNDP's regional centres and at Headquarters. These services are detailed in the attached document.

The additional fee for these specialized GMS services is negotiated on a case-by-case basis. Usually, the cost of providing these specialized technical services is about 5%, giving us a total fee of 12% (7% GMS + 3% for specialized technical services). Taking into account that the planned projects being presented to the Adaptation Fund Board have similar technical profiles to the SCCF and LDCF projects, it was however decided to calculate these fees on the same basis, and reduce them from 12% to 10%.”

Attachment to Email:

UNDP Environmental Finance – Specialized Technical Services

Stage	Specialized Technical Services Provided
Identification, Sourcing and Screening of Ideas	Provide information on substantive issues and specialized funding opportunities (SOFs)
	Verify soundness and potential eligibility of identified idea
Feasibility Assessment / Due Diligence Review	Technical support: provide up-front guidance; sourcing of technical expertise; verification of technical reports and project conceptualization; guidance on SOF expectations and requirements
	Provide detailed screening against technical, financial, social and risk criteria and provide statement of likely eligibility against identified SOF

Stage	Specialized Technical Services Provided
	Assist in identifying technical partners; Validate partner technical abilities.
	Obtain clearances – SOF
Development & Preparation	Technical support, backstopping and troubleshooting
	Technical support: sourcing of technical expertise; verification of technical reports and project conceptualization; guidance on SOF expectations and requirements
	Verify technical soundness, quality of preparation, and match with SOF expectations
	Negotiate and obtain clearances by SOF
	Respond to information requests, arrange revisions etc.
	Verify technical soundness, quality of preparation, and match with SOF expectations
Implementation	Technical and SOF Oversight and support
	Technical support in preparing TOR and verifying expertise for technical positions. Verification of technical validity / match with SOF expectations of inception report. Participate in Inception Workshop
	Technical information and support as needed
	Technical support, participation as necessary
	Advisory services as required
	Allocation of ASLs
	Technical support and troubleshooting, Support missions as necessary.
	Project visits – at least one technical support visit per year.

Stage	Specialized Technical Services Provided
	Technical support, validation, quality assurance
	Return of unspent funds
Evaluation and Reporting	Technical support, progress monitoring, validation, quality assurance
	Technical support, participation as necessary
	Technical support in preparing TOR and verifying expertise for technical positions. Verification of technical validity / match with SOF expectations of inception report. Participate in briefing / debriefing
	Technical analysis, compilation of lessons, validation of results
	Dissemination of technical findings

Service standards:

1. initial response to communication within 2 working days
2. full response to communication (with the exception of a response requiring travel) within 10 working days

World Food Programme

Email dated 09/08/2010:

“The implementing agency fee for the Uganda project is 9 percent. This includes WFP’s standard 7 percent on projects and an additional 2 percent to reflect the somewhat higher overhead costs usually associated with FAO and UNDP partners. The exact division of work will be decided during project development, but the bulk of implementation will be by WFP.”

UNEP

Attached document



UNITED NATIONS ENVIRONMENT PROGRAMME

Programme des Nations Unies pour l'environnement Programa de las Naciones Unidas para el Medio Ambiente
Программа Организации Объединенных Наций по окружающей среде برنامج الأمم المتحدة للبيئة
联合国环境规划署



Ref: DEPI/AFB/EM/sm

3 September 2010

Dear Ms. Levaggi,

I refer to your letter dated 9 August 2010 requesting information from UNEP on the rationale for the fees requested for the implementation of an adaptation project

In your letter you point out that the Board has initiated a discussion on the level of fees for implementing entities, and the Board is now seeking further information to inform its deliberations.

Attached please find the rationale and explanation for the fees requested.

Yours sincerely

Ibrahim Thiaw
Director

Division of Environmental Policy Implementation

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Rationale for Fees Requested

1. Introductory Remarks

- (i) In the absence of AF guidance on this matter we based our fee estimates for the Madagascar project on past experience with implementing similar types and sizes of projects.
- (ii) The rationale for fees estimated for the Madagascar proposal should therefore not be considered as a benchmark on which to base a policy decision on the appropriate level of fees for implementing agencies.
- (iii) The cost estimates provided for in the Madagascar proposal do not take into account the costs of actual project preparation to carry out the groundwork to advance the project from a concept to a fully fledged project proposal. This work is usually time and resource intensive.
- (iv) In section 3 we propose general criteria to inform the fees for implementing entities, which we hope will assist the Board in its deliberations.

2. Costs and fee estimates for the Madagascar proposal

The Madagascar rice proposal submitted to the AF Secretariat contains the following cost and fee estimates:

Project Component 1. Scientific and Technical Capacity	USD 800, 000
Project component 2. Adapted and resilient rice production cycle	USD 2,550,000
Project component 3. Policy and awareness raising	USD 475,000
Sub-Total Project Components	3,825,000
4. Project/Programme Execution cost	300, 000
5. Total Project/Programme Cost	4,125, 000
6. Project Cycle Management Fee charged by the Implementing Entity (if applicable)	380, 000
Amount of Financing Requested	4,505,000

- 2.1 The total amount of financing requested for the Madagascar Rice project is USD 4,505,000.
- 2.2 The costs for the three project components are estimated at USD 3,825,000 (800, 000+ 2, 550, 000 + 475, 000). There is an estimated USD 300,000 for project execution.

- 2.3. USD 3,825,000 is the estimated cost of the activities and outputs directly attributable to the three project components. This figure includes MIE direct project costs. MIE direct project costs associated with a specific project, are calculated based on the costs of inputs needed over the full life of a project, from concept and development through implementation, evaluation and closure.
- 2.4 The project execution cost of USD 300,000 is the direct costs of project management and coordination by the national executing partner. This covers the costs of the national level project manager/coordinator and his/her support staff, office facilities and travel.
- 2.5 The project cycle management fee of USD 380,000 is the cost of UNEP as the MIE, including dedicated core capacity to ensure that UNEP meets its commitments as a multilateral implementing entity of the AF. The specific services and functions include:
- *Overall coordination and management.* To manage and facilitate UNEP's MIE functions and responsibilities, and to facilitate interactions with the AFB and other stakeholders.
 - *Oversight and management of project development and project implementation.* To provide countries with support for the development of project proposals and full project documents. Oversee and monitor the implementation of AF projects at country-level (this will include visits to project sites), through providing quality technical and advisory services, as well as backstopping support. Ensuring measurable results and impacts of identified project activities and components.
 - *Financial management, including accounting, treasury, grant and trust fund management.* Ensure that financial management practices comply with AF requirements and manage, monitor and track financial transactions. Manage all AF financial resources through a dedicated Trust Fund. Ensure financial reporting complies with AF standards.
 - *Information and communication management.* This includes maintaining information management systems and maintaining specific project management databases to track and monitor project implementation (includes risk management as well as tracking financial progress against project outputs and deliverables).
 - *Quality assurance, including internal and external audits.* UNEP as MIE will play a critical role in project monitoring and evaluation. Quality assurance will be carried out at the project development phase and implementation phase and project performance will be evaluated and improved to ensure accountability and incorporation of lessons learned.
 - *Overall administration and support costs* including legal services, procurement and supply management, and human resource management

3. Criteria for implementing entities fee

Implementing agencies of the AF Board will incur costs associated with managing and implementing AF projects.

As noted in the introductory remarks, the Madagascar proposal is a specific proposal which provides some indication of the types of costs and fees likely to be incurred for a project of

that type and size. However, UNEP would like to point to generic criteria which could help guide the AF Board's discussions fees for implementing entities:

- 3.1 Overall oversight and management by MIEs is an important function to ensure effective and quality implementation of AF projects (see the functions and services described in section 2.5). Overall management of AF projects will be charged as a percentage applied to the expenditure, in accordance with UNEP procedure.
- 3.2 MIEs will incur costs that are not directly attributable to a specific project or specific project activity, but nonetheless support the implementation of AF projects. Examples of such 'indirect costs' include IT /communications systems support; auditing services; accounting services; production of financial statements, legal services. In accordance with UNEP procedures such indirect costs are usually charged as a percentage applied to the expenditure.
- 3.3 Therefore UNEP estimates that the costs associated with implementing an AF concrete adaptation project will come to 9.7% of the total project cost.

