



ADAPTATION FUND

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Adaptation Fund Board  
Ethics and Finance Committee  
Fourth Meeting  
Bonn, March 16, 2011

Agenda Item EFC 8

## **ADMINISTRATIVE AND EXECUTION COSTS: ANALYSIS OF CURRENT RULES AND COMPARISON OF PRACTICES WITH OTHER FUNDS**

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## I. Background

1. The issue of project administration costs and execution costs had been discussed several times by the Adaptation Fund Board including during its tenth and eleventh meetings and at the second meeting of the Ethics and Finance Committee (EFC). When the Board started considering project proposals for funding, the screening of the submitted documents had shown variation in the administrative fees requested by the implementing entities. Therefore the Board requested that Multilateral Implementing Entities (MIEs) submit an explanation of their respective fee structures. At the 2<sup>nd</sup> meeting of the EFC, a document summarizing the information provided by 3 MIEs (UNDP, UNEP and WFP) was presented<sup>1</sup> and the Committee held a discussion on the issue. Potential options included (a) the establishment of fees on a case-by-case basis, with a cap of 9 per cent; (b) a flat fee of 9 per cent, or (c) a lower fee of 7-8 per cent. Taking into consideration these various options, the Board, at its 11<sup>th</sup> meeting, decided to adopt a cap of 8.5 per cent (Decision B.11/16). The decision was based on the various proposals by Board members, taking into account that implementing entities had to recover their costs, but that the countries themselves could also contribute to the work of preparing and designing projects.

2. At the 12<sup>th</sup> meeting some Board members raised the issue of administrative costs and observed that although the Implementing Entity project management fees represented, at most, 8.5 per cent of total funding, taken together with the project execution costs, the total administrative costs were highly variable and for some of the projects approached 20 per cent of the funding being granted. It was also observed that although there had been a breakdown of the Implementing Entity project management fees in the project proposals, the execution costs had not been adequately explained or itemized.

3. From the discussions, it appeared that some clarification of the different terms being used was needed. In particular it was unclear what was included under “administrative costs”. It was also suggested that execution costs should have a cap of 10 per cent.

4. Finally, the Board requested the Secretariat (i) to undertake a desk study on the issue of administrative and execution costs and how other Funds have handled it and (ii) to ensure that the project document included an explanation and a breakdown of all administrative costs associated with the project, including the execution costs (**Decision B.12/7**). The study is to be submitted to the Ethics and Finance Committee for its consideration, at its fourth meeting.

5. The objective of the present study is to (i) review the decisions taken so far by the AFB, on the issues of management fees and execution costs, (ii) clarify and harmonize the terms used to define project management direct and indirect costs, (iii) describe how other funds have defined and have set caps or exact allocations for these costs and (iv) provide recommendations on future Adaptation Fund rules to cover project management expenses.

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<sup>1</sup> AFB.B.11.Inf\_6 “[Implementing entities fees](#)”

## II. Current costs agreed by the Adaptation Fund

1. The Adaptation Fund Board has defined four categories of project related costs that its funding will cover:

- The project formulation grant, to help Implementing Entities cover their expenses related to the development of their project proposals;
- The project activities budget, to cover for expenses related to the activities of the project aimed at achieving its outcomes;
- The project execution costs, which are defined as the main items supported by the Adaptation Fund for project management including consultant services, travel and office facilities, etc.
- The project cycle management fees, requested by Implementing Entities for project cycle management services.

### ***The project formulation grant***

2. A grant of up to 30,000 USD has been set up to cover project formulation costs incurred by National Implementing Entities. This funding is inclusive of the management fee, which cannot exceed 8.5 per cent of the grant amount. The Board continues reviewing the question of PFGs for projects submitted through MIEs (Decision B.12/28).

### ***The project management fees***

3. The issue of the management fees for Implementing Entities has been settled during the previous Board meetings, with the final decision on an 8.5% budget cap, following project proposals received from UNDP, UNEP and WFP on the breakdown of their fees<sup>2</sup>. The Board also decided that fee policy could be reviewed and adjusted after three years, or more specifically at the meeting of the Board following the ninth session of the Conference of the Parties serving as the meeting of the Parties to the Kyoto Protocol (Decision B.11/16).

4. In addition, UNDP, UNEP and WFP have provided budget break-downs of the agency fee when submitting their fully developed proposals. The MIE fee used by UNDP and UNEP amounts 8.5% of the budget before the fee, whereas that used by WFP is 7.0% of the budget before the fee. The table below provides an example of fees breakdown used by MIEs. It should be noted that the breakdown and percentage provided by UNDP in this example is different from the one they have submitted for another project proposal, which did not include corporate services.

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<sup>2</sup> AFB.B.11.Inf\_6 "[Implementing entities fees](#)"

5. The MIEs have grouped costs into different categories, and the AFB Secretariat may receive other different categories when other MIEs or NIEs will submit their proposals. Therefore, there is a need to standardize the expected project management fees breakdown from Implementing Entities.

**Table 1: Example of breakdown and percentage of MIE fees**

<b>MIE</b>	<b>Breakdown and percentage of the fees</b>	
UNDP	<ul style="list-style-type: none"> <li>• Identification, Sourcing and Screening of Ideas</li> <li>• Feasibility Assessment / Due Diligence Review</li> <li>• Development &amp; Preparation</li> <li>• Implementation</li> <li>• Evaluation and Reporting</li> <li>• Corporate Services<sup>3</sup></li> <li>• <b>Total</b></li> </ul>	5% 15% 20% 43% 15% 2% <b>100%</b>
UNEP	<ul style="list-style-type: none"> <li>• Overall coordination and management</li> <li>• Oversight and management of project development and project implementation</li> <li>• Financial management, including accounting, treasury, grant and trust fund management</li> <li>• Information and communication management</li> <li>• Quality assurance including internal and external audits</li> <li>• Overall administration and support costs</li> <li>• <b>Total</b></li> </ul>	20.5% 25.8% 15.6% 5.5% 10.0% 22.6% <b>100%</b>
WFP	<ul style="list-style-type: none"> <li>• Finance, Budget and Treasury Advice</li> <li>• Programme Support</li> <li>• Performance Management Support</li> <li>• Procurement Support</li> <li>• Information &amp; Telecoms Support</li> <li>• Evaluation and knowledge management Advice</li> <li>• Audit and Inspection Support</li> <li>• Legal Support</li> <li>• <b>Total</b></li> </ul>	17.2% 11.4% 16.0% 6.0% 12.5% 10.4% 9.2% 8.7% <b>100%</b>

### ***The project activities budget***

6. The AFB Operational and Policy Guidelines have not provided any specific guideline for the outline of the project components budget, apart from the guidance in the Project/Programme Proposal template, which asks the proponent to “fill in the table presenting the relationships among project components, activities, expected concrete outputs, and the corresponding budgets”. The AF mandate is to “finance concrete adaptation projects and programmes”. A concrete adaptation project is defined as a set of activities aimed at addressing the adverse impacts of and risks posed

<sup>3</sup> Note that this corporate service is different from the corporate activity fees allocated by the GEF to cover for costs of engagement of the Agencies with the GEF (c.f. Section III).

by climate change. Hence, the review of the project proposals budget includes an assessment of the “concreteness” of the proposed activities, although despite several discussions among Board members during previous Board meetings, an agreement on what is meant by “concrete” is yet to be reached. Further, in accordance with the Strategic Priorities, Policies, and Guidelines of the Adaptation Fund adopted by the CMP, proposals shall give particular attention, among other things, to “cost-effectiveness of projects and programmes”. This requirement, included as one of the project and programme review criteria, in practice includes an assessment of the budget compared to the expected outputs and outcomes. In addition, another project and programme review criterion requires that the project [or programme] should “have a learning and knowledge management component to capture and feedback lessons”.

### ***The project execution costs***

7. At the 12th Board meeting, it was decided that project proponents should from now on provide a breakdown of the project execution costs. Yet, there is no specific rule on a cap for these costs nor is there any rule on the types of activity covered by these costs. As stated in the Operational Policies and Guidelines (OPG), the execution costs are “the main items supported by the Adaptation Fund for project management including consultant services, travel and office facilities, etc.”

8. Since a breakdown of such costs is to be provided, the OPG will need to be more specific on the definition of costs to be classified as execution costs as opposed to ones to be covered from the implementing entity project cycle management fee or from the project activities budget. Further, the OPG should specify which items that the execution costs can or cannot cover.

### **III. Terms used by other Funds to define project management costs**

9. This section describes the different types of support costs that the Funds analyzed in this study provide for project execution and supervision. Here, we refer to “Implementing entity” as any Entity that these Funds are using to channel their grants and which coordinate or undertake the implementation of the funded projects or activities. The term “executing entity” defines any entity which is in charge of the delivery of all or part of the activities related to the grant.

10. Core unit budget: amount provided by a Fund (e.g. MLF, Global Fund) to its Implementing Entities for them to cover their costs related to project administration, including staff costs, travel, office space and equipment...). This is an annual budget which comes on top of other administrative fees paid to these agencies for project support.

11. Administrative budget: amount annually allocated by a Fund (e.g. CIF) to Implementing Entities in order to cover corporate management expenses. This is an equivalent of the MLF core unit budget.

12. Corporate activity fees

- (a) (In the case of GEF Implementing Agencies): fees to cover for policy support, portfolio management, reporting, outreach and knowledge sharing, and support to the GEF Evaluation Office. To summarize, these fees cover the activities where, in the case of the GEF for example, the Agencies engage with the GEF Secretariat (GEFSEC), the GEF

Trustee, the GEF Evaluation Office and the GEF Council in relation to the formulation of policy and strategy. These fees cannot be used for project cycle activities.

- (b) (In the case of CIF Multilateral Development Banks): fees to cover the expenditures that the MDBs will incur in assisting recipient countries in preparing investment plans and strategies for the CIF programs.

13. Project cycle management fees: (e.g. GEF) provided to the Implementing Entities to cover for the management of a portfolio of projects and programmatic approaches through the various phases of the project cycle including providing quality assurance and oversight.

14. Implementing entity's administrative fees: in the case of the GEF, these fees include corporate activities fees and project cycle management fees.

15. Execution costs: funds provided to the executing entity to manage, administer and supervise the day-to-day activities of projects.

16. Contingency costs: (e.g. MLF) costs established to cover unforeseen price deviations or unexpected expenses.

17. Overhead costs: (e.g. Global Fund) costs including management fees, negotiated between the Fund and its Principal Recipients (PR) acting as "implementing entities".

#### **IV. Comparison with practices of other Funds**

18. This comparison exercise will mainly concern project cycle management fees and execution costs.

19. We have compared the different categories of project support costs provided by the following institutions, based on a review of their policy documents:

- The Global Environment Facility (GEF);
- The Multilateral Fund for the implementation of the Montreal Protocol (MLF);
- The Global Fund to Fight AIDS, Tuberculosis and Malaria;
- The Global Alliance for Vaccines and Immunization (GAVI)
- The World Bank Climate Investment Funds (CIF).

#### ***Agency administrative fees***

20. The **Global Environmental Facility (GEF)** has set specific rules regarding the allocation of project related costs. A flat fee of 10% of project grant has been established for Implementing Agencies, covering (i) 1% corporate activity fees (which used to be in the form of a corporate budget allocated each year to the previous three main IAs: UNDP, UNEP and the World Bank) to cover corporate activities related to institutional relations where the GEF Agencies engage with the

GEF Secretariat (GEFSEC), the GEF Trustee, the GEF Evaluation Office and the GEF Council in the formulation of policy and strategy; and (ii) Agency fees for project cycle management services, which account for 9% of the total grant.

21. The **MLF** provides (i) annual core unit budgets to its implementing entities, to cover costs related to project administration, as well as (ii) project management fees. For bilateral agencies, which do not receive core unit funding, overheads of 13% are provided for projects below US \$500,000 and 7.5% for projects above that amount. The same model was previously used for all implementing agencies but changed to the core unit principle. The transition was essentially cost neutral at the time and was meant to provide more planning certainty for UN agencies in terms of personnel management.

22. In the case of the **Global Fund**, fees are paid to firms acting as Local Fund Agents (LFAs) to monitor implementation of the grants. Also, acting as “implementing entities”, are the Principal Recipients (PR), with which the Global Fund signs a legal grant agreement. These PR are responsible for preparing and submitting a grant proposal, with a budget including their “overhead costs”. Management fees are usually included in such overhead costs. This budget is negotiated between the PR and the GF Secretariat for each grant. Finally, if not already existing, countries covered by the Global Fund are encouraged to establish a Country Coordinating Mechanism (CCM), which is a partnership composed of all key stakeholders, and is responsible for submitting proposals to the Global Fund, nominating the entities accountable for administering the funding, and overseeing grant implementation. These CCM may receive funding from the Secretariat, to cover incurred administrative costs. The current Global Fund policy<sup>4</sup> stipulates that CCM may be allocated up to US\$ 50,000/year as “basic funding”. Expanded funding requests by CCM to cover eligible costs for a two-year period may be granted and may exceed US\$ 50,000 per year. For amounts exceeding US\$ 100,000 per year, the CCM must demonstrate that it has mobilized 20% of the amount.

23. The types of support that **GAVI** offers include Immunisation services support (ISS), New and underused vaccines support (NVS), Injection safety support (INS), Health system strengthening (HSS) and Civil society organisation support (CSO). GAVI is generally in favor of the alignment of its support on the existing mechanisms in the countries, under the coordination of a Coordination Committee of the Health Service or its equivalent (HSCC). Therefore there is usually no project management unit (UGP) for GAVI supported initiatives. The support for any UGP is generally examined only under exceptional conditions, and on the basis of reasoned justification. Support for Immunisation Services, Injection Safety and New and Under-Used Vaccines (ISS, INS and NVS) usually involve an interagency coordination committee (ICC). This Funding should be reflected in the national budget. Finally, GAVI Alliance support for CSOs incurs two types of support costs: execution costs of the beneficiary CSOs and management fees of the HSCC or other assigned Organization, i.e. UNICEF which leads the preparation of the overall application to the GAVI Alliance Secretariat, and manages the implementation of this support.

24. The Trust Fund Committees of the Climate Investment Funds (CIF), including the **Strategic Climate Fund (SCF)**, provide the six Multilateral Development Banks (MDBs) three different types of compensation for costs they incur in relation to CIF activities and operations: (i) the annual CIF budget includes administrative resources for the expected work program of the CIF’s entire corporate management structure, including the six MDBs as the “implementing agencies” under the

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<sup>4</sup> ["Global Fund Guidelines for CCM Funding Policy"](#)



CIF (the revised FY10 budget for these administrative services amounted to USD 11.8 million of which USD 4.5 million is allocated to the six MDBs); (ii) the annual budget also covers the expenditures that the MDBs will incur in assisting recipient countries in preparing investment plans and strategies for the CIF programs, including the three targeted programs under the SCF; and (iii) compensation for MDB expenditures related to the preparation, supervision, and evaluation of individual projects (which is not covered under the annual administrative budget) is provided in the form of separate and individual MDB project fees. A proposal, based on the MDBs' experience in preparing and supervising projects through their normal lending activities was endorsed by the SCF Trust Fund Committee, establishing a system of reimbursing the MDBs for their project implementation support and supervision services. It recommended that "(a) payments to the MDBs for their costs of providing project implementation support and supervision services under SCF funded public sector operations be proposed and approved on a case-by-case basis; and that (b) approval of requests for payments be done with reference to a set of cost benchmarks to be established based on the experience with average and ranges of MDB costs for project implementation support and supervision services in lending operations and sectors similar to those anticipated under SCF's targeted program". Details of these benchmarks are provided in Annex 1.

25. In a study from the GEF Secretariat<sup>5</sup>, a comparison of the usage by Agencies of fees at different stages of the project cycle revealed that because of the different organizational structure of each Agency, the data provided were too disparate to be comparable.

26. The same study compared GEF policy on fees and project execution costs with the policies implemented by other similar institutions, including the Adaptation Fund, UNEP, UN-REDD and the funds that we described above. The conclusion was that some Funds have similar policies on fees as the GEF, but that overall, the problem lies in heterogeneity of activities covered by these fees, which are separated in different categories. Therefore, there is a need to improve and harmonize reporting of the various expenses.

27. In the GEF OPS 4 (Overall Performance Study of GEF-4 i.e. 2006-2010) report prepared by the GEF Evaluation Office<sup>6</sup>, a comparison on overhead costs and fees in several organizations (the GEF, the United Nations system, Conservation International, National Wildlife Federation, Environmental Defense Fund, World Wildlife Fund and Friends of the Earth) was undertaken. Although it was recognized that such comparison can be misleading, as costs vary with what is internalized or externalized in the project overhead cost/fee or charged directly to the project budget, the conclusion was that the GEF 10 percent— of which 9 percent is intended to cover execution costs of projects — was not excessive.

28. Based on the conclusions of both studies and this document, it appears that the 8.5% rule of the Adaptation Fund, which seems to be one of the lowest, could be considered very acceptable.

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<sup>5</sup> [GEF/C.39/9 "Rules and Guidelines for Agency Fees and Project Management Costs"](#)

<sup>6</sup> [Fourth Overall Performance Study of the GEF – 2010](#)

**Table 2: Project management related costs provided by other Funds**

Funds	Types of costs supported			
	Corporate Activity Fees	Core Unit Budget	Project Cycle Management Fees	Project Execution Costs
<b>GEF</b>	1% of project grant	N/A	9% of project grant	Up to 10% of project budget
<b>MLF (2010)</b>	N/A	UNDP: US \$1,913,365; UNIDO: US \$1,913,365; World Bank: US \$1,701,466	<ul style="list-style-type: none"> <li>• <u>Implementing Agencies</u>: 7.5 % for projects with a project cost at or above US \$250,000; 9 % for projects with a project cost below US \$250,000</li> <li>• <u>Bilateral Agencies</u>: 13% for projects below US \$500,000 and 9% for projects above that amount</li> </ul>	Costs to establish a Project Management Unit provided exceptionally. Usually estimated between 5% and 10% of the implementation cost. Negotiated on a case-by-case basis.
<b>Global Fund</b>	N/A	<ul style="list-style-type: none"> <li>• LFA fees for grant management monitoring;</li> <li>• Up to US \$50,000/year for basic CCM funding, may exceed US \$50,000/year for expanded CCM funding<sup>7</sup></li> </ul>	PR fees are negotiable	No specific rule
<b>GAVI</b>	N/A	N/A	<ul style="list-style-type: none"> <li>• ISS, INS, NVS: UNICEF/WHO procurement fees</li> <li>• CSO Support: HSCC or other Organization management fees (up to 7%)</li> </ul>	CSO support: CSO execution costs (less than 10%) * HSS: HSCC support costs (less than 10% of the total cost) *ISS, INS, NVS: Operational costs (less than 5%)
<b>Strategic Climate Fund</b>	Administrative budget for corporate services	\$388,000 for country programming support	Project fees provided on a case-by-case basis, within pre-determined benchmarks <sup>8</sup>	Flexible, no specific cap

**Execution costs**

29. On the project execution costs, covering the direct costs for administration and supervision of the day-to-day activities of projects, the **GEF** has decided on a cap of 10% of the project budget. In addition to that cap, the GEF has set specific rules related to the execution costs, i.e. exclusion of

<sup>7</sup> ["Global Fund Guidelines for CCM Funding Policy"](#)

<sup>8</sup> C.f. Annex 1

government seconded staff in project funding, requirement of proportionality between the execution costs and the total project financing (e.g., if the ratio of the GEF project grant to total financing is 1:5, then the GEF execution costs should be 20% of the total execution costs), requirement to explore cost savings when the GEF Agency acts as the executing entity, etc.

30. Because of the nature of **MLF** funded projects, mostly based on investment in equipment for phasing out of ozone depleting substances (ODS) and training of beneficiaries (ex. farmers, industries...), there was often no need to set up a project management unit (PMU). However, in specific cases funding for a PMU in the country is provided. The costs are between 10% up to, in rare cases, 20% of the implementation cost (higher values for smaller projects with long duration) and are used for national projects with multiple, performance based funding tranches provided over several years, where a multiple of users is being addressed; "multiple" refers to several 100 to several 10,000 beneficiaries. The costs were seen as justified because the hands-on management in the countries was seen as the most beneficial and cost effective implementation method. These costs are negotiated on a case-by-case basis; there are no specific guidelines. On the other hand, the **core unit budget** allocated to MLF Implementing Agencies covers costs of office, equipment, travel, staff and contractual services associated with project support.

31. In the case of the **Global Fund**, the Principal Recipient may contract sub-recipients for the execution of projects. A budget is allocated to these execution entities, including operational costs such as project personnel, travel, equipment, office supplies, overhead costs, etc. A screening of different project and policy documents suggests that there is no specific rule on a rate for project costs.

32. The **GAVI Alliance** provides execution costs of less than 10% to CSOs through its CSO Support Program and, in the case of NVS, a vaccine introduction grant to support the operational costs, representing a minimum award of US \$ 100,000 and a maximum of US \$ 0.30 per person in the target population, is provided. The operational costs support for the approved countries are disbursed from GAVI through WHO and UNICEF. Finally, HSS funding includes support costs to cover for costs related to reporting, M&E support and technical support. A breakdown of HSS proposed activities in countries, based on the analysis of the first 49 funded HSS projects, shows an average of 8.8% of the funding allocated to national level support costs.

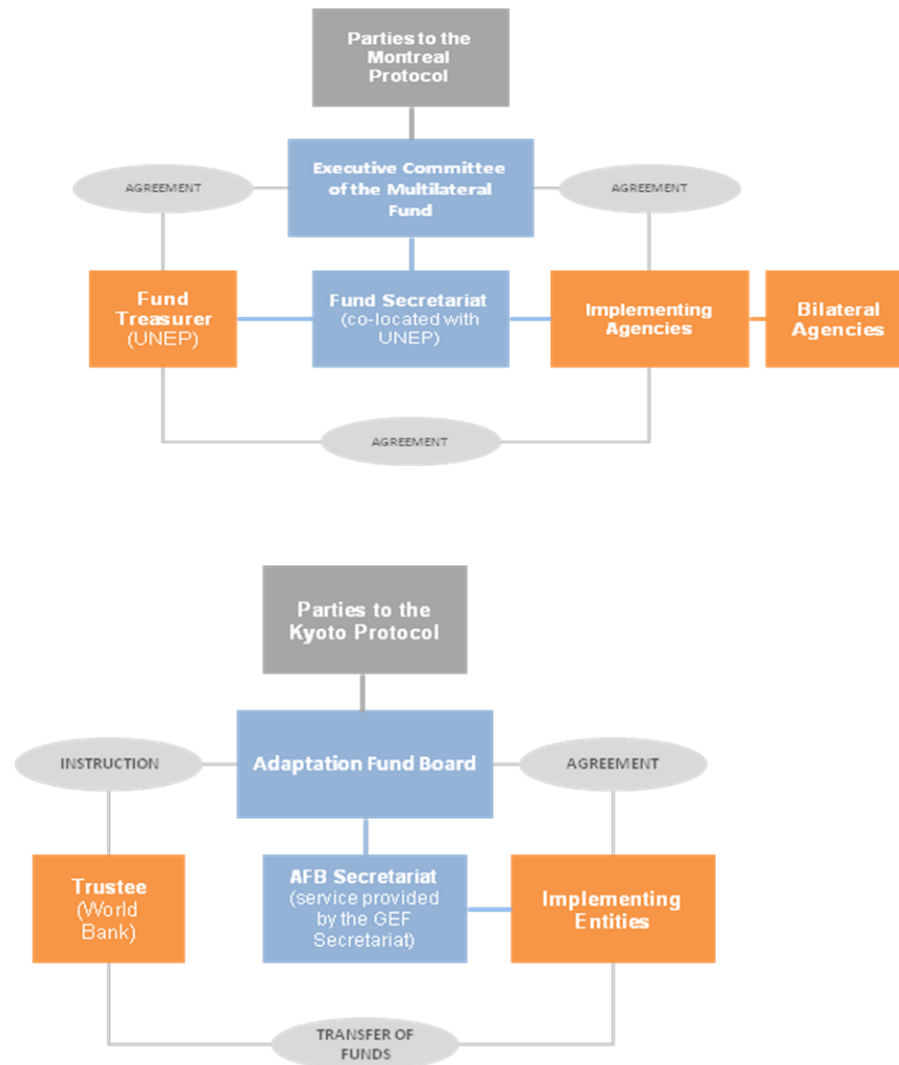
33. The **Climate Investment Fund** has decided not to set a specific cap on program execution costs, which are flexible and left to the discretion of the MDBs.

## V. Conclusion

34. The analysis of policies on project support costs from different funds suggests that, because of the heterogeneity in (i) Fund governance structure, (ii) Implementing Entities internal procedures and policies, (iii) types of project funded, i.e. requiring a project management unit or not etc., it is not possible to compare and draw conclusion on the rules they established on project related fees and costs.

35. In its governance structure, the Adaptation Fund is very similar to the Multilateral Fund (see figure 1). In addition, for both Funds, unlike the GEF, Implementing Entities are not involved in policy and strategy support to the Board; their assistance is limited to the execution of the projects. However, the two Funds differ by the type of projects that they finance. Therefore, they have to

establish the framework for project support that is the most cost effective and relevant in order to ensure a proper development and implementation of projects and programmes, to fulfill their mandate objective.



**Figure 1: Governance structure of the Multilateral Fund and the Adaptation Fund**

36. The MLF governance framework includes a limited number of implementing entities (4, i.e. the World Bank, UNEP, UNDP and UNIDO), therefore it is easier to allocate core unit budgets. In the case of the AF, with the growing number of IEs, such system may become costly and inefficient. Additionally, the nature of the MLF projects justify this organization since the Agency core budget covers costs for project support that are, in the case of the AF, covered by the execution costs.

37. The Adaptation Fund project cycle is comparable to that of the GEF, while potentially shorter, with projects that have been funded in less than 9 months following the approval of their concept. In addition, the role of AF and GEF implementing entities is very similar (Figure 2), with even some institutions being IE for both Funds (e.g. World Bank, UNDP, UNEP). Therefore, the

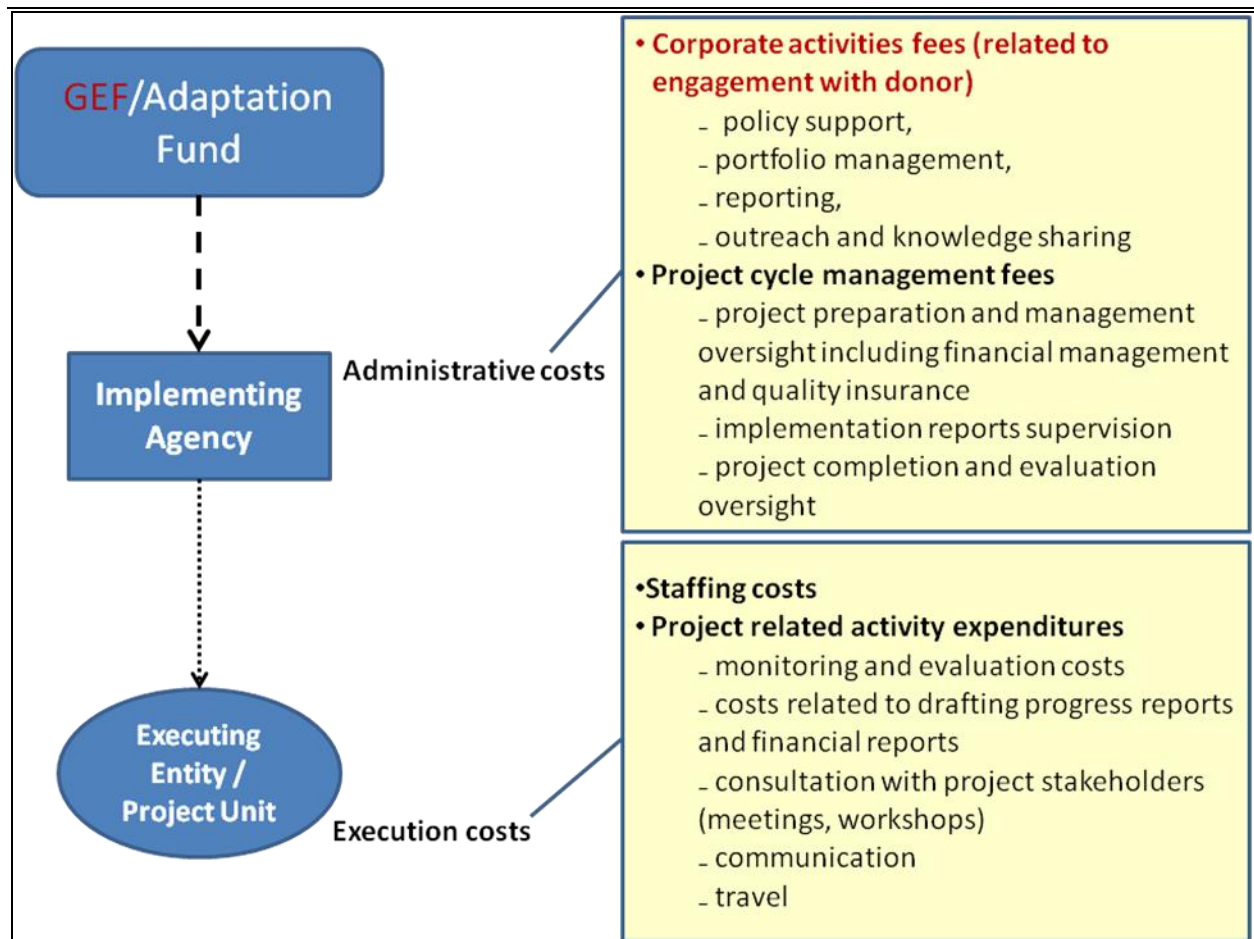
AFB has adopted rules about project cycle management costs that are sometimes very close to the ones established by the GEF.

38. In terms of Agency fees, set aside the corporate activity fees which are incorporated in the fees allocated to its Agencies for project support, the GEF allocates 9% of project grant as project cycle management fees. This is in line with the 8.5% rule adopted by the AFB. Likewise, although the AFB has not set a clear rule on execution costs yet, given the similarity of the breakdown of execution costs for AF and GEF projects, it seems reasonable to set a cap of 9-10% for AF project execution costs. Such cap would not be excessive, especially if we consider that the GEF requests its project co-financing to cover part of these costs whereas, in the case of the AF, 100% of the execution costs can be covered by the Fund.

39. In conclusion, although the execution costs added to IE fees could reach almost 20% of total AF project grant, the breakdown of the costs incurred by the related activities shows that the amounts are not excessive. There are specific costs incurred by the day-to-day management of project activities, and attempting to reduce them up to a certain extent may have negative consequence on the project overall success and impact. A comparison with the policies of other Funds showed that similar cost rates have been applied. Likewise, the AFB policy on IE management fees seems to be very reasonable when compared to that of other Funds.

40. In any case, the issue about the IE project cycle management fees lies less on the breakdown of these fees than it is about how these IEs will use these fees the most efficiently possible to support project development, implementation, completion and reporting. To that end, a proper monitoring framework needs to be established to assess the delivery of these project cycle management services.

41. Finally, a clear guidance is needed on what type of support is covered by the execution costs or the IE fees. The project proposals received from IEs, which provide a breakdown of the execution costs, show different cost items (see Annex 2). For example, whereas the execution costs of project X include the costs for mid-term and final evaluations, it is not the case for project Y. For the latter, it is not clear either whether these costs will be covered by the Agency fees or not (Annex 2).



**Figure 2: Breakdown of administrative costs covered by GEF and AF funding**

42. The following table gives a non-exhaustive list of activities where both IEs and project teams will be involved but at different levels. Therefore it is expected that, when submitting project proposals, the IEs will separate the costs related to project execution and those related to project support, accordingly.

**Table 3: List of activities funded by AF grant and covered by IE fees and execution costs**

Cost item	Type of support		
	Covered by IE fees	Covered by project execution costs	Not covered by AF grant
Staff	IE staff salary or time for project development, monitoring and supervision	Salary of project staff	Government seconded staff
Monitoring and evaluation	Supervision of preparation of annual project reports and project evaluation reports	*Project financial reports *RBM *Mid-term and Final Evaluation costs *Office facilities, equipment and communications	Independent reviews or evaluations of the projects and programmes by AF Board
Travel	Project supervision missions and steering committee meetings	Travel related to project execution	
Audit	Ensure compliance with audit requirements	Project financial audit	

## VI. Recommendations to the Ethics and Finance Committee

43. Based on the conclusions drawn from this study, the Adaptation Fund Board Secretariat would like to make the following recommendations, for the consideration of the Ethics and Finance Committee:

- To maintain the 8.5% cap on IE fees and include in the Adaptation Fund M&E framework an IE delivery monitoring component;
- To set a cap of 9-10% of project budget for project execution costs, providing that, if the Implementing entity is at the same time executing the project, it is expected that these costs could be reduced;
- To provide more guidance to the project proponents on the submission of project budget. This includes developing a standardized template table for project execution costs to be included in the current project document template (see Annex 3) or defining cost items that can or cannot be covered by AF funding (e.g. salary for Government staff etc). This may also include requesting budget notes along with a detailed budget for project components.

**ANNEX 1: Proposed benchmarks for reimbursement of MDBs for project implementation support and supervision services under SCF financed operations (US\$ '000)**

<b>SCF project financing categories</b>	<b>Preparation Benchmark Mean (Range)</b>	<b>Project Life (years)</b>	<b>Supervision Benchmark Mean (Range) 1/</b>	<b>Overall benchmark</b>
1. Investment financing				
a. Additional SCF financing for ongoing MDB projects <sup>4/</sup>	167( 108-222)	3.0	273 (254-288)	440 (362-510)
b. Blending SCF financing with MDB and other financing <sup>3/</sup>	148 (85-165)	6.5	286 (254-325)	428 (339-490)
2. Capacity-building projects (stand-alone)	217 (36-273)	4.0	228 (140-260)	445 (176-533)
3. Stand-alone SCF financing for investment projects (exception) <sup>2/</sup>	296 (210-382)	6.5	481 (364-591)	777 (574-973)



**ANNEX 2: Examples of Project Execution Costs budget breakdown****Project X**

<b>Cost Item</b>	<b>Year - 1</b>	<b>Year - 2</b>	<b>Year - 3</b>	<b>Year - 4</b>	<b>Total</b>
Office Rent	11250	11250	11250	11250	45,000
1 Project Coordinator salary	15,000	15,000	15,000	15,000	60,000
1 Project Administration Officer Salary	10,500	10,500	10,500	10,500	42,000
1 Project Finance Officer salary	10,125	10,125	10,125	10,125	40,500
1 Project Procurement Officer salary	9825	9825	9825	9825	39,300
5 Field Coordinators salary	25,000	25,000	25,000	25,000	100,000
Office Furniture	10000				10,000
Computers/ IT equipment	14,000	2000	2000	2000	20,000
Stationary and supplies	2500	2500	2500	2500	10,000
Travel to project field sites	17,500	17,500	17,500	17,500	70,000
Monitoring of results against indicator targets for reporting at mid-term and final evaluation		6200		7000	13,200
Mid-term Evaluation		20,000			20,000
Final Evaluation				30000	30,000
<b>TOTAL</b>	<b>125,700</b>	<b>129,900</b>	<b>103,700</b>	<b>140,700</b>	<b>500,000</b>

**Project Y**

<b>Cost item</b>	<b>Total Amount (\$)</b>
Project Manager – External Consultant	260,500
MIE support staff	244,165
Equipment	10,000
Recurring Costs – including vehicle running costs, office supplies, security costs,	64,255
Travel	54,000
<b>Total Project Execution Costs</b>	<b>632,920</b>

**Project Z**

<b>Cost Item</b>	<b>Year - 1</b>	<b>Year - 2</b>	<b>Year - 3</b>	<b>Year - 4</b>	<b>Year - 5</b>	<b>Total Execution costs</b>
Project Coordinator	20,000	20,000	20,000	20,000	20,000	100,000
Finance Manager	15,000	15,000	15,000	15,000	15,000	75,000
Senior Technical Advisor	15,000	15,000	15,000	15,000	15,000	75,000
Travel to project field sites	14,000	14,000	14,000	14,000	14,000	70,000
Management meetings and workshops	10,000	10,000	10,000	10,000	10,000	50,000
Computers; office supplies	18,000	3,000	2,500	2,500	2,750	28,750
Audit	2,000	2,000	2,000	2,000	2,000	10,000
<b>TOTAL</b>	<b>94,000</b>	<b>79,000</b>	<b>78,500</b>	<b>78,500</b>	<b>78,750</b>	<b>408,750</b>

**ANNEX 3: Model of project execution budget table**

<b>Cost items</b>	Project staff	Consultants (including consultants for Mid-term and Final Evaluation)	Equipment and office facilities	Consultations and communications	Travel	Other costs	<b>Total</b>
<b>AF funding (\$)</b>							