

GLOBAL
ENVIRONMENT
FACILITY

ADMINISTRATIVE COSTS, OVERHEAD AND OTHER
MANAGEMENT COSTS OF GEF-FINANCED
PROJECTS EXECUTED BY
UN SPECIALIZED AGENCIES

(Note prepared by UNDP)

GEF Council Meeting
Washington, D.C.
May 3 - 5, 1995

DRAFT COUNCIL DECISION

The Council took note of the document prepared by the United Nations Development Programme on executing agency support costs for UNDP/GEF projects.

EXECUTING AGENCY SUPPORT COSTS FOR UNDP/GEF PROJECTS

1. At its 22-24 February 1995 meeting, the GEF Council requested UNDP "to prepare a note for consideration at the next meeting of the Council on the administrative costs, overhead, and management costs of GEF-financed projects charged by the UN specialized agencies with which it cooperates and the services provided for such financial resources". UNDP is pleased to provide the following explanation:
2. The practices for the execution of UNDP projects and for charging support costs, following normal UNDP procedures, are described in paragraphs 3-5. However, GEF projects, implemented by UNDP, obtain even lower support cost rates than other UNDP projects, as described in paragraph 6. Support cost charges are paid to the concerned Executing Agency only. UNDP does not receive any part of the support cost paid to the Executing Agency. UNDP maintains a separate GEF administrative budget. Staff time spent on project development, preparation, supervision and implementation is funded from the administrative budget.
3. Each UNDP project is executed and project funds are disbursed by an Executing Agency. Executing Agencies may be either a national government authority or a UN agency. Execution is defined as the overall management of the programme/project, together with an assumption of responsibility and accountability for the production of outputs, the achievement of programme/project objectives and the use of UNDP resources.¹ Each Executing Agency has signed a Standard Basic Agreement with UNDP, that covers all aspects of the execution of technical cooperation activities, including provision for agency support costs. Support costs are paid to the Executing Agency for the procurement and delivery of all programme/project inputs and their conversion into programme/project outputs.
4. Support costs for the "Big Five" Executing Agencies (FAO, UNDDSMS, UNIDO, UNESCO and ILO) and the UN Office for Project Services (UNOPS)² are charged in accordance with a reimbursement rate established for each cluster of services (i.e., national personnel @ 11%, international personnel @ 9%, subcontracts @ 11%, fellowships @ 12%, training @ 21%, and equipment @ 4-10%). Other UN agencies charge a flat 13%. The World Bank is reimbursed at the rate of 11%.
5. Support cost rates have been established by UNDP and the UN Executing Agencies through long consultation and negotiation processes. It has been generally agreed that the UN agencies and UNDP share the full costs of execution in UNDP projects in line with long standing agreements and legislative directives.

¹ See UNDP's "Guidelines for (1) Determination of Execution and Implementation Arrangements and (2) Successor Arrangements for Agency Support Costs", Revision 1, October 1992.

² Formerly "UNDP OPS". Under the UNDP Financial Regulations and Rules, OPS was established in the 1970s as a direct execution arm of UNDP, complementing other UN agencies. As of 1 January 1995, in accordance with UNDP Executive Board decision 94/12 paragraph 10, "UNOPS" has been established as a separate entity.

6. As an exception to the traditional practice, UNDP/GEF sought and obtained ad hoc support cost rates, on a case-by-case basis, in the pilot phase. For instance, the World Bank agreed to waive its support costs in executing UNDP/GEF projects, UNOPS initially charged only 6%, UNDDSMS lowered its rates to 7.5% in one project and another to 9%. As of January 1995, the UNDP/GEF Executive Coordinator has been given formal authority to negotiate support cost rates, on a case-by-case basis, with concerned Executing Agencies taking into account the particular circumstances of each project. Based on a cost study, negotiations have recently been concluded with UNOPS, which will now charge 8% for projects under \$3 million and ad hoc rates, to be negotiated on a case-by-case basis, for larger projects. The ad hoc rates will be determined based on the complexity of the project but are expected to be less than 10%.

7. In the case of national execution, UNDP procedures provide only limited financial incentives for procuring services through a third party. When a co-operating Executing Agency implements certain components of a nationally executed project, it receives support cost reimbursement for the components at the same rates as described above.

8. In GEF publications, e.g. the Quarterly Operational Report, some UNDP/GEF projects are shown as having two Executing Agencies. This is because different Executing Agencies were used for the preparatory phase and for the main phase of the project. The support costs paid apply to the portion of the project budget for which each Executing Agency is responsible. The same principle, but somewhat different arrangement, is applied where one UN Executing Agency sub-contracts a second UN agency, as an "associated agency", to implement a component of a project. The associated agency is reimbursed on the portion which it executes from the overall support cost of the first UN Executing Agency. There is no double payment of support cost fees to the Executing Agencies.

9. All UNDP/GEF projects are managed in a developing country, with the exception of a very few global projects. Budget provision for project management personnel responds to the operational needs of the project, following standard UNDP procedures. Project personnel are considered an integral part of the technical assistance and capacity building projects supported by UNDP. For the years 1991-1993, for instance, project personnel component amounted to between 49% to 52% of the UNDP project expenditures.

10. A list of UNDP/GEF pilot phase projects, with the information on Executing Agency and support cost, will be issued as an addendum to this note. Overall pilot phase support cost is estimated at less than 6%.