

GEF Fee Distribution and Direct Project Costs

Dear Colleagues,

The purpose of this letter is to advise Country Offices of a revision to UNDP policy regarding the internal distribution of implementing fees paid to UNDP by the Global Environment Facility (GEF). We also take this opportunity to provide UNDP Country Offices with guidance on how to recover costs when providing Direct Project Costs (DPC) to projects funded by the GEF managed vertical funds.¹

A. GEF fee distribution

The GEF Council has decided to decrease the fees paid to GEF Agencies.² From 1 January 2013, GEF Agencies will receive 9.5% of a GEF grant for projects under \$10 million, and 9% for projects over \$10 million. There will be no change in fee arrangements for the UNDP GEF Small Grants Programme and for GEF programmatic approaches.

We are pleased to advise that the UNDP Operations Performance Group (OPG) has decided to absorb this fee reduction through a reduction of the allocation to Headquarters units (Central Services, GEF Corporate Services and Regional Bureaux) in order to avoid any negative impact on UNDP Country Offices. On the opposite, the share of the **GEF implementing fees paid to Country Offices will increase from 3% to 3.5% of project grants.**³ This decision has been made to ensure that the costs of Country Offices in providing General Management Support (GMS) to GEF financed projects are recovered in the most appropriate way.⁴ This new policy will take effect for all new project proposals considered by the GEF Council after 1 January 2013.

With these developments, the revised internal UNDP distribution of GEF fees for new project proposals submitted as of 1 January 2013 will be as follows:

Business Unit	9.5% GEF Fee Distribution
UNDP Country Office	3.5% (increase of 0.5%)
UNDP/GEF Corporate Services	0.5% (decrease of 0.5%)
UNDP/GEF Technical Advisory Services	4% (unchanged) ⁵
Central Services	1% (reduction of 0.33%)
Regional Bureau	0.5% (reduction of 0.17%)

¹ GEF-managed funds are: GEF Trust Fund, Least Developed Countries Fund (LDCF), Special Climate Change Fund (SCCF), and the Nagoya Protocol Implementation Fund (NPIF).

² Joint Summary of the Chairs, 42nd GEF Council Meeting, 7 June 2012.

³ OPG Decision of 12 July 2013.

⁴ GEF Agencies currently receive a 10% fee to cover GEF Council-defined 'project cycle management services' and GEF 'corporate activities'. These include specialized technical service requirements performed by the UNDP-GEF Unit.

⁵ UNDP/GEF will receive 3.5% share (instead of 4%) for any projects over \$10 million.

B. Direct Project Services to GEF-financed projects

Direct Project Costs (DPC) are costs that are incurred by UNDP that are execution-driven and are incurred for, and can be traced in full to, the delivery of project inputs. These execution-related costs are completely separate and distinct from General Management Support (GMS) costs that are incurred by UNDP regardless of the implementation/execution modality chosen for the project.

DPCs normally relate to operational and administrative support activities carried out by UNDP offices on behalf of Direct Implementation Modality (DIM) or Country Office support to National Implementation Modality (NIM) projects, such as: (a) HR activities, including recruitment of project personnel, issuance of project personnel contracts, etc.; (b) costs incurred in the process of undertaking procurement activities of project goods and services; and (c) finance transactions that are performed on behalf of an Implementing Partner.⁶

As outlined in the 'Policy on Cost Recovery from Regular and Other Resources' dated January 2011, the UNDP Executive Board requires UNDP to fully recover the costs of any services it provides to Other Resources funded projects and programmes. The UNDP Cost Recovery Policy states that the costs of any Direct Project Costs incurred by UNDP (formerly referred to as Implementation Support Services or ISS) need to be recovered on the basis of estimated actual costs expected to be incurred, or on a per-transaction basis (using the Universal Price List (UPL) or the Local Price List costing template as a costing reference), and should be charged directly to project budgets.

It is necessary to provide GEF-specific guidance at this time because of a recent decision of the GEF Council to adopt rules on when and how Direct Project Costs may be provided for GEF-financed projects.⁷ The guidance contained herein is aligned with UNDP's Cost Recovery Policy.

Below are the key requirements when providing direct project services to GEF-financed projects. This GEF-specific guidance has been in effect as of 7 June 2012. It does not apply to projects approved before 7 June 2012.

1. The cost of any anticipated direct project services to be incurred by UNDP under DIM or CO support to NIM projects, need to be clearly identified and estimated in the project management budget of the Project Identification Form (PIF) during the initial phase of project formulation when activities are defined, assessed, and costed. For projects that have already submitted PIFs and are proceeding to the CEO endorsement stage, the costs of any Direct Project Services need to be clearly identified in the project document. Any direct project services requested by an Implementing Partner after CEO endorsement of the project need to be communicated to the GEFSEC for prior approval, as appropriate. Any communications with the GEFSEC will be performed or coordinated by the GEF Regional Technical Advisor.

⁶ The GEF refers to UNDP 'Implementing Partners' as 'Executing Entities'. The terminology is interchangeable.

⁷ Joint Summary of the Chairs, 42nd GEF Council Meeting, 7 June 2012.

2. In line with UNDP Cost Recovery Policy, the costs should be calculated on the basis of estimated actual costs or transaction-based costs, using the UPL (for standard service transactions) or Local Price List template (for non-standard service transactions), as a reference point. DPCs must NOT be charged as a flat percent, as this would not equate to actual or transaction-based costs. DPCs should be charged to the separate account code: "74599-UNDP cost recovery chrgs-Bills", until such further notice is given.
3. The costs of direct project services, if they are incurred, need to be fully recovered. That being said, however, they are never mandatory. They are only provided upon the request of and in agreement with the implementing partner as UNDP should never unilaterally make the decision to provide project services. These arrangements should be documented in a Letter of Agreement (LOA) that is annexed to a Project Document, as UNDP will be acting as a 'Responsible Party'. The form and content of the LOA is up to the Implementing Partner, but suggested templates are available in the POPP here: <https://intranet.undp.org/global/popp/ppm/Pages/Defining-a-Project.aspx> (see section 2.4).
4. DPCs need to be funded within the total 'Project Management Cost (PMC)' allocation provided by GEF to the Implementing Partner⁸ and cannot exceed the total PMC allocation.

Further guidance from the Office of Financial Resources Management on charging of DPCs for all UNDP projects is expected in the first quarter of 2013. We will communicate with you again in case any changes to the above guidance are required.

Thank you for carefully noting this new policy and guidance, and we look forward to working with you in the successful implementation of GEF projects.

Yours sincerely,



Darshak Shah
Deputy Assistant Administrator,
Deputy Director and
Chief Finance Officer
Bureau of Management

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Yannick Glemarec
UNDP-GEF Executive Coordinator
Bureau for Development Policy

Date: 26-11-2012

⁸ Please note that DPCs shall not be recoverable from Project Preparation Grants (PPGs), as the GEF does not provide any PMC allocation for PPGs.