FUNDING OF SUPERVISION FEES FOR MAXIMUM COUNTRY ALLOCATIONS OF US$5 MILLION AND LESS: REPORT FROM THE COUNTRY GRANTS AND PERFORMANCE COMMITTEE (CGPC)

For Decision

Rev. 1 – This paper has been updated to correct in Annex 1, Table 2 as follows: 1) Guyana is not eligible as it does not have an existing Maximum Country Allocation 2) Solomon Islands, The Gambia, and Pacific Island States are on the FY17 World Bank list of fragile situations and therefore merit a US$300,000 increase rather than US$200,000.

Please note: Board papers are deliberative in nature and, in accordance with the GPE Transparency Policy, are not public documents until the Board has considered them at the Board meeting.

1. STRATEGIC PURPOSE

1.1 The purpose of this paper is to request the Board of Directors to approve a proposal that increases the Maximum Country Allocations (MCAs) of US$5 million and less by US$200,000 or US$300,000, depending on context, to cover the cost of the grant agent. It is further proposed that the proposal also apply to Papua New Guinea (MCA of US$6.6 million) on an exception basis due to the complexity and cost of performing the grant agent role there.

The proposal will ensure that these small allocations, which are disproportionately impacted by the 2015 Board decision to fund the cost of the grant agent from the MCA[1], leave a meaningful amount for implementation of the program to further GPE goals and objectives. The proposal further recommends updating the term Supervision Allocation to Grant Agent Allocation.

[1] Board decision BOD/2015/10-02–GPE Operational Model

Summary of CGPC Deliberations

The CGPC met on October 25-27, 2016 in Washington, D.C. and discussed the proposal.

- Committee members expressed support for the proposal and asked a few clarifying questions.
- The request was made to provide a clearer rationale in the paper as to why the proposal should apply to Papua New Guinea on an exception basis.
- There being no further comments, the **Chair of the CGPC concluded there was consensus to recommend the proposal to the Board for approval**.

Summary of GERF Deliberations

Following the deliberations of the CGPC, the Governance, Ethics, Risk and Finance Committee was informed of the CGPC's recommendation and had no objection, noting that the level of the proposed increase does not significantly impact the overall financial position.

2. EXECUTIVE SUMMARY

2.1 In October 2015, the Board decided that supervision allocations would no longer be funded separately, but should be part of the grant proposal budget and funded from the MCA in order to bring consistency to the treatment of grant agent costs, improve transparency as to the use of funds, and improve predictability of costs for financial planning purposes for the GPE Fund. The decision would go into effect in the second funding round of 2016.

2.2 The Board decision disproportionately affects smaller MCAs. This is because the cost of the grant agent to play its role is generally only marginally affected by the size of the grant: the duties of the grant agent in administering a US$40 million grant or a US$4 million grant are largely the same: the grant agent will need to go on site visits to look at implementation progress, plan and participate in meetings with government officials to discuss the grant, spend staff time on grant management, and hire consultants to provide implementation support and oversight. Consequently, a greater percentage of smaller grants will go to cost-recovery for the grant agent compared to larger grants, leaving a smaller percentage available for programming. For grants of US$5 million and less in particular, the amount of the grant remaining to be spent on ensuring children's education is significantly reduced and threatens impact.

2.3 To remedy the inequity, the Secretariat proposes to increase MCAs of US$5 million and less by US$200,000 for non-fragile contexts, and US$300,000 for fragile contexts. These proposed amounts are based on the supervision allocation guidelines for MCAs of US$5 million and less approved in November of 2013 and effective for grants approved through the first funding round of

2016 (see Annex 1). Any additional funds that the grant agent may need must be financed from within the MCA.

2.4 The proposal applies to existing MCAs of US$5 million and less that are accessed in or after the second funding round of 2016 and in the current funding period (ending with the second funding round of 2018). An addition to this is proposed for Papua New Guinea (MCA of US$6.6 million) due to the complexity and cost of performing the grant agent role there. PNG's population of 7.3 million is spread across some of the world's most difficult terrain. An estimated 88 percent of the population lives in rural areas, often isolated with poor communications and no transport links. PNG's infrastructure was ranked 135 out of 155 countries by a World Bank study. During recent discussions with the Secretariat, the PNG government and development partners have shared concerns about the size of the grant and the cost of supervision. High cost of travel, low technical capacity at the capital and in provinces and poor law and order situation in most part of the country have been cited as major constraint to development partners as they incur a significant level of expenses in ensuring security.

2.5 The Secretariat further recommends changing the terminology of Supervision Allocation to Grant Agent Allocation for consistency with the new grant agent terminology and to make it clear that the allocation is applicable to all grant agents regardless of the modality under which they operate (supervising, implementing or hybrid).

3. RECOMMENDED DECISION

3.1 The CGPC requests the Board approve the following decision:

BOD/2016/12-XX—Funding of Supervision Fees for Maximum Country Allocations of US$5 million and less: The Board of Directors:

1. Refers to its decision on supervision fees in BOD/2013/11-08—Supervision, Agency, and Management and Administration Costs.
2. Refers to its decision BOD/2015/10-02-GPE Operational Model which introduces the common terminology of grant agent to replace managing entities and supervising entities and requires that with effect from the second round of applications in 2016, the costs of the grant agent to perform its role must be disclosed within the proposal budget and financed from within the overall maximum country allocation (MCA).
3. Agrees to change the term Supervision Allocation to Grant Agent Allocation.
4. Notes that the decision in point 2 disproportionately affects smaller grants, in particular grants in the lowest tier of supervision allocation levels for MCAs of US$5 million and less.

5. Agrees to increase existing MCAs of US$5 million or less in the current funding period by US$200,000 for non-fragile countries and US$300,000 for countries categorized as fragile and conflict-affected, in accordance with the levels for supervision allocations previously approved in BOD/2013/11-08—Supervision, Agency, and Management and Administration Costs.
6. On an exception basis recognizing its particularly difficult context and the likelihood that the grant agent will incur significant oversight costs, agrees to increase the existing MCA of Papua New Guinea, whose MCA is US$ 6.6 million, by US$450,000 in accordance with the levels for supervision allocations previously approved in BOD/2013/11-08—Supervision, Agency, and Management and Administration Costs.

4. BACKGROUND

4.1 The approval of an ESPIG has historically included three financial allocations by the Board: 1. an allocation to implement the grant proposal; 2. a fee to the grant agent's headquarters (agency fee); and 3. A supervision allocation to the grant agent (Supervising Entity only) to cover the actual cost of serving as a grant agent (proposal to refer to this as a grant agent allocation). The latter includes such expenses as travel costs for site visits to look at implementation progress or meetings with government officials to discuss the grant. It may also include staff time and the costs of consultants involved in providing implementation support and oversight. All three allocations were separately approved by the Board at the time of approval of the grant proposal.

4.2 Up until the second funding round of 2016, both the agency fee and the supervision allocation were funded by GPE over and above the MCA, except under the previous Managing Entity modality where these costs were integrated in the grant amount. Thus, the full MCA for grants using a Supervising Entity could be used for program activities, whereas that was not the case for grants using a Managing Entity.

4.3 At the October 2015 Board meeting, the Board decided to discontinue this dual mechanism of operational cost-recovery. Effective with Round 2 of 2016, the agency fee would continue to be paid in addition to the grant allocation for all grants, while the cost of the grant agent to fulfill its role and responsibilities would be funded from within the MCA.[2]

4.4 Reasons for the decision included to streamline the operational cost recovery of the grant agent. Until then, grant agents operating in a *supervising modality*–the former supervising entities–received both an allocation representing the agency fee and an allocation representing the supervision fee and could not recover additional cost from the grant allocation. Grant agents

[2] Board decision BOD/2015/10-02–GPE Operational Model

operating in a *managing modality*–the former managing entity–only received an allocation representing the agency and had to recover all operational costs from the grant allocation. Partners considered it unreasonable that countries using a managing entity saw program budgets reduced by grant agent costs, the more so because the lines of distinction between supervising and managing modalities were often blurred in practice. The new terminology of grant agent for both supervising entity and managing entity and the decision to have the operational cost of the grant agent in either modality paid from within the grant alleviated these concerns and would incentivize partners to minimize grant agent costs, for example through co-financing, and provide transparency around their use.

4.5 However, the measure did not consider that it would impact grants of different sizes disproportionately. Based on the Board-approved guidance for supervision allocation amounts in effect until recently, larger grants (US$50 million and up) would see the budget available for programming reduced by only 1-2 percent to cover the cost of the grant agent, whereas a smaller-sized grant would see the allocation available for program activities reduced by a greater percentage, up to 30 percent for some fragile contexts with grants below USS$5 million. This is illustrated in Annex 1.

4.6 To address this unintended consequence, the Secretariat proposes to increase existing smaller-sized MCAs by US$200,000 for non-fragile contexts, and US$300,000 for fragile contexts. These amounts are based on levels of supervision allocations previously approved by the Board.[3]

4.7 Annex 1 provides an overview of those supervision fee allocation levels, and how the proposal would impact the eligible countries.

4.8 The Secretariat would like special consideration of one additional country to be eligible under the proposal. In December 2014, the Board approved an MCA of US$7.1 million for Papua New Guinea (PNG), which was later adjusted to US$6.6 million due to exchange rate adjustment. PNG's population of 7.3 million is spread across some of the world's most difficult terrain. An estimated 88 percent of the population lives in rural areas, often isolated with poor communications and non-existent transport links. PNG's infrastructure was ranked 135 out of 155 countries by a World Bank study, a rank that was lowest among the major economies in the region. During recent discussions with the Secretariat, the PNG government and development partners have shared concerns about the size of the grant and the cost of supervision. High cost of travel, low technical capacity at the capital and in provinces and poor law and order situation in most part of the country have been cited

[3] BOD/2013/11-08—Supervision, Agency, and Management and Administration Costs

as major constraint to development partners as they incur a significant level of expenses in ensuring security.

4.9 Should the grant agent need additional funds to cover its cost, it is proposed that these are financed from within the MCA.

4.10 The Secretariat notes that the work on eligibility and allocations as part of the design of Funding and Financing Framework for the next funding period will take into account the size of allocations, modalities, co-financing, and economy-of-scale considerations to ensure as much as possible of the MCA is left for program implementation.

5. IMPACT ON SECRETARIAT RESOURCES AND RISK ANALYSIS

5.1 The impact of the proposal on Secretariat resources is not significant. If all outstanding MCAs in the lowest tier of US$5 million or less are successfully accessed, GPE would fund up to US$2.~~8~~ 9 million in increased MCAs. Should Papua New Guinea be included, the amount would increase to US$3.~~25~~ 35 million. The amount will be lower if not all countries submit an application for the relatively small amounts.

5.2 There is a risk that the grant agent will still need significant additional funds, which would need to be funded from the MCA and would reduce the implementation budget. However, developing country partners may consider this in the planning phase and consider delivery modalities and grant agent selection accordingly, for example prioritizing co-financing arrangements to benefit from economies of scale with respect to grant administration. Moreover, the proposal would still help minimize the impact of the grant agent cost on the budget.

6. NEXT STEPS

6.1 Following the deliberation of the CGPC, the proposal was shared with the Governance, Ethics, Risk and Finance Committee (GERF).

7. PLEASE CONTACT Margarita Focas Licht at mlicht@globalpartnership.org for more detailed information.

8. ANNEXES

8.1 This document includes the following annexes:

Annex 1: Tiers of Supervision Allocation Levels and Impact of Proposal on MCAs

ANNEX 1 – TIERS OF SUPERVISION ALLOCATION LEVELS AND IMPACT OF PROPOSAL ON MCA'S

Table 1 – Board-approved tiers of supervision allocation levels based on grant size[4]

Grant size	Supervision Allocation[5]			
	Non-fragile Context		Fragile Context	
Up to US$5 million	US$200,000	4-20% of MCA	US$300,000	6-30% of MCA
US$5 million–US$10 million	US$300,000	3-6% of MCA	US$450,000	5-9% of MCA
US$10 million–US$25 million	US$400,000	2-4% of MCA	US$600,000	2-6% of MCA
US$25 million–US$50 million	US$500,000	1-2% of MCA	US$750,000	2-3% of MCA
US$50 million+	US$600,000	1-1% of MCA	US$900,000	1-2% of MCA

Table 2 – Countries with MCAs of US$5 million and less and impact of proposal

Grant Recipient	MCA in US$	Proposed increase to MCA in US$ to cover grant agent cost (200,000 for non-fragile; 300,000 for fragile)	Revised MCA in US$
Sao Tome and Principe	1,000,000	200,000	1,200,000
Maldives	1,000,000	200,000	1,200,000
Cabo Verde	1,200,000	200,000	1,400,000
Bhutan	1,600,000	200,000	1,800,000
Solomon Islands*	1,600,000	~~200~~300,000	1,~~800~~900,000
~~Guyana~~	~~1,700,000~~	~~200,000~~	~~1,900,000~~
Comoros Islands*	2,000,000	300,000	2,300,000
Lesotho	2,100,000	200,000	2,300,000
Guinea Bissau*	4,400,000	300,000	4,700,000
Nicaragua	4,400,000	200,000	4,600,000
Pacific island states[6]*	3,800,000	~~200~~300,000	4,~~000~~100,000
Timor Leste	3,900,000	200,000	4,100,000
The Gambia*	5,000,000	~~200~~300,000	5,~~200~~300,000
Total Additional Cost to GPE		**2,~~800~~900,000**	

*Fragile

Table 3 – Impact of proposal on MCAs between US$5-10 million and impact of proposal

Grant Recipient	MCA in US$	Proposed increase to MCA in US$ to cover grant agent cost (450,000 for fragile context)	Revised MCA in US$
Papua New Guinea*	6,600,000	450,000	7,050,000
Total Additional Cost to GPE		**450,000**	

*Fragile

[4] Board-approved in November 2013 in BOD/2013/11-08—Supervision, Agency, and Management and Administration Costs.
[5] Standard supervision fees are US$50,000 per year. The numbers in this table are based on a four-year grant.
[6] Includes the Pacific island states of Kirbati*, Marshall Islands*, Micronesia Federal States*, Samoa, Tonga, Tuvalu*, Vanuatu.