



Global Environment Facility

GEF/C.28/11/Rev.1
May 10, 2006

GEF Council Meeting
June 6-9, 2006

Agenda Item 19

REVIEW OF THE FEE POLICY

Recommended Council Decision

The Council having reviewed document, GEF/C/28/11/Rev.1, *Review of the Fee Policy*, notes that no adverse programming impacts, particularly with respect to the number of quality medium-sized projects, have resulted during FY2006 from the introduction of the new fee system. Council requests the Secretariat and the Agencies to continue to monitor the portfolio during FY2007, and report to the Council in June 2007, should there be any programming or operational concerns resulting from the continued application of the new fee system.

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Executive Summary

1. At its June 2005 meeting, the Council reviewed document, GEF/C.23/8/Rev.1, *Proposal for Revising the Fee System*, and agreed to implement a flat fee of 9 percent of the GEF grant, with an understanding that the new system would be reviewed and discussed at the June 2006 Council meeting.
2. The Council requested the Secretariat, in collaboration with the Implementing and Executing Agencies, to closely monitor the configuration of projects entering the project pipeline with a view to determining whether the new fee system has any adverse impacts, with particular attention to the number of quality medium-sized projects being proposed for pipeline entry.
3. From the operational experience in fiscal year 2006, there is no evidence to date that the new fee policy has had any adverse impact, in terms of the share of medium-sized projects, both in numbers and resource allocations, in the portfolio.
4. The Secretariat and the Agencies will continue to monitor the portfolio during FY2007 and report any adverse impacts of the new fee system, should there be any, to the Council at its June 2007 meeting.

Introduction

1. At its June 2005 meeting, the Council reviewed document, GEF/C.23/8/Rev.1, *Proposal for Revising the Fee System*, and agreed to implement a flat fee of 9 percent of the GEF grant, with an understanding that the new system would be reviewed and discussed at the June 2006 Council meeting.
2. The Council requested the Secretariat, in collaboration with the Implementing and Executing Agencies, to closely monitor the configuration of projects entering the project pipeline with a view to determining whether the new fee system has any adverse impacts, with particular attention to the number of quality medium-sized projects being proposed for pipeline entry.
3. The Council also requested the Secretariat to report to the Council any particular difficulties experienced by the Executing Agencies under the new fee structure.
4. This report highlights the initial experience with the new fee system during the last ten months and finds no evidence of adverse impacts resulting from the system.

Experience with the Fee System

5. Since the fee system was approved, the Council has approved three work programs (July 2005 Intersessional, November 2005, February 2006 Intersessional). In addition, the CEO, under delegated authority, has approved medium-sized projects, enabling activities, and project-development facility (PDF) requests. Approvals since the new fee policy was introduced are shown in Table. 1.

Table 1: Project Approvals in FY 06 after the Introduction of the New Fee Policy

Approval Period	Full Sized Projects		Medium Sized Projects		Enabling Activities		Total	
	No	Amount (\$million)	No	Amount (\$million)	No	Amount (\$million)	No	Amount (\$million)
July - Sep 2005	21	125.36	11	10.62	13	2.56	45	138.54
Oct - Dec 2005	25	267.29	3	2.15	5	1.24	33	270.67
Jan - Mar 2006	9	67.64	20	16.10	13	3.57	42	87.31
Total	55	460.29	34	28.87	31	7.36	120	496.52

Notes: Notes: Fiscal year 2006 includes data only for approvals until March 30, 2006, and does not include any anticipated approvals during the April – June 2006 period, including the proposed June 2006 work program. All approval amounts include the PDFs approved earlier for these projects. The table does not include the fee provided as advance for PDFs. It also does not include fees provided for one tranching project endorsed by the CEO.

6. A total of \$ 42.45 million was approved as fees associated with the projects during this period. No premiums were provided for any of the projects. This corresponds to an overall fee ratio of 8.55 % and reflects the fact that two projects – the *Small Grants Program* (4 percent fee), and the *Country Support Program for GEF Focal Points* (7 percent) -- requested fees below 9 percent.
7. The key objectives of the new fee system were to increase transparency, to streamline the fee decision processes, and to reduce associated transaction costs. The new fee system has done

away with the need for the Secretariat and the Agencies to engage in cumbersome fee premium negotiations, which used to be a time-consuming part of constituting work programs. The new system is fully transparent to all partners engaged in the GEF.

8. Tables 2, 3, and 4 provide data on approvals of different GEF project types during the GEF-3 period. Fiscal year 2006 includes data only for approvals until March 30, 2006, and does not include any anticipated approvals during the April – June 2006 period, including the proposed June 2006 work program.

Table 2: Number of Approved Projects during GEF-3 by size and type ¹

Fiscal Year	Full-sized Projects		Medium-sized Projects		Enabling Activities		All Projects	
	No	Share of Total	No	Share of Total	No	Share of Total	No	Share of Total
2003	68	29.82%	39	17.11%	121	53.07%	228	100
2004	71	37.37%	32	16.84%	87	45.79%	190	100
2005	69	42.86%	48	29.81%	44	27.33%	161	100
2006	55	45.83%	34	28.33%	31	25.83%	120	100
Total	263	37.63%	153	21.89%	283	40.49%	699	100

Table 3: Portfolio Shares during GEF-3 (Project Amounts)

Fiscal Year	Full-sized Projects		Medium-sized Projects		Enabling Activities		All Projects	
	Amount (\$ million)	Share of Total	Amount (\$ million)	Share of Total	Amount (\$ million)	Share of Total	Amount (\$ million)	Share of Total
2003	491.32	88.38%	33.39	6.01%	31.23	5.62%	555.94	100
2004	615.47	92.48%	28.96	4.35%	21.06	3.16%	665.49	100
2005	557.08	90.92%	44.85	7.32%	10.8	1.76%	612.73	100
2006	460.29	92.70%	28.87	5.81%	7.36	1.48%	496.52	100
Total	2124.16	91.14%	136.07	5.84%	70.45	3.02%	2330.68	100

Table 4: Average Grant Sizes during GEF-3 (\$ million)

Fiscal Year	Full-sized Projects	Medium-sized Projects	Enabling Activities	All Projects
2003	2.44	0.86	0.26	1.60
2004	3.50	0.91	0.24	2.32
2005	3.81	0.93	0.25	2.64
2006	4.14	0.85	0.24	2.88
Total	3.33	0.89	0.25	2.24

Notes: All approved amounts include the associated PDFs approved earlier for those projects.

¹ Non-expedited enabling activities are approved by the Council as full-size projects and are reported as such under full size projects. There were two such projects in GEF3. The Global: National Communications Programme for Climate Change was a full-sized project for \$58.48 million that provided support through individual sub-projects for up to 130 countries to support their reporting to the UNFCCC. China pops(2003)

9. The Council asked the Secretariat to examine the potential adverse impacts of the new fee system, particularly on the number of medium size projects. Table 2 shows the number of approved projects of different sizes by fiscal year during GEF-3. The new fee system applies to projects beginning FY2006. Medium size projects account for 28 percent of the projects approved during FY2006 and is comparable to their share in FY2005. There is a significant increase from the first two years of GEF-3 when the GEF approved many enabling activities in response to new guidance from the Conventions.

10. Table 3 shows the total resources approved for different types of projects by fiscal year during GEF-3. Medium size projects accounted for approximately 6% of the total GEF grants in FY2006, close to the historical share.

11. Table 4 shows the average grant size during GEF-3. The overall average grants size has been slowly increasing over the years, particularly with regard to full-sized projects. The trend does not seem to have accelerated after the introduction of the new fee policy in FY2006, and hence there is no evidence to attribute any causal linkage to the new fee policy. The upward trend in the average grant size may have more to do with the increasing number of partnerships and umbrella projects/programs in the GEF portfolio.

Experience of the Executing Agencies

12. The new fee policy is equally applicable to the Implementing and the Executing Agencies. In the Secretariat's consultations with the Executing Agencies, during the development of the new fee proposal, and during the Council discussion on the topic at the June 2005 meeting, the Agencies expressed their concern that since they do not have access to GEF corporate budgets, they may be forced to use their fee resources and/or their own agency resources to participate in GEF inter-agency activities. The Executing Agencies continue to express this concern. Staff members from the Executing Agencies now participate, on an as-needed basis, in meetings of several GEF inter-agency task forces, including the RAF implementation team, in exercises of the GEF Evaluation Office, and in the monitoring activities coordinated by the Secretariat.

Conclusion

13. From the operational experience in fiscal year 2006, there is no evidence to date that the new fee policy has had any adverse impact, in terms of the share of medium-sized projects, both in numbers and resource allocations, in the portfolio. The Council should note that the implementation of the Resource Allocation Framework, beginning FY2007, may have an impact on the share of medium-sized projects in the portfolio that is independent of any influence of the fee system. The Secretariat and the Agencies will continue to monitor the portfolio during FY2007 and report any adverse impacts of the new fee system, should there be any, to the Council at its June 2007 meeting.