SECOND MEETING FOR THE
SEVENTH REPLENISHMENT OF RESOURCES OF THE GEF TRUST FUND
ADDIS ABABA, ETHIOPIA
OCTOBER 4-5, 2017
SUMMARY OF THE CO-CHAIRS

The second meeting of Participants for the GEF-7 Replenishment was held at the United Nations Economic Commission for Africa (UNECA) in Addis Ababa, Ethiopia on October 4-5, 2017. The meeting was co-chaired by Axel van Trotsenburg, Vice President, Development Finance, World Bank and Naoko Ishii, CEO and Chairperson, GEF.

Contributing Participants were joined by non-donor recipient country participants representing Africa, Asia, Eastern Europe, and Latin America and Caribbean. Observers from the five global environmental Conventions for which the GEF serves as a financial mechanism, the GEF Agencies, two NGO/CSO observers representing donor and recipient country-based NGOs/CSOs respectively, two representatives from the private sector, and a representative from the Green Climate Fund (GCF).

His Excellency Dr. Gemedo Dalle, Minister on Environment of Ethiopia, joined the opening session. He emphasized the need to address the continued deterioration of the global environment, and noted that trends can only be reversed by collective action by all actors, including governments, the private sector and citizens. He thanked the GEF for its support to Ethiopia, noted the GEF's contribution to addressing environmental threats across developing countries, and called upon all Contributing Participants to set a bold and ambitious agenda for GEF-7.

In his opening remarks, Mr. van Trotsenburg noted that GEF-7 comes at a challenging time when the world is changing and the environmental challenges ahead of us are growing to unprecedented levels. In this context, he underscored the importance of the GEF in helping countries to address cross-cutting environmental issues and to meet their obligations towards key multilateral environmental agreements. He thanked the Government of Ethiopia for hosting the meeting.

Ms. Ishii added her thanks to the Government of Ethiopia for hosting the meeting and for their leadership on the global sustainability agenda as is evident in the Government's policies, and Ethiopia's national development plan. Ms. Ishii also pointed to the message provided by the Ethiopian Prime Minister on the occasion of the replenishment meeting in the "Our Planet Magazine", where the Prime Minister emphasized the importance of global coordination and action to address the environmental challenges facing the world. She noted that the challenge is huge, which should compel everyone to aim high. Ms. Ishii closed by emphasizing that the GEF-7 replenishment process is an opportunity to strengthen and reposition the GEF, so as to maximize its role in supporting the transformational change that is needed.

The meeting included a speech from H.E. Anne Désirée Ouloto, Minister of Public Health, Environment, and Sustainable Development for Cote d'Ivoire, where she announced Cote d'Ivoire's intention to become a donor to the GEF Trust Fund.

OPS-6 Evaluation

Participants welcomed the Final Draft OPS-6 Report and expressed strong appreciation for the thorough analysis underpinning its recommendations and for the broad coverage of OPS-6, including the GEF's strategic relevance, performance and impacts, individual focal area assessments, private sector, programmatic approaches and Integrated Approach Pilots, and the GEF's institutional framework. Participants noted that the conclusions of OPS-6 related to the GEF's continued relevance and the opportunities it presents in the changing landscape of environmental finance. They noted that the GEF occupies a unique space in the global environmental financing architecture due to its broad focus, its role as a financial mechanism for several environmental conventions, its ability to address interlinkages and synergies across focal areas, implement policy and regulatory reforms as well as deliver innovative financing models.

While noting the findings of OPS-6 on the GEF's continued strong track record in project performance, and its role in catalyzing and supporting transformational change, several Participants inquired if more could be done to optimize resource use through policy reforms and programming proposals that actively leverage investments. Participants appreciated that a high proportion of GEF projects (79%) are rated "satisfactory" in terms of outcomes achieved. However, they expressed concern that a somewhat lower proportion of projects (63%) are likely to have sustainable outcomes based on risks at project closure.

Participants recognized that the emphasis on integration included in programmatic approaches and multifocal area projects is relevant in addressing drivers of environmental degradation. Programmatic approaches were noted as having higher sustainability and their "child" projects being rated somewhat higher than stand-alone projects. At the same time, many Participants noted the OPS-6 findings that complexity in program design needs to be dealt with to address implications for outcomes, efficiency, and management, and that transparency and accountability in program implementation can be further enhanced. Participants also noted the importance of achieving program additionality and complementarity with other funds. Many Participants expressed concern over the decline noted by OPS-6 in the share of funds allocated to MDBs for implementation in recent GEF cycles and some requested further policy thinking on options to mitigate this trend. A few Participants noted the relatively high concentration of GEF programming across a limited number of Agencies.

Overall, Participants supported the recommendations of the draft report and urged that they be considered in further work on GEF-7. The IEO agreed to fine tune the report taking into account the comments received and to present the final Report at the third Replenishment meeting in January 2018.

Programming Directions

Participants welcomed and broadly supported the revised Programming Directions. Participants appreciated that comments provided at the informal check-in meeting in May and written inputs from Participants to the informal update note shared in mid-July had been reflected. Many Participants emphasized the much clearer alignment with convention objectives articulated in the revised Programming Directions and that focal areas remain the central organizing principle for GEF-7. Many participants noted that the Programming Directions rightly emphasized the GEF's unique role as a financial mechanism for several multilateral environmental agreements and GEF's ability to integrate across several conventions. Some Participants noted that the potential for integration across focal areas could be further elaborated, particularly with respect to synergies between the Chemicals and Waste Focal Area and other Focal Areas, including the Impact Programs as appropriate. Some Participants asked how the GEF could strengthen its ability to facilitate regional work.

Impact Programs. Participants acknowledged the work done to apply the "French test" to the originally proposed Impact Programs and the clearer articulation of how the Impact Programs build on the GEF's past experience. Many Participants welcomed the more focused set of Impact Programs proposed and noted that these were well aligned with the GEF's core mission. Some Participants requested further strengthening of the description of the additionality provided by the Impact Programs. A few Participants noted that the amount of funding targeted for Impact Programs might be too large and requested the Secretariat to further review the funding requirements associated with the Impact Programs. A few

Participants also noted that the Food, Land Use and Restoration Impact Program requires further clarification of how the three components are integrated.

Many Participants noted that while integration can bring multiple benefits and improved value for money, there is a need to manage complexities related to results monitoring, transparency and accountability that may come with more integrated programming, in particular, the Impact Programs. For the Impact Programs, Participants emphasized the importance of ensuring (i) open and equal access—that all recipient countries have an opportunity to express their interest in participating in IPs of their choice; (ii) transparency—criteria and timelines for selection of country participation in Impact Programs; (iii) accountability—clarity about roles and responsibilities of Countries, Agencies, Lead Agencies and the Secretariat. Participants requested the Secretariat to provide further information in this regard.

Frontier Investments. With respect to the proposed Frontier Investments, Participants emphasized that innovation is a key value-added of the GEF. At the same time, many participants questioned the rationale for the proposed Frontier Investments, expressing the view that these do not exploit the GEF's comparative advantages, they go beyond the GEF's mandate and areas of competence, and do not focus on direct global environmental benefits. Some Participants argued that the Frontier Investments should be eliminated from the Programming Directions. Convention Secretariats all noted the potential of the proposed Frontier Investments on Integrated National Planning. The Secretariat will review the proposed Frontier Investment in view of the comments received.

Private Sector. Many Participants underscored the importance of enhancing the GEF's engagement with the private sector, emphasizing that the private sector must be viewed not just as a financier, but as a partner in delivery for achieving transformation. Participants recognized that progress had been made in articulating the GEFs two-pronged strategy, consisting of (1) a dedicated Non-Grant Instrument (NGI) window focused on innovative financial instruments and (2) a strong focus on how the GEF can help change the behavior of the private sector, at both global and domestic levels. Some Participants requested further clarity on how this would be achieved in GEF-7. Some Participants suggested a need to consider the implications of expanding the GEF's engagement with the private sector on the capacities of the Secretariat, and the need for enhanced risk identification, monitoring and reporting on the GEF's private sector portfolio. It was noted, in this context, that partnerships with the private sector arms of MDBs could be helpful.

Financing Scenarios. Participants took note of the two Financing Scenarios presented—the *"status quo"* scenario of $4.4bn (unchanged from GEF-6) and the "*increased support* scenario", which would bring GEF-7 to a level of US$5 bn—equivalent to an increase of about 14% over GEF-6. Participants suggested the need for at least one additional (low case) scenario.

While noting that further discussion is needed, many Participants expressed support for the proposed funding distribution across Focal Areas and other GEF funding lines presented in the scenarios. Many Participants supported the proposed reduction in funding for the Climate Change Focal Area in view of the growth in other climate finance vehicles, including Green Climate Fund, while some Participants expressed concern about a declining allocation to the Climate Change Focal Area, noting the GEF's distinct mandate and comparative advantage in climate finance. Many Participants noted the importance of focusing on outcomes/results and less on amounts allocated. It was also noted that a reduced climate allocation could still result in higher impact if resources are well utilized, and results are well tracked.

Participants requested the Secretariat to provide additional information around the trade-offs with regard to programming, both in case of a larger or smaller envelope, compared to the *status quo* scenario. Participants requested further break-down of the funding table showing disaggregated allocations within each focal area. Some Participants requested further details on individual budget lines, e.g. more granular analysis of the Corporate Budget. Some Participants requested that amounts available for programming be presented net of arrears.

Policy Agenda

Results. Many Participants emphasized the need to retain a sharp focus on results, to ensure maximum value for money, and welcomed the preliminary target estimates. Many Participants noted the usefulness of linking GEF results to the SDGs, to the extent it can be done. Participants noted the proposed strengthening of the GEF's results architecture, and requested the Secretariat to further elaborate on this for the next meeting, while keeping in mind the importance of simplification. In addition, many Participants, for accountability purposes, emphasized the need for GEF funding and results to be tracked against convention objectives, including from the Impact Programs, and requested the Secretariat to elaborate further on how this will be achieved in GEF-7.

Resource Allocation. Participants welcomed the proposed continuation of STAR, and requested the Secretariat to finalize the data update of the various sub-indices in the STAR formula in advance of the next meeting. Participants took note of the Secretariat's proposal to allow recipient countries full flexibility in the deployment of their STAR allocations across the Biodiversity, Climate Change and Land Degradation Focal Areas. Many Participants supported enhanced flexibility, but emphasized the necessity for the GEF to be able to track funding flows and associated results against focal areas. A few Participants stated that they were not supportive of full flexibility.

Differentiation. Many participants emphasized the importance of ensuring that an increased share of GEF resources be targeted to low-income countries, and suggested that this could be achieved by parametric updates to the STAR formula and, possibly, through adjustments of country allocation floors and ceilings. Pending finalization of the STAR data update, Participants requested the Secretariat to simulate options in this regard. Some Participants emphasized the importance of the GEF moving towards providing financing on differentiated terms, with financing on "non-grant" terms targeted to countries at higher income-levels; in this regard, the Secretariat's proposal to consider making available a certain share of GEF resources to upper middle income and high income countries only on "non-grant instruments" terms was acknowledged, but some Participants requested further options to be presented, including on differentiated co-financing requirements. Some Participants opposed a move to differentiated terms in the GEF, noting that many GEF activities are not suitable to be provided on non-grant terms, and that there is a trade-off between increasing differentiation across countries and optimizing the achievement of global environment benefits. Some Participants noted that differentiation as proposed is not compatible with COP guidance to the GEF, nor with the GEF Instrument. Others expressed concerns that significant institutional strengthening (including in the GEFSEC) would be required to facilitate such change. Further, some Participants noted that, rather than looking at dollar amounts, the focus should be on providing the right type of support to MICs through the right type of instruments.

Partnership. Participants emphasized the importance of a vibrant Partnership of Agencies. Most Participants noted that the current set of 18 Agencies provide adequate geographic and thematic coverage, suggesting no imminent need to expand the GEF Partnership. A few Participants noted that coverage of Pacific SIDS appears lower than in other areas, and some Participants emphasized the need for additional national agencies.

Efficiency and Effectiveness. Several Participants welcomed efforts to further enhance GEF efficiency and effectiveness and encourage the GEF to further the effort in this direction. Some Participants emphasized the OPS-6 recommendation to strengthen operational governance across the partnership and to establish clearer ground rules for cooperation among Agencies to support the implementation of multifocal area efforts as an important area of future work. Several Participants noted the need to significantly strengthen the GEF's IT infrastructure, and suggested the need for the GEFSEC to revert to Participants, in due course, with suggestions on ways and means to move forward on this agenda with a view to enhancing efficiency and effectiveness of GEF operations.

Gender. Participants welcomed the proposed new gender policy and stressed the importance of its implementation. More broadly, while acknowledging the significant progress that the GEF has made in terms of embedding gender equality into GEF programming and policy, many donors emphasized the importance of making further progress in this area, particularly by focusing on implementation aspects. Some Participants encouraged the GEF to broaden its focus on inclusion to cover, for example, people with disabilities. A few Participants expressed a need for a comprehensive gender results framework, including the use of gender markers, to support improved reporting on gender.

Knowledge Management. Several Participants emphasized the importance of continuing to strengthen the GEF's knowledge management systems and capabilities, and requested additional details about how this might be achieved. Some comments also emphasized the need to focus on improved IT systems, data quality, results reporting and knowledge management in a more integrated way.

Financial matters

Minimum Contribution. The planning note for the GEF-7 replenishment that was circulated in January 2017 set SDR 4 million as the minimum contribution to participate in GEF-7 negotiations. Participants acknowledged that the methodology applied to determine the inflation adjusted minimum contribution for GEF-7 accurately reflected the decisions taken during GEF-6 negotiations. Accordingly, starting from GEF-7, the minimum contribution amount for participating contributors will be adjusted for inflation at the beginning of each replenishment cycle. The SDR deflator for the four calendar years prior to the start of the replenishment discussions would be applied to the minimum contribution amount for the previous replenishment. While there was general agreement on the merits of having a minimum contribution in GEF-7, several Participants raised concerns that the current level of minimum contribution does not represent a fair burden sharing among the Contributing Participants, particularly so for developed countries, and requested review of the current system to more rationally capture the ability to make contributions. They urged all Contributing Participants to do their best to increase their contributions to the GEF to levels well above the minimum contribution level. At the same time, a few Participants noted that an increase in the minimum contribution may be counter-productive to efforts to increase the donor base and that a more effective strategy to incentivize new and increased contributions would be to publicize broadly the good work of the GEF.

Pro-rata provision. Most Participants agreed that the Pro-rata provision had limited effect on the timely clearance of arrears and that it had not been widely used. One Participant expressed a strong preference to continue the provision due to statutory requirements, but committed to reviewing this internally and provide updates in the course of the GEF-7 negotiations. On balance, Participants supported the removal of the pro-rata provision.

Financial exposure management, including hedging options. Participants appreciated the presentation by the Trustee on financial exposure management including hedging options. Participants requested the Trustee to further explore the option of a second operating currency (EUR and SDR) and present a comparative analysis between these two options. The Trustee agreed to further explore the FX risk management framework including the costs of hedging, the associated risks, and collateral requirement and present it for discussion at the third meeting in January 2018.

New donors. Noting that the GEF operates on the principles of voluntary contribution, Mr. van Trotsenburg informed the Participants on the joint efforts of the Trustee and the GEF CEO in reaching out to several countries with a view to encouraging them to participate in the GEF-7 replenishment. He also encouraged Participants to extend their bilateral outreach to bring in new donors to the GEF.

Next steps

Preparation for next meeting. In preparation for the next replenishment meeting on January 23-25, 2018, in Brasilia, the GEF Secretariat and Trustee will continue developing the GEF-7 documents responding to the issues raised by Participants as summarized above, in consultation with the GEF Partnership, as appropriate; prepare revised policy recommendations for discussion and agreement by Participants at the next meeting; prepare financing scenarios for the next GEF Replenishment meeting.

Written comments. Participants are encouraged to send written comments on the Programming Directions and Policy Agenda, and the Financial Issues paper to the Secretariat and the Trustee, preferably no later than October 31, 2017.

Informal check-in. It was agreed that an informal check-in among Participants, the Secretariat and the Trustee would be held on the margins of the upcoming Council Meeting, on Thursday, November 30, from 12:00-3:00pm.

Next meeting. The third GEF-7 replenishment meeting will take place during the 3 days from January 23-25, 2018, hosted by the Government of Brazil in Brasilia. Participants should please take note that meeting proceedings are expected to begin at 9am in the morning of January 23, 2018.