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Agenda Item 05

**SUMMARY OF THE CO-CHAIRS OF THE FIRST MEETING FOR THE
SEVENTH REPLENISHMENT OF RESOURCES OF THE GEF TRUST FUND**

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FOR THE SEVENTH REPLENISHMENT OF RESOURCES
OF THE GEF TRUST FUND
PARIS, FRANCE
MARCH 28-30, 2017

SUMMARY OF THE CO-CHAIRS

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The first meeting of Participants for the GEF-7 Replenishment was held at the World Bank office in Paris, France on March 29-30, 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 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). Representatives from the five global environmental Conventions for which the GEF serves as a financial mechanism also attended the meeting as observers. Prof. Johan Rockstrom, Executive Director of Stockholm Resilience Center delivered a keynote presentation at the opening dinner, highlighting the urgent need for action in an epoch where human activity risks is pushing global environmental stability beyond irreversible tipping points.

His Excellency Mr. Tshering Tobgay, Prime Minister of Bhutan, joined the opening session. He emphasized the tragedy of the commons at a global scale as the fundamental reason for 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 urged everybody to follow Bhutan's example by achieving net carbon neutrality. He thanked the GEF for its significant support to Bhutan, noted the GEF's contribution to addressing environmental threats across developing countries, more broadly, over the past 25 years, 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 today's challenging operating environment presents a more compelling case than ever before for the GEF to achieve the transformative and impactful outcomes that are needed to deliver on its core mandate. He emphasized the importance of the first meeting in setting the tone and strategic directions for GEF-7 and underscored the need to be focused, selective and creative, while also being realistic in developing implementable plans with measurable results.

Ms. Ishii welcomed two guest speakers, Mr. Martin Stuchtey and Mr. Keith Tuffley, who provided remarks on the need to fundamentally transform key economic systems, emphasizing the role of the private sector in that regard, and the opportunities for the GEF to play a strategic, catalytic role. Ms. Ishii delivered a brief presentation highlighting the key challenges and opportunities facing the GEF at the onset of the GEF-7 negotiations. She emphasized the need for GEF to aim high, that the GEF has a unique opportunity to make a significant difference at this critical point in time, and that in view of the rapidly changing context, the GEF cannot afford to stand still. Participants engaged in an interactive dialogue with the speakers focusing, in particular, on how to strengthen private sector participation in the GEF, and how the GEF could potentially play the role of a market maker and help create platforms for action to enhance environmental sustainability. Her Excellency Ms. Judith Waikhungu, Cabinet Secretary for Environment and Regional Planning, in her keynote speech emphasized the need for the environmental community to engage with and influence broader national policy and planning processes.

Sixth Overall Performance Study of the GEF (OPS-6)

The GEF Independent Evaluation Office (IEO) presented the preliminary findings of the Sixth Comprehensive Evaluation of the GEF, which is currently under way. Comprising of 29 studies, the evaluation included the following main messages. First, many things in the GEF are working well with the GEF continuing to demonstrate that it can have a transformational impact. Second, the GEF has a comparative advantage in terms of its broad coverage of environmental issues, its ability to support recipient countries' efforts to achieve the goals of the various conventions for which the GEF is the financial mechanism, and its ability to integrate different areas and work with a broad coalition of partners. Third, while the STAR allocation system is valued, there is scope for improving efficiency. Fourth, institutional constraints to the GEF's engagement with the private sector persist.

While Participants appreciated the IEO's comprehensive presentation, they sought additional information on a number of issues, including, for example, the IEO's findings related to the complexity of the GEF's programmatic approach. The IEO confirmed that it was not able to make any findings on the success or otherwise of the Integrated Approach Pilot. Participants therefore questioned the shift to impact programs without any evidence that this is a viable way forward for GEF 7. Participants also noted the importance of completing ongoing evaluations, including STAR, and gender, which are considered critical to informing the replenishment discussions.

In summary, there was agreement that the evaluation highlights a number of areas where the GEF is doing well, and areas in which it can improve. The IEO reassured participants that it would be sharing the full draft OPS-6 report in advance of the second meeting of the GEF-7 replenishment.

Programming Priorities:

Participants welcomed the comprehensive programming directions. The discussion centered on the proposed programming approach through Impact Programs (IPs). Participants acknowledged the need to achieve maximum impact and to reduce fragmentation, with a view to achieving greater value for money while, at the same time, recognizing the GEF's many strengths, including the GEF's broad mandate and ability to deliver integrated solutions and achieving multiple benefits.

Participants sought further clarification on a number of aspects related to the rationale for the proposed IPs, including that the new approach be put through “three tests” before it is adopted: i) consistency with Multilateral Environmental Agreements (MEA), country ownership, as well as implications for country choice; ii) greater clarity on the extent to which the various proposed IPs draw on the GEF’s comparative advantages, and the specific contributions that the GEF would be making with respect to the proposed IPs; and iii) considerations on whether the IPs constitute a more effective way to deliver results than the current *modus operandi*. Several Participants also noted that the number of IPs proposed is ambitious, with some IPs covering overlapping issues.

Participants requested additional details on how the proposed programing directions would be made operational, including information related to: i) how funding allocations for the IPs would be determined, and how it would relate to current funding allocations under STAR; ii) what, if any, incentives could be created to consolidate programing; and iii) clarity about the role of agencies and the secretariat with respect to programming the IPs.

Many participants emphasized the need for the GEF to strengthen its engagement with the private sector, recognizing the need to clearly identify the potential “additionality” that the GEF can bring in terms of leveraging private sector action, without unduly distorting markets and behaviors. Participants sought additional clarity about the possible role of the private sector in the various IPs. Participants recognized the useful lessons learned from the GEF-6 Non-Grant Instrument (NGI) Pilot, and requested that they be taken on board when preparing for a possible NGI program in GEF-7. Participants also noted the importance of learning from the recent IDA-18 experience with developing an instrument for private sector engagement.

In addition, several Participants noted the GEF’s role in supporting innovation and providing catalytic funding and support, and sought further work on clarifying the GEF’s comparative advantage vis-a-vis other funds, including the GCF. Several Participants noted with concern the declining role of the MDBs in the GEF Partnership and the need for the GEFSEC to develop and implement policy options to reverse this trend

Policy Agenda

Participants welcomed the policy agenda for GEF-7 presented in the documentation for the meeting. Participants reaffirmed that the existence of a country allocation system is a key strength of the GEF, enhancing country-ownership, predictability and planning, while noting that its implementation should be continuously reviewed and assessed and any inefficiencies addressed.

Participants agreed with the strong emphasis placed on improving the GEF’s results framework to ensure more efficient and timely tracking of global environmental benefits across conventions. Some Participants noted the scope for rationalization in the GEF’s results indicator framework, and emphasized the importance of the GEFs results indicators being linked to the associated socio-economic benefits of GEF investments, and harmonize with the SDG indicators and targets. Some Participants also noted that IATI’s framework might be a useful platform for the GEF to associate itself with. Several Participants noted the importance of the GEF’s continued ability to track funding commitments under the GEF’s various themes.

Participants also underscored the importance of further increasing operational efficiency and transparency of GEF operations, particularly in: i) identifying ways to further shorten the project

cycle compared to the current benchmark of 18 months; ii) exploring ways to improve tracking of implementation progress; and iii) improving compliance with reporting requirements. A number of Participants emphasized the importance of knowledge management as a tool to enhance the GEF's impact and relevance.

Several Participants acknowledged the significant progress on the GEF's gender work in recent years, and encouraged GEF to take additional steps to move "beyond mainstreaming" to a more proactive approach to seeking positive gender outcomes from GEF interventions.

A number of Participants emphasized the importance of ensuring that a significant share of GEF resources be dedicated to the poorest and most vulnerable countries. Several Participants also expressed a desire to explore alternative, complementary modalities to differentiate the terms of GEF support (grants vs. concessional finance) between low-income countries and middle-income countries; other Participants noted that such differentiation is not desirable and might not be practical.

Several Participants requested that a discussion of accreditation of additional agencies be tabled at the next meeting, preferably based on an updated analysis of the partnership presented in the June 2016 Council meeting. Some Participants noted with concern the high concentration of GEF programming to a few agencies and would like to see options for creating a more balanced distribution, with a view to ensure that the existing capabilities of the partnership is fully utilized.

Financial matters

The Trustee provided an overview of the financial structure for the GEF-7 replenishment, outlining the replenishment process and financing modality to receive contributions. The Trustee presentation was well received by Participants.

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. Some Participants had questions regarding the basis for this minimum threshold; the Trustee agreed to provide clarifications to those Participants bilaterally. The Trustee introduced the paper on the reference exchange rates to be used in the GEF-7 replenishment to translate amounts pledged in national currencies into SDR values (SDR is used in replenishments for burden sharing purposes and to provide a common denominator for expressing the overall size of the replenishment). The two items for decision were as follows: (i) the reference time period for translating GEF-7 contributions from national currency values into SDR values will be April 1 – September 30, 2017; and (ii) contributing Participants with average annual inflation rates greater than 10% during the three calendar years preceding the GEF-7 replenishment (2014 – 2016) will denominate their contributions to GEF-7 in SDR or USD.

While most Participants agreed with the proposed criteria and principles to determine the reference time period for translating GEF-7 contributions from national currency values into SDR values, one participant requested further clarification from the Trustee on this issue and suggested using a time period of, say, nine months as the reference time period. The Trustee agreed to share with Participants additional analysis to facilitate informed decision-making on this item. Participants agreed that, in the absence of any objection or proposed changes within two weeks from the date

of receipt of such additional analysis from the Trustee, the reference time period for GEF-7 would remain six months, as currently proposed, beginning April 1, 2017 and ending September 30, 2017.

Participants agreed that those countries experiencing an average annual inflation rate in their economies exceeding 10% over the years 2014-2016 would denominate their GEF-7 contributions in either SDR or USD (operating currency of the GEF trust fund).

The Trustee will share a note with participants on the implications, if any, for the GEF from the inclusion of the renminbi to the SDR basket of currencies.

Participants noted the significant negative impact on the GEF's programming ability caused by exchange rate volatility. The Trustee will continue to explore options to manage the GEF's financial exposure to exchange rate fluctuations and will provide an update to Participants on this matter at the second meeting of the GEF-7 replenishment.

Next Steps

In preparation for the next replenishment meeting on October 3-5, 2017, in Ethiopia, the GEF Secretariat and Trustee will:

- continue developing the GEF-7 documents explicitly responding to the issues raised by Participants as summarized above, taking into account the ongoing work of the IEO. This includes in particular reviewing the merits of pursuing the proposed impact programs, and further elaboration of implementation modalities;
- engage with all stakeholders, including Convention Secretariats, Agencies, and other partners to facilitate strong engagement in GEF-7;
- prepare financing scenarios for the next GEF Replenishment meeting, aligning with the evolving GEF-7 programming priorities.

An informal check-in will be held at the margins of the GEF May Council to seek further inputs from Participants. A succinct paper summarizing key issues on programming priorities and the policy agenda will be prepared and shared in connection with the informal check-in.