

**THIRD MEETING FOR THE
SEVENTH REPLENISHMENT OF RESOURCES OF THE GEF TRUST FUND
BRASILIA, BRAZIL
JANUARY 23 – 25, 2018
SUMMARY OF THE CO-CHAIRS**

The third meeting of the GEF-7 Replenishment was held at the Itamaraty Palace in Brasilia, Brazil from January 23 to 25, 2018. The meeting was co-chaired by Axel van Trotsenburg, Vice President, Development Finance, World Bank Group 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 the Caribbean, observers from the five global environmental Conventions for which the GEF serves as a financial mechanism, the GEF Agencies, two NGO/CSO participants representing donor and recipient country-based NGOs/CSOs respectively, and a representative from the Green Climate Fund (GCF).

His Excellency Mr. Sarney Filho, the Minister of Environment of Brazil, and His Excellency Ambassador J. Antonio Marcondes, Undersecretary General for Environment, Energy, Science and Technology and Acting Minister of Foreign Affairs, joined the opening session. Minister Filho highlighted the transformational and wide-reaching impact that GEF projects have achieved in the Amazon Basin and coastal areas in reducing land degradation and emissions. Ambassador Marcondes highlighted the importance of the GEF as a crucial financing mechanism to achieve global environmental benefits, noting the effective results detailed in OPS6.

In his opening remarks, Mr. van Trotsenburg thanked the Government of Brazil for hosting the meeting and highlighted the importance of being ambitious in terms of leveraging the GEF's value proposition and mobilizing donor resources, while also being realistic given the significant headwinds and challenges that many Participants face in terms of fiscal constraints, adverse foreign exchange rate movements since GEF-6, and other global uncertainties.

Ms. Ishii added her thanks to the Government of Brazil for hosting the meeting, and noted that the replenishment negotiations have made good progress in terms of discussing what the GEF can do, or should do, in response to the unprecedented environmental challenges we are facing. She emphasized the need to focus on results rather than inputs, and noted that GEF-7's focus on integration across GEF's many areas of work offered significant potential for enhanced impact of GEF programming.

Programming Scenarios and Global Environmental Benefits Targets

Participants expressed appreciation for the strong focus on results in the documentation for the Brasilia meeting. Participants welcomed the increase in targeted results as an indication of enhanced value-for-money in GEF-7 compared to GEF-6, and recognized that the programming directions' emphasis on integration across focal areas would contribute positively in that regard while also delivering on convention objectives. Participants emphasized the importance of ensuring alignment with recipient country priorities. Participants welcomed the proposed core indicators as being relevant to the GEF's mission and to convention objectives, and agreed that they provide a good basis for streamlining the GEF's results monitoring system. Some Participants requested additional clarifications on certain core indicators, e.g. gender and chemicals, and noted that the core indicators do not, by design, capture all GEF outcomes. Some Participants requested additional information on the projected, imputed GEF-7 climate finance share, and clarification around the funding mechanism for the Impact Programs.

Participants appreciated the three scenarios presented (US\$4.1bn, US\$4.4bn and US\$5.0bn), and noted that the proposed resource allocations across focal areas and other funding lines offered a useful starting point for discussions. Following several rounds of discussions, a revised resource allocation table was shared with Participants, adjusting the relative funding priorities in the US\$4.4bn by *inter alia*: increasing support

for the International Waters Focal Area with special emphasis on Oceans/Marine Plastics; limiting the proposed decline in the Climate Change Focal Area; maintaining the increase in the Biodiversity Focal Area while increasing the allocation for the proposed Wildlife Program; and reducing somewhat the proposed increase in the Land Degradation Focal Area, funding for the Minamata Convention and funding for Non-Grant Instruments, while increasing the allocation for the Stockholm Convention. The Cross-Cutting Capacity Building Program was eliminated, and the proposed envelope for the Secretariat's Administrative Budget was reduced by US\$1 million. The Sustainable Cities Impact Program was scaled back, Frontier Investments for SDG/MEA was eliminated, and the Sustainable Forest Management Impact Program was increased for the Congo Basin and Drylands. Some adjustments were also made to the US\$4.1bn scenario, reflecting inputs from Participants during the meeting. In particular, allocation to the Biodiversity Focal Area was increased to keep it unchanged from GEF-6 level. In parallel, it was proposed to limit the increase in the Land Degradation Focal Area and the allocation for Non-Grant Instruments, while International Waters was slightly increased, and the reduction in the Climate Change Focal Area was made slightly smaller.

While Participants acknowledged that much progress was made toward finalizing the resource allocation table, and appreciated that the differing priorities make it necessary for all to compromise, Participants noted that further adjustments might be needed within Chemical and Waste Focal Area allocation while seeking to enhance the allocation for the Land Degradation Focal Area. Some Participants also inquired if further adjustments to the Administrative Budget might be possible. The Co-Chairs noted that they would invite further input from Participants following the Brasilia meeting, with a view to present an updated, final resource allocation table well in advance of the Stockholm meeting.

Policy Recommendations

The proposed Policy Recommendations were discussed and amended during the meeting, reflecting inputs from Participants. Participants reached broad agreement on nine of eleven proposed GEF-7 Policy Recommendations, including: resource allocation (except for the issue of flexibility and optimization of resources), results, partnership, governance, private sector engagement, operational efficiency and transparency, improved management of data and information, gender equality and women's empowerment, knowledge management, and a responsible investment strategy.

Specific points were highlighted in the context of the following Policy Recommendations:

- ***Resource Allocation.*** Participants expressed a desire to increase the share of STAR country allocations to least developed countries (LDC) and small island developing states (SIDS), while noting that it would be important to balance this desire with the GEF's ability to generate global environmental benefits. Against this background, Participants supported an increase in the weight of the GDP per capita index in the STAR formula from -0.08 to -0.12.
- ***Partnership.*** Participants emphasized the importance of a vibrant Partnership of Agencies. Most Participants noted that the current 18 Agencies provide adequate geographic and thematic coverage, suggesting no imminent need to expand the GEF Partnership. Some Participants noted that the coverage in the Pacific SIDS is lower than in other regions, and some Participants emphasized the need to accredit additional national agencies. The Policy Recommendation was adjusted to request the Secretariat to propose measures to harmonize the rules and requirements for the new, GEF Project Agencies with those that apply to other Agencies; and to continue to monitor and report on the geographic and thematic coverage, as well as the effectiveness, efficiency and engagement of the GEF Partnership.
- ***Private Sector Engagement.*** Many Participants underscored the importance of enhancing the GEF's engagement with the private sector. Participants recognized that progress had been made in articulating the GEFs two-pronged strategy, consisting of: i) a dedicated Non-Grant Instrument (NGI) window focused on innovative financial instruments, and ii) a strong focus on how the GEF can help change the behavior of the private sector, at both global and domestic levels. 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. In this context, Participants agreed that a strategy on private sector engagement be developed for Council consideration, and that a private sector advisory group be established to provide input and advice on the proposed strategy and outreach to private sector partners.

Participants agreed that two policy issues—flexibility of STAR allocations, and optimizing the use of GEF resources in different countries—would require further work. Regarding optimization, the Secretariat presented an approach that would aim to harness the ability of large recipient countries with the requisite capacity to leverage new and additional investments in the global environment, ultimately resulting in greater positive impacts on the global environment. Participants agreed that leverage is an important strength for the GEF and the proposed draft policy recommendation required further work around objectives, definitions, targets, and application. Regarding flexibility for countries to program their STAR country allocations across the three STAR focal areas (biodiversity, climate change, and land degradation) several Participants expressed support for the proposal to provide full flexibility, while others expressed support for enhanced flexibility short of full flexibility.

It was decided that a working group of interested Participants would be established following the meeting in Brasília with the aim of developing revised policy recommendations on the two topics.

Financial Matters

Participants recognized the need for a robust replenishment to support the proposed programming scenarios and noted the importance of collective efforts by all contributing Participants, regardless of their contribution level, to stretch contributions to the maximum of their abilities. Participants agreed that an expanded donor base and larger contribution by existing donors, particularly developed countries, would be critically important in securing necessary resources for the GEF to effectively deliver its mission.

Consistent with previous replenishments, Participants agreed on the sources of funding for GEF-7 which would include new donor funding, funds carried over from GEF-6 (including arrears and unprogrammed funding), and estimated investment income over the GEF-7 period. Participants agreed to the draft replenishment resolution and the indicative encashment schedule that is expected to run from FY2019 through FY2028.

Participants agreed on the removal of the pro-rata provision; however, it is likely this will not happen before the GEF-7 pledging meeting in April 2018 due to timing issues in seeking Participants' internal approvals.

Participants appreciated the documentation by the Trustee on hedging options to manage GEF currency risk exposure. Participants noted that hedging could enhance the predictability of available GEF resources, with some Participants expressing sensitivity towards the programmatic risk of *not* hedging. Participants were appreciative of the cost estimate provided, and acknowledged that the cost is reasonable; however, some Participants requested further cost-benefit analysis. Some Participants expressed concern over the fact that the GEF Trust Fund would bear the cost in the event of a delayed or cancelled donor payment. Participants had varied views on the hedging proposal presented and, on balance, Participants expressed a preference to defer the decision to a later date. In response to questions on the similarities between the hedging program implemented for IDA and that presented to the GEF, the Trustee agreed to share a brief overview of IDA's hedging history, implementation and experience.

Participants acknowledged the progress that the World Bank is making toward implementing a World Bank-wide socially responsible investment policy, and were encouraged by the proposed timeline for delivery of June 2018. Accordingly, Participants agreed to include a policy recommendation to incorporate a Socially Responsible Investment strategy for the GEF.

Other Matters

Some participants requested information about DAC eligibility of GEF funding. The Secretariat agreed to look into this matter in consultation with the OECD; and a note summarizing the Secretariat's findings has since been posted on the Brasilia meeting page on the GEF web-site.

Closing Remarks

His Excellency Ambassador Marcondes provided closing remarks, expressing Brazil's pleasure in hosting the meeting and expressed the belief that all Participants are working together to ensure GEF-7 continues to meet its ambitious goals.

Next steps

Written comments. As indicated in the note from the Co-Chairs that was sent on January 31, 2018, Participants were encouraged to send any remaining comments on the Programming Directions, Policy Recommendations, Draft Summary of Negotiations, and the Draft GEF-7 Replenishment Resolution in writing to the Secretariat and Trustee no later than February 9, 2018.

Working groups. The GEF Secretariat and Trustee will chair a working group on the two Policy Recommendations (optimization and flexibility) that remained open following the meeting in Brasilia. Policy Recommendations will be finalized and included in the final documents sent to Participants.

Preparation for next meeting. In preparation for the pledging session on April 25, 2018 in Stockholm, Sweden, the GEF Secretariat and Trustee will finalize and share the documents for the Stockholm meeting with Participants as soon as possible and no later than three weeks before the Stockholm meeting.

Next meeting. The fourth and final GEF-7 replenishment meeting will take place on April 25, 2018, hosted by the Government of Sweden in Stockholm. Detailed logistics note will be circulated separately well ahead of the meeting.