

Annex I: Terms of reference for the review of the financial terms and conditions of the GCF financial instruments

I. Scope of the review

1. The scope of the review will include an internal component, which takes stock of the projects and programmes approved by the Board and the GCF policies related to financial terms and conditions, and an external component, which takes stock of the practices with respect to the terms and conditions of financial instruments used by other organizations with policy mandates related to those of the GCF.
2. The review will take stock of the projects and programmes approved by the Board, including those that may be approved at its fifteenth meeting, and analyse to what extent the principles of decisions B.05/07 and B.07/06 have been followed in the assessment of the adequacy of the selected financial instruments. Such a review will take into account all the financial terms and conditions (interest rate, commitment fee, service fee, other fees if applicable, tenor and grace period of the financial instrument). The review will also take into account whether the project/programme is public or private, the theme (mitigation, adaptation or cross-cutting) and total project/programme size category (micro, small, medium or large).

II. Methodology

3. Specifically, the review will:
 - (a) For all financial instruments, assess whether existing Board guidance has been correctly applied, including that contained in decisions B.09/04, B.05/07 and B.07/06, and make recommendations, if any, to enhance the application of this guidance. In particular, the assessment should take into account the need to tailor the level of concessionality to the overall impact of investment, consistent with decision B.05/07;
 - (b) For financial instruments extended to the public sector, review the application of the criteria used to assess the appropriateness of the financial instrument (grant, high concessional loan, low concessional loan) provided;
 - (c) For financial instruments extended to the private sector, identify emerging patterns and other issues which could lead to additional guidance on the parameters to be used for assessing private sector projects/programmes, including sector, geography and other characteristics of the project;
 - (d) For all projects/programmes with non-grant co-financing, compare financial terms and conditions approved by the Board compared with the financial terms approved by other project/programme co-financiers (where this information is available);
 - (e) Assess the impact that the conditions and covenants included in the approval of a project/programme has on the overall costs to the accredited entity (AE) and the executing entity. This assessment should include an assessment of the viability and ease of implementation of these conditions and covenants and their potential impact on enhancing the effectiveness of the project/programme;
 - (f) Assess the appropriateness of the AE fees for approved private sector projects and provide additional guidance on how to provide further clarity to AEs when preparing subsequent projects;

- (g) Assess the approach taken to measure the grant equivalence of each project/programme and proposed enhancements to the methodology;
 - (h) Assess that the terms and conditions are being applied in a way that provides appropriate incentives to carry out mitigation and adaptation activities while avoiding market distortions and the displacement of other sources of financing, including crowding out the private sector; and
 - (i) Assess how the concessionality provided to the AE by the GCF in approved funding proposals is passed on to the recipients of the project/programme, provided sufficient data is available.
4. Additionally, the review may be extended to assess the conditions and covenants applied to the project/programme with a view to gaining knowledge of their potential impact during implementation and ensuring that such conditions/covenants contribute to enhancing project/programme effectiveness without putting undue hindrance on recipients.
5. The review will also take stock of practices with respect to the terms and conditions of financial instruments used by other organizations with policy mandates related to those of the GCF. Emphasis will be placed on any changes that may have taken place since October 2014, when the Secretariat provided the Board with a review of practices of other organizations providing concessional loans.¹ Institutions will include: the International Development Association, the Clean Technology Fund, the International Finance Corporation, the Global Environment Facility and large foundations providing both grant and non-grant financial instruments, such as the Bill & Melinda Gates Foundation.
6. Additionally, particularly with respect to financial instruments provided to the private sector, the review will incorporate the practices of other institutions active in the area of climate financing, including at least one international financial institution, one national development bank, one fully private sector organization focused on climate-related investments in emerging markets and one foundation or non-governmental organization.

III. Deliverables

7. The output of the review will be a report to the Board based on the assessment of the elements defined in chapter I above. The review may propose additions or adjustments to the adopted financial terms and conditions for the Board's consideration, consistent with GCF policies.
8. The first review is expected to generate lessons learned, not only related to GCF's financial terms and conditions, but also for conducting the review itself going forward. As the review is to be done annually, the review report may also propose adjustments to the scope of future reviews for the Investment Committee's consideration. The Investment Committee may then wish to modify this terms of reference for Board consideration.

IV. Reporting arrangements

9. The external consultants supporting the review will report to the Secretariat, who will in turn report to the Investment Committee.

¹ Please refer to document GCF/B.08/11 titled "Financial terms and conditions of grants and concessional loans".