

## **Annex I: Revised terms of reference for the review of the financial terms and conditions of the GCF financial instruments**

### **I. Purpose of the review**

1. The review will:
  - (a) Assess the degree to which there has been compliance with existing policies on financial terms and conditions in GCF operations;
  - (b) Assess whether existing GCF policies related to financial terms and conditions are fit for purpose; and
  - (c) Propose additions or adjustments on how policies related to financial terms and conditions could be improved.

### **II. Scope of the review**

2. The scope of the review will include an internal component, which considers the current financial terms and conditions as they relate to the projects and programmes approved by the Board, and an external component, which reviews the current practices with respect to the terms and conditions of financial instruments used by other institutions with policy mandates related to those of GCF, covering different national circumstances in developing countries.
3. The review will also explore and recommend ways the GCF can: (i) more effectively use guarantee instruments; and (ii) include local currency financing in GCF projects and programmes.
4. The review will focus on projects and programmes approved by the Board since the last review, which was for projects approved up to and during the seventeenth meeting of the Board (B.17), and it will provide a view on whether there is any substantial difference in the use of financial instruments from the projects approved up to B.17. Such a review will take into account all the financial terms and conditions (i.e. interest rate, commitment fee, service fee, other fees if applicable, and tenor and grace period of the financial instrument) and, where relevant, recommend appropriate changes for the consideration of the Board. The review will also take into account whether the project/programme is public or private, the theme (mitigation, adaptation or cross-cutting), the total project/programme size category (micro, small, medium or large), and the different national circumstances of the recipients.

### **III. Methodology**

5. Specifically, the review will:
  - (a) For all financial instruments, assess whether the existing Board policies related to financial terms and conditions have been correctly applied;
  - (b) For financial instruments extended to the public sector, review the financial terms and conditions (i.e. grant elements, interest rate, commitment fee, service fee, other fees if applicable, and tenor and grace period of the financial instrument);
  - (c) For financial instruments extended to the private sector, review the financial terms and conditions (i.e. interest rate, commitment fee, service fee, other fees if applicable, and tenor and grace period of the financial instrument) and identify emerging patterns and

other issues that could lead to additional guidance on the parameters to be used for assessing private sector projects/programmes, including sector, geography, capacity of the recipient and other characteristics of the project; and

- (d) For all projects/programmes with non-grant co-financing aspects, compare the financial terms and conditions approved by the Board against the financial terms approved by other co-financiers with policy mandates related to those of GCF (where this information is available).

6. The review will also assess and report on the current use of the guarantee instrument and make recommendations on ways it can be more effectively used in GCF project/programme financing. In addition, the review will explore the opportunities for utilizing local currency to finance GCF projects/programmes by carefully examining and comparing against similar funds and providing recommendations with suggested action plans under the oversight of the Investment Committee.

7. The review will assess the degree to which Board policies provide clear guidance on the financial terms and conditions that should apply to each project as well as analyse how existing Board policies were applied to each funding proposal approved since the last review and make recommendations for improvement.

8. The review will also assess how accredited entities and the Secretariat assess the concessionality needed for each funding proposal in relation to the Governing Instrument for the GCF and relevant GCF policies. This will include assessment of the use of different financial instruments (i.e. grant, loan, guarantee and equity) and their terms and conditions to make sure that the GCF contribution is incentivizing mitigation and adaptation action while avoiding market distortion and crowding out/displacing other sources of finance.

9. The review will also take stock of practices with respect to the terms and conditions of financial instruments used by other institutions with policy mandates related to those of GCF. Emphasis will be placed on any changes that may have taken place since the conclusion of the previous review, which was in the second half of the 2017 fiscal year.

10. 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.

11. 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.

#### **IV. Deliverables**

12. The outputs of the review will include a presentation to the Investment Committee and a report to the Board that incorporates input/feedback from the Investment Committee. The review may propose additions or adjustments to the adopted financial terms and conditions of the GCF for the Board's consideration, consistent with GCF policies. In addition, the report will include analysis of the guarantee instrument and explore opportunities for utilizing local currency to finance GCF projects/programmes. A consulting firm will be working under the oversight of the Investment Committee on the review.

13. This review is also expected to generate lessons learned, not only related to the financial terms and conditions of the GCF but also for conducting the review itself going forward. As the

review is to be conducted biennially, 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 these terms of reference for Board consideration.

14. The output of the review will also include an examination of the service fee and commitment fee, and its relationship with the Governing Instrument and relevant GCF policies.

## **V. Reporting arrangements**

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