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Operational Modalities for Public Private Partnership Programs

Executive Summary

Acknowledging that traditional public grants are insufficient to promote financing for generating global environmental benefits in full, as well as learning from the experiences gathered from more than 15 years of GEF engagement with the private sector, the GEF-5 private sector objectives will focus on mechanisms to address market barriers restricting private sector investments for a sustainable environment.

As requested by Council, this document presents operational modalities to guide the implementation of Public Private Partnership (PPP) Programs under GEF/C.41/09.Rev.01, *Revised Strategy for Enhancing Engagement with the Private Sector*, approved by Council November 10, 2011.

The operational modalities in this paper support the objectives of the GEF private sector strategy to enhance achievement of the GEF mission by:

- Supporting greater access to financing for private sector companies pursuing innovative technologies, and business models that yield global environmental benefits consistent with GEF focal area objectives; and
- Stimulating the development, dissemination and implementation of new technologies.

These operational modalities presented here have been developed by the GEF Secretariat in close consultation with the Multi-lateral Development Banks (MDBs). These operational modalities complement and supplement GEF/C.32/7, *The Use of Non-grant Instruments in GEF Projects: Progress Report* (2007), and GEF/C.33/12, *Operational Policies and Guidance for the use of Non-grant Instruments* (2008).

PPP Programs proposals will be submitted by MDBs for approval similar to other GEF programs using the GEF Programmatic Framework Document (PFD) and should comply with these operational modalities.

PPP Programs are sought in all GEF focal and thematic areas including: Biodiversity, Climate Change Mitigation and Adaptation, Land Degradation, International Waters, Chemicals, Sustainable Forest Management/REDD+

Table of Contents

I. Introduction

1. This document presents operational modalities to guide the implementation of Public Private Partnership (PPP) Programs under GEF/C.41/09.Rev.01, *Revised Strategy for Enhancing Engagement with the Private Sector*, approved by Council November 10, 2011, hereinafter referred to as the *Strategy*.

2. The Council, having reviewed the *Strategy*, adopted it, as amended, for programming GEF-5 private sector funds and requested the Secretariat to present to the Council at its June 2012 meeting in consultation with the MDBs, a detailed paper outlining clear operational modalities for private sector engagement.

3. These operational modalities presented here have been developed by the GEF Secretariat in close consultation with the MDBs. They cover the PPP Programs described in the *Strategy* under Modality 1: Partnership with MDBs to Promote Public Private Partnerships.

4. The major sections of this document cover specific issues on the types of non-grant instruments that will be used in PPP Programs, reflows, concessionality, executing arrangements, co-financing expectations, process cycle requirements, and performance indicators.

5. The operational modalities on reflows and access to the private sector set-aside also apply to Modality 2: Incentivizing use of non-grant instruments within traditional projects. The operational modalities for access to the private sector set-aside apply to Modality 3. See Annex 2 for details on Modalities 2 and 3.

6. These operational modalities complement and supplement GEF/C.32/7, *The Use of Non-grant Instruments in GEF Projects: Progress Report (2007)*, and GEF/C.33/12, *Operational Policies and Guidance for the use of Non-grant Instruments (2008)*.

II. Description of PPP Programs

7. PPP Programs were defined and described under Modality 1 of the *Strategy*. Figure 1 presents the salient paragraphs describing Modality 1 of the *Strategy*.

8. Throughout this document, private sector engagement is referred to as "Public Private Partnership" or PPP. In common usage, PPP often can mean a specific capital investment that mixes private and public funding, or a broader partnership focused on a thematic area. In GEF, the term PPP is most often used to refer to broad partnerships rather than specific capital investments, and that is the definition used for the purpose of this document.

9. A PPP Program is a GEF programmatic initiative, implemented by an MDB, using non-grant instruments and GEF funding from the private-sector set-aside. PPP Programs should be designed to address barriers to private sector engagement in projects that promote global environmental benefits. Many such barriers were identified in the *Strategy* (see page 3-5, paragraphs 11-14.)

Figure 1: Modality 1: Partnership with MDBs to Promote Public Private Partnerships

28. One of the constraints in engaging with the private sector has been the project cycle of the GEF. While the project cycle has been streamlined over the last several years, it is still not expedited enough to respond to the needs of private sector investors. The thematic platforms established under the Earth Fund provided an expedited approach, similar to those of a programmatic initiative, whereby the Council approved the initiative while delegating the responsibility for approving the individual projects to the GEF Agencies managing the effort.

29. In collaboration with the private sector windows of the MDBs, the GEF proposes to establish PPP programs in GEF-5. The PPP programs will deploy a set of the most widely-used financial tools drawing upon extensive GEF experience with non-grant instruments. Each PPP Program will cover on one or more sub-sectors within GEF focal areas, but could also take a regional focus that is cross-cutting across several focal areas. The selected PPP Programs will be designed to take advantage of distinct characteristics of the specific types of non-grant instruments selected by the MDB for that program.

30. Each PPP program will be proposed for Council consideration using similar administrative procedures for other GEF programmatic initiatives, adapted to private sector needs. The programmatic document will describe the scope and content of the PPP program, in particular whether the program will focus on sectors, on technologies, or on certain regions. Operational Focal Point (OFP) endorsement letters will not be required unless the proposed PPP is specific to one country. Once approved by the Council, the PPP program will be implemented by the respective MDB. As with other programs, the GEF CEO will approve specific projects or investments under each program consistent with the arrangements approved by the Council for each PPP program. Unlike the Earth Fund platforms, which were all administered for GEF by the IFC, each MDB partner will administer its own PPP program.

31. Each PPP program document will specify the arrangements between the GEF and the MDB on topics such as risk-sharing, rate of return, review requirements, scope, and timing. For Modality 1, all reflows return to the GEF Trust Fund. Building on the lessons learned from Earth Fund, the GEF Secretariat will develop a consistent financial mechanism to monitor and track reflows. To provide an example of the contents of a program document, a template with examples of the types of elements to be included in a PPP program document is provided in Annex 2.

Source: *Revised Strategy for Enhancing Engagement with the Private Sector* (GEF/C.41/09.Rev.01), pages 11-12, paragraphs 28-31.

10. The PPP program is expected to support private sector projects with non-grant instruments for the purpose of supporting greater access to financing for private sector companies pursuing innovative technologies and business models that yield benefits consistent with GEF focal area objectives and stimulating the development, dissemination and implementation of new technologies.

11. PPP Program proposals will be submitted for approval like other GEF programs using the GEF Programmatic Framework Document (PFD) (see page 10, paragraph 39). In addition to fulfilling the requirements of the PFD, PPP Program proposals should also include information identified in these operational modalities[1].

12. For example, the proposal should describe the thematic areas to be addressed and align with GEF-5 Strategic Objectives in the areas of Biodiversity, Climate Change Mitigation and Adaptation, Land Degradation, International Waters, Chemicals, Sustainable Forest Management/REDD+. The proposal should identify the market and non-market barriers that it seeks to address, and the agency's previous experience with the private sector that is applicable to addressing these barriers. An initial pipeline of investment opportunities should be identified to the maximum extent possible.

13. All projects and programs with non-grant instruments submitted for Council approval must "describe the financing package, the terms of concessionality that will be offered to the recipient and, if any, the expected reflows for the GEF Trust Fund, as well as the risk exposure for the GEF."[2] More details on documentation requirements are provided in the sections on Reflows and Concessionality.

14. As in other GEF Programs, each PPP Program will include a Monitoring and Evaluation ("M&E") component. A Project implementation report (PIR) which outlines activities undertaken in the previous year will be complied by the Agency. External reviews and financial audits of PPP Program accounts will be performed as required by the Agency in accordance with normal procedures and the Financial Procedures Agreement (FPA) with the GEF Trustee.

III. Non-Grant Instruments in PPP Programs

15. PPP Programs rely on the use of non-grant instruments. Non-grant instruments will be used in PPP Programs to increase the attractiveness of GEF investments to private sector partners and attract significant private sector co-financing. The MDBs can use non-grant instruments in many unique ways, using GEF funding to offer flexible risk positions, longer term lengths, concessional rates, or other features. This flexibility can make GEF investment an attractive addition to equity funds and other financial mechanisms.

16. The GEF has significant experience with the use of non-grant instruments in a variety of project types from a variety of focal areas

17. For examples of the projects using each type of non-grant instrument, refer to Annex 4 of the *Strategy*. Various non-grant instruments have been used in GEF projects and are available for PPP Programs. These include:

- Contingent Grant
- Credit Guarantee (aka Credit Enhancement Facility or Risk Guarantee Fund)
- Equity Fund Investments
- Concessional Loans
- Performance Risk Guarantee

[1] A significant portion of these operational modalities is based on Annex 2 of the *Strategy*.
[2] GEF/C.32/7, page 6, paragraph 25.

- Revolving Fund
- Risk Sharing Fund for Loan Provision

18. GEF/C.33/12 includes other examples (see page 7, paragraph 21). If an MDB proposes a novel non-grant instrument not covered by GEF/C.33/12, the novel non-grant instrument must be reviewed by the GEFSEC, in coordination with the Trustee, before the PPP program can be included in a work program.

19. Except for Modality 3 of the *Strategy*, funding from the GEF-5 private sector set-aside is reserved for non-grant instruments (see the *Strategy*, page 11, paragraph 26 and page 14, paragraph 49). Technical assistance and capacity building receive significant GEF resources through traditional grants, however, in some situations, MDBs may wish to include technical assistance within a PPP Program. This is permitted only when: a) the technical assistance is included in the investment, or b) co-financing is used for the technical assistance. Examples of this approach include:

(a) Using GEFTF funding from the private sector set-aside, technical assistance can be included in the investment portion of the non-grant instrument, under the same terms and conditions as the rest of the investment, with expected reflows.
(b) The MDB may provide technical assistance in the form of grants using co-financing. GEFTF funds from the private sector set-aside cannot be used for grants.
(c) For projects developed under Modality 2 that include a traditional GEF funding from STAR or other focal area set-aside, a technical assistance component accessing those funding sources or co-financing can be included.

IV. Reflows

20. A primary virtue of non-grant instruments is that returns or proceeds (i.e., reflows) from these projects are available to sustain and even expand the pool of GEF resources available for future investments. When establishing the private sector set-aside during the GEF-5 replenishment, participants specifically noted the expectation of reflows to support a sustainable investment fund[3]. Under the *Strategy*, there is an expectation that the PPP Programs will generate reflows, however no minimum reflow requirement is established. Instead, each PPP Program will provide specific estimates and criteria for reflows expected to be generated by that PPP Program.

Description of expected reflows at time of PPP Program proposal

21. Each PPP Program proposal will include documentation on expected reflows based on the risk profile and the proposed types of non-grant instruments being employed. Other factors,

[3] "…It is important to leverage resources from the private sector through the Earth Fund, and structure the Fund to be a financially sustainable mechanism by maximizing the reflow of resources to the Fund. In addition, Participants emphasized the need for the GEF's private sector strategy to be broader than the recapitalization of the Earth Fund…" excerpt from GEF/R.5/32, *Policy Recommendations for the Fifth Replenishment of the GEF Trust Fund* (2010), page 8, paragraph 38.

such as innovativeness, focal area issues, regional issues, and other technical issues that may impact expectations of reflows should be described in the proposal.

22. Each proposal should justify the proposed expectation of reflows. Some types of proposals may be very specific and focused, with a clear description of expected reflows. For example, a proposal might focus on renewable energy investments using concessional loans at an interest rate not lower than 1% or 2% below commercially available rates. For this type of investment, the MDB can make a very precise prediction at the time of the proposal on expected reflows.

23. Other proposals may be structured in a way that does not allow precise prediction of expected reflows at the time of the proposal. For example, the proposal may include several options for different types of non-grant instruments to be used depending on the types of investment opportunities that will be pursued under the PPP. With this type of approach, for example, the PPP Program could use a loan for certain investments and equity for other investments. In these cases, the MDB should include in the PPP Program proposal a reasonable target for expected reflows based on similar investments and justified by sufficient financial analysis. Comparisons of expected reflows with similar types of commercial and institutional investments should be presented.

24. Each proposal will explain the indicative investment terms and tenors (or schedules) for financial reflows. The terms and tenors of the planned investments will be described and justified for their consistency with the type of non-grant instruments being used, the focal areas, and risk profile. For example, some investments in near commercial technology may have a short term and quick payback. Other investments may be more risky and require investments with longer tenors.

25. Each PPP Program proposal is likely to include a portfolio of potential investments or projects. Each may be the same type of investment, or they may be different. Therefore, it is appropriate that estimates for expected reflows should be presented for the PPP Program portfolio as a whole.

26. A schedule for reflows to the GEF Trust Fund will be specified in each PPP Program, just as in other GEF Programs and Projects. The schedule should be designed to align with the types of investments included in the portfolio.

27. The *Strategy* does not establish pre-determined targets for reflows, other than the expectation that reflows will be sufficient to create a financially sustainable mechanism. These operational modalities acknowledge that some investments carry risk and may fail, reducing or eliminating reflows. The GEFSEC will review each proposal for technical merit and work with the MDB to establish an adequate expectation of reflows based on these operational modalities. Proposals deemed meritorious for inclusion in a work program will be submitted for consideration by Council, which may take reflows into account during its review. [4]

[4] Agency fees of 9% for programmatic initiatives are calculated and committed to the implementing agency at the time of PPP Program approval. Some investments will earn sufficient reflows to cover the full GEF funding, including agency fees. Other investments may not be able to achieve reflows at that level, but should aim for positive reflows on the portion of GEF funding after agency fees. All investments carry risks, and in some cases, reflows may not occur.

Disposition of Reflows During Project Implementation

28. Under Modality 1, all reflows from PPP Programs will return to the GEF Trust Fund.

29. Under Modality 2, reflows generated from the investment of the country STAR allocation can be retained in the country for additional programming consistent with the original project design with concurrence of GEFSEC. Reflows will be retained in country or returned to the GEF Trust fund in the same proportion as the STAR allocation to any private sector set-aside used in the project.

30. The Agencies will be responsible for tracking and reporting of reflows pursuant to the FPA between the GEF Trustee and the Agencies .

31. Additional details on expectations for reflows for each investment under a PPP Program are discussed in the section PPP Program Investment Process Cycle on page 10 and 11.

V. Concessionality

32. The use of GEF funding on concessional terms is one of the key features for engaging with private sector partners who otherwise may be unable to obtain financing at commercial rates. Furthermore, the GEF instrument requires concessional terms, as recalled by the Council in November 2006.[5] Concessionality is a function of the expected rate of return and the risk exposure. Determining the appropriate level of concessionality for each investment can be complicated and in some case be dependent on conditions in the host country.

33. Each PPP Program proposal will include a section describing the parameters for concessionality that are consistent with the type of investments included in the program and the host countries for the investments. For example, more concessional terms may be deemed appropriate for highly risky investments, and less concessional terms may be appropriate for less risky investments.

34. The proposal should describe how concessionality will accrue to the beneficiaries and catalyze additional private sector investment. The proposal should also articulate the risk exposure for the MDB and the GEF, and justify any differences.[6] Concessionality of GEF funds should typically be at a level sufficient to catalyze private sector investment but no lower.

35. It is expected that within some PPP Programs with a diverse portfolio of investments, concessional terms may vary from investment to investment. Therefore the PPP Program proposal should describe the expected range of concessional terms that could apply in the portfolio.

VI. Executing Arrangements

36. PPP Programs will be executed by MDBs following normal GEF policies and requirements, and consistent with GEFSEC guidance. It is expected that the MDBs will be the executing agencies for the program.

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[5] GEF/C.33/12, page 9, paragraph 25.

[6] To expedite review, financial terms in the PPP Program proposal should be explained in layman terms as much as possible.

37. As there will be no projects per se under the PPP Programs, the issue of project management is handled slightly differently than conventional programs. Management fees are to be included in each investment consistent with the investment package negotiated by the MDB. We would expect all management fees to be covered by the investment, but in rare circumstances any project management costs not covered by investment returns will be apportioned in proportion to the GEF funding and MDB co-financing.

VII. Co-financing Expectations for PPP Programs

38. Co-financing is a key requirement for most, if not all, GEF projects and programs. PPP Programs are not different. Indeed, due to the nature of PPP Programs, very high co-financing ratios are to be expected. PPP Programs are expected to be designed to catalyze additional private sector investment for support of environmentally sustainable technologies and business models. Understandably, co-financing levels may be dependent on the types of investments, the thematic emphasis, the focal area, risk exposure, and conditions in the host country.

39. Significant co-financing from the MDB is expected. Preliminary targets are for MDB co-financing to be at a minimum of 1:3 compared to the GEF financing. Together, GEF funds and MDB co-financing should leverage additional private sector co-financing that will yield a total co-financing ratio of 1:10 over the total GEF funding. For example, a $10 million GEF funding request would be co-financed with $30 million from the MDB and $70 million from private sector partners, for a total project value of $110 million.

40. Many MDBs have upper limits on the allowable share of private sector investments (e.g., no more than 20% of an equity investment). These provisions will have to be considered when preparing investment packages and in some cases, the MDB can identify private sector partners to provide more of the co-financing to compensate.

41. These target levels for expected co-financing will apply to the overall PPP Program portfolio of investments submitted by an MDB, rather than for each investment within the portfolio. There is an understanding that each PPP program may propose a balance of financing and co-financing that differs from the target levels because of unique characteristics.

VIII. Process Cycle Requirements for PPP Programs

PPP Program Proposal Process Cycle

42. PPP Programs should be submitted by MDBs as Programmatic Framework Documents (PFDs) following GEF Project Cycle Requirements, with a one exception noted below. Please refer to the following documents for specific guidelines:

- GEF/C.33/6, *From Projects to Programs: Clarifying the Programmatic Approach in the GEF Portfolio* (2008)
  - http://www.thegef.org/council-meeting-documents/projects-programs-clarifying-programmatic-approach-gef-portfolio
- GEF/C.39/Inf.3, *GEF Project and Programmatic Approach Cycles* (2010)
  - http://www.thegef.org/council-meeting-documents/gef-project-and-programmatic-approach-cycles

- *Program Framework Document (PFD) Preparation Guidelines* (October 2011)
    - https://www.thegef.org/sites/default/files/documents/GEF5-PFD_guidelines_10-5-11_0.doc

43. In summary, PPP Programs will be submitted by MDBs[7] as PFDs to GEFSEC for technical review and approval by the CEO for inclusion in a work program. The following exception applies:

44. Operational Focal Point (OFP) endorsement letters will not be required unless the proposed PPP is specific to one country.[8]All PPP Programs included in a work program for Council approval will meet the operational modalities in this document, or future updated versions of the document.[9]

45. Consistent with GEF Project Cycle Requirements for programmatic initiatives, once a PPP Program proposal has been included in a work program that has been approved by Council, approved funding will be reserved by the Trustee from the private sector set-aside for the sponsoring MDB. This fund reservation process is the same as for other GEF approved programs.

46. After approval by Council, the CEO has the responsibility to issue an endorsement of the PPP Program. After endorsement, the approved funding and agency fee will be committed by the Trustee to enable the MDB to begin investment negotiations in a timely manner.[10]

47. Under a PPP Program, just like other GEF Programmatic Initiatives managed by MDBs, individual investments under each program are not submitted for Council approval.

48. The GEFSEC is aware that MDBs may develop some private sector partnership opportunities out of sequence with the GEF bi-annual Council meetings. Given the need of the private sector for quick decision-making, it may be valuable for PPP Program proposals to be included in intercessional work programs for approval of the Council by mail. Several MDBs have suggested this additional flexibility would be beneficial; the topic deserves additional review.

PPP Program Investment Process Cycle

49. During program implementation, the MDB will be responsible for developing the investment pipeline consistent with the approved program, negotiating each investment with the beneficiary, and obtaining approval for the investment. Each investment must be approved before the MDB can allocate program funds for the investment.

50. In a typical GEF Programmatic Initiative, individual project are submitted for CEO Endorsement. In a PPP Program, individual investments do not have to be submitted for CEO Endorsement, but GEFSEC technical review will be required as described below.

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[7] MDBs will submit PFDs as Qualifying GEF Agencies as defined in GEF/C.39/Inf.3.

[8] See *Strategies*, page 11, paragraph 30.

[9] This document on operational modalities is presented as an information document at the June, 2012 Council meeting. The document was completed in January 2012 and used by GEFSEC and the MDBs in the preparation of any PPP Program proposals included in the June 2012 work program and thereafter.

[10] In a typical PFD, the Trustee commits funds, including Agency fees, based on CEO endorsement of individual projects (See page 10, paragraph 41, GEF/C.39/Inf.3). In this case, the CEO endorsement will cover the entirety of the funding approved for the PFD.

51. In general practice, MDBs establish an Investment Review Committee (IRC) which concurs on individual investments before approval by the MDB Board or management. [11]

52. These operational modalities establish two options for limited delegation of decision-making authority that will apply to PPP Programs and enable GEFSEC concurrence on investments under each PPP Program. This delegated authority is implemented under two options: In Advance; or Concurrent:

(a) Option 1: In Advance. Under this option, GEFSEC concurrence is established for the entire portfolio in advance at the time of PPP Program approval. This option is well suited for PPP Programs that have a very specific investment focus and can meet pre-established parameters. The parameters will be established at the time of the proposal and clearly described prior to inclusion in the work program. For example, the parameters could specify a limited region, selected technologies, and one type of financial mechanism that would apply to all investments considered under the program. The MDB will have the flexibility to approve all investments without coming back to the GEFSEC because GEFSEC concurrence was established at the time of approval for inclusion in the work program. The MDB would document adherence to the parameters in its regular reports.

(b) Option 2: Concurrent. Under this option, GEFSEC concurrence is obtained for each investment prior to MDB IRC approval. This option is suited for PPP Programs that do not fit under option 1, such as those with a portfolio of diverse investments, different non-grant instruments, and different technologies or approaches. Under this approach, the MDB will formally solicit and obtain GEFSEC views on specific investments prior to IRC meetings. GEFSEC will communicate its position and conditions, if any, for the proposed investment, which would be binding on GEF funding. That is, if GEFSEC conditions cannot be met, the investment cannot be supported with GEFTF funds, even if other partners in the PPP program may choose to proceed.

53. In discussion with the MDBs, option 1 may be applicable in a small number of situations with well defined programs. Option 2 is likely to be much more common.

54. Under Option 2, the MDB will provide documentation on each investment in detailed form suitable for full GEFSEC review. Documentation will need to include copies of materials prepared for the MDB IRC or the equivalent. The GEFSEC will review proposed investments for consistency with the PPP Program as approved by Council. The GEFSEC will compare the terms of the investment to other similar investments if needed. Particular attention will be paid to the level of concessionality of the investment, the risk exposure of the GEF, and expected reflows.

55. Under Option 2, GEFSEC review of investments must be conducted expeditiously to allow agency IRCs to complete decisions against deadlines; the target schedule for GEFSEC technical review is one business week. GEFSEC concurrence, concurrence with conditions, or non-concurrence will be communicated to the MDB formally. Examples of conditions that GEFSEC may impose are minimum rate of return, maximum term or tenor, etc. Pre-consultation

[11] For many types of donor funds, the MDB and its IRC operate with a full delegation of decision-making authority to make investment decisions. In these cases, the donor has no role in investment decisions. Full delegation is not included in these operational modalities.

between the agency and GEFSEC during development of the investment pipeline is encouraged to improve shared understanding of PPP Program implementation and speed concurrence on investment decisions.

56. It is feasible to combine Options 1 and 2 in a hybrid approach. Under this approach an MDB would prepare a PPP Program Proposal using Option 1. After approval and during implementation, the MDB may identify an investment opportunity that is consistent with all aspects of the PPP Program as approved by Council, except it falls short on one or more of the defined investment parameters established under Option 1. If an MDB wishes to pursue this exceptional investment opportunity, GEFSEC concurrence would have to be obtained for such exceptional investments under the same modalities as Option 2. If this hybrid approach is desired by an MDB, it should be clearly articulated in a PPP Program Proposal and approved by Council.

57. The GEFSEC and the MDBs considered an option where a GEFSEC representative would sit on the MDB IRC with full rights and responsibilities; participating in all investment decisions with respect to the GEF funding. The MDBs determined that this option was not legally permissible under existing rules for constitution of IRC. Therefore, the option for GEFSEC to sit on an IRC is not included in the operational modalities at the present time.

58. There is an understanding that GEFSEC and the MDBs may develop additional options for limited delegated decision-making authority as experience with PPP Programs increases. If an MDB develops an alternative approach to Options 1 and 2 that is acceptable to the GEFSEC, future PPP Program proposals may include such alternative approaches. Approved alternative approaches will be documented in an updated operational modalities document.

IX. Performance Indicators for Global Environmental Benefits

59. Each PPP program proposal will need to demonstrate how the investments will deliver global environmental benefits, adaptation benefits, etc., in line with GEF focal area objectives. Performance indicators will be established at proposal stage and will form an important part of GEFSEC technical review before inclusion in a work program.

60. Each PPP Program Proposal should include one or more of the following performance indicators, depending on the focal area and type of investment:

(a) Private sector co-financing or leverage ratios; financial criteria; tons CO_2eq avoided; kWh generated from renewable sources or saved through energy efficiency; increase in sustainably managed landscapes and seascapes that integrate biodiversity conservation; number of households served; improved water use efficiency; increased revenue for protected area systems to meet total expenditures required for management; restoration and enhancement of carbon stocks in forests and non-forest lands, including peatlands; innovative solutions implemented for reduced pollution, improved water use efficiency, sustainable fisheries with rights-based management, IWRM, water supply protection in SIDS, and aquifer and catchment protection; increased investments in SLM; ODS phased out and their releases reduced in a sustainable manner; diversified and strengthened livelihoods and sources of income for vulnerable people in targeted areas; successful demonstration, deployment, and transfer of relevant adaptation technology in targeted areas; etc.

(b) Other indicators as appropriately identified for each program, and consistent with GEF strategic priorities and the GEF Results Framework.[12]

61. All PPP programs will adhere to the GEF Results Based Management requirements, conducting all required program monitoring and reporting.[13] Guidance on reporting reflows will be developed with the Trustee.

[12] *GEF-5 Area of Work Strategies* for GEF-5 Results Framework by focal area at http://www.thegef.org/publications/gef-5-focal-area-strategies

[13] See GEF/C.40/Inf.09, *RBM System: Process to Ensure the Quality of Objectives, Baselines, and Results Indicators* at http://www.thegef.org/gef/node/4359.

Annex 1: List of GEF Documents on Private Sector Engagement

1996

- GEF/C.6/Inf.4, Engaging the Private Sector
- GEF/C.7/12, GEF strategy for engaging the Private Sector

1999

- GEF/C.13/Inf.5, Engaging the Private Sector in GEF Activities

2003

- GEF/C.22/Inf.10, Enhancing GEF's Engagement with the Private Sector

2004

- GEF/C.23/11, Principles for Engaging the Private Sector

2006

- GEF/C.28/Inf. 4, Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector
- GEF/C.28/14, GEF Strategy to Enhance Engagement with the Private Sector

2007

- GEF/C.32/7, The Use of Non-grant Instruments in GEF Projects: Progress Report

2008

- GEF/C.33/12, Operational Policies and Guidance for the use of Non-grant Instruments

2010

- GEF/R.5/32, Policy Recommendations For The Fifth Replenishment Of The GEF Trust Fund
- GEF/ME/C.39/2, Review of the Global Environment Facility Earth Fund
- GEF/ME/C.39/3, Management Response to GEF Earth Fund Review

2011

- GEF/C.40/13, Strategy to Engage with the Private Sector
- GEFEO, Review of GEF Engagement with the Private Sector
- GEF/C.41/09.Rev.01, Revised Strategy for Enhancing Engagement with the Private Sector

2012

- GEF/C.42/Inf.08, Operational Modalities For Public Private Partnership Programs

Annex 2: Operational Modalities Applicable to Modality 2 and 3 of the Strategy

Modality 2: Process Cycle Process

62. In the *Strategy*, Modality 2 is designed for incentivizing use of non-grant instruments within traditional projects by making traditional projects eligible for a share of the private sector set-aside as an incentive mechanism (see page 12, paragraphs 35-39).

63. Under this approach, agencies would work with countries to design a project with strong private sector participation and use of non-grant instruments. When submitted at the PIF stage, the project would be eligible to request matching funding from the private sector set-aside in a ratio of 3:1. That is, for every 3 dollars of traditional allocation, 1 dollar from the private sector set-aside can be requested.

64. Countries and GEF Implementing Agencies would be encouraged to enlist national financial institutions as partners and co-financiers for the project. As an incentive, countries that utilize non-grant instruments for private sector engagement would retain all proceeds/reflows from the project which can then be used for additional programming consistent with the original project design with concurrence of the GEF Secretariat.

65. All PIFs are submitted consistent with GEF Process Cycle Requirements. PIFs can be submitted for regular or intercessional work programs. If a PIF includes a non-grant instrument, it is eligible to request a 3:1 match from the private sector set-aside. Requests should be made before the PIF is approved for inclusion in a work program.

66. At CEO endorsement, confirmation of the non-grant instrument and co-financing will be required.

67. Under these operational modalities, the following sections will also apply:

- Paragraph 27, Reflows

Modality 3: Process Cycle Process

68. In the *Strategy*, Modality 3 is designed to provide support for entrepreneurs and innovators seeking to establish a commercial venture (see page 13, paragraphs 40-48). This supports the goals of many GEF countries who are seeking to grow their domestic private sector by specifically encouraging SMEs to expand in "green" and "clean" technologies to secure national competitiveness in a global 21st century economy.

69. To encourage country participation, the private sector set-aside will be available for matching funding. For example, for every two dollars allocated from a country's STAR allocation for the SME Competition, an additional dollar could be provided as matching allocation from the private sector set-aside. Under this approach, agencies would work with countries to design an MSP to establish and operate the SME Competition. When submitted for approval, the MSP would be eligible to request matching funding from the private sector set-aside in a ratio of 2:1.

70. All PIFs are submitted consistent with GEF Process Cycle Requirements. PIFs can be submitted for regular or intercessional work programs. If a PIF includes a component for an SME Competition, it is eligible to request a 2:1 match from the private sector set-aside for the amount of STAR allocation funding of that component. Requests should be made before the PIF is approved for inclusion in a work program.

71. Under Modality 3, non-grant instruments are not expected. Only operational modalities in this section of Annex 2 of this document apply to these types of projects.