



GLOBAL ENVIRONMENT FACILITY
INVESTING IN OUR PLANET

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**PROGRESS REPORT ON THE IMPLEMENTATION OF THE UPDATED
CO-FINANCING POLICY**

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INTRODUCTION

1. This information document reports on the implementation progress of the updated Co-Financing Policy and provides a summary of the key lessons learned, including from the application of the new definitions and concepts introduced in the Policy. It also includes an analysis of the GEF-7 co-financing against the targets set at the GEF-7 replenishment and provides more detailed information on different elements of investment mobilized. All information is as at November 5, 2020 unless otherwise noted.

2. The note also aims to provide valuable insight on different factors contributing to changes in the composition of the co-financing and to look at the co-financing at different stages of the GEF project cycle. Finally, preliminary information is included on potential implications from the COVID-19 pandemic on both the level and type of co-financing.

BACKGROUND

3. The rationale for promoting co-financing is to leverage more resources from public and private sources to accomplish project and program goals and objectives. In tackling our planet's most pressing environmental problems, co-financing is an integral contribution to GEF operations. It supports generating longer-lasting and larger-scale global environmental benefits, and strengthens partnerships with recipient country governments, multilateral, bilateral and national financing institutions, the private sector, and civil society.

4. The Council, at its 54th meeting in June 2018 approved the updated Co-Financing policy¹, which introduced the concept of "investment mobilized" as *co-financing that excludes recurrent expenditures*. This concept was introduced to provide clearer definition and distinction between different sources and types of co-financing that can be considered mobilized to support the objectives of the GEF project financing. In identifying the sub-set of co-financing that can be considered investment mobilised, Agencies may apply the established classification of expenditures used by the entity that provides the co-financing, apply their own established systems, or apply other well-established and publicly available international standards. The policy also supports systematic capture of experiences and lessons learned from the identification, documentation, monitoring and reporting of investment mobilized, providing valuable information for future policy deliberations.

5. Against the background of the positive performance in GEF-6, the policy also set out a level of ambition for "the overall GEF portfolio to reach a ratio of co-financing to GEF project financing of at least 7:1, and for the portfolio of projects and programs approved in upper middle-income countries (UMIC) and high-income countries (HIC) that are not small island developing states (SIDS) or least developed countries (LDC) to reach a ratio of investment mobilized to GEF financing of at least 5:1".

¹ https://www.thegef.org/sites/default/files/documents/Cofinancing_Policy.pdf

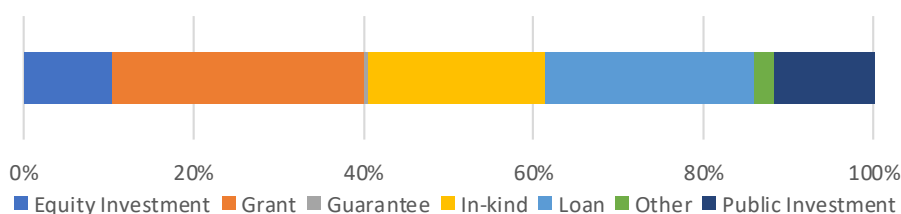
6. Together with the higher level of ambition, GEF co-financing has become more diversified in terms of number of instruments, sources and types of co-financing. Based on the indicative information provided at approval, each project and program in GEF-5 and GEF-6 mobilized co-financing on average from 6.5 different sources. In GEF-7, projects and programs have mobilized co-financing on average from 10.3 different sources, a clear increase from the previous cycles. In GEF-5 and GEF-6 projects mobilized on average two different types of co-financing (e.g. co-financing in cash and in-kind), whereas in GEF-7 each project has mobilized on average 2.5 different types of co-financing (e.g. in cash, loans and in-kind). More co-financiers and more diverse sources increases the likelihood of ownership and stakeholder support, broadening the scope of what kind of activities can be undertaken and pave the way for follow-up activities.

GEF-7 RESULTS

7. **With approx. 73% of the GEF-7 resources programmed (including December 2020 Work Program), the level of indicative co-financing across the GEF-7 portfolio has reached some US\$ 7.8 in co-financing for each dollar of GEF project financing.** The indicative level of investment mobilized is at US\$ 5.6 : 1. These ratios vary across different focal areas, countries, Agencies, and types of instruments used, reflecting the fact that GEF “does not impose minimum thresholds and/or specific types or sources of Co-Financing or Investment Mobilized for individual projects and programs²”.

8. **Loan co-financing from multilateral development banks continues to be the biggest contributor to mobilized co-financing, accounting for about 20% of all GEF-7 co-financing.** Cash co-financing (grants) from recipient country governments and GEF and other Donor Agencies each contribute about 11% of the total co-financing (Figure 1).

Figure 1: GEF-7 co-financing by type

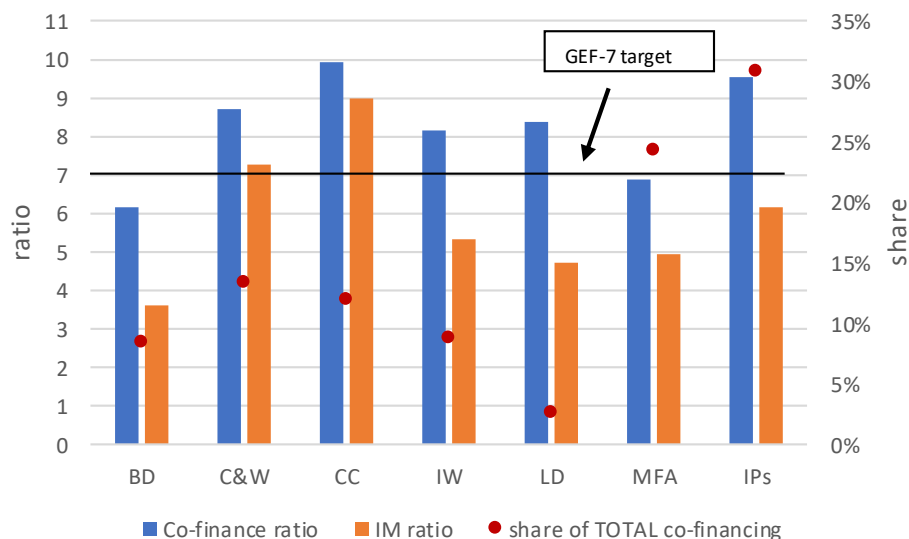


9. **GEF-7 Impact Programs have mobilized relatively larger share of total co-financing and investments.** For each dollar of GEF funding, IPs have mobilized US\$ 9.5 from the partners and stakeholders, and this co-financing constitutes almost a third of the GEF-7 total co-financing. Climate change and chemicals and waste focal areas attract relatively more co-financing, whereas GEF investments in biodiversity leverage co-financing mostly in cash and in-kind co-financing from governments, reaching lower co-financing ratios. Projects and programs in

² https://www.thegef.org/sites/default/files/documents/Cofinancing_Policy.pdf

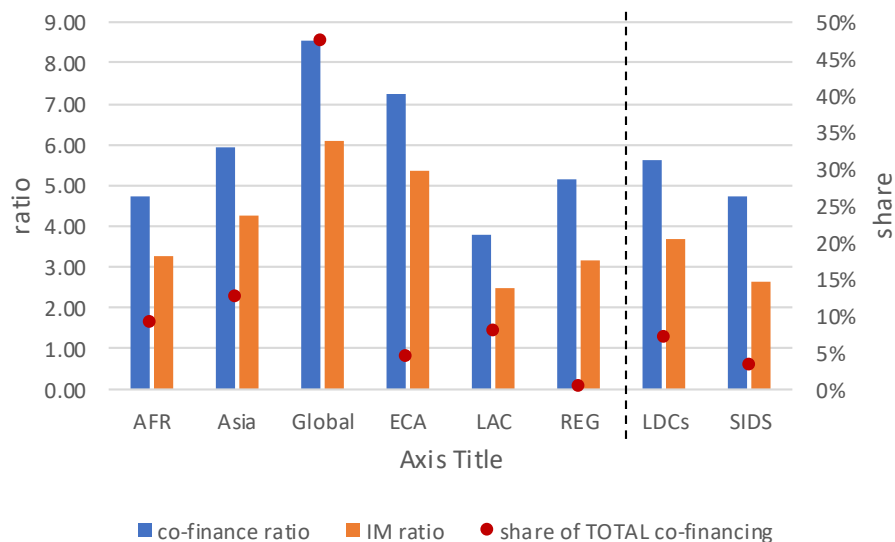
climate change and chemicals and waste focal areas mobilize higher relative share of investments and co-financing from the private sector.

Figure 2: Co-financing ratio and shares for different Focal Area programs and projects and GFE-7 Impact Programs



10. **Ratio of mobilized co-financing for each dollar of GEF project financing varies across GEF recipient countries and regions.** Based on GEF-7 approvals, projects in ECA and Africa as well as Global programs (mostly Impact Programs) have attracted high levels of co-financing. In ECA, co-financing is mainly mobilized through loans from the multilateral development banks for operations focusing on sustainable energy (climate change focal area) and on one Program in the Black Sea. In the Africa region, Africa Minigrids Program, with nine country child projects, has mobilized loans and grants from multilateral institutions, private sector and recipient governments. These are also the regions with highest share of loan co-financing, as 25% of the loan co-financing is mobilized in Africa while 15% goes to ECA. Loan co-financing is mostly (45%) mobilized through Global Programs (mostly in Impact Programs). Most of the co-financing in LDCs is in cash (grants, 46%), in-kind (25%) and loans (17%) and the co-financing ratio amounts to US\$ 5.6 for each GEF dollar invested.

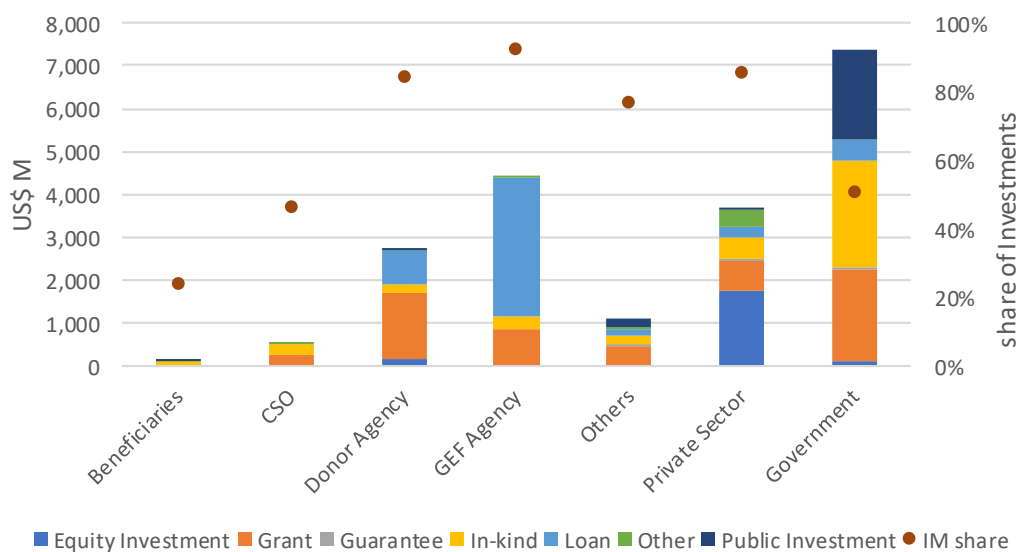
Figure 3: Co-financing by GEF regions and groups of countries (LDCs and SIDS)



Co-financing by sources and types

11. **Recipient country governments are the main source of co-financing. Based on indicative information** (“name of the co-financier”) about 10% of this co-financing is mobilized from sub-national and local governments. One third of the recipient country government co-financing is in-kind, 30% in grants and 28% in public investment. Co-financing mobilized by GEF Agencies from their own resources accounts for 22% of the GEF-7 co-financing. This is mostly in the form of loans (74%), grants (18%) and in-kind (6%) co-financing.

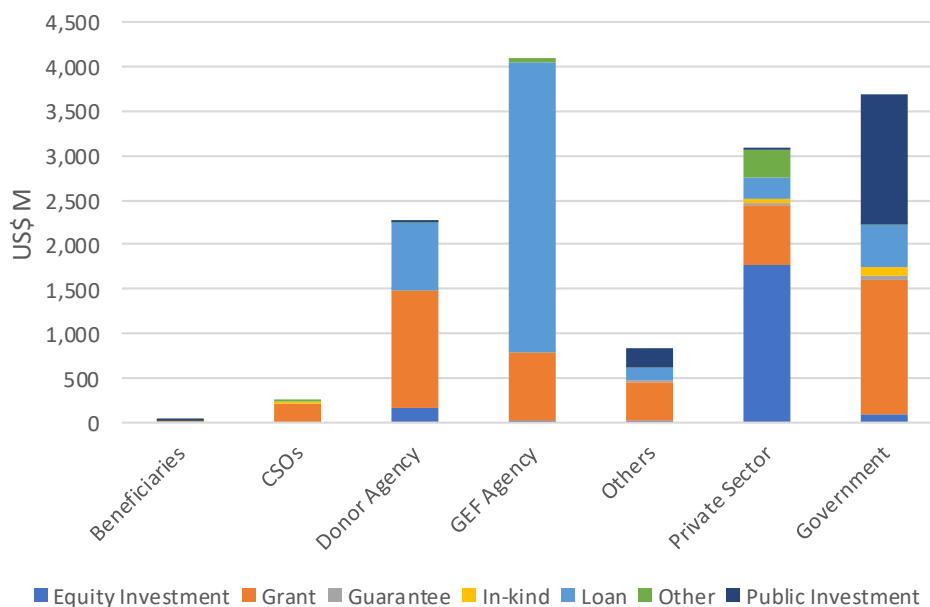
Figure 4: GEF- 7 Co-financing and investments by different sources



Investments mobilized

12. **Investments represent about 71% of the total GEF-7 co-finance, and at the portfolio level the ratio of investment mobilized is 5.6 for each dollar in GEF project financing.** GEF Agencies, especially IFIs, play an important role in this subset of co-financing, demonstrated by the fact that investments are mobilized mostly in loans (34%), and the loans by GEF Agencies represent 23% of all investments. Similarly, to the overall co-financing, investments in grants (35% of the total investments) are mobilized mainly by Governments and Agencies, whereas private sector equity (15%) represents relatively larger share of the investments. These numbers also demonstrate that 29% of the GEF co-financing is considered as “recurrent expenditure”. This is mostly in-kind contributions from recipient country governments (70%) but includes also grant financing (17%) and public investments (11%). Recurrent expenditures make up 15% of the private sector co-financing.

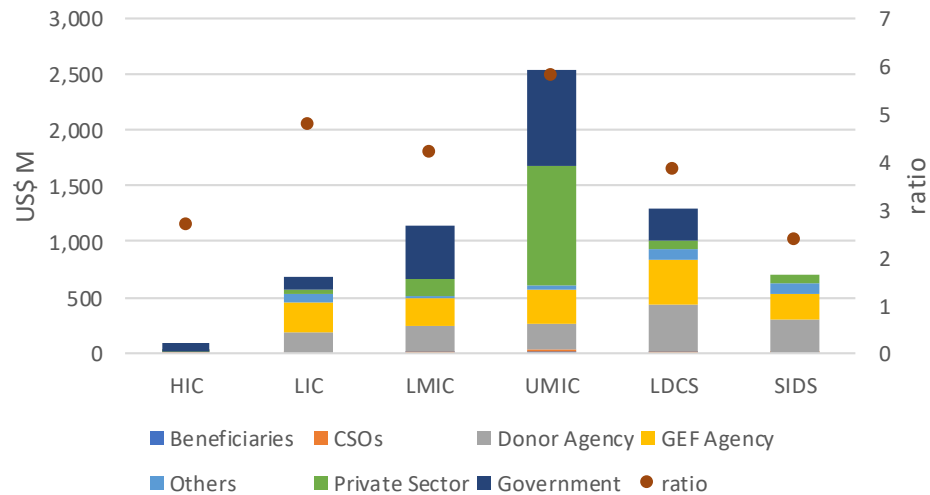
Figure 5: Investments mobilized by sources and types of co-finance



13. **The level of investments mobilized in upper middle-income countries (UMIC) and high-income countries (HIC) that are not Small Island Developing States (SIDS) has reached some US\$ 5.8 for each dollar of GEF project financing³.** Highest rate of investments per each dollar of GEF finance is in upper middle-income countries where private sector co-financing makes up 42% of the investments. Investments in high-income countries is based on a small sample of projects (n=10), and one third of these projects are in SIDS.

³ This analysis is based on standalone country projects and small number of regional programs approved in GEF-7, and as such does not cover all GEF-7 approvals (for example, Global Programs are excluded)

Figure 6: Investments mobilized in different country income groups by sources



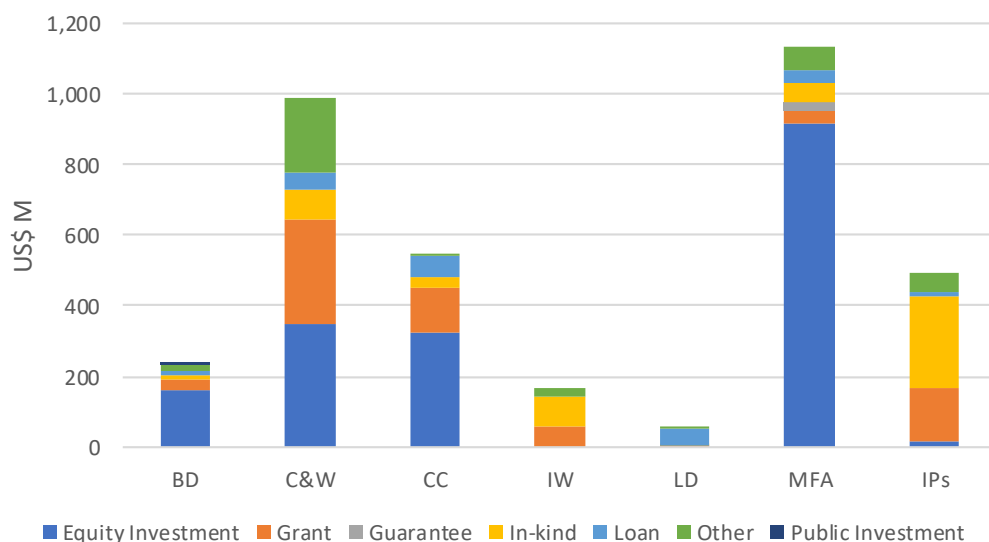
Private sector co-financing

14. **GEF’s Private Sector Engagement Strategy includes private sector co-financing as one of the mechanisms for leveraging transformational shifts.** The share of private sector co-finance has been steady at around 16%-18% of the total GEF co-finance over the previous replenishment periods⁴. In GEF-7, 45% of all projects and programs include some level of private sector co-financing and the indicative level of this co-financing amounts to US\$ 3.6 billion, which presents substantial increase from the GEF-6 confirmed private sector co-finance US\$ 2.7 bn. About 36% of this private sector co-financing is mobilized through non-grant instrument and 14% through Impact Programs. The rest is mostly mobilized in chemicals and waste and climate change focal areas (Figure 7 below). These focal areas also have the highest share of private equity investments. More than half of the NGI projects are also multi-focal area projects.

15. **The GEF project cycle and private sector decision-making timeframe results in indicative information on private sector co-financing at PIF approval subject to changes,** in both amount and type, during the full project preparation and implementation. In line with the co-financing policy guidelines, Agencies may report co-financing that is expected to be mobilized during project preparation; evidence from GEF-6 portfolio shows that private sector co-financing at PIF approval decreased by 45% at CEO endorsement.

⁴ Evaluation of GEF's Engagement with the Private Sector (GEF/ME/C.52/Inf.04)

Figure 7: Private sector co-financing by Focal Area and type of instrument



CO-FINANCING THROUGHOUT THE PROJECT CYCLE

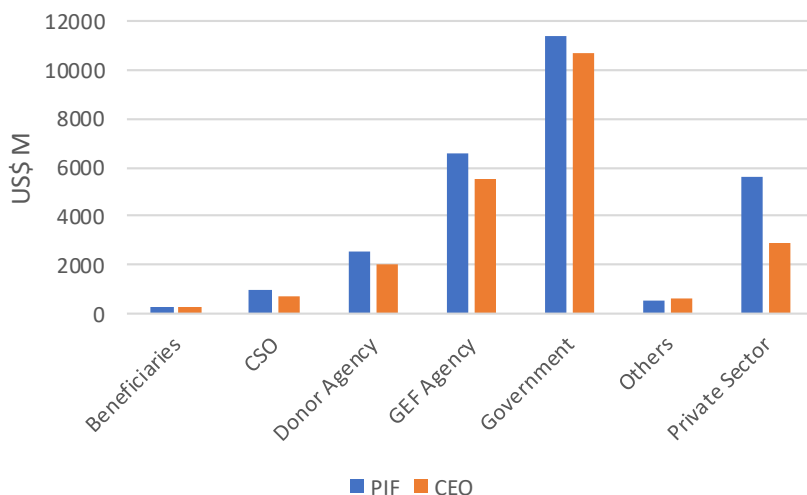
Co-financing commitments at CEO endorsement

16. **Co-financing commitments indicated at PIF stage are confirmed by co-financing letters from the partners at CEO endorsement.** Data from GEF-6 indicates that at the portfolio level, private sector co-financing decreased by 18% from the estimates provided at Council approval, compared to CEO endorsement level confirmed estimates. Co-financing from private sector sources decreased the most (-46%)⁵, followed by donor agencies (-20%) and recipient governments (-17%). Very early results from GEF-7 indicate that there have not been any major changes in the level of co-financing estimated at Council approval of the PIF, compared to confirmed co-financing information provided at CEO endorsement⁶.

⁵ This is in large part due to a private sector co-financing for Indonesia Geothermal Energy Upstream Development project, which had estimated US\$ 2.2bn private sector co-financing at PIF, that was not confirmed at CEO endorsement.

⁶ This is based on 15 GEF-7 projects that have been endorsed by the GEF CEO and reached early stages of implementation. This cohort excludes any child projects under GEF-7 IPs or other Programs.

Figure 8: Confirmed co-financing at CEO endorsement



Materialized co-financing during project implementation and at completion

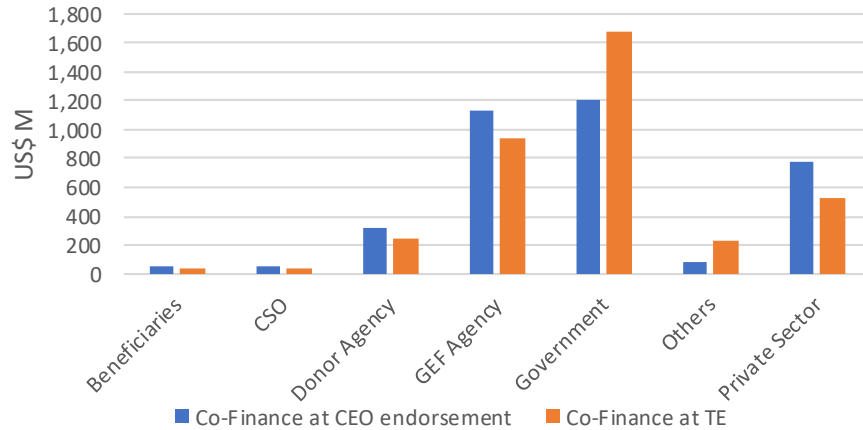
17. Based on the level of confirmed co-financing at CEO endorsement, GEF Agencies provide information on the materialized level of co-financing at Mid-Term Review (MTR) and at Terminal Evaluation (TE) stages. The updated co-financing policy, its definitions and reporting requirements, apply also to all GEF projects under implementation and Agencies are asked to ex-post identify “investments mobilized” vs. “recurrent expenditures” in the project mid-term reports and terminal evaluations, but this has not been consistent in the early stages of policy implementation. Starting in FY20, Agencies have submitted information on materialized co-financing at MTR and TE-stages through the GEF Portal⁷. This data shows that on average 50% of the co-financing is materialized by project’s MTR, ranging from 30% of private sector co-financing to 60% of the government co-financing.

18. Based on the analysis by the GEF Independent Evaluation Office (GEF IEO), the level of materialized co-financing from different GEF replenishment cycles has approached 100%⁸. This is confirmed by the data collected through the portal, which shows that 102% of all co-financing was materialized by project’s Terminal Evaluation (Figure X below). Lower materialized co-financing from GEF Agencies and private sector is offset by higher than expected co-financing from the recipient country governments.

⁷ The current sample covers 204 projects from GEF4-GEF6 that completed their MTR in FY19 or FY20.

⁸ <https://www.gefief.org/evaluations/annual-performance-report-apr-2020>

Figure 9: Materialized co-financing at Terminal Evaluation (FY19-FY20)



IMPLEMENTATION OF THE CO-FINANCING POLICY AND GUIDELINES

19. This section summarizes implementation of the new policy by identifying (i) how Agencies have identified the subset of co-financing that is considered investment mobilized; (ii) analyzing the feedback received from the Agencies on the new policy and guidelines; and (iii) analyzing how calculations used to compute co-financing and investment mobilized develop and demonstrate during the full project preparation (based on the small subset of projects that have been CEO endorsed in GEF-7). It is important to note that the implementation of the policy has coincided with launch of the new GEF Portal to facilitate consistency and quality control in documentation and reporting on co-financing.

20. The descriptions provided by Agencies fall into three broad categories. First, a number of projects set out a general definition, based on which co-financing is classified as either investment mobilized or recurrent expenditures. Second, several projects provide a detailed description of the activities supported through each line item in the co-financing table. Third, some projects describe the process through which co-financing was classified as either investment mobilized or recurrent expenditures, including consultations with the entities that provide the co-financing. This information shows that co-financing is documented clearly and consistently. Indicative co-financing data is presented across the fixed range of sources and types that are set out and defined in the Co-Financing Guidelines.

21. Some Agencies provide more detailed description on the nature of the co-financing, including the role of baseline investments and parallel investments, and how they relate to investments and recurrent expenditures. This is evident also from the fact that information provided on co-financing (sources and types) is very similar to the section on project's baseline investments. More recently, some project proposals include also details regarding those funds that are expected to be managed by the project and those that are implemented in parallel through the baseline projects.

22. During the recent update of the GEF Project and Program Cycle Guidelines, Agencies expressed an interest in further clarity on what should be considered ‘investment mobilized’ vis a vis ‘recurrent expenditures’ in the GEF; and finding ways to accurately and consistently capture this in reporting. Feedback from the Agencies suggested also that the definitions and different concepts of co-financing should be disseminated and shared more widely, including with the GEF national focal points.

IMPACT OF COVID-19 PANDEMIC

23. While it is too early to report on concrete impacts, information from Agencies and countries suggests that co-financing obligations from national governments, private sector or other sources may be at risk. The risk was also not seen as uniform across projects and countries, with some projects having already secured domestic budget approval, some at risk of re-allocation exercises, and new projects not yet included in future year budgets deemed most at risk. It was also anticipated that delays would be experienced on administrative aspects such as the securing of commitment letters.

24. Some GEF recipient countries have expressed concern over uncertainty of future national and sub-national budgets, potential negative impacts of local currency depreciation, and have suggested possible shifts to increased in-kind co-financing as government ministries seek to preserve cash budgets. Additional detailed information is only expected to be available as additional Project Implementation and Mid-Term reporting becomes available.

CONCLUSIONS

25. Implementation of the updated GEF Co-Financing policy, together with the comprehensive GEF-7 policy framework on monitoring and results⁹, has provided valuable new insight into co-financing mobilized by GEF projects. It is still too early to draw any trends in co-financing resulting from the updated Policy but the Secretariat will continue to report on the progress of the implementation of the Policy. Box 1 below summarizes some of the interesting findings of the report.

⁹ GEF Policy on Monitoring

(https://www.thegef.org/sites/default/files/documents/gef_monitoring_policy_2019.pdf)

GEF Results Guidelines (https://www.thegef.org/sites/default/files/documents/Results_Guidelines.pdf)

- GEF co-financing has become more diverse, both in terms of number of different sources, and types of co-financing indicating broader reach in terms of partnerships and potential impacts
- Investments account for more than 70% of the co-financing mobilized by GEF project financing. Loans from multilateral development banks continue to play a major role in co-financing GEF projects and they account for more than a third of the investments
- Based on the indicative information on private sector co-financing, it is mostly driven by private sector interest in Non-grant Instrument (NGI) and Impact Programs (IPs)
- Co-financing is documented more clearly and consistently throughout the GEF project cycle, facilitated by GEF portal
- Following the on-set of covid-19 pandemic and resulting fiscal risks there are potential impacts on the level and type of co-financing mobilized by GEF projects, but it is still too early to estimate any trends.