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UPDATE REPORT ON REFLOWS TO THE GEF TRUST FUND FROM THE NON-GRANT INSTRUMENT PORTFOLIO

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INTRODUCTION

1. The Council, at its 55th meeting in December 2018, requested the Secretariat and the Trustee to report to the Council the status of reflow payments from non-grant instruments, and the expectations of future reflows of the GEF portfolio of projects.

2. A Non-Grant Instrument ("NGI"), in the context of the GEF, is a financial product that has the potential to generate financial returns, irrespective of whether such financial returns flow back to the GEF Trust Fund.[1] These non-grant instruments include but are not limited to guarantees, equity, structured finance, or concessional debt.[2] The NGI financial products are used at concessional terms in blended finance structures[3] that seek to create attractive risk and return profiles that catalyze private financial investment.

3. As noted in GEF Non-Grant Instrument Policy[4], (i) GEF financing is considered GEF concessional finance if it is provided to a project/program that is expected to generate reflows to the GEF Trust Fund; and (ii) GEF financing is considered a grant if it is provided to a project/program that is not expected to generate reflows to the GEF Trust Fund.

4. The Secretariat monitors all projects that utilize a non-grant instrument, both those with and without expected reflows. Since inception, the GEF Council has approved 98 projects with non-grant instruments with an investment amount of USD 815 million and total co-financing of USD 8 billion. For the purpose of this update report, only reflows from CEO endorsed projects are analyzed. The dataset is therefore limited to 91 projects with an investment amount of USD 720 million and total co-financing of USD 7 billion. The remaining seven (7) projects not included in this analysis have been approved by Council under the GEF-7 NGI Program and are yet to be endorsed by the CEO. There is additional information on the GEF-7 projects in Section III.

5. Of the 91 projects analyzed, the majority are from the early GEF cycles and were not expected to generate reflows[5]. Twenty (20) projects are expected to generate some level of reflows to the GEF Trust Fund, accounting for USD 225.3 million of GEF funding. Four (4) of these projects are from GEF-3 and prior; sixteen (16) are from GEF-4 through GEF-6, when specific set-asides for the use of non-grant instruments were employed to help attract private sector investment, and with the expectation of reflows to the GEF Trust Fund. Several of these

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[1] *GEF-6 Non-Grant Instrument Pilot and Updated Policy for Non-Grant Instruments*, GEF/C.47/06, October 10, 2014 – Annex 1 Updated Policy – Non-Grant Instruments.

[2] Ibid, Annex 1-A Descriptions for Common GEF Non-Grant Instruments, provides descriptions of common GEF non-grant instruments.

[3] Blended finance is the targeted use of concessional financing together with private finance in projects where actual or perceived risks are too high for private finance alone. By combining concessional and commercial financing, blended finance can achieve acceptable risk/return profiles for different types of financing partners.

[4] *Non Grant Instrument Policy*, FI/PL/02, October 30, 2014 – Section V Reflows, paragraph 6

[5] *GEF-6 Non-Grant Instrument Pilot and Updated Policy for Non-Grant Instruments*, GEF/C.47/06, October 10, 2014, Annex 2-A GEF Projects using a Non-Grant Instruments, provides a full list of these early GEF projects using non-grant instruments.

20 projects have already generated reflows of USD 46.5 million[6] with a total additional expected reflow of USD 208.5million. This paper provides additional documentation on this subset of GEF concessional finance projects, including distribution by geography, focal area, instrument type, and agency.

6. Although the seven (7) GEF-7 approved projects have not yet been CEO endorsed, preliminary estimates show the 95.2 million investment attracts 1.5 billion in co-financing and may yield up to 106.0 in reflows. Combining these estimates with the twenty (20) CEO endorsed projects shows a total GEF investment of 320.4 million and expected reflows of 314.5 million.

NON-GRANT INSTRUMENTS WITH EXPECTED REFLOWS

7. Table 1 shows the twenty (20) NGI projects and programs with expected reflows that are CEO endorsed for a total GEF investment amount of USD 225.3 million. These investments have already generated reflows of USD 46.5 million as of October 2020[7]. The four (4) IFC-implemented projects from GEF-1 to GEF-3 provided USD 25.3 million of the reflows to-date. The GEF-4 IFC Earth Fund, which helped lay the foundation for the more systematic use of blended finance, has provided additional USD 10.6 million in reflows. Three (3) GEF-5 projects have provided USD 4.8 million in reflows; and one (1) GEF-6 project has provided USD 5.8 million in reflows.

8. As shown in Table 1, future reflows are expected to be USD 208.5million, based on project documents and information provided by the agencies. This estimate includes one (1) GEF-3 project, one (1) GEF-4 project, five (5) GEF-5 projects, and ten (10) GEF-6 projects that are under implementation and expected to generate reflows. Three (3) of the projects listed in Table 1 are closed with no future reflows expected.

9. As with all blended finance projects, the potential and timing for reflows is variable depending on the type and risk profile of each financing instrument used. Debt projects have defined schedules of repayment of principal and interest, which allows for projections of cashflows to be repaid to the GEF Trust Fund on a yearly basis. Guarantees can be structured in various ways and repayment schedules may vary; in general, most projects structured with GEF guarantees are repaid back (minus losses) to the Trustee at the financial closing of the project. Equity is the most flexible instrument and returns (if any) are highly dependent on the structure of each transaction. In most projects, reflows are not expected to be repaid until the end of the investment period which can range from five to ten-years. Of the fifteen (15) projects under implementation in GEF-5 and GEF-6, nine (9) are equity projects. These, on average, are not expected to start generating reflows until 2025.

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[6] Of this total reflow amount, USD 28.7 million has been returned to the Trustee as of October 30, 2020 and remaining funds have been received and confirmed by IBRD and pending to be returned to the GEF Trustee.

[7] The Secretariat first reported on historical reflow status GEF/C.51/03, Annual Portfolio Monitoring Report, 2016, documenting USD 7.8 million in reflows. Additional data collection and analysis yielded two (2) additional projects prior to GEF-3 reporting reflows and NGI projects approved since 2016.

10. NGI Projects are inherently risky and realized reflows may be lower or higher than expected. The estimated investment reflows shown in Table 1 are based on original project documents and additional investment information and estimates from the Agencies. The USD 208.5 million estimate includes the original GEF investment amount (i.e., the principal) and expected earnings, as well as the potential losses as described in the approved project documents. Under a best-case scenario, where investment returns are at the high end, reflows could rise to USD 229.8 million. Under a worst-case scenario, where project investments incur substantial losses, reflows could fall to USD 50.7 million[8]. GEF implementing agencies are responsible for closely monitoring investment projects and can make adjustments during implementation to minimize losses.

[8] The best-case estimate assumes equity investments return the full expected IRR; all debt instruments repay principal and interest; and all guarantees are fully returned to the GEF Trust Fund. The worst-case estimate assumes all equity investments are 100% lost; debt instruments return 60% of principal but no interest; guarantees are called in full (no amount is returned to the GEF Trust Fund).

Table 1: GEF NGI Projects and Programs with Expected Reflows[9]

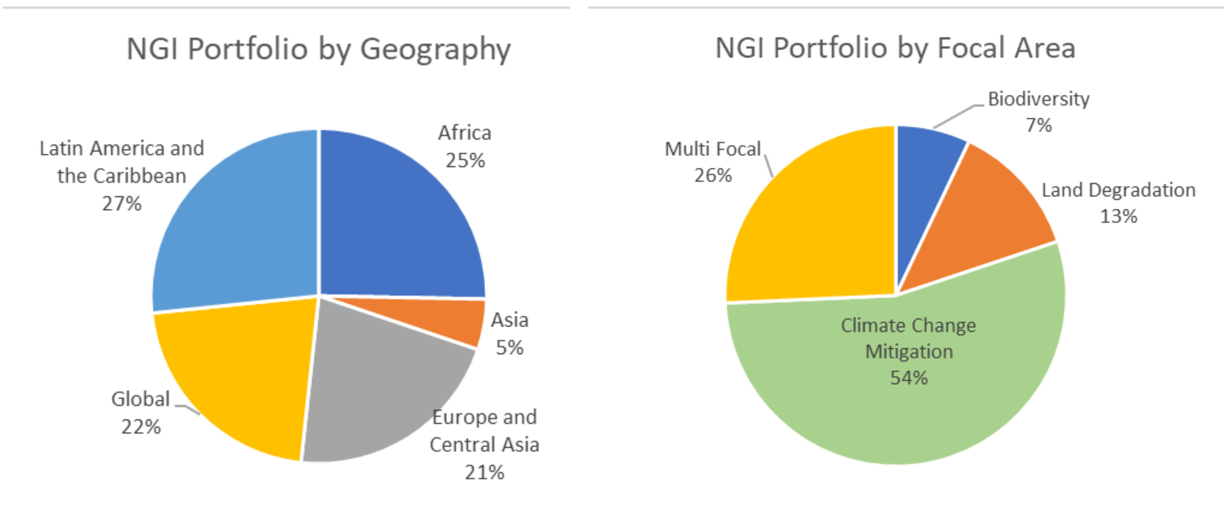
GEF ID	Agency	GEF Phase	Program Title	Country/ Countries	Focal Area (s)	Type of Non-Grant Instrument	GEF Non-Grant Investment Amount (million USD)	Investment Co-financing (million USD)	Reflows generated as of Oct 2020 (million USD)	Estimated Investment Reflow (million USD)[10]	Reflow End Date
111	WB	GEF - 1	IFC Energy Efficiency Co-financing Project	Hungary	CCM	Guarantee	1.15	0.00	1.00	0.00	2007
1541	WB	GEF - 2	IFC Commercializing Energy Efficiency Finance (CEEF) - Tranche I	ECA	CCM	Guarantee	10.55	94.75	10.32	0.00	2013
2174	WB	GEF - 3	IFC Commercializing Energy Efficiency Finance (CEEF) - Tranche II	ECA	CCM	Guarantee	6.75	94.75	6.75	0.00	2018
2000	WB		IFC EBFP	Global	CCM	Debt, Guarantee	13.59	485.35	7.23	4.00	2026
4257	WB	GEF - 4	IFC Earth Fund	Global	CCM BD IW	Debt, Equity, Gurantee	24.97	986.25	10.57	12.00	2026
4959	IADB	GEF - 5	IDB PPP Program	Latin America	CCM BD	Equity	15.00	116.45	4.13	24.95	2029
5388	IADB		Sustainable Caribbean Energy Fund	Caribbean Basin	CCM	Equity	15.00	10.30	0.00	26.94	2030
5754	IADB		IDB-GEF Climate-Smart Agriculture Fund for the Americas	Latin America	CCM LD	Debt	5.00	50.86	0.41	7.32	2030
5143	EBRD		Structured Financing for Energy Efficiency in Southern	EMEA	CCM	Debt	15.00	18.00	0.00	15.00	2035
4929	AfDB		AfDB PPP Program	Africa	CCM	Equity, Debt	20.00	178.15	0.27	21.32	2035
9058	IADB	GEF - 6	Impact Investment in Support of the Implementation of the Nagoya Protocol on Access and Benefit Sharing	Latin America	BD	Equity	10.00	101.00	0.00	19.67	2028
9277	IADB		Risk Mitigation Instrument for Land Restoration	Latin America	LD	Guarantee	15.00	0.00	0.00	15.00	2030
9047	EBRD		Green Logistics Program	EMEA	CCM	Debt	15.00	26.70	5.82	6.93	2027
9043	AfDB		Investing in Renewable Energy Project Preparation	Africa	CCM	Equity	10.00	39.60	0.00	6.90	2035
9051	AfDB		Moringa Agro-forestry Fund for Africa	Africa	LD	Equity	12.00	45.76	0.00	10.12	2027
9563	WB		Third South West Indian Ocean Fisheries Governance and Shared Growth Project (SWIOFish3)	Asia	BD IW	Debt	5.00	15.00	0.00	5.00	2057
9370	CI		Meloy Fund for Sustainable Small-Scale Fisheries	Philippines, Indonesia	BD	Equity	6.00	35.20	0.00	8.00	2030
9719	UNEP		Piloting Innovative Investments for Sustainable Landscapes	Brazil, Indonesia, Liberia	LD	Debt	2.00	52.52	0.00	2.42	2038
9914	IUCN		CPIC Conservation Finance Initiative - Scaling up and Demonstrating the Value of Blended Finance in Conservation	Global	BD LD	Equity	8.25	50.00	0.00	7.95	2040
9085	DBSA		Equity Fund for the Small Projects Independent Power Producer Procurement Programme (non-grant)	South Africa	CCM	Equity	15.00	147.01	0.00	15.00	2032
				Total			**225.27**	**2,547.65**	**46.50**	**208.51**	

[9] Projects shown in this table have been CEO endorsed. Of the total reflow amount, USD 28.7 million has been returned to the Trustee as of October 30, 2020 and remaining funds have been received and confirmed by IBRD and pending to be returned to the GEF Trustee.

[10] Estimated investment reflows are based on GEF Trustee reporting, original project documents and additional investment information from the Agencies.

11. Figure 1 shows the distribution of the NGI portfolio endorsed by the CEO by geography and focal area. There is similar representation of projects from Africa (25%), Latin America and the Caribbean (LAC-27%), and Europe and Central Asia (21%). Global projects represented 22% of the portfolio distribution. In the latest GEF cycles (GEF-5 and GEF-6), projects in Africa and LAC accounted for two thirds of the portfolio. Many of the early NGI projects were focused on climate change mitigation. As the projects in renewable energy and energy efficiency become bankable, the focus of the GEF began turning to frontier areas such as biodiversity and land degradation, where access to private finance has been a barrier. As a result, the portfolio of NGI projects has become more diversified across focal areas.

Figure 1: Allocation of NGI portfolio by Geography and Focal Area



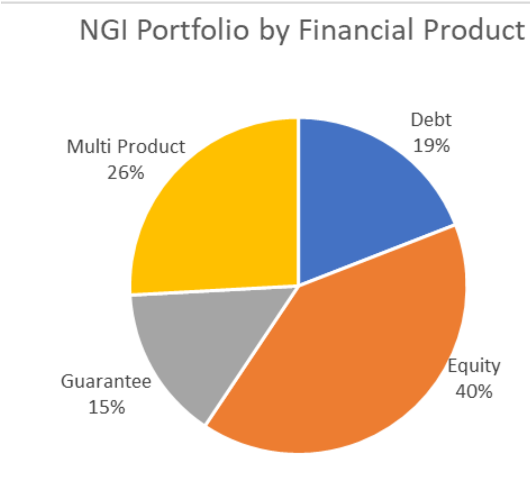
12. The distribution by Financial Instrument is depicted in Figure 2. Most of the NGI projects use equity as a preferred instrument, accounting for 40% of all funding amounts. Debt instruments account for 19%, guarantees for 15%, and multi-product instruments for 26% of investments, respectively.

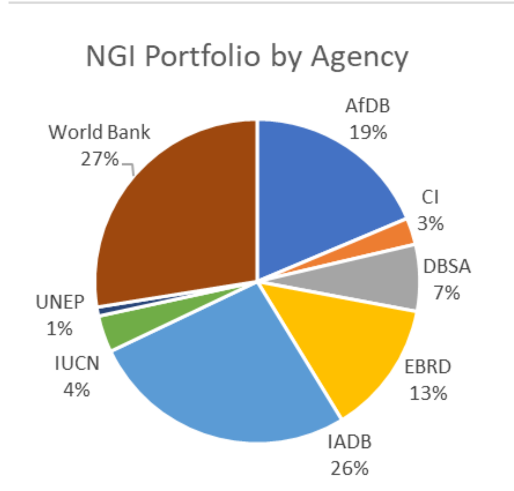
13. Multilateral Development Banks account for about 86% of all investments from the NGI. Until GEF-6, only MDBs were eligible to implement projects with an expectation of reflows. With the approval by Council of Project and Program Cycle Policy[11] and with the adoption of the associated Guidelines[12], all GEF agencies meeting the criteria noted in Annex 5 of that policy are eligible to implement NGI projects.

[11] Project and Program Cycle Policy GEF OP/PL/01, December 20, 2018.

[12] Annex 5 Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017.

Figure 2: Allocation of NGI portfolio by Financial Product and Agency





GEF-7 NON-GRANT INSTRUMENTS APPROVED BY COUNCIL

14. During the GEF-7 cycle, seven (7) projects have been approved by the GEF Council for USD 95.2 million through two (2) Call for Proposals, attracting USD 1.5 billion in co-financing and may yield up to 106.0 in reflows. As of November 2020, these projects are under preparation and have not yet been CEO endorsed. These projects are not presented in Table 1 but are presented separately in Table 2. In future reports, many, if not all, these projects will be CEO endorsed and included in the full reflow summary.

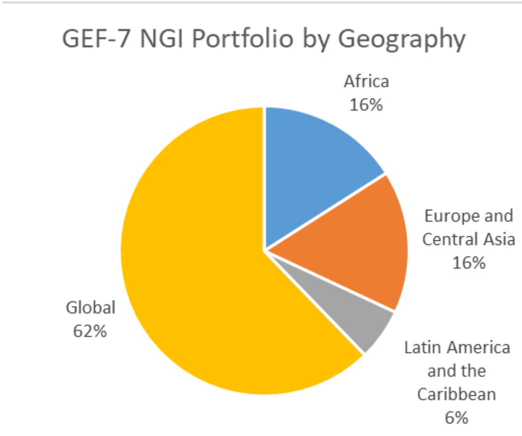
Table 2: GEF-7 NGI Portfolio

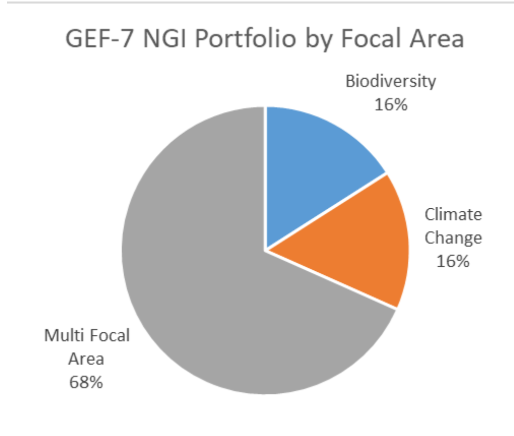
GEF ID	Agency	GEF Phase	Program Title	Country/ Countries	Focal Area (s)	Type of Non-Grant Instrument	GEF Non-Grant Investment Amount (million USD)	Investment Co-financing (million USD)
10322	CI	GEF-7	The Food Securities Fund: A fund to finance sustainable supply chains at scale in Emerging Markets	Global	BD LD CCM	Equity	15.00	773.25
10328	EBRD		Circular Economy Regional Programme Initiative (Near Zero Waste)	ECA	CCM CW	Performance-based loan	15.00	141.88
10330	WB		Wildlife Conservation Bond	South Africa	BD	Performance-based grant	15.00	178.50
10336	IADB		Agtech for inclusion and sustainability: SP Ventures'Regional Fund (Agventures II)	LAC	CCM LD CW	Equity	5.45	55.00
10497	CI		AGRI 3 Forest Conservation and Agriculture Fund for Developing Countries	Global	BD LD	Equity	15.00	146.00
10500	CI		Livelihoods Carbon Fund 3	Global	BD LD	Equity	15.00	111.03
10501	WB		Green Shipping Investment Platform	Global	CCM	Quasi-Equity	14.72	142.30
Total							**95.17**	**1,547.96**

15. Figure 3 shows the distribution of the GEF-7 NGI portfolio by geography and focal area. The NGI portfolio continues to be geographically evenly distributed with a higher proportion of global projects vs. regional: 62% global projects, 22% regional projects and 16% country-specific projects. Two thirds of projects approved by Council address multi-focal area objectives. For

example, a majority of expected climate change benefits (i.e., GHG emission reductions) will be generated from investments in the Agriculture, Forestry and Other Land Use (AFOLU) sector.

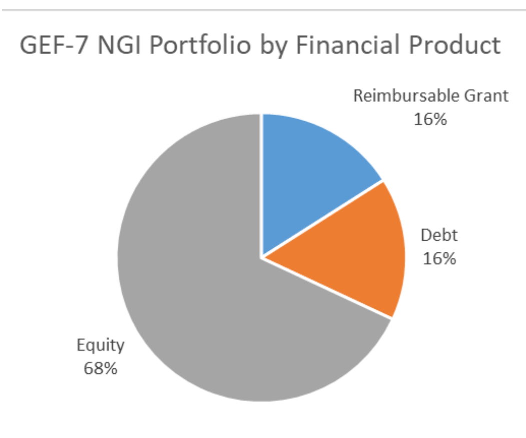
Figure 3: Allocation of GEF-7 NGI portfolio by Geography and Focal Area

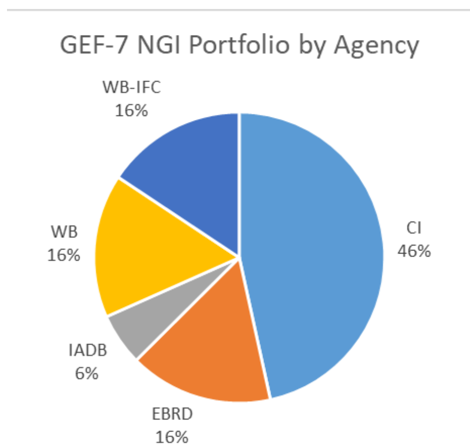




16. The distribution by Financial Instrument as depicted in Figure 4 shows that equity continues to be the preferred instrument, accounting for 68% of all funding amounts followed by debt instruments account (16%) and reimbursable grant (16%). The common feature in the debt and reimbursable grant transactions is the performance-based characteristic of the payouts. Multilateral Development Banks continue to be very active, garnering 54% of all GEF-7 NGI funding.

Figure 4: Allocation of NGI portfolio by Financial Product and Agency





CONCLUSION

17. The capacity of GEF NGI projects to attract strong co-financing and private sector engagement is well documented and reflected in this reflow report (see Table 1 and Table 2). Although these projects are inherently risky and realized reflows may come in lower or higher than expected, they are already demonstrating the capacity to generate reflows to the GEF Trust Fund. With the current pandemic and accompanying market fluctuation, there may be additional and unprecedented risks to the projects both in development and implementation phase, therefore actual reflows could differ substantially from the expected reflows documented in this report.