BACKGROUND NOTE

Blended Finance

WHAT IS GEF BLENDED FINANCE?

At the Global Environment Facility, blended finance works to attract private capital and, thereby, significantly upscale funding for the GEF recipient countries' environmental efforts. With loans, equity, guarantees, contingent and performance-based instruments, GEF blended finance structures—also called non-grant instruments (NGI)—aim to reduce risks for private investors to make environmental projects financially attractive or "bankable". The GEF focuses on mobilizing private capital in environmental frontier markets, where no proven business model exists. By providing catalytic, concessional capital, we create the conditions for private finance to follow.

WHY WE UTILIZE BLENDED FINANCE

The GEF's mandate is to generate global environmental benefits (GEBs) related to conserving biodiversity, stabilizing the climate, safeguarding international marine and fresh waters, halting land degradation, and reducing chemical and waste pollution. GEBs are public goods, not private assets – they are economic externalities that financial markets systematically underfund. Blended finance helps close the financial gap, pairing donors' catalytic concessional capital with private investment to leverage investment at a scale that public funding alone cannot achieve, and supporting nature-positive transformation of markets and production systems.

HOW TO ACCESS BLENDED FINANCE RESOURCES

GEF-9 aims to direct 25 percent of GEF Trust Fund programming towards private capital mobilization through blended finance structures.

GEF-9 blended finance resources take the form of NGIs, because they may generate financial returns. NGI projects are implemented by select GEF implementing agencies, notably International Financial Institutions (IFIs). GEF blended finance programs and projects may be funded through two GEF Trust Fund modalities:

1. **The Blended Finance Program** (former NGI window), a dedicated set-aside accessible for projects requesting debt, equity, guarantees, and other financial instruments.
2. **STAR and non-STAR focal area allocations**, with which countries can utilize in the form of non-grant instruments. As an incentive, for every $3 a country commits from its STAR allocation to a blended finance structure, will unlock $1 in additional resources from the GEF Blended Finance Program. The same applies to the use of non-STAR focal area funding used for the blended finance structure.

FINANCIAL INSTRUMENTS

Financial Instruments are instruments that provide financing in a form that has the potential to generate financial returns from the original investment or has the potential for principal repayment, irrespective of whether such financial flows are returned to the GEF Trust Fund.

Risk mitigation

Rather than investing directly, the GEF stands behind a project by protecting investors against credit, performance, or political losses through instruments such as guarantees, structured finance, and liquidity facilities. These mitigate investment risks in both debt and equity forms in the project investment structure, narrowing the gap between a project's real risk and the perceived risk that may preclude private investment.

Equity

The GEF takes an ownership stake in a vehicle or fund, accepting a risk-return profile calibrated to maximize environmental impact. The GEF can participate at different levels of the capital structure but most commonly, the GEF acts as a junior or catalytic equity investor, sitting at the bottom of the capital structure, absorbing losses first, and thereby giving senior investors the confidence to participate.

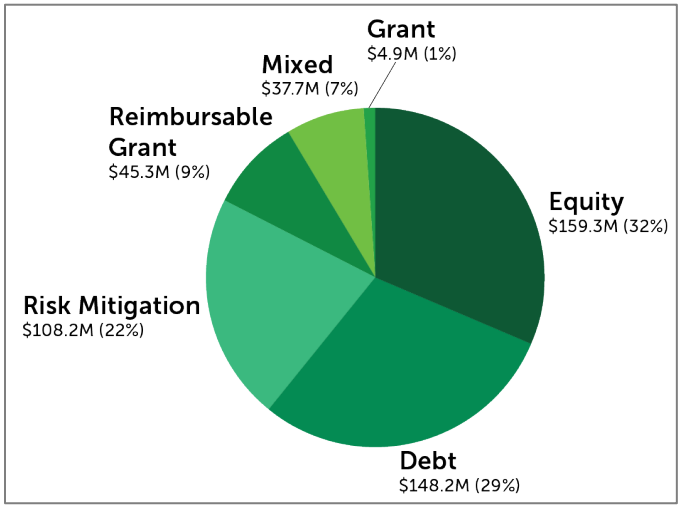
Debt instruments

The GEF provides concessional loans at below-market rates, typically subordinated to senior debt to absorb higher risk. Alternatively, a revolving loan fund recycles repayments back into the fund as the project matures; if the project fails, the loan is fully or partially forgiven.

Contingent and convertible instruments

Rather than disbursing financial returns upfront, these instruments tie disbursement to project outcomes. A contingent grant or loan is released only upon achievement of agreed environmental results. A convertible instrument can be transformed from equity, loan, or guarantee into a grant, or vice versa, when defined environmental or financial objectives are met.

PORTFOLIO OVERVIEW

Blended finance projects can achieve higher co-financing ratios, attracting private capital into high impact and innovative environmental projects. From GEF-5 to GEF-8, cumulative GEF investment in NGI reached $503.3 million with $9.1 billion in total co-financing (a ratio of 1:18), with over half ($5.0 billion) from the private sector, which is more than double in relation to the average co-financing ratio for the overall GEF portfolio.

GEF blended finance investments by instrument type from GEF-5 to GEF-8