

## Fourth Call for Proposals

### GEF-7 Non-Grant Instrument Program

#### I. Introduction

Since 2008, the GEF and its Partner Agencies have successfully used a wide array of non-grant instruments such as debt, equity and guarantees to attract private sector investment and deliver global environmental benefits beyond business as usual. In GEF-6, the Non-Grant Instrument Pilot resulted in 11 innovative projects that included USD 99.5 million in GEF funding while attracting USD 1.79 billion in co-financing through a balanced regional distribution addressing fundamental drivers of global environmental degradation. The pilot demonstrated that the use of non-grant instruments as blended finance<sup>1</sup> can provide high leverage to the GEF investment. Project developers and GEF Partner Agencies are increasingly able to offer innovative financial instruments not only in climate change projects but also in “frontier” areas such as land degradation, biodiversity, chemicals and waste, and international waters where private sector investment is scarce.

The Seventh Replenishment of the GEF Trust Fund includes a Non-Grant Instrument Program (the GEF-7 “NGI Program”) which builds on the lessons learned in GEF-6 and expands the envelope of blended finance to USD 136 million.<sup>2</sup> Under GEF-7, the GEF will accelerate the use of non-grant instruments in support of delivering global environmental benefits and continue to catalyze investments from capital markets at global and national levels aligned with focal area objectives.<sup>3</sup>

This is the fourth time that the GEF invites GEF Partner Agencies to submit proposals and investment opportunities under the GEF-7 NGI Program. The first call for proposals resulted in the approval of three projects by the GEF Council in December 2019 for a total amount of USD 35.4 million. The second call for proposals resulted in the approval of four projects by the June 2020 Council for an amount of USD 59.7 million. The third call for proposals resulted in the approval of one project by the December 2020 Council for an amount of USD 14.4 million. The total remaining funds in the GEF-7 blended finance envelope is USD 26.4 million.

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<sup>1</sup> Blended finance refers to structured transactions in which development finance and private investment achieve environmental impact while at the same time it delivers adequate risk-adjusted financial returns for the private sector investors. Adapted from: *OECD/World Economic Forum Blended Finance Vol.1: A primer for Development Finance and Philanthropic Funders*.

<sup>2</sup> *Report on the Seventh Replenishment of the GEF Trust Fund*, GEF/A.6/05/Rev.01.

<sup>3</sup> *GEF-7 Replenishment Programming Directions*, GEF/R.7/19.

## II. Application process

Proposals for the GEF-7 NGI Program will follow the GEF Project and Program Cycle Policy<sup>4</sup> and Guidelines.<sup>5</sup> GEF partner Agencies will submit proposals for the review of the GEF Secretariat in the form of Project Information Form (PIF) or Program Framework Document (PFD) through the GEF Portal. The Scientific and Technical Advisory Panel (STAP) and other Agencies can provide comments to the proposals. PIFs and PFDs seeking access to the NGI Program are requested to be submitted earlier than the standard deadline of a regular Work Program<sup>6</sup> in order to allow for additional review of the GEF Advisory Group of Finance Experts (AGFE).<sup>7</sup> For GEF-7, the GEF formalized its collaboration with the AGFE to improve transparency of the selection process. The AGFE reviews are non-binding and are provided on a pro-bono basis as an additional input to the review process conducted by the GEF Secretariat.

According to the GEF project cycle guidelines, letters of endorsement from the GEF Operational Focal Point are not required in the following two cases:

- Projects or Programs in which the beneficiaries are private sector actors exclusively;
- Projects or Programs in which there are public sector beneficiaries in more than one country.<sup>8</sup>

However, GEF Partner Agencies are required to inform the relevant GEF Operational Focal Points (OFPs) of each proposal in their respective countries ahead of Council approval and maintain OFPs informed of their work with national stakeholders during project development, and implementation and monitoring.

Technically cleared proposals can be included in upcoming GEF-7 Work Programs, pending availability of resources. Proposals that were not rejected in previous calls for proposals can still be considered in this or subsequent calls provided resources will be available. Proposals selected in this fourth call will be brought for consideration and approval at the 60<sup>th</sup> Council Meeting of the GEF in June 2021. Additional calls for proposals shall be issued until full allocation of the USD 136 million envelope of the GEF-7 NGI Program.

## III. Selection Criteria

The selection criteria will focus on the following:

1. **Scalability.** Specific emphasis will be placed in financial structures or investment platforms aimed at scaling-up proposals beyond a “one-by one” projects. Partner

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<sup>4</sup> *Project and Program Cycle Policy*, Policy/OP/PL/01, December 20, 2018.

<sup>5</sup> *Guidelines on the Project and Program Cycle Policy*, GEF/C.59/Inf.03, July 20, 2020.

<sup>6</sup> Details on the timeframe will be provided to all Agencies' GEF Executive Coordinators Teams.

<sup>7</sup> Parameters for the advisory group of financial experts' collaboration are noted in *GEF-7 NGI Program*, GEF/C.55/12, November 27, 2018

<sup>8</sup> Annex 1: GEF Operational Focal Point Letter of Endorsement, *Guidelines on the Project and Program Cycle Policy*, GEF/C.52/Inf.06/Rev.01, June 9, 2017.

Agencies are encouraged to submit a transaction diagram in the Project Justification or Programmatic Justification sections of the PIF/PFD respectively.

- a. Investment platforms that combine grant and non-grant investment services;
  - b. Capital markets transactions;
  - c. Structured finance;
  - d. Investments aligned with GEF-7 Impact Programs, such as value chains in agribusiness and commodities;
2. Appropriate and enhanced co-financing ratios in line with the intended impact of the proposal and in the context of each focal area and country capacity;
  3. Attractive financial terms. Each proposal will be requested to submit a termsheet with indicative terms and conditions. Agencies can use their own termsheet, or use the template provided in Annex A of this call for proposals;<sup>9</sup>
  4. High financial additionality. In the termsheet, each proposal must specify: (i) the financing barriers addressed with the GEF blended finance resources and (ii) quantification of financial additionality;
  5. Capacity to generate reflows.<sup>10</sup> Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Agencies are required to submit the schedule of reflows in Annex B <sup>11</sup>. Additional detailed information on reflows will be required ahead of CEO endorsement.
  6. Innovative financial solutions. These include but are not limited to: digital and technology solutions for environmental protection, platforms linking major suppliers and consumers in the supply chain, fintech, blockchain, special purpose vehicles, or multi-stakeholder platforms, among others.
  7. Global environmental benefits. Proposals will be evaluated based on their contribution to GEF focal areas, Impact Programs and their capacity to generate global environmental benefits.

#### IV. Financial Terms

The terms of the financing are negotiated by the GEF Partner Agency and its Executing Agency to ensure minimum levels of concessionality and to avoid crowding-out other sources of financing.

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<sup>9</sup> This Annex A will be available in Portal for NGI proposals.

<sup>10</sup> As per requirements for Non-Grant Instruments in Annex 5 of the *Guidelines on the Project and Program Cycle Policy* GEF/C.52/Inf.06/Rev.01

<sup>11</sup> This Annex B will be available in Portal for NGI proposals.

A termsheet describing indicative financial terms and conditions of the proposal is required to be submitted in the GEF portal as part of the PIF or PFD.<sup>12</sup> Termsheets for PFDs are required to be submitted with each child project.

The maximum financing amount per project/program is USD 15 million. In exceptional cases innovative proposals with the potential to demonstrate impact at scale may request funding exceeding USD 15 million. An initial list of non-grant instruments for blended finance includes: (i) debt, (ii) risk mitigation products (guarantees and structured finance) or; (iii) equity instruments as noted in *Policy - Non-Grant Instruments*, GEF FI/PL/02, October 10, 2014.

The maximum maturity of the financing is 20 years but in equity investments, there may be flexibility on the exit date. For a full explanation of financial terms see the GEF Non-Grant Policy, GEF/FI/PL/02, October 10, 2014.

Proposals denominated in currencies other than USD are acceptable under the NGI Program, however the currency risk and any hedging strategies shall be disclosed and quantified in the termsheet.

## V. Eligibility Criteria

Proposals must meet the following criteria to be eligible for the NGI Program financing:

1. Geography: project beneficiaries must be in eligible GEF recipient countries;
2. GEF Partner Agency eligibility requirements: the GEF will accept proposals submitted by Partner Agencies that are eligible to administer concessional finance as described in the Guidelines of Project and Cycle Policy. Partner Agencies will submit information regarding their compliance with these requirements in Annex C.<sup>13</sup> The Partner Agencies will also be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.<sup>14</sup>
3. Modalities: middle-sized projects, full-sized projects and programs;
4. Non-grant instruments: include but are not limited to: (i) debt, (ii) risk mitigation products or (iii) equity instruments disclosed in *Policy - Non-Grant Instruments*, FI/PL/02, October 10, 2014;
5. Alignment with GEF-7 programming directions.<sup>15</sup>

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<sup>12</sup> If the Agencies do not have an existing termsheet to submit, they can use the template provided by the GEF in Annex A.

<sup>13</sup> Annex 5 *Guidelines on the Project and Program Cycle Policy*, GEF/C.59/Inf.03, July 20, 2020.

<sup>14</sup> <http://www.thegef.org/agency-mob-financial-procedures-agreement>

<sup>15</sup> For a full description of the priorities in GEF Focal areas and Impact Programs under GEF-7, refer to the *Report on the Seventh Replenishment of the GEF Trust Fund*, GEF/A.6/05/Rev.01.

## **VI. Schedule**

<b>January 11<sup>th</sup>, 2021</b>	Publication of the fourth call for proposals
<b>February 25<sup>th</sup>, 2021</b>	Deadline for PIFs/PFDs to be received by the GEF Secretariat under the NGI fourth call for proposals
<b>March 8<sup>th</sup>, 2021</b>	Results of initial project screening communicated to GEF Partner Agencies
<b>March 24<sup>th</sup>, 2021</b>	Receipt deadline for finalized PIFs/PFDs to the GEF Secretariat
<b>June 17<sup>th</sup>, 2021</b>	GEF Council approval under the June 2020 Work Program

## Annex A: Template for Indicative Financial Termsheet

*Instructions. This termsheet to be submitted with the PIF/PFD should include sufficient details to allow a financial expert to understand and judge the financial viability of the proposed investments. Indicative terms and conditions should be used when specific details are not yet available. An equivalent termsheet used for internal Agency purposes is acceptable but must include sections on Currency Risk, Co-financing Ratio and Financial Additionality.*

### GEF – INDICATIVE TERMSHEET

<b>Project/Program Title</b>	Same as in PIF/PFD project Description Summary
<b>Project/Program Number</b>	Same as in PIF/PFD Project Description Summary
<b>Project/Program Objective</b>	Same as in PIF/PFD Project Description Summary
<b>Country [ies]</b>	Same as in PIF/PFD Project Description Summary
<b>Agency presenting the Project</b>	[TBC]
<b>Project Financing</b>	<p>Please include:</p> <ul style="list-style-type: none"> <li>A. Sources of Co-financing, Name of Co-financier and type of co-financing (Part I section C of the PIF/PFD)</li> <li>B. Indicative Trust Fund Resources Requested under the NGI Program (Part I section D of the PIF/PFD)</li> </ul> <p>Total Project Financing: sum of A+B</p>
<b>Currency of the Financing</b>	[TBC]
<b>Currency risk</b>	If the currency of the financing is other than USD, please note if GEF resources are exposed to currency risk; describe how the currency risk is mitigated in this transaction and the maximum amount of GEF resources at risk.
<b>Co-financing ratio</b>	<p>Every GEF 1USD mobilizes [ ]USD</p> <p>Every GEF 1USD mobilizes [ ]USD of private sector financing</p>
<b>Financial additionality of GEF resources</b>	Please specify (i) the financing barriers addressed with the GEF blended finance resources and (ii) quantification of financial additionality.
<b>Use of proceeds</b>	Provide a description of the use of the resources and their alignment with GEF Focal areas/Investment Programs
<b>Financing instruments</b>	<p>Provide a description of the financing instrument(s) to be used with GEF resources: including but not limited to (i)debt products; (ii) guarantees; and/or (iii) equity.</p> <p>The selection of one or more instruments will be require to (i) demonstrate appropriate degree of concessionality; (ii) most efficient structures to mobilize private capital.</p>

<p><b>Terms and conditions for the financing instruments</b></p>	<p><u>For the debt instruments (including loans, credit lines, structured finance or bonds):</u></p> <ul style="list-style-type: none"> <li>(a) <u>Amount of the loan:</u> [TBC]</li> <li>(b) <u>Maturity:</u> [TBC up to 20 years]</li> <li>(c) <u>Interest rate:</u> [Benchmark Rate [LIBOR [1-3-6-12] months/Other Benchmark Rate]+ [XX] bps]</li> <li>(d) <u>Interest payment dates:</u> [TBC]</li> <li>(e) <u>Principal repayment:</u> [TBC]</li> <li>(f) <u>Issuer:</u> [if bond/ TBC]</li> <li>(g) <u>Issuer Credit Rating:</u> [if bond/ TBC]</li> </ul> <p><u>For guarantees:</u></p> <ul style="list-style-type: none"> <li>(a) <u>Type of guarantee:</u> A [partial/full] [credit/performance] guarantee, to guarantee scheduled [principal / principal and interest/performance] payments</li> <li>(b) <u>Guaranteed instrument:</u> [Description of the guaranteed instrument/performance]</li> <li>(c) <u>Guarantee reimbursement:</u> [TBC]</li> <li>(d) <u>Maturity:</u> [TBC up to 20 years]</li> <li>(e) <u>Guarantee premium:</u> [TBC]</li> </ul> <p><u>For Equity:</u></p> <ul style="list-style-type: none"> <li>(a) <u>Fund strategy:</u> [TBC]</li> <li>(b) <u>Fund structure:</u> [TBC]</li> <li>(c) <u>Fund Manager:</u> [TBC]</li> <li>(d) <u>Targeted IRR:</u> [TBC]</li> <li>(e) <u>Remuneration of Limited Partners and General Partners:</u> [TBC]</li> <li>(f) <u>Fund governance:</u> [TBC]</li> <li>(g) <u>Pipeline of projects:</u> [TBC]</li> </ul>
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## Annex B: Reflows table

*Instructions. Any financial returns/gains/interests earned on non-grant instruments, will be transferred to the GEF Trust Fund as noted in the Guidelines on the Project and Program Cycle Policy. Partner Agencies will be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.<sup>16</sup>*

Item Data	Item Data
GEF Project Number	
Estimated Agency Board approval date	
Investment type description (financial product : debt, equity, guarantee, other)	
Expected date for start of investment	
Amount of investment (USD GEF funds)	
Amount of investment (USD co-financing)	
Estimated interest rate/return/ premium	
Maturity	
Estimated reflow schedule	
Repayment method description	
Frequency of reflow payments	
First repayment date	
First repayment amount	
Final repayment date	
Final repayment amount	
Total principal amount to be paid- reflowed to the GEF Trust Fund	
Total interest/earnings/premiums amount to be paid-reflowed to the GEF Trust Fund	

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<sup>16</sup> <http://www.thegef.org/agency-mob-financial-procedures-agreement>

### **Annex C: Partner Agency Eligibility to administer Concessional Finance**

The GEF Agency submitting the PIF or PFD will demonstrate its capacity and eligibility to administer NGI resources as described below:

- a) Ability to accept financial returns and transfer from the GEF Agency to the GEF Trust Fund;
- b) Ability to monitor compliance with non-grant instrument repayment terms;
- c) Capacity to track financial returns (semester billing and receiving) not only within its normal lending operations, but also for transactions across trust funds;
- d) Commitment to transfer reflows twice a year to the GEF Trust Fund;

And, in case of NGI for private sector beneficiaries:

- e) Track-record of repaid principal and financial returns from private sector beneficiaries to the GEF Agency.

And, in case of concessional finance for public sector recipients:

- f) Track-record of lending or financing arrangements with public sector recipients;
- g) Established relationship with the beneficiary countries' Ministry of Finance or equivalent.