Private sector engagement
and blended finance program

GEF Introduction Seminar 2021 | Day 2, February 23
GEF Private Sector Engagement

GEF PSES Document GEF/C.59/07
PRIVATE SECTOR ENGAGEMENT: BRINGING SPEED, SCALE AND DURABILITY
PSES Core Elements
PSES NARRATIVE FLOWCHART
GEF-7 is investing into the major systems that are identified as providing the most economic value to business from meeting SDGs.
GEF Private Sector Engagement Reviews

Reviews by the Independent Evaluation Office have found:

- A low level of incentive or pathways for private sector collaboration
- Lack of interest at the country level in private sector engagement
- Few opportunities for engagement that have been presented to the private sector
- Difficulty on all sides in understanding the entry points for private sector collaboration
- Business is not engaged from the outset of project development, therefore making it harder to engage business at later stages and throughout the project lifecycle
- The focus has been on financial contributions to the GEF fund, rather than on engagement and partnerships
Findings of Previous GEF Private Sector Engagement Reviews

However, the good news!

GEF investments involving the private sector have delivered:

- Higher levels co-financing compared to the average
- Balanced regional distribution of investments and projects
- Actions that address the drivers of environmental degradation
Leading Examples of GEF Private Sector Engagement

- The GEF enlisted the support of major palm oil producers who have committed to “zero-deforestation” palm oil production, facilitating training and capacity building for small-holders that form the foundation of the supply chain. In Paraguay, McDonalds joined this initiative to support zero-deforestation beef production.

- Major appliance and equipment manufacturers such as Philips, Osram, ABB, MABE are supporting the Sustainable Energy for All effort to accelerate energy efficiency and leapfrog developing markets to more efficient equipment.

- The Maritime Trading Organization and major shippers committed voluntarily to an international regulatory framework which reduces the spread of invasive species through the Global Ballast Program, leading to formal adoption of the approach in the Ballast Water Management Convention (BWM) in 2017.

- The GEF Gold partnership PlanetGold which aims at taking mercury out of the supply chain, builds a bridge between suppliers and corporate consumers of gold, such as computer, high end jewelry, as well as financial sector, enabling new approaches to reduce harmful mercury emissions across the full supply chain.

- GEF’s early support for water funds in Latin America fostered partnerships between public and private, urban and rural, to provide protection for vital catchment zones.
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II. GEF’s experience with Blended Finance
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I. What is Blended Finance?

- **Blended finance** is the targeted use of concessional finance in projects where actual or perceived risks are too high for commercial finance alone.

- The GEF Blended finance initiative or Non-Grants Instruments Program (NGI Program) focuses on the use of financial products other than grants: **debt, equity, guarantees** to attract private investment.

NGI Instruments include but are not limited to:

- **Debt.** Money lent for repayment at a later date, usually with interest. Flexible concessional debt has favorable terms (tenor, subordination) or rates relative to market conditions.

- **Guarantees.** Instrument that offers protection against investor’s losses from various forms of risk (credit/performance).

- **Equity.** Instrument that provides ownership in a company. GEF would accept higher risk for lower financial returns in exchange for environmental impact.
II. GEF’s history in Blended Finance

- **GEF has experimented with Blended finance since 2008.** Initially focusing on renewable energy and energy efficiency but lately moving to “frontier” areas such as land degradation, biodiversity, and international waters where private sector investment is scarce.

- In GEF-6, the **Non-Grant Instrument Pilot** resulted in 9 projects accounting for USD 99.5 million in GEF funding while attracting USD 1.79 billion in co-financing (co-financing of 1:17).

- In GEF-7, the blended finance initiative became the **Non-Grant Instrument Program (NGI Program)** with USD 136 million. So far, the GEF Council has approved 8 projects for USD 109.5 million with a co-financing ratio of 1:14.

- **There is high demand for blended finance.** In the three calls for proposals closed to date, we received 28 project proposals for more than USD 400 million more than tripling the available amount in the blended finance envelope.
II. GEF’s history in Blended Finance cont’
II. GEF’s history in Blended Finance: GEF- 7 portfolio

NUMBER OF PROJECTS: 8

CO-FINANCING RATIO: 14.8:1
The GEF will target investments with a potential to transform industries, create novel financial products, or test new asset classes that are important to the future of the planet yet are challenging for financiers without GEF support.

The GEF encourages deal origination in frontier sectors such as circular economy, conservation of endangered species, shipping industry pollution, sustainable agriculture, and nature-based solutions to increase resilience.
III. GEF’s goal Blended Finance: project Examples

1. **Wildlife Conservation Bond**
   - GEF Agency: WBG
   - GEF Investment: $15 million
   - Instrument: Reimbursable grant
   - Co-financing: 1:10

2. **Green Shipping Initiative**
   - GEF Agency: IFC
   - GEF Investment: $15 million
   - Instrument: Mezzanine debt
   - Co-financing: 1:1

3. **Livelihoods Funds III**
   - GEF Agency: CI
   - GEF Investment: $15 million
   - Instrument: Equity
   - Co-financing: 1:8.3

4. **Circular Economy Initiative**
   - GEF Agency: EBRD
   - GEF Investment: $15 million
   - Instrument: Performance Based Loan
   - Co-financing: 1:10
IV. Competitive process to select blended finance projects

Similarities and differences with other GEF projects

**What remains business as usual in NGI:**

- NGI follows the GEF Project and Program Cycle Policy and Guidelines.
- Importance of GEBs and compliance with GEF-7 Programming Directions

**What is different in NGI:**

- **Competitive process:** projects are selected through rounds of open calls for proposals. Each proposal is evaluated on the basis of *Selection Criteria* and *Eligibility Criteria*.

- **Support of the AFGE:** GEF formalized its collaboration with the Advisory Group of Finance Experts (AGFE) for GEF-7. 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. Members are Joan Larrea, Ken Lay and Pat Coady.

- **Detailed termsheet** to evaluate financial aspects of the proposals.

- **Timeline:** PIFs and PFDs are requested to be submitted earlier than the standard deadline to allow for additional review of the AGFE.
IV. Competitive process to select blended finance projects
Selection Criteria and Eligibility Criteria

Selection Criteria

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<tr>
<th>Scalability</th>
<th>Appropriate levels of co-financing</th>
<th>Attractive financial terms</th>
<th>High Financial Additionality</th>
<th>Capacity to generate reflows</th>
<th>Innovation</th>
<th>Project execution</th>
<th>GEBs</th>
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<tr>
<td>Do financial structures or investment platforms aim at scaling-up projects beyond a &quot;one-by-one&quot; projects?</td>
<td>Is the project in line with the intended impact of the project and in the context of each focal area capacity?</td>
<td>Are the terms and conditions of the GEF investment adequate to achieve acceptable financial terms for private investors to participate in the project?</td>
<td>Does the project show high financial additionality in terms of (i) financing barriers addressed and (ii) quantification of financial additionality?</td>
<td>What is the likelihood of generating returns based on project characteristics, sound financial structure.?</td>
<td>Does the project show innovation in terms of the financial structure and/or the technologies used in the project?</td>
<td>Do executing agency have experience in projects with non-grant instruments and in management of reflows?</td>
<td>Proposals will be evaluated based on their contribution to GEF focal areas, Impact Programs and their capacity to generate global environmental benefits.</td>
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Eligibility Criteria

- **Geography:** project beneficiaries must be in eligible GEF recipient countries
- **GEF Partner Agency eligibility requirements**
- **Modalities:** middle-sized projects, full-sized projects and programs;
- **Non-grant instruments Policy**
Thank you