Guide for Understanding and Accessing Blended Finance at the Global Environment Facility
Table of Contents

1. Summary 1

2. What is Blended Finance? 3
   How does Blended Finance work? 3
   Early Examples of Blended Finance 3
   GEF’s Blended Finance Approach 4

3. Accessing GEF Innovative Non-Grant Instruments 7
   How Can You Apply for Financing? 7
   Selection Criteria 8
   Eligibility Criteria 8
   Financial Terms 9
   Roadmap for Applicants 10
   NGI Call for proposals 11

4. Rationale for GEF Blended Finance throughout GEF history 13
   GEF Founding Principles Support Blended Finance 13
   Establishing Set Asides for Non-Grant Instruments 18
   Refining and Innovating Blended Finance for GEF-6 and GEF-7 (2014–present) 19
   GEF-7 Approach to Expand the use of Non-Grant Instruments 21
   COVID-19 Considerations 22

Annex 1: Types of GEF Blended Finance/Non-Grant Instruments 25
Annex 2: References 27
Annex 3: Short Introduction to the GEF Project Cycle 31
The GEF has since its inception been focused on providing needed resources to developing country partners to identify and invest in national priorities that deliver global environmental benefits. The GEF primarily funds projects through grants, but its founding principles authorized the GEF to use concessional finance in support of country projects. Now, GEF is one of the leading innovators in the use of Blended Finance—combined public and private finance streams—to accelerate private sector engagement in supporting technologies, techniques, and people working for a sustainable environment.

Over many decades, the GEF and its Partner Agencies have successfully used a wide array of Non-Grant Instruments such as debt, equity, and risk-sharing mechanisms to attract private sector investment, and deliver global environmental benefits beyond business as usual. In GEF-6 (2014-2018), the Non-Grant Instrument (NGI) Pilot supported 11 innovative projects that provided $99.5 million in GEF funding while attracting $1.79 billion in co-financing through a balanced regional distribution addressing fundamental drivers of global environmental degradation. In the current GEF-7 cycle (2018-2022), GEF has already held three Calls for Proposals for projects to access the $136 million NGI Window.

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 where private sector investment is scarce, such as land degradation, biodiversity, chemicals and waste, and international waters.

Increasingly, stakeholders across the public and private sector are seeking to follow the guidance of global environmental conventions that the GEF supports and engage in protecting the global environment. For many stakeholders familiar with the GEF, this guide will be a refresher on the GEF Council guidance and GEF policies that helped shape the GEF’s approach to Blended Finance. This guide can help private sector, CSO, and potential project developers navigate the application process to become investment partners in innovative Blended Finance projects.

This guide can be read front to back, or readers can simply jump to the section that is most of interest. For example:

- If you want to learn more about Blended Finance and how the GEF can help your project, jump to Section 2.
- If you want to learn the steps to apply for access to GEF innovative finance, jump to Section 3.
- If you want to learn more about the GEF and its rationale for fostering Blended Finance throughout GEF history, jump to Section 4.
- A list of types of GEF Blended Finance/Non-Grant Instruments is in Annex 1.
- A compendium of GEF policies and reference documents is in Annex 2.
- A short introduction to GEF Project and Program Cycle is provided in Annex 3.

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.
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, including private sector finance.

How Does Blended Finance Work?

Blended Finance is a structuring approach that allows organizations with different objectives to invest alongside each other while achieving their own objectives: financial return, environmental/social impact, or a blend of both. The different types of financing “blend” to achieve financial terms to attract private sector investment. Blended Finance is therefore not a single instrument but offers a financial structure in which different investors with different investment priorities can participate.

Early Examples of Blended Finance

Initially, multilateral development banks have blended resources from climate finance funds such as the GEF’s with the banks’ own resources to achieve financial structures that attract private sector investment. The blending achieved risk/return profiles that were acceptable for private investors and created a track record of “investable” clean energy and energy efficiency technologies that were initially considered too novel and risky for private finance alone.\(^1\)

---

1 Blending Climate Funds to finance low-carbon, climate resilient infrastructure Joshua Meltzer Brookings Institution June 2018

The dynamics of Blended Finance. OECD, 2018
GEF’s Blended Finance Approach

The GEF has promoted Blended Finance solutions since its inception in 1992, initially focusing on climate change projects. As clean energy and energy efficiency projects become bankable, the GEF role in promoting innovation and de-risking shifts to new “frontier” areas such as land degradation, biodiversity, fisheries, and others where perceived risks are too high for commercial finance alone.

The GEF Blended Finance initiative focuses on the use of Non-Grant Instruments such as debt, guarantees and equity. The eligible financial products are described in Annex 1.

Central to the GEF’s approach in Blended Finance is a three-step approach—identify, incubate, and invest— that continuously advances solutions in Blended Finance.

Identify. The GEF works closely with financial leaders, civil society organizations, partner agencies, international conventions, and country partners, including indigenous peoples, to identify where financial innovation can facilitate greater environmental benefits. For example, the GEF was an early pioneer, with the International Finance Corporation (IFC), in identifying the need for risk-sharing facilities to help local banks invest in low-carbon solutions.

Incubate. Once new approaches are identified, the GEF helps incubate and promote those ideas by establishing platforms for like-minded stakeholders, using its convening power to encourage partnerships, and by making strategic grants that provide technical assistance for development of new approaches. For example, the GEF supported the Land Degradation Neutrality Fund with a grant of $2 million to help kick-start the fund’s efforts—that same fund reached an investment level of more than $150 million by October 2019 and is still expanding.

Invest. The GEF Council has encouraged the GEF to make key non-grant investments in path-breaking companies and initiatives using Blended Finance tools. Using the identify, incubate, and invest model the GEF has invested more than $800 million in 98 Blended Finance projects that has mobilized $8 billion in co-financing.

Examples:

- Use of GEF funding as junior equity. The Moringa Agro-forestry Fund for Africa, managed by the African Development Bank, promotes sustainable land management in production landscapes. The Fund has invested in 10 companies in eight countries. Thanks to these investments, Moringa Fund now supports more than 10,500 farmers through on-going programs, and more than 2,500 employees, of which about 20 percent are women in among the poorest rural areas of the world. The Fund is also implementing sustainable agricultural practices on more than 11,500 hectares of land, 14 percent of which is preserved forest. GEF invested $12 million in equity in a junior position that enabled the Fund to achieve attractive terms for private sector co-financers and achieve a funding size of US$84 million. Additional details of the Fund are described here.

- Use of GEF funding as performance-based coupon. The Wildlife Conservation Bond is an innovative financial product that combines private, public, and philanthropic resources to unlock private finance for the conservation of the black rhino in South Africa. The World Bank will issue a conservation bond and the bondholders (private finance institutions) will agree upfront to forego all periodic coupons that the bond would have paid to finance directly conservation initiatives in Addo Elephant National Park and Great Fish River Nature Reserve. The bondholders hence become direct co-financiers of the conservation efforts in the parks, and in return, they can be compensated with a payment contingent on the growth of the rhino population in the parks. The source of that contingent success payment is GEF NGI funding. The project will potentially create a new asset class to mobilize institutional investors financing conservation. The conservation bond is expected to be issued in one or several tranches for $150 million; the GEF financing is in the form of a $15 million performance-based coupon.
Use of GEF funding in a structured finance transaction. The GEF-IFC Green Shipping Initiative will establish a financing platform aiming to accelerate the retrofit of fleets to increase fuel efficiency. This has the potential to transform one of the most carbon intensive industries towards a sustainable, low-carbon future. The project will address three barriers hindering investments in low-carbon, fuel-efficient technologies specific to shipping industry: first it will solve the split incentive barriers between ship owners and charterers to pursue energy efficiency measures; second, it will provide a de-risking structure that enables initial anchor investors to test the financing model; third, it will unlock and scale up available private sector financing for greener shipping. In recognition of the vital role that private sector financing must play to decarbonize the shipping sector, International Maritime Organization supported the initiative. GEF invested $15 million in subordinated loans/mezzanine debt.

2 Split incentives, also known as dislocated agency, is “a circumstance in which the flow of investments and benefits are not properly rationed among the parties to a transaction, impairing investment decisions.” (California Sustainability Alliance, 2011). In this project, split incentives exist between shipowners, who make investment decisions for their fleets, but do not pay operational costs, and charterers, who lease these vessels for specific routes or periods of time and are responsible for operational costs, including fuel, for that ship during the contract period.

3 Mezzanine debt is when a hybrid debt issue is subordinate to another debt issue from the same issuer. Mezzanine debt bridges the gap between debt and equity financing and is one of the highest-risk forms of debt—being subordinate to pure debt but senior to pure equity.
How Can You Apply for Financing?

- Review the selection criteria and eligibility criteria of the GEF NGI Program described below.

- Select and contact one of our GEF Partner Agencies. Follow this link for a list of approved GEF agencies.4

- With the support of our Partner Agencies, provide information needed in the submission of projects following the launch of a Call for Proposals, which is published in our website. GEF Agency will help generate project concept, with focus on generating global environmental benefits and the use of innovative financial mechanisms.

- The GEF Secretariat will select proposals to be funded following a competitive process as described in the section Call for Proposals section.

- If selected, the project will follow the project cycle described

---

4 https://www.thegef.org/partners/gef-agencies
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 “one-by-one” projects:
   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 must submit a term sheet with indicative terms and conditions. Agencies can use their own term sheet, or use the standard template.5

4. **High financial additionality.** In the term sheet, 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.**6 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 a schedule of reflows.7 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.

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. More information on global environmental benefits can be found here.

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.8 The Partner Agencies will also be required to comply with the reflows procedures established in their respective Financial Procedures Agreement with the GEF Trustee.9

3. **Modalities:** middle-sized projects, full-sized projects and programs.

4. **Non-Grant Instruments:** NGIs 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.**10
   - Climate Change Mitigation strategic priorities
   - Biodiversity strategic priorities
   - International Waters strategic priorities
   - Chemicals and Waste strategic priorities
   - Land Degradation strategic priorities

---

5 A template for financial terms will be available to the GEF agencies in the GEF Portal.
6 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
7 A standard template for schedule of reflows will be available for GEF Agencies in the GEF Portal.
8 Annex 5, Guidelines on the Project and Program Cycle Policy, GEF/C.52/Inf.06/Rev.01, June 9, 2017
9 http://www.thegef.org/agency-mob-financial-procedures-agreement
10 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.
## Financial Terms

Under the GEF-7 NGI Program, the GEF investment decisions are guided by the following financial terms:

<table>
<thead>
<tr>
<th>Financial Terms</th>
<th>Details</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximum financing amount</td>
<td>Up to $15 million per project/program</td>
</tr>
<tr>
<td>Maximum maturity</td>
<td>Up to 20 years</td>
</tr>
<tr>
<td>Financial products</td>
<td>Including but not limited to:</td>
</tr>
<tr>
<td></td>
<td>(i) debt instruments;</td>
</tr>
<tr>
<td></td>
<td>(ii) risk mitigation products (guarantees and structured finance) or;</td>
</tr>
<tr>
<td></td>
<td>(iii) equity instruments as noted in Policy - <em>Non-Grant Instruments</em>, GEF FI/PL/02, October 10, 2014.</td>
</tr>
<tr>
<td>Currency</td>
<td>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 term sheet</td>
</tr>
<tr>
<td>Subordination/Seniority considerations</td>
<td>The terms of the financing are negotiated by the GEF Partner Agency to ensure minimum levels of concessionality and to avoid crowding-out other sources of financing.</td>
</tr>
<tr>
<td></td>
<td>The GEF can take riskier positions than other private sector investors in a financial structure, such as longer tenors or first-loss positions, to create risk/return profiles that mobilize private sector financing</td>
</tr>
<tr>
<td></td>
<td>A term sheet describing indicative financial terms and conditions of the proposal is required to be submitted in the GEF portal as part of the Project Identification Form or Project Framework Document.</td>
</tr>
</tbody>
</table>
Roadmap for Applicants

<table>
<thead>
<tr>
<th>INFORMATION GATHERING</th>
<th>INVESTOR/DONOR</th>
<th>SMALL BUSINESS/LAND-HOLDER/CSO</th>
<th>DEVELOPER/INNOVATOR</th>
<th>COUNTRY</th>
<th>AGENCY</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify GEF-7 thematic priorities, Impact Programs, private sector and non-grant eligible activities that match your investment criteria</td>
<td>Identify GEF-7 thematic priorities, Impact Programs, private sector and non-grant eligible activities that match your local priorities and investment needs</td>
<td>Identify GEF-7 thematic priorities, Impact Programs, private sector and non-grant eligible activities that align you're your technology or technique</td>
<td>Identify GEF-7 thematic priorities, Impact Programs, private sector and non-grant eligible activities that align with you National Goals and need additional investment</td>
<td>Identify ideas and opportunities from all stakeholders that align with Agency goals for GEF-7 programming</td>
<td></td>
</tr>
<tr>
<td>Seek out innovative concepts and developer partners</td>
<td>Share your needs for investment and technology with potential partners</td>
<td>Promote your concept at local, national, and global levels. Talk to Agencies</td>
<td>Review concepts that align with National goals with potential private sector partners</td>
<td>Help refine concept to ensure alignment with GEF-7 requirements</td>
<td></td>
</tr>
<tr>
<td>GEF CALL FOR PROPOSALS</td>
<td>Work with agency and developer to define financial model that aligns with selection criteria in the call</td>
<td>Work with agency to ensure your local needs will be served by the project business model</td>
<td>Work with Agency on concept technical and financial components. Identify candidate beneficiaries (investees)</td>
<td>Work with Agency to align project goals with existing National efforts and identify co-financing opportunities</td>
<td>Estimate global environmental benefits; validate eligibility against selection criteria; draft proposal in GEF format;</td>
</tr>
<tr>
<td>APPLICATION AND REVIEW</td>
<td>Support agency in responses to review comments as needed</td>
<td>Support agency in responses to review comments as needed</td>
<td>Support agency in responses to review comments as needed</td>
<td>Support agency in responses to review comments as needed</td>
<td>Submit high-priority concepts proposal in response to call for proposals; coordinate response to GEF review comments; update final proposal</td>
</tr>
</tbody>
</table>

The order of introduction to the five categories of applicants can be re-arranged:

- If you are an investor, foundation, or donor
- If you are a small business, small land-holder, or civil society organization working with them
- If you have developed and are ready to commercialize a new environmentally beneficial technology or technique
- If you are a GEF-eligible country
- If you are a GEF Implementing Agency

NOTE: The above table is one way to present this information. Communications team may have a different way of web-link that provides the same information in a more usable format.
Proposals seeking financing from the NGI Program will need to participate in a competitive process. To enhance transparency and ensure ample opportunities for applicants to participate and receive funding, the NGI Program solicits proposals through multiple Calls for Proposals. These are usually issued twice annually, at the start of the calendar year and mid-year until full allocation of resources. Successful proposals are submitted for GEF Council review in June and December.

In GEF-7, the three calls for proposals closed to date received 36 project proposals for $500 million, more than triple the available amount in the Blended Finance envelope.

Each Call for Proposals provides the following:

- Summary of available funds
- Application Process
- Selection criteria
- Financial terms
- Eligibility criteria
- Schedule

The GEF-7 cycle began July 1, 2018. Since then, there have been three Calls for Proposals, all closed as of November 30th 2020. Additional rounds, if any, will be announced on the GEF distribution lists and available through the GEF website.


Calls for Proposals may differ based on the amount of funding available and priorities for certain types of projects. However, they all share the selection criteria and eligibility criteria described above.

The GEF-7 NGI Instrument Program will continue to issue Calls for Proposal while resources are available, but no later than the final GEF-7 work program in June 2022. Projects selected, approved by Council, and CEO endorsed under the GEF-7 Program will be implemented for many years to come, generating environmental benefits and returns for investors. If the projects are successful, many will become models that can be replicated and scaled by other financial institutions, contributing to the long-term transformation needed to help protect and restore the global environment.
GEF Founding Principles Support Blended Finance

Innovative financial instruments using concessional finance have been part of the GEF since its inception and are codified in the GEF Instrument. Also known as Blended Finance and Non-Grant Instruments, these innovative approaches to finance are seen as a critical complement to the GEF’s primarily role as a grant-making facility. As noted in a 2007 GEF Council Paper, during the pilot phase of the GEF donors agreed that grants would constitute the predominant form of financing, in comparison with the traditional use of development loans, although Non-Grant Instruments were used right from the beginning. At the time of the GEF pilot phase (early 1990s), multilateral development banks rarely used grant financing. Thus, grant financing in the GEF was viewed as an innovative way to cover the incremental costs of addressing negative environmental externalities.11

During discussions on moving beyond the GEF pilot phase, the founding donors discussed the merits of forms of financing other than grants. Most wanted core financing for GEF funded projects to be in the form of grants and Non-Grant Instruments,12 thus providing the GEF with the capacity to meet the varied and dynamic needs and challenges faced by the global environment and the recipient countries. The Instrument for the Establishment of the Restructured Global Environment Facility—the document that established the GEF—accordingly provides that GEF resources may be used for “concessional financing in a form other than grants. All GEF financing, whether as grants or non-grants, will fund only the agreed incremental costs of measures that achieve global environmental benefits.13

In short, the GEF’s founders and the GEF Council guided the Secretariat to develop and facilitate appropriate use of Non-Grant Instruments as a means to: (a) enhance effectiveness by leveraging substantial capital for targeted investments that support GEF’s objectives; (b) strengthen partnerships with the private and public sectors in recipient countries; (c) enable the GEF to demonstrate and validate the application of innovative and flexible financial instruments in projects for broader adoption; and (d) enhance the financial sustainability of the GEF through the generation of reflows.14


One of the earliest GEF council documents introduced the potential uses of Non-Grant Instruments for concessional finance, consistent with the formulation of GEF’s priority to fund the incremental cost of activities that deliver global environmental benefits. Though early in the GEF history, concessional finance was viewed as one way to resolve challenges such as high transaction costs, financing costs and barriers, and diffuse beneficiaries. Modalities such as concessional loans and revolving funds were proposed. Issues of minimum concessionality were identified, helping ensure that GEF would not “crowd out” other sources of financing.15

With this early guidance on concessional finance, GEF implementing agencies explored the use of concessionality through various non-grant modalities, investing in many different approaches.

11 GEF/C.32/7, page 2
13 GEF/C.32/7, page 2
14 GEF/C.47/06
15 GEF C.2.6, Incremental Cost and Financing Policy Issues, November, 1994
From 1991-2006, during the GEF pilot and through GEF-3, more than 50 projects were approved with concessional finance elements, including Non-Grant Instruments such as revolving loan programs, risk-sharing facilities, and equity investments. For example, the early GEF projects with IFC to develop risk-sharing facilities for energy efficiency proved exemplary, leading to replication in dozens of facilities globally and establishing models of energy efficiency financing that have proven resilient to the present day. GEF also invested in the first phase of Eco-Enterprises Fund in Latin America to promote biodiversity and sustainable forestry, which was to prove a successful model and lead to multiple phases.

Prior to the introduction of the Resource Allocation Framework (RAF), which was first applied in GEF-4 (2006-2010), agencies made investments in multiple countries in response to documented opportunities to encourage private sector investments. The majority of the investments were to address climate change financing challenges, however several pioneering approaches in biodiversity and multi-focal areas were already being proposed in these early GEF phases.

Throughout the early GEF phases, agency approaches evolved in response to growing understanding of the role of concessional finance to incentivize private sector investment supporting the Multilateral Environmental Agreements. Council guidance continued to encourage expanded engagement with the private sector and application of non-grant approaches through council papers such as: “GEF strategy for engaging the Private Sector” (GEF/C.7/12, 1996); “Engaging the Private Sector in GEF Activities” (GEF/C.13/Inf.5, 1999); and “Enhancing GEF’s Engagement with the Private Sector” (GEF/C.22/Inf.10, 2003).

A visual timeline of GEF’s blended finance initiatives and developments is shown below on page 17.
GEF’s Blended Finance Timeline

1992
- Revolving fund for Community Based Rangeland Rehabilitation for Carbon Sequestration in the Sudan

1994
- IFC/GEF SME Program to promote energy efficiency investments

1996
- GEF Strategy for Engaging the Private Sector

1997
- Hungary Energy Efficiency Co-financing Program IFC/GEF innovative new model which is later scaled by all MDBs

1999
- Engaging the Private Sector in GEF Activities

2001
- Eco-enterprises SME equity investment fund fostering sustainable forestry and protection of biodiversity

2003
- Enhancing GEF’s Engagement with the Private Sector

2004
- Environmental business Finance Program (EBFP). GEF/IFC to expand support for SMEs

GEF does first-rate due diligence on the projects it backs this, plus its 30-year history as the pre-eminent international player in environmental finance, gives confidence needed to attract private investment.

—Kenneth G Lay, Senior Managing Director, The Rock Creek Group

1 UNDP, $1.5 million, land restoration
2 IFC, $3 million, energy efficiency
3 GEF/C.7/12. This is a council paper.
4 IFC, $5 million, energy efficiency
5 IFC/GEF.13/1/5
6 IFC, $1 million, biodiversity
7 GEF/C.22/1/10
8 IFC, $725,000, biodiversity
9 IFC, $20 million, renewable energy and energy efficiency
10 World Bank, energy efficiency Phase I, 2006, $16.5 million, Phase II, Phase III
11 GEF/C.21/7
12 GEF-1 Non-grant IFC, $20 million
13 IADB, $13.5 million, energy efficiency
14 GEF-5 non-grant.

With the advent of GEF-4 and continued support from the Conventions, GEF interest in private sector engagement and the use of Non-Grant Instruments to incentivize private sector investment continued to grow. The GEF Council and the GEF Secretariat were active during 2005-2008 in developing multiple papers and establishing Council decisions and guidance for GEF’s Blended Finance/non-grant investments.

At the beginning of GEF-4, the Secretariat outlined Principles for Engaging the Private Sector, including the important role for non-grant financing. Following an evaluation by the GEF Management and Evaluation office, these principles were then further refined in 2006 into a strategic approach at Council’s request, resulting in twin GEF council documents: “GEF Strategy to Enhance Engagement with the Private Sector” (GEF/C.28/14), and “Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector” (GEF/C.28/Inf.4).

These two documents identified key lessons from more than a decade of GEF work on private sector engagement and identified opportunities to support concessional finance activities across multiple focal areas. They also included recommendations for expanded engagement on how GEF non-grant investments could be used to support other financing modalities, including carbon finance, to “mitigate financial and project structuring risks of technical nature for projects which may qualify as carbon finance projects. In this model, the use of GEF funds is to demonstrate mechanisms for removing financing barriers of climate change mitigation activities. A likely example of this approach is to set up a guarantee facility using GEF funds for projects which would seek to secure carbon finance.”

Council members requested full documentation of GEF concessional finance investments which were summarized and presented in “The Use of Non-Grant Instruments in GEF Projects: Progress Report” (GEF/C.32/7, 2007). This report extensively documented non-grant projects at the GEF based on surveys of GEF Agencies, defined different types of Non-Grant Instruments, and proposed key policy principles for tracking reflows.

Following Council approval of the 2007 report, the Secretariat presented “Operational Policies and Guidance for the Use of Non-Grant Instruments” (GEF/C.33/12) at the 33rd Council meeting, in May 2008. This document fully described non-grant policies and guidance for agencies and became foundational to using non-grants to further increase the GEF’s catalytic role and better leverage its resources. The document also reinforced the emphasis on reflows; that is, investment returns that can repay the GEF Trust Fund and can be used in future projects. The ability of Non-Grant Instruments to generate returns was and is seen as a positive feature that encourages private sector investment in projects with sound business models while also generating global environment benefits. Consistent with Council direction, the non-grant instrument policies also ensured that GEF provides funding at concessional terms and emphasizes generating global environmental benefits; generating investment returns for the GEF Trust Fund is secondary.

Establishing Set Asides for Non-Grant Instruments

With the launch of the RAF, replenishment negotiators and GEF Council recognized the vital nature of Non-Grant Instruments and created set-aside funding allocations for Blended Finance/Non-Grant Instruments. The use of set-asides was not meant to preclude use of Non-Grant Instruments within country allocations, but to provide special windows for Non-Grant Instruments to encourage greater private sector engagement and innovative approaches. The use of

16 COP12 of the UNFCCC held from 6–17 November 2006 in Nairobi, Kenya. As part of the review of the UNFCCC financial mechanism, in decision 2/CP.12, paragraph 3, the COP requested the Global Environment Facility to report to the Conference of the Parties at its thirteenth session on, among other things, “(c) Efforts to engage the private sector in providing resources to address climate change.”
17 2004, Principles for Engaging with the Private Sector, GEF/C.23/11
19 2006, Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector, GEF/C.28/Inf. 4, page 64, paragraph 190.
set-aside windows has continued, most recently with the GEF-7 NGI Window which is fully described in Section 3 of this Application Guide.

Following the implementation of the 2008 non-grant policies and following the evaluation of the GEF Earth Fund by the GEF independent Evaluation Office\(^20\) in 2010, the Council requested the GEF to prepare a new private sector strategy, which it approved at its 41st Council meeting in November 2011.

Among other elements, the strategy specifically emphasized partnerships with the multilateral regional development banks (MDBs) for the use of Non-Grant Instruments as an important tool for catalyzing private sector investment and engagement. The implementation of the GEF-5 (2010-2014) set-aside for Non-Grant Instruments followed these principles, resulting in five new non-grant partnerships investing $75 million and resulting in more than $700 million in co-financing.

During GEF-5, countries were encouraged to use Non-Grant Instruments in addition to the set aside, through the System for Transparent Allocation of Resources (STAR). More than ten projects applied for Non-Grant Instruments such as revolving loan funds, equity, and risk-sharing facilities, accessing more than $80 million in country STAR allocations. In these projects, any reflows from non-grant investments adhered to the project and were not sent back to the GEF Trust Fund.

Instead, these reflows could be re-invested under the direction of the Operational Focal Point in follow-on activities after the GEF project is completed. That is, reflows from STAR funded non-grant projects stay within the country for future investments, a policy that continues to this day.

**Refining and Innovating Blended Finance for GEF-6 and GEF-7 (2014-present)**

With the foundational priorities and policies for Non-Grant Instruments firmly established and implemented through successful set-asides in GEF-4 and GEF-5, replenishment negotiators for GEF-6 (2014-2018) authorized a new non-grant pilot to play a key role in supporting the GEF’s efforts to leverage a larger scale private sector investment through the use of innovative and flexible financial instruments, thereby helping stretch the GEF’s limited resources and guiding the private sector towards more environmentally sustainable activities.\(^21\) In that effort, the GEF demonstrated and validated successful models that de-risked private sector investment through the use of Non-Grant Instruments, and achieved large-scale financing (co-financing ratio 1:17). These projects were intended to prove concepts and encourage private investment at scale while generating experiences that may also be useful for other international environmental funding mechanisms such as the Green Climate Fund. Moreover, by enabling the GEF to provide financing using Non-Grant Instruments to the public sector, the Pilot expanded the range of tools available to the GEF and allowed the GEF to assess the demand and applicability of GEF Non-Grant Instruments for public sector recipients.

Increasing attention to private sector engagement and innovative financing was a hallmark of recent United Nations Framework Convention on Climate Change (UNFCCC) Conference of the Parties, resulting in guidance to the GEF to enhance non-grants and private sector engagement, for example, at COP 22, held from 7-18 November 2016, in Marrakech.
Morocco. In Decision 11/CP.22, paragraph 18, the COP welcomed the successful roll-out of the non-grant instrument pilot and encouraged further expansion of the pilot with a view to increasing the leverage and impact of GEF financing.22 Earlier, at COP 21, held from 30 November to 11 December 2015, in Paris, in Decision 8/CP.21, paragraph 10, the COP welcomed the exploration of innovative Non-Grant Instruments by the Global Environment Facility, and encouraged the GEF to work with its agencies, recipient countries, and the private sector to submit proposals.23

Other conventions supported by the GEF have also taken a keen interest in Blended Finance opportunities. In a recent publication, the United Nations Convention to Combat Desertification (UNCCD) highlighted the opportunity to use Blended Finance to supplement insufficient public resources for Land Degradation Neutrality. The GEF’s non-grant option is also referenced.24

Updated policies for the GEF-6 Non-Grant Pilot also expanded eligibility for agencies beyond the MDBs to submit NGI proposals. Agencies must nevertheless demonstrate capacity to implement Non-Grant Instruments as noted in GEF policy.25 This innovation enhanced opportunities to address the rapidly expanding demand for Non-Grant Instruments in the area of natural resources. The Convention on Biological Diversity (CBD) has explored the opportunity for Blended Finance for many years. Most recently, the Organization for Economic Cooperation and Development (OECD) has produced a new report that highlights the use of Blended Finance within the context of global biodiversity finance.26

---

22 GEF, Guidance from the Conference Of The Parties and Responses by the Global Environment Facility, COP1 – COP24, 2019, page 42.
23 Ibid, page 55.
24 UNCCD, Land Degradation Neutrality Transformative Projects and Programmes Operational Guidance for Country Support, 2019
25 GEF/FI/PL/02, Non-Grant Instruments (October 30, 2014)
26 OECD, A Comprehensive Overview of Global Biodiversity Finance Final Report, April 2020
Guided by the GEF-6 programming directions, the GEF-6 Non-Grant Pilot investments prioritized frontier areas where private sector investment is scarce, such as land degradation, biodiversity, and international waters. For example, out of 10 innovative projects for $99.5 million that attracted $1.74 billion in co-financing, 48 percent of GEF funding was for land use and biodiversity and almost 11 percent to fisheries. These projects deliver multiple environmental benefits, including climate change mitigation and adaptation. Results from the GEF-6 pilot, documented in ‘Advances in Blended Finance GEF’s Solutions to Protect the Global Environment,’ illustrated the GEF’s approach to advance solutions in Blended Finance by identifying new opportunities, incubating, and nurturing those opportunities through platforms, and investing with key partners to demonstrate and validate the approaches.

With the GEF-6 pilot well underway, GEF-7 replenishment negotiators took note of the successful innovative approaches and guided future non-grant investments to be even better aligned with private sector engagement and programmatic approaches. Specifically, the GEF-7 Programming Directions guided the GEF to strengthen transparency, create an advisory group of financial experts, and enhance capacity to develop innovative finance.  

The GEF-6 Non-Grant Instrument Pilot, through debt, equity, or risk guarantees, was designed to pursue innovative Blended Finance structures to catalyze private sector investment and seek projects in all focal areas. Based on lessons learned from investments in clean energy and low-carbon technologies, GEF has successfully expanded innovative Blended Finance to natural resources management. Of the 11 projects awarded, 7 are focused on natural resources, including the following projects:

- The Moringa Agro-forestry Fund for Africa, managed by the African Development Bank (GEFID 9051), will promote sustainable land management in production landscapes in Burkina Faso, Cote d’Ivoire, Kenya, Mali, Tanzania, Zambia, and Congo DR. The Fund will invest in five or six scalable, replicable agroforestry projects that combine plantation forestry with agricultural elements to capture most of the value chain.

- The Meloy Fund, implemented by Conservation International and RARE (GEFID 9370), will establish the first fund for sustainable small-scale fisheries in Southeast Asia to improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes.

- The Third Southwest Indian Ocean Fisheries Governance and Shared Growth project, managed by the World Bank (GEFID 9563) will now include an innovative partnership with the Government of Seychelles to support the issuance of Blue Bonds to attract private sector investment, supported by a GEF non-grant investment. Proceeds from the Blue Bonds will strengthen efforts to improve management of fisheries and coastal conservation at regional and national levels and improve fish handling processes at targeted handling sites in the Seychelles.

- The CPIC Conservation Finance Initiative - Scaling up and Demonstrating the Value of Blended Finance in Conservation, managed by IUCN (GEFID 9914), combines a GEF investment of $8 million non-grant with $2 million of grant funding from the Rockefeller Foundation and an expected $40 million of private sector investment. The aim is to overcome hurdles to private sector investment in natural resources management and improve the conservation and sustainable use of biodiversity by demonstrating innovative Blended Finance models. This project will take advantage of the growing engagement of the Coalition for Private Investment in Conservation (CPIC), launched at the IUCN World Conservation Congress in September 2016, with the intent of increasing deal flow into global priority conservation projects. The core of the CPIC model is the development of investment blueprints that create models for investable conservation projects in five sectors: sustainable agriculture; coastal fisheries; coastal resilience; green infrastructure for water; and forest landscape restoration and conservation.

---

27 GEF, 2018, GEF-7 Non-Grant Instrument Program, GEF/C.55/12
GEF-7 Approach to Expand the use of Non-Grant Instruments

GEF-7 non-grant policies and implementation guidance were codified by the GEF Council in November 2018 and helped design the competitive process to select projects under the NGI Program. In June 2019, the GEF launched its first of three rounds of GEF non-grant Calls for Proposals. This Call for Proposals spells out several steps to further strengthen transparency in implementation of the program, including more explicit selection criteria used in the selection of projects under a competitive process. Specifically, newly added criteria aim to ensure that implementation of the NGI program avoids subsidizing private sector entities and only provides the minimum amount of concessional funding needed to enable investors and enterprises to invest in projects that generate global environmental benefits that would otherwise not have happened. Per replenishment guidance, the Secretariat formalized its relationship with the advisory group of independent financial experts to complement the standard process. The Advisory Group assists the GEF Secretariat in reviewing proposals for the NGI program on a pro-bono basis with a strong focus on the financial criteria, business model sustainability, risks, potential for replication and scaling. The group also provides advice to the GEF Secretariat on recent trends in blending finance and emerging areas that the NGI Program should target.

The GEF-7 Non-Grant Instrument program, comprising $136 million in set-aside funding, has completed three rounds of Calls for Proposals. Results of the GEF-7 investments are reported on the GEF website. See Section 3 for additional information on submitting a proposal for the GEF-7 non-grant window.

In GEF-7 the three Calls for Proposals closed to date received 36 project proposals for $500 million more than tripling the available amount in the Blended Finance envelope.

GEF-7 investment criteria also addressed constraints identified in the GEF-6 Pilot. Specifically, there is a need to provide financing for aggregation platforms or projects that seek to bring scale to GEF investments, and to support pipeline development and leverage investments from capital markets. The GEF-7 NGI program continues to be flexible and supports path-breaking projects with seed capital, flexible debt products, subordinated participation in structured finance transactions, amongst others. One of the common features of the investments during GEF-7 is their 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. In this current cycle, 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.

COVID-19 considerations

Recognizing the urgency of COVID-19, and the high stakes for governments and businesses that are starting to think through economic recovery plans, the GEF Secretariat has outlined a set of steps for the immediate, medium, and longer term to help address the present situation and reduce the probability of new environmental crises emerging in the foreseeable future. The response spans measures to address wildlife trading, deforestation, urban sprawl, and other pressures on ecosystems that are bringing wild animals and humans in dangerous proximity.

The response also includes efforts to support a green economic recovery consistent with sustainable and nature-based development. These steps focus on the acceleration of needed transformations to economic and social systems to reduce their conflict with nature, building on efforts already underway by the GEF-funded Good Growth Partnership and the GEF Impact Programs on Food Systems, Land Use and Restoration; Sustainable Cities; and Sustainable Forest Management.

---

29 GEF, 2018, GEF-7 Replenishment Programming Directions, GEF/R.7/19.
Additional information on planned steps can be found here.

**GEF-7 Project examples:**

Blended Finance aims to use scarce public resources to unlock large multiples of private sector finance, and therefore has attracted significant interest in recent years, including a private sector window for International Development Assistance and added emphasis on catalyzing private investment by many bilateral and multilateral funds. The GEF experience using Non-Grant Instruments shows that Blended Finance can be a potent instrument.

Under GEF-7, the GEF is accelerating the use of Non-Grant Instruments for Blended Finance 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. The GEF partnership will continuously innovate, keeping track of global trends in Blended Finance and seeking increased numbers of projects in the area of natural resources management.

**Wildlife Conservation Bond (GEFID 10330):** This project is focused on addressing major challenges for financing conservation and proposes an innovative financial product that combines private, public, and philanthropic resources to unlock private finance to the conservation of the black rhino in South Africa. The project builds on existing conservation efforts in two priority sites, Addo Elephant National Park and Great Fish River Nature Reserve, and product development under the US $4.5 million Rhino Impact Investment Project funded by the GEF, The Royal Foundation, UK Aid, and the Zoological Society of London. The World Bank will issue a conservation bond and the bondholders (private finance institutions) agree upfront to forego all periodic coupons that the bond would have paid to finance directly the conservation initiatives in the two identified parks. The bondholders hence become direct co-financiers of the conservation efforts in the two parks of South Africa, and in return, they can be compensated with a contingent success payment if Rhino population grows in the two parks. The source of that contingent success payment is GEF NGI funding. The project will potentially create a new asset class to mobilize institutional investors financing to conservation.

**Livelihoods Carbon Fund 3 (LCF3) (GEFID 10497):** This project will build an innovative investment model that invests in community-based solutions to restore natural ecosystems (NBS) and establishes agroforestry and regenerative agriculture systems in developing countries, with a view of generating high quality, cost-effective certified carbon offsets for climate-responsible corporates. The Fund investment model enables financial investors to monetize returns through a carbon offset mechanism offered to participating corporate investors. Carbon offsets will be verified by Gold Standard and Verra, the leading assurance services providers in the market. The investment strategy places local communities at its center, as the key actors of the management and conservation of local natural ecosystems. LCF3 aims to showcase NBS as a new investable asset class and the GEF early stage equity share will play a decisive role to remove barriers for private financial investors and unlock capital at scale.

**IFC-GEF Greener Shipping Investment Platform (GEFID 10501):** This project will establish a financing platform aiming to accelerate the retrofit of fleets to increase fuel efficiency and has the potential to transform one of the most carbon intensive industries towards a sustainable, low-carbon future. The project will address three barriers hindering investments into low-carbon, fuel efficient technologies specific to shipping industry: first it will solve the split incentive barriers between ship owners and charterers to pursue energy efficiency measures; second, it will provide a de-risking structure that enables initial anchor investors to test the financing model and third, it will unlock and scale up available private sector financing for greener shipping. In recognition of the vital role that private sector financing must play to decarbonize the shipping sector, International Maritime Organization has expressed support for this project.
An excerpt from Non-Grant Instruments Pilot and Updated Policy for Non-Grant Instruments, GEF/C.47/06.

A non-grant instrument in the context of the GEF is a mechanism to provide financing in a form that has the potential to generate financial returns, irrespective of whether such financial returns flow back to the GEF Trust Fund. Financial returns comprise funds or proceeds that are collected from the beneficiaries of projects/programs using Non-Grant Instruments, including the original investment amount, principal, (excluding Agency fees), earnings or interest from the investment, dividends, proceeds from the sale of equity stakes, and repayment of original reserves and guarantee fees.

GEF projects/programs are designed with the appropriate type of non-grant instrument that best supports the goals of the project/program. The GEF Partner Agency submits projects/programs that include, but are not limited to, the following types of Non-Grant Instruments:

A. Credit guarantee (partial/full)
B. Performance risk guarantee
C. Structured financing
D. Equity/investment fund
E. Revolving equity fund
F. Contingent loan
G. Concessional loan
H. Revolving loan fund.
Annex

2 References

- GEF/C.6/Inf.4, Engaging the Private Sector (1996)
- GEF/C.7/12, GEF strategy for engaging the Private Sector (1996)
- GEF/C.13/Inf.5, Engaging the Private Sector in GEF Activities (1999)
- GEF/C.22/Inf.10, Enhancing GEF’s Engagement with the Private Sector (2003)
- GEF/C.28/Inf.4, Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector (2006)
- GEF/C.28/14, GEF Strategy to Enhance Engagement with the Private Sector (2006)
- GEF/C.33/12, Operational Policies and Guidance for the use of Non-Grant Instruments (2008)
- GEF/C.40/13, Strategy to Engage with the Private Sector (2011)
- GEFEO, Review of GEF Engagement with the Private Sector (2011)
- GEF/C.41/09/Rev.01, Revised Strategy for Enhancing Engagement with the Private Sector (2011)
- GEF/C.42/Inf.08, Operational Modalities for Public Private Partnership Programs (2012)
- GCF/B.04/07, Business Model Framework: Private Sector Facility
- GEF/R.6/20/Rev.01, GEF-6 Programming Directions (2014)
- GEF/C.46/09, Co-financing Policy (2014)
- GEF/C.46/07/Rev.01, Summary of the Negotiations of the Sixth Replenishment of the GEF Trust Fund (2014)
- GEF/C.47/06, GEF-6, Non-Grant Instruments Pilot and Updated Policy for Non-Grant Instruments (October 10, 2014)
- GEF/FI/PL/02, Non-Grant Instruments (October 30, 2014)
- GEF/C.52/Inf.06/Rev.01, Guidelines on the Project and Program Cycle Policy, (2017)
- GEF/C.54/19/Rev.03, Summary of Negotiations of the Seventh Replenishment of the GEF Trust Fund (June 2018)
- GEF/R.7/19, GEF-7 Replenishment Programming Directions (April 2018)
- GEF/C.54/13/Rev.01, Private Sector Advisory Group Terms of Reference (June 2018)
- GEF/C.55/12/GEF-7 Non-Grant Instrument Program (November 2018)
- GEF/OP/PL/01 Project and Program Cycle Policy (December 20, 2018)

- GEF/C.56/Inf.05 Private Sector Advisory Group (PSAG) Composition (May 2019)
- GEF/C.57/06 GEF 2019 Private Sector Engagement Strategy (December 2019)
- GEF/C.57/07 Update Report on Reflows to the GEF Trust Fund from the Non-Grant Instrument Portfolio (December 2019)
- GEF, Advances in Blended Finance: GEF’s Solutions to Protect the Global Environment, November (2019)
- GEF, Guidance from the Conference Of The Parties and Responses by the Global Environment Facility, COP1 – COP24, 2019
- GEF/C.59/Inf.03 Guidelines on the Project and Program Cycle (2020 Update)
- GEF NGI Call for Proposals (June 2019)
- GEF NGI Second Call for Proposals (January 2020)
- GEF NGI Third Call for Proposals (July 2020)
GEF Projects typically go through a two-stage project approval cycle. Full details the GEF Project Cycle can be found in GEF Publications Project and Program Cycle Policy and Guidelines on the Project and Program Cycle Policy.

**Stage 1: Project Concept Submission in Response to Call for Proposals**

A GEF Agency submits as project concept and works with the Secretariat and the GEF Council to seek approval for funding. With the NGI Window, projects are submitted after a Call for Proposals.

- Stage 1 of the cycle can take six months to a year as the GEF Council approves projects in work programs only two times per year, in the late spring and late fall, during its bi-annual Council meetings.
- GEF Agencies are the only entities that can submit a GEF project, including NGI proposals.
- GEF Agencies must prepare the project concept in required GEF format, including alignment with focal areas, identification of co-financing, and preliminary estimates of global environmental benefits.
- After the deadline of the call for proposals, GEF Secretariat staff will review all proposals to determine eligibility and rank them against the selection criteria. Several iterations with the GEF agency submitting each proposal may be required. When the GEF Secretariat determines a proposal will or will not be selected, the GEF agency will be informed.
- After selection, the project proposal must be validated as a candidate for a GEF Work Program for presentation to Council. The Work Program is submitted by the CEO to the next GEF Council meeting. When a work program and selected projects are approved by the Council, the project can begin Stage 2.

**Stage 2: Project Preparation and Endorsement**

Once approved for funding by Council, the GEF Agency works with all stakeholders and investment partners to fully define the project, prepare all project documents, and submit the fully prepared project for GEF CEO Endorsement.

- After Council approval, the GEF Agency has the responsibility to prepare full project documentation in partnership with all stakeholders and investment partners. The completed project documents are submitted again to the GEF Secretariat for what is called CEO Endorsement.
- This process may take several months, with a maximum time period of 18 months. Under special circumstances, the GEF Agency may be able to complete project design and submit for endorsement in as little as one month. If your investment idea has a very short time frame, or cannot wait for the GEF development cycle, please carefully consider before asking a GEF Agency to apply.
- Co-financing partners and commitments must be identified.
- Global environmental benefits must be precisely estimated.

Project implementation is initiated by the GEF Agency after CEO Endorsement. Additional information on project implementation, monitoring, and reporting, including return of refloows can be found in GEF/C.55/12/GEF-7 Non-Grant Instrument Program and GEF/C.59/Inf.03 Guidelines on the Project and Program Cycle.
The Global Environment Facility (GEF) was established on the eve of the 1992 Rio Earth Summit to help tackle our planet’s most pressing environmental problems. Since then, the GEF has provided more than $21.1 billion in grants and mobilized an additional $114 billion in co-financing for more than 5,000 projects in 170 countries. Through its Small Grants Programme, the GEF has provided support to more than 25,000 civil society and community initiatives in 133 countries.