

Global Environment Facility Introduction Seminar



Co-financing Policy,
Incremental Cost
Principle, and Non-
Grant Instruments
Wednesday January 21st
14:00 – 14:45

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Co-financing Policy, Incremental Cost Principle, and Non-Grant Instruments

GEF Introduction Seminar
Washington, DC
January 20-21, 2015

Co-financing Policy

- Council approved a **new** Co-financing Policy in May 2014, which has been posted as Policy FI/PL/01. This Policy
 - ✓ establishes the objectives for co-financing in GEF-financed projects;
 - ✓ Defines co-financing for GEF-financed projects and programs; and
 - ✓ Provides rules/requirements on co-financing for GEF-financed projects and programs.
- Applies to GEF Trust Fund and the Nagoya Protocol Implementation Fund (GEF-financed projects) financed projects and programs but not to LDCF or SCCF financed projects.
- Council Document that proposed the Policy to the Council (Document GEF/C.20/6/Rev.1, *Co-financing*) contains helpful background and guidance on how it will be implemented.



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Co-financing (cont'd)

- **Objective:** “to attain adequate levels of co-financing as a means to:
 - ✓ enhance the effectiveness and sustainability of the GEF in achieving global environmental benefits;
 - ✓ strengthen partnerships with recipient country governments, multilateral and bilateral financing entities, the private sector, and civil society.”
- Introduction notes “an ambition for the overall GEF portfolio to reach a co-financing ratio of at least 6:1, with expectations for greater co-financing in upper-middle income countries that are not SIDs.”
 - ✓ This is a **portfolio** ambition, not project-by-project.
 - ✓ GEF Secretariat “will not impose minimum thresholds and/or specific co-financing sources in the review of individual projects or work programs.”



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Co-financing (cont'd)

- Definition: “resources that are additional to the GEF grant¹ and that are provided by the GEF Partner Agency itself and/or by other non-GEF sources that support the implementation of the GEF-financed project and the achievement of its objectives.”
 - (1) GEF financing (e.g. the GEF grants) is determined on the basis of the agreed incremental cost principle.
- Co-financing is required for all GEF full-size and medium-size projects and programmatic approaches (PAs). Optional for enabling activities.
 - ✓ PIFs & PAs must list **indicative** co-financing for work program inclusion.
 - ✓ For CEO endorsement, Agencies must **confirm** co-financing and provide evidence.
 - ✓ Agencies must list co-financing by source and type.
 - ✓ Secretariat reviews proposals for consistency with Policy.



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Co-financing (cont'd)

- Council Document GEF/C.20/6/Rev.1 also notes that the Secretariat will “continue to review project co-financing as part of its assessment of whether the project is supported by an adequate financing package in light of the needs of the project.” (Paragraph 16)
- GEF Secretariat also to monitor **portfolio** co-financing and report to Council through Annual Monitoring Review.
 - ✓ The data included in AMR is taken from PIFs.
- Agencies to report on materialized co-financing during implementation and project closure (per GEF monitoring requirements.)
- Evaluation Office not mentioned, but expected to evaluate co-financing through Overall Performance Studies.
- See link below for more information:

<http://www.thegef.org/gef/policy/co-financing>



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Incremental/Additional Cost

- GEF funds the “agreed incremental” costs of agreed global environmental benefits (GEBs).
- For LDCF/SCCF, it is the “additional adaptation costs”.
- Costs in reference to an agreed baseline or “business as usual” scenario or project w/o GEBs or adaptation measures.
- Previously relied on complex calculation of incremental costs.
- Since 2007, approach based on five-step incremental reasoning approach.
- Determine environmental/adaptation problem, threat, or barrier, & the “business-as-usual” scenario
- Identify the global environmental benefits (GEBs)/adaptation benefits and fit with GEF priorities within GEF focal area strategies and priorities;
- Develop the results framework of the intervention;
- Provide the incremental/additional reasoning and GEF’s role; and
- Negotiate the role of [Co-financing](#).

Operational Guidelines for the Application of the Incremental Cost Principle
(<http://www.thegef.org/gef/node/435>)



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Thank you for your attention

Any questions?

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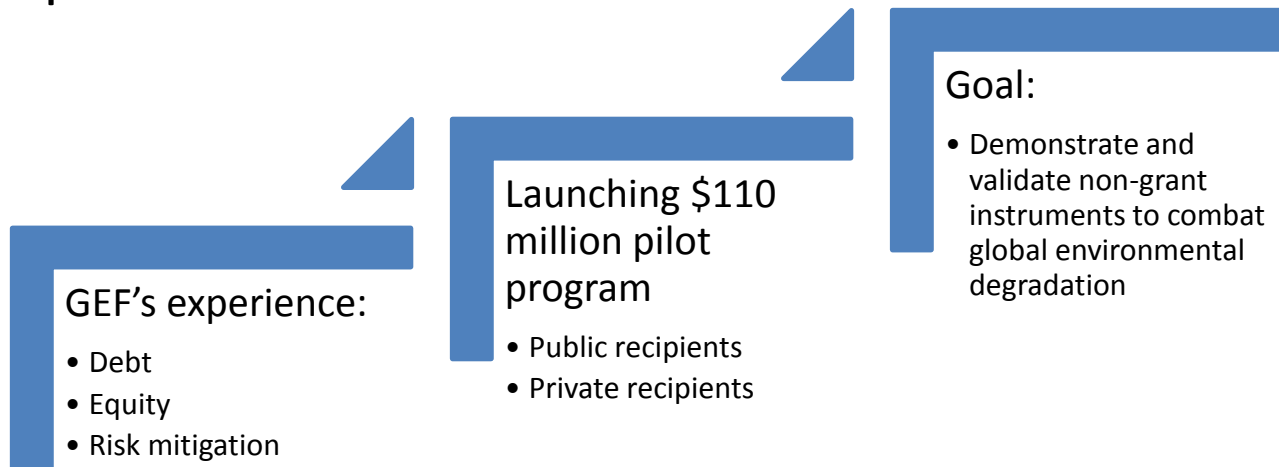
Non-Grant Instrument Pilot



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Introduction

GEF's experience to date suggests that non-grant instruments can make an important contribution to the achievement of the GEF's objectives. They have helped deliver innovative projects and catalytic partnerships.



Council approved a new Policy on Non-Grant Instruments in October 2014: http://www.thegef.org/gef/policy/non-grant_instruments.



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GEF's experience with Non-Grant Instruments

- ❑ Since the GEF's inception, a total of **86 projects** have been recorded as having utilized a “non-grant” instrument, totaling \$715 million of GEF financing (about 6% of the GEF's total programmed amount)
- ❑ **Co-financing ratio of these projects has trended high** over time, and is well above co-financing levels of GEF grant programming
- ❑ The largest share of projects has been in the **CCM focal area** (80% of the funds). 7 projects have been in the BD.
- ❑ **Debt instruments and risk mitigation products** are the most frequently used non-grant instruments (71 % of the funds)



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GEF-6 NON-GRANT PILOT

- will play a key role in supporting the GEF's efforts **to leverage significant capital from the private sector** through the use of innovative and flexible financial instruments.
- will expand the range of tools available to the GEF and allow the GEF to assess the demand and applicability of GEF non-grant instruments for public sector recipients.
- By demonstrating and validating successful models for the use of non-grant instruments, the GEF can help **catalyze large-scale changes through broader adoption** and generate experiences which may also be useful for other international environmental funding mechanisms such as the Green Climate Fund.
- by focusing the Pilot on non-grant instruments that have the potential to generate reflows, the Pilot can make a contribution to the **GEF Trust Fund's financial sustainability**.



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Implementation

- ❑ **A set-aside of \$110 million** for the Non-Grant Pilot.
- ❑ The maximum amount of funding for each project is approximately \$15 million.
- ❑ Proposals must be **submitted by one of the GEF Agencies** on behalf of the potential project proponent. Interested parties are encouraged to contact the relevant GEF Partner Agency focal point



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Implementation

- ❑ Only proposals using non-grant instruments ***with a potential for reflows to the GEF Trust Fund*** will be funded under the Pilot.
- ❑ Consistent with the Policy on Non-Grant Instruments, ***a broad and flexible range of debt, equity and guarantee instruments will be supported under the Pilot***. For projects/programs with public sector recipients, instruments include concessional loans and guarantee instruments; an emphasis on concessional loans is expected.



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Implementation – Selection criteria

- ❑ Project proposals are eligible as long as they contribute global environmental benefits consistent with GEF's strategic programming under GEF-6.
- ❑ The Pilot will seek to fund a diversity of recipient countries, regions, and Focal Areas. Proposals for both full-sized projects and medium-sized projects will be considered.



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Implementation – Selection criteria

Following elements are especially encouraged:

- demonstrate ***innovative application*** of financial mechanisms and partnerships that may be broadly adopted and can be scaled-up;
- demonstrate use of non-grant instruments ***in areas other than climate change mitigation***;
- deliver innovative engagement with the private sector, ***innovative business models*** and project level innovation;
- deliver ***high levels of co-financing***.



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Implementation

FINANCIAL TERMS FOR PRIVATE SECTOR:	FINANCIAL TERMS FOR PUBLIC SECTOR: <i>(LDCs/SIDS and Other Recipient Countries)</i>
<ul style="list-style-type: none">✓ Flexible concessional interest rate;✓ Minimum level of concessionality to avoid displacing other finance;✓ First-loss position if justified;✓ Maximum maturity of 20 years;✓ Flexible exit date for equity investments.	<ul style="list-style-type: none">✓ Grace period of 10 years;✓ Interest rate of 0.25% or 0.75%;✓ Maximum maturity of 40 or 20 years;✓ Principal repaid in equal annual payments after grace period.



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Implementation - Financing Terms

- Consistent with MDB standard lending practice, the GEF Agencies will not seek any guarantee or security for lending to sovereign governments under the Pilot. If a GEF loan under the Pilot is made to a sub-national entity, the beneficiary country will be required to guarantee the loan if the GEF Partner Agency requires such guarantees for sub-sovereign lending.
- In case of the use of guarantee instruments for public sector entities, the reflow schedule and fees will be negotiated on a case-by-case basis by the GEF Partner Agency. There will be no requirement for sovereign government indemnity for any guarantee product



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Implementation – application

Schedule:

- It is anticipated that funds under the Pilot could be allocated rapidly—the Pilot aspires to be fully programed by the end of the calendar year 2015. This will facilitate early compilation of lessons learned that might be useful for GEF-7, for other environmental finance mechanisms and interested parties.
- The first opportunity for FSPs will open in Nov 2014 . Agencies are encouraged to submit projects/programs in time for consideration by Council in the June 2015 WP. The second opportunity for FSPs will open in July 2015.
- Medium-sized projects can be submitted for CEO consideration under the Pilot on a rolling basis, consistent with regular processing of medium-sized projects



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Documents on the Non-grant Instrument Pilot are available at:
www.thegef.org/gef/ngi.

For further information, please contact an eligible GEF Partner Agency or the GEF Secretariat:

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