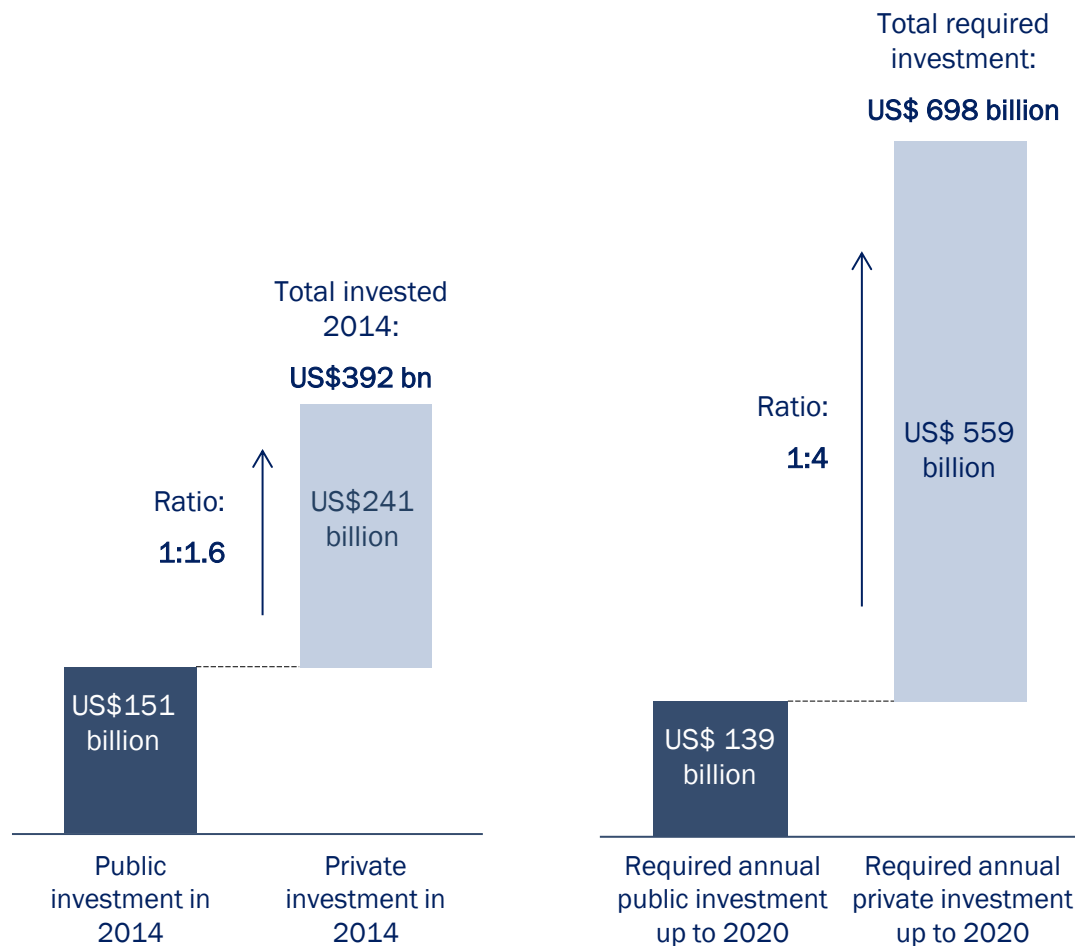




May 15, Washington DC

# Private sector engagement in environmental finance

# Private sector capital has a key role in environmental finance



Around **US\$400 bln** was invested in environmental finance in **2014** of which 60% was private sector funding (source: CPI)

An estimated **US\$700 bln** is required annually up to **2020** to keep global temperature increase to 2 degrees above pre-industrial levels (WEF).

Public spending is expected to remain stagnant, so additional investment should come from private sector.

This may seem staggering amounts, the capital is available: global capital markets are currently estimated at **US\$218 trillion**.

# Hurdles and opportunities for private sector environmental finance

## Hurdles

### Inconsistent regulatory environment

- Hampering effect, especially in developing regions

### Limited scale and track record

- Projects lack size and track record to access traditional capital mkt

### Lack of common framework

- Fair performance judgment system does not exist

### Conservative risk perspective

- Investors apply traditional risk-return models

### High transaction costs

- Innovative solutions take time, patience and effort

## Opportunities

### Momentum of international agreements

- COP21, SDGs, Conf. on Finance for Development have positive outcome for environmental finance

### Low interest rate environment

- Investors look for new opportunities with no correlation to other investments

### New technologies and tools

- Monitoring has become better and affordable

### Rise of impact investing

- A new asset class with double digit growth

# Stakeholders appreciate the GEF for its products, knowledge and network

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## **Flexible financing instruments**

- Variety of GEF products is large and possibility to combine products (capital and TA) make it all the more appealing

## **Risk appetite**

- With its non-profit mandate, the GEF is a perfect partner to support innovative early stage ventures

## **Reputation**

- Involvement of the GEF can give a project an important 'seal of quality'

## **Knowledge**

- The GEFSEC is praised for the technical expertise that its staff brings to projects

## **Network**

- As a center of partnership between 183 countries, the GEF is an important platform for private sector players

# Yet there are also points for improvement

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## **Cumbersome approval procedures**

- These procedures are too slow and complex for private sector projects

## **Difficult to obtain information**

- Communication material is too technical and focal points are not aware of all private sector opportunities

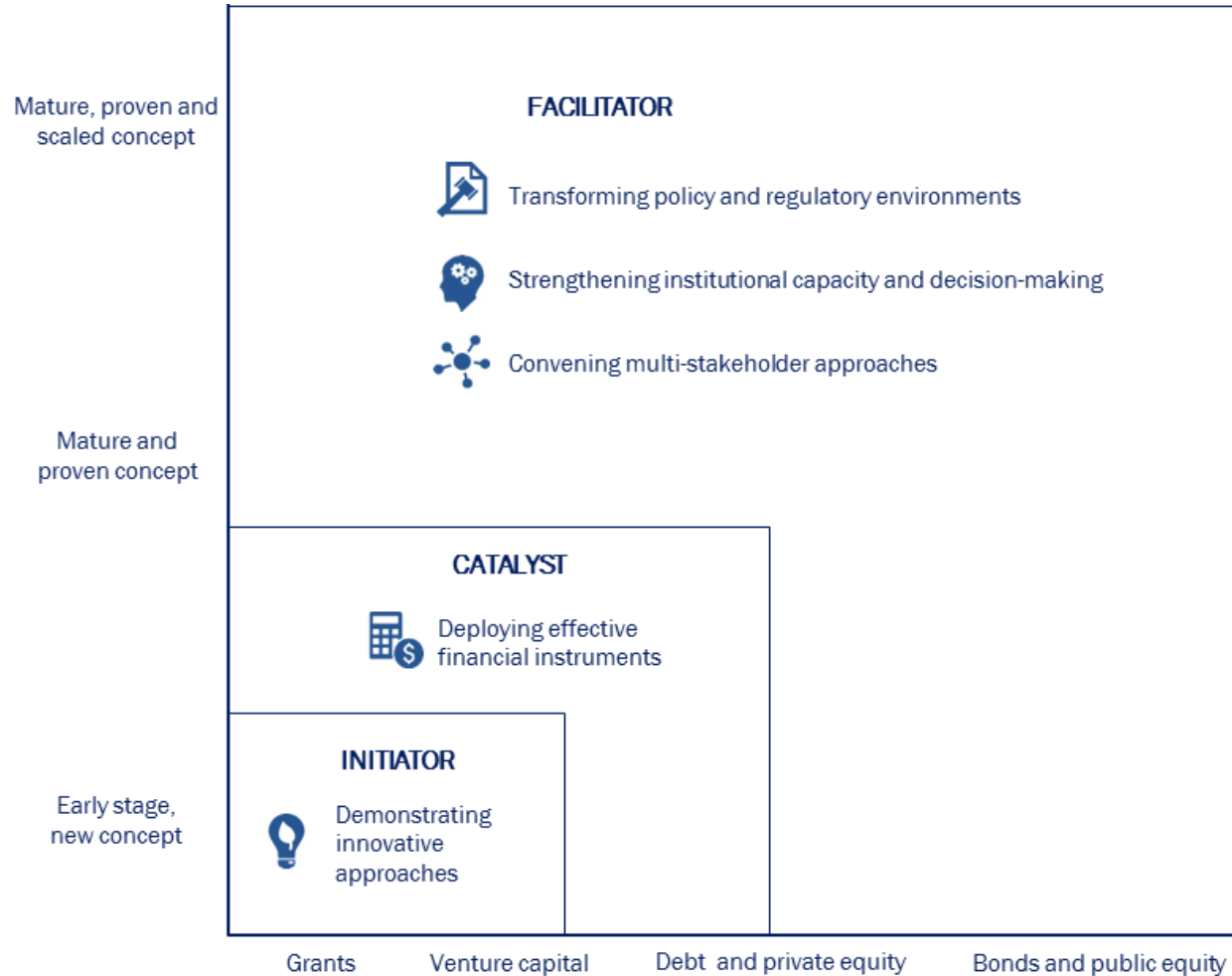
## **Ambiguous project requirements**

- GEF's eligibility criteria provide insufficient guidance on what the GEF actually expects

## **Lacking private sector mindset**

- GEF's focus on technical issues is sometimes disproportionate to private sector reality

# Given its strengths, there are three roles for the GEF when engaging with the private sector



# Actions to consider in the short term

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1. Better specify the GEF's role and objectives on influencing the environmental finance landscape
2. Improve access to information on cooperation opportunities for (potential) private sector partners
3. Design a strategic and formal private sector project appraisal policy and process
4. Shorten the timelines of project approval procedures
5. Be more transparent on expectations of projects and status of approval processes
6. Improve monitoring and reporting on private sector engagement
7. Use a bottom-up approach to stimulate more private sector engagement

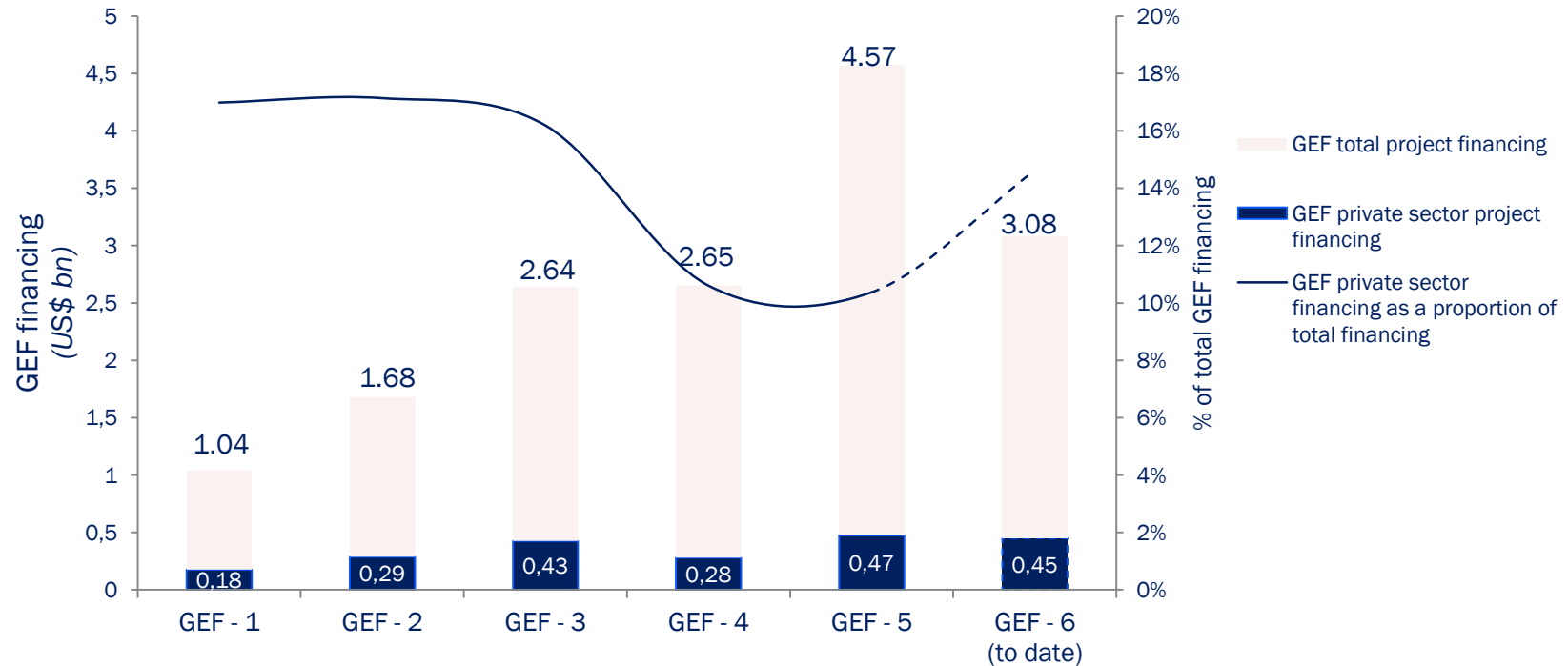
A high-speed photograph of a single water droplet hitting a surface, creating a series of concentric ripples that spread outwards. The droplet is captured at the moment of impact, with a small crown-like shape at its base. The background is a soft, out-of-focus light gray.

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# GEF's private sector funding did not keep up with its public sector financing



Although private sector more than doubled since GEF's inception, public sector funding grows at a stronger pace