Private sector engagement in environmental finance

May 15, Washington DC
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

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<th>Hurdles</th>
<th>Opportunities</th>
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| **Inconsistent regulatory environment**  
  - Hampering effect, especially in developing regions | **Momentum of international agreements**  
  - COP21, SDGs, Conf. on Finance for Development have positive outcome for environmental finance |
| **Limited scale and track record**  
  - Projects lack size and track record to access traditional capital mkt | **Low interest rate environment**  
  - Investors look for new opportunities with no correlation to other investments |
| **Lack of common framework**  
  - Fair performance judgment system does not exist | **New technologies and tools**  
  - Monitoring has become better and affordable |
| **Conservative risk perspective**  
  - Investors apply traditional risk-return models | **Rise of impact investing**  
  - A new asset class with double digit growth |
| **High transaction costs**  
  - Innovative solutions take time, patience and effort | |
Stakeholders appreciate the GEF for its products, knowledge and network

**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

**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:

**Facilitator**
- Transforming policy and regulatory environments
- Strengthening institutional capacity and decision-making
- Convening multi-stakeholder approaches

**Catalyst**
- Deploying effective financial instruments

**Initiator**
- Demonstrating innovative approaches

The roles are categorized based on the maturity of the concept:
- Mature, proven and scaled concept
- Mature and proven concept
- Early stage, new concept

The financial instruments are categorized as:
- Grants
- Venture capital
- Debt and private equity
- Bonds and public equity
Actions to consider in the short term

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
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