PROGRAM FRAMEWORK DOCUMENT (PFD)

TYPE OF TRUST FUND: GEF Trust Fund
TYPE OF PROGRAM: Program Accessible to All GEF Agencies

PART I: PROGRAM IDENTIFICATION

Program Title:	Sustainable Caribbean Basin Private Equity Fund		
Country(ies):	Caribbean and Latin American Islands	GEF Program ID:[1]	
Lead GEF Agency:	IADB	GEF Agency Program ID:	
Other GEF Agenc(ies):	(select) (select) (select)	Submission Date:	2013-04-29
Other Executing Partner(s):		Program Duration(Months)	120
GEF Focal Area (s):	MULTI FOCAL AREA	Agency Fee ($):	$1,200,000

A. FOCAL AREA STRATEGY FRAMEWORK[2][3]:

Focal Area Objectives	Expected FA Outcomes	Expected FA Outputs	Type of Trust Fund	Indicative Financing ($)	Indicative Cofinancing ($)
CCM-2 (select)	Outcome 2.2: Sustainable financing and delivery mechanisms established and operational	Output 2.2: Investment mobilized	GEF	$3,000,000	$30,000,000
CCM-3 (select)	Outcome 3.2: Investment in renewable energy technologies increased	Output 3.2: Renewable energy capacity installed	GEF	$12,000,000	$170,000,000
(select) (select)			(Select)	$0	0
(select) (select)			(Select)	0	0
(select) (select)			(Select)	0	0
(select) (select)			(Select)	0	$0
(select) (select)			(Select)	0	0
			Total Program Costs	$15,000,000	$200,000,000

B. PROGRAM RESULT FRAMEWORK[4]

1 Program ID number will be assigned by GEFSEC.
2 Refer to GEF-5 Template Reference Guide posted on the GEF website for description of the FA Results Framework when filling in Table A.
3 The availability of additional focal area funding CCM, BD, SFM, IW, and SCCF, are uncertain at the time of work program inclusion. Additional funding from these sources may be pursued prior to CEO endorsement. If significant additional funding from these sources is added then the CEO endorsement package may be circulated for Council approval again following GEF project cycle requirements.
4 Same as footnote #3

Program Goal: Catalyzing private sector investments into energy efficiency, renewable energy and other sustainable business models in the wider Caribbean Basin						
Program Component	**Grant Type**	**Expected Outcomes**	**Expected Outputs**	**Type of Trust Fund**	**Indicative Financing ($)**	**Indicative Cofinancing ($)**
Launch Multi-focal Private Equity Fund	Inv	Firmly established private equity fund serving the Latin American region with a full range of sustainable private sector investments, including climate change mitigation	Fund launched Project pipeline developed and implemented Private sector project financing identified, negotiated and approved • Energy saved • Renewable energy capacity installed • GHG emissions reduced	GEF	$15,000,000	$200,000,000
				Subtotal:	15,000,000	200,000,000
				Program Management Cost	0	0
				Total Program Costs	$15,000,000	$200,000,000

C. INDICATIVE CO-FINANCING FOR THE PROGRAM BY SOURCE AND BY NAME IF AVAILABLE, ($)

Sources of Co-financing	Name of Co-financier (if known)	Type of Cofinancing	Amount ($)
Private Sector	Manifest Energy and Partners	Equity	$15,000,000
GEF Agency	Multilateral Investment Fund (IDB)	Equity	$5,000,000
Other Multilateral Agency (ies)	TBD	Equity	$15,000,000
Private Sector	Project investment partners and lenders	Cash, equity, loan	$165,000,000
(select)		(select)	
Total Cofinancing			$200,000,000

D. GEF/LDCF/SCCF RESOURCES REQUESTED BY AGENCY, FOCAL AREA AND COUNTRY*[5]

GEF Agency	Type of Trust Fund	Focal Area	Country Name/Global	Program Amount (a)	Agency Fee (b)**	Total c=a+b
IADB	GEF TF	Private sector set-aside	Regional	15,000,000	$1,200,000	$16,200,000
(select)	(select)					
(select)	(select)					
(select)	(select)					
(select)	(select)					
(select)	(select)					
(select)	(select)					
Total Grant Resources				$15,000,000	$1,200,000	$16,200,000

* In case of a single focal area, single country, single GEF Agency project, and single trust fund project, no need to provide information for this table

** Please indicate fees related to this project.

[5] Same as footnote #3

Part II: PROGRAMATIC JUSTIFICIATION

A: Goal of Program:

The overall goal of the Sustainable Caribbean Basin Private Equity Fund ("CBPEF") is to foster private investments that promote energy security, environmental sustainability and related economic opportunities in nations across the Caribbean Basin. The Fund will seek to invest in highly innovative investment platforms and business models that expand access to clean and safe energy, that achieve the sustainable use of natural capital, and that generate opportunities for local businesses and low income populations, including women and the indigenous.

B. Description of Consistency of program with:

B.1.1. The GEF/LDCF/SCCF focal strategies

The proposed Sustainable Caribbean Basin Private Equity Fund ("CBPEF") aims to reduce the dependency of island and coastal states in the Caribbean Basin on fossil fuels, and foster the sustainable use of natural capital and its associated ecosystem services. In addition, the Fund aims to reduce the region's vulnerability to climate change. This Fund is consistent with GEF's renewed support for private sector engagement in Public-Private Partnership (PPP) platforms, as outlined in the document approved by the GEF Council, GEF/C.41/09 *GEF 5, Revised Strategy for Enhancing Engagement With the Private Sector*. The sponsors of this PPP Fund are working with IDB to facilitate innovative private investments in areas related to the climate change and sustainability focal areas.

The overarching objective of this PPP Fund is to increase private investment in renewable energy, energy efficiency, and other climate change related investments through sustainable business models in eligible countries in the Caribbean Basin. In particular, the proposed Fund will finance investments consistent with the following Focal Area objectives: i) CCM-2: *Promote market transformation for energy efficiency in industry and the building sector*; and ii)CCM-3: *Promote investment in renewable energy technologies.*

The provision of funding for the Caribbean Basin Private Equity Fund will catalyze investments in small and medium sized enterprises that are engaged in clean and renewable energy, energy efficiency, cleaner production and life-cycle activities, and in services and products related to vital sustainable industries in the region. Fund resources will be additional, leveraged, and invested with the expectation that investee companies will grow and achieve profitable returns, while generating social and environmental impact.

B.2. National strategies and plans or reports and assessments under relevant conventions, if applicable

The CBPEF will foster private investments in companies with innovative models in renewable energy, and energy efficiency. This platform aims to expand market-driven investment in these areas and to deliver benefits to a range of stakeholders, including women and the indigenous. No country in Caribbean Basin ("CB") is an Annex 1 member under the Kyoto Protocol, but all recognize the need for a lower carbon growth path. Most of these countries' NAMAs include actions to expand both the use of renewable energy and greater energy efficiency in respective economies and energy matrices.

The CBPEF will help investors and enterprises to exploit the region's comparative advantage and will help to leverage the favorable economics of renewable and clean energy technologies through scalable investments that expand market opportunities.

C. Rationale of the program and description of strategic approach (including description of current barriers to achieve the stated objectives):

The main rationale for this program is two-fold: (i) to promote first-movers in the market, and thereby facilitate broader private investment and innovation in small companies working in sustainability in energy, and (ii) to foster greater economic benefits from clean energy economic growth.

The CB region is well endowed with the raw resources needed for scaling-up renewable energy investments in solar, wind, hydro, geothermal and other clean energy resources. Energy efficient technologies and associated business models offer the greatest low-cost opportunity for reducing GHGs in the medium term. The IDB estimates that the region could reduce energy consumption by 10% over the next decade using current best practices and existing efficient technologies. This is an opportunity to harness private initiative to enhance energy security, save billions of dollars and serve the global public good. IDB-financed projects are demonstrating that the return on investment for efficient lighting and electric motor programs exceeds the returns generated by new energy capacity, while reducing GHG emissions.

This equity fund will also target specific investments that support climate change adaptation and resiliency. Consistent with GEF and IDB strategic plans, this fund will consider development sectors, such as infrastructure, agriculture, water resources management, energy, and coastal zone management that are most vulnerable to climate change. Investment will be closely coordinated with local and regional government initiatives which may be addressing sector specific climate risks, such as the potential for damages to ports, hydropower, agribusiness, and water-intensive industries. The project will coordinate with the GEF Adaptation Program to identify investment opportunities consistent with shared understanding of risks and response strategies (e.g., investments consistent with adaptation strategies for ports in areas subject to more intense storms such as those in the Caribbean.) The project will also seek opportunities to coordinate investment specifics and climate risk with an eye to the needs for risk-management by insurance companies.

Several barriers continue to hamper business and investment in many countries of the region, such as regulatory and bureaucratic hurdles that hinder new business formation and raise private transaction costs facing investors and entrepreneurs. The most important impediment facing renewable energy, energy efficiency and sustainable businesses in CB is the reluctance of traditional investors and local financiers to fund these projects and firms. This is particularly acute because these activities are commonly seen as carrying high financial and technological risks. Risk is often seen as higher when operations involve indigenous communities or other traditionally excluded groups. The main rationale of this GEF operation is to facilitate successful "first-movers" in the marketplace that through a viable proof of concept encouraging new entrants and business models, spawning new global environmental benefits and further reducing the vulnerability of lower income populations, including women and the indigenous.

D. Discuss the value-added of the program vis-à-vis a project approach (including cost effectiveness)

The proposed Sustainable Caribbean Basin Private Equity Fund ("CBPEF") includes private sector stakeholder commitment by proven market players such, as Manifest Energy and NRG (led by their principals). These partners have demonstrated financial commitment, technological, operational and policy expertise, and an enviable track record of successful deployment in emerging markets. The Fund managers will convene high level stakeholders through networks comprised of influential foundations and NGOs, including the Clinton Global Initiative and Conservation International. Together with IDB, and several other multilateral and bilateral development institutions, they share a common goal of facilitating first-mover, catalytic investments in renewable energy, energy efficiency projects and in small, sustainable businesses.

The CBPEF will be managed by a General Partner who must follow strict market discipline in order to achieve high internal rates of return from each investment, while minimizing fund costs. Each investment is subject to rigorous due diligence and financial analysis. Fund design and due diligence will be done by the Multilateral Investment Fund of the IDB, as well by other limited partners. This platform also provides GEF resources with high leverage and value-added in fostering catalytic investment opportunities.

It is anticipated that the total of the investments made in the Fund by Limited Partners will match the GEF contributions on at least a 1:1 ratio. It is further that this PPP will achieve leverage from 4:1 to 7:1, depending on the financial structuring for the respective transactions. Therefore, a $15m investment by the GEF in the Sustainable Caribbean Basin Private Equity Fund ("CBPEF") should potentially represent $200m of deployed capital amongst the island states and coastal regions of the underserved Caribbean region.

E. Describe the baseline program and the problem it seeks to address

Problem to be addressed:

From the perspective of the IDB private sector, the main problem to be addressed in this Fund is the risk profile facing investments and small firms in operating in renewable energy, energy efficiency. Sponsors of renewable energy projects in the region, depending on project size, have had limited success in financing projects with local or outside capital. However, financing has been far more difficult for SMEs and for small projects in renewable energy, and energy efficiency. These opportunities exceed most investors' risk appetites and generally do not meet local banks credit conditions.

The IDB has also addressed this issue from other directions, such as support for institutional and regulatory framework reforms for renewable energy and climate action, as well as work in support of National Appropriate Mitigation Actions (NAMAs), dialogue and outreach in climate mitigation, participation in carbon markets, among other activities. A significant Fund for the Caribbean Basin collaborating with premier NGO's and Foundations will mutually reinforce the probability of success in the region's attainment of its economic and climate mitigation goals.

Baseline:
The IDB supports investments in renewable energy through both its public and private windows. Since 2000, the public and private sector windows of the Inter-American Development Bank have financed over US$2.1 billion in renewable energy projects, including hydropower, wind power, and geothermal sources of energy. Since 2005, the Inter-American Investment Corporation (a member of the IDB Group) has financed more than 10 renewable energy projects, including hydro, biofuels, and landfill methane. The Bank's Multilateral Investment Fund has provided funding for renewable energy and invested in four clean-energy venture capital funds. The IDB has helped the expansion of wind power in CB by helping local wind companies, with financing in the form of non-sovereign guarantee loans.

IDB public operations are supporting energy efficiency projects in Peru, Chile, Barbados, the Bahamas, Chile, the Dominican Republic, Jamaica, Mexico, and Peru, with investments of over US$100 million. The Bank's private sector operations are financing significant energy efficiency investments in heavy industry and agribusiness. The Bank's private sector department has partnered with UNDP and the Global Environment Facility (GEF) to create guarantee mechanisms for developing and stimulating energy efficiency investments in commercial buildings in Brazil.

F. *Incremental* /*Additional cost reasoning*: **Describe the incremental (GEF Trust Fund) or additional (LDCF/SCCF) activities requested for GEF/LCDF/SCCF financing and the associated** *global environmental benefits* (GEF Trust Fund) or associated adaptation benefits (LDCF/SCCF) to be delivered by the project.

GEF funds will facilitate the first closing of Sustainable Caribbean Basin Private Equity Fund ("CBPEF") by adding needed resources, and the globally-recognized GEF brand to a list of other high quality investors. The Fund is targeting a capitalization of US$ 50 million, shared by public and private sector contributors, and aims to invest in eight to twelve low carbon projects with an expected internal rate of return to investors of at least 12%. This fund is highly innovative and flexible in the structuring of equity-based financial products, with deal structures aimed at achieving high returns from energy efficiency while reducing GHG emissions. The Management Team has developed a robust pipeline that is designed to optimize investment opportunities according to its investment strategy. The CBPEF general objective is to expand access to the benefits of economic renewable energy, efficiency, and distributed generation for utilities, local industry, municipalities, households, and small and medium size enterprises in the Caribbean Basin.

Given their innovative investment strategies, the majority of the early co-funding in the CBPEF will come from multilateral organizations and institutions, such as GEF and the IDB. Having credible and globally recognized partners such as GEF in these funds will facilitate further fund raising, including from co-investors in the private sector. These funds will also attract further private sector interest at the level of investee companies, as some private investors will be attracted to firms in funds supported by the IDB-MIF and GEF.

G. Describe the socioeconomic benefits to be delivered by the Program at the national and local levels, including consideration of gender dimensions and how these will support the achievement of global environment benefits (GEF Trust Fund) or adaptation benefits (LDCF/SCCF).

The Sustainable Caribbean Basin Private Equity Fund ("CBPEF") is gender inclusive and investment operations and related technical assistance activities confer benefits and opportunities for women in local low-income populations. Members of the management team, advisory board and leadership for the CBPEF will include women. Other socioeconomic benefits expected from this program include:

a) Increased energy efficiency, renewable energy and improved performance of sustainable business models, with corresponding reductions in greenhouse gas emissions and measurable improvements in the sustainable use of natural resources.

b) Growth in local jobs associated with funds' investments in energy efficiency, renewable energy and sustainable businesses and associated local multiplier effects.

c) Increased benefits for low income households and greater access of women to affordable energy and efficient appliances, thereby reducing household electricity bills, volatility and GHG emissions.

d) An increase in new market entrants (investors, business start-ups, private lending) resulting from successful pilots from first-movers and associated demonstration effects in energy efficiency, renewable energy and sustainable businesses.

e) Increased in entrepreneurial opportunities for traditionally excluded groups, including indigenous communities and women, in areas such as sustainable business models, renewable energy and energy efficiency.

f) Increased public sector awareness of the promising market in renewable and energy efficient technologies, leading to improvements local enabling frameworks and increased public revenues.

H. Justify the type of financing support provided with the GEF/LDCF/SCCF resources:

GEF resources will be invested in projects or companies. All deals will be based on sound due diligence and strict market principles. Fund managers will aim to achieve the highest financial returns subject to the lowest possible risks. In all investments, appropriate commercial risks will be defined clearly in a cost-effective manner. Venture capital funds are designed and managed in such a way that GEF should expect to receive a return of its investment plus significant earnings for reinvestment in future opportunities. The MIF is the largest investor in small venture capital funds in the region (approximately US$200 million committed) and has incorporated lessons learned into this platform in order to achieve the highest cost-effectiveness within a portfolio of venture capital funds in this program.

The indicative allocation of GEF resources is as follows:

Fund	*GEF resources (in US$ million)*	*Other Resources (in US$ million)*	*Targeted Cap (in US$ million)*	*Leverage ratio*	*Total Capital Deployed*
CBPEF	15.0	35.0	50.0	1:4	200.0

MIF will work closely with CBPEF, and remain in consultation with the GEF Secretariat, to determine the final allocation of resources consistent with the investment strategy and capitalization of each fund.

I. Indicate risks, including climate change risks that might prevent the program objectives from being achieved, and if possible, propose measures that address these risks to be further developed during the program design:

The main risks facing investments made by this fund are:

(i) Regulatory risks: Unanticipated changes in local or national regulatory or legal frameworks could raise the costs of investments, thereby adversely altering fund economics.
(ii) Technology Risks: Unforeseen changes in renewable or energy efficient technologies could alter the financial viability of selected investment projections.
(iii) Policy Risks: Unforeseen shifts in local or national policies regarding renewable energies, in particular, could adversely affect fund economics.
(v) Environmental Risks: CBPEF will have the opportunity to invest in forestry projects. Where applicable, CBPEF will require each investee company to go through a rigorous environmental screening and evaluation process, including the application of a tested and established M&E tool utilized by CBPEF Fund I. The process includes integrating specific environmental and social standards for each target industry, such as criteria on biodiversity conservation, sustainable resource use, and community involvement. This screening methodology enables the Fund to identify any relevant issues in potential investees and to monitor existing investments. In addition, each potential investee is asked to consult with experts skilled in performing fieldwork and evaluation regarding its environmental and social impact. Conservation International (CI), or

comparably respected NGOs with field experience will work closely with certification authorities to ensure that environmental risks are properly managed.

In each of the cases above, fund managers take measures to mitigate these risks.

J. Outline the institutional structure of the program including coordination and monitoring & evaluation:

The MIF is requesting US$15 million in reimbursable resources from GEF for the Sustainable Caribbean Basin Private Equity Fund ("CBPEF"). The CBPEF will invest in renewable energy and energy efficiency projects and in small companies with sustainable business models. These funds normally have an average life of 10 years. The first 4 to 5 years of a fund is typically dedicated to locating, analyzing and investing in companies, with another 5 to 6 years for investment maturation and eventual exit. Funds normally charge a management fee of 2%. After returning capital to each investor, plus a hurdle rate (usually from 6%-8%), funds will distribute 80% of carried interest to limited partners, based on the proportion of their investment in the fund. As a shareholder of each Fund, the GEF will also receive its share allocation of each distribution, in common with all Limited Partners.

The MIF also requires that private sector investors match or exceed the amount of the MIF investment in each fund. Each fund has a full system for monitoring and evaluation in place, as well as an indicators framework. These will be made available in a common portal as part of this program.

Under Option 1 of the GEF Operational Modalities, the IDB is seeking GEF Secretariat concurrence in advance for the full investment in the CPBEF. The IDB will perform all the needed diligence on behalf of the GEF funding in the CPBEF.

K. Identify key stakeholders in the program including the private sector, civil society organizations, local and indigenous communities, and their respective roles if applicable.

The CBPEF will have limited partners (LPs) in the form of private companies, individual investors, international organization, civil society organizations or community groups, multilateral development banks, national development bank, family offices or other organizations willing to invest equity in a venture capital fund. Fund managers and their investment staffs will work closely with public authorities; civil society and indigenous groups to ensure that robust environmental and social safeguards are in place and that all fund operations comply with local laws and requirements.

L. Indicate the co-financing amount the GEF agency is bringing to the project.

The MIF will invest up to US$5 million in reimbursable resources[6] in CBPEF. Further, the MIF will introduce the CBPEF to a network of potential investors. The CBPEF has a preliminary target capitalization of US$50 million. Other potential investors are the European Investment Bank, NRG, Family Foundations, and other private investors.

[6] This total is pending approval by MIF Donors of an investment in the Sustainable Caribbean Basin Private Equity Fund ("CBPEF") for an amount, subject to board approvals. Note that this proposal only refers to MIF investment in the CBPEF, and not to potential investments made by other departments or members of the IDB Group.

PART III: APPROVAL/ENDORSEMENT BY GEF OPERATIONAL FOCAL POINT(S) AND GEF AGENCY (IES)

A. RECORD OF ENDORSEMENT OF GEF OPERATIONAL FOCAL POINT (S) ON BEHALF OF THE GOVERNMENT(S):
(Please attach the Operational Focal Point endorsement letter (for programs accessible to all GEF Agencies) and Operational Focal Point Endorsement letter (for programs accessible to GEF Agencies with board) with this template.

NA

B. GEF AGENCY (IES) CERTIFICATION

This request has been prepared in accordance with GEF/LDCF/SCCF policies and procedures and meets the GEF/LDCF/SCCF criteria for project identification and preparation. Following the new project cycle, AfDB will submit all PIFs under the program within 6 months after Council approval of the PFD.

Agency Coordinator, Agency name	**Signature**	**DATE** *(MM/dd/yyyy)*	**Project Contact Person**	**Telephone**	**Email Address**
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