GEF Council Work Program Submission
Project Document

World Bank Project ID:

Country: Global

Project Title: Environmental Business Finance Program (EBFP)

GEF Implementing Agency: World Bank

Other Executing Agency: International Finance Corporation (IFC) (direct execution)

Duration: 10 years

GEF Focal Area: Climate Change, Biodiversity, Land Degradation, Persistent Organic Pollutants

GEF Operational Program: OP Numbers 1to7 and 11to15

Financing Plan in (US$)	
GEF Project/Component	
Project:	20,000,000
Sub-total GEF:	20,000,000
Expected financing from commercial sources (including IFC):	70,000,000
Technical Assistance:	
Donor organizations co-funding or complementary projects:	10,000,000
TOTAL PROJECT FINANCING	**100,000,000**

GEF Strategic Priority: The EBFP has identified a number of activities and sectors to be targeted within four GEF focal areas, specifically, within Biodiversity pillars I-IV, Climate Change priorities S1-S2, S4-S6, Land Degradation priorities I-II, and will incorporate priorities for Persistent Organic Pollutants (POPs) once they have been drafted by GEF.

Estimated Starting Date: April 2004

Project Summary: The EBFP aims to create a sustainable market for Small and Medium Enterprise (SME) activities and projects that target any of the GEF focal areas of climate change, biodiversity, land degradation and POPs. The program responds to the key issues that limit the abilities of these SMEs, namely, limited access to financing and the general lack of capacity among SMEs, as well as the lack of an enabling environment. The EBFP design is comprised of three principal activities: (i) the Financing Facility - through which the EBFP aims to demonstrate to Financial Intermediaries that GEF-eligible SME finance can be profitable; (ii) the Technical Assistance Program – through which the EBFP will increase the capacity of both Financial Intermediaries and SMEs; and (iii) Monitoring and Evaluation – through which the EBFP will measure its outputs and impacts and generate lessons learned so that the program can be further replicated. The EBFP will work towards creating a greater general level of awareness as to the benefits of GEF focal area activities and projects, through local partnerships and coordination with local market players.

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ACRONYMS

AP	Advisory Panel
BDS	Business Development Services
CARESBAC	CARE Small Business Assistance Corporation
CBP	Capacity Building Program
CEEF	Commercializing Energy Efficient Finance
CFL	Compact Fluorescent Light
CI	Conservation International
DFI	Development Finance Institution
EBFP	Environmental Business Finance Program
EEAF	Environmental Enterprise Assistance Fund
EMT	EBFP Management Team
ESCO	Energy Services Company
FCG	Guatemalan Environmental Conservation Trust
FI	Financial Intermediary
FUNDECOR	Foundation for the Development of the Central Volcanic Range
GEF	Global Environmental Facility
GHG	Green House Gas
HEECP	Hungary Energy Efficiency Cofinancing Program
IA	Implementing Agency
IE	International Expeditions
IFC	International Finance Corporation
IRC	Investment Review Committee
IUCN	International Union for the Conservation of Nature and Natural Resources
LEE	Local Environmental Expert
M&E	Monitoring and Evaluation
M&O	Management and Operations
NGO	Non-Governmental Organization
OP	Operational Program
OPS	Overall Performance Study
PDF	Project Development Facility
POPs	Persistent Organic Pollutants
PV	Photovoltaic
PVMTI	Photovoltaic Market Transformation Initiative
SDG	Solar Development Group
SGP	The GEF Small Grants Program
SHS	Solar Home Systems
SME	Small and Medium Sized Enterprise
SME Program	IFC/GEF Small and Medium-scale Enterprise Program
SWH	Solar Water Heaters
TA	Technical Assistance
UNDP	United Nations Development Program
USAID	United States International Development Agency
WBG	World Bank Group
WG	Wilderness Gate
WWF	World Wildlife Fund

ENVIRONMENTAL BUSINESS FINANCE PROGRAM

I. PROJECT SUMMARY

A. Introduction

1. The aim of the EBFP is to create a sustainable market for GEF-eligible[1] Small and Medium Enterprise (SME)[2] activities and projects that target the GEF focal areas of climate change, biodiversity, land degradation and persistent organic pollutants (POPs). The program responds to these SME's lack of access to financing, the general lack of management, technical and environmental capacity among SMEs and the lack of a supportive business environment for GEF-eligible products and services. The EBFP project concept has been developed to build on IFC's strategic direction of incorporating environmental and social issues in all projects as well as its strategic focus on financial intermediaries and SMEs. The EBFP is building on the experience IFC has gained over the past ten years in SME finance and in sustainable business development and will continue to incorporate lessons learned from its work in financial markets and SME development. The EBFP has also incorporated lessons learned from the IFC/GEF Small and Medium Enterprise Program (SME Program) and other GEF-funded programs, including the Hungary Energy Efficiency Cofinancing Program (HEECP), which demonstrated a viable model for combining appropriate financing with technical assistance and engaging FIs to target the SME market. By incorporating lessons learned and best practices from both IFC and GEF, the EBFP is in a position to promote the mainstreaming of GEF's global environmental objectives into IFC's operations, especially among financial institutions.

2. Through proactive market development, technical assistance and risk sharing, the EBFP will seek to engage Financial Intermediaries (FIs) in servicing the GEF-eligible SME market and demonstrate that there are profitable investment opportunities to be had. The EBFP will work with FIs to introduce best practice SME finance tools and training, as well as with SMEs to build local capacity to develop and support viable business plans. The EBFP will proactively develop the GEF-eligible SME market through market assessments, know-how sharing and best practice dissemination, as well as through activities that expand market size and scope, and raise consumer awareness. In addressing the key obstacles (lack of access to financing, limited capacity and a weak supportive environment), the EBFP aims to create a market for sustainable, mainstream GEF-eligible SMEs.

3. The EBFP will provide funding to activities that fall within four GEF focal areas (Climate Change, Biodiversity, Land Degradation, and POPs). However, it is anticipated that the majority of SMEs will be in the climate change and the biodiversity focal areas. Because the EBFP targets commercial (or near commercial) SME activities, it is anticipated that climate change activities will account for 60% to 65% of the total funding of EBFP, while biodiversity conservation will account for 25% to 30%, and activities related to the GEF Operational Programs (OPs)

[1] The EBFP defines GEF-eligible as those activities that target one or more of the Global Environment Facility focal areas of biodiversity, climate change, land degradation and POPs.

[2] SMEs are defined in accordance with the definition of the World Bank Group's (WBG) SME Department, as follows: *micro-enterprises* up to 10 employees and total assets or total annual revenues of up to US$100,000; *small enterprises* up to 50 employees and total assets or total annual revenues of up to US$3 million; and *medium enterprises* up to 300 employees and total assets or total annual revenues of up to US$15 million. For the purposes of the EBFP the definition of SME includes micro-enterprises.

addressing land degradation and POPs will account for the remaining 5% to 15% (see paragraph 78 and Annex 1).

4. The EBFP will be implemented in ten to twelve countries through programs that will be specifically developed for each country. There will be two types of country programs; (i) large country programs and (ii) small country programs. The large country programs are intended for countries where there is a market for a range of types of activities, for instance those covering more than two operational programs (OPs). The small country programs are intended for countries where there is a limited set of activities that can be targeted, for instance those covering just one or two OPs. The large country programs will comprise a fully integrated set of financing and capacity building activities, working with FIs and SME support services to target a large number of GEF-eligible SMEs in these countries. The number of SMEs targeted in each country will depend on the size of the market for the GEF-eligible activities in the country. In each country, the EBFP will work with one or two FIs and a number of SME service providers and expert organizations, as well as with other programs that support these kinds of activities. The small country programs will focus on a limited set of activities, with EBFP providing financing support to one FI (possibly two) in the country to target these activities.

5. In addition to these country programs, the EBFP will be developing smaller stand-alone interventions which focus on one activity or one intermediary, in up to another ten countries. This particular aspect of the program will focus on non-traditional intermediaries such as the existing clients of the SME Program as well as GEF-eligible medium-sized enterprises or NGOs in countries where there is no specific country program. Where an activity stands to have a significant impact on a particular sector, or if the enterprise or NGO is working with a particularly innovative approach, the EBFP would consider providing direct financing on the basis of the global environmental benefits to be generated.

6. The EBFP will continue to support the existing intermediaries of the SME Program and will remain active in the 21 countries in which the SME Program has activities. Some of these existing clients, who have proven that their business models are generating global environmental benefits, may need further financing from the EBFP in order to expand their activities and reach the desired scale and scope. In providing further financing to the successful intermediaries of the SME Program the EBFP will be able to further propagate these GEF-eligible activities and business models.

7. The EBFP would therefore be active in 30 to 40 countries; through 10 to 12 country programs, approximately ten stand-alone projects in select countries and continued support to the intermediaries in some of the 21 countries in which the SME Program was active. It is estimated that at least 500 GEF-eligible SMEs would receive direct or indirect support from the EBFP, with the possibility of reaching 1,000 SMEs if the Program is successful in all the countries.

8. The expected outcome of the EBFP support for developing the GEF-eligible SME market in the targeted countries, is that domestic sources of financing would continue to be made available to these SMEs allowing the number of SMEs engaged in activities that contribute to the improvement of the global environment to grow in number and coverage, thus generating lasting and significant environmental improvements. It is anticipated that the FIs will continue to finance the activities of GEF-eligible SMEs after EBFP support to a targeted market is exhausted, as they will have developed a viable portfolio and gained an understanding of the

risks and rewards of the sector, as well as the knowledge and experience necessary to effectively work target the GEF-eligible SME sector. Similarly, know-how providers are expected to continue to develop their work in these markets offering products and services to support GEF-eligible SMEs. The EBFP will endeavor to demonstrate the benefits of GEF-eligible activities, and the SME sector is expected to be stronger as a result of increased access to finance, bringing GEF-eligible SME activities from the fringe to the mainstream market. Furthermore, the program will provide the knowledge and experience needed to be able to properly evaluate a decision to continue the program in new countries. (See paragraphs 103 and 107 for further discussion of the sustainability and replicability of the program).

B. Rationale and Global Environmental Benefits

9. SMEs are an important component of any economy and are prevailing players in economic systems. SMEs, though small, diverse and dispersed, are dominant factors in most markets; therefore, targeting these SMEs is appropriate when trying to improve the global environment. The engagement of SMEs in GEF-eligible activities would promote GEF's goals and policies in emerging and transition countries and relieve the threats to biodiversity and mitigate climate change. This would strengthen GEF alignment with national policy priorities. As the dominant providers of financing in any country, FIs must be involved in any efforts to provide SMEs with appropriate financing on a sustainable basis. Getting FIs to finance SMEs would contribute significantly to the economic development of countries. In the case of GEF-eligible SMEs, opening the market for domestically sourced financing would have a significant impact on the development of the activities that GEF promotes. Although FIs traditionally tend to avoid SME finance, as it is high risk and high cost, particularly when SMEs are involved in GEF-eligible activities, recent best practices in Part I countries have demonstrated that SME finance can be made profitable with the appropriate approach and methodologies.

10. The objective of the EBFP is to adapt these approaches for GEF-eligible SMEs in developing countries, in order to develop a sustainable market of commercially viable GEF-eligible SMEs. The EBFP recognizes the importance of SMEs as a key component to the development of a sustainable market for GEF-eligible products and services. The major obstacles to this are: (i) the fact that GEF-eligible SMEs have limited or no access to financing, (ii) the lack of management, technical and environmental capacity among these SMEs and, (iii) the lack of a conducive business environment for these SMEs[3]. Through the provision of appropriate financing and technical assistance, the EBFP aims to address some of the market failures that limit the opportunities for GEF-eligible SMEs to grow and prosper.

11. By encouraging FIs such as banks, leasing companies, and microfinance institutions, to engage in the financing of SMEs undertaking business activities that target any of the 12 GEF Operational Programs[4] covered by the program, the EBFP will be contributing to the improvement of the global environment. Domestic FIs are the largest contributors to enterprise financing in emerging and transition countries. Unleashing this source of financing would have

[3] An example of an environment that is not enabling for the implementation of EBFP, as regards to GEF-eligible activities, would be where the government subsidizes the energy market. This has been demonstrated to lead to a perception by consumers that energy is free and there is no need to conserve it. SMEs looking to enter the renewable energy market under these conditions have found it very difficult to compete against subsidized energy and consumer perceptions.

[4] The EBFP will finance three types of technologies (i) those that have been tested in Part I countries but not in Part II countries; (ii) those that have proven profitable in emerging countries; and (iii) those that have not yet proven profitable, but have good prospects to reach profitability in a reasonable amount of time.

a significant impact on allowing a number of activities contributing to the fulfillment of the GEF OPs to take place and develop. If the EBFP is able to engage these FIs in participating in this market, the impact would then be quite significant, going beyond individual project impacts and even beyond the impact of many GEF country programs. EBFP affords an opportunity for GEF to engage the domestic financial markets in its activities and to contribute to GEF's strategic priorities.

12. The EBFP will establish relationships with a number of domestic players from FIs, non-governmental organizations (NGOs), technical assistance (TA) providers, business development services (BDS), government agencies, donor-funded programs and academic institutions in order to develop the GEF-eligible SME market. The EBFP will assist FIs to develop appropriate financing mechanisms, which respond to the specific nature of GEF-eligible SMEs. Partnerships will be developed with NGOs, TA and BDS providers and other organizations to provide TA support to SMEs for the development of their overall capacities, and the program will seek to leverage off other NGOs and donor programs to create a more conducive business environment and a greater demand for GEF-eligible SME products. Further, the EBFP will support local market actors in increasing awareness about, and demand for, GEF-eligible products and in influencing policy makers to reduce regulations that limit possibilities for SME growth. In addressing these market failures, the EBFP aims to proactively develop both the demand and supply sides of the market for these activities through the introduction of innovative financing mechanisms, capacity building and replication of proven business models, technologies and approaches. In summary, while the overall objective of the EBFP is to develop a sustainable market for GEF-eligible SMEs, the initial goals will be to interest FIs in the financing of this type of activity and to increase the overall capacity of GEF-eligible SMEs.

The Importance of SMEs

13. In developing countries, SMEs contribute a large share of a country's GDP, employ a large proportion of the population[5] and comprise the majority of enterprises[6]. SMEs account for the creation of a disproportionately large share of new employment in an economy compared to larger corporations and, thus, make a significant contribution to economic growth. SMEs are the seedbed for innovation and entrepreneurship; they are the main drivers of innovation, efficiency and growth resulting from new entries, competition and flexibility and are the engines of job creation.

14. Providing support to women and indigenous groups is increasingly becoming an integral part of the sustainable development process. The SME sector offers fewer barriers to entry to women and indigenous entrepreneurs who often have to harmonize their income earning pursuits with other traditional responsibilities and, thus, the bulk of women and indigenous business enterprises fall within the SME sector.

15. Given the importance of the SME sector for the development of economies in emerging and transition countries, the international development community has focused on SME development as one of the pillars of economic development. The World Bank Group decided in

[5] According to World Bank figures (2001 research), formal sector SMEs account for over 17% of GDP and over 30% of employment in low-income countries, about 40% of GDP and over 50% of employment in middle-income countries and close to 60% of GDP and more than 62% of employment in high-income countries.

[6] In most developing countries, enterprises with fewer than 100 employees account for over 90% of firms, and in many countries account for as many as 99% of firms.

2000 to create a combined IFC/WB SME Department as a result of these emerging development priorities to focus exclusively on the implementation of a strategy for the development of SMEs.

16. The SME segment is difficult to define as the term “SME” is generally used as a catchall term for any enterprise that falls somewhere between a survival-level micro-enterprise and a large unit that employs hundreds of people[7]. It is important to note that the SME segment includes a wide range of enterprises ranging from small enterprises, which focus mostly on the domestic market and are often managed (sometimes informally) by families, and medium-sized modern sector enterprises oriented towards export. Distinctions also need to be made in the function of the SMEs’ different growth potentials according to their positions in their sectors and markets.

17. The growth of SMEs and their impact on economic development depends to a great extent on access to financing for the enterprises as well as capacity building at both the financial intermediary and the enterprise levels. Because SMEs are traditionally high-risk entities with small value per loan, financial intermediaries have made only limited forays into SME markets. In many countries, SMEs rely, almost exclusively, on personal savings and family funds for their start-up and working capital needs. One of the biggest development challenges is addressing the issue of access to finance for SMEs and lack of know-how among these enterprises and those who serve them such as FIs, business development service firms (BDS), NGOs, associations, and cooperatives.

18. In many developing countries and economies in transition, a number of FIs are starting to realize that SMEs, which typically represent a significant, largely untapped market, can be a promising market to pursue. However, the quandary is how to do so profitably. This potential opportunity is particularly important in those countries where there is intense competition for the large corporate customers, resulting in decreased margins and reduced volumes of business. Profitable SME lending typically requires a different approach than traditional corporate lending; among others, appropriate risk management systems and marketing structures need to be put in place. In addition, Technical Assistance (TA) is needed for those FIs that are just entering the market and would benefit from the experience gained elsewhere.

19. IFC is engaging with a number of FIs that have expressed an interest in targeting SMEs to expand their portfolios and markets. Based on its experience so far, IFC has identified important pre-requisites for a successful expansion of sustainable conventional SME financing. Apart from basic peace and stability, these include: (i) functioning financial and legal systems; (ii) sound, or potentially sound, domestic financial intermediaries; (iii) access to additional domestic foreign investment capital; (iv) availability of funds to support associated technical assistance and capacity building initiatives at intermediary and borrower levels, as well as with respect to general market development; and (v) in some cases, access to concessional financing to mitigate some of the risks faced by commercial investors. New, emerging approaches to SME lending, offer scope for improved viability. The EBFP will also capitalize on the learning in SME finance that is evolving in IFC’s Financial Market Group and the WBG’s SME Department to bring

[7] In terms of employment, the small end of the SME range would, depending on the country, be situated somewhere between 3 and 10 jobs and the upper limit between 50 and 300 jobs. Definitions in terms of assets or turnover are even more variable due to sectoral specificities. For simplicity’s sake, a standard definition is used in the context of EBFP in order to maintain consistency among countries. The EBFP is adopting the definition of SMEs as determined by the WBG SME Department (see Footnote 2).

cutting-edge approaches to financial intermediaries that will be targeting GEF-eligible SMEs (see Annex 2 for more details on IFC's approach to SME development).

20. The EBFP focus on SMEs is driven by the following:

a. SMEs encompass a large portion of the active population and therefore, present an opportunity to promote good environmental practices and to introduce and expand activities in renewable energy, energy efficiency and biodiversity conservation, among others, to a wide segment of the population. The introduction of practices, such as solar energy or sustainable forestry, to this important and large segment of an economy, is bound to have a significant impact.

b. SMEs are active throughout the developing world, not only in the urban centers, but also in rural areas and, thus, the spread of GEF-eligible activities and projects can be effectively achieved through them.

c. SMEs are locally based, often family owned, and are well integrated within the local environment; and thus bring local ownership, acceptance of the importance of the global environment, and endorsement of GEF goals.

d. SMEs can demonstrate that doing the right thing for the environment also makes good business sense and can generate income and not just be considered as a cost or a burden.

e. SMEs are better than larger firms at accepting innovations and at introducing new small-scale technologies, especially if these technologies are demonstrated to achieve results in other markets.

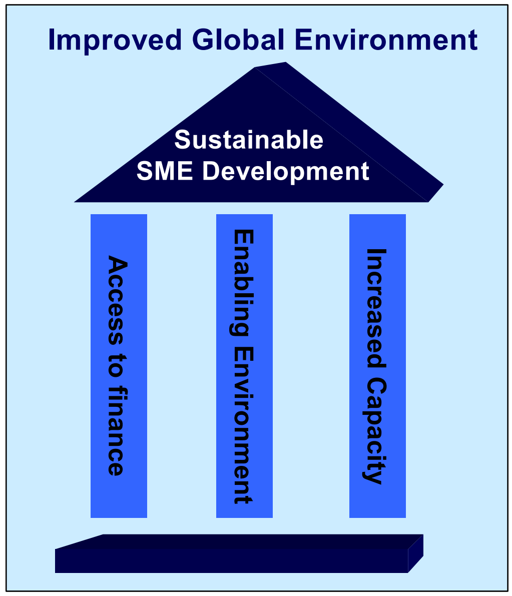
21. The EBFP's focus is therefore to facilitate the access to appropriate finance and the provision of technical assistance for capacity building for SMEs to undertake GEF-eligible activities in order to achieve GEF strategic priorities through this important segment of emerging and transition economies.

C. Pillars to Sustainable SME Development

22. Access to finance, increased capacity building and an enabling environment are the three pillars to SME development (see figure 1). The EBFP is designed to address obstacles faced by environmental SMEs through a focus on these pillars. The issues of access to finance and increased capacity are addressed by the EBFP directly through the financing facility and the TA Program. The EBFP will work to support the creation of an enabling environment by building on the reforms countries introduce to improve market conditions (e.g. reduction of excessive regulation, promotion of benefits of GEF-eligible products and services to increase demand, as well as any and all factors that impact the regulatory, legal, financial, political, social and business environment within which the SMEs operate) through the involvement of local and international stakeholders such as NGOs, the WBG and others in developing and implementing these reforms. The selection of countries in which the EBFP will operate will therefore include an assessment of the enabling environment and the commitment of governments to improve it (see paragraph 65 to 70 for further details on the country selection process). In each country, where an EBFP program will be designed and implemented, activities that relate to the improvement of the investment climate for SMEs will be included to promote a more favorable business environment for GEF-eligible SMEs. These activities will range from coordinating

with other organizations on these activities, to providing inputs to share experiences gained on the ground through the implementation of the EBFP to the provision of technical assistance to SMEs and FIs.

Figure 1: Pillars of Sustainable SME Development



D. Background - The IFC/GEF SME Program

23. The EBFP takes into account the current environment for SME finance and builds upon the experiences of the HEECP, the WBG SME Department, IFC Financial Markets. In particular the EBFP builds on the experiences of the SME Program, which has sought to develop a number of commercially viable SME projects that produce global environmental benefits.

24. The SME Program finances small-scale projects through intermediaries that address: (i) biodiversity conservation and (ii) climate change mitigation (see Annex 3 for a more detailed discussion of the SME Program). Since its inception in 1995, the SME Program has supported environmentally sound and commercially sustainable SME development by approving US$16.9 million to 25 intermediaries, NGOs or companies in 21 countries that have provided financing to some 140 SMEs. These projects have worked towards achieving global environmental benefits in climate change and conservation of various ecosystems, including conservation harvesting, solar home systems (SHS), energy services companies (ESCOs) engaged in energy efficiency projects in commercial, industrial and residential sectors, ecolodges and energy efficient homes and some have attained highly prestigious recognition through international awards. Annex 3 provides details on the portfolio of investments made by the SME Program over the last seven years.

25. The SME Program has established a solid reputation attracting the continued interest of intermediaries and other institutions. The initial US$4.3 million pilot phase, the first concessional loan program funded by GEF, was approved in July 1994 and became operational in November 1995. The program was replenished with US$16.5 million in 1997 to expand

operations in order to gain a wider scope of SME project experience. Recent evaluations[8] and lessons learned indicate that the SME Program has been successful in developing a significant number of SMEs active in its two GEF focal areas through financing non-traditional financial intermediaries, NGOs and companies (See Annex 3 for a summary of evaluation findings). The SME Program has demonstrated that SME projects focused on GEF-eligible activities can be developed through a non-grant financing mechanism, which attracts private sector capital.

Lessons Learned

26. The SME Program provided a number of lessons learned that have been instrumental in the design of the EBFP. SME Program experience has demonstrated that there is a need to make a clear distinction between the roles of technical assistance providers and expert organizations providing know-how, and financial intermediaries providing financing, since each requires a different set of skills. Furthermore, it has become apparent that the SME Program needed to take a more proactive approach, aiding FIs in identifying GEF-eligible SME activity opportunities, and providing assistance to pursue these opportunities. Additionally, in order to decrease the incremental risk associated with GEF-eligible SME financing, the EBFP and participating FIs should pre-agree on environmental and financial performance targets and on appropriate incentives to encourage their attainment, monitoring progress towards them with a formal monitoring and evaluation structure. Flexibility in program design has proved important for implementation in varied countries, environments and markets. Several SME Program projects have demonstrated the need for a structured TA program, providing know-how and capacity building for both the FIs and the SMEs, as the overall lack of capacity has proven to be a significant incremental cost. Annex 3 contains a more complete list of lessons learned from the SME Program.

E. Objectives

27. In order to develop a sustainable market for commercial GEF-eligible SMEs, the EBFP has identified the following objectives:

a. Provide GEF-eligible SMEs with access to financing by expanding the interest of mainstream FIs in providing financing to these SMEs.

b. Build the technical capacity of SMEs and FIs.

c. Enhance GEF technical capability among civil society, government and private sector specialists.

d. Increase consumer market awareness.

e. Support GEF-eligible activities that are not yet proven in the market.

f. Support local market actors in the creation of a more enabling environment for GEF-eligible SMEs.

g. Change attitude and knowledge level of market actors as to the benefits of GEF-eligible activities.

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[8] An interim evaluation of the SME Program was carried out by Econergy International Corporation between May and September 1999, with an update in May 2002.

F. Outcomes and Outputs

28. The EBFP aims to achieve the following outcomes by the end of its ten-year operational period:

a. Increase supply and demand for GEF-eligible goods and services in target country markets.

b. Increase in financial resources that are allocated by FIs and SMEs to fund the growth of the GEF-eligible SME market.

c. Increase in market awareness, tools and experience of GEF-eligible SME market players, such that they are able to continue to operate successfully beyond the EBFP.

29. These outcomes will result from the following main program outputs (see Annex 7 for more information on how these outputs will be measured):

a. Grow and mainstream the GEF-eligible SME market, with a target to reach an aggregate of at least 500 SMEs in up to 40 countries[9], and generate incremental funding, including private sector capital to leverage GEF funds (at a ratio of at least 4:1), to support activities that generate global environmental benefits.

b. Establish TA Programs providing incremental funding for training and development, to GEF-eligible SMEs, and to the mainstream FIs interested in financing them. Derive lessons learned and best practices for this market and demonstrate its profitability to FIs.

c. Establish strong linkages with stakeholders such as NGOs, government and private sector specialists, which include the provision of TA on the importance of GEF-eligible activities.

d. Demonstrate case for scaling up new technologies.

e. Establish a system working with sub-projects, FIs, and other stakeholders to educate consumers as to the benefits of GEF-eligible activities.

f. Document the 'lessons learned' and 'best practice' regarding successful tools and technologies for creating sustainable GEF-eligible SMEs, and disseminate these lessons.

G. Program Activities

30. The EBFP is designed to build on the successes, experiences and lessons of the SME Program. It will also build on and continue to learn from IFC's mainstream SME finance activities and the experiences of other GEF Implementing Agencies (IAs) in order to work with SMEs through FIs and, if appropriate, work directly with SMEs in "stand-alone" projects that offer significant GEF benefits but that have not yet reached market acceptance. The EBFP Management Team (EMT), an IFC staffed management team, will manage the program. The EBFP is comprised of three main activities: (1) the Financing Facility, (2) the Technical

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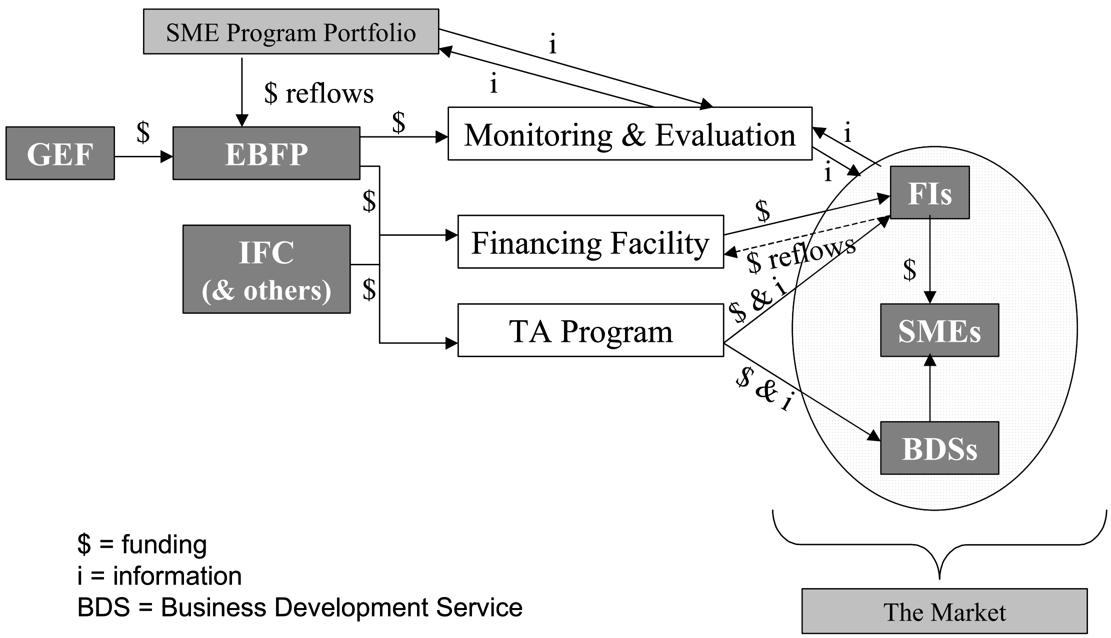
[9] These 40 countries will include: (i) between six and ten country programs which will comprise a fully integrated set of financing and capacity building activities, (ii) up to another 10 countries in which the EBFP will be developing smaller interventions, and (iii) the 21 countries in which the SME Program has activities.

Assistance (TA) Program and (3) EBFP Monitoring and Evaluation (M&E). Figure 2 depicts the structure of the EBFP, and its relationships with IFC and partner institutions.

Figure 2: EBFP Structure



1. Financing Facility

a. Financing FIs

31. One of the biggest development challenges concerns SMEs' lack of access to finance. The challenge is even larger for new and/or non-traditional business models or unproven activities such as those undertaken by GEF-eligible SMEs. Recent research has shown that SMEs represent a significant, largely untapped market of potentially profitable clients for financial intermediaries in emerging and transition markets (see paragraph 9). However, profitable SME lending typically requires a different approach than traditional corporate lending, with appropriate risk management systems and marketing structures, requiring intermediaries to acquire new capabilities and resources. The Financing Facility is designed to help encourage FIs to provide commercial financing to SMEs that undertake GEF-eligible activities, primarily through non-grant financing modalities.

32. The Financing Facility has been developed to share the risks associated with building a portfolio of GEF-eligible SMEs by FIs and to provide FIs with performance-based financial incentives for predetermined environmental and financial benchmarks. The EBFP will offer different types of financing (more details on these forms of financing are provided in Annex 4), depending on the needs in the specific country. Some of the financing modalities that will be offered address liquidity constraints and risk sharing with the FIs in the provision of financing to GEF-eligible SMEs (see paragraph 33), while others when the FIs have sufficient liquidity address only the issue of risk sharing (see paragraph 34).

33. To address liquidity constraints for the FIs, EBFP would be able to provide different forms of financing, such as:

a. provide direct financing to the FI. This could take the form of senior debt and/or quasi-debt including: (i) subordinated debt instruments or (ii) performance-based income participating instruments, by which profits are shared on a pre-agreed formula based on the performance of the underlying sub-projects.

b. provide guarantees or partial guarantees to an institution or institutions providing financing to the FI. In addition to allowing the FI to access finance, this type of support reduces the foreign exchange risk for the FI.

c. purchase a subordinated tranche of a structured finance instrument to reduce the risks for lenders to fund senior tranches of the instrument (e.g. EBFP would take a first loss position along with the FI)

34. To encourage FIs that have sufficient liquidity, but fear the risks associated with GEF-eligible SME financing, EBFP could provide guarantees or partial guarantees directly to the FI (ie. EBFP guarantees the repayments by the SMEs to the FI).

35. As developments in financial markets occur, and depending on the local markets and the needs of the FIs, there may be other forms of financing that the EBFP will be able to offer. Other forms of financing will continuously be explored, leveraging IFC's work in the financial markets and its pioneering efforts in developing new more appropriate forms of financing for the SME sector.

36. The financing provided will be priced appropriately to reflect the specific market conditions and the associated incremental risks. To address the incremental risk, the FIs will receive financial incentives based on achieving pre-agreed performance targets, including both environmental and financial performance. The incentive structure will be developed following both credit and environmental assessment methodologies, and will reflect the specific conditions of the target market. In order to assist FIs in evaluating the performance, a scorecard will be developed to provide FIs with a usable tool to manage the SME portfolio to optimize the financial incentives by selecting the appropriate GEF-eligible SMEs to finance (the scorecard is further described in paragraph 94 and Annex 6).

b. Financing Non-Traditional Intermediaries and Cutting-Edge Activities

37. During the early stages of the SME Program, it was discovered that there were small private entrepreneurs engaged in GEF-eligible activities, that showed a lot of promise from an environmental perspective but the business case was not yet demonstrated, and the market acceptance of their product or service was not yet there. For example, loans were made to private entrepreneurs to lease rural solar home systems (SHS) in Honduras, to sell solar water heaters (SWH) in Egypt, to replace old light bulbs with energy efficient bulbs, and to a small ecolodge in Tanzania. At the time of the SME Program assessment, the business case was not yet demonstrated; instead, the priority was in developing a financing structure to accommodate these specific entrepreneurs as the GEF-eligibility of the project was thought to be attractive and the business model needed to be developed.

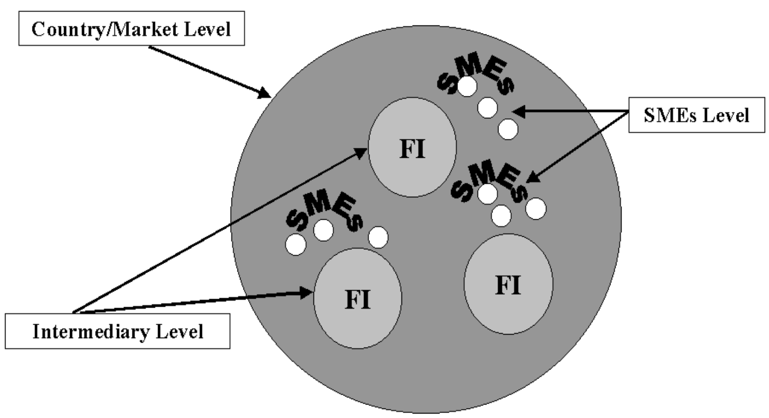
38. Although, the main focus of the EBFP will be working with FIs on clusters of SMEs undertaking a range of GEF-eligible activities the EBFP will also, as described in paragraph 5,

when appropriate finance non-traditional intermediaries such as the existing clients of the SME Program, as well as individual GEF-eligible medium sized enterprises, in countries which appear to offer substantial GEF benefits at the time of assessment. Building on the experience gained through the SME Program, the EBFP will assess and structure direct project finance for these stand-alone projects. The operating structure of the EBFP is expected to lend itself to an evolving pipeline where these stand-alone projects will emerge[10]. The EBFP will limit the financing for each individual stand-alone SME to US$300,000, while limiting the portfolio exposure of this type of project to US$2.0 million in total.

2. Technical Assistance Program

39. The TA Program has been designed to complement and strengthen both the Financing Facility and the Monitoring and Evaluation component (see Annex 5 for a more detailed discussion of the TA Program). The TA Program has two primary objectives: (i) facilitate and enhance the development of the market for GEF-eligible SME activities, products and services; and (ii) strengthen the capacity of FIs and SMEs to operate in this market and to deliver global environmental benefits. The TA Program will work on three levels (see Figure 3):

Figure 3: TA Program



a. ***At the market level***, the program will proactively develop the market for GEF-eligible SME financing within the target country by providing capacity building for activities to support the growth of GEF-eligible clusters of SMEs, such as: (i) identifying and assessing market opportunities, including specific case studies of potentially viable GEF-eligible clusters to help determine the program focus; (ii) assisting in technology transfers; (iii) training of local human capital through a train-the-trainers program and specifically targeted business development services; (iv) information dissemination of best practices to support mainstreaming and market adoption of program activities; (v) replication of proven technologies, capacity building tools and business models; and (vi) building the capacity of GEF-eligible SMEs in all segments of the market ranging over the entire production cycle, from producers to retailers.

b. ***At the FI level***, the EBFP will focus on building the capacity of FIs to service GEF-eligible SMEs, by introducing best practice SME finance methodologies, and assessing GEF-eligible credit risk. A TA Program will be designed for each FI that

[10] In fact, the SME Program was approached by the IFC to co-finance a small private ecolodge in an important biodiversity buffer zone; at the time the project was considered to be a "one off".

meets its particular needs. The TA Program will include such activities as: (i) a range of training programs, including training in environmental finance and IFC environmental and social guidelines;(ii) the hiring of staff with environmental finance expertise (such as an environmental loan officer) to internalize this knowledge and increase the FIs human capital; (iii) the design of an FI-specific scorecard with both environmental and financial performance measures, and the implementation of a real-time automated M&E system to improve portfolio supervision; (iv) the introduction of other tools and techniques to aid in the management of the GEF-eligible SME portfolio; and (v) the development of computer-based expert 'help' systems for the routine use of FI decision makers. TA will also be provided to strengthen the EBFP-related monitoring and evaluation capacity of the FIs.

c. **At the SME level**, TA programs will target business development services (BDS) and capacity building programs (CBP) that work directly with SMEs. EBFP TA Programs will not be targeted to individual SMEs. Instead, EBFP TA Programs aim to enhance the knowledge and skills base of BDS and CBPs that reach a large number of eligible SMEs. TA programs will focus on environmental and financial capacity building, mentoring and information dissemination by the BDS and CBP to eligible SMEs. By strengthening the institutions that train and advise SMEs, EBFP TA Programs can have a much wider impact and effectiveness than it otherwise would.

40. The Technical Assistance Program will be tailored to meet the specific capacity building and implementation arrangement needs of each country[11]. The specific implementation arrangements will be determined once the market assessment has indicated the local capacity attributes and needs. Because the TA Program implementation plans and implementers will vary significantly from one country to another, the EBFP will proactively supervise and coordinate the management of each program to ensure quality and gain efficiencies through activities, such as replication of best practices, dissemination of lessons learned and sharing of training material.

41. Although each TA Program will be different, all TA management models will include one or several of the following groups as implementers[12]:

a. International NGOs

b. International consulting firms

c. Local NGOs

d. Local consulting firms, BDSs and CBPs

e. WBG SME Department project development facilities

f. Other parallel program implementers, likely including WBG, UNDP's The GEF Small Grants Programme (SGP), bilateral organization projects, etc.

g. Direct, in-country, program management by the EBFP.

[11] The TA Program will also be adapted as needed to meet the needs of stand-alone projects.

[12] Due to the nature of the EBFP and the varied TA needs anticipated in each country, it is impossible at this point to determine if the TA Program will primarily contract local or international expertise. To help ensure sustainability, local expertise will be used when adequate expertise is available.

42. The specific selection criteria for the TA management in each country will be determined by the market assessment, but each selection will follow the same methodology, in a transparent selection process. Depending on the outcome of the market assessment, one or more of the seven groups of implementers above would be incorporated in the implementation model as needed. Although each implementation program will include several groups from those listed above, one group will be made responsible for locally managing the process. It is therefore crucial that the selected implementer has a solid understanding of the EBFP and GEF goals and objectives when implementing the assignment. The EMT will carefully select both the implementation plans and the implementers and structure the assignments around performance milestones to ensure early warning indication and adjustments. A quality control process will be put in place, which will be based on measuring performance and outcomes of the implementers and the TA providers.

43. One of the main objectives of the TA Program is to support local capacity through "train-the-trainers" programs for local environmental business support providers. These could include BDS providers, local environmental NGOs with a mission to innovate and propagate environmental solutions and market transformation, consumer awareness advocates, and academic environmental research institutions developing solutions that can be implemented by SMEs. EBFP will also leverage the experience gained in other related GEF projects, such as the HEECP, Photovoltaic Market Transformation Initiative (PVMTI) and Commercializing Energy Efficient Financing (CEEF). In each country where an EBFP program is implemented, the EBFP will build on the experiences and achievements of existing GEF projects. Training programs and workshops on GEF-eligible activities will be organized and encouraged to increase awareness and to introduce new approaches to increase the capacity of local service providers. The EBFP will abide by the guidelines on the provision of BDS developed by the Committee of Donor Agencies for Small Enterprise Development[13]. It will also leverage on BDS programs being implemented by a number of organizations in different countries. By working with other programs of governments, bilateral and multilateral organizations and international NGOs, the EBFP will strive to build this local capacity, which is crucial for the long-term sustainability of GEF-eligible SME activities.

3. Monitoring and Evaluation

44. An EBFP Monitoring and Evaluation (M&E) plan is being developed in consultation with the GEF Secretariat's M&E Unit and expert staff within the WBG and other GEF IAs to assess the EBFP's results and impacts and support program management. As a core component of the overall program, the M&E plan will utilize a combination of internal and external monitoring and evaluation methods, including a scoring system, to enable the EMT to monitor, evaluate and report on the critical program impact at the SME, FI and country levels. The plan will incorporate a participatory process to produce reliable information on environmental and financial performance indicators to enable and complement capacity building and the application of lessons learned from EBFP's experience gained over time. These indicators will be refined as the program evolves. The M&E plan is summarized in paragraphs 97 through 102 and detailed in Annex 6, 7 and 8.

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[13] As illustrated in *Business Development Services for Small Enterprises: Guiding Principles for Donor Intervention*, 2001 Edition, February 2001.

H. Benefits to FIs and SMEs

45. FIs should be able to benefit in a number of ways both in the short term and in the long term by participating in the EBFP and becoming active partners. A number of benefits can accrue to the FIs as follows:

a. Being seen to exhibit **corporate social responsibility** in a competitive market for financial services where differentiation by actively seeking to contribute to "saving the world" through ethical and environmental investment decisions can add to the value of the FI. Moving from "do no harm" to actively pursuing value added activities, such as the financing of GEF-eligible SMEs, is becoming a significant strategic drive for private sector entities ascribing to the principles of sustainability.

b. **Avoid criticism from shareholder activism** at a time when shareholders are becoming increasingly assertive in promoting ethical, environmental and social considerations, encouraged by numerous influential NGOs.

c. Ability to **work with a range of NGOs and other community-based stakeholders** in an era where a more inclusive approach to business is being promoted by many corporations, as they increasingly ascribe to sustainable development principles.

d. Opportunity to **develop new skills** (in environmental and social risk assessment, appreciation of new technologies, ability to engage community stakeholders in participatory approaches, new SME finance methodologies, etc.), which will be advantageous right across the FI's business, far beyond the portfolio of GEF-eligible SMEs.

e. Opportunity to **become involved in other aspects of environmental finance,** such as carbon finance or GHG reduction credits as they relate to GEF to possibly gain advantage in the home market from these opportunities.

f. Greater awareness of the **value of certification premiums** as a benefit for SMEs in terms of improved revenues (higher prices paid for certain classes of goods, such as certified wood products, certified fish products, Soil Association-certified organic products, and possibly GEF-certified biodiversity friendly products or services), standard quality, and access to markets, which translate into an improved SME loan portfolio performance for the FI.

g. Potential to develop **spin-off business areas** such as environmental consulting.

46. In order to streamline the SME financing process, the TA programs for FIs will include:

a. The implementation of standardized appraisal and risk management processes and procedures, including credit scoring.

b. Information dissemination on sectoral specific risk and appraisal issues.

c. The implementation of an effective monitoring and supervision system.

47. The EBFP will actively encourage participating FIs to take advantage of these benefits and contribute to the achievement of their goals.

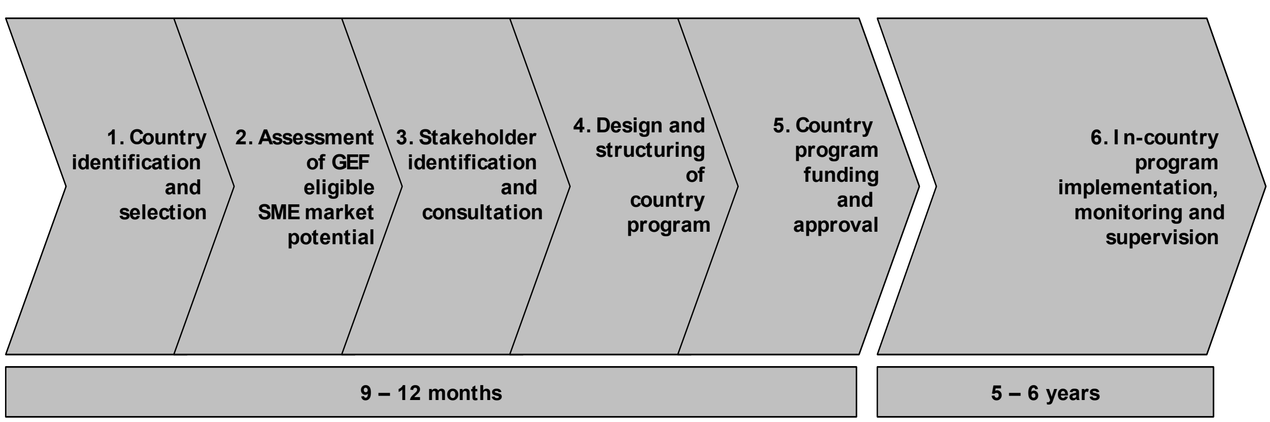
48. SMEs will benefit from the EBFP, not only through increased access to finance, but also from the TA Program. Through the EBFP, GEF-eligible SMEs, which in the majority of emerging markets have no or limited access to financing, will find FIs that are willing to finance their activities. The knowledge that the FIs will gain on the GEF-eligible products and services market and the related clusters of SMEs is intended to assist them in making better informed decisions in a shorter time frame, which should result in lower transaction costs and better pricing of the financing provided. In order to protect themselves, FIs generally price loans higher when there is uncertainty about a sector/client or a lack of understanding of the underlying lending risks. The loan processing systems that the FIs are expected to adopt should result in faster loan application processing and give more timely responses to the SMEs in a responsive and streamlined fashion. As a result, more SMEs will be able to access appropriate financing at appropriate prices and with lower opportunity costs (time savings that can be used in more productive activities). As more SMEs access financing, the FIs will develop an even greater understanding of the GEF-eligible market and will thus be able to further streamline their processes, resulting in lower financing costs, making financing available to an even greater number of SMEs.

49. The TA Program is designed to provide GEF-eligible SMEs with support to strengthen their management, marketing and commercialization of their products and services, production, technical competencies, and needed capabilities in a number of other relevant areas (e.g. biodiversity management and clean technologies). This will be done through training programs and ongoing support to professional development programs.

I. EBFP Project Cycle

50. There are six core stages to the EBFP country program project cycle (see Figure 4): (i) country identification and selection; (ii) assessment of GEF-eligible SME market potential in the selected country; (iii) stakeholder identification and consultation; (iv) design and structuring of country program and selection of intermediaries; (v) country program funding and approval; (vi) in-country program implementation, monitoring and supervision. The duration of each stage will vary depending on the country in which the program is being implemented and the scope and size of the country program. Different countries will be at different stages of the cycle during the ten-year duration of the EBFP. As appropriate, stand-alone projects will follow a similar if somewhat condensed process.

Figure 4: EBFP Project Cycle



1. Country identification and selection

51. The country selection process will be driven primarily by IFC's assessment of a number of key criteria related both to SME finance and the GEF-eligibility of the activities proposed to be financed as well as the presence of an enabling environment. The country selection process will be guided by a set of criteria as described in the Country Eligibility section below (see paragraph 65). Once a country has been selected for possible EBFP implementation, the GEF Focal Point for the country will be consulted to further explore the potential fit between the EBFP and the GEF strategic priorities in the country. Subsequent to the GEF Focal Point consultations, a decision will be made to proceed to the next stage.

2. Assessment of GEF-eligible SME market potential

52. Once a country has been selected for possible EBFP implementation, a consulting or expert firm will be retained to carry out a detailed market assessment for the selected country. This assessment will look at a number of predetermined indicators to determine whether or not the EBFP's intervention is likely to catalyze the development of a sustainable market of commercially viable GEF-eligible SMEs and what barriers exist. The EBFP will carry out a comprehensive market assessment in each country with respect to the market volume and supply of GEF-eligible activities undertaken by SMEs. The study will identify and demonstrate both the potential portfolio volume for GEF-eligible SME activities and the business case for FIs to target commercial GEF-eligible SMEs. The study will look to develop a pipeline of GEF-eligible SMEs for FIs to target. The study will look at a variety of possible GEF-eligible activities undertaken by SMEs, including design, engineering, planning, manufacturing, supply, retail, wholesale and service companies covering both traditional and innovative GEF-eligible activities. The assessment will look specifically at clusters (groups)[14] of SMEs for each technology within GEF OPs for biodiversity, climate change, land degradation and POPs. These clusters will be further analyzed to determine the business economics of the identified GEF-eligible activities, the potential and rationale for transferring and scaling up these activities to other countries and markets, and determine significant market gaps or impediments to undertake the activities.

3. Stakeholder identification and consultation

53. Once EBFP management has determined that a country offers the potential for significant GEF benefits, the focus will shift to identifying key stakeholders (see paragraph 41). This process includes the identification of financial intermediaries, as well as know-how providers. It is at this point that the EMT begins the ongoing process of consultation and coordination with local stakeholders. Prior to designing the country program, the EMT will meet with a variety of different stakeholders to assess the needs in the country (see paragraph 110 for further discussion of stakeholder involvement and paragraph 71 for more details on the FI selection process).

[14] Cluster development will be key to developing the market for different GEF-eligible technologies and will lead to significantly higher benefits. Clusters allow for linkages and best practice sharing, between firms and industries, in technology, skills, information, marketing and customer needs, and as such foster strategic competition and overall industry growth. The EBFP might wish to support a grocery store that sells exclusively sustainably-harvested produce, but offers limited direct environmental benefits, due to its importance for the local sustainably-harvested food industry.

4. Design and structuring of country program

54. Based on consultations with different stakeholders, and the output of the market assessments, the country program will be designed. This will involve a focus on all three levels of EBFP involvement (i) the market level; (ii) the intermediary level; and (iii) the SME level.

a. At the market level, the focus will be on ensuring that the EBFP contributes to the development of a more enabling environment for GEF-eligible SME finance. This process will include developing specific activities to increase market awareness and demand for GEF-eligible products and services, through such activities as ongoing training and workshops, exchange programs, programs with academic and research institutions and support of NGO campaigns to raise public awareness. The EBFP will also look to develop linkages and partnerships with other organizations that are working to eliminate market barriers faced by SMEs.

b. At the intermediary level, the focus will be on determining the amount of financing support needed by the FI(s) to cover the incremental risks. The different financing options will be explored and it will be determined what financing instrument(s) would be most appropriate. At this point there will also be a focus on determining the TA needs of the FI(s). The TA programs, including training, will be developed for the FI. (See Annex 4 for more information on the different types of financing available).

c. At the SME level the focus will be on developing a TA program that meets the needs of the SMEs. This will include defining the support needed by BDSs in order to deliver services needed by SMEs, such as support in marketing and commercialization, human resource management, accounting, production and operations, business plan preparation and submission for funding. This will include developing local capacity for training SMEs.

5. Country program funding and approval

55. Once a country program has been designed, in conjunction with a variety of stakeholders, the EMT will go through the decision making process of the EBFP to get approval for the program, including the amounts of GEF funding to be allocated, the amount of cofinancing required and the contribution from different partners. The decision on whether or not to implement a country program will be based on the perceived ability of the EBFP to contribute to the development of a sustainable market for GEF-eligible SMEs and the level of GEF benefits that are expected to occur. Once the country program has been approved, the implementation stage will commence.

6. In-country program implementation, program monitoring and supervision

56. During the implementation stage, the various components of the country program will be implemented in conjunction with a number of partners. The different components will be put into practice as needed over a period of five to six years. Adjustments to the design and structure of the country program will be made, if needed, following an internal approval process. As much as feasible, the country program will be implemented through local partners.

57. Once the implementation stage has been initiated, the ongoing monitoring and supervision process will begin. The monitoring system will be installed at the FI level to produce reliable

information of environmental and financial performance indicators. The EMT will use the information provided to monitor the EBFP's progress, and will allow for the program to be fine-tuned, as necessary, to ensure attainment of expected outcomes. (See paragraphs 97 - 102 and Annex 6 for more information on this process).

Expected Timeline[15]

58. The EBFP is broken down into two phases: (i) the investment phase during which new country programs or stand-alone projects are being structured and financing is being provided; and (ii) the supervision phase during which existing country programs and stand-alone projects will be monitored and supervised. The investment phase is expected to last 5 to 6 years with the last country program being structured within 5 to 6 years from initial launch of the program.[16] As the EBFP will end ten years from the date of GEF CEO endorsement, there is a need to have programs initiated within six years in order to have repayments to be completed before the end of the program. Given this timeline, it is expected that 2 country programs will be initiated in the first year after the official launch, followed by 4 in the second year, 3 in each of the third and fourth years, and 2 in the fifth year. The speed of implementation will be faster or slower depending on the complexity of the country programs, and acceptance of the EBFP and market opportunities available in different countries.

J. EBFP Management

59. A program management team composed of IFC staff will manage the EBFP over the ten-year life of the program. The team is staffed by the existing staff of the SME Program and will be adjusted to adapt as necessary to meet the needs of the implementation and management of the EBFP. The team will be responsible for the following:

a. Investment operations and portfolio supervision, including developing, structuring and processing new country programs and project opportunities, as well as managing and supervising the existing SME Program projects and the new EBFP portfolio.

b. The TA Program, including managing consultants, supervising the quality of work, and disseminating best practice.

c. The M&E work, including the implementation and execution of the framework and reporting on the global environmental benefits achieved.

d. Providing support to market players engaged in developing a more enabling environment.

60. In-country presence will be attained through partnerships with existing programs, such as the IFC/WB SME Department and its Project Development Facilities (PDFs) managed by IFC in a number of regions, and by developing strong linkages with, and leveraging on, IFC's Global Financial Markets Department's experience and operations and network of field offices. Furthermore, in-country presence will also exist through co-ordination with local technical assistance providers.

[15] The project cycle and timeline being presented are for individual country programs. Each will be repeated 10 – 12 times over the course of the EBFP; thus, at any given time over the 10-year duration of the EBFP, different country programs will be in different stages of the project cycle.

[16] The official launch of the EBFP is expected to be 3 months after formal GEF CEO endorsement.

K. Key Indicators, Assumptions and Risks

61. The EBFP has identified a number of key indicators, which will be monitored over the duration of the program in order to help ensure that program objectives are met. These indicators reflect (See Annex 7):

a. the increase in supply and demand of GEF-eligible goods and services and number of GEF-eligible SMEs financed by participating FIs, as well as growth and profitability of those SMEs;

b. the increase in financial resources allocated by FIs and number of mainstream FIs participating in the program, and percentage change in number of GEF-eligible SMEs in the FI's portfolio;

c. the increase in the awareness, tools and experience of GEF-eligible SME market players, including number of people employed and trained in GEF-eligible activities; and

d. the additional funds leveraged by the program.

62. The EBFP has made the following assumptions based on experiences with the SME Program, HEECP and the experiences of the IFC/WB SME Department, and IFC's Financial Markets:

a. GEF-eligible SMEs can significantly impact the global environment and the local economy.

b. The mainstreaming of SME financing would make worthwhile contributions to GEF's global environmental mission and to IFC's developmental mission.

c. The EBFP has sufficient resources and time to mainstream GEF-eligible SME finance.

d. GEF-eligible SME finance will not be mainstreamed without the involvement of domestic financial intermediaries.

e. GEF-eligible SMEs would readily accept financing, if it were made available, in order to expand and grow their operations.

f. Once the EBFP is able to demonstrate that GEF-eligible SME finance can be profitable, local FIs will continue to lend to these SMEs, even after completion of the program.

63. These assumptions highlight a number of risks associated with the program. Aware of these risks, a number of steps have been taken to mitigate their effects as much as possible. The most significant risk to the success of the EBFP is that of market acceptance, particularly market acceptance by FIs. While this objective will be difficult to achieve, it is possible to interest mainstream FIs in financing GEF-eligible SMEs. Slow market acceptance will result in increased management costs, a longer implementation period and significant reputation risk to IFC. In order to mitigate this risk, the EBFP will emphasize reliable market assessments, provision of the needed TA tools and appropriate pricing of financing instruments. However, if market acceptability of the EBFP offerings is delayed, manifested through a small base of viable GEF-eligible SMEs, the overall sustainability and impact of the program will be at risk. Another

important risk is that of an inappropriate investment climate and lacking or changing national environmental policies in a country of program implementation. The country selection will be crucial to reduce this risk, as well as the ability of the EBFP to closely work with other programs and projects which are targeting the improvements of the business enabling environment, such as those projects of the WBG and the SME Department. Other risks have been identified, and taken into consideration in the design and implementation of the EBFP as shown in Annex 9, and include the potential for:

a. limited replication;

b. adverse or unexpected macroeconomic conditions;

c. lack of risk profile comparison; and

d. inadequate financing mechanisms.

II. COUNTRY OWNERSHIP AND FINANCIAL INTERMEDIARY COMMITMENT

64. As a global project, the EBFP will be active in a number of countries, all of which are required to have ratified the appropriate conventions relating to biodiversity preservation[17], climate change mitigation[18], prevention or reversal of desertification and land degradation[19] and reduction and elimination of POPs. Yet due to the nature of the EBFP, true local ownership of the program takes place at the intermediary level. It is the financial intermediaries who will have the vested interest in the outcome of the project and are key to its success. While the program is not rooted with the local governments and national policy, the EBFP is aware that participating countries benefit as a result of program activities and that for the program to be effective, successful and sustainable, countries must have an enabling business environment to support the endeavors of the FIs and SMEs participating in the program.

A. Country Eligibility

65. The criteria for selecting a country in which to implement an EBFP country program are derived from the EBFP objectives and drivers and can be categorized as follows[20]:

a. High GEF benefits can be achieved in the country.

b. National strategies, including environmental legislation that support and enable GEF and EBFP objectives, along with a strong national commitment to improve both the local and the global environment.

c. Conducive and stable economic, political and regulatory framework is present.

d. Prevailing GEF strategic interest and existing portfolio.

e. Existing market base of performing SMEs.

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[17] The Convention on Biological Diversity.

[18] UN Framework Convention on Climate Change.

[19] UN Convention to Combat Desertification (covering land degradation).

[20] These selection criteria are to serve as a guide to the country selection process. There may be situations where although only some of the criteria above exist, a country would be selected for EBFP implementation, as the impact of the program would justify such a selection.

f. Existing local technical assistance and capacity building resource base.

g. Existing local FIs committed to developing a GEF-eligible SME portfolio.

h. Strong donor support and interests.

i. Strong possibility for replication and sustainability of the program.

66. Ecuador, Guatemala and South Africa have been targeted as the first countries in which the EBFP will operate. The selection of these three countries followed the methodology outlined above. The selection is based on the significant GEF-benefits that can be achieved in all three countries, the presence of strong local capacity and well-defined financial markets, and the belief that the countries can sustain a GEF-eligible SME market. Additional countries[21] will be selected for EBFP implementation, based on a preliminary market assessment, reflecting development impact and available opportunities to achieve GEF's objectives.

67. A significant investment flow is expected through the program's mainstreaming with IFC's traditional investment operations. The EBFP will tap into IFC's existing SME and FI portfolio and pipeline complementing the existing program pipeline, the market studies and the new approach that promotes intermediaries' active business development and service promotion. Provided that the EBFP is implemented successfully, replication of successful approaches, including transfer of lessons learned, methodology and technology, targeted capacity building and twinning arrangements may be extended through the expansion of the program into other countries.

B. Country Endorsement

68. Recipient country governments, through their GEF Focal Points, will be notified and engaged to ensure a strong country level awareness and endorsement, as well as to ensure that the funded projects are national priorities that are tightly anchored in the local environmental policies and legislations. This will foster local ownership of the program and promote a greater country level awareness of GEF and its objectives.

69. The EBFP will seek local GEF Focal Point endorsement on an as needed basis. No countries will be targeted without endorsement. The EBFP will follow a similar policy to that of the SME Program; potential intermediaries will be advised by the EBFP that they must obtain the written support of the responsible GEF Operational Focal Point (or if there is no Operational Focal Point, the GEF Political Focal Point) before the EBFP will review their application. IFC will then advise the focal point if the potential intermediary is selected and when a country program is developed for implementation.

70. In cases where potential intermediaries intend to operate in more than one country (i.e. commercial banks, international NGOs, not-for-profit financiers or regional venture capital funds), GEF Focal Point support is not required prior to selection. However, before the EBFP approves a project submitted by one of these intermediaries, GEF Focal Point support in the proposed country of activities will be required. The intermediary is required to obtain written support for the project from the responsible GEF Focal Point before the project can be submitted

[21] While the EBFP is designed with a country focus, the EMT recognizes that there may be opportunities for projects that cross borders for a specific sector or activities, such as the financing of a number of ecolodges in a region or in multiple countries. In these cases, the sector or activity would be evaluated based on criteria similar to those used to select a country.

to the EBFP for approval. As above, the Focal Points will be advised each time an EBFP program (financing or TA) is approved for implementation.

C. Financial Intermediary Selection

71. The financial intermediaries will be selected based on the following operational criteria:

a. Demonstrated commitment to target GEF-eligible SMEs by dedicating resources and putting in systems to serve this market.

b. Demonstrated leaders in the financial sector, established financial intermediaries with pilot initiatives that introduce best practices and tested technologies.

c. Mainstreaming of EBFP activities with IFC investment operations.

d. Technical and financial capacity to deliver sustainable projects with GEF benefits, generating no adverse environmental or social impacts.

72. All FIs will be evaluated and approved on a case-by-case basis. The EBFP will leverage IFC's regional and sectoral expertise as every individual financing operation with a new intermediary will be structured independently, thus constituting a separate investment opportunity for IFC and possible mobilization of other cofinancing. This will also help to further mainstream the EBFP with the rest of IFC's SME oriented project portfolio.

73. The same selection criteria will apply to select SMEs that are financed directly by the EBFP, they will also have to comply with generally accepted business viability criteria (including collateral, a positive credit history, profitability and financial performance, cross-selling opportunities, management and reporting systems, manageable business risk and a strong market position in a conducive market structure).

Financial Intermediary Commitment

74. The EBFP recognizes that it will have to play a role in assuring that FIs remain committed to the principles of the program, and that they internalize program practices in order to ensure sustainability in the long term. As mentioned previously, FIs will be selected based on a demonstrated commitment to the program, and this will be further emphasized by the EBFP over the course of the program through a number of program initiatives, including capacity development, greater awareness of the potential market for GEF-eligible activities and an anticipated increased sense of corporate responsibility.

III. PROGRAM & POLICY CONFORMITY

A. Project Design

75. The EBFP addresses the emerging GEF strategic priorities for the four focal areas. The design will promote environmental, institutional, social and financial sustainability through cost effective and appropriate financing mechanisms and capacity building. In the climate change focal area, the EBFP will support off-grid and grid-based renewable energy, productive use of renewable energy in agriculture, water, and rural industries. The EBFP will encourage further commercialization of proven renewable energy technologies, the promotion of more environmentally friendly modes of transportation, and clean vehicle and fuel technologies. With

respect to biodiversity conservation, the EBFP will focus on sustainable use activities in both protected areas and buffer zones and on conserving productive landscapes and seascapes beyond protected conservation areas. In the area of land degradation, the EBFP will emphasize the implementation of projects that address sustainable land management practices. In the area of POPS the EBFP will emphasize activities such as sustainably harvested produce retailers or pest control companies using organic substances (see Annex 1 and Table 1 for further details of possible GEF-eligible SME activities supported by the EBFP).

76. Furthermore, the EBFP responds to the recommendation by GEF's recent Overall Performance Study (OPS 2) to engage more directly with commercial financial intermediaries and to the GEF Council's interest in seeing stronger private sector participation. The EBFP will provide significant financial leverage to the scarce GEF funds available through both private sector and public-sector funds. The EBFP will also ensure a close global portfolio-wide coordination of financed SME-activities to enable dissemination of best practices, replication of the financing modalities and transfer and replication of know-how to strengthen the global environmental benefits generated.

77. The EBFP will be executed to fully complement and not overlap or duplicate other GEF/IFC initiatives such as the HEECP, PVMTI, and CEEF. The EBFP will build on partnerships with local and international programs with similar goals funded through the GEF and other sources, including partnerships with programs that complement the EBFP goals. The EBFP will seek expert advice and guidance from the WBG, GEF anchor and IFC's Environmental Finance Group on GEF strategic priorities and in evaluating potentially eligible technologies.

B. Target Activities

78. The EBFP will seek to identify activities and technologies that make a contribution to the improvement of the global environment and which fall within the strategic priorities of GEF, and have the highest potential for commercial application. Specifically, the EBFP has identified a number of activities and sectors to be targeted in accordance with GEF strategic priorities for climate change mitigation,[22] biodiversity conservation,[23] land degradation prevention and elimination of POPs. An initial assessment of the activities that the EBFP will be able to target has been undertaken on a global basis in June 2003. Table 1 lists the activities that have been identified as key targets for the EBFP based on the findings of the June 2003 market assessment (Annex 1 contains a more complete list of proposed target activities broken down by GEF operational program). The list of targeted activities will be continuously updated to add new activities that meet the criteria and refine the existing types of businesses that have already been identified. The EBFP will pay particular attention to the difficulties and realities of establishing and operating profitable biodiversity enterprises within competitive markets.

[22] GEF strategic priorities for climate change mitigation include (1) transformation of markets for high-volume, commercial, low GHG products or processes, (2) increased access to local sources of financing, (3) power sector policy frameworks supportive of renewable energy and energy efficiency, (4) productive uses of renewable energy, (5) global market aggregation and national innovation for emerging technologies, (6) modal shifts in urban transport and clean vehicle fuel technologies.

[23] GEF strategic priorities for biodiversity conservation include (1) catalyzing sustainability of protected areas, (2) mainstreaming biodiversity in production landscapes and sectors, (3) capacity building for the Implementation of the UN Convention on Biological Diversity Cartagena Protocol on Biosafety, and (4) generation and dissemination of best practices for assessing current and emerging biodiversity issues.

Table 1: Target Technologies and Activities and their Potential Markets

Renewable Energy	
➢ Solar PV cells ▪ Solar lanterns, cookers, home systems ▪ Refrigeration systems ▪ Lighting ▪ Water treatment ▪ Communications ➢ Solar thermal energy ▪ Residential heating ▪ Agricultural processing plants, fish farms ▪ Large scale electricity generations	➢ Micro-hydro/run-of-the-river ▪ Electricity generation ▪ Mechanical power for use in agricultural processing facilities ➢ Wind pumps and turbines ▪ Small wind systems for electricity generation ▪ Electricity generation ➢ Biomass
Energy Efficiency	
➢ ESCOs ▪ Block, group housing developments ▪ Manufacturing and commercial facilities ▪ Hospitals, offices and schools ➢ Eco-homes ▪ Home improvements, retrofitting projects ▪ Builders/developers ▪ Hospitals, offices and schools	➢ Efficient Appliances ▪ Home improvements, retrofitting projects ▪ Builders/developers ▪ Hospitals, offices and schools ➢ Fuel Efficiency ▪ Manufacturing and commercial use ▪ Fleet vehicles (e.g. taxis) ▪ Police, fire department, public transportation
Biodiversity	
➢ Eco-tourism ▪ Ecolodges, tour operators ➢ Certified fishing ▪ Medium and large fisheries, large fish processors and distributors, fish retailers, restaurants ➢ Non-timber forest products ▪ Small enterprises, individuals ➢ Sustainable forestry[24] ▪ Forestry operations, CTL equipment manufacturers, retailers	➢ Agro-forestry ▪ Individual farmers, small enterprises, retailers ➢ Sustainable agriculture[25] ▪ Individual farmers or farming cooperatives, food processors, retailers, restaurants ➢ Reforestation/afforestation ▪ Forest operations, value added wood product manufacturers ➢ Aquaculture ▪ Medium and large fisheries, large fish processors and distributors, fish retailers, restaurants

[24] This includes timber that has been certified as sustainably harvested by a third-party such as the Forestry Stewardship Council (FSC)

[25] Sustainable agriculture is agriculture that contributes to the objectives of the GEF focal areas of climate change mitigation, biodiversity conservation, prevention of land degradation and prevention and elimination of persistent organic pollutants.

C. Rationale for GEF Involvement

79. The EBFP has been designed to meet the strategic objectives of GEF and IFC, while addressing the realities of both the financial and the SME markets. There are currently significant market barriers and risks that limit the SME sector's ability to engage in activities that are beneficial for the global environment. The objective of the EBFP is to use GEF funding to reduce these market barriers. Specifically, GEF funding will be used to reduce the incremental risks, particularly to FIs, of financing these SMEs, and to reduce the incremental costs of developing this market. These risks and costs include:

a. The risk that FIs will not finance GEF-eligible SME activities. FIs look for a track record before financing a project or a company. With activities such as those eligible under GEF OPs, a track record of good business performance is not easily demonstrated before the market further develops or matures. This is a critical issue as FIs are the primary source of growth capital for SMEs.

b. The risk that the SMEs undertaking GEF-eligible activities lack sufficient know-how to generate a profit, or that the business case for these SMEs has not yet been proven, resulting from among other things market failures. These would result in significant incremental risks to the FIs when financing SMEs.

c. The significant incremental costs associated with developing markets to reach a profitable and sustainable level of activities.

80. Without GEF funds that absorb the incremental risks and costs, private sector capital would not finance GEF-eligible SMEs. As the markets mature and become financially viable, demonstrating sustainable business models and commercial viability, the markets will attract private sector financing without additional GEF support.

81. The EBFP is expected to have the following global impacts:

a. Leverage of private sector capital and mobilization of funding to support SMEs that impact the global environment and the local economy through job creation and introduction of business practices that generate long-term growth.

b. Development of a model that can be replicated and implemented on a global scale to improve market awareness for GEF-eligible[26] activities that, in the long term, will transform market behavior, and make financing available on commercial terms to SMEs active in the provision of services and products that contribute to the improvement of the global environment.

c. Development of a long-term sustainable market for GEF-eligible activities that generate global environmental benefits, including increased scope and scale of products and services by SMEs, as well as increased access to finance, by influencing market mechanisms.

d. Dissemination of best practices and lessons learned for supporting sustainable GEF-eligible SMEs that generate growth using sustainable business practices.

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[26] Including GEF-eligible activities and projects across the GEF focal areas, which currently consist of biodiversity conservation, climate change mitigation, and prevention and control of land degradation, in GEF-eligible countries.

Incremental Cost

82. In the past, the SME Program provided concessional loan terms and incentive fees to the intermediaries for offsetting incremental costs. This structure proved successful in encouraging a number of intermediaries to finance relevant projects. While the same premises of incremental costs holds true for FIs under the EBFP, its design for addressing incremental costs will be somewhat different (see Annex 10).

83. The EBFP will continue to address the incremental cost at the portfolio or FI level. Incremental cost includes costs incurred by IFC and participating FIs for seeking to develop a market of GEF-eligible SMEs and finance projects that achieve global environmental benefits as opposed to the relatively lower cost of a similar activity that does not generate global environmental benefits. In other words, the incremental costs associated with the EBFP are equal to the additional funding needed to decrease the risks associated with GEF-eligible SME finance significantly enough to encourage FIs to finance these SMEs. The EBFP has identified two primary sources of incremental cost; first, the increased risk of default on loans, considering the increased market and business risk because of weak demand, unproven business models and technologies, and a weak enabling environment; second, the increased risk associated with a limited capacity on behalf of the FIs to manage a portfolio of GEF-eligible SMEs, and a limited capacity among SMEs to formulate and implement proper business plans.

84. As such, the EBFP will address the issue of incremental cost through the following:

a. Risk sharing – the financing facility has been designed to share the risk associated with financing GEF-eligible activities with the FIs through the provision of structured guarantees and other financing tools.

b. Technical assistance – through the TA Program, the EBFP will provide participating FIs and SMEs with best practice capacity building and know-how needed for developing a viable SME portfolio and GEF-eligible market. TA for proactive market development will also be provided through country-specific market assessments, as well as ongoing workshops and other market development activities, including the introduction of new GEF-eligible business activities in the target country.

c. Risk incentive scheme – should the FIs succeed in financing an acceptable level of proposed GEF-eligible SME activities with identifiable environmental benefits, a scorecard will determine the financial compensation for the environmental benefits achieved.

d. Monitoring and evaluation – the M&E component has two main functions. First, it is a management tool that provides early warning signals and a timely detection of possible problems or weaknesses that need to be addressed. Second, it disseminates aggregated lessons learned and best practices.

85. Because the EBFP's focus on multiple focal areas and by virtue of its design, it is too speculative to predetermine the program incremental costs or benefits at the sub-project SME level, as defined by such measures as number of tons CO_2 avoided or number of species preserved. However, the EBFP will monitor and evaluate at the sub-project SME level at implementation through a number of performance indicators, and provide available information on an annual basis. This information will thus be available *ex-post*. Furthermore, an *ex-ante* market assessment for each target country will help EBFP pre-determine the GEF-eligible

market potential. The baseline scenario will reflect the current level of GEF-eligible SME activities for each focal area as applicable.

86. Therefore, to illustrate the scope of the incremental costs at the portfolio or FI level, the following logic applies. The EBFP has projected, as the most likely scenario, a less than 30% default rate, which would result in a total incremental cost of US$13 million (US$10 million in TA funding spent, and US$3 million in non-repayments[27]). In a worst-case scenario, all US$20 million of GEF resources would be expended.

SME Selection and Approval Process

87. The EMT is developing a selection and approval process to determine the GEF-eligibility of SMEs and ensure that EBFP funds are only allocated by the selected FIs for activities that generate global environmental benefits. The EMT will consult extensively with the GEF Secretariat during the preparation of the M&E framework to develop a methodology for an acceptable screening and approval process for GEF-eligibility. The goal is to establish a process that is fully consistent with GEF-eligibility criteria, while also providing clear and timely guidance to the FIs. In response to the needs of the FIs and SMEs, some environmental screening functions will be delegated to qualified local players who can execute them more efficiently than can the EMT. The environmental assessment methodology will therefore differ depending on the size and the complexity of the investment. Smaller, less complex projects will be managed in-country by carefully selected local experts, while larger and/or more complex projects will be referred to international experts, including specialists from the WBG and the GEF Secretariat.

88. While the details of this loan screening and approval process are still in the design stage (input and feedback are being sought from different experts), the proposed approach is described below. This approach will be adapted to prevailing market conditions. The EMT's goal is to make the process both rigorous in ensuring that only GEF-eligible activities are supported, yet optimally streamlined and efficient so as not to discourage FIs from financing GEF-eligible SMEs. As such, it is expected that the process will be tailored to fit into the existing screening methods of the participating FIs, and will be improved during project implementation.

89. To achieve EBFP's goals of scaling up and replicating GEF-eligible SMEs to reach at least 500 SMEs, the EMT will delegate some of the screening, approval, and monitoring tasks to the local implementers. The decision making authority regarding whether or not to finance an SME with EBFP funds will rest with (in increasing order of authority): the FI, a Local Environmental Expert (LEE), the EMT, and the Investment Review Committee (IRC) supported by the Advisory Panel (AP). SMEs who apply for direct financing from the EBFP will not be reviewed by the FI and LEE, but rather only by the EMT for approval by the IRC. Overall, the EMT holds fiduciary responsibility for ensuring the GEF-eligibility of SMEs selected by participating FIs.[28]

[27] The US$3 million figure is based on a 30% default rate on the US$10 million in loan guarantees, reflecting an above average expected failure rate of SMEs, due to the unproven nature of the market for GEF-eligible activities. The EBFP expects a higher loss rate as the program is pushing the risk frontier of the private sector.

[28] The SME Program approval process entails an IRC, which reviews: (i) all subproject proposals for not yet qualified intermediaries; and (ii) a subset of the first few project proposals for qualified intermediaries. While this approach was effective in ensuring GEF-eligibility, it limited the number of transactions that could be financed.

90. The FI will review the financial viability of all SME applicants and the environmental eligibility of smaller, less complex projects, following its internal credit review procedures and EBFP guidelines. The FI will be authorized to approve financing for Tier I SME projects, namely projects that: (i) are not in protected areas, (ii) require less than US$150,000[29], and (iii) are included in a list of 'pre-approved' activities and are consistent with EBFP guidelines regarding GEF-eligibility. A key EBFP objective is to enhance the FI's ability to assess environmental impact. The EBFP may use a combination of tools to achieve this end, including: training to FI loan officers on how to use the 'pre-approved' list as a screening method, providing FI loan officers with access to computer-based expert 'help' systems such as 'Creatura Help' and providing training in using the scorecard (see paragraph 94) as a loan pricing and monitoring tool; fostering close collaboration between the FI and LEE (see next paragraph); and participating in the cost of hiring an in-house environmental expert, such as an environmental loan officer.

91. The LEE will be a local organization that includes qualified environmental specialists with expertise in one (or all) of the focal areas and the ability to contract additional focal area expertise if needed. A LEE may be, for example, a leading national NGO with affiliation to an internationally renowned NGO. The EMT will select the LEE, ensuring that in addition to technical expertise, it is proficient in evaluating performance and impact against the GEF objectives. The LEE will act as a close advisor of the FI, determining the environmental eligibility of Tier II SME projects. Tier II projects: (a) are in protected areas, or (ii) require financing between US$150,000 - US$500,000[30], or (iii) are not on the 'pre-approved' list; or (iv) are on the list but the FI requests additional screening assistance. The LEE will leverage the tools developed by other IFC-implemented initiatives (such as the Kijani Project's bioTools, including an assessment of a biodiversity project's strengths, weaknesses, opportunities and threats, or bioSWOT assessment[31]) to apply 'best' environmental evaluation and monitoring practices. The EBFP's intent is that the advisory relationship between the LEE and the FI is beneficial to both parties, and continues beyond the EBFP's term as part of its market transformation impact.

92. The EMT will supervise and support the FIs and LEEs, and is ultimately responsible for ensuring the GEF-eligibility of EBFP-financed SMEs. The EMT will identify and review applications from FIs, as described in paragraph 89. Furthermore, the EMT will select and contract the LEE, consulting with the AP as needed. To guide the FIs and LEEs in determining the GEF-eligibility of SME applicants, the EMT will draft a list of 'pre-approved' GEF-eligible activities and a list of general, guiding principles[32]. To help the FIs market the GEF financing and support, the EMT will provide the FIs with 'SME application guidelines', including an outline of a business plan and a requirement for the SME to explain how it produces global environmental benefits. The EMT will update and revise these tools during implementation, based on actual experience gained from the market's response to the EBFP's offerings. Additionally, the EMT will maintain close communications with the FIs and LEEs, providing additional guidance on environmental issues when requested to do so by the FIs and LEEs. The

[29] The loan size threshold for Tier I loans will vary between US$100,000-US$200,000, depending on the size of the economy as measured by GNP in each country.

[30] A Tier I SME that applies for a second loan for the same project, and whose total outstanding loan balance exceeds the Tier I threshold will be treated as a Tier II borrower.

[31] These tools include a selection process of biodiversity projects, including assessing biodiversity priorities, capacity building needs, developing a biodiversity management plan, and monitoring and evaluation.

[32] These principles may include, among others, tests of the **significance** of the SME's environmental benefits, the **centrality** of the SME's operations to the market of GEF-eligible SMEs, and the level of **stakeholder approval** of the SME's activities.

EMT will either assist the FIs and LEEs directly or enlist subject matter experts including members of the AP.

93. The IRC will consist of IFC management and will be supported by an AP consisting of environmental experts. The IRC will consist of IFC management, while the AP will consist of experts in the GEF focal areas, from: WBG Environment Department, IFC, GEF Secretariat and external experts. The IRC will make the decisions on the GEF-eligibility and financial structure of large and/or complex Tier III projects, namely projects that (i) require more than US$500,000 in financing, or (ii) are referred to the IRC by the EMT due to their complexity.

Decision and Performance Scoring System

94. The EMT is developing an environmental scorecard that will help the FIs: assess Tier I borrowers' baseline environmental performance, price their loans, set environmental performance targets, and identify borrowers' TA needs. The scorecard will be an analysis tool that assesses the global environmental benefits that the potential SME borrower is expected to generate, and yields an environmental score. FIs around the world are increasingly using credit-scoring systems to improve the credit decision-making process for financing SMEs, thus reducing risk and transaction costs. It is therefore possible that participating FIs will already be using a financial scorecard. In such cases, the EBFP will tailor its environmental scorecard to operate together with the existing systems as smoothly as possible. Additionally, local environmental stakeholders will also be consulted in the development of the scorecard, both to ensure its quality, and to raise their awareness of the EBFP so that they avail themselves of its offerings. The development of the scorecard is an innovation of the EBFP, and therefore must be considered experimental. In order to maximize the likelihood of developing an effective scorecard, the EBFP is employing a consultative process to build on best practices in the filed. There is tremendous potential for replication of an effective scorecard, both within IFC and among other GEF programs (see Annex 6 for more details on the scorecard).

95. The environmental scorecard will yield a score that will be added to a separately calculated financial score, both of which will reflect the expected performance of the SME. Taking both into account, the FI will determine the loan terms that it will offer to the SME applying for financing. Those SMEs that earn an environmental score below a certain threshold will not be eligible to receive EBFP support. The scorecard will take into account issues such as quantity of the environmental benefits (to optimize a cost-effective use of GEF funds); quality of environmental benefits (to assure the GEF finances only the 'incremental cost'); centrality of the SME's activities (to develop the market for GEF-eligible goods and services); stakeholder participation in the SME's activities; potential for replication of the SME's business model; the SME's job creation potential; the sustainability of the GEF benefits; the level of involvement of and impact on women and indigenous groups; and the capacity of the SME to monitor its environmental impact. Thus, it will reflect and operationalize the GEF's 'selection criteria' and the program's guiding principles noted above. The LEEs may also use the scorecard as input during their assessment of the GEF-eligibility of Tier II loans. Additionally, by identifying the SME's weaker areas, the scorecard may be used diagnostically to pinpoint areas where the SME needs TA. The environmental scorecard will be fine-tuned during implementation, based on actual implementation experience.

96. In addition to helping the FIs screen the SME applicants and subsequently price loans to them, the scorecard may help the FIs identify some environmental performance targets. For example, the FI may require the SME to improve its performance so that it moves up from a low score to a higher score in a certain category of environmental impact. If the SME succeeds, the FI may, in turn, choose to improve the loan terms in order to increase its own incentive fees.

Monitoring Environmental Performance

97. As part of their loan agreement with the FIs, SME borrowers will be required to monitor and report on a few, key predetermined indicators of their environmental performance. These indicators will be uniform for all SMEs that belong to the same 'cluster' of activities. (See Annex 8 for sample indicators for sample clusters). This system will be designed to be flexible, cost-effective and user-friendly to ensure its adoption by FIs and adaptation to prevailing market conditions. By establishing a clear set of environmental performance indicators up-front, the EMT seeks to make the FI's monitoring system more standardized, cost-effective and user-friendly, and therefore more likely to be implemented by the FI. Over time, it is expected that the FIs will recognize that regularly monitoring their borrowers' environmental performance is an important part of monitoring the portfolio's overall performance.

98. To ensure that only GEF-eligible activities are supported, SME borrowers will be screened and assessed by a combination of the FI, LEE, and WBG financial and environmental experts, depending on the loan size and complexity. The EMT will develop tools to help the FIs and LEEs screen and assess the borrowers, and will closely monitor the initial transactions that they process during a trial period until it gains confidence of their capacity for and commitment to ensuring the GEF eligibility of the SME borrowers. These tools are in addition to the capacity building and environmental training provided and include a list of 'pre-approved' activities, guiding principles about GEF-eligibility, provision of computer-based expert 'help' systems, and an environmental scorecard. Once a larger borrower is approved, the LEE will assist in the design of an environmental management plan that includes performance indicators. In the process, the FIs' capacity to assess and monitor environmental performance will be built through training from the EBFP and LEE, from its close collaboration with the LEE, and possibly by hiring an environmental loan officer whose cost may be co-funded through the EBFP's TA budget.

99. FIs will monitor the SMEs' environmental and financial performance, and report them using pre-designed templates[33]. This will provide the EMT with ongoing feedback and allow it to fine-tune the EBFP's implementation as needed in order to attain expected outcomes. The EBFP will compensate the FIs according to the level of global environmental benefits that their portfolio generates, to provide them with incentives to take on the incremental risk of financing GEF-eligible SMEs. The FIs are thus provided with an incentive to comply with GEF-eligibility criteria and to strive for excellence in environmental performance, as well as asset quality (i.e. financial performance). The asset quality will be adjusted for environmental performance, thereby encouraging the FI to provide credits to clients with a higher risk profile, as well as clients with a lower risk profile.

100. The EMT intends to take a 'portfolio perspective' to monitoring SME performance, which recognizes that the EBFP aims to transform the overall market for GEF-eligible goods and

[33] These templates will be refined over the course of the program.

services, rather than just affect individual SMEs. However, the EMT will pay close attention to the performance of SMEs operating in environmentally sensitive areas. Depending on the situation, the EMT may ask the program evaluator (see next paragraph) to evaluate these SMEs' environmental performance in greater depth.

External Evaluations of EBFP Performance

101. The EMT will contract two kinds of external evaluators to assess EBFP's performance and impact. With the permission of the FIs, the EMT may hire the FIs' regular auditors to expand their regular annual audits to include a review of the FI's internal systems for monitoring the GEF-eligible borrowers' financial and environmental compliance. Ensuring that the FIs' supervision systems are reliable (including proper use of the environmental scorecard, and enforcement of environmental covenants in the loan agreement) is a cost-effective proxy for directly monitoring the SMEs' environmental impact.

102. Additionally, Program-wide external evaluators will be contracted to assess the environmental impact of EBFP twice during implementation. The evaluators may visit a selected sample of SMEs, which will be located in numerous countries, and evaluate others through reviewing EBFP documents maintained at the FI and LEE offices. The external evaluators will also interview participating FIs, LEEs, the EMT, and the IRC to assess the effectiveness of the Program's operations. A baseline will be established from market assessments, and from the FIs' and SMEs' self-reporting on their activities when they apply for Program financing. Please see Annex 6 for more details.

D. Sustainability

103. The EBFP will support commercially viable financing operations with SMEs that generate global environmental benefits. The EBFP is consistent with both GEF and IFC operational objectives and defines sustainability not only on an environmental level, but also on social, economic and commercial levels. While this definition of sustainability is broader than the GEF definition, it will be important to follow both IFC's and GEF's best practice guidelines on sustainability, in order to ensure both IFC commitment and market acceptance for the long-term continuation of program activities once the EBFP is complete. IFC and other institutions have carried out studies on sustainability that indicate significant evidence of an increasing positive correlation between strong performance on environmental, social, and governance factors and business growth.[34] It is recognized that sustainability is a business differentiator that helps business growth and is one of the fundamentals of public concern that drive policy decisions.

104. With its commitment to projects that generate global environmental benefits, the EBFP is designed to ensure the sustainability of the market impact it seeks to deliver. Both the financing instruments and the capacity building programs are intended to bridge the gap between the FIs' high perceived risk and the actual risk of the GEF-eligible SMEs and proactively support the development of a GEF-eligible SME market. This is intended to ensure that the experience gained during the EBFP's implementation will not only convince FIs to continue targeting GEF-eligible SMEs, but also increase the market awareness and demand for these offerings. The experience is expected to demonstrate that providing financing to this market on commercial

[34] See *Measuring Sustainability: A Framework for Private Sector Investments*, IFC, December 2002, P. 7.

terms is profitable. Once profitability has been demonstrated, it is expected that the market forces would take over supporting a sustainable GEF-eligible SME market without the EBFP's support.

105. The commitment of the TA Program to working with local BDSs and CBPs will also help in the sustainability of the program. The train-the-trainer approach with further this effort by ensuring that there is an established local technical assistance support network for the FIs and SMEs once the EBFP involvement in the country has ended.

106. The EBFP recognizes that a central ingredient to the sustainability of the program is the prevalence of an enabling environment. As mentioned previously, eligible countries will be selected based on the presence of an enabling environment. As such, EBFP will work to support the enabling environment by strengthening capacity to ensure long-term commitment to EBFP's goals and support the creation of a competitive market in each target country.

E. Replicability

107. As and when the EBFP demonstrates successful implementation in a few countries, it will be able to offer substantial potential for replicability both within the participating countries and across borders. This will be done through market adoption of best practices and successful approaches, and the dissemination of lessons learned. This includes proactively sharing the program experience with appropriate market players so that they may leverage this experience in other countries. The EBFP intends to scale up and replicate its activities through established commercial FIs with substantial volume and reach to achieve both local replication in the country, as well as replication across borders. Once it is demonstrated that EBFP's support to FIs has resulted in these FIs having the capacity, willingness and experience to invest routinely and with confidence in GEF-eligible SMEs, then the spread to other FIs will occur through competitive market forces and by example. IFC's experience has shown that other organizations will follow once an activity has been demonstrated to be profitable. However, the replication across countries will require more than just demonstration of successful implementation, possibly requiring new EBFP country programs to be implemented. The planned TA Program will support both local and regional replication of proven methods and technologies through activities such as the organization of workshops and training programs. This approach will include outreach communication with non-participating TA providers, FIs and SMEs to ensure mainstreaming. The EBFP's proactive approach and the partnerships with multinational market players will help to further encourage replicability across borders.

108. Depending on the market acceptance of the approaches, methodologies and outcomes of the EBFP, replication plans will be developed in consultation with other stakeholders and multilateral organizations, which will consider the many countries that offer measurable GEF benefits through SMEs, and appropriate investment climates for SME development. The funds received in repayments from the Financing Facility, after covering the costs associated with operating and managing the EBFP, will be available to fund new country programs, building on the experience of the previous program implementations.

109. If the EBFP's implementation proves successful, the next phase, following both the SME Program and the EBFP, would be to prepare for a third phase. Provided that the EBFP achieves its objectives, a number of options that go beyond the replication of the program in more countries should be considered. Such considerations could include the establishment of a fund to provide grant support to cover the incremental costs of any FI or SME that meet a predetermined

set of criteria. This fund would be structured to encourage the systematic financing of GEF-eligible SMEs across countries and regions on a significant scale, thus making the improvement of the global environment a market reality.

F. Stakeholder Involvement

110. A variety of different stakeholders will be involved in EBFP's activities such as host governments, civil society (i.e. NGOs, not-for-profits, academic institutions), FIs, SMEs and private sector companies, development finance institutions (DFIs), bilateral and multilateral organizations, and local communities.

111. The EBFP stakeholder involvement will take many forms and will begin in the very first stages of the program (see paragraph 50 for discussion of the project cycle). The EBFP will seek the support of the host governments, as well as the local GEF Focal Points before commencing any in-country activities to assure alignment with national initiatives and priorities, including environmental policies. FIs and BDSs will be interested in the potential profits to be earned from financing SMEs or in providing know-how and training to FIs and SMEs. It is anticipated that other organizations, such as NGOs, not-for-profits, academic institutions, DFIs and other bilateral and multilateral organizations will get involved with the EBFP, either through the provision of funding or know-how expertise. The SMEs involved in the project will benefit not only from the financing, but also from the know-how and capacity building attained through the TA Program. Finally, the local communities will have a stake in the EBFP. It is these communities that will benefit the most from the program, through better environmental conditions, more jobs and stronger local economies.

112. The EBFP places significant importance on the development of a participatory process in order to ensure that the EBFP is able to implement the proper tools and provide the appropriate support for each individual project. The program has been designed to be flexible, specifically because it recognizes that the needs of each intermediary will differ; however the EBFP realizes that it is impractical for the program to determine these specific needs on its own, and will therefore work to encourage stakeholders to have a significant level of involvement in the processes that affect them. At the start of the implementation of an EBFP country program, stakeholders will be identified in the country, and will be requested to participate in the design of the country program with the interested FIs. The participatory process will be undertaken through in-country workshops and consultations to determine what needs to be done, how, by whom and when. Based on these inputs from the participation of the different stakeholders, a plan will then be drawn for the overall program implementation, in particular the TA Program as it is to be implemented in the country.

113. The SME program experience in Guatemala provides an example of how the EBFP will continue to work with shareholders in other countries. In Guatemala, the SME Program aligned itself with a variety of stakeholders to better understand the GEF eligible market. Links to the Minister of Environment (GEF Focal Point) provided the SME Program with a solid understanding of government policy. Links to local environmental NGOs provided current information on the needs of the market, many of these NGOs have grassroot pipelines on the needs/wants of communities and academia. The SME Program is receiving market information from professional advisors knowledgeable in the environmental and GEF sectors and who are providing expertise to stakeholders and businesses. The SME Program is also known to leading

financial intermediaries, which are beginning to understand the importance of best SME practices and sustainability to their survival in Guatemala.

IV. FINANCING AND COST EFFECTIVENESS

114. The request for funding from GEF is for a total of US$20 million to fund EBFP over ten years, to be disbursed in one tranche. Of the total, US$10 million will be allocated to the Financing Facility and the other US$10 million will be allocated to the TA Program. The GEF funding of US$20 million is expected to generate an additional US$80 million in financing and TA activities for a total size of US$100 million. If the reflows from the repayments of the loaned funds are sufficient as described below, the leveraged funds could reach US$111 million. The cofinancing and leveraging are described in paragraphs 124 to 128 below.

A. Projected Cash Flows

115. The projected cash flows for the combined SME Program and EBFP funding is shown in Table 2. These projections are based on current estimates and are presented for illustrative purposes only. Actual performance will depend on a number of factors that relate to the implementation of the EBFP, including the implementation pace, change in the enabling environment, and market acceptance of the Program in different countries.

Table 2: Estimated Projections of Cash Flows (in US$000's)

Fiscal Year end June 30,	Totals	Up to FY03	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
GEF Approved & Disbursed funds from SME Program	**20,800**	20,800										
Funds loaned to intermediaries and projects	15,800	10,725	5,075	-	-	-	-	-	-	-	-	
Technical Assistance funds	1,605	592	400	400	200	13	-	-	-	-	-	
Management & Operations (inc. inflation & contingencies)[1]	4,395	2,400	400	400	400	400	193	150	52	-	-	-
Reflows from existing SME Program portfolio												
Net repayments of principal[2]	8,705	2,377	463	593	1,357	1,683	1,297	522	413	-	-	-
Net interest payments	1,030	693	93	112	57	38	22	11	3	-	-	-
Net expected reflows (principal & interest)	9,735	3,070	556	705	1,414	1,721	1,319	533	416	-	-	-
EBFP (new GEF funding)												
GEF Funding Requested	**20,000**	-	20,000	-	-	-	-	-	-	-	-	-
Financing Facility												
Loans & guarantees disbursed/committed to FIs	10,000	-	2,000	4,000	3,000	1,000						
Additional financing to FIs if reflows are sufficient	4,000					2,000	2,000	-	-	-	-	-
TA Program												
TA funding	10,000	-	1,150	2,275	2,540	2,390	1,300	345	-	-		
Additional TA funding if reflows are sufficient	3,000							905	1,080	780	235	-
Monitoring & Evaluation	2,700	-	380	297	335	335	410	180	165	128	90	380
Reflows from EBFP Financing												
Net repayments of principal/guarantees[2]	8,400	-	-	-	240	720	1,080	1,440	1,740	1,500	1,020	660
Net interest payments	880	-	16	64	117	152	168	150	108	65	31	9
Net expected reflows (principal & interest)	9,280	-	16	64	357	872	1,248	1,590	1,848	1,565	1,051	669
Program Management & Operations costs	6,300	-	630	1,000	1,000	1,000	1,000	650	450	300	200	70
Total Balance of Funds	**2,015**	10,153	20,690	13,087	7,383	2,838	502	396	913	1,270	1,796	2,015

[1] As per the Project Document of the SME Program Replenishment in 1997, US$1 million expected from reflows are to be used to cover the Management & Operations costs.

[2] Net repayments of principal after deduction of incentive & compensation fees and write-offs.

116. The estimated projections show that the funding from GEF for the SME Program (US$20.8 million) as well as the EBFP (US$20 million) totaling US$40.8 million would be used for US$29.8 million in financing to FIs and SME projects (SME Program: US$15.8 million and EBFP: US$14 million[35]), US$14.6 million in TA (SME Program: US$1.6 and EBFP: US$13

[35] These estimates are subject to the amount of funds reflowed (principal and interest) from the loans to the intermediaries.

million[32]), and US$2.7 million for monitoring and evaluation activities; in addition to covering the full cost of management and operations to implement the SME Program (US$4.3 million) and the EBFP (US$6.3 million). The US$40.8 million will have been directly responsible for generating US$57.8 million in program activities and through cofinancing and leveraging, it will have facilitated over US$100 million of total activities by 2013.

117. In addition to GEF funding for EBFP, it is proposed to transfer all assets of the SME Program to the EBFP. The combined reflows from the SME Program portfolio as well as the future portfolio of the EBFP and the funds remaining from the GEF-funded SME Program are sufficient to cover the costs of the M&E plan (as described in paragraphs 44 and 97 to 102) as well as the management and operations (M&O) costs. The EBFP proposes to access either the Financing Facility or the TA Program funding allocations to avoid any cash-flow shortfalls during the years when the reflows are not sufficient to cover the M&E and the M&O costs. These accessed funds will be refunded to the respective accounts as a priority when sufficient reflow payments are received. The EMT is committed to ensuring that sufficient project financing and TA funding remain for a successful program implementation so that no trade-off arise between financing, TA or M&O costs that would hamper program implementation. Furthermore, it is unlikely that a large budget shortfall would arise, as the assumptions behind the program budget currently reflects conservative estimates.

118. Any additional future funds from the loan reflows will be allocated to the financing of new investments in more FIs in additional countries, estimated at an additional US$4 million worth of financing; and to fund more TA to support these additional activities, estimated at a further US$3 million. At the end of the ten-year EBFP implementation period, any remaining funds[36] will be returned to the GEF, unless it as agreed that these funds would continue to be used beyond the life of the Program for the same kind of financing and TA activities or for similar activities that build on the results of EBFP. Until the final disposition of the remaining funds is determined, these funds will remain with the EBFP under the administration of IFC.

B. Monitoring and Evaluation Costs

119. The M&E activities which are likely to reach US$2.7 million are estimated to include: (i) managing the installation and design of appropriate decision making and reporting systems for the program (estimated at US$300,000); (ii) the support to FIs to adapt and install monitoring and reporting systems to report on program specific indicators (estimated at US$75,000 per FI for a total of US$1 million); (iii) dissemination of best practices and lessons learned through workshops, exchanges among institutions, publications, communications materials and case studies (estimated at US$300,000); and (iv) two in-depth external program evaluations as described in paragraphs 101 and 102 above (estimated at US$500,000). Although the M&E activities also require active management, this cost is not reflected in the overall M&O costs in order to represent fairly the overall cost of the M&E, that are incremental costs over and above program management.

[36] The projections show a balance of US$2 million remaining from reflows at the end of the ten year life of the EBFP.

C. Management and Operations Costs

120. The management and operations costs of the EBFP totaling US$6.3 million[37], consist of the following:

a. Management of the ***Financing Facility***, which can reach US$14 million over the ten years, depending on the level of reflows. The M&O costs are estimated to total about US$3 million over the ten-year life of the EBFP. These costs are expected to be higher in the early years during the investment period and lower in the latter years during the supervision period, averaging US$300,000 per year (2.1% per year), or a total of 21% of the Financing Facility[38]. The M&O costs include the full costs for the selection, structuring and committing financing to FIs and in some cases directly to SMEs, hiring and managing local and international consultants and the on-going supervision of the portfolio. Given the medium- to long-term financing, on-going and close supervision of the portfolio will be needed that go beyond the usual supervision activities of other GEF-funded projects.

b. Management of the ***TA Program,*** which can reach US$13 million over the ten years depending on the level of reflows. The M&O costs over the ten year life of the EBFP are estimated at US$3.3 million or an average of US$330,000 per year (2.5% per year) totaling 25% over the life of the TA Program. These costs include program staffing, hiring and managing local and international consultants and their related costs, including on the ground presence in countries. The M&O activities to manage the TA Program include the design, structuring and implementing of a country program for each country of focus, including the market development activities (estimated at US$5 million) and FI and SME capacity building activities (estimated at US$3 million and US$5 million respectively). TA programs managed by bilateral and multilateral organizations, as well as by NGOs and others, range from a low of 8% to a high of 25% per year of funding committed.

121. No additional funding support will be required from GEF to cover the M&O costs. The US$20 million GEF funding requested will be used to directly finance projects on the ground. The reflows from these projects will cover the M&O costs of operating the program, and have additional funding available to expand the program to more countries. No commitments are made on the expansion of the EBFP as the reflows are subject to the performance of the overall portfolio and, therefore, the amount of reflows received is not assured.

122. The M&O costs include: staffing of team, consultants, travel, operating expenses and a contingency for inflation (as all costs are estimated on a 2003 base) as depicted in Table 3 below:

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[37] The management and operations costs for the supervision of the ***existing portfolio of the SME Program*** of about 22 to 25 intermediaries over the remaining life of these projects is covered from the earlier allocation from the GEF funding for the SME Program. The budget for the SME Program approved in 1995 and 1997 is US$4.4 million, of which US$2.4 million have been expensed as of the end of the fiscal year ended on June 30, 2003. The remaining budget of US$2 million will cover the cost of the supervision of the SME Program portfolio as originally envisioned.

[38] Comparables for a similar financing facility could not be identified. The best comparables would be the management costs for private equity funds, which require similar management support and interactions on an on-going basis with the portfolio companies. For a private equity fund, management costs range from 2% to 4% per year, cumulating to 20% to 30% of the total funding commitment. Management fees are normally calculated on the committed funds during the investment phase and on outstanding amounts during the supervision phase. The EBFP expects the investment phase to be about 5 to 6 years and the supervision phase the remaining 4 to 5 years. The size of the financing Facility at US$10 to US$14 million is considered small compared to a typical private equity fund. The management costs for a US$10 – 20 million fund are between 2.75% and 4% annually; the EBFP is at the lower range of that, at an average over the ten years at 2.1%.

Table 3: Breakdown of Estimated M&O Costs (in US$000)

	Totals	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Management & Operating Expenses											
Cost of staffing & consutlants	4,107	500	650	650	650	650	350	250	163	163	81
Cost of travel	978	108	138	138	138	138	120	108	36	36	18
Operating expenses	677	99	87	102	107	75	62	57	31	31	26
Total M&O expenses	**5,762**	**707**	**875**	**890**	**895**	**863**	**532**	**415**	**230**	**230**	**125**
Contingencies & inflation	538	5	27	51	74	96	77	72	50	54	32
Total M&O	**6,300**	***712***	***902***	***941***	***969***	***959***	***609***	***487***	***280***	***284***	***157***

123. The total cost of US$6.3 million for managing the EBFP is a reflection of the proactive management approach adopted to assure efficient delivery of the program objectives, while fulfilling the EBFP's fiduciary responsibilities to assure that program effectiveness is optimized and that the return of the funds invested is maximized, while ensuring GEF-eligibility. The management and operations costs have been adjusted to reflect the multi-focal area, multi-country and multi-stakeholder activities. The sheer number of countries and participants require a significant allocation of resources. In addition, the fiduciary responsibilities that come with the financing modalities offered, where other funders and investors will be taking risks, require significant supervision and coordination to safeguard compliance. Furthermore, in comparison to the anticipated leveraged financing totaling US$80 million for a possible total of US$100 to US$138 million, the management cost at US$6.3 million over ten years is low. This cost is also comparable to the management cost of the SME Program, which totals US$4.4 million for a total commitment in financing and TA of US$17.4 million.

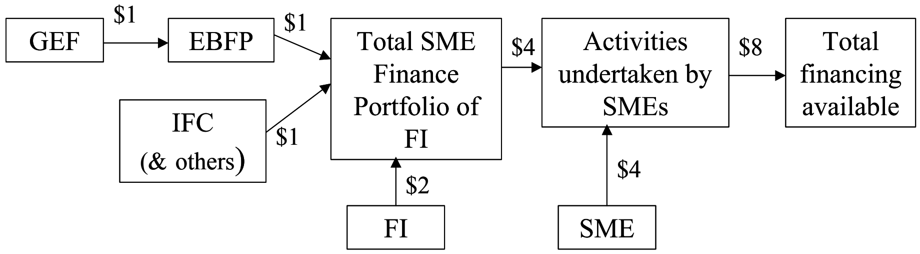
D. Cofinancing and Leverage

124. The EBFP will seek to leverage GEF funds by at least four times. The 4:1 ratio comprises an anticipated 7:1 leveraging of the Financing Facility (50% of the GEF funds) and a 1:1 leveraging of the TA Program (the other 50% of the GEF funds). With this anticipated leverage, the Financing Facility at US$10 million would generate additional financing of US$70 million and the TA Program at US$10 million would generate additional TA funding of US$10 million, for a total of US$80 million as described below. If however, the reflows are sufficient to increase both the Financing Facility (to US$14 million) and the TA Program (to US$13 million), then the total additional funding could reach US$111 million using the same ratios, for a total of US$138 million[39].

125. The Financing Facility will leverage GEF funds an estimated seven times as follows: For every $1 of GEF funds, the FI would be able to provide a total of $4 of financing to SMEs. In turn, this $4 from the FI will be leveraged by an additional $4 of funds at the SME level to implement the intended projects (see Figure 5).

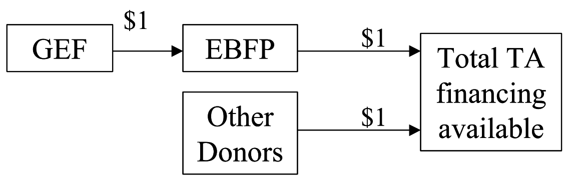
[39] The anticipated level of cofinancing is based on estimates formed by the experiences of the SME Program and other IFC projects as well as generally accepted practice in SME finance and in on-lending financing structures.

Figure 5: Financing Facility Leverage of GEF Funds



$10 million GEF Funds for EBFP should generate $80 million total available financing

Figure 6: TA Program Leverage of GEF Funds



$10 million GEF Funds for EBFP should generate $20 million total available TA funding

126. The 7:1 leverage ratio assumes GEF funds are expended but not repaid. As the Financing Facility will use guarantees and other non-grant debt instruments to the extent these funds are repaid, and a high rate of repayment is expected, the actual leverage achieved would be higher.

127. IFC cofinancing will come in the form of investments made in the participating FIs. The overall IFC commitment for the EBFP is expected to be on par with the GEF financing support in aggregate. IFC's focus on domestic financial institutions and markets is key in its pursuit of sustainable development[40]. Given the size of the financial market portfolio, and the extensive network of relationships with FIs,[41] IFC has been able to engage FIs in the financing of SMEs. IFC has built a strong base of experience both in its conventional financing operations and in the SME Program that strongly support the EBFP. However, a predetermined cofinancing commitment for the overall program from IFC, FIs or other stakeholders is not possible due to the program design and operational structure, in particular as the countries and the FIs that EBFP will target will only be determined over time as the GEF-eligible markets evolve, and opportunities arise in different countries. Furthermore, an up-front IFC commitment to co-finance with the EBFP is not feasible as a result of IFC's operational due diligence process that requires extensive assessments of each investment in an FI before a commitment is made. However, to assure a strong IFC cofinancing commitment, the EBFP will leverage IFC's existing financial markets portfolio and its wide network of relationships with local FIs to guide EBFP selection of both countries and FI partners. This approach will, both mainstream the EBFP within IFC, as well as strengthen IFC's cofinancing commitment, yet allow the flexibility to work with strong FIs that are not IFC clients. As described in paragraph 32 above, EBFP's financing

[40] The financial sector investments of IFC reached 24% of IFC's committed portfolio by the end of FY02, making it by far the largest sector in the IFC portfolio.

[41] IFC has invested in a large number of FIs in most of its member countries. By the end of FY02, IFC held investments in more than 310 FIs in over 110 countries.

instruments are designed to buy-down the incremental risks associated with the nature of the GEF-eligible SMEs (innovative or new activities in a particular market, no track record, market not yet developed, etc.). By assuming a higher level of risk than other cofinanciers, the EBFP aims to elevate the financing of GEF-eligible SMEs to be on par with other investments that IFC and other financiers would consider in their normal market considerations. In other words, the EBFP intends to level the 'playing field' to make the GEF-eligible SMEs comparable in terms of risk and returns to other equivalent investments.

128. In addition to the financing facility, the TA Program will be leveraged through funding from additional stakeholders such as national, bilateral and multilateral organizations[42]. This leveraging will be achieved through direct contribution to the TA Program funds and partnerships and joint programs with other stakeholders implementing complementary programs.

V. INSTITUTIONAL CO-ORDINATION AND SUPPORT

129. The EBFP will closely coordinate with other institutions to build on, learn from and leverage the experiences of existing and related programs and help ensure the mainstreaming of program activities. The EBFP will generate lessons learned and best-practice knowledge that is expected to attract the interest of other institutions. The EBFP will leverage IFC's internal resources and build an in-country presence through the Project Development Facilities (PDFs), the Global Financial Markets Department and the WBG SME Department's resources. Particular emphasis will be put on ensuring that the EBFP coordinates and collaborates with other in-country programs that may affect the SMEs.

130. Enhancing cooperation to create partnerships and leverage ongoing programs, both within the participating country and outside, is a key component of the EBFP. The EBFP will undertake an initial assessment of each targeted country to determine the local resource base and needs, as well as potential partners. Following the initial screen, a second more in-depth screening will take place in conjunction with the market assessment to establish the country-specific program framework, including the identification of TA providers, FIs and SMEs. In the case of South Africa, the EBFP has performed the initial screening and determined that there is a substantial resource base for TA providers, a solid financial sector and a significant GEF-eligible market of SMEs, both in the area of biodiversity conservation and climate change mitigation. During the initial screening, the EMT met with several institutions, including TA providers, FIs, SMEs, donors and others, to determine the market and build a foundation for future partnerships.

A. Core Commitments and Linkages

131. The EBFP will work with the GEF Focal Points for each target country to ensure that the program is implemented in accordance with the country priorities, action plans and programs. Local GEF Focal Points will be notified upon approval of the EBFP, at which point a formal endorsement will be sought in each target country where the EBFP will be implemented.

132. The EBFP design reflects the commitment to national level support through its emphasis on local ownership by working with local FIs and local TA providers, to create a sustainable local market for GEF-eligible SME finance. Linkages will be created not only with the FIs and TA

[42] The SME Program has proven that co-funding can be generated at the subproject level from other sources of funding.

providers but also with NGOs and other GEF implementing agencies. The program is committed to working closely with the IFC's SME Department in developing best practices.

B. Consultation, Coordination and Collaboration between IAs

133. In addition to working with GEF Focal Points, the EBFP will seek to create partnerships with national market players such as local TA providers, existing GEF-funded programs and implementing agencies (UNDP's GEF-funded Small Grants Program, UNCTAD's Empretec), related bilateral and multilateral organization programs, local environment funds and initiatives put in place to enhance the implementation of international conventions for biodiversity, climate change, land degradation and POPs. These partnerships would also entail linking SMEs and FIs with additional market players or other organizations that may wish to purchase or compensate for the environmental services delivered.

ANNEX 1: GEF-ELIGIBLE ACTIVITIES

Table A1 – 1: Activities Supporting GEF Operational Programs

OP#	OP Name	Focal Area	OP Objectives	Activities
1	Arid and Semi-Arid Zone Ecosystems	Biodiversity	➢ Protection of systems of conservation areas ➢ Focus on countries in Africa and in the Mediterranean type climatic zone threatened by increased pressure from intensified use, drought, and desertification, which lead to land degradation	➢ Support for or establishment of conservation areas ➢ Ecolodge, ecotourism in wildlife reserves or protected areas ➢ Specialized tour operators ➢ Planter of seedlings in deforested area
2	Costal, Marine and Freshwater Ecosystems	Biodiversity	➢ Establishment and strengthening of systems of conservation areas and ecosystems ➢ Focus on tropical and temperate costal, marine and freshwater ecosystems areas at risk	➢ Producer/fisher of sustainable fished seafood ➢ Certified fishing (fisheries, processors, retailers and restaurants)
3	Forest Ecosystems	Biodiversity	➢ Protection of primary/old growth and ecologically mature secondary forest ecosystems, by establishing and strengthening systems of conservation areas ➢ Focus on tropical and temperate ecosystems in areas at risk	➢ Ecolodge, ecotourism in wildlife reserves or protected areas ➢ Specialized tour operators ➢ Grower and marketer of sustainably harvested non-timber forest products (NTFPs) ➢ Reforestation/ afforestation ➢ Sustainable forestry (forestry operations, producers, SMEs involved in processing and distribution of certified wood products, SMEs involved in retailing certified wood products) ➢ Buyer of advance-purchase contracts for sustainably harvested wood ➢ Agroforestry ➢ Grower of shade-grown coffee ➢ Planter of seedlings in a deforested forest

OP#	OP Name	Focal Area	OP Objectives	Activities
4	Mountain Ecosystems	Biodiversity	➢ Protection of systems of conservation areas ➢ Focus on Mesoamerican, Andean, East African Himalayan regions and montage regions of the Indochina peninsula as well as mountain chains on tropical islands	➢ Ecolodge, ecotourism in a wildlife reserve or protected area ➢ Specialized tour operators ➢ Grower and marketer of sustainably-harvested NTFPs ➢ Reforestation/ afforestation ➢ Certification
5	Removal of Barriers to Energy Efficiency and Energy Conservation	Climate Change	➢ To reduce the risk of climate change by reducing net greenhouse emissions from anthropogenic sources and by protecting and enhancing removal of such gases by sinks. ➢ To remove barriers to large-scale application, implementation and dissemination of least-economic cost energy-efficient technologies ➢ Promote more efficient energy use	➢ Vendor and installer of solar home systems and energy efficient appliances ➢ ESCOs ▪ Block/group housing developments ▪ Manufacturing and commercial facilities ▪ Institutional market such as hospitals, schools, government offices ▪ SME performance contractors ➢ Ecohomes ▪ Home improvements, retrofitting projects ▪ Builders/ developers ▪ Institutional market ➢ Appliances ▪ Home improvements, retrofitting projects ▪ Builders/ developers ▪ Institutional market ➢ Efficient lighting ▪ Home improvements, retrofitting projects ▪ Builders/ developers ▪ Institutional market ▪ Efficient lighting products manufacturers, distributors and retailers

6	Promoting the Adoption of Renewable Energy by Removing Barriers	Climate Change	➢ Remove the barriers to the use of commercial or near-commercial renewable energy technologies (RETs) ➢ Reduce any additional implementation costs for RETs that result from a lack of practical experience, initial low volume markets, or from the dispersed nature of applications	➢ Developer of small renewable energy project ➢ Vendor and installer of solar home systems and energy efficient appliances ➢ Micro-hydro/ run-of-the-river ▪ Electricity generation for households and communities ▪ Electricity generation for agricultural/ industrial processing facilities ▪ Mechanical power (water pumping) ▪ SMEs involved in manufacturing of electrical systems and components ▪ Micro-hydro electric projects ➢ Solar PV Cells ▪ Off-grid domestic applications (solar lanterns, SHSs) ▪ Off-grid non-domestic applications (refrigeration systems, community lighting, water pumping, telecommunications, solar backpacks, transportation, security systems) ▪ Grid-connected electricity generation ▪ SMEs involved in assembling, distribution and servicing of solar PV applications ➢ Solar thermal energy ▪ Residential water heating, space heating and cooling, cooking ▪ Agricultural processing plants (crop drying) ▪ Water treatment (distillation) ▪ Large scale electricity generation ▪ SMEs involved in assembling, distribution and servicing of solar thermal applications ➢ Wind pumps and turbines ▪ Small wind systems for electricity

				generation for lighting, recreational vehicles, cottages ▪ Water pumping for domestic drinking water, irrigation and livestock purposes ▪ Large scale electricity generation ▪ SMEs involved in manufacturing/ assembling, distribution and servicing of wind pumps and turbines ➢ Biomass ▪ Domestic applications for cooking heating, lighting ▪ Small scale electricity generation for community lighting ▪ Large scale electricity generation ▪ SMEs involved in manufacturing/ assembling, distribution and servicing of biomass applications (bio-digesters, cook-stoves)
7	Reducing the Long-Term Costs of Low Greenhouse Gas Emitting Energy Technologies	Climate Change	➢ Increased use of "backstop" technologies, such as renewable energy technologies with low emissions of greenhouse gases, so as to stabilize greenhouse gases (GHGs) at levels the will prevent serious anthropogenic interference with the climate system. ➢ Reduce GHG emissions from anthropogenic sources by increasing the market share of low GHG emitting technologies that have not yet become widespread least-cost alternatives in recipient countries for specified applications.	➢ Developer of small renewable energy project ➢ Vendor and installer of solar home systems and energy efficient appliances

11	Promoting Environment ally Sustainable Transport	Climate Change	➢ Reduce emissions from the ground transport sector in an effort to stabilize GHGs at levels that will prevent serious anthropogenic interference with the climate system.	➢ Shifts to more efficient and less polluting forms of public and freight transport ▪ Traffic management ▪ Increased use of cleaner fuels ➢ Non-motorized transport ➢ Fuel alternatives (Fuel cell, battery, hydrogen, powered vehicles ➢ Internal combustion engine-electric hybrid buses
12	Integrated Ecosystem Management	Multifocal area	➢ Widespread adoption of comprehensive ecosystem management interventions that integrate ecological, economic, and social goals to achieve multiple and cross-cutting local, national, and global benefits.. ➢ Conservation and sustainable use of biological diversity, as well as equitable sharing of benefits arising from biodiversity use ➢ Reduction of net emissions and increased storage of greenhouse gases in terrestrial and aquatic ecosystems ➢ Conservation and sustainable use of waterbodies, including watersheds, river basins, and coastal zones ➢ Prevention of the pollution of globally important terrestrial and aquatic ecosystems	➢ Rehabilitation of rangelands to restore indigenous vegetation and improve water management ➢

13	Conservation and Sustainable Use of Biological Diversity Important to Agriculture	Biodiversity	➢ Promote the positive impacts and mitigate the negative impacts of agricultural systems and practices on biological diversity in agro-ecosystems and their interface with other ecosystems ➢ Conservation and sustainable use of genetic resources of actual and potential value for food and agriculture ➢ Fair and equitable sharing of benefits arising out of the use of genetic resources	➢ Grower of shade-grown coffee ➢ Buyer and reseller of sustainably cultivated produce
14	Reducing and Eliminating Releases of Persistent Organic Pollutants (Draft OP)	POPs	➢ Reduce/eliminate the use/production of POPs	➢ Buyer and reseller of sustainably cultivated produce ➢ Pest control company using organic substances
15	Sustainable Land Management	Land Degradation	➢ Mitigate the causes and negative impacts of land degradation on the structure and functional integrity of ecosystems through sustainable land management practices	➢ Buyer and reseller of sustainably cultivated produce

Table A1 – 2: Geographical Potential for GEF-eligible Activities

Technologies	Level of Application	Central & South America	Africa	Asia	Central Asia	Eastern Europe & Russia	Comments
Eco-tourism	Current	◑	◑	◔	○	○	• High level of application in Central / South American and South African hotspots
	Potential	●	●	◕	N/A	◔	• Highest potential in areas of biodiversity with established tourism industries
Agroforestry	Current	◑	◔	◔	○	◔	• Little recorded data; few projects in Tanzania, Zimbabwe and Kenya
	Potential	◕	◕	●	◔	◑	• High potential in agricultural and NTFP areas
Certified Forestry	Current	◑	◑	◔	○	◑	• Africa and Central / South America have largest certified area
	Potential	◕	◕	◑	N/A	●	• Russia has largest forest area and lowest level of certification
NTFPs	Current	◑	◔	◕	○	○	• History of NTFP harvesting in Asian forest communities
	Potential	◕	◑	●	○	◔	• High level of valuable NTFPs in China, India and Indonesia
Certified Fishing	Current	◔	◔	○	○	○	• Level of application low throughout regions, but some activity in Mexico and South Africa
	Potential	●	◑	●	○	◑	• Natural fish populations determine potential for replication
Organic Farming	Current	◕	◔	◔	○	◑	• Brazil, Argentina and Mexico among the countries with highest organic land area
	Potential	●	◑	◕	◔	◕	• Central / S. America have lowest level of application among regions with large agricultural area

○ Least Favourable → ● Highly Favourable

Technologies	Level of Application	Central & South America	Africa	Asia	Central Asia	Eastern Europe & Russia	Comments
Biofuels/Biogas	Current	◑	◕	◕	◔	◔	• Absolute use greatest in Asia, but % of total energy consumption highest in Africa
	Potential	◕	●	●	◑	◕	• Good potential in regions with large forest cover and agricultural residue
Solar Photovoltaic	Current	◑	◕	●	◔	◔	• Manufacturing capacity appears greatest in India and China with a number of small solar lantern projects in Africa as well
	Potential	●	●	●	◕	◕	• Abundance of sunlight in most developing region
Solar Thermal	Current	◑	◕	◕	◔	◔	• Africa and Asia appear to have made most progress towards use of solar thermal power
	Potential	●	●	●	◑	◑	• Abundance of sunlight in most developing region
Geothermal Direct-Use	Current	◑	○	◑	○	◕	• High capacity in China, Russia, Georgia and Jordan
	Potential	●	◑	●	◔	●	• Hot spots located in Asia, Latin America and Eastern Europe
Wind Pumps	Current	◑	◕	◔	◔	◔	• Multiple manufacturers in Africa; some use in Argentina
	Potential	●	●	●	◑	◑	• Potential use in rural, arid regions
Micro-Hydro	Current	◔	◔	◑	○	◔	• 14,500 MW of small-hydro power in Asia and thousands of micro-systems in China, Pakistan and Sri Lanka
	Potential	◕	◑	●	◑	◑	• Potential for application in mountainous regions, such as the Andes and Himalayas

○ Least Favourable → ● Highly Favourable

Technologies	Level of Application	Central & South America	Africa	Asia	Central Asia	Eastern Europe & Russia	Comments
ESCOs	Current	◑	○	◑	N/A	◔	• Emerging ESCO market in Brazil, Mexico, India, Philippines, and Eastern Europe
	Potential	●	◔	●	N/A	◕	• ESCO awareness appears highest in select S. American countries and India
Lighting	Current	◕	○	◑	◔	◕	• Highest sales growth in China, Eastern Europe and Latin America
	Potential	●	◑	◕	◕	●	• Energy efficiency awareness appears highest in E. Europe and Latin America

○ Least Favourable → ● Highly Favourable

ANNEX 2: IFC'S APPROACH TO MICRO, SMALL AND MEDIUM ENTERPRISE DEVELOPMENT

The importance of SMEs to economic development and, therefore, poverty reduction is undisputed. SMEs account for the creation of a large share of new jobs in an economy, provide an avenue for the involvement of most indigenous people and women in the economy, and constitute a significant contribution to the GDP. These enterprises thrive because they offer low-income populations opportunities for economic self-sufficiency. During economic crises, micro-enterprises and small businesses are often the most resilient, serving as a crucial backbone of the domestic economy. SMEs' impact on economic development in turn, depends on a number of factors, the core comprising access to credit, business environment, infrastructure, and availability of appropriate human capital. Yet, despite their size and importance, these businesses rarely have access to the savings, credit and payment services provided by banks and, overall, the SME sector is the least served by the financial services industry. Financial services for these 'under-served' businesses have been lacking for several reasons, including the high transaction costs and perceived credit risks associated with small loan sizes and the unreliability of financial information from entrepreneurs that operate outside the formal economy. Mainstream banks find SMEs too expensive to service, falling between consumer finance and conventional banking for large corporations; SMEs are sandwiched in "no man's" land.

Micro-enterprises and small businesses cite the lack of access to finance as one of the primary constraints to the growth of their enterprises. If economic development is to reach the millions of poor people around the world that run profitable micro-enterprises and small businesses, new ways must be found to encourage formal financial systems to be more inclusive, so that large numbers of these under-served entrepreneurs can obtain high quality financial services. Given IFC's experience as a risk-taking financial investor in emerging and frontier markets around the world, it is well placed to help address this issue. Consequently, micro and SME finance is increasingly playing a larger role in IFC's financial sector strategy, within a wider SME strategy that is a core component of IFC's overall strategy[43].

IFC has traditionally provided financing to banks for SME lending through credit and agency lines. These products, however, do not always meet the needs of IFC's clients. The banks on-lend in hard currency to SMEs, thereby significantly increasing their portfolio risks, as most SMEs do not generate dollar-denominated earnings to service the loans. The SMEs that IFC's client banks have traditionally targeted are in the upper quartile of the size range and can be categorized as mid-sized companies. Banks have not been able to target micro and small businesses due to the perceived risks and costs mentioned above. Many of the financial institutions in emerging and transition countries have high liquidity and invest in government securities, rather than take the risk of providing financing to micro and small businesses.

SME development is increasingly becoming an important sector for WBG support, with US$1.3 billion in FY03 of total funding. The lion's share of this funding came from the World Bank: most as financial assistance to firms channeled through local financial intermediaries, the rest either to fund training and consulting services to firms, or to strengthen support institutions. IFC's portion came largely in the form of investment: either indirectly as credit lines or investments in local financial institutions, or directly as loans and equity investment in individual SMEs. The Corporation's financing for SMEs, however, was just one part of its small business assistance package. In the last two years, IFC has changed its approach to supporting SMEs, cutting back its direct investment in these smaller companies in favor of working

[43] IFC's core strategy calls for a move towards areas with high multiplier effects, where the impact goes well beyond the capital investment, and focuses on frontier countries, strengthened domestic institutions, markets and infrastructure, SME development and sustainability. Sustainability, both social and environmental, has emerged as an important new strategic priority as illustrated by the corporate sustainability initiative. It is recognized that sustainability is a business differentiator that helps business growth and is one of the fundamentals of public concern that drives policy decision and poses private sector risks. IFC's corporate sustainability role to enforce its environmental and social safeguard policies has evolved into a value-added role and IFC is considered to be at the leading edge with regard to environmental and social policies and practices in developing countries.

through financial institutions while, at the same time, increasing its support for technical assistance and capacity building activities – especially focused on domestic financial and non-financial intermediaries.

As a result of the importance of the SME sector, the WBG created in 2000 a joint IFC/WB SME department to forge a strategic approach for SME development. The SME Department is focusing on strengthening SME finance targeting four key needs: capacity building, information and technology, access to capital, and improved business environments. One of IFC's key tools in small business development is the family of SME facilities that it manages on behalf of a broad range of donors. There are eight specialized PDFs[44] currently administered by the WBG SME Department and more are being developed. The PDFs offer a range of non-financial services that help build the local small business sector in countries that receive little in the way of market access, technology transfer, and private capital – services that range from preparation of business plans for investment projects to broader initiatives, such as training, support for business associations, and development of local consulting companies and institutions that target smaller firms. The work of the PDFs on the front lines brings IFC's assistance to a much smaller segment of the market than would otherwise be possible – building sustainability, compositeness, and skills. The EBFP will be building on the on-the-ground work of the PDFs to leverage on them to reach the SMEs that are of significance to the GEF goals. One of the initial activities that the EBFP will be undertaking with PDFs is to train their business development officers on the scope of the EBFP and its approach, as well as how to identify GEF-eligible activities.

The EBFP will leverage on the work of the WBG SME Department, as well as that of a number of other bilateral and multilateral organizations in building a sustainable capacity of service providers to SMEs. The Committee of Donor Agencies for Small Enterprise Development, a far-reaching body of development organizations working on small business, published in 2001 a set of guidelines for programs seeking to help create a well-functioning, diverse market for high-quality services affordable to most SMEs such as training, consulting, accounting, and export promotion. Since these services are essential for SMEs to acquire the capacities needed to compete and grow, the EBFP will coordinate with other organizations involved in the support for business development services in order to ensure that GEF-eligible SMEs receive the support they need.

IFC's increased emphasis on banking services for the under-served comes at an opportune time. The globalization of the financial services industry has created fierce competition for the small pool of large and mid-size corporate clients in emerging and transition economies. As a result, many financial intermediaries are looking for ways to target the largely unclaimed micro-enterprise and small business market. The challenge is how to profitably target this market segment. The aim is to make micro and small business finance profitable and sustainable for FIs by improving risk / reward ratios so that they become attractive investment choices for financial intermediaries. In so doing, the volume and range of financial products available to micro-enterprises and SMEs should substantially increase.

IFC focuses primarily on providing financing through FIs, and not on direct financing to small businesses. Lessons from previous experiences support the importance of building local capacity of FIs for SME finance, in combination with financing. As a result, IFC is increasingly complementing its investments in FIs with appropriately structured and targeted TA programs to assist FIs in acquiring the knowledge and skills to target the SME segment by bringing needed know-how, expertise, and MIS/IT systems to FIs. The central principle underlying the provision of TA is the leveraging of IFC resources through selectivity (focusing on activities with greatest development impact and replication potential) and strategic internal and external partnerships (to maximize impact within a framework of resources).

[44] The SME facilities are; Africa Project Development Facility (APDF), China Project Development Facility (CPDF), Indonesia Enterprise Development Facility (IEDF), Mekong Private Sector Development Facility (MPDF), North Africa Enterprise Development Facility (NAEDF); South Asia Enterprise Development Facility (SEDF), Southeast Europe Enterprise Development (SEED), and South Pacific Project Facility (SPPF).

IFC's efforts in SME finance focuses on three levels of intervention:

a. **Assisting the development of the underlying infrastructure** for FIs serving the SME sector. Examples of financial infrastructure investments are legal and regulatory framework development, corporate governance and credit bureaus, shared credit scoring arrangements and smartcard processing centers, using the latest information, communication and financial technologies.

b. **Supporting the commercial development of FIs** (e.g., banks, leasing companies and microfinance institutions) by, among other activities, providing access to specialized financial and information technologies, which enable them to significantly reduce their unit transaction costs and improve their portfolio risk management, thus enhancing their commercial viability.

c. **Supporting the commercial development of individual SMEs** through FIs, local business development suppliers and strategic partnerships with best practice providers through institutional strengthening in the areas of business plan development, project preparation, monitoring, reporting and control. As mentioned above, PDFs play a key role in developing SMEs.

The challenges for microfinance are quite different. The industry has been developed over the past 20 years, primarily by a set of institutions outside the formal financial sector whose principal objective was the reduction of poverty. In recent years, it has become evident that well-managed MFIs can make major contributions to poverty reduction and be profitable commercial entities. Commercialization is important because it will allow the industry to augment the donations that have fueled the development of the industry so far with commercial capital, thus enabling a massive increase in the availability of financial services for the poorest of the economically active population. The commercialization of the microfinance industry is a major challenge that IFC is helping to address.

A key principal for increasing the access of SMEs to formal financial services lies in the creation of conditions that encourage FIs to serve micro and small businesses. The "old" unprofitable approach of providing limited services to a limited number of customers needs to be replaced by a 'mass-customized approach'. Such an approach uses technology to increase the number of small business clients, while at the same time reducing transaction costs, improving asset quality and broadening service offerings. The result is a business model that offers a complete set of financial services tailored to the needs of individual SME clients with an improved bottom-line contribution per customer. The approach that IFC is pursuing enhances profits for the FI and involves:

a. identifying and adapting viable business models for FIs;

b. introducing financial technologies that improve profitability and increase efficiency;

c. investing in FIs that target SMEs; and

d. building management expertise and knowledge through strategic partnerships, technical assistance and training.

IFC is adopting this approach with FIs keen on pursing profitable opportunities in SME finance by capitalizing on innovations in financial, information, and communication technologies. These technologies include lending strategies that revolutionized the U.S. market for small business credit in the 1990s, particularly consumer lending techniques, such as credit scoring, to small business finance. Reliable information from credit bureaus enables lenders to make rapid credit decisions driven by data and forecasting models, rather than relying exclusively on subjective assessments of credit officers.

ANNEX 3: THE IFC/GEF SME PROGRAM

The mandate given to IFC for the SME Program was to design and pilot procedures that could finance the incremental costs of intermediaries to carry out GEF-eligible SME projects. SMEs, for the purpose of the SME Program, are defined as private sector enterprises with total assets valued at less than US$5 million equivalent.[45] Eligible projects are those that fall under one of the GEF OPs in the conservation of biodiversity and mitigation of climate change. The SME Program was designed as a global initiative, available to finance eligible projects in any recipient country that has signed the biodiversity and/or climate change conventions.

The SME Program operates primarily through intermediaries. These intermediaries have been selected by IFC on the basis of their experience with SMEs, financial viability and financial and environmental technical capabilities. The intermediaries identify, analyze, finance and monitor GEF–eligible SME projects and assume the risks inherent in these projects through the provision of loans or equity investments, excluding grants. This process reflects the incremental costs to undertake GEF activities for the SME Program. This incremental cost at the intermediary level has been approved and accepted by the GEF Secretariat. Incremental costs are therefore not analyzed at the subproject level by the program. Initially, the intermediaries typically received a long-term (up to ten years), low interest rate loan (not more than 2.5% per year) from the SME Program and combined their own and other sources of funding to complement the financing requirements for the eligible SME projects. Following recommendations stemming from the 2000 evaluation, more commercial terms have been introduced and today the portfolio also includes loans on commercial terms without concessionality. The loan arrangements negotiated with intermediaries include concessions through fees and risk compensation to support their incremental cost. The fees have been negotiated at levels of 1% to 2% for the monitoring fee and 4% to 6% for the completion fee. The risk compensation (described in the paragraph below), resulting in reductions of the loan principal owing to the SME Program, was provided ranging from 0-50%. In special instances, TA grants have been provided to SMEs at the intermediary and subproject levels.

The risk compensation constitutes the incremental cost for the additional risk incurred by intermediaries (e.g. foreign exchange and new business activity) in financing SMEs. It is provided as the SME repays its loan to the intermediary and the intermediary provides proof of receipt of such payment. Although this subsidy was found to be effective at overcoming the additional risk incurred by the intermediaries, the standard 50% amount of repaid funds, has been modified downward and is negotiated on a loan-by-loan project basis.[46]

The projects financed by the SME Program have achieved global environmental benefits in climate change and conservation of biodiversity by financing energy efficiency and use of renewable energy and conservation of various eco-systems including, for example, conservation harvesting, solar home systems, ESCOs, ecolodges and energy efficiency homes. (See IFC/GEF SME Program Portfolio Description below for detailed description of each project.) Table A3-1 shows the current portfolio status, including amounts approved, disbursed, principal repaid and concessions (amounts forgiven for monitoring and evaluation fees and the risk compensation) to the intermediaries.

[45] Given the global dimension the SME Program operates in, other specific classification standards are difficult to adhere to: e.g. ranking companies by their relative size within the local economy as the number of employees or annual turnover size for SMEs often vary widely across and within regions.

[46] This modification was recommended following the first SME Program evaluation of 2000, and implemented to assure that only the incremental cost of the additional risk facing the intermediary be funded by GEF.

A. IFC/GEF SME Program Portfolio Description

The IFC/GEF SME Program (SME Program) portfolio includes 25 approved intermediaries for a total approved amount of US$16.96 million, which have provided financing to some 140 SMEs around the world (see Table A3-1). Projects are focused on the GEF Focal areas of Biodiversity Conservation and Climate Change Mitigation.

Table A3-1 SME Program Portfolio

IFC/GEF SME Program [1]
Summary Portfolio
(as at June 30, 2003)

	Intermediary	Location	Sector (GEF Thematic Area) [2]	Approval Date	Loan Amount			
					Approved	Committed	Disbursed	Outstanding[3]
							(in '000 US$)	
1	Barclays Bank of Botswana Limited	Botswana	Various (CC/B)	March, 2000	1,000	1,000	500	-
2	Boundary Hill Lodge Limited	Tanzania	Ecotourism (B)	January, 2001	200	200	200	218
3	Caresbac-Polska S.A. (CARESBAC)	Poland	Various (CC/B)	April, 1996	600	600	600	378
4	Cogener Sarl (Cogener)	Tunisia	Energy Efficiency (CC)	March, 2000	500	500	500	551
5	Conservation International Foundation (CI)	Global	Various (B)	January, 1998	1,000	1,000	1,000	749
6	Credicoop Limitada [4]	Chile	Energy Efficiency (CC)	July, 2001	600	-	-	-
7	E&Co.	Global	Energy Efficiency (CC)	August, 2001	1,000	1,000	500	535
8	Econoler International Inc. (formerly Soprin ADS Inc., then Dessau-Soprin Inc.)	North Africa & Middle East	Energy Efficiency (CC)	December, 1997	800	800	400	177
9	Environmental Enterprises Assistance Fund (EEAF)	Central America & Caribbean	Various (CC/B)	July, 1996	400	400	400	-
10	Eskom-Shell Solar Home Systems (Pty.) Ltd. (Eskom - Shell) [4]	South Africa	Solar Energy (CC)	April, 2000	1,000	-	-	-
11	Fideicomiso para la Conservacion en Guatemala (FCG)	Guatemala	Various (B)	July, 1998	500	500	500	364
12	Fundacion para el Desarrollo de la Cordillera Volcanica Central (FUNDECOR)	Costa Rica	Sustainable Foresty (B)	March, 1996	500	500	500	300
13	Grameen Shakti	Bangladesh	Solar Energy (CC)	October, 1997	750	750	750	412
14	International Expeditions Inc. (IE)	Central & Southern Africa	Ecotourism (B)	March, 2000	750	750	375	293
15	International Union for the Conservation of Nature and Natural Resources (IUCN - the World Conservation Union)	Global	Ecotourism (B)	October, 2002	1,000	-	-	-
16	Mt. Gahavisuka Lodge Limited [4]	Papua New Guinea	Ecotourism (B)	October, 1997	210	-	-	-
17	Peer Consultants P.C. (PEER)	South Africa	Energy Efficiency (CC)	January, 2000	1,000	1,000	500	452
18	Save Valley Wildlife Services Limited (SVWSL)	Zimbabwe	Ecotourism (B)	May, 1999	1,000	1,000	500	437
19	SELCO-Vietnam, Inc. (SVN)	Vietnam	Solar Energy (CC)	August, 1998	750	750	600	541
20	Soluz Honduras, S.A. de C.V. - Equity			July, 2000	100	100	100	100
	Soluz Honduras, S.A. de C.V. - Loan	Honduras	Solar Energy (CC)	July, 2000	400	400	400	430
21	Symbio Impax Polska Sp. z.o.o. (Symbio)	Poland	Organic Farming (B)	July, 2002	400	400	400	400
22	United Company for Light Industries S.A.E. - PILCO	Egypt	Solar Energy (CC)	September, 1999	750	750	750	691
23	Wilderness Gate, Inc. (WG)	Central America	Ecotourism (B)	February, 2000	1,000	1,000	500	220
24	World Wildlife Fund, Inc. (WWF)	Papua New Guinea	Sustainable Foresty (B)	November, 1997	250	250	250	0
25	Zaki El Sewedy&Company/El Sewedy Electrical Supplies Company (El Sewedy)	Egypt	Efficient Lighting (CC)	April, 1996	500	500	500	-
	Total SME Program				**16,960**	**14,150**	**10,725**	**7,249**

[1] Includes both SME Program and SME Program Replenishment
[2] GEF Thematic Areas: B = Biodivesity, CC = Climate Change
[3] Outstanding = Disbursed - Repayments - Principal forgiven (ie.incentive fees paid) + unpaid interest
[4] Project has been cancelled after approval at the request of the client

1. Barclays Bank of Botswana Limited

A subsidiary of Barclays Bank PLC, Barclays Botswana has a network of offices and agencies throughout Botswana. Barclays has provided small corporate sponsorships and social giving programs, including environmental initiatives and also supports small business lending. The bank sought SME Program financing of US$1 million (approved in March 2000) in order to be able to continue SME activities and allow the bank to take business risk, as well as finance projects by community businesses. Barclays planned to finance a minimum of seven subprojects involved with climate change and biodiversity conservation. For a variety of reasons, this project was cancelled in 2003 with no investments being made.

2. Boundary Hill Lodge Limited

The Boundary Hill project is led and administered by IFC-Nairobi, which matched the US$200,000 SME Program loan in January 2001. It involves ecotourism and is focused on the development of a 16-bed ecolodge in joint ownership with the local Maasai community in a buffer zone to an important conservation of biodiversity area (the Tarangire National Park) in Tanzania. The SME Program also provided a US$35,500 TA grant, which was used for activities covered in a wildlife management plan.

3. CARESBAC – Polska S.A. (CARESBAC)

The CARE Small Business Assistance Corporation (CARESBAC) is a small financial company operating on a commercial basis, created to provide debt and equity to small business enterprises in Poland. CARESBAC has been operating in Poland since 1991 and signed its loan agreement with the SME Program for an approved US$600,000 in April 1996. CARESBAC has a total of US$16.1 million under management and these funds have come from USAID, EBRD, the Ford Foundation and the SME Program. SME Program funds were invested in five subprojects:

a. Agroplon: US$135,000 was approved in September 1996 and disbursed to complete flax cubing, tree/hedge planting, and water management activities on a cattle ranch that had been converted from state ownership.

b. Jukan: US$150,000 was approved in March 1997 to assist a private company with an extensive marketing plan for increasing the sales of PCV windows to Polish consumers unfamiliar to energy saving benefits.

c. Triada: US$17,500 was approved in February 1997 to assist a private labeling company in converting from a coal-based heating system to a new energy efficient gas-based system.

d. Symbio: US$180,000 was approved in January 1998 with further funding of US$99,000 approved in April 2001 to assist a private company in establishing its business of coordinating, certifying, buying and selling sustainably harvested fruits and vegetables. The business sources products from traditional farmers converted to certified organic growers in buffer zones to national parks. To learn more about the GEF benefit and to build the farmers' capacity, a TA grant of US$70,000 was provided to Symbio through CARESBAC.

e. Polkat: US$50,000 was approved in November 1998 to assist a private company in installing a wood briquette machine that used waste sawdust and woodchips thereby reducing methane emissions and substituting coal for the briquette in consumer use. The company was happy with the results and bought a second machine to grow the business.

4. COGENER Sarl (Cogener)

COGENER Sarl (Cogener) is a Swiss engineering company with experience in energy efficiency and renewable energy design and construction projects. Cogener received a US$500,000 loan from the SME Program in March 2000 for an innovative energy efficient installation of advertising panels in the Tunisian airport in part fueled by solar panels. Cogener is also continuing to develop various cogeneration technologies (PV & natural gas and PV & wood burning etc.) to improve the energy generation capacity and stability. Some of the technologies have received a scientific and technical approval from Swiss government research entities. These technologies have yet to be commercialized through installations in factories following a pilot cogeneration project, which has a tentative funding commitment from Suisse Energie to provide community heating through PV and wood burning cogeneration.

5. Conservation International Foundation (CI)

Conservation International (CI) promotes the conservation of biodiversity in the world's biologically rich and threatened ecosystems. It aims to demonstrate the short- and long-term value of using natural resources on a sustainable basis by building enterprises and linking them with international markets through conservation finance.

CI has financed the following subprojects using approved SME Program funds of US$1 million in January 1998 towards the financing of at least 8 subprojects focused on various conservation of biodiversity business activities:

a. CESMACH: a short term loan of US$93,805 was provided to a coffee cooperative in the Chiapas region of Mexico to assist farmers with affordable financing for post-harvest expenses in return for certified organic harvesting.

b. ForesTrade: a term loan of US$200,000 in November 1999 was provided to cover working capital costs for the purchase of organic spices and coffee from Indonesia and Guatemala on the condition that the farmer groups supplying the ingredients to ForesTrade planted and harvested their products in a manner protecting the critical eco-systems near protected areas.

c. Eterno-Verde: Learning from the Cesmach project, CI created a US$250,000 funding facility to provide affordable post-harvest financing for coffee farmers through six cooperatives in return for the farmers meeting organic growing practices in agreement to CI. In addition, Starbucks is buying the coffee and has provided partial guarantees to assist with pre-harvest financing. To supplement the learning of this project, US$50,000 of TA grant was provided to share with the study costs. It was disbursed in Q1 2001 to assist in measuring and assessing the socio-economic benefits of CI's credit program to shade-grown coffee farmers over a three-year period.

d. Day Chocolate: CI provided a US$250,000 four-year loan for Day to wholesale fair-trade chocolate products made in part of cocoa sourced from Ghana, and according to CI organic standards.

e. Nim Li Punit Ltd: A four-year US$100,000 loan was approved in January 2002 to finance an ecolodge/camp and eco-tours in southern Belize.

6. Credicoop Limitada

Credicoop, a Chilean credit cooperative provides loans to micro-enterprise members involved mainly in repair services, trade or clothes and furniture manufacturing. The SME Program approved a US$600,000 loan in 2001 for Credicoop so that it could complete up to 20 subprojects in energy efficiency. Centro de Productividad Integral SA (Cepri SA), a non-profit organization that seeks to develop the quality, productivity and competitiveness of SMEs in Chile and has strong expertise in the environment planned to provide a guarantee and project support. A TA grant of US$50,000 was also approved to bolster Credicoop's environmental and social development capacity.

7. E&Co

E&Co is a US based non-profit corporation working to promote the "Transition to a New Energy Paradigm" based on the implementation of clean, economically sound energy products. The SME Program loan of US$1 million was approved for E&Co in August 2001 for the client to finance five subprojects in climate change activities. Two subprojects were approved in Latin America:

a. Econergy: A US$109,533 four-year loan was approved in October 2001 along with a small US$7,000 TA grant to a Jamaican SME implementing an energy conservation program in a large public building with hopes of high replication through demonstration training.

b. CSIS: A US$125,000 six-year loan was approved in April 2002 to assist in financing a small run-of-the-river power project in Honduras with income generation, health and safety benefits and poverty alleviation measures built into the project.

E&Co has won several global awards for innovation in sustainable energy and in recognition of its efforts in providing capital to clean energy SMEs in developing countries.

8. Econoler International Inc. (formerly Soprin ADs inc.)

Econoler International is based in Quebec City and has been in the ESCO business for over 15 years. Under the SME Program in December 1997, Econoler received an approved US$800,000 in funds to help establish ESCOs in Tunisia, Morocco, and Algeria. To date Econoler has financed only one ESCO in Tunisia. Econoler capitalized the Tunisian ESCO along with three Tunisian banks and one Tunisian entrepreneur.

A TA grant of US$30,000 was provided in 1999 and was used to build/train management's capacity for ESCO developments. A second TA grant of US$25, 000 was disbursed in Q1 2001 to equally finance with the company a business plan for expansion.

9. Environmental Enterprise Assistance Fund (EEAF)

The Environmental Enterprise Assistance Fund (EEAF) was the first intermediary to receive funds from the SME Program, receiving a first disbursement of US$400,000 in July 1996 towards the financing of at least 6 SME projects. The EEAF is an independent environmental non-profit organization, established in 1990, to provide loans, equity capital and training to environmental entrepreneurs in developing countries. To date the EEAF has financed two subprojects with SME Program funds:

a. Soluz Dominicana (Dominican Republic): US$75,000 was approved in August 1997 and fully disbursed to assist the company in renting (fee for service) rural solar home systems (SHS).

b. EESM (Mexico): US$60,000 was approved in November 1998 and fully disbursed to finance the completion of several energy-saving installations in two breweries. The installations met or exceeded projected energy savings.

10. Eskom-Shell Solar Home Systems (Pty.) Ltd. (Eskom - Shell)

Funding of US$1 million was approved in early 2000 for Eskom-Shell, an SHS provider in South Africa, to finance the cost of installation of 6,000 units. Eskom-Shell was created as a partnership between Shell (through Shell Overseas Investment B. V.) and ESKOM (the South African stated owned power utility) in 1998. At the time of funding approval Eskom-Shell had installed over 4,000 systems making it perhaps the largest SHS provider in the world. The approved funding was never disbursed as Eskom-Shell cancelled the agreement.

11. Fideicomiso para la Conservacion en Guatemala (FCG)

Fideicomiso para la Conservacion en Guatemala (FCG) or Guatemalan Environmental Conservation Trust was established in 1991 as a small private environmental fund supporting projects and activities in conservation of biodiversity and sustainable use of natural resources. FCG used US$500,000 (approved in July 98) in SME Program funds to finance the following subprojects:

a. *Pachuj:* A US$100,000 seven-year loan was approved in August 1999 to a private business for ecotourism activities, conversion to a private reserve and for Eco-Ok certified coffee growing.

b. *Gardenia:* A US$5,000 loan approved in November 1999 to assist a microbusiness in mulching wood waste from forests for ground cover and gardening.

c. *Ram Tzul*: An US$80,000 six-year loan was approved in May 2000 for a diversified eco-center with conservation activities. The eco-center has a restaurant, meeting rooms and gallery for crafts and tourism information. The conservation activities included a model farm, client conservation training, interpretive trails, and private reserve designation.

d. *El Hibiscus*: A US$5,000 five-year loan was approved in September 2000 to improve a café and related service areas and the botanical gardens to attract and educate tourists on conservation and biodiversity.

e. *Chantepeque*: A US$20,000 loan was approved in February 2001 to a family business to increase shade-grown coffee, restock native trees, complete a wet/dry mill and certify its operations under Eco-OK.

f. *La Laguna*: A US$60,000 loan was approved in March 2001 to an SME for expanding fruit and vegetable dehydration using a renewable energy source.

g. *Tijax:* A five-year US$65,000 loan was approved in April 2002 to a small business to expand low impact ecotourism activities on a farm that integrated conservation of biodiversity and the sustainable use of land while strengthening a conservation system and a planned protected area.

h. *Agrego S.A.:* A five-year US$85,000 loan was approved in January 2002 to a family-owned agribusiness diversifying into ecotourism activities. The project involves integrating conservation of biodiversity and the sustainable use of land, while strengthening a conservation system and protected areas with innovative and demonstration objectives.

The following five loans with five-year terms were approved in April 2001 to five small businesses in the El Estor area. These businesses support the conservation of two important biodiversity areas through low-impact ecotourism activities and establishment of a conservation trust. The owners have attended 4 to 5 training courses/workshops, started a website and hired a group marketing agent.

a. *Chabil:* A US$10,000 loan was provided to improve a restaurant, beachfront and rental cabin.

b. *La Playa*: A US$15,000 loan was provided to complete a ten-room hotel.

c. *Tilapia:* A US$35,000 loan was provided to improve existing lodge rooms (7) and breed local fish.

d. *El Boqueron*: A US$20,000 loan was provided to establish a small ecopark near a canyon river and seek private reserve status.

e. *Ecolodge*: A US$35,000 loan was provided to improve cabins, a lodge, grounds and waterfront.

A *TA grant* of US$30,500, which was approved for FCG in December 1998 to build its credit capacity, was completed during late 2000. The activities carried out as agreed were the development of credit policies and procedures and the employment of a credit professional, who was eventually hired full time by FCG.

12. Fundacion para el Desarrollo de la Cordillera Volcanica Central (FUNDECOR)

The Foundation for the Development of the Central Volcanic Range was created with a US$10.6 million trust funding from the Costa Rican Ministry of Environment and Energy (MINAE) and the United States International Development Agency (USAID) as a non-governmental service organization, whose mission is to promote the conservation and sustainable use of the Central Volcanic Range and its natural resources. FUNDECOR received SME Program financing of US$500,000 in March 1996. In order to encourage other small landowners to work with them and to keep their existing clients, committed over the long term to forest management and tree planting initiatives, FUNDECOR funded advance payments to its client landowners against the growth of certified marketable timber.

FUNDECOR completed 63 subprojects with SME Program funds in two primary markets:

a. Thirty-one are reforestation projects (US$259,941 in SME Program funds committed) involving advance purchase payments with established plantations on the future value of the timber from harvested trees planted in prior years. All plantations are green certified.

b. Thirty-two projects are first harvest (US$192,267 in SME Program funds) where FUNDECOR purchases a portion of the first harvest from the landowner in exchange for FUNDECOR's sustainable forest management plan. All properties are green certified.

In May 2001, the company won the King Baudouin International Development Prize in recognition of its achievements in conservation and economic development. The SME Program also funded a TA grant of US$30,000 in order to share with the client the cost of a study of the privatization and national expansion of its business model.

13. Grameen Shakti

Grameen Shakti, established in 1996, is a specialized organization in renewable energy sector in Bangladesh. The company is part of the group of companies under Grameen Bank. Shakti delivers a Photovoltaic Solar Programme that represents its largest business line. Under this program, Shakti sells PV home systems under a consumer credit modality to select remote and under-developed areas, particularly those with a low probability of receiving grid power within a five-year (and more) period. Currently, Grameen Shakti has over 50 unit offices under its PV program. The US$750,000 loan to Shakti by the SME Program in October 1997 was used to purchase SHS inventory. Shakti has now sold 11,463 systems, reaching a total installed capacity of 570.6kWp, producing substantial GEF benefits. Given the market demand and results to date, Shakti is expecting an increase in sales to 20,000 solar home systems over the next five years with assistance from additional World Bank concessional financing.

14. International Expeditions (IE)

International Expeditions (IE) is a private, U.S.-based ecotourism operator offering trips to 17 destination countries around the world, which emphasize environmental awareness, education and wildlife conservation. IE will use the approved US$750,000 SME Program funds (approved in March 2000) to place loans with a minimum of four ecotourism-related companies with which IE will also conduct business. The promotion of conservation and biodiversity by these SME's directly benefits IE and IE's patronage directly benefits the SMEs. To date, IE has financed one subproject:

a. *Las Torres:* A US$300,000 project was approved as two separate loans to several companies owned by a family in the Torres del Paine National Park in the Chilean Patagonia. The loans were to enhance ecotourism and conservation activities, such as expansion of rooms, the addition of an interpretation center with guide and staff training on conservation, and the development of a non-profit organization for conservation, funded, in part, by room revenues.

15. International Union for the Conservation of Nature and Natural Resources (IUCN)

After several years of discussion, The SME Program approved a US$1 million loan in October 2002 to IUCN, a well-known international NGO. IUCN is looking to implement sustainable financing strategies and mechanisms with a focus on biodiversity business. The SME Program funds will be used towards the financing of up to 5 subprojects in the conservation of biodiversity area.

16. Mt. Gahavisuka Lodge Limited

In October of 1997 a US$210,000 loan was approved to partially fund, along with a US$312,000 IFC investment, the establishment of a 22-room ecotourism lodge in the Eastern Highlands Province of Papua New Guinea. The lodge borders the Mt. Gahavisuka Provincial Reserve, a threatened biodiversity area. Financing for the lodge was contingent on the preparation of a strategy for the preparation and implementation of a land use plan for the region surrounding the lodge and the reserve. A small TA grant was approved to assist in developing this plan. The approved loan was never disbursed as Mt. Gahavisuka Lodge Limited cancelled the project.

17. PEER Consultants P.C.

Peer Consultants is a small but well-established and respected U.S.-based civil and environmental engineering consulting company. Peer consultants set up Peer Africa in Johannesburg in 1995 to promote environmentally sustainable development in Africa. Peer Africa has developed affordable passive solar heating and cooling systems appropriate to the skills and materials available in the townships in a design package they refer to as Eco-House.

The US$1 million in SME Program funds borrowed by Peer in January 2000 are being used to stimulate demand for energy-efficient housing designs and techniques by lending to South African housing SME contractors and microfinance institutions (MFIs) at below-market rates. These subsidized loans are conditional on the sub-borrowers using Peer's designs and specifications for Eco-houses and energy-efficient upgrades.

18. Save Valley Wildlife Services Limited (SVWSL)

Savé Valley Wildlife Services Limited (SVWSL) is a for-profit entity established in 1995 to provide cooperative business services, such as purchasing and stocking wildlife for the Savé Valley Conservancy (SVC). The SVC, created in 1991, is a group of 24 former cattle ranches in Zimbabwe who have established mutual wildlife management practices on their 3,200km^2 to promote sustainable wildlife populations and ecotourism businesses. The approved US$1million SME Program loan was to be used for purchasing, translocation and restocking of wildlife species in the Conservancy and social and environmental monitoring of this project by the WWF.

19. Selco-Vietnam, Inc. (SVN)

SVN provides, installs, and maintains solar home systems (SHSs). The project originated as a small demonstration project with a revolving solar fund sponsored by the non-profit Solar Electric Light Fund (SELF). Neville Williams, the founder and former president of SELF, left to establish the for-profit SELCO, which has used the relationships established during the demonstration project to launch its project. The SME Program loan of US$750,000 has been used to guarantee local financing from the Vietnam Agricultural and Rural Development Bank (VARDB) for homeowners to purchase 20-60 Wp SHSs and to provide collateral to secure financing for SELCO Vietnam's operations.

In January of 2002 SELCO was awarded the U.S. Department of State's 2001 Award for Corporate Excellence – for small and medium enterprises, for "outstanding corporate citizenship, innovation and exemplary international business practices in Vietnam".

20. Soluz Honduras S.A. de C.V.

Soluz Honduras (Soluz) operates a photovoltaic (PV) fee-for-service company in Honduras. Soluz rents solar home systems (SHSs) to rural customers without access to electricity on a monthly basis. The SME Program provided US$500,000 in financing (including an equity investment of US$100,000) in mid-2000 to assist the company in delivering up to 5,000 rural SHSs in Honduras, modeled after the program created by Richard Hansen of Soluz Inc. and first established in the Dominican Republic.

21. Symbio Impax Polska (Symbio)

Symbio's mission is "to harness the wealth of Poland's farms and rich natural endowments in a sustainable manner to provide the local and international markets with an abundant supply of high-quality organic fruits and vegetables, resulting in more wholesome foods for consumers, biodiversity conservation of Polish land, and profitability for Symbio and its farmers". Its principal activity is the coordination of production, certification, and export of organic soft fruits and vegetables from Polish family-owned farms in buffer zones of Landscape Parks and forests in southeastern Poland. Symbio has developed a business model for increasing economic returns to the small, independent Polish family-farm while, at the same time, enhancing biodiversity conservation on the farm and in the surrounding landscape.

The SME Program approved financing of US$400,000 in 2002 for working capital to assist Symbio in meeting its three-year expansion plans and developing a credit history with a Polish bank.

22. United Company for Light Industries S.A.E. (PILCO)

United Company for Light Industries S.A.E. – PILCO is a private company located in Cairo, Egypt. PILCO is part of a group of seven companies operated under the name of The Maamoun Group. The Maamoun Group is concentrated in agribusiness with some activity in auto parts and construction. While seeking energy efficiencies for the heating needs of their companies, the group discovered Solar Water Heaters (SWHs) and soon began importing, selling and eventually manufacturing a patented Rainbow 250 SWH. The US$750,000 SME Program loan to PILCO in September 1999 was used to help the company price their SWH units more competitively during the early stages of market introduction and expansion, as to offer credit to attract customers.

23. Wilderness Gate (WG)

Wilderness Gate (WG) is a private U.S.-based company that is using US$1 million in SME Program funds (approved in February 2000) towards the construction of four ecolodges with local ownership in Central America supporting ecotourism and the local conservation of biodiversity. At this point, WG has built one lodge in La Ceiba, Honduras. The lodge officially opened in June 2000 as a luxury ecoresort with 21 rooms and is on 200 acres that lie between the country's largest national park and a cacao plantation. The grounds harbor a rich diversity of plants, animals, and birds (over 260 species) and also a special sanctuary where one can step into a fluttering rainbow of 40 species of butterflies.

24. World Wildlife Foundation (WWF)

WWF is one of the largest, most visible, and most influential NGOs working to conserve biological diversity. In 1996, WWF-USA borrowed US$500,000 from the SME Program seeking to satisfy its strategy of supporting sustainable commercial enterprises that promote biodiversity conservation.

The WWF financed one subproject of US$250,000 to small company in the Kikori Basin of Papua New Guinea to process locally harvested timber in an environmentally sustainable manner. The goal of the loan was to enhance the company's ability to process and market timber products purchased from private landowners – giving landowners (or clans) an economic incentive to sustainably manage and harvest their lands rather than selling the timber rights to largest international forestry companies.

25. Zaki El Sewedy & Company (El Sewedy)

Zaki el-Sewedy and Co. (El-Sewedy) is an electrical supplies manufacturer and distributor based in Cairo, Egypt. The company and two sister companies (ElectroMeter and El-Sewedy SI) is controlled by Zaki el-Sewedy and is largely run by his two sons. The US$500,000 loan provided by the SME Program was used to provide vendor financing for the Compact Fluorescent Lamps ("CFLs") that it normally sells, thereby enabling it to execute a series of energy efficiency projects at hotels, stores, educational and government buildings, replacing incandescent bulbs to CFLs.

El-Sewedy completed 34 energy efficiency subprojects by mid-1999. An estimation made by El-Sewedy on the carbon savings (1.43 tons per MWh) from the electricity savings using the CF bulbs over a set lifespan of the bulbs sold amounted to 47,600 tons. The project also helped change the market's thinking on energy efficiency.

B. Summary of Evaluation Findings

Between May and September of 1999, Econergy International Corporation, Energy Ventures International, and EA Capital carried out an evaluation of the SME Program, which was completed in January 2000. The purpose of the evaluation was to:

- evaluate the program structure in light of original objectives;
- evaluate the quality of loans at the program level;
- assess the overall program implementation and progress to date;
- assess the incremental cost and risk mitigation as well as leveraging of other financing sources; and
- evaluate program impact in terms of biodiversity and climate change benefits.

A follow-up evaluation, undertaken by Econergy International Corporation, updated the findings of the interim evaluation and was completed in July 2002.

Findings of the Evaluations

The evaluations found that the SME Program had successfully demonstrated that the GEF can support global SMEs with non-grant mechanisms and that these subprojects may become commercially viable over time and that the program had largely met its interim goals and objectives as originally identified. At an overall level the SME Program loan portfolio was considered to be in good shape, with intermediaries having been selected through a process of referrals and substantive due diligence. The program was found to have leveraged significant additional private investment in subproject activities. It was too early to make conclusive findings about program impact, but the evaluation team found that the SME Program has had a positive impact on financial terms and is making progress towards expected environmental results.

Overall the evaluations attributed the success of the SME Program to a number of characteristics:

- Careful selection of intermediaries
- Ensured understanding on behalf of intermediaries in terms of their obligations
- Proper monitoring of intermediary progress
- Flexibility of the SME Program.

Recommendations

The evaluators recommended that the SME Program pursue "a more aggressive risk/return approach by introducing measures to identify and incite more commercially viable intermediaries and SMEs", in order to ensure a greater likelihood of sustainability of the program, a more conventional use of funds to bring projects nearer to mainstream financing more quickly, and a more secure realization of GEF benefits over time.

Specifically the evaluators recommended:

a. pursuing more subprojects with a higher IRR at a rate closer to commercial rates;

b. a reduction of the portion of principal debt forgiven as an incremental risk incentive, establishing a range for the amount forgiven, more closely related to the incremental risks that the intermediaries take on and negotiation of the debt forgiveness incentive with intermediaries;

c. the use of local capital market and other appropriate market references for setting the terms of loans to intermediaries;

d. continued pursuit of a flexible approach to financing mechanisms that are suitable for the SME-level activity in question;

e. increased coordination between IFC and GEF; and

f. training for all intermediaries on GEF Operational Programs and eligibility requirements.

The SME Program accepted the feedback, making subsequent loans with the recommendations, using an Advisory Panel, and advising intermediaries of GEF program requirements.

C. Lessons Learned from the SME Program

The SME Program generated a number of key lessons learned, which have been taken into consideration in the design of the EBFP. These lessons can be summarized as follows:

a. Programs focused on the SME sector are important

- *Although risky, SME entrepreneurs are more likely to pursue new market opportunities, thus, SME finance (and the private sector in general) is important in advancing GEF's goal of improving the global environment.* It is a generally accepted fact that the small business sector is an important economic driver in a country and is able to adapt quickly to emerging trends. SME Program projects demonstrated that small entrepreneurs were indeed willing to pursue market-opportunities with GEF-eligible activities,
- *The financing of SMEs to deliver unique GEF activities has lower entry costs for developing new businesses in comparison to larger corporations.* It is easier to mobilize resources (capital/people) to test a new technology in the SME sector. This was evidenced in the SME Program by two projects offering similar technologies on significantly different scales. The smaller project was successful, the larger project was eventually cancelled,
- *Small, innovative SME projects can yield significant impact; although the use of intermediaries for scale and scope is favorable to impact the market, there is a need to finance innovative GEF-eligible SME projects on a case-by-case basis.* The SME Program did finance a number of stand-alone projects which, at the time of approval, were felt unlikely to be scaleable; these projects appear to have yielded significant GEF benefits.

b. There is value in working with intermediaries

- *SME Program financing, primarily through a variety of intermediaries has proven key in achieving local ownership and sustainability.* Selecting an intermediary familiar with a country's dynamics and level of GEF acceptance has proven to be an innovative approach for increasing portfolio and asset quality. Furthermore, it has become apparent that intermediaries selected should focus on their primary area of expertise, financial intermediaries do not have the know-how to manage certain projects, and know-how providers do not have the financial understanding to manage credit programs. In many cases, the types of intermediaries the SME Program financed do not have the resources and the capabilities to scale up their financing activities.

- *The use of risk incentives and fees, to offset incremental cost of the intermediaries, encourages performance and commitment to proper portfolio management for program purposes.* The use of fees to obtain regular quarterly reports or special information requests from borrowers is effective. Also, the use of risk incentives, whereby the intermediary would not have to repay the full loan principal kept the intermediary focused on achieving the GEF activity. Further, risk incentives have proven effective in encouraging intermediaries to take on the risks evident in the SMEs doing the new GEF-eligible business activity.

c. Involvement of stakeholders is valuable

- *Intermediaries and recipient SMEs of GEF funds need financial and environmental capacity building.* "Know-how" is essential for implementing any business initiative, and it is important to implementing GEF activities. The SME Program provided TA to several intermediaries and projects, resulting in favorable development and capacity building.

- *Local intermediation for the provision of financing to GEF-eligible SMEs is important for country ownership.* Once again, by using in-country intermediaries, the SME Program has been able to produce GEF-eligible projects and maintain necessary strategic knowledge on country specific GEF priorities.

- *Civil society has an important role to play in promoting GEF and the use of private sector finance.* The SME Program has developed strategic relationships with leading international and local NGOs and government agencies. This network has proven invaluable in promoting GEF through common projects, and for information/input on the development of sustainability now impacting the operations of the private sector, IFC and others.

- *GEF-eligible SME activity in the market is important to community and indigenous sustainability.* In several ecotourism projects, the indigenous people were able to develop alternative skills and provide financial benefits to the community, while adopting effective conservation measures for important conservation areas.

d. Program delivery needs to be flexible and proactive to be effective

- *Program design and the delivery of private sector SME finance needs flexibility in the early stages of the market's development.* The SME Program was presented with projects of different sizes, urban and rural, and from both the formal and informal sectors. All in the end required different interventions, institutions and approaches.

- *A proactive approach to market development is needed to build consumer awareness and increase the market size.* The SME Program developed a pipeline of potential borrowers in order to launch the program; this will also be necessary to mainstream an effective new initiative and scale up activity.

- *A certain enabling environment is required in a country to make a GEF program possible, including a regulatory framework and government policy that support SME finance and environmental stewardship.* Based on SME Program experience, it has become evident that the country needs to have reached a certain level of development in order for program goals and objectives to be met.

- *Given the dynamics of private sector SME finance during start ups - and even more so given the nature of GEF-eligible activity – there is a need to recognize and accept in advance that there will be a relatively high incidence of restructuring, cancellations and complete write-offs.* This is the price for innovation and experimentation. The SME Program received numerous inquiries and, of those projects that were approved, there were 4 borrowers who decided to cancel their plans, 3 to 4 restructurings and several delinquent loans, due, in part, to weak in-country economies impacting the particular business.
- *M&E of GEF benefits remains challenging, given the nature of projects focused in biodiversity and emerging technologies.* Given the nature and design of the SME Program, a formal M&E structure, tied to evolving development of GEF programs, was not a priority. In addition, the formal monitoring and ability to evaluate the activity from individual SME projects by intermediaries after implementation of baseline requirements was not possible.

e. There is a potential for replication and sustainability

- *The SME Program has produced several early finance models showing favorable trends towards the conservation of biodiversity and the prevention of climate change.* Certain SME Program projects have successfully introduced innovative financing models which promise to be replicable or scaleable, such as in financing rural SHSs in low-income communities.
- *Several SME Program projects have been replicated in-country and across borders.* Projects that have proven replicable include projects in ecotourism, forestry management, renewable energy (efficient lighting and rural SHSs).

These findings and lessons learned from the SME Program experience have resulted in a new program design for the EBFP as outlined in the body of the document.

ANNEX 4: THE FINANCING FACILITY

A. Financing Modalities

The Financing Facility has been designed to provide financing modalities focusing on debt or debt-like instruments. These modalities include the provision of direct financing, partial guarantees and quasi-debt (subordinated loans) to FIs and, in exceptional cases, directly to select SMEs. The selection of the appropriate financing mechanism will depend on the domestic financial market, the needs of the FIs and the SMEs, and the size of the potential market to finance. As developments in financial markets occur, other forms of financing will be considered.

The choice of which financial instrument for each specific FI will, as mentioned previously, depend on the needs of the FI, the state of development of the domestic financial markets, and the constraints that the EBFP financing is to overcome. One important aspect is to consider the profile of the targeted GEF-eligible SMEs. Based on the SME Program experience, most of the GEF-eligible SMEs are domestic enterprises serving the local market, and are not export-oriented, with limited or no access to foreign exchange revenues. Providing a foreign currency loan to these SMEs would only add to their risks and, depending on the domestic currency devaluation, can be a major hurdle for their growth, or even a threat to their existence. It is therefore critical, when deciding on the appropriate financing, to be aware of the foreign exchange risk as a major risk for SMEs that have no way of dealing with it. As became obvious during the Asian Financial Crisis, foreign currency financing exposes SMEs and banks to foreign exchange risk which they are often not equipped to handle. It is therefore incumbent on the EBFP to provide the FIs with the appropriate form of financing that matches their needs.

FIs in emerging and transition economies have reasonable access to financial liquidity if they are deposit-taking institutions and, thus, the constraint to them providing financing to GEF-eligible SMEs is due to their perceived high risks compared to alternative usages of the FIs' funds. In these cases, providing financing to an FI to on-lend to SMEs does not solve the problem. The FI becomes a conduit, and when the external funding is exhausted, the FI stops providing financing to the SMEs. Since the objective of the EBFP is to encourage FIs to finance GEF-eligible SMEs, the role of the financing provided by the EBFP is to "buy-down" some of the FI's risks associated with targeting a new set of activities and a new market segment, whose risks are not known or are considered too high. It is therefore primarily an issue of risk and less so of liquidity that the EBFP needs to address. In order to encourage FIs to target this market, the EBFP will have to take a higher risk position than just provide financing. This translates into taking a first loss position or a higher ranking in absorbing losses in the case of non-payment of SMEs. Best practices in SME finance have demonstrated that the sharing of risk is more important as a tool than straight cofinancing. Another important best practice that has emerged from SME finance in many Part I countries is that a portfolio approach is more efficient and more appropriate than trying to identify and mitigate the risks associated with an individual SME. This is also one of the lessons learned from microfinance. The EBFP will therefore assume part of the risks associated with an entire portfolio of GEF-eligible SMEs, rather than for an individual SME.

Direct Debt

Direct debt in the form of loans to FIs will be provided in US dollars, the currency of the GEF funding provided. This form of financing will be used in countries where there is a possibility to manage the foreign exchange exposure, either because the country's financial system uses the US dollar instead of a local currency, or because there are mechanisms that allow for the coverage of the foreign exchange risk through currency swaps or other similar instruments. FIs that have a need for liquidity may also opt for a form of direct financing.

Direct debt may take the form of senior loans or quasi-debt with special features, which can be adapted to the needs of a particular borrower. These features range from subordination or junior debt to income participating instruments. Quasi-debt may be more appropriate for the few cases of direct SME financing that the EBFP would be able to undertake in exceptional circumstances. It could be used for GEF-eligible enterprises where an innovative enterprise needs financing, but cannot afford to take on pure loans and would rather have an equity-like financing product. The EBFP would be able to provide debt that has a subordination feature or interest related to its level of revenues (income participation), rather than a fixed regular interest. This form of financing is most appropriate for innovative, one-of-a-kind enterprises, which have the potential to generate significant GEF benefits, to open markets, or implement a new approach with real potential.

Guarantees and Partial Guarantees

Guarantees and partial guarantees will be offered to FIs to share the credit risks associated with a portfolio of GEF-eligible SME loans. This form of financing will be offered to FIs, which have the liquidity but are concerned about taking the risk of financing SMEs. Many FIs have preferred alternative opportunities to place their funds with lower risk, most notably in government securities that, in many countries, yield a better risk return than private sector financing. The EBFP will endeavor to structure the guarantee mechanism to redress some of these risk/return imbalances and encourage FIs to finance SMEs, by using appropriate risk-sharing guarantee structures.

Guarantees or partial guarantees may also be provided to an institution or institutions providing financing to the FI. For example, EBFP could guarantee the cash flows on a domestic bond issue by the FI or a loan provided to the FI for on lending to SMEs.

Structured Finance Products

Structured finance products separate the portfolio of SME loans and their cash flows into different risk tranches, ranging from a senior tranche (low risk) to a junior tranche (higher risk). Pricing of the different tranches reflects the risk taken by these investors and incorporates an expected loss on the SME portfolio. If the actual loss is greater than the expected loss the junior tranches absorb these losses ("first loss position"). The junior tranches also receive any cash flows resulting from lower than expected losses.

The EBFP could fund the junior tranches of structured finance instruments to share in the risks associated with creating a portfolio of GEF-eligible SME clients. Other financiers would share the senior tranches, including potentially IFC. The choice of structure will depend on local circumstances and preferences. This form of financing offers a number of advantages namely:

b. *Better financing terms:* the FI can borrow at lower rates than it otherwise could because lenders have senior secured positions.

c. *Balance sheet management:* off balance sheet structures reduce the regulatory and economic capital that the borrowing FI needs to hold against the SME portfolio. This could improve the return on equity, and would allow the lending FI to extend more SME loans with a given amount of equity.

d. *A well defined pool of GEF-eligible SME loans:* which can be segregated and can be managed and monitored independently from the originating FI's other lines of business.

e. *Creation of larger loan volumes* than otherwise possible due to internal policies for sector or country restrictions.

f. *Sharing of credit risk:* allows FIs to enter new markets where they do not have previous experience, such as the GEF-eligible SME market.

The structured finance product offers a few advantages to the EBFP in the potential for significant leveraging and mainstreaming. For example, the EBFP can offer to share the first loss tranche of a pool of loans to GEF-eligible SMEs for 10% of the total pool. In this case, the leveraging effect would be ten times. These structures also allow for mainstreaming of this type of financing within FIs as they gain more experience with the portfolio. If these financing methodologies are successful, the FI would not need the EBFP to purchase subordinated tranches after a few years of track record with the portfolio. In terms of mainstreaming with IFC of GEF activities, the EBFP will be pursuing structured finance products in close collaboration with IFC's financial markets investments. This is also a highly replicable product with other IFIs.

B. Pre-Requisites for EBFP to Provide Financing Support

In order for the EBFP financing support to achieve results the FI receiving the financing has to have certain capabilities, as well as appropriate risk and portfolio management techniques. The EBFP's TA Program will provide funding to support FIs in building these capacities. To manage the GEF-eligible SME portfolio appropriately and meet the EBFP requirements the FI will have to develop:

a. business origination capabilities to target and identify GEF-eligible SMEs in the domestic market;

b. appropriate SME-relevant risk management techniques and systems, including appropriate credit assessment approaches, possibly using credit scoring; and

c. appropriate monitoring, supervision and reporting system, not only to report on the credit quality of the GEF-eligible SME portfolio, but also to track, monitor and report on a set of pre-determined indicators for EBFP to assess the global environmental benefits of the portfolio over time.

ANNEX 5: TECHNICAL ASSISTANCE PROGRAM

A. Overview of the Technical Assistance Program

The TA Program has been designed to provide a more strategic focus on, and rapidly build, the local and global expertise in the area of environmental business finance. The TA Program has two objectives: (i) to facilitate and enhance the development of the market for GEF-eligible SME activities, products and services; and (ii) to strengthen the capacity of FIs and SMEs to operate in this market and to deliver global environmental benefits.

The TA Program is designed to be holistic in nature and cover the range of GEF-eligible activities within a country. In addition to large country programs, the EBFP will also, as needed, develop small country programs, which focus only on selected sectors or groups of GEF eligible activities within a country; and individual projects.

Large country programs will address the main market opportunities and weaknesses for GEF-eligible SMEs. These opportunities and weaknesses will be identified through an initial comprehensive market assessment that will be commissioned in each country before a decision is taken on whether to move forward with a full country program or not. The TA programs will therefore vary significantly, both in size, content and components between countries. These variations will require a flexible approach to program structuring and close supervision.

In general, TA programs will target three areas:

1. The country specific local market
2. Financial Intermediaries
3. SMEs.

The Country Specific Local Market

Local Market Development: As discussed in the paragraph above, a market assessment will be undertaken for each Large Country Program. This assessment will provide an analysis of the market potential for GEF-eligible SMEs, including the enabling environment, the FIs, TA providers and SMEs. The assessment will also provide FIs with a pipeline of potential GEF-eligible SME clients. The market assessment will be used to help develop the local market through activities that address specific market barriers, and to eventually support the creation of an enabling environment for GEF-eligible SMEs. These barriers may include lack of consumer awareness, conducive legal framework or environmental policies and access to finance for SMEs. To address these barriers, the program will develop awareness campaigns to educate both the consumers and the SMEs, FIs and TA providers by identifying and assessing market opportunities, including specific case studies of potentially viable GEF-eligible clusters; training of local human capital through a "train-the-trainers" program, as well as specifically targeted business development services; and information dissemination of best practices to support mainstreaming and market adaptation of program activities. The program will also, where relevant, provide technical assistance to relevant government agencies responsible for activities, such as certification programs in eco-tourism, forestry and agriculture.

Program Replicability: To promote the replication and scaling up of proven technologies from one market to another, workshops will be organized. These workshops will convene technology providers, GEF-eligible SMEs and local NGOs to both introduce the development concepts and to facilitate market penetration and absorption.

The Financial Intermediaries

Financial intermediaries will receive assistance in building their commercial capacity helping them to: i) develop adequate credit risk processes and controls (including the installation of systems and training in EBFP-related monitoring and evaluation of its GEF-eligible portfolio); ii) develop innovative financial products to meet the evolving needs of eligible SMES; and, iii) access specialized financial and information technologies (which enable them to significantly improve their portfolio risk management and reduce transaction costs). FIs will also benefit from assistance to help develop the sector's underlying infrastructure, such as strengthening or creating credit bureaus, shared credit scoring arrangements, smart-card processing centers and support towards the adaptation of the latest information, communication and financial technologies. Technical assistance will also be provided to strengthen the FI's environmental risk assessments through training in both environmental finance and in IFC's environmental and social guidelines, the provision of procedural guidelines, expert advise through a local environmental expert (LEE and possibly cost sharing of staff with environmental background (such as an environmental loan officer). In addition to the procedural guidelines, a scorecard will be developed for each FI which provides both environmental and financial performance measures, and the implementation of a real-time automated M&E system to improve portfolio supervision; the introduction of other tools and techniques to aid in the management of the GEF-eligible SME portfolio; and the development of computer-based expert 'help' systems for the routine use of FI decision makers.

The SMEs

SMEs will receive capacity building to improve their skills and capabilities in managing their businesses. This capacity building includes feasibility studies, business plans, project preparation, monitoring, and reporting practices, corporate governance and strategic planning, e.g. distribution channels. In providing this capacity building, the program has adopted a wholesale approach, which entails working with local consultants, trainers and BDS, including the creation of linkages between FIs and SMEs.

B. Implementation

The specific implementation arrangements for each selected country will be determined based on the finding of the market assessment that indicate the local capacity attributes and needs[47]. Because the TA Program implementation plans and implementers will vary significantly from one country to another, the EBFP will proactively supervise and coordinate the management of each program to ensure quality and gain efficiencies through activities, such as replication of best practices, dissemination of lessons learned and sharing of training material.

The TA management models, will be developed through a process of consultation and collaboration with:

a. International NGOs

b. International consulting firms

c. Local NGOs

d. Local consulting firms

e. WBG SME Department project development facilities

f. Other parallel program implementers, likely including WBG, UNDP's The GEF Small Grants Programme (SGP), bilateral organization projects, etc.

g. Direct, in-country program management by the EBFP.

[47] Small country programs and individual projects will use the same TA processes as large country programs, albeit on a smaller scale and budget.

The specific selection criteria for the TA management in each country will be determined by the market assessment, but each selection will follow the same methodology. The process includes transparent selection to undertake the TA projects. Depending on the outcome of the market assessment, one or more of the seven groups of implementers above would be incorporated in the implementation model as needed. Although each implementation program will include several groups from those listed above, one group will be made responsible for locally managing the process. For example, in a country with a strong base of highly qualified NGOs, the TA model could hypothetically entail the appointment of the leading NGO as the TA coordinator and facilitator, responsible for locally contracting out both the technical and the environmental capacity building. This model would strengthen stakeholder participation and local benefits. However, it is crucial that the selected implementer has the capacity to project the EBFP and GEF goals and objectives when implementing the assignment. The EMT will carefully select both the implementation plans and the implementers, and structure the assignments around performance milestones to ensure early-warning indication and adjustments. A quality control process will be put in place, which will be based on measuring performance and outcomes of the implementers and the TA providers.

ANNEX 6: EBFP MONITORING AND EVALUATION PLAN

A. M&E Overview and Summary

The M&E framework is being developed in consultation with a number of leading experts, including members of the GEF Secretariat. While the approach is outlined below, it is expected to be further refined, over the course of the program, to meet market acceptance. The EBFP will rely on a combination of internal and external monitoring and evaluation methods to assess its performance and impact. Internally, each FI will partner up with a local organization that has the environmental expertise to assess the environmental impact of, and design an environmental management plan (including performance indicators) for, the larger SME borrower. To learn how to screen the smaller potential borrowers in accordance with GEF objectives and IFC guidelines for social and environmental performance, the FIs will attend IFC-sponsored training seminars and workshops. All GEF-eligible SME borrowers will be required to report on a standard set of key environmental indicators (Table A8-1). The FIs will monitor the borrowers' performance regularly and report them using pre-designed templates. Thus, IFC management will have "real time" feedback and be able to fine-tune the EBFP so that it attains its expected outcomes. Finally, IFC management will report to the GEF on the EBFP's financial and environmental performance as part of its annual Portfolio Implementation Review.

IFC will also contract external evaluators to assess the EBFP's performance. IFC will establish the 'baseline' situation per the market assessments it conducts, and from the applications for financing from the FIs and SMEs, in which applicants will be asked to document the scope of their existing GEF-eligible activities. During implementation, IFC may contract the FIs' regular financial auditors to expand their regular annual audit to include a review of the FIs' internal systems for monitoring the GEF-eligible SME borrowers' financial and environmental compliance. Ensuring that the FIs' supervision systems are reliable is a cost-effective proxy for directly monitoring the SMEs' environmental impact. Additionally, IFC will commission direct evaluations of the GEF-eligible SME borrowers by an external evaluator who will assess the environmental impact of a sample of GEF-eligible SME borrowers at the middle and end of the program. This will serve as an overall evaluation of the EBFP's performance. In summary, this rigorous process for setting environmental goals and measuring and supervising progress will ensure that GEF funds are only used to support the achievement of key environmental benefits, but does not enable EBFP to predict with any accuracy such benefits before the SMEs actually apply for financing.

B. Internal M&E of the EBFP's Environmental Outputs

The main players engaged in EBFP's M&E will be its implementers. Each FI will partner with a local environmental expert (LEE) who will also serve on the EBFP's Advisory Panel (AP). This partner will be responsible for all of the GEF OPs, contracting additional consultants in specific areas of expertise if it needs them (e.g., if it specializes in biodiversity, it might hire an additional climate change expert). The EBFP will pay for the services of the LEE from the TA or M&E budget

During a two-day introductory workshop, which all participating FIs will be required to attend, IFC will train the FIs on how to:

a. generate a GEF-eligible SME borrower pipeline from the FI's existing client base and through outreach activities;
b. screen applications for smaller amounts of financing to ascertain GEF-eligibility, recognizing that the environmental due diligence process for smaller borrowers will be less stringent than for larger ones;
c. consult with the LEE on the more complex environmental issues; and
d. monitor and report to IFC on the environmental performance of the entire SME portfolio.

This workshop will be complemented, as necessary, by further training seminars and workshops, on a regular basis, to fine-tune the skills of the FI staff in selecting and assessing GEF-eligible activities.

As part of the fee structure, IFC may compensate the FIs for the additional time their loan officers spend on ensuring environmental compliance.

The loan screening and monitoring process will be divided into three tiers, depending on the size of the loan and the complexity of the potential environmental impact.

Tier I

Tier I SME loan applications are for activities that: (i) are not in protected areas, (ii) are for requests from the FI for loans of less than US$150,000, (iii) are included in the list of pre-approved activities, and (iv) are consistent with EBFP guidelines. The FI will perform due diligence on the business/financial and environmental aspects of the SME following EBFP guidelines and an internal review process, which includes a scorecard that the EBFP will develop to determine whether or not the SME should be financed (see section on scorecard below). A key component of this scorecard is determining GEF-eligibility, i.e. whether or not the SME's activities fall into one of the GEF OPs and are projected to generate the GEF's desired environmental outcomes. If the SME is not GEF-eligible, the SME may not be financed with EBFP funds. If, however, the SME meets the FI's requirements, the SME and FI, during the loan negotiation, will agree on a set of environmental targets[48] and annual indicators of their attainment or progress towards them. At a minimum, these indicators must include the ones listed in Annex 8. If an SME agrees to monitor and report on additional indicators (such as the ones marked as optional in Table A8-1), the FI may provide the SME with TA funds of up to US$5,000 to help defray this additional cost. If the SME subsequently applies for additional financing and the cumulative amount borrowed exceeds US$150,000, the FI must follow the procedures noted below for larger loans.

Tier II

Tier II SME loan applications are for activities that: (i) are in protected areas, or (ii) are not in protected areas but request from the FI between US$150,000 and US$500,000, or (iii) are not included in the pre-approved list, or (iv) are for loan requests for which the FI has asked for additional screening assistance. The FI will perform an initial financial review to determine whether or not the SME meets its financial criteria. If it does, then the FI will ask, depending on the size of the loan, either the LEE or the AP or a combination of both to determine whether or not the SME's project is GEF-eligible. If the SME project is determined to be GEF-eligible, the FI and the LEE will begin their respective financial and environmental due diligence on the SME[49]. If the due diligence indicates that the SME's activities will generate sufficient financial and environmental returns, then the LEE and the SME will develop an environmental management plan and establish environmental targets and indicators, including each indicator's reporting frequency. As is the case for Tier 1 loans, these indicators must, at a minimum, include the ones listed in Annex 8. The SME may request a one-time US$5,000 TA grant to help defray the costs of setting up environmental monitoring systems.

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[48] EBFP may incorporate some of the tools developed by the Institute of Development Studies of Sussex University in cooperation with the World Bank, the International Fund for Agriculture, and IFC's Project Development Facilities.

[49] The environmental due diligence may include employing the bioTools that D. Vorhies and R. Oman are developing, i.e., a joint assessment of the ecosystem in which the SME operates and development of an environmental baseline and bioSWOT. These tools include a selection process of biodiversity projects, including assessing biodiversity priorities, capacity building needs, developing a biodiversity management plan, and monitoring and evaluation.

Tier III

Tier III SME loan applications are those that require from the FI more than US$500,000 in financing, or those that are brought to IRC due to their complexity. The FI will proceed as per Tier II. However, the IRC, guided by the AP, will have to approve the loan application and the environmental performance indicators and their monitoring system.

The LEE, IRC and/or AP may require Tier II and Tier III SMEs to monitor and report on additional, project-specific indicators. The loan agreements will require all the SMEs to report on their environmental management plan compliance (if applicable) and on the pre-determined indicators, and permit the FIs to cancel the loan and demand repayment if an SME fails to achieve, or at least make progress towards, the environmental targets, or if it fails to report. While primary responsibility for monitoring the SMEs' environmental performance will rest with the FI, it may consult with the LEE as needed. Additionally, the LEE may visit each SME borrower annually or bi-annually (depending on the SME type), to assure that no negative and significant positive environmental impacts are occurring.

The FI will report on these indicators, which will mirror the environmental criteria on the pre-financing scorecard, on the EBFP's pre-designed templates. The EMT will monitor the EBFP's implementation, and make adjustments as necessary to achieve its goals. The EBFP will compensate the FI according to the environmental benefits it attains and allocate to it a certain TA budget. Thus, the FIs will be encouraged to optimize their use of EBFP funds to achieve the greatest environmental returns.

Recognizing that GEF criteria will be new to FIs and perhaps even to the LEEs, the EMT will closely monitor the initial transactions that they process during a trial period, until it gains confidence of their capacity for and commitment to ensuring the GEF eligibility of the SME borrowers.

C. External M&E of EBFP's Contribution to the GEF's Desired Outcomes

As explained in the Overview, IFC will pay the FI's regular financial auditor to audit the FI's supervision practices of its GEF-eligible SME portfolio. Additionally, IFC will contract one organization that has international environmental expertise to serve as an independent Program Evaluator. Mid-way through the EBFP's term and at its end, the Evaluator will visit a sample of the SME borrowers of each FI as well as conduct interviews with participating FIs, LEEs, the EMT, and the IRC to assess three aspects of the Program's performance and impact:

a. The environmental benefits (i.e., impacts) that program-financed SMEs actually produced, as compared with the projected benefits in the financing agreements between the SME and the FI (or the Program, if the SME was financed directly). As part of this, the Evaluator will also assess the SME's compliance with its environmental management plan (if any) and the quality of the SME's M&E system. Thus, indirectly the Evaluator will also be reviewing the work of the LEE and the FI in approving and monitoring the SME loan.

b. The SME's catalytic impact on its industry, i.e., the degree to which the SME and the program influenced other market players to produce environmental benefits.

c. The effectiveness of the program's operations and its achievement of specific GEF objectives (sustainability, stakeholder participation, cost effectiveness, etc.).

Depending on the cost, the EBFP may contract this Evaluator to spend a few days each year with each FI reviewing its GEF-eligible SME portfolio and visiting some of the SMEs to fine-tune the FI's activities. Alternatively, the EMT may perform this yearly "FI tune-up" as part of its annual supervision mission. The Evaluator's final evaluation report will follow the GEF's Guidelines for Terminal Evaluations.

The EMT is confident that the reports from these two external evaluators (the FI's auditor and the international environmental evaluator) will provide the GEF with ample third-party assessments of the EBFP's performance. The FIs' reporting on the pre-designed templates will further provide regular transparent updates to GEF. Thus, GEF will be kept well informed of the EBFP's implementation.

D. EBFP Environmental Scorecard – Purpose and Users

The scorecard is intended to be used by regular FI investment officers who have received some EBFP training. It is a tool to streamline the process of screening and assessing SME applicants to determine (i) if the SME is GEF-eligible, and (ii) the credit terms to offer to the SME based on its expected environmental and financial performance; the higher the expected performance, the more favorable the credit terms offered.

Since the primary users of the scorecard will be the FIs, and since EBFP's goal is for the FIs to continue to use it even beyond EBFP's term, the scorecard will be designed to focus on the criteria that are important to the FIs in determining whether or not to finance the SME. These criteria seek to answer two fundamental questions: Will the SME generate significant global environmental benefits, and will the SME make a profit and pay back the loan?[50].

The key challenge in designing the scorecard is that it must simultaneously be sufficiently comprehensive to assess the "headline" environmental impact indicators of the proposed SME activity, yet be concise and easy enough for the FIs to use. It is a critical tool for helping mainstream FIs process GEF-eligible SME loan applications efficiently. Because EBFP management recognizes that the scorecard has certain limitations, it intends it to be used only for companies that pose a 'low' environmental risk. These companies are also called 'Tier 1' SMEs, namely, those that (i) do not operate in protected areas; (ii) request a loan amount that is lower than a certain threshold, tentatively set at US$150,000 (although the company itself may be a Micro, Small, or Medium enterprise); (iii) are engaged in activities that are included on the 'pre-approved' list of activities; and (iv) are consistent with general EBFP guidelines. The scorecard's list of "exclusions" helps the FI determine whether the SME's activities are clearly ineligible for GEF support, or simply require individualized, in-depth analysis that goes beyond the scope of the scorecard but can be undertaken by the FI's partner, the LEE.

For SMEs that score sufficiently high on the scorecard to be deemed GEF-eligible, information from their application and filled-out scorecard will later be adapted into a baseline, list of goals, and monitoring sheet. In other words, the FI will measure the SME's performance on some of these same indicators over time to identify any environmental changes that may, in turn, trigger changes in the SME's loan terms. For example, an SME whose environmental performance improves or deteriorates may see that its loan terms are respectively improved or worsened by the FI. The monitoring sheet will also serve as the data source for reporting to the FI and EBFP management on the portfolio's performance. EBFP will compensate the FIs according to the level of global environmental benefits that their portfolio generates as documented on this monitoring sheet. Thus, the FIs will be encouraged to strive for the optimal environmental and financial performance of their portfolio.

[50] Some FIs' may prefer to assess the SME's financial sustainability using their existing (credit) scorecard, rather than EBFP's scorecard.

E. Environmental Scorecard's Structure

> *NOTE: The description below is of a prototype scorecard that has been developed thus far. The scorecard is still undergoing extensive consultations with experts, both within and outside the World Bank Group, and may change considerably from the outline below. This description is included here merely to provide a more concrete explanation of the tool that EBFP is developing.*

The scorecard will be developed by EBFP management with the active participation of the LEEs, who will adapt it to their respective country's environment. The design and weighting of the elements in the scorecard, especially the assessment of the SME's 'magnitude of environmental benefits' and 'replicability', will reflect national priorities for conservation and replicability.

The prototype scorecard is composed of six core questions, each of which has a different weight (i.e., the maximum number of points it is worth); it is currently designed in Microsoft Excel. The scorecard's users (the FI and/or EBFP management) will assign a weight to each question on an "Assumptions" spreadsheet. Each of the six core questions is composed of sub-questions, and each sub-question's answer has a maximum score that will also be assigned by the user. The sum score of these six questions will be totaled to arrive at an assessment of the SME and/or its proposed project. The six questions are:

1. Degree of environmental sustainability – the score given will depend on the SME's type of activity. An SME that is environmentally 'purer', i.e., it engages in clearly and exclusively environmentally-beneficial activities that have been independently certified, will be considered more sustainable and thus score higher than an uncertified company or a company that is more peripherally environmentally friendly. The precise level of environmental sustainability of the latter company will determine whether or not it is eligible for EBFP support.

'Peripheral' environmental benefits can be generated by companies that support the "pure" SMEs (i.e., "auxiliary" environmental companies), or by companies that engage in both environmental and non-environmental activities ("hybrid" environmental companies). For example, a home furnishings store that sells exclusively GEF-eligible products (furniture from sustainably- harvested timber, decorations from non-timber forest products, etc.) is an "auxiliary" environmental SME. However, it may be important enough for the local sustainably-harvested products industry that the EBFP may wish to support it. Thus, this store may earn a medium-high score on this question, which would be lower than that of the sustainable harvester, but perhaps sufficiently high to be deemed GEF-eligible in the final tally. On the other hand, a store that sells both sustainably-harvested and conventional products is a "hybrid" SME; it would earn an even lower score on the scorecard and may or may not be eligible for EBFP support.

2. Magnitude of environmental benefits – Different scales in different units will be created to measure the different kinds of environmental benefits (i.e., number of hectares conserved, number of avoided GHG emissions, etc.). The environmental benefits produced by "pure" and "hybrid" SMEs can be measured directly, while for "auxiliary" SMEs, we may have to use the best available proxy, which may be US$ of sales. The measurement scale may vary from sector to sector.

3. Financial sustainability – The scorecard currently includes some initial ideas for measuring this, but ultimately, this part of the scorecard may be replaced by the FI's internal credit scoring system. This question will reflect standard accounting practices for measuring company profitability and growth potential.

4. Environmental management & monitoring system –Measuring the quality of a company's environmental management system is a useful proxy for measuring the quality of the environmental benefits that it is currently generating and that it claims it will generate in the future. The scale that is currently being contemplated for measuring this is (in order of increasing score): (1) management is aware of environmental sustainability, (2) management is committed to environmental sustainability, (3) management has the capacity to practice environmental stewardship, and (4) management is implementing practices that promote environmental sustainability.

5. Replicability – This question measures the degree to which the SME's business model can be readily replicated by others. This indicator is of interest to the FI because, if the FI develops an expertise in financing a certain type of SME that is easily replicable, the FI may then be well-positioned to finance other, similar companies. Of course, the GEF is also interested in measuring this indicator, because of the potential replicability of the environmental benefits.

6. Centrality to industry – Participating FIs will be those that are genuinely interested in helping the GEF-eligible market grow; thus, they would especially want to support companies that are influential in and/or important to this market's prosperity. There may be some correlation between 'centrality' and company size, but not always, and in any case, company size does not necessarily correlate with 'magnitude of environmental benefits', so 'centrality' should be measured separately.

The following are a couple of examples of types of companies for which 'centrality' is an important indicator to assess. Let's assume that there is only one company (an SME) in the country that is internationally-recognized as certifier of sustainably harvested products. This certifier is then essential to the viability of the country's sustainable agriculture sector. Therefore, even though it may score modestly on 'environmental sustainability' (because it is an "auxiliary" SME) and on 'magnitude of benefits' (because its US$ revenues may be low), and even though its replicability may be limited, this company may score high on 'centrality', thus making it eligible for EBFP support. As a second example, there could be a local supermarket chain (a medium-size enterprise) that is just beginning to sell sustainably harvested products. Again, it may score modestly on environmental sustainability (because it is a "hybrid") and on 'magnitude of benefits'. However, if this supermarket chain is persuaded to expand its shelf space for sustainably harvested products, it could become an important distribution chain for local growers or sustainably harvested products, and may furthermore catalyze other supermarkets to follow suit. In such a case, this supermarket chain would score high both on 'centrality' and 'replicability', which would make it GEF-eligible even if its 'environmental sustainability' score was not very high.

ANNEX 7: EBFP LOGICAL FRAMEWORK (LOGFRAME)

The Logical Framework presented below reflects our research on "best practice" performance indicators for measuring the expected impact of EBFP on GEF-eligible SMEs and on the FIs that finance them. The exact environmental targets and indicators for each FI will be identified based on outputs of the market assessment during Stage 4 of the Project Cycle (see paragraph 54) and committed to during Stage 5 (see paragraph 55). Annex 8 presents a hypothetical portfolio of the types of SMEs that EBFP expects to support, and the environmental impact indicators that such SMEs would be required to monitor. Some numerical targets have been left blank, because the specific FIs and SMEs have not yet been identified and, thus, their baselines are not yet known. However, once FIs and SMEs are selected, their baselines will be measured and numerical performance targets for them will be set. All these indicators may be modified over time based on lessons learned from EBFP's and other programs' implementation experiences.

Table A7-1 EBFP LogFrame

Hierarchy of Objectives	Key Performance Indicators	M&E / Data Collection Methodology	Critical Assumptions
GEF Operational Program: To assist SMEs active in GEF Ops 1-7 and 11-15 to generate global environmental benefits ("GEF benefits")	Various indicators that GEF benefits were generated; will depend on portfolio of SMEs that will be assisted. See Table A8-1 for sample indicators of GEF benefits that the program expects to help SMEs generate.	FIs will report about SMEs' GEF benefits to program management; External evaluator will assess a sample of SMEs.	
Global Objective: To develop sustainable markets of commercially-viable GEF-eligible SMEs	**Outcome/Impact Indicators:** Indicators that demonstrate that a sustainable market has been developed by the program's end include: • Increase in the supply and demand for GEF-eligible goods and services in the target country markets[51]. • 4:1 increase in financial resources that are allocated by FIs and SMEs to fund the growth of the GEF-eligible SME market. • Increase in the level of awareness, tools and experience of GEF-eligible SME market players, such that they are able to continue to operate successfully beyond the program's term.	**Project Reports:** Baseline assessments of the FIs, SMEs and of the local GEF-eligible markets. Mid-term and final evaluations by external evaluator.	**(From Objectives to Goal)** SMEs would grow and contribute significantly to the GEF's environmental mission and to the IFC's development goals within the timeframe of the program and beyond, if the following market barriers were overcome: limited supply and demand; lack of access to capital to finance

[51] Each time it enters a new country, the EBFP will undertake a market assessment of the GEF-eligible market. As part of the mid-term and final evaluations, the evaluator will assess the change in this market's size. If practically feasible, both the initial and latter assessments will measure the market size in quantitative terms.

Hierarchy of Objectives	Key Performance Indicators	M&E / Data Collection Methodology	Critical Assumptions
			growth; limited capacity, awareness, and tools among market players.
Output from each Program component: (a) Provide GEF-eligible SMEs with access to finance from participating FIs and additional (leveraged) sources	**Output Indicators**: Indicators that GEF-eligible SMEs have greater access to finance: • At least 6 FIs will offer finance to GEF-eligible SMEs during the program's term. • At least US$80 million in additional capital will be committed from the IFC, FIs, and other funders, both for financing GEF-eligible SMEs and for providing TA to the SMEs and FIs, by the program's end. • At least 500 GEF-eligible SMEs will be financed by FIs by the program's end.	Participating FIs' regular self-reporting to the program. Mid-term and final evaluations and "expanded audit".	**(From Outputs to Objectives:)** Mainstream FIs are unwilling and/or unable to assume the incremental risk of financing GEF-eligible SMEs. However, if the program paid for this risk, the FIs would finance the SMEs, and the SMEs would grow and prosper, thus increasing the supply of GEF-eligible goods and services in the market.
(b) Build technical capacity and raise awareness among market players that foster greater commercial viability of GEF-eligible SME activities	Indicators that the SMEs' and FIs' capacity has increased by the program's end will vary according to the specific kind of TA provided, which will depend on the needs of the recipients. Sample indicators (measured in comparison with pre-Program performance levels) include: • X% increase in the SME's revenues[52]. • Y% increase in the SME's profit margin. • FI's portfolio of SME borrowers has a satisfactory repayment rate (min. 70%) and environmental performance (monitored with indicators such as those in Table A8-1)[53]. • At least a X% increase[54] in the number of GEF-eligible SME borrowers of the FI, and at least a Y% increase[55] in the US$ amount lent to	Self-reporting by FIs to the program on their borrowers' performance. Surveys of and interviews with a sample of TA recipients (inc. FIs, SMEs, local trainers, etc.) by the external evaluator.	Mainstream FIs lack awareness of GEF-eligible SMEs and the willingness and skills to finance them. Additionally, these SMEs lack the skills to operate effectively. Key market players also lack awareness and skills. However, if the FIs understood how these SMEs can be financed profitably, and if the market players' skills improved and their awareness increased, the supply and demand for GEF-eligible goods and services would

[52] Increased revenues is also a proxy indicator that the program has successfully stimulated demand for GEF-eligible goods and services.

[53] Satisfactory borrower performance demonstrates both the FIs' competency in lending and the SMEs' commercial viability and environmental performance.

[54] Total increase will bring the cumulative number of GEF-eligible SMEs financed to 500.

[55] Total increase will bring the cumulative financing made available to GEF-eligible SMEs to $80 million.

Hierarchy of Objectives	Key Performance Indicators	M&E / Data Collection Methodology	Critical Assumptions
	them, as compared to pre-Program lending. • At least two employees per FI know how to assess, structure and monitor loans to GEF-eligible SMEs using program-provided tools (environmental scorecard, expert help systems, etc.). Indicators of increased awareness and capacity by NGOs, and government and private sector specialists will depend on the specific market-level TA provided and linkages established, but may include: • Use of program-provided tools. • Successful completion of 'train-the-trainer' workshops. For all TA activities whose cost exceeded a minimum threshold (TBD), IFC mgmt will measure the relevance and efficiency of the TA services provided.[56]	IFC management based on survey and/or discussions with TA recipients; possible assessment by external evaluator.	increase, thus growing the GEF-eligible market.
(c) Monitor and evaluate the performance and impact of participating market players, and the operational effectiveness of the program, and disseminate 'lessons learned' regarding how to develop the market for GEF-eligible SMEs	• Accurate data provided by M&E and reporting systems at participating FIs and SMEs on financial and environmental performance and impact. Indicators of effective dissemination will depend on the program's specific dissemination strategy (TBD), but may include: • Number of visitors and the frequency of visits to program's Web site to download market reports. • Evidence that market players, who do not directly participate in the program, use the program's tools.	FI reports; 'expanded audit'; mid-term and final evaluations	With effective M&E and dissemination, the program can operate effectively to achieve its market development goals, and can 'make the business case' for financing GEF-eligible SMEs, thus encouraging other market players to support these SMEs, during and beyond the program's term.

[56] IFC management will gauge the relevance and efficiency of the TA services provided on a 4-point scale. The score given will depend on an assessment of such issues as: the priority to the client of the TA topic covered; the appropriateness of the TA services; the cost vs. benefits of the TA services provided; and the percentage of cost recovery.

Hierarchy of Objectives	Key Performance Indicators	M&E / Data Collection Methodology	Critical Assumptions
Input into each Program Component: (a) Financing Facility	US$10 million	Annual reporting on PIR	The program's inputs and timeframe are sufficient to achieve its objectives.
(b) Technical Assistance (at the market, FI and SME level)	US$10 million	Annual reporting on PIR	
(c) M&E and dissemination	US$2.7 million[57]	Annual reporting on PIR	

[57] The M&E budget will be funded with program re-flows.

ANNEX 8: ENVIRONMENTAL IMPACT INDICATORS FOR A SAMPLE SME PORTFOLIO[58]

A thorough review of GEF publications reveals that the GEF aims to achieve four key biodiversity-related outcomes and has identified four categories of indicators (listed below) that measure progress towards these outcomes. Furthermore, the GEF has identified seven categories of indicators (listed below) that measure progress towards desired climate change outcomes. Guided by these indicator categories, IFC has identified specific indicators for monitoring and evaluating the expected impact on biodiversity and climate change of Tier I SMEs[59] that the program plans to finance; these indicators are noted in Table A8-1. Indicators for Tier II and Tier III will be developed on a project-by-project basis. In the program's early years, IFC expects to expand, enhance and possibly modify some of these indicators as the FIs identify new SME activities, and as new research on evaluating environmental impact emerges from the GEF SEC[60] and the global environmental community. Thus, IFC may add indicators to assess land degradation and POPs related activities.

TABLE A8-1: Environmental Impact Indicators for a Sample SME Portfolio

Technology Cluster	**OP**	**Sample Tier I SMEs**	**Environmental Impact Indicators** (GEF indicator category noted; optional indicators noted w/ *) (Each SME will also be evaluated on its financial performance, as measured by its growth & profitability)
Renewable Energy (RE)	6,7	Developer of small RE project	[CC1] MW of renewable energy installed [CC6] Increased awareness and understanding of technologies, through training, outreach activities, etc.* (use both to calculate tons of avoided GHG)
Renewable Energy and Energy Efficiency.	5,6,7	Vendor and installer of solar home systems and energy efficient appliances	[CC1] MW of renewable energy installed [CC1] number and types of energy efficient appliances sold (use both to calculate tons of avoided GHG)

[58] These indicators are subject to change.

[59] Tier I SMEs are those that require up to about $150,000 of financing, that do not operate in protected areas, and that, relatively speaking, are not environmentally complex; see section on Selection and Approval process for explanation on Tier I, II and III SMEs.

[60] "Monitoring and Evaluation Policies and Procedures", Jan. 2002, Global Environment Facility

Technology Cluster	**OP**	**Sample Tier I SMEs**	**Environmental Impact Indicators** (GEF indicator category noted; optional indicators noted w/ *) (Each SME will also be evaluated on its financial performance, as measured by its growth & profitability)
Ecotourism	1,3,4	Developer and operator of an eco-lodge in a wildlife reserve or protected area	[BD1] # of hectares in park or protected area that is managed by SME, and type of habitat & its location [BD1] trends in the rate of habitat conversion in the protected area (as evidence that BD is conserved and not deteriorating) [BD2] select indicators of park mgmt effectiveness (from WB/WWF scorecard)* [BD3] number of visitors that SME educated on conservation (via tours, lectures, etc.) and their feedback [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Certified Fishing and Aquaculture	2	Producer/fisher of sustainably fished seafood	[BD2] maintenance of current certification from Marine Aquarian Council or similar certification [BD2] unchanged or improved health of marine population, as measured in a sample catch (records kept by local community) at baseline, midterm and project end [BD3] quality of training provided on how to sustainably fish seafood (measured per feedback from trainees) [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Non-Timber Forest Products (NTFPs)	3, 4	Grower and marketer of sustainably-harvested NTFP (i.e., frogs, orchids, etc.)	[BD1] # of hectares in area that is managed by SME, and type of habitat & its location [BD2] unchanged or improved health of a selected indicator species (i.e. frog population, etc.)* [BD3] quality of training provided on how to sustainably harvest NTFP (measured per feedback from trainees) [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Wood certification	3	Buyer of advance-purchase contracts for sustainably harvested wood	[BD2] # of tons of wood purchased [BD2] unchanged or improved health of a selected indicator species (i.e., remaining forest's density, animal population, etc.)* BD3] quality of training provided on how to sustainably harvest wood (measured per feedback from trainees) [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.

Technology Cluster	**OP**	**Sample Tier I SMEs**	**Environmental Impact Indicators** (GEF indicator category noted; optional indicators noted w/ *) (Each SME will also be evaluated on its financial performance, as measured by its growth & profitability)
Agroforestry	3,13	Grower of shade-grown coffee	[BD1] # of hectares in area that is managed by SME, and type of habitat and its location [BD2] unchanged or improved health of a selected indicator species (i.e. local tree or plant, local animal, etc.)* [BD3] quality of training provided on how to sustainably harvest NTFPs (measured per feedback from trainees) [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Sustainable farming[61]	13 or 14 or 15	Buyer and re-seller of sustainably cultivated produce	[BD2] # of hectares of sustainably cultivated land to preserve biodiversity (with official, current organic certification) OR to prevent land degradation [BD2] observed change in a selected indicator specie (i.e., local plant, topsoil health, etc.)* [BD3] training provided to local farmers in sustainable cultivation [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Reforestation / Afforestation	3,1	Planter of seedlings in a deforested forest	[BD1] # of hectares in area that is managed by SME, and type of habitat and its location [BD2] improved health of a selected indicator specie (i.e. improved number of key tree type that will lead to improved forest health) [BD3] quality of training provided on how to plant seedlings (measured per feedback from trainees or from survival rate of trees planted) [BD4] total # of people from local community employed (differentiated by gender; specify the # in SME's senior management, and their total annual salaries relative to local salaries) [BD4] evidence of stakeholders' approval, through signed agreements with local community, signed minutes of meetings, etc.
Biological Control	14	Termite control company	[POPs1] amount of Chlordane substituted with organic substance, e.g. Titonia Concoctions or indigenously developed alternatives [POPs1] amount of capacity building and financing provided to support the distribution of benign alternative technologies/products

There will be additional program level CC indicators (as mentioned in the Annex 7) such as;

a. number of businesses that mitigate CC that the program supports

b. type and amount of financing provided to them

[61] A sustainable farmer may qualify under different OPs depending on the specific SME's activities. If the farm is located in a buffer zone to a park and thus conserves biodiversity, the SME could qualify under OP3. If the farmer converts from conventional agricultural methods that included the use of one of the 12 toxins identified under the Stockholm Convention as persistent organic pollutants (POPs) to organic methods that displace POPs, it could qualify under OP 14. If the SME is part of a group of farmers whose farming methods collectively prevent land degradation, it could qualify under OP15.

c. number of businesses trained, and the impact of the training

d. impact of dissemination activities.

GEF's Indicator Categories for Evaluating the Environmental Impacts of its Programs

The GEF's four desired biodiversity outcomes and their principal indicator categories are :

BD1. Establish and extend protected areas and improve their management – recommend using WB/WWF scorecard to evaluate performance
BD2. Conserve biodiversity and ensure sustainable use of its components in the production environment (including sustainable agriculture) – change in the size of the area that is being conserved as a result of GEF funding
BD3. Improve Enabling Environment – change in policy, biodiversity-related information exchange systems, number of biodiversity assessments undertaken, number and impact of publications
BD4. Facilitate fair and equitable sharing of the benefits from the use of genetic resources - number of agreements signed; US$ value of benefits transferred under these agreements
(#1, 2, and 4 are the objectives of the Convention on Biological Diversity).

The Seven Indicator Categories of GEF Climate Change Activities

CC1. Energy production or savings and installed capacities
CC2. (activities that affect) Technology cost trajectories
CC3. Business and supporting services development
CC4. Financing availability and mechanisms
CC5. Policy development
CC6. Awareness and understanding of technologies
CC7. Energy consumption, fuel-use patterns, and impacts on end users.

The Key Indicator are being developed by the GEF for the two main Categories for Measuring the Reduction and Elimination of POPs:
POPs1 Development and strengthening of capacity, aimed at enabling the recipient country to fulfill its obligations under the convention.
POPs2 On the Ground Interventions, aimed at implementing specific phase-out and remediation measures at national and/or regional level, and including components of targeted capacity building.

Key Indicators are being developed by the GEF for the three expected outcomes listed by GEF for this OP:
LD1 capacity building to improve sustainable land management planning
LD2 strengthening policy, regulatory and economic incentive framework to adopt sustainable land management practices
LD3 improvement in the productivity of land management under sustainable management and the preservation or restoration of the structure and functional integrity of ecosystems (e.g. millions of hectares additional land protected form degradation).

ANNEX 9: RISKS, IMPACT AND MITIGATION

Table A9-1 Risks, Impact and Mitigation

Risk	Magnitude	Impact	Mitigation
Market Acceptance: Slow implementation and deal flow due to: Over estimated market potential Slow implementation following low market acceptance Slow EBFP implementation in new countries; lack of suitable FIs and lack of interest.	Significant	Increased cost of managing EBFP. Longer implementation period Inability to achieve EBFP goals in a timely manner Significant reputational risk	The EBFP will: Ensure reliable market assessments Ensure optimal TA tools Ensure appropriate pricing of financing instruments to support the FIs and the SMEs.
Replication: Replication from one country to another may be limited by: Availability of concessional funding Deficient financial sector infrastructure Limited number of SMEs and growth potential Lack of interested domestic FIs.	Medium	EBFP will become operational in fewer countries Fewer SMEs will obtain needed support Less overall impact	The EBFP will: Consider each additional country independently Select another country if the market assessment does not demonstrate appropriate market conditions for building a SME market.
Country macro-economic conditions, including legal environment: Adverse or unexpected macro-economic deterioration may impact program implementation: Issues in global or local economy (e.g. increased inflation, increased interest rates and economic contraction) Weak banking and environmental regulations	Medium due to global scope	Harder to prove attractiveness of SMEs	The EBFP will: Require that the market assessment produces a comprehensive opinion on the legal framework and socio-political environment Identify the main threats and hedge against these threats, through the provision of appropriate tools Create partnerships with the national and international market actors.
Lack of risk profile comparison/ historic portfolio information for SME loans:	Medium	FIs are unwilling to finance SMEs engaging in activities where no comparison information is available.	The EBFP will: Encourage the creation of credit rating agencies Provide TA to FIs to develop appropriate risk management techniques.
Proposed guarantee mechanism proves inadequate: Perceived credit risk associated with SMEs may be too high for FIs Guarantee mechanism may not be sufficient to buy down the risk.	Medium	Incremental risk may be perceived by FIs as too high making SME market unattractive.	The EBFP will: Use other forms of financing including quasi-debt to further in the risk sharing with FIs. Exclude or replace countries without interested FIs

Risk	Magnitude	Impact	Mitigation
Monitoring and Evaluation: Modalities of implementing a viable M&E plan for this sector are still relatively unproven.	Low	EBFP might not be able to gather sufficient information on program.	The EBFP will: Develop a best practice streamlined monitoring and evaluation framework. Regularly monitor FI performance using feedback provided by the program M&E, and adjust the EBFP structure, implementation and incentives accordingly.
Higher program management costs and lower program reflows: May increase EBFP Management costs as the portfolio matures.	Low	EBFP might not have sufficient funds to finance management of EBFP	The EBFP will: Substitute the required reflows with funds allocated for the financing facility.
Mainstreamed SMEs may not generate global environmental benefits due to financial or other unanticipated hurdles.	Low	GEF-operational objectives will not be achieved	The EBFP will: Implement a well designed and targeted TA program Provide appropriate financing tools addressing the needs of the specific markets

ANNEX 10: INCREMENTAL COST

A. Developmental Objectives

The developmental goal of the EBFP is to proactively develop the market of sustainable GEF-eligible SMEs in the four, targeted, focal areas. These SMEs will, through their environmental activities, generate global environmental benefits that, when aggregated, would represent a measurable contribution to the improvement of the global environment as defined by GEF. This developmental goal is supported by supply-and-demand side market interventions incorporated in the EBFP design. The three main components (financing, technical assistance, and monitoring and evaluation) have the following three main developmental objectives: (i) increasing access to finance and mainstreaming of sustainable GEF-eligible business concepts, (ii) proactive development of this market and capacity building of the whole production chain in all relevant segments of the market, and (iii) dissemination and replication of best practice, and creation of an enabling environment. The premise of EBFP is that there is a large untapped market of GEF-eligible SMEs who need the GEF's support in order to increase their production of global environmental benefits. Because of the geographical and focal diversity of these SMEs, and the large number of SMEs (500+) that the EBFP aims to assist, the specific benefits cannot be reasonably forecast until these SMEs actually apply and are approved for EBFP support. Any estimate made at this time would be purely speculative. However, the robustness of the EBFP's SME Selection and Approval Process and M&E System will ensure that GEF funds will be used only to cover the incremental cost of GEF-eligible activities.

The EBFP's aim is to remove the market barriers that prevent GEF-eligible SMEs from having access to finance and scale up the existing GEF-eligible SME market, making it part of the mainstream sustainable local business activity in each targeted country. In becoming sustainable and mainstream activities, these GEF-eligible SMEs that produce environmental benefits across all four targeted focal areas (which include, for example, reduced greenhouse gas (GHG) emissions and conservation, as well as sustainable use and equitable sharing of biodiversity and marine resources), will aggregate an even larger global benefit.

This proactive market development offers local and environmental benefits for each selected country in which the EBFP will be implemented. Each country will benefit from participating in the EBFP through a wide range of intervention that will result in environmental benefits and other benefits, such as an increased formal SME market, increased foreign investment inflow, access to grant and low cost financing, technical assistance, and greater donor coordination and support in implementing national policies in accordance with the relevant international environmental conventions.

The global baseline scenario implies continued deterioration of the global environment and depletion and inequitable sharing of biodiversity resources, following a continued pattern of over-consumption of resources in the developed world and an imbalance of distribution of wealth that impairs environmentally friendly technology transfers and production methods and nurtures inefficiencies in emerging and developing markets.

The EBFP specific baseline against which program performance will be measured will be derived from the existing level of GEF-eligible SME activities in the market. The baseline for each focal area, and even for GEF-eligible SME activities within one focal area, will thus vary. Certain focal areas and activities will have a higher baseline as a result of previous interventions such as GEF programs, including the SME Program, the HEECP and the SGP. Because the EBFP both builds on the SME Program and differs through its focus on mainstream FIs and proactive market development and its inclusion of more focal areas, the baseline will build on the existing level of activities as applicable. The baseline will be measured both at a market level during the initial market assessment, and at the level of the individual SMEs that apply for financing, as part of the FIs' SME Selection and Approval Process.

B. Incremental Cost

The program will support activities that would likely not otherwise be supported and developed because of institutional and financial barriers due to the perceived associated incremental risk.

The premise for this program is that there is a large untapped market of GEF-eligible SMEs. However, because of the multiple focal areas targeted and the EBFP's implementation arrangements, it is not reasonable at the out-set of the program to predetermine the program's incremental cost in dollar amounts or benefits as defined by performance indicators such as number of CO_2 avoided, etc.

The EBFP will therefore continue to address the incremental risk at the intermediary level to manage its portfolio risk. The EBFP will monitor and evaluate the program performance and provide available information to the GEF.

The incremental risk will be addressed through technical assistance, risk-sharing modalities, and monitoring and evaluation. These activities will entail the following four direct incremental costs. First, the program management costs incurred by IFC, the FIs and the SMEs (at the subproject level) for participating in this program are direct incremental costs. Second, the TA facility is also a direct incremental cost, as the program would not succeed without this facility and the funds will not be recovered. Third, the Financing Facility will provide risk sharing and debt to buy-down the risk of the FIs loan portfolio and directly finance the incremental risk of a select number or medium-sized companies. Fourth, the M&E costs are the final category of direct incremental costs for implementing the EBFP.

Following a portfolio approach, the incremental costs that will be absorbed by GEF are expected to amount to US$15.7 million (the US$10 million in TA funding, US$3 million in lost guarantees and US$2.7 million in M&E costs).

Incremental Cost and Benefits Matrix

Table A10-1 below provides a matrix depiction of (i) the current baseline, which reflects the existing level of market awareness, including GEF-eligible SME activities, (ii) an alternative to the current baseline, including a market change after the EBFP intervention, and (iii) the incremental benefit scenario associated with the EBFP. The matrix reflects the incremental cost discussion and analysis in the section above, whereby the incremental cost is equal to the cost of achieving the incremental benefit.

Table A10-1: Incremental Cost and Benefits Matrix

Environmental Benefit	Baseline	Alternative	Incremental Benefit
Climate Change Mitigation	Weak enabling environment for renewable energy and energy efficiency SME activities.	Market transformation and mainstreaming of the adoption of renewable energy and energy efficiency, increased access to financing to SMEs, support of innovative technologies.	Enabling environment and sustainable market of GEF-eligible SMEs in this area .
	Market inefficiencies.	The EBFP will strive to link participating SMEs, FIs and their portfolios with additional players in the market place, such as financing initiatives for climate change mitigation activities.	Larger market for activities that target climate change through bundling relevant GEF-eligible SME energy generation that will result in environmental benefits.
Biodiversity Conservation, Sustainable Use, Equitable Sharing	Weak involvement of private sector in biodiversity.	Catalyzing sustainability of protected areas, including indigenous initiatives and removal of barriers to facilitate private sector involvement.	Greater revenue streams to SMEs in protected areas, including enabling environment for indigenous communities.
		Developing sustainable market for biodiversity in production landscapes and sectors, facilitate mainstreaming and create demonstration effects through replication of successful business concepts.	Enabling environment and sustainable market of GEF-eligible SMEs in this area that will result in environmental benefits.
		Generation and dissemination of best practice experiences.	Best practice experience.
Prevention of Land Degradation	Weak private sector support for activities that prevent land degradation.	Supporting the capacity and developing a sustainable market of SME activities that reduce land degradation, including indigenous initiatives.	Enabling environment and sustainable market of GEF-eligible SMEs in this area that will result in environmental benefits.
Reduction and Elimination of Persistent Organic Pollutants	Weak private sector support for activities reducing and eliminating POPs.	Supporting the capacity and developing a sustainable market of SME activities that reduce and eliminate POPs.	Enabling environment and sustainable market of GEF-eligible SMEs in this area that will result in environmental benefits.

ANNEX 11: RESPONSE TO EXTERNAL REVIEWS

A. GEF Secretariat's conditions for Work Program Entry and Task Team Response

Country Ownership and Financial Intermediary Commitment: Please see Sections II A (*Country Eligibility*) and II C *(Financial Intermediary Selection)* for a discussion of country ownership and financial intermediary commitment
Endorsement: The EBFP will follow the SME Program procedures for country endorsement and seek local GEF Focal Point endorsement on an as needed basis. Ecuador, Guatemala and South Africa have been targeted as the first countries in which the EBFP will be implemented and endorsement letters for program implementation has been received from the relevant GEF Focal Points as attached.
Program Policy & Conformity: Please see Section III A *(Project Design*) and III B *(Rational for GEF Involvement)*
Project Design: Please see Section I *(Project Summary)*, and Appendix 1 (IFC's approach to Micro, Small and Medium Enterprise Development) and Appendix 3 (The Financing Facility).
Sustainability: Please see Section III C (*Sustainability*)
Replicability: Please see Section III D (*Replicability*)
Stakeholder Involvement: For a discussion of program stakeholders, please see Section III E (*Stakeholder Involvement*)
Monitoring & Evaluation: Monitoring is a particular focus of the EBFP described in Section III B *(Rational for GEF involvement; Monitoring Environmental Performance),* detailed information on the proposed M&E activities is presented in Appendix 4; M&E indicators are presented in Appendix 5 *(EBFP Logical Framework)* and Appendix 6 *(Environmental Impact Indicators for a sample SME Portfolio).*
Financing and Cost Effectiveness: Please see Section IV (*Financing and Cost Effectiveness*), and Section III A *(Project Design: Incremental Cost)* for an incremental cost discussion and a detailed assessment in Appendix 8 *(Incremental Costs)*.
Institutional Co-ordination and Support: Please see Sections V A *(Core Commitments and Linkages)* and B *(Consultation, Co-ordination and collaboration between IAs)* for a discussion of EBFP co-ordination and institution building activities.

B. Response to GEFSEC Review at the time of Pipeline entry

At the time of Pipeline approval of the EBFP concept, the Secretariat team recommended that the IFC preparation team address the following prior to WP entry:

a) **The need for the EBFP design to document and build upon lessons learned from the SME Program and other related previous programs:** The EBFP concept reflects the current environment for SME finance and builds upon the experience, including lessons learned, from a number of other programs such as the SME Program, the Hungary Energy Efficiency Cofinancing Program (HEECP), Commercializing Energy Efficiency Program (CEEF), the WBG SME Department and the IFC's Global Financial Markets Department. These include such lessons as, the need for having a proactive and flexible implementation approach when dealing with GEF-eligible SMEs on a global level, a lack of capacity both with the GEF-eligible SME market and the FIs, the need to distinguish between the roles of a technical assistance provider and a financial intermediary, as each require different skills and appropriate incentives to offset the incremental cost has also proven to be needed. The EBFP also reflects experiences and/or best practices from innovative monitoring and evaluation plans, including BioSWOT and automated management systems to strengthen program management and screening.
b) **The need for a defined approval process, an M&E framework outlining environmental impact indicators, the structure of the score card and a preliminary analysis of SME clusters the program will target:** A comprehensive approval and screening process, including the methodology for the scorecard, and an M&E plan with indicators and a pre-selected SME clusters, with related indicators have been developed.
c) **The need for an analysis of a realistic leverage ratio, a tranching schedule and triggers and a description of the EBFP M&O costs in relation to industry benchmarks.** The methodology for the proposed EBFP leveraged ration has been elaborated in the project document and a tranching schedule presented. The industry benchmarks for M&O for similar programs have been incorporated in the document, as appropriate.
d) **The need for a replication plan:** the procedures and processes expected for replicating the EBFP have been addressed. However, due to the scope and the implementation timeline and procedures, a replication budget with realistic numbers could not be produced at this time. However, this information will be provided to the GEFSEC when available.

C. Response to GEFSEC Review at the Time of Work Program Entry

At the time of Work Program approval of the EBFP concept, the Secretariat team recommended that the IFC preparation team address the following prior to CEO endorsement:

a) **Keep in mind the CDM related activities are not allowed under GEF policy. This will be especially relevant if EBFP does decide to work with carbon finance to help get project financing, as it is considering:** The EBFP will adhere to the policies governing linkages between CDM-activities and GEF-funded activities as these policies evolve, and EBFP will ensure that all funded activities are consistent with the guidance provided by the GEFSEC.

b)	**It is recommended that the difficulties and reality of establishing biodiversity enterprises be paid particular attention to. Moreover, although the description of activities describes biodiversity friendly agriculture, the title should be changed from organic agriculture to something else. As previously discussed, organic agriculture does not imply biodiversity friendly, which EBFP is aware of:** The EBFP has taken note of this comment and clarified that the target is not organic agriculture in general but it is sustainable agriculture. For the purposes of the EBFP sustainable agriculture is defined as agriculture that contributes to the objectives of the GEF focal areas of biodiversity conservation, prevention of land degradation, preservation of international waters and prevention and elimination of persistent organic pollutants.
c)	**While training the FIs in evaluating projects (small) for selection according GEF criteria is helpful for reducing transaction costs, it is recommended that the management team should check at least the first couple of project evaluations to make sure that the FIs have been trained properly and are applying the GEF criteria properly. The same applies to LEE. GEF criteria are not the conventional way of thinking, even for most environmental experts and may take some getting used to:** The body of the document and the appendix on Monitoring and Evaluation have been updated to reflect EBFP management's intent to supervise the first transactions that each FI and LEE process until EBFP management gains confidence of their capacity for and commitment to ensuring the GEF eligibility of the SME borrowers.
d)	**While the work on indicators represents a good start, as stated in the document, it is reiterated that they are expected to evolve with the program to include additional ones, and that the current ones represent a minimum level of expected M&E, especially for biodiversity. As indicators are developed by the IAs and GEFSEC, they will be shared with EBFP. For biodiversity, developing an indicator which gives some sense of species population without being prohibitive in cost, would be useful. Similarly, developing an indicator for climate change that gives a sense of estimated emissions reductions expected would be equally useful**: As described in paragraphs 68-71 of the project document and in Appendix 4, an SME applying for financing from a participating FI, will have to describe the current baseline and the projected level of environmental benefits that it currently generates as well as the benefits it expects to generate. During the selection and approval process, the FI, potentially with the help of the Local Environmental Expert (LEE), will appraise whether or not (a) the SME's activities to be financed are GEF-eligible and (b) the SME is likely to produce them. If the SME meets both of these conditions as well as the other lending conditions, the FI will be in a position to finance that SME. If financing is granted then the FI will monitor its performance on an annual basis, consulting with the LEE and EBFP management if any issues are identified. The FI will regularly report on the environmental and financial performance of its SME portfolio to EBFP management, and will be compensated according to the portfolio's performance. Additionally, two types of external evaluators will ensure that the FIs and LEEs are properly assessing and monitoring the GEF eligibility and environmental performance of the SME borrowers. This rigorous process for setting environmental goals and measuring and supervising progress will ensure that GEF funds are only used to support the achievement of key environmental benefits, but does not enable EBFP to predict with any accuracy such benefits before the SMEs apply for financing.
e)	**Establishing limits or some similar risk management procedure is recommended for borrowing from TA in the event of budget shortfalls**: The EBFP management team is committed to ensuring that sufficient project financing and TA funding remain for a successful program implementation so that no trade-off between financing, TA or M&O costs arise that would hamper program implementation. Furthermore, it is unlikely that a large budget shortfall would arise, as the assumptions behind the program budget currently reflects conservative estimates. See paragraph 96 of the Project Document.

f)	**This project represents a particularly innovative approach for achieving global environmental benefit and is one of the first projects to pilot tying environmental performance to financial performance. It will be important to continue refining both the indicators and performance triggers for compensation as the program evolves:** The Project Document has been updated to clarify the EBFP management team's intention that indicators and performance triggers will be continually refined as the program evolves and in accordance to GEFSEC guidance. See paragraph 80 of the Project Document ands Appendix 4.
g)	**This project is recommended for CEO approval.**

D. STAP Review Antoine De Wilde (Climate Change)

STAP Review of the Environmental Business Finance Program (EBFP)

Preamble

1. The reviewer is Program Manager in the South Asia Enterprise Development Facility (SEDF), managed by the SME Department of the World Bank Group, based in Dhaka Bangladesh. It should be noted that this review was the first interaction with the Environmental and Social Development Group, other than as applicant for a project for financing under the IFC/GEF SME program four years ago. This application never materialized as the project was financed under AIJ project by the Government of the Netherlands.

2. At the time of writing the first review (July 18th, 2003), data regarding the proposed scorecards, projected project impact and details of the suggested monitoring and evaluation system were not available. The review has therefore only limited comments as to the adequacy of the proposed M&E system.

Review of the Proposed Environmental Business Financing Program

1. This program updates and mainstreams the IFC/GEF Global Small and Medium-Scale Enterprise Program. The current and future assets of this program will be brought into the EBFP. The diagram below is a schematic presentation of the proposed changes from the SME program to EBFP[62].

The proposed project has incorporated the lessons learnt63 from the ifc/gef sme program and takes it now into mainstream commercial financing. if successful, the program will exponentially increase the global environment benefits generated through SMEs.

Scientific and Technical Issues

The project has benefited from the lessons learnt in related projects such as the Hungary Energy Efficiency Cofinancing Program (HEECP), the Commercializing Energy Efficient Finance (CEEF) and other projects. One major difference with this project, which can be its strength, but is also an area of concern, is the **supply driven proactive** approach to market development of SMEs producing strong global environmental benefits, as oppose to a more traditional and tested, but less productive **market pull/demand driven approach**. This more risky approach is in my opinion justified as the project not only addresses the issue of mainstreaming the financing of projects with global environmental benefits but also the underlining issue of the difficulties in providing access to finance for SMEs[64].

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62 It is assumed that EBFP, in those countries where the market for consultant services with EBFP eligible activities is large enough, will follow the “Guiding Principles for Donor Interventions. Published by the Committee of Donor Agencies for Small Enterprises in 2001”.

63 It’s the reviewers opinion that the most important of those lessons were: (i) to replicate and expand the program, the type of intermediaries the IFC/GEF SME program worked with, don’t have the resources, nor the capacity to upscale their activities; (2) The Technical assistance component needs to be of much higher quality and some sort of quality control on the TA provided needs to be in place; (3) the program should monitor the environmental benefits of the program, not only the financial performance of the intermediaries.

64 One concern expressed in detail in par 6, is that the project hasn’t allocated enough funds to successfully implement this proactive supply driven approach.

IFC/GEF SME Program	EBFP
Clients of the Program: Non Traditionnel FIs NGOs	Clients of the Program: Mainstream Commercial Financial Institutions
Financial & Technical Assistance Combined in one package Client determines need for and selection of consultants Subsidy in the form of interest and repayment rebates GEF subsidy based on Financial Performance of Client	Financial Incentives Subsidy based on risk abatement and financial incentives **based on Environmental Performance of Clients**
	Technical Assistance Consultants determined by EBFP (reviewer recommends to follow BDS model, leading to financially sustainable environmental BDS providers). Structured TA program, providing know-how and capacity building. Better Quality Control of TA.
Unstructured demand driven approach. Lack of focus on replication.	Supply driven, proactive approach, with EBFP driving the selection process of participating FIs and working as a catalyst in developing the market for commercially viable SME projects producing global environmental benefits. Focus on replication.
Monitoring and Evaluation based on pilot projects and experimental approach. Focus more on financial performance of intermediaries than environ-mental performance of SMEs	Monitoring and Evaluation Framework incorporates: lessons learnt and WBG-wide experience with participatory appraisal performance of SMEs on both environmental and financial metrics.

The risk of this supply driven approach is also well offset against the potential benefits when this project succeeds. Even if the project only partially achieves it's goal: to engage mainstream financial intermediaries such as banks and non bank financial institutions (NBFIs) in financing commercially sustainable SMEs producing environmental benefits, it would be a significant contribution, not only in achieving GEF operational objectives but also GEF's operational strategy of engagement of the private sector and due to the employment absorbing capacity of SMEs, the overarching goals of poverty reduction and employment creation.

In this regard, the project would benefit from more attention to the relationship between the investment climate, particularly, environmental regulations and the enforcement thereof in LDCs, as various Investment Climate Assessment surveys (ICAs) have shown the greater effect these have on SME development. Expertise gained in this project should be fed into those units of the World Bank Group (WBG) including the PSD department and IFC dealing with improving the business-enabling environment for SMEs.

A logical secondary objective of this project would be the development of a cadre of high quality environmental business development providers. It is highly recommended that the TA component of this project would focus on the development of commercially sustainable environmental business development providers (BDS providers), following the guiding principles of the Donor Committee on SME Development[65]. In particular, the program might want to aim in working together with the "Local Environment Expert" and transforming its activities into a viable business, which would be profitable even without the EBFP contributions. In summary, the project would focus on financing the development of tools, training programs and implementation modules while the project would only facilitate the application of these techniques by local service providers on a commercial basis. In this way the project would also create a market for environmental business development service providers.

In this regard, the target of 2.5% TA cost as mentioned in footnote 22, is underestimated. Regular programs of this nature would find it difficult to operate with 10%. Given the supply driven approach proposed here, as well as the crucial role TA plays in the success of this project, a higher percentage is recommended. Part of these TA funds might be provided by bi-lateral donors.

Global Environment Benefits

The project targets the core of current polluters (SMEs) and therefore also the core of firms which can make the largest contribution to creation of environmental benefits. By focusing on mainstreaming the development and financing of SMEs producing environmental benefits, the project makes a significant contribution to the generation of global environmental benefits.

GEF Policies And Procedures

The project is responsive to GEF's recent strategy (OPS 2) to engage the private sector in financing projects that generate environmental benefits.

The supply driven approach applied in this project can yield significant benefits in at least 4 of GEF's operational programs. More and more governments rely on the private sector and particularly SMEs and NGOs in operational program number 3 and 4: forest and mountain ecosystems. A good example of such shift are the activities of BioTec Thailand, which has provided good examples of how SMEs and NGOs can participate in commercially viable and environmentally sustainable ways in conserving a country's biodiversity such as documenting bio species generic to Thailand's' ecosystems and managing forest ecosystems (forest farms). This project would complement such efforts by providing, through local banks, non-grant financing. Similarly in operational program areas 5 and 6, the majority of the actors are SMEs.

[65] Business Development Services For Small Enterprises: Guiding Principles for Donor Interventions. Published by the Committee of Donor Agencies for Small Enterprises in 2001.

The project can significantly increase its impact and efficiencies through economies of scale, by including SMEs generating environmental benefits in **non-GEF** areas such as waste management. This of course cannot be financed with GEF's contributions, but it is recommended that Management be encouraged to approach bilateral donors to finance their interaction with these groups of SMEs generating environmental benefits.

Last but not least, the structure of the project requires the local SMEs to invest/contribute at least 50% financing of the activities to be supported. This guarantees that one of GEF's policies: strong stakeholders involvement and ownership, is fulfilled for every project activity.

Replicability of the Project
Replicability depends on market acceptance by Financial Institutions. This means that banks are willing to invest in profitable SMEs which generate strong environmental benefits. **As indicated above this is the greatest challenge and risk for the project.** While the program might be successful in one country, due to differences in investment climate, the same approach might not automatically work in another country. The project document itself has identified these constraints and proposed mitigation against these risks. Close contact with other projects in the WBG such as the Project Development Facilities managed by IFC, but also bilateral programs, which struggle with the same problem of replicability is recommended.

Sustainability of the Project
The objective of the program is based on the proven assumption that SME financing, albeit under certain conditions, is profitable. While difficult, it is therefore possible to interest mainstream financial institutions in financing SMEs producing global environmental benefits. In contrast to its predecessor, the program provides non-grant financing and risk abatement as an incentive. Thus based on the premises explained in the project document, the project will be a catalyst in the generation of commercially viable SMEs and profitable Financial Institutions and would therefore be sustainable. There is however one caveat, in case the market acceptability of the products of this program (profitable SMEs generating environmental benefits) takes longer, resulting in higher management and TA costs, with lower program reflows, sustainability of the program might become an issue. It is therefore important that the project from the very beginning provides clear indicators for expected outcomes and impact and implements a strong monitoring and evaluation system, allowing timely adjustments in its strategy to ensure sustainability.

Linkages to other focal areas
While SMEs targeting reduction of GHG emissions are obvious targets for this program, as mentioned above other GEF program areas such as forest management, eco-tourism and SMEs utilizing bio-technology for preservation of bio diversity would be areas of attention. The reviewer also suggests developing strong linkages with professional waste management networks such as Waste Consult, who have developed a positive track record in non-GEF areas. (www.waste.nl)

Significant synergies can be achieved through close collaboration with the 10 Project Development Facilities managed by IFC's SME Department. They have SMEs as a target group, and all of them have increased financing for SMEs as an objective. But training their Business Development Officers on the scope of this program, would be a necessity.

Several bi-lateral donors such as GTZ and DFID are implementing BDS development programs. This program can complement these activities with its particular focus on SMEs generating global environment benefits.

Program's Capacity Building aspects
As mentioned above it is highly recommended that the Project in its TA component, including the work with the Local Environmental Expert, follows, in appropriate markets, the guiding principles for TA to SMEs as defined by the Donor Committee on SME development. Thus the project would also aim to develop a market for environmental business development providers.

Innovativeness
The project has established a balance between the experience of the successful IFC/GEF SME program, and the experience of IFC's financial markets with new **concepts** of rewarding financial institutions on the basis of both financial and environmental benefits on the basis of a benefits scoring system. The program has rightfully identified that such a scoring system has to be country and maybe even institution specific. The expected complex nature of a adequate scoring system incorporating both environmental benefits and financial performance makes it even more important, for the success of the program, that stake holders are involved and fully aware of the development of the scoring system to facilitate the improvement in their performance to avail themselves of the incentives that EBFP has to offer.

Monitoring and Evaluation
The design and implementation of an efficient and comprehensive monitoring and evaluation system is key to the success of this project. Management will need to have timely information to assess the market acceptability of the products offered. While the project is built on solid and proven assumptions, the proposed innovations: risk abatement, additional financial benefits based on delivery of environmental benefits, and private sector participation in financing SMEs, will need constant monitoring. In this regard, the project could benefit from the lessons learnt in the rapid rural appraisal and participatory appraisal methodologies developed and used by the Institute of Development Studies of Sussex University in cooperation with the World Bank, as well as the recently renewed evaluation systems used by the International Fund for Agriculture (IFAD). Several of the Project Development Facilities have developed sophisticated Project Tracking Monitoring and Evaluation systems, (such as SEDF's PTMS system), which with little effort can be made applicable to this project.

Detailed comments with suggestions for environmental indicators in the scorecard indicators provided in Appendix 4, have been provided in a separate memo to Program management.

Following the successful implementation and distribution to all stakeholders of the scorecards of the facility, it is recommended that the program provides the GEF secretariat and other stakeholders with a 1 to 2 page quarterly scorecard summarizing the programs progress. The scorecard should report not only on financial and TA indicators but include environmental benefits, such as amount of GHC emissions reduced, incremental tons of CO2 sequestered in carbon sinks, change in regulatory data such as tax laws providing favorable tax benefits to eco-businesses etc.

The proposed approval system appears to be overly bureaucratic and would significantly add **t**o the overhead costs of this project. The approval system for projects larger than US$150,000. - shows the willingness of the program to be transparent and assures that GEF funding is only used for GEF eligible activities. An increase in the authorization level from US$150,000 to US$500,000, together with improved reporting procedures by distributing the quarterly scorecards, together with a yearly meeting of the Program Management with the GEF secretariat and other donors contributing to the program might simplify the "approval" process, while providing the GEF secretariat with necessary oversight responsibility.

Incremental Funding And Co-Mingling With Other Subsidized Funds For The Generation Of Environmental Benefits

Incremental funding: GEF funding can only be used to finance the incremental costs. In other words, GEF Funding can only be used in those cases were banks and NBFIs wouldn't have financed the SMEs creating environmental benefits. As with other programs, this is difficult to ascertain. Banks in general are already reluctant to finance SMEs. The guarantees the program offers are needed for both SME finance in itself and for financing the additional risks perceived for SMEs generating environmental benefits. As the concept of SMEs generating environmental benefits is less familiar than normal SME financing, and banks don't have access to performance data of such SMEs or credit scoring mechanisms applicable in the case of normal SME finance, the proposed structure with GEF financing covering the first part of the guarantee, then followed by IFC financing and the local bank taking the remainder of the risk, appears to be a reasonable comprise to assure that GEF finances incremental costs only. However reviewer suggests that in the monitoring and evaluation of the project, banks and NBFIs are asked the question if they would have financed the SMEs without the GEF portion used as guarantee. Feedback on this question than might result in adjusting the amount of guarantees provided by GEF funds.

Insist on SMEs contributing a significant amount from their own funds. The reviewer, through personal experience, suggests not to immediately reject the application of SMEs which are also benefiting from other programs promoting eco-benefits, be it from bilateral or GEF financed activities. In cases were there is an appearance of "double dipping", the criteria to be used to ascertain if the enterprise is eligible for assistance from this the proposed project, should be that the local company has enough equity at stake that the promoters assets are at risk if the project would fail. Thus full financial transparency of these projects is a must. As an additional measure, all projects which would benefit from other subsidized funds would be treated in the same way as the projects with a higher threshold and would require approval by the Advisory Panel.

Summary and Recommendations:

The project is consistent with GEF policies and procedures and is recommended for approval by the GEF Council. To enhance the programs performance, the program should not only monitor the GEF funds leveraged, but also the cost-benefit ratio of its interventions, both regarding the leverage of TA funds as well as the actual investments made.

The project takes advantage of the comparative advantage of the IFC in leveraging additional private sector capital/finances through its network with local Financial Institutions, its experience in SME financing and the growing body of knowledge in the joint IFC/World Bank's SME department on best practices in providing efficient and sustainable technical assistance to Small and Medium Enterprises.

The project might consider to take advantage of the Project Tracking, Monitoring and Evaluation systems developed and utilized in the Project Development Facilities, particularly the PTMS developed by SEDF.

Before implementation the project needs to elaborate on the environmental performance indicators of the supported SMEs. In this process, it is recommended that were possible and feasible these indicators are disaggregated by gender as stressed in the GEF Council Meeting of May 14-16, 2003.

Comments regarding the EBFP Project Document of August 19th 2003

1. The revised document has enhanced the case for GEF support. Justification, objectives and potential outcome (Phase III) have now been articulated more precisely.
2. Progress has also been made in identifying and articulating variables to measure both financial and environmental benefits resulting from interventions supported by EBFP. However the project description would benefit from:
   2.1. Example scorecards for financial and environmental performance (see also par 6 below)
   2.2. A description of the methodology to be utilized in rewarding FIs and SMEs for higher/greater environmental benefits. Would interest rates be lowered, or would this be in the form of cash or performance awards?
3. Based on discussion with project management, it is my understanding that the project, following the BDS guidelines as agreed by the Committee of Donor Agencies for Small Enterprises, will aim to make the services of the Local Environmental Expert (LEE), financially sustainable and commercially viable. This is not clearly reflected in the project document. Along the same lines, the document stipulates that the project can contribute up to US$5,000 to SMEs to offset the costs for Technical Assistance. It is however not clear if and how the project will apply cost sharing mechanisms: to what extent is the SME or FI expected to contribute from their own funds the cost of training and technical assistance? How does the project establish that the subsidized cost cover only the incremental cost to achieve environmental benefits? I therefore recommend that following "best practices" the Project requires a substantial part of the costs for training and technical assistance be paid by the stakeholder, the SMEs and/or the FI.
4. While the proposed costs for Technical Assistance has been clarified, the suggested margins (IV par. 98), in spite of doubling the cost allocation by raising funds from bi-lateral and other agencies are still low. The budget doesn't show an allocation for the objective of providing consumer market awareness (par.19 e). Given that the highest risk of the program is the market acceptance of SMEs producing environmental benefits by FI all over the globe, it is recommended that the project budget allows for the allocation of more resources for the dissemination of success stories and best practices generated by the project if so required to stimulate acceptability of the project concept. Documentaries, video productions and publications will be necessary to increase awareness and mitigate the risk of project failure. This will require more technical assistance resources.
5. The content of technical assistance is not discussed in detail, and due to the wide variety of enterprise activity this will differ from case to case. However one element the project might want to consider in raising awareness in participating FIs is to train investment officers not only in the efficient assessment of SMEs producing environmental benefits, but also in analyzing in general new investments ensuring that the greenhouse gas emissions over the life of a new investment are taken fully into account in business planning processes, by introducing a shadow price for carbon emissions into the investment appraisal as a sensitivity to the analysis.
6. Given the objectives of the project, technical assistance might not only focus on developing scorecards for environmental and financial benefits or the lack of it, but also include the introduction of "green bookkeeping records[66]", which would record not only the relevant greenhouse gases such as CO_2, CH_4, N_2O, SF_6, and acid gases such as, SO_2 and NO_x and other gases of environmental concern such as H_2S, but also the amount of waste and pollutants (oil, batteries, metals etc.)

[66] For an example see: Loftur Gissurarrson, et.al.: Implementation of Green Bookkeeping at Reykjavik Energy, Rio2 Conference Proceedings 2002.

Conclusion

Management has addressed most of the issues raised in my earlier review. The project design has improved and is more articulate in addressing the goals and objectives of the program. The main handicap in reviewing the project: the absence of a detailed description of the monitoring and evaluation process including sample scorecards has been addressed by describing the process that will eventually lead to the completion of the system. I therefore recommend the approval of the project by the GEF Council.

Response to STAP Reviewer Antonie De Wilde

The EBFP team has engaged in detailed discussions with the STAP reviewer during the preparation of the project document, in addition to the written reviews above. The STAP reviewer comments have been incorporated into the project concept development and in the documents throughout the process. The following is a summary of some of the key issues that the reviewer has raised in his final reviews and the EBFP team's response to them. Previous comments have been discussed with the reviewer and appropriate changes have been made to reflect these issues in the project document to further strengthen the EBFP concept.

The reviewer feels that the project description would benefit from the following: 1. Example scorecards for financial and environmental performance 2. A description of the methodology to be utilized in rewarding FIs and SMEs for higher/greater environmental benefits. *A methodology for developing scorecards for managing the financial and environmental portfolio performance of participating FIs is being developed by the EBFP team in consultation with a number of experts and a sample scorecard will be produced. However, because of the varying market conditions in each target country the scorecards will be tailored to each respective FI and is designed to be flexible to be adaptable on a case-by-case basis as appropriate. The process and methodology for the incentive performance is described in the project in the monitoring and evaluation section.*
The reviewer expressed confusion as to how the EBFP will apply cost sharing mechanisms: "To what extent is the SME or FI expected to contribute from their own funds the cost of training and technical assistance?" "How does the project establish that the subsidized cost cover only the incremental cost to achieve environmental benefits?" *The document does not include a discussion on cost sharing mechanisms, as this will be addressed on a case-by-case basis.*
The reviewer believes that the budget for the TA program is low, and expresses concern that there is no allocation for the objective of providing consumer market awareness. *The reviewers comments have been reflected in the document, additional funds (from reflows) have been allocated to the TA Program.*
The reviewer suggests that the project might want to consider training investment officers not only the efficient assessment of SMEs producing environmental benefits, but also in analyzing in general new investments ensuring that the greenhouse gas emissions over the life of a new investment are taken fully into account in business planning processes, by introducing a shadow price for carbon emissions into the investment appraisal as a sensitivity to the analysis. *The EBFP has reflected the suggestion incorporated in the Technical Assistance section of the document.*
The reviewer suggests that TA might not only focus on developing scorecards for environmental and financial benefits or the lack of it, but also include the introduction of "green bookkeeping records", which would record not only the relevant greenhouse gases, and acid gases and other gases of environmental concern, but also the amount of waste and pollutants. *The reviewer's suggestion has been noted by the EBFP team and if applicable and accepted by market forces the EBFP will further assess the possibility of introducing "green bookkeeping records".*

E. STAP Review Julian O. Caldecott (Biodiversity)

Environmental Business Finance Program (EBFP)

Draft GEF Council Work Programme Submission

Revised, 22nd August 2003

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SUMMARY

The EBFP proposal has been extensively revised in response to earlier comments and is now formulated to a high standard.

The project is worthy of GEF support because: (a) it is strategically compliant with GEF objectives; (b) it will promote GEF-eligibility among SMEs; (c) it will direct GEF funds to meet incremental costs that would otherwise deter investments that will generate incremental global environmental benefits; (d) it is expected to leverage additional global conservation finance, amplify local and national environmental benefits, and facilitate larger investments in the general area of biodiversity conservation; (e) it will likely have the effect of promoting partnerships among numerous environmental actors; (f) it will create systems of conservation investment that are highly replicable; and (g) it is likely to have a positive impact that will persist indefinitely.

I would strongly support the project continuing to the next stage of development, since its design is sound and significant global environmental benefits are likely to result from its implementation.

1. Introduction

This project aims to relieve key strategic constraints on investment in GEF-eligible business activities by small and medium-scale enterprises (SMEs). These include activities and projects in GEF-eligible countries across all GEF Focal Areas (biodiversity conservation, climate change mitigation, prevention of degradation of international waters and, prevention and control of land degradation). These activities and projects might therefore occur in any sector or location in up to 40 target countries that will be selected by the EBFP (of which South Africa, Guatemala and Ecuador have already been chosen). The project is the proposed successor to the IFC/GEF Small and Medium-Scale Enterprise (SME) Program, so lessons learned from the latter are integral to the EBFP approach, and documents concerning the SME Programme were also reviewed. This review is primarily from the point of view of the project's likely contribution to biodiversity conservation, and its conclusions are presented in the following sections.

2. Observations in relation to key GEF issues

2.1 Scientific and technical soundness

The proposal is now convincing and appropriately formulated, as well as being well-grounded in lessons learned from the SME Programme and elsewhere. In my view the project design is sound from a scientific and technical perspective.

2.2 Global environmental benefits

Significant global environmental benefits to be expected to result from the implementation of this project can be identified qualitatively by comparing the following scenarios:

Without-project scenario. The IFC/GEF SME Programme will continue for a while but there will be no purposive expansion and extension of a global programme to offset the financial cost to FIs of lending to SMEs that generate incremental global environmental benefits. The FIs will continue to make decisions based on other criteria, and will not voluntarily increase their capacity to select innovative SMEs that contribute to biodiversity conservation, unless pressured to do so by shareholders, NGOs and investors. The opportunity to develop an important potential SME role in biodiversity conservation will be lost or its exploration significantly delayed.

With-project scenario. The IFC/GEF SME Programme will be absorbed by a larger EBFP with additional funds, procedures and expertise influenced by lessons learned. An active global player will exist that engages with partner FIs and encourages and enables them to invest in GEF-eligible SMEs in up to 40 countries. The capacity of FIs to understand and have confidence in innovative biodiversity-related SMEs will increase, partly due to risk-sharing and other subsidies from the international community, and partly because of the indirect benefits to themselves of acquiring new skills and increased credibility. These FIs and a target portfolio of at least 500 SMEs will direct and indirect effects in conserving biodiversity and in amplifying the influence of partner conservation institutions. Meanwhile, systems will be developed and tested that could be used as the basis for a greatly expanded programme to guide investments towards contributing global environmental benefits.

2.3 GEF context

a) Strategic compliance with GEF objectives

This project is relevant to all GEF Focal Areas and Operational Programmes, since it aims to relieve key strategic constraints on investment in GEF-eligible business activities by small and medium scale enterprises (SMEs), which might occur in any sector or location in up to 40 countries. A major GEF objective is to combine conservation with sustainable use of biological resources, and the project harmonizes well with this. This will be true to the extent that FI capacity is enhanced and SME investments undertaken in ways that respond to constraints and opportunities involved in working with local communities and entrepreneurs in the sustainable use of biodiversity in protected areas, buffer zones, and elsewhere.

b) GEF-eligibility of SMEs

It is intended that EBFP will fund only those activities that generate global environmental benefits, so selection criteria will be defined with the input of the GEF Secretariat, and FIs advised on the kinds of project that might be GEF-eligible. It may also be possible to pre-approve certain industries that clearly meet GEF criteria, though this will be harder in the complex field of biodiversity conservation than in relatively simpler areas such as climate change. This is because the beneficial effects even of ecotourism or reduced-impact logging investments are context-specific and cannot be assumed, whereas benefits (and risks) from the manufacture of affordable solar panels or wind turbines, for example, are much clearer.

c) Incrementality of global environmental benefits.

The incremental costs associated with the EBFP are defined in the proposal to be equal to the additional funding needed to offset the risks of loan default and limited capacity that are associated with financing GEF-eligible SMEs, so that FIs will become willing to provide this finance. Proposed ways to offset these risks include technical assistance, risk sharing, monitoring and evaluation, and a ‘risk incentive scheme’ that will provide financial compensation for the environmental benefits achieved. The proposal estimates that spending US$20 million of GEF funds will result in an annual incremental cost of approximately two percent, assuming that a further US$100 million is generated over ten years as predicted. Three issues might become significant in this context:

- First, that the additional risk of lending to GEF-eligible SMEs may be overstated, implying that defaults are inevitable, when in the interests of replicability and sustainability the EBFP should be reassuring FIs that well-designed GEF-eligible investments are actually quite safe;
- Second, that by seeming to validate the perception of high risk in GEF-eligible SMEs, a moral hazard might be introduced that may encourage FIs to further stress their risk exposure in order to obtain additional financing concessions from EBFP; and
- Third, that there is the intention to pay FIs in proportion to environmental benefits actually achieved, rather than helping them experiment safely with new kinds of investments, some of which will work better than others although all will teach important lessons, and this may provide a disincentive to certain kinds of investment.

It is likely that these possible effects will be offset by controls already incorporated within the screening, approval and monitoring and evaluation processes, which require real-time reporting, a structured scoring system and pre-approval activities to ensure credibility. Project managers will also be tasked with observing the entire system in operation, and there is sufficient flexibility in that system to allow adjustments to be made as necessary in the event that weaknesses are detected.

2.4 Regional context.

This is a global project that will act through FI partners and SMEs in up to 40 countries. In each location, however, the regional context will be significant, and both FIs and SMEs may work across borders. EBFP designers have anticipated this and provided for FIs to obtain national GEF Focal Point endorsement only as needed when project activity actually occurs in the country concerned. There are a number of global actors that have similar aims to the EBFP and that finance SMEs where they think this can sustainably contribute to biodiversity conservation and related agendas such as poverty alleviation. Important lessons have been learned from both successes and failures, and the EBFP will almost everywhere have access to experienced individuals and institutions with agendas similar to its own. Properly used as advisers, employees, co-financiers, etc., these resources can greatly enhance the regional coherence and impact of the EBFP.

2.5 Replicability and sustainability.

The project is designed to strengthen the capacity of selected partner FIs to appreciate the value of investing in GEF-eligible SMEs. As their understanding and confidence increases, the unit cost of SME loan management declines, and GEF-eligible SMEs are proven to be acceptable credit risks and profitable to the FIs concerned, it is expected that those FIs will continue to extend and diversify their investment portfolio of GEF-eligible projects without further encouragement. Meanwhile, the success of those FIs that participate in the EBFP should be of interest to other FIs, leading in theory to a widespread adoption of lending criteria consistent with GEF eligibility. Meanwhile, the proven systems for screening, financing and monitoring GEF-eligible SMEs developed by the EBFP will be of interest to other financiers of biodiversity conservation activities, such as trust funds and NGOs. They will be inclined either to join forces with EBFP, to take advantage of leverage effects, or adopt EBFP systems according to their needs which will also contribute to the growth of compatibility among various conservation investments. All these factors suggest that the EBFP will create systems of conservation investment that are highly replicable, and a positive impact that will persist indefinitely and is therefore highly sustainable.

3. Observations in relation to secondary GEF issues

3.1 Linkages to other focal areas.

A common mechanism is proposed to promote investment in GEF-eligible SMEs across all GEF Focal Areas and Operational Programmes. Although there will be a tendency for specialist teams to arise within the EBFP and participating FIs, to deal with investments focussing on biodiversity, climate change, etc., it should also become easier to do ‘joined-up’ thinking about how the stakeholders and investments interact with one another and amplify each other’s impacts. It will also be possible to deploy a number of investments of different kinds in a particular country or location, to target in a complementary way various threats and opportunities related to biodiversity. This was done several times in the IFC/GEF SME programme, and these linkages should be further promoted under EBFP through coherent and integrated SME investment programmes in each of the participating countries.

3.2 Linkages to other programmes and action plans

The EBFP will work with the GEF Focal Points for each target country to ensure that the program is implemented in accordance with the country priorities, action plans and programs. The EBFP proposal makes clear that the project is expected to be amplified through cofinancing by other institutions, especially the IFC, and that it will coordinate closely with other institutions. This intention is clear and appropriate.

3.3 Other environmental effects

The overall environmental impact of the project should be favorable if the key outputs of the EBFP are obtained, resulting in GEF-eligible SME activities being significantly scaled up and replicated, mainstream FIs becoming more likely to offer finance to GEF-eligible SMEs, and the capacity of FIs and SMEs being built as they are introduced to best practices. Key performance indicators for these outputs are as yet poorly developed, especially in the complex field of biodiversity conservation. There is also the more general concern that SME proposals, environmental impact statements, management plans, and M&E processes may not wholly anticipate or detect the full range of direct, indirect and potentially subtle and long-term effects that an SME may have in a sensitive environment. Also that the sheer diversity and scale of the investment programme may overwhelm the capacity of participating institutions to think everything through in enough detail, especially if it expands rapidly. Unanticipated effects of successful projects in poor, rural areas may include the stimulation of in-migration, or other kinds of unregulated investments, that can lead to worse pressures than would otherwise have been the case. Such risks will hopefully be mitigated by the development of adequate screening criteria, the selection of high-quality TA advisers, and additional measures specified in the proposal to promote the learning of environmental knowledge and thinking skills by key staff of participating FIs.

3.4 Involvement of stakeholders.

The EBFP proposal envisions the development of a close relationship with selected FI's, and the steady development of their capacity to process GEF-eligible SME investments, through training and the appointment of environmental loan officers. Various stakeholders are to be involved in the monitoring and evaluation and investment screening processes, including a Local Environmental Expert organization in each case.

3.5 Capacity-building aspects.

Capacity building is central to the purpose of the project, which is to create a number of FIs with the capacity, willingness and experience to invest with confidence in GEF-eligible SMEs, and a range of SMEs with the capacity to conceptualize and manage such investments.

3.6 Innovativeness.

The project has many innovative features designed to target partner FIs from the point of view of finding new ways to encourage and enable them to invest in GEF-eligible SMEs. The effects of the project will be to encourage innovation, since it will promote investment in enterprises that, because they are GEF-eligible, are likely to be more innovative than others.

4. Conclusion

I would strongly support the project continuing to the next stage of development, since its design is sound and significant global environmental benefits are likely to result from its implementation.

Response to STAP Reviewer Julian Caldecott

The EBFP team has engaged in detailed discussions with the STAP reviewer during the preparation of the project document, in addition to the written reviews above. The STAP reviewer comments have been incorporated into the project concept development and in the documents throughout the process. The following is a summary of some of the key issues that the reviewer has raised in his final reviews and the EBFP team's response to them. Previous comments have been discussed with the reviewer and appropriate changes have been made to reflect these issues in the project document to further strengthen the EBFP concept.

The reviewer expressed confusion about the "text surrounding the incrementality and risk issues" and noted the following three reservations: 1. That the additional risk of lending to GEF-eligible SMEs may be overstated, implying that defaults are inevitable, when in the interests of replicability and sustainability the EBFP should be reassuring FIs that well-designed GEF-eligible investments are actually quite sage. 2. That by seeming to validate the perception of high risk in GEF-eligible SMEs, a more hazard might be introduced that may encourage FIs to further stress their risk exposure in order to obtain additional financing concessions from EBFP, 3. There appears to be the intention to pay FIs in proportion to environmental benefits actually achieved, rather than helping them experiment safely with new kinds of investments (some of which will work better than others, yet will all teach important lessons). *The EBFP team is aware of these issues and feels that they have been appropriately addressed in the program structure. The reviewer agrees that "it is likely that these possible effects will be offset by controls already incorporated within the screening, approval and monitoring and evaluation processes, which require real-time reporting, a structured scoring system and pre-approval activities to ensure credibility."*
The reviewer feels that key performance indicators are still poorly developed. *The EBFP team is working in consultation with the GEF M&E Unit, GEFSEC, and other experts to further define the specific appropriate performance indicators. At present, due to the innovative nature of the program and the fact that the full ranges of activities have not yet been identified, it is not possible to fully define these indicators. The LogFrame includes a number of outcome, output and input indicators, as well as sample SME cluster indicators that will be measured and further refined or modified, as necessary, as the program is implemented.*
The reviewer expresses concern that SME Proposals, environmental impact statements, management plans, and M&E processes may not wholly anticipate or detect the full range of direct, indirect and potentially subtle and long-term effects that an SME may have in a sensitive environment. An additional concern expressed by the reviewer is that the sheer diversity and scale of the investment program may overwhelm the capacity of participating institutions to think everything through in enough detail, especially if it expands rapidly. *The EBFP team recognizes these issues and has designed the TA Program to mitigate these risks. The reviewer also believes that these "risks will hopefully be mitigated by the development of adequate screening criteria, the selection of high-quality TA advisors, and additional measures specified in the proposal to promote the learning of environmental knowledge and thinking skills by key staff of participating FIs."*

ANNEX 12: RESPONSE TO GEF COUNCIL MEMBERS' COMMENTS

The following is a summary of the issues that were raised by GEF Council members.

A. Germany

The project is formally eligible for GEF support and also fits with strategic priorities. However, there we have doubts about the effectiveness of GEF resource use to enhance global benefits with this project approach. *The goal of the EBFP is to develop a sustainable market for the delivery of environmentally beneficial products and services by SMEs, which, in aggregate, will enhance the global environmental benefits sought by the GEF. To ensure the sustainability of this market, and thus these benefits, the barriers to sustainable SME development must be addressed. Some fundamental principles have been incorporated into the design of the EBFP, such as engaging the domestic financial institutions in the provision of financing to this market on an ongoing and sustainable basis. In many emerging and transition countries, domestic financing accounts for 85% to 95% of total enterprise financing. GEF has a lot to gain by finding mechanisms, through programs such as the EBFP, to engage domestic financial institutions in propagating its goals.* *Given the current understanding of the development community of what is needed for SME development, the EBFP has incorporated in its design and implementation two other pillars of SME development, other than SME financing through FIs, which are supporting the development of a conducive enabling environment and assisting in the strengthening of the managerial and technical capabilities of local market participants (such as SMEs, FIs, BDSs). (See paragraph 22 for a description of the pillars to sustainable SME development).* *This market development approach is more likely to yield sustainable global environmental benefits, as the EBFP impacts the entire market as opposed to a single or series of individual projects in a country or region.*
There should be a full evaluation report from IFC/World Bank on the first two phases of the SME program before approving a fresh project of similar nature *Econergy International Corporation carried out an interim evaluation of the SME Program which was completed in January 2000. A follow-up evaluation updated the findings of the interim evaluation and was completed in July 2002. A summary of the findings of these two evaluations is presented in Annex 3. The full reports are available upon request.*
The program report is not defining which products and services would be eligible for support that the SME are expected to produce. It would be desirable to define a minimum global environmental benefit or to identify a different way of including and excluding SME for support. *A significant number of eligible products and services that the SMEs are expected to produce have been identified and are described in Table 1 (page 25), and in Annex 1, which has been added, to detail possible activities by operational program and by geographical potential. The identified list of products and services is not exhaustive and will be continually revised and updated over the lifetime of the EBFP as new GEF-eligible opportunities present themselves.*

From our point of view, such an open program will, neither be effective, nor lead too sustainable markets and not be replicable. *The EBFP has been designed to be both sustainable and replicable. The openness and flexibility of the program is important so that the program can respond to specific country needs and circumstances and fit within national strategic priorities. Paragraphs 103 to 106 present the argument for sustainability, and paragraphs 107 to 109 describe how replication is to be achieved.*
The program overlaps with a large number of other GEF projects, e.g. in energy efficiency financing and biodiversity projects. These projects regularly experience the complexity of building a sustainable market in one single country or sector, this experience should be taken into account for EBFP. *The EBFP does build on a number of other GEF projects, but the novelty of the EBFP is the focus on developing markets for a wide range of GEF-eligible activities. The EBFP is designed to encourage domestic FIs to provide financing to GEF-eligible SMEs, rather than providing financing directly to SMEs so as to ensure continued support for GEF-eligible SME activities after EBFP support has ended. The EBFP will be working with existing GEF projects to learn from their experiences and build on (rather than simply duplicate) their achievements.*
The issue of defining a GEF-eligible SME is required because the range of SME which might produce products and services with a miniscule, minor, significant or major global environmental benefit is huge. The program needs to draw the line somewhere. *Annex 6 provides an explanation of how the scorecard will help the FIs assess the GEF eligibility of SME applicants, and provide incentives to the FIs to finance those SMEs that generate the greatest environmental benefits. SMEs that do not score high enough on the scorecard will not be eligible for financing. At this point in time, the specific scorecard criteria have not been established as these will be determined for each individual country based on the findings of the market assessment and the agreed-upon environmental priorities for that country. In order for an activity to be eligible, the activity must meet a minimum level of global environmental benefits.*
We would like to request IFC/World Bank to present an SME program evaluation report and incorporate lessons learned in the EBFP from it. *A summary of the SME Program evaluation report has been included in Annex 3 and the lessons learned from the SME Program have been incorporated into the EBFP, as discussed in paragraph 26 and further detailed in Annex 3.*

B. Sweden

The proposal would gain considerably in clarity if a set of {activity} examples had been given related to each of the GEF focal areas *In response to this comment, Table 1 (page 25) has been revised to show the activities and potential markets which will be targeted by the EBFP. Annex 1 has been added to provide further details on possible activities by Operational Program and by geographical potential.*

It is also not explained how the environmental benefits will be scored/ranked, and what criteria will be applied in in-country selection of SMEs. *In response to this comment, Annex 6 has been expanded to better describe the scorecard, which will be used to aid in the selection of SMEs. The scorecard will be used to measure their potential relative impact on the improvement of the global environment.*
It will be important to somehow both ensure a national flexibility and also ensure replicability and possibility to compare between countries. *Each country program will be designed to reflect individual country priorities and strategies resulting in national flexibility. A consultative process is present throughout the project cycle to further ensure this flexibility (see paragraphs 50 to 58).* *The EBFP is designed to produce models and best practices from one country which can be applied in another, in an effort to promote replicability (see paragraphs 107 to 109 on replicability.)* *The evaluation process (both mid- and end-term) will be the formal mechanism employed to compare between countries. However, having a single EBFP management team will ensure that comparisons and lessons learned are compared between countries throughout the life of the program.*
No clarification of what type of TA is required is provided, and whether primarily national or international expertise (or a combination) will be contracted?" *Footnote 12 (page 13) has been added to the TA section clarifying that, at this point, it is impossible to tell whether it will be primarily national or international expertise that will be contracted as it is anticipated this will vary by country. Wherever appropriate and possible, the EBFP will look to contract local expertise for the TA Program; this will depend on the availability and capacity of local expertise.*
How realistic is the anticipated level of cofinancing (US$80 million)? *The EBFP management team believes that this estimate is realistic as it is based on the experiences of the SME Program, other IFC projects and generally accepted practices in SME finance. Footnote 39 (page 38) has been added explaining that the anticipated level of cofinancing is based on estimates formed by the experiences of the SME Program and other IFC projects, as well as generally accepted practice in SME finance and in on-lending financing structures.*
The actual mechanism for financing the SMEs is not described in the summary proposal. Preferential loans? Cash contributions for specific investments? Or what? *The actual mechanism for financing SMEs will differ according to the legal, financial and economic infrastructure within each country , as well as the needs of the SMEs. For example, in countries where the culture prohibits interest-based lending, the FI would have to find alternate financing methods, such as Islamic finance, or non-debt-based financing, such as risk-capital financing and profit sharing. Similarly, lending terms, collateral requirements and financing costs will vary by sector and by the risk profile of the SMEs. The actual financing mechanisms will be determined during Stage 4 of the project cycle (see paragraph 54).*

Since country selection has not been undertaken (6 to10 countries will be included), there is so far no ownership at all among any national institutions and actors.

The introduction to the country eligibility section (paragraph 64) clearly states that, due to the nature of the program, true local ownership takes place at the intermediary and FI level but that, as the EBFP recognizes the importance of local country support in the successful implementation of the program, local country support is a requirement for country eligibility.

The new project cycle section (see paragraphs 50 to 57) indicates that stakeholder consultation process begins during the first stages of the cycle and is expected to be ongoing over the course of the country program. The stakeholder involvement section (paragraphs 110 - 113) further details the type of stakeholders who will be involved in the program and how.

The executive summary emphasizes the importance of M&E as well as systematic learning and dissemination of experiences within the programme as well as to other programmes. A summary table with general performance indicators is provided, but no detailed description of the M&E, and how the learning will be undertaken.

A description of the M&E plan can be found in paragraphs 44, 97 to 102 and Annex 6. Dissemination of lessons learned and best practices is an integral part of the EBFP. This is reflected in the design of the TA Program (see paragraph 39 and Annex 5).

It should also be noted that the official method of GEF of calculating incremental costs, i.e. that GEF cover "the extra costs that a developing country incurs to achieve agreed global environmental benefits', - has been re-interpreted for this programme. Here the criterion has been interpreted as being applicable where without the funds local financial institutions would not fund SME that yield environmental benefits (p.23 para 23). It is unclear whether this refers to only global level benefits, or if it includes also national and local benefits. The STAP review of the project on page 3 departs even further from the original meaning of the incremental costs criterion in order to justify the funding – noting that the funds are provided on the basis of offsetting the risks of funding defaults by increasing capacity, providing technical assistance and promoting risk sharing.

The report notes (p.24) that these ways of calculating incremental costs seem to be a "reasonable compromise" – it would be interesting to discuss if this means that whole incremental costs criterion is being re-interpreted?"

There is no intention of departing from established GEF practice. The EBFP supports GEF-eligible SMEs that produce global environmental benefits. As the incremental cost requirement is determined operationally by focal area (e.g. Climate Change uses a market base line, whereas a more subjective interpretation is required for Biodiversity) there needs to be some flexibility to recognize the application of these principles in the context of the institutional and financial barriers and risks, to be addressed by this program. The private sector considers both return and risk when evaluating undertaking new activities. This means that there can be incremental risks as well as (or instead of) incremental costs for private-sector GEF projects. IFC first presented this concept to GEF about ten years ago when proposing the use of partial risk guarantees for HEECP, and GEF has gradually come to accept, if not fully embrace, this approach. Regarding the calculation of incremental costs, IFC is fully comfortable in its ability to identify and quantify these costs. It always involves a measure of judgment on what a private company could do with fully commercial capital, but IFC is well qualified to exercise this judgment.

The programme is very interesting, and clearly adds a new dimension to GEF-projects. However, there is presently no national level ownership or stakeholder involvement. The feasibility and design of the program also appear very unclear (at least in the executive summary). *A description of the project cycle is now included in the project document (see paragraphs 50 - 57) and provides a better idea of where in the project cycle the issues of national level ownership and stakeholder involvement are addressed. National level ownership is extremely important and is viewed as critical to ongoing sustainability of the program. Due to the nature of the program, true national level ownership rests with the FIs, as described in paragraph 64. Emphasis is placed on working with local governments to ensure that the design of individual country programs are inline with the strategic priorities of the country, as included in Stage 1 of the project cycle. Stakeholder involvement is equally important and an ongoing consultative process with the different stakeholders (including SMEs, FIs, BDSs and NGOs) will take place throughout the project cycle, beginning at the country program design stage.*

C. Switzerland

The TA program which incorporates strengthening of the financing facility and of SMEs is much less developed than the financial component. *A new annex (Annex 5) has been added providing an expanded discussion of the TA Program and how it will be implemented.*
The role of Business Development Service (BDS) agents is not clear vs. direct work with SMEs *The goal of the EBFP is to create a sustainable market for GEF-eligible SMEs, thus, wherever possible, it will work with local market players. The TA Program is designed to target BDSs that work directly with SMEs (rather than the SMEs themselves) in order to enhance the knowledge and skills base of the BDS, thus building local capacity beyond the life of the EBFP. Paragraph 39 has been amended to reflect this distinction.*
The program pretends to work proactively in the market developing e.g. the market for GEF-eligible activities through activities such as assistance in technology transfer. This is a goal of lots of programs with very mixed experience and it is not clear how this will actually be done. Assistance in technology transfer is only required if a market failure exists e.g. lack of access to information. If current market frameworks are not conducive for technology transfer then capacity building and information will not help much. Projects will remain isolated demonstration cases without replication. Working at policy level would be much more conducive to massification than working at intermediary of SME level." *The EBFP will work at the policy level by supporting local market actors who are involved in influencing policy makers in the creation of a more enabling environment for environmental SME development (see paragraph 113 detailing the success that the SME Program has had in working with different levels of stakeholders in Guatemala and the EBFP's, plan to build on those experiences to establish similar relationships in other countries). In working to support the development of an enabling environment, the EBFP intends to address the market failures that impede technology transfer.* *The issue of technology and know-how transfer is a complex one to which there is no one solution. Based on the work of the WBG's SME Department on the barriers to SME development*

it has been demonstrated that successful technology and know-how transfers depend on incorporating these into viable business models which are accompanied by appropriate financing. EBFP builds on the approach of combining the exchange of know-how with viable business models, and capacity building. Practically, the EBFP will be focusing on the exchange of innovations in areas such as clean technologies, distributed energy technologies, viable ecolodge business models, sustainable agricultural methods, and private sector reforestation models.

A clear analysis of barriers for new technologies needs to be realised before entering a country. The general barriers mentioned by the EBFP (finance, capacity, awareness) probably often exist but other barriers e.g. market prices and subsidy systems might be even more substantial thus limiting the impact of changes made by the project.

Paragraph 22, under the heading "Pillars to Sustainable SME Development",(formerly "Access to Finance and Capacity Building"), has been expanded to better reflect that the three pillars to sustainable SME development are access to finance, capacity building, and an enabling environment. The enabling environment encompasses the issue of weak demand for GEF-eligible SME products and services as well as such issues as excessive regulation or government intervention in the market. This concept has also been clarified in other parts of the document (see paragraphs 22, 27, 51, 54, 63, 83, and 106).

Footnote 3 (page 3)– has been added to provide an example of the lack of enabling environment faced by some GEF-eligible SMEs.

The question of keeping opportunity and transaction costs as low as possible for final clients is not touched. This is however a major issue in many lending facilities. While appropriate pricing of financial instruments is important, the private sector and especially SMEs are very sensitive to time (opportunity) and red-tape (transaction) costs. It would be of interest to have incentive schemes based on environmental impacts as well as financial ones including total lender costs.

Through the TA Program, the EBFP will provide training and tools to the FIs and assist them in developing streamlined best practice processes for SME financing. This training, as well as the tools and processes, will lower their costs of entering the GEF-eligible SME market. EBFP may also offer risk mitigation tools, such as loan loss guarantees, to the FIs, if appropriate (see Annex 4). Thus, the FIs' transaction costs and financial risks are expected to approximate their costs of financing non-GEF eligible clients and, therefore, the price of their financial products to the GEF-eligible clients should reflect market prices.

As described in paragraph 99, FIs will be compensated according to their environmental and financial performance, which will be measured by tools derived from the scorecard (see Annex 6).

A new section has been added to the document titled "Benefits to FIs and SMEs" (see paragraphs 45 to 49). This section details how SMEs will benefit from lower transaction and operations costs due to the focus of the TA Program.

Some aspects of project design are not very realistic e.g. that the EBFP will encourage modal shifts in urban transportation. While SMEs could go for clean vehicles or clean fuels and some for the production of clean fuels such as biogas, shifts in urban transport modes are clearly outside the scope of SMEs (they may be actors involved in modal shifts but they are not the moving force nor the structuring agents). *This comment is noted and paragraph 75 has been changed, so that it now reads "The EBFP will encourage further commercialization of proven renewable energy technologies, the promotion of more environmentally friendly modes of transportation, and clean vehicle and fuel technologies."*
The SME program experience is mixed and the replication potential has not been really proven. While some of the critical aspects mentioned in the evaluation are taken into account by the project the issues of sustainability and replication potential and barriers to massification are not treated in depth. The barriers analysis is rather superficial remaining on capital, know-how and information. If these are the sole barriers then replication should have gone way longer in many cases. Thus it is unclear if the project effort is comprehensive enough to achieve massive results. We would recommend including as strong components in country selection the question of optimal framework regulations and prices for replication as primary criteria. If Guatemala and Ecuador comply with such a criteria is questionable. *Although the EBFP builds on the experiences of the SME Program and is its logical successor it has been designed with a greater focus on replicability, and is closer in design to the HEECP and CEEF programs, incorporating their best practices for replicability. This is one of the key reasons for which the EBFP has been developed as a new program, rather than just expanding the SME Program.* *The issues of sustainability and replicability are key to the EBFP and are important criteria of the country and SME selection processes. While the EBFP has identified Ecuador and Guatemala as initial countries for potential program implementation, if a more in-depth analysis of the country fundamentals were to indicate that an EBFP program would not be feasible or replicable, then EBFP would not engage in that country. Furthermore, the scorecard described in Annex 6 has been designed so that the SMEs that are more sustainable and replicable will score higher and, thus, be more likely to receive EBFP support.* *The discussion on barriers has been expanded with the addition of a new section entitled "Pillars to Sustainable SME Development"(paragraph 22) to reflect that the key barriers to SME development are lack of access to financing, limited capacity, and a weak enabling environment. The issue of weak demand for GEF-eligible products is considered to be a component of the enabling environment, as is excessive regulation and government intervention. Point C of the "Country Eligibility" section (paragraph 65) now reads; "Conducive and stable economic, political and regulatory framework is present".* *The list of lessons learned from the SME Program in Annex 3 has also been expanded to include lessons about the potential for replicability. Several SME Program projects were in fact replicated both within country and across borders.*

We support the project proposal but would like to recommend assessing more in depth barriers for replication including market framework conditions and prices (incorporation of environmental costs, subsidy distortions) using this information as important criteria when selecting project countries. This would assist in achieving a higher replication and massification potential.

This insightful recommendation has been taken into consideration to improve the country selection process and the design of the country programs. The concept of a conducive enabling environment is now an important component of the EBFP and this concept has been integrated throughout the project cycle (see paragraphs 50 to 58 on the project cycle).

D. United States

The log frame is very preliminary with some blank targets and baselines left in the document until financial institutions and enterprises are selected. The document should provide a clear time line for selection of institutions, baseline data collection, and achievement of results.

A new section has been added to the project document detailing the project cycle and timeline for the EBFP (see paragraphs 50 to 58). The EBFP is a ten-year program, which will be divided into two primary phases (i) implementation, including selection of institutions, baseline data collection and design of individual country programs, which will last 5 to 6 years, and (ii) supervision, including achievement and measurement of results, which will take place over the remaining 4 to 5 years. It is expected to take between 9 to 12 months for the program to go from the initial country identification and selection stage to the country program funding and approval stage. Different countries will be at different stages of this process at any given time.

The Log Frame (Annex 7) has been revised to include further indicators concerning the degree of changed behavior in the market.