

Fifth Overall Performance Study

Approach paper Sub-study on GEF Engagement with the Private Sector¹ June 18, 2013

1.0 Rationale

1. According to its terms of reference approved by the GEF Council in its June 2012 session, the Fifth Overall Performance Study (OPS5) of the GEF will be conducted in two separate phases and produce two separate reports; a first report at the start of the replenishment process (March/April 2013) and a final report to be presented in the final phase of the replenishment (fall 2013/early 2014). The first report will provide a report based on current results, achievements and performance of the GEF as emerging from the evaluative evidence gathered by the GEF Evaluation Office up to the end of 2012. The second report will provide updates to this evaluative evidence as well as present studies on specific sub-studies, including a review of GEF's engagement with the private sector.

2.0 Background

2. The Global Environment Facility (GEF) has engaged with the private sector since its establishment two decades ago. The GEF Instrument directs that the GEF will engage the private sector along with other key partners.² Initial efforts to involve the private sector in GEF operations were undertaken early during the pilot phase. Thereafter, the GEF Council approved a GEF strategy³ in 1996 which identified the "removal of market, information and other barriers" as the key approach to engaging the private sector⁴. A 1999 policy paper on the private sector identified several modalities that would be needed for barrier removal, including technical assistance and for the first time, a range of non-grant financing modalities.⁵ These included contingent grant, loans and partial credit guarantees.
3. GEF's work with the private sector has been reviewed as part of previous studies of the GEF's performance. The Second Overall Performance Study (OPS2) of the GEF urged the GEF to "engage the private sector more extensively." It suggested "clear guidelines

¹ For the purposes of this review, private sector enterprises are defined as those that are privately incorporated or publicly traded entities.

² Instrument for Establishment of the Restructured GEF, Washington, D.C. 1995, Paragraph 28

³ The strategy paper suggested that influencing overall market conditions in which business operates might offer the greatest leverage in many cases (indirect engagement), but that concrete investment projects might be required to "lead the way" (direct engagement)

⁴ GEF Strategy for Engaging the Private Sector, GEF/.7/12, March 7, 1996, p. 4.

⁵ Engaging the Private Sector in GEF Activities, GEF/C.13/Inf.5, April 22, 1999, pp. 6-7.

from the GEF Secretariat on new modalities “as well as to substantially increase “global environment-related private sector expertise” within the GEF Secretariat.⁶

2.1 GEF Private Sector Strategies and Reviews

4. At its May meeting in 2002, the GEF Council requested the Secretariat, in consultation with the Implementing Agencies, to prepare a *Private Sector Strategy*, for review and approval by the Council. The GEF Monitoring and Evaluation Office, as a prelude to the preparation of the strategy, presented in Spring 2004 a review of instruments and approaches employed in engaging the private sector, assessing results and drawing lessons from the experience. It suggested that “GEF should prepare a comprehensive policy for engaging with the private sector both directly and indirectly by influencing overall policy frameworks and market conditions. The policy should set out guidelines on both engaging private investment and for supporting public conducive policies, standards and certification systems for goods and services”.
5. The Mid-Term Review of the Resource Allocation Framework (2009), introduced for GEF4, found that in the implementation phase of projects, the RAF had some unintended negative consequences including lower levels of involvement of NGOs and the private sector, perhaps in large part because of the more predominant role played by national governments in portfolio planning. OPS4 did not delve specifically into private sector engagement. The mid-term review of the System for Transparent Allocation of Resources (STAR) currently being undertaken as part of OPS5, will provide information on participation and resource flow patterns during GEF-5 for different groups, including involvement of the private sector
6. As part of the request from the GEF-5 replenishment process, the Council recommended that an evaluation of the structure and operation of the Earth Fund be carried out allowing the council to later consider a proposal for further capitalization. The Evaluation process focused on a review only of the Earth Fund and not the broader GEF private sector strategy. In the Review⁷, presented to the Council at the November 2010 meeting, main conclusions included the Earth Fund did not achieve its purpose of attracting private funding at the level necessary to achieve its stated purpose but that expectations regarding co-financing and reflows were unrealistic. The Evaluation Office recommended the Council should ask the Secretariat to revise the Earth Fund for its second phase such that the objectives, niche and market barriers the Earth Fund seeks to address are better defined and disseminated; access to the revised Earth Fund is clarified and management strengthened.
7. In preparation for a revised GEF-5 Private Sector strategy, the GEF Evaluation Office also synthesized the Office’s evaluations and technical documents into a meta-evaluation⁸ that examined private sector involvement in GEF operations. This compilation of information was taken into account for development of the revised Strategy and also

⁶ Second Overall Performance Study, pp. 108.

⁷ https://www.thegef.org/gef/sites/thegef.org/files/documents/Earth-Fund_2011.pdf

⁸ http://www.thegef.org/gef/sites/thegef.org/files/documents/PrivateSectorReviewMay011_final_0.pdf

helped report on the state of available information about GEF and the private sector as an input into the Fifth Overall Performance Study (OPS5).

8. The revised GEF-5 Private Sector Strategy⁹ was presented and approved at the 41st Council meeting, November 2011. It defined specific modalities for utilizing the remaining \$80 million set-aside (second phase of Earth Fund) and emphasizes partnerships with the multilateral development banks (MDBs) to focus on the expanded use of non-grant instruments. It also includes components to support technology transfer and innovation among small and medium enterprises.

2.2 GEF Private Sector Projects

9. The Project Management Information System (PMIS) does not currently allow ‘tagging’ of those projects that engage the private sector. Furthermore, “engagement of the private sector” can and is interpreted broadly within the GEF partnership to extend from outreach to private sector during stakeholder consultation to direct loans for enterprises to undertake environmentally friendly improvements to regulatory changes in support of market reforms. Thus, gathering a list of project that engage the private sector is not a straightforward task. Clean-up and further analysis of the GEF private sector portfolio will be one of the tasks undertaken during the evaluation.
10. A preliminary analysis with available data, however, does make clear is that GEF engagement with the private sector has risen steadily from the initial nine projects in the Pilot Phase.
11. GEF private sector engagement has also covered all focal areas, with the largest number of projects in Climate Change, followed by Biodiversity. The fewest number of projects seem to be tagged to Land Degradation. A significant portfolio also exists for Chemicals projects and several in International Waters.
12. Several projects engaged the private sector using GEF funds through a non-grant mechanism. The non-grant mechanism could be composed of loans, guarantee facilities, contingent grants, revolving funds, credit guarantees, equity, risk sharing fund (RSF) for loan provision, subordinate credits, and grants to initial investments with repayment to revolving fund, among others.
13. The World Bank Group and UNDP have the highest number of projects with private sector engagement; however almost all GEF Agencies have some private sector engagement.
14. The full overview of the current portfolio of the GEF either focused on the private sector or involving engagements with the private sector will be developed in the course of this evaluation.

⁹http://www.thegef.org/gef/sites/thegef.org/files/documents/C.41.09.Rev_.01%20REVISED%20STRATEGY%20FOR%20ENHANCING%20ENGAGEMENT%20WITH%20THE%20PRIVATE%20SECTOR%20November%2014%202011_0.pdf

3.0 OPS5 Evaluation Study

3.1 Evaluation Scope and Approach

15. According to its Terms of Reference, approved by Council in the June 2012 session, the fifth Overall Performance Study, in its second report to be presented in the final phase of replenishment, will present specific sub-studies. The sub-study on GEF engagement focuses on key question 8 of the OPS5 final report: ***“What are trends in involvement of the private sector?”***
16. Documented evaluative evidence on the results of GEF engagement the results are mixed; for example, the review of the Earth Fund found that there were unrealistic expectations of that platform’s ability to attract additional private capital. Review of GEF’s forays into support for solar photovoltaic also found that it scale up was difficult¹⁰. Meanwhile, program level evaluations and external reviews from initiatives such as energy efficiency¹¹, ozone depleting substances¹² and efficient lighting¹³ indicate positive trends in involvement with the private sector leading to broader market change. Further review of available documents will be undertaken for additional information.
17. There is also growing recognition in the GEF that many private sector companies are moving towards integrating sustainability in their industrial practices or production chains, and that the GEF should link better to these developments and engage these in a structured fashion. This evaluation will engage with independent high level advisors with experience in environment (including the multilateral environment agreements) or on sustainability issues in the private sector, including corporate sustainability and concessional finance. They will examine the broader business context within which private sector is drawn into environmental issues as well as exploring existing information on GEF past engagement with the private sector.
18. This evaluation will also rely on the views of an expert high-level advisory panel to guide the context setting and provide quality assurance and peer review at key stages of the process. The review will focus on assessment of results of engagement between the GEF and the private sector from the pilot phase -GEF5 period (July 1, 1992-September 30, 2012).
19. The evaluation will be conducted under the overall management of the GEF Evaluation Office. Ms. Baljit Wadhwa is the task team leader. This evaluation will be conducted in two phases:

Phase I:

¹⁰ <http://www1.ifc.org/wps/wcm/connect/b5c8428048855621b964fb6a6515bb18/SellingSolar.pdf?MOD=AJPERES>

¹¹ <http://www.iea.org/publications/freepublications/publication/finance-1.pdf>,

¹² <http://ieg.worldbankgroup.org/content/dam/ieg/pubs/CHUEEWebBook.pdf>

¹³ <http://www.thegef.org/gef/sites/thegef.org/files/documents/FULL%20REPORT OPS4%20Progress%20Toward%20Impact 0.pdf>

<http://www.efficientlighting.net/formerdoc/pubdoc/ELI350.pdf>,

http://www.eceee.org/conference_proceedings/RL5/session_9/ablaza/paper

- a. Context setting of GEF engagement with the private sector: The role of business and industry in the promotion of sustainable development has increased over time and continues to grow. New and expanded corporate sustainability initiatives and growth of sustainable enterprises attest to the growing role of the private sector. This first input will review the status and trends apparent in the interaction of the private sector with environmental issues (by focal area to the greatest extent possible), the drivers for such engagement, major initiatives¹⁴ and the private sector's contribution towards sustainable development. The influence and potential of corporate sector influence in national policy formulation in privatizing economic environment will also be explored as part of the external trends. The analysis will provide the past and emerging context in which GEF engagement with the private sector has been designed and implemented.
- b. An update of findings of GEF and GEF Agency Evaluation Offices, as well as the Secretariat on private sector engagement. This will take the form of a compilation of available evaluative evidence, as well as include analysis of GEF and Agency documents, including policy documents and convention guidance addressing engagement with the private sector.
- c. Concurrently a portfolio analysis of GEF projects involving the private sector will describe the evolving nature of the portfolio in response to external and internal directions.
- d. The high level advisors will meet periodically with the evaluation team, through teleconference and in person, and discuss the context, the evaluative evidence, as well as possibilities for the GEF for which evaluative evidence may provide guidance. On this basis, further evaluative work in phase II can be developed.

Phase II: Exploration of Identified Issues

- a. Key questions developed after the context setting and meta-evaluation/analysis exercises will be answered through gathering of information at potential field sites chosen to shine light on particular elements of GEF engagement.
- b. At this juncture, the evaluation will also consider adding evaluative evidence to the questions posed by the GEF Secretariat private sector technical advisory group¹⁵ for consideration in the GEF-6 replenishment exercise.
- c. A selection of projects/entities to be visited will be premised on the findings of Phase I. The portfolio analysis, meta-evaluation/analysis and context review could indicate a choice of focus for further exploration – either by focal area, sector and/or

¹⁴ Among international private sector sustainability initiatives that could be further examined are the World Business Council on Sustainable Development, UN Global Compact, Global Reporting Initiative, Forest Stewardship Council, Principles for Responsible Investment, Global Green Growth Initiative, etc.

¹⁵ [Question #1: Should the GEF establish a private sector advisory group?; Question #2: Should the GEF expand efforts in global certification and standards?; Question #3: Should the GEF launch an SME Small Grant/Loan Program?; Question #4: Should the GEF support new risk-mitigation tools?; Question #5: Should the GEF private sector set-aside be expanded?; Question #6: Should the GEF support assessments of country readiness for private sector investments to help protect the global commons?; Question #7: Should the GEF do more to analyze and document private sector success stories?](#)

country. Field evidence will be derived also and, to the largest extent possible, from ongoing studies within the Office's four evaluative streams (Impact, Country, Performance and Thematic).

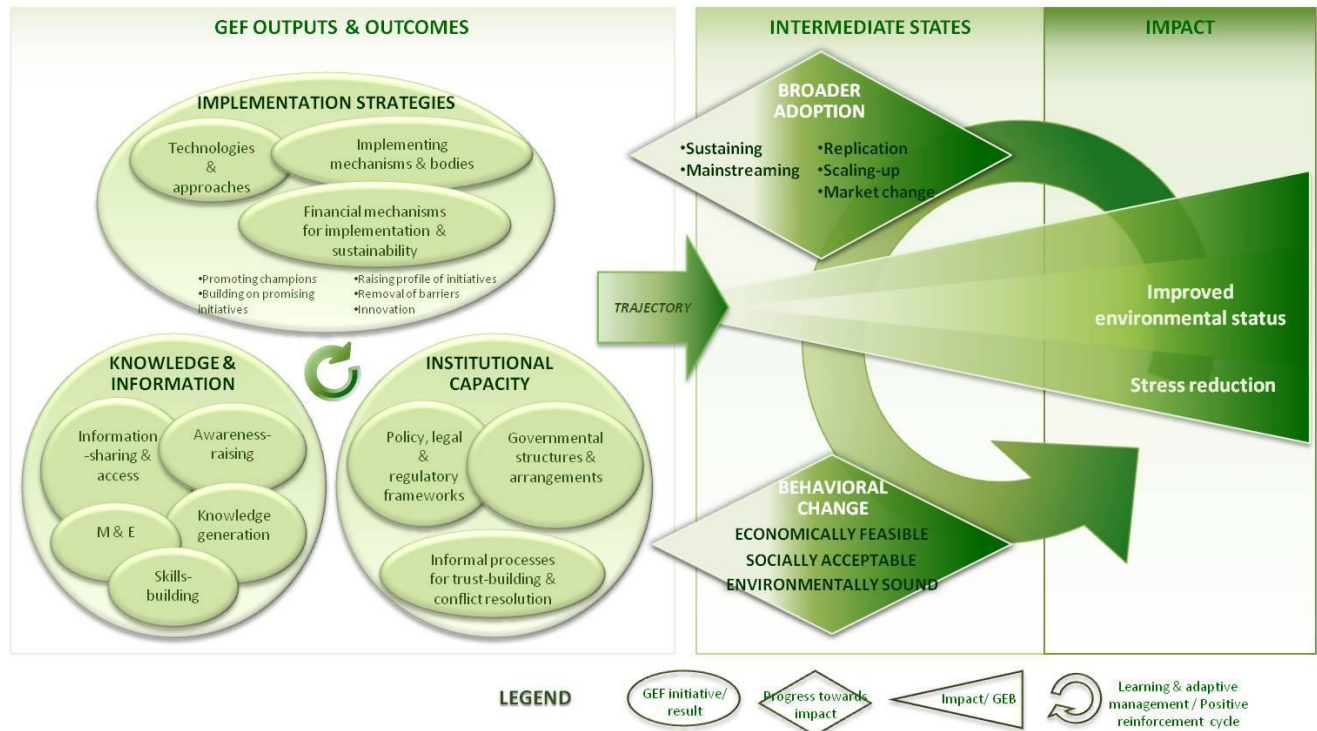
- d. The preliminary findings will be presented for comments to the high level advisors. They will also be discussed at an interagency meeting and subsequently published in a report that will also be a technical document for the final report of OPS5.

20. While evaluation findings are expected to inform the GEF partnership (GEF Council, Secretariat, Agencies) with an assessment of the results of GEF supported activities that engaged the private sector, the study will also provide feedback and knowledge sharing to inform GEF's future engagement with the private sector in the context of the GEF-6.

3.2 Methodology

21. The Evaluation of GEF Engagement with the Private Sector will use a theory of change (TOC) approach to develop first a proposed trajectory for impact from GEF engagement with private sector. The TOC approach is a theory-based evaluation tool that identifies and assesses results chains contributing to impact. The Evaluation Office is using this approach in OPS5.
22. The Office has developed an overarching generic GEF TOC describing the activities of the GEF as a whole for guiding and structuring the analysis of OPS5 (figure 1). The generic TOC is based on the large amount of evaluative evidence gathered over the years by the Evaluation Office to help understand the causal pathways between GEF support and global environmental benefits. This tool is aimed to assist evaluators establish and trace causality. However, it should be looked upon as a trajectory rather than a sequential model representing a chain of events.
23. The General Framework for the GEF Theory of Change has been developed further in the Focal Area Strategies Evaluation to understand how the specific goals of focal areas are supposed to achieve impact. These more detailed theories of change have been published in technical documents of the Focal Area Strategies evaluation on the GEFEQ website (www.gefeo.org). These specific theories of change will be analyzed on the role and involvement of the private sector.

General Framework for GEF Theory of Change



24. The evaluation will be conducted by staff and consultants of the GEF Evaluation Office. The GEFO will be supported by a small team of consultants that include:

- Senior experts with appropriate background knowledge on both the environment and the private sector
- Research analyst(s) for portfolio review, theory of change development

25. The methodology entails a combination of qualitative and quantitative evaluation methods and tools. The expected sources of information include:

- Documents in the public domain re private sector engagement in environmental management
- Project level documents
- Agency level documents
- Workshop & Interviews with GEF stakeholders (GEF Secretariat, Agencies)
- Workshop & Interviews with GEF beneficiaries (business associations, enterprises, etc)
- Field visits to relevant initiatives (data from field visits to private sector projects sites in the context of other evaluations in the Office will be used in the meta-evaluation)

3.3 Limitations:

26. Given the limited time and availability of evaluation evidence from within the GEF Evaluation Office documents, this evaluation will extend the review to cover GEF Agency documents. Access to a complete set of relevant documents will likely be limited and it may be that the number of relevant studies is also sparse. Consultations with other stakeholders, including private sector actors, will be in-person and by survey. Results of the interviews and survey will depend on availability, responsiveness and cooperation of GEF partners and beneficiaries.

4.0 Deliverables:

27. The main deliverable of this assignment is to be a final technical report not exceeding 40 pages in length (excluding annexes) with evidence based findings and conclusions focusing on role of GEF engagement with the private sector. In the course of the assignment additional specific case studies may be identified and agreed to in consultation between the consultants and the Office.

5.0 Resource Requirements and Schedule

28. Phase I of the assignment is expected to start on April 15 and will be completed by September 30th. The total level of effort is estimated at 75 days in the period indicated. A proposed workplan follows:

[illegible]