

## **Seventh Comprehensive Evaluation of the GEF (OPS 7): Non-Grant Instruments**

### *Draft Concept Note*

#### **Background**

Within the context of GEF programming, a non-grant instrument may be understood as a mechanism to provide financing for activities that have a potential to generate financial reflows for the financier, irrespective of whether such reflows actually materialize (GEF 2014). The discussion on use of non-grant instruments gained traction in the GEF with increased emphasis on engagement of the private sector in GEF activities (GEF 1999). The GEF Strategy to Enhance Engagement with the Private Sector (2006) included use of non-grants instruments as one of the main approaches for engagement with the private sector.

From GEF-5 onwards GEF has provided dedicated funding to finance use of non-grant instruments. During GEF-5, GEF allocated \$ 80 million as a private sector set aside with emphasis on use of non-grants instruments. In GEF-6, GEF allocated \$115 million for use of non-grant instruments along with opening up the use of the financing for the instrument to public sector organizations along with private sector. For GEF-7, GEF has allocated \$ 136 million for non-grants instruments (GEF 2018). Cumulatively, GEF has provided a financing of more than \$ 250 million for projects that use non-grant instruments that have yielded reflows to the GEF or were approved with an expectation of reflows (GEF 2019a; GEF 2019b).

The non-grant instruments that are commonly used include debt, equity and guarantees. During GEF-5 and GEF-6, use of equity and debt instruments was common (GEF 2019a). GEF-7 period is still under implementation and of the \$136 million allocated for Non-Grant Instruments about a quarter has been committed to projects that use the instrument (GEF2019b). Although several GEF projects involve creation of a revolving fund, these are not considered as non-grant instrument given the GEF definition that calls for an expectation of – and potential – for reflow to the GEF.

#### **Previous Evaluations covering NGI**

The Evaluation of GEF Engagement with the Private Sector (GEF IEO 2017) addressed GEF support through non-grant instruments. It concluded that GEF's use of non-grant instruments has evolved towards more systematic reflows and a more explicit requirement for returns, and that the GEF should target specific market failures through these instruments. In response to the evaluation, GEF included measures such as establishing a formal group of financial experts to advise on project reviews and on use of non-grant instruments in its planning for the GEF-7 period (GEF 2018). Further, its strategy for GEF-7 seeks to enhance use of non-grant instruments through creation of and participation in platforms that address market constraints and attract private investments to natural resource management at scale (GEF 2018).

## **Purpose**

The Independent Evaluation Office (IEO) of the GEF will undertake an evaluation of the non-grant instruments portfolio of the GEF. The evaluation will be an input to the seventh comprehensive evaluation of the GEF (OPS-7), which will inform the GEF-8 replenishment process. Compared to the Evaluation of GEF Engagement with the Private Sector (GEF IEO 2017), which also covered projects that did not involve reflows, this evaluation will focus on the non-grant instruments that involve reflows to the GEF and those that have been financed through the non-grant instrument window.

## **Key Questions**

The evaluation will answer the following specific questions:

- To what extent are the activities supported through the non-grant instrument window relevant to the priorities of GEF, recipient countries, and targeted sectors?
- To what extent and in what ways is the GEF financing for the supported activities additional?
- What has been the experience with implementation of the activities that include non-grant instruments?
- To what extent have the non-grant instruments been effective?
- To what extent are the reflows from the non-grant instruments consistent with design expectations?

The evaluation will assess the extent to which activities supported through the non-grant instrument window address the objectives of the window. This will include assessing the types of activities supported, the environmental market failure addressed, the non-grant instrument deployed, and how this is expected to address a given GEF global environmental priority. Other areas that will be covered include how these projects address priorities of the recipient countries and the needs of the targeted sectors and enterprises.

The evaluation will assess the extent to which project proposals demonstrate additionality of GEF financing. The evaluation will examine the extent to which project documents establish the need for use of non-grant instruments at subsidized terms. It will also assess whether the proposals sufficiently address the risk of crowding out other sources of financing.

Implementation of non-grant instruments may require involvement of different stakeholders than required by other GEF projects. In addition, implementation of projects that use non-grant instruments may pose challenges that are different from those faced by other GEF projects. Several GEF projects that include non-grant instruments have been completed and several others are under implementation. The evaluation will assess and analyze the lessons that may be drawn from their implementation.

The portfolio of GEF projects with non-grant instruments include projects that were designed and approved before GEF established a window to finance non-grant instruments. Several projects that were approved in GEF-5 through the funding window have been completed. The evaluation will assess the performance of these projects and will determine the extent these projects were effective in meeting their objectives. In addition to these, the evaluation will also examine performance of the GEF projects that were approved without support from the window, but involve reflows to the GEF.

Within the context of GEF, a key feature of the non-grant instruments is an expectation of reflows. Each of the proposals that seek financing from the window, is expected to articulate how the reflows will be channeled back to the GEF. For the few projects that have been completed the evaluation will ascertain the extent to which, and how, this is being done.

## Sources of information

**Desk review:** The evaluation will conduct a desk review of project documents, implementation progress reports, mid-term reviews, and terminal evaluation reports. This will help in assessing the design characteristics, implementation experience and result of the projects that use the non-grants instruments.

**Portfolio Analysis:** Portfolio analysis will compare the projects funded from the non-grant instruments window with other GEF projects that use such instruments but have not been funded from the window, and other projects that do not use these instruments. This analysis will show the extent to which the projects in these categories differ in terms of GEF financing, co-financing, implementing agencies, execution arrangements, and performance ratings.

**Interviews:** Interviews of different stakeholder group representatives will be conducted to gather information on aspects related to project development and appraisal, implementation, and performance including outcomes and sustainability. Interviews will also be a source of information for emerging opportunities and challenges in use of non-grant instruments. Interviews will cover staff of other development organizations that have used non grant instruments that involve reflows from the targeted enterprises to learn more about their experience.

## Activity calendar

The review will be led by a Senior Evaluation Officer, and other members of the team will include a senior and a junior evaluator/consultant. The evaluation will be implemented from July 2020 to April 2021. This will allow the evaluation to consider terminal evaluation submissions and project approvals during the calendar year 2020 (Table 1).

**Table 1: Calendar of Activities**

Activity	Duration	Milestone
Preparation of approach paper	July-Aug 2020	31 <sup>st</sup> of August 2020
Review of source literature/material	Sept 2020 to January 2021	January 31 <sup>st</sup> 2021
Interviews	Sept 2020 to January 2021	January 31 <sup>st</sup> 2021
Analysis	January to February 2021	February 28 <sup>th</sup> 2021
Draft review report	March 2021	March 31 <sup>st</sup> 2021
Final report of the review	April 2021	April 30 <sup>th</sup> 2021

## References

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