GLOBAL ENVIRONMENT FACILITY
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SECOND PROGRESS REPORT ON THE NON-GRANT INSTRUMENT PILOT

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SUMMARY

1. This is the second progress report on the Non-Grant Instrument Pilot (the Pilot). The first progress report, GEF/C.48/Inf.04, was presented at the June 2015 Council meeting. This report documents the progress on the Pilot June 2015 through October 2015.

2. In June 2015, the GEF council approved three non-grant instrument projects in the work program, with GEF funding of $40.6 million (including agency fees) and co-financing of $289 million.

3. Following the approval by Council, the African Development Bank project Moringa Agro-forestry Fund for Africa (#9051) has been CEO Endorsed and is beginning implementation.

4. The Secretariat continued to work with GEF Partner Agencies, countries and stakeholders for the second window for submissions. Nine formal submissions from seven agencies were received; two projects are submitted for Council approval as part of the October 2015 work program. A balance of $35 million for the Pilot is still available; a third window of opportunity for additional submissions is anticipated.

BACKGROUND

5. The GEF Council, at its 47th meeting on October 28-30, 2014, having reviewed document GEF/C.47/06, *GEF-6 Non-Grant Instrument Pilot and Updated Policy for Non-Grant Instruments,* approved the implementation modalities for the Non-Grant Instrument Pilot, as well as the updated Policy on Non-Grant instruments.[1] Subsequent to the Council approval, the GEF Secretariat utilized multiple communication and outreach channels to inform potential public and private sector recipients, along with the GEF Partner Agencies, on the availability and scope of the Pilot. In promoting the Pilot, the GEF Secretariat used existing means of communication within the GEF network and pursued new channels for enhanced outreach.

6. Specifically, the GEF Secretariat prepared a flyer informing on several aspects of the Pilot, including its objectives, available financial terms and conditions for private and public sector recipients, the targeted areas of work, funding size, selection criteria and application procedures. The flyer was distributed to all GEF Operational Focal Points in the fall of 2014, accompanied by an official letter from the GEF CEO to invite potential recipients to take advantage of the Pilot. The flyer was further distributed at relevant events such as the twentieth Conference of the Parties of the UNFCCC in Lima, Peru, December 2014. At the same time, the GEF Secretariat also published a dedicated website informing on the GEF's non-grant financing, which can be accessed at: http://www.thegef.org/content/non-grant-instruments.

7. The GEF Secretariat worked with GEF Partner Agencies in an iterative process on their submission of non-grant proposals, including through upstream consultations and informal reviews, consistent with the Council approved Pilot. The first window for submissions was

[1] Policy document FI/PL/02, *Non-Grant Instruments*, issued on October 30, 2014.

targeted for the June 2015 work program. The GEF Secretariat conducted upstream review and provided informal feedback for over 20 non-grant concepts. By the formal deadline of March 13, 2015, eight submissions from six GEF Partner Agencies were received, requesting a total of $93 million in non-grant funding from the GEF Trust Fund. The GEF Secretariat reviewed these proposals against the criteria in GEF/C.47/06, *GEF-6 Non-Grant Instrument Pilot and Updated Policy for Non-Grant Instruments*. Reviews also included participation of GEF Secretariat's focal area technical experts to ensure eligibility and accordance with GEF-6 focal area objectives and priorities.

8. These reviews were complemented by an independent appraisal by three internationally recognized senior financial experts who provided comment on each proposal regarding their financial soundness and reasonability. The review process employed by the Secretariat was fully consistent with GEF processes and procedures for work program constitution, and enhanced by strong coordination and engagement from all GEF's focal areas and program managers in their respective areas of expertise. This review process culminated in a set of high-quality, innovative project proposals as presented in document GEF/C.48/08, *Work Program*. (See Table 1).

UPDATE ON PROGRAMMING OCTOBER 2015

9. A second window for submissions and re-submissions under the Pilot were targeted for the October 2015 work program. The GEF Secretariat again conducted upstream review and provided informal feedback on seven (7) additional non-grant project concepts. By the formal deadline of July 31, 2015, nine (9) submissions from seven (7) GEF Partner Agencies were received, requesting a total of $118 million in non-grant funding from the GEF Trust Fund. These included four (4) re-submissions requesting $51 million and five (5) new submissions requesting $67 million. As described above, the reviews for the proposed projects included focal area technical experts and independent appraisal by financial experts. There were a number of high-quality and innovative project proposals considered during the review. Submissions included proposals for private sector equity investments, risk mitigation instruments, and a public loan. Unfortunately, due to resource constraints in the total work program envelope, only two project proposals were able to be included in the October Program (GEF/C.49/05, Work Program). The Secretariat is targeting to obligate the $35 million balance of non-grant pilot funding in the next work program.

10. The Secretariat has been gratified with the strong interest from GEF Partner Agencies, GEF recipient countries, private sector and NGO stakeholders in the Pilot. In the two windows for submissions, GEF has received formal requests for more than $160 million in non-grant funding and numerous informal requests that are well in excess of the resources available for the Pilot. Project proposals have been innovative in design and addressed numerous focal areas. Based on the diversity and high-quality of the submissions, it is clear that GEF partner agencies are developing creative and innovative designs to apply non-grant instruments across the full spectrum of GEF focal areas and in most cases deliver multiple focal-area global environmental benefits.

11. As requested by the GEF Council, the GEF Secretariat, in consultation with Agencies, will report on the Pilot's implementation status after 24 months of the date of effectiveness of the new policy; that is, for the 51st Council meeting, October 2016.

Table 1: Non-Grant Pilot at a glance (as approved through June 2015)

Project	International Lighting Efficiency Facility #6980	Moringa Agro-forestry Fund for Africa (#9051)	Impact Investment in Support of the Implementation of the Nagoya Protocol (#9058)	Equity Fund for the Small Projects Independent Power Producer (#9085)	Total
GEF Agencies	World Bank	AfDB	IADB	DBSA	
Program financing					
Program financing approved *(USD)*	1,200,000	12,000,000	10,000,000	15,000,000	38,200,000
Project preparation grants approved *(USD)*	0	0	70,000	200,000	270,000
Agency fees approved *(USD)*	114,000	$1,080,000	956,650	1,368,000	3,518,650
Total financing approved *(USD)*	1,314,000	$13,080,000	11,026,650	16,568,000	41,988,650
Indicative co-financing *(USD)*	50,250,000	51,000,000	48,000,000	190,000,000	339,050,000
Number of countries (directly involved)	5	7	5	1	18
Geographical coverage	Global	Africa	Latin America	Africa	
Indicative, expected global environmental benefits					
Land under integrated management *(ha)*	n/a	n/a	n/a	n/a	n/a
Sustainable Land Management (*ha*)	n/a	200,000	800,000	n/a	1,000,000
GHG emissions avoided or reduced *(MtCO2e)*	1	9.5	n/a	5.0	15.5
Genetic diversity of crops and animals maintained or increased in the production landscape *(%)*	n/a	n/a	n/a	n/a	n/a
Land cover *(increase, %)*	n/a	n/a	n/a	n/a	n/a
Improved management of landscapes and seascapes (*hectares of coastal marine areas with EEZs under*	n/a	n/a	100,000	n/a	100,000

***sustainable fisheries management regimes*)**					
***% (by volume)* of globally overexploited fisheries moved to more sustainable levels**	n/a	n/a	n/a	n/a	n/a

ANNEX 1: OVERVIEW OF THE NON-GRANT PILOT PROJECTS

(Approved as of June 2015)

1. The *International Lighting Efficiency Facility (iLEF)* (World Bank) will help launch and support a new financing facility for energy efficient lighting and equipment for cities. The focus is to build a systemic solution to bridge the gap between institutional investors seeking exposure to real asset classes and the idiosyncratic investment needs related to increasing efficiency and bringing down carbon emissions in cities around the world. The iLEF is a single-purpose facility financing the conversion of traditional urban street lighting technologies (generally, mercury vapor and sodium vapor lamps) to more efficient lighting emitting diodes (LEDs) and by doing so realizing the associated greenhouse gas emission benefits as well as budgetary savings for municipalities, globally. It accelerates a transformative process in the area of highly efficient urban lighting. After successful investments in lighting the facility will expand into other types of energy efficient equipment. Estimated emissions reductions will be 1 million tCO_2e. (Endorsed by CEO January 2015)

2. The *Moringa Agro-forestry Fund for Africa* (AfDB) will promote sustainable land management in production landscapes in Burkina Faso, Cote d'Ivoire, Kenya, Mali, Tanzania, Zambia, and Congo DR. Specifically, the project will scale up investment in agroforestry activities in for biodiversity conservation and reduced land/forest degradation. The Fund will invest in 5-6 scalable, replicable agroforestry projects that combine plantation forestry with agricultural elements to capture most of the value chain. Under the non-grant pilot, GEF will receive an estimated risk-adjusted equity return of 6 percent along with its principal. Reflows to the GEF trust fund will be confirmed at CEO endorsement; estimated to begin soon after the project is completed and fully returned within twelve years. The project also targets 79,000 hectares to maintain significant biodiversity and associated ecosystems goods and services, and more than 200,000 hectares of production systems under sustainable land and forest management. This is estimated to yield GHG emissions benefits of 9.5 million tons CO_2e. (Approved by Council June 2015; endorsed by CEO August 2015).

3. The project on *Impact Investment in Support of the Implementation of the Nagoya Protocol on Access and Benefit Sharing* (IADB) will support efforts in Latin America and the Caribbean to develop Small and Medium Enterprises (SMS) that are actively implementing the Nagoya Protocol. It will focus on 20 SMEs that are taking part in the production and valorization of genetic resources by means of research and development or that are part of value chains linking users and producers of these genetic resources. The investment will facilitate improved capacities for the valorization of genetic resources or commercialization of value-added products, effectively linking users and producers of these genetic resources. The project will bring on board the experience of the Union for Ethical Biotrade (UEBT). Under the non-grant pilot, GEF will invest $10 million and will receive an estimated risk-adjusted equity return of 13 percent-15 percent along with its principal. Reflows to the GEF trust fund will be confirmed at CEO endorsement; estimated to after the project is completed and fully returned within ten years. The project yields estimated benefits of 100,000 ha under improved management of

landscapes and seascapes; 800,000 hectares under sustainable land management; and 2 freshwater basins with water-food-ecosystems security and conjunctive management of surface and groundwater. (Approved by Council June 2015).

4. The E*quity Fund for the Small Projects Independent Power Producer Procurement Programme* (DBSA) will support efforts in South Africa to promote renewable energy in South Africa by small and independent power producers. This project will be the first of its kind in South Africa, and create several innovations: a debt fund, a GEF funded equity fund, and a securitization platform, all of which helps share risk among the partners. Under the non-grant pilot, GEF will receive an estimated risk-adjusted equity return of 6 percent along with its principal. Reflows to the GEF trust fund will be confirmed at CEO endorsement; estimated to be fully returned within fifteen years. The proposed investments will result in installation of close to 100MW of renewable energy, reducing approximately 260,000 tons CO_2e per year, resulting in an estimated 5 million tons CO_2e over an assumed average project useful lifetime of 20 years. (Approved by Council June 2015).