



GLOBAL ENVIRONMENT FACILITY
INVESTING IN OUR PLANET

GEF/E/C.60/09
June 3rd, 2021

60th GEF Council Meeting
June 14–18, 2021
Virtual Meeting

Agenda item 10

MANAGEMENT RESPONSE TO:
EVALUATION OF GEF ENGAGEMENT WITH MICRO, SMALL, AND MEDIUM
ENTERPRISES

INTRODUCTION

1. The GEF Secretariat welcomes the IEO report Evaluation of GEF Engagement with Micro, Small and Medium Enterprises (MSMEs) and greatly appreciates the focus on this important component of private sector engagement. The GEF Secretariat values this informative evaluation, which, through its analysis, findings and recommendations offers several important lessons about project design and customization, about differentiating between smaller enterprises from medium sized companies, and about the engagement of local stakeholders. The GEF Secretariat commends the approach taken by the IEO in the research phase of the evaluation which featured private sector interviews with key companies and organizations, including members of the GEF Private Sector Advisory Group (PSAG) that have direct MSME relationships and extensive project experience.

2. The GEF Secretariat highly values the findings in the evaluation that support the general direction of GEF's integrated approaches and private sector engagement strategy to work with the private sector as agents of transformation through value chains and multi-stakeholder platforms - for example, the evaluation finds that more than two-thirds of CEO-endorsed Impact Program (IP) and more than half of Integrated Approach Pilot (IAP) projects involve MSMEs, particularly in the commodities, food security and land use, and sustainable forest management program.

3. The GEF Secretariat is encouraged that the evaluation provides strong evidence for the need to engage the private sector, at all scales, to deliver higher rates of project success and durability beyond individual funding cycles. The GEF Secretariat welcomes the finding that projects that effectively engaged the MSME private sector were associated with successful project outcome ratings and that a higher percentage of projects that effectively engaged the private sector were rated as likely to be sustainable.

4. The GEF Secretariat is encouraged by the IEO acknowledgement that the Private Sector Engagement Strategy, approved in 2020, specifically addresses micro and small entrepreneurs such as smallholders, sole traders, artisans, and primary producers to be included in the GEF's private sector engagement initiatives. The GEF Secretariat also takes particular note of the finding that more than half of MSME projects involved at least three types of private sector actors and that completed MSME projects typically involved more types of private sector actors, suggesting that these projects engage a wider spectrum of private sector actors across the value chain.

RECOMMENDATION (A)

"MSMEs vary in their capacities and constraints and GEF support should appropriately address the context-specific needs, barriers, and economic viability in projects involving the private sector. GEF engagement with MSMEs may not only or necessarily be through increasing their access to financing, but by introducing low-cost, context-appropriate practices and technologies they can easily adopt, and by facilitating regulations and administrative reforms required to access resources. Increasing access to financing is appropriate where a minimum level of

resources already exists, and the higher amount of investment is needed to generate a higher magnitude of global environmental benefits. Partnering with local, established organizations may provide long-term support that increases the likelihood of global environmental benefits being sustained, mainstreamed and/or scaled up.”

5. The GEF Secretariat agrees with Recommendation (a) and recognizes the range of support that can be provided in the areas of capacity-building, knowledge and information dissemination, and technological innovations and improvements relevant to the MSME context. The GEF Secretariat also notes that the MSME sector requires context specific consideration and that constraints such as a lack of access to financial capital and business-related knowledge and skills are widely identified as impediments to MSME growth.

6. As noted in Paragraph 4, *“The heterogeneity of MSMEs across countries and sectors makes it challenging to provide effective support based on the particular needs of MSMEs.”* The GEF Agency Private Sector Working Group finds that working with the MSME sector is already quite onerous and Agencies seek solutions such as partnering with aggregators, associations or umbrella organizations that can effectively reach the large MSME sector.¹ These types of engagements could support the recommendation of partnering with local, established organizations to provide long-term support that increases the likelihood of global environmental benefits being sustained, mainstreamed and/or scaled up.

7. The GEF Secretariat notes that skills from the private sector actors themselves, from specialists and from the bodies administering standards and protocols, may also be incorporated through the project design stages which can help to address the context-specific needs, barriers, and economic viability in projects for MSMEs. The GEF Secretariat also notes the finding that sufficient follow-up technical and financial support is needed if there are to be enduring outcomes from the projects which could also be supported by private sector engagement.

8. In implementing Recommendation (a), the Agencies could consider how the private sector actors themselves can play a key role by introducing low-cost, context-appropriate practices and technologies that can be easily adopted and through the provision of additional financial resources. This could be undertaken through consultations and leverage key private sector networks and platforms that include MSMEs. Technologies in ICT and digital applications could also be employed to facilitate MSME engagement and will be a topic for the GEFs informal digital working group and as key component of private sector engagement in GEF-8.

¹ Minutes of the GEF Agency Private Sector Working Group Meeting of April 1, 2021

RECOMMENDATION (B)

“In addition to tracking environmental outcomes, GEF projects should design for and monitor social and economic benefits that engage the private sector, including MSMEs.”

9. The emphasis on more integrated approaches in the GEF-8 Programming Directions reflects the trend towards the integration of environmental, social, and economic issues to solve systemic challenges, including under the One Health approach. In GEF-8, we expect greater emphasis to be placed on social and economic indicators along with indicators that can be used to assess systemic transformation.

10. To this end, the GEF Secretariat agrees with Recommendation (b) as the evidence from the evaluation clearly shows that social and economic benefits can overcome many of the constraints to scaling GEBs. As part of the GEF-7 Results Framework core indicators, there is already the provision to monitor the number of direct beneficiaries disaggregated by gender as a co-benefit of GEF investment. In addition, project results frameworks track socio-economic benefits through custom indicators specific to their own project context. In the context of the GEF-8 replenishment negotiations, the GEF Secretariat has started work on the identification of new metrics that can help assess the contribution to improving the well-being of the people across the portfolio. This includes identifying metrics detailing the socioeconomic characteristics of these beneficiaries. They could relate to aspects such as livelihoods, jobs, and health – and to this end, the GEF Secretariat appreciates the information contained in *“Table 9, Social and economic benefits”* intended to be generated by MSME projects and extent of achievement of the MSME Evaluation as a practical example list of co-benefits that can be used as a platform for the further articulation of the socio-economic results framework for GEF-8.

11. As outlined in paragraph 5, this evaluation discusses the fact that *“previous evaluations have noted that social and economic benefits can address constraints and serve as an incentive for these MSMEs to adopt and sustain environment-friendly sustainable technologies or practices, eventually allowing environmental benefits to be scaled up”*. However, this needs to be accompanied by careful consideration during the project planning and design phase in order to ensure that social and environmental benefits do not become the primary outcomes sought from the project. Relatedly, in considering the implementation of Recommendation (b), the GEF Secretariat agrees with Conclusion 3 (d) that private sector engagement is influenced by several project design characteristics, the quality of project preparation, and the project management teams’ and partners’ relevant technical expertise.

12. To this end, the GEF Secretariat will continue to work with Agencies to ensure high quality project preparation, both in general and on this dimension. This will involve consulting a wide range of stakeholders including the broader private sector, and conducting sufficient assessment of the context as inputs to project design taking into account MSMEs.

CONCLUSION

13. As part of the PSES Implementation, the GEF Secretariat will be collecting more granular data that can be used in future assessments of the private sector and will at least partially address the limitations created by a lack of systematic information on MSME involvement in projects in the portfolio. The practice of widening the performance metrics for projects will not only demonstrate the broader benefits of the GEF's activities, but will also help to attract private sector investment in GEF projects as Environmental, Social and Governance (ESG) considerations, Sustainable Development Goal targets and other metrics become increasingly more mainstream in the marketplace and through standards, reporting and disclosure initiatives.

14. The GEF Secretariat will consistently track progress on the implementation of each of these recommendations. This process will be aided by the collation of new private sector data related to the classification of the private sector which has been identified. Progress to these recommendations will be tracked through the IEO's standard Management Action Record, and as needed through other Council reports. The Secretariat will also be reporting annually to Council on the progress of private sector engagement, which will articulate how the GEF is working with the MSME sector, achievements in the Impact Programs and the challenges that have been addressed in the programs report.

15. Finally, the GEF Secretariat also notes that the IEO has conducted/is conducting related OPS-7 evaluations on the Non-Grant Instrument (NGI), the Small Grants Programme and the GEF's overall engagement with the private sector, particularly in the biodiversity, chemicals & waste, and international waters focal areas. The GEF Secretariat will incorporate any related findings of these evaluations into the relevant measures for follow up as discussed above.