



Global Environment Facility

Summary of Document GEF/C.27/13

GEF Strategy to Enhance Engagement with the Private Sector

Recommended Council Decision

The Council, having reviewed document GEF/C.27/13, *GEF Strategy to Enhance Engagement with the Private Sector*, underscores the importance of strengthening the engagement of the private sector in the work of the GEF and approves the directions described in the strategy. The Council requests the Secretariat to bring back to the Council for decision at its meeting in June 2006 concrete proposals to implement the strategy.

EXECUTIVE SUMMARY

1. The GEF has engaged in private sector partnerships in the past but largely on an *ad hoc* basis. GEF must be attentive to the greater opportunities for productive collaboration with the private sector to achieve greater environmental benefits in part by positively shaping private sector activities. The private sector has not always been an environmentally responsible citizen, though this is changing as the private sector increasingly identifies its interests as having a reputation for environmentally sound practices. This proposed strategy builds upon past experience and the changing dynamics of the private sector.

Learning from Experience

2. The sustaining core of the proposed strategy and of GEF operations is project activities conducted within the focal areas. This report draws on the experience with private sector partnerships in three focal areas, highlights barriers to implementation and indicates ways to overcome them. Some of these barriers and potential solutions are common across the focal areas, while others apply to a particular focal area. The three identified focal areas are the initial focus of this strategy due to the maturity, size and experience with the private sector in their portfolios. It is intended that future work will seek to extend this strategy, as appropriate, to the other focal areas (land degradation and persistent organic pollutants (POPs)). For example, the current priority in the POPs focal area is assisting countries with the development of National Implementation Plans (NIPs). Once completed, their implementation is expected to require greater engagement with the private sector.

3. Building on the foundation of GEF focal area experience, this strategy identifies three cross-cutting initiatives that could enable the GEF family to enhance its private sector collaboration – both in terms of quality and quantity. The three initiatives this framework presents are pilot partnership projects, a knowledge management system, and risk-mitigating financial instruments. This strategic framework is not a radical departure from past practice. Rather, working as before to fund activities through the focal areas, GEF proposes modest initiatives and achievable next steps to codify the principles and to standardize and facilitate the process of GEF engagement with the private sector.

4. Operational experts throughout the GEF family have contributed valuable ideas and effort to help identify the right priorities for action, operating principles, metrics of success and failure, and new initiatives that, taken together, will constitute a comprehensive strategic plan. The proposed strategy will guide GEF's engagement as an organization, giving immediate operational effect to reforms. Within each focal area, the GEF will shape initiatives to address country-specific conditions and priorities; facilitate dialogue with the private sector; target selected near-term opportunities to demonstrate early results; and tie together into an integrated program the specific elements across the spectrum of the GEF's work.

5. The timing is opportune for an energetic initiative to build new GEF-private sector partnerships, as evidenced by the increased global urgency in seeking new approaches to sustainable development. Even though the private sector must inevitably be regarded as a source of both the problem and the solution, better alignment of public-private interests is both an important goal and a realistic prospect. Private enterprise is increasingly being seen as a key to sustainable economic development, and is contributing to leading watershed protection, carbon reduction programs, and biodiversity conservation. This is true for local entrepreneurs as well as multinationals operating in recipient countries of interest to the GEF. Large NGOs are now increasingly engaging in corporate partnerships, such as Starbucks and Conservation International (CI), WWF and the Coca-Cola Company, CEMEX and Profauna, Unidos para la Conservación, Agrupación Sierra Madre, as well as CI and IUCN, and the World Resources Institute Renewable Energy Partnerships. The GEF is well suited to foster such collaboration, particularly with private sector actors in developing countries.

Findings and Recommendations

6. This strategy is the result of an extensive review of Council deliberations, project experience, key management reports such as the third Overall Performance Study (OPS3), and conversations with experts in the GEF family of institutions as well as private sector leaders. This report's recommendations reflect particular consideration of the following points:

- (a) The GEF and its family of countries and agencies play a critical role as a catalyst for projects enhancing local and global environmental benefits. Its resources are being spread over a growing list of geographic and focal areas;
- (b) Priority goals in the major focal areas cannot be achieved without local capacity building and private sector investment. There is general endorsement of the value of private sector partnerships across a range of experts in the GEF family;

- (c) The private sector is not a monolith, but a diverse set of entities, large and small, that can bring potential benefits ranging from capital, expertise, roots in local and international markets, and the ability to build capacity and sustained follow through;
- (d) Contemplated private sector partnerships fall in three categories, all requiring attentive management:
 - (i) Projects focused on barrier removal and capacity building (including financing);
 - (ii) Public-private partnerships serving broad public objectives such as protecting watersheds – for example, sustainable agriculture in sensitive habitats; and
 - (iii) Projects which deploy private sector technologies in support of GEF global goals.
- (e) The absence of, or lack of ready access to, clear information about GEF processes and project experiences has led to misperceptions in both the public and private sectors about the opportunities and risks which may flow from GEF-private sector collaboration.

7. GEF also recognizes that some of its most important environmental initiatives may take many years to bear fruit. By GEF's standards, as a steward of global environmental and developmental objectives, a longer time-frame is not inherently undesirable if the end results are substantial and significant. Yet, private companies are driven by metrics of success such as timeliness, quality and quantity of results. To make the GEF's program compatible with those of private sector partners, GEF will review ongoing project initiatives and identify opportunities to bring forward tangible, near-term results as a way of validating, for prospective private sector partners, their commitment to long-term collaboration with the GEF.

8. As a result of these and other findings set forth in the report and the related information document, it is the conclusion of this review that strategically designed and systematically managed private sector partnerships can produce enhanced global environmental benefits if pursued in accordance with a transparent, equitable and accountable process. The strategy reflects a more discerning analysis of the private sector aimed at bringing forward the appropriate private sector partners for each opportunity, country and focal area. In response to legitimate concerns about partnering with the private sector, this strategy proposes principles of engagement, and describes elements of a process (Section 2 and Chapters 10¹). These will meet institutional needs of the GEF and the private sector alike to ensure transparency, equity and measurable net environmental gain; a predictable, efficient process; local capacity; protection of intellectual property; and availability of effective financial instruments. The strategy calls for developing a knowledge base to facilitate project selection and evaluation by better disseminating each focal area's priorities and project experiences (Section 4). This and other specific innovations in Section 4 form the basis for the path forward recommended in Section 5.

¹ in GEF/C.27/Inf.7, Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector.

Initiatives to Support the Enhancement of Private Sector Engagement within Focal Areas

9. Recognizing that expanded private sector partnering can succeed only if it is viewed as legitimate and equitable, the proposed strategy will allow GEF to build on its private sector experience through development of strategic pilot projects within focal areas. It preserves flexibility as to the nature of engagement and type of private sector entity in different countries and GEF focal areas. It seeks to build a useful knowledge base without changing its basic approach to operations and funding priority projects. To move ahead with the strategy, this report proposes early commitment to pursue three specific initiatives:

- (a) Knowledge base: Build on the focal areas' private sector experience to provide a shared understanding of opportunities, common standards of program execution, and a useful clearinghouse of information for the GEF family regarding needs and potential matches of GEF and the private sector or other institutional interests. This will enable a more systematic engagement of business and country stakeholders around appropriate communities of interest;
- (b) Pilot fund: It is proposed that funding be dedicated to implement and evaluate a pilot vehicle for private sector engagement, building on the administrative structure of the Environmental Opportunities Facility (EOF)². Success at the pilot phase should be reflected quickly in the design and implementation of larger projects, and the facility would be subject to effective monitoring and evaluation; and
- (c) Strategic use of non-grant financial instruments: Through IFC and other entities, strategic application of financial tools such as loan guarantees, revolving funds, special debt instruments and investment funds can be made available to qualifying parties. The key here is a plan for systematically and transparently developing opportunities based upon a menu of already available instruments, ranging from guarantees to grants, with a preference for the least expensive in each case. These opportunities would then be translated rapidly into projects, evaluated, and used to inform future projects.

10. In summary, this strategy does not advocate radical change, but rather proposes to build a framework for private sector collaboration that draws on the lessons of GEF project experience. The framework envisions pilot projects to support innovative private sector initiatives, a knowledge management system, and risk-mitigating financial instruments to enhance private sector engagement within the focal areas. This should enhance the leveraging of GEF resources.

The GEF Secretariat together with the Implementing and Executing Agencies will pursue these three measures, and other tasks delineated in Section 5, and report back to the Council with more

² The EOF is a donor support facility of IFC's Environment and Social Development department, which provides catalytic funding for innovative projects that produce goods and services with environmental benefits. See Chapter 8 in GEF/C.27/Inf for more information on EOF.

detailed proposals in June 2006. In moving forward, the proposed initiatives will take into account the Resource Allocation Framework (RAF) that was approved by Council in September 2005. In the ensuing process, priorities from the private sector perspective will be more systematically engaged in the GEF business planning process. To ensure that the path from concept to execution is as successful as possible, the Secretariat proposes as a first step to build the information base, reach out to other multilateral and private financial institutions, and define specific pilot project priorities.