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Agenda Item 23

GEF STRATEGY TO ENHANCE ENGAGEMENT WITH THE PRIVATE SECTOR

Recommended Council Decision

The Council, having reviewed document GEF/C.28/14, *GEF Strategy to Enhance Engagement with the Private Sector*, welcomes the strategy and notes that it has been prepared in response to the policy recommendation of the third replenishment of the GEF Trust Fund calling for the GEF Secretariat, in collaboration with the Implementing and Executing Agencies, to develop a new strategy to better engage the private sector, taking into account previous practices and policies. The policy recommendation also calls for the GEF, in preparing the strategy, to consult with private sector actors to identify perceived constraints to working with the GEF. It also recommends that clear operational guidelines should be elaborated in order to define the scope of GEF collaboration with private sector activities.

The Council expresses its appreciation for the consultative process that has been followed in preparing the strategy, including consultations with the private sector, and notes that the strategy incorporates the comments that had been made by Council Members at their last meeting.

The Council endorses the operational guidelines that have been proposed to enhance private sector participation in GEF activities, and it invites the Implementing and Executing Agencies to follow the guidelines when developing GEF project proposals with a view to promoting beneficial partnerships between public and private entities that promise the greatest global environmental benefit for the lowest expenditure of multilateral resources and the least amount of risk.

The Council supports the three instruments proposed to enhance private sector engagement, and in this regard, the Council requests:

(a) the IFC, in collaboration with the GEF Secretariat and the Implementing and Executing Agencies, to develop a project proposal for the establishment of a public/private sector partnership fund for Council consideration at the Council meeting in December 2006;

(b) the Trustee and the Secretariat, in collaboration with the Implementing and Executing Agencies, to develop operational policies for the use of non-grant instruments, building upon an assessment of the GEF experience in the use of non-grant instruments; and

(c) the Secretariat to explore tools and opportunities for strengthening knowledge sharing and information dissemination aimed at promoting engagement with the private sector within the broad GEF knowledge management activities.

Table of Contents

EXECUTIVE SUMMARY

1. The Council has requested that the Secretariat, working in collaboration with the Implementing Agencies, update the strategic work[1] to enhance engagement with the private sector.[2] On the basis of this request, the draft Strategy to Enhance Engagement with the Private Sector was presented to the Council for comments in November 2005. Council's comments on the draft November 2005 version have been incorporated in this June 2006 version. The accompanying Cover Note in Annex 1 should be read prior to the strategy document, as it clearly delineates the substantive revisions and specifies their location within the report. The report describes a concept and provides operational guidance to generate global environmental benefits in a sustainable and cost-effective manner through enhanced engagement with the private sector.

2. The overarching goal of the strategy is to generate global environmental benefits in a sustainable and cost-effective manner through enhanced engagement with the private sector. A means toward achieving this goal is by creating the enabling conditions for private sector investment to engage in commercial activities that deliver global environmental benefits. A clear, transparent and predictable investment climate is a crucial incentive. The role of the GEF is clearly additional to what the private sector is carrying out on its own. Partnership with the private sector will allow the GEF to achieve results on a larger scale than might otherwise be possible. The various ways that engaging the private sector can contribute to the goals of the GEF are outlined, including assistance in opening markets and promoting technologies that would not attract investment in the absence of GEF resources.

3. The GEF plays an important role in creating an enabling environment for private sector investment. Influencing the investment climate pertinent to the global environment in recipient countries can increase the willingness of the private sector to venture into risky markets for environmentally beneficial products and services. By strategically removing market barriers and creating sustainable market conditions, the GEF also paves the way for entrepreneurs to scale up and transform existing markets.

4. Generating global environmental benefits through private sector engagement in the six focal areas serves as the foundation of this strategy. Building on the principle of incrementality, a matrix of recommended instruments then provides a framework to enhance and support this foundation. Section 1 of the document explores the rationale for private sector involvement. The goal and objectives of the strategy and the role of the GEF in promoting the enabling environment for the private sector are outlined in Section 2. Section 3 presents operational guidelines for the participation of private sector as a recipient. Section 4 reviews the experience to date with the private sector, in all the focal areas, as a recipient of GEF funded projects, and as

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[1] This update is based on previous work carried out, including: GEF Strategy for Engaging the Private Sector (1996); Engaging the Private Sector in GEF Activities (1999); Enhancing GEF's Engagement with the Private Sector (2003); Principles for Engaging the Private Sector (2004), all which are summarized in Chapter 1 of the Information Document GEF/C.28/Inf.4. This strategy is also 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 partnership as well as private sector leaders.

[2] The strategy is an iterative process, and will be updated when warranted by changes in the internal/external environment.

a co-financier;[3] with a focus on three types of engagement: creating an enabling environment; demonstration/pilot projects; and strategic/policy dialogue. Section 5 proposes initiatives to facilitate private sector engagement, including a pilot GEF public/private sector partnership fund, non-grant/risk mitigation instruments, and knowledge management tools. Section 6 outlines proposed next steps for moving forward with the strategy. A companion information document, GEF/C.28/Inf.4 *Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector*, is provided to substantiate the strategy.

Operational Guidelines for Enhanced Private Sector Engagement

5. The strategy supports beneficial partnerships between public and private entities that promise the *greatest global environmental benefit* for the lowest expenditure of scarce multilateral resources and the least amount of risk.[4] Under this strategy, GEF further qualifies the participation of private sector entities based on adherence to: general GEF operational guidelines; guidelines specific to the private sector; and relevant focal area guidelines. Some of the priority guidelines include:

General GEF Operational Guidelines

(a) GEF strictly finances projects that provide incrementality in terms of providing global environment benefits or advancing the prospects of reducing risk to the global environment;

(b) compliance with national environmental and social impact assessments and regulations as well as agencies environmental and social safeguard policies; and

(c) considering the implications for private sector participation and market development as part of an analysis of the existing market and investment climate in all projects.

Private Sector Specific Guidelines

(a) the GEF's role is clearly additional to what the private sector is carrying out on its own;

(b) GEF will not subsidize the costs of enterprises in doing regular business consistent with the incremental cost principle;

(c) ensuring Equity and Transparency through an open, transparent and internationally competitive selection process; and

(d) substantial co-financing from the private sector.

[3] The strategy does not cover procurement, authority for which strictly falls under the responsibility of IA/EAs.
[4] See Chapter 8, The Scope of GEF Engagement with the Private Sector, in the Information Document for more information on the potential types of partnerships and categories of private sector institutions.

Focal Area Specific Guidelines

(a) projects must be consistent with at least one of the focal area operational programs or strategic priorities; and

(b) activities to reduce negative impacts from industry on biodiversity, climate change, international waters and land degradation need particularly strong incremental costs arguments so that financing of standard mitigation activities are avoided.

Private Sector Engagement for each Focal Area

6. The sustaining core of the proposed strategy and of GEF operations is project activities conducted within the focal areas. This report draws on private sector engagement in all six of the focal areas. In each focal area, private sector involvement has evolved over time based on the focal area specific experiences and lessons learned through three types of engagement: (a) Enabling Environment; (b) Demonstration/Pilot Projects; and (c) Strategic/Policy Dialogue. The biodiversity, climate change and international waters focal areas are already actively engaged with the private sector due to the maturity and size of their portfolios. The land degradation and persistent organic pollutants (POPs) focal areas are initiating, and planning further support to create the enabling conditions for private sector investments.

Biodiversity

7. Under GEF-3, it was fully realized that the objectives of the Convention on Biological Diversity (CBD) can only be achieved if biodiversity is maintained both within and outside protected areas. The necessity for the private sector to play a more central role in GEF projects, and actively participate in sustaining biodiversity within their land use activities, became apparent. In recognition of this fundamental fact and in response to CBD recommendation, the GEF Biodiversity Strategy included a new strategic priority (#2): *Mainstreaming Biodiversity in Production Landscapes and Sectors*. In order to generate higher impacts outside protected areas, the GEF has engaged the private sector in financing conservation in landscapes outside protected area as well as in protected areas. So far, projects involving the private sector have been largely concentrated in *creating the enabling environment* through capacity building and technical assistance in eco-tourism, agro-forestry, silvo-pastoral production activities (certification of commodities, payments for environmental services), and conservation of medicinal and herbal plants – both in landscapes outside protected areas and in protected areas at the SME level.

8. Under GEF-4, the majority of projects involving the private sector will fall under Strategic Priority Two. The objective of *Mainstreaming Biodiversity in Production Landscapes and Sectors* is to internalize the goals of biodiversity conservation and its sustainable use into production systems, supply chains, markets, sectors, development models, policies and programs. The expected result is the overcoming of barriers to changes in production landscapes/seascapes that benefit biodiversity. Target sectors are determined by the Millennium Ecosystem Assessment as having high impacts on habitat change, climate change, invasive species, over-exploitation, and pollution. Hence, areas of concentration include: agriculture,

banking and insurance, fisheries, forestry, infrastructure, mining and gas, oil, tourism, and transport. The private sector can be involved in four types of *mainstreaming projects*, both inside and outside protected areas: spatial, sectoral, market, and institutional mainstreaming.

9. The GEF has a role to play in facilitating *Strategic and Policy Dialogue* on biodiversity related issues affecting the private sector. This includes: influencing relevant fora; promoting programs that target business best practices and accountability; promoting activities that increase consumer awareness and the general public of the biodiversity impacts of companies; and encouraging relationships between GEF's IA/EAs and individual business entities and business associations that focus on maximizing biodiversity conservation.

Climate Change

10. *Barrier Removal to Replicate Demonstration* was the initial focus of the climate change area as at the outset of GEF-1. It was soon realized that demonstration investments were insufficient to ensure the long-term viability of these efforts. Alternatively, barrier removal activities to replicate demonstrations were considered more cost-effective as GEF resources were used to lay the foundation for further private-sector investment into the technologies and interventions that are part of the long-term solution to climate change. Activities focused on creating enabling conditions for private sector investment, including: access to financing, conducive policy environments, appropriate business models and management skills, sufficient information and awareness, and technological factors. An over-arching objective now focuses on *Transforming Markets for Efficient and Renewable Energy Technologies* to ones in which more efficient or renewable technology becomes the norm. This has been best demonstrated with the appliance standards and labels activities. In GEF-4, *Strategic Policy Dialogue* at the global level will focus on efforts to ensure that globalized markets for technology in both developed and developing countries are moving to adopt similar, more efficient and/or more renewable technologies and practices.

International Waters

11. Initial support to countries has been through *Enabling Activities* to engage the private sector as part of initial regional projects. *Demonstration Projects*, mainly in the public sector, ranged from agriculture, industry, and municipal pollution reduction to water use efficiency and science-based management in the fishing and maritime transport industries. *Priorities under GEF-4* are now on-the-ground implementation within sectors creating stress on transboundary water basins. The aim is to catalyze widespread replication and scaling up of successful public sector demonstration projects within the private sector, while continuing to test new technology and innovative approaches to finance. *Policy Dialogue* under the IW focal area has been carried out under the IW:Learn and policy events like the World Water Forum between countries, both at a regional/basin and global level. Reducing discharges and risky substances is envisaged through working with industry associations and industrial groups.

Persistent Organic Pollutants

12. In POPs, possible forms of engagement with the private sector under the Stockholm Convention are being explored, taking into consideration the broad range of stakeholders that POPs affects, such as producers and end-users of POPs pesticides, and operators of hazardous waste disposal facilities. Examples of potential forms of engagement include awareness raising and training, providing incentives to phase out the use of a particular compound and disposing of wastes, and facilitating the adoption of Best Available Technique/Best Environmental Practices (BAT/BEP) through barrier removal-type activities and access to financing.

Ozone Depletion Substances

13. In ODS, supporting technology transfer programs have prompted the private sector to improve the design and quality of their products while remaining competitive in international markets. The GEF experience shows the importance of combining investments that bring about direct ODS reduction with capacity building and institutional strengthening.

Land Degradation

14. Priority support will be given to projects that shape the enabling environment for sustainable forest management. Examples of potential forms of engagement with the private sector include awareness raising and training of private sector entities on sustainable land management (SLM); providing incentives to shift from an unsustainable to a more sustainable land management technique or land use; and facilitating the adoption of available and cost-effective techniques through barrier removal-type activities and access to financing. Capacity development for the private sector will also be provided through sector-wide approaches in projects and programs.

Instruments to Facilitate Private Sector Engagement in the Focal Areas

15. Building on the principle of incrementality, and the foundation of GEF focal area experience, this strategy identifies three cross-cutting instruments that could enable the GEF partnership to enhance its private sector collaboration: a public/private sector partnership fund, leveraging of GEF funding with a more directed approach with non-grant instruments and a private sector-focused knowledge management system are proposed to enhance private sector engagement within the strategic priorities of the focal areas. These three instruments are proposed because: (a) they offer the greatest potential to overcome general and focal area specific barriers (e.g., the risk averse nature and the lengthy processing time of the GEF and its IA/EAs); and/or (b) they reflect established track records in projects, and have a significant potential within particular focal areas to leverage private sector participation if further promoted. These instruments are not a radical departure from past practice. Rather, working as before to support private sector investment enabling 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. Rationales for each instrument are presented in the report, followed by a delineation of each instrument.

GEF Public/Private Sector Partnership Fund

16. A public/private sector partnership fund, with administration more consistent with public-private sector realities, will offer the opportunity for the GEF to mainstream engagement of the private sector in operations through timely reaction to the creative solutions that such a public-private sector partnership could propose.[5] Adopting the efficient administrative structure of IFC's Environmental Opportunities Facility (EOF) will enable GEF funding to be effectively leveraged for some pilot projects.

17. The main principles for the use of the GEF contribution to the proposed fund are outlined, including application of the incremental cost principle and all GEF eligibility criteria, as well as substantial co-funding from the private sector. Additional specifics of the fund, including implications of the Resource Allocation Framework (RAF) are also discussed.

Strategic Use of Non-grant/Risk Mitigation Instruments

18. The use of GEF resources—in the form of non-grant instruments—has helped the private sector address the incremental risks frequently associated with environment related businesses, particularly in the absence of financing on reasonable terms for SMEs. A trend toward increasing the inclusion of loans, guarantees, and other non-grant instruments has been witnessed in recent work programs, particularly in the climate change focal area to leverage GEF grants.

19. Non-grant instruments have an important place in efforts to engage the private sector, but must be applied carefully and selectively by multilateral and regional development banks using the appropriate tools at their command.[6] New and innovative non-grant instruments are constantly being devised in response to changing investment climates and market conditions. They encompass products with differing characteristics that respond to diverse financial needs and circumstances. The various instruments—such as partial loan guarantees and concessional credit—are defined, and the conditions and context under which these instruments should be applied are illustrated.[7]

Knowledge Management Tools

20. Specific management tools can facilitate the flow of information in developing public-private sector partnerships and projects with the GEF partnership, and can measure progress of such projects. As part of a GEF knowledge management system, a component will be established to address priorities and opportunities for forging mutually beneficial public-private partnerships. The specific features of the private sector component are described, including an information database.

[5] Recent consultations in Brazil and India revealed top interest for the fund accompanied by a RAF allocation. They viewed the proposed pilot fund as a sine qua non instrument without which the benefits would not outweigh the costs to engage with the GEF.
[6] The World Bank Group and regional banks have developed substantial expertise and experience in the design, implementation, and dissemination of knowledge related to financial instruments.
[7] See Chapter 13 in the Information Document.

Next Steps—Going Forward

Focal Areas

21. The GEF will continue to carry out the work outlined in the focal area sections—making use of the proposed operational guidelines to strengthen its work with the private sector. Ensuring an enabling environment for private sector investment; transforming markets for environmentally friendly products and services; and increasing efforts to engage the private sector at the global level, will continue to be major objectives in the focal areas having significant experience with and relevance to the private sector.

GEF Public/Private Partnership Fund

22. Based on the Council's approval and the outcome of the GEF-4 Replenishment, operational aspects of the pilot public/private partnership fund will be finalized and implementation launched. The fund will be reviewed two years following its launch to assess its effectiveness.

Non-grant/Risk Mitigation Instruments

23. The GEF will encourage the use of non-grant instruments amongst the multilateral and regional development banks. The next steps include: (a) developing operational policies with the Trustee for increased use of instruments;[8] and (b) assessing the experience in the use of non-grant instruments with a cross-cutting evaluation to categorize, summarize, and evaluate the range of operational experience.

Knowledge Management Tools

24. The GEF will continue to develop and implement a knowledge management system to enhance the work of the GEF partnership. The private sector component will be structured within the umbrella knowledge management system, and will be continually updated and expanded with new information from governments, the private sector, IA/EAs, donors, project reviews, private sector consultations, etc.

25. More expansive communication and outreach will continue to ensure broader awareness of the GEF partnership and its mission, and subsequently the effectiveness of any marketing tools developed. Options for encouraging private sector associations to provide input at GEF Council meetings will also be explored.

Engaging with the Private Sector

26. Where and when opportunities arise, the GEF partners will continue to engage and seek enhanced input on the strategy from private sector entities operating in developing countries.

[8] A number of protocols and implementation issues need to be clarified or revised, including control of financial proceeds.

The GEF partners will also actively seek out pilot project opportunities with individual companies and business associations.

27. 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 recommended Council decision and the section on Next Steps outlines the way forward for proceeding with focal area activities and the three supporting instruments.

28. GEF 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.

INTRODUCTION

1. As requested by the Council, the Secretariat and Implementing Agencies have developed the proposed Strategy to Enhance Engagement of the Private Sector.[9] The proposed strategy reflects the collaborative efforts of an Inter-Agency Working Group[10] and consultations with private sector stakeholders including in Brazil and India. Important insights from preparatory steps undertaken over the years, including policy documents, meetings, workshops and a monitoring and evaluation review (summarized in Chapter 1 in the Information Document) are captured in this initiative. The strategy, when implemented, will take into account the recent changes in the GEF, including the Resource Allocation Framework.[11]

2. In developing the strategy, a critical review of the private sector development strategies of the multilateral and regional development banks was conducted. This helped the GEF Secretariat gain a better understanding of its partners' goals, objectives and comparative advantages—in relation to the private sector—(see Chapter 3), and to extract lessons learned that could be applied to developing this strategy. The strategies focus on: creating an enabling environment/investment climate for the private sector; and supporting eligible private sector activities.

3. Generating global environmental benefits through private sector engagement in the focal areas serves as the foundation for the strategy. Three instruments to support greater engagement of the focal areas with the private sector are proposed. They build on the principle of incrementality, which underlies the GEF mission, to leverage investments in GEF's focal areas. GEF's review of past experience has yielded important lessons and suggests that having a framework of instruments for engaging and leveraging the private sector will help the GEF partnership achieve positive impacts on a larger scale. Success with small-scale demonstration projects will influence local attitudes and, hopefully, inspire replication and better practices more widely.

4. At the November 2004 GEF Council meeting, attention centered on barriers to private sector engagement during the discussion of the *Management Response to the Review of GEF's Engagement with the Private Sector*.[12] Council cited the need to reduce bureaucracy and simplify private sector access to the GEF, and to examine "possible incentives to make collaboration with the GEF attractive for the private sector." Advice was also solicited from Council Members during the preparation of this strategy, revealing that many would like to see an actionable, and less theoretical, approach to private sector engagement. The Third Overall Performance Study of the GEF (OPS3) similarly recommended that a private sector pilot program be funded as a special initiative, to test means and modalities of working more

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[9] The first draft of the GEF Private Sector Strategy was presented to Council in November 2005. This second draft addresses comments made by Council in November 2005. The strategy is an iterative process, and will be updated when warranted by changes in the internal/external environment.
[10] The Inter-Agency Working Group is composed of GEFSEC,GEFEO, STAP, UNDP, UNEP and World Bank/IFC. This Working Group will continue to work on GEF-related private sector matters.
[11] With special reference to the Resource Allocation Framework (RAF), endorsed at the extraordinary Council meeting on September 1st.
[12] See Joint Summary, "Highlights of Council's Discussions".

effectively with the private sector. These barriers and recommended instruments to overcome them are addressed in Section 5 and Chapter 5 on the Information Document.

5. OPS3 also suggested that the GEF Secretariat (GEFSEC) maintain a clearinghouse of information on donors and their associated interests as a tool in arranging project co-financing. A broader information management tool for the GEF partnership is being proposed to improve the quality of the engagement with all stakeholders, including the private sector, while maximizing the benefits contemplated in the area of co-finance.

6. Inputs were also sought from private sector representatives[13] while preparing this strategy (see Chapter 6 in the Information Document). The following feedback was received:

(a) leading corporations today do see the link between environmental investments in their communities and enhanced shareholder value;

(b) most companies are unfamiliar with the GEF;

(c) companies view environmental issues within economic or industrial sectors, and not according to GEF focal areas;

(d) GEF and the private sector use very different vocabularies, and the language common to the GEF partnership has no meaning or resonance with private companies;

(e) GEF procedures are cumbersome;

(f) GEF activities are perceived as taking too long to satisfy private sector timeframes;

(g) GEF projects must be relevant to business goals; a credible business case is needed for many companies to become involved in GEF projects;

(h) GEF’s promotion of policies conducive to environmentally-friendly business activities can be valuable to many companies;

(i) interested companies do not see the GEF purely as a channel for corporate charitable activities; in order for them to participate, other important entities must be involved;

(j) multinationals operating in, or sourcing supplies from, developing countries are increasingly attuned to the environmental sustainability of their resource base as well as offsetting adverse environmental impacts;

[13] Consultations were held in India as a follow up to the National Dialogue meeting in February 2006, and in Brazil in March 2006 as part of a CBD-COP side event sponsored by the Brazilian Business Council for Sustainable Development (CEBDS)

(k) companies are not staffed to prepare GEF projects, nor will they invest in personnel solely for this activity; participation must be made relatively straightforward;

(l) SMEs, large national companies and multinationals leading in environmental stewardship have developed relationships and operations with major international and local environmental NGOs, among them: CEMEX with Profauna, Unidos para la Conservación, Agrupación Sierra Madre, as well as CI and IUCN; TRAFFIC-Hong Kong with Cathay Pacific Airways Ltd; Friends of Nature-China with the Beijing Hotel Industry; and Botanical Society of South Africa with the Wine Industry; Conservation International (CI) with Shell and Wal-Mart; The Nature Conservancy (TNC) and World Conservation Union (IUCN) with Shell; World Wildlife Fund (WWF) with Coca-Cola, Shell and Unilever; and

(m) there is increasing private sector interest in carbon finance initiatives, as well as linking biodiversity and climate change impacts.

7. In addition, examples of public/private sector partnerships/networks for the environment were explored during the preparation of the strategy (see Chapter 7 of the Information Document).

SECTION I: RATIONALE FOR PRIVATE SECTOR

Why the GEF Should Seek Private Sector Engagement

8. Structured correctly, partnership with the private sector will allow the GEF to achieve results on a larger scale than might otherwise be possible.

9. Engagement creates opportunities for the GEF partnership to positively influence private sector practices while benefiting from private sector strengths that contribute to advancing GEF's mission. The private sector has a deep and pervasive influence in the economies of various countries. At its best, it contributes significantly to:

(a) replication;
(b) sustainability of global environmental benefits;
(c) leveraging (human, technological and financial) resources;
(d) influence on policy and regulations;
(e) development and dissemination of technological solutions to environmental problems; and
(f) acceleration of research and development.

10. Only by engaging productively with the private sector is it possible to mitigate the footprint of companies and individual private operators that impact the environment through:

(a) sourcing raw materials for production and consumption;
(b) managing landholdings;
(c) producing waste, pollutants and emissions that might be released into the surrounding environment;
(d) supporting supply chain partners (and their associated practices); and
(e) influencing local social and economic development (e.g., migration of people as a result of commercial operations).

Incentives/Motivations for the Private Sector to Engage with the GEF[14]

11. The GEF can add value to the private sector in the following ways:

(a) partnerships can provide opportunities to sell technology or services that would not attract investment absent of GEF resources (e.g., technology demonstration project);

(b) partnerships with the GEF will not necessarily benefit the private sector through direct increases in profits, but through longer term benefits of environmental risk mitigation, improved business image/reputation, or access to GEF's global networks and experience;

(c) a partnership with the GEF is integral to its long-term business development strategy. The partnership may help open markets over the long term, or help to protect current markets by foreseeing environmental risks that may ultimately threaten its business;

(d) local businesses also have clear incentives to be involved in projects that increase demand and build local capacity to support their products and services and activities in a sustainable manner; and

(e) among the large companies and multinationals most interested in participating in GEF activities are those that stand to lose the most from damage to corporate brand, image and reputation. Specific benefits include:

(i) protection of share value through mitigation of environmental and related business risks: access to capital, land, markets, reputation, security of supply, relations with regulators, liabilities, and insurance premiums;[15]

(ii) GEF sharing risk with companies and providing financial support for demonstration projects;

(iii) GEF facilitation of supportive policies and institutional environments conducive to private sector investment;

[14] Incentives were identified through private sector consultations and relevant publications.
[15] F&C, Is Biodiversity a Material Risk for Companies, September 2004.

(iv) access to GEF worldwide experience and global information networks;

(v) assistance in identifying partnership opportunities;

(vi) compliance and moving beyond compliance with environmental regulations and reporting requirements;[16] and

(vii) improved local/official acceptance of companies as corporate citizens.

SECTION II: GOALS AND OBJECTIVES OF THE STRATEGY

Overarching Goal

12. To generate global environmental benefits in a sustainable and cost-effective manner through enhanced engagement with the private sector, and the alignment of public, NGO and commercial activities toward common goals.

Role of the GEF in Promoting an Enabling Environment — GEF: Catalyst for Market Transformation

13. The GEF plays an important role in creating an enabling environment for private sector investment through market-based activities. Influencing the investment climate pertinent to the global environment in recipient countries can increase the willingness of the private sector to venture into risky markets for environmentally beneficial products and services.[17] By strategically removing market barriers and creating sustainable market conditions, the GEF also paves the way for entrepreneurs to scale up and transform existing markets.

14. GEF priorities are to establish or improve performance in markets for global environmental products and services. The GEF increment therefore targets essential market interventions—lacking in the absence of GEF assistance—to create enabling conditions for private sector investment.[18]

15. The focus of interventions is on removing barriers to the following desired market conditions: enabling policies and regulatory reforms; available finance; adequate business models; information and awareness; appropriate technology; and adequate capacity. Mechanisms employed through projects to create these conditions include: **knowledge**

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[16] Environmental regulations include EIAs, EU Habitat and Environmental Liabilities (Foreign Direct Liability) Directives and EU REACH Directive. Environmental Reporting include Global Reporting Initiative (GRI), Operating and Financial Reviews, ISO14001 and Equator Principles.

[17] The World Bank's Public Expenditure and Financial Accountability (PEFA) and Doing Business indicators are good examples of initiatives that have contributed to improving countries' business climates by highlighting good governance and anti-corruption practices in countries.

[18] GEF projects, even those not directly engaging the private sector, focus on developing and reforming policies, institutions, regulations and enforcement capacity directed towards creating and transforming markets. This focus is particularly strong in the climate focal area.

sharing (e.g., disseminating awareness of commercially viable technologies); **capacity building** (e.g., educating financial intermediaries entering emerging markets such as energy efficiency); **risk sharing** (e.g., providing partial guarantees to share risks of financial intermediaries engaging in emerging markets); and **return enhancement** (e.g., demonstrating technologies).

16. To further enhance engagement in GEF-4, relevant projects should carry out an analysis of the existing market and investment climate, bearing in mind the implications for the private sector (e.g., return and risk). This includes considering the extent to which the need for external financing could be reduced by strengthening governance in relevant sector reforms, environmental regulation, contract enforcement, and intellectual property right protection. Projects should avoid creating externalities that could result in market failure, and ensure that existing externalities are managed or removed.

17. Once an assessment is complete, the GEF partnership should match the type of support it provides to the obstacles or risks blocking achievement of GEF objectives. Within changing markets, allowance should be made for flexible and responsive tools. Considering a combination of demand-pull and supply-push strategies may help accommodate the specific needs and dynamics of a particular sector. Ultimately, GEF partnership activities should address market gaps to improve the performance of existing markets, and catalyze market forces to drive self-sustaining replication once GEF support ends.

18. Specific focal areas market-based interventions are described in Section 4 which identifies the priorities within each focal area. A further elaboration of the role of the GEF in promoting an enabling environment, along with examples, is provided in Chapter 2 of the Information Document).

Priority Objectives of the Strategy

19. Strategic objectives include:

(a) defining operating principles to guide the GEF's work with the private sector;

(b) identifying initiatives and approaches at the GEF focal area-level that have a greater demonstration and replication potential; and

(c) proposing instruments and initiatives to encourage and facilitate private sector engagement.

Definition of the Private Sector

20. The private sector conducts economic activity in a market-based economy where: physical and financial capital is privately owned; markets, competition, and profit drive allocation and production; and decisions are made and risks are taken as a result of private initiative.

21. A strategy to enhance engagement with the private sector must approach each business based on its individual characteristics and motivations. This strategy also

recognizes that not all local or multinational companies will have characteristics compatible with GEF's goals, or be inclined to commit resources and pursue long-term efforts consistent with the GEF. The engagement effort will be informed by factors such as those presented in Section 1.

SECTION III: OPERATIONAL GUIDELINES TO DEFINE THE SCOPE OF COLLABORATION WITH THE PRIVATE SECTOR

22. The strategy supports beneficial partnerships between public and private entities that promise the *greatest global environmental benefit* for the lowest expenditure of scarce multilateral resources and the least amount of risk.[19] Under this strategy, GEF further qualifies the participation of private sector entities based on adherence to: general GEF operational guidelines; guidelines specific to the private sector; and relevant focal area guidelines.

General GEF Operational Guidelines

23. GEF strictly finances projects that provide incrementality in terms of providing global environment benefits or advancing the prospects of reducing risk to the global environment.

24. All GEF projects must comply with the following eligibility criteria:

(a) convention guidance;
(b) incremental costs;
(c) cost-effectiveness;
(d) transparency;
(e) country drivenness;
(f) catalytic role and leveraging financial resources and/or appropriate technology;
(g) sustainability and replicability; and
(h) monitoring and evaluation of inputs and outcomes.

25. Projects must also comply with the following guidelines:

(a) endorsement from a GEF national operational focal point in the recipient country;

(b) funding allocated from resources available to the country under the RAF in the biodiversity and climate change focal areas;

(c) adherence with national environmental and social impact assessments and regulations as well as agencies' environmental and social safeguard policies; and

[19] See Chapter 8, *The Scope of GEF Engagement with the Private Sector* in the Information Document for more information on the potential types of partnerships and categories of private sector institutions.

(d) consideration of implications for the private sector:

(i) ensuring all projects and programs do not impede on market development as well as private sector participation by considering the implications for the private sector as part of an analysis of the existing market and investment climate—particularly in projects that have no explicit or initial focus on the private sector, e.g., solar and wind power projects; and

(ii) making provisions during project design for private sector consultations where appropriate, and determining during project reviews whether private sector engagement, including strategies to influence the market, is fully explored.[20]

Private Sector Specific Guidelines

26. The following guidelines apply specifically to GEF projects that engage the private sector as a recipient:

(a) 51% private sector ownership: companies must be at least 51% privately owned and controlled;

(b) Additionality: the GEF's role is clearly additional to what the private sector is carrying out on its own;

(c) Beyond regular business: the costs of an enterprise's regular business will not be subsidized consistent with the incremental cost principle;

(d) Ensuring equity and transparency: private sector partners must be selected through an open, transparent and internationally competitive process to ensure that the GEF has a full range of options; that global environmental benefits are maximized at the lowest possible cost; and the GEF's and its beneficiaries' political and financial risks are reduced. The following principles should be adhered to:

(i) good-faith efforts are made to invite the interest of a sufficient number of private sector entities for relevant project opportunities to ensure competitive selection;

(ii) non-exclusivity is exercised through accessibility to all small and medium enterprises (SMEs), large national corporations (LNCs) and multi-national corporations (MNCs) operating in an environmentally and socially progressive manner (e.g., promoting environmental

[20] This will be reflected accordingly in the project review criteria and the GEF Operational Manual.

stewardship, supporting a precautionary approach, and respecting local and international environmental, human rights and labour laws.);[21]

(iii) GEF public funding still creates a genuine public asset and not just a private one; market incentives are not distorted; and selected firm are not unfairly favored over unselected ones; and

(iv) intellectual property of partnering private sector participants that approach GEF with collaboration opportunities is protected.

(e) Flexibility: appropriate types and levels of engagement will be accommodated;

(f) Co-financing: companies will provide substantial co-financing; and

(g) Local involvement: local private sector entities take steps to expand target country national competence and capacity in the areas relevant to GEF's mission, and diversify local private sector participation.

Focal Area Specific Guidelines

(a) To be eligible for GEF financing, projects must be consistent with at least one of the focal areas operational programs or strategic priorities. Focal area strategic priorities (SP) and operational programs (OP) most relevant to the private sector include:

(i) Biodiversity. SP2: *Mainstreaming Biodiversity in Production Landscapes and Sectors*; and to a less extent, SP1: *Catalyzing Sustainability of Protected Area Systems*; and SP4: *Generation and Dissemination of Good Practices*;

(ii) Climate Change. OP5: *Removal of Barriers to Energy Efficiency and Energy Conservation;* OP6: *Promoting the Adoption of Renewable Energy by Removing Barriers and Reducing Implementation Costs*; and to a less extent, OP7: *Reducing the Long-Term Costs of Low Greenhouse Gas Emitting Energy Technologies*; and OP11: *Promoting Environmentally Sustainable Transport*;

(iii) International Waters. OP8: *Waterbody-based Operational Program*; and OP10: *Contaminant-Based Operational Program;* and to a less extent, OP9: *Integrated Land and Water Multiple Focal Area Operational Program*;

(iv) Persistent Organic Pollutants. OP14: *Draft Operational Program on Persistent Organic Pollutants*;

[21] Also refer to the UN Global Compact Principles.

(v) Ozone Depleting Substances. SP: *Methyl Bromide Reduction*; and

(vi) Land Degradations. OP15: *Operational Program on Sustainable Land Management.*

(b) Activities to reduce negative impacts from industry on biodiversity, climate change, international waters and land degradation need particularly strong incremental costs arguments so that financing of standard mitigation activities are avoided; and

(c) Initiatives and approaches with the private sector at the GEF focal area-levels should have the greatest demonstration and replication potential.

SECTION IV: PRIVATE SECTOR ENGAGEMENT FOR EACH FOCAL AREA

27. This section reviews the experience to date with the private sector, in all the focal areas,[22] as a recipient of GEF funded projects, and as a co-financier.[23] Private sector involvement in each focal area has evolved over time based on the focal area specific experiences and lessons learned through three types of engagement: (a) Enabling Environment; (b) Demonstration/Pilot Projects; and (c) Strategic/Policy Dialogue. The assessment here of methods, techniques, and/or processes that have worked, barriers that have been encountered, and types of remedies that would be necessary to overcome such barriers, sets the substantive basis for the instruments recommended in Section 5 of the strategy. The strategy is structured to address the distinctive needs and priorities of each focal area, though a number of barriers and notional solutions are common to all areas, as described in Chapter 5 of the Information Document.

Biodiversity[24] (see Chapter 9 in the Information Document for details)

28. In the early days of the GEF, the private sector was mainly involved through procurement and co-financing of biodiversity projects. Under GEF-3, it was fully realized that the objectives of the Convention on Biological Diversity (CBD)[25] can only be achieved if biodiversity is maintained both within and outside protected areas. Over the long-term, preserving biodiversity, and maintaining the ecological processes that support life, societies and economies requires that the functions and features of ecosystems that are used as

[22] The relevant portfolios of the biodiversity, climate change and international waters focal areas are more mature, bigger, and experienced due to their ongoing engagement with the private sector. While in POPS and land degradation focal areas, the current priorities are respectively the development of national implementation plans, and work at the farmers' level, these focal areas are initiating, and are planning greater engagement with the private sector. Their relationship to the private sector and anticipated forms of collaboration are generally described.

[23] The strategy does not cover procurement, authority for which strictly falls under the responsibility of IA/EAs.

[24] This section is based on the work of the BD Task Force and the 2004 STAP workshop.

[25] Article 6 (b). General Measures for Conservation and Sustainable Use. Each Contracting Party shall, in accordance with its particular conditions and capabilities: Integrate, as far as possible and as appropriate, the conservation and sustainable use of biological diversity into relevant sectoral or cross-sectoral plans, programmes and policies.

production landscapes and seascapes are sustained.[26] Therefore, the necessity for the private sector to play a more central role in GEF projects, and actively participate in sustaining biodiversity within their land use activities, became apparent.

Allowing for the Enabling Environment through Strategic Priority #2 under GEF-3

29. In recognition of this fundamental fact and in response to CBD guidance, the GEF Biodiversity Strategy included a new strategic priority (#2): *Mainstreaming Biodiversity in Production Landscapes and Sectors*. Hence, in order to generate higher impacts outside protected areas, the GEF has engaged the private sector in financing conservation in landscapes outside protected area as well as in protected areas.[27] So far, projects involving the private sector have been largely concentrated in creating the enabling environment through capacity building and technical assistance in eco-tourism, agro-forestry, silvo-pastoral production activities (certification of commodities, payments for environmental services - PES), and conservation of medicinal and herbal plants – both in landscapes outside protected areas and in protected areas at the SME level. Project activities to create enabling conditions for private sector investment included: the promotion of conducive policy and regulatory frameworks; removal of barriers to access financing; adoption of environmentally sustainable technologies; integration of business models; and public information and awareness.

30. Pilot projects have focused on demonstrating and disseminating sustainable methods of production and harvesting, based on sound ecological principles, for agricultural commodities, forest products, marine ornamentals, and other biodiversity-based goods. The GEF has also promoted the development and consistency of certification systems, which have ensured the homogeneity of biodiversity-friendly products and services, and have had spin off effects on consumer confidence and the growth of associated markets. The use of mechanisms such as certification of agricultural and fisheries commodities, not only promote sustainable production and harvesting techniques, but also enables the opening of additional markets worldwide for producers and suppliers.

Mainstreaming Biodiversity, Target Sectors and Expected Outcomes of New Generation Products under GEF-4

31. Under GEF-4, the majority of projects involving the private sector will fall under Strategic Priority Two: *Mainstreaming Biodiversity in Production Landscapes and Sectors***.** Opportunities will also be sought to strengthen protected area networks under Strategic

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[26] According to the Hague Declaration on WSSD: The most important lesson of the last ten years is that the objectives of the Convention will be impossible to meet until consideration of biodiversity is fully integrated into other sectors. The need to mainstream the conservation and sustainable use of biological resources across all sectors of the national economy, the society and the policy-making framework is a complex challenge at the heart of the Convention. The Hague Ministerial Declaration from COP VI to WSSD, 2002. Private sector involvement is also a vital factor in achieving the MDG 2010 Biodiversity Target "to achieve by 2010 a significant reduction of the current rate of biodiversity loss at the global, regional and national level as a contribution to poverty alleviation and to the benefit of all life on earth".

[27] The 2004 STAP workshop on mainstreaming included private sector participation. The considerable opportunities for engaging the private sector were emphasized.

Priority One: *Catalyzing Sustainability of Protected Area Systems* (e.g., private sector concessions, private sector co-financing, private sector management) and under Strategic Priority 4: *Generation and Dissemination of Good Practices.*

32. The objective of Strategic Priority 2 is to internalize the goals of biodiversity conservation and its sustainable use into production systems, supply chains, markets, sectors, development models, policies and programs. The expected result is the overcoming of barriers to changes in production landscapes/seascapes that benefit biodiversity. This can also include reducing the negative footprint[28] of sectors and companies, as long as this is beyond standard expectations through processes of environmental impact assessment (i.e., going beyond "do no harm").

33. Demonstration Projects to create the enabling environment, disseminate technologies and pave the way to economic sustainability and replication. As initiated under GEF-3, projects will continue to focus on influencing production landscapes/seascapes outside protected area—where most biodiversity occurs—as well as in protected areas. The level and nature of private sector involvement in a project will depend upon its influence on biodiversity and private sector interest in being part of the solution. Detailed assessments are necessary to identify the source of threats to biodiversity in a given landscape, link them to markets and private sector stakeholders, and select appropriate opportunities for collaboration through identification of joint goals. Project activities will also continue to strengthen the enabling environment to catalyze private sector investments in biodiversity-friendly endeavors.

34. **Target sectors.** In the BD area**,** the GEF strategically targets sectors determined by the Millennium Ecosystem Assessment as having high impacts on habitat change, climate change, invasive species, over-exploitation, and pollution. Hence, areas of concentration include: agriculture, banking and insurance, fisheries, forestry, infrastructure, mining and gas, oil, tourism, and transport. Priority sectors are identified according to their degree of impact upon globally-important biomes.[29]

Biome/Sector	***Agriculture***	***Forestry***	***Fisheries***	***Tourism***	***Infrastructure and Transport***	***Oil, Mining and Gas***	***Banking, Insurance***
Tropical Forests	X	X			X	X	X
Temperate Grasslands	X				X		X
Mediterranean	X	*X*		*X*	*X*		X
Tropical Grasslands and Savanna	X					X	X
Inland Water	X		X		X	X	X

[28] Biodiversity may also be mainstreamed in areas of economic activity such as Energy, Extractive Industries, Pharmaceuticals, Infrastructure, Manufacturing, Transport, Construction, Trade, and Military Activities. Reducing the footprints of these sectors is crucial through engaging them in mainstreaming biodiversity in their operations on the ground.

[29] Matrix of "Drivers of Change in Biodiversity and Ecosystems" (CWG, Millennium Ecosystem Assessment, Synthesis, Figure 13).

Coastal	*X*[30]		X	X	X	X	X
Marine	*X*		X	X		X	X
Island	*X*			X	X		X

35. **Expected Outputs through New Generation Products.** The private sector can be involved in four types of mainstreaming projects, both inside and outside protected areas: spatial, sectoral, market, and institutional mainstreaming,[31] i.e.,

(a) **Spatial** mainstreaming: ensuring that biodiversity considerations are effectively internalized into the planning and management processes of a particular spatial area, e.g.,

(i) *Sustainable Cerrado Initiative:* formulating and implementing, at the state and federal levels, financing of investments for the conservation and sustainable use of the Cerrado biome.

(b) **Sectoral** mainstreaming: internalizing biodiversity into a particular sector. Activities focus on improving production practices through demonstration and promotion efforts, greening sourcing, and strengthening capacity at the systemic level through policies, legislation and awareness, e.g.,

(i) *The Central American Markets for Biodiversity (CAMBio):* supporting SMEs in a broad range of economic sectors (agriculture, forestry, ecotourism, etc.) to develop biodiversity-friendly business ventures and access new markets for their products and services. The partner bank – CABEI – provides loans, financial instruments and technical and business management capacity building to entrepreneurs across Central America. The program is gaining popularity and validating the utility of working in a defined geographic area to bring together government and NGO players, all the while fitting into the existing financial sector through CABEI's developed network with 150 financial institutions.

(ii) *Biodiversity and Agricultural Commodities Program (BACP):* identified four priority commodities (palm oil, cocoa, sugar cane and soybeans) and is working with key private companies and other stakeholders to implement and accelerate the adoption of better practices. The BACP commodity-wide initiatives, in combination with market forces, can then lead to replication of these new practices by other producers.

(iii) *Mainstreaming of Biodiversity Conservation into Coffee Production and Sales through Private Sector Sourcing Partnerships*: working

[30] Italic *X's* were added by the Inter-Agency Working Group or the Council and are not part of the original MEA Figure 13.
[31] While distinct, these are not mutually exclusive.

with coffee companies to transform the way that coffee is sourced. This program increases the supply of certified sustainable coffee; promotes sustainable production practices; improves the economic well-being of coffee farmers and workers; and establishes new environmentally and socially responsible ways of doing business.

(c) **Market** mainstreaming: Pursuing new opportunities to influence production sectors and systems through the creation of new markets, such as payments for ecosystem services. Projects focus on transforming markets, influencing consumers and adding value through the supply chain, and internalizing environmental costs in commodity pricing, e.g.,:

(i) *Building Capacity in Developing Countries to Catalyze Payments for Ecosystem Services***:** overcoming key barriers in low-income countries that hinder the development of market-based instruments to conserve forest ecosystems.

(d) **Institutional** mainstreaming: internalizing biodiversity into a company and all its operations to reduce its ecological footprint and to foster innovative partnerships and approaches to conservation that can be adopted by other companies in similar fields.

Strategic and Policy Dialogue

36. The GEF has a role to play in facilitating and influencing strategic dialogue on biodiversity related issues affecting the private sector. The GEF partnership is already actively engaged in these activities which include:

(a) influencing relevant fora, such as those involving: mainstreaming of biodiversity in business models: offsets; mitigating impacts of extractive industries; sectoral private sector biodiversity strategies; client countries leading private sector biodiversity initiatives, etc.;

(b) promoting programs that sponsor business best practices and accountability, such as the Equator Principles and the UN Global Compact and Global Reporting Initiative (GRI);

(c) promoting activities that increase consumer awareness on the environmental sustainability of biodiversity products and services and biodiversity impacts of companies;

(d) promoting partnership with associations of industries with the purpose of mainstreaming biodiversity in their operations, including promoting sustainable production and harvesting techniques, and certification and PES tools to open up markets for environmental goods and services; and

(e) encouraging relationships between GEF's IA/EAs and individual business entities to remove barriers in the banking and other sectors, and create the enabling environment necessary to catalyze biodiversity-friendly investments in micro-, small-, and medium-sized enterprises.

Climate Change (see Chapter 10 in the Information Document for details)

37. The climate change focal area has always benefited from close, direct involvement of the private sector. The role of the private sector in GEF climate change projects has evolved over time from a response to procurement;[32] to direct or indirect beneficiaries; to active participation in project design and implementation. This evolution of private sector involvement corresponds to the evolving context and stages of the GEF climate change programming strategy. Each stage has contained a rather different focus of engagement for the private sector, as described below.

Demonstration Projects to Promote Technologies

38. During the Pilot Phase of the GEF (1991-1994), activities supported by the GEF focused on demonstrating technologies that would be important for developing countries over the longer term in the fight against global warming. In fact, in the pilot phase, the STAP set out to demonstrate as many technologies as possible but only undertake one project for each technology. This was aimed at maximizing experience with the technologies needed to meet the climate change challenge with limited resources. Thus, the GEF's Pilot Phase supported one demonstration project in each of the following areas:

(a) small hydro (India);
(b) solar Photovoltaics (Zimbabwe);
(c) geothermal energy (Philippines);
(d) repair and rehabilitation of natural gas pipelines (China); and
(e) small-scale wind generation (Mauritania).

39. At this stage, the participation of the private sector was largely limited to suppliers of goods and services.

Creating the Enabling Environment through Barrier Removal

40. At the outset of GEF I, the strategy defined operational programs in climate change with a clear, explicit understanding of incremental costs. Within these operational programs (OP), the focus was primarily upon OP 5 and 6[33] which sought to remove barriers to the unimpeded operation of relevant markets for climate change technologies and interventions. Within these two programs, mature technologies with minimal incremental costs predominate. While some of these "barrier removal" interventions still contain a component of demonstration—especially in renewable energy—the focus has shifted away from using

[32] Procurement matters fall under the responsibility and regulations of the IA/EAs.
[33] (OP5) Removal of barriers to energy efficiency and energy conservation; (OP6) Promoting the adoption of renewable energy by removing barriers and reducing implementation costs.

GEF funds to make investments in technologies. It was soon realized that demonstration investments were insufficient to ensure the long-term viability of these efforts. A more cost-effective approach utilizing GEF resources was to lay the foundation for further private sector investment in technologies and interventions contributing to long-term climate change solutions. While GEF funds were not directly being passed to the private sector, they were being used to create an environment in which the private sector can freely operate through projects with the following focus:

(a) involving third-party financing for Energy Service Companies (ESCOs);

(b) assisting conservative financial institutions to pursue attractive investments not traditionally considered;

(c) promoting legal and policy changes; and

(d) disseminating information and supplying technological training to personnel.

41. Table 1 outlines the various barriers faced by the private sector and examples of how projects have attempted to address these barriers.

Table 1: Addressing Private Sector Barriers in Climate Change Projects

Barrier	Project Examples
Access to financing	*The Hungary Energy Efficiency Co-Financing Program (HEECP) provided risk-sharing arrangements such as loan guarantees as well as technical assistance to encourage investments by local banks in energy efficient technology projects proposed by manufacturers, distributors and retailers.*
Conducive policy environments	*Due to the efforts of the India Renewable Resources Development Project (Alternate Energy), the Government's approach to renewable energy development is now more demand and market-driven with active involvement from the private sector, instead of being largely state-administered. This has resulted in private sector investment in renewable energy infrastructure and service delivery systems.* *A number of GEF-supported projects have contributed significantly to the development of standards, codes, testing, certification, and labeling. For example, the market and consumers of Solar Home Systems are benefiting from more reliable and high quality PV systems as a result of a national standard and testing procedures adopted through the China Renewable Energy Development (REDP) project.*
Appropriate business models and management skills	*The China REDP and the Uganda PV (UPPPRE) projects incorporated direct support for business development, marketing, accounting, financial, and contract management in small PV supplies. As a result, in Uganda, 2000 PV systems were successfully installed in households—meeting one of the project's development objectives. In China, with a project baseline of zero, 20 local PV equipment manufacturers had components certified to meet international/industry standards as of 2005.*

Barrier	Project Examples
Sufficient information and awareness	*Markets for energy efficient appliances and equipment have been transformed by emphasizing information and awareness activities such as labeling and consumer education.* *In the Tunisia Refrigerator project, dialogue between the public and private sector was reinforced and a favorable context for market development was prepared, including a labeling obligation for electric and cooling appliances.* *In the Uganda UPPPRE project, the technical capacity was strengthened for vendors/installers by providing them with information on performance of PV systems, and for consumers through training and dissemination of information on proper uses of PV systems.*
Technological factors	*Western technology for greater boiler efficiency and lower emissions of pollutants is now well understood by the principal boiler manufacturers in China through the Boiler Conversion project. Rapid market development resulting from GEF support has led to an estimated 40 percent conversion of all coal-fired boilers in the Beijing urban districts to gas.*

42. This phase viewed the private sector as the set of collective actors who held the key to long-term sustainability of the investments being promoted. In efforts to ensure sustainability, the GEF will continue to remove barriers specifically pertaining to the policy environment, technological knowledge and experience, information, financing, and business models and services that prevent wider dissemination of climate friendly technologies.[34]

Transforming Markets for Efficient and Renewable Energy Technologies

43. The thrust of the GEF's climate change mitigation portfolio has evolved from simple "barrier-removal" activities to adopting "market transformation" as its overarching objective. Effectively, a GEF intervention is typically designed to transform the existing market environment from one in which the more efficient or renewable technology is used on an exceptional basis to a market in which the more efficient or renewable technology becomes the norm. This has been best demonstrated with the appliance standards and labels (S&L) activities. In these activities, the project creates an implicit partnership between public (e.g., regulators) and private sector entities (e.g., refrigerator manufacturers). This partnership comes together around the development of energy-efficiency standards for the appliances concerned, with the goal being a gradual process of transformation from less-efficient to more-efficient appliances and the creation of a cycle of constantly improving appliance efficiencies. This approach, first made explicit in the GEF-3 Strategic Priorities and highlighted in the Climate Change Program Study 2 (CCPS2), has been explicitly made into the overarching objective for GEF-4.

[34] The importance of these barriers was highlighted in a recent analysis – supported by the results of the Climate Change Program Study and OPS3.

44. Through this approach, the role of the private sector has progressed from a provider of technologies and know-how to a partner helping to shape the policy environment in which they will operate. The private sector participation that is most relevant to GEF interventions has by-and-large been around national industries in most recipient countries that may or may not have access to support from the globalized industry. National-level industry associations and manufacturers groups have been the primary project beneficiaries in this approach.

Directions under GEF-4

45. GEF engagement with the private sector will continue to:

(a) promote activities to reduce GHG emissions;

(b) help expand the markets and provide increased business opportunities in replicating these practices; and

(c) support development and transfer of climate-friendly technologies.

46. In facilitating the transfer of climate-friendly technologies between countries, the GEF will explore opportunities to build synergies and foster collaboration with other avenues for supplying clean energy development, such as carbon finance.

47. Under the carbon finance umbrella, the Clean Development Mechanism (CDM) is a project-based, single-investment oriented mechanism for bringing private sector investments into low-carbon energy into the UN Framework Convention on Climate Change (UNFCCC) context. The GEF is moving out of making specific investments and more into policy-oriented work in attempting to create the conditions in which the private sector can operate successfully to grow the markets for clean energy, low-GHG technologies.

48. Three models can be envisaged to help harmonize the GEF top-down barrier removal and market transformation approach with the bottom-up, project-by-project approach of CDM. GEF funds could be used to:

(a) remove barriers to investment in carbon finance and demonstrate the technical and financial feasibility of investment activities. Replication of these investments can then benefit from the additional revenues accruing through carbon finance. GEF funds would not be used to carry out specific activities required for certifying carbon finance activities such as establishing baselines or developing monitoring plans;

(b) remove specific financial barriers to investments (e.g., through a guarantee facility) for projects that may qualify for carbon finance support. The GEF project would not count the anticipated carbon credits, while for the carbon finance projects, the credits would not be registered if the guarantee is called; and

(c) support projects in other focal areas that can earn carbon credits. The GEF would finance the incremental costs of components of a project relevant to focal areas other than climate change, while the carbon finance component would derive credits for carbon reduction. GEF funds would not be used to pay for the transaction costs involved with the issuance of carbon credits, including methodological development, verification, and certification.

Strategic and Policy Dialogue

49. **Moving beyond Market Transformation at the National Level.** It is possible that the future of the climate change program may build upon market transformation strategies at the global level. At this level, the GEF would focus on specific technologies and try to ensure that the globalized market for that technology in both developed and developing countries is moving to adopt similar, more efficient and/or more renewable technologies and practices. Several vectors would seem to be pushing in that direction:

(a) the UNFCCC discussions about "Beyond Kyoto" or beyond the initial commitment period seem to pay strong attention to technology transfer and the development and sharing of specific technologies worldwide (e.g., refrigerators, boilers, or pumps) or focusing on the needs and opportunities in particularly energy-intensive industrial sectors (such as cement, steel, or aluminum);

(b) the limits of GEF's work for market transformation at the national level would dictate that the next step is to ensure similar standards and labels apply regionally and globally to ensure that the international playing field is level; and

(c) potential programmatic approach to programming under the RAF. Given new strategic directions in the climate change focal area, countries might decide that there is a need for a project to develop best practice to be shared across countries and regions in a strategic topic. The development of shared "best practice" guidelines might be developed through a global project in which many countries see the opportunities and interact with the primary actors of the relevant global industry, and then sponsor implementation in their own countries. The national-level implementation of these "best practice" ideas would require additional resources that might be drawn from a country's individual allocation. Countries can then use their allocations and a fairly standardized work plan to "buy-in" to the implementation of that set of best practices, tailoring the standardized work plan as needed. In such cases, the private sector would be partners in both the globally-focused activities (e.g., development of standards, proposed policy arrangements, and provision of technological information) and the national-level activities (e.g., making investments to either produce the technology locally or to modernize existing facilities). In this way, the private sector would become more directly involved in GEF climate change programming in a format that reduces transaction costs, and builds toward global impact in a specific technology area.

50. Three examples of potential programmatic approaches include:

(a) the ongoing preparation of a global program on solar hot water heating, carried out through UNDP and UNEP. This technology requires little additional GEF support and may represent a "sunset" technology for the GEF. Sufficient experience has been gained with the technology to enable agencies to quickly prescribe what a country needs to make the domestic market sustainable. Countries may be interested in using some of their GEF resources to provide support and ensure universal standards for solar H_2O production are adopted locally. UNDP and UNEP are collaborating in the development of a global program to identify best practice and standards that can be universally shared. Countries will then be free to use their own resources to "buy-in" and implement the program at the national level so that all interested countries can adopt best practice solar water heating standards to guide the growth of the market in their countries. The global portion of the program will require extensive consultations with the relevant global industry to ensure that the latest information is utilized and that efforts are steered correctly. The national portion will require industry participation and investment at the national level;

(b) the Renewable Energy Global Program which is being executed by the World Bank in collaboration with the World Wind Energy Council and the Energy Sector Management Assistance Program (ESMAP). Held from February 1-3, 2006 in Mexico City, the workshop portion of the effort encouraged the sharing of global experiences with on-grid regulations of renewable energy to encourage countries to adopt best-practice. Subsequent efforts will help countries figure out how best to adopt and adapt those practices locally. Countries may redirect existing projects to help in the adoption of these regulations or may shape future projects to do so. The overall view would be a global program—with significant private sector involvement at the global and local levels—with both global and national activities seeking to adopt these renewable-friendly regulations; and

(c) other similar initiatives might be conceived of and implemented either from a technological approach (electric pumps, electric lights, or boilers) or from a sectoral perspective (i.e., the cement industry; brick industry; nylon industry; etc.). In both cases, the goal would be to raise efficiency standards around the world and promote newer, more efficient technologies either for the mass-market or for the intermediate market (industrial producers). This represents an approach and an activity that will not be undertaken by the CDM, to our best understanding, but will be vital to the continued operation and expansion of the global climate change regime.

International Waters (see Chapter 11 in the Information Document for details)

51. The International Waters (IW) focal area has been involved with a number of projects that engage the private sector and business community to test approaches that reduce water pollution and conserve water resources. Pollution reduction activities have focused on individual facilities and enterprises through policy development or demonstration activities within regional projects aimed at particular transboundary waters. In a few cases, entire groups of industries, such as oil/gas development or maritime transport, have been involved. Increasingly, agriculture sector businesses are being mobilized through incentive programs to leverage pollution reduction and water use efficiency measures. As experiences have been developed, the emphasis is changing to replication of successful demonstrations and the engagement of individual sector interests in regional or global dialogues.

Enabling Activities and Demonstration Projects

52. To address concerns of particular transboundary water systems, the IW focal area has initially supported countries with enabling activities—such as capacity building and assistance for policy reforms—as well as demonstration projects mainly in the public sector.

53. The IW focal area has accumulated a wealth of experience in water-related demonstration projects ranging from agriculture, industry, and municipal pollution reduction to water use efficiency and science-based management in the fishing and maritime transport industries. For example, OP10[35] projects have demonstrated ways of overcoming barriers to the adoption of best practices that limit contamination of the IW environment. The effectiveness of new approaches and technologies tested through these projects can be shared in projects implemented in the private sector, including:

(a) low-cost constructed wetlands for pollution reduction;
(b) water and contaminant recycling and reuse strategies;
(c) use of modern technologies;
(d) reuse of sewage water in agriculture; and
(e) adoption/use of ISO14001 certification standards.

Priorities under GEF-4

54. As countries completed their initial capacity building transboundary water projects, regional GEF IW projects aimed at implementing reforms and investments are experimenting with different ways of engaging the private sector and business community to help address particular needs of their water resources (see Figure 1: Strategic Actions with the Private Sector in GEF/C.28/Inf.4 for a summary of activities). Examples include:

(a) businesses and industries collaboratively reducing discharges into Batangas Bay, Philippines, and dialoguing with regulatory agencies on future pollution reduction (PR) requirements;

[35] Contaminant-Based Operational Program.

(b) Transfer of Environmentally Sound Technologies or 'TEST' projects: pilot audits and feasibility studies with individual industries in the Danube Basin identifying pollution reduction measures that pay for themselves in a short time period. Concepts are approved for replication in the Mediterranean and Dnipro basins;

(c) six projects in Eastern Europe and Asia providing cost-sharing incentives as well as technical assistance for farmers and the agribusiness community to leverage pollution reduction investments (e.g., the East Asia project, which is expected to leverage $25 million from the agribusiness community); and

(d) lending by financial intermediaries to SMEs in Slovenia to install pollution reduction measures and clean technology that reduce toxic substances in water.

55. Building on these experiences, the GEF is now ready to enter an on-the-ground implementation phase within sectors creating stress on transboundary water basins. In GEF-4, the GEF seeks to catalyze widespread replication and scaling up of successful demonstration projects within the private sector while continuing to test new technology and innovative approaches to finance. Pending replenishment level, special attention may be placed on leveraging public-private partnerships in pollution reduction projects in support of the MDGs[36]—including municipal sewage treatment.

56. Municipal sewage causes the most widespread water pollution on a global scale and contributes to downstream water use conflicts and to water-related diseases. Sewage treatment is often considered a downstream or "commons" issue, with people generally lacking the will to pay for the associated services needed to protect downstream waters. Although the provision of these services needs to ultimately be incorporated into the tariff system, there tends to be opposition to full cost pricing. New approaches are being tested. Measures that at least sustain operations and maintenance in the tariff are being explored by the water community, and GEF may play a catalytic role through innovative financing and support for appropriate technology needed to protect the downstream waters.

57. Through innovative means of financing, such as revolving funds and risk-sharing guarantee products to large companies, the GEF seeks to foster sewage investments for transboundary systems. Public-private partnerships (PPPs) will be a primary mechanism to be investigated for these sewage treatment facilities. PPPs should not be confused with privatization—a misunderstanding that has led to strong political and social opposition to PPPs.[37] Partnerships will provide the means for effectively leveraging the necessary

[36] Currently more than 1.1bn people worldwide lack access to safe drinking water and 2.4bn do not have access to basic sanitation facilities. Providing safe drinking water and basic sanitation are important parts of the MDGs which seek to reduce by half the number of people who have no access to clean drinking water by 2015.

[37] In public-private partnership, private-sector companies do not own or control water but simply operate or design-build-operate water and wastewater treatment plants and systems. Through these partnerships, the public entity continues to own all assets, set rates and exercise control of water resources while the private company serves as the technical, operations and service provider to improve the quality of water and related services.

assistance from the private sector by minimizing their risks associated with a poor investment climate in water infrastructure, due to the uncertainties surrounding the privatization of this infrastructure.

58. Through these initiatives, the GEF will contribute to the public sector increment of the sewage treatment projects that qualify as agreed incremental costs, and will finance in a low cost manner, the construction of public sewage treatment facilities that provide the foundation for clean water services then provided by the private sector. Cost effective modalities demonstrated will include: primary treatment through nutrient removal, modified secondary treatment, and constructed wetland treatment systems. Table 2 provides a sample of current and proposed GEF projects adopting these modalities.

59. To reinforce the partnerships, the GEF will continue to support tradition IW projects that address enabling issues, such as insufficient and unstable regulatory frameworks, by facilitating capacity building and municipal utility reform.

Table 2: GEF Municipal Sewage Treatment Projects

Albania	• Innovative wetland treatment
Black Sea and Danube Basin countries	• Single country investment projects in the municipal waste-water and agricultural sectors • Investment projects for testing innovative industrial pollution reduction with private sector
Caribbean	• Reducing inputs of nitrogen and phosphorus in Havana Bay by building an innovative sewage treatment plant system
China Hai Basin	• Demonstrating reuse of sewage with treatments that divert pollution from rivers
East Asian Seas	• PPPs focusing on solid waste, agricultural waste, industrial waste and ship-borne waste (most successfully in Batangas Bay) • Philippines/San Fernando City and the Philippines/Bataan Province– integrated solid waste management system projects and the Vietnam/Danang integrated industrial wastewater and hazardous waste treatment system project with funding leveraged by the private sector. Also, Manila Bay cleanup with new approaches to sewage treatment
East Java	• Constructing a trench-less waste water collection system to serve selected low-

	income communities.
Lake Manzala, Egypt	• Operating a demonstration wetland through an affordable, relatively simple, and efficient technology trapping sediments and pollutants from municipal, industrial and agricultural sources
Ningbo, China	• Innovative wetland treatment
Quy Nhon, Vietnam	• A pilot to test a chemically enhanced primary waste water treatment plant with facultative ponds

60. In addition to municipal sewage treatment, the GEF has supported developers of country driven action programs to provide the enabling environment and demonstrate to the private sector that pollution prevention pays. These projects relate to:

(a) industrial and agricultural waste water treatment and disposal, e.g.:

(i) Slovenia Credit facility aims at providing loans to local companies who want to make investments that will reduce pollution entering the Danube River Basin. Business Advisory Service Projects, such as engineering studies, feasibility studies, and Environmental Management Systems (EMS) systems, have been conducted in the following industries – chemicals, electronics, metals and machinery, food & beverages, paper, textiles, municipalities and others; and

(ii) agricultural waste pollution reduction projects are also underway in Georgia, Moldova, Poland, Romania and Vietnam, China and Thailand in East Asia.

(b) water use efficiency (industrial and agricultural), in cases of excessive water diversions, e.g.,:

(i) reusing treated sewage in agriculture in the China Hai basin to reduce the over-pumping of groundwater for irrigation that depletes river flows and divert polluting nutrients from the sea.

(c) reduction of invasive species transfer in ship ballast water, e.g.,:

(i) demonstrating innovative technology and adoption of national policy, legal and institutional reforms to reduce the transfer of invasive species in ship ballast water in Brazil, China, India, Iran, South Africa and Ukraine in cooperation with ports and the marine transport industry.

(d) reduction of fishing efforts and use of proper gear, e.g.,:

(i) several shrimp trawling demonstration activities and workshops have been undertaken worldwide, with an increasing involvement by the private sector. The fishing industry is interested in introducing the new technologies.

(e) transboundary water resource management/cooperation, e.g.,:

(i) in East Asia and in the Danube Basin, the GEF is working with Coca Cola to bring the relevant members of the business community together to deal with common water resources protection issues. In addition, the GEF Caspian Sea project is working with BP/Shell and the Bengueal Current project in Africa is working with Chevron.

(f) reversing depletion of ocean fisheries, e.g.,:

(i) the fishing industry in South Africa, Namibia and Angola is working closely with the GEF Benguela Current Large Marine Ecosystem project in making available valuable information on catch data and baseline assessment activities that will lead to the establishment of a region wide compatible and standardized database on fisheries and joint management to conserve this invaluable source of foreign exchange. The Pacific Small Island Developing States (SIDS) Fisheries Project is working with the tuna industry to collaborate in a similar fashion in the Pacific.

Strategic and Policy Dialogue

61. Policy dialogue under the IW focal area has been carried out under its IW LEARN program and at global policy events like the World Water Forum. Dialogues also take place at both a regional/basin level. An excellent example of stakeholder engagement and private sector participation at the regional level can be found in the PEMSEA[38] project demonstration sites (see Table 14 in Chapter 11 of the Information Document). PEMSEA spawned a number of partnerships including the Bataan Coastal Care Foundation, which finances 50 percent of the local coastal zone management project and is financed by 18 companies in the East Asia Seas region (shipping, oil, agroindustry, etc.). They are now developing the specifics to engage the private sector.

62. At the global level, there has been little GEF dialogue to date beyond a GEF "CEO Dialogue on International Waters and the Private Sector" held in June 2001 on wastewater. Several global dialogues are in preparation with the marine shipping and fishing industries, and pending GEF Replenishment, one with the agribusiness community. The Marine Stewardship Council initiative on labeling issues initiated by Unilever and WWF, has room for expansion.

[38] PEMSEA – Partnership for Environmental Management of the Seas of East Asia.

63. Moving forward, the GEF will get more involved at the corporate level in: (a) engaging industry associations like Intertanko and opinion-leader businesses in the water area like Coca Cola; and (b) working with industrial groups which discharge persistent toxic chemicals to have a catalytic impact in reducing these risky substances. By establishing a private sector advisory committee for the GEF's International Waters Task Force, the GEF would be able to build its internal capacity to provide leadership within agencies, country dialogues, and in the planned global dialogues.

Persistent Organic Pollutants (POPs)

The Stockholm Convention on POPs and the Role of the Private Sector

64. As the financial mechanism for the Stockholm Convention on Persistent Organic Pollutants (POPs), the GEF supports partner countries to reduce and eliminate the use, production, or release of POPs into the environment. The Convention recognizes "the important contribution that the private sector and non-governmental organizations can make to achieving the reduction and/or elimination of emissions and discharges of POPs." As major contributors to the use, production, and release of POPs, positive engagement with the private sector is a sine qua non for successful implementation of the Convention.

Engaging the Private Sector in the POPs Focal Area – Current Status and Future Directions

65. Though implementation of the Stockholm Convention is still in its infancy, possible forms of engagement with the private sector are being explored. Unlike ozone depletion, POPs affect a very broad range of stakeholders including:

- (a) industries based on processes that release un-intentional by-products (for example the chemicals, metallurgical, pulp and paper, or textiles industry);
- (b) producers of POPs;[39]
- (c) end-users of POPs pesticides (smallholders or large farms, railways, real estate, etc.);
- (d) utilities or other industries owning Polychlorinated Biphenyls (PCBs)-containing electrical equipment;
- (e) operators of hazardous waste disposal facilities; and
- (f) waste management companies.

66. Companies in these sectors include: (a) domestically owned companies in GEF eligible countries; (b) the local subsidiaries of multinational firms operating in a GEF eligible country; and (c) companies in industrialised countries that sell or have sold goods in a GEF eligible country. All these groups are important stakeholders to engage; however, strategies and levels of engagement (at the project, sector, or global level) will vary. Examples of potential forms of engagement include:

[39] Presently only pesticides since PCBs are no longer deemed to be produced anywhere, but this could change if and when more chemicals are added to the list of POPs under control.

(a) working in partnership with plant protection companies that have produced pesticides, and wish to secure technical expertise and cash in recognition of historical responsibilities;[40]

(b) awareness raising and training (e.g., of small farmers);

(c) providing incentives to phase out the use of a particular compound and disposing of wastes; and

(d) facilitating the adoption of Best Available Technique/Best Environmental Practices (BAT/BEP) through barrier removal-type activities and access to financing.[41]

Creating an Enabling Environment for Private Sector Investment

67. The early steps taken to implement the Stockholm Convention mostly involve actions at the government level. These early steps include the development of an enabling legislation and regulations framework. Furthermore, a large part of on-the-ground POPs reduction projects deal with the legacy of POPs wastes, which most often falls on governments to address. This is likely to remain true over the mid-term, driving the majority of projects during GEF-4. However, the number of projects under development that will involve the private sector is already fairly large.

68. The initial effort in the POPs focal area has been to support countries in developing National Implementation Plans (NIPs) as required under the Stockholm Convention. In this framework, and building upon existing mechanisms as appropriate, the GEF supports the creation of multi-stakeholder committees to pilot the NIP development effort. In recognition of the importance of involving the private sector early-on in discussions regarding both the problems and possible solutions, these committees often include private sector representation, through, for example, Chambers of Commerce or utilities.

69. Looking beyond NIPs, there is limited experience in the POPs focal area so far; no projects involving the private sector are currently under implementation. There are, however, many projects at various stages of development that involve the private sector. Examples include:

(a) Latvia MSP (UNDP) - setting-up a revolving fund to facilitate access to finance for companies that wish to replace their PCB containing electrical equipment;

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[40] For example member companies of CropLife International claim that they will pay for the destruction of obsolete pesticides if these can be traced back to one of their member companies, and CropLife International is a partner in the African Stockpiles Program.

[41] In some cases, the implementation of cleaner production approaches could be a cost-effective way to reduce the releases of unintentionally produced POPs. The introduction of cleaner production coupled with an environmental management system typically results in decreased costs – from savings on raw material and energy and increased efficiency. To a large extent, the promotion of such methods is one that follows a classic barrier removal paradigm and requires access to information, financing, training etc.

(b) Brazil (WB) - will develop mechanisms to promote private sector investments in remediation of contaminate land;

(c) China (UNDP) - will work with producers of DDT-based antifouling paints to produce non-POPs containing alternatives;

(d) Multi-country (UNDP/WHO) - will demonstrate and promote good practices for hospital waste management to avoid emissions of un-intentionally produced POPs;

(e) Slovakia (UNDP/UNIDO) is fostering a public-private partnership to run a facility for the destruction of POPs;

(f) MSP under implementation (UNEP) - working on building capacity for POPs analysis, putting particular emphasis on conditions for sustainability which imply that laboratories are run on a commercial basis;

(g) multi-country in West Africa (UNEP/FAO) - working with farmer communities to help them reduce POPs and other pesticides inputs whilst sustaining or increasing yields and revenues;

(h) a number of projects under development are working with parastatal or privately owned utilities, in Ghana (UNDP), Macedonia (UNIDO), Mexico (UNDP); and

(i) a number of projects under development will address informational and technical barriers and promote BAT/BEP in specific industrial sectors through training and capacity-building for private sector enterprises, for example in Egypt (UNIDO), Morocco, or Vietnam.

70. As the GEF and its partners move forward in implementing the Stockholm Convention and beyond the immediate issue of tackling a "waste legacy," there will be a shift towards more projects with private sector actors as the main stakeholders. More efforts will be placed on addressing un-intentional by-products which largely involves private sector actors.

Strategic and Policy Dialogue

71. Beyond the project level, the Stockholm Convention Secretariat organized the first of a series of PCB conferences that bring together government partners, GEF Secretariat, IA/EAs and other inter-governmental organizations, and private sector stakeholders with know-how and expertise in alternatives to PCBs and/or technologies for PCB disposal. A positive outcome of the conference is the dissemination by private entrepreneurs of novel techniques for treating PCB-contaminated oils.

Ozone Depleting Substances

Policy Dialogue

72. The private sector was involved with the international community at the policy dialogue level in the early stages of dealing with the ozone issue. This high-level involvement, facilitated by the relatively small number of actors, continues today. The development of alternatives to ozone depleting substances (ODS) by industry and their transfer to developing countries was driven by the adoption of the Vienna Convention and Montreal Protocol, as well as the support provided through the Multilateral Fund for the Implementation of the Montreal Protocol (MLF) and the GEF.

Demonstration Projects

73. The GEF has supported technology transfer programs in developing countries with MLF funded activities that prompted the private sector to improve the design and quality of its products. This assistance has allowed the private sector to remain competitive in international markets and has lead to beneficial social consequences through sustained employment.

Creating an Enabling Environment for Private Sector Investment

74. The GEF also seeks to create an enabling environment and provide capacity building and training for the private sector through sector-wide approaches in projects and programs. UNEP, for example, has developed and implemented training programs directly targeting the private sector. World Bank implemented projects have demonstrated the benefits of country programs and sector approaches that use financial intermediaries. This facilitates project implementation through "wholesaling" to institutions that already operate with the appropriate business models and the client-base required to work effectively with private enterprises. The GEF and the MLF's experience in this realm shows the importance of combining investments that bring about direct ODS reduction with capacity building and institutional strengthening. This promotes government commitment and a policy framework that supports sustainable ODS reduction.

Land Degradation (Desertification and Deforestation)

The UN Convention to Combat Desertification and the Role of the Private Sector

75. Under GEF-3, the Second GEF Assembly, held in Beijing in 2002, designated land degradation (LD)—primarily desertification and deforestation—as a new focal area of the GEF. With this designation, the GEF was made a financial mechanism for the UN Convention to Combat Desertification (UNCCD).

76. Private sector involvement in the implementation of the UNCCD provides opportunities for strengthening the provision of financial and technological resources and capacity building for sustainable development in the drylands. At its sixth session in August-September 2003, the COP, by decision 1/COP.6, considered the promotion of private sector

and economic opportunities in arid, semi-arid and dry sub-humid regions and countries. It encouraged the Parties to link private sector initiatives to the identification of equal and fair economic opportunities for drylands goods and services. It also recommended Parties and the private sector to take measures to increase the competitiveness of products and services in the drylands through the development of appropriate technologies for sustainable development in areas such as cash crop and livestock production, aquaculture, recreation, ecotourism and adherence by the mining/extraction industry to codes of sustainable land use practice. The COP invited Parties to adopt and enhance policy measures and incentive schemes to encourage private sector support for technological and scientific cooperation benefiting the drylands.

Engaging the Private Sector in the LD Focal Area – Current Status and Future Directions

77. The involvement of the private sector in achieving sustainable land management (SLM) is encouraged. However, the link between SLM and business opportunities in developing countries is not easy to establish. Drylands tend to be characterized by limited physical and socio-economic infrastructures that do not attract private investors. Risks associated with dryland production, deriving from the fragile ecosystems and climate variability, combined with fluctuating commodity prices, also hinder the involvement of profit-seeking private companies. Furthermore, national, subregional and regional planning and action frameworks are often not structured to promote private sector participation. Strong efforts to remove these barriers may result in promising economic opportunities that serve the sustainable development of countries affected by desertification.

78. Though implementation of the UNCCD is still at an initial stage, first experiences and additional possible forms of engagement with the private sector can already be explored. A great potential exists to actively engage the private sector as a stakeholder in the conservation and sustainable use of natural resources.

Creating an Enabling Environment for Private Sector Investment

79. The early steps taken to implement the UNCCD or issues related to sustainable forest management mostly involve actions at the level of government and/or community level involving subsistence farmers. These early steps include capacity development and the development of an enabling environment, including an improved policy and regulatory framework.

80. The GEF LD focal area as well as the Biodiversity focal area will facilitate the engagement of the private sector particularly through support of projects that shape the enabling environment for sustainable forest management, e.g., through the promotion of independent certification of forest products as a tool to encourage sustainable forest management.

81. Initial efforts to involve the private sector in the LD focal area have been ad-hoc and rather limited so far. Recognizing the importance of involving the private sector early-on in discussions regarding both the problems and possible solutions, more emphasis needs to be

given to the private sector as stakeholders in a project. Examples of potential forms of engagement for the private sector include:

(a) awareness raising and training of private sector entities on sustainable land management;

(b) providing incentives to shift from an unsustainable to a more sustainable land management technique or even land use (e.g., pastoral systems to silvo-pastoral systems);

(c) facilitating the adoption of available and cost-effective techniques through barrier removal-type activities and access to financing (e.g., small credit schemes, PES, access to markets);

(d) building a partnership between water companies that are in need of a certain level of water quality and quantity to produce goods and services and upstream land users that have produced excessive sediments and fertilizer/pesticide runoff affecting the water service;

(e) promoting efficient marketing systems, empowering pastoralists, and reducing grazing pressure on drylands; and

(f) encouraging economic diversification through ventures like tourism or small-scale rural industrialization to reduce pressure on land resources and enhance SLM.

82. Eight projects involving the private sector have been approved under Operational Program 15 (OP15) in the land degradation focal area. Descriptions of the projects and their various types of private sector involvement are summarized in Table 3.

Table 3: Approved LD/OP15 Projects Involving the Private Sector

Country	**Description**	**Private Sector Involvement**
Kenya FSP (WB)	Reforming the entire agriculture sector	Promoting a stronger role for the private sector in R&D, extension and marketing agricultural products
Kazakhstan FSP (WB)	Exploring the feasibility of fostering forest partnerships	Fostering environmentally sustainable forest-based enterprises
Bhutan FSP (WB)	Supporting the reappraisal and potential realignment of public sector roles in planning and implementation	Creating opportunities for public-private and other local partnerships appropriate to the Bhutanese context
Dominican Republic FSP (UNDP)	Removing the barriers for SLM (creating policies, capacities, and financial structures)	Forming a public-private sector partnership to implement and manage the initiative in the long-term

Country	Description	Private Sector Involvement
Namibia FSP (UNDP, WB, UNEP)	Creating an enabling environment for SLM that is conducive for the private sector engaged in land management issues	The private sector will be engaged in conservancies, fish ponds and community forests at the community level
Argentina FSP (UNDP)	Develop incentives for the non-extractive use of land through private reserves and agro-eco-tourisms ventures in low productivity areas	Establishing a forum of public agencies and the private sector for information, policy debate, and lobby within the context of SLM
Cameroon FSP (WB)	Developing policy, advisory and monitoring capacities of government	Allowing the private sector and other stakeholders to undertake direct activities such as natural resource management, investment and marketing
Lebanon MSP (UNDP)	Reforestation and enhanced understanding of ecosystem restoration principles	Strengthen through capacity development the private sector as service provider in the restoration field

83. The GEF will pursue activities that promote an enabling environment for SLM and will provide capacity development for the private sector through sector-wide approaches in projects and programs. For example, strategic objective 1 for the LD focal area for GEF-4 supports projects and programs that foster system-wide changes. Changing the enabling environment for an entire production sector will consequently enhance the opportunities for the private sector. Four such programs for SLM in Burkina Faso, Central Asia, Ethiopia, and Vietnam are currently in preparation and one program has been approved by Council recently (Namibia).

Strategic and Policy Dialogue

84. At the global level, the priority for the GEF partnership, within the land degradation and biodiversity focal areas, is to enhance the participation of the forest industry in the efforts to curtail forest degradation and deforestation.

SECTION V: INSTRUMENTS TO FACILITATE PRIVATE SECTOR ENGAGEMENT

85. Three instruments: a fund for private sector pilot projects, leveraging of GEF funding with non-grant instruments and a private sector-focused knowledge management system are proposed to enhance private sector engagement within the strategic priorities of the focal areas. These three instruments were selected because: (a) they offer the greatest potential to overcome general and focal area specific barriers (e.g., the risk averse nature and the lengthy processing time of the GEF and its IA/EAs); and/or (b) they reflect established track records in projects, and have a significant potential within particular focal areas to leverage private

sector participation if further promoted. Rationales for each instrument are presented below, followed by a delineation of each instrument. At the micro-enterprise level, the Small Grants Program (SGP), an ongoing instrument, is actively engaging the private sector through NGOs and community based organizations (see Chapter 4 in the Information Document for more details).

Rationales for the use of the three instruments within focal areas to generate global benefits through enhanced engagement with the private sector

Public/Private Sector Partnership Fund

86. The third Overall Performance Study of the GEF (OPS3) recommended that a private sector pilot program be funded as a special initiative, to test means and modalities of working more effectively with the private sector.

87. The critical contribution of the Public/Private Sector Partnership Fund will be to enable the focal areas, especially biodiversity, climate change and international waters, to test innovative public-private partnership solutions in a timely response to immediate needs which have high replication potential.

88. As reflected in recent discussions with Council Members and business groups, the projects and outreach strategies so far implemented by the agencies have not fully responded to the need for more effective private sector engagement. There is a perception that a new "public/private sector fund" with administration more consistent with private sector needs may be timely and worthy of some commitment of GEF resources as a pilot program. Existing private sector programs such as Photovoltaic Market Transformation Initiative (PVMTI), Energy Business Finance Program (EBFP) and Renewable Energy and Energy Efficiency Fund (REEF) have narrowly focused on particular segments or technologies. What is needed is a pilot program with wider scope, one that can react in a timely manner to the creative solutions the private sector may propose.

89. The challenge in involving the private sector in projects consistent with the GEF project cycle and operational procedures is fundamental. Processing times are typically at least a year; even proposals at a relatively advanced stage must still begin with concept approval and several months review prior to work program submission; the fee system is inadequate to support administration of smaller investments; etc. Testing alternative procedures to address these barriers may be of more general value in developing the proposed public/private sector partnership fund, much as the new adaptation funds are incorporating more flexible operational policies of potential adoption by the GEF Trust Fund. For example, more emphasis and resources need to be placed on developing specific water-related public-private partnerships to catalyze private sector investments in low cost technologies needed to sustain transboundary waters. The fund could be an ideal mechanism to test focused, geographically limited partnerships that might be scaled up if successful.

Non-Grant/Risk Mitigation Instruments

90. Analysis in preparing this strategy highlighted a trend in recent work programs toward increasing the inclusion of loans, guarantees, and other non-grant instruments, particularly in the climate change focal area. Non-grant instruments have an important place in efforts to engage the private sector but must be applied carefully and selectively by agencies using the appropriate tools at their command. The analysis further revealed that to maximize these benefits in the GEF portfolio, an assessment of GEF experience in the use of these instruments is now timely and should be carried out.

91. Appropriately designed and implemented, the use of these instruments in commercially-oriented projects has several potential benefits:

(a) GEF resources may have greater financial leverage insofar as loans are repaid and guarantees are not called. GEF may receive a return on its investment.[42] However, during project implementation, GEF accounting rules result in booking a guarantee at full potential value, and thus for this period may impose a larger cost than a grant;

(b) the introduction of sustainable financial products suited to the characteristics of global environmental enterprises may be a particularly effective means of promoting GEF objectives, as banks and other financial intermediaries are quick to replicate successful lending practices; and

(c) investment projects are more likely to succeed to the extent participants are at financial risk. Grants may undermine the incentives for diligent management (this is also true of guarantees and other risk mitigation measures if poorly designed).

Climate Change

92. The use of non-grant instruments is very common within the climate change focal area. Revolving funds, contingent loans, partial credit guarantees, short-term partial loans and investment funds have all been used in various projects to effectively leverage private sector financing for energy efficiency and renewable energy technologies.

93. The following examples demonstrate how the GEF has successfully employed these instruments, and provide support for their continued and enhanced use:

(a) the GEF contingent grants help the private sector to buy down risks associated with nascent local ESCO markets. In turn, the private entrepreneurs provide capital and know-how to propel the development of the ESCO industry;

[42] In the past, GEF has not focused on the return of non-grant resources at project conclusion. Policies and practices related to the administration of these instruments are now being reviewed toward establishing consistent expectations and agency practice.

(b) using guarantees and special funds in markets for efficient lighting and refrigeration in numerous countries to remove financial barriers to energy efficiency investments; and

(c) partial credit guarantees to financial intermediaries through the Environmental Business Finance Program to support energy efficiency and renewable energy technologies of privately owned SMEs in the GEF program countries.

94. Though a lot of success has been demonstrated in the portfolio, non-grant instruments are not necessarily a universal solution in all projects. Within the particular context of each project, specific conditions (e.g., a developed banking sector) need to be satisfied before these instruments can be applied.

Biodiversity

95. With the introduction of strategic priority (#2): *Mainstreaming Biodiversity in Production Landscapes and Sectors*, there is an opportunity to increase the use of loans, guarantees, equity, or other forms of risk capital to develop biodiversity-friendly business ventures at the SME level, and to access new markets for products in a broad range of economic sectors (agriculture, sustainable forestry, ecotourism, etc.). The GEF is starting to test the use of partial risk guarantees as necessary incentives for financial intermediaries to participate in loan financing for these businesses, particularly within commodities markets. In ecotourism, recognizing the challenges of running triple bottom line ecolodge enterprises may warrant support to established businesses that have been successful in this regard. Incentives, loans and concessional grants could be used to expand their businesses, partner with local lodges, and develop a variety of junior enterprises, both with local entrepreneurs and communities.

International Waters

96. A few IW projects have used non-grant instruments to engage the private sector in transboundary pollution reduction. With EBRD lending to Slovenia, accompanied by a GEF grant, funding is being off-lended through financial intermediaries to small and medium enterprises to install pollution reduction measures that reduce toxic substances polluting rivers. Other approved concepts to test new, innovative means of financing to support public-private partnerships include: a concept for a loan guarantee for sewage treatment, and a special strategic partnership with countries in East Asia to test a revolving fund for pollution reduction. This partnership, approved by Council in November 2005, would allow GEF funding to be used several times and be sustained in the long term by leveraging private sector pollution reduction investments, including by livestock industries. Offering risk sharing guarantee products, and piloting innovative finance, like revolving funds, can catalyze private sector investments in low cost technologies needed to sustain transboundary waters.

Knowledge Management Tools

97. Feedback from countries and the private sector have revealed concerns over the complexity involved in designing and getting GEF projects approved, and the lack of

information to guide the partnership process. A knowledge management component, specifically designed with the private sector in mind, could adapt a more business-like approach and address the focal areas' global environmental issues in a format more consistent with commercial activities (e.g., along industry sector lines or with less rigid subdivision into specific focal areas). Specific focal area options are proposed in the delineation of this instrument below.

GEF Public/Private Sector Partnership Fund

98. At its November 2005 meeting, the GEF Council reviewed a proposed Public/Private Sector Partnership Fund as one of three instruments to enhance private sector engagement in the work of focal areas.[43] The highlights of the Council decision on this topic state "Several Council members looked forward to further development of the proposal for a pilot fund as an innovative solution to engaging the private sector. Council emphasized the need to develop the specifics of the Fund, including the implications of the RAF."[44] This section provides background for a formal proposal for a pilot fund to be presented at the June 2006 Council meeting and addresses eight issues:

1. Rationale and overview
2. Criteria for project selection
3. Role of the Environment Opportunities Facility (EOF)
4. Indicative projects
5. Council review
6. IFC co-financing
7. Operating under the RAF
8. Access to the fund by other IAs

1. Rationale and overview for the proposed fund

99. As summarized in this section, the OPS3 and previous reviews of GEF experience engaging the private sector consistently emphasize the need for a more efficient and flexible window for public partnerships to promote private sector projects. The proposed GEF Public/Private Sector Partnership Fund (hereafter "the Fund") will test the hypothesis that there are many opportunities for private sector projects with substantial global environmental benefits, responding to GEF criteria (incremental costs, sustainability, replicability), that are not being supported largely due to operational obstacles e.g., lengthy processes. Critical features will therefore include simplicity of application; transparency, efficiency, predictability, and prompt replies in decision making; and identifying and testing diverse, innovative uses of GEF resources. In return, projects will be expected to bring high value to the GEF through global environmental impact reflecting one or more of the following: substantial direct impact on the global environment; highly innovative business models, financing, or other features with commercial promise; financial leverage substantially greater

[43] presented in the Secretariat paper "GEF Strategy to Enhance Engagement with the Private Sector" (GEF/C.27/13, Oct. 12, 2005).
[44] Joint Summary para. 109.

than typical of other GEF projects; and significant market transformational effects or other indicators of replication potential.

100. The GEF Implementing Agencies have supported numerous projects with significant private sector participation as summarized in this section. Typically, these projects operate as programs with disbursements to subprojects (e.g., Environmental Business Finance Program and Commercializing Energy Efficiency Finance Program - IFC, the China Energy Efficiency Financing project - IFC, and the Caribbean Renewable Energy Development Program - UNDP).[45] *The Fund will not be used as an alternative to such projects*, but rather will focus on testing immediate opportunities for innovative public/private partnerships.[46] In turn, the Fund will operate in a more limited sphere and with more stringent requirements as set forth below.[47]

101. The Fund takes into account experience gained from previous projects, including several equity funds, which were largely unsuccessful due to a combination of several factors: high administrative costs, difficulties finding GEF-eligible projects, and an inability to find enough investments that met both minimum size and rate of return requirements. These lessons have been incorporated in more recent projects which rely on local financial intermediaries to reduce administrative and supervision costs (e.g., several clean energy financing projects); which target specific GEF-eligible technologies (e.g., the fuel cell program); and/or which utilize non-profits with reduced financial return requirements to manage smaller amounts on more flexible terms (e.g., the Environmental Business Finance Program, which targets SMEs). In contrast, the pilot fund would target opportunities associated with larger investments, usually accompanied or followed by mainstream investments on commercial terms, but which could not be presented to the GEF due to the constraints of the project cycle.

102. It is proposed to create the Fund using the operational framework of the Environmental Opportunities Facility (EOF), administered by IFC. Using the EOF will avoid the need to create an entirely new structure and will provide a framework or platform for the Fund, which will need to develop, refine, and evaluate GEF appropriate procedures, criteria, and reporting requirements.

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[45] Ref. GEF/C.27/Inf.7 October 12, 2005, Information Document

[46] For example, the IFC has prepared a new biodiversity project for inclusion in the June work program (contingent on resource availability), the Biodiversity Agricultural Commodities Program (BACP), to identify and promote opportunities for protecting biodiversity in the context of four primary agricultural commodities. The preparation and implementation of the BACP is consistent with the GEF project cycle as it is not tied to a specifically identified, short-term investment opportunity. Similarly, three climate change projects submitted for the June work program focus on financial intermediation, specific technologies (light-emitting diodes and distributed generation), and targeted geographic areas (Ghana, Kenya and Sri Lanka) but are not tied to specific investment opportunities.

[47] The Fund may offer opportunities to test means for streamlining the GEF project cycle more generally, insofar as expedited processing procedures are developed and shown to be consistent with GEF objectives and eligibility criteria.

103. Another set of options, of interest to both the GEF Council as well as individual donors, relates to the governance structure for the Fund. As the effectiveness of the Fund depends on the efficiency and predictability of decisionmaking, the process of approving individual investments should be streamlined as much as possible – an objective reflected in the administration of the EOF.[48] However, consistent with GEF governance requirements, several options could be considered including Council endorsement of individual investments, an advisory committee to provide advice on more operational matters, as well as an annual report to the GEF and donors on Fund investments and performance.

104. While associations with IAs and EA regional development banks will be feasible and desirable,[49] another significant operational aspect is the need for Fund projects to count against country allocations under the Resource Allocation Framework. There are several ways this might be accomplished consistent with the need for efficiency and predictability as discussed in para. 118.

105. The majority of Fund investments, at least in the initial period, are expected to be opportunities associated with mainstream IFC investments. Examples are presented below (see paras. 113-115). This initial linkage serves several functions, particularly the opportunity to leverage IA/EAs' networks as sources of investment opportunities but also to maximize the development impact of the Fund by enhancing mainstream investments and to minimize the additional staffing needed to manage Fund resources.

106. As the private sector arm of the World Bank and the largest private sector focused agency in the GEF partnership, the IFC will be expected to play an active role in promoting the Fund, identifying project opportunities, and helping to identify resources in addition to those provided by the GEF. The IFC is providing an initial commitment of $10 million from its grant resources to supplement the request for up to $50 million in GEF and other donor support. IFC support is being requested on the basis of a 1:5 ratio relative to any GEF contribution, and would represent the first IFC sharing of incremental costs for GEF projects. Additional support would be sought from other sources. As a pilot project, the Fund will be initially authorized for 6 years with an additional period (to be determined) necessary for project implementation and evaluation. As discussed in more detail below, an initial progress report will be submitted after two years and a formal evaluation will be done at the end of the pilot period.

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[48] The review and approval of donor funded operations (DFO) within the IFC is currently undergoing substantial revision to assure greater coherence, quality control, and monitoring and evaluation. Any new DFO will need to comply with these ongoing internal procedures which are also expected to increase the level of management awareness and oversight.

[49] The Fund would initially be accessible only to IFC, IFC-partnered projects, or to other GEF Implementing Agencies able to provide comparable co-financing as the magnitude of resources is not expected to be sufficient to justify the greater complexity and operating costs associated with a more open solicitation at the initial pilot stage.

2. Criteria for project selection

107. The Fund would be required to meet all GEF eligibility criteria, including incremental costs of global environmental benefits, cost-effectiveness, co-financing, replicability of approach and outcomes. In most cases the key consideration will be the presence of quantifiable incremental costs that make the proposed investment non-bankable: higher capital costs, higher risks, and informational and/or regulatory barriers.

108. Another criteria will be to seek projects that do not duplicate the existing GEF portfolio and can serve to pilot new business models, open new market opportunities, promote promising new technologies, and otherwise serve as pilots with potentially broader applicability in GEF projects. Proposals to blend Fund support with carbon finance would be consistent with applicable GEF policies, as described in the climate change section.

109. The main principles for the use of the GEF contribution to the Fund include:

(a) application of the Incremental Cost Principle. Funds will be used to cover costs associated with generating global environmental benefits beyond the costs to enterprises of doing regular business and meeting legal environmental requirements (i.e., projects should in general not be good candidates to proceed under other vehicles);

(b) application of all GEF eligibility criteria (e.g., sustainability, replicability);

(c) projects will be private sector or public-private partnership driven and the private sector will provide substantial co-funding for each project;

(d) strong preference will be given to projects which include developing country sponsors;

(e) referral of projects from existing IA/EAs' GEF programs will be welcome;

(f) the Fund will deploy a range of instruments to support projects (e.g., grants, reimbursable grants, debt, equity and guarantees);

(g) approval and processing procedures will be adapted from those currently used by EOF (see below); and

(h) projects can include: public-private partnerships; small, highly innovative companies; financial intermediaries; and SMEs and large corporations

3. Role of the Environmental Opportunities Facility (EOF) for administrative purposes

110. One concern reflected in Council comments is that it needs to be clarified that the GEF will not be asked to contribute to the EOF per se. Rather, it is proposed that the EOF be utilized as an established structure to host the administration of the Fund. This will allow for the Fund to achieve a rapid start by avoiding the need to create a new administrative

structure, although some operational procedures, reporting requirements, and other features specific to the Fund will still be required.

111. The structure and operational procedures of the EOF are set forth in the private sector Information Document (see Chapter 12). EOF has received $7.8 million from five European donors[50] and up to $5 million from IFC. EOF was established to support ventures with a strong potential to deliver environmental benefits but which face barriers to new markets, technologies and ways of doing business—characteristics also found in GEF operational programs. A key feature of the EOF is its lean staffing and rapid decision making, on the order of 20 days or less to approve technical assistance grants and on the order of six months for an equity investment (see Chapter 12, para. 165 for a summary of EOF procedures and governance structure). IFC's environmental and social specialists are central to vetting projects and evaluating the application of EOF's eligibility criteria.

112. The EOF may deploy grants, loans, guarantees or equity on fully concessional or market-rate terms. Technical assistance grants are also used to support cleaner production techniques. A similar range and combination of financial instruments would be available under the Fund. Most deal flow comes from referrals from IFC's mainstream investment departments, one of the networks that would be further utilized for the Fund.

4. Indicative projects

113. Results from discussions during the private sector consultations in Brazil and India as well as with IFC's mainstream investment departments indicate that numerous potential quality proposals would emerge in response to the Fund. The sectors identified by the Millennium Ecosystem Assessment in the matrix "Drivers of Change in Biodiversity and Ecosystems" will be strategically targeted (i.e.: agriculture; forestry; fisheries; tourism; infrastructure and transport; oil, mining and gas; banking and infrastructure). Within IFC, the Infrastructure, General Manufacturing, and Agribusiness departments appear best placed to identify opportunities in renewable energy and energy efficiency investments and in promoting biodiversity and international waters objectives.

114. A potential opportunity could be to work with electric or gas utilities upgrading equipment but unwilling to deploy state-of-the-art technology due to higher costs or risks. In such a case, the availability of some concessional funding can have substantial financial and environmental leverage, but investment opportunities are typically only identified through IFC's or regional development banks' due diligence processes at a point when a further significant application for GEF support is not practical due to time requirements.

115. An example from IFC's manufacturing department was a paper company interested in piloting the use of waste burning technology with the potential to substantially reduce pollution while also generating significant amounts of power that would otherwise come from fossil fuels. The company and IFC were both willing to invest substantial amounts in the pilot project, but the associated risks exceeded commercially acceptable limits. The project would have considerable replication potential as the technology was widely

[50] Austria, Denmark, Italy, The Netherlands and Norway

applicable to the size and characteristics of paper mills in many developing countries. This project was inconsistent with the GEF project cycle due to time requirements.

5. Provisions for Council review

116. As noted above, the GEF project cycle is widely perceived to be the key barrier to engaging the private sector in many investment opportunities. Yet, preserving Council review will remain a core requirement of GEF governance. In order to reconcile these objectives it is proposed to provide the Council with several levels of review. The first and most significant is circulation for endorsement of each investment above a specified amount – at least $500,000. This minimum amount could be increased with Council approval based on experience. The state of the portfolio would also be reviewed and reported annually.

6. IFC Co-financing

117. A request has been approved for an initial commitment of $10 million in support from the IFC Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS), conditional on a significant commitment of support from the GEF.[51] This additional source of financing would be used to create an added incentive for country endorsements and could also cover non-GEF eligible expenses and any administrative expenses in excess of GEF fees.

7. Resource Allocation Framework

118. As the Fund will comply with all GEF policies, this will include the RAF to become effective in deploying resources under GEF-4. This is likely to present a considerable challenge to the operation of the Fund as obtaining endorsements for privately managed investments may be difficult in some countries, particularly in the initial period when focal points are first becoming familiar with the new system. Several strategies will be explored to obtain endorsements including seeking a few countries willing to designate some portion of their allocation in order to obtain the benefits of the Fund, as a need expressed by the private sector during consultations in Brazil and India, and the provision of additional co-financing as an incentive or bonus.

8. Opportunities for access to the Fund by other agencies

119. As an interim measure, it is proposed that IAs and EA regional development banks access the Fund by cooperative projects with the IFC. Legal and operational aspects for

[51] FMTAAS was established in FY04, funded by designations of IFC's retained earnings, and finances project development facilities, private enterprise partnerships, and similar facilities focused on small and medium-size enterprise development and similar initiatives. Amounts designated for technical assistance and advisory services are determined based on the Corporations annual operating income in excess of $150 million, contemplating the financial capacity and priorities of the Corporation, and are approved by the Corporations Board of Directors prior to the issuance of the annual financial statements. On August 3, 2004, IFC's Board of Directors approved a designation of $225 million of the Corporations retained earnings. On July 28, 2005, IFC's Board of Directors approved a further designation of $125 million of the Corporations retained earnings.

potentially making the Fund available to other agencies will be explored and reported to the Council within the first two years of Fund operation.

Non-grant/Risk Mitigation Instruments

120. Non-grant instruments (NGIs) encompass a diverse array of products with differing characteristics that respond to diverse financial needs and circumstances. Examples of non-grant instruments include: [52]

(a) partial loan guarantees;
(b) insurance schemes;
(c) contingent loans and concessional credit;
(d) reserve funds;
(e) equity investment funds;
(f) contingent grants; and
(g) debt for nature swaps.

121. These tools are broadly known and understood globally, but their application to particular problems and in specific locations requires careful design and execution. There is an implied hierarchy to non-grant financial instruments, ranging from the least to most expensive, in terms of impact per GEF dollar, e.g., a guarantee to a grant, respectively as presented above. By applying the least expensive tool to meet project needs, GEF and partner funds can be extended over more projects. A number of protocols and implementation issues need to be clarified or revised, including control of financial proceeds, but these instruments are promising components of a strategy going forward.[53]

122. The potential benefits and limitations of using NGIs in GEF projects was among the key issues addressed in the strategy and information paper for the November Council meeting.[54] This topic has been addressed several times dating virtually to the formation of the GEF.[55] They are increasingly popular as a key feature of projects focused on removing barriers to financing investments with global environmental benefits.[56] It is now time for the GEF to assess the experience in the use of NGIs with a cross-cutting evaluation to categorize, summarize, and evaluate the range of operational experience.

123. Several factors are behind the increasing use of NGIs in GEF projects. The first is the growing number of projects using GEF support to some significant degree in project designs based on removing barriers to financing. Such projects tend to be a good fit with evolving requirements in GEF objectives and review criteria as they offer significant co-financing, good prospects for sustainability and replication (if the underlying investments prove to be

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[52] For an overview and description of these instruments with project examples, see GEF/C.28/Inf.4 Chapter 13.
[53] A separate working group composed of the GEFSEC, IA/EAs, and the Trustee are developing clear guidelines on the use of guarantees and loans in GEF projects.
[54] GEF/C.27/13 (Oct. 2005) paras. 59-66; GEF/C.27/Inf.7 (Oct. 2005) ch. 7, pp. 54-58
[55] See GEF/C.13/Inf.5 (April 1999)(Annex, “Alternative Financing Mechanisms); GEF/C.7/12 (March 1996) paras. 21-24 (“Concessional Loans as the Private Sector Financing Modality”);
[56] See table, “Financial instruments used in the World Bank/GEF/IFC,” GEF/C.27/Inf.7, para. 150, and projects referenced in paras. 151-59

profitable).[57] The design and implementation of financing projects is also consistent with the GEF project cycle, as lending arrangements can be negotiated with banks without putting specific investment opportunities at risk. Projects focused on financing also can be blended with World Bank and IFC loans, a basis for achieving financial leverage and mainstreaming GEF objectives with the core financing approaches of these agencies.[58] In the IFC, this approach has been sufficiently successful that a unit has been established within the financial markets group to provide credit and risk mitigation for banks in client countries interested in environmental lending.

124. The implementation of non-grant instruments has some associated challenges and limitations. The amount of a guarantee will be booked by the GEF at its full potential value, making it larger than an equivalent grant. The success of financing approaches is always dependent on larger economic developments that influence commercial banking prospects. High domestic interest rates discourage borrowing, even when money is available. Swings in corporate profitability and energy prices also put underlying investments at risk.

125. The complexity and variation in NGIs is such that the design and execution of projects also brings with it a need for specialized financial and legal skills. Substantial commitment to training and capacity building is typically required, sometimes on-site and for an extended period. The high start-up and administrative costs imply the need for sufficient lending volume and minimum transaction sizes.

126. The use of NGIs should be understood in the broader context of constant evolution in the development of new financial instruments adapted to specific market needs and circumstances. Two well-known examples are the growing range of mortgage products as a factor in increasing home ownership (e.g., adjustable rates and interest only mortgages) and the increasing accessibility of credit cards as a source of growth in consumer spending. A comparable range of new financial products is available for corporate needs, including specialized project finance in which loans are made against expected revenues (e.g., from a power plant or toll road) rather than secured by collateral. International financial institutions (IFIs) are generally behind private commercial banks and investors in the use of these products. However, the IFIs often provide leadership in adapting these tools for use in emerging markets and defining the market specific risk necessary to engage less risk tolerant investors. The barrier in emerging markets is often a function of the need to address fundamental deficiencies in the financial sector – limited availability of capital for private

[57] As noted in GEF/C.27/13, the use of guarantees should also offer the potential for return of GEF resources in successful projects insofar as guarantees are not called. See n. 40, p. 28 and accompanying text. Policies for return of funds have not been defined and in practice only IFC retains funds used to cover possible losses; the WB and UNDP disburse reserve funds to government agencies and typically do not provide for return of funds that are not required. Those agencies which disburse GEF funds are also able to incorporate interest earnings as an additional source of funding, whereas funds retained in agency trust funds (as is the case with the IFC projects) must return interest earnings to the GEF Trust Fund.

[58] When GEF resources are used in combination with IBRD or IFC loans, care must be taken to assure that the risk mitigation is applied solely to the bank and not to reduce the risk to the IA. Typically, agencies charge their client banks fees for guarantees but this is usually not done with GEF guarantees as part of the inducement to take on new business risks. (Client banks are however always expected to assume some if not most of the lending risk; guarantees may cover as little as a few percent of the default risk for a lending portfolio).

borrowing, high interest rates, excessive government regulation, inadequate competition, and excessive aversion to risk.[59]

127. The use of NGIs also frequently puts a high premium on adaptive management as financial markets can change rapidly in a short period, relative to the typical time required to implement GEF projects. Two recent IFC projects are good examples. When the Russia sustainable energy financing project was designed, the banking sector suffered from a lack of liquidity due to consumer lack of trust (many banks had gone bankrupt). Consequently, banks were very responsive to offers of guarantees associated with IFC credit lines. Only a year later, rising oil prices have brought a rush of money into the Russian economy, requiring changes in the project design (e.g., greater risk tolerance) and new opportunities. In contrast, the China utility energy efficiency financing program was designed taking into account government regulations on private banks that restricted adjusting rates to reflect differences in risk. Government policy has since been adjusted allowing greater flexibility and requiring ongoing changes in project design, even before full implementation.

Issues and Criteria in the Inclusion of Non-Grant Instruments in GEF Project

128. The application of NGIs in GEF projects is wide-ranging, corresponding with the diversity of market needs and circumstances, the evolving status of financial markets in different regions, and the creativity of the banking sector. In some projects, the type and characteristics of proposed financial instruments can be specified at the time of work program inclusion consistent with the project design. This is frequently possible for projects that focus on narrowly defined geographic areas and end-uses, such as the energy financing projects in Bangladesh, Croatia, Mozambique and Poland described in the Information Document. In these projects the problem is relatively well defined and the financing approach is part of a government program, and therefore consistent with the regulatory environment and national priorities. Another category of GEF projects defines the use of specific financial instruments as a central element of the project design. Several IFC managed equity funds illustrate this approach, including Solar Development Capital (SDC), Terra Capital, and the Renewable Energy and Energy Efficiency Fund (REEF).[60] Another example is a UNEP/ECE project approved in November 2005 to support a clean energy equity fund to finance energy efficiency projects in eastern Europe.

129. In contrast, many GEF supported financing projects focus more broadly on removing financial barriers in specific markets for specific technologies or services and identify likely partners and a range of potential instruments, but leave many details for the subsequent appraisal and project execution. Examples include the UNDP project Accelerating

[59] An example that illustrates the impact of financial market development on GEF objectives is that a rural consumer in a developing country seeking to buy a solar home system for $500 may have to put 50 percent down, pay in excess of 25 percent interest rates, and may have to repay the loan in two years. In contrast a relatively low-income consumer in the US can buy a car with no money down and finance a loan of $25,000 for interest rates below 10 percent and a term of five years. The difference is not higher risk of default as many micro-credit programs have very high repayment rates; rather the difference is largely due to the absence of well developed financial markets, particularly in rural areas of developing countries.
[60] As noted in GEF/C.27/13, these funds were largely unsuccessful. See p.28, n. 41. The lessons from these projects will be addressed in an IFC report currently under preparation.

Renewable Energy Investments through CABEI in Central America and the IFC Environmental Business Financing Program.

130. It follows that the use of non-grant instruments in GEF projects is not easily summarized or reduced to a simple set of operational rules or review criteria. Rather than a consistently defined and applied product, NGIs are more properly characterized as a set of tools and techniques with primary relevance in projects to remove financial barriers, that must be carefully tailored and managed consistent with market conditions. Some criteria for evaluating the use of these instruments in GEF proposals can be made:

(a) *incrementality* will generally be associated with clearly identified market barriers based on market studies and consultations with the financial sector, linked to specific market opportunities and target borrowers (e.g., apartment buildings, wind energy project developers);

(b) the use of NGIs presumes the existence of financial liquidity and other conditions necessary for borrowing (reasonable interest rates, tenors consistent with project cost recovery, etc.), prerequisites that should be established at the time of work program inclusion;

(c) a substantial element of technical assistance is typically necessary to build local capacity in the target market and the use of the instruments;

(d) *risk-sharing* is a key element in project design, as GEF assumption of risk should be sufficient to encourage lending but no greater than necessary in order to minimize market distortions and expectations of continued subsidy;

(e) *adaptive management* is essential to take into account likely changes in market conditions, to adjust incentives to the level of response from the financial sector, and to take advantage of unexpected opportunities for increased impact; and

(f) *institutional appropriateness* is an overriding consideration as the proceeding list of issues presumes an agency with the specialized knowledge and experience commensurate with the complexity and risk involved.[61]

Knowledge Management Tools

131. Management tools are needed to facilitate the flow of information in developing private sector partnerships and projects with the GEF partnership, and to measure progress of such projects. A private sector knowledge management component will be incorporated into the broader GEF-wide knowledge management (KM) system in its initial stages of development. Elaboration of the proposed structure and function of the private sector component of the GEF KM system is presented below.

[61] Also see June 2006 Council paper on the Roles and Comparative Advantages of the GEF Agencies.

132. The private sector component would be designed in a way that highlights priorities and opportunities for forging mutually beneficial partnerships and facilitates the creation of a greater number of more effective partnerships. Proposed tools would include:

(a) an information database;
(b) a marketing tool; and
(c) a monitoring and evaluation tool.

Information Database

133. Within the GEF knowledge management system, a database will house strategically-collected information regarding partnerships with the private sector. The database will help identify opportunities for a given private sector partner to work with multiple IA/EAs, and thus leverage partnerships throughout the GEF partnership. This database tool will serve multiple functions, including to:

(a) facilitate communication channels regarding the GEF process and provide guidance as to eligibility criteria for GEF projects;

(b) disclose identified private sector priorities and project interests in order to match them with GEF's IA/EAs country and focal area priorities;

(c) flag potential barriers to project implementation throughout the IA/EA community;

(d) centralize and share lessons learned from countries' private sector partnerships across focal areas and IA/EAs;

(e) supply project information in an effort to avoid replication of existing projects; and

(f) provide a centralized location for guidance documents, such as case studies.

134. The database could also build upon and highlight pertinent knowledge gained and lessons learned—relevant to the private sector—that are extracted from the KM systems and products of the IA/EAs (e.g., UNDP Knowledge Services, UNEP/GEF Sustainable Alternatives Network),[62] as well as the following focal area specific KM initiatives:

(a) *Biodiversity*: the Biodiversity Planning Support Programme; Strengthening Capacity to Generate, Disseminate and Adopt Good Practices for Biodiversity Conservation Project; Megadiverse Knowledge and Policy Network for Biodiversity and Sustainable Development Project;

(b) *Climate Change:* Solar PV in Africa; Financial Risk Mitigation MSP; Productive Uses KM; various portfolio studies and toolkits (e.g., Standards

[62] http://www.undp.org/knowledge/services.htm. , www.sustainablealternatives.net

and Labels Practitioner Guide; GEF/ESMAP grid-connected policy project; solar thermal and energy efficiency financing studies); etc.;

(c) *International Waters*: IW:LEARN – International Waters Portfolio KM and learning projects; global water policy events; and

(d) *Land Degradation*: Knowledge from the Land: Building a Community of Practice for the Land Degradation Focal Area.

135. Existing public-private partnership sites could also provide useful models as knowledge management tools (e.g., U.S.- Climate Technology Cooperation (CTC) Gateway).[63]

136. The feasibility of accessing the information database through two portals—one for the public sector and one for the private sector—will be explored. These portals would allow the GEF partnership and the private sector respectively to access the database and cross-reference priorities with those of potential partners, and obtain other information as detailed above. Similarly, the public sector portal would allow the GEF family to view the database of private sector priorities and other relevant information.[64] Each portal will be designed to direct and facilitate straightforward navigation through the database to the information most relevant to the target sector's specific needs and interests. In other words, the portals provide a lens through which to view the information in the database.

137. A step-wise approach to the database's development could be initiated by collating contacts, private sector priorities and potential projects. Once the database is more fully developed, it will contain the following key components:

Components	***Description***
Barriers to Implementation	Barrier removal activities to foster an enabling environment for private sector engagement
Financial and Performance Data on GEF	Projects/dollars leveraged, projects/dollars generated, replication, environmental impacts/benefits etc.
Lessons Learned	Previous projects; methodology for determining future projects
Project Summary Information	Information to maximize replication while avoiding duplication of efforts
Private Sector Portal (open access)	Information relevant to private sector needs; place for the private sector to provide information of benefit to the GEF family
Monitoring and Evaluation	Baselines for performance indicators; measurements of project accomplishments

[63] http://www.usctcgateway.net/
[64] A mechanism to protect business proprietary information would be included.

Marketing

138. The GEF partnership could develop a marketing tool that recognizes the private sector for certain environmental leadership achievements—as an incentive for large companies and multinational corporations to partner with the GEF. Such a tool would recognize that the private sector's involvement in a project is in accordance with, and/or exceeds GEF standards, and is aligned with major global environmental conventions. The tool could take the shape of an award, certification/label, endorsement, or other similar symbol of recognition. This tool could help magnify GEF's profile and credibility among private sector entities whose activities are affecting the global environment and potentially catalyze new partnerships to take form. An alternative approach would be for the GEF to help and/or promote other IA/EAs – or other entities[65] – in developing and/or standardizing marketing tools and symbols of recognition for environmental stewardship.

Monitoring & Evaluation

139. A monitoring and evaluation tool is recommended to determine the value-added of GEF funding for private sector activities. This tool would be developed in coordination with, and would be complementary to, the activities of the Evaluation Office and the overall GEF KM system.

Linkages to Communications & Outreach Strategy

140. More expansive communication and outreach will be particularly relevant to ensuring broader awareness of the GEF partnership and its mission, and subsequently the effectiveness of any marketing tools developed. The KM system will help facilitate these broader communications and outreach efforts, including through potential private sector forums. A complete set of options for encouraging private sector associations to communicate with the GEF—such as providing input at GEF Council meetings—still requires further exploration.[66]

Staffing and Resource Requirements

141. Concerted work will be needed to establish a private sector component of a KM system, including: developing a method for gathering quality data and information, from IA/EAs and other partners; establishing initial databases; entering gathered data and information into the system; and connecting the GEF partnership to these resources.

142. Additionally, ongoing, periodic updating and improvements will be required so that the set of tools remains useful to the GEF partnership and private sector practitioners. Overseeing these tasks might best be done by outside experts with the requisite experience

[65] e.g., the World Environment Center (WEC) Gold Medal for International Corporate Achievement and Sustainable Development (http.//www.wec.org)
[66] The challenge will be to find private sector representatives who can adequately organize and represent the broad perspectives and issues of the all of the private sector's diverse industry sub-sectors relevant to the GEF in a fair and non-competitive manner.

and resources. This private sector component will be funded out of the budget to be allocated to the GEF-wide KM system.

SECTION VI: NEXT STEPS – GOING FORWARD

Focal Areas

143. The GEF will continue to carry out the work outlined in the focal area sections—making use of the proposed operational guidelines to strengthen its work with the private sector. Ensuring an enabling environment for private sector investment; transforming markets for environmentally-friendly products and services; and increasing efforts to engage the private sector at the global level, will continue to be major objectives in the focal areas having significant experience with and relevance to the private sector.

GEF Public/Private Partnership Fund

144. Based on the Council's approval and the outcome of the Replenishment, operational aspects of the pilot public/private partnership fund will be finalized and a project proposal will be submitted as part of the next work program.

Non-grant/Risk Mitigation Instruments

145. The GEF will encourage the use of non-grant instruments amongst the multilateral and regional development banks and the GEF agencies which demonstrate the institutional capacity and processes in place to apply such investments. The next steps include: (a) developing operational policies with the Trustee for increased use of instruments; and (b) assessing the experience in the use of non-grant instruments with a cross-cutting evaluation to categorize, summarize, and evaluate the range of operational experience.

Knowledge Management Tools

146. The GEF will continue to develop and implement a knowledge management system to enhance the work of the GEF and its partners. The database and marketing tools will be structured within the umbrella KM system, and will be continually updated and expanded with new information from governments, the private sector, IA/EAs, donors, project reviews, private sector consultations, etc.

147. More expansive communication and outreach will continue to ensure broader awareness of the GEF partnership and its mission, and subsequently the effectiveness of any marketing tools developed. Options for encouraging private sector associations to provide input at GEF Council meetings will also be explored.

Engaging with the Private Sector

148. Where and when opportunities arise, the GEF partners will continue to engage and seek enhanced input on the strategy from private sector entities operating in developing

countries. The GEF partners will also actively seek out pilot project opportunities with individual companies and business associations.

ANNEX 1: COVER NOTE FOR THE GEF STRATEGY TO ENHANCE ENGAGEMENT WITH THE PRIVATE SECTOR—GEF/C.28/14—MAY 9, 2006

1. This cover note provides a summary of the responses (provided in the subject report) to Council recommendations reflected in: the GEF-3 policy document; the November 2005 Council meeting's Joint Summary of Chairs; and November 2005 Council meeting interventions. Structural and editorial changes to the strategy are also outlined.

Replenishment Documents

GEF-3 Policy Recommendations

2. Para. 33 of the November 5, 2002 *Summary of Negotiations on the Third Replenishment of the GEF Trust Fund* document states that "the GEF should work with countries to create an enabling environment that will attract private sector as well as non-profit funding leading to global environmental benefits. Capacity building at the institutional and systemic level will be important in this respect. The GEF should seek to promote more extensive communication with, and engagement of, the private sector and non-profit organizations with a view to harnessing maximum resources to address global environmental concerns."

3. Para. 34 further states that "recognizing previous efforts to engage the private sector, Participants recommend that the GEF Secretariat, in collaboration with the Implementing and Executing Agencies, develop a new strategy to better engage the private sector, taking into account previous practices and policies. Participants recommend that the GEF, in preparing the strategy, consult with private sector actors to identify perceived constraints to working with the GEF. Clear operational guidelines should be elaborated in order to define the scope of GEF collaboration with private sector activities. The strategy should address how project design and implementation could place greater emphasis on the development of an enabling environment and market-oriented strategies to enhance sustainability and replication."

(a) the subject report focuses on engagement of the private sector. Engagement of non-profit organizations will be the subject of a future separate document;

(b) *creating an enabling environment that will attract private sector funding leading to global environmental benefits.* The critical role of the GEF in promoting an enabling environment for private sector investment and as a catalyst for market transformation is presented in Section 2 of the strategy and Chapter 2 of the Information Document GEF/C.28/Inf.4;

(c) *promoting more expansive communications with, and engagement of, the private sector.* The focal area sections and the section on recommended instruments are based on the premise of promoting more expansive communications with, and engagement of, the private sector;

(d) *consult with private sector actors to identify perceived constraints to working with the GEF.* Private sector consultations were carried out in Brazil and

India with over 25 private sector representatives and industry associations.[67] Chapter 6 also provides a comprehensive list of private sector outreach conducted. Relevant feedback is reflected in the strategy;

(e) *clear operational guidelines should be elaborated in order to define the scope of GEF collaboration with private sector activities.* Operational guidelines are delineated in section 3 of the strategy[68] and include GEF overall criteria, relevant GEF focal areas' strategic priorities and operational programs, as well as specific guidelines for GEF engagement of the private sector as a recipient; and

(f) *address how project design and implementation could place greater emphasis on the development of an enabling environment and market-oriented strategies to enhance sustainability and replication.* See 3(b). Furthermore, the operational guidelines assert that all GEF projects and programs should ensure that they do not impede on private sector development by considering the implications for the private sector as part of an analysis of the existing market and investment climate. Provisions should also be made in project reviews to determine whether engagement of the private sector, including strategies to influence the market, has been fully explored.

4. In the November 30, 2005 *Joint Summary of the Chairs - GEF Council Meeting November 8-10, 2005*, the "Council requests the Secretariat to develop the strategy further" taking into account the following comments:

(a) *several Council Members emphasized the need for consultation with private sector entities, in recipient countries including industry associations, in further development of the strategy.* See 3(d);

(b) *a few Council Members suggested that the GEF seek inputs from the private sector arms of regional development banks and bilateral agencies.* From the onset of the preparation of the strategy, all the existing private sector strategies for the regional and multilateral development banks were carefully reviewed and are now summarized in Chapter 3 of the Information Document GEF/C.28/Inf.4. Discussions with bilaterals and regional development banks (RDBs) were also conducted from the onset;

(c) *several Council Members suggested inviting private sector representatives as observers to GEF Council meetings:* Options for encouraging private sector representatives as observers still require further exploration;

[67] Budgetary restraints limited the amount of recipient country consultations that could take place. Brazil and India were selected due to the ability to cost share by linking with other planned missions. Additional private sector consultations are scheduled for South Africa in coordination with the Assembly Meeting.
[68] See Chapter 8, *The Scope of GEF Engagement with the Private Sector* in the Information Document for more information on the potential types of partnerships and categories of private sector institutions.

(d) *several Council Members requested the inclusion of the POPs focal area in the further elaboration of the strategy.* All of the focal areas' experience with engaging the private sector is represented in the strategy, including the addition of the POPs, Ozone Depleting Substances and the Land Degradation focal areas;

(e) *several Council Members looked forward to further development of the proposal for a pilot fund as an innovative solution to engaging the private sector. Council emphasized the need to develop the specifics of the fund, including the implications of the RAF.* The specifics of a pilot Public/Private Partnership Fund are elaborated in section 5 of the strategy, including implications of the RAF;

(f) *Council Members stressed the importance of locating the private sector knowledge management module within the overall framework of the GEF knowledge management system.* As described in section 5, a private sector knowledge management component will be incorporated into the broader GEF-wide knowledge management system in its initial stages of development, without additional costs; and

(g) *the importance of microenterprises and small and medium sized enterprises was raised, and it was suggested that lessons learned through the Small Grants Program be considered in the strategy.* Engagement of small and medium sized enterprises is a priority of the strategy. Engagement of the Small Grants Programme (SGP) at the micro-enterprise level—through NGOs and community-based organizations—is now reflected in Section 5 and in Chapter 4 of the Information Document.

Council Interventions

5. The following additional Council interventions are also reflected in the revised strategy document:

(a) develop clear guidelines and policies for the use of guarantees and loans (Section 5 and 6);

(b) emphasize the need for the private sector to develop markets (Sections 2, 4 and Chapter 2 of GEF/C.28/Inf.4);

(c) make the barriers section more succinct. Focus on the major obstacles (Section 5 and Chapter 5 of GEF/C.28/Inf.4);

(d) the enabling environments needed in countries for enhanced private sector engagement should be discussed, including relevant policies and legislation (Section 2 and Chapter 2 of GEF/C.28/Inf.4);

(e) provide a menu of instruments and activities to be applied to reach the objectives for each focal area (Sections 4 and 5);

(f) the biodiversity section has been refocused and to: emphasize a more market-oriented approach; decrease the list of impediments; and add an *X* to Mediterranean forests, infrastructure and tourism in the table on page 12 (Section 4);

(g) the public/private partnership fund should provide a clearer proposal, within context of the RAF: proposed size/amount of the fund; principles and eligibility criteria; governance structure; processing and procedures; make explicit that the fund will not eliminate the opportunity for private sector involvement in the GEF through the normal proposal process; access should be extended to regional banks and other IAs after the pilot phase; emphasize how projects under the fund will have country ownership and will be in line with country priorities; the fund needs to allow flexibility of operations to be attractive to the private sector (Section 5 and Chapter 12 of GEF/C.28/Inf.4);

(h) non-grant instruments: more emphasis should be placed on what has already been done—past practices; and specify how GEF can get involved in debt for nature swaps (Section 5 and Chapter 13 of GEF/C.28/Inf.4);

(i) take into account experience from the Montreal Protocol process (see 4(d) and Section 4); and

(j) delete the word family (the term partnership has been adopted).

Structural and Editorial Changes

6. Structural and editing changes have been made to the report to provide additional clarity and focus to the strategy. The major changes include:

(a) inclusion of a section on GEF's role in promoting an enabling environment for the private sector and transforming markets (also see Chapter 2 of GEF/C.28/Inf.4), as well as a description of efforts to address the enabling environment under each focal area section;

(b) restructuring of the focal area sections to reflect the evolution of private sector involvement in each focal area based on each area's specific experiences and lessons learned through three types of engagement: (a) Enabling Environment; (b) Demonstration/Pilot Projects; and (c) Strategic/Policy Dialogue; and

(c) the rationales for the use of three instruments within focal areas to generate global benefits through enhanced engagement with the private sector is now presented in Section 5. The section on general barriers to private sector engagement has been relocated to Chapter 5 of the Information Document.