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ADDITIONAL INFORMATION TO SUPPORT THE GEF STRATEGY TO ENHANCE ENGAGEMENT WITH THE PRIVATE SECTOR

ACRONYMS

ADB	Asian Development Bank
AFDB	African Development Bank
BAPs	Biodiversity Action Plans
BBRC	Business and Biodiversity Resource Centre
BELC	Business Environmental Leadership Council
BIOCF	BioCarbon Fund
BSR	Business for Social Responsibility
CBD	Convention on Biological Diversity
CCBA	Climate, Community & Biodiversity Alliance
CCWG	Climate Change Working Group
CDCF	Community Development Carbon Fund
CEPF	Critical Ecosystem Partnership Fund
CERES	CERES
CERG	Corporate Environmental Responsibility Group
CERs	Carbon Emissions Reductions
CFLs	Compact Fluorescent Lights
CI	Conservation International
CIDA	Canadian International Development Agency
CIEF	Construction Industry Environmental Forum
CIRIA	Construction Industry Research and Information Association
COP	Conference of Parties
DSM	Demand-side management
EA	Executing Agency
EBFP	Environmental Business Finance Program
EBI	Energy and Biodiversity Initiative
EBRD	European Bank for Reconstruction and Development
ECGD	Export Credits Guarantee Department
ECOiSHARE	Ecological Information Sharing
EFG	Environmental Finance Group
EIAs	Environmental Impact Assessments
EMA	Environmental Markets Association
EOF	Environmental Opportunities Facility
EPCs	Energy Performance Contracts
ERs	Emission Reductions
ESMAP	Energy Sector Management Assistance Program
ESCOs	Energy Service Companies
EU	European Union
FFI	Fauna & Flora International
FCFI	Fuel Cells Financing Initiative for Distributed Generation Applications
FIs	Financial Institutions
FMTAAS	Funding Mechanism for Technical Assistance and Advisory Services
FSC	Forest Stewardship Council
GEFSEC	Global Environment Facility Secretariat
GHG	Greenhouse Gas

GIN	Greening of Industry Network
GRI	Global Reporting Initiative
GWP	Global Warming Potential
GWP	Global Water Partnership
IA	Implementing Agency
IADB	Inter-American Development Bank
IAG	Insurance Australia Group
IBLF	International Business Leaders Forum
ICMM	International Council on Mining and Metals
IETA	International Emissions Trading Association
IFC	International Finance Corporation
IFI	International Financial Institution
IFOAM	International Federation of Organic Agriculture Movements
IHEI	International Hotels Environment Initiative
IIGCC	Institutional Investors Group on Climate Change
IPIECA	International Petroleum Industry Environmental Conservation Association
IPPs	Independent Power Producers
ISEAL	International Social & Environmental Accreditation & Labeling Alliance
ITP	International Tourism Partnership
IUCN	World Conservation Union
JI	Joint Implementation
KM	Knowledge Management
LNCs	Large National Corporations
MA	Millennium Ecosystem Assessment
MAC	Marine Aquarium Council
M&E	Monitoring and Evaluation
MEA	Multilateral Environmental Agreements
MLF	Multilateral Fund
MNCs	Multinational Corporations
MSPs	Medium-sized projects
NEFCO	Nordic Environment Finance Corporation
NGI	Non-grant Instrument
NGO	Non-Government Organization
ODA	Official Development Assistance
OECD	Organization for Economic Co-operation and Development
OP	Operational Program
OPS3	2005 Overall Performance Study for GEF3
PCA	Partnership for Climate Action
PCB	Polychlorinated Biphenyls
PCF	Prototype Carbon Fund
PELP	Poland's Efficient Lighting Project
PES	Payment for Environmental Services
PEW	PEW Center on Global Climate Change
PR	Pollution Reduction
PVMTI	Photovoltaic Market Transformation Initiative
RDB	Regional Development Bank

REEF	Renewable Energy and Energy Efficiency Fund
RFP	Request For Proposal
RTCC	Responding to Climate Change
S&L	Standards and Labels
SAEFL	Swiss Agency for the Environment, Forests and Landscape
SAM	Sustainable Asset Management
SEFI	Sustainable Energy Finance Initiative
SGP	Small Grants Programme
SHSs	Solar home systems
SIDs	Small Island Developing States
SLM	Sustainable Land Management
SMEs	Small and Medium Enterprises
STAP	Scientific and Technical Advisory Panel
STRMs	Short-term response measures
TEST	Transfer of Environmentally Sound Technologies
TKG	The Katoomba Group
TNC	The Nature Conservancy
TOI	Tour Operators Initiative
UNCCD	United Nations Convention to Combat Desertification
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
UNEP-WCMC	World Conservation Monitoring Centre
UNFCCC	United Nations Framework Convention on Climate Change
WB	World Bank
WBCSD	World Business Council for Sustainable Development
WGEIB	Working Group on Extractive Industries and Biodiversity
WWC	World Water Council
WWF	formerly World Wildlife Fund

Table of Contents

CHAPTER 1. THE GEF BACKGROUND WORK ON PRIVATE SECTOR INVOLVEMENT OVER THE LAST DECADE

Policy Work

1. Four reports were prepared:

   (a) GEF Strategy for Engaging the Private Sector (1996)
   (b) Engaging the Private Sector in GEF Activities (1999)
   (c) Enhancing GEF's Engagement with the Private Sector (2003)
   (d) Principles for Engaging the Private Sector (2004)

2. The papers provide the following directions:

   (a) certain preconditions underpin all engagements with the private sector:

      (i) operational principles of country-drivenness, incrementality, conformity with an operational program and cost effectiveness must be observed; and

      (ii) the GEF must adhere to existing operational policies on leveraging resources[1] when influencing private investment flows.

   (b) furthermore, GEF funds should create a public asset instead of an exclusively private one. Distorting competitive market conditions and unfairly favoring a selected firm should also be avoided. Therefore, guidance for choosing the appropriate private sector partners and products is essential.[2]

3. Strategy recommendations (based on lessons learned)

   (a) an entrepreneurial and flexible approach to engagement is required to adapt to the needs of a heterogeneous private sector. This will necessitate changes in mindset, perception and commitment, as well as operational modalities to ensure effective engagement;

   (b) (indirect) engagement should focus on the GEF's successful role as broker and facilitator in partnerships to remove information and market barriers;

   (c) involvement should also be directed toward replicating successes (through a market based approach involving the whole value chain), rather than concentrating solely on innovation; and

   (d) the importance of the private sector as a change agent for policy reform should be recognized and encouraged.

[1] GEF may leverage resources in four main ways: mainstreaming global environmental considerations into regular development efforts of IA/EAs, supporting substitute projects, inducing programmatic effects, and removing market barriers for cost effective pro-environmental investment.
[2] This will require conducting in-depth strategic analyses on country, private sector entity, project, and market appropriateness.

Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report[3]

4. General conclusions from the workshop include:

(a) there is a need for better 'branding' of the GEF as part of a strategy to gain recognition and credibility within the private sector community;

(b) successful partnership approaches must be guided by simplicity,[4] local execution and a good flow of communication;

(c) success on a project level is very much related to objectives but also to the appetite to take risks and to the acceptance of "failures" as part of a learning experience;

(d) it is difficult to maintain a dialogue along strictly focal area lines as the private sector is classified by business sectors, and industry associations and forums follow such classifications;

(e) there are missing links and steps between successful innovative models and successful replication which must be addressed in project design; and

(f) more work by the GEF at the policy level could lead to improved sustainability and replication.[5]

M&E Review of GEF Engagement with the Private Sector and management Response

5. The main recommendations agreed upon in both the Review and Response documents are presented below:[6]

(a) GEF should seek a higher degree of risk sharing amongst project participants to create better incentives for project success and to avoid moral hazards. This will necessitate a clearer understanding of the expectations of various partners in a project/program context;

(b) it will be necessary to identify and engage financial partners in a transparent and competitive process;

(c) the GEF Secretariat and IA/EAs should have on their staff experts on global environmental issues, business finance, and public sector policies to influence relevant markets; and

[3] Many of the observations and recommendations are repeated in the SAEFL paper and the M&E Review and Response. For the sake of brevity, the points listed in this section 1 have not been repeated under points 3 and 4.
[4] Simplicity relating to operational issues such as lack of predictability and long and complicated procedures.
[5] For example, appropriate prices, no subsidies for fossil fuels and conducive frameworks are important features to make ventures in the environmental field more feasible.
[6] The review presented specific conclusions in the biodiversity and climate change focal areas, as well as a number of general conclusions. The response addressed the concern that the recommendations were based on a very narrow sub-set of projects or were too general to be meaningfully applied in most cases.

(d) M&E frameworks are weak at measuring global environmental benefits, and baseline information is needed from which progress can be measured.

Types of Activities

6. A summary of activities and private sector involvement to date includes:

(a) projects in renewable energy, energy efficiency, ecotourism, commodity-based agroforestry, and payment for environmental services (PES); and

(b) types of private sector involvement have included: as supplier or advisor to GEF funded projects; recipient of financing in co-financed arrangements; and as beneficiary of barrier removal activities in environmental markets.

CHAPTER 2. GEF'S ROLE IN PROMOTING AN ENABLING ENVIRONMENT -- TO DEVELOP AND TRANSFORM MARKETS FOR GEF-FRIENDLY PRODUCTS AND SERVICES

7. The GEF contributes to generating global environmental benefits by aiding the private sector in transforming local and global markets for environmentally friendly products and services. The GEF focuses on:

(a) penetrating markets for more efficient and renewable technologies to realize long-term reduction or avoidance of GHG emissions, and

(b) scaling up the sustainable production of products impacting the conservation of biodiversity.

Creating an Enabling Environment

8. The willingness of the private sector to venture into high risk markets for environmentally beneficial products and services will be influenced by the overall business climate in recipient countries. GEF projects involving the private sector should conduct preliminary assessments to determine if the enabling conditions necessary for private sector investment are satisfactory, including:

(a) a stable macroeconomic environment;
(b) rust social and physical infrastructure;
(c) adequate public institutional support for the private sector;
(d) appropriate legal and regulatory frameworks;
(e) good governance; and
(f) low transaction costs (e.g. vis a vis manageable bureaucratic procedures, etc.).

9. While the GEF's influence on many of these broad conditions is limited, the GEF has a central role to play in affecting the enabling environment at the sector level. Examples of policy work facilitated by the GEF include: collaborating with governments in China, India, and Mexico to offer attractive conditions for private independent power producer (IPP) investments in on-grid markets, and promoting policy reforms to provide incentives to biodiversity friendly SMEs in various sectors in Central America.

Addressing Market Failures

10. Depending on the completeness of the enabling environment, GEF technical and financial resources can be cost-effective when used to holistically remove the barriers to markets for environmentally-friendly products and services. Efforts to develop or transform markets must consider the externalities that can result in market failure if not prevented or eliminated, such as:

(a) negative externalities (e.g. perverse incentives for industry that negatively impact the environment);

(b) positive externalities (e.g. free-rider problems);

(c) market gaps (e.g. non-provision of, sub-optimal or inappropriate services);

(d) excessive market power (such as monopolies and oligopolies); and

(e) asymmetric information (resulting in distorted market prices).

11. For example, biodiversity cannot be safeguarded if regulations exist that impose negative externalities, such as subsidies to economic sectors exerting pressures on biodiversity. Without assigning and enforcing property rights over certain biodiversity resources, free-rider problems can persist and the long-term incentive for enhancing the overall value of the resource will be inadequate.

Removing Market Barriers

12. Beyond laying the foundation for market development, the GEF has taken steps to create sustainable market conditions needed for entrepreneurs to scale up and transform existing markets. GEF projects aim to strategically remove barriers associated with the following market requirements:

(a) enabling policies
(b) available finance
(c) adequate business infrastructure
(d) information and awareness
(e) appropriate technology
(f) adequate capacity

Market Transformation Activities

13. GEF's comparative advantage in market transformation is supporting activities that are essential for productive markets, but would most likely not occur without GEF intervention, such as consumer education, quality assurance and standards and certification programs. For example, the development and enforcement of standards, codes, and labeling schemes have lead to significant improvements in the quality and reliability of energy-efficient appliances, energy-efficient buildings, and PV systems in many medium- to larger-sized developing countries. Technical specifications created through standards and labeling programs have improved technology credibility, increased consumer acceptability, and grown markets for energy efficiency and renewable energy technology products.

14. GEF's Poland Efficient Lighting Project (PELP) highlights how the domestic market for Compact Fluorescent Lights (CFLs) was transformed by providing consumers with credible information about their economic and environmental benefits, thereby justifying the higher up-front costs. The lessons learned through PELP have been applied to subsequent successful projects to transform markets for efficient lighting in Argentina, Czech Republic, Hungary, Latvia, Peru, the Philippines and South Africa.

15. In addition to these demand-pull activities, the GEF has supported complementary supply-push strategies—targeted at the private sector—to transformation markets, including:

(a) capacity development and knowledge sharing;
(b) commercial financing;
(c) dealer and manufacturer/producer incentives;
(d) distribution and delivery mechanisms, e.g. bulk procurement;
(e) manufacturer/producer technology transfer;
(f) marketing;
(g) promotion of open market competition; and
(h) utility demand-side management (DSM) programs.

16. Many of these approaches have been employed in efficient refrigerators and lighting projects in China and lighting DSM programs in Thailand, Mexico and Poland.

17. Without a holistic approach—combining supply-push and demand-pull strategies—achieving market transformation will be challenging. Some GEF projects have struggled in this regard, such as the energy efficiency project in Cuba. Though 18,000 efficient refrigerators were produced and sold by the end of the project, the absence of policies, consumer awareness, and financing for continued production made sustainable market transformation an unlikely outcome. Less-efficient refrigerators continue to be imported into the Cuban market.

Market Transformation in the Climate Change Focal Area

Energy Efficiency

18. The climate change program has contributed to the transformation of many different markets for energy efficiency products such as appliances, lighting equipment, building equipment, air conditioning and industrial boilers. The energy efficiency co-financing project in Hungary was also instrumental in transforming financial markets through the provision of technical assistance and partial credit guarantees to domestic and international financial institutions. This business model helped facilitate and leverage private sector capital to support energy efficiency investments in lighting, district heating and industrial motors and processors. Developing and strengthening energy service companies (ESCOs) has also been employed in GEF projects to facilitate market transformation.

Renewable Energy

19. Many renewable energy markets still face significant barriers to market creation. Nevertheless, in specific energy sectors in specific countries, such as mini-hydro energy in Sri Lanka and wind power in India, the GEF has contributed to emerging market changes. Some PV-oriented projects have also been successful in niche market areas, such as solar cookers and large-scale solar water heaters catering to hotels, hospitals, and other commercial establishments. These projects, aiming at transforming renewable energy markets, have focused on the following activities:

(a) capacity building and support to technology producers and equipment vendors;
(b) customer awareness of the technology;
(c) developing industry best practices, standards and codes;
(d) facilitating credit lines for consumers through small financial intermediaries; and

(e) power sector reform.

Low GHG Emitting Energy Technologies and Sustainable Transport

20. The project portfolios of both OP7 and OP11 are not yet sufficiently developed to yield obvious market transformation results.

Market Transformation in the Biodiversity Focal Area

Certification

21. Many sectors venturing into biodiversity-based products are susceptible to significant information asymmetries, incredulous vendors and unauthentic products. These challenges can lead to market failure and compromise biodiversity conservation.

22. GEF supports the growth of certification systems that contribute to diminishing these market weaknesses by ensuring the homogeneity of biodiversity-friendly products and services. Certification safeguards genuine producers and instills confidence in consumers. Companies are increasingly committing to scale up their purchase and sale of biodiversity-friendly products endorsed by third-party certification and labeling programs.

23. Examples demonstrating how certification has contributed to transforming markets with proven biodiversity benefits include:

(a) agro-commodities: Certified commodities, such as coffee, are based on sound ecological agro-production principles, are usually of a higher quality, and often collect a premium price over non-certified commodities;

(b) forest products: Certified forest products endorsed by the Forest Stewardship Council (FSC) or other major certification standards are generally more biodiversity friendly than alternative products; and

(c) marine ornamentals: The environmental standards for the acquisition of sustainable marine ornamentals from coral reefs will be ensured through a certification system under development. The GEF is supporting the Marine Aquarium Council (MAC)—consisting of 2200 stakeholders from the marine aquarium industry—in developing the legal and policy context and business models for implementing site-level certification.

24. Certification systems are proliferating, and the GEF faces the challenge of managing a situation where numerous certifiers and labels—of varying quality and strategic focus—are creating confusion amongst consumers and producers. GEF can help these groups discriminate between products and services by identifying quality certification schemes and endorsing them through global awareness-raising programs.

Information and Awareness-raising

25. Markets for sustainable agriculture products can reduce biodiversity loss but require biodiversity knowledge to be disseminated to producers. GEF supports training in sustainable methods of production, and sharing and exchanging of information to propagate research and development and decrease production and transactions costs.

26. Information is equally vital for consumers, in order to distinguish between the various techniques used in the production of products. Information spread through public awareness campaigns, not only differentiates products in markets, but helps consumers recognize their biodiversity values. Labels, specialized cooperatives, and speciality stores also contribute to distinguishing between products and creating the demand needed to ensure the viability and transformation of markets.

27. Due to changes in consumer preferences, companies in sectors highly dependent on natural resources (agricultural crops, fisheries, timber, tourism) now have incentives to undertake innovative management and production practices that incorporate biodiversity considerations. In many cases, sharing information about these new practices with consumers has resulted in price premiums for companies.

Payments for Ecosystem Services

28. In addition to biodiversity-based products, the GEF has contributed to the transformation of markets for biodiversity services. Developing markets for these services provides the important function of internalizing economic values of ecosystems into market transactions. Payments have been used as incentives for farmers, in particular, to supply biodiversity-related amenities and to leave particular regions in a number of countries in conditions that are more conducive to biodiversity.

Market Transformation Across Focal Areas and Sectors

29. Through the work of its IAs, the GEF is facilitating market transformation by supporting various initiatives that encourage business best practices across sectors, including the UN Global Compact, the Global Reporting Initiative (GRI) and the Equator Principles.

30. Market transformation will not happen through isolated projects, and requires sustained programmatic support from the GEF and its partners (as demonstrated in Climate Change Operational Programs 5 and 6).[7] Influencing markets will require the GEF's long-term commitment and extensive support to the private sector.

[7] OP5 Removal of Barriers to Energy Efficiency and Energy Conservation; OP6 Promoting the Adoption of Renewable Energy by Removing Barriers and Reducing Implementation Costs.

CHAPTER 3. PRIVATE SECTOR STRATEGIES OF THE REGIONAL AND MULTILATERAL DEVELOPMENT BANKS

31. In developing the Strategy to Enhance Engagement with the Private Sector, a 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— and to extract lessons learned that could be applied to developing this strategy.

32. To implement their operations, investment banks focus on framework, macroeconomic work, diagnosing country-specific product and service markets based on extensive economic and sector work, sector dialogue, and large-scale follow-up investment. For example, because IBRD recognizes the private sector's crucial role in development, their economic and sector work focuses heavily on analysis of policy frameworks for private sector development and on the provision of advice to governments on how to strengthen those frameworks, which often involves substantial interaction with key private sector actors at national level. In particular, both EBRD and IFC focus specifically on the private sector lending without government guarantees.

33. The strategies focus on: creating an enabling environment/investment climate for the private sector; and supporting eligible private sector activities (see below).

Bank	Priority Activities	Comparative Advantage
AfDB	• Supporting specific improvements to the policy/regulatory enabling environment for private sector in Regional Member Countries (RMCs) through country dialogue and policy-based operations; ameliorating the physical and financial infrastructure in RMC to enhance private enterprises productivity and competitiveness; supporting the strengthening of human capital, in terms of technical assistance, transfer of skills, know-how and technology; and catalyzing inflow of financial resources to RMCs through direct investment and financing activities.	• Financial intermediation
ADB	• Supporting governments in creating enabling conditions for business • Catalyzing private investment through direct financing, credit enhancements and risk mitigation instruments.	• Governance in the public and private sectors • Financial intermediation • Public-private partnerships • Regional and subregional cooperation
EBRD	• Does not have a specific document dedicated to its strategy for private sector activities	• Investments in private enterprises • Specific sectors (agribusiness, energy, natural resources, property, shipping and transport).

IFC	• Addressing frontier markets through work on investment climates and advisory work • Targeting high-impact sectors having a greater impact on development • Supporting SMEs through local financial intermediaries, technical assistance, links with larger firms and sustainability (environmental, social and governance issues)	• Comparative advantages are linked to the priority activities.
IADB	• Developing an enabling environment for business • Financially supporting specific private sector projects • Leveraging developmental impact in underserved markets • Engaging the private sector in dialogue and action.	• Catalyzing private sector activity by supporting the promotion of dialogues and cooperation between the public and private sectors. • Supporting governments in providing public goods, regulating markets, promoting positive externalities, overcoming market failures
WB (MIGA & IFC)	• Improving investment climates • Providing financing for firms, with a focus on small and medium businesses and farms • Providing private infrastructure finance with appropriate regulatory safeguards	

CHAPTER 4. ENHANCING THE ENGAGEMENT OF MICRO-ENTERPRISES THROUGH THE SMALL GRANTS PROGRAMME

34. The Small Grants Programme (SGP) is a corporate, multi-focal program administered by UNDP on behalf of the three IAs. The SGP operates in 95 countries and provides grants of up to $50,000 to NGOs and community organizations for activities that support GEF global environmental objectives.

35. SGP has been the primary outlet for enhancing engagement with micro-enterprises through NGOs and CBOs to provide assistance with income-generating components of projects, including: marketing and certification of biodiversity-based products; and developing community business plans for GEF-friendly ventures. For example, SGP has supported NGOs and CBOs who have partnered with Honey Care Africa Ltd. (HCA), a micro-enterprise in Kenya, to introduce beekeeping to 2,000 rural households. SGP helps finance these organizations' outreach activities, which include assisting individual farmers in receiving training, and purchasing equipment and hives from HCA. In return, HCA guarantees the purchase of all honey produced by participating households (60-96 metric tons annually) at a competitive cash price. By encouraging sustainable income generation, HCA helps protect species-rich natural areas in Kenya from overuse and encroachment. Due to the social and environmental filter already established for SGP project support, the SGP is in a position to declare that their biodiversity-based products exceed many environmentally and socially responsible standards set by various industries.

36. To date, 317 grants representing $7.9 million—with an average of $25,000—have been allocated to these types of projects through the SGP. This assistance has been crucial to micro businesses, as they typically operate without the capacity and resources required to apply for medium size projects, and also fall outside the minimum scale for the efficient provision of support by GEF Implementing Agencies. The SGP work with the private sector could be further strengthened through leveraging co-financing with the Local Entrepreneurship Facility (LEF)—a program under preparation at UNDP's Energy and Environment Group. The collaboration between LEF and SGP could enhance enterprise capacity, investing, and developing markets for small businesses in the biodiversity, climate, energy and water service areas. LEF is to partner with investor partners and leverage its grants with private sector funds at the ratio of at least 1:3.

37. Realizing these challenges and recognizing that micro-enterprises can be a source of innovation, and a pilot for larger activities, the GEF will maintain its support to micro businesses through the SGP, while remaining open to additional opportunities to assist these enterprises in developing countries. The GEF will also continue its efforts to create an enabling environment in which GEF-friendly SMEs and micro-enterprises can thrive, and mainstream micro business can introduce best environmental practices into their operations.

CHAPTER 5. BARRIERS TO PRIVATE SECTOR ENGAGEMENT

38. The strategy must be 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:

(a) GEF and IA/EA rules and procedures can be overly time-consuming and cumbersome.[8] The complexity involved in designing and getting GEF projects approved is especially challenging for SMEs.[9] Disincentives particular to private sector participation can be overcome by:

(i) encouraging a more business-like approach, and a more direct, flexible and responsive interaction between the GEF, IA/EAs and the private sector;[10]

(ii) determining non-eligible projects rapidly (with a "quick no");[11]

(iii) improving communication channels (including communication concerning project approval);[12]

(iv) using straightforward language in lieu of internal jargon and acronyms;[13]

(v) considering a "single entry point to GEF" for communication with private sector entities;[14]

(vi) considering incentives such as a private sector pilot facility to enhance direct access to the GEF with reduced transaction costs to access GEF funds. A pilot facility could potentially cut the time and administrative efforts to access GEF funds while allowing for enhanced program flexibility with novel approaches;[15] and

(vii) setting aside dedicated financing for engaging the private sector that could be competitively accessed.[16]

(b) private sector actors view the environment as a single issue when planning their commercial activities, and may be put off by GEF's strict categorization into focal areas[17] (although this is less the case with larger corporations).

(i) be conscious of rigid subdivision into specific sectors and focal areas when designing projects and programs; and

[8] "Given the uncertainty, risk, and high opportunity cost inherent in GEF projects, private sector firms do not have sufficient incentive to wait up to two years for approval and endorsement" Joint Summary of the Chairs, October 19998 GEF Council meeting, par. 15.
[9] Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report.
[10] Ibid.
[11] Ibid.
[12] Ibid.
[13] Water operator CEOs in Water Operators and World Bank Roundtable, November 2001 and WBCSD PPP workshop in June 2002.
[14] Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report.
[15] Ibid.
[16] Engaging the Private Sector in GEF Activities (1999).
[17] Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report.

(ii) work with groups or associations of companies focused within specific industry sectors, as industry sectors generally have impacts on more than one GEF operational program area. Building broad-based partnerships and developing strategies with groups of companies within industry sectors can stimulate private sector investment and other actions to address negative environmental impacts, and can generate guidelines that support sustainable business development.

(c) GEF and IA/EAs are risk-averse.

(i) failures associated with risk-taking should not call into question the validity of the strategy but be analyzed to create a learning experience;[18]

(ii) formalize a greater commitment to experimentation, with increased flexibility regarding procedures, to enable the GEF to identify and exploit promising new possibilities; and

(iii) work with a group of companies within a specific industry sector to reduce the risk of directing finance to projects supported by individual or a very small number of companies, thus giving them a commercial advantage.

(d) private sector entities seeking to maintain commercial confidentiality may be inhibited by the transparency of GEF processes. The private sector is concerned about revealing intellectual property.

(i) while meeting GEF's and the IA/EAs' information disclosure requirements, establish protections assuring that proprietary data and confidential business information will not be compromised;[19] and

(ii) define criteria, in conformance with the IA/EAs procurement rules and procedures, for GEF support of projects that could involve some element of sole source procurement when the activity is sufficiently innovative, e.g., the private party assumes a greater than usual share of the risk, co-financing is primarily non-grant, and/or the potential benefit is substantial and highly replicable.[20]

(e) GEF is not broadly known within the international private sector and thus lacks a "brand" image.[21]

(i) pursue better "branding" for the organization in carrying out this strategy;

(ii) address "branding" in the GEF's communications and outreach strategy; and

[18] Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report.
[19] GEF Strategy for Engaging the Private Sector (1996).
[20] Draft IFC Perspectives and Proposals for a GEF Private Sector Strategy.
[21] Swiss Agency for the Environment, Forests and Landscape (SAEFL) Workshop Report.

(iii) promote a clearer understanding of the GEF's role, mission, strategies and work methods by disseminating readily understandable information to the private sector.

(f) GEF funding is facing increasing demands.

(i) provide dedicated finance for private sector activities (initially through a pilot program), taking into account the RAF.

(g) governments, private sector, and other stakeholders may view themselves as competitors for GEF country allocations.

(i) demonstrate how a better private sector environmental footprint yields larger overall national benefit despite adding the private sector as a new contributor to achieving the country's global environmental objectives; and

(ii) develop an outreach program to inform operational focal points about the strategy, and to provide for a constructive dialogue with respect to their concerns in supporting private sector projects.

(h) there is a lack of capacity, such as finance and business, within the GEF family to support private sector partnerships and to work entirely successfully with the private sector across the range of potential projects.

(i) enhance the capacity of GEF staff and countries through well-developed procedures for private sector engagement, readily available outside expertise, and training or recruiting of in-house staff with specific private sector skills;

(ii) dedicate staff to addressing private sector issues; and

(iii) provide capacity-building assistance to country focal points to aid interaction with the local business community.

CHAPTER 6. PRIVATE SECTOR OUTREACH

39. Shell Biodiversity Workshop, March 2005

(a) Shell
(b) BP
(c) Rio Tinto

40. Tsunami Reconstruction – A Dialogue with Private Industry, Washington, D.C., April 2005

(a) Chevron Corporation
(b) GE

41. World Bank Private Sector Liaison Network Meeting, Washington, D.C., May 2005

(a) Australia, Austria, Belgium, Canada, Denmark, Estonia, Finland, France, Germany, Greece, Hungary, Iceland, India, Ireland, Israel, Italy, Japan, Latvia, Luxembourg, Netherlands, New Zealand, Poland, Portugal, Russia, Singapore, Slovenia, Spain, Switzerland, Turkey

42. Private Sector Summit on Post-Tsunami Rehabilitation & Reconstruction, Washington, D.C., May 2005

(a) American Industrial
(b) Cortexion
(c) General Electric (GE) Energy
(d) Evergreen International Airlines
(e) IBM
(f) Monsanto
(g) Pepsico
(h) Pfizer
(i) U.S. Chamber of Commerce

43. U.S. Chamber of Commerce – Corporate Citizenship and the Global Economy, Washington, D.C, May 2005

(a) Chevron Corporation
(b) Chiquita Brands International
(c) DaimlerChrysler
(d) ExxonMobil
(e) GE Consumer Finance
(f) GlaxoSmithKline
(g) IBM
(h) International Business Leaders Forum
(i) International Paper

44. OECD Workshop on MEAs and Private Investment, Helsinki, Finland, June 2005

(a) Brazilian Business Council for Sustainable Development (CEBDS), Brazil
(b) Export Credit Guarantees FINNVERA, Finland
(c) GES Investment Services, Sweden
(d) ISOFOTON, Spain
(e) M-REAL Corporation, Finland
(f) Nordic Environment Finance Corporation (NEFCO)
(g) SenergyGlobal, India
(h) Unilever
(i) U.K. Export Credits Guarantee Department (ECGD)

45. World Business Council for Sustainable Development (WBCSD)

(a) Telecon - Jacqueline Coté, Senior Advisor Advocacy & Partnerships
(b) Annual Board Meeting – Tokyo Japan, June 2005. GEF representation by Bob Watson
(c) BCSD – Brazil (OECD), June 2005

46. Third International Waters Conference – Brazil, July 2005

(a) Coca Cola
(b) Chesf Companhia Hidro Eletrica do Sao Francisco
(c) ITAIPU Binacional
(d) Waterleaders
(e) Inogen Environmental Alliance
(f) Pestana Bahia Hotel

47. World Environment Center (WEC) – Biodiversity: which challenges for industry? – France, September 2005

(a) Abbott
(b) Alcan
(c) Alcoa
(d) Astra Zeneca
(e) Boehringer Ingelheim GmbH
(f) Beiersdorf GG
(g) Bristol-Myers Squibb
(h) F. Hoffmann-La Roche Ltd.
(i) General Motors
(j) CEMEX
(k) Inco Ltd.
(l) Rio Tinto
(m) Sanofi-Aventis
(n) Syngenta international AG
(o) Total

48. Export-Import Bank of the U.S. – Sharing Risk, Opening Opportunities: Ex-Im Bank's Environmental Exports Program, Washington D.C., September 2005

49. World Cocoa Foundation Biannual Partnership Meeting – Washington, D.C., October 2005 -- GEF representation by UNDP and GEFSEC

50. UNEP Industry Associations meeting – Paris, October 2005

51. Ethical Corporation: The New Role for Business in Developing Countries – London, October 2005

52. UNEP FI 2005 Global Roundtable, New York, October 2005

53. Sustainable Energy Finance Roundtable, New York, October 2005

54. Global Compact Summit: China - Building Alliances for a Sustainable Global Economy, China, November 2005

55. Ecosystem Services and Investment Opportunities: The Science Behind Responsible Investing, Washington, D.C., January 2006.

56. Responsible Competitiveness: Linking Corporate Responsibility to Developing Country Competitiveness, Washington D.C., January 2006.

57. U.S. Chamber of Commerce and The Sri Lanka Working Group luncheon with the Honorable Mangala Samaraweera, MP Minister of Foreign Affairs of Sri Lanka, January 2006.

58. India Private Sector Consultation meeting hosted by TERI, India, February 2006

(a) Ankur Scientific Energy Technologies Pvt. Ltd.
(b) Confederation of Indian Industry
(c) IFC
(d) Ministry of Environment and Forests
(e) Mokshada
(f) Priya Clay Products
(g) Reliance Industries Limited
(h) SenergyGlobal
(i) Suzlon Energy Ltd
(j) TERI
(k) United Nations Development Programme
(l) World Bank

59. Additional consultation meetings in Delhi and Mumbai, February 2006

(a) Bhambri Steels Pvt. Ltd.
(b) Dhiman Iron & Steel Industries
(c) Global Procurement Consultants Limited
(d) Honeywell Automation India Ltd

(e) Rajshree Ispat (India) Pvt. Ltd.
(f) Shree Dhootapapeshwar Limited
(g) Tata International Limited
(h) UTI Bank

60. Brazilian Private Sector Consultation Meeting hosted by the Business Council for Sustainable Develoment (CEBDS), Sao Paolo, Brazil, March 2006

(a) Alcoa
(b) ABN Amro
(c) Axial Par
(d) Banco do Brasil
(e) Bank Itaú
(f) Bayer
(g) Bradesco
(h) Braskem
(i) CEBDS
(j) CVRD
(k) FEA – USP
(l) Mar e Terra
(m) Petrobrás
(n) Rabobank
(o) Syngenta
(p) TNC
(q) UFRRJ / Rebraf
(r) UN Office of Humanitarian Assistance
(s) United Nations Environment Programme
(t) World Bank

61. Roundtable on Biodiversity Offsets, CBD COP 8 side event, Curitiba, Brazil, March 2006.

(a) Business and Biodiversity Offset Program (BBOP)
(b) The Cambridge Centre for Conservation Policy (CCCP)
(c) Conservation International (CI)
(d) Fauna and Flora International (FFI)
(e) Forest Trends
(f) The International Council on Mining and Metals (ICMM)
(g) The National Fish and Wildlife Foundation (US)
(h) Rio Tinto
(i) Shell International
(j) The World Business Council for Sustainable Development
(k) The World Conservation Union (IUCN)

62. UNITAR Forum on Mainstreaming Participation of Local Authorities and Private Sector in Biodiversity Management, Brazil, March 2006

63. Convention on Biological Diversity, Conference of the Parties, Curitiba, Brazil, March 2006

64. Oesterreichische Volksbanken AG (OEVAG), Washington D.C., March 2006

65. Private Sector Development Forum, Washington D.C., April 2006.

66. Strategic Engagement to Meet the Millennium Development Goals, Washington D.C., April 2006.

67. Volcanoes Safaris (Kampala, Uganda), Washington D.C., April 2006.

68. WEC and US Energy Association Forum: "The Future of Biofuels in Industry – Challenges & Opportunities," Washington, D.C., April 2006.

69. Seventh International Gold Symposium "Gold Opportunities in Peru and Latin America," Lima, Peru, May 2006

CHAPTER 7. EXAMPLES OF PUBLIC/PRIVATE SECTOR PARTNERSHIPS/NETWORKS FOR THE ENVIRONMENT

Biodiversity

70. *Business and Biodiversity Resource Centre (BBRC)*: This resource centre, hosted by Earthwatch Institute, helps people find out about the important role which biodiversity plays for businesses. Parties can see how their sector impacts on wildlife and nature, and what companies are doing to help conserve and manage biodiversity. *Financial support for the centre is provided by contributions from companies, most notably BP, Marks & Spencer and RMC group. Others donors include, but are not limited to: Rio Tinto, Anglo American, GlaxoSmithKline, Good Energy, Lyondell Chemical Company and Shell.*

71. *Corporate Environmental Responsibility Group (CERG)*: CERG membership is primarily a public endorsement of Earthwatch's values, and an important financial contribution to their mission. In return, Earthwatch aims to encourage companies to improve their environmental performance. A major work theme of the group is Business & Biodiversity, with Earthwatch hosting the Business & Biodiversity Resource Centre aimed at raising awareness of biodiversity and providing information and practical advice for companies. *CERG has 36 members representing 53% of the FTSE 100 Index market capitalization, which include: Anglo American, BP, GlaxoSmithKline, Rio Tinto, Shell, and Tetra Pak.*

72. *Ecological Information Sharing (ECOiSHARE)*: ECOiSHARE aims to facilitate wider access to the biodiversity-related data and information collected by multinational companies in the course of their activities. *The project is a collaboration between UNEP-WCMC, Shell, BP and Rio Tinto.*

73. *Energy and Biodiversity Initiative (EBI)*: EBI is a partnership between companies and leading conservation organizations, designed to produce practical guidelines, tools and models to improve the environmental performance of energy operations, minimize harm to biodiversity, and maximize opportunities for conservation wherever oil and gas resources are developed. *EBI has 9 members including BP, Chevron, CI, FFI, IUCN, TNC, Shell, Smithsonian Institution and Statoil.*

74. *The Forest Dialogue (TFD)*: With the secretariat at Yale School of Forestry and Environmental Studies, The Forest Dialogue works with conservation organizations and timber and paper companies to develop a framework to adopt and implement biodiversity commitments and address key issues of international concern. Members of TFD participate as individuals, not organizational delegates, but come from companies and organizations including, but not limited to *WWF, WB, TNC, WBCSD, Aracruz, International Paper, IKEA, MeadWestvaco, CI, IUCN, Weyerhaeuser.*

75. *Mining and Biodiversity Dialogue*: A joint dialogue by IUCN and ICMM to provide a platform for communities, corporations, NGOs and governments to discuss and seek the best balance between the protection of important ecosystems and the social and economic importance of mining. An overarching aim of the Dialogue is to improve the performance of mining industries in the area of biodiversity conservation with a focus on reducing the negative impacts

of the industry's operations and enhancing the industry's positive contribution to biodiversity conservation.

76. *Working Group on Extractive Industries and Biodiversity (WGEIB)*: WGEIB provides the Director General of IUCN with advice on issues relating to biodiversity and the extraction of non-renewable resources. WGEIB undertakes to advise the IUCN Secretariat on how to create opportunities for IUCN members to engage with each other and the industry in discussions covering the full range of experiences with extractive industries and biodiversity. *WGEIB has a membership of over 170 companies and partners with relevant intergovernmental and NGOs.*

Climate Change

77. *BioCarbon Fund (BIOCF)*: The BioCarbon Fund provides carbon finance for projects that sequester or conserve greenhouse gases in forests, agro- and other ecosystems. Through its focus on bio-carbon, or 'sinks', it delivers carbon finance to many developing countries that otherwise have few opportunities to participate in the Clean Development Mechanism (CDM), or to countries with economies in transition through joint implementation (JI). The BioCarbon Fund is a public/private initiative established as a trust fund administered by the World Bank. *Participants include four governments and seven companies.*

78. *Business Environmental Leadership Council (BELC)*: Organized by the Pew Center on Global Climate Change, BELC works with 38 major corporations—primarily Fortune 500 companies—to shape policy and chart practical solutions to climate change. These corporations meet quarterly, participate in workshops and conferences, and review and offer comment on all Pew Center work. To maintain their independence, the Pew Center accepts no monetary contributions from BELC companies. *Some of the members include: Alcoa, BP, DuPont, Rio Tinto, Sunoco and Toyota.*

79. *Community Development Carbon Fund (CDCF)*: The World Bank, in collaboration with the International Emissions Trading Association (IETA), created CDCF to link small-scale projects seeking carbon finance with companies, governments, foundations, and NGOs seeking to improve the livelihoods of local communities and obtain verified emission reductions (ERs). Contributors to the Fund (the Participants) will support projects that measurably benefit the poor and will receive ERs from abated or sequestered emissions. Companies will advance their corporate responsibility agendas, learn about carbon market instruments, and gain competitive advantage. Emissions brokers will have potential access to a credible supply of high quality, high volume emission reductions for their retail businesses for socially responsible buyers. *Participants include eight governments and fifteen companies.*

80. *Climate Change Working Group (CCWG)*: United Nations Environment Programme's (UNEP) Finance Initiatives's Climate Change Working Group (CCWG) seeks to raise awareness and communicate the problem of climate change to financial institutions, policymakers and the public at large. *Members include: Abbey, Aviva, Bank of America, Dresdner, Garant, Insurance Australia Group (IAG), Munich Re, Sustainable Asset Management (SAM), Swiss Re and UBS.*

81. *Climate, Community & Biodiversity Alliance (CCBA)*: The Center for Environmental Leadership in Business through its CCBA convenes global dialogues with the private sector to

create best practices within key industries worldwide and promote effective policy solutions on issues such as global climate change. CELB also tests their ideas in the field with businesses operating in places such as biodiversity hotspots and wilderness areas. *CELB has 34 corporate partners and 21 partners from other organizations. Some of the private sector partners include: Abercrombie & Kent, Anglo American, BP, Chevron, Citigroup, ConocoPhillips, Ford, International Paper, Rio Tinto, SC Johnson, Shell, Starbucks and Statoil.*

82. *e7*: The e7 carries out various activities to play an active role in global electricity issues and promote sustainable development. For example, the e7 provides human capacity building to developing and emerging country utilities, government entities, and organizations on electricity related issues. Furthermore, through its Fund for Sustainable Energy Development, the e7 implements renewable energy, rural electrification, and GHG reducing projects in developing and emerging countries, using both e7 and external funds. *Members of the e7 represent nine of the world's leading electric companies from G7 countries. These include AEP, EDF, Enel, HydroQuebec, Kansai, Ontario Power Gen., RWE, ScottishPower and TEPCO.*

83. *Environmental Markets Association (EMA)*: EMA promotes market-based trading solutions for environmental management. Its objectives are to: promote the advancement and application of policy and regulation relevant to market-based emission trading systems; encourage and facilitate information exchange among members, and other professional and technical groups, and the public; provide programs in education and training to improve knowledge and skills of members and the understanding and acceptance by the public. *Membership includes over 150 companies.*

84. *Global Greenhouse Gas Register*: The World Economic Forum's Global GHG Register is the only business-environmental community partnership that enables multinational companies to measure, monitor and compare their GHG emissions across different regions of the world though voluntarily disclosure. The register also offers a forum for dialogue among companies, governments, NGOs, service providers, international organizations and other parties interested in reducing the fragmentation of GHG emission measurement and reporting standards. Fifteen companies participate in the register including *Alcan, Alcoa, Anglo American Cemex Lafarge, Petrobras, Swiss Re, etc*. Partner organizations include*: IETA, PEW, UNDP, WBCSD, WRI, WWF, etc.*

85. *Global Village Energy Partnership (GVEP)*: GVEP is a voluntary Partnership that brings together developing and industrialized country governments, public and private organizations, multilateral institutions, consumers and others in an effort to ensure access to modern energy services by the poor. GVEP's primary products relate to the development of country programs which recognize the importance of energy for poverty reduction, and attainment of the MDGs. The partnership offers a number of innovative services, including: Action Plans, Capacity Development, Finance Facilitation, Knowledge Management and Transaction, and Results and Impact Monitoring and Evaluation. To date, 680 organizations have committed to the Partnership's Statement of Principles, thereby becoming GVEP Partners.

86. *Institutional Investors Group on Climate Change (IIGCC)*: The Institutional Investors Group on Climate Change (IIGCC) is a forum for collaboration between pension funds and other institutional investors on issues related to climate change. IIGCC seeks to: (1) Promote better

understanding of the implications of climate change amongst its members and other institutional investors; and (2) Encourage companies and markets in which IIGCC members invest to address any material risks and opportunities to their businesses associated with climate change and a shift to a lower carbon economy.

87. *International Emissions Trading Association (IETA)*: IETA seeks to be the premier voice for the business community on emissions trading. The objectives for the organization are to: promote an integrated view of the emissions trading system as a solution to Climate Change; participate in the design and implementation of national and international rules and guidelines; and provide the most up-to-date and credible source of information on emissions trading and greenhouse gas market activity. *Membership is comprised of 103 international companies from OECD and non-OECD countries.*

88. *Partnership for Climate Action (PCA)*: PCA is a forum for companies to gain further experience with greenhouse gas management so that they can help to ensure that emerging polices are both economically and environmentally sound. PCA members have agreed to: commitments on declaring global GHG emissions limit and acts to achieve it; to measure, track, and publicly report net GHG emissions; employ innovative strategies to collaborate on opportunities to reduce greenhouse gas emissions; and, to lead through example in addressing climate change issues. *PCA is facilitated by Environmental Defense, with corporate members including: Alcan; BP; DuPont; Entergy; Ontario Power Generation; Pechiney; Shell International; and Suncor.*

89. *PEW Center on Global Climate Change (PEW)*: The Pew Center brings together business leaders, policy makers, scientists, and other experts to bring a new approach to a complex and often controversial issue. The Center produces analyses of key climate issues, works to keep policy makers informed, engages the business community in the search for solutions, and reaches out to educate the key audiences. See the Center's Business Environmental Leadership Council (BELC) above for more information on how PEW works with the private sector.

90. *Prototype Carbon Fund (PCF)*: Established by the World Bank, the PCF pilots production of Emission Reductions within the framework of Joint Implementation (JI) and the Clean Development Mechanism (CDM). The PCF invests contributions made by companies and governments in projects designed to produce Emission Reductions fully consistent with the Kyoto Protocol and the emerging framework for JI and the CDM. Contributors, or "Participants" in the PCF, will receive a pro rata share of the Emission Reductions, verified and certified in accordance with carbon purchase agreements reached with the respective project sponsors. The CFB benefits its stakeholders by: promoting carbon market accessibility and knowledge dissemination; implementing sustainable technologies and creating opportunities to reduce poverty in developing countries; and by allowing its Participants to meet their greenhouse gas reduction targets in the most cost-effective manner. *Participants include six governments and 17 companies including power and oil companies.*

91. *Renewable Energy and Energy Efficiency Partnership (REEEP)*: REEEP is a Public-Private partnership that actively structures policy initiatives for clean energy markets and facilitates financing mechanisms for sustainable energy projects. By providing opportunities for

concerted collaboration among its partners, REEEP aims to accelerate the marketplace for renewable energy and energy efficiency. As of September 2004, the partnership has more than 80 formal partners who have been approved by the Governing Board. Partners include governments, business and NGOs.

92. *Responding to Climate Change (RTCC)*: RTCC is an NGO that has strategic partnerships with several companies, industry associations and government agencies. It develops information products and channels through which these groups can learn more about the threats of climate change to the environment and formulate responses. A key objective is to help prove the business case for involvement with climate change response, and to support multi-stakeholder partnership initiatives. *RTCC has 59 strategic partners from various sectors. Private partners include, but are not limited to: Eni Group, Alcatel, Agroscope, GE, Lufthansa, PlasticsEurope, Skanska.*

93. *Supporting Entrepreneurs in Environment and Development (SEED)*: The Seed Initiative of UNEP, UNDP and IUCN was launched at the World Social Forum (Mumbai) and World Economic Forum (Davos) in January 2004. The aim of the initiative is to support the setting up of new partnerships - local, multistakeholder - to advance the goals of the Millennium Declaration and WSSD. The initiative has three legs: (i) a biennial award - to select innovative proposals for new partnerships, (ii) support services - to help award-winning groups set up their partnership with the assistance of a local partnership broker appointed through national UNDP / IUCN offices, and (iii) a research & learning channel - to examine the partnership experiences and draw out policy conclusions on solutions and barriers encountered.

94. *Sustainable Energy Finance Initiative (SEFI)*: SEFI is the UNEP Sustainable Energy Finance Initiative - a platform providing financiers with the tools, support, and global network needed to conceive and manage investments in the complex and rapidly changing marketplace for clean energy technologies. SEFI's goal is to foster investment in sustainable energy projects by providing up-to-date investor information, facilitating deal origination, developing partnerships, and creating the momentum needed to shift sustainable energy from the margins of energy supply to the mainstream.

95. *World Energy Council (WEC)*: The World Energy Council (WEC) is the foremost global multi-energy organization in the world today and has Member Committees in over 90 countries, representing the broadest possible range of energy and energy-related interests in its country (often including representatives from governments and energy companies working together to find solutions to common problems). WEC's objectives are to promote the sustainable supply and use of energy for the greatest benefit of all people, by: collating data and undertaking and promoting research, holding workshops and seminars to facilitate such supply and use of energy; and collaborating with other organizations in the energy sector with compatible goals.

International Waters

96. *Global Water Partnership (GWP)*: GWP actively identifies critical knowledge needs at global, regional and national levels, helps design programs for meeting these needs, and serves as a mechanism for alliance building and information exchange on integrated water resources

management. *The Global Water Partnership is a working partnership among all those involved in water management including private companies.*

97. *World Water Council (WWC)*: The World Water Council is the International Water Policy Think Tank that provides a platform for a common strategic vision on water resources and water services management on a sustainable basis, and promotes the implementation of effective policies and strategies worldwide. It also provides advice and relevant information to institutions and decision-makers on the development and implementation of comprehensive pro-poor policies and strategies for sustainable water resources and water services management, with due respect for the environment, and social and gender equity. It also contributes to the resolution of issues related to transboundary waters. *WWC has more than 300 members including public and private sectors, NGO's, UN agencies.*

Multi-focal Areas

98. *Business for Social Responsibility (BSR)*: BSR provides information, tools, training and advisory services to make corporate social responsibility (including environment) an integral part of business operations and strategies. BSR is part of a global network of national organizations promoting awareness of CSR issues to businesses. *As of 2002, more than half of the top 10 Fortune 500 and the top 10 Global 500 companies are BSR members, including: BP, Chevron, Chiquita Brands, Citigroup, Coca-Cola, ExxonMobil, Ford, GM, GlaxoSmithKline, IKEA, Intl. Paper Co., Walmart, McDonalds, Newmont Mining Co, Rio Tinto, Shell, Starbucks, and Unilever. There are over 1400 members.*

99. *CERES Network for Change (CERES)*: CERES is a coalition of investment funds, environmental organizations, and public interest groups that provides a forum for meaningful dialogue on corporations' environmental and social practices. Membership includes leading U.S. environmental, investor, and advocacy groups, and 70 plus companies that have endorsed the CERES Principles, a ten-point code of environmental conduct.

100. *Fauna & Flora International Global Business Partners (FFI)*: FFI's Global Business Partnerships works with companies to encourage sustainable use, to help them minimize the ecological impact of their activities and to demonstrate the value of consulting local stakeholders. *FFI has 8 partnerships with companies including: BP, Vodafone and Rio Tinto.*

101. *Greening of Industry Network (GIN)*: The Greening of Industry Network is an international association of researchers, business leaders, activists, and policy makers dedicated to building a sustainable future. GIN stimulates, coordinates and connects high quality research to policies, strategies and actions in ways that contribute to a more sustainable society. The network also provides an open forum for creative debate to engage all sectors in developing a shared understanding of the changes required for creating a more sustainable future.

102. *International Business Leaders Forum (IBLF)*: The IBLF is an international educational charity that promotes responsible business practices internationally that benefit business and society, and which help to achieve social, economic and environmentally sustainable development, particularly in new and emerging market economies. The IBLF encourages continuous improvement in responsible business practices in all aspects of company operations;

develops geographic or issue-based partnerships to take effective action on social, economic and environmental issues; and helps to create an enabling environment to provide the conditions for these practices and partnerships to flourish. *The Forum's membership consists of more than 65 of the world's leading multinational companies.*

103. *International Social and Environmental Accreditation and Labelling Alliance (ISEAL)*: The ISEAL Alliance is an association of leading international standard-setting, certification and accreditation organizations that focus on social and environmental issues. *ISEAL has 8 full members and 3 part time members, including Intl. Federation of Organic Agriculture Movements, Forest Stewardship Council, Marine Stewardship Council, and Rainforest Alliance.*

104. *The Katoomba Group (TKG)*: The group is dedicated to facilitating partnerships to launch green forest products. It supports environmental service markets and payment schemes around the world and distils and disseminates lessons learned from them. It also conducts research and develops tools that will help to build an understanding of how market-based instruments for environmental services are constructed and the conditions in which they can work. One TKG product, the Ecosystem Marketplace, provides a coordinated and informative platform for users and providers of ecosystem services to meet and communicate. *The Group consists of hundreds of experts from forest and energy industries, research institutions, the financial world, and environmental NGOs, and is hosted by Forest Trends.*

105. *World Business Council for Sustainable Development (WBCSD)*: The WBCSD provides business leadership in sustainable development. Key activities include: Accountability, Advocacy, Capacity Building, Energy & Climate, Health Systems, Sustainable Livelihoods and Water. Their cross-cutting themes are CSR, Eco-efficiency, Ecosystems, Financial Sector, Innovation/Technology, Risk, Sustainability & Markets. *WBCSD has a membership of over 175 international companies and partners with relevant intergovernmental and nongovernmental organisations.*

106. *World Conservation Monitoring Centre (UNEP-WCMC)*: The UNEP World Conservation Monitoring Centre provides information for policy and action to conserve the living world. Programs concentrate on species, forests, protected areas, marine, mountains and freshwaters; plus habitats affected by climate change such as polar regions. It also addresses the relationship between trade and the environment and the wider aspects of biodiversity assessment. *UNEP-WCMC works in partnership with the public and private sector. Shell, BP and Rio Tinto share ecological information collected in their impact assessments through the Centre.*

107. *World Environment Center (WEC)*: The World Environment Center (WEC) is an independent, not-for-profit, non-advocacy organization promoting sustainable development and the efficient use of natural resources in multinational corporations. The WEC supports its mission through three complementary programs: International Environment Forum (IEF); The WEC Gold Medal for International Corporate Achievement in Sustainable Development; Capacity Building for the Environment. It also has a Greening the Supply Chain Initiative to promote environmental sustainability through supply chain innovations with developing countries SMEs. *WEC works with 38 participating companies from a variety of sectors.*

Sector-Specific

108. *Construction Industry Environmental Forum (CIEF)*: The Construction Industry Research and Information Association's (CIRIA) forum helps companies involved in construction to improve their environmental and sustainability performance. It creates resources and tools based on input from developers, contractors, consultants, architects, academic institutions, and other research bodies. *CIEF members include over 200 companies and organizations.*

109. *Equator Principles*: The Equator Principles define an industry approach for financial institutions to determine, assess, and manage financial risk in project financing based on environmental and social considerations. They were created by the IFC and several leading financial institutions, and apply to projects with a total capital cost of $50 million or more. *To date 27 institutions, including Citigroup, HSBC, Barclay's, Rabobank, and many others have adopted the principles.*

110. *International Council on Mining and Metals (ICMM)*: ICMM members offer strategic industry leadership towards achieving continuous improvements in sustainable development performance in the mining, minerals and metals industry. *ICMM has 16 Member and 23 Associate members, including Anglo American, AngloGold Ashanti, Alcoa, BHP Billiton, Nippon Mining and Metals, Rio Tinto.*

111. *International Hotels Environment Initiative (IHEI)*: IHEI focuses exclusively on hotels and how to improve their environmental management. *Its members, who represent over 68 brands, 11,200 hotels on five continents and almost two million hotel rooms, including the Starwood Hotels and Resorts Worldwide, Radisson, Marriott, and Hilton.*

112. *International Federation of Organic Agriculture Movements (IFOAM)*: IFOAM is a federation of organic farmers and food processors that promotes a sustainable, holistic approach to organic farming systems. It has developed the Organic Guarantee System and Basic Standards and Accreditation Criteria for organic agriculture and food processing.

113. *International Petroleum Industry Environmental Conservation Association (IPIECA)*: IPIECA has separate working groups addressing global environmental and social issues related to the petroleum industry, including global climate change and biodiversity. IPIECA also helps members identify new global issues and assesses their potential impact on the oil industry. *IPIECA has 28 Members and 13 Associate members, including BP, Chevron, ConocoPhillips, ExxonMobil, Hydro, Shell.*

114. *International Tourism Partnership (ITP)*: A program of IBLF, the ITP aims to champion a holistic approach to responsible tourism, present the business case for responsible and sustainable tourism practices, facilitate debate, partnership and industry unity and identify areas where the industry needs to 'raise the bar'. *There are 29 Roundtable Participants including: Abercrombie & Kent, CH2M Hill, CI, Hilton, Marriot, Orient Express, Starwood Hotels, Turtle Island, etc*.

115. *UNEP Tour Operators Initiative (TOI)*: The network brings together tour operators and other organizations to define ways of integrating sustainable development into tourism operations through research, capacity building and communication. Members have formed Working Groups in four key areas of action: Sustainability Reporting, Cooperation with destinations, Supply Chain Management and Communication. *TOI has 20 member tour operators, mostly based in Europe, but a few based in developing countries including Morocco, Brazil and Pakistan.*

116. *UNEP Finance Initiative (UNEP-FI)*: The United Nations Environment Programme Finance Initiative (UNEP FI) is a global partnership between the United Nations Environment Programme and the private financial sector. UNEP FI works closely with just under 200 financial institutions who are signatories to the UNEP FI Statements, and a range of partners organizations to develop and promote linkages between the environment, sustainability and financial performance. Through Regional activities, a comprehensive work programme, training programmes and research, UNEP FI carries out its mission to identify, promote, and realise the adoption of best environmental and sustainability practice at all levels of financial institution operations. UNEP FI provides Signatories with practical research, capacity building, action oriented publications, as well as hosting international conferences and events that bring together professionals from around the globe. UNEP FI provides support for its members and opens up a large network of sustainable development contacts, information and networking services that are dedicated to helping signatory organisations enhance the sustainability of their operations.

CHAPTER 8. THE SCOPE OF GEF ENGAGEMENT WITH THE PRIVATE SECTOR

117. This chapter addresses the potential types of partnerships with the GEF as perceived by the private sector, and defines key categories of private sector institutions in order to better inform GEF partnering opportunities.

Types of Private Sector Partnerships with the GEF

118. Working with private sector partners who not only show potential for helping to bring about substantial incremental environmental gains in a target country but whose overall demonstrated attitude toward the environmental objectives of the GEF will substantiate the value and importance of this strategy. The operational guidelines applied by the GEF and IA/EAs in selecting private sector projects and partners – be they small and medium enterprises, large national corporations, or multinational corporations—are therefore very consequential.

119. The private sector may choose to partner with the GEF for a range of reasons. As GEF project criteria stipulate, the GEF will only engage with the private sector on projects that satisfy the GEF's definition of incremental costs. In other words, GEF will not subsidize the private sector but will support eligible projects that are clearly additional to what the private sector is carrying out on its own and comply with national environmental and social impact assessments and regulations. The key distinction in how the private sector perceives a GEF project is the timeframe for the return on its investment and how easily quantified the benefits of the partnership are in financial , long term investments or credibility returns. There are three types of partnerships with the GEF that the private sector perceives:

(a) *Capacity building or barrier reduction:* the private sector sees a partnership with the GEF as integral to its long-term business development strategy. The partnership may help open markets over the long-term or the private sector might perceive the partnership as helping to protect current markets by forseeing that some environmental risks may ultimately threaten its business. This also has less direct and longer term benefits in the areas of risk reduction and market development, and the benefits can translate to other companies as well.

(b) *Broad partnerships serving regional biodiversity, water, or climate goals:* with these broader partnerships, the private sector recognizes that it will accrue benefits not through direct increases in profits, but rather through longer term benefits of environmental risk mitigation, improved business image/reputation, or access to GEF's global networks and experience. By partnering with the GEF, a private sector entity may seek to reduce risk, and build credibility and a license to operate in a key market — but it does not seek or expect immediate sales/profit benefit. In such case, a company is investing because the prospective long-term benefits. Recently, this type of partnership opportunity has become increasingly prevalent. For example, a company that produces and sells bottled water, might seek to combine some of its own funding with public sector financing to protect or restore a watershed that will bring global environmental benefits, including water quality.

(c) *Selling specific technologies or services:* The private sector perceives direct and fairly immediate returns on its investment in this type of partnership. The private sector would not make this investment if it were not for GEF resources (e.g., technology demonstration project). This type of GEF-Private Sector partnership presents the biggest concerns about equitable competition and ensuring that the project satisfies GEF's definition of incremental costs. Additional procedures that ensure transparency and eliminate bias will be important for these types of partnerships. A number of IFC's projects, especially within its Carbon Finance Facility, would be considered examples of direct benefit-type projects:

(i) renewable energy technology projects (e.g., biomass, wind, geothermal) that displace use of fossil fuels;

(ii) energy efficiency projects, supply side or demand side, that reduce consumption of fossil fuels;

(iii) switching from fuels with greater to lesser GHG intensity (e.g., from coal to natural gas); and,

(iv) recovery and utilization or destruction of industrial gases that are potent GHGs (HFC, N20, PFCs,SF6).

Understanding the Diverse Array of Private Sector Entities

120. As GEF looks to develop partnerships with the private sector, it will need a basis for identifying the most suitable private sector entities with which to cooperate. The private sector includes a wide variety of entities that vary in their industry focus, size, and approach to environmental issues. The "private sector" is not a monolith, but rather represents a number of distinct categories of commercial enterprises and profit-oriented organizations including some operated by governments and NGOs. By understanding the different types of private sector organizations, the GEF will be able to better leverage the resources and expertise of those private sector entities most suitable for participation in GEF projects.

121. For GEF's purposes, it is helpful to group the vast array of private sector entities in terms of the scale of their operations: SMEs, , large national companies, and multinational companies. Within these companies, financial institutions and technology providers deserve particular attention for their unique ability to help develop and finance solutions to environmental problems. Of these various classes of companies, some are better suited for partnerships in specific GEF focal areas than others.

(a) *SMEs:* SMEs can be invaluable partners to the GEF. They play a key role as local providers of ongoing services to perpetuate and sustain GEF project goals. However, coordinating partnerships with small businesses is logistically challenging and can be limited in scope. SMEs may be particularly interested in GEF partnerships as these companies are often looking for better market access at the local level and new business opportunities. For example, the IFC's EBFP SME Program financed 141 environmental SMEs in 22 countries, including

projects in sustainable forestry, eco-tourism, organic agriculture, solar energy, hydropower, and energy efficiency. One EBFP project helped provide $643,000 in loans and $293,000 in TA for Environmental Quality International (EQI), an Egyptian SME whose activities will conserve the biodiversity of the Siwa oasis. This project will leverage another $985,000 from EQI, PEP MENA (the IFC managed private enterprise partnership for the Middle East and North Africa) and the Strategic Grass Roots Business Initiative.

(b) *Large national companies:* This class of the private sector can be the most variable from country to country in terms of its ability to effectively partner with the GEF. Generally, country based LNCs will be important partners for regional biodiversity, water, and climate change projects however coordinating their actions can be a challenge. These companies can be strategic partners for the GEF because they may have particular knowledge and impact in the area of national policy and regulation. For example, in the Philippines, a privately owned power distributor is sponsoring a project leveraged by a GEF grant to support the installation of a grid-connected 1 MW solar photovoltaic (PV) power plant to operate in conjunction with an existing 7 MW hydroelectric power plant. The combination of PV with existing hydro storage turns an intermittent energy source – PV – into firm capacity by limiting the use of hydro to periods when PV is not operating. The GEF is supporting a follow-up project with the Philippines, through UNEP, that will engage additional developing country utilities in a focused dialogue on the potential application of similar concepts to their systems.

(c) *Multinational Companies:* Because of the breadth of impacts from their operations and the geographical scope of their business, multinational companies are well positioned to partner in large biodiversity projects, international (transboundary) water projects, and in large-scale climate change technology projects. Multinational companies represent the most wide-reaching and influential portion of the private sector that will bring to a partnership all of the private sector's most powerful attributes. These companies will be more open to projects that have less direct profit benefits for their business but help reduce risk over the longer term, open markets, and improve their global reputation. For example, one corporation that makes personal care, food and home products globally is participating in aquatic habitat restoration and other water stewardship projects, because of the importance of protecting water resources and related ecosystems for its production processes. Yet another company is collaborating with local farmers, in various countries in which it operates, on irrigation programs to protect land and water resources for its food and beverage product manufacturing operations and processes. In these cases, GEF funding would not support the companies but, for example, could provide initial capacity building to small farmers to ensure that the global environmental aspects are factored in.

(d) *Financial Institutions:* As financing is often a key barrier to project success, private financial institutions' interest and confidence in GEF projects is essential to enable and sustain GEF projects beyond the life of the original grant or loan.

(e) *Technology Providers:* Harnessing the private sector's ability to provide innovative technology solutions is critical for achieving the objectives of the climate change focal area. The key to partnering with technology providers is to create partnerships that help deploy unique technologies and applications and open new markets for those technologies.

CHAPTER 9. BIODIVERSITY

122. This chapter presents: (i) an overview of the private sector engagement within the biodiversity focal area based on the relevant section of the GEF biodiversity strategy; (ii) background information and lessons learned through the IAs' GEF portfolio; and contextual and background information on the engagement of the private sector: (a) in the current context; (b) with the CBD; and (c) with NGOs.

Private Sector Engagement within the Biodiversity Focal Area

Introduction

123. It is widely accepted that the objectives of the CBD[22] can only be achieved if biodiversity is maintained both within and outside protected areas. Even under the most optimistic scenarios, only a small fraction of land and water will ever be conserved within protected areas. Over the long-term, therefore, biodiversity conservation can only be achieved if the functions and features of ecosystems that are used as production landscapes and seascapes are sustained. Thus, conserving biodiversity in production landscapes and seascapes is a critical pre-requisite to preserving it, and to maintaining the ecological processes that support life, societies and economies.[23]

124. In recognition of this fundamental fact, and in order to generate higher impacts outside protected areas, the GEF has engaged the private sector[24] 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 eco-tourism and agro-forestry and silvo-pastoral production activities (certification of commodities, payments for environmental services).

125. 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 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.*

Purpose and Approach

126. 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

[22] 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.

[23] 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

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

reducing the negative footprint[25] of sectors and companies, as long as this is beyond standards expectations through processes of environmental impact assessment (i.e., going beyond "do no harm").

127. The GEF recognizes that there are no uniform solutions for mainstreaming within production systems. GEF will fund country-driven activities that respond to national priorities and market-driven activities that respond to market opportunities. This will be based on potential for influence, opportunity, absorptive capacities and broad-based country demand extending into line ministries or corporate champions to move forward specific industries. This may necessitate regional or global projects, but always with the strong support of governments in countries where production and biodiversity will be affected. The main thrusts for projects should be on both the supply and demand for products and services generated in target landscapes. This will include positive and negative fiscal incentives through both the market purchasing power and government policy and payments/subsidies. A variety of approaches will be used to achieve these outcomes.

128. Synergies are necessary with ongoing development programs and processes, as well as with the private sector to maximize leverage of limited GEF funds. The involvement of the private sector will be essential. Although these directions present higher challenges and risks, they also promise to generate sustainable impacts over the long term.

129. The private sector is viewed as a range of different sized businesses and companies from micro and household businesses to small and medium enterprises (SMEs), to national and multi-national corporations (MNC). In general it will be expected that where projects involve micro and SMEs, financial and technical assistance will be provided to promote changes to their practices. Where projects work with larger companies, which have organizational capacity, involvement will take the form of partnerships to provide inputs into achieving project objectives. This should integrate with and build on corporate social responsibility now promoted and institutionalized in a growing number of multinational companies and particular market leaders.

130. The limits of intervention will depend on strong incremental cost rationale, substantial co-financing from the private sector and confidence that the catalytic efforts supported by GEF will leverage more resources and be sustained by the markets over the long-term for impact across multiple countries. This will mean demonstrating that projects will not subsidize the costs of enterprises in doing regular business and taking due precautions to ensure the sustainability of outcomes. Activities to reduce negative impacts from industry on biodiversity need particularly strong incremental cost arguments so that financing of standard mitigation activities are avoided. GEF-4 will extend the boundaries of what is acceptable for work with companies where strong justification can be made that over the long-term there will be significant impact on biodiversity.

[25] 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.

Focus of Interventions

131. Mainstreaming occurs at the interaction between biodiversity and economic activity, and therefore the points of entry are numerous and distinct. GEF-4 presents an opportunity to move beyond experimental or pilot approaches. However, this opportunity is also challenging because of the need to develop a solid conceptual framework in order for the portfolio to maximize the likelihood of achievement impacts.

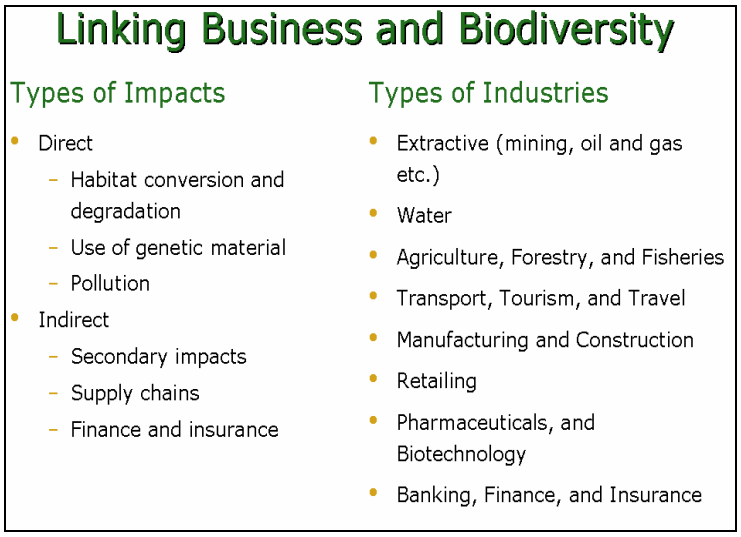
132. Priority sectors are identified according to their degree of impact upon globally-important biomes as indicated in the matrix of "Drivers of Change in Biodiversity and Ecosystems (CWG)" in the Millennium Ecosystem Assessment.[26] The table below shows the sectors that have had either a very high or high impacts on the sub-set of biomes over the last century through main drivers of change (habitat change, climate change, invasive species, over-exploitation, and pollution). Sectors associated with climate change were not taken into account, since this threat is the subject of a separate GEF focal area.

Table 1. Identification of Priority Sectors Based on Intensity of Threat from the MEA

Biome/Sector	*Agriculture*	*Forestry*	*Fisheries*	*Tourism*	*Infrastructure and Transport*	*Oil, Mining and Gas*	*Banking, Insurance*
Tropical Forest	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
Coastal	*X*[27]		X	X	X	X	X
Marine	*X*		X	X		X	X
Island	*X*			X	X		X

133. Agriculture, forestry, fisheries, tourism, infrastructure and transport, oil, mining and gas, and banking and insurance were identified as the main (but not exclusive) sectors to be addressed. In some cases, the link between the threat and the sector is very clear (e.g., agriculture as a driver of habitat change for tropical forests, or transport as a driver of invasive species in islands); in others, the link is less direct (e.g., banking as a driver of over-exploitation in marine environments through financing of destructive fishing practices).

[26] Millennium Ecosystem Assessment, Synthesis, Figure 13.
[27] Italic *X's* were added by the Inter-Agency Working Group or the Council and are not part of the original MEA Figure 13



(CBD Secretariat, 2005)

134. A host of approaches and tools to work with the private sector within the above sectors include:

(a) develop the capacity of producers and processors to work on biodiversity friendly production systems;

(b) develop information systems to trace product to source;

(c) scale up the use of environmental standards and certification to set and verify production methods;

(d) engage companies and increase their demand for biodiversity friendly products and services;

(e) increase consumer awareness and demand for biodiversity friendly products and services;

(f) provide accessible and affordable financing for micro and SMEs engaged in investments benefiting biodiversity;

(g) reform and strengthen policy and its implementation to provide fiscal benefits to biodiversity friendly SMMEs;

(h) strengthen national regulations and their enforcement to reduce negative impacts to biodiversity from industry;

(i) monetize environmental (and particularly biodiversity) services and develop markets for the services; and

(j) enhance global trade agreements to stimulate such market development.

135. These strategies can be bundled together in various combinations depending on the baseline situation and barrier analysis and may form the basis of a project.

Mainstreaming Biodiversity

136. F&C reports that the relevance of biodiversity to most companies is in the wider sense of ecosystem services, management and conservation. The total global value of ecosystem services has been estimated at $33 trillion per annum, and examples of ecosystem services are: natural purification of water supplies and creation of drainage systems; moderation of floods, droughts and temperature extremes; generation and renewal of soil fertility; prevention of soil erosion and nutrient cycling.[28]

137. Although difficulties have been encountered, there has been considerable progress in the realm of mainstreaming in the context of the recent focus on this strategic priority. Experience acquired and the GEF/ME 2004 Biodiversity Program Study[29] highlight the following lessons:

(a) as with most conservation development matter, a lesson that emerges at all levels is that mainstreaming takes time—usually far more time than the length of a GEF project;

(b) understanding the roles, motivations, and impacts of all the stakeholders involved (local population, governments, private sector actors, NGOs, etc.) and leveraging large involvement in a positive way are also essential ingredients to successful mainstreaming as all actors need benefits and incentives to be evident for them to become meaningfully engaged; and

(c) moreover, as with other conservation development matter, successful mainstreaming is strongly tied to societal, political, and private sector commitment and ownership.

138. Three categories of projects designed to mainstream biodiversity, include: spatial, sectoral, and market:[30]

(a) *Spatial Mainstreaming:* The objective is to ensure that biodiversity considerations are effectively internalized into the planning and management processes of a particular spatial area. This may be an area defined by biodiversity priorities, such as an eco-region, or it may be a particular political jurisdiction such as a country, province or district. However, it differs from a BD-1 or protected areas approach in that the primary purpose of the area is production, rather than protection, and the challenge is to maximize biodiversity benefits without compromising the business "bottom line". It involves working with both institutions and markets, but it does not pursue either to their full extent in that the project objective is achieved once mainstreaming is accomplished within the geographical area. The weakness to this approach is that without complete

[28] F&C, Is biodiversity a material risk for companies? September 2004
[29] It should be noted that most of the projects considered in the GEF/ME Biodiversity Program Study were conceptualized and initiated long before the development of SP2 in 2003.
[30] While distinct, these are not mutually exclusive.

transformation within both institutions and markets, there is a significant risk of missing the real root causes which would lie outside the project boundary, or of regression as a consequence of the influences of the broader institution or ongoing changes in the market. Spatial mainstreaming may also involve the setting aside of particular areas for biodiversity protection as part of spatial planning. Examples of spatial projects include: the *Sustainable Cerrado Umbrella Program Initiative,* and the *Conservation and Sustainable Use of Biodiversity in the Dalmatian Coast through Greening Coastal Development* project.

(b) *Sectoral Mainstreaming:* The objective of this approach is to internalize biodiversity into a particular sector. Sectoral-related activities can include improvement of production practices through demonstration and promotion efforts; strengthening capacity at the systemic level through policies (including incorporating management considerations into spatial and sector planning), legislation and awareness. Examples include:

(i) The *Biodiversity and Agricultural Commodities Program (BACP)* has as a main objective of preserving global genetic, species and ecosystem diversity within agricultural production landscapes. The BACP aims to address market failures which prevent private producers, or reduce their incentives, to transition to production methods that are commercially viable and beneficial to biodiversity. The BACP has identified a small number of priority commodities (palm oil, cocoa, sugar cane, soybeans) and work with key private companies and other stakeholders to assist them in implementing and accelerating the adoption of better practices. The BACP commodity-wide initiatives and / or market forces can then lead to replication of these new practices by other producers.

(ii) The Central American Markets for Biodiversity (CAMBio): Mainstreaming Biodiversity Conservation and Sustainable use within Micro, Small and Medium-sized Enterprise Development and Financing project removes barriers in the banking, business, and enabling environment to catalyze biodiversity-friendly investments in micro-, small-, and medium-sized enterprises and support the mainstreaming of biodiversity conservation and sustainable use within enterprise development and financing in five Central American countries (Costa Rica, El Salvador, Guatemala, Honduras, and Nicaragua). The project assists SMMEs in a broad range of economic sectors (agriculture, sustainable forestry, ecotourism, etc.) to develop biodiversity-friendly business ventures and access new markets for their products and services. This is supported by loans from financial intermediaries, which are receiving partial risk guarantees from the GEF to provide the necessary incentives for their participation in the project.

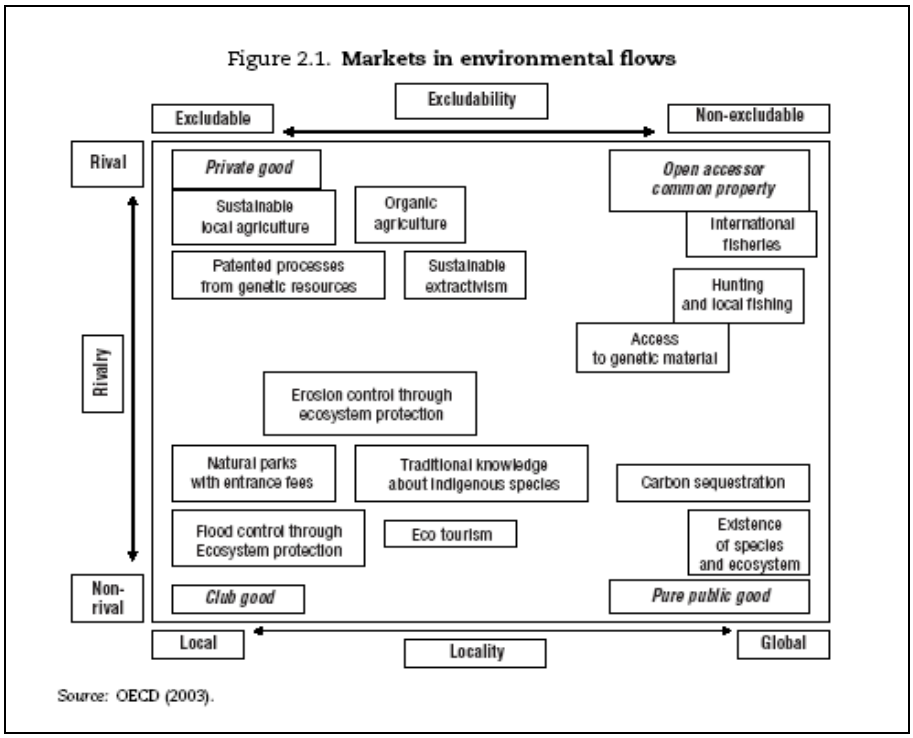
(iii) The *Russia Salmonids* project focuses on mainstreaming biodiversity within fisheries management.

(c) *Market Mainstreaming:* The approach of threat removal is balanced by the need to also pursue new opportunities to proactively influence production sectors and systems through the creation of new markets. For example *Payments for Environmental Services* (PES) can be used in GEF operations to cover a range of systems and services that lead to biodiversity conservation including agri-environmental schemes, mechanisms to pay landowners to encourage the adoption of silvo-pastoral activities and maintenance of forests, mainstreaming biodiversity into carbon finance, biodiversity offsets, user fees (for protected areas), coastal services to reduce vulnerability and marine services for restocking fisheries.

(i) In order to scale up impacts of PES on global biodiversity, future GEF supported operations should focus on: assessing the demand for PES and disseminating best practices; viable size of PES operations; incentives; minimizing transaction costs; identifying, leveraging and securing sources of financing for environmental services[31] (e.g., sustainable income flows through fiscal revenues).

(ii) Under market mainstreaming, projects also focus on businesses, transforming markets, influencing consumers and adding value through the supply chain, and internalizing environmental costs in commodity pricing. These types of projects include market-based interventions (at either a global or national level) and often also require the creation of a supportive enabling environment. This means intervening at production and up through the supply chain to industries and consumer markets, as well as government policies, planning and regulation, which are drivers influencing production practices.

[31] In many cases, biodiversity benefits will be correlated with local and national benefits, such as water services. In these cases, GEF support can help establish sustainable mechanisms that will conserve biodiversity. In the cases where biodiversity benefits are not correlated with local or national benefits, the key challenge is long-term financing.



Background Information and Lessons Learned through the GEF Portfolio

World Bank Group

139. The World Bank's total biodiversity investment in GEF between 1988 and 2004 was $963.5 Million.[32] WB funding for biodiversity projects has traditionally targeted protected areas and park buffer zones, though greater attention is now being placed on projects that improve natural resource management and mainstream biodiversity into development, such as projects that place economic value on ecosystem services.

IFC

140. Through a focus on clusters of clients, issues and/or countries, IFC is strategically working to strengthen the case for direct engagement of the private sector in GEF co-sponsored programs and projects with high potential for results and impact in the implementation of the CBD. IFC has integrated biodiversity into its Performance Standards for Private Sector Financing in Emerging Markets as part of its Policy on Social and Environmental Sustainability. IFC projects range from assisting private landowners in the formal conservation of their properties to catalyzing sustainable practices by small farmers and SMEs in various sectors through supply and demand side interventions, such as training and awareness-raising. Projects to promote best practices through public-private partnerships with NGOs and the private sector are also supported. For example, under the Egypt-Red Sea Coastal and Natural Resource Management Project, various NGOs have partnered with major hotel operators to promote practices that will ensure the sustainability of tourism based on the Red Sea coral reefs and

[32] Ensuring the future: The World Bank and Biodiversity (2004)

marine protected area. Table 2 provides a list of current projects in the IFC-GEF biodiversity portfolio including the amount of the GEF grants.

Table 2: IFC GEF Biodiversity Portfolio: Projects in Current Portfolio						
Figures in $ million	**Total Funding**	**GEF***	**NGO / IFI / Other**	**Private Sector**	**PS to GEF Ratio**	**Years**
Komodo Tourism	16.5	5.0	4.8	6.7[33]	1.3x	7
Eg-Uur Watershed Conservation Initiative	1.9	1.0	0.3	0.7[34]	0.7x	5
Fondo EcoEmpresas	20.8	1.0	7.7	12.1[35]	12.1x	7
Inka Terra Ecotourism	12.1	0.8	6.3[36]	5.1[37]	6.4x	4
Poison Dart Frog Ranching	1.8	0.8	0.5	0.5[38]	0.6x	4
Lokisale	0.9	0.5	0.2	0.2[39]	0.4x	2
Asian Conservation Company	22.0	4.5	1.5	16.0[40]	3.6x	9
Marine Aquarium Market Transformation Init.	22.3	6.9	7.3	8.1[41]	1.2x	5
Environmental Business Finance Prog. - BioD	20.0[42]	4.0	2.0	14.0[43]	3.5x	10
TOTAL	**118.3**	**24.5**	**30.6**	**63.4**	**2.6x**	**-**
Projects in Preparation						
Figures in $ million	**Total Funding**	**GEF**	**NGO / IFI / Other**	**Private Sector**	**PS to GEF Ratio**	**Years**
BioD and Agricultural Commodities Prog.	40.0	10.0	10.0	20.0	2.0x	10

* Includes grants, debt financing and guarantees.

[33] Komodo expected park revenues.
[34] Includes $427,000 investments by private flyfishing operators and $253,825 of expected concession and licensing revenues.
[35] Funding that is expected to be secured by FEE portfolio companies from other commercial sources (under the assumption that FEE financing will represent 30% of total project companies' capital structure).
[36] Includes $5 million of IFC financing on commercial terms.
[37] Contribution by Inka Terra ecotourism company.
[38] Includes $273,732 contribution by frog export business, $186,264 by associations of frog producers and $45,000 by frog distributors.
[39] Contribution by Boundary Hill Lodge Ltd.
[40] ACC investment capital. Does not include $0.9 million of associated conservation financing contributions made by ACC investment companies.
[41] Includes infrastructure and personnel investments by exporters, importers and retailers of marine ornamentals.
[42] Assumes that 20% of EBFP's expected $100 million portfolio will be comprised of biodiversity-related projects.
[43] Includes additional commercial financing provided by IFC and other financial institutions ($6 million), as well as funds secured by SMEs from other sources ($8 million).

Lessons Learned from Special Equity Funds

141. IFC has engaged in a variety of equity funds as a means to directly engage the private sector. Two of these funds—Terra Capital and Regional Energy Efficiency Facility—failed and were subsequently closed. In the case of Terra Capital, problems were encountered in identifying investments that met both financial return criteria and biodiversity benefits as the investment vehicles were inappropriately designed for the markets in which they were operating. Market forces were also not as supportive as had been anticipated.

142. IFC is incorporating key lessons learned from these experiences in efforts to maximize the success of current and future portfolio projects. Lessons learned include:

(a) do not overestimate the expected rate of return, especially if leading-edge environmental ventures are competing with strong conventional firms;

(b) have the flexibility to provide companies with financing other than equity (e.g., long-term debt or working capital);

(c) recognize that structuring and managing small equity investments is more difficult than larger investments due to limited management control and restricted exit options;

(d) where environmental benefits are not embodied in product delivery (more typical for biodiversity projects), commercial challenges can prevent realization of environmental goals; and

(e) it can be challenging to balance the need for a broad universe of potential projects with the need for local management of smaller investments.

143. These lessons have enabled IFC/GEF to be more efficient through lending to financial intermediaries which in turn respond to demands by local SMEs – Hence the EBFP Program. EBFP has made an investment in Verde Ventures, a special biodiversity fund managed by Conservation International (CI).

UNDP

144. The overall objective of UNDP-GEF's interventions with the private sector is to affect the enabling environment in which the private sector operates so as to facilitate their ability to influence and modify local and global markets, supply chains, production systems and service providers. UNDP-GEF projects use a variety of approaches and tools when working with the private sector. The approaches and tools used depend on the maturity/degree of completeness of the enabling environment, and who are primary relevant stakeholders in the sector (see table 3). UNDP-GEF looks to identify and apply the most appropriate tools in different sectors, as each sector has different dynamics, drivers and needs. UNDP-GEF will focus, at the sector level, on identifying and addressing critical bottlenecks, barriers and points of influence/leverage to creating environmentally sustainable markets and economies.

Table 3: Approaches and Tools Used in UNDP Biodiversity Projects

Foundation Projects	Innovation Projects
Regulatory/legal frameworks	Standards, certification, labeling, marketing and sales networks
Policy changes/policy advice	Access to financing options
Capacity development	Awareness (broader and/or targeted)
Technical assistance	Capacity development and knowledge sharing
Governance	Delivery mechanisms
General public awareness	Stakeholder consultations
	Development and implementation of targeted training programs
	public/private consultation groups

145. Ultimately, the appropriate mode and level of interaction will depend on the nature of the market and the supply chain; and to what extent companies and producers can be influenced centrally as opposed to locally (e.g., coffee versus local hotel), and can exert influence globally.

146. UNDP corporately is growing in its experience in working with the private sector. UNDP now has policies for working the private sector and is one of the four UN agencies supporting the implementation of the Global Compact (GC)[44] and introducing/operationalizing the GC in developing countries.

Lessons Learned

147. UNDP seeks to access lessons learned with the goal of sharing best practices. A review of UNDP-GEF's global portfolio of conservation projects identified four broad sectors with possibilities for win-win interaction with the private sector: Tourism - coastal and ecotourism; Agro-forestry - coffee, cocoa; Forestry - timber; and, Non-timber forest products (NTFPs).[45]

148. Over 70% of UNDP-GEF biodiversity projects support ecotourism initiatives or have the potential to develop ecotourism initiatives. Engagement with the tourism industry requires a different suite of tools and strategies and UNDP is well placed to provide this variety of technical assistance required. However, there is a need for more tourism expertise within the teams and guidance for better planning, feasibility studies and support for ecotourism development.

149. Another major lesson has been the importance of working through NGOs to use their existing networks and to build new ones, as it is too time consuming for UNDP to build individual corporate relationships. UNDP-GEF acts as a broker and facilitator to help bring in the private sector to work with local communities, governments and NGOs.

[44] The Global Compact is a UN inter-agency initiative championed by UN Secretary-General Kofi Annan to challenge businesses to take greater responsibility in society and act upon a set of universally recognized principles in the areas of human rights, labour rights and environment.
[45] In addition, UNDP-GEF is exploring other sectors where there may be potential, including tropical agriculture (tea), livestock, fisheries, aquaculture and extractive industries (mining, oil and gas).

150. Finally, lessons for financing show the necessity of associated and precursor technical assistance. The focus on non-grant mechanisms should be complemented by a strong emphasis on capacity building and policy reform to stimulate and influence private sector behavior.

UNEP

151. UNEP has a particular role to play in facilitating biodiversity related private sector partnerships through its various networks. UNEP works with individual business entities and business associations, on both a sectoral and a multi-sectoral basis. For example, UNEP annually hosts a *Consultative Meeting with Industry Associations* where 40 mainly international industry associations are represented and can be informed about GEF projects, priorities and potential opportunities for synergies. UNEP has also initiated industry-specific initiatives including the Finance Initiative, Supporting Entrepreneurs in Environment and Development (SEED) Initiative, and the Tour Operators Initiative (TOI) to engage the private sector on biodiversity issues and ways to maximize its conservation (see Chapter 3). UNEP also works closely with other institutions on various initiatives to encourage business best practices, including the Global Compact and the Global Reporting Initiative (GRI). In 2004, UNEP and the Wuppertal Institute for Climate, Energy and Environment also started preparations on a sustainability toolkit called *"The SMART Entrepreneur"* (Sustainability for the Small and Medium-sized Enterprise committed to Accountability, Responsibility and Transparency) that introduces the SME to the full sustainability agenda.

Context and Background

152. The CBD, Agenda 21, the MDGs, and the Millennium Ecosystem Assessment consider the private sector as a main partner to engage in the conservation of biodiversity. There are many ways in which a company can engage with biodiversity issues and make a contribution to the objectives of the CBD, ranging from raising employee awareness of biodiversity issues and managing environmental impacts responsibly to enhancing the conservation value of habitats on its landholdings, helping to fund conservation initiatives and adhering to principles of sustainable use of biodiversity.[46]

Current Context for Engagement of the Private Sector. within the Biodiversity Focal Area

153. Leading companies are moving well beyond the reactive and defensive approach typical of past interactions, and are adopting a pro-active and stakeholder-inclusive approach, where public participation and acceptability are acknowledged as important.[47] Engaging stakeholders is significant, as not harming the environment is now part of public expectations of companies.

154. This shift in approach has followed the realization that unless a company can demonstrate high standards with respect to biodiversity, its position in the marketplace, even its profitability, can be threatened by risks such as challenges to its legal license to operate, disruption to the supply chain, as well as liabilities, damage to reputation and increased operating costs. However, if properly managed, perceived biodiversity risks can be turned into mutually beneficial opportunities for both business and biodiversity. Indeed, safeguarding shareholder

[46] Business &Biodiversity, A guide for UK-based companies operating internationally , 2002, Published by Earthwatch
[47] Ibid.

value and natural value are not mutually exclusive - they are interdependent.[48] Table 4[49] shows companies in red zone (i.e., high risk) sectors that are actively taking action to address their biodiversity risks. Being proactive is necessary as the lack of clear regulatory frameworks and knowledge on biodiversity characteristically lead to unusually high biodiversity-related risks for companies operating in developing countries, either directly or in their supply chains. For example, companies may find that they are operating in an area of high biodiversity value, that has not been designated as a protected area by the government, but becomes the subject of an international campaign by conservation NGOs; or a company may find that its activities have an unforeseen affect on the livelihoods of poor communities that are dependent on biodiversity.[50]

Box 1: Companies' Link Biodiversity to their Bottom Line

A former Chairman of Rio Tinto plc highlights this in the foreword of Business and Biodiversity[51]
"In the last few years, it has become increasingly apparent that biodiversity, the variety of life on earth, is an issue of strategic importance to business. At the simplest level, many businesses own and manage land: their actions therefore affect biodiversity and they need to be aware of the regulations protecting it, the risks involved if it is harmed – and the opportunities to act positively. Businesses are also being scrutinized much more intently about their impacts on biodiversity by their stakeholders, not least by investors, employees and local communities. Ignoring the issue may risk negative publicity, poor investment, or even affect the licence to operate. And rightly so: biodiversity is crucial to business in a variety of ways. It is the key to creating a stable and predictable environment in which businesses can operate, and it provides raw materials for a huge variety of industries; it is a gene pool for developing new products including medicines, foodstuffs and materials; and an inspiration for new solutions to a vast range of problems – from structural engineering designs based on sophisticated natural examples, to information processing solutions inspired by the complexity of ant communication…conserving biodiversity is both a necessity and a valuable business opportunity.

A former UK Minister for the Environment and the Group Chief Executive, BP plc.[52] reports:
"The impacts on biodiversity are not limited to companies with operating sites overseas. In the global economy, many companies have business relationships overseas, whether through their supply chain or through direct ownership. This means UK businesses have the potential to make a very significant positive contribution to biodiversity conservation through their investment, purchasing and operating decisions, and through their ability to influence. Such strategic approaches to biodiversity can not only avoid potential negative impacts but, in turn, create both strategic and operational benefits for a company".

BG website:
BG stated that its approach to biodiversity had business benefits in 'Being a preferred partner for host Governments by demonstrating how we work in sympathy with the country's biodiversity plans, in helping the Government to achieve two aspirations, resource development and biodiversity conservation.' (BG website 17/12/2003)

[48] F&C, Is biodiversity a material risk for companies? September 2004
[49] Ibid.
[50] Ibid.
[51] Business & Biodiversity, 2002, Published by Earthwatch based on a report by the UK Round Table on Sustainable Development.
[52] Business &Biodiversity, A guide for UK-based companies operating internationally, 2002, Published by Earthwatch

Shell website:
'The public is increasingly concerned about activities causing habitat destruction and species loss. This can affect Shell's bottom line in a number of ways – at the pump, in the financial markets and in the recruitment of highly-qualified staff.' (Shell website 06/01/2004)

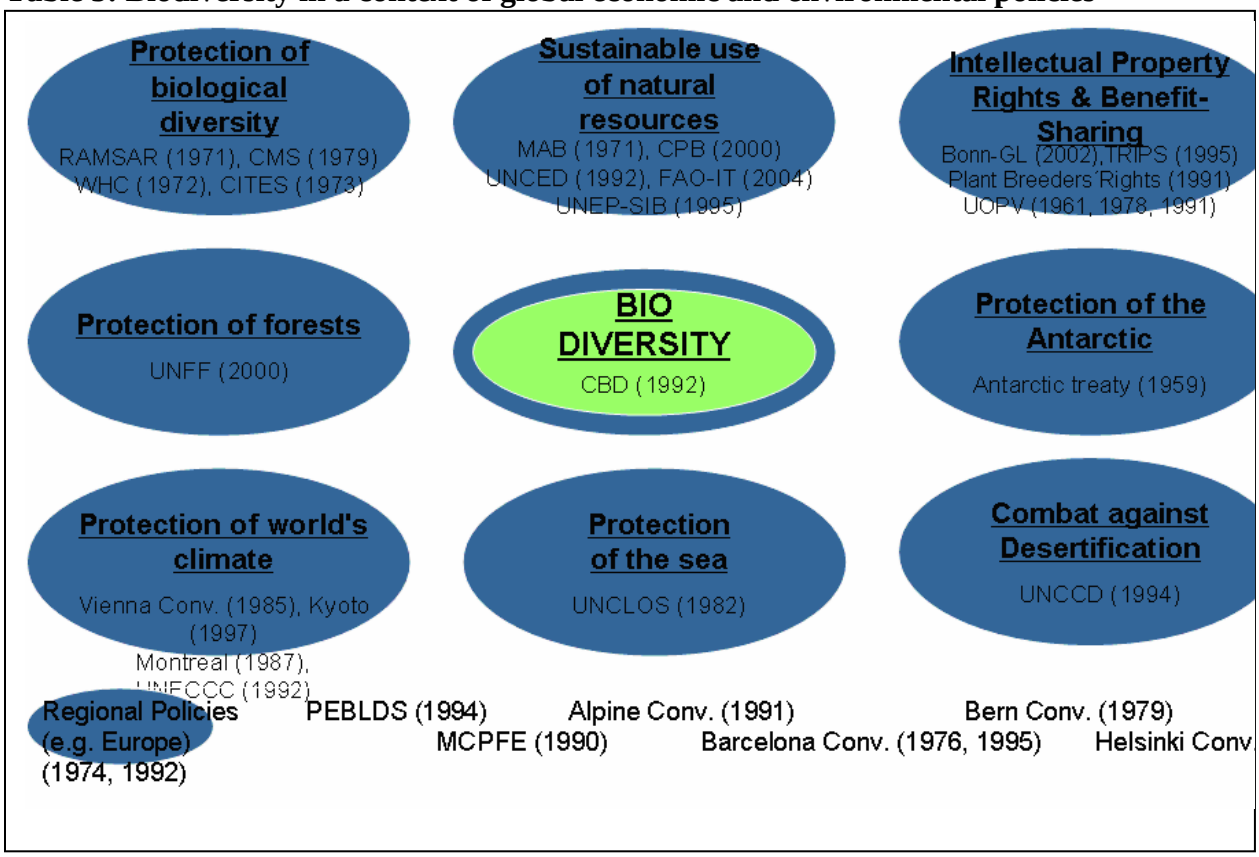
Table 4: Actions to Manage Biodiversity by Companies in Red-zone sectors

Red-zone sectors	1. FTSE 100 companies taking substantive and consistent action to manage biodiversity risks effectively	2. FTSE 100 companies demonstrating an understanding and awareness of the need to assess and manage biodiversity risks consistently and effectively
Construction & Building materials	Hanson	Wolseley
Electricity	Scottish and Southern Scottish Power	
Food & Drug Retailers		Sainsbury's
Food Producers & Processors	Unilever	Cadbury Schweppes
Forestry & Paper*		
Leisure & Hotels		Whitbread
Mining	Anglo American Rio Tinto	BHP Billiton
Oil & Gas	BG Group BP Shell	
Utilities	Severn Trent United Utilities	National Grid Transco

155. Business operations are also increasingly being faced with new and stricter environmental regulations of which compliance is critical to maintaining their bottom line. These regulations are a response to recent international commitments for action including the EU target to halt biodiversity loss by 2010 and the World Summit on Sustainable Development (WSSD) target to "achieve by 2010 a significant reduction in the current rate of loss of biological diversity".[53] These regulations build on international conventions (see Table 5) that aim to protect biodiversity including the CBD, Convention on International Trade in Endangered Species (CITES), Ramsar Convention, World Heritage Convention and the Convention on the Conservation of Migratory Species of Wild Animals (CMS).

[53] See http://europa.eu.int/comm/environment/eussd/

Table 5: Biodiversity in a context of global economic and environmental policies



(Boehringer Ingelheim, 2005)

156. In addition to responding to legal requirements, consumers and shareholders are expecting companies to abide by voluntary environmental guidelines and publicly report on their environmental performance. Stakeholders are making use of a variety of indices, which explicitly link environmental performance and business success.

157. Many regulations are specific to particular countries and/or industries, though the major environmental regulations, reporting systems, guidelines and indices are:

(a) Regulations

(i) UK Biodiversity Action Plan (UKBAP)
(ii) Environmental Impact Assessments (EIAs)
(iii) EU Habitat and Environmental Liabilities (Foreign Direct Liability) Directives
(iv) EU REACH Directive

(b) Reporting

(i) Global Reporting Initiative (GRI)
(ii) Operating and Financial Reviews
(iii) Guidelines

(iv) Equator Principles
(v) Global Compact
(vi) ILO Conventions
(vii) ISO14001
(viii) EU Eco-Management and Audit Scheme (EMAS)
(ix) The Natural Step Environmental Management System
(x) OECD Guidelines for Multinationals

(c) Indices

(i) Business in the Environment (BiE) Index of Corporate Environmental Engagement
(ii) FTSE series of Socially Responsible Investment indices (FTSE4Good)
(iii) Dow Jones Sustainability index

158. To satisfy the above requirements and minimize risks to companies as highlighted in this section, large companies and multinationals are gradually addressing biodiversity as a strategic issue. Examples of progress made to this effect are presented below:

(a) *Alcan:* Alcan seeks to operationalize biodiversity conservation and ecosystem preservation practices into the company's management systems and mining activities, i.e., bauxite residue management, mine rehabilitation, fish stock preservation, etc. By doing so, it can attempt to balance the business' use of ecosystem services with society's demand for its products and services, maintain its license to operate, and strengthen its credibility as an environmental leader. Alcan has conducted a systematic assessment of all potential upstream and downstream impacts associated with producing and manufacturing aluminum and specialty packaging. This resulted in the company's formal commitment to sustainable management of freshwater through effective watershed management. Alcan works with IUCN and WWF to develop business relevant policies and practices on ecosystems and biodiversity to achieve these objectives.

(b) *BP:* BP has a policy goal of 'no damage to the environment'. Key themes of the company's biodiversity strategy are:

(i) understanding the company's direct and indirect impacts on biodiversity;

(ii) constructively contributing to the public policy debate on biodiversity;

(iii) creating collaborative partnerships, funding and contributing to conservation activities aligned with local, national, regional and global priorities;

(iv) making a positive contribution to biodiversity research and education; and

(v) raising the awareness and understanding of the company's employees, people they work with and their customers.

BP has also established a biodiversity unit at group level, which is developing toolkits for its worldwide operations to integrate biodiversity as part of their Health, Safety and Environmental Management System. They also worked with UNEP-WCMC to develop Country Biodiversity Profiles, which outline information about biodiversity resources and issues in a particular country, such as the country's progress in implementing the CBD, its priorities and mapping of sensitive habitats.

(c) *Barclays (Banks):* This UK-based financial services group provides finance to major projects in a wide range of sectors, which can have potential biodiversity impacts such as habitat loss and pollution. Therefore, Barclays uses environmental credit risk assessment policies and procedures in calculating the viability of a project, and has a dedicated central environmental risk management team to advise on such assessments. As a signatory to the Equator Principles, there are also projects or businesses to which the bank will not lend at any price, as they lack sound environmental management practices.

(d) *CEMEX:* CEMEX is one of the 10 leading cement companies participating in the Cement Sustainability Initiative (CSI). The company is committed to making more efficient use of natural resources and energy, innovating product and service to reduce environmental impacts, and working with other industries on novel uses of by-product and waste materials in cement production. CEMEX is also involved in two long-term conservation programs: (1) in the El Carmen ecosystem, an important conservation corridor in northern Coahuila, Mexico, CEMEX acquired land, and entered into conservation agreements with neighboring landowners to bring the project's total area to approximately 95,000 hectares; and (2) In El Yaqui, quarry land is being provided under the National Desert Big Horn Sheep Restoration program as suitable habitat for the reproduction of these sheep, which are virtually extinct in Northern Mexico. CEMEX has established proactive partnerships with government authorities, communities and local and international NGOs to protect biodiversity, including Profauna, Unidos para la Conservación, Agrupación Sierra Madre, CI, Birdlife International and IUCN. CEMEX was the World Environmental Center's Gold Medal for International Corporate Achievement in 2002.

(e) *The Co-operative Bank p.l.c.:* The company has adopted the Natural Step Environmental Management System, which includes biodiversity as a key consideration. As an office-based financial company, it has also recognized that it must look outside its direct business to engage with the biodiversity process. It has done this primarily through partnerships with the Royal Society for the Protection of Birds (RSPB) to support biodiversity, and becoming Species Champions for one of the UK's most endangered birds by financially supporting projects aimed at its protection.

(f) *Insight Investment:* This investment fund encourages the companies in which it invests to address biodiversity concerns through shareholder activism. As the asset manager for the Halifax and Bank of Scotland, it applies its policy on

corporate governance and corporate responsibility to all the assets that it manages (c. £75 billion) and engages with companies to encourage them to adopt high standards on social, environmental, and ethical issues. It is currently working with the extractive and utility companies it invests in to integrate biodiversity into their practices and has developed biodiversity benchmarks to measure their performance.

(g) *Rio Tinto:* Rio Tinto aims to having a net positive impact on biodiversity. The company is committed to minimizing the negative impacts of its activities and supports local, national and global initiatives which conserve threatened and endemic species and high priority conservation areas. The company has worked with three NGOs – Fauna & Flora International (FFI), BirdLife International and the UNEP-World Conservation Monitoring Centre (UNEP-WCMC) to develop a biodiversity strategy for the Group. In 2004, Rio Tinto published a guide for operational managers, to support the practical implementation of this strategy, by facilitating the effective integration of biodiversity into the company's operations and Environmental Management Systems. All operations are also required to produce stand alone sustainability reports, which include documenting the progress of biodiversity initiatives.

(h) *Shell*: 160 delegates convened over three workshops in 2005 to assist Shell in determining its priorities over the next 5 years in managing and conserving biodiversity. Shell's Biodiversity Strategy to 2010 focuses on:

(i) preparing and implementing Biodiversity Action Plans (BAPs) for its operations and integrating biodiversity into their normal business processes;

(ii) demonstrating delivery by measuring and monitoring progress and identifying and learning from leadership projects;

(iii) helping to develop best practices and participating in pilot activities related to protected areas, offsets and ecosystem services and values; and

(iv) making a positive contribution through partnerships (see Table 6).

Table 6 - Shell Partnerships for Biodiversity

Partner	**Type of Partnership**
IUCN	Business advisory services through Shell staff secondment
IUCN Asia and UNESCO	Capacity building and skills transfer
Rio Tinto and BP	UNEP-World Conservation Monitoring Centre "ECOiSHARE" program
IPIECA and OGP industry Biodiversity Working Group	Awareness raising of biodiversity issues across the oil and gas industry

(i) *Total:* Biodiversity is a priority issue for Total, as oil often coexists with areas of high biodiversity value, especially in marine areas. The company incorporates biodiversity into the EIAs of all it operations and contributes to biodiversity projects, research, and education programs through its foundation on biodiversity and the sea. The foundation has a €2 Million annual budget and implements its projects in association with its partners, including IUCN, Ramsar convention and the National Oceanographic Centre-Southampton. In response to their requests, employees also have the opportunity to get actively involved in these projects. The foundation's activities enable the company to contribute to increased knowledge on marine biodiversity while responding to the potential impact of the company's operations on marine ecosystems.

(j) *Unilever:* Unilever's sustainable agriculture program is "Ensuring any adverse effects on biodiversity from agricultural activities are minimized and positive contributions are made where possible." In order to achieve this goal, the company has or is developing biodiversity action plans (BAPs) for their sites in Tanzania, Australia, Kenya, India, Ghana and the UK. Furthermore, all of their factories use environmental management systems and set targets to reduce emissions and wastes. Their factories in India and Brazil do not discharge any water to watercourses.

Unilever is also a founder of the Marine Stewardship Council with WWF and is aiming to source all its frozen fish from sustainable sources by 2005 and apply the UN Food and Agriculture Organization's Code of Conduct for Responsible Fisheries when they assess their suppliers. This is ahead of the targets adopted by the World Summit on Sustainable Development and the CBD, and is incredibly significant, as the company is the world's largest buyer of fish.

Mitigating Footprints

159. A number of companies are also developing technical expertise and building institutional support for voluntary offsets. They are moving towards quantified approaches that demonstrate "no net loss" or even "net benefit" to biodiversity; experimenting with the practice of biodiversity offsets; and calling for help in designing methodologies to assess both sides of the offset equation; their impact and actions to benefit biodiversity. Leadership groups of companies such as the International Council of Mining and Metals (ICMM) and multi-stakeholder partnerships such as the Energy and Biodiversity Initiative (EBI) have also been working on this issue.

160. Industry associations are also actively working to overcome the challenges in identifying and managing biodiversity risks. For example, there is a problem of establishing a cause-effect relationship between biodiversity and business activities, and establishing responsibilities when the impacts are secondary (see Table 7).

Table 7 - Industry Associations and Addressing Biodiversity Risks[54]

Sector	Industry body	Biodiversity work
Construction & Building Materials	CIRIA	Training manual on 'working with wildlife' (http://www.ciria.org/index.html)
Ibid	Quarry Products Association	http://www.qpa.org/env_bio.htm They signed a joint statement of intent with English Nature and the Silica and Moulding Sands Association and formed the Minerals and Nature Conservation forum (http://www.qpa.org/natureconservation/biod.htm) Its members conduct on the ground conservation projects
Mining	ICMM	http://www.icmm.com/sd_biodiversity.php
Oil & Gas	IPIECA	Energy and Biodiversity Initiative http://www.ipieca.org/working_groups/biodiversity/bio_home.html
Food Producers	Crop protection association	Arable Wildlife - Protecting Non Target Species http://www.cropprotection.org.uk/content/resources/5_pub_farmers.asp http://www.cropprotection.org.uk/Content/home/Default.asp
Leisure & Hotels	European Golf association	(http://www.ega-golf.ch/) They have an ecology unit (http://www.golfecology.com/) Course management best practice guidelines - have a section on biodiversity (https://www.bestcourseforgolf.org/content/environment/key_environment/biodiversity)
Utilities (other)	Water UK	http://admin.evolvingmedia.co.uk/users/files/1FinalReport0102.PDF biodiversity Indicators for water industry
Forestry & Paper	Forestry and timber association	http://www.forestryandtimber.org working with grey squirrel initiative
Transport	Environmental Transport Association	http://www.eta.co.uk/main.htm Roads and birds campaign

CBD and Engagement of the Private Sector

161. The private sector, a major biodiversity stakeholder, has the potential to make a significant contribution to the objectives of the Convention by integrating biodiversity considerations into its policies and practices. To date, this potential has remained largely untapped. The 2010 target and objective 4.4 of the Strategic Plan, however, have brought renewed emphasis on private sector engagement in the implementation of the Convention. Consequently, one of the key recommendations to the Conference of the Parties made by the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention, which met in September 2005, was to undertake a number of actions to strengthen such engagement.[55] At the same time, business has started to independently acknowledge the importance of biodiversity to its sustainability, thereby creating an enabling environment for engagement.

[54] F&C, Is biodiversity a material risk for companies? September 2004

[55] Recommendation 1/7 of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention, Report of the Ad Hoc Open-ended Working Group on Review of Implementation of the Convention, 5-9 September 2005.

162. The CBD[56] reports that: The private sector has yet to be effectively and consistently engaged in the implementation of the Convention at either the global or national level. However, the daily activities of business and industry have major impacts on biodiversity. The private sector thus has the potential to make a significant contribution towards achieving the 2010 target and the objectives of the Convention by adopting and promoting good biodiversity practice, sharing relevant expertise and technologies with the public sector, and helping to mainstream biodiversity. Furthermore, some private sector players have an interest in engaging biodiversity-related issues in order to maintain their reputation, as well as their competitive advantage through access to land, sea and other natural resources, legal and social rights to operate, capital, insurance and human resources.

163. An objective of the Strategic Plan of the Convention is that "key actors and stakeholders, including the private sector, are engaged in partnership to implement the Convention and are integrating biodiversity concerns into their relevant sectoral and cross-sectoral plans, programmes, and policies" (objective 4.4).

164. The CBD notes that there are multiple reasons for promoting the engagement of business and industry in the implementation of the Convention, including the following:

(a) the private sector is arguably the least engaged of all stakeholders in the implementation of the Convention, yet the daily activities of business and industry have major impacts on biodiversity. Encouraging business and industry to adopt and promote good practice could make a significant contribution towards the 2010 target and the objectives of the Convention;

(b) individual companies and industry associations can be highly influential on governments and public opinion; thus, they have the potential to raise the profile of biodiversity and of the Convention itself; and

(c) the private sector possesses biodiversity-relevant knowledge and technological resources, as well as more general management, research and communication skills, which, if mobilized, could facilitate the implementation of the Convention.

165. The CBD also emphasizes that: companies and industry associations are increasingly acknowledging the importance of biodiversity and its components to their operations and their bottom-line, thereby creating, perhaps for the first time, an enabling environment for private sector engagement with the objectives of the Convention (see Box 1).

166. The business case for mitigating biodiversity risks, minimizing adverse impacts on biodiversity, and investing in conservation and ecosystem restoration, is based on a company's need to maintain its competitive advantage and long-term sustainability.

167. The CBD invites engagement of the financial and insurance sectors and companies that impact access to genetic resources and benefit-sharing in the implementation of the Convention.

[56] Convention on Biological Diversity, Ad Hoc Open-ended Working Group on Review of Implementation, First meeting, Montreal, 5-9 September 2005, Item 5.2 of the provisional agenda: Private Sector Engagement In The Implementation Of The Convention, Note by the Executive Secretary

At the national level, Parties could prioritize engaging companies and industry associations operating under their jurisdiction in the national implementation of the Convention.

168. Options for enhancing private sector engagement in the implementation of the Convention include: raising awareness about biodiversity and the Convention, and their relevance to business, within the private sector and among the public; developing and implementing guidance, standards and other tools that encourage best biodiversity practice by companies; scaling-up and promoting good practice more widely; and engaging the private sector in the Convention process at both the global and national levels.

NGOs and Engagement of the Private Sector

169. Numerous national and international NGOs are increasingly partnering with the private sector to manage and conserve biodiversity (Table 8). Leading companies have many incentives to develop strong relationships with key environmental NGOs as they bring biodiversity expertise into the company, raises awareness of the key areas of NGO concern to develop a credible biodiversity policy and strategy and deliver biodiversity management initiatives. Some of the more active and established programs driven by NGOs are described in this section.

Table 8: Selected Organizations and sectors they work with on biodiversity issues[57]

Sector	English Nature	Earth-watch	WWF	Fauna & Flora Internat'l	IUCN	Conservation Internat'l	Green-peace	Birdlife Internat'l	Friends of the Earth
Food producers and processors	X	X	X			X	X	X	X
Food and drug retailers	X								
Forestry and paper			X			X	X		X
Mining		X		X	X	X		X	X
Oil and gas	X	X		X		X	X	X	X
Utilities (all)	X	X							
Pharmaceuticals		X							
Tobacco		X		X					
Construction and building materials	X	X	X					X	X
Transport	X								X
Chemicals	X	X					X		
Automobiles and parts			X			X			
General retailers		X	X						
Beverages		X	X						
Leisure and hotels	X		X			X			
Diversified industries									
Telecommunication services		X	X	X					
Financial services		X	X	X	X				X

(a) Conservation International (CI) and its Center for Environmental Leadership in Business (CELB)

(i) CELB programs strategically focus on industry sectors having a significant negative impact on critical ecosystems, but with the greatest potential for creating environmental benefits. Industries include: agriculture and fisheries; energy and mining; forestry; and travel and leisure (see table 9 for strategic partnerships by sector). These programs

[57] F&C, Is biodiversity a material risk for companies? September 2004

engage companies to: integrate biodiversity conservation into their business practices; support conservation policy and planning; and to invest in biodiversity conservation. Key ecosystems in Brazil, South Africa and Mexico are the main areas for CELB's interventions.

Table 9: CELB Partnerships by Sector

Company/Organization/Network	Sector			
	Agriculture & Fisheries	**Energy & Mining**	**Forestry**	**Travel & Leisure**
	Bunge Ltd.	Alcoa	Instituto BioAtlantica	Tour Operators' Initiative
	Columbian Coffee Federation	Rio Tinto Mining and Exploration Ltd	Aracruz	International Hotel Environment Initiative
	McDonald's	ConocoPhillips	Veracel	International Council of Cruise Lines
	Starbucks	Anglo American	Office Depot	The Coral Reef Alliance
		Energy & Biodiversity Initiative	International Paper	Punta Cana Resort and Club
			Weyerhaeuser	
			MeadWestvaco	
			The Forest Dialogue	

(b) IUCN

(i) The three overall goals (or outcomes) of IUCN's private sector strategy are:

a. a conservation community that is well informed about market mechanisms and understands their potential and limitations to achieve biodiversity conservation;

b. a more accountable private sector, which contributes to sustainable development including conservation and social equity; and

c. effective dialogue and collaboration between IUCN and the private sector which helps to achieve conservation through, and alongside, sustainable development.

(ii) IUCN has a long-standing mandate to work with business, but has significantly developed its private sector activities in the last five years, including the following examples:

a. developing case studies, guidelines and training materials for improved corporate environmental management, focusing on industry-wide dissemination;

b. providing technical services and advice to individual companies on specific environmental issues, e.g., biodiversity impact assessment of oil pipelines;

c. convening debate and discussion around key business and environment issues, e.g., the IUCN-ICMM Dialogue on Mining and Biodiversity;

d. collaborating with industry to influence intergovernmental processes, e.g., working with oil companies to improve safety standards in shipping; and

e. joint conservation and sustainable use activities; for example, the development of new markets and management systems for wild plant products.

(iii) IUCN is able to build upon its comparative advantage as convener of stakeholders through networks to develop standards, guidelines and policies for the sustainable management of natural resources and can facilitate the development of similar products to help the private sector integrate biodiversity into business management. IUCN can also support efforts to involve business in its networks and conservation fora, or create new networks more aligned with businesses' needs and interests. Finally, IUCN's networks and Secretariat can provide business with technical assistance and information on a range of conservation issues.

(iv) Specific new expertise include:

a. integrating nature conservation in poverty reduction and development strategies;

b. supporting increased coherence between international trade and environmental policies;

c. developing policy and practice to implement the ecosystem approach; and

d. developing market-based incentives for nature conservation, including payments for ecosystem services.

(c) WWF

(i) WWF collaborates with businesses through various channels, from media relationships and product licensing agreements, to policy activities and performance-based conservation partnerships with multinationals. WWF only works with companies that demonstrate a real commitment to the principles of sustainability, are prepared to adopt challenging targets for change, and are willing to promote a sector-wide shift to sustainable

development and corporate best practice. To date, WWF has formed three major conservation partnerships with IKEA, KfW banking group, and Lafarge. Each relationship is distinct and depends upon a common agreed agenda of the parties.

(ii) *IKEA*: This partnership seeks to further responsible forestry by strengthening forest certification and promoting legal compliance in forestry and trade. Various efforts are ongoing in the Baltic countries, Bulgaria, China, Romania, and Russia.

(iii) *Kfw banking group*: The Kfw Development Bank (Germany) is supporting over 100 WWF projects in over 40 countries focusing on forests and biodiversity. Projects range from sustainable management of protected areas and watershed management, to the development and promotion of policies and tools such as certification. This work is accomplished mainly through co-financing of projects and joint development of sustainable financing initiatives.

(iv) *Lafarge*: WWF works with Lafarge to determine environmental performance indicators, set targets for improvement and establish transparent, third party monitoring of their activities to source and provide building materials to the construction industry.

CHAPTER 10. CLIMATE CHANGE

Introduction

170. The private sector constitutes a major source of global greenhouse gas (GHG) emissions, while at the same time it is also the owner of the technologies and capital that hold potential solutions to the climate change problem. Engagement of the private sector in the GEF climate change focal area, therefore, should promote activities that encourage the private sector to reduce GHG emissions in its activities and shore up support of the private sector in facilitating the transfer of climate friendly technologies and the provision of financial resources. In turn, GEF activities also expand the markets and provide increased business opportunities for the private sector.

171. The modes of engagement in the private sector within the GEF climate change focal area have been three-fold. First, the private sector is engaged as a beneficiary of GEF-funded projects and activities in that GEF projects provide the policy environment for private sector investments. Some projects deliver technical and financial assistance directly to the private sector. Second, the private sector is engaged as a co-financier of GEF projects mostly as an investor in and owner/operator of climate-friendly projects. Third, the private sector is engaged as a provider of technologies as well as goods and services tendered by the GEF projects. The type of private sector engaged with the GEF ranges from multilateral corporations in the donor countries as service providers to small and medium-sized enterprises and financial institutions in the recipient countries as beneficiaries and/or co-financiers. The scope and level of private sector engagement in the GEF climate change activities are illustrated in Table 11.

Table 11: Scope and Level of Private Sector Engagement in GEF Climate Change Projects

	GEF Donor Countries		GEF Recipient Countries	
	Large Enterprises	SMEs	Large Enterprises	SMEs
Beneficiary	O	O	X	XXX
Co-financier	X	X	X	XXX
Service provider	XX	X	X	XX

O = no engagement; X = low level of engagement; XX = medium level of engagement; XXX = high level of engagement. Note: The level of engagement given in the table is indicative only.

172. The amount of co-financing provided by the private sector is considerable. UNFCCC[58] reports private sector co-finance figures of $3.3 billion in the climate change focal area.

Status of Engagement with the Private Sector

173. The climate change focal area consists of four key operational programs: removal of barriers to energy efficiency and energy conservation (OP5), promoting the adoption of renewable energy by removing barriers and reducing implementation costs (OP6), reducing the

[58] UNFCCC Organisation for Economic Co-operation and Development (OECD) Presentation, June 2005.

long-term costs of low greenhouse gas emitting energy technologies (OP7), and promoting environmentally sustainable transport (OP11).[59] Private sector-related GEF activities have been undertaken within all four operational programs of climate change.

174. Under OP5, the majority of GEF-funded energy efficiency projects have focused on four approaches to barrier removal: (1) developing and transforming the market of energy-efficient appliances and equipment, (2) promoting market mechanisms such as energy service companies (ESCOs), (3) facilitating access to financing through financial intermediaries and special financial facilities, and (4) technical assistance and capacity building that involve various stakeholders, including the governments, consumers, financial institutions, equipment suppliers, and manufacturers.

175. Successful market transformation programs tend to involve both a demand-pull strategy that involve energy-efficiency standards and labeling programs, education of consumers and professionals, and incentive programs for purchasing energy-efficient products, and a supply-push strategy that supports the transfer of technology and know-how to manufacturers to upgrade their product designs, testing and certification, utility demand-side management (DSM) programs, as well as mandatory and voluntary initiatives with manufacturers and distributors. The efficient refrigerators and lighting projects in China and the lighting DSM programs in Thailand, Mexico, and Poland all point to the private sector participation as a critical element of achieving program success.

176. The ESCO model and the energy performance contracts (EPCs) have been vigorously promoted by many World Bank and UNDP energy efficiency projects. ESCO development often aims at creating a market for energy efficiency that would provide business opportunities for private entrepreneurs to invest in energy-efficiency projects. About two dozen GEF projects implemented by the World Bank/IFC have a component for ESCO development. A number of UNDP-GEF energy efficiency projects are also designed to promote the ESCO business model. Although the ownership of some of the ESCOs supported by the GEF projects may fall under the public domain initially, they are intended to operate on a commercial basis and are eventually to be privatized or restructured with the injection of private investments and management. The GEF grants help the private sector to buy down risks associated with the nascent local ESCO market. In turn, the private entrepreneurs provide capital and know-how to propel the development of the ESCO industry.

177. The private sector in the GEF program countries also benefits from GEF projects that aim to remove financial barriers to energy efficiency investments through guarantees and special funds. In addition, the technical assistance and capacity building components also benefit the private sector directly and indirectly in creating an enabling environment for the private sector in investing in energy efficiency and to expand business opportunities.

178. Small and medium-sized enterprises (SMEs) in GEF recipient countries, in particular, have participated in many GEF projects, as beneficiaries of GEF support, as co-financiers of GEF projects, and as suppliers of equipment and services. These SMEs are typically privately owned and play an important role in the national economy. The GEF industrial energy

[59] In addition, there is a window for short-term response measures (STRMs) that are expected to provide short-term benefits at a relatively low cost. The STRMs have been dormant in recent years.

efficiency project portfolio, for example, almost exclusively target the SME sector in such countries as Algeria, Bangladesh, China, India, Kenya, Malaysia, and Vietnam (see Table 12).

Table 12: GEF-Supported Industrial Energy Efficiency Projects

Country	Project Title	Implementing Agency	Sub-sectors
Algeria	Development of an Energy Efficiency Market in the Industrial Sector	World Bank	Construction materials, cements, steel, petrochemicals, and energy industry
Bangladesh	Improving Kiln Efficiency in the Brick Making Industry	UNDP	Brick
China	Energy Conservation and GHG Emissions Reduction in Chinese Township and Village Enterprises	UNDP	Brick, cement, coking, and metal casting
India	Removal of Barriers to Energy Efficiency Improvement in the Steel Rerolling Mill Industry	UNDP	Steel rolling
India	Energy Conservation in Small Sector Tea Processing Units in South India	UNDP	Tea processing
Kenya	Removal of Barriers to Energy Conservation and Energy Efficiency in Small and Medium Scale Enterprises	UNDP	Food and beverage, textile, paper products, and tea
Malaysia	Industrial Energy Efficiency Project	UNDP	Cement, ceramics, food, glass, iron and steel, paper and pulp, rubber, and wood
Vietnam	Promoting Energy Conservation in Small and Medium Scale Enterprises	UNDP	Brick, ceramics, textile, paper, and food processing

179. GEF support under OP6 follows a similar barrier removal rationale as under OP5, although approaches are modified, as renewable energy opportunities are typically not as financially attractive as energy efficiency investments. Over the past decade, engagement of the private sector as an investor, owner, and operator of renewable energy technologies has gained importance. Three main business models have prevailed: (1) independent power producers (IPPs) who sell electricity to a power grid, (2) private concessionaires in fee-for-service models who own electricity equipment that supplies consumers with energy, and (3) dealers who sell and repair energy equipment.

180. In the on-grid market, the GEF has been working mainly with governments to provide attractive conditions for the private IPP investments. In the off-grid market, where many GEF projects rely on the private sector to invest in mini-grids and small hydropower installations, the engagement with the private sector is often more direct, where private entrepreneurs receive technical assistance (training and free promotion) and financial support (loans and grants) for expanding their businesses. Similar interactions exist with the dealers of distributed energy equipment like solar home systems (SHSs), which are promoted to end-use customers. In the more successful models of scaling up private SHS markets, such as China, Sri Lanka, and Bangladesh, the markets have been fostered through support to equipment vendors and small financial intermediaries to facilitate credit lines for the consumers. The private sector partners of these interactions are typically small local companies, but some small and large companies from OECD countries are also trying to establish subsidiaries in the recipient countries.

181. Projects under OP7 (and OP 11 so far as fuel cell bus projects are concerned) typically involve large GEF grants for new technologies such as concentrating solar power, fuel cells, and advanced biomass gasification and gas turbines. The private sector has played the role of technology providers for these projects. Originally, the private sector was expected to play an important role as investors in these projects and drivers of innovation. However, experience to date has shown that investments in new technologies are often perceived as too risky for the private sector to play the main role. Often these technologies are proprietary to one or several OECD-based companies. For these companies, the technological risks are compounded by the risks of investment in unfamiliar countries, which makes it very difficult for them to finance these projects, even with generous GEF support. It is a constant challenge to find large and deep-pocketed private sector partners for these investments, and many investments had to be converted into public utility-style projects so as to make the risks more bearable for all participants, including the GEF. Given these challenges, the STAP has recommended that public-sector thinking and involvement be included in the traditional OP7 projects. The STAP also recommends introduction of new types of projects into OP7 to encourage innovation in terms of technologies and applications.

182. The IFC – the private sector arm of the World Bank Group – has a sizeable climate change portfolio that includes 15 full-size projects and four medium-sized projects (MSPs). The amount of GEF allocation to these projects totals $242 million, which in turn leverage about $1 billion co-financing mostly from the local private sector and financial institutions. In addition, IFC is implementing three multi-focal areas projects, totaling $43 million GEF allocation and $148 million co-financing, which also have substantial coverage of climate change activities. All three projects target SMEs in the recipient countries. For example, the Environmental Business Finance Program (EBFP) intends to allocate about 60 percent of the $20 million GEF grants to support energy efficiency and renewable energy technologies through financial intermediaries and business development services to the privately owned SMEs in the GEF program countries.

The Way Forward

183. GEF engagement with the private sector in the climate change focal area will focus on technology transfer, improving capacities and strengthening enabling environments as well as providing incentives for investments into clean technologies.

184. The GEF will continue to facilitate the transfer of climate-friendly technologies between countries using the conceptual framework it has developed for technology transfer based upon the removal of barriers to the uptake of the technology. Recent analysis – supported by the results of the CCPS2 and OPS3 – has highlighted the importance of barriers pertaining to the policy environment, technological knowledge and experience, information, financing, and business models and services, that prevent wider dissemination of these climate friendly technologies. The GEF will continue to serve as an honest broker – north-south, south-south, and public-private – to be able to achieve this mission.

185. To this end, the GEF will explore opportunities to build synergies and foster collaboration with other avenues for supplying clean energy development such as carbon finance. Moving forward on this front will have implications for the GEF in further engaging the private sector to participate in GEF climate change activities, since the private sector is often the developer, sponsor, financier of carbon finance projects as well as buyer of the carbon credits generated.

186. To date, the GEF and carbon finance have been regarded as two separate avenues for financing low-carbon energy development, and each has its own distinct characteristics. Table 13 provides a summary of the main characteristics of the GEF and carbon finance.

Table 13: Characteristics of the GEF and Carbon Finance

	GEF	Carbon Finance
Relationship with international convention	Financial mechanism of the UNFCCC	Market-based mechanism for carbon reduction
Objective	Long-term market transformation toward less carbon-intensive growth paths	Cost reduction to meet emissions reduction targets for developed countries and provision of financial resources and technology for sustainable development in developing countries
Strategy	Barrier removal and market transformation of efficient, low-carbon technologies; long term, catalytic	Reduction and avoidance of GHG emissions; short-term, direct, project-based
Primary driver	Mostly public sector	Largely private sector
Type of activities (typical of the current portfolio)	Preventive measures to reduce/avoid low GWP gas (e.g., CO_2); primarily energy efficiency and renewable energy projects	End-of-pipe fixes to capture/decompose gases of high Global Warming Potential (e.g., HFC, CH_4); relatively few energy efficiency and renewable energy projects
Modality of financing	Upfront grant financing for agreed incremental costs	Payment to project entity on delivery of emissions reduction (thereby

		improving project revenue streams)
Carbon credits	Not applicable	Generating marketable carbon credits
Methodology on emissions reduction	Estimated at project design but not rigorously monitored or verified at project implementation or completion	Rigorously quantified, monitored, and certified throughout the project cycle

187. Collaboration between the GEF and carbon has been limited. Although both the GEF and carbon finance aim at reducing the threat of global climate change, the two instruments have different mandates and functions. Thus far, no further guidance from the UNFCCC has been put forward with respect to the potential modalities of collaboration between the GEF and carbon finance. Nonetheless, there is reason to argue that existing resources, including GEF funds, should not be used to finance the potential carbon finance components of a project or the acquisition of credits from carbon finance projects. GEF funds should not be used to pay for the transaction costs involved with the issuance of carbon credits (including methodological development; verification, and certification).

188. Despite these constraints, opportunities exist, and need to be further explored, for the complementary use of the GEF and carbon finance instruments to achieve the common objective of global climate change mitigation. GEF grants typically finance capacity building, barrier removal, and enabling activities that will help to create a conducive environment for the implementation of carbon finance projects. Furthermore, GEF funds can be used to finance the incremental costs of project components that do not generate carbon credits. Specifically, three possible models are proposed here for the complementary use of GEF carbon finance resources.

189. The first model is to use GEF funds to remove barriers and demonstrate the technical and financial feasibility of investment activities.[60] Carbon finance projects can take advantage of the favorable environment and the results demonstrated and develop carbon finance projects to replicate GEF-supported demonstrations. Although GEF and carbon finance activities may be undertaken concurrently, they are more likely to be phased, with GEF barrier removal or demonstration activities preceding carbon finance project development. Under this approach, GEF funds should not be used to carry out carbon finance-specific activities such as establishing baselines or developing monitoring plans. Furthermore, GEF funds and carbon finance would not be combined to finance the same project activity, except in the case where a carbon finance project is undertaken as part of the replication activities under or outside of the aegis of the GEF project.

190. The second model would be to use GEF funds to mitigate financial and project structuring risks of technical nature for projects which may qualify as carbon finance projects. In this model, the use of GEF funds is to demonstrate mechanisms for removing financing barriers of climate change mitigation activities. A likely example of this approach is to set up a guarantee facility using GEF funds for projects which would seek to secure carbon finance.

[60] Barrier removal and capacity building activities may include resource assessment, development of business plans and feasibility studies.

Since carbon finance typically provides a revenue stream that is paid on delivery of carbon credits, rather than upfront financing, such complementary use of GEF and carbon finance instruments is envisaged to play a unique role in stimulating renewable energy and energy efficiency projects. Since this approach would entail co-finance of GEF resources and carbon finance for the same activity, double counting emissions reduction must be avoided. That is, the GEF project should not count the anticipated credits generated by carbon finance project, while for the carbon finance project, once the guarantee is called, the associated emissions reduction should not be registered for carbon credits.

191. The third model would also involve pooling GEF and carbon finance resources for the same activity, whereby the GEF finances the incremental costs of a project in biodiversity, land management, and/or international waters, while carbon finance will derive credits from carbon reduction activities. The complementary use of GEF and carbon finance resources will enhance the sustainability of the project and achieve global benefits in multi-focal areas. Potential double-counting of emissions reduction should be avoided, and the GEF funds should not be used to pay for transaction costs to earn carbon credits.

192. While pursuing synergies between the GEF and carbon finance, it should be recognized that all carbon finance projects and their methodologies are subject to the approval of and further guidance by the COP. Especially for the projects involving complementary use of GEF funds and carbon finance, an acceptable methodology may be required to demonstrate and satisfy the "additionality" and other conditions for the registration of carbon finance projects.

CHAPTER 11. INTERNATIONAL WATERS

Status of Activities Involving the Private Sector

193. The International Waters focal area has been involved with many projects that engage the private sector and business community since GEF Restructuring. Pollution reduction projects have focused on engaging individual facilities and enterprises through policy development or demonstration activities. In a few cases, entire groups of industries, such as oil/gas development or maritime transport, have been involved. Increasingly, agriculture sector businesses have been mobilized through incentive programs to leverage pollution reduction and water use efficiency measures. The following examples are illustrative of the range of activities that have been undertaken:

(a) through a regional UNDP project in East Asia, supported by the GEF, a variety of businesses and industries came together with their community in Batangas Bay, Philippines, to reduce pollution discharges and to interact with regulatory agencies on future pollution reduction requirements;

(b) in other international waters projects ranging from the UNDP Benguela Current to the Caspian Sea, oil/gas/mining industries have provided co-financing in the project as part of their engagement with the GEF projects;

(c) in the Danube Basin, UNDP and UNIDO joined forces to pilot a series of audits and feasibility studies with individual industries to identify pollution reduction measures that pay for themselves in a short time period. This highly successful project known as TEST stimulated industry investments in pollution prevention, recycling and reuse after they saw that pollution prevention does pay. The approach is being replicated elsewhere to leverage further private sector investments;

(d) cost sharing incentives and technical assistance have been provided to farmers and more recently agribusiness community in East Asia to leverage pollution reduction investments; and

(e) through EBRD lending to Slovenia accompanied by a GEF grant, funding is off-lended through financial intermediaries to small and medium enterprises to install pollution reduction measures that reduce toxic substances polluting rivers.

194. A new generation of demonstration projects engaging the business community is underway in the focal area, e.g.:

(a) concepts have been approved to test new, innovative means of financing to support the public-private partnerships;

(b) a global dialogue on private sector and marine overfishing is under development;

(c) public-private partnerships are being investigated in East Asia through: UNDP via advisory committees to the regional project; and a World Bank project testing

new satellite technology for preventing ship collisions and for avoiding contact with important ecological areas. The shipping industry is co-financing the project through its association Intertanko;

(d) a concept for a loan guarantee for sewage treatment was approved for further development as was a special Strategic Partnership with countries in East Asia through the World Bank that would test a Revolving Fund for pollution reduction so that GEF funding might be used several times and be sustained in the long term in leveraging private sector investments, including livestock industries; and

(e) concepts for testing how to mobilize the participation of multinational companies in GEF regional International Waters projects are under development.

Limitations of the Current Portfolio of Projects

195. The international waters portfolio is maturing to the point that enabling activities will soon be completed in many cases for specific transboundary waterbodies and the transition to implementation will need to be made in the sectors creating stress on the transboundary waters. These implementation projects will necessarily have to address pollution reduction, water use efficiency in cases of excessive water diversions, industrial pollution, ship-related contaminants, and overfishing. Each of these concerns has a number of private sector, business community, trade association, and individual facility investment opportunities. Multinational companies may be well positioned to pursue these opportunities in partnership with GEF implementing agencies.

196. GEF agencies have sought to engage the private sector in many of these projects. GEF involvement was part of the normal stakeholder engagement in these regional enabling activity projects. The demonstration efforts have often been limited in scope and scale as part of balancing requests from governments in the GEF projects. While these demonstration-scale opportunities to engage the business community have been successful, there is a need to harness the potential of the private sector for more widespread impact now that the transition is being made to on-the-ground implementation of agreed joint action programs. Moreover, risk sharing lending products are needed in public-private partnership settings to leverage sewage pollution reduction by the private sector as part of integrated water supply-sewage treatment investments. This will allow for testing means of engaging investors to reduce the world's most widespread pollution, human sewage.

The way forward

197. The GEF Council was presented in 2003 (GEF/C.21/Inf11) with initial priorities on the way forward in international waters that may help to engage the private sector. The way forward was based on a GEF workshop entitled *"CEO Dialogue on International Waters"* that was hosted by the GEF and other partners in Washington during June 2001 (report available at the GEF international waters knowledge management/learning website — www.iwlearn.net). A similar message was also included in the GEF Report to the Second GEF Assembly (*The Challenge of Sustainability*) and subsequently appeared in the Report of the World Panel on Financing Water Infrastructure (*Financing Water for All*). More emphasis and resources need to be placed on developing specific water-related public-private partnerships, offering risk sharing

guarantee products, and piloting innovative finance like revolving funds that can catalyze private sector investments in low cost technologies needed to sustain transboundary waters.

198. These interventions would need to accompany traditional GEF projects that are aimed at policy reforms so that the projects might be redirected to also facilitate these investments. Experience in this focal area suggests that several types of partnerships are needed to make a catalytic impact for transboundary water systems: corporate level GEF partnerships with opinion-leader businesses in the water area like Coca Cola, General Electric, Dow Chemical, Unilever, or Suez as well as transboundary-level partnerships with GEF agencies and regional organizations. Engaging those sectors and companies that do wish to move forward toward sustainability does face some barriers.

Barriers to implementation

199. Barriers to more engagement in mobilizing private sector finance for infrastructures seem to be:

(a) the lack of interest of infrastructure staff in the private sector organizations of agencies and the hesitation to utilize risk sharing products in GEF operations. Perhaps the correct agency units are not sufficiently engaged with GEF;

(b) the poor investment climate in water infrastructure given the global debate on public water and private water; and

(c) the lack of GEF finance to provide sufficient incentives for engagement in a timely fashion. Many traditional first intervention projects (equivalent to enabling activities) are in the pipeline for international waters as countries desire GEF assistance to address water and environmental security concerns with their neighbors. Governments desire GEF funding for their use rather for projects involving the business community. This leaves very little funding available in GEF 4 to pursue such opportunities.

What to do differently and how to accomplish it

200. Currently, the new generation of projects addressing innovative financing needs to be replicated in other transboundary systems. Many good demonstration–scale interventions are underway on low-cost constructed wetlands for pollution reduction, recycling and reuse strategies, use of modern technologies, and reuse of sewage water in agriculture as a resource rather than discharge as pollution. These successes need to be transferred from the public sector where many were demonstrated into wider application by the business community. Currently, requests for other traditional types of projects utilize the limited available GEF finance. Additional staff, capacity, and finance need to be devoted to these partnerships, programs, and projects as a strategic priority. This includes the following:

(a) The GEF International Waters Task Force would benefit from having a private sector advisory committee that might help it build its capacity to provide leadership within agencies and in country dialogues;

(b) the capacity of agencies to engage the private sector would need to be harnessed by involving different units of the agencies or by changing skills mix;

(c) projects need to include a local capacity building component as would GEF's capacity building assistance to country focal points to interact with the business community;

(d) medium sized projects may be a good tool to assist governments, regional organizations, and regional transboundary water institutions such as the International Commission for the Protection of the Danube River to begin engaging the business community if not already programmed in GEF regional projects; and

(e) dedicated finance for engaging the private sector could be set aside as a GEF corporate priority that would be competitively accessed.

201. Corporate level partnerships with leading companies like Coca Cola for water quality protection, or with Unilever and others for sustainable fisheries, may be necessary to elevate engagement beyond the hit-and-miss, demonstration scale intervention to the more significant catalytic replication impact desired. More modest impacts may be produced with medium-sized projects to test focused, geographically limited partnerships that might be scaled up if they are successful. The International Waters focal area is currently pursuing this second avenue to test approaches in conjunction with country-driven transboundary institutions that have been supported in GEF projects. Despite these strategies, GEF would still need to place a corporate strategic priority on developing such partnerships, programs, and projects to provide an incentive to implementing agencies to reach out to the business community instead of traditional clients. A dedicated, competitive corporate set-aside for this purpose may provide the needed incentives for IA/EAs.An excellent example of stakeholder engagement and private sector participation at the regional level can be found in the PEMSEA[61] project demonstration sites (see Table 14). 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.

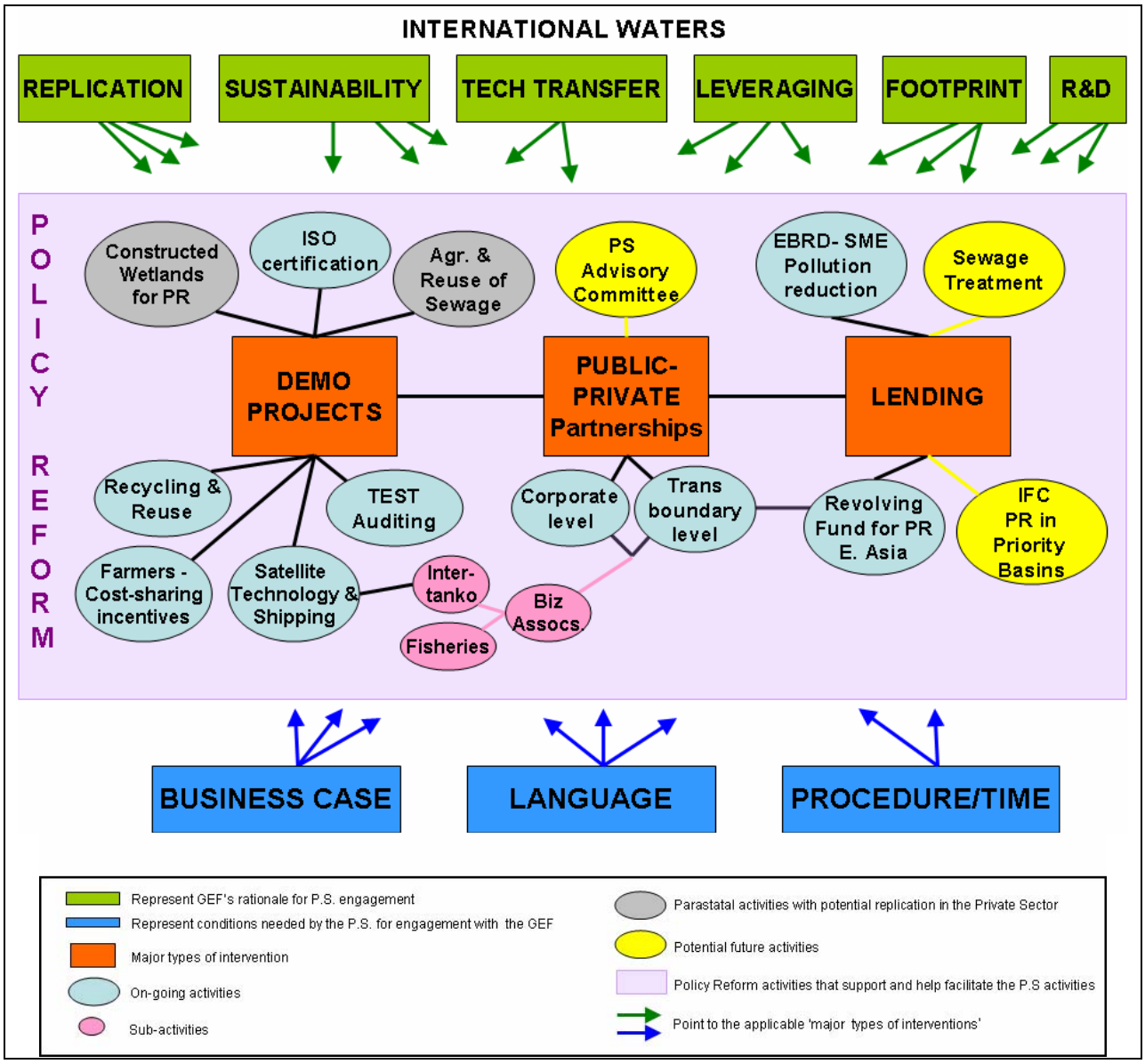
[61] PEMSEA – Partnership for Environmental Management of the Seas of East Asia

Table 14: Private Sector and PEMSEA Project

Company	Role of Company in Project	Benefits to Company from Project
Bataan Coastal Care Foundation, Inc. (BCCF)	Implementing a dynamic and sustainable public-private partnership	- Environment investment opportunity - Technical information - Enhanced public image
Batangas Environmental Services, Inc. (BESI)	Provides environmental services to help attract foreign investment and economic development to the province of Batangas.	- Environment investment opportunity - Technical information - National/regional model in the development and implementation of integrated solid waste management.
East Asia Response, Ltd. - environmental services (EARL)	In addition to its response capabilities, EARL has a team of specialists who are able to provide technical support to companies requiring assistance.	Opportunity to establish commercial presence in the ASEAN coastal zone management field.
Hatfield Consultants, Ltd. (HCL) and Envision Sustainability Tools, Inc. (ESTI)	Provide the technical expertise for the development of a simulation model for coastal and resource management in Bali, Indonesia.	- Institutional and legal support necessary for the development of an environmental simulation model for Bali; - Demonstrate the effectiveness of the simulation model as an operational tool to support coastal management planning and decision-making; - Opportunity to establish commercial presence in the ASEAN coastal zone management field.
Petron Corporation	- Fostering and strengthening the capability among industry and private sector enterprises in the Province of Bataan, to focus their collective concerns to the development and implementation of the Bataan Coastal Resource Management Project (BCRMP). - Promoting ISO 14000 certification and share the experiences and lessons learned with other interested industries	Petron Corporation benefits from: (a) improving public image; (b) technical information generated through the project such as the development of an integrated information management system, risk assessment, natural resource valuation, resource damage assessment and environmental impact assessment.
Seaconsult Marine Research, Ltd.	Demonstrate the effectiveness of the hydrodynamic and water quality model developed as an operational tool to risk assessment and coastal management planning and decision-making;	Opportunity to establish commercial presence in the ASEAN coastal zone management field.
Waste Systems New Zealand Ltd. (WSNZL)	Provide technical expertise and international business experience in evaluating infrastructure and business opportunities, conduct feasibility studies, and commit sufficient resources to ensure the proper execution of a municipal waste management facility	Benefits from the technical advise of the PEMSEA in the conduct of the feasibility study; institutional and legal support necessary for the establishment of a municipal and hazardous waste management facility; policy environment and environment management framework facilitated through the project.

202. The following figure depicts the strategic types of interventions, and on-going and potential future activities with the private sector to achieve GEF goals within the international waters focal area.

Figure 1: Strategic Actions with the Private Sector



CHAPTER 12. OVERVIEW OF THE ENVIRONMENTAL OPPORTUNITIES FACILITY (EOF)

EOF's genesis and purpose

203. The EOF was established on July 1, 2002, to complement GEF funding for private sector projects. IFC has used GEF funding mostly for narrowly focused programmatic efforts to date due to GEF's lengthy and complex approval process. EOF was established as a pilot to deploy funding in a more timely and flexible manner across a number of sectors and intervention types in order to respond better to the needs of the private sector. EOF's mandate was to support business innovations with environmental benefits in sectors such as: potable water; waste water treatment; solid waste management; recycling; air pollution abatement (industrial and indoor); cleaner production technologies; sustainable energy (renewable energy, cleaner energy and energy efficiency); and sustainable natural resource use (including innovative activities in organic agriculture, aquaculture and ecotourism which may promote biodiversity or in other respects reduce the environmental footprint of the activity).

204. To this date, EOF has received commitments of $7.8 million from Austria, Denmark, Italy, The Netherlands and Norway and up to $5.0 million from IFC, provided IFC's donation does not exceed 25% of total funding.

How EOF works

EOF – legal status and life.

205. The EOF is a facility administered by IFC, housed in the Environmental Finance Group of IFC's Environmental and Social Development Department. It currently has a twelve year life with an initial five year investment period followed by a seven year supervision phase.

Range of instruments used

206. The EOF may deploy grants, loans, guarantees or equity, or any other form of risk capital – on fully concessional or market-rate terms. The EOF team is tasked to use the instrument appropriate to each intervention, keeping the terms as close to commercial as feasible. A key eligibility criterion is that a project cannot proceed without the EOF support and the extent of the support is limited to attaining a risk-return outlook for investors which will catalyze a private sector activity but will not provide excessive returns to co-investors. IFC's environmental and social specialists are central to vetting projects from the point of view of coherence with the EOF eligibility criteria summarized in the last paragraph below.

Types of intervention

207. The EOF has two main areas of intervention: (i) supporting innovative environmental businesses; and (ii) promoting cleaner production projects. In order to support innovative environmental businesses, EOF provides mainly venture capital to help finance new technologies or business models or strategies to introduce traditional technologies to new developing markets. The second main area of intervention, supporting cleaner production techniques among IFC's clients, is executed mainly via technical assistance grants. Cleaner production projects usually

result in operating cost savings and, when this is the case, the related grants are usually reimbursable if the technical assistance is successful.

Procedures and governance structure

208. Projects are approved for pipeline entry by the head of the facility by clearance of a justification memo which lays out the fulfillment of all eligibility criteria. Investments are approved by EOF's investment committee which is composed of three IFC staff of manager level or above. Approval comes in two stages for investments: an early review to confirm project eligibility and highlight key due diligence concerns; and an investment review to approve the final terms of the investment. Grants are approved by EOF's program leader, the manager of the Environmental Finance Group or the director of the Environmental and Social Development Department, according to the total project size. Transaction cycles vary according to the nature of each project. The latest technical assistance project took 17 days to process from clearance of the justification memo to commencement of implementation. The latest equity investment took 6 months from receiving the inquiry to disbursement. Country government approvals are obtained as per IFC procedures. No formal approvals are required for grants. For investments, IFC Article 3 procedures are followed.

Administration

209. EOF has one full time administrative assistant. Budgeting and financial management and control services are supplied by financial officers of the Environmental and Social Development Department. Project budgets and transactions are tracked using a custom software program.

Monitoring and evaluation

210. Project reporting requirements are tailored to targeted outputs, outcomes and impacts. The latter are outlined in the justification memorandum and are finalized upon project approval. Project evaluations begin between two and four years after disbursement, depending on the nature of the project.

Eligibility criteria

(a) eligible sectors include: potable water; waste water treatment; solid waste management; recycling; air pollution abatement (industrial and indoor); cleaner production technologies; sustainable energy (renewable energy, cleaner energy and energy efficiency); and sustainable natural resource use (e.g., innovative projects in organic agriculture, aquaculture and ecotourism which may promote biodiversity or in other respects reduce the environmental footprint of the activity);

(b) EOF funding is not available to help companies do what they should already do in terms of compliance with the environmental performance minimums required by IFC and/or local law;

(c) innovation (e.g., new technologies, technology transfer, new ways of doing business, entry into new markets);

(d) clear and significant local environmental benefits;

(e) strong and experienced sponsor;

(f) potential for replication;

(g) demonstrated need for EOF's financing (e.g., lack of alternative funding due to higher perceived risks or costs of pursuing the proposed project than the private sector is willing to finance); and

(h) expectation of commercial viability.

CHAPTER 13. NON-GRANT/RISK MITIGATION INSTRUMENTS

211. The menu of non-grant/risk mitigation instruments available to the GEF is extensive and constantly evolving, though the most relevant instruments are described below. Table 15 presents the overview of the financial instruments used in the projects implemented under the GEF and World Bank Group funded projects.

Table 15: Financial instruments used in the World Bank/GEF/IFC

Financing Instrument	Project Size	Loan period	Examples
Short term partial loan guarantee (up to 90% of credit guarantee)	$300k to 1m guarantee	1-7 years	Energy efficiency projects Hungary, Croatia, Russia, China, Tunisia
Partial credit guarantee, GEF in first loss position	$2.5-3m max	7-15 years	Energy efficiency projects Philippines, Poland
Reserve fund (up to 10%) for portfolio of small loans			
Contingent loan	$200-250k	7 years	Energy efficiency project in Thailand
Revolving fund, up to 80% of project cost	$100k-$1m	1-4 years	Energy efficiency projects in Romania, Lithuania, Uruguay
Contingent grant			Bangladesh rural electrification and *Renewable Energy Development Project*
Concessional credit			Mozambique energy reform and access project
Insurance schemes			Global Index Insurance Facility
Debt for nature swaps	$42 million		National Protected Areas System through a new conservation trust fund in Columbia

Partial loan guarantee

212. Partial loan guarantees can be used to overcome financial sector barriers such as reluctance of commercial banks to provide long-term financing, insufficient collateral base of borrowers, inadequate market liquidity and high-risk perceptions of the loans. The loan guarantee can demonstrate the feasibility of investments into high capital cost segments and stimulate demand for loans, thereby increasing the capacity of commercial banks to originate loan transactions

213. The partial loan guarantees involve placing funds into a reserve account, which is used to provide partial guarantees. In case of World Bank projects, the local financial institutions often serve as the project guarantors and administrators of the reserve account. In case of IFC projects, the IFC acts as the guarantor since it leverages the reserve account with its own funds. The

interest from the reserve account and the guarantee fees often help to offset the operational costs and potential default of the loans. A partial loan guarantee is a suitable instrument in countries with a strong banking sector, in which the local banks show a willingness to undertake the risks associated with new business opportunities. Although a partial credit guarantee can improve the credit availability and terms of the loan to project entities, it can only share project financing risks but cannot address credit issues. The partial loan guarantee has been used in the energy efficiency projects implemented in China, Croatia, Hungary, Philippines and Poland.

Contingent loan

214. Contingent loan provides early-stage financing to the projects undertaken by private or public-sector agencies. It provides resources to targeted works and helps to establish an early relationship with the project sponsors and serve as the basis for long-term financing. The contingent loan assumes that the project entity will repay the loan to ensure the recycling of funds. However, in cases of non-repayment of the contingent loan for reasons outside the control of the borrower, it may be forgiven or converted into a grant.

215. If the contingent loan is able to leverage additional investment from the project entity, the loan may be included as part of project financing. However, if the audit shows that that contingent loan was unsuccessful in translating into a project, the loan may be converted into a grant or concessional credit. For example, contingent loan instruments were used to promote the energy efficiency projects in Croatia, Poland and Uruguay Reserve Funds.

216. Reserve funds facilitate the placement of resources into the accounts of the participating banks to provide full or partial coverage of project loans. The major type of reserve fund used in the context of GEF projects is the loan loss reserve fund, which covers the portfolios of small loans for which the individual loan guarantees are inadequate. Under this arrangement, the participating banks contribute certain proportion of funds while the reserve fund supports the remaining portion. In case of a loan defaulting in excess of the amount in the reserve fund, the participating bank is expected to bear the loss. As with a partial loan guarantee, a reserve fund is better suited to countries with a developed banking sector and the local banks are able to bear the risks associated with the new market segments. However, implementation of the reserve fund arrangements requires significant technical assistance to support the loan application and appraisal.

Investment funds

217. Investment funds help facilitate the cash flow and reduce the initial investment risks of the project entities. The investment funds can be in the form of subsidies or investment grants that improve the cash flow of the investors and reduce risks associated with large upfront investments. However, the investment grant programs need to be administered efficiently in order to prevent bureaucratic barriers in the administration of the funds. The energy efficiency projects in Bulgaria and Romania have used the investment funds to promote private sector investments.

Insurance schemes

218. The insurance schemes serve as intermediation mechanisms to transfer project specific risks to the market. They have been successfully used in several sectors such as agriculture, health, and industry to promote the transfer of private and public sector risk to the capital markets. The insurance policies can trigger payouts on the basis of the deviation from the insured level. The e*x ante* management of risks through insurance is less costly and more efficient than the ex post responses and permit timely settlements of risk payments, which are crucial to support the investments in high risk market segments. The insurance schemes also promote market intermediation and enable risk pooling, reinsurance, and permit market access for the project participants at low premiums.

219. In the context of agriculture and natural risk management, the proposed World Bank-supported Global Index Insurance Facility highlights the role of insurance in promoting the index based price, weather, and natural disaster insurance and reinsurance to address the commodity risk in developing countries. The facility is expected to underwrite the index-based insurance contracts.

Debt-for-nature swaps

220. A debt-for-nature swap involves purchasing foreign debt, converting that debt into local currency and using the proceeds to fund conservation activities. The key to the transaction lies in the willingness of commercial banks (or governments) to sell debt at less than the full value of the original loan. As many developing countries have not been able to repay their debts in full, and may never be able to do so, commercial banks may prefer to sell debts at a discount rather than wait for an uncertain repayment in the future.

221. The interest in such swaps was greatest in the 1980s and 90s prior to the emphasis on broader initiatives for debt relief. However, opportunities for such trades still arise and in appropriate circumstances offer significant opportunities for the acquisition of areas with high biodiversity value. Swaps offer the potential for significant financial leverage as GEF resources can have a multiplier effect in resources dedicated to the creation of conservation funds or the acquisition of lands of high biodiversity value.

Experience in designing and implementing non-grant financial instruments

222. Examples of applying various instruments to address the implementation barriers faced by prospective projects are detailed below.

(a) **partial loan guarantee**: The *Poland Energy Efficiency Project* is planned to be implemented from 2005 to 2007. The project seeks to enhance the public and private sector investment in energy efficiency projects. A partial loan guarantee facility with an investment of $5.7 million from GEF is proposed to cover the commercial bank risk exposure to the loans made to energy efficiency projects. The facility provides for technical assistance to implement a guarantee to strengthen the capacity of Bank Gospodarstwa Krajowego (BGK), a state-owned

bank that administers the loan guarantee to the investments in energy efficiency projects.

the partial guarantee facility is expected to overcome the reluctance of banks in extending long-term financing and as well as in supporting the collateral of the ESCOs, housing cooperatives, and other lenders. The facility promotes accountability and discipline in project structuring, and avoids the moral hazard risk of the banks in providing guarantees to risky projects. As banks gain experience, the level of partial guarantee is expected to decrease. The performance indicators that can reflect the efficiency of loan guarantee include: number of transactions and volume of debt financing to the market segment; number of projects greater than $250,000; energy savings/emissions reductions from loan guarantees; volume of loans supported by the guarantee; and the net outstanding exposure.

(b) **contingent loan:** The *Croatia Energy Efficiency Project* to be implemented from 2006 to 2012 proposes to improve the uptake of energy efficiency projects and services. It seeks to achieve financial sustainability by establishing a utility-based energy service company (HEP ESCO) to develop the market for energy efficiency projects. The project finances energy saving investments in the new energy services. It includes a GEF contingent grant to finance the preliminary project development and installation of energy saving investments. An IBRD loan co-finances the energy efficiency investments implemented by HEP ESCO. The loan is expected to be used to procure goods and services under the energy saving investments. To ensure sustainable local commercial financing, the IBRD financing will be a declining proportion of the HEP ESCO investments over time. A GEF contingent grant will support the development of a pipeline of investments. It will provide bridge-financing enabling the HEP ESCO to demonstrate the savings to convince the banks to provide commercial refinancing. A credit enhancement facility is proposed for credit risk management and to partially serve as the collateral, thus allowing banks to offer finance on attractive terms. The facility will encourage banks to incorporate the energy cost savings into the project entity's cash flow.

(c) **concessional credit**: *Mozambique Energy Reform and Access Project* supports output-based aid for private electricity connection of rural households under the first privately operated electricity connectivity program that generates, distributes, and sells electricity in rural areas of Inhambane Province, which is isolated from the country's main transmission grid. To address the extremely low levels of rural connectivity, the concession uses an output-based aid subsidy to close the gap between the infrastructure costs and willingness to pay of the households. The IDA supported subsidy is contingent upon physical verification of the connections to the households. An energy fund, set up to finance rural electrification schemes has been given responsibility for monitoring the payment of subsidies.

Households without access to electricity typically pay as much as 40¢ per kWh for energy from alternative sources such as kerosene or batteries — far more than

the 7¢ per kWh charged by EdM. This suggests that, once connected, households would be willing to pay for the electricity use. But the up-front cost of connection is out of reach for the typical household and therefore, the concessional credit helps to overcome the initial barriers.

(d) **contingent grant***: Bangladesh Rural Electrification and Renewable Energy Development Project* implemented during 2002 to 2005 proposes to enhance rural electricity access through expansion of rural electrification network and rehabilitation of the existing systems. The contingent grant finances the rehabilitation and loss-reduction of the Bangladesh Power Development Board (PBDB) and also supports the development of solar housing systems (SHS) and solar service units financed under the local microfinance schemes. The project proposes to support off-grid energy options in remote regions that can supplement the national grid through solar home systems by addressing finance and market barriers of the private sector, NGO and cooperatives. The GEF grant for capital cost buy-down improves the project financing and supports the installation costs of solar systems. The assistance is channeled through the Infrastructure Development Company Limited (IDCOL), a government-owned financial institution. IDCOL is expected to refinance up to 80 percent of the loans made for SHS purchases. The credit and grant components would further support the development and financing of wind energy, small hydro and biomass sub-projects.

(e) **insurance scheme**: Global Index Insurance Facility (GIIF) is a partnership proposed between the World Bank group and the EU as a co-financing facility to support the markets for index based price, weather, and natural disaster insurance and reinsurance for commodity risk management in developing countries. The main objective of the facility is to build a diverse portfolio of developing country risk that has previously not been transferred to the capital markets. The facility would contribute to poverty reduction by facilitating effective disaster insurance and risk reduction in several developing countries.

The Facility is proposed with a €100m capital investment in a risk-taking entity that would underwrite global weather, disaster and price risks in the countries. The role of the facility would be to coordinate and aggregate these risks and intermediate the contracts into the market. Clients include the governments, primary insurers and local banks based in developing countries. GIIF is expected to facilitate the risk transfer by absorbing transaction costs for developing country clients through co-financing of premiums, funded through reinvestment of dividends by public sponsors. The facility's underwriting is to be fronted by a regulated insurer to write reinsurance treaties and derivatives to lay off risks.

For weather and natural disaster risks, the expected losses from a shock are to be determined based upon estimates of the likelihood that a shock will occur in a given coverage period (hazard assessment) and upon the expected economic impact of the shock if it were to occur (vulnerability assessment). These estimates will be based primarily upon historical patterns of weather and disaster

events. The rationale for using actuarially sound index-based insurance rather than traditional loss adjustment-based insurance is to eliminate the costly problems of adverse selection and moral hazard.

(f) **debt for nature swaps**: Debt for nature swaps have been used in GEF projects including a new conservation trust fund in Columbia. In this project a National Protected Areas System is being established as a private foundation at a total cost of $42 million with $10 million obtained in a swap between the Columbian and US governments through the Tropical Forest Conservation Act.. The fund will manage both endowment and sinking funds: the endowment will support incremental, recurrent costs in protected areas, while sinking funds will undertake direct investments in protected areas and surrounding complementary landscapes.

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