PRIVATE SECTOR ENGAGEMENT

Global Context

396. In order to transform economic systems and reverse unsustainable global trends, the private sector will need to play an essential role. The call for greater private sector engagement for sustainability and protecting the environment were strengthened by the 2030 framework for the Sustainable Development Goals which countries increasingly acknowledge requires strong private sector contribution.

397. A number of private sector leaders have been responding to the call and started to take actions. They have taken the call for action not only from a risk perspective but also to pursue business opportunities. According to a landmark report from the Business & Sustainable Development Commission[90], pursuing sustainable and inclusive business models could unlock economic opportunities worth at least USD 12 trillion a year by 2030 and generate up to 380 million jobs, primarily in developing countries. Private sector leadership and commitments were also essential to fostering confidence in low emission technologies and business models considered essential for achieving the Paris Agreement. However, real leadership will continue to be needed to create partnerships between private sector, government and civil society to transform the key economic systems.

398. GEF will need to not only capitalize on the growing interest by private actors in the sustainability agenda and create the conditions for transforamtion of markets, but also "crowd-in"the private sector investments to deliver environmental benefits beyond business as usual.

GEF-7 Strategy

399. As noted by the IEO, "The GEF engages with a wide variety of private sector entities that vary in their industry focus, size, and approach to environmental issues using a mix of intervention models. The range extends from multinational corporations; through large domestic firms and financial institutions; to micro, small, and medium enterprises and smallholders/individuals[91]. GEF investments involving the private sector have delivered higher co-financing, have balanced regional distribution, and address drivers of environmental degradation[92]". OPS6 noted that one successful GEF intervention is the use of non-grant instruments to foster greater private sector engagement and attract private sector co-financing, and noted GEF's success in broadening those investments to include natural resources management[93]. OPS6 also documented many of GEF's experiences in creating or strengthening

[90] Better Business-Better World. January 2017.
[91] GEF IEO (GEF Independent Evaluation Office) 2017, *Sixth Comprehensive Evaluation of the GEF (OPS6): The GEF in the Changing Environmental Finance Landscape*; and GEF/ME/C.52/Inf.04, *Evaluation of GEF's Engagement with the Private Sector*
[92] Ibid
[93] Ibid

multistakeholder platforms and public parivate partnership, including the Integrated Approach Pilots, Payments for Eco-system Services, and GloBallast.

400. Despite these achievements, only 43% of respondents to IEO's survey agree that the GEF's ability to engage the private sector is a comparative advantage, and also indicated a lack of awareness of GEF's extensive engagement in private sector partnerships and platforms, focusing instead only on accessing the private sector for financing[94].

401. OPS6 provides some documentation of structural challenges for private sector engagement. Evidence suggests that STAR country allocation system has not proven amenable to fostering private sector involvement. Private sector investments only account for 16% of co-financing across the portfolio, making the STAR as one constraint to greater private sector engagement[95]. Countries rarely choose to program their STAR allocations towards private sector projects and programs, and private sector engagement is sporadic in the processes whereby countries establish priorities for GEF financing. Lack of knowledge and awareness on both sides is another reason for unsatisfactory participation by the private sector in GEF operations.

402. Based on these findings, the Secretariat is proposing a two-pillar strategy for GEF-7, with a view that this strategy will address several of these barriers by offering greater access to non-grant instruments and explicitly creating opportunties to involve the private sector in new programs under the GEF-7, notably the impact programs:

- The first pillar is to expand the use of non-grant instruments; and
- The second pillar is working with the private sector as an agent for market transformation.

Pillar 1: Expand the use of non-grant instruments

403. GEF key stakeholders are increasingly attracted to the use of non-grant instruments for blended finance, illustrated through the GEF-6 Non-Grant Instrument Pilot, as a mechanism to enhance private sector engagement. The Non-Grant Pilot was successful, attracting more proposals than could be funded, and resulting in 11 innovative projects that included USD 99.5 million in GEF funding while attracting USD 1,792 million in co-financing. The pilot demonstrated that non-grant projects can provide very high leverage of GEF investment, and that project developers and GEF agencies are increasingly able to offer innovative financing solutions for natural resources management.

404. Blended finance aims to use scarce public resources to unlock large multiples of private sector finance, and therefore has attracted significant interest in recent years, including a private sector window for IDA and added emphasis on catalyzing private investment by many bilateral and multilateral funds. The GEF experience using non-grant instruments shows that blended finance can be a potent instrument.

[94] Ibid
[95] Ibid.

405. The GEF-6 Non- Grant Instrument Pilot, through debt, equity, or risk guarantees, was designed to pursue innovative blended finance to catalyze private sector investment and seek projects in all focal areas. Based on lessons learned from investments in clean energy and low-carbon technologies, GEF has successfully expanded innovative blended finance to natural resources management. Of the 11 projects awarded, 7 are focused on natural resources.

Box 2. Examples of GEF-6 NGI Projects

The Moringa Agro-forestry Fund for Africa, managed by the AfDB, will promote sustainable land management in production landscapes in Burkina Faso, Cote d'Ivoire, Kenya, Mali, Tanzania, Zambia, and Congo DR. The Fund will invest in 5-6 scalable, replicable agroforestry projects that combine plantation forestry with agricultural elements to capture most of the value chain.

The Meloy Fund, implemented by Conservation International and RARE will establish the first fund for sustainable small-scale fisheries in Southeast Asia to improve the conservation of coral reef ecosystems by providing financial incentives to fishing communities in the Philippines and Indonesia to adopt sustainable fishing behaviors and rights-based management regimes.

The Third South West Indian Ocean Fisheries Governance and Shared Growth project managed by the World Bank will now include an innovative partnership with the Government of Seychelles to support the issuance of Blue Bonds to attract private sector investment, supported by a GEF non-grant investment. The Blue Bonds proceeds will strengthen efforts to improve management of fisheries and coastal conservation at regional and national levels and improve fish handling processes at targeted handling sites in the Seychelles.

The Risk Mitigation Instrument for Land Restoration project, managed by the Inter-American Development Bank combines a GEF investment of USD 15 million with USD 120 million in co-financing to deploy innovative risk mitigation instruments to restore degraded lands in Latin America through investments such as sustainable management for increased eco-system services, landscape regeneration, intercropping, shade-grown systems, high-value forest products, and silvo-pastoral systems.

The CPIC Conservation Finance Initiative - Scaling up and Demonstrating the Value of Blended Finance in Conservation, managed by IUCN combines a GEF investment of $8 million non-grant with $2 million of grant funding from Rockefeller Foundation and an expected $100 million of private sector investment. The aim is to overcome hurdles to private sector investment in natural resources management and improve the conservation and sustainable use of biodiversity by demonstrating innovative finance blending models. This project will take advantage of the growing engagement of the Coalition for Private Investment in Conservation (CPIC), launched at the IUCN World Conservation Congress in September 2016, with the intent of increasing deal flow into global priority conservation projects. The core of the CPIC model is the development of investment blueprints that create models for investable conservation projects in five sectors: sustainable agriculture; coastal fisheries; coastal resilience; green infrastructure for water; and forest landscape restoration and conservation.

406. Under GEF-7, the GEF will accelerate the use of non-grant instruments for blended finance in support of delivering GEBs and continue to catalyze investments from capital markets at global and national levels aligned with focal area objectives. The GEF partnership will continuously innovate, keeping track of global trends in blended finance and seeking increased number of projects in the area of natural resources management.

407. Specific emphasis will be placed on investment platforms, such as the Coalition for Private Investment in Conservation (CPIC) platform that provides integrated grant and non-grant

investment services that facilitate rapid scaling of investment beyond one-by-one projects. The goal of the GEF-7 in this area is to create and participate in platforms where several constraints in conservation finance, such as small size, lack of capacity, and perceived risks are collectively addressed and attract private investments to natural resource management at scale.

Pillar 2: Mobilizing the private sector as an agent for market transformation

408. As noted, there are numerous barriers to expanded private sector engagement in GEF projects, including countires' lack of interest or capacity in involving the private sector in STAR supported projects, and a lack of entry points for private sector stakeholders at the global or national level to address environmental challenges and opportunities across the entrie value chain. From the viewpoint of the private sector which is eager to pursue sustainability and reduce reputational risk, the fact that not many GEF projects have offered opportunties to engage across the entire value chain in a coordinated manner has diminished their interest in the GEF projects. However, there are a several examples of success cases for the private sector involvement.

Box 3. Examples of Private Sector Involvement

The Commodities IAP has enlisted the support of major palm oil producers who have committed to "zero-deforestation" palm oil production, facilitating training and capacity building for small-holders that form the foundation of the supply chain. In case of beef in Paraguay McDonalds has joined this initiative. Domestic financial sector also has participated in promoting green financing;

Philips, Osram, ABB, MABE and other appliances and equipment manufacturers are supporting the Sustainable Energy for All effort to accelerate energy efficiency and leapfrog developing markets to more efficient equipment;

The Maritime Trading Organization and major shippers committed voluntarily to an international regulatory framework which reduces the spread of invasive species through the Globallast Program, leading to formal adoption of the approach in the Ballast Water Management Convention (BWM) in 2017;

The GEF Gold partnership which aims at taking mercury out of the supply chain, builds a bridge between suppliers and corporate consumers of gold, such as computer, high end jewelry, as well as financial sector, enabling new approaches to reduce harmful mercury emissions across the full supply chain;

- GEF's early support for water funds in Latin America fostered partnerships between public and private, urban and rural, to provide protection for vital catchment zones.

409. It should be noted that the successful multi-stakeholder partnerships listed above are almost exclusively funded outside of STAR country allocation, speficially, either Chemicals and Waste focal area, International Waters focal area, or set-asides under the Rio Focal Areas. This is consistent with the findings of IEO and suggests that under the STAR country allocations it is hard to form multi-stakeholer partnerships and platforms that involve business at the outset, leaving much less opporunity for business to be a full fledged partner[96].

[96] Ibid, page 92.

410. The GEF-7 strategy offers ehanced opportunities to work with the private sector as an agent for market transformation. In particular the proposed Impact Programs seek to bring in the private sector at an early stage of the program design with well specified roles. In programming discussions, Countries and Agencies would conduct careful analysis and stakeholder consultation to identify the particular role of the private sector inherent to the program they are designing.

411. Possible role of the private sector in Impact Programs may include:

- Within the Food Systems, Land Use and Restoration Impact Program, existing platforms and new partnerships will be critical to continue progress on linking major suppliers and consumers of agricultural commodities. Current market barriers include policy and regulatory frameworks, for example, those related to food storage and distribution which do not provide incentives to shift to sustainable farming practices; inadequate implementation of existing regulations; risks of investing in sustainable land management and lack of capacity with small-holders who are critical to the supply chain; among others. Platforms are vitally needed to bring key actors, including businesses, together to encourage them to transition to sustainable business practices. These will be created either in jurisdictions under committed leaders and / or along supply chains of commodities around which many actors are already lined up. They can also foster innovative non-grant financing. For example, sustainable land management techniques, such as inter-cropping, can benefit from project preparation support and concessional financing; and

- The Sustainable Cities Impact Program, as an extention of the GEF-6 Sustainable Cities IAP, will continue to create opportunties for multistakeholder platform involving the business. Prime examples from GEF-6 include coaltion for Energy Efficiency Building Coalition which brings cities as regulator of building codes and planner, businesses as provider of expertise and technology, and banking sector as financiers, and the GEF as a catalyst. Cities also offer valuable space to test new ideas of improved approaches to material and chemical production and consumption, such as circular economy, which involves various business sectors including transport and food systems. The platform, managed by the Agencies and city association such as ICLEI and C40 is becoming a hub for north-south and south-south cooperation in sustainable urbanization, including training on access to finance.

412. In order to realize the opportunties to enhance the role of the private sector in those programs, it is critical for countries and agencies to bring the private sector upfront in the design stage of programming. The private sector role should be clearly identified as core elements in each of Impact programs before finalization of the program design.

Enhancing GEF Capacity for Private Sector Engagement

413. OPS6 suggests that the GEF Secretariat needs additional expertise on capital markets, loan origination, and trust fund management. The Secretariat believes delivering GEF-6 non-grant pilot demonstrated the strong capacity of GEF agencies to perform the full range of

financial responsibilities to implement non-grant projects, including project development, due diligence, application of safeguards, financial structuring, investment, repayment, and reflows to the GEF Trust Fund. However, in order to ensure continued success of the non-grant pilot and enhance future investments, the Secretariat is considering several measures to be implemented. An advisory group of financial experts will be formalized and engaged fully in project reviews. Additional financial experts will be called on to help identify strategic investment trends and opportunities for platforms for aggregation and scaling, best use for specific types of non-grant instruments, and potential investment categories/platforms (e.g., sustainable fisheries, agro/forestry, chemicals and waste) where innovation is needed. To enhance effectiveness, policy updates will be proposed in partnership with agencies to address larger scale investment packages by raising the project size cap and allowing a small amount of advisory services (i.e., technical assistance) in projects that need it. To enhance transparency, additional documentation on selection criteria and project review guidelines will be developed.

414. To support implementation of Pillar 2, the GEF Secretariat is already in regular contact with private sector stakeholders regarding program and platform design features. Additional stakeholder conversations with the private sector, Conventions, and CSO community will be pursued around project design features and investment strategies. The Secretariat also believes that enhanced capacity across the GEF Secretariat and its partnership will help mainstream private sector engagement. To that end, checklists and project review guidelines focused on private sector engagement will be documented and disseminated.