

## AN APPROACH TO ENHANCE ENGAGEMENT WITH THE PRIVATE SECTOR

172. Since its inception in 1991, the GEF has engaged the private sector in a variety of ways, mostly through direct project support. A consistent theme in the numerous policy documents and assessments of GEF's engagement with the private sector is that the private sector is integral to achieving the overall global environmental objectives of the GEF. Given the huge innovative and resource mobilizing potential of the private sector and the limited resources that can realistically be deployed from the public sector in relation to the scale of the challenges, it is generally agreed that ways must be found to radically increase the beneficial involvement of the private sector towards addressing today's and tomorrow's global environmental challenges.

173. Initial policy frameworks for private sector engagement were developed through GEF Council papers as early as 1996.<sup>18</sup> These have provided a foundation for GEF engagement with the private sector. Most recently, two Council-approved documents detailed an updated strategy to enhance GEF's engagement with the private sector: "*GEF Strategy to Enhance Engagement with the Private Sector*" (GEF/C.28/14) in March 2006, which was accompanied by an extensive information document "*Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector*" (GEF/C.28/Inf.4).

### **The GEF Earth Fund (Pilot Project)**

174. The 2006 private sector strategy documents included an innovative proposal to establish a pilot public-private partnership (PPP) initiative to enhance GEF engagement with the private sector. Private sector engagement outside of the resource allocation system is proposed, given the increased difficulty in inducing countries to allocate resources to promote private sector engagement since the RAF was operationalized. A pilot PPP concept was approved by the GEF Council in June 2007 along with a funding allocation of \$50 million. After detailed negotiations with the IFC as a strategic partner, the concept was further developed as a pilot project, was renamed the GEF Earth Fund, and was approved by Council in May 2008.<sup>19</sup>

175. The GEF Earth Fund (pilot project) is a vehicle for enhancing GEF engagement with the private sector through a matching of GEF resources with private sector resources to catalyze the sustainable generation of global environmental benefits. Its primary role is to mobilize private capital into projects, technologies and business models that will contribute to the protection of the global environment and to thereby promote environmentally sound and sustainable economic development.

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<sup>18</sup> GEF Strategy for Engaging the Private Sector (1996); Engaging the Private Sector in GEF Activities (1999); Enhancing GEF's Engagement with the Private Sector (2003); Principles for Engaging the Private Sector (2004)

<sup>19</sup> The GEF Earth Fund was established as a result of two Council documents, "*The Public Private Partnership Initiative: Furthering the GEF Strategy to Enhance Engagement with the Private Sector*", approved by the Council in June 2007, and "*The GEF Earth Fund: (formerly) The Public Private Partnership Initiative: Furthering the GEF Strategy to Enhance Engagement with the Private Sector*", approved by circulation to Council in May 2008

176. The Earth Fund allows the GEF to demonstrate ways to more systematically engage with the private sector outside of the constraints of the resource allocation system in order to reach beyond its traditional boundaries, foster innovation, open and develop new markets, and demonstrate the potential for strategic partnerships to achieve a greater scale of investment than generally achievable through the normal GEF project cycle. Private sector engagement will also continue outside of the Earth Fund through implementation of the GEF focal area strategies. Indicative private sector engagement outcomes for GEF-5 are shown in Annex 2, which is not limited to proposed activities within the Earth Fund.

177. Earth Fund Platforms. The Earth Fund is structured based on the concept of “Platforms” under which a portfolio of individual activities (hereinafter referred to as “projects”) will be managed. The overarching goals of each Platform have to be aligned with GEF focal area strategies, while projects within each Platform will seek to address specific environmental challenges or to leverage particular business models or financial instruments in service of these objectives. This is a delegated structure that allows projects to be approved by GEF Agencies that manage Platforms, once those Platforms have been approved by Council.<sup>20</sup>

178. Council has to date approved \$40 million out of the existing \$50 million GEF funding allocation (excluding Agency fees) for three Earth Fund Platforms: (i) the IFC Earth Fund Platform (\$30 million, September 2008); (ii) the UNEP “Global Market Transformation for Efficient Lighting” (\$5 million, June 2009); and (iii) the WB/Conservation International “Conservation Agreement Private Partnership Platform” (\$5 million, August 2009). Other promising Platform proposals are in active preparation and will quickly utilize the remaining \$10 million (subject to Council approval).

179. The geographic focus for Earth Fund Platforms is global or regional. It is not anticipated that any Platforms will be confined to a single country. Sub-projects within Platforms will likely be single country investments.<sup>21</sup> Attention will be given to ensuring complementarity between the Earth Fund and other GEF programming, and some specific examples in this regard are provided later in this document (in relation to the international waters focal area). A single Earth Fund Platform may encompass more than one GEF focal area, and this is already the case in two of the three Platforms approved by Council thus far.

180. The Secretariat believes that the recent Council approval of the Conservation Agreement Private Partnership Platform only 6 months after the proposal first entered the GEF pipeline is some evidence that a real step change in the processing timescale is feasible through the Earth Fund. Given the increasing urgency of the issues confronting the global environment and the

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<sup>20</sup> Within each Platform, projects are approved through approved operational procedures (submitted to Council with each Platform proposal) which normally allow these projects to be approved consistent with the project cycle of the Agency itself.

<sup>21</sup> While single country Platforms could in theory be considered, there is less of a case for the additionality of the Earth Fund and there is also the issue of potential interaction with national planning processes which typically operate on a different timescale from the expedited Earth Fund processes. A strong specific justification would be needed for a national Platform. It is proposed that private sector involvement by national entities be encouraged through a separate non-grant instrument incentive in addition to the country allocations where relevant (see Annex 1 to this document).

pace at which the private sector operates, we believe that this faster rate of GEF platform processing is welcome.

181. The IFC also manages the trust fund for the GEF Earth Fund (pilot project), and in its role as fund manager and administrator, the IFC disburses funding to entities approved to manage Platforms upon Council approval and CEO endorsement. In addition, the IFC participates in GEF Earth Fund Board meetings as an observer.

182. Further information regarding the GEF Earth Fund is provided in the document “*The GEF Earth Fund Board Procedures (Pilot Project) – Strategic Priorities, Governance and Operational Procedures*,” which was approved by Council in June 2009.

### **Rationale for Enlarging and Mainstreaming the GEF Earth Fund in GEF-5**

183. The approved and currently pending Earth Fund Platforms are expected to cover a wide range of operations in climate change, biodiversity and regional water initiatives, including investment into small and medium sized enterprises (SMEs) in developing countries in a manner which combines environmental protection and social and economic development. The Platforms will cover a wide geographic distribution in LDCs and other recipient countries. The streamlined process already has been seen to work effectively and to be of great interest to potential private sector partners wishing to participate in Platforms.

184. However, due to the limited size of the initial funding approval (\$50 million), some of the current Platforms may of necessity be smaller than might be considered optimal by many potential private sector partners, and smaller than might be justifiable to optimize the regional and global impacts of some of the relevant initiatives. This is of course quite appropriate for a pilot project, when it is clearly desirable to demonstrate the effectiveness of a number of different initiatives and approaches.

185. There is justification for enlarging and consolidating the GEF Earth Fund as a mechanism for engaging with the private sector in GEF-5 for the following reasons:

- (a) Allow for the approval of quality Platforms, such as those to date under the pilot project of the GEF Earth Fund, which will reinforce the widely perceived effectiveness of the portfolio approach executed through managed Platforms;
- (b) Provide for interventions of larger scale and greater speed of implementation (attainable through strategic partnerships with the private sector using a streamlined portfolio-based approach), which are desirable to enhance the GEF’s impact towards the protection of the global environment and environmentally sound and sustainable economic development, given the urgent need to address large scale threats to the global environment;
- (c) Enhance engagement with the private sector through PPP mechanisms, which will bring a new pool of talent and resources to the GEF partnership in its mission to generate global environmental benefits;

- (d) Ensure robust engagement with the private sector in the current organizational and operational structure of the GEF after the inception of the Resource Allocation Framework (RAF);
- (e) Attract very significant co-financing from the private sector and other parties (which should always be at least three times the level of GEF funding in the case of the GEF Earth Fund); and
- (f) Attract additional funding of parallel contributions from donors in addition to the leverage of co-financing at the project level. The ability to attract these types of contributions at the GEF Earth Fund level can significantly increase the overall impact of the work carried out through the Platforms.

### **Earth Fund Outline Business Plan for 2010-2014**

186. It is proposed that resources be earmarked for an expanded and recapitalized Earth Fund in GEF-5, with the aim of leveraging additional resources from the private sector.

187. The GEF Earth Fund is not a purely commercial vehicle. This is consistent with the GEF Instrument which provides for grant and concessional funding. Large PPP funds typically invest on the basis of a commercial return into commercially viable projects and businesses, and typically focus on large investments, which justify the expenses related to the required due diligence and management of the investment process. It is well known for instance that the costs associated with preparing, documenting, managing and monitoring a \$3 million debt or equity investment in an infrastructure project are typically not that much less than the costs associated with a \$30 million investment in the same or a similar project. It is not anticipated that the Earth Fund, even in a strong recapitalization scenario, would contemplate single project investments as large as \$30 million (although Platforms which include multiple investments may well exceed \$30 million in a robust replenishment scenario). A key to the success of the Earth Fund is attracting investment partners at the Platform level who are not seeking a full commercial rate of return on their investments. There is a very substantial universe of “triple bottom line” investors active in the global environment arena, including affiliates of large multinational corporations. Attracting such investors is not considered to be difficult in the context of the concessional funding being offered by the Earth Fund, and it is anticipated that even in a strong replenishment scenario the demand for Earth Fund resources will substantially exceed supply.

188. Assuming a successful GEF replenishment in 2010, an expanded and recapitalized Earth Fund will incorporate lessons learned from the pilot project and operate at a greater scale (depending on the level of replenishment). Achieving scale will allow the Earth Fund to promote and support larger investments and generate more sustainable levels of reflows, as the technical assistance and business advisory support to complement investment activities will in general be a smaller percentage of the overall investments.

189. An enlarged GEF Earth Fund under GEF-5 will allow Platforms and projects to be supported in line with any of the GEF-5 strategic goals and objectives. There are specific themes that could be particularly appropriate for the GEF Earth Fund under GEF-5, and some potential examples are:

- (a) Accelerating the development and deployment of advanced energy technologies for developing countries;
- (b) Combining public and private financing of projects incorporating renewable energy technologies, energy efficiency technologies and low carbon transport and urban system technologies ;
- (c) Developing energy efficiency facilities through financial intermediaries;
- (d) Addressing critical service needs with proven technologies that have shown limited success through the normal GEF project approach (for example adapting and replicating successful business models for scaling up the provision of solar home systems in areas without grid access, noting there are close to 2 billion people without grid access who must often resort to environmentally degrading means to obtain their basic energy needs);
- (e) Promoting business participation in sustainable forest management (SFM) initiatives;
- (f) Deploying market-based instruments for biodiversity protection and the provision of ecosystem services in developing countries. This may include initiatives under the Business, Biodiversity and Offsets Program (BBOP) which generates measurable conservation outcomes through biodiversity offsets associated with extractive industry project development;
- (g) Combining development and conservation by means of a nature-based “BioDevelopment Fund,” a concept to promote the utilization of the emerging tools of genomics, proteomics and even biomimetic applications to tap into the massive biodevelopment potential of the global protected areas system. Its design would seek to complement the developing CBD agenda on Access and Benefit Sharing (ABS);
- (h) Deploying PPP models for reduction and treatment of pollution, including POPs and hazardous chemicals;
- (i) Engaging in carbon finance activities through the Earth Fund where this will complement other programs; and
- (j) Developing major strategic partnerships with the business community in the International Waters focal area that would work in tandem with other GEF projects and programs for maximum impact. A “Save the Source” platform with industry on water efficiency and water foot-printing, a “Rebuilding Marine Fisheries” platform with banking/fishing/import/export/food industries, and a “Reversing Dead Zones” platform with agri-business related to nitrogen pollution have the potential to stimulate global impacts.

190. An overall replenishment range of \$4.5 - \$5.5 billion is assumed for the purpose of this document to support an allocation range of \$90 million to \$110 million towards the recapitalization of the Earth Fund. Taking the midpoint of this range for illustration, the Earth Fund recapitalized at the \$100 million level might initially support 10 Platforms at an average of

\$10 million each.<sup>22</sup> These Platforms would be expected to leverage an additional estimated \$400 million in co-financing, thereby constituting total capital deployment on the order of \$500 million. On the basis of return of 60 percent of the \$100 million base capital (without dividends), it is anticipated that reflows of approximately \$60 million would return from the Platforms to the Earth Fund Trust Fund over time. On this basis, the Earth Fund would be partially self-sustaining and engage in a modest but meaningful level of investment across a wide range of activities including climate change mitigation, chemicals management and ecosystem services.

191. A replenishment level of \$6.5 billion is assumed to support a \$150 million recapitalization of the Earth Fund. At this level, the Earth Fund might initially support 12 Platforms at an average of \$12.5 million each.<sup>23</sup> These Platforms would be expected to leverage an additional estimated \$600 million in co-financing, thereby constituting total capital deployment on the order of \$750 million. On the basis of return of 60 percent of the \$150 million base capital (without dividends), it is anticipated that reflows of approximately \$90 million would return from the Platforms to the Earth Fund Trust Fund over time. On this basis, the Earth Fund would be partially self-sustaining and engage in a significant level of investment across a wide range of activities including climate change mitigation, chemicals management and ecosystem services, and in addition be able to undertake some larger transboundary initiatives including international waters.

192. It may be worth noting that a larger allocation to the Earth Fund would be more likely to attract substantial additional contributions from private philanthropies, thereby enhancing the profile of the Earth Fund as a vehicle of choice for private sector participation in the pursuit of global environmental benefits and promoting environmental sustainability in corporate practices. A strong recapitalization scenario would present an opportunity to catalyze major investment volumes through the regional MDBs (EBRD, IDB, AfDB and AsDB) in conjunction with the private sector. For example, based on preliminary contact with EBRD and IDB, each institution has provided a concept for a substantial Earth Fund Platform. AfDB and AsDB have indicated similar levels of interest, and are ready to provide concept papers. Of course IFC has already been allocated a substantial Platform, which is currently under implementation, and should be in line for additional resources once the current Platform is close to being fully invested.

193. The Secretariat proposes to organize a pledge session for major corporations (such as Fortune 500 companies and their global equivalents) and foundations once the allocation for the Earth Fund has been established at the conclusion of the GEF-5 replenishment process and approved by Council. This has the potential to give broader visibility to the Earth Fund, expand deal flow and further leverage public sector resources.

194. Enlargement and strengthening of the Earth Fund Board is seen as a key measure to support the future operation of the Earth Fund. The Secretariat is already working with its partners to identify suitable candidates, and is committed to substantially strengthen the Board by

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<sup>22</sup> Individual Platforms would be expected to vary substantially in size, for example a large Platform might utilize \$20 million of Earth Fund resources, and a small Platform might utilize \$5 million of Earth Fund resources.

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mid-2010. The Secretariat will consult Council prior to the selection of any new Board members.

195. With an enlarged and strengthened Earth Fund Board in place, there will be increased opportunity for the GEF to directly engage with key private sector entities at top executive level in a manner which will contribute to an enhanced deal flow of creative Platforms and projects on the basis of strategic partnerships which make sound business sense and generate global environmental benefits in line with the overall GEF mandate.

196. The Secretariat looks forward to continued dialogue with Participants, GEF Agencies and other stakeholders during the remainder of the GEF-5 replenishment process in order to increase their comfort level with the Earth Fund processes, receive feedback on future priorities and optimize the operating modalities of the Earth Fund as a basis for the strongest possible replenishment of the Earth Fund

## Annex 1: Expected Private Sector Engagement Outcomes for GEF-5

This Annex is intended to include expected private sector engagement outcomes for all the GEF focal area strategies, and is not limited to proposed activities of the GEF Earth Fund.

### Climate Change

The proposed goal for GEF-5 in this focal area is to support developing countries and economies in transition towards a low-carbon development path, through the implementation of six objectives. These objectives and their anticipated private sector engagement outcomes are as tabulated below:

Objectives	Expected Private Sector Engagement Outcomes
(i) Promote the demonstration, deployment and transfer of advanced low-carbon technologies	<ul style="list-style-type: none"> <li>- Technologies successfully demonstrated, deployed and transferred.</li> </ul>
(ii) Promote market transformation for energy efficiency in industry and the building sector	<ul style="list-style-type: none"> <li>- Sustainable financing and delivery mechanisms established.</li> <li>- Increased market penetration of energy efficient technologies and products.</li> </ul>
(iii) Promote investment in renewable energy technologies	<ul style="list-style-type: none"> <li>- Increased investment in renewable energy technologies.</li> <li>- Increased access to electricity from renewable sources.</li> </ul>
(iv) Promote energy efficient, low-carbon transport and urban systems	<ul style="list-style-type: none"> <li>- Innovative technologies, practices and financing mechanisms introduced.</li> <li>- Increased investment in less GHG-intensive transport and urban systems.</li> </ul>
(v) Conserve and enhance carbon stocks through sustainable management of land use, land-use change and forestry	<ul style="list-style-type: none"> <li>- Good management practices in LULUCF adopted both within the forest land and in the wider landscape.</li> <li>- Restoration and enhancement of carbon stocks in forests and non-forest lands, including peatland.</li> <li>- Sustainable financing mechanisms established.</li> </ul>
(vi) Continue to support enabling activities and capacity building	<ul style="list-style-type: none"> <li>- Enabling conditions created for private sector investment, including: access to financing, conducive policy environments, appropriate business models and management skills, sufficient information and awareness, and technological factors.</li> </ul>

## Biodiversity

The proposed goal for GEF-5 is to contribute to the conservation and sustainable use of biodiversity and the maintenance of ecosystem goods and services through the implementation of four objectives. These objectives and their anticipated private sector engagement outcomes are as tabulated below:

Objectives	Expected Private Sector Engagement Outcomes
(i) Improve sustainability of protected area systems	<ul style="list-style-type: none"> <li>- Payment mechanisms for ecosystem goods and services.</li> <li>- Private sector participation in sustainable financing plans.</li> </ul>
(ii) Mainstream biodiversity conservation and sustainable use into production landscapes/seascapes and sectors	<ul style="list-style-type: none"> <li>- Sustainable social and economic development around protected areas through SME activities.</li> <li>- Certified products from private sector supply chains.</li> </ul>
(iii) Build capacity for the implementation of the Cartagena Protocol on Biosafety (CFB)	<ul style="list-style-type: none"> <li>- Appropriate regulation of safe use and application of biotechnology.</li> </ul>
(iv) Build capacity on access to genetic resources and benefit sharing	<ul style="list-style-type: none"> <li>- Limited at present.</li> </ul>

## Land Degradation

The proposed goal for GEF-5 is to contribute to arresting and reversing current global trends in land degradation, specifically desertification and deforestation, through the implementation of four objectives. These objectives and their anticipated private sector engagement outcomes are as tabulated below:

Objectives	Expected Private Sector Engagement Outcomes
(i) Maintain or improve the flow of agro-ecosystem services to sustain the livelihoods of local communities	<p>Small and medium agro-business development</p> <p>Eco-labeling for crops and livestock (organic, sustainably managed, biodiversity friendly...)</p> <p>Technology development and transfer (tools, small machinery, irrigation equipment, organic fertilizer, manure management techniques, biogas technology etc).</p> <p>Input and output markets for smallholder producers</p>
(ii) Generate sustainable flows of forest ecosystem services in arid, semi-arid and sub-humid zones, including sustaining livelihoods of forest-dependent people	<p>Technology options for sustainable harvesting and processing of non-timber forest products (e.g. medicinal and cosmetic plants, honey)</p> <p>Eco-labeling and value chains for timber and non-timber products (sustainably managed – e.g. FSC, biodiversity friendly...)</p> <p>Technology development and transfer (e.g.</p>

Objectives	Expected Private Sector Engagement Outcomes
	technology related to reduced and low-impact logging, biofuel technology for wood residues etc).
(iii) Reduce pressures on natural resources from competing land uses in the wider landscape	Combination of the above Extractive industries and SLM (mining, forestry) e.g. for off-setting land cover and land use change through TF arrangements for local farmers; PES, especially in watersheds for water services (potential for involving water companies with interest to ensure water quality and quantity) Addressing siltation in dams
(iv) Increased capacity to apply adaptive management tools in sustainable land management	Limited

### International Waters

The proposed goal for GEF-5 is the promotion of collective management of transboundary water systems to sustainable use and maintenance of ecosystem services, through the implementation of five objectives. These objectives and their anticipated private sector engagement outcomes are as tabulated below:

Objectives	Expected Private Sector Engagement Outcomes
(i) Build foundational capacity for collective, multi-state engagement of transboundary surface, groundwater and marine systems	- Early engagement of private sector stakeholders in diagnostic analyses.
(ii) Catalyze multi-state and SIDS cooperation to balance competing uses of transboundary surface and groundwater basins while considering climate change and variability	- Innovative solutions demonstrated, with private sector involvement, for reduced water use, reduced pollution, habitat conservation/restoration and sustainable groundwater management.
(iii) Catalyze integrated, ecosystem-based approaches to improved management of large marine ecosystems and their coasts while taking account of climate change and variability	- Innovative solutions demonstrated, with private sector involvement, for reduced pollution, sustainable fisheries and aquaculture and habitat conservation/restoration.
(iv) Support improved management of marine areas beyond national jurisdiction (cooperative pilot with the Biodiversity focal area)	- Introduction of sustainable fishing methods. - Certification of food products from sustainable high seas fisheries.
(v) Demonstrate reduced pollution from persistent toxic substances, particularly endocrine disruptors (cooperative pilot with Chemicals FA)	- Pollution prevention for PTS adopted in private sector operations.

Objectives	Expected Private Sector Engagement Outcomes

## Chemicals

The proposed goal for GEF-5 is to promote the sound management of chemicals throughout their life-cycle in ways that lead to the minimization of significant adverse effects on human health and the environment, through the implementation of four objectives. These objectives and their anticipated private sector engagement outcomes are as tabulated below:

Objectives	Expected Private Sector Engagement Outcomes
(i) Phase out production and use of controlled chemicals	<ul style="list-style-type: none"> <li>- Specific POPs or ODS phased out from production.</li> <li>- Environmentally sound alternative products, practices and techniques promoted.</li> </ul>
(ii) Manage the use of chemicals	<ul style="list-style-type: none"> <li>- Enterprises implementing ESM for PCBs.</li> <li>- PCB-containing electrical equipment covered by ESM and registered.</li> </ul>
(iii) Addressing releases of chemicals	<ul style="list-style-type: none"> <li>- Sustainably reduced or avoided releases of POPs byproducts from industrial sectors.</li> </ul>
(iv) Waste prevention, management and disposal and contaminated sites	<ul style="list-style-type: none"> <li>- PCB-contaminated oils disposed of.</li> <li>- PCB-contaminated equipment cleaned and dismantled in environmentally sound facilities.</li> <li>- Facilities available, certified and/or registered for environmentally sound disposal of PCBs and PCB-contaminated oils and parts.</li> </ul>