IEO BRIEF

GEF Engagement with the Private Sector

Independent Evaluation Office
GLOBAL ENVIRONMENT FACILITY

The IEO is undertaking a third comprehensive study of private sector engagement.

The private sector plays a vital role in the transition to sustainable development by providing solutions and incremental financing to global environmental challenges. The GEF plays an important role in unlocking private sector potential through its experiences with the private sector and appropriate instruments in the GEF toolbox.

According to the GEF Council's 2011 "Revised Strategy for Engagement with the Private Sector," the GEF defines private sector engagement as "broad partnerships rather than specific capital investments." Three core groups of private sector actors that GEF projects engage with are capital providers, financial intermediaries, and industry players. Besides corporate entities, engagement arrangements also include public-private partnerships (PPPs), public-private alliances, cooperatives, and other forms of joint ownership.

The GEF portfolio that engages with the private sector is made up of 383 projects. Of these, 89 projects (8 in GEF-6) have used nongrant instruments. The portfolio is dominated by the climate change focal area. Chemicals and waste as a separate focal area was introduced in GEF-6 and represents 24 percent of the investment, compared to 35 percent for climate change projects. Altogether, these 383 projects account for 9 percent of the overall GEF portfolio, but receive 14 percent of all GEF grants and 18 percent of overall cofinancing from other parties.

PRELIMINARY FINDINGS

1. The GEF continues to engage successfully with a wide variety of for-profit entities which vary in their industry focus, size, and approach to environmental issues. The range extends in size from multinational corporations; through large domestic firms and financial institutions; to micro, small, and medium-size enterprises and smallholders/individuals.

2. GEF private sector projects use a mix of influencing models. The majority of GEF private sector projects in GEF-5 and GEF-6 (79 percent) relied on more than one influencing model. This finding resonates with the fact that GEF projects are designed to address complex issues; a variety of influencing models is needed to overcome barriers to environmental

PURPOSE AND METHODS: The purpose of this study is to assess the Global Environment Facility's (GEF's) private sector engagement activities and provide insights and lessons leading to recommendations to strengthen the GEF's collaboration with the private sector in GEF-7.

The study takes a mixed-methods approach with evidence from private sector engagement portfolio analysis, terminal evaluations of completed projects, a demand-side survey with select private sector entities, benchmarking with comparator environmental finance providers, and interviews conducted with private sector and GEF stakeholders as well as desktop research.

WEB PAGE: http://www.gefieo.org/evaluations/gef-engagement-private-sector

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ABOUT US: The Independent Evaluation Office (IEO) of the GEF has a central role in ensuring the independent evaluation function within the GEF. www.gefieo.org

OPS6
SIXTH COMPREHENSIVE EVALUATION OF THE GEF

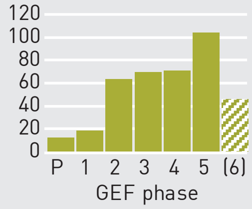
PORTFOLIO HIGHLIGHTS

383
projects

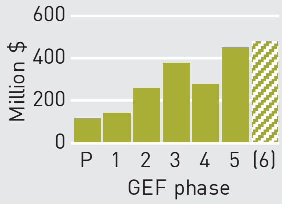
$2.1 billion
in grant funding

$16.6 billion
in cofinancing

Number of projects



Grant amount

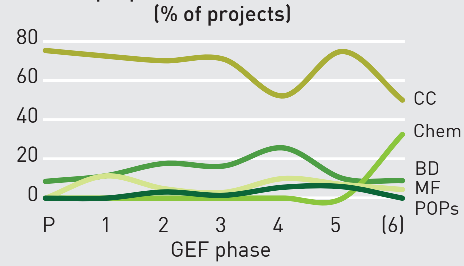


Project modality
74% full-size projects
25% medium-size projects
2 enabling activities

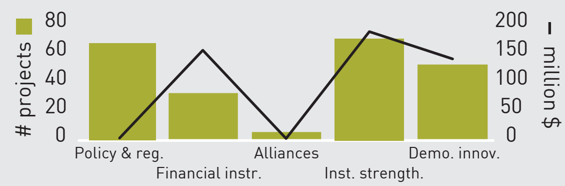
Top 4 Agencies
40% UN Development Programme
29% World Bank Group
12% UN Industrial Development Organization
12% UN Environment Programme

Regional distribution
27% Asia
23% Africa
21% Latin American and Caribbean
16% Europe and Central Asia
10% Global
3% Regional

Top 5 private sector focal areas (% of projects)



Project distribution by influencing model and GEF investment



protection. Among the influencing models, the most commonly applied ones are those that facilitate institutional strengthening or that transform policy and regulatory environments.

3. GEF investments involving private sector engagement have higher cofinancing. Each GEF grant dollar for private sector projects leverages a competitive ratio of $8 in cofinancing, compared to $6 in cofinancing estimated for the overall GEF portfolio. Of this $8 in cofinancing, $3 comes from private sector investments, mostly in the form of equity investment. The leverage ratio has been steadily increasing since the first GEF period (with the exception of GEF-4). In GEF-5, for every dollar spent by the GEF, $13 in cofinancing was received for private sector projects by other parties, including the private sector.

4. Climate change projects feature heavily in the private sector portfolio. Two-thirds of the projects in this portfolio are in the climate change focal area, amounting to 63 percent of the GEF's total investment in private sector projects. Climate change project investments as a proportion of the private sector project portfolio dropped from 73 percent in GEF-3 to 40 percent in GEF-4, but rose again in GEF-5 to 81 percent. In GEF-6, chemicals and waste was added as a differentiated focal area. Fifteen chemicals and waste projects, representing 24 percent of the private sector portfolio in this period, are being implemented.

5. Private sector projects have a balanced regional distribution. The geographical distribution of private sector projects and investments is influenced by local economic conditions and the executing capacities of both private sector and government partners. Based on the current portfolio analysis, projects are evenly distributed in every continent, with slightly higher investment dollars and project numbers in Asia (27 percent); Africa is second in terms of number of projects (23 percent).

6. Private sector projects address drivers of environmental degradation. GEF projects that engage the private sector are often designed to address economic drivers of environmental degradation, particularly the supply and demand of natural resources. In targeting economic drivers, the vast majority of projects sought to shift market supply or demand to sustainable sources.

HISTORY

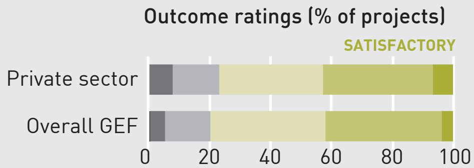
The GEF's engagement with the private sector has remained consistent over time. The approaches and strategies have, however, changed and evolved. Initial efforts to involve the private sector in GEF operations were undertaken early during the pilot phase. Thereafter, the GEF Council approved a GEF strategy in 1996 that identified the "removal of market, information and other barriers" as the key approach to engage the private sector. The focus shifted from removing market barriers to nongrant instruments during GEF-2. In 1999, the GEF released a policy paper, "Engaging the Private Sector in GEF Activities," that underlined the importance of the private sector and identified several modalities that would be needed for barrier removal, including technical assistance, and made explicit the range of nongrant financing modalities.

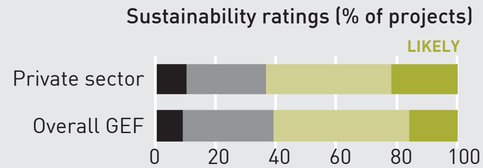
The following replenishment periods were characterized by a focus on partnerships and platforms and technology and innovation. The GEF proposed a Public-Private Partnership Fund in 2005, and set aside $50 million to create the GEF Earth Fund with delegated authority to the International Finance Corporation (IFC) and other agencies to prepare and approve projects more quickly.

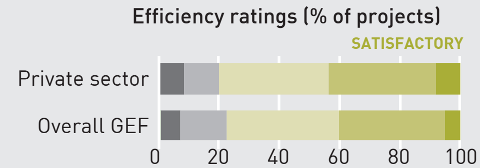
During the latter stages of GEF-5, efforts were undertaken to redefine a strategy for enhancing PPPs, and the GEF developed a new strategy paper, "Revised Strategy for Engagement with the Private Sector," to increase private sector engagement. This strategy prioritizes the expanded use of nongrant instruments as a key tool available to the GEF for building PPPs, as well as using a multilateral development bank (MDB) platform approach to attract greater private sector financing.

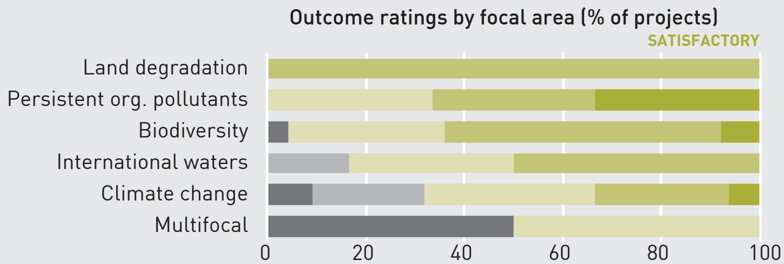
Building on the GEF-5 operational approach, three priorities were identified for expanding private sector engagement in GEF-6: mainstreaming private sector engagement in all GEF projects; a set-aside of $115 million for a nongrant pilot program which funds proposals that have

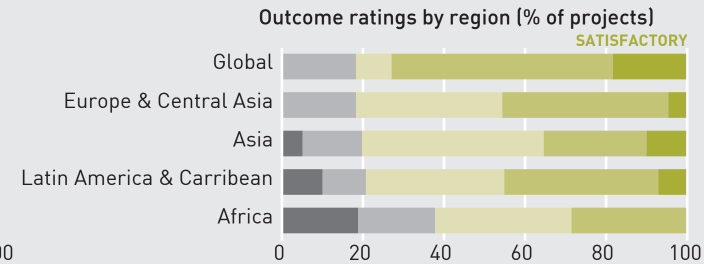
PERFORMANCE HIGHLIGHTS











the potential of generating reflows; and making the private sector integral to the design, development, and implementation of three integrated approach pilots featured in GEF-6 and which are at midcourse.

RESULTS

Performance. Eighty percent of the rated completed projects in the private sector portfolio (*n* = 119, from a total of 136 projects with terminal evaluations) have outcome ratings in the satisfactory range. This performance is comparable to ratings reported across all GEF projects in the most recent GEF annual performance (APR 2015). Sixty-three percent of projects for which ratings are available (*n* = 114) have sustainability ratings of moderately likely or above, based on the likelihood of project benefits continuing past project closure. This figure is also comparable to sustainability ratings across the entire GEF project portfolio. Eighty percent of rated projects have efficiency ratings in the satisfactory range. Sixty-nine percent have satisfactory monitoring and evaluation (M&E) implementation ratings, and 72 percent have satisfactory M&E design ratings. These figures are slightly higher than for the overall GEF portfolio as cited in APR 2015.

There are no global projects or projects in Europe and Central Asia rated as unsatisfactory or below, indicating stability and solid performance in these regions. In particular, global projects have the most satisfactory performance, with 73 percent of projects receiving ratings of satisfactory or above. On the other hand, 38 percent of African projects have moderately unsatisfactory or below ratings.

Overall, successful engagement has led to many instances of broader adoption, particularly scaling up and market change. For example, a $43 million GEF grant to Morocco for the development of a concentrated solar thermal project led to a subsequent project wherein the Moroccan Agency for Solar Energy secured over $3 billion for scaling up the Noor-Ouarzazate complex. These funds came from the World Bank, the Clean Technology Fund, the German Agency for Technical Cooperation (GTZ), and the African Development Bank.

The GEF's offerings of choice and mix of influencing models are critical elements in helping build capacity and put in place appropriate incentives and signals that allow the private sector to redirect their investments in an environmentally sustainable manner. Although there is a high number of projects supporting enabling policy and regulatory environments, this category does not receive as high a GEF investment. Specialized financial instruments are the most capital-intensive influencing model, with the highest ratio of investment to number of projects. The corollary is that in terms of greater impact, reforms, for example, in the renewable energy sector across GEF projects have led to formulation of policies that have supported greater growth of enterprises in this industry.

Private sector survey. A survey of private sector stakeholders revealed that they consider the GEF a valuable partner based on its capacities and strengths in flexible financing instruments, higher risk appetite, long-standing brand reputation, technical knowledge, and opportunities for networking/partnership.

Because the GEF has provided a combination of grants and a broad spectrum of nongrant financing instruments, this variety—along with the possibility of combining different financing vehicles in one project—make it all the more appealing to private sector partners. In terms of risk appetite, the GEF supports innovative ventures that have difficulty accessing mainstream capital. Either through lending, equity investments, or risk-sharing guarantees, the GEF helps create the financial conditions for projects to materialize. The GEF is also praised for its technical expertise. Surveyed entities appreciate the knowledge the GEF brings to a project and how this improves quality of execution. The GEF network is of strong added value to private sector actors, as it is capable of making connections with donors, development banks, and assisting in addressing regulatory and policy issues.

Comparators in environmental finance. The number of actors in public environmental finance has increased over time. The complex arena is made up of actors ranging from regional and sectoral funds to global facilities such as the Climate Investment Funds (CIF) and Green Climate Funds (GCF), with diverse fund offerings—some quite similar to the GEF in terms of instruments and focal areas. A sampling of 14 multilateral, bilateral, and national funds and mechanisms revealed that it appears to be challenging to combine a broad instrumental and thematic focus with easy access for the private sector. While the GEF has one of the most resourceful funds in terms of its volume, focus, and diversity of instruments, accessibility by the private sector still appears to be low. The multilateral funds that come closest to the GEF in terms of mandate, philosophy, and operating modalities are the CIF and GCF. Like the GEF, both work through implementing partners.

Interviews conducted with the CIF revealed that close to 30 percent of its total funding ($2.3 billion) is allocated to projects and programs that aims to bring in the private sector. This number is significantly higher than the GEF's allocation to the private sector portfolio (14 percent). Private sector engagement at the CIF can take place in three ways: direct or intermediated finance through MDBs' private sector windows, PPPs, or private cofinancing of public investment projects. The CIF Dedicated Private Sector Programs (DPSPs) can be deployed across a range of instruments, based on the implementing MDB practice. CIF funding can be subordinated to the MDBs, providing greater structuring flexibility, and can be used for local currency lending (with the foreign exchange risk borne by the CIF). Like the GEF, the CIF's country and government-led investment planning process seems to have resulted in most funding being focused on the public sector, with lengthy approval processes that, according to an independent evaluation, have discouraged private sector engagement. This has prompted the development of set-asides for the private sector such as the DPSP.

The other GEF peer, the GCF, thus far seems, through its private sector facility, to have prioritized investments in small and medium-size enterprises and maintains a mandatory 50/50 split between support of climate change mitigation and adaptation projects. Of its private sector investments ($773 million, or 52 percent of total investment), only about 8 percent of the funding provided is in the form of grants. Loans account for 70 percent, equity for 19 percent, and guarantees for 3 percent. Unlike the GEF, GCF resources are channeled through accredited entities that can be private or public, nongovernmental, subnational, national, regional, or international.

ISSUES TO ADDRESS

1. Lacking awareness of the GEF. As reported by private sector stakeholders, the GEF's position and role are insufficiently clear to the private sector. Also, there is a lack of awareness among private sector stakeholders of opportunities for engagement with the GEF. Respondents found it hard to obtain information on the GEF's private sector engagement and opportunities for cooperation.

2. Cumbersome approval procedures and ambiguous project requirements. According to the private sector stakeholder survey, nearly all respondents mentioned that the GEF approval process is too slow and complex. This causes uncertainty and deters potential private sector partners from working with the GEF. The GEF's eligibility criteria for support are also perceived as too general and providing insufficient guidance. Some partners found that the GEF formulated new or additional project criteria during the appraisal process, which created a nontransparent and unpredictable situation. Private sector respondents expected more clarity to help them better prepare for cooperation with the GEF.

3. Portfolio unbalance. The private sector portfolio evolution over time has led to an unbalanced concentration on climate change projects. This dominance of climate change investments may limit the ability of the private sector portfolio to assist countries in facing the present challenges posed, for example, by water scarcity and food security affecting vulnerable populations.

4. Lack of comprehensive documentation. Terminal evaluations or the equivalent were consulted for 57 projects that made use of grant and nongrant GEF instruments. The quality of information contained in the terminal evaluations was extremely variable. A significant shortcoming was the scant attention paid in most nongrant project terminal evaluations to financial information about the project.

LOOKING AHEAD

- Improve **market outreach to private sector entities**. Easier access to information will lead to increased awareness among private sector stakeholders of opportunities for cooperation with the GEF. This could include more private sector–specific content on the GEF website, development of "how to" guides for working with the GEF, and organization of "investor roadshows" for the private sector to promote cooperation opportunities.
- Design a **private sector appraisal policy and process focused on scalability** of projects and ensure they are additional, reinforce the marketplace, and have catalytic effects. These may also consider an approval process that allows private sector partners to track the status of a proposal with more transparency.
- **Build and share knowledge** with comparator financing facilities of how private sector entities could be more strategically engaged with the GEF. There is opportunity for dissemination and better exchange, especially on risk mitigation and market transformation concerning private sector projects. The influencing models that the GEF uses, including nongrant instruments, could be further mined for lessons learned.
- Explore possibilities to **systematically tag and gather more evidence** in the GEF Project Management Information System (PMIS) on elements of the GEF's private sector engagement, including better definitions of private sector cofinancing, without further increasing the reporting and monitoring burden in the GEF.