

Summary of Document GEF/ME/C.39/2

Review of the Global Environment Facility Earth Fund

Recommended Council Decision

The Council, having reviewed the documents “*Review of the Global Environment Facility Earth Fund*” (GEF/ME/C.39/2 and GEF/ME/C.39/Inf.1) and “*Management Response to the GEF Earth Fund Review*,” (GEF/ME/C.39/3) requests the Secretariat to prepare for the May 2011 Council meeting a revised strategy for enhancing engagement with the private sector that includes a plan for the implementation of the second phase of the Earth Fund. This plan should take into account comments made during this Council meeting and should move the revised Earth Fund away from a business-as-usual, project-by-project approach and towards a partnership with the private sector at the strategic level. It should also present (1) objectives that are realistic given the funding level, (2) a strategy and modalities in which management and governance are strengthened, including the involvement of the private sector in fund-governance and in raising capital; (3) a communication strategy to disseminate the establishment and operations of the new Fund and (4) expanded access to the Fund.

1. The status of the GEF Earth Fund (Earth Fund) as an expression of GEF’s long-standing intent to engage more with the private sector has made its pilot phase of execution a subject of intense interest, despite its small size. The Policy paper for the GEF5 replenishment negotiations recommended an evaluation of the structure and operations of the Earth Fund, following which the Council should consider the proposal to further capitalize the Earth Fund with an infusion of additional resources during GEF5. The GEF Evaluation Office has undertaken an independent review of the efficiency and relevance to the GEF of the Fund rather than an evaluation of its effectiveness and results, given the early stage in the implementation of the Fund.

2. The review concentrated on four areas: (1) compliance with Council decisions establishing the Public-Private Partnership Initiative (PPPI) and the Earth Fund; (2) review of the Earth Fund activities from platforms to their projects; (3) engagement with the private sector; and (4) efficiency as defined by the Earth Fund’s processes (particularly the “project cycle) and the roles and responsibilities of different stakeholders. It was conducted from June until August 2010. The full review is provided to Council as an Information Document (GEF/ME/C.39/Inf.1).

3. The Earth Fund was presented to the Council as a “catalyst”, to encourage private sector investment in environmental protection. The Earth Fund, as set up in GEF4, and the private sector have templates that do not fit together well, which makes it difficult if not impossible to achieve the catalytic role envisaged. The review has one over-arching conclusion:

1) The Earth Fund did not achieve its purpose.

4. It did not attract private funding at the Earth Fund level nor did it establish partnerships with the private sector although all five platforms are considered relevant to the GEF mandate. The platforms and projects being proposed by the Earth Fund include roles for private sector organizations, but not as expected. Several factors have limited the achievement of the purpose of engaging the private sector. For example, the objectives of the Earth Fund were not derived from an

assessment of the GEF's comparative advantage, nor were they clearly articulated internally or externally. There were weaknesses in the organizational and administrative structure established for the Earth Fund, particularly during implementation.

5. Too many times in the past has the GEF dropped targeted efforts to engage with the private sector for further reflection and for rethinking its approach. In GEF-5, the Earth Fund should be reconstituted to learn from past experiences, to ensure that engagement with the private sector is continued and more importantly enhanced. Because funding has been set-aside for a second phase of the Earth Fund, the Evaluation Office requests Council and CEO to consider the following conclusions and recommendations, which are aimed at making the second phase of the Earth Fund a success by refocusing attention on original intent:

- 2) **Although the Earth Fund was intended and expected to be set up as a Fund, over time it became a granting mechanism.**
- 3) **The Earth Fund committed the allocated \$50 million in five platforms in just over two years, but did so by falling back on GEF business as usual.**
- 4) **Engagement with the private sector, the purpose of setting up the Earth Fund, was relegated mostly to the project level.**
- 5) **Expectations regarding co-financing and reflows were unrealistic.**
- 6) **The Earth Fund did not clearly communicate its purpose internally or externally, nor was there a plan for learning from its experience, that of the broader GEF or that of others.**
- 7) **The Earth Fund governance and management structure had several weaknesses, revealed during implementation.**

6. The review formulates one over-arching recommendation:

- 1) **The Council should request the GEF Secretariat to revise the Earth Fund for its second phase.**

7. For this second phase, the following more specific recommendations were formulated:

- 2) **Redefine Earth Fund objectives, niche and market barriers**
- 3) **Clarify access to the redefined Earth Fund**
- 4) **Strengthen the management of the Earth Fund**

8. The operational management of the Earth Fund should remain with the GEF Secretariat and be strengthened. The financial management of the trust fund to be established for the second phase of the Earth Fund could either:

- Remain with IFC, acting on behalf of the World Bank, the GEF Agency of the Earth Fund; or
- Move to the GEF Secretariat. This would provide full clarity of the GEF ownership of the Earth Fund and will give full accountability and responsibility to the GEF Secretariat. The GEF Trustee could create the same set up that has created for IFC but with the GEF Secretariat as the executing agency.