



Review of GEF Engagement with the Private Sector

Follow-up Document to the GEF Earth Fund Review

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Preface

In November 2010, the Global Environment Facility (GEF) Evaluation Office presented the Review of the GEF Earth Fund to the Council. The Council's response to the Review and its recommendations was to request the Secretariat, in collaboration with the GEF Agencies and representatives of the private sector, foundations, and civil society organizations, to prepare for the May 2011 Council meeting a revised strategy for enhancing engagement with the private sector. Evaluative evidence from the Earth Fund Review would, of course, feed into the development of a revised private sector strategy. Recognizing that other studies and evaluations would also offer beneficial information to a future strategy, the Evaluation Office offered to synthesize the available evidence from a large number of evaluations.

In recent years the Office has strengthened its knowledge management and started up a new series of "knowledge products" that aim to consolidate evaluative evidence on cross-cutting issues in short and easily accessible documents that highlights lessons that can be taken up by GEF partners. This meta-evaluation provides the basic material for such a product. This report is a technical document which establishes the emerging lessons in a systematic way; it will be published as a knowledge product as well. For more information, please go to www.gefeo.org.

The preliminary findings of this meta-evaluation were shared with the Secretariat and GEF partners at an inter-agency meeting on April 13, 2011, and a draft version of the report was presented to the Secretariat on April 18, 2011. The meta-evaluation was undertaken by consultant Paul Cox and guided by Ms. Baljit Wadhwa, senior evaluation officer, who was also responsible for the final edit of this technical document. We hope it will provide inspiration for future approaches to engagement with the private sector.

Rob D. van den Berg
Director, GEF Evaluation Office

Abbreviations

AGF	United Nations Secretary-General’s High-Level Advisory Group on Climate Change Financing
AVIGREF	Associations for the Management of Wildlife Reserves
CBO	community-based organization
CHUEE	IFC China Utility Energy Efficiency program
CIF	Climate Investment Funds
CPD	Cartagena Protocol on Biodiversity
EBRD	European Bank for Reconstruction and Development
EF	GEF Earth Fund
ESCO	energy services company
GEF	Global Environment Facility
GEFSEC	Global Environment Facility Secretariat
GHG	greenhouse gas
IDB	Inter-American Development bank
IFC	International Finance Corporation
M&E	monitoring and evaluation
MARENA	El Ministerio del Ambiente y los Recursos Naturales
MNC	multinational corporation
NGO	non-governmental organization
ODS	ozone-depleting substance
OPS3	Third Overall Performance Study of the GEF
OPS4	Fourth Overall Performance Study of the GEF
PES	payments for environmental services
PIF	project identification form

PPP	public-private partnerships
RA	Rainforest Alliance
RAF	Resource Allocation Framework
REEF	Renewable Energy and Energy Efficiency Fund
SEF	Sustainable Energy Facility
SGP	Small Grants Programme
SME	small and medium enterprise
STAR	System for Transparent Allocation of Resources
TNC	The Nature Conservancy
TVE	Chinese Township and Village Enterprises
UN	United Nations
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme

1. Main Conclusions and Recommendations

1.1 Introduction

1. This brief document is a meta-evaluation which synthesizes many GEF Evaluation Office documents and specific information contained therein regarding GEF's involvement with the private sector – the for-profit business community – in the third and fourth GEF replenishment periods, GEF-3 and GEF-4.
2. At its November 2010 meeting, the GEF Council discussed a review of the GEF Earth Fund prepared by the GEF-EO and Management's Response to that review, and requested the Secretariat to prepare, in collaboration with interested parties, a revised strategy for enhancing engagement with the private sector. This formed the context of a commitment by the Director of the Evaluation Office to synthesize the many evaluations that have looked at how the private sector is involved in GEF operations so that this information can be taken into account when preparing the new strategy.
3. The present document has served as an information resource to staff of the GEF Secretariat during their preparation of a revised private sector strategy for the GEF Council's deliberations in May 2011. This review also represents an example of the GEF Evaluation Office's ongoing attention to capturing and disseminating lessons as required by the Office's knowledge sharing culture.

1.2 Conclusions

4. The main body of the meta-evaluation report contains detailed analysis of GEF's engagement with the private sector. This chapter highlights the main conclusions and recommendations.

Conclusion 1: The GEF has engaged with a wide variety of for-profit entities that vary in their industry focus, size, and approach to environmental issues

5. In keeping with the diversity that is to be found within the private sector, the GEF has engaged with a broad range of for-profit business entities. The range extends in size from multinational corporations (MNCs), through large domestic firms and financial institutions to small and medium enterprises (SMEs) and even micro-enterprises. Besides corporate entities, institutional arrangements may include public-private partnerships (PPPs), public-private alliances, cooperatives and other joint ownership arrangements.

Conclusion 2: GEF did not adopt a fixed strategy for private sector engagement, even within the same focal area. Given the different circumstances of the countries and regions eligible for GEF support, this has been advantageous.

6. The GEF has demonstrated its understanding that the private sector is not a monolithic entity. In keeping with the variety of private sector entities that the GEF engages, the objectives and strategies used for direct private sector interactions in GEF-funded projects¹ are generally employed in different combinations depending on the country circumstances, i.e., effectiveness of country policy, legal and regulatory processes, level of private sector development, and types of private sector entity, to name a few.

Conclusion 3: Linkages exist between GEF's enabling activities, especially the funding of improvements by governments in legal, regulatory and policy frameworks, and private sector interest to participate in GEF interventions.

7. Regulatory frameworks and environmental policy are indicators of an enabling climate for global environmental benefits. The absence of country commitment to application of compliance standards can affect achievement of results while supportive consideration is a factor in successful private sector participation with GEF.

Conclusion 4: Instances of private sector engagement do not match expected prevalence across Focal Areas, all of which clearly identify a role for the private sector.

8. The assembled body of evaluation suggests that more attention is directed to private sector engagement in the Climate Change, Biodiversity and the Chemicals focal areas. While all focal areas have consistently identified the private sector in their focal area strategies (GEF-3, GEF-4), it was considerably easier to locate examples of engagement from the biodiversity, climate change and ozone layer depletion focal areas than it was to find project examples for International Waters, Land Degradation or POPs.

Conclusion 5: GEF's efforts to engage with the private sector were hampered by the introduction of the Resource Allocation Framework (RAF).

9. The GEF's ability to engage the private sector diminished during GEF-4 as a result of a new resource allocation system (the RAF) being put in place. The new system led to a more active involvement of government agencies and as a result a lower engagement with the private sector. With an allocation system like the RAF a strong engagement with for-profit companies needs to be incorporated in national strategies and priorities, following guidance from the conventions.

¹ "Direct private sector interaction" is used to distinguish such interactions from GEF funding of a platform or project through grants or concessional financing.

1.4 Recommendations

10. Assuming that the GEF will continue to support engagement with the private sector, the conclusions of this evaluation lead to the following recommendations for future support:
 - A. GEF approaches to private-sector engagement, while informed by accumulated experience, should be tailored to both GEF's objectives for involving the private sector and the specific country circumstances.
 - B. In countries where the lack of an enabling environment is an issue for GEF-supported engagements with the private sector, the GEF and the country concerned should focus on enabling activities which will strengthen legal, regulatory and policy frameworks of relevance to such engagement.
 - C. GEF interventions with the private sector – broadly defined and interpreted – should be encouraged not just in the next phase of the GEF Earth Fund but throughout the entire GEF portfolio, where appropriate.
 - D. GEF evaluations can more systematically gather evidence on private sector engagement if this would be a standard evaluation question included in terminal and higher level evaluations.
 - E. GEF staff should be encouraged to better understand the motivations of private – sector entities wishing to be involved with the GEF, especially on risk mitigation, market transformation, and recognition/sponsorship, and that – if they are not already planned and underway – appropriate modifications be considered to the GEF Activity Cycle to make it easier to engage the private sector.

2. Background

2.1 Scope and Methodology

11. Key sources of information for this review were GEF Evaluations conducted by the independent evaluation office, GEF Secretariat programming and strategy documents and, for clarification purposes, a series of interviews carried out by phone with GEF stakeholders. Additionally, the review also benefited from an assortment of GEF related evaluations and reviews from GEF agencies and other sources.
12. Annex 5 presents a list of all the consulted materials. Background summary notes were prepared on these documents as a means of systematically distilling information for this review, with primary emphasis on the information contained within GEF Evaluation documents.
13. As expected, many of the evaluations did not contain detailed evaluative evidence on the private sector involvement topic. Even when this material was available, it tended to provide insufficient information on the circumstances and the nature of the experience. In several instances, the private sector was not mentioned or was only mentioned casually as a stakeholder grouping with which project officials intended to interact.
14. Doubtless, a reason for this situation was that the evaluations did not have performance in private sector engagement as an evaluation question, because their main questions were focused on other issues. For example, evaluations reported in the 2007, 2008 and 2009 issues of the *GEF Annual Impact Report* were oriented to testing methodologies for impact assessment. In other cases, such as *Protected Areas and Avoided Deforestation: A Statistical Evaluation*², Terms of Reference were not scoped to include, or did not warrant, specific consideration of the private sector.
15. Interviews were held with 13 knowledgeable individuals in the GEF and its Agencies/Partners (the World Bank, IFC, UNEP, IADB and the Rainforest Alliance). See Appendix B. These conversations provided useful context and clarification for some of the evaluation documents being reviewed, as well as underscoring differing perspectives, as revealed in the documentation, concerning the GEF's record of interaction with the private sector. Many interviewees offered examples of projects in which private sector involvement had been handled well or poorly, or pointed to trends in global environmental finance.

² Protected Areas and Avoided Deforestation: A Statistical Evaluation. Prepared by K.S. Andam/P.J. Ferraro of Georgia University, A.S.P. Pfaff of Duke University, & G.A. Sanchez-Azofeifa of the University of Alberta. Draft Final Report August 2007.

2.2 Context

16. The GEF has been intent on involving the private sector in its work for at least 15 years. During this period of the GEF's own evolution, there have been major changes in the field of environmental finance.
17. The GEF has undertaken background work on private sector involvement since 1996, when the first strategy for engaging the private sector was finalized. Principles for engaging the private sector were formulated in 2004 and an evaluation of private sector engagement by the GEF was conducted in 2004.
18. The *Third Overall Performance Study of the GEF (OPS3)*, conducted in 2004 and 2005, concluded that the GEF had probably missed opportunities for potentially increasing the catalytic effects through GEF projects involving the private sector because of the lack of a focused GEF strategy. Among its recommendations³ the study urged the GEF to undertake a private sector special initiative, and to prepare a private sector strategy for outreach and communication, as well as risk-sharing arrangements.
19. On the basis of information from GEF documents such as *Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector*⁴, a more comprehensive *GEF Strategy to Enhance Engagement with the Private Sector*⁵ was completed in May 2006.

2.3 Summary of Earth Fund Review

20. Planning subsequently began for the GEF's first investment fund and single biggest initiative dedicated to the needs of the private sector. The Public-Private Partnership Initiative (PPPI), later renamed the GEF Earth Fund (EF), received final approval from the GEF Council in 2008. GEF-EO's evaluation of GEF's *approach* to the establishment of the Earth Fund was conducted in October 2010. The *Review of the Global Environment Facility Earth Fund*⁶ noted successful engagements, however overall it suggested a need for greater interaction between GEF and the private sector for both co-financing and governance of the Earth Fund. Key findings and recommendations are summarized in this review.

³ OPS3 Progressing Toward Environmental Results – Third Overall Performance Study of the GEF. Executive Version, June 2005, pp.12, 19.

⁴ Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector. GEF/C.27/Inf.7. October 12, 2005, 75 pp.

⁵ GEF Strategy to Enhance Engagement with the Private Sector. GEF/C.28/14. May 10, 2006, 54 pp.

⁶ Review of the Global Environment Facility Earth Fund. Full Report. GEF/ME/C.39/Inf.1. October 26, 2010, 64 pp.

21. Management's response to the Earth Fund Review⁷ was largely accepting of the assessment while adding some necessary clarifying explanations. It is instructive to note that indications are that the platform which has entered the implementation phase, the IFC Earth Fund, is on track to deliver expected results (see Box 1). With only one platform fully operational, *the Earth Fund experience is still too incomplete for GEF-EO to draw conclusions about its implementation.*

22. Summary of Key Findings from the Earth Fund (EF) Review⁸

- The EF did not attract private funding at the EF level, due in part to the limited promotion of the EF outside the GEF partnership.
- The review questioned why the EF Trust Fund was not authorized to engage directly with private sector entities. One consequence was that none of the EF platforms shared operational management and accountability with the private sector.
- At the project level, platform managers have built roles for a variety of private sector organizations (global corporate entities, local private companies and community enterprises).
- The review reported that the private sector arms of three GEF Agencies (IFC, EBRD and IADB) consider there is demand for EF monies to improve returns or mitigate risk in their environmental portfolios. Other agencies confirmed demand will exist once the new EF phase becomes operational.
- No role is defined for for-profit private sector organizations at EF or platform level other than membership in the EF Board. The EF Board has an advisory role and membership includes three individuals from private enterprises. The review reported that GEF partners involved in the EF see no clear function of the Board and consider that it has not added much value.
- The review stated that, in its role as operational manager of the EF, the GEFSEC did not draw upon extensive experience within the GEF with PPPs and other forms of private sector engagement.

23. Recommendations Related to the Private Sector

- Council should request the GEFSEC to revise the EF for its second phase.
- GEFSEC redefine EF objectives, niche and market barriers – in particular, the GEFSEC in collaboration with the GEF Agencies and private sector representatives should identify areas of work where the EF can act as a credible technical partner and act as a liaison between private and public sectors, that is, identify what the GEF has to “offer” to the private sector that it cannot get from other sources.
- GEFSEC clarify access to the redefined EF. This includes a recommendation that all entities (including private sector companies) that fulfil the GEF fiduciary standards should be able to access the EF directly.
- GEFSEC strengthen the management of the EF – this includes having staff with experience working with the private sector in the GEF focal areas be recruited and assigned adequate management authority.

⁷ Management Response to the Review of the Global Environment Facility Earth Fund. GEF/ME/C.39.3. October 25, 2010.

⁸ Review of the Global Environment Facility Earth Fund. GEF/ME/C.39/Inf.1. October 26, 2010. Key Findings – pp. 31-33, 36-38; Recommendations – pp. 5-7

24. The GEF is set to continue its efforts to engage the private sector during the Fifth Replenishment Period. The *GEF-5 Programming Document*⁹ specifies among its strategic elements the task of enhancing engagement with the private sector and building upon advances made in GEF-4 through the Earth Fund. In an indication that it neither fully supports the Earth Fund nor wishes to close the door on the concept, the GEF Council has tentatively allocated \$80 million for a follow-up phase in GEF-5. It is anticipated that a reworked design for a fund will dovetail with the revised GEF strategy for engaging the private sector.

2.4 Private Sector Environmental Finance

25. In the meantime, the world of environmental finance has experienced some remarkable changes. Since the GEF surveyed the role of the private sector in 2005¹⁰, there has been an increase in market size and number of participants and composition of actors (both not-for-profit private entities – foundations, NGOs, business associations, university-based institutes – and private firms).

26. As reported in the *Review of the Global Environment Facility Earth Fund*, a trend which has been most apparent in biodiversity and climate change is that private firms have become more active in sustainable development as a result of greater awareness of the fragility of their supply chains and the environmental impact of their operations. Furthermore, although the GEF remains a major force globally in environmental finance, there are now newer and larger players such as the Climate Investment Funds (CIF) operating in specific areas.

27. Furthermore, innovation has occurred in the approaches and instruments available to the designers of projects and platforms aimed at global environmental benefits. For example, a Paper¹¹ issued by the United Nations Secretary-General's High-Level Advisory Group on Climate Change Financing (AGF) set out a schema for understanding the different types of public interventions which can stimulate private sector investment in climate change adaptation and mitigation. A matrix of barriers and instruments identified no less than 12 types of barriers (organized under the categories of "inadequate returns", "risk management", and "inadequate access to finance") and 38 public sector interventions designed to address those barriers.

28. Yet the broader context remains, almost intimidating in its gravity. The full UN Report¹² of the Advisory Group states that a number of key environmental trends are showing deterioration and that the anticipated costs of mitigating actions are well beyond the capacity of public institutions to address.

⁹ GEF-5 Programming Document, GEF-5/R.5/31/CRP.1. May 12, 2010,

¹⁰ Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector. GEF/C.27/Inf.7. October 12, 2005

¹¹ United Nations. 2010 Work Stream 7 Paper: Public Interventions to Stimulate Private Investment in Adaptation and Mitigation. Secretary-General's High-Level Advisory Group on Climate Change Financing (AGF). pp. 3, 11-12.

¹² United Nations. 2010. Report of the Secretary-General's High-Level Advisory Group on Climate Change Financing (AGF).

3. Summary of Evaluative Evidence

Conclusion 1: The GEF has engaged with a wide variety of for-profit entities that vary in their industry focus, size, and approach to environmental issues.

29. The GEF has engaged with a broad range of for-profit business formats¹³. The range extends in size from multinational corporations (MNCs), through large domestic firms and financial institutions to small and medium enterprises (SMEs) and even micro-enterprises. Besides corporate entities, institutional arrangements may include public-private partnerships (PPPs), public-private alliances, cooperatives and other joint ownership arrangements.
30. The literature review revealed an illustration of just how dynamic some societies are with respect to their institutional arrangements for conducting business. In the case of the UNDP Energy Conservation and GHG Emissions Reductions in Chinese Township and Village Enterprises (TVEs) project, the GEF interacted with a business format – TVEs – which metamorphosed during project design and implementation from collective to primarily private ownership. The project, which was a major success in replication and scaling up, led evaluators to emphasize the *value of a clear understanding of the socio-economic development of the host country*¹⁴.
31. Examples of GEF's experience with types of for-profit entity are given in Annex 1, along with indications of the direct engagement strategies used. Results are however pending, as several of the examples are taken from GEF Earth Fund platforms which have yet to become fully operational.
32. Even though they lack visibility, instances of engagement with the smallest private-sector actors are also apparent within the Small Grants Programme (SGP). Review of the Joint GEF/UNDP evaluation of the SGP and a selection of the country program case studies performed for this meta-evaluation produced many indications of noteworthy interactions with the private sector. This finding is revealing in view of the small scale of SGP projects (under \$50,000 but typically in the range of \$20,000 to \$35,000) and the fact that SGP projects primarily target community-based organizations and smaller non-governmental organizations (NGOs). As shown in Annex 2, seven different relationships or roles were evident from the reviewed documents.

¹³ Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector. GEF/C.27/Inf.7. October 12, 2005.

¹⁴ GEF-EO. **The Catalytic Role of the GEF – Case Study: Energy Conservation and GHG Emissions Reductions in Chinese Township and Village Enterprises in China**. OPS4 Technical Document #3, prepared by National Centre for Science and Technology Evaluation, People's Republic of China, June 2009, pp. 25.

Conclusion 2: GEF did not adopt a fixed strategy for private sector engagement, even within the same focal area. Given the different circumstances of the countries and regions eligible for GEF support, this has been advantageous.

33. The GEF has demonstrated its understanding that the private sector is not a monolithic entity. In keeping with the variety of private sector entities that the GEF engages, the objectives and strategies used for direct private sector interactions in GEF-funded projects¹⁵ are generally employed in different combinations depending on the country circumstances, i.e., effectiveness of country policy, legal and regulatory processes, level of private sector development, and types of private sector entity, to name a few.
34. The 2006 *GEF Strategy to Enhance Engagement with the Private Sector* identified six rationales for seeking private sector engagement: (a) replication; (b) sustainability of global environmental benefits; (c) leveraging human, technological and financial resources; (d) influence on policy and regulation; (e) development and dissemination of technological solutions to environmental problems; and (f) acceleration of research and development.
35. Annex 3 provides examples of GEF-supported actions which correspond to each of the above rationales plus two additional ones: project-supported means of generating revenue or securing income, and public awareness-raising and participation. The most commonly mentioned objectives are replication, sustainability of global environmental benefits and leveraging of resources. Some of the strategies are co-financing, shared project delivery responsibilities, use of the Payment for Ecosystem Services (PES) mechanism, local lending, capacity building, consultation and participation.
36. There are other examples. In relation to the UNEP/RA Greening the Cocoa Industry platform, mention should be made of another project, the IFC Biodiversity and Agricultural Commodities Program (BACP), which is transforming target agricultural commodity markets through a market-driven approach that relies on commodity roundtables. Another example would be the IFC Sustainable Energy Facility project, which relies heavily on assisting clean energy SMEs with a combination of technical assistance and funding – the latter consisting of funds on-lent/invested through a special fund hosted by a partner, E+Co.

¹⁵ “Direct private sector interaction” is used to distinguish such interactions from GEF funding of a platform or project through grants or concessional financing.

37. In the *Review of Financial Arrangements in GEF-Supported Biodiversity Projects*¹⁶, the GEF M&E unit explored the tools available to help GEF-supported biodiversity initiatives become financially self-sufficient. The main categories described are business enterprises, financial investments, and property-based transactions. The most frequent financial arrangement was business enterprises, especially small community-based enterprises specializing in ecotourism; many of these served to secure the long-term viability of projects as well as to mitigate some of the identified threats to biodiversity. A less common option was financial investments, such as endowments, sinking funds and revolving funds. A third, rarely used option was property-based transactions, namely easements, concessions and traditional real estate transactions.
38. Regarding incorporation of lessons learned, in the Climate Change focal area, there has been a move towards combining technical assistance and concessional financing in clear contrast to the early days of clean energy project finance when grants were awarded to build projects. For example, the IFC Sustainable Energy Facility (SEF) project is a fully integrated approach assisting clean energy SMEs at each step of the project cycle with a combination of technical assistance and on-lending – an approach that is closer to venture capital¹⁷. It benefited from lessons learned in several projects funded by the GEF and administered by the IFC over many years. One of these was the Renewable Energy and Energy Efficiency Fund (REEF)¹⁸. As reported in the Mid-Term evaluation¹⁹, specific lessons learned were that pure equity investments are not desirable as the main means of investment, and that technical assistance can greatly enhance the chances of a successful investment.
39. The Mid-Term Evaluation of the SEF also suggested that E+Co's performance is strongly positive and that E+Co is on course to meet the end-of-project objectives. The evaluation also found that, compared to other IFC/GEF clean energy financing vehicles, SEF is much more successful when viewed from cost and performance perspectives.
40. A comparable trend may be apparent in the design of GEF interventions in the Biodiversity focal area where there is also increasing use of financial instruments geared to sustainability such as Payments for Environmental Services (PES), as opposed to grant funding. As noted in the *GEF Country Portfolio Evaluation for Costa Rica*²⁰, the World Bank Eco-markets project markedly

¹⁶ GEF-Monitoring & Evaluation. *Review of Financial Arrangements in GEF-Supported Biodiversity Projects*. Monitoring and Evaluation Working Paper 11, June 2003.

¹⁷ IPA. *Report of Preliminary Findings: Midterm Evaluation of IFC's Sustainable Energy Facility and the IFC/GEF SME Program's Loan to E+Co*. Prepared by IPA Energy + Water Economics, March 2009, pp. 5.

¹⁸ The REEF commenced in 2000. Other projects and their start dates were: the Small & Medium Enterprise Programme -1995; the Photovoltaic Market Transformation Initiative (PVMTI) – 1998; and the Solar Development Group – 2001.

¹⁹ IPA. *Report of Preliminary Findings: Midterm Evaluation of IFC's Sustainable Energy Facility and the IFC/GEF SME Program's Loan to E+Co*, PowerPoint Presentation and Appendix 2: Case Studies. Prepared by IPA Energy + Water Economics, April-May 2009.

²⁰ GEF Country Portfolio Evaluations: Costa Rica (1992-2005), Evaluation Report No. 32. February 2007, pp.38, 88.

increased the use of PES in reclaiming forest cover, to the point that the initiative now extends over five percent of the country's land surface outside protected areas.

41. Experience with market-based instruments for conservation has been beneficial in the design of the World Bank Espirito Santo Biodiversity project, which began implementation in March 2009 with GEF grant funding²¹. The project aims to reduce threats to globally important biodiversity from agricultural production systems and preserve habitat for species (the area is home to a wide array of threatened and endangered species) in two key rain forest watersheds of the Atlantic Forest in the Brazilian state of Espirito Santo. The two watersheds are also vitally important from an economic and social standpoint – for water supply, hydro-electric power, stability of hydrological regime, and avoidance of pollution of rivers with organic material.
42. The GEF is catalyzing support from the private sector towards conservation objectives in the project area, and providing an instrument (Payments for Environmental Services) to use such support to generate sustained long-term improvements in land use. The project is designed to devote substantial attention to guaranteeing 'buy-in' from ecosystem service users, including hydropower company ENERGEST, state water company CESAN, private mining company CVRD (the second largest mining company in the world) and other individual water users.

Conclusion 3: Linkages exist between GEF's enabling activities, especially the funding of improvements by governments in legal, regulatory and policy frameworks, and private sector interest to participate in GEF interventions.

43. Regulatory frameworks and environmental policy are indicators of an enabling climate for global environmental benefits. The absence of country commitment to application of compliance standards can effect achievement of results while supportive consideration is a factor in successful private sector participation with GEF.
44. In the Climate Change focal area, the IFC's Sustainable Energy Facility (SEF) project is illustrative of this finding. The SEF was set up as a segregated fund within the not-for-profit entity E+Co acting as the fund manager. The SEF is funded through a grant from GEF/IFC that covers funds to be on-lent/invested, cost of technical assistance support to borrowers, and the E+CO's costs of managing and monitoring the fund. The SEF operates in Central America, Brazil and selected countries in SE Asia and its areas of technology are grid-connected renewable energy projects, off-grid distributed generation, and energy services companies (ESCOs). The Mid-Term Review reported that the existence of a supportive enabling environment was reported to be the rationale for the IFC's selection of countries in which the SEF would operate²².

²¹ PIF for the Espirito Santo Biodiversity and Watershed Conservation and Restoration Project P094233. September 14, 2007, pp. 5

²² IPA. Report of Preliminary Findings: Midterm Evaluation of IFC's Sustainable Energy Facility and the IFC/GEF SME Program's Loan to E+Co. Prepared by IPA Energy + Water Economics, March 2009, pp. 15-18

45. In the Biodiversity focal area, the experience of a GEF-supported UNDP project called “Biodiversity Conservation in the Tropical Dry Forest and South Pacific Coastal Marine Zone of Nicaragua: Building Public-Private Alliances” is instructive. This project intended to contribute to conservation of a globally important wildlife refuge through actions which included implementation of a new model of shared management of the refuge by local residents and other stakeholders. The Final Evaluation²³ noted slow but steady change in the attitude of residents and immediate neighbours towards the refuge, and the identification and development of five community groups supportive of the shift to livelihoods that are conducive to biodiversity conservation in the refuge. However, it also drew attention to the *insufficient consideration in the project design of the role of the state, especially the lack of commitment within the government* and MARENA to ensure effective application of existing legal instruments pertaining to conservation in protected areas (see Box 3).
46. Also in the Biodiversity focal area, the GEF has supported the first example in Madagascar of sustainable community protected area management of 50,000 ha of the Anjozorobe Forest Corridor, an experience which is now being scaled up. However, according to the Country Portfolio Evaluation²⁴, the GEF portfolio results are at risk because of weak financial, institutional, and socioeconomic sustainability. On the financial side, for example, donors including the GEF have been unable to sufficiently catalyze a sustainable protected area management system. Despite significant financial and technical investment by donors, institutional sustainability remains weak. On the socioeconomic side, independent evaluations highlighted the difficulties the GEF’s environmental investments have faced in addressing the anthropogenic pressures relating to rural development, poor agricultural techniques, and poverty, which are threatening biodiversity. One of the recommendations made to the Government of Madagascar was that the persistent capacity development gap be addressed through partnerships with NGOs, the private sector, local governments, and communities.
47. In the International Waters focal area, mention should be made of the Slovenia EBRD/GEF Environmental Credit Facility, a project which was highlighted in the GEF *Fourth Overall Performance Study (OPS4)*²⁵. The main objectives of the Facility were the reduction of nutrient load and other water pollutants in the Danube River Basin and the demonstration of a project concept based on financial intermediary/private sector partnership in pollution reduction. Participating entities included commercial banks (which received loan funds from the EBRD) and companies and municipal entities (which became sub-borrowers of funds to invest in water pollution reduction and prevention projects). Although some of the expected results materialized, the promotion and demonstration of innovative water pollution reduction technologies did not occur. The final evaluation²⁶ suggested a major reason for this was the *absence of an effective legal and regulatory framework supporting the achievement of full compliance with environmental standards*.

²³ UNDP. Final Evaluation of Project – Biodiversity Conservation in the Tropical Dry Forest and South Pacific Coastal Marine Zone of Nicaragua: Building Public-Private Alliances. Final report, June 2010.

²⁴ GEF Country Portfolio Evaluations: Madagascar (1994-2007), Evaluation Report No. 42. October 2008, pp. 3, 46.

²⁵ OPS4 Progress Toward Impact – Fourth Overall Performance Study of the GEF. Full Report, April 2010, pp 57

²⁶ GEF-EO. The Catalytic Role of the GEF – Case Study: The Slovenia EBRD/GEF Environmental Credit Facility. OPS4 Technical Document #4, prepared by Marie-Karin Godbout, Le Groupe-Conseil Baastel Ltée, January 2009.

48. Regarding Ozone Depleting Substances, the evidence presented in the GEF Impact Evaluation of the Phase-Out of Ozone-Depleting Substances in Countries with Economies in Transition²⁷ and highlighted in the GEF *Overall Performance Study OPS4* reveals a very positive experience with public-private collaboration (see Box 4). The engagement is all the more striking given many companies in these transition economies had only recently moved from State to privately operated enterprises. The country reports²⁸ published by the GEF Evaluation Office reveal that private sector commitment to ODS phase-out was a *critical driver for the success of the GEF investments in countries with economies in transition*. The impact evaluation goes on to state that the ODS portfolio has been *characterized by strong private-sector involvement from the early stages of project design through implementation*. In a revealing comment about the GEF's achievements in ODS phase-out in the Czech Republic, it was noted that the strength of the project lay not so much in building ODS-free solutions that were developed for each enterprise, but rather in *building the capacity of enterprises to develop their own solutions for the future*²⁹. Importantly, the evaluation stated *that legislative and policy changes supporting ODS phase-out (to restrict import and export, ban, mandate recovery and recycling of ODS, and ensure training of technicians in the refrigeration sector) played a critical role in providing relevant signals to the private sector and individual consumers to move into more environmentally friendly alternative chemicals and technologies*.

Conclusion 4: Instances of private sector engagement do not match expected prevalence across Focal Areas which all clearly identify a role for the private sector.

49. The assembled body of evaluation suggests that more attention is directed to private sector engagement in the Climate Change, Biodiversity and the Chemicals focal areas. While all focal areas have consistently identified the private sector in their focal area strategies (GEF-3³⁰, GEF-4³¹), it was considerably easier to locate examples of engagement from the biodiversity, climate change and ozone layer depletion focal areas than it was to find project examples for International Waters, Land Degradation or POPs.

50. A review of the *GEF-5 Focal Area Strategies*³² reveals that private sector engagement is again mentioned explicitly in all of the focal areas (see Box 5). However, the situation may not change with project-level instances of private sector engagement more difficult to retrieve within some focal areas compared to others, unless a deliberate attempt is made to highlight such projects.

²⁷ GEF-EO. GEF Impact Evaluation of the Phase-Out of Ozone-Depleting Substances in Countries with Economies in Transition. Volume One: Theory of Change. *Impact Evaluation Information Document No. 17*. October 2009.

²⁸ GEF-EO. GEF Impact Evaluation of the Phase-Out of Ozone-Depleting Substances in Countries with Economies in Transition. Volume Two: Country Reports. *Impact Evaluation Information Document No. 18*. October 2009.

²⁹ GEF-EO. GEF Impact Evaluation of the Phase-Out of Ozone-Depleting Substances in Countries with Economies in Transition, Volume Two: Country Reports. *Impact Evaluation Information Document No. 18*, October 2009.

³⁰ GEF-3 Operational Programs for Biodiversity, Climate Change, International Waters, Persistent Organic Pollutants and Land Degradation, www.thegef.org/gef/gef3_operational_programs

³¹ Focal Area Strategies and Strategic Programming for GEF-4. GEF/C.31/10/Revised. July 2007.

³² GEF-5 Focal Area Strategies. GEF/R.5/Inf.21. November 2, 2009.

Conclusion 5: GEF's efforts to engage with the private sector were hampered by the introduction of the Resource Allocation Framework (RAF).

51. According to the GEF-EO's *Midterm Review of the Resource Allocation Framework*³³, the GEF's ability to engage the private sector diminished during GEF-4 as a result of a new resource allocation system (the RAF) being put in place. The new system led to a more active involvement of government agencies and as a result a lower engagement with the private sector. With an allocation system like the RAF a strong engagement with for-profit companies needs to be incorporated in national strategies and priorities, following guidance from the conventions. Three specific conclusions of the evaluation were:

- In the implementation phase of projects, NGOs and the private sector appear to be less engaged than they were before the RAF, perhaps in large part because of the more predominant role played by national governments in portfolio planning.
- The RAF has significantly affected the GEF Agencies, with mixed but mainly negative results. Among the influences it has exerted, the RAF has strengthened the government role in pipeline development, which has changed demand for certain types of projects and affected those Agencies traditionally working with the private sector or NGOs (such as IFC).
- The biggest cost of the transition to the RAF has been the opportunity costs of delays in grants; the slow utilization of resources, partially a result of the RAF's institution, has serious implications for effectiveness.

52. It remains to be seen whether the resource allocation system chosen by the GEF Secretariat for use in GEF-5 (the System for Transparent Allocation of Resources or STAR) will improve efforts to secure private sector involvement. Given the findings of this review regarding the importance of an enabling environment for facilitating the GEF's efforts to engage the private sector, there may be a rationale, especially in countries where the lack of an enabling environment is an issue for GEF-supported investments, for GEF to encourage country focal points to fund enabling activities which will strengthen legal, regulatory and policy frameworks of relevance to GEF-financed projects.

53. The GEF's own *modus operandi* is another area in which improvements are needed for the private sector to become more easily engaged. Many of the reviewed GEF Country Portfolio Evaluations (for example, Annex 4 #39, p.6) indicate that the majority of stakeholders expressed negative views of the GEF Activity Cycle, in terms of lengthy periods taken for processing, associated high transaction costs (both financial and human), and lack of information and clarity relating to delays.

³³ GEF-5 Focal Area Strategies. GEF/R.5/Inf.21. November 2, 2009, pp. 95, 97, 126.

4. Recommendations

54. Assuming that the GEF will continue to support engagement with the private sector, the conclusions of this evaluation lead to the following recommendations for future support:
- A. GEF approaches to private-sector engagement, while informed by accumulated experience, should be tailored to both GEF's objectives for involving the private sector and the specific country circumstances.
 - B. In countries where the lack of an enabling environment is an issue for GEF-supported engagements with the private sector, the GEF and the country concerned should focus on enabling activities which will strengthen legal, regulatory and policy frameworks of relevance to such engagement.
 - C. GEF interventions with the private sector – broadly defined and interpreted – should be encouraged not just in the next phase of the GEF Earth Fund but throughout the entire GEF portfolio, where appropriate.
 - D. GEF evaluations can more systematically gather evidence on private sector engagement if this would be a standard evaluation question included in terminal and higher level evaluations.
 - E. GEF staff should be encouraged to better understand the motivations of private-sector entities wishing to be involved with the GEF, especially on risk mitigation, market transformation, and recognition/sponsorship, and that – if they are not already planned and underway – appropriate modifications be considered to the GEF Activity Cycle to make it easier to engage the private sector.

Annex 1: Examples of the GEF's Experience with Different Types of Private Sector Entities and Engagement Strategies

Business Format	Example(s), Project, Country(ies)	Direct Engagement Strategy	Information Source(s)
Micro-enterprises	An individual or individuals who pursue a livelihood which has relevance to a GEF-supported project. In the UNDP Coastal Zones Project , this could be a turtle egg-digger who conducts his activity to sell to a local restaurant and/or for subsistence.	Outreach, consultation and participation – if possible leading to a Public-Private alliance which might share management of the wildlife refuge	Final Evaluation of Project: Biodiversity Conservation in the Tropical Dry Forest and South Pacific Coastal Marine Zone of Nicaragua: Building Public-Private Alliances. UNDP. Final report, June 2010.
Public-Private Partnerships (PPPs)	Water Funds (not formal PPPs but some elements present); key players in EF platform “ IADB/TNC Water Funds ”; Latin America and the Caribbean	Multiple platform implementation responsibilities; entities in receipt of private sector co-financing	Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms. September 14, 2010.
Public-Private Partnerships (PPPs)	Conservation Agreements (not formal PPPs but some elements present); key players in EF platform “ WB/CI Conservation Agreements ”; locations not known	Multiple platform implementation responsibilities	Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms. September 14, 2010.
Public-Private alliances	Proposed public-private co-management entity (Friends of Chacocente); UNDP Coastal Zones Project ; Nicaragua	Consultation, capacity building, support for alternative income generation activities	Final Evaluation of Project: Biodiversity Conservation in the Tropical Dry Forest and South Pacific Coastal Marine Zone of Nicaragua: Building Public-Private Alliances. UNDP. Final report, June 2010.
Cooperatives and Other Joint Ownership Enterprises	Participatory co-management model: Villagers' Associations for the Management of Wildlife Reserves (AVIGREFs); UNEP Building Scientific and Technical Capacity – West African Biosphere Reserves Regional Project ; Benin	Consultation, capacity building, support for alternative income generation activities	GEF Country Portfolio Evaluations: Benin (1991-2007) , Evaluation Report No. 41. October 2008

Business Format	Example(s), Project, Country(ies)	Direct Engagement Strategy	Information Source(s)
Multinational Corporations (MNCs)	Mars, Kraft; key private sector partners in EF platform "UNEP/RA Greening the Cocoa Industry"; Côte d'Ivoire, Ghana, Papua New Guinea, Madagascar, Indonesia, Nigeria	Key private sector partners contributing co-financing and undertaking multiple platform implementation responsibilities; planned use of Payment for Ecosystem services methodology	GEF-EO Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms. September 14, 2010.
Multinational Corporations (MNCs)	OSRAM, Philips; key private sector partners in EF platform "UNEP Global Market Transformation for Efficient Lighting"; developing countries	Key private sector partners contributing significant in-kind co-financing, providing policy and technical information and networks, and undertaking multiple platform implementation responsibilities	GEF-EO Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms. September 14, 2010.
Large National Companies	Predominantly large private-sector companies; involved from the earliest stages of project design in WB and UNDP/UNEP initiatives to phase out Ozone Depleting Substances (ODS); countries with economies in transition	Targeted sub-project investments with the private sector (which provided co-finance) were efficiently executed and contributed to the rapid phase-out of ODS and implementation of alternative technologies and chemicals (see Box 4)	GEF Annual Report on Impact 2009. GEF/ME/C.36/2. October 2009
Large National Companies	Local private companies; players in EF platform "IADB/TNC Water Funds"; Latin America and the Caribbean	The platform is to engage local private companies in protecting watersheds by enabling them to invest in providers of water services; the Payments for Environmental Services (PES) mechanism will be used	GEF-EO Review of the Global Environment Facility Earth Fund. Full Report. GEF/ME/C.39/Inf.1. October 26, 2010
Financial institutions	Local financial institutions; players in EF platform "WB/CI Conservation Agreements"; locations not known	The platform is to engage local financial institutions through various lending and TA mechanisms supported by CI's Verde Ventures Fund	GEF-EO Review of the Global Environment Facility Earth Fund. Full Report. GEF/ME/C.39/Inf.1. October 26, 2010
Small and Medium Enterprises (SMEs)*	Community enterprises; key players in EF platform "WB/CI Conservation Agreements"; locations not known	The platform is to engage community enterprises to streamline product sourcing agreements between companies and communities	GEF-EO Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms. September 14, 2010.

Annex 2: Evidence of Relationships or Roles played by the Private Sector in Small Grants Program (SGP) Country Programs

<i>Relationships/Role Played by the Private Sector</i>	<i>Examples of SGP Country Programs/Projects</i>	<i>References</i>
1. SGP efforts to cultivate relationships with the private sector contributed to numerous institutional reforms and policy changes in the recipient countries to address global environmental issues	Mexico Organic Honey in Yucatan, Mexico	GEF Country Portfolio Evaluations: Benin (1991-2007) , Evaluation Report No. 41. October 2008, Box 4.2
2. Business interests can play a role in the replication and scaling up of SGP initiatives in order to achieve global benefits	Ghana assistance for women's groups with new technologies to produce shea butter soap for the Japanese market	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Ghana . June 2007, p.48
3. SGP efforts toward securing global environmental benefits while also addressing the livelihood needs of local populations	Mt Kenya Community Management of Protected Areas Conservation (COMPACT) project; Agrobiodiversity in Wandzin project and Project Clean in Krzywowski, Poland	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Kenya , Box 3.1 and GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme . Evaluation Report No. 39, June 2008, Box 4.4; GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Poland , Boxes 4.5 and 4.6
4. SGP efforts to form relationships with the private sector that contribute in-kind or financial resources (i.e., co-financing)	Pakistan one-year partnership with British Petroleum; Partnerships in Environmental Management in the Seas of South East Asia (PEMSEA) project	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Pakistan . June 2007, pp. 44, 49; GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme . Evaluation Report No. 39, June 2008, pp. 38, 80
5. SGP efforts to form relationships with the private sector that bring a business perspective onto the National Steering Committee	Belize composition of the National Steering Committee during 1993-2004	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Belize . June 2007, p.18
6. Although NGOs and CBOs are the primary beneficiaries of SGP grants, business interests (such as cooperatives or industry associations) may also be recipients	Industry association primary partner in the Egypt Energy Conservation for Mitigating Climate Change project; cooperatives feature in four of the sampled Belize projects	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Egypt . June 2007, p.21; GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Belize . June 2007, p.47
7. For older SGP country programs which are facing graduation, a private-sector perspective may be necessary for the program to successfully navigate into an era of post-SGP funding	Turkey SGP Country Program	GEF-EO/UNDP-EO. Joint Evaluation of the GEF Small Grants Programme Country Program Case Study Turkey . June 2007, p.40

Annex 3: Rationales for GEF Involvement with the Private Sector and Examples

<i>Rationale</i>	<i>Comment/Example</i>	<i>Information Source</i>
Replication of a GEF-funded experience	Once environmental actions were seen to have positive competitive benefits, replication was propelled by the private sector in the UNDP/UNIDO Energy Conservation and GHG Emissions Reduction in Chinese Township and Village Enterprises project. Beyond the eight pilot TVEs, replication was intended at 118 other enterprises. This was achieved in addition to an estimated 500 self-replications in China as well as unconfirmed self-replications in Bangladesh, India, Pakistan and USA.	GEF-EO. The Catalytic Role of the GEF – Case Study: Energy Conservation and GHG Emissions Reductions in Chinese Township and Village Enterprises in China . OPS4 Technical Document #3, prepared by National Centre for Science and Technology Evaluation, People’s Republic of China, June 2009. UNDP/UNIDO. Energy Conservation and GHG Emissions Reductions in Chinese Township and Village Enterprises – Phase II Final Independent Evaluation . June 2007
Sustainability of global environmental benefits	Positive results of GEF assistance in Phase-out of Ozone Depleting Substances in Economies in Transition WB/UNDP/UNEP projects were due in part to strong private-sector involvement from the early stages of project design. Continuing private-sector participation will be needed to recover and recycle HCFCs and increase the market penetration of non-ODS alternatives in refrigeration, and to invest in destruction facilities or other options for safe and cost-effective disposal of ODS.	GEF Annual Report on Impact 2009 . GEF/ME/C.36/2. October 2009; GEF Impact Evaluation of the Phaseout of Ozone-Depleting Substances in Countries with Economies in Transition, Volume 1: Theory of Change . Evaluation Report No. 56. September 2010.
Leveraging human, technological and financial resources	The IFC China Utility Energy Efficiency (CHUEE) program was designed to stimulate energy investments through guarantees directed to EE portfolios, and advisory services directed to FIs and market players such as utilities, equipment vendors and ESCOs. CHUEE has been exceptionally successful in enabling the rapid scale-up of sustainable energy investments and securing leverage of donor funds (see Box 2). Significant co-financing from the private sector can also occur in small projects, as indicated in the SGP Country Program in Belize evaluation (see Table 2).	United Nations. Report of the Secretary-General’s High-Level Advisory Group on Climate Change Financing (AGF) ; United Nations. Work Stream 7 Paper: Public Interventions to Stimulate Private Investment in Adaptation and Mitigation . Secretary-General’s High-Level Advisory Group on Climate Change Financing (AGF); GEF Small Grants Programme Country Program Case Study Egypt . June 2007
Influence on policy and regulation	In the UNEP Global Market Transformation for Efficient Lighting platform, two key private sector partners, OSRAM and Philips, are contributing significant in-kind co-financing, and providing policy and technical information and networks. The platform managers have focused on setting up a global network of expertise, launching a website, preparing a side event for COP16, and establishing task forces (with representatives of governments, private sector, civil society, and technical and academic organizations). It is anticipated one of the task forces will be on policy, regulation and voluntary initiatives.	GEF-EO. 2010c. Review of the Global Environment Facility Earth Fund Annex I: Descriptions of the Earth Fund Platforms . September 14, 2010; www.enlighten-initiative.org/

<i>Rationale</i>	<i>Comment/Example</i>	<i>Information Source</i>
Development and dissemination of technological solutions to environmental problems	Partnerships can be crucial in delivering programs or projects, especially where the private sector entity brings institutional knowledge and technical resources. The UNEP Development of a Strategic Market Intervention Approach for Grid Connected Solar Energy Technologies (EMPower Phase II) Project relies heavily on its partnering with utilities and IPPs in pushing ahead development of concentrated solar power (CSP) and photovoltaic (PV) projects.	www.empower-ph2.com/
Acceleration of research and development ³⁴	The IADB acknowledged that the GEF's grant was extremely important during early stage work of the Clean Technology Fund ; the GEF grant enabled the promoters to conduct in-depth analysis of companies/technology/risks, prepare a very strong financial plan and business plan and perform in-depth environmental assessment. GEF funding was likely instrumental in IFC efforts to work more directly with private companies on a range of energy initiatives. Several of these technologies – such as a 1 MW grid-connected solar cell project successfully implemented by a utility in the Philippines – were smaller-scale and more consistent with private, competitive deployment.	IADB. GEF Annual Monitoring Review 2009: Agency Overview Report . November 13, 2009. Miller, Alan. The Global Environment Facility Program to Commercialize New Energy Technologies . <u>Energy for Sustainable Development</u> , v. XI, No. 1, pp. 5-12.
Project-supported means of generating revenue or securing income which are helpful to achievement of project outcomes	Several GEF-funded projects in the Biodiversity focal area feature creation of alternative income generation opportunities. Two UNDP projects in Samoa (the Marine Biodiversity Protection and Management project and the South Pacific Biodiversity Conservation programme) met their objectives by establishing four community-managed protected areas in Samoa and focusing attention on ecotourism opportunities.	GEF-EO. GEF Country Portfolio Evaluations: Samoa (1992-2007) , Evaluation Report No. 37. March 2008.
Public awareness raising and participation	The Cartagena Protocol on Biodiversity (CPD) requires the parties to cooperate in the development and/or strengthening of human resources and institutional capacities in biosafety, including through facilitating private sector involvement. Active participation by the biotechnology industry in projects such as the UNEP Development of National Biosafety Frameworks project was a factor in the progress made in 142 countries towards increasing public confidence in the safety of proposed introductions of living modified organisms (LMOs).	GEF-EO. Evaluation of GEF Support for Biosafety . Full Report, Rev.2, January 2006.

³⁴ More appropriate wording would be “seed money to finance innovative and entrepreneurial efforts and technologies for which there is not yet a market base” (Annex 4, #30, p.9).

ANNEX 4: INFORMATION BOXES

Box 1: The IFC Earth Fund, a Platform for Private Sector Engagement

The IFC Earth Fund platform, first discussed in 1999 and approved in 2008, was capitalized at \$40 million with \$30 million from the GEF and \$10 million from IFC. Its objectives are: (i) to deploy GEF funds as concessional finance to support market transformative initiatives through the testing or scaling up of technologies, business models or financial mechanisms in Climate Change and Biodiversity; and (ii) to support through advisory services efforts targeted at removing barriers that impede wide private-sector adoption or participation.

The IFC Earth Fund is managed by the Financial Mechanisms for Sustainability Unit (FinMech), which is separate and independent from IFC's mainstream investment arm. The pipeline of projects eligible for funding from the IFC Earth Fund is generated from IFC Investment and Advisory staff, and are from IFC's own regional and global programs.

The demand for funding from the IFC Earth Fund is strong and continues to grow, especially in countries where other funds are not available or applicable. The delegated platform model has been extremely effective in deploying GEF funding faster and more efficiently. The quicker, more agile, project approval process has been a better fit with IFC's business processes and project cycle, and it has considerably improved IFC's ability to engage and support private sector projects for financing and technical assistance in the Climate Change and Biodiversity focal areas. (IFC Earth Fund 2010 Report in Partnership with the Global Environment Facility. October 2010, pp. 4-6, 10)

Box 2: China Utility Energy Efficiency Program (CHUEE) – Example of Rapid Scale-up and in Leveraging GEF Resources

The China Utility Energy Efficiency Program (CHUEE), administered by the IFC and partially supported by the GEF Trust Fund, is an exceptionally successful program in enabling the rapid scale up of sustainable energy investments. Started in 2006, the program was designed to stimulate energy investments through guarantees directed to energy efficiency portfolios, and advisory services directed to financial institutions and market players such as utilities, equipment vendors and energy service companies (ESCOs). Both the guarantees and advisory services relied on support from donors in the form of risk capital and GEF grants.

The program has exceeded its original loan volume target and exceeded initial GHG reduction targets, while improving access to financing for Chinese SMEs and promoting new lending practices more favourable to energy efficiency projects than conventional, asset-based lending. Program utilization has been rapid when compared to the experience of similar programs. Financing of sustainable energy projects mainly occurred in the steel, chemical, and cement industries. In addition to scale, the CHUEE leverage of donor funds is over 100 times. About \$4 million of donor grants and risk capital have realized more than US\$500 million in investments through local financial institutions.

Box 3: Biodiversity Conservation in Nicaragua: GEF-Supported Actions to Encourage Alternative Livelihoods Jeopardized by a Weak Legal and Regulatory Framework

The GEF-supported UNDP project “Biodiversity Conservation in the Tropical Dry Forest and South Pacific Coastal Marine Zone of Nicaragua: Building Public-Private Alliances” operated between 2005 and 2010. The project was executed by the NGO Fauna and Flora International (FFI) and the project counterpart was the Ministry of the Environment and Natural Resources (MARENA). The objective was to contribute to conservation and sustainable use of the tropical dry forest and coastal marine eco-systems in the Chacocente Wildlife Refuge in southeast Nicaragua. The area is of global importance because it contains one of the few remnants of an eco-region that once stretched intact from Mexico to Panama, and because the area’s beaches are nesting areas for endangered turtle species.

A principal element of the project design was implementation of a model of Public-Private Alliance for shared management of the refuge by local stakeholders. It was intended that the new shared management model would encourage local residents to shift to livelihoods that are conducive to biodiversity conservation in the refuge. The process which was followed was centered on consultation about the project and participation in a dialogue about the refuge by property owners, community groups, local NGOs, municipal governments and other government agencies.

According to the final evaluation, the most striking achievement of the project was the slow but steady change in the attitude of residents and immediate neighbours towards the refuge and, in particular, the identification and development of the organizations and capacities of five community groups: the beekeeping cooperative, the tourist services cooperative, the knitting group, the turtle nursery group and the community park rangers. The main weakness of the project was the lack of careful thought about the role of the state, especially the lack of commitment within the government and MARENA to ensure effective application of existing legal instruments pertaining to conservation in protected areas. In the first two years there was a lack of compliance by the state with its commitment to provide the physical and financial resources required for monitoring, control and daily operation of the refuge. Then there were difficulties in creating and legalizing the new co-management entity, the Friends of Chacocente. Subsequently, MARENA communicated its decision that it would not turn over the management of the refuge to a new co-management organization.

The evaluation contains very detailed recommendations regarding future actions to be taken with respect to community participation, local economic development (including tourism), and municipal strengthening. It points out that a growing number of inhabitants in the area visualize tourism as the main engine for their economic future. They perceive the arrival of tourists is beginning to create a local market for agriculture, fishing, handicrafts and various services, and, as a result, that the sale of goods and services in this market is destined to replace subsistence agriculture and the exploitation of turtle eggs as the surest way to survive.

Box 4: GEF Assistance for the Phase-out of Ozone Depleting Substances, a Positive Experience of Engagement with the Private Sector

An impact evaluation of GEF-funded work by the WB and UNDP-UNEP in the Ozone Layer Depletion (OLD) focal area reveals a very positive experience with public-private collaboration. The work relates to initiatives aimed at phasing out ODS in Economies in Transition (CEITs), specifically the Russian Federation, Ukraine, Kazakhstan and Uzbekistan. The evidence is presented in two volumes of information: *GEF Impact Evaluation of the Phase-Out of Ozone-Depleting Substances in Countries with Economies in Transition. Volume One: Theory of Change and Volume Two: Country Reports*; and highlighted in the *GEF Overall Performance Study OPS4*.

The strategic objective of the GEF's emphasis on Ozone Depleting Substances (ODS) is to protect human health and the environment by assisting countries in phasing out the consumption and production, and in preventing releases of, ODS while enabling alternative technologies and practices according to countries' commitments under the Montreal Protocol. The GEF provides support to developed countries of the Montreal Protocol, specifically CEITs that are not eligible for funding under the Protocol's Multilateral Fund which targets only developing countries.

A crucial conclusion of the impact evaluation was that private-sector commitment to ODS phase-out was a critical driver for the success of the GEF investments in countries with economies in transition. The evaluation found the GEF ODS portfolio has been characterized by strong private-sector involvement from the early stages of project design through implementation. Instances arose in which selected companies took on the role of informing other companies (including competitors) of technological advances and even sharing laboratory facilities and guidance materials. Targeted sub-project investments with the private sector (which provided co-finance) were efficiently executed and contributed to the rapid phase-out of ODS and implementation of alternative technologies and chemicals. Moreover, legislative and policy changes supporting ODS phase-out (to restrict import and export, ban, mandate recovery and recycling of ODS, and ensure training of technicians in the refrigeration sector) played a critical role in providing relevant signals to the private sector and individual consumers to move into more environmentally friendly alternative chemicals and technologies.

The evaluation recommended that the GEF Secretariat should incorporate lessons from the positive private sector engagement in this focal area into its efforts to engage the private sector in other focal areas. Specific lessons from the ODS phase-out experience which could be relevant to other focal areas are:

- Undertake a viability test
- Focus on a wide range of firms – small, medium and large enterprises from start-ups to established firms with a track record for product innovation and profitability
- Target a few specific sectors for green business investments
- Keep bureaucratic procedures to a minimum
- Identify champions who have innovative product ideas, technical and political skills
- Invest in countries which have government policies which actively support green business.

Box 5: GEF-5 Focal Area Strategies and the Private Sector, a Framework for the Next Four Years

The Biodiversity Strategy, Objective One (Improve Sustainability of Protected Area Systems) notes that restricted government budgets in many countries have reduced the financial support for protected area management and the GEF has a responsibility to increase financing of protected area systems. The strategy states that GEF-supported interventions will use tools and revenue mechanisms that are responsive to specific country situations and draw on accepted good practices developed by GEF and others. GEF will also encourage national policy reform and incentives to engage the private sector and other stakeholders to improve protected area financial sustainability: Objective Two (Mainstream Biodiversity Conservation and Sustainable Use into Production Landscapes/Seascapes and Sectors) includes an element geared to strengthen capacities to produce biodiversity-friendly goods and services. In this connection, GEF will help remove the barriers to enhancing, scaling up, replicating, and extending environmental certification systems in productive landscapes and seascapes. Environmental certification systems exploit the willingness of the market to pay a premium for goods and services whose production, distribution and consumption meets an environmental standard.

The Climate Change Strategy, Objective 2 (Promote Market Transformation for Energy Efficiency in Industry and the Building Sector) envisages building on earlier achievements to enhance and expand investments in energy efficiency in industry and the building sector. GEF support will be directed toward developing and enforcing strong policies, norms and regulations favouring energy savings and GHG emissions reduction. In the industrial sector, emphasis will be placed on promoting energy efficient technologies and practices in industrial production and manufacturing processes especially in SMEs. In the building sector, GEF support will cover residential, commercial, and public buildings, and include both new buildings and retrofitting of existing buildings.

Objective 3 (Promote Investment in Renewable Energy Technologies) recognizes that even with favourable policies on renewable energy, many countries still face higher cost of initial investment and other risks associated with renewable energy, while the private sector and financial institutions sometimes are reluctant to invest in small projects or decentralized technologies. In GEF-5, GEF support will promote investment in renewable energy technologies, including in the relatively small, poor developing countries and the least developed countries, where both private and public capital is scarce and access to modern energy services is slow.

Objective 4 (Promote Energy Efficient, Low-Carbon Transport and Urban Systems) envisages GEF support involving technical assistance in transport and urban planning, development of innovative financing mechanisms, awareness campaigns, and investments in high-performance technologies.

The International Waters Strategy contains oblique references to private sector involvement under Objective 2 (Catalyze Multi-State Cooperation to Rebuild Marine Fisheries and Reduce Pollution of Coasts and Large Marine Ecosystems) and Objective 3 (Support Foundational Capacity Building, Portfolio Learning and Targeted Research Needs for Ecosystem-Based, Joint Management of Trans-boundary Water Systems). In each instance there is mention of related platforms proposed to the GEF Earth Fund.

Land Degradation Strategy, Objective 2 (Generate sustainable flows of forest ecosystem services in arid, semi-arid and sub-humid zones, including sustaining livelihoods of forest-dependent people) seeks to use private sector, community-based organizations and media mechanisms to scale up and out good practices.

Chemicals Strategy, Objective 1 (Phase out POPs and reduce POPs releases) seeks to receive support, based on country priorities, and in collaboration with the work of GEF and other international Agencies, from the private sector, and nongovernmental organizations, as appropriate.

Annex 5: List of Documents Consulted

GEF Evaluation Office – Overall Performance Studies and Related Documents

1. OPS3 Progressing Toward Environmental Results – Third Overall Performance Study of the GEF. Executive Version, June 2005, 83 pp.
2. The Catalytic Role of the GEF – Case Study: The Slovenia EBRD/GEF Environmental Credit Facility. OPS4 Technical Document #4, prepared by Marie-Karin Godbout, Le Groupe-Conseil Baastel Ltée, January 2009, 9 pp.
3. The Catalytic Role of the GEF – Case Study: Energy Conservation and GHG Emissions Reductions in Chinese Township and Village Enterprises in China. OPS4 Technical Document #3, prepared by National Centre for Science and Technology Evaluation, People’s Republic of China, June 2009, 54 pp.
4. OPS4 Technical Document #2: Future Needs in Ozone Layer Protection. Prepared by Touchdown Consulting, August 2009, 55 pp.
5. OPS4 Progress toward Impact – Fourth Overall Performance Study of the GEF. Full Report, April 2010, 242 pp.

GEF Evaluation Office Evaluation Reports – Earth Fund Review

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Annex 6. List of Persons Interviewed

1. Ramesh Ramankutty and David Rodgers (Global Environment Facility Secretariat)
2. Kristin Mclaughlin (United Nations Environment Programme)
3. Bob Dixon (Global Environment Facility Secretariat)
4. Stacy Swann and Joyita Mukherjee (International Finance Corporation)
5. Edu Hassing (United Nations Environment Programme)
6. Gustavo Fonseca (Global Environment Facility Secretariat)
7. Siv Tokle (The World Bank)
8. Alan Miller (International Finance Corporation)
9. Anna Vighh (Global Environment Facility Evaluation Office)
10. Rogerio Ramos, Carolina Jaramillo and Lu Shen (Inter-American Development Bank)
11. Edward Millard (Rainforest Alliance)
12. Zhihong Zhang (Climate Investment Funds, former GEF Staff Person)
13. Russell Sturm (International Finance Corporation)