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**ACTIONS TAKEN TO ENHANCE  
PRIVATE SECTOR ENGAGEMENT**

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## **INTRODUCTION**

1. Building on its achievements and experience to date, the GEF is aiming to enhance and expand its engagement with the private sector in the GEF-6 period.
2. Since its establishment, the GEF has engaged with the private sector, driven by the underlying idea that in order to have long-term and substantive impact on the global environment, private enterprises—the dominant driver of economic activity—must be encouraged to pursue commercially viable activities that also generate global environmental benefits.
3. With the private sector so central to the entire economic sphere, it can be highly impactful to apply limited public sector resources to facilitate and redirect private sector activities towards environmentally sustainable approaches. Indeed, many segments of the private sector are already reacting to the drivers of population growth, rising middle class, and increasing urbanization, recognizing that business as usual approaches are not sustainable.
4. GEF’s experience to date indicates that one important tool to promote private sector engagement is non-grant instruments, which have proven useful for promoting replication, scale, and contributing to market transformation. The use of non-grant instruments is not an end goal, but one of the means for achieving GEF’s objectives for greater private sector engagement.
5. Over time, the application of non-grant instruments has resulted in some notable public private partnerships. For example, in GEF-5 under the private sector set-aside the GEF Council approved five innovative programs with \$70 million of GEF financing and \$900 million in co-financing, addressing climate change, bio-diversity, and land degradation focal areas. Each of these investments has a potential to generate returns that will reflow to the GEF Trust Fund.
6. This document summarizes some of the recent actions taken to lay the foundation for expanded private sector engagement in GEF-6. The document starts with background information on how GEF’s influencing models have been and can be used to help promote private sector engagement. Then the document describes how private sector engagement in GEF-6 is being pursued along three dimensions: (a) Mainstreaming, (b) Integrated Approach Pilots (IAPs), and (c) the Non-grant Pilot.
7. Expanding private sector engagement in GEF-6 will take effort and commitment from the entire GEF partnership to seek involvement of private sector stakeholders at all stages of project concept, design, and implementation. Our goal is not just a few more projects with a few more private sector partners—but instead to catalyze a long-term transformation towards sustainable and environmentally sound business models.

## **BACKGROUND – HOW GEF APPROACHES PRIVATE SECTOR ENGAGEMENT**

### **Using GEF’s Influencing Models to Promote Private Sector Engagement**

8. Bringing private sector engagement to the mainstream across all the focal areas and initiatives of the GEF is a matter of doing what the GEF has experience with and is now looking to expand and scale up. With a strong focus on the five influencing models identified in the GEF 2020 Strategic Plan, the GEF is exploring how these models can be effective in addressing

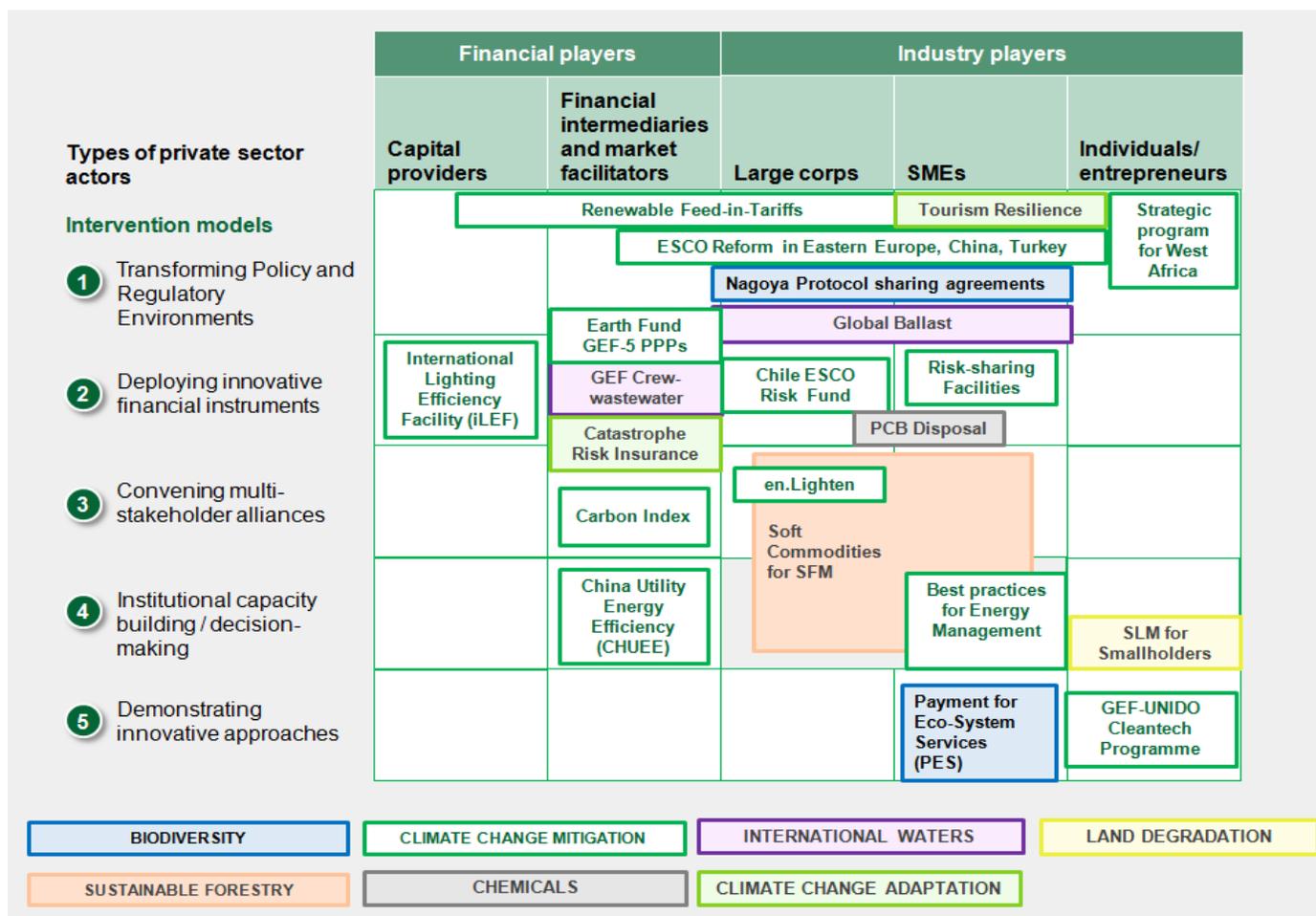
barriers to private sector engagement and strengthen such engagement. Looking forward, we aim to build on past experience and share the lessons learned more fully across the Secretariat, the Agencies, and the Countries.

### **Application of GEF Influencing Models across Categories of Private Sector Actors**

9. Selected GEF experience with influencing models and private sector engagement is illustrated in Figure 1. Robust project design often uses multiple influencing models to address market and non-market barriers and engage private sector partners. The figure also shows how different categories of actors in the private sector can become partners in a GEF project, which can help maximize global environmental benefits. The categories often used to help target GEF private sector engagement, as shown in the figure, are as follows:

- (a) Capital providers (e.g., pension funds, venture capital firms)
- (b) Financial intermediaries and facilitators (e.g., investment banks, commercial banks, financial advisory services)
- (c) Industry players – large corporations (e.g., large retail, manufacturing companies, project developers)
- (d) Industry players – SMEs (e.g., full time staff below 250 or less depending on the country)
- (e) Industry players – individuals/ entrepreneurs (e.g., small start-ups with full time staff below 10)

**Figure 1: Application of GEF Influencing Models for Private Sector Engagement**



10. Applying these influencing models has yielded numerous successful projects, while illustrating potential opportunities for future projects in GEF-6. Additional examples of GEF experience and opportunities for each influencing model are shown in Annex 1.

**PRIVATE SECTOR MAINSTREAMING**

**Fostering Private Sector Mainstreaming within GEF-6 Programming**

11. Mainstreaming opportunities within the programming strategies in GEF-6 will be underpinned by support at key points in the programming phase and project preparation across all focal areas. OPS-5, the evaluation of the GEF performance during the GEF-5 period, points to the need to ensure that the GEF’s engagement with the private sector needs to be dovetailed with efforts to increase country ownership, and notes that with an allocation system like STAR, a strong engagement with for-profit companies needs to be incorporated in national strategies and priorities, following guidance from the conventions. Against this background, in GEF-6 a special emphasis will be put on fostering enhanced awareness and better tracking and monitoring of private sector engagement.

## **Fostering enhanced awareness on private sector engagement and “private sector” friendly project design**

12. Further steps will be taken to encourage countries to take private sector engagement into account in their priority setting and portfolio identification for GEF-6. This will include for example, enhanced support for the Operational Focal Points, discussion of private sector issues at National Dialogues, Extended Constituency Workshops (ECWs), and as part of the National Portfolio Formulation Exercise (NPFE), and sharing of best practices and design principles across agency field networks. Furthermore, there will be a special effort to enhance awareness of private sector partners on working with the GEF. A “How-to Guide” will be developed for private sector audiences, building also upon the GEF Policy and related Guidelines on Public Involvement with various stakeholders, including the private sector.<sup>1</sup>

13. Agencies will be critical to the adoption of private sector friendly project designs in support of global environmental benefits, and in communicating the benefits of private sector engagement to the OFPs. In the attached list of proposed activities, Agencies’ roles will be one of the most important.

14. The following activities will be pursued:

- (a) Assist the private sector and CSOs work together within ECWs and in projects design. The GEF is uniquely positioned to help bridge gaps and improve links between the private sector and CSOs. At ECWs and Introduction seminars the GEF will work to improve understanding of the benefits for private sector and CSOs to work together. The GEF message will enhance country and CSO awareness of the potential global environmental benefits from private sector participation in GEF funded projects. Furthermore, there will be a special effort to enhance awareness of private sector partners on working with the GEF using the new “How-to Guide.”
  - (i) Pilot new private sector engagement at ECWs. February 2015-- December 2015.
  - (ii) “How-to guide.” December 2014
  - (iii) Pilot expanded private sector and CSO interactions at GEF Introduction seminar. January 2015.
- (b) Raise awareness amongst Operational Focal Points (OFPs) on private sector friendly project design. ECWs, NPFEs and National Dialogues will provide opportunities for the GEF to promote the integration of private sector engagement into project design principles in order to encourage countries to take private sector engagement into account in their priority setting and portfolio identification for GEF-6 in support of global environmental benefits. Working with the Agencies and in consultation with CSOs and private sector stakeholders, a set of best

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<sup>1</sup> See also Council Document GEF/C.47/Inf.06, *Guidelines for the Implementation of the Public Involvement Policy*.

practices guidelines will be developed for project designs that can help catalyze private sector engagement, including co-financing.

- (i) Piloting of best practices for private sector friendly project design. February 2015-December 2015.
- (c) “Financing 101” for OFPs and other Country representatives. In partnership with the Agencies, the Secretariat will document GEF-financed investments and interventions that can help unlock private sector financing across all the focal areas, such as non-grant instruments (debt instruments, risk mitigation products, and equity investments) and why they are particularly effective.
  - (i) Pilot “Financing 101.” October 2015-September 2016.

### **Improving monitoring and knowledge sharing on private sector success stories**

15. As noted in OPS-5, there is room to improve the GEF Project Management Information System (PMIS) and explore possibilities to systematically gather evidence on elements of GEF’s private sector engagement (although the risk of further increasing the reporting and monitoring burden in the GEF must be kept in mind). The following activities are proposed:

- (a) Improve monitoring. The Secretariat will identify options to enhance tracking of private sector engagement within PMIS without adding additional tracking requirements. The Secretariat will also coordinate with GEF Partner Agencies to identify opportunities to document private sector engagement within the existing Results Based Framework, as part of the efforts to enhance the Results-based Management (RBM) system at the GEF.<sup>2</sup> Input from the GEF Independent Evaluation Office (IEO) will be sought.
  - (i) Examine PMIS. June 2015
  - (ii) Coordinate with GEF Partner Agencies and IEO. June 2015.
- (b) Enhance stakeholders input. The Secretariat will strengthen engagement with leading NGOs, think-tanks, and other organizations, such as the World Bank Institute, Bloomberg New Energy Finance, Forest Trends’ Ecosystems Marketplace, World Business Council for Sustainable Development, World Economic Forum, and the World Resources Institute, etc., to regularly assess and report on current and potential private sector engagement in developing countries. Options for developing case studies will be explored.
  - (i) Coordination. On-going.
- (c) Document co-benefits. To support deeper understanding of the benefits of private sector engagement, the Secretariat will undertake a survey of the co-benefits arising from use of non-grant instruments and other forms of private sector engagement in GEF projects. This assessment would look at country-specific

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<sup>2</sup> See Council Document GEF/C.47/05, *Results-based Management: Action Plan*.

benefits, such as economic and social benefits, job growth, multiplier effect, and foreign investment.

(i) Draft co-benefits assessment. June 2016.

### **INTEGRATED APPROACH PILOTS (IAPs)**

16. The IAPs are intended to address the major drivers of environmental degradation that need to be arrested urgently. The IAPs are being designed and implemented through a joint platform involving key stakeholders upfront. The private sector is an indispensable part of each platform and is expected to play an important role in the design and implementation of the IAPs.

17. The IAP on Fostering Sustainability and Resilience for Food Security in Sub-Saharan Africa recognizes that jointly tackling energy, water, soils and food is essential for sustainable development and, therefore, will build on the nexus between these themes to promote greater impact and efficiency in the overall investments. The Sustainable Cities IAP offers a direct pathway to secure higher returns for the investment given that cities are now responsible for over 70% of carbon dioxide emissions globally. The IAP on Taking Deforestation out of Commodity Supply Chains will work with the private sector (producers), consumers and other stakeholders to tackle some of the principal drivers of forest loss in developing countries.

18. Common among these three themes is that they involve a need to address global environment issues more holistically, within a much broader and more complex set of development challenges. It is critical to establish or strengthen platforms upon which a broad set of stakeholders, including the private sector, can come together. GEF contributions to these challenges would seek to ensure that key global environment issues are adequately considered in this broader context, and to identify the most effective ways to use funds in innovative ways to reach a higher impact and scale. The GEF is conducting outreach to the private sector and other stakeholders during the on-going development of the IAPs.<sup>3</sup>

### **NON-GRANT PILOT**

19. During the GEF-6 replenishment negotiations, the importance of expanded engagement with the private sector and the use of non-grant instruments was emphasized; resulting in a set-aside of \$115 million for a Non-Grant Pilot Program (here referred as the Non-Grant Pilot) of which \$110 million will be implemented according to the approaches outlined by the new Non-Grant Pilot Policy, while \$5 million will be implemented under the *Sustainable Cities Integrated Approach Pilot*.

20. The objective of the GEF-6 Non-Grant Pilot is to expand the use of non-grant instruments for targeted investments by private sector and public sector recipients to promote global environmental benefits. The GEF-6 non-grant pilot is expected to be an important to enhance private sector engagement as it addresses one of the primary market barriers for private sector engagement—obtaining incremental financing and risk reduction—while promoting the minimum

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<sup>3</sup> Status reports on the IAPs will be presented in a separate document to the GEF Council.

level of concessionality. The Non-Grant Pilot also offers significant flexibility for innovation and is an excellent means to encourage agencies and private sector partners to propose new ideas.

21. Under the Non-Grant Pilot, the GEF will continue to demonstrate and validate the application of financial instruments for delivering global environmental benefits, entailing a diverse set of risk profiles and types of financing arrangements.

22. The Non-Grant Pilot is fully described in Council document GEF/C.47/06, *GEF-6 Non-Grant Pilot and Updated Policy for Non-Grant Instruments*. After approval by Council, the GEFSEC will launch at least two opportunities for the Agencies to submit projects/programs for work program inclusion under the Non-Grant Pilot, aiming for consideration of the first round by Council in the June 2015 Work Program; and the second round in the November 2015 Work Program.

## ANNEX: EXPERIENCE AND OPPORTUNITIES FOR THE INFLUENCING MODELS

1. This annex presents examples from GEF experience on the use of influencing models for promoting private sector engagement, along with potential opportunities for future projects based on lessons learned.

### Transforming Policy and Regulatory Environments

2. Experience: This model helps governments put in place the policies, regulations and institutions that can redirect their own investment paths and spending practices. It also gives individuals and companies operating at various levels—local, national, multinational—the signal or incentive to change their consumption and production choices. This model can more effectively be targeted at scales that deliver greater benefits for the global environment. Such signals/incentives need to be clear, predictable, and sustained over time in order to enable private sector actors to make optimal decisions. With support from the GEF and others, for example, the South African government put in place new policy and regulatory frameworks in their renewable energy market, which helped create enabling conditions to make South Africa the G20 country with the fastest clean energy market growth in the past five years. Other examples include the introduction of regulatory reforms to promote Energy Service Companies (ESCOs), establish protected areas, environmental legislation to develop strategic chemicals management, and many more.

3. Opportunities: There are numerous opportunities to support enabling policy environments across the focal area strategies, including the IAPs. For example, in *Sustainable Forest Management*, opportunities include the promotion of landscape restoration by addressing the lack of regulatory policy and enhancing awareness in partnership with all levels of industry. In Biodiversity, there are several opportunities including efforts to develop payment schemes for ecosystem services, including through water funds, which will rely on proper policy development and capacity building for private sector actors, and similar efforts in fostering the emergence of projects using the ABS framework. In Climate change, the GEF-6 strategies identify policies such as performance based mechanisms and innovative finance as key tools to create the proper enabling environment for private sector engagement.

### Deploying innovative financial instruments

4. Experience: Financial instruments can help cover risks or investment gaps that investors, who are generally focused on financial returns or private development benefits, would not have the incentive to cover, and in this way can help leverage private sector investments. Working with investors to identify the real and perceived risks and establishing risk sharing facilities has been one of the pioneering contributions of the GEF in many areas, for example, energy efficiency, renewable energy, and handling of PCBs for safe disposal. For example, with the project on China Utility Energy Efficiency (CHUEE), the GEF has provided funds to de-risk large volume IFC loan-guarantees to help unlock energy efficiency lending from commercial banks, resulting in replication of an effective energy efficiency lending model across the country. Another example is the GEF's support for the Caribbean Regional Fund for Wastewater Management (CRW), which creates revolving funding mechanisms to provide sustainable

financing. Non-grant instruments (debt instruments, risk mitigation products, and equity investments) have been particularly effective in such interventions.

5. Opportunities: In GEF-6, opportunities within the programing strategies include, for example, risk reduction for clean energy and smart grid applications in Climate Change Mitigation. There may also be opportunities for promoting incremental financing/risk reduction financing for adoption of sustainable land management principles in the Land Degradation focal area through for example revolving loans for small holders or crop insurance related to the introduction of new crops. The non-grant pilot will certainly provide the opportunity to apply financial mechanisms, but GEF Partner Agencies may also find opportunities in other projects as well.

### **Convening multi-stakeholder alliances**

6. Experience: Coordination failures abound in environmental management, in part because of the prevalence of “tragedy of the commons” issues. Moreover, the complexity of environmental challenges requires simultaneous actions to be taken by many different stakeholders in order to be effective, as in for example attempts to create sustainable commodity supply chains where efforts from local producers, buyers, manufacturers, wholesalers and retailers and, ultimately, consumers are needed. Partnerships with the private sector, civil society, research, and indigenous and local communities are vital in this regard. GEF-financed investments have worked with organizations and companies with global reach to encourage environmentally sustainable approaches in their buying practices, such as working with major coffee buyers to support efforts towards certified and sustainable coffee, or source-certified cocoa. GEF investments also worked with leading lighting manufacturers to launch the en.lighten initiative, helping develop and promote polices to phase out inefficient lighting and help countries transition to energy efficiency lighting, including CFLs and LEDs.

7. Opportunities: There is considerable room to expand such approaches in GEF-6. For example, in the Climate Change focal area, support for corporate alliances to promote energy efficient alliances may build on the en.lighten experience. Such interventions would also be supportive of the Sustainable Energy For All initiative. Corporate alliance also can be leveraged in the International Waters focal area, with such initiatives as working with the private sector to promote innovative, market-based approaches fostering good fishing practices and fishery management on Large Marine Ecosystems (LMEs) and Areas Beyond National Jurisdiction (ABNJ).

### **Strengthening institutional capacity and decision-making processes**

8. Experience: Supporting strengthened institutions, improved information, broader participation, and enhanced accountability in public and private decisions can have significant impacts on the environment. Capacity building for government and private sector often need to be combined to advance private sector engagement. For example, GEF Agencies regularly combine technical assistance on energy efficiency project design and selection, allowing the private sector partner to invest their own equity and access credit lines (or loans) for efficiency projects.

9. Opportunities: In the Chemical and Waste focal area opportunities exist to support the development of partnerships on green chemistry that can develop new products and processes that reduce harmful by-products and toxic waste-streams. In Land Degradation, opportunities exist to work with private sector partners to promote climate smart agriculture through capacity building for smallholders and SME.

### **Demonstrating innovative approaches**

10. Experience: The GEF has a long history of providing support for the demonstration of a technology, a policy measure or an approach to address environmental degradation, with the aim of creating a “beacon effect” that can spur broader adoption. Many other examples of support for innovation can be listed, including for example the GEF’s early support for concentrating solar power production, the groundbreaking support for Payment for Ecosystem Services, and more recently the GEF CleanTech Innovation Program. The ultimate success of such demonstration activities often depends on a clear strategy for up-scaling being designed as part of the project.

11. Opportunities: The list of potential innovative approaches for GEF-6 is growing larger than ever. For example in GEF-6 we can expand the use of information and communication technologies to foster climate smart agriculture and enhance resilience; expand the use of geographic information systems to enhance understanding of carbon stocks; and test the use of micro-finance and cell-phone based payment technologies to foster energy access.