



The private sector plays a vital role in the transition to sustainable development by providing solutions and financing to global environmental challenges.

The GEF plays an important role in unlocking private capital through its experiences with the private sector and appropriate instruments in the GEF toolbox. Altogether, the GEF's 383 private sector projects account for 9 percent of its overall portfolio, but receive 14 percent of all GEF grants and 18 percent of overall cofinancing from other parties.

KEY FINDINGS

1. The GEF engages with a wide variety of for-profit entities, ranging from multinational corporations; to large domestic firms and financial institutions; to micro, small, and medium-size enterprises and individuals.

2. Given that GEF projects are designed to address complex issues of environmental protection, **the majority of GEF private sector projects use a mix of influencing models**, helping to strengthen institutions or transform policy and regulatory environments.

3. GEF investments involving private sector engagement have higher cofinancing. Each GEF grant dollar for private sector projects leverages a competitive ratio of \$8 in cofinancing, with three of those dollars coming from private sector investments. The leverage ratio has increased since GEF-1.

4. Climate change projects feature heavily in the private sector portfolio. Two-thirds of the projects in this portfolio are in the climate change focal area, amounting to 63 percent of the GEF's total investment in private sector projects. In GEF-6, the chemicals and waste focal area was added, with 15 projects representing 24 percent of the private sector portfolio being implemented.

5. Private sector projects are evenly distributed in every inhabited continent, with slightly higher investments and project numbers in Asia (27 percent); Africa is second in terms of number of projects (23 percent).

PURPOSE AND METHODS: The purpose of this study is to provide insights, lessons, and recommendations to strengthen the Global Environment Facility's (GEF's) collaboration with the private sector in GEF-7. The study assesses evidence from portfolio analysis, terminal evaluations of completed projects, a demand-side survey with select private sector entities, benchmarking with comparator environmental finance providers, and interviews conducted with private sector and GEF stakeholders, as well as desktop research.

WEB PAGE: <http://www.gefio.org/evaluations/gef-engagement-private-sector>

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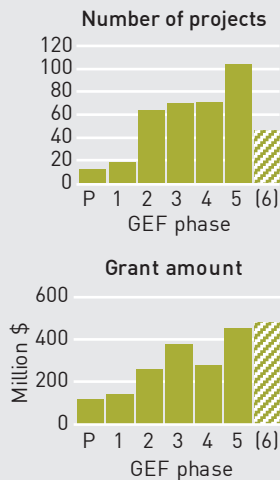
ABOUT US: The Independent Evaluation Office (IEO) of the GEF has a central role in ensuring the independent evaluation function within the GEF. www.gefio.org

PORTFOLIO HIGHLIGHTS

383
projects

\$2.1 billion
in grant funding

\$16.6 billion
in cofinancing



Project modality

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

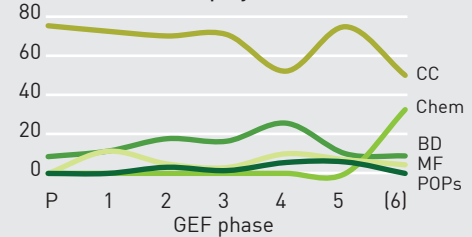
Top 4 Agencies

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

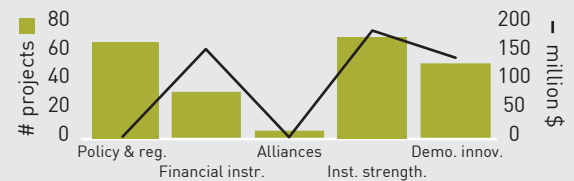
Regional distribution

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

Top 5 private sector focal areas (% of projects)



Project distribution by influencing model and GEF investment



6. Private sector projects address drivers of environmental degradation particularly by shifting the supply and demand of natural resources to sustainable sources.

BACKGROUND

GEF approaches to private sector engagement have evolved. The GEF Council approved a GEF strategy in 1996 that identified the “removal of market, information and other barriers” as the key approach to engage the private sector. The focus shifted during GEF-2 from removing market barriers to adding nongrant instruments. The following replenishment periods focused on partnerships and platforms, and technology and innovation. The GEF proposed a Public-Private Partnership (PPP) Fund in 2005, and set aside \$50 million to create the GEF Earth Fund, delegating authority to the

International Finance Corporation and other Agencies to prepare and approve projects more quickly. During the latter stages of GEF-5, the GEF redefined a strategy for enhancing PPPs, and developed a new paper, “[Revised Strategy for Enhancing Engagement with the Private Sector](#),” which further expanded the use of nongrant instruments for building PPPs. It also used a multilateral development bank (MDB) platform to attract greater private sector financing.

Building on the GEF-5 operational approach, three priorities were identified for expanding private sector engagement in GEF-6: mainstreaming private sector engagement in all GEF projects; setting aside \$115 million for a nongrant pilot program that funds proposals having the potential of generating reflows; and making the private sector integral to the design, development, and implementation of three integrated approach pilots.

“There is increased recognition within the GEF of the fundamental role the private sector plays in achieving the GEF’s mission to tackle the planet’s biggest environmental issues. However, despite an increasing volume of financing towards private sector-related projects, the GEF’s private sector engagement is still limited.”

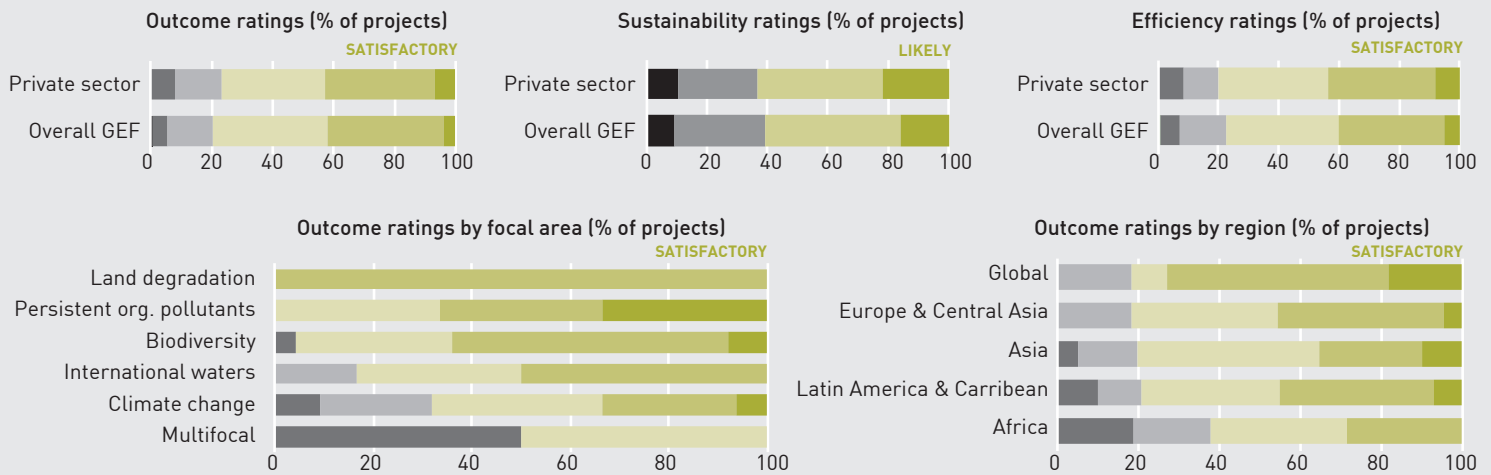
—Baljit Wadhwa, IEO Senior Evaluation Officer

CONCLUSIONS

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

No global projects or projects in Europe and Central Asia are rated as unsatisfactory or below, indicating stability and solid performance in these regions. Global projects were particularly highly rated, with 73 percent of these projects receiving ratings of satisfactory or above. On the other hand, 38 percent of African projects were rated moderately unsatisfactory or below.

PERFORMANCE HIGHLIGHTS



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

The GEF's diverse offerings of influencing models are critical for redirecting private sector investments toward environmental sustainability. For example, reforms in the renewable energy sector across GEF projects have led to policies that support greater growth in this sector.

Private sector survey. Private sector stakeholders revealed that they consider the GEF a valuable partner, based on its capacities in flexible financing, appetite for higher risk, long-standing brand reputation, technical knowledge, and opportunities for networking. Because the GEF provides a broad spectrum of grants and nongrant financing, this variety—along with the possibility of combining different financing vehicles in one project—makes it all the more appealing to private sector partners.

The GEF's risk appetite supports innovative ventures that have difficulty accessing mainstream capital. Either through lending, equity investments, or risk-sharing guarantees, the GEF helps create the financial conditions for projects to materialize. The GEF is also praised for its technical expertise. Surveyed subjects appreciate the knowledge and quality of execution the GEF brings to a project. The GEF network brings considerable value to private sector actors, for its capabilities in connecting donors and development banks, and in addressing regulations and policies.

Comparators in environmental finance. The number of actors in public environmental finance has increased, ranging from regional and sectoral funds to global facilities such as the Climate Investment Funds (CIF) and the Green Climate Fund (GCF). While the GEF has one of the most resourceful funds in terms of its volume, focus, and diversity of instruments, accessibility by the private sector still appears to be low.

The CIF and the GCF are the multi-lateral funds that come closest to the GEF in terms of mandate, philosophy, and operations. Like the GEF, both work through implementing partners.

According to interviews with CIF staff, close to 30 percent of its total

funding (\$2.3 billion) is allocated to projects and programs that aim to stimulate private sector participation, compared to the 14 percent allocated by the GEF to its private sector portfolio. Private sector engagement at the CIF can take place in three ways: direct or intermediated finance through MDBs' private sector windows, PPPs, or private cofinancing of public investment projects. CIF private sector funds are deployed through national and regional investment plans and dedicated funding mechanisms: [dedicated private sector programs](#) (DPSPs) and [private sector set-asides](#). DPSPs are used by the CIF's Clean Technology Fund (CTF) and can be deployed across a range of instruments, based on the implementing MDB practice. CTF funding can be subordinated to the MDBs, providing greater structuring flexibility, and can be used for local currency lending (with the foreign exchange risk borne by the CTF). Like the GEF, the CIF's government-led investment process seems to have focused most funding on the public sector, with lengthy approval processes that, according to an independent evaluation, have discouraged private sector engagement. This is what prompted the development of set-asides for the private sector such as the DPSP.

The GCF thus far seems to have prioritized its private sector investments

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

RECOMMENDATIONS

- 1. Address operational restrictions to private sector engagement through pursuit of a private sector window.** Procedures that allow for private sector engagement outside of the System for Transparent Allocation of Resources (STAR) and that are based on broad approvals best serve the rapid timelines of private sector decision making, leaving specific tailoring to GEF Agencies in partnership with sponsors and initiators. A suitably structured private sector window would support market-based interventions through innovative PPPs, strategic partnerships (including public-private-philanthropic partnerships to catalyze business model development), and multistakeholder coalitions. A private sector facility would stimulate the deployment of blended finance. These investments should be guided by considerations of financial and environmental returns and degrees of concessionality to help for-profit companies ascertain the financing conditions to be met and the risks to be considered.
- 2. Encourage policy and regulatory reform for its cascade effect on private sector environmental**

investments. Lack of standardized regulations and environmental policies can impede global environmental achievements. Supportive conditions are conducive to private sector participation. The GEF's support of legal and regulatory reforms and incentives, along with its institutional capacity, strengthens country ownership; is a comparative advantage; and provides long-term certainty to reduce investment risks and enable projects to scale up. Strategic investments in policy initiatives—particularly those enabling investment in newer fields such as conservation finance—can address the lack of regulations and potentially change behavior in markets and economies.

- 3. Intensify efforts to develop a broader strategy for private sector engagement beyond climate change.** The GEF is uniquely positioned to develop a pipeline of investment-ready environmental protection projects that attract private resources beyond climate change, and include partnering with larger entities as well as SMEs in developing countries. As conservation and ecosystem services finance continues to grow with private sector participation, the GEF can leverage its appetite for small, diverse, and innovative projects to expressly promote new environmental finance markets such as water, waste, forests, biodiversity, and ecosystem services.
- 4. Improve outreach to GEF recipients of funds, GEF Agencies, and private sector entities.** Easier access to information will lead to increased awareness and cooperation among countries, Agencies, private sector stakeholders, and the GEF. This outreach could include more specific private sector content on the GEF's

website, the development of “how-to” guides for working with the private sector, and organization of “investor roadshows” to promote cooperation. Ideally, these efforts should be coordinated with GEF Agencies and embedded in multistakeholder coalitions to engage private sector stakeholders. Additionally, the GEF could identify members of a private sector advisory group at the vanguard of conservation finance, environmental protection, and others, which may serve as intermediaries and strategic advisers to the GEF in reaching the broader community of investors and companies. The GEF could also consider an approval process that allows private sector partners to track the status of a proposal with more transparency.

- 5. Dedicate appropriate resources to tracking, monitoring, and evaluation of the private sector portfolio by improving tagging and retrieval capabilities of the Project Management Information System (PMIS) database.** Accurate monitoring of private sector projects is currently not possible. Projects should be tagged for systematic retrieval. As part of the tagging, the GEF's private sector engagement should be further defined. The PMIS does not adequately provide information on nongrant instruments, investment allocations, or projected reflows. Moreover, inconsistent classification of nongrant instruments in the project documents can lead to confusion. Some projects utilize more than one instrument and do not spell out the respective allocations between them, making it difficult to appropriately classify them. The extent and type of private sector engagement could also be a standard evaluation question included in midterm and terminal evaluations. ■

