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REVIEW OF THE GLOBAL ENVIRONMENT FACILITY EARTH FUND
(FULL REPORT)

(Prepared by the GEF Evaluation Office)

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I. Main Conclusions and Recommendations

1. The Earth Fund was presented to the Council as a "catalyst", to encourage private sector investment in environmental protection.[1] A catalyst is to chemical processes, as an enzyme is to biological processes: the templates of both parties to the interaction must fit together for the interaction to succeed. In this analogy "template" refers to organization structures and decision-making criteria and processes. The Earth Fund, as set up in GEF4, and the private sector have templates that do not fit together well.

Conclusion 1: The Earth Fund did not achieve its purpose.

2. It did not attract private funding at the Earth Fund level nor did it establish partnerships with the private sector although all five platforms are considered relevant to the GEF mandate. The platforms and projects being proposed by the Earth Fund include roles for private sector organizations, but not as expected. The pilot phase of the Earth Fund has become a granting mechanism, with all funds committed and therefore cannot be re-tracked to better engage the private sector.

3. Several factors have limited the achievement of the purpose of engaging the private sector. For example, the objectives of the Earth Fund were not derived from an assessment of the GEF's comparative advantage, nor were they clearly articulated internally or externally. There were weaknesses in the organizational and administrative structure established for the Earth Fund, particularly during implementation. Given the nature of the Earth Fund as a pilot, the GEF Council, GEF management and Earth Fund Board should have provided more follow up and guidance, rather than presupposing that the GEF Secretariat had the skillset, mindset and networks required to make the Earth Fund a success.

4. The development of the Earth Fund from its inception to the current status of full commitments has been a difficult one, due to both internal and external reasons. The most serious shortcoming of the Earth Fund has been that it has not lived up to expectations. However, this review should not lead to the conclusion that for a better engagement with the private sector the GEF should go "back to the drawing board". There are many elements in the experience so far that can be incorporated into a second phase of the Earth Fund. For that purpose the recommendations section will focus on the changes that could be made to the Earth Fund structure to allow it to become an effective agency for engaging with the private sector, focusing on how current obstacles can be removed and how the good elements can become even better.

5. Too many times in the past has the GEF dropped targeted efforts to engage with the private sector for further reflection and for rethinking its approach. In GEF-5, the Earth Fund should be reconstituted to learn from past experiences, to ensure that engagement with the private sector is continued and more importantly enhanced. Because

[1] April 2008 "Request for CEO Endorsement of the GEF Earth Fund"

funding has been set-aside for a second phase of the Earth Fund, the Evaluation Office proposes that Council and CEO consider the following conclusions and recommendations, which are aimed at making the second phase of the Earth Fund a success by refocusing attention on original intent.

Conclusion 2: Although the Earth Fund was intended and expected to be set up as a Fund, over time it became a granting mechanism.

6. Normally in a Fund there would be a legal and management structure that reflects responsibilities, accountabilities and procedures that support the integrity of the investment philosophy being pursued as well as protect fiduciary responsibility. In the GEF Earth Fund, ownership is not defined and risks and returns are not clearly allocated. Alignment of economic interest and clarity of purpose are needed to be able to define workable investment regulations.

7. The characteristics that defined a Fund for the establishment of partnerships with the private sector disappeared or became just GEF business as usual. Reasons for this are many and partly related to the influence of institutional characteristics of the GEF itself, such as the lack of legal status, which requires acting indirectly through others. The Council approved a project that left several items open but the GEF Secretariat did not take full advantage of them, in particular the authority to allow any entity to become a Platform Managing Agency for the Earth Fund, if they fulfill the GEF fiduciary standards and Council approved their status. The GEF could have communicated the administrative needs of the Earth Fund more effectively to its GEF Agency partners.

8. Changing the name from Public-Private Partnership Initiative (PPPI) to "Earth Fund" created confusion. In the world of financing social and physical infrastructure, the term "PPP" refers to ownership, execution and financial structure and flows, whereas the term "Fund" implies that the Earth Fund *qua* Earth Fund was either going to make direct investments, act as a Limited Partner in existing investment funds, or act as a Fund of Funds. This is not a matter of semantics. A Fund can reasonably be expected to be financially self-sustaining. A grant making "mechanism" such as the Earth Fund could more accurately be described, is less easily made financially self - sustaining. The Earth Fund thus became not a Fund, but a granting facility or mechanism with a limited set of grantees.

9. Relevant information on possible ways on how to do this are provided, although on a different scale, in the various publications of the Climate Technology Fund: CTF Governance Framework, CTF Private Sector Operational Guidelines, and CTF Financing Products, Terms and Review Procedures for Private Sector Operations.

Conclusion 3: The Earth Fund committed the allocated $50 million in five platforms in just over two years, but did so by falling back on GEF business as usual.

10. From approval of the Earth Fund in May 2008 until the CEO endorsement of the fifth platform (expected by September 2010) took the Earth Fund just over 2 years. The

Earth Fund accomplished this objective by relying heavily on business as usual practices, and for example, moving two regular GEF projects into Earth Fund platforms. Not all the platforms envisioned in the foundation documents survived the implementation process, which is to be expected. The private sector has not shared responsibilities or accountability, management was not visionary and strategic, and administration has not been adapted to meet Earth Fund needs.

11. The objectives and work proposed by the platforms is all in all consistent with the GEF mandate. The concept of Earth Fund "platforms" seem to work, albeit not in the way originally intended. The five platforms approved are within the GEF mandate and propose a reasonable set of projects to be undertaken over the next four years, however rather than being co-owned or operated with private sector organizations, the platforms are owned and operated by GEF Agencies, some of which have entered into grant agreements with NGOs. While it is possible that some private sector organizations prefer that a GEF Agency serve as a "buffer" with the GEF system, it is equally possible for a GEF Agency to serve this role and share operating responsibilities.

Conclusion 4: Engagement with the private sector, the purpose of setting up the Earth Fund, was relegated mostly to the project level.

12. The modalities of the engagements used and proposed by Earth Fund platforms are not particularly innovative, as many of them had been done within the GEF Trust Fund. Another special characteristic of the Earth Fund was to have been the approach of engaging the private sector through Public-Private Partnerships, or PPPs. This approach was lost at the Earth Fund level as well and also relegated to the platform level. The change in name from PPPI to Earth Fund was more than that.

13. The Earth Fund lacked transparent and efficient approaches and procedures for engaging the private sector. This stems from lack of a clear definition of the purpose and priority areas of the Earth Fund, and also secondarily from GEF and GEF Agency culture, which is different from that of private enterprise and NGOs.

Conclusion 5: Expectations regarding co-financing and reflows were unrealistic.

14. Some degree of private funding, referred to as co-financing, is the principal criterion used to distinguish private sector projects from others within the overall GEF portfolio. "Co-financing" has been a concept in the GEF that has created great confusion. There are mainly two types in this context. Co-investment, where the private sector would invest funds alongside the GEF in Earth Fund, or alongside Earth Fund in a platform, would occur at the beginning of a joint effort, and implies co-ownership. Cost-sharing, which is what has been proposed in each Earth Fund platform, occurs as costs are incurred, and does not imply co-ownership.

15. There is a mismatch between the GEF's expectations of co-financing – defining it solely as cash, for example - and the value placed by the private sector on collaboration with the GEF, especially under difficult global financial and economic conditions.

16. To date the GEF Earth Fund has not attracted co-financing at the level of the Earth Fund or its platforms. At platform level the individual platform proposals indicate that they will obtain non-GEF financing equal to 3x the money allocated to them by Earth Fund, as was envisioned for the Earth Fund as a whole. There are still some uncertainties in the co-financing figures, so it is not clear that this target will be met for each platform.

17. In addition to co-financing, Earth Fund founding documents make reference to anticipated reflows from investments. The expectation of reflows is unrealistic in view of the requirement that Earth Fund investments be made on concessional terms. Relatively limited private money flows on its own to environmental activities because of the low, or long, financial returns to those activities, even under market rates. Returns to Earth Fund-supported projects may be so low and long in coming that the amount of money that could flow back to a minority shareholder or holder of subordinated debt is minimal.

Conclusion 6: The Earth Fund did not clearly communicate its purpose internally or externally, nor was there a plan for learning from its experience, that of the broader GEF or that of others.

18. There was no framework or strategy to define how the Earth Fund was going to be presented to the general public, to the private sector or within GEF partnership, causing confusion regarding the Earth Fund itself, its management, operations and procedures, and limiting Earth Fund's ability to identify potential partners.

19. As a pilot activity the Earth Fund ought to have an established means for capturing lessons, but it does not. Furthermore, the GEF's prior experience with PPPs and working with the private sector was not tapped effectively. The originators of the Earth Fund did not build on the extensive lessons of the GEF with PPPs and otherwise engaging the private sector, nor did they adopt successful practices of others, outside the GEF partnership, working in the world of environmental finance.

Conclusion 7: The Earth Fund governance and management structure had several weaknesses, revealed during implementation.

20. Council approved the Earth Fund as a GEF full-sized project. It was supposed to be managed operationally by the GEF Secretariat. The World Bank was the GEF Agency and the IFC was the executing agency and also the manager of the Earth Fund trust fund account.[2] As manager of the Earth Fund, IFC was to disburse funding from the trust fund account under instructions of the GEF Council and the GEF CEO. The GEF Council was required to approve all platforms as well, including review and approval of platform governance, operating procedures and platform managing agencies, to be sure they fulfilled the GEF fiduciary standards. An Earth Fund Board was also established, to meet at least once a year, chaired by the GEF CEO and comprised of 3 representatives of the

[2] The IFC also was the manager of the IFC Earth Fund Platform, $30 million.

private sector. Earth Fund Platform Managing Agencies were defined as any entity that would propose a platform and then be responsible for managing it.

21. The review found that when this structure was implemented several weaknesses were revealed and several of the roles and responsibilities were confused and not fulfilled. There were too many partners, with no clear implementation roles, weakening the process. There was no clear accountability of who was in charge of the Earth Fund:

- The Council's role was limited to the approval of platforms (on a no-objection basis);
- The Secretariat only managed the remaining $20 million of the Fund since IFC had received $30 million for its platform as the first Earth Fund platform. The GEF Secretariat did not allocate sufficient resources to manage the development process of the Earth Fund, platform identification and development, monitoring and reporting to Council and the GEF;
- The World Bank was accountable to the Council as a GEF agency of the Earth Fund project and then became a Platform Managing Agency for one of the platforms;
- IFC had several functions; it provided the trustee services as requested, acting on behalf of the World Bank and managed the biggest platform (60% of the Earth Fund). In the early discussions of the Fund IFC had expected to manage the entire Earth Fund; and
- The Earth Fund Board was established but its roles as an advisor to the Earth Fund and advocate for the GEF among the private sector were not fulfilled.

22. Furthermore, many changes were taking place in the GEF as an institution during the gestation and development of the PPPI and Earth Fund, increasing confusion in the purpose of the Earth Fund and the roles and responsibilities of the different actors.

23. The private sector and the GEF Focal Points were not assigned specific roles and responsibilities.

RECOMMENDATIONS

Recommendation 1: The Council should request the Secretariat to revise the Earth Fund for its second phase

24. The second phase, for which an allocation of $80 million has been set aside in the replenishment agreement, should meet the following conditions:

- The objectives, niche and market barriers to be addressed by the GEF Earth Fund need to be defined and then broadly disseminated.
- Access to the new trust fund to be created for the Earth Fund II needs to be clarified.
- The management of the new Earth Fund needs to be strengthened.

Recommendation 2: Redefine Earth Fund objectives, niche and market barriers

25. The Earth Fund is only one way in which the private sector may engage the GEF and the general environmental and sustainable development "space." Therefore, there is a need to define the niche of the Earth Fund, in particular the market barriers and failures within the purview of the GEF and that are recognized by the private sector. This definition should be commensurate with the level of funding allocated to the Earth Fund for its second phase: expectations should match the funding. The GEF Council should provide strategic guidance to the GEF Secretariat on how to narrow and focus the scope of the Earth Fund.

26. In particular, the GEF Secretariat, in collaboration with GEF Agencies and private sector representatives, should:

- Identify areas of work where the Earth Fund 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.
- Establish a program to regularly scan the broader environmental finance space, so as to be able to identify potential partners – technical and financial – from inside and outside the GEF system. Scan with a view toward learning not only "who does what to whom" but also, how they do it and to be alert to what they are not doing that the GEF could do.
- Rethink expectations of financial sustainability.
- Based on the prior steps, define the products, services and markets where the second phase of the Earth Fund can be targeted.
- Create incentives for drawing lessons from experiences from GEF, GEF Agencies and others of working with the private sector.
- Devise and implement a communication strategy for the Earth Fund that clearly communicates to the public, the objectives, niche and market barriers expected to be addressed as well as the procedures of operation (see below).

Recommendation 3: Clarify access to the redefined Earth Fund

27. The GEF Secretariat should prepare an international call for expression of interest in partnering with the GEF in the second phase of the Earth Fund. The short-listing resulting from this call could then be invited to make formal proposals to operate Earth Fund platforms, through a defined Request For Proposals process. Private sector entities whose aims overlap with those of the GEF, singly or in consortia, should be sought after and encouraged to apply.

28. The Earth Fund as presently established had several weaknesses, in particularly with regards to direct engagement with the private sector. The GEF is presently discussing how to further engage with new partners, so some of those decisions could be applicable to the second phase of the Earth Fund. It is important to clearly establish who would have access to the fund and how. As was envisaged in the original Earth Fund

project proposal, which was approved by Council, all entities that fulfill the GEF fiduciary standards should be able to access the Earth Fund directly. These entities, to be termed “Earth Fund Platform Managing Agencies,” should be proposed to the Council by the GEF Secretariat, for Council review and approval.

Recommendation 4: Strengthen the management of the Earth Fund

29. The operational management of the Earth Fund should remain with the GEF Secretariat and be strengthened such that:

- Appropriate financial resources are allocated by GEF Council;
- Staff with experience working with the private sector in the GEF focal areas is recruited and assigned adequate management authority;
- A monitoring and evaluation system is established at the Earth Fund level (M&E at the platform and project levels should remain with the Platform Managing Agencies);
- A knowledge sharing mechanism with links within the GEF and to organizations outside the GEF is developed and installed;
- A communications strategy is designed and implemented.

30. The financial management of the trust fund to be established for the second phase of the Earth Fund could either:

- Remain with IFC, acting on behalf of the World Bank, the GEF Agency of the Earth Fund. IFC has the previous experience, a global reach and a mandate to interact with the private sector; or
- Move to the GEF Secretariat. This would provide full clarity of the GEF ownership of the Earth Fund and will give full accountability and responsibility to the GEF Secretariat. The GEF Trustee could create the same set up that has created for IFC but with the GEF Secretariat as the executing agency. The present experience and lessons learnt in the process of setting up the trust funds for national communications and national business plans (GEF/C.38/6/Rev.1) would be useful.

II. Introduction: Purpose of the Review

31. The status of the GEF Earth Fund (Earth Fund) as an expression of GEF's long-standing intent to engage more with the private sector has made its pilot phase of execution a subject of intense interest, despite its small size. The Policy paper for the GEF5 replenishment negotiations recommended an evaluation of the structure and operations of the Earth Fund, following which the Council should consider the proposal to further capitalize the Earth Fund with an infusion of additional resources during GEF5.[3] The Evaluation Office prepared and circulated for comment a note on how to conduct an independent review of the Earth Fund.[4] Following interviews with key stakeholders in the GEF Secretariat and GEF Agencies, it was concluded that given the early state of implementation of the Earth Fund and its platforms the Office would conduct an independent review of the efficiency and the relevance of the Fund to the GEF rather than an evaluation of its effectiveness and results.

32. The main objective of the review was to respond to the request from the fifth GEF replenishment process. The review is expected to provide donors, Council members, GEF Secretariat and other key stakeholders with an assessment of the Earth Fund activities implemented so far as well as a report on the way the Earth Fund functions and its interaction with the private sector.

33. The review concentrated on four areas:

a. Compliance with Council decisions, in particular those that established the pilot Public-Private Partnership Initiative (PPPI) and the Earth Fund. The review assessed the extent to which the design, development and implementation of the Earth Fund responded to these decisions.
b. Review of Earth Fund activities. The review conducted a desk study of the platforms and projects proposed under them and reported on progress on implementation.
c. Engagement with the private sector. The review explores and reports the different types of engagements the fund has developed with the private sector at different levels: at the Earth Fund itself, platforms or projects.
d. Efficiency of the Earth Fund. The review assessed two aspects of efficiency: (1) Earth Fund's project cycle and (2) the roles and responsibilities of different stakeholders.

34. The review used different methods and approaches. In particular, the review conducted extensive consultations with key stakeholders (see Annex III for a list of people interviewed) and desk reviews of relevant documentations. A bibliography is provided in Annex II.

[3] GEF, 2010. *Policy Recommendations for the Fifth Replenishment of the GEF Trust Fund* (GEF/R.5/26; February 12, 2010)
[4] GEF, 2010. GEF Evaluation Office Review of the GEF Earth Fund.

35. The review was conducted from June until August 2010 by a team of Evaluation Office staff and one senior consultant with expertise in PPPs and the role of the private sector in economic development, environmental protection and renewable energy. Information was gathered through August 31, 2010.

Limitations of the Review

36. The review considered the context in which the Earth Fund has operated, in particular the changes that have taken place within the GEF during the time of the establishment of the Earth Fund. The development of the Earth Fund coincided with the beginning of implementation of GEF4, which included several reforms and the implementation of a resource allocation system. Although the review took full advantage of the findings and conclusions from the OPS4 the review did not conduct a full evaluation of the impact of these changes on the development of Earth Fund.

37. Much of the history and implementation of the Earth Fund, in particular its negotiation, is not well documented so it was challenging to piece it together from interviews, perceptions and available documents.

38. The review was not designed to collect or analyze the private sector's perception or views on the Earth Fund or the GEF. The review interviewed a few of the private sector participants in the Earth Fund and contacted a few other representatives of the private sector active in fields of the GEF mandate. This small number of interviews should not be considered to represent the views of the private sector.

39. There has been limited implementation of the platforms to date, with only the IFC Earth Fund Platform having approved projects and allocated its Earth Fund appropriation. All other platforms are in the very early stages of implementation. Therefore, the review could not report on results on the ground.

40. The Evaluation Office decided early on in the review process that it would not conduct an evaluation of the broader GEF private sector strategies prepared and approved by Council. It was considered that this task would imply a different set of terms of reference and skills in the review team. Nevertheless, and as part of understanding the context of the Earth Fund the review team has studied the approved GEF5 private sector strategy.

41. The review did not intend to conduct evaluations of the platforms nor their programs and projects.

III. Context and Evolution of the Earth Fund

42. While there is widespread, although not complete, agreement among GEF stakeholders that the GEF needs to engage more with the private sector, there is no shared understanding of how to go about it. The Earth Fund was created under the premise that PPPs were the way to do this, even though there is disagreement among GEF stakeholders on how to define the different components of these partnerships. It is therefore helpful to begin the Review with a brief presentation of the evolution of the Earth Fund to this point, with attention to the internal context in which the Earth Fund was conceived and established.

43. The world of environmental finance has grown steadily since the GEF last surveyed the role of the private sector.[5] In addition to an increase in market size and numbers of participants, the composition of actors in the space has evolved to the point where there are now large numbers of not-for-profit private entities – foundations, NGOs, business associations, university-based institutes – involved in the work of environmentally, socially and economically sustainable development. 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. Biodiversity has been a primary beneficiary of this growth in active stakeholders. Increased recognition of the need to shift to an economy that generates far lower levels of green house gas emissions has led to the establishment of markets for certified emissions reduction credits of various kinds, under both voluntary and mandatory emissions reductions schemes. The Earth Fund is one of many members of this evolving and expanding universe.

The GEF and the Private Sector, Lessons from OPS3 and OPS4

44. GEF's experience engaging with the private sector is long and dates back to the origins of the GEF.[6] This engagement has been found in several of the GEF Evaluation Office's work, to have had some positive results but also presented some challenges. 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. Furthermore, OPS3 recommended that the GEF should launch a private sector special initiative to look for good models of cooperation with the private sector and to pilot projects, and in so doing "operationalize" GEF's mandate to engage with the private sector. The OPS3 study also recommended that GEF design a proposal for private sector engagement that included a strategy for private sector outreach and communication, as well as risk-sharing arrangements. The Mid-Term Review of the Resource Allocation Framework (2008) concluded that the involvement of the private sector in GEF had declined over time, in particular since the introduction of this allocation system, which focused on governments' participation in GEF programming.

[5] GEF, 2005. *Additional Information to Support the GEF Strategy to Enhance Engagement with the Private Sector.*
[6] The review traced GEF's documented interest in more systematic collaboration with the private sector back to 1996, however it was decided to limit the report to developments since 2005.

This conclusion was used as one of the justification for the establishment of a separate fund such as the Earth Fund.

45. The recent (March 2010) Fourth Overall Performance Study of the GEF conducted by the GEF Evaluation Office[7] provides some examples, lessons and recommendations for GEF's future partnerships with the private sector. In OPS4, a study of projects approved in the first two years of GEF4 (July 2006-June 2008) found that about 18% of the cofinancing promised in projects came from private sector institutions.

46. The OPS4 study presents several findings and lessons related to the GEF engagement with the private sector. The most extensive findings came from the impact evaluation of the GEF support to phase out of consumption and production of ozone-depleting substances in Countries with Economies in Transition. The impact evaluation revealed the importance of public-private collaboration. Whereas the initial push for phase out came from the governments, the catalytic effects could, to a large extent, be attributed to champions in the private sector. Additional key lessons from the OPS4 study include:

- The GEF financing enabled important technological and production changes, which allowed firms to comply with the Montreal Protocol and maintain and/or gain market share and thus make profits.
- The umbrella structure of the projects developed by the GEF Agencies based on targeted sub-project investments with the private sector, which provided co-finance, were efficiently executed and contributed to the rapid phase out of ozone depleting substances and implementation of alternative technologies and chemicals.
- Undertaking a viability test directed at measuring organizational, economic, and financial sustainability, helps lay the foundation for targeted and informed "green" business investments.
- Focusing 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, increases the impact of the project.
- Targeting a few specific sectors for green business investments that best align the environmental goals of the GEF and financial (profit) growth possibilities, enables projects to succeed.
- Keeping bureaucratic procedures to a minimum, bearing in mind that firms often require quick decisions on investment, aids project implementation.
- Identifying champions who have innovative product ideas and technical and political skills is helpful, as the work in the ODS portfolio demonstrated that private enterprise champions were critical in producing good business and environmental results.
- Investing in countries with government policies and procedures that actively support green business and the ease of doing business in these countries was shown to be of great importance.

[7] GEFEO, 2010. *OPS4 Progress Towards Impact: Fourth Overall Performance Study of the GEF.*

47. OPS4 recommended that the GEF should learn from the positive private sector engagement in this focal area and incorporate similar approaches into its efforts to engage the private sector in other focal areas.

From PPPI to Earth Fund, 2006-2009

Evolution of Intent & Expectations

48. In this section the Review presents results of tracking the Earth Fund back over time to uncover and understand its philosophical and managerial antecedents, relying on GEF internal documents, which are cited throughout. Table 1 below presents key milestones in the development and approval of the Earth Fund.

49. As presented in the June 2006 GEF Strategy to Enhance Engagement with the Private Sector (GEF/C.27/13) the Earth Fund was originally called the Public-Private Partnership Initiative, and evolved out of the desire to demonstrate the utility of public-private partnerships ("PPP") in supporting the mandate of the GEF to generate global environmental benefits and support countries in meeting national responsibilities under the various Conventions.[8]

50. The 2006 strategy further explained that there was an expectation that the "[P]artnership with the private sector will contribute to achievement of results on a larger scale than would be obtainable by GEF working on its own." In 2007 the GEF Council approved a program of "strategic investment in competitive environmental technological solutions, development of financial instruments for directed environmental investment and scaling up of the use of pilot instruments".[9]

51. In 2008, GEF's Public Private Partnership Initiative was renamed the Earth Fund to "enhance its visibility to the public and private sector". Comparison of the Project Executive Summary for the GEF Public Private Partnership Initiative (prepared January 2007), with the Request for CEO Endorsement of the GEF Public-Private Partnership Initiative, then renamed the Earth Fund (submitted March 2008) reveals that more than re-naming took place. The PPPI document proposed a "partnership with the private sector", the Earth Fund document proposed "leverage of private sector resources". The PPPI proposed a larger, more engaged Board of Directors and Platform Steering Committees, to ensure an active role for the private sector. The PPPI document incorporated reference to a program of knowledge management and information dissemination, which was not incorporated in the Earth Fund document. At platform level, the discussion in the PPPI document focused on the participation of the private sector, while in the Earth Fund document the discussion was all about GEF Agencies, NGOs and foundations with high fiduciary standards. In summary, the notion of PPPs to guide implementation was dropped and not replaced with another guiding principal.

[8] GEF, 2006. GEF Strategy to Enhance Engagement with the Private Sector; GEF, 2007 GEF Work Program Submitted for Council Approval; GEF, 2008 GEF Project Information Form for the Earth Fund; and GEF, 2009 "An Approach to Enhance Engagement with the Private Sector" .

[9] GEF, 2007. Program of Work Submitted for Council Approval.

52. In the 2009 Earth Fund Board Strategies and Procedures document, reference is made to the need for Earth Fund Platforms to [use] "commercially viable business models," and it was stated that: "Earth Fund investments should encourage – and not crowd out – private sector development". Rather than subsidize technology development, Earth Fund investments were expected to "play a catalytic role".

53. As described in both the PPPI document and the CEO Endorsement of the Earth Fund (May 2008) implementation of the Earth Fund is supposed to occur through Earth Fund "Platforms". Essentially a "platform" should house the technical expertise and financial and operational autonomy to launch, support and supervise a number of projects. The original PPPI language implied that a platform should be jointly owned and operated by public and private parent organizations. The underlying assumption is that Platforms supporting multiple projects and types of implementing entities are more likely to be catalytic than individual projects. When the notion of PPPs was dropped, the Earth Fund Board did not provide guidance or advice to GEF Secretariat or the Agencies on what a platform should look like, or indeed what distinguishes a platform from a project.

Table 1: Development and Approval of Earth Fund and its Platforms

2006	2007	2008	2009	2010
GEF Strategy to enhance engagement with the private sector reviewed by GEF Council.	GEF PPPI approved by Council as a full size project (later to become Earth Fund)	Earth Fund approved by Council and endorsed by CEO as a full size project. IFC Earth Fund Platform approved by Council and endorsed by CEO.	Earth Fund Board Procedures approved by Council. UNEP Lighting Project moved from GEF Trust Fund, approved by Council and endorsed by CEO as Earth Fund Platform. World Bank-Conservation International Platform approved by Council.	World Bank Conservation International Platform endorsed by CEO. UNEP Rainforest Alliance Platform approved by Council IADB-The Nature Conservancy Platform approved by Council and endorsed by CEO

<u>GEF Context: Changes While Earth Fund was Evolving</u>

54. Although the PPPI was not a radical departure from previous GEF practice it seems that by the time the Earth Fund was approved very different expectations were held of it by the various stakeholders. The GEF was going through a period of major changes that affected different aspects of the GEF operations. The GEF Secretariat was trying to implement these changes and solving several issues. The Earth Fund was evolving as these topics were discussed. Some of the issues include:

- The introduction of the Resource Allocation Framework (RAF) created additional stresses in the GEF partnership. Private sector partners and IFC indicated that there were few opportunities for accessing the GEF since access to GEF resources is decided at the level of the GEF Focal Point, many of whom did not considered sharing these limited resources with the private sector; the "exclusion" resources for regional and global projects under RAF were prioritized for other purposes than for private sector engagement.;

- Key GEF stakeholders were beginning to discuss the possibility of providing "direct access" to GEF funding by entities other than GEF Agencies.
- Discussions of new ways (for example, non-grant instruments) to capture additional funding for GEF programs, other than those coming directly from the GEF Trust Fund replenishment were also on-going.[10]
- Recommendations from OPS3 made in 2005 regarding the need to operationalize GEF's engagement with the private sector were not followed. In particular decisions were not made about the extent and manner in which GEF is prepared to reach out to industry, nor about how to reconcile the differences between GEF and private sector genetic make-up, i.e. the modes, styles and incentives for doing business. GEF Secretariat did not design a proposal for private sector engagement that includes a strategy for outreach and communication, nor did it define a risk management policy and arrangements for risk-sharing.

Changes in Earth Fund Platform Focus

55. During conception in 2007[11], management proposed that four PPP platforms would be developed within the PPPI: a coastal water treatment platform, a clean energy finance platform, a platform investigating alternatives to DDT for malaria control and a platform to test a program of Payment for Ecosystem Services. Mention of a platform to support the development of second-generation biofuels appeared in another May-June 2007 document.[12] The IFC Earth Fund Platform received CEO endorsement in September 2008 (the Earth Fund was approved in May 2008), and three other platforms were anticipated: a UNEP platform for risk management, a World Bank platform on exploring alternatives to DDT for malaria control, and a UNDP platform for the payment of ecosystem services "in the context of" the cocoa supply chain[13]. The funded platforms actually look quite different, not only in terms of programmatic focus, but also in the approaches and tools used.

56. The swings in focus of Platform Proposals can be traced primarily to GEF not having articulated the market imperfections in the work of environmental protection for which public-private partnerships are a potential solution. The platforms developed and approved were a consequence of the supply from GEF Agencies and specification from GEF Secretariat regarding the type of platforms that should be considered. Without an understanding of barriers to be removed or approaches to be promoted through the

[10] *GEF/C.34/7, GEF Trust Funds for Programs; GEF/C35/10, Options for Enhanced Financial Support to Selected GEF4 programs*.

[11] See *Project Executive Summary Request for Council for Work Program Inclusion of the GEF Public Private Partnership Initiative*, dated May 2007.

[12] GEF, 2007. *GEF Work Program Submitted for Council Approval.*

[13] In the Earth Fund CEO Endorsement package dated March 2008, UNDP is listed as the GEF Agency to be involved in the cocoa supply chain (described as a program to test payments for ecosystem services). In 2010 a cocoa supply chain program involving UNEP and Rainforest Alliance was approved.

existence of Earth Fund, priority activities could not be defined. In addition, the slowness in coming up with proposals may be attributed to a lack of transparent mechanisms for engaging the private sector to design or participate in Earth Fund Platforms, i.e. there was no “call” for proposals or expressions of interest.

IV. Earth Fund Implementation to Date: Analysis of the Five Platforms

57. This chapter presents an analysis to date on the implementation of the Earth Fund Platforms in order to identify some commonalities and understand the Earth Fund as a whole. More detailed information on each platform is provided in Annex I. As of May 2010, the entire $50 million authorized for the Earth Fund pilot has been allocated among five platforms:

- IFC Earth Fund ("IFC EF")
- World Bank-Conservation International Conservation Agreements Private Partnership ("WB-CI Conservation Agreements")
- UNEP Market Transformation for Efficient Lighting ("UNEP Lighting")
- UNEP-Rainforest Alliance Greening the Cocoa Industry ("UNEP-RA Cocoa")
- IADB-The Nature Conservancy Public-Private Funding Mechanisms for Watershed Protection ("IADB-TNC Water Funds")

58. From the point of view of platform structure there are two types, ones having an NGO between the GEF Agency and the private sector and the other that does not. The first one compromised of WB-CI, IADB-TNC and UNEP-RA, have an NGO as the interlocutor and link between the GEF Agency and the private sector. The second type, comprised of IFC Earth Fund and UNEP Lighting, the GEF Agency[14] is dealing with the private sector directly. (See Table 2)

Table 2: Platform Structures

GEF Agency-NGO-Private Sector	3. WB-CI Conservation Agreements 4. IADB-TNC Water Funds 5. UNEP-RA Cocoa
GEF Agency-Private Sector	1. IFC EF (private sector not part of the platform, but dealings are direct) 2. UNEP Lighting

59. All of the platforms work at the regional or global levels. Three of the platforms deal primarily with biodiversity and two with climate change.

60. The following paragraphs provide a review of the Earth Fund platforms along several dimensions:

- Engagement with the Private Sector: PPP and not PPP
- Co-Financing
- Reflows
- Relevance to GEF Mandate

[14] IFC is not a GEF Agency but in this context the review treats it as if it were.

- Innovation, Replicability and Scaling up
- Earth Fund and Platform Competitiveness; Roles and Value-Added of GEF Agencies
- Platform Cycle
- Management
- Project identification and approval within platforms
- Monitoring & Evaluation

Engagement with the Private Sector: PPP and not PPP

61. The five Earth Fund platforms propose a variety of ways of engaging with the private sector: direct equity and debt investment, intervention in supply chain management, using corporate funds and expertise to support policy and market development, creating demand for an agricultural commodity produced in a sustainable fashion, and creating local mixed-ownership approaches to finance protection of the water supply through watershed management. Review of the five approved Earth Fund platforms shows that:

- None of the platforms is constructed as a formal PPP: a jointly owned and managed effort between private enterprise and public governmental entities in host countries[15]; collaboration with government agencies in host countries is implied in four of the five but at the project level, not platform.

- Table 3 shows that two of the platforms– WB-CA Conservation Agreements, and IADB-TNC Water Funds -- contain elements such that the platforms could be construed as meeting a broader definition of PPPs: that is they "mobilize private sector resources – technical, managerial and financial – to deliver essential public services such as infrastructure, health and education"[16].

- The other three platforms engage the private sector more directly, with a GEF Agency or an NGO rather than host country public entities constituting the main non-corporate partners.

- The UNEP Lighting platform could easily have been designed to mimic, albeit more deliberately and on a smaller scale, the GEF's successful work in the ozone layer depletion focal area, which involved a series of interventions for both regulatory reform and investment to help companies meet new standards. The platform, so far, lacks the component of investment in companies to help bring them into compliance with new regulations to be developed through the policy dialogue component.[17]

[15] A host country is the country where the activity is taking place.
[16] This definition is taken from the World Bank Institute webpage on Public-Private Partnerships.
[17] The platform intends to complement UNDP and UNEP national projects that have investment components.

- The IFC-Earth Fund platform allocated 15% of its funding to Advisory Services, in five projects. One of these supports a PPP to develop the first light rail system in Jordan. The other Advisory Services projects are aimed at lowering perceived and actual risks to investments in environmental protection, energy efficiency and renewable energy or sustainable development (such as limited local capacity, high upfront costs and limited market information) and improve project development capacity.

Table 3: Engagement with the Private Sector

Name of EF Platform	Mode of Engagement with Private Sector	Exit Strategy
IFC EF	Direct equity and debt investment, establishment of debt fund and equity funds, guarantees and advisory services	Each investment should have one, described in Project Approval Forms.
UNEP Lighting	Using corporate funds and expertise to support a multi-stakeholder process of policy change for market development.	Not defined
WB-CI Conservation Agreements	Intervention in management of supply chain of biodiversity based products, through technical assistance and loans, by brokering Conservation Agreements between communities, local business and the international private sector.	To be determined
UNEP-RA Cocoa	Create demand for cocoa that is grown, harvested, and processed in a sustainable manner. Implied collaboration with Ministries of Agriculture.	Not defined
IADB-TNC Water Funds	Replication of Water Fund Program: protection of water supply using mixed ownership approaches to financing watershed management.	To be determined

Co-Financing

62. Co-financing in the context of the Earth Fund was defined as funding supporting the achievement of the goals of Earth Fund itself, platforms or their projects additional to the Earth Fund funds: GEF:other funding. Some degree of private funding was one of the criteria used to distinguish private sector projects from others within the overall GEF portfolio (although many GEF projects have funding from the private sector). It is helpful to distinguish among various forms of "co-financing". Co-financing from the private sector has different modalities. Co-investment, where the private sector would invest funds alongside the GEF in Earth Fund, or alongside Earth Fund in a platform, occurs at the beginning of a joint effort, and implies co-ownership.[18] Cost-sharing, which is what has been proposed in each Earth Fund platform, occurs as costs are incurred, and does not imply co-ownership. In addition to co-financing, Earth Fund founding documents make reference to anticipated reflows from investments, which is treated in the next section.

63. To date GEF has not attracted any co-financing at the level of the Earth Fund, from any source. Table 4 presents a summary of co-financing for each of the platforms based on the proposals approved by Council. At the platform level, the individual platform proposals indicated that they would obtain co-financing equal to 3x the money

[18] In this review, the term co-ownership is used to mean a shared "sense" of ownership or shared responsibilities and accountability for performance. The term "joint venture" is used to refer to a legal co-ownership structure.

allocated to them by Earth Fund, as was required for the Earth Fund as a whole. There are still some uncertainties in the co-financing estimated in the PIFs documents and actually made available, so it is not clear that this target will be met for each platform. Not all of the co-financing proposed or obtained so far is from the private sector.

64. The largest amount of co-financing was proposed by the IFC EF Platform, about $80 million. The precise composition of this co-financing was not known at the time of the platform approval, since it would vary according to the investments and services funded. As of August 31, 2010, the co-financing for the IFC EF activities has reached $150 million, well over the proposed. The breakdown is presented in Table 4, footnote (***). About 50% of this amount is expected to come from the private sector.[19] Private sector co-financing in the activities so far financed by the IFC EF platform ranges from 20 to 60% of total project budget.[20]

65. The experience with co-financing by the other platforms is still under developing, since all of them are just beginning implementation. For example, UNEP Lighting platform has promised a 1:3 ratio, with much of the co-financing coming from in-kind contributions from Osram and Philipps. The IADB-TNC Water Funds platform has also promised a 1:3 co-financing with about 50% coming from private sector. The WB/Conservation International platform has also promised a 1:3 ratio but much of the co-financing ($10 million) is from other sources. Finally, the UNEP-RA Cocoa has promised also a 1:3 ratio but other sources seemed to have been identified and will be presented with package to be endorsed by the CEO in October.

66. As of August 31, 2010, the Earth Fund is valued at about $267 million when considering all co-financing plus the GEF contribution. The total value is the sum of IFC Earth Fund platform as of August 31, 2010 (see footnote (***) plus the other four platforms. About 40% of the Earth Fund comes from the private sector.

Reflows

67. The expectation of reflows[21] is unrealistic in view of the requirement that Earth Fund investments be made on concessional terms. Relatively little private money flows on its own to environmental activities because of the low, or long, financial returns to those activities, even under market rates. Returns to Earth Fund-supported projects may be so low and long in coming that the amount of money that could flow back to a minority shareholder or holder of subordinated debt is minimal.

68. Some reflows may be expected from three approved and on-going IFC-EF investments: a loan to a bank for on-lending for energy efficiency, a project financing for renewable energy generation, and an investment fund in the realm of clean technology.

[19] IFC investments are not considering private sector as defined in this review.

[20] These percentage reflect private sector co-financing to total project budget, not economic leverage, which in the cases of certain of the IFC-EF projects is expected be in the high double-digits (see Table I.4 in Annex I).

[21] "The GEF Earth Fund (formerly) The Public-Private Partnership Initiative: Furthering the GEF Strategy to Enhance Engagement with the Private Sector", attachment to Earth Fund PIF, paragraph 13.

The review did not have access to the financial projections and inter-creditor agreements for these investments, which would be needed to estimate reflows to the GEF.

69. Table 4 shows that the IADB/TNC Water Fund platform anticipates cash investment from large private users of water and also municipal governments. These local Water Funds will be seeded by IADB/TNC, which will use its Earth Fund money to provide seed capital and technical assistance via local Water Fund Trust Accounts. The platform managers plan to invest any unexpended Earth Fund monies to keep the effort going. IADB and the GEF Secretariat decided that in the case of endowments and financial mechanism proposed by the IADB/TNC platform the interest earnings do not have to be returned to the Earth Fund as a “reflow”. This decision will be helpful for future Earth Fund platforms as well.

Table 4: Co-Financing Proposed by Earth Fund Platforms, in US$ million

Cofinancing	Earth Fund	GEF Partner (**)	Private Sector	Foundations	NGOs	Bilaterals	Governments	Undefined (*)	cofinancing	Total
	(A)	(B)	(C)	(D)	(E)	(F)	(G)	(E)	(H) Sum (B-E)	A + H
IFC EF	$30.00	$10.00	$ -	$ -	$ -	$ -	$ -	$80.00 (***)	$90.00	$120.00
WB/CI Conservations Agreements	$5.00	$ -	$ -	$5.00	$ -	$ -	$ -	$10.00	$15.00	$20.00
UNEP Lighting	$5.00	$0.07	$12.13	$ -	$ -	$ -	$ -	$ -	$12.20	$17.20
UNEP/RA Cocoa	$5.00	$ -	$6.75	$2.50	$3.25	$2.50	$ -	$ -	$15.00	$20.00
IDB/TNC Water Funds	$5.00	$1.00	$8.00	$ -	$ -	$1.00	$5.00	$ -	$15.00	$20.00
Total	$50.00	$11.07	$26.88	$7.50	$3.25	$3.50	$5.00	$90.00	$147.20	$197.20

(*) Undefined or others, which may include NGOs, foundations, private sector
(**) The agency working with GEF, such as GEF Agency or NGO
(***) As of August 31, 2010, the IFC EF Platform has approved 8 projects with $149.83 million in co-financing, with the following breakdown (in millions): private sector ($74.55); IFC FMTAAS ($5.27); IFC investments ($66.14); NGOs ($0.13); bilateral ($3.12); IFC funding to Advisory Services ($0.62)
Source: Platforms PIFs and personal communication with platform managers

Relevance to GEF Mandate

70. Table 5 below summarizes focal area and geographic coverage of the projects or investments proposed or made by the five approved Platform Managers:

Table 5: Relevance of Earth Fund Platforms to GEF Mandate

Platform Manager	**Focal Areas Covered**	**Mode of Operation**[22]	**Geographic Coverage**
IFC EF	Climate	Investment and Foundation al activities	Asia, Sub-Saharan Africa, Middle East, Europe
UNEP Lighting	Climate	Foundational activities	Asia, North Africa, Middle East, West Africa
WB-CI Conservation Agreements	Biodiversity	Demonstration activities	Latin America and Caribbean, Sub-Sahara Africa, and Asia-Pacific will be eligible.
UNEP-RA Cocoa	Biodiversity	Demonstration activities	Priority: Papua New Guinea, Indonesia, Madagascar and Nigeria. Also in Ghana and Cote d'Ivoire
IADB-TNC Water Funds	Biodiversity	Demonstration and Investment activities	South America

Climate Change

71. The IFC-EF and UNEP Lighting platforms are focused on renewable energy and energy efficiency. The IFC had proposed several investments to support energy efficiency: a Fund investment to expand IFC's Sustainable Energy Facility, as well as direct investments in the energy efficiency supply chain, and in a financial institution. Only the last investment has been made. The IFC-EF has attempted three direct investments in the field of renewable energy generation, one using fuel cells, one geothermal power project, and one solar farm. The fuel cell investment and the geothermal power project were cancelled. The solar farm investment is still being designed. IFC-EF has allocated $6.1 million (15%) of its Earth Fund platform allocation in five Advisory Services programs/projects of cleaner production audits focused on energy efficiency.

72. The UNEP Lighting platform is focused on a global effort to replace incandescent light bulbs, which are inefficient users of electricity, with the new generation of compact fluorescent and LED lighting products.

[22] According to OPS4, the GEF operates in three modes: foundational activities, focusing on creating an enabling environment; demonstration activities which are innovative and show how new approaches and market changes can work and investments activities that scale these up to a national level to achieve sustainable global environmental benefits. (OPS4, March 2010, GEF Evaluation Office).

Biodiversity

73. Interviews with the NGOs working with the Earth Fund, all of them working on biodiversity, indicated that they have approached the GEF and in this case the Earth Fund for funding because they believe they benefit from GEF and GEF Agencies' ability to raise the profile of biodiversity issues through its convening power and governmental contacts in this field. Each of the three Earth Fund platforms that focus on biodiversity are in different ways seeking to improve the markets for protecting biodiversity by assigning value to it and ensuring that value is reflected in global trading chains.

International Waters

74. In the 2007 justifications of the Earth Fund, it was assumed that projects would be developed in the International Waters focal area as well. These last have not materialized although at least one such proposal was discussed. In June, 2009 a proposal was submitted to Earth Fund for a UNIDO-private sector (in this case Carlsberg, a brewing company) platform for improving water quality and availability by bringing advanced technologies to community water supplies in Russia, Ukraine, Kazakhstan and China. Reports of the discussions between Carlsberg and proponents representatives indicate that there was also confusion about who would take the lead in the platform between UNIDO and UNDP. This confusion is unfortunate, as it prevented the only proposed Earth Fund platform that involved a private company at platform level from moving forward.

Innovation, Replicability and Scaling up

75. In the area of climate change, the UNEP Lighting platform is designed to encourage investment to scale-up or aid deployment of energy efficient lighting technologies. The IFC Earth Fund platform, especially the advisory services component, is also aiding in the deployment of energy efficient processes and products.

76. In the area of biodiversity, innovation is seen in the structure of proposed projects. The agreements with the trading company proposed in the UNEP-RA Cocoa platform, may turn out to be quite innovative, in that the trading company is being asked to use its field infrastructure to provide much of the proposed agricultural extension services. In the case of IADB-The Nature Conservancy Water Funds, the combination of mobilizing PPPs for water systems combined with conservation easements into establishment of water funds which may be scaled up to become eligible for project finance is innovative. The World Bank-Conservation International platform will be replicating an established program of community level conservation agreements.

77. The IFC-EF has attempted several investments that are innovative in the sense that they are trying to project finance renewable energy – which is difficult in the best of capital markets – in countries (Bulgaria, Djibouti) that are perceived by the market as higher risk. The recently approved investment in a Clean Tech Venture Capital Fund also will attempt to do something difficult in the best of markets, make money in clean technology, in more difficult geographies.

78. The IFC-EF supported work on capital markets indices lays the foundation for eventual scaling up of investments in clean technology companies in emerging markets.

Earth Fund and platform competitiveness

79. The review conducted two types or levels of competitive analysis given the incipient nature of execution of the first round of Earth Fund funding.[23] The first is: did the GEF identify the possible partner organizations – NGOs and others – active in the biodiversity, climate change and international waters "space", to determine a short-list of organizations to be invited to make proposals? The second is: did the Platform Managers include an assessment of their own competitive advantage or market position, to illustrate how GEF support will enhance it and/or bolster the case for their proposed activity?

80. The answer to the first question appears to be "No", in the sense that no formal process of opening a window, through a call for Expressions of Interest or similar undertaking, to determine a short list using objective analytical criteria was undertaken. The answer to the second question is "yes" for the NGOs participating in the Earth Fund. GEF Agencies' operational commitments should be revealed in the Platform Operating Agreements, three of which are still being drafted.

81. Had the GEF Secretariat analyzed the universe of clean technology and carbon funds it might have found opportunities to co-invest with those funds. A co-investment strategy might have been more efficient and targeted than the one that was pursued. There are over 100 private investment funds (venture capital and private equity) focused on clean technology in emerging markets.[24] There are more than 80 funds still active in the GHG emissions reduction project markets, which invest in energy efficiency and renewable energy.[25] Many, perhaps most, of these funds have high participation of government entities, i.e. they are financial PPPs.

82. The Platform Operating Agreements should also address the roles of the participants in the Platform. NGO partners in the various Platforms expressed that the value-added of their partner GEF Agency included:

- Access to government agencies, beyond the GEF focal points
- Convening power
- None other than as a conduit for funding

83. A presentation of the roles and responsibilities as well as an assessment of all of the key stakeholders participating in the Earth Fund is presented in Chapter VI.

Platform Cycle

84. Earth Fund received CEO endorsement in May 2008. A year later, in April 2009, the GEF Secretariat and the GEF Agencies finalized the Earth Fund Board Procedures, which were approved by GEF Council on June 2009. At that point, only two platforms

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[23] By competitiveness this Review means the comparative advantage of the organization as reflected in a range of non-financial as well as financial considerations, such as product or service differentiation. In the case of the GEF Earth Fund the criterion could be: how likely is this NGO or proposed NGO-private enterprise collaboration to be viewed as a market leader and do they have the desired catalytic effect?

[24] One hundred and nine out of 314 funds analyzed by Prequin in its 2009 Prequin Private Equity Cleantech Review. In this analysis, clean technology includes without limitation investments in transportation, efficiency infrastructure, biofuels, power generation, energy storage, materials, recycling and waste management (industrial and agricultural).

[25] Eighty-eight according to the 2009/2010 Directory of Carbon Funds published by Environmental Finance Publications. There is a high drop-out rate in this market.

were awaiting approval: UNEP-RA and IADB-TNC. The platform approval process was different for each of the first three platforms. The IFC Platform had been prepared prior to the Earth Fund endorsement, to be processed as a regular GEF project. Apparently it had been thought that this Platform would have been the entire Earth Fund but this was further negotiated between IFC and GEF Secretariat. This platform was reviewed by GEF Secretariat, reviewed (under non-objection) by Council and then endorsed by GEF CEO in September 2008.

85. The UNEP Lighting platform had gone through the regular GEF project cycle, approved by Council in the November 2007 Work Program, but before implementation began, UNEP was asked to re-submit it as an Earth Fund platform, which it did in March 2009. There were two reasons indicated by GEF Secretariat for this move: (1) the project presented a substantial level of private sector engagement, including the partnership with Osram and Phillips and their commitments to provide significant private co-financing (this co-financing is in-kind) and (2) a shortage of available funding in the GEF Trust Fund. The main change from the original proposal was the additional cash co-financing, to fulfill the 3 to 1 requirement of the Earth Fund. The platform had been presented to the Earth Fund Board at its April 2009 meeting and recommended for Council approval. Subsequently, the project was endorsed by CEO on August 17, 2009, as the UNEP Lighting Earth Fund.

86. The WB/CI Platform was presented to the Earth Fund Board in April 2009 and recommended for Council approval with no comments from the Board. The platform was endorsed by CEO in May 2010.

87. According to the Earth Fund approval document and the June 2009 document on Board procedures, the Earth Fund platform cycle is as follows:

- Ideas for Earth Fund platforms are formulated by “proponents” (GEF Agencies, NGOs, private companies who are potential “implementing partners” in an Earth Fund Platform) and brought to the attention of the GEF Secretariat. GEF Secretariat and proponents then discuss how to improve the idea and make it eligible for Earth Fund.

- To formalize the request, the proponents of the Earth Fund platform prepare an Earth Fund Platform Identification Form (EFPIF) and submit it to GEF Secretariat. The proposals are reviewed and screened by GEF Secretariat for (a) completeness of the application; (b) consistency with GEF strategies; (c) comparative advantage of the entity submitting the platform, (d) estimated cost of the platform, including expected leverage and co-financing; and (e) milestones and objectives of the platform. The GEF Secretariat has ten business days to review, discuss it with proponents if needed and may request a revision of the EF PIF or approve it as a final Earth Fund PIF.

Table 6: Platform Development Timelines

Platform Manager	GEFSEC Review (Steps 1-3)	EF Advisory Board Review (Step 4)	Council Approval (Step 5)	CEO Endorse-ment (Step 6)	Trust Fund Admin. & Legal[26]	First Dis-bursement
IFC EF	2008 to 4/2008	4-2008	4-2008	9-2008	1996[27]	First approved investment November 2008
UNEP Lighting	11-2007	4-2009	6-2009	8-2009	9-2009 to 2-2010 (internal UNEP review)	2-2010
WB-CI Conservation Agreements	2009	4-2009	8-2009	5-2010	On-going	Pending
UNEP-RA Cocoa	12-2006	3-2010	4-2010	Pending: target is 10-2010	Pending. Target is 1-2011	
IADB-TNC Water Funds	early 2009	3-2010	4-2010	6-2010	Pending. Target is 1-2011	

- Proponents prepare a final Earth Fund PIF and the GEF Secretariat submits it to the Earth Fund Board for comment and recommendation regarding submittal to the GEF Council. The Board has 15 days to comment.
- Earth Fund Board comments, if any, are incorporated into a final PIF, which is reviewed again by GEF Secretariat and then submitted to the Council under circulation/no-objection procedures. Council has 30 days for review by electronic posting.
- Following Council approval, proponents prepare a package for CEO Endorsement. This package incorporates suggestions or comments made by Council, and also may include: draft memorandum of understanding among the platform managing partners, management plans and draft operating agreement, and definition of any conditions precedent to first disbursement.
- Following CEO Endorsement, the platform operating agreement and MoU between the platform and the GEF Trust Fund (managed by the IFC) is submitted to the IFC "t" Trust Fund to arrange for first disbursement. At this stage the project document and the Council approval are needed by the IFC to process the Commitment of Funds.
- Platforms are moved into the GEF Agency and proponents' own internal processing
- Implementation begins.

88. The actual implementation of the Earth Fund platform cycle included three "black boxes": one at the beginning of this process, one in the middle and another one at the end.

[26] Includes: Approval of Operating Agreement, Memorandum of Understanding, and Grant Financing Request. For IFC-EF platform should also include inter-creditor agreements to verify projected co-financing and reflows.
[27] IFC-WB agreement for the IFC to be an executive agency of the GEF.

At the entry stage, there was no "call for proposals" process for attracting proposals to the Earth Fund, so at the end of the day it is not clear how these five platforms came to be selected. A second black box encompasses the discussion between GEF Secretariat and platform proposals. The lengthy process of back and forth comments would seem to be unnecessary if the objectives of Earth Fund were more clear and consistent over time.

89. The third black box is at the point of commitment and disbursements. As stated above, there are two stages where financial aspects of the platforms are executed once the platform proposals are approved. Following the Earth Fund project cycle, the first step is creating the commitment in the financial system and for this to happen, it is necessary to have the project document and council approval. In a second step, to release the funds to the implementing agencies, it is necessary to submit to the financial unit of the IFC, which is responsible for managing the funds, the following documents: CEO endorsement, the MDB management approval or equivalent, the confirmation of signed FPA between the MDB and Trustee, the signed agreement/MOU between IFC and MDB outlining the responsibilities of the parties and a disbursement request to process transfer of funds to the implementing agencies.

90. With regards to the first "black box", the review was able to identify six proposals that were submitted for consideration for Earth Fund financing but did not make it through GEF Secretariat Review (see Table 7).

Table 7: Rejected Platforms

Lost Platform	Focal Area	Proposed Partners	Rationale for Dropping
"Save the Source" 2009	International Waters	Carlsberg Breweries and UNIDO	Unclear roles of UNIDO and UNDP
Coastal Water Treatment, 2007	International Waters	Unknown	Lack of GEF Agency partner?
Energy Efficiency-Europe, 2009	Climate Change	EBRD and unknown	Lack of co-financing? TA only, no reflows; EBRD considered Earth Fund procedures too complex
Energy Efficiency-Latin America & Caribbean, 2009	Climate Change	IADB alone	Too big (wanted $10m) for TA only and no reflows
Alternatives to DDT for Malaria, 2007	Biodiversity	UNEP and unknown	No information
Biofuels, 2008	Climate Change	IFC and unknown	See discussion of inducement prize in Annex I, IFC platform

91. All platform proposals submitted to the Earth Fund Advisory Board were approved for submission to the Council, and all proposals submitted to Council were approved.

92. In practice the first Phase of the Earth Fund took 2 years to complete: from CEO endorsement (May 2008) to the approval of the last platform (June 2010). Of course this does not imply that activities have begun or that projects have been approved under all platforms.

Management

93. The individual platforms varied widely in their attention to management in the Earth Fund PIF presentations. Management plans are a required component of agreements between the different parties involved in the platform to define their roles and

responsibilities. These agreements are still pending approval for the last two platforms approved by Council: UNEP-RA Cocoa (which is still awaiting CEO Endorsement) and IADB-TNC Water Funds. The IADB-TNC Water Funds Earth Fund PIF includes a solid outline of a management plan, and the review found that IADB has refined the management plan considerably, conducting financial and technical due diligence. The WB-CI Conservation Agreements platform is an expansion of a Conservation International existing program. The grant agreement between World Bank and Conservation International is still pending approval. The UNEP Lighting platform is being managed as a regular UNEP project. Management of the IFC-Earth Fund has been assigned to the Financial Mechanisms Sustainability Unit of the IFC, which manages its Earth Fund appropriations in ways similar to those used for other funds.

Project Identification and Approval within platforms

94. Four of the five platforms propose implementation through projects (UNEP Lighting is the only one that does not include projects as its mode of operations). As indicated above, the eligibility criteria for projects and other subcomponents, operational procedures for how projects within the platforms will be approved, and their monitoring, reporting and evaluation should be described within each of the operating agreements and work plans.

95. The IFC manages its Earth Fund appropriation in ways similar to those used for other Funds. There is an investment committee, on which GEF Secretariat has observer status (voice with no vote), and the investment pipeline is derived from a broader pipeline of the IFC's. At least one project, a proposed sustainable forestry project in Indonesia, was rejected partly due to GEF Secretariat technical comments.

96. The IFC has not integrated Earth Fund monies into other Funds, i.e. GEF is considered a donor and not a limited partner in a multi-donor Fund.[28] The advisory services pipeline was derived from a broader pipeline of advisory services opportunities. The Earth Fund is the only way the IFC has accessed GEF funding during GEF4.

97. Twelve out of 50 proposals received by the IFC Financial Mechanisms and Sustainability group were approved to go to the Earth Fund Investment Review Committee (IRC); of these one was rejected by IRC. This dropout rate is thought to be consistent with other IFC Investment Services operations. Of the eleven investments that were approved by the IRC, 3 have been cancelled. Table I.3 in Annex I provides details of the IFC portfolio. A summary is provided in the following paragraphs.

98. The only platform that has delivered projects so far is the IFC Earth Fund Platform. The emphasis of this Platform has been on testing and scaling up new technologies and financial models. Private sector interests are such that all Earth Fund-supported activity at the IFC has been and is expected to continue to be focused in the climate change arena.

99. Attention was given in Earth Fund presentations to Council and in the IFC's Earth Fund "PIF", to the notion of offering incentive prizes for technological solutions to

[28] The GEF cannot be a Limited Partner given the lack of GEF's legal personality. Nevertheless, the GEF could participate as an LP through or in another entity with the proper documentation.

problems of environmental protection, thereby mobilizing private funds for the public good. Biofuels development was singled out at the time as a focus for the incentive prize initiative.[29] The prize was dropped when the individual chosen to raise the money for the prize, was unable to deliver, and results of a market study conducted by the IFC indicated it would be very difficult for anyone to deliver in the face of the "food v. fuel" debate, and entail too much "reputation risk" to the GEF.

100. Review of the IFC Earth Fund portfolio indicates that IFC has used many of the financing tools available to it in meeting Earth Fund objectives; has made or planned investments in Asia, Southeastern Europe and the Middle East; and has funded an advisory services operation with global coverage. There are about $15 million of the IFC EF funding not fully committed: almost $4.5 million from cancelled and dropped projects and $10 million from a project approved in three tranches of $5 million each with only the first tranch committed. The Advisory Services component makes up $6.1 million, or about 15% of the IFC-EF portfolio, while Investment Services comprises the rest. The Advisory Services portfolio emphasizes clean technology and energy efficiency, including for example grants and consulting contracts for a PPP to build light rail (reduce GHG emissions), and for the development of information that supports environmental investments in emerging markets. The Investment Services portfolio is directed toward energy efficiency and renewable energy generating capacity. Although all IFC-EF funds have been allocated, not all investments have been made. Annex I provides additional information on the IFC-EF portfolio.

Monitoring & Evaluation

101. According to the documents establishing the Earth Fund and its procedures the GEF Agencies and the platform managing agencies are responsible for the M&E of each platform. In particularly, regarding evaluation, the Board procedures document indicates that the GEF Evaluation Office may establish evaluation requirements, in collaboration with the GEF Secretariat, in line with the GEF M&E Policy.

102. The approved Earth Fund platforms also vary widely in their apparent "evaluability," with some at PIF stage providing very limited baseline information, logical or results frameworks, or defined criteria for success (see Table 8). Public-private partnerships are by definition complex undertakings, and when they must be managed in multiple jurisdictions, they become even more so. One of the rationales for preparing logical frameworks or results frame-works is to aide in management planning early on. The availability of sufficient resources to perform M&E required by the GEF has been identified as an issue by one of the Platforms, which is going to have to seek additional non-GEF funds to support this function.

103. The GEF Secretariat is responsible for reporting at the Earth Fund level on progress in activities to Council and the public at large. Since the Earth Fund was considered a pilot reporting was also supposed to be done on lessons learned on experiences and in particular from IFC lessons learned on its experience with the implementation of its platform. Neither of these reports has been prepared.

[29] IFC conducted a survey of the market for incentive prizes, and that document should be available from GEF Secretariat as part of knowledge gained from the Earth Fund implementation to date.

104. Indicative dates for mid-term evaluations and expected completion dates are shown on the Earth Fund PIFs submitted by the individual platforms and presented in Table 8 below.

Table 8: Monitoring & Evaluation Plans

Platform	**Logical Framework**	**Baseline Information**	**Criteria for Success**	**Estimated Date of Mid-Term Evaluation**	**Expected Implementation Completion**
Earth Fund	None specific to EF	None	Not defined	June 2011	TBD
IFC EF	All IFC projects have a results framework[30]	Not available at platform level	Investments made; Financial returns	June 2011	June 2013
WB-CI Conservation Agreements	Yes	Being gathered	Conservation Agreements with sustainable financing plans signed	None indicated on EF PIF	Sept 2014
UNEP Lighting	Yes	Being gathered	Existence of: stakeholder forum, roadmap for market transformation, communication plan, Centre of Excellence, network of expertise. Guidelines for harmonization of quality and performance-based standards. Guidelines for certification and labeling schemes. Policy toolkit. Institutional arrangement for safe disposal of CFLs.	March 2011	March 2013
UNEP-RA Cocoa	Yes	Being gathered	Adoption of Sustainable Agriculture Standards; cost-benefit analyses; payment for ecosystems services methodology; measurable biodiversity improvements	June 2011	Dec 2016
IADB-The Nature Conservancy	To be determined by the IADB Office of Evaluation and Oversight	Several feasibility studies are to be prepared for each proposed Water Fund.	Water quality and availability, biodiversity of the watershed, financial returns and system maintenance	January 2013	Sept 2015

[30] Given the nature of the IFC EF platform, the logical framework attached to the IFC EFPIF would need to be made more specific to be used to guide an evaluation. A strategy framework for the implementation of the platform was approved in 2008 that could guide the evaluation of this platform.

V. Assessment of Engagement with the Private Sector through Earth Fund

105. There has been limited documentation of the process of engagement with the private sector in the development of the Earth Fund and its platforms, so the review has had to reconstruct this from interviews and analysis of the platforms that have resulted from the Earth Fund Pilot process. The review sought to determine:

- To what extent the Earth Fund and its Platforms are providing a different and innovative way for the GEF to engage the private sector
- Demand for Earth Fund from the private sector and other GEF stakeholders
- Positioning of Earth Fund vis a vis other sources of environmental finance that may be tapped by the private sector

106. The review tried to determine the extent to which the Earth Fund attracted private sector financial partners, enlisted their help in designing platforms, or interested them in participating in platforms.

Earth Fund level engagement

107. The original intent, as evidenced in the change of name from PPPI to Earth Fund, was to attract private money to the Earth Fund, with the Earth Fund Board members being one of the ways to accomplish this goal.[31] As of the end of August 2010, the Earth Fund has not been able to leverage any additional funding. One of the reasons for this could include the limited promotion of the Earth Fund outside the GEF partnership, either by the CEO or the Earth Fund Board. IFC has created, as requested by Council, a special account to receive private donations.

Earth Fund platform level engagement

108. The contrast between the Earth Fund portfolio of platforms and the main GEF portfolio is one of degree, rather than a radically innovative approach. The Earth Fund platforms devised during the pilot phase are all regional or global in scope, in contrast to the regular portfolio in which such projects comprise fewer than 10 of the total number of projects. As discussed earlier, the proportion of private sector co-financing in the Earth Fund portfolio to date is lower than in the overall portfolio.

109. It is not clear why the Earth Fund trust fund set up in IFC could not have engaged directly any entity, private, NGO or public. The document approving the Earth Fund was not fully clear about this either. Nevertheless, it indicates that any entity that would fulfill the fiduciary standards set up by the GEF and then approved by the Council could propose a platform. The document did not indicate the need for one of the 10 GEF Agencies to be the "public sector" partners in the Earth Fund platforms. It seems that at some point in the process of implementing the Earth Fund, it was decided not to authorize the Earth Fund Trust Fund to engage directly with private sector entities. One clear case in point was that during the processing of the TNC and CI platforms, GEF Secretariat

[31] See CEO Endorsement Package dated March 2008 and Strategy and Guidelines for Earth Fund Board approved June 2009.

recommended to these two institutions that they should pair themselves with one of the 10 GEF Agencies. The GEF Secretariat, WB and IFC could have presented cases, based on the document establishing the Earth Fund, to the GEF Council to request that these two institutions become Earth Fund platform managers. Some might have thought that contracting with an NGO to help operate a platform could have been a back door to provide that NGO the status of a GEF Agency to the GEF Trust Fund. This is not what the Earth Fund project and Board procedures documents indicated. Perhaps these documents could have more clearly defined the difference between becoming a GEF Agency for the GEF Trust Fund and a "GEF Earth Fund Platform Managing Agency".

110. One clear consequence of this confusion of having to have a GEF Agency to access the Earth Fund resulted in the fact that in none of the Earth Fund platforms the financial and operational management and accountability is shared with the private sector. Rather, in the case of the three platforms that involve NGOs as partners, the relationship is one of grantor and grantee. While interesting and useful this is not engagement above and beyond prior relationships.

111. The IFC has had difficulty positioning the Earth Fund as a co-investor with private sources, due to market conditions and restrictions placed on its other sources of funds. The UNEP Lighting platform, which is operated more as project than a platform, has achieved a working relationship with the private sector. Two companies, Philips and Osram, have agreed to participate at the platform level, providing policy and technical information and networks to support the phase-out of incandescent lighting and phase-in of second-generation compact fluorescents and products that use light emitting diodes.

"Project" level engagement

112. At project level the platform managers have built roles for private sector organizations, including global corporate, local corporate and community enterprises, into their program operations plans.

113. In the case of UNEP RA, two of the major consumers of cocoa, Mars and Kraft, and one of the principal trading companies, Armajaro, are also participating in the proposed projects to make the cocoa supply chain more sustainable. According to the new documentation that will be sent to CEO for her endorsement in October 2010, additional cocoa processing and trading companies have apparently signed on to the project.

114. In the case of the IADB-Nature Conservancy Water Fund platform, the whole idea is to engage local private companies in protecting watersheds by enabling them to invest in providers of water services.

115. In the case of the WB-CI Conservation Agreements platform, community enterprises are the primary participants in the project to streamline biodiversity supply chains, with a local financial institutions also participating through various lending and technical assistance mechanisms supported by CI"s Verde Ventures Fund.

Demand for/Awareness of Earth Fund

116. The private sector arms of three GEF Agencies – IFC, EBRD and IADB – expressed that there is demand for Earth Fund monies to improve returns or mitigate risk in their environmental portfolios. Other agencies interviewed during this review also indicated that once the new phase of the Earth Fund is approved they consider that demand will exist. They also however expressed frustration with the delays in the approval of Earth Fund II itself, and with the low levels of funding projected for Earth Fund II in GEF5. Both of these problems could cause a decrease in the internal demand.

117. As there was no call for proposals to participate in the Earth Fund and there is no private sector association or network that has been involved in it so far that could have been consulted, the review has no way of determining private sector demand for Earth Fund *qua* Earth Fund. However it is perceived that there is demand for public-sector money generally to complement private investment in carbon markets, forest management, renewable energy, and other elements of sustainability and environmental protection.

118. Companies whose businesses are based on natural resources are aware of the GEF, but it appears that the Earth Fund itself has no visibility.

Positioning of Earth Fund in the Environmental Finance Arena

119. As evidenced by the number of recent and upcoming conferences in the private environmental finance arena in which there is no mention either of the GEF or Earth Fund, there is room for improvement in this vital aspect of engaging the private sector.

120. Because the Earth Fund is not an investment fund, it has not been able to pursue a strategy of co-investment with investment funds operating in the environmental finance field, as discussed earlier.

121. Since the Earth Fund is operated as a granting facility, the organizations most comparable to it are other granting facilities, such as private Foundations, with global environmental agendas. There is room in the approved Earth Fund structure to engage Foundations as Platform Managing Partners, but to date this has not occurred. The review was unable to determine why this is. Annex II, Bibliography and Relevant References, includes a partial list of such entities that are sufficiently established that they probably would meet GEF fiduciary standards as potential platform managing partners. Annex II also makes reference to industry associations (that is umbrella organizations) that could be of interest in a second phase of the Earth Fund.

Financial Expectations of Earth Fund

122. As discussed earlier, the GEF's expectations of the private financial leverage and returns from the Earth Fund were unrealistic given that three of the five platforms are being managed by NGOs. Co-financing in the sense of cost-sharing, will naturally will be limited when there is no offer of corresponding "ownership" of a platform, for instance. Reflows are a function of the returns on investment, which in the case of the GEF mandated areas of investment, tend to be low and long into the future, making it difficult to attract co-investors and align their financial interests with those of the Earth Fund.

VI. Assessment of Roles and Responsibilities in the Earth Fund

123. The roles and responsibilities of different parts of the Earth Fund were established in two documents: the Earth Fund project document endorsed by the CEO on May 2008 and the Earth Fund Board Procedures approved in June 2009. The first part of this Chapter presents the roles and responsibilities as established in those two documents and the second part presents an assessment of how these roles and responsibilities were carried out.

124. The Earth Fund was approved as a GEF full sized project. It was supposed to be managed operationally by the GEF Secretariat. The World Bank (IBRD) is the GEF Agency and the IFC is the executing agency as well as the manager of the Earth Fund trust fund account. As manager of the Earth Fund Trust Fund account, IFC disburses funding from the account under instructions of the GEF Council and the GEF CEO.

125. As explained in previous sections, the Earth Fund works through the concept of Platforms, which are proposed by Earth Fund Platform Managing Partners (i.e., GEF Agencies, NGOs and foundations meeting GEF fiduciary standards). The proponents of the Earth Fund intended that the Platforms could have been implemented by any entity approved by Council. Another element particular to the Earth Fund was the establishment of the Earth Fund Board to provide guidance on strategy, to review platforms and promote the Earth Fund. Other partners described in these documents were the Earth Fund Sponsors, individual, agencies and other interested parties, to contribute at the Earth Fund and/or platform level.

126. Although the Earth Fund was established to improve the access of the private sector to the GEF there was no strategic discussion of the role(s) of the private sector in the Earth Fund in these documents. Another interesting characteristic of the Earth Fund that makes it different from GEF regular project is that neither platforms nor projects under the platforms need endorsement from GEF Focal Points at any point of the project cycle; therefore, there is no role described in these documents for this group of GEF stakeholders.

127. The following is a more detailed description of the roles and responsibilities of all the parties involved in the Earth Fund, as proposed in the two documents mentioned above and in practice.

Proposed Roles

128. **GEF Council** approved the establishment of the Earth Fund, its financial allocations, its governance structure (including the establishment of the Earth Fund Board) and operating procedures. The Council also has responsibilities vis à vis the Earth Fund platforms, procedures and monitoring and evaluation. With respect to platforms, the Council makes decisions on both establishing a platform and on allocating funds for its implementation to one or more interested agency/agencies, based on its/their comparative advantage. As stipulated in the project document Council is to approve all platforms and their corresponding funding allocations, and establish criteria for the minimum co-financing required for agencies to be eligible for allocations from the Earth Fund. The Council also ensures that activities of the Platforms and projects are monitored and evaluated on a regular basis in accordance with the GEF M&E Policy. The

Council requests, as appropriate, and reviews external audits and financial reviews of Earth Fund accounts.

129. With respect to the Earth Fund, the **GEF CEO** reports to Council on behalf of the Earth Fund Board. Following Council approval, the CEO endorses platforms, incorporating comments from Council. The CEO also Chairs the Earth Fund Board.

130. The **GEF Secretariat** manages operationally the Earth Fund. The management of the Earth Fund was supposed to include the establishment of an Earth Management Team and overall procedures of the Earth Fund. Furthermore, the GEF Secretariat was supposed to service the Council on issues related to the Earth Fund and the Earth Fund Board, prepare an annual report of the Earth Fund (together with IFC as the Earth Fund trust fund manager) and maintains the Earth Fund website. In addition, the GEF Secretariat was assigned the following roles and responsibilities:

- Platforms:
    - Development: liaison with prospective platform managing agencies; assist them, as appropriate, by discussing ideas for new activities, supporting resource mobilization and promoting linkages and learning between projects
    - Cycle: reviews platforms proposals submitted by candidate platform managing agencies; coordinates the project cycle of platforms culminating in the submission to the Earth Fund Board and Council
    - Implementation: participates in the review of project proposals by platform agencies
- Monitoring: prepares annual monitoring review of platforms, based on reports submitted by agencies; oversees monitoring requirements for platforms developed under the Earth Fund in conjunction with platform managing agencies; manages a comprehensive database of Earth Fund activities, knowledge management and results
- Promotes Earth Fund: manage external relations and promote the Earth Fund, including securing additional contributions to the Earth Fund

131. The Earth Fund was approved as a GEF full size project with the World Bank as the GEF Agency and the IFC as the executing agency. The IFC, acting on behalf of the IBRD, has the responsibility to oversee Earth Fund operations, commitments and disbursements of funds.

132. **IFC**, as the executing agency of the Earth Fund, sets up a team of staff to fulfill its obligations:

- Earth Fund Trustee manager as directed by the Council and GEF CEO; IFC team supports the administration of the trust fund, including executing grant agreements with GEF Agencies approved for Platforms, managing donors agreements to the Earth Fund, and general administration of the Earth Fund trust fund:
    - Administers funds to Platforms
    - Has fiduciary responsibilities to the GEF Council and the GEF Trustee
    - Creates and maintains separate trust funds as required to manage external contributions to the Earth Fund

    - Responsible for all assets as directed by the GEF Council, performing the following functions: financial management, accounting and financial reporting, legal services and systems and infrastructure
    - participate in Earth Fund Board as requested
- Earth Fund Platform Manager, piloting the implementation of the first platform ("IFC Earth Fund Platform"), and in setting up and implementing the platform, IFC also would devise and test operational procedures and policies that could then subsequently be used by other GEF implementing agencies when they take on the implementation of their own Earth Fund Platforms.

133. **Earth Fund Board**, meets at least once a year, and is composed of at least 3 members from: (1) GEF CEO Chair; (2) representatives of organizations making significant contributions to the Earth Fund; and (3) individuals with particular reputation for thematic excellence or influence in the topic of the Earth Fund. 8-16 members were expected. Nominations for (2) and (3) are done by the Board members and approved by all others. Financial contribution to the Earth Fund is not required to be a member. GEF Council members and representatives from GEF Agencies are invited to be observers.

134. The Earth Fund Board's role is to:

- Provide Strategic guidance (non-binding) to the Platforms and the GEF Council.
- Advocate for the Earth Fund: advocates the Earth Fund partnership, reviews the availability of resources and seek to mobilize further financial resources; recommends the inclusion of new contributors, Platforms and other opportunities
- Review Platforms:
    - Reviews platform proposals and make recommendation to Council for each of the new proposed Platforms
    - Reviews annual Platform progress reports provided by Platforms Managing Partners
- Provide an annual report to the Council on the activities of the Platforms under the Earth Fund

135. **Platform Managing Agencies**

- GEF Agencies, NGOs, and foundations with fiduciary standards that meet GEF requirements will be allowed to propose Platforms and may qualify as Platform Managing Agencies, subject to the approval of Council.
- Propose platforms
- Responsible for managing all investments within the platform in accordance with the Strategic Priorities, Governance and Operational Procedures of the Earth Fund.
- Provide annual reports on their activities and the performance of their projects to the Earth Board
- Responsible for conducting M&E activities for their specific platforms

136. **Private Sector**. No role is defined for for-profit private sector organizations at Earth Fund or platform level other than membership in the Earth Fund Board.

137. **GEF Earth Fund Sponsors**

- Interested agencies, individual or organizations that wish to provide contributions to the Earth Fund. Contributions of any sizes will be accepted.

- Sponsors bringing the most significant contributions will be invited to become a member of the Earth Fund's Board

138. Based on review of documents and interviews conducted the present review considers that in practice most roles and responsibilities of the different partners in the Earth Fund have been accomplished, others are yet to be fulfilled.

Roles in Practice

139. In practice the role of the **GEF Council** has been limited to the approval of the Earth Fund as a full size project, commenting on each of the platforms and then approving them. A few Council members issued comments on each of the platforms, and those have been incorporated in the final platform proposal before CEO endorsement. Council has not provided further strategic guidance on the implementation of the Earth Fund. Council has made only one request for information on progress report at the November 2009 Council meeting although it was not part of the agenda. Council members have participated, as observers, in the Earth Fund Board meeting of March 2010. Reports to Council by the CEO have been limited to providing information on approval of platforms and minutes from the Earth Fund Board.

140. The **CEO** has chaired the Earth Fund Board and also had a direct influence in the identification and appointment of the members of the Earth Fund **Board**. She has also fulfilled her role in the platform approval and endorsement process. Although the CEO initially had great enthusiasm for the Earth Fund and promoted it in several forums, over time her enthusiasm and attention has waned, perhaps due to the need to adapt the initial proposal for implementing the Earth Fund -- with some elements of direct access -- to a less ambitious granting mechanism given the constraints, particularly legal, of the GEF and to focus her efforts on matters of importance to the broader GEF.

141. The **GEF Secretariat** was successful in allocating the remaining $20 million of the Earth Fund in 4 platforms, servicing the Council and Earth Fund Board and negotiating and establishing the Earth Fund procedures (it is not clear why these procedures are titled the Earth Fund Board Procedures, when in reality they contain procedures as well as definition of roles and responsibilities for basically all parts of the Earth Fund). On the other hand, there were other responsibilities that were partially or not completed:

- GEF Secretariat was slow to establish the Earth Fund Management Team. It took about one year to contract a full time staff to manage the Earth Fund. Previous to early 2009, the Earth Fund was managed by several GEF Secretariat staff on a part time basis, as an add-on to other responsibilities. There is no budget allocated for the management of the Earth Fund.
- Limited use of GEF Secretariat resources. There was no formal arrangement to integrate the GEF Secretariat focal area program managers in the development of platforms, particularly for technical reviews. Furthermore, Earth Fund management team did not draw upon the extensive historic experience within the GEF with PPPs and other forms of private sector engagement.
- Limited reporting on progress. There has been no annual report of the Earth Fund, on strategic, financial or programmatic implementation. No monitoring reviews of Platforms have been prepared. At the request of Council members (this was not

part of the meeting agenda) a short statement was given to the Council at its November 2009 meeting,[32] basically presenting the Earth Fund Board members.

- The GEF Secretariat participates in the internal review committee for IFC projects with voice but no vote. The Secretariat does not participate in any of the other platforms once the platform has been approved.
- There have been a few attempts at linking with potential platform proponents, in particular from the private sector but there has been no reporting on this topic.
- The GEF PMIS does not record information at the platform level although platforms are approved by Council.
- The web site does not have up to date information.

142. The **IFC** has functioned as requested both as the Earth Fund trustee manager and manager of the IFC Platform. Regarding the management of the Earth Fund, the set up arrangement is that the World Bank (IBRD), as the GEF Agency for the Earth Fund, has established a trust fund and has authorized IFC to manage it on its behalf. IFC acting on behalf of the IBRD has set up the necessary accounting model that allows the transfer of the allocated funds to the platforms, and processing payment of fees to the GEF Agencies (9% of Earth Fund grant). Memoranda of understanding are signed between the IFC (on behalf of the IBRD as the GEF Agency) with the appropriate Platform Managing Agency. IFC has received 2% of the Earth Fund ($1 million) to manage the trust fund for its duration. The World Bank, as a GEF Agency, has received 1% of the fund ($500,000) for core services.

143. As presented in a previous chapter, IFC is implementing the IFC platform. There has not been a formal process to share with other possible proponents IFC's experience implementing the platform.

144. The **Earth Fund Board** was established in late 2008 or early 2009 with an advisory role and membership of three individuals from private enterprises, plus the GEF CEO as the Chair. According to its Terms of Reference, this Board was established for the purpose of enabling private sector expertise and perspective to inform the process of approving Earth Fund Platform proposals. There was much discussion about the establishment of the present Board. There were some Council members that were opposed to the formation of a separate Board with decision making responsibility and also there were some others that believed the Board should have a more direct role in the development of platforms. Furthermore, there were also discussions about the composition and who appointed the members. The members were nominated and appointed by the CEO and then introduced to the Council at its November 2009 meeting, after the appointment had been made.

145. The perception among GEF partners involved in the Earth Fund is that there is no clear function of the Board as it is right now and that it has not provided much value added to the Earth Fund and to the platforms. The Board has reviewed the platforms but provided no substantial comments for any of them. As presented above, an important part of the Board's role was advocacy of the Earth Fund within the private sector community. There is no evidence of this advocacy having been conducted. The Board was also charged with providing an annual report to the Council on the activities but such report has not been prepared.

[32] Council 36. Highlights.

146. Within the category of **Platform Managing Agencies** there are two types. The first group is comprised of the GEF Agencies (so far, World Bank, UNEP and IABD). In two cases (WB and IADB) these have been matched with the platform proponents given that the proponents – Conservation International and TNC – were informed by the GEF Secretariat that they could not access the Earth Fund directly. In the case of UNEP, both platforms were prepared as GEF projects so both UNEP and the proponents have had a longer relationship with these projects, prior to the Earth Fund. Interviews with some stakeholders questioned the value added of these agencies regarding the quality of the platform proposals although they have demonstrated a value added in navigating the GEF processes. In addition, it is evident that in the case of UNEP and IADB these agencies have increased the scope of the interventions. In the case of the WB the operating agreement is not yet finalized so it is not clear if there will be a greater role for the WB as a supervisor of or partner in the platform.

147. The second group of Platform Managing Agencies consists of the environmental NGOs that have proposed the platforms: Conservation International, Rainforest Alliance and The Nature Conservancy. They are the liaison with the private sector since they will be interacting, at different levels with the private sector. As presented in a previous chapter, in all cases, the platforms propose the application or scale up of on-going activities and programs in each of the NGOs. The UNEP Rainforest Alliance Platform for Greening the Cocoa Industry has defined active roles for international corporate entities. The Nature Conservancy proposes to work with local companies, and Conservation International will work with local companies and unincorporated community enterprises.

148. At the Earth Fund level, the role of the **private sector**, which as indicated above was not defined, has been limited to the participation of representatives of three companies in the Earth Fund Board. This engagement has not been very successful. In the development of platforms, other companies have been engaged from both directions, either GEF Secretariat or other perspective platform proponents have consulted with them to inform them about the Earth Fund, or private sector representatives have contacted the GEF Secretariat or agencies for possible engagements. This engagement has not been done strategically or systematically but rather more or less opportunistically. No call for proposals was issued nor was a communication strategy developed to reach out to the private sector. As presented in previous chapters, the role of the private sector is most evident at the platform or project level.

ANNEX I

DESCRIPTIONS OF THE EARTH FUND PLATFORMS

Annex I provides descriptions of the five approved Earth Fund Platforms, updated from the PIF presentations, as of August 2010.

The following table I.1 presents a summary of all of them according to five parameters:
- Name of the platform and objective
- Focal area and relationship to GEF mandate updated as implemented at the end of August 2010
- Goal
- Structure (see Table 2 in main report)
- Approaches to engaging the private sector
- Financing: GEF funding (including GEF Agency fee) and other funding by category

Table I.2 provides an update on the status of implementation of each platform as of August 31, 2010.

Each platform is presented according to the following information:

- Background and objectives
- Platform management (ownership and accountability, structure, command and control, process) and engagement with the private sector
- Projects or investments made by the platform
- Evidence of innovation, replicability and scalability, and
- Lessons and opportunities.

Table I.3 shows the status of the IFC-EF platform portfolio.

Table I.1: Summary of Earth Fund Platforms as presented in approved documents

Name of Platform/Objective	Focal Area-Relationship to GEF Mandate (as implemented)	Goals	Structure	Approaches to Engaging the Private Sector	Financing: Earth Fund, GEF Agencies and others
IFC Earth Fund: To enable the private sector to access GEF funding for the purpose of accelerating the emergence and replication of projects that will generate global environmental benefits in the focal areas of CC, Bio and IW, in a streamlined and cost effective manner.	Climate Change, support deployment of clean technologies	Mobilize funding to support innovative and market-based solutions to the most pressing environmental problems in the areas of climate change, biodiversity and international waters.	GEF Agency-Private Sector	Offer of concessional financing, capacity building, and knowledge management.	GEF EF: $30 million IFC: $10 million Co-financing: $80 million[1] (from a variety of sources, at the investment level, ensuring a minimum of 1:3 ration overall) Agency Fee: $2,7 million
UNEP Global Market Transformation for Efficient Lighting: To speed up the transformation of the market for environmentally sustainable efficient lighting technologies in the emerging markets of developing countries.	Climate Change, energy efficiency	Global policy dialogue for the phase-out of inefficient lighting and removal of barriers to widespread adoption of energy efficient lighting products. Guidelines for harmonization of standards and certification. Institutional arrangements for safe disposal of CFL	GEF Agency-Private Sector	PPP through multi-stakeholder management process.	GEF EF: $5 million UNEP: $0.068 million ADEME (France): $0.132 million OSRAM: $6 million (in-kind) Phillips: $6 million (in-kind) Agency Fee: $0.52 million
World Bank-Conservation International Conservation Agreements: to catalyze private sector participation in the conservation of biodiversity and provision of ecosystem services by enabling private sector companies to partner directly with local communities.	Biodiversity conservation and sustainable use: payment for ecosystem services	Promote use of conservation agreements under which local resource users agree to protect priority habitats in exchange to a steady stream of structured compensation from conservationists or other investors. To forge mutually beneficial links between the private sector and local communities and landowners who commit to achieve biodiversity conservation, reduce land degradation, support climate	GEF Agency-NGO-Private Sector	Streamline product sourcing agreements in biotrade supply chain. Develop conservation partnerships. Build SME capacity to participate in biotrade supply chain.	GEF EF: $5 million Mulago Foundation: $5 million Others: $10 million Total: $20 million Agency fee: $0.45 million

[1] Additional information, as of August 31, 2010, on the breakdown of cofinancing is provided in Table I.4.

Name of Platform/Objective	**Focal Area-Relationship to GEF Mandate (as implemented)**	**Goals**	**Structure**	**Approaches to Engaging the Private Sector**	**Financing: Earth Fund, GEF Agencies and others**
		regulation efforts, and promote sustainable natural resource management.			
UNEP Rainforest Alliance Greening the Cocoa Industry: to incentivize improved production and business practices in major cocoa producing countries and cocoa companies, such that they conserve biodiversity in cocoa production landscapes.	Biodiversity; sustainable agriculture	Change cocoa production and business practices in major cocoa production landscapes, provide long-term stability to the cocoa and chocolate industry and increase income for smallholders.	GEF Agency-NGO-Private Sector	One of the companies involved, Mars approached RA and Armajaro for assistance in doing the sustainable agriculture work needed to enable industry to meet its commitments to use only sustainable cocoa by 2020.	GEF EF: $5 million Bilateral Aid Agencies (USAID, GTZ): $2.50 million Private Sector (cocoa companies): $6.75 million (direct financing of research and field work, marketing investments) NGOs (Rainforest Alliance, Technoserve and others): $3.25 million (grant) Private foundations: $2.5 million (grant) Total: $20 million. Contributions from host country governments are to be determined”.[2] Agency fee: $0.45 million
IADB The Nature Conservancy Water Funds: to deploy public-private funding mechanism, the Water Funds, and their related institutional structures that will subsequently be operated as sustainable long-term instruments to	Biodiversity; International Water (depending on watersheds chosen). Payment for ecosystem services.	Protection of freshwater ecosystems and improved water quality through watershed protection paid for through at least 5 multi-stakeholder investment funds.	GEF Agency-NGO-Private Sector	As donors to local trust funds to be used to establish Water Investment Funds. As signatories to conservation and/or sustainable	GEF EF: $5 million from Government contributions: $5 million (cash) Bilateral Aid Agencies (USAID and others): $1

[2] Additional funding from private sector has been identified in the platform package to be submitted for CEO endorsement in October 2010.

Name of Platform/Objective	Focal Area-Relationship to GEF Mandate (as implemented)	Goals	Structure	Approaches to Engaging the Private Sector	Financing: Earth Fund, GEF Agencies and others
promote private sector participation in the conservation of freshwater ecosystems and biodiversity of global importance.				farming agreements.	million (cash) Large Water users: $8 million (cash) TNC/other NGOs: $1 million (cash) Total: $20 million Agency Fee: $0.45

Table I.2: Implementation Status of Earth Fund Platforms (see also Table 6 in Main Text for pre-CEO Endorsement Calendar)

	CEO Endorsement Obtained	Trust Fund Admin & Legal[3]	Funds Disbursed	Personnel Assigned	Investments Made
IFC Earth Fund	September 2008	1996[4]	First investment approved November 2008	Yes	Yes
UNEP Global Market Transformation for Efficient Lighting	August 2009	September 2010	February 2010	Yes	N/A
World Bank-Conservation International Conservation Agreements	May 2010	January 2010	Pending	CI and WB staff appointed	Pending
UNEP-Rainforest Alliance Greening Cocoa Industry	Pending: Target is Oct 2010	Pending: target is January 2011	Pending	UNEP and RA staff appointed	Pending
IADB-The Nature Conservancy Water Funds	June 2010	Pending-Target is January 2011	Pending	IADB staff appointed	Pending

[3] Includes: approval of Operating Agreement, Manuals, Memorandum of Understanding and Grand Financing Request.
[4] IFC-WB agreement for the IFC to be an executing agency of the GEF

IFC Earth Fund Platform

Background

As presented in the Annual Reports of the IFC Sustainability Business Innovator IFC has extensive experience with environmental funds, climate investment funds, promoting clean technology and supporting projects to protect biodiversity.

The IFC Earth Fund Platform had a long history. The first proposal to set up a fund like this was made in 1999. The present proposal is set up to support private sector projects with grant and non-grant instruments for the purpose of accelerating new technologies, and for the emergence and replication of projects that will generate global environmental benefits in the areas of climate change, biodiversity and international waters. In the initial planning of GEF's Public-Private Partnership Initiative, the IFC was to have been the sole implementing agency and would have received the entire $50 million allocation. This was changed and the allocation reduced when PPPI was approved.

Platform Management

Management of the IFC-Earth Fund platform has been assigned to the Financial Mechanisms for Sustainability (FinMech) unit of the IFC.

The IFC manages its Earth Fund appropriation in ways similar to those used for other Funds. There is an Investment Review Committee (IRC), on which GEF Secretariat has observer status (voice with no vote), and the investment pipeline is derived from a broader pipeline of IFC's industry departments such as the Infrastructure, Manufacturing and Financial Markets Groups. At least one project, a proposed sustainable forestry project in Indonesia, was rejected partly due to GEF Secretariat technical comments

The IFC has not integrated Earth Fund monies into other Funds, i.e. GEF is considered a donor and not a limited partner in a multi-donor Fund. The advisory services pipeline is derived from a broader pipeline of advisory services opportunities.

Private counterpart contributions at platform level have not taken place. Private investment at platform level would most likely have to come from investors with philanthropic aims, e.g. foundations or high net worth individuals. IFC contributed $10 million from its own funding to the platform, and examination of the current portfolio to which the IFC-EF contributes (see Table I.3) reveals that the IFC matches EF investment with other IFC-managed funds, in addition to private capital. Just under $145 million of co-financing has been attracted at the portfolio investments level, of which approximately 50% is from private sources.

Twelve out of 50 proposals received by the IFC Financial Mechanisms and Sustainability group were cleared to go to the IRC; one of them was rejected. This dropout rate is thought to be consistent with other IFC Investment Services operations. Of the eleven investments that were approved by the IRC, 3 have been cancelled (see Table I.3 for details).

The answer to the question "***Would any of these investments have been made without the Earth Fund money?"*** appears to be "no", as they are all projects that require financing on concessional terms and Earth Fund can be broadly geographically applied, for example. It also was noted by IFC that international organizations have access to concessional monies from other sources, and so it is possible that in the future fewer projects may solicit Earth Funds, implying a possible reduction in demand.

Projects and investments made so far

According to the IFC EF Strategy approved in July 2008, the emphasis of the IFC Earth Fund Platform has focused on testing and scaling up new technologies and financial models. Private sector interests are such that most if not all Earth Fund supported activity at the IFC has been and is expected to continue to be focused in the climate change arena.

Attention was given in Earth Fund presentations to Council and in the IFC's Earth Fund "PIF", to the notion of offering incentive prizes for technological solutions to problems of environmental protection, thereby mobilizing private funds for the public good. Biofuels development was singled out at the time as a focus for the incentive prize initiative. The prize was dropped when results of a market study conducted by the IFC indicated it would be very difficult execute this strategy in the face of the "food v. fuel" debate, and entail too much "reputation risk" to the GEF.

Review of the IFC Earth Fund portfolio indicates that IFC has used many of the financing tools available to it in meeting Earth Fund objectives; has made or planned investments in Asia, Southeastern Europe and the Middle East; and has funded an advisory services operation with global coverage. The entire amount of GEF and IFC money allocated to the IFC-EF platform has been committed to advisory services and investments. The Advisory Services component makes up $6.1 million, or about 20% of the IFC-EF allocation, while Investment Services comprises the rest. About $20 million of the GEF contribution to the IFC-EF has been allocated as of August 31, 2010, not all investments have been made.

Table I.3: Status of IFC-EF Platform Approved Projects as of August 31, 2010

Name of Project	Approval Date	Purpose	Status
Fuel Cell company in China	11-21-08	To introduce mass-manufacturing capability in the fuel cell industry by supporting an innovative small manufacturer, thereby scaling up use of renewable energy technology	Cancelled due to disagreement among shareholders regarding valuation of company shares.
Indonesia Sustainable Energy Finance	2-23-09	To remove market barriers that limit adoption of energy efficiency and cleaner production (EECP) methods. Strengthening financial institution capacity	On-going

Name of Project	Approval Date	Purpose	Status
Program		to lend for renewable energy projects. Improve outreach of technical assistance services. Design and implement market education programs.	
Emerging Markets Carbon Efficiency Index	3-20-09	To support development of an emerging markets carbon efficiency index, to offer an incentive to listed companies in emerging markets to disclose and improve their carbon efficiency.	On-going
Research & Engagement for Climate Change Investment by PE and VC Funds	7-29-09	Establish industry standards and benchmarks to enable institutional investors to increase their capital allocations to clean tech, renewable energy and energy efficiency in emerging markets, specifically through private equity and venture capital funds.	On-going
Global Cleaner Production Facility	8-28-09	Deliver and co-finance CP audits, to encourage companies in developing countries to adopt CP technologies and processes that conserve resources and reduce waste, pollution and GHG emissions	On-going
Amman-Zarqa Light Rail System	1-15-10	Support GoJ to design and implement a PPP to develop first LRS in Jordan, to facilitate transport between the 2 cities and thereby reduce overall traffic congestion, pollution and GHG emissions.	On-going
Techcombank EE Loan	2-22-10	To enable Techcombank (Vietnam) to on-lend to CPEE projects.	On-going (first disbursement made in June 2010)
Nedbank Sub-Saharan Africa Forestry Fund	3-2010	To support forestry investments in sub-Saharan Africa	Cancelled because most of the proposed portfolio did not meet GEF criteria.
EdF Solar Energy	5-20-10	To support development of a 21.4 Mw pv solar farm near a village in SE Bulgaria. Expected to displace 28.8ktCO_2e/yr.	Being redesigned to reflect recent changes in risk profile.
Clean Tech Pilot VC Facility	5-20-10	To expand on earlier CT investments into more challenging geographies and markets	Initial pipeline of 2 companies: 1. (Telecoms) Base Station Sustainable Energy Solutions, Nigeria 2. Low-cost solar home system integrator. India, targeting off-grid “bottom of the pyramid” customers in SE Asia and Africa.
Assal Geothermal Power Plant, Djibouti	7-29-09	To build a 50 MW geothermal power plant	Cancelled because negotiations with the government of Djibouti were unsuccessful.

Table 1.4. Financing of IFC-EF Platforms on-going projects as of August 31, 2010 (cancelled projects are not included)

Name of project	GEF EF	IFC FMTAAS	Private Sector	IFC (investments)	NGOs	Bilateral	IFC funding to AS	Project budget
Indonesia	$ 0.20	$ -	$ 0.21	$ -	$ -	$ 0.63	$ -	$ 1.04
Carbon index	$0.27	$ -	$ 0.50	$ -	$0.13	$ 0.21	$ 0.14	$ 1.25
RECCIPE	$0.10	$ 0.10	$ 0.48	$ -	$ -	$ 0.48	$ -	$ 1.16
Global Clean Production	$0.15	$ 4.81	$ 4.60	$ -	$ -	$ 1.45	$ -	$ 11.01
Amman-Zarga LRS	$ -	$ 0.36	$ 0.25	$ -	$ -	$ 0.35	$ 0.48	$ 1.44
Techcombank	$1.00	$ -	$ -	$ 24.00	$ -	$ -	$ -	$ 25.00
Clean Tech Pilot	$5.00	$ -	$ -	$ 15.00	$ -	$ -	$ -	$ 20.00
Solar energy	$13.00	$ -	$ 68.51	$ 27.14	$ -	$ -	$ -	$108.65
Total	$19.72	$ 5.27	$ 74.55	$ 66.14	$0.13	$ 3.12	$ 0.62	$169.55
% of total	**12**	**3**	**44**	**39**	**>0**	**2**	**>0**	**100**

Direct Investments

The direct equity investment in a Chinese fuel cell company mentioned in the EFPIF was not made due to pressure from other shareholders whose equity investment was priced differently (higher, made before the financial crisis) than the IFC's. The $2 million commitment (for an approximately 13% shareholding) was not made, following a year of negotiations with the shareholders. This investment had been expected to leverage 6x IFC Earth Fund commitment.

The Bulgaria Solar Farm Investment, to be made in partnership with a Sponsor, is still being negotiated. The proposed IFC Earth Fund contribution consists of a $13 million subordinated loan. This utility-scale plant is facing pressures on projected financial returns, as a result of recent regulatory developments including a reduction in the feed-in-tariff and loss of country eligibility to trade carbon emissions reduction credits.

The direct senior loan to a Vietnamese financial institution, to promote lending for energy efficiency, includes a performance bonus. That is, the IFC-EF share of the investment is convertible to a grant if the bank meets its objectives.[5] If the bank does not meet its on-lending objectives, the loan will be called in full. The bank will be paying principal and interest on the loan; first disbursement was made June 28. The on-lending portfolio is expected to leverage 24x IFC Earth Fund commitment.

A proposed geothermal power project in Djibouti, in which IFC was to act as co-developer in joint venture with a private company, was approved by the IRC with the

[5] It is not clear if there would be any reflows beyond loan repayments to IFC from this activity. If the grant will be construed as equity by the Vietnamese regulators, and there is no indication that it will be, then IFC could expect to receive dividend payments.

condition to restructure the IFC-EF investment to further align interests with other investors. The project was cancelled because negotiations with the Government of Djibouti were unsuccesful.

Fund Investments

The Sub-Saharan Africa Climate Change Debt Fund, described in the EFPIF, was approved by the IFC Earth Fund Investment Review Committee, however it did not go forward because a significant percentage of the expected portfolio investments targeted afforestation, an activity not eligible for the GEF. This fund had been expected to leverage 9x IFC Earth Fund commitment.

The IFC is matching IFC-EF 3:1 in the proposed investment structure of the Clean Tech Venture Capital Fund, which was approved in May 2010. The Project Approval Form for this project shows indicative Earth Fund financing of $15 million ($5 million to have been committed in June 2010 with two additional tranches after January 2011, pending replenishment of the Earth Fund and the IFC Earth Fund Platform). It is expected that private investment in the Clean Tech Venture Capital Fund will be forthcoming as market conditions improve during the next phase of Earth Fund.

Advisory Services

The principal IFC-EF Advisory Services contribution is just under $5 million ($4.96m, of which $2.75m from IFC EF and $2.21 from IFC's Funding Mechanism for Technical Assistance and Advisory Services[6]) into the $11 million Global Cleaner Production Facility. The purpose of the Global CP Facility is to support cleaner production audits of IFC's portfolio companies, enabling those companies to then access local financial markets with environmental protection incentives. Under this facility, the companies meet 50% of the cost of the audits, and the IFC Earth Fund covers the other half. In the case of several Latin American countries, apparently the private sector match is higher, at 75:25. CP audits by the IFC, when they lead to follow-on investments, generate $20 in investment for every $1 of audit. The rate of "adoption" of the cleaner production technology (demonstrated by follow-on investments) is one investment for every four audits[7].

Smaller Advisory Services grants made by IFC Earth Fund total just over $1.2 million and are for: capacity building in the realm of energy efficiency (Indonesia), the development of a Carbon Index for tracking public companies' performance in reducing CO_2 emissions, an informational tool aimed at institutional investors to help them understand the risk/reward ratio of investments in climate change mitigation and adaptation, and a grant to the Government of Jordan to help build its capacity to develop and execute light rail projects.

[6] FMTAAS is funded with IFC's net income, and targeted at Advisory Services. The ultimate contribution of FMTAAS to this project was higher, $4.81m and that from GEF lower, $0.15m, in order to conserve EF monies for investment purposes (FMTAAS can only be used for Advisory Services).

[7] Taken from IFC staff presentations in Investment Review Committee minutes.

Innovation, Replicability and Scalability

Use of directed credit, as in the case of the Vietnam energy efficiency investment, is inherently scalable, depending on the condition and regulation of the local financial sector.

The IFC portfolio generally is innovative in the sense that it tries to invest in frontier markets, or in the case of Advisory Services, to create new risk assessment, mitigation and management tools.

IFC has used the availability of Earth Fund money to devise ways of improving returns to early stage investment for the deployment of clean technologies, including renewable energy. This approach could eventually attract additional Limited Partners to the Platform, and also additional co-investors at project level.

The IFC-EF supported work on capital markets indexes lays the foundation for eventual scaling up of investments in clean technology companies in emerging markets.

Lessons and Opportunities

It is not a simple matter to use donor funds in project financing of renewable energy projects. All three of the projects related to renewable energy generation have faced difficulties related to pricing (in the case of the fuel cell manufacturing project), risk management, in the case of both the geothermal and solar projects and unsuccessful negotiations with the government in the case of the geothermal project.

The experience of the Bulgaria solar project points to a consideration for future IFC Earth Fund investments in the real (as compared to financial) sector, that are inherently high-risk, and that is whether IFC Earth Fund should require portfolio companies to purchase political risk insurance (and whether Earth Fund monies could be used for this purpose, given that such insurance can be quite expensive). If this project proceeds as planned, it is expected to leverage 7.4x IFC Earth Fund commitment.

It could also develop a risk management policy and toolkit for Earth Fund-supported investments in the real sector. MIGA experience could be tapped to help devise risk management tools that can be priced below market.

UNEP Global Market Transformation for Efficient Lighting

Background

The hypothesis of this project is that replacement of tungsten bulbs with more energy-efficient bulbs that use mercury (or to a far lesser degree rare earths) will reduce demand for electricity sufficiently to have an impact on climate change, and somehow also be cheaper for households, commerce and industry to install and maintain. To support its contention and drive supportive regulatory change in developing countries, the project proposed to:

- Conduct policy dialogue in several countries (to be identified)
- Establish a "Center of Excellence" in Lighting
- Harmonize standards and certification of energy efficient lighting products
- Raise consumer awareness and demand for energy efficient lighting

Council approved this project in 2007 as a GEF Full Size project. Given limited financial resources in the GEF, UNEP was asked to withdraw the project from GEF funding and present it to the Earth Fund, which it did in 2009. The project itself remained unchanged although it was required to increase its co-financing to the Earth Fund requirement of 3 to 1.

Although the lighting platform was approved by GEF in September 2009, the Platform did not begin implementation until February 2010.[8] A legal agreement was signed between UNEP and IFC (as the trustee of the EF) dated November 2009.

Management

Structured as a UNEP project with in-kind contributions from two manufacturers[9], this "Platform" has embarked on a well-defined program of multi-stakeholder policy dialogue and standard setting. A project manager has been contracted, and is based in UNEP's Division of Technology, Industry and Economics (DTIE).

The contributions of Osram and Philips to the UNEP Lighting project are each valued at $6 million, to be "spent" over a period of 4-5 years.[10] According to its LOI, Philips' contribution will focus on:

- Policy framework development
- Quality standards
- Consumer education/awareness creation
- Electrical and off-grid lighting

[8] The task manager explained that the delay was occasioned by the need for the project to undergo an approval process within UNEP.
[9] The co-financing in this project is provided in-kind.
[10] Letters of Intent dated January 20, 2009 (Osram) and February 2, 2009 (Philips).

- Life-cycle management

Philips' letter also anticipates its participation in the project Steering Committee and/or working groups.

Osram's Letter of Intent states that its contribution will be targeted in a similar but not identical fashion: The focus will be on off-grid lighting in developing countries, recycling activities, and the identification of carbon offset projects.

A Project Steering Committee was created and its inception meeting took place in Frankfurt, Germany on April 14-15, 2010. Participants in the Committee agreed at that point on its membership, rules of procedure and calendar

Projects – Implementation Update

The UNEP Lighting Platform, since it is structured as a project, does not have projects like in the case of IFC, but rather components.

Since the project start up, project managers have focused on setting up a global network of expertise, setting up a web site (http://www.enlighten-initiative.org/), preparing a side event for COP16, and establishing task forces. When complete the Task Forces will be composed of representatives of governments (large countries primarily), private sector, civil society and technical and academic organizations. The plan is to establish the following task forces:

- Lighting assessment, market data and analysis
- Product quality, testing, and enforcement
- Policy, regulation and voluntary initiatives
- Standards and labeling
- Consumer and environmental protection and recycling
- Off-grid lighting

As of August 2010, Draft Terms of Reference have been prepared for each of the six UNEP lighting project Task Forces, which will meet on consecutive days in September 2010. The six Task Forces will begin the work of devising Workplans in six areas:

- Country Lighting Assessment, Market Data and Analysis (CLA)
- Product Quality, Monitoring, Verification and Enforcement (PQMVE)
- Policy, Regulation and Voluntary Initiatives (PRIV)
- Standards, Labels and Technology Evolution (TESL)
- Consumer, Environmental Protection and Recycling (CEP)
- Off-Grid Lighting (OGL)

Work in defining the Country Lighting Assessments has begun. They will be conducted in-house by the Center of Excellence (see below). The CLA will determine an index per country of CO_2 emissions. Those with the higher indexes will be approached for piloting programs.

According to the UNEP PIF, the Centre of Excellence is meant to coordinate the project's policy and technical activities, which ultimately will incorporate standard setting, quality assessments, and certification of energy-efficient lighting products. It was implied but not explicitly stated that this Centre would have support from government and the private sector, yet at present the Centre of Excellence is expected to be established within UNEP/DTIE, that is, it will not be jointly owned and operated with the private sector. UNEP plans for it to be a virtual center, managed by 3 staff and established as partnership with different stakeholders.

Innovation, Replicability and Scalability

This Platform is meant to complement UNDP and UNEP "national" projects related to climate change, and thus stands a good chance of hosting an innovative public-private dialogue to the global policy dialogue and standard-setting needed to transform the lighting markets, which have a limited number of manufacturers, an environmentally challenging value chain (supply and disposal) and a very diffuse and large set of buyers with varying requirements. It is not clear how flexible UNEP will be in re-defining stakeholders as the project evolves. At present they are working primarily with policy-makers and manufacturers; later on they may need to work more in the realm of building codes and construction management, for example. It will be interesting to see the extent to which UNEP is able to replicate at country-level, a multi-stakeholder, public-private dialogue about the use and disposal of energy efficient lighting products.

Lessons and Opportunities

GEF needs to be clear and consistent in its requirements for co-financing, cost sharing or co-investment under Earth Fund (as mentioned earlier, the co-financing of this platform is in-kind, rather than in-cash). If Earth Fund will continue to use the platform approach, there has to be clear guidance on what constitutes a platform and what is expected of it, financially and otherwise.

World Bank/Conservation International Conservation Agreements Platform

Background

This platform is a result of a complex conception and birth, reconstructed as follows:

- In November 2008, the GEF Secretariat requested Conservation International to prepare a proposal for the Earth Fund. The idea at this point was that the Earth Fund would provide funding directly to Conservation International. During 2009, Conservation International was then informed that it had to pair up with a GEF Agency since the Earth Fund was not able to give direct access to non-GEF Agencies. Six months of discussions ensured regarding which GEF Agency the conservation NGOs should be partnered with; in the end it was agreed between the GEF Secretariat, Conservation International and the World Bank that the platform would be implemented through the World Bank.

- In April 2009, the PIF was presented to the Earth Fund Board and in August 2009 the GEF Council approved the platform, with IBRD as the GEF Agency and Conservation International appears as "other executing partners." An operatinal manual was prepared afterwards with final approval by the World Bank in January 2010. The Platform was endorsed by the CEO in May 2010. First disbursement had been expected in June 2010, however as of this writing negotiations are still underway between World Bank and CI about their grant agreement, delaying a process that has already been delayed for several months. There is uncertainty as when this agreement will be finalized.

The purpose of the WB/CI platform is to replicate CI's success using Conservation Agreements to attract private investment in community protection and use of biodiversity:

- Streamline product sourcing agreements between companies and communities

- Develop "conservation partnerships" between private sector actors and communities that produce social and environmental results, to supply specialty ingredients and meet corporate social responsibility commitments through creation of carbon offsets.

- Use CI's Verde Ventures Fund to build capacity of SMEs through technical assistance (supported by GEF) and loan financing (different source of capital) to support increased participation in product and service supply chains that benefit conservation and economic development

Management

Of the three NGO platforms, the WB/CI Earth Fund Platform is the most structured like a platform, in that it explicitly proposes to make sub-grants, and also a Fund investment.

Since this is a scale-up of an existing program, CI's management structure is in place. Criteria for selection of sites are being defined and will use GEF criteria in addition to CI's own criteria.

Further details on program and financial management were spelled out in the Operating Manual which was approved in January 2010 by the World Bank. Disbursement cannot begin until a Memorandum of Understanding is signed by both the World Bank and Conservation International. This MOU is not finalized.

Innovation, Replicablity and Scalability

CI will be using GEF monies to support replication of an established program.

Lessons and Opportunities

The issue that Conservation International was not proposed or allowed to be a Earth Fund Platform Managing Agency was a consequence of the Earth Fund documents not fully, clearly and explicitly established the roles and responsibilities of all parties involved. Delegation of authority on who should initiate the process of “accrediting” a Platform Managing Agency was not clarified.

UNEP-Rainforest Alliance Greening the Cocoa Industry

Background

Already a recipient of GEF funds (via UNDP and UNEP) and recognized expertise in sustainable agriculture with cocoa industry partnerships in place, the Rainforest Alliance first made a proposal requesting funding from the GEF Trust Fund at the end of 2006. RA's project manager joined RA in early 2007 to make this project happen. After many months of discussion, UNEP submitted a PIF requesting support to the GEF for replication and deepening of their work in Cote d'Ivoire and Ghana (they are more established in South America) and in Papua New Guinea, Madagascar, Indonesia and Nigeria. The design process resulted in a platform that is scaled as a full-size GEF project, but not financed as one.

Mars, Kraft and several cocoa trading and processing companies[11] are the key private sector participants in the Greening the Cocoa Industry Platform. Mars already has a small line of organic chocolates and is committed to adding a line of sustainable chocolate and buying 100% of its chocolate from Rainforest certified sustainable producers by 2020. The size and time horizon of this commitment means that Mars is deeply invested in the ability of its suppliers and Rainforest Alliance to help farmers adopt the Sustainable Agriculture Standard by the end of the project (2016). Other objectives to be met in the same time-frame are the establishment of a credible certification process and infrastructure, and pilot testing of a Payment for Ecosystem Services (PES) methodology in 10 countries.

Kraft is described in the PIF as offering similar expertise and interests to those of Mars. The review did not interview Kraft and so was not able to determine its proposed role in the Earth Fund platform.

Management

The platform is not co-owned or operated with its private sector partners, rather it is managed as a regular project with Rainforest Alliance as the executing agency and UNEP as the GEF Agency. Rainforest Alliance expects to sign a "contract" with UNEP by the end of this year and then develop the operating agreement and MoU. The platform recently submitted a package for CEO endorsement.

The private sector participants will provide technical and logistical support for agricultural, trade (including certification) and cocoa processing improvements.

[11] Additional companies have joined the effort since Council approved this platform; they and their proposed contributions are identified in the CEO endorsement package for the project, which is scheduled to be reviewed in October.

At the platform level there is no "PPP-ness", although there is implied need for future collaboration with the Ministries of Agriculture in the countries participating in this project.

Projects – Implementation Status

RA is in the process of narrowing the focus of the project, to use GEF funds on smaller, more biologically diverse areas of cocoa production[12] that tend to receive less attention from the cocoa industry. Plans for management of the rollout, which could be achieved through various "sub-projects" are described in the package submitted for CEO endorsement, which the review has not seen. RA is concerned about having enough money to properly monitor and evaluate the work and will be raising money for this purpose from other sources.

Innovation, Replicability and Scalability

The proposed work with agricultural cooperatives does not appear to be modular or easily replicated, as agronomic, commercial and regulatory conditions vary by country and cocoa "origin", nonetheless Mars has great hopes for the ability to replicate the basic approach for other commodities that it buys[13]. The agreements with the trading companies may be quite innovative, and if they work for the trading company are likely to be replicated. The notion of certifying cocoa is part and parcel of the Rainforest Alliance's regular activities. One of the platform's expected innovations is to demonstrate private sector willingness to internalize the costs of certification in the cocoa value chain.

Lessons and Opportunities

This "platform" pre-dated the Earth Fund, having originally been submitted as a regular $3 million project. The GEF Secretariat repeatedly asked UNEP and RA to scale up the project to be considered under the Earth Fund to a level that may be overly ambitious regardless of the considerable co-financing and industry collaboration Rainforest Alliance has attracted. Earth Fund financial resources should better match the GEF's programmatic ambitions, or vice versa.

[12] In cocoa production these areas are called "origins", equivalent to the concept of *terroir* for wine. In cocoa marketing, it is now common practice to refer to "estates", as in the case of coffee or wine.
[13] Mars is committed to the environmental, social and economic sustainability of its business and is developing work similar to the cocoa project for: sugar, palm oil, and fishmeal (for the pet food business).

Inter-American Development Bank-The Nature Conservancy

Background

The IADB/Nature Conservancy platform will support the establishment of five Water Funds across Latin America and the Caribbean. These multi-stakeholder Funds will be used to pay for nature's water and biodiversity related services, and Water Fund earnings will be used to support conservation of healthy watersheds. Earth Fund support is needed to enable TNC to replicate Water Funds more quickly and more than one at a time.

TNC was advised by the EF Manager to approach a GEF Agency to facilitate platform approval. Given that TNC proposal included a regional approach in Latin America, TNC contacted the GEF liaison at the Inter-American Development Bank. Initially IADB showed some reluctance, but finally agreed to "partner" with the TNC. Over time the attitude has improved and the partnership is now on firmer ground, with the IADB proposing to actively lay the groundwork for the Water Funds to eventually be large enough to receive regular IADB project loans.

This proposal underwent six months of technical discussion with the GEF Secretariat, as there was disagreement between the partners regarding the target watersheds, and without firm selection of watersheds GEF Secretariat believed it could not fairly estimate global benefits and potential impacts.

The IADB had not been advised that they could take the platform through the IADB's approval process in parallel with the GEF process, and instead embarked on a sequential process, adding several months to the process and implementation start up.

Management

The Nature Conservancy will be the Executing Agency for the Platform. Administratively the Platform funding is treated as Technical Cooperation of the IADB's project lending ("AAA") department, governed by a Grant Agreement. A Grant Agreement and Memorandum of Understanding between TNC and IADB outlining roles and responsibilities for platform implementation – including co-financing and monitoring & evaluation -- is not expected to be ready until the end of the year, one year from when TNC first approached the GEF with the platform idea.

Projects

TNC and IADB are working on identifying the watersheds to be the focus of platform efforts. IADB has prepared an evaluation framework (the Review has not seen it). The IADB has been laying the financial and technical groundwork that will enable TNC Water Funds ultimately to be scaled up to project finance levels. As part of this effort GEF and the IADB have recently modified financial administration policies to support the financial structure of the platform, in particular the piece where the local Trust Funds will set aside in an endowment.

Innovation, Replicability and Scalability

PPPS for water systems operation are not new, and neither are conservation easements and other tools used to protect watersheds. The combination of the two in a “Water Fund” is new and quite innovative. The program is modular and designed to be replicable, and the intent is for projects to be scalable and eventually eligible for investment grade project financing of water systems.

Lessons and Opportunities

The experience of the IADB-TNC Water Fund platform highlights several lessons related to the project cycle and communication of Earth Fund procedures:

The GEF project cycle is not suited for use in the context of environmental infrastructure financings at the IADB. A client seeking access to GEF money has to meet all of the GEF criteria before approaching the IADB for financing. It costs money to do environmental impact assessments, and normally companies incorporate these studies into work covered by early stage financing. To support environmental planning in projects, GEF money should be available to the IADB at the beginning, not at the end of the development of a project.

The IADB-TNC Water Fund platform’s recent successful collaboration with the GEF Secretariat regarding cash management and treatment of investment earnings, discussed above and in Chapter III of the main text under co-financing, highlights the value of making sure that all GEF personnel, including lawyers and trust fund managers, are aware of the purposes of the Earth Fund.

ANNEX II

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ANNEX III

LIST OF PERSONS INTERVIEWED

GEF Secretariat

Monique Barbut, Chief Executive Officer
Mohamed Bakarr, Senior Environmental Specialist
Jaime Cavalier, Senior Biodiversity Specialist
Robert Dixon, Head, Climate Change Team
Paul Dolan, Senior Public-Private Partnership Specialist
Al Duda, Senior Advisor, International Waters
Gustavo da Fonseca, Head, Natural Resources Team
Nicole Glineur, Senior Environmental Specialist
Andrew Velthaus, Senior Policy Officer
Dmitris Zevgolis, Program Manager, Climate Change Specialist
Zhihong Zhang, Program Manager, Climate Change

IFC

Stacy Swann, Program Manager, Financial Mechanisms
Diana Mirzakarimova, Trustee
Joyita Mukherjee, GEF Liaison, Financial Mechanisms

World Bank

Siv Tokle, Program Manager, GEF Coordination Team
Pamela Crivelli, Trustee

UNEP

Kristin McGlaughlin, GEF Liaison Officer
Edu Hassing, Task Manager, Dept. of Technology, Industries and Economics
Gustavo Manez, Project Manager

IADB

Carla Tully, Private Sector Division
Steven R. Wilson, Multilateral Investment Fund
Lu Shen, Private Sector Division
Sylvia Ortiz, Private Sector Division

EBRD

Marta Simonetti-Whitford, Associate Manager, Office of Co-Financing

GEF Council

Australia: Deborah Fulton
Austria: Leander Teppel
Canada: Jan Scheltingha
France: Remy Rioux
United Kingdom: Jocelyn Wheatley
United States of America: Beth Urbanas

NGOs

Conservation International

Julie Bourns
Ed Nieston
Patricia Zurita

Rainforest Alliance

Edward Millard

The Nature Conservancy

Pilar Barrera

Private Sector

Mars: Goetz Schroth, Global Manager, Cocoa Agroforestry Science
Union for Ethical Biotrade: Rik Kutsch, Executive Director