Review of the Global Environment Facility Earth Fund

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Full Report

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Review of the Global Environment Facility Earth Fund

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(The main conclusions and recommendations of this evaluation were presented to the GEF Council at its November 2010 meeting.)

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Foreword

During the fifth replenishment period, the Global Environment Facility (GEF) Council asked the GEF Evaluation Office to review the Earth Fund and assess Earth Fund activities implemented so far, as well as report on the way the Earth Fund functions and how it interacts with the private sector. Evaluation of the fund's effectiveness and results was not requested, given the early state of implementation of the fund and its platforms; the review focused on the fund's efficiency and relevance to the GEF.

This evaluation was conducted fully and independently by the GEF Evaluation Office, with support from the GEF Secretariat and the GEF Agencies, governments, and civil society organizations involved with the Earth Fund. It was carried out from June to August 2010 by a team from the GEF Evaluation Office, accompanied by an independent consultant with experience in public-private partnerships and the role of the private sector in economic development, environmental protection, and renewable energy. It included several areas of assessment:

- **Compliance with Council decisions—**the extent to which the design, development, and implementation of the Earth Fund responded to GEF Council decisions
- **Review of Earth Fund activities—**a desktop review of the Earth Fund and its implementation progress
- **Engagement with the private sector—**exploration of engagement at different levels (Earth Fund, platforms, and projects)
- **Efficiency of the Earth Fund—**efficiency of the Earth Fund's project cycle, and the roles and responsibilities of different stakeholders

The review found that the Earth Fund did not live up to expectations. It had several weaknesses, particularly with regard to direct engagement with the private sector, which was the main purpose of the Fund. It did not attract private funding at the level necessary to achieve its stated purpose, nor did it establish sufficient partnerships with the private sector. It also experienced several issues with regard to its management set-up, funding, and learning mechanisms.

Despite these discrepancies, the objective and work proposed by the platforms are consistent with the GEF mandate and propose a reasonable set of projects to be undertaken over the next four years. Indeed, the review recognizes that the Earth Fund may have an important role to play in raising GEF engagement with the private sector, if it were revised for its second phase by addressing its objectives, niche, market barriers, management, and access to funding.

The review was presented at the GEF Council meeting in November 2010. Upon reviewing the document, as well as the management response from the GEF Secretariat and GEF Agencies, the Council asked the Secretariat—in collaboration with the GEF Agencies and representatives of the private sector, foundations, and civil society organizations—to prepare a revised strategy for enhancing engagement with the private sector for the May 2011 Council meeting. This strategy was to provide a clear analysis of the gaps and opportunities for GEF activities, to secure good value for GEF resources.

The GEF Evaluation Office would like to thank all who collaborated with the review. The Office remains fully responsible for the contents of this report.

Rob van den Berg
Director, Evaluation Office

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Managers and project teams of the various platforms provided full cooperation and actively participated in this evaluation. We are very grateful for their ability to respond efficiently to requests and provide logistical support when needed.

Abbreviations

CEO	chief executive officer
GEF	Global Environment Facility
IDB	Inter-American Development Bank
IBRD	International Bank for Reconstruction and Development
IFC	International Finance Corporation
IRC	Investment Review Committee
M&E	monitoring and evaluation
NGO	nongovernmental organization
OPS	overall performance study
PIF	project identification form
PPP	public-private partnership
PPPI	Public-Private Partnership Initiative
RA	Rainforest Alliance
TNC	the Nature Conservancy
UNDP	United Nations Development Programme
UNEP	United Nations Environment Programme
WB-CI	World Bank–Conservation International

1. Conclusions and Recommendations

1.1 Introduction

The Global Environment Facility (GEF) Earth Fund is an expression of the GEF's long-standing intent to engage more with the private sector, which has made its pilot phase of execution a subject of intense interest despite the small size of the fund. As a result, the policy paper for the fifth GEF replenishment (GEF-5; 2010–14) negotiations recommended that an evaluation of the structure and operations of the Earth Fund be carried out, following which the Council should consider the proposal to further capitalize the Earth Fund with additional resources (GEF 2010c). An approach paper for the independent review of the Earth Fund was completed by the GEF Evaluation Office and circulated for comment (GEF EO 2010c). 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.

The main objective of the review was to respond to the request from the GEF-5 replenishment process. The review aims to provide donors, Council members, the 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 how it interacts with the private sector.

The review focused on four key areas:

- **Compliance with Council decisions.** The review assessed the extent to which the design, development, and implementation of the Earth Fund responded to Council decisions, particularly those that established the Pilot Public-Private Partnership Initiative (PPPI) and the Earth Fund.
- **Review of Earth Fund activities.** The evaluation team conducted a desktop review of the various Earth Fund platforms and the projects proposed for each of these platforms to report on implementation progress.
- **Engagement with the private sector.** The review explores and reports on the different types of engagement the fund has developed with the private sector at different levels: the Earth Fund itself, its platforms, and its projects.
- **Efficiency of the Earth Fund.** The review assessed two aspects of efficiency: (1) the Earth Fund's project cycle and (2) the roles and responsibilities of different stakeholders.

The review used various methods and approaches, including extensive consultations with key stakeholders (see annex C for a list of people interviewed) as well as desktop reviews of relevant documentations (see the bibliography).

The review was conducted from June to August 2010 by a team of Evaluation Office staff and one senior consultant with expertise in public-private partnerships (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

The review considered the context in which the Earth Fund operated, focusing in particular on the changes that took place within the GEF during the time of the establishment of the Fund. The development of the Earth Fund coincided with the commencement of GEF-4 (2006–10), 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 Fourth Overall Performance Study (OPS4), it did not conduct a full evaluation of the impact of these changes on the development of the Earth Fund.

Much of the history and implementation of the Earth Fund, in particular negotiations surrounding the fund, is not well documented. Consequently, it was challenging to piece the information together from interviews, perceptions, and available documents.

The review was not designed to collect or analyze the private sector's perception or views of the Earth Fund, or of the GEF. Though the evaluation team interviewed a few of the private sector participants in the Earth Fund and contacted a few other representatives of the private sector who are active in fields of the GEF mandate, this small number of interviews should not be considered to represent the views of the private sector as a whole.

There has been limited implementation of the platforms to date, with only the International Finance Corporation (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.

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 the Council. It was considered that this task would require a different set of terms of reference and skills in the evaluation team. Nevertheless, and as part of understanding the context of the Earth Fund, the evaluation team studied the approved GEF-5 private sector strategy.

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

1.2 Conclusions

The Earth Fund was presented to the Council as a catalyst for encouraging private sector investments in environmental protection (GEF 2008e). 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 organizational structures and decision-making criteria and processes. The Earth Fund (as established in GEF-4) and the private sector have templates that do not fit together well.

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

The Earth Fund did not attract private funding at the level necessary to achieve its stated purpose, nor did it establish sufficient partnerships with the private sector. The platforms and projects being proposed by the Earth Fund include roles for private sector organizations—however, not as initially expected. The pilot phase of the Earth Fund has become more of a granting mechanism, with all funds committed, and therefore cannot be retracked to better engage the private sector.

Several factors have limited the achievement to engage 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 effort, the GEF Council, GEF management, and the Earth Fund Board should have provided more follow-up and guidance, rather than assuming that the GEF Secretariat had the skill set, mindset, and networks required to make the Earth Fund a success.

Because of both internal and external reasons, the development of the Earth Fund from its inception phase to its current status of full commitments has been difficult. The most serious shortcoming of the Earth Fund is that it did not live up to expectations. However, this is not an indication that the GEF should return to the drawing board. There are many elements of the fund in its current shape that can be incorporated into a second phase of the Earth Fund. For that purpose, the recommendations section focuses on changes that could be made to the Earth Fund structure to allow it to become an effective agent for engaging with the private sector, particularly focusing on how current obstacles can be removed and good elements can be improved.

The GEF has often, in the past, dropped its efforts to engage with the private sector for further reflection and to rethink its approach. During GEF-5, the Earth Fund should be reconstituted to learn from past experiences to ensure that engagement with the private sector is continued and—more importantly—enhanced. Because funding has been set aside for a second phase of the Earth Fund, the Evaluation Office proposes that the Council and GEF Chief Executive Officer (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 its original intent.

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

Normally, there are legal and management structures in a fund that reflect responsibility, accountability, and procedures supporting the integrity of the investment philosophy being pursued, as well as protecting 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 define workable investment regulations.

The characteristics that define a fund for the establishment of partnerships with the private sector disappeared or became GEF "business as usual." The reasons for this are many and are partly related to the influence of institutional characteristics of the GEF itself, such as its lack of legal status, which requires it to act indirectly through others. The Council approved a project that left several items open, but the GEF Secretariat did not take full advantage of these—for example, allowing any entity to become a platform managing agency for the Earth Fund if it fulfilled the GEF fiduciary standards and the Council approved its status. The GEF should have communicated the administrative needs of the Earth Fund more effectively to its GEF Agency partners.

Changing its name from the PPPI to the 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 as such was 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. It is more difficult, however, to make a grant-making mechanism—which the Earth Fund turned into—financially self-sustaining.

Relevant information on possible ways to make a fund financially self-sustaining is available, although on a different scale, through various publications on the Climate Technology Fund covering its governance framework; private sector operational guidelines; and 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."

It took just over two years for the Earth Fund to go from approval in May 2008 to CEO endorsement of the fifth platform (expected by September 2010). This was accomplished primarily by relying heavily on business-as-usual practices, such as moving two regular GEF projects into Earth Fund platforms. Not all of 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.

The objectives and work proposed by the platforms is, all in all, consistent with the GEF mandate. The concept of Earth Fund platforms seems 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 the GEF Agencies; some of which have entered into grant agreements with nongovernmental organizations (NGOs).

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

The engagements used and proposed by the Earth Fund platforms are not particularly innovative, as many of them had already been used within the GEF Trust Fund. One particularly interesting characteristic of the Earth Fund was the approach of engaging the private sector through PPPs. However, this approach was lost at the Earth Fund level and relegated to the platform level. The change in name from PPPI to Earth Fund was more than just a name change.

The Earth Fund lacked transparent and efficient approaches and procedures for engaging the private sector. This stems from the lack of a clear definition of the purpose and priority areas of the

Earth Fund, and secondarily from the GEF and GEF Agency culture, which is different from that of private enterprise and NGOs.

Conclusion 5: Expectations regarding cofinancing and reflows were unrealistic.

Some degree of private funding, referred to as "cofinancing," is the principal criterion used to distinguish private sector projects from others within the overall GEF portfolio. Cofinancing is a concept within the GEF that has created great confusion. There are mainly two types in this context: coinvestment, where the private sector would invest funds alongside the GEF in the Earth Fund, or alongside the Earth Fund in a platform; this latter 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.

There is a mismatch between the GEF's expectations of cofinancing—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.

To date, the GEF Earth Fund has not attracted cofinancing at the level of the Earth Fund or its platforms. The individual platform proposals indicate that they will obtain non-GEF financing equal to three times the funding allocated to them by the Earth Fund, as was envisioned for the Earth Fund as a whole. There are still some uncertainties in the cofinancing figures, and it is not clear whether this target will be met for each platform.

In addition to cofinancing, 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. Because of the low, or long-term, financial returns on environmental activities, very limited private funding flows on its own to such activities, even under current market rates. Returns to Earth Fund–supported projects may be so low, and so long in coming, that the amount of funding 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.

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 partnerships, causing confusion regarding the Earth Fund itself, its management, operations, and procedures, as well as limiting the fund's ability to identify potential partners.

As a pilot activity, the Earth Fund should have an established means for capturing lessons learned; however, it does not. Furthermore, the GEF's prior experience with PPPs and working with the private sector was not effectively tapped into. The originators of the Earth Fund did not build on the extensive lessons of the GEF with PPPs or otherwise engage 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, which were revealed during implementation.

The Council approved the Earth Fund as a full-size GEF pilot project. The GEF is the managing entity with IFC being the executing entity and also the manager of the Earth Fund's trust fund.[1] As manager of the Earth Fund, IFC was to disburse funding from the trust fund account following instructions from the GEF Council and the GEF CEO. The 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 established, with a mandate to meet at least once a year, be chaired by the GEF CEO, and be composed of three representatives of the private sector. An Earth Fund platform managing agency is defined as any entity that proposes a platform and is then responsible for managing this platform.

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, which significantly weakened the process. There was no clear accountability as to 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 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 the 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 managing the largest platform (60 percent of the Earth Fund). In early discussions of the fund, IFC had expected to manage the entire Earth Fund.
- The Earth Fund Board was established, but its roles as an advisor to the Earth Fund and an advocate for the GEF in the private sector were not fulfilled.

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

The private sector and the GEF focal points were not assigned specific roles or responsibilities.

1.3 Recommendations

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

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 should be defined and then broadly disseminated.
- Access to the new trust fund to be created for the Earth Fund II should be clarified.

[1] IFC also was the manager of the IFC Earth Fund platform ($30 million).

- The management of the new Earth Fund should be strengthened.

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

The Earth Fund is only one way in which the private sector may engage with the GEF and the general environmental and sustainable development agenda. There is a need to define the niche of the Earth Fund—in particular, the market barriers and failures within the scope of the GEF 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: in other words, expectations should match funding. The GEF Council should provide strategic guidance to the GEF Secretariat on how to narrow and focus the scope of the Earth Fund.

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 as a liaison between private and public sectors; that is, identify what the GEF has to offer to the private sector that cannot be obtained from other sources.
- Establish a program to regularly scan the broader environmental finance space, so potential partners—technical and financial—can be identified from both inside and outside the GEF system. This program should scan with a view toward learning not only "who does what to whom" but also how they do it, while being 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 the GEF, the GEF Agencies, and others working with the private sector.
- Devise and implement a communications 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.

The GEF Secretariat should prepare an international call for expressions of interest in partnering with the GEF in the second phase of the Earth Fund. The short-list 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 out and encouraged to apply.

The Earth Fund, as presently established, has several weaknesses; particularly with regard to direct engagement with the private sector. The GEF is discussing how to further engage with new partners so that some of those decisions could apply 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 the 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 management of the Earth Fund.

The operational management of the Earth Fund should remain with the GEF Secretariat and be strengthened so that

- appropriate financial resources are allocated by the GEF Council,
- staff with experience in working with the private sector in the GEF focal areas are recruited and assigned adequate management authority,
- a monitoring and evaluation (M&E) 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, and
- a communications strategy is designed and implemented.

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, since IFC has the previous experience, a global reach, and a mandate to interact with the private sector; or
- be moved to the GEF Secretariat, which would provide full clarity of the GEF ownership of the Earth Fund and give full accountability and responsibility to the GEF Secretariat. The GEF Trustee could create the same set-up that was created for IFC, but with the GEF Secretariat as the executing agency.

In this regard, the experience and lessons learned in the process of establishing trust funds for national communications and national business plans (GEF 2010b) would be useful.

2. Context and Evolution

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 such engagement could be accomplished. Even though GEF stakeholders disagree on how to define the different components of PPPs, the Earth Fund was created under the premise that such partnerships were sufficient. It is therefore helpful to provide a brief presentation on the evolution of the Earth Fund, with attention to the internal context in which the fund was conceived and established.

Environmental finance has grown steadily since the GEF last surveyed the role of the private sector (GEF 2005). In addition to an increase in market size and the number of participants, the composition of actors has evolved to the point that large numbers of nonprofit private entities, such as foundations, NGOs, business associations, and university-based institutes, are now 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 greenhouse gas emissions has led to the establishment of markets for certified emissions reduction credits of various kinds, under both voluntary and mandatory emissions reduction schemes. The Earth Fund is one of many members of this evolving and expanding universe.

2.1 The GEF and the Private Sector: Lessons Learned

The GEF's experience in engaging with the private sector is long and dates back to the origins of the GEF.[1] This engagement has been found, in several of the GEF Evaluation Office's projects, to have had some positive results, but has also presented some challenges. The Third Overall Performance Study (OPS3) of the GEF, conducted in 2004 and 2005, concluded that the GEF had probably missed opportunities for potentially increasing catalytic effects through GEF projects involving the private sector because of the lack of a focused GEF strategy (GEF EO 2005). OPS3 also recommended that the GEF should launch a private sector special initiative to look for good models of cooperation with the private sector to pilot projects, and in so doing operationalize the GEF mandate to engage with the private sector. The OPS3 study further

[1] The review traced the 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.

recommended that the 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 2008 Midterm Review of the Resource Allocation Framework concluded that the involvement of the private sector in the GEF had declined over time, in particular since the introduction of this allocation system, which focused on governments' participation in GEF programming (GEF EO 2008). This conclusion was used as one of the justifications for establishing a separate fund such as the Earth Fund.

The recent OPS4, conducted by the GEF Evaluation Office, provides examples, lessons, and recommendations for future GEF partnerships with the private sector (GEF EO 2010b). Overall, it was found that, of projects approved in the first two years of GEF-4 (July 2006–June 2008), about 18 percent of the cofinancing promised came from private sector institutions.

The most extensive findings, however, came from the Impact Evaluation of the Phaseout of Ozone-Depleting Substances in Countries with Economies in Transition (GEF EO 2010a). Specifically, the evaluation revealed the importance of public-private collaboration in environmental efforts. While the initial push for phaseout 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 previously mentioned OPS4 impact study included the following:

- GEF financing enabled important technological and production changes, which further 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 was based on targeted subproject investments with the private sector, which provided cofinancing, were efficiently executed, and contributed to the rapid phaseout 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 track records 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 supports firms, which often need to make quick decisions on investments and assistance with project implementation.
- Identifying champions who have innovative product ideas and technical and political skills is helpful, as the work in the ozone-depleting substances 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.

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

2.2 From PPPI to Earth Fund

Evolution of Intent and Expectations

This section presents a review, based on GEF internal documents, of the evolution of the Earth Fund from its initial PPPI incarnation, to aid in uncovering and understanding its philosophical and managerial antecedents. Table 2.1 presents key milestones in the development and approval of the Earth Fund.

As presented in the June 2006 "GEF Strategy to Enhance Engagement with the Private Sector," the Earth Fund was originally called the Public-Private Partnership Initiative, and evolved from a desire to demonstrate the utility of PPPs in supporting the mandate of the GEF to generate global environmental benefits and support countries in meeting national responsibilities under the various conventions.

The 2006 strategy 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" (GEF 2006). 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" (GEF 2007b).

In 2008, the PPPI was renamed the Earth Fund. Comparison with the Project Executive Summary for the GEF PPPI (prepared in January 2007) reveals that more than renaming took place, however. 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 the platform level, the discussion in the PPPI document focused on the participation of the private sector, while the discussion in the Earth Fund document was about

Table 2.1

Development and Approval of the Earth Fund and Its Platforms

Year	Action
2006	GEF Strategy to Enhance Engagement with the Private Sector reviewed by GEF Council
2007	GEF PPPI approved by Council as a full-size project (later to become the Earth Fund)
2008	• 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
2009	• Earth Fund board procedures approved by Council • United Nations Environment Programme 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
2010	• World Bank–Conservation International platform endorsed by CEO • United Nations Environment Programme Rainforest Alliance platform approved by Council • Inter-American Development Bank–Nature Conservancy platform approved by Council and endorsed by CEO

the 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 principle.

The 2009 Earth Fund Board Strategies and Procedures document refers 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."

As described in both the PPPI document and the May 2008 CEO endorsement of the Earth Fund, implementation of the Earth Fund is supposed to occur through Earth Fund "platforms." Essentially, a platform should house the technical expertise and the 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 the GEF Secretariat or the Agencies on what the platform should look like or, indeed, what distinguishes a platform from a project.

Changes in the GEF Context

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

- The introduction of the Resource Allocation Framework created additional stresses in the GEF partnership. Private sector partners and IFC indicated that there were few opportunities for gaining access to the GEF, since access to GEF resources is decided at the level of GEF focal points, many of which did not consider sharing these limited resources with the private sector. The "exclusion" resources for regional and global projects under the Resource Allocation Framework were prioritized for purposes other than 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, nongrant instruments) to capture additional funding for GEF programs, other than those coming directly from the GEF Trust Fund replenishment, were also ongoing (GEF 2008c, 2009d).
- Recommendations from OPS3 made in 2005 regarding the need to operationalize the GEF's engagement with the private sector were not followed. In particular, decisions were not made about the extent and manner in which the GEF was prepared to reach out to industry, or about how to reconcile the differences between the GEF and private sector makeups—that is, their respective modes, styles, and incentives for doing business. The 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 the Earth Fund Platform Focus

As the Earth Fund was conceived in 2007, management proposed that four PPP platforms be developed within the PPPI: (1) coastal water treatment, (2) clean energy finance, (3) investigating alternatives to DDT for malaria control, and (4) testing a program of payment for ecosystem services (GEF 2007a). Mention of a platform to support the development of second-generation biofuels appeared in another May–June 2007 document (GEF 2007b). 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 United Nations Environment Programme (UNEP) platform for risk management, a World Bank platform on exploring alternatives to DDT for malaria control, and a United Nations Development Programme (UNDP) platform for the payment of ecosystem services in the context of the cocoa supply chain.[2] The funded platforms actually look quite different, not only in terms of programmatic focus, but also in the approaches and tools used.

The change in focus of platform proposals can be traced primarily to the GEF not having articulated the market imperfections in the work of environmental protection for which PPPs are a potential solution. The platforms developed and approved were a consequence of the supply from GEF Agencies and specification from the GEF Secretariat regarding the type of platforms that should be considered. Without an understanding of the barriers that should be removed or the approaches that should be promoted through the existence of the 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—there was no call for proposals nor for expressions of interest.

[2] 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 the Rainforest Alliance was approved.

3. Implementation to Date

This chapter presents an analysis to date of the implementation of the Earth Fund platforms to identify some commonalities and assist in understanding the Earth Fund as a whole. More detailed information on each platform is provided in annex A.

As of May 2010, the entire $50 million authorized for the Earth Fund pilot had been allocated among five platforms:

- IFC Earth Fund
- 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)
- Inter-American Development Bank–the Nature Conservancy Public-Private Funding Mechanisms for Watershed Protection (IDB-TNC Water Funds)

There are two structures. One has an NGO between the GEF Agency and the private sector; the other does not. The first one, exemplified by the WB-CI Conservation Agreements, the IDB-TNC Water Funds, and UNEP-RA Cocoa, has an NGO serving as the interlocutor and link between the GEF Agency and the private sector. In the second type, exemplified by the IFC Earth Fund and UNEP Lighting, the GEF Agency deals with the private sector directly (table 3.1).[1]

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

Table 3.1

Platform Structure

Structure	Platform
GEF Agency-NGO-private sector	• WB-CI Conservation Agreements • IDB-TNC Water Funds • UNEP-RA Cocoa
GEF Agency-private sector	• IFC Earth Fund (private sector not part of the platform, but dealings are direct) • UNEP Lighting

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

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

- Engagement with the private sector: PPP and not PPP
- Cofinancing
- Reflows
- Relevance to the GEF mandate
- Innovation, replicability, and scale-up
- Earth Fund and platform competitiveness; roles and value added of GEF Agencies
- Platform cycle
- Management
- Project identification and approval within platforms
- Monitoring and evaluation

3.1 Engagement with the Private Sector: PPP and not PPP

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 reveals the following:

- 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;[2] collaboration with government agencies in host countries is implied in four of the five platforms, but at the project level, not the platform level.
- Table 3.2 shows that two of the platforms—the WB-CI Conservation Agreements and the IDB-TNC Water Funds—contain elements that indicate that platforms could be construed as meeting a broader definition of PPPs; in other words, they "mobilize private sector resources—technical, managerial, and financial—to deliver essential public services such as infrastructure, health, and education" (WBI n.d.).
- 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 noncorporate 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.[3]
- The IFC Earth Fund platform allocated 15 percent 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

[2] A host country is the country where the activity is taking place.

[3] The platform intends to complement UNDP and UNEP national projects that have investment components.

Table 3.2

Engagement with the Private Sector

Platform	Mode of engagement	Exit strategy
IFC Earth Fund	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 multistakeholder 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 among 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
IDB-TNC Water Funds	Replication of Water Fund Program: protection of water supply using mixed-ownership approaches to finance watershed management	To be determined

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 up-front costs, and limited market information) and improving project development capacity.

3.2 Cofinancing

Cofinancing in the context of the Earth Fund was defined as funding, in addition to the Earth Fund funds, for supporting the achievement of the goals of the Earth Fund itself, its platforms, or their projects. 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 cofinancing. Cofinancing from the private sector has different modalities. **Coinvestment**, where the private sector would invest funds alongside the GEF in the Earth Fund, or alongside the Earth Fund in a platform, occurs 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.[4] In addition to cofinancing, Earth Fund founding documents make reference to anticipated reflows from investment; this is discussed in the next section.

To date, the GEF has not attracted any cofinancing at the level of the Earth Fund, from any source. Table 3.3 presents a summary of cofinancing for each of the platforms, based on the proposals approved by the Council. At the platform level, the individual proposals indicated that they would obtain cofinancing equal to three times the money allocated to them by the Earth Fund, as was required for the Earth Fund as a whole. There are still some uncertainties in the cofinancing estimated in the project identification form (PIF) documents and actually made available, so it is not

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

Table 3.3

Cofinancing Proposed by Earth Fund Platforms

millions

Platform	Earth Fund	GEF partner[a]	Private sector	Foundations	NGOs	Bilaterals	Governments	Undefined[b]	Cofinancing	Total
IFC Earth Fund	30.00	10.00	—	—	—	—	—	80.00[c]	90.00	**120.00**
WB-CI Conservation 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**

Source: Platform PIFs and personal communication with platform managers.

a. The agency working with the GEF, such as a GEF Agency or NGO.

b. Undefined or others, which may include NGOs, foundations, and the private sector.

c. As of August 31, 2010, the IFC Earth Fund platform had approved eight projects with $149.83 million in cofinancing, with the following breakdown (in millions): private sector, $74.55; IFC Funding Mechanism for Technical Assistance and Advisory Services, $5.27; IFC investments, $66.14; NGOs, $0.13; bilateral, $3.12; IFC funding to advisory services, $0.62.

clear that this target will be met for each platform. Not all of the cofinancing proposed or obtained so far is from the private sector.

The largest amount of cofinancing, about $80 million, was proposed by the IFC Earth Fund platform. The precise composition of this cofinancing 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, cofinancing for IFC Earth Fund activities had reached $150 million—well over the proposed amount. The breakdown is presented in table 3.3, note c. About 50 percent of this amount is expected to come from the private sector.[5] Private sector cofinancing of the activities so far financed by the IFC Earth Fund platform ranges from 20 to 60 percent of total project budget.[6]

The experience with cofinancing by the other platforms is still under development, since all of them are just beginning implementation. All platforms have promised a 1:3 ratio, but with cofinancing coming from various sources. The UNEP Lighting platform will be cofinanced largely by in-kind contributions from Osram and Philips. The IDB-TNC Water Funds expect about 50 percent of cofinancing from the private sector. The WB-CI Conservation Agreements platform expects about $10 million in cofinancing from other sources. UNEP-RA Cocoa does not report any cofinancing, although sources have been identified and will be presented to the CEO for endorsement in October 2010.

As of August 31, 2010, the Earth Fund was valued at about $267 million, when considering all cofinancing plus the GEF contribution. The total value is the sum of the IFC Earth Fund platform as of August 31, 2010 (see table 3.3, note c), plus the

[5] IFC investments are not considered private sector as defined in this review.

[6] These percentages reflect private sector cofinancing to total project budget, not economic leverage, which is expected be in the high double digits for certain IFC Earth Fund projects (see table A.4).

other four platforms. About 40 percent of Earth Fund financing comes from the private sector.

3.3 Reflows

As noted earlier, the expectation of reflows is unrealistic in view of the requirement that Earth Fund investments be made on concessional terms (GEF 2008a, paragraph 13). Relatively little private money flows on its own to environmental activities because of the low, or long-term, financial returns for 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.

Some reflows may be expected from three approved and ongoing IFC Earth Fund investments: a loan to a bank for on-lending for energy efficiency, a project financing renewable energy generation, and an investment fund in the realm of clean technology. The review did not have access to the financial projections and intercreditor agreements for these investments, which would be needed to estimate reflows to the GEF.

Table 3.3 shows that the IDB-TNC Water Funds platform anticipates cash investment from large private users of water and from municipal governments. These local water funds will be seeded by IDB-TNC, which will use its Earth Fund money to provide seed capital and technical assistance through local water fund trust accounts. The platform managers plan to invest any unexpended Earth Fund monies to keep the effort going. IDB and the GEF Secretariat decided that, in the case of endowments and the financial mechanism proposed by the IDB-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.

3.4 Relevance to the GEF Mandate

Table 3.4 summarizes focal area and geographic coverage of the projects or investments proposed or made by the five approved platform managers.

Biodiversity

The NGOs partnering with the Earth Fund have all worked in biodiversity. Interviews indicated that they approached the GEF and, in this case,

Table 3.4

Relevance of Earth Fund Platforms to GEF Mandate

Platform manager	Focal area covered	Mode of operation[a]	Geographic coverage
IFC Earth Fund	Climate change	Investment and foundational activities	Asia, Sub-Saharan Africa, Middle East, Europe
UNEP Lighting	Climate change	Foundational activities	Asia, North Africa, Middle East, West Africa
WB-CI Conservation Agreements	Biodiversity	Demonstration activities	Latin America and the Caribbean, Sub-Saharan Africa, and Asia-Pacific will be eligible
UNEP-RA Cocoa	Biodiversity	Demonstration activities	Priority: Papua New Guinea, Indonesia, Madagascar, and Nigeria; also Ghana and Côte d'Ivoire
IDB-TNC Water Funds	Biodiversity	Demonstration and investment activities	South America

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

the Earth Fund for funding because they believe they benefit from the ability of the GEF and the GEF Agencies to raise the profile of biodiversity issues through their convening power and governmental contacts in this field. Each of the three Earth Fund platforms that focuses on biodiversity is, in different ways, seeking to improve markets for protecting biodiversity by assigning value to it and ensuring that value is reflected in global trading chains.

Climate Change

The IFC Earth Fund and UNEP Lighting platforms focus on renewable energy and energy efficiency. IFC had proposed several investments to support energy efficiency, including investments to expand its Sustainable Energy Facility, direct investments in the energy efficiency supply chain, and investments in a financial institution. Only the latter investment has been made. The IFC Earth Fund has attempted three direct investments in the field of renewable energy generation—one using fuel cells, one a geothermal power project, and one a solar farm. The fuel cell investment and geothermal power project were cancelled. The solar farm investment is still being designed. The IFC Earth Fund has allocated $6.1 million (15 percent) of its Earth Fund platform funds in five advisory services programs/projects of cleaner production audits focused on energy efficiency.

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 lighting and light-emitting diode products.

International Waters

In the 2007 justifications for the Earth Fund, it was assumed that projects would be developed in the international waters focal area as well. These have not materialized, although at least one such proposal was discussed. In June 2009, a proposal was submitted to the Earth Fund for a United Nations Industrial Development Organization–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 the Russian Federation, Ukraine, Kazakhstan, and China. Reports of the discussions between Carlsberg and proponents' representatives indicate that there was confusion as to whom would take the lead in the platform between the United Nations Industrial Development Organization and UNDP. This confusion is unfortunate, as it prevented the only proposed Earth Fund platform that involved a private company at the platform level from moving forward.

3.5 Innovation, Replicability, and Scale-Up

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 many of the proposed agricultural extension services. In the case of the IDB-TNC Water Funds, the combination of mobilizing PPPs for water systems combined with conservation easements into establishing water funds, which may be scaled up to become eligible for project finance, is innovative. The WB-CI Conservation Agreements platform will be replicating an established program of community-level conservation agreements.

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.

The IFC Earth Fund has attempted several investments that are innovative in the sense that they are trying to finance renewable energy. However, this can be difficult even in the best of capital markets, and especially in countries that are perceived by the market as higher risk, such as Bulgaria and Djibouti. The recently approved investment in a Clean Tech Venture Capital Fund will attempt to do something equally challenging in a promising market (clean technology) in more difficult locations.

The IFC Earth Fund–supported work on capital market indexes lays the foundation for eventually scaling up investments in clean technology companies in emerging markets.

3.6 Earth Fund and Platform Competitiveness

Given the incipient nature of execution of the first round of Earth Fund funding, the review conducted two types or levels of competitive analysis:[7]

- 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?
- Did the platform managers include an assessment of their own competitive advantages or market positions to illustrate how GEF support will enhance these and/or bolster the case for their proposed activities?

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 activity, was undertaken to determine a short list using objective analytical criteria. 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.

Had the GEF Secretariat analyzed the universe of clean technology and carbon funds, it might have found opportunities to coinvest with those funds. A coinvestment strategy might have been more efficient and targeted than the one that was pursued. More than 100 private investment funds (venture capital and private equity) focus on clean technology in emerging markets.[8] More than 80 funds are still active in the greenhouse gas emissions reduction project markets, which invest in energy efficiency and renewable energy.[9] Many, perhaps most, of these funds have high participation by government entities; they are financial PPPs.

[7] "Competitiveness" here refers to the comparative advantage of the organization as reflected in a range of nonfinancial, 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 does it have the desired catalytic effect?

[8] Specifically, 109 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).

[9] Specifically, 88, according to the 2009/2010 Directory of Carbon Funds, published by Environmental Finance Publications. There is a high drop-out rate in this market.

The platform operating agreements should also address the roles of participants in the platform. NGO partners in the various platforms said that the value added of their partner GEF Agency included the following:

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

The roles and responsibilities, as well as an assessment of all the key stakeholders participating in the Earth Fund, are presented in chapter 5.

3.7 Platform Cycle

The 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 the GEF Council on June 2009. At that point, only two platforms were awaiting approval: UNEP-RA Cocoa and the IDB-TNC Water Funds. The platform approval process was different for each of the first three platforms. The IFC platform had been prepared before 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 the GEF Secretariat. The platform was reviewed by the GEF Secretariat, reviewed (under nonobjection) by the Council, and then endorsed by the GEF CEO in September 2008.

The UNEP Lighting platform had gone through the regular GEF project cycle and was approved by the Council in the November 2007 work program, but before implementation began, UNEP was asked to resubmit it as an Earth Fund platform, which was done in March 2009. The GEF Secretariat indicated two reasons for this move:

- The project presented a substantial level of private sector engagement, including the partnership with Osram and Philips and their commitments to provide significant private cofinancing (this cofinancing is in kind).
- There was a shortage of available funding in the GEF Trust Fund.

The main change from the original proposal was the additional cash cofinancing to fulfill the 3:1 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 the CEO on August 17, 2009, as the UNEP Lighting Earth Fund.

The WB-CI Conservation Agreements 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 the CEO in May 2010.

According to the Earth Fund approval document and the June 2009 document on board procedures, the Earth Fund platform cycle (table 3.5) is as follows:

- Ideas for Earth Fund platforms are formulated by proponents (GEF Agencies, NGOs, private companies that are potential implementing partners in an Earth Fund platform) and brought to the attention of the GEF Secretariat. The GEF Secretariat and proponents then discuss how to improve the idea and make it eligible for the Earth Fund.
- To formalize the request, the proponents of the Earth Fund platform prepare an Earth Fund platform identification form and submit

Table 3.5

Platform Development Timelines

Platform	GEF Secretariat review	Earth Fund Advisory Board review	Council approval	CEO endorsement	Trust fund administration and legal[a]	First disbursement
IFC Earth Fund	2008 – April 2008	April 2008	April 2008	September 2008	1996[b]	First approved investment November 2008
UNEP Lighting	November 2007	April 2009	June 2009	August 2009	September 2009 to February 2010 (internal UNEP review)	February 2010
WB-CI Conservation Agreements	2009	April 2009	August 2009	May 2010	Ongoing	Pending
UNEP-RA Cocoa	December 2006	March 2010	April 2010	Pending: target October 2010	Pending: target January 2011	
IDB-TNC Water Funds	Early 2009	March 2010	April 2010	June 2010	Pending: target January 2011	

a. Includes approval of operating agreement, memorandum of understanding, and grant financing request. For IFC Earth Fund platform, should also include intercreditor agreements to verify projected cofinancing and reflows.

b. IFC–World Bank agreement for IFC to be an executing agency of the GEF.

it to the GEF Secretariat. The proposals are reviewed and screened by the GEF Secretariat for completeness of the application; consistency with GEF strategies; comparative advantage of the entity submitting the platform; estimated cost of the platform, including expected leverage and cofinancing; and milestones and objectives of the platform. The GEF Secretariat has 10 business days to review the request and discuss it with proponents if needed, and may request a revision of the PIF or approve it as a final Earth Fund PIF.

- 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.
- Comments are then incorporated into a final PIF, which is reviewed once more by the GEF Secretariat and then submitted to the Council under circulation/no-objection procedures. The 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 the Council, and also may include a draft memorandum of understanding among the platform managing partners, management plans and draft operating agreement, and definition of any conditions for first disbursement.
- Following CEO endorsement, the platform operating agreement and memorandum of understanding between the platform and the GEF Trust Fund (managed by IFC) is submitted to the IFC Earth Fund Trust Fund to arrange for first disbursement. At this stage, IFC needs the project document and Council approval to process the commitment of funds.

- Platforms are moved into the GEF Agency and proponents' own internal processing.
- Implementation begins.

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

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 proposals are approved. Following the Earth Fund project cycle, the first step is creating the commitment in the financial system; 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 the following documents to the financial unit of IFC, which is responsible for managing the funds: CEO endorsement, multilateral development bank management approval or equivalent, confirmation of the signed financial procedures agreement between the multilateral development bank and the trustee, signed agreement/memorandum of understanding between IFC and the multilateral development bank outlining the responsibilities of the parties, and a disbursement request to process transfer of funds to the implementing agencies.

With regard 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 (table 3.6).

All platform proposals submitted to the Earth Fund Advisory Board were approved for submis-

Table 3.6

Rejected Platforms

Platform	Focal area	Proposed partners	Rationale for rejection
"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 cofinancing? Technical assistance only, no reflows; EBRD considered Earth Fund procedures too complex
Energy Efficiency–Latin America and the Caribbean, 2009	Climate change	IDB alone	Too big (wanted $10 million) for technical assistance 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 A

Note: EBRD = European Bank for Reconstruction and Development; UNIDO = United Nations Industrial Development Organization.

sion to the Council, and all proposals submitted to the Council were approved.

In practice, the first phase of the Earth Fund took two 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.

3.8 Management

The individual platforms varied widely with regard to management in the Earth Fund PIF presentations. Management plans are a required component of the agreements between the various parties involved in the platform to define their roles and responsibilities. As of this writing, such agreements are still pending approval by the Council for the two most recently approved platforms: UNEP-RA Cocoa (which is still awaiting CEO endorsement) and the IDB-TNC Water Funds. The PIF for the latter includes a solid outline of a management plan, and the review found that IDB 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 the 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 for Sustainability unit of IFC, which manages its Earth Fund appropriations in ways similar to other funds.

3.9 Project Identification and Approval within Platforms

Four of the five platforms propose implementation through projects (UNEP Lighting is the only one that does not include projects as its mode of operation). As indicated above, the eligibility criteria for projects and other subcomponents (such as 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.

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

IFC has not integrated Earth Fund monies into other funds; that is, the GEF is considered a donor and not a limited partner in a multidonor fund.[10] The advisory services pipeline was derived from a broader pipeline of advisory services opportunities. The Earth Fund is the only way IFC has accessed GEF funding during GEF-4.

Of 50 proposals received by IFC Financial Mechanisms for Sustainability, 12 were approved to go to the Earth Fund Investment Review Committee (IRC); of these, one was rejected by the IRC. This dropout rate is thought to be consistent with other IFC investment services operations. Of the 11 investments that were approved by the IRC, three have been cancelled. Table A.3 I provides details of the IFC portfolio. A summary is provided in the following paragraphs.

[10] The GEF cannot be a limited partner due to its lack of a legal personality. Nevertheless, the GEF could participate as an limited partner through or in another entity with the proper documentation.

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 IFC has been, and is expected to continue to be, focused in the climate change arena.

The Earth Fund presentations to the Council and in the IFC's Earth Fund PIF paid attention to offering potential incentive prizes for technological solutions to problems of environmental protection, which would mobilize private funds for the public good. Biofuels development was singled out at the time as a focus for the incentive prize initiative.[11] The prize was dropped when the individual chosen to raise the money for the prize was unable to deliver. Furthermore, the results of a market study conducted by IFC indicated it would be difficult for anyone to deliver in the face of the food versus fuel debate, and it would entail too much of a reputation risk to the GEF.

A review of the IFC Earth Fund portfolio indicates that IFC used many of the available financing tools in meeting Earth Fund objectives; made or planned investments in Asia, Southeastern Europe, and the Middle East; and funded an advisory services operation with global coverage. About $15 million of the IFC Earth Fund funding is not yet fully committed: this includes about $4.5 million from cancelled and dropped projects and $10 million from a project approved in three pockets of $5 million each, with only the first pocket of funding being committed at present. The advisory services component makes up $6.1 million, or about 15 percent, of the IFC Earth Fund portfolio, while investment services comprise the rest. The advisory services portfolio emphasizes clean technology and energy efficiency, including, for example, grants and consulting contracts for a PPP to build a light rail system (which would reduce greenhouse gas emissions), and for developing 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 Earth Fund funds have been allocated, not all investments have been made. Annex A provides additional information on the IFC Earth Fund portfolio.

3.10 Monitoring and Evaluation

The GEF Agencies and the platform managing agencies are responsible for the M&E of each platform. In particular, 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.

The approved Earth Fund platforms vary widely in their apparent ability to be evaluated, as some platforms at the PIF stage contain very limited baseline information, logical or results frameworks, or defined criteria for success (table 3.7). PPPs 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 frameworks is to assist with management planning early on. The availability of sufficient resources to perform the 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.

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

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

Indicative dates for midterm evaluations and expected completion dates are shown on the Earth Fund PIFs submitted by the individual platforms and presented in table 3.7.

Table 3.7

Monitoring and Evaluation Plans

Platform	Logical framework	Baseline information	Criteria for success	Estimated date of midterm evaluation	Expected implementation completion
Earth Fund	None specific to Earth Fund	None	Not defined	June 2011	To be determined
IFC Earth Fund	Every IFC project has a results framework[a]	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 Earth Fund PIF	September 2014
UNEP Lighting	Yes	Being gathered	• Stakeholder forum, roadmap for market transformation, communication plan, center 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 compact fluorescent lighting	March 2011	March 2013
UNEP-RA Cocoa	Yes	Being gathered	• Adoption of sustainable agriculture standard • Cost-benefit analyses • Payment for ecosystems services methodology • Measurable biodiversity improvements	June 2011	December 2016
IDB-TNC Water Funds	To be determined by IDB Office of Evaluation and oversight	Several feasibility studies to be prepared for each proposed water fund	• Water quality and availability • Biodiversity of the watershed • Financial returns • System maintenance	January 2013	September 2015

a. Given the nature of the IFC Earth Fund platform, the logical framework attached to the IFC Earth Fund PIF 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 evaluation of this platform.

4. Engagement with the Private Sector

Due to limited documentation of the process of engagement with the private sector in the development of the Earth Fund and its platforms, the evaluation team had to base evidence primarily on 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 the Earth Fund from the private sector and other GEF stakeholders; and
- the positioning of the Earth Fund in terms of other sources of environmental finance that may be tapped by the private sector.

The evaluation team 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.

4.1 Earth Fund–Level Engagement

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 (GEF 2008e, 2009b). 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 the Council, a special account to receive private donations.

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 cofinancing in the Earth Fund portfolio to date is lower than in the overall portfolio.

It is not clear why the Earth Fund Trust Fund, set up in IFC, could not have engaged any entity directly, whether 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 1 of the 10 GEF Agencies to be the public sector partner in 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 IDB-TNC Water Funds and WB-CI Conservation Agreements platforms, the GEF Secretariat recommended to the two private institutions that they should pair themselves with 1 of the 10 GEF Agencies. The GEF Secretariat, World Bank, 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 giving that NGO the status of a GEF Agency with regard to the GEF Trust Fund. This is not what the Earth Fund project and board procedures documents indicated. Perhaps these documents could have defined the difference between becoming a GEF Agency for the GEF Trust Fund and a GEF Earth Fund platform managing agency more clearly.

A clear consequence of this confusion—that is, of giving a GEF Agency access to the Earth Fund—was that financial and operational management and accountability was not shared with the private sector in any of the Earth Fund platforms. 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 previous relationships.

IFC has had difficulty in positioning the Earth Fund as a coinvestor 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 a project than a platform, has achieved a working relationship with the private sector. Two companies, Osram and Philips—have agreed to participate at the platform level, providing policy and technical information as well as networks to support the phaseout of incandescent lighting and phase-in of second-generation compact fluorescent lighting and products that use light-emitting diodes.

4.2 Project-Level Engagement

At the 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.

In the case of UNEP-RA Cocoa, two of the major consumers of cocoa—Mars, Incorporated, and Kraft Foods Inc.—and one of the principal trading companies, Armajaro Trading—are also participating in the proposed projects to make the cocoa supply chain more sustainable. According to new documentation that was sent to the CEO for endorsement in October 2010, additional cocoa processing and trading companies have signed onto the project.

In the IDB-TNC Water Funds platform, the core idea is to engage local private companies in protecting watersheds by enabling them to invest in providers of water services.

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

4.3 Demand for/Awareness of the Earth Fund

The private sector arms of three GEF Agencies—IFC, the European Bank for Reconstruction and

Development, and IDB—have said 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 think demand will exist. They also 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 GEF-5. Both of these problems could cause a decrease in internal demand.

As there was no call for proposals to participate in the Earth Fund, and no private sector association or network has been involved in it so far that could have been consulted, the evaluation team has no way of determining private sector demand for the Earth Fund as such. 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.

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

4.4 Positioning the Earth Fund in the Environmental Finance Arena

Since there is no mention of the GEF or the Earth Fund in recent and upcoming conferences on private environmental finance, there is significant room for improvement in raising awareness of the Fund and engaging the private sector.

Because the Earth Fund is not an investment fund, it has not been able to pursue a strategy of coinvestment with investment funds operating in the environmental finance field, as discussed earlier. Rather, the Earth Fund is operated as a granting facility, and the organizations most comparable to it are thus 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 this has not occurred to date. The evaluation team was unable to determine the reason for this. The bibliography (under "Websites") includes a partial list of entities that are sufficiently established to be likely to meet GEF fiduciary standards as potential platform managing partners, as well as industry associations (umbrella organizations) that could be of interest in a second phase of the Earth Fund.

4.5 Financial Expectations of the Earth Fund

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

5. Roles and Responsibilities

The roles and responsibilities of the various stakeholders of the Earth Fund were established in two documents: the Earth Fund project document endorsed by the CEO in May 2008 (GEF 2008e) and the Earth Fund Board procedures approved in June 2009 (GEF 2009c). The first part of this chapter presents the roles and responsibilities as established in those documents; section 5.2 presents an assessment of how these roles and responsibilities have been carried out.

The Earth Fund was approved as a full-size GEF project. It was supposed to be managed operationally by the GEF Secretariat. The World Bank—through the International Bank for Reconstruction and Development (IBRD)—is the GEF Implementing Agency, with IFC serving as the executing agency as well as the manager of the Earth Fund Trust Fund account; this means that IFC is responsible for disbursements of funds from the account following instructions from the GEF Council and GEF CEO.

As explained in previous sections, the Earth Fund operates through the concept of platforms, which are proposed by Earth Fund platform managing partners (such as GEF Agencies, NGOs, and foundations meeting GEF fiduciary standards). Proponents of the Earth Fund wanted the platforms to be implemented by any entity approved by the Council. Another element unique to the Earth Fund was the establishment of the Earth Fund Board, which provides guidance on strategy, reviews platforms, and promotes the Earth Fund in general. Other partners described in these documents were the Earth Fund sponsors—individual agencies and other interested parties that might contribute at the Earth Fund and/or platform level.

Although the Earth Fund was established to improve the access of the private sector to the GEF, there has been no strategic discussion of the role(s) of the private sector in the Earth Fund. Another interesting characteristic of the Earth Fund that distinguishes it from the GEF's regular projects is that neither platforms nor projects under the platforms need endorsement from the GEF focal points at any stage of the project cycle.

Following is a more detailed description of the roles and responsibilities of all the parties involved in the Earth Fund.

5.1 Proposed Roles

The **GEF Council** approved establishment of the Earth Fund and its financial allocations, governance structure (including establishment of the Earth Fund Board), and operating procedures. The Council makes decisions on both establishing a platform and on allocating funds for its implementation to one or more interested agencies, based on their comparative advantages. As stipulated in the project documents, the Council approves all platforms and their corresponding funding allocations, and establishes criteria for the minimum cofinancing required for agencies to be eligible for allocations from the 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. Finally, the Council also requests, as appropriate, and reviews external audits and financial reviews of Earth Fund accounts.

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

The **GEF Secretariat** is responsible for the operational management of the Earth Fund. Management of the 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 serve the Council on issues related to the Earth Fund and its board, prepare an annual report of the Earth Fund (together with IFC as the Earth Fund Trust Fund manager), and maintain the Earth Fund website. Finally, the GEF Secretariat was assigned the following roles and responsibilities.

- **Platforms:**
  - **Development—**Serve as 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—**Review platform proposals submitted by candidate platform managing agencies; and coordinate the project cycle of platforms, culminating in submission to the Earth Fund Board and the GEF Council
  - **Implementation—**Participate in the review of project proposals by platform agencies
- **Monitoring:** Prepare annual monitoring review of platforms based on reports submitted by agencies; oversee monitoring requirements for platforms developed under the Earth Fund in conjunction with platform managing agencies; and manage a comprehensive database of Earth Fund activities, knowledge management, and results
- **Promotion:** Manage external relations and promote the Earth Fund, including securing additional contributions to the fund

IFC, acting on behalf of IBRD, has the responsibility to oversee Earth Fund operations, commitments, and disbursement of funds. As the executing agency of the Earth Fund, IFC has set up a team of staff members 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 donor 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 the Earth Fund Board as requested

- **Earth Fund platform manager**, piloting the implementation of the first platform (IFC Earth Fund platform); in setting up and implementing the platform, IFC also would devise and test operational procedures and policies that could subsequently be used by other GEF Implementing Agencies when they take on implementation of their own Earth Fund platforms

The **Earth Fund Board** meets at least once a year, is chaired by the GEF CEO, and is composed of at least three members drawn from representatives of organizations making significant contributions to the Earth Fund, and individuals with a reputation for thematic excellence or influence in the topics of the Earth Fund; 8–16 members were expected. Member nominations are selected by Board members and approved by all others. Financial contribution to the Earth Fund is not required for membership. GEF Council members and representatives from GEF Agencies are invited as observers.

The Earth Fund Board's role is as follows:

- Provide nonbinding strategic guidance to the platforms and the GEF Council
- Advocate for the Earth Fund by promoting the Earth Fund partnership, reviewing the availability of resources and seeking to mobilize further financial resources; and recommending the inclusion of new contributors, platforms, and other opportunities
- Review platform proposals and make recommendations to the Council for each of the new proposed platforms; and review annual platform progress reports provided by platform managing partners
- Provide an annual report to the Council on the activities of the platforms under the Earth Fund

Platform managing agencies are GEF Agencies, NGOs, and foundations with fiduciary standards that meet GEF requirements; these will be allowed to propose platforms and may qualify as platform managing agencies, subject to the approval of the Council. These entities are responsible for managing all investments within the platform in accordance with the strategic priorities, governance, and operational procedures of the Earth Fund. They provide annual reports on their activities and the performance of their projects to the Earth Fund Board, and are responsible for conducting M&E activities for their specific platforms.

There is no defined role for for-profit **private sector** organizations at either the Earth Fund or platform level, other than membership in the Earth Fund Board.

GEF Earth Fund sponsors are interested agencies, individuals, or organizations that wish to provide contributions to the Earth Fund. Contributions of any amount will be accepted. Sponsors making the most significant contributions will be invited to become members of the Earth Fund's Board.

5.2 Roles in Practice

Based on the review of documents pertaining to the Earth Fund's management structure, as well as the interviews conducted, the evaluation team considers that, in practice, most roles and responsibilities of the different partners in the Earth Fund have been accomplished, while others are yet to be fulfilled.

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

The **CEO** has chaired the Earth Fund Board and has had a direct influence in identifying and appointing the members of the board. The CEO has 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, this attention has waned over time, perhaps due to the needs 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 ones—of the GEF, and to focus efforts on matters of importance to the broader GEF.

The **GEF Secretariat** was successful in allocating the remaining $20 million of the Earth Fund among four platforms, serving the Council and Earth Fund Board, and negotiating and establishing the Earth Fund procedures.[1] However, other responsibilities were only partially or not at all completed:

- The GEF Secretariat was slow to establish the Earth Fund management team. It took nearly a year to contract a full-time staff to manage the fund. Before then, the Earth Fund was managed by several GEF Secretariat staff on a part-time basis, as an add-on to other responsibilities. There is, at present, no budget allocation for management of the Earth Fund.
- There has been limited use of GEF Secretariat resources. There was no formal arrangement to integrate the GEF Secretariat focal area program managers into the development of platforms, particularly for technical reviews. Furthermore, the Earth Fund management team did not draw upon the GEF's extensive historic experience with PPPs and other forms of private sector engagement.
- There has been limited reporting on progress. There have been no annual reports on the Earth Fund or on strategic, financial, or programmatic implementation. No monitoring reviews of platforms have been prepared. At the request of Council members, and not as part of the meeting agenda, the Council received a short statement at its November 2009 meeting (GEF 2009d), basically presenting the Earth Fund Board members.
- The GEF Secretariat participates in the internal review committee for IFC projects with a voice but no vote. The Secretariat does not participate in any of the other platforms once a platform has been approved.
- There have been a few attempts at linking with potential platform proponents, especially in the private sector, but there has been no reporting on this topic.
- The GEF Project Management Information System does not record information at the platform level, although platforms are approved by the Council.
- The website does not have up-to-date information.

[1] Although termed "Earth Fund Board Procedures," this guidance also contains procedures as well as definition of roles and responsibilities for basically all participants in the Earth Fund.

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 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 that fund on its behalf. Acting on behalf of IBRD, IFC has set up the accounting model necessary to allow the transfer of allocated funds to the platforms, and processing of payments of fees to the GEF Agencies (9 percent of the Earth Fund grant). Memoranda of understanding are signed between IFC (on behalf of IBRD as the GEF Agency) and the appropriate platform managing agency. IFC has received 2 percent of the Earth Fund allocation ($1 million) to manage the trust fund for its duration. The World Bank, as a GEF Agency, has received 1 percent of the fund ($500,000) for core services.

IFC is implementing the IFC platform, as described earlier. There has not been a formal process to share IFC's experience in implementing the platform with other possible proponents.

The **Earth Fund Board** was established in late 2008/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, the 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. Some Council members were opposed to the formation of a separate board with decision-making responsibility; others believed the board should have a more direct role in the development of platforms. There also were discussions about the board's composition and who had responsibility for appointing members. Members were nominated and appointed by the CEO and then introduced to the Council at its November 2009 meeting, after the appointments had been made.

The perception among GEF partners involved in the Earth Fund is that there is no clear function of the board as it now exists, and that it has not provided much added value to the Earth Fund or the platforms. The board has reviewed the platforms, but provided no substantive comments for any of them. An important part of the board's role was intended to be advocacy of the 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 activities, but no such report has been prepared.

There are two types of **platform managing agencies**. The first group is comprised of GEF Agencies (the World Bank, UNEP, and IDB). In two cases (the World Bank and IDB), the GEF Agencies have been matched with platform proponents when these institutions—Conservation International and the Nature Conservancy—were informed by the GEF Secretariat that they could not have direct access to the Earth Fund. Both UNEP platforms were prepared as GEF projects, so that Agency and its project proponents have had a longer relationship with the projects—since before the Earth Fund began. In interviews with some stakeholders, questions emerged as to the value added of these Agencies regarding the quality of the platform proposals—although they have demonstrated a value added in navigating GEF processes. In addition, it is evident that UNEP and IDB have increased the scope of the interventions. The World Bank operating agreement has not yet been finalized, so it is not clear whether there will be a greater role for the Bank as a supervisor of or partner in the platform.

The second group of platform managing agencies consists of the environmental NGOs that have proposed the platforms: Conservation International, the Rainforest Alliance, and the Nature Conservancy. They are the liaisons with the private sector, since they interact at different levels with the sector. As noted, in all cases, the platforms propose the application or scale-up of ongoing activities and programs in each of the NGOs. The UNEP-RA Cocoa platform 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.

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 on 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 the GEF Secretariat or other prospective platform proponents have consulted to inform them about the Earth Fund, or private sector representatives have contacted the GEF Secretariat or GEF Agencies for possible engagements. Engagement has not been done strategically or systematically, but more or less opportunistically. No call for proposals has been issued nor was a communications strategy developed to reach out to the private sector. Thus, as noted elsewhere, the role of the private sector is most evident at the platform or project level.

Annex A. The Earth Fund Platforms

This annex provides descriptions of the five approved Earth Fund platforms, updated from the PIF presentations as of August 2010. Table A.1 presents a summary of all five approved Earth Fund platforms, covering these parameters:

- Objective
- Focal area and relationship to the GEF mandate
- Goals
- Structure
- Approaches to engaging the private sector
- Financing, including GEF funding (including GEF Agency fee) and other funding by category

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

The following information is presented for each platform, as appropriate:

- 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
- Lessons and opportunities

A.1 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 has a long history. The first proposal to set up such a fund was made in 1999. The present proposal is set up to support private sector projects with grant and nongrant 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 the GEF PPPI, 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 the PPPI was approved.

Platform Management

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

Table A.1

Summary of Earth Fund Platforms as Presented in Approved Documents

Element	IFC Earth Fund	UNEP Lighting	WB-CI Conservation Agreements
Objective	Enable the private sector to access GEF funding to accelerate the emergence and replication of projects that will generate global environmental benefits in the biodiversity, climate change, and international waters focal areas in a streamlined and cost-effective manner	Speed up the transformation of the market for environmentally sustainable efficient lighting technologies in the emerging markets of developing countries	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
Focal area/ relationship to GEF mandate	Climate change, support deployment of clean technologies	Climate change, energy efficiency	Biodiversity conservation and sustainable use: payment for ecosystem services
Goals	Mobilize funding to support innovative and market-based solutions to the most pressing environmental problems in the areas of biodiversity, climate change, and international waters	• Global policy dialogue for the phaseout 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 compact fluorescent lighting	• Promote use of conservation agreements under which local resource users agree to protect priority habitats in exchange for a steady stream of structured compensation from conservationists or other investors • Forge mutually beneficial links between the private sector and local communities and landowners who commit to achieving biodiversity conservation, reduce land degradation, support climate regulation efforts, and promote sustainable natural resource management
Structure	GEF Agency–private sector	GEF Agency–private sector	GEF Agency–NGO–private sector
Approaches to engaging private sector	Offer of concessional financing, capacity building, and knowledge management	PPP through multistakeholder management process	• Streamline product sourcing agreements in biotrade supply chain • Develop conservation partnerships • Build small and medium-size enterprise capacity to participate in biotrade supply chain
Financing	• GEF Earth Fund: $30 million • IFC: $10 million • Cofinancing: $80 million[a] from a variety of sources, at the investment level, ensuring a minimum of 1:3 ratio overall • Agency fee: $2.7 million	• GEF Earth Fund: $5 million • UNEP: $0.068 million • ADEME (France): $0.132 million • Osram: $6 million (in kind) • Philips: $6 million (in kind) • Agency fee: $0.52 million	• GEF Earth Fund: $5 million • Mulago Foundation: $5 million • Others: $10 million • Agency fee: $0.45 million

a. Additional information as of August 31, 2010, on the breakdown of cofinancing is provided in table A.4.

Table A.2

Implementation Status of Earth Fund Platforms

Platform	CEO endorsement obtained	Trust fund administration and legal[a]	Funds disbursed	Personnel assigned	Investments made
IFC Earth Fund	September 2008	1996[b]	First investment approved November 2008	Yes	Yes
UNEP Lighting	August 2009	September 2010	February 2010	Yes	n.a.
WB-CI Conservation Agreements	May 2010	January 2010	Pending	CI and WB staff appointed	Pending
UNEP-RA Cocoa	Pending target October 2010	Pending target January 2011	Pending	UNEP and RA staff appointed	Pending
IDB-TNC Water Funds	June 2010	Pending target January 2011	Pending	IDB staff appointed	Pending

Note: n.a. = not applicable. Also see table 3.5 for pre-CEO endorsement calendar.

a. Includes approval of operating agreement, manuals, memorandum of understanding, and grant financing request.

b. IFC–World Bank agreement for IFC to be an executing agency of the GEF.

IFC manages its Earth Fund appropriation in ways similar to those used for other funds. There is an Investment Review Committee, on which the GEF Secretariat has observer status (a voice with no vote). 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.

IFC has not integrated Earth Fund monies into other funds; that is, the GEF is considered a donor and not a limited partner in a multidonor fund. The advisory services pipeline is derived from a broader pipeline of advisory services opportunities.

Private counterpart contributions at the platform level have not taken place. Private investment at the platform level would most likely have to come from investors with philanthropic aims, such as 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 Earth Fund contributes (table A.3) reveals that IFC matches Earth Fund investment with other IFC-managed funds, in addition to private capital. Just under $145 million of cofinancing has been attracted at the portfolio investments level, of which approximately 50 percent is from private sources.

Of 50 proposals received by IFC Financial Mechanisms for Sustainability, 12 were cleared to go to the IRC; one of those was rejected. This dropout rate is thought to be consistent with other IFC investment services operations. Of the 11 investments approved by the IRC, three have been cancelled (table A.3).

The answer to the question "Would any of these investments have been made without Earth Fund money?" appears to be no, as they are all projects that require financing on concessional terms and the 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

Table A.3

Status of IFC Earth Fund Platform Approved Projects as of August 31, 2010

Name of project	Approval date	Purpose	Status
Fuel cell company in China	November 21, 2008	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 Program	February 23, 2009	• Remove market barriers that limit adoption of energy efficiency and cleaner production methods • Strengthen financial institution capacity to lend for renewable energy projects • Improve outreach of technical assistance services • Design and implement market education programs	Ongoing
Emerging Markets Carbon Efficiency Index	March 20, 2009	Support development of an emerging markets carbon efficiency index to offer an incentive for listed companies in emerging markets to disclose and improve their carbon efficiency	Ongoing
Research and Engagement for Climate Change Investment by Private Equity and Venture Capital Funds	July 29, 2009	Establish industry standards and benchmarks to enable institutional investors to increase their capital allocations to clean technology, renewable energy, and energy efficiency in emerging markets, specifically through private equity and venture capital funds	Ongoing
Global Cleaner Production Facility	August 28, 2009	Deliver and cofinance Cleaner Production audits to encourage companies in developing countries to adopt Cleaner Production technologies and processes that conserve resources and reduce waste, pollution, and greenhouse gas emissions	Ongoing
Amman-Zarqa Light Rail System	January 15, 2010	Support government of Jordan in designing and implementing a PPP to develop first light rail system in Jordan, to facilitate transport between the two cities and thereby reduce overall traffic congestion, pollution, and greenhouse gas emissions	Ongoing
Techcombank EE Loan	February 22, 2010	Enable Techcombank (Vietnam) to on-lend to CPEE projects	Ongoing (first disbursement in June 2010)
Nedbank Sub-Saharan Africa Forestry Fund	March 2010	Support forestry investments in Sub-Saharan Africa	Cancelled because most of the proposed portfolio did not meet GEF criteria
EdF Solar Energy	May 20, 2010	Support development of a 21.4 MW pv solar farm near a village in southeast Bulgaria, expected to displace 28.8 kt carbon dioxide equivalent/yearr	Being redesigned to reflect recent changes in risk profile
Clean Tech Pilot VC Facility	May 20, 2010	Expand on earlier Clean Tech investments into more challenging geographies and markets	Initial pipeline of two companies: • Telecom's Base Station Sustainable Energy Solutions, Nigeria • Low-cost solar home system integrator, India, targeting off-grid "bottom of the pyramid" customers in Southeast Asia and Africa.
Assal Geothermal Power Plant, Djibouti	July 29, 2009	Build a 50 MW geothermal power plant	Cancelled because negotiations with the government of Djibouti were unsuccessful

solicit Earth Funds, implying a possible reduction in demand.

Projects and Investments Made So Far

According to the IFC Earth Fund 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 IFC has been and is expected to continue to be focused in the climate change arena.

Attention was given in Earth Fund presentations to the 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 IFC indicated that it would be very difficult execute this strategy in the face of the food versus fuel debate, and that it would entail too much reputational risk for 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 Earth Fund platform has been committed to advisory services and investments. The advisory services component makes up $6.1 million, or about 20 percent of the IFC Earth Fund allocation, while investment services comprises the rest. About $20 million of the GEF contribution to the IFC Earth Fund has been allocated as of August 31, 2010; not all investments have been made.

Direct Investments

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

The Bulgaria Solar Farm Investment, to be made in partnership with a sponsor, is still being negotiated as of this writing. 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 Earth Fund share of the investment is convertible to a grant if the bank meets its objectives.[1] If the bank does not meet its on-lending objectives, the loan will be called in full. The bank will be paying the principal and interest on the loan; the first disbursement was made June 28, 2010. The on-lending portfolio is expected to leverage the IFC Earth Fund commitment 24 times.

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

Table A.4

Financing of IFC Earth Fund Platform: Ongoing Projects as of August 31, 2010

Project	Earth Fund	IFC FMTAAS	Private sector	IFC (investments)	NGOs	Bilateral	IFC funding to advisory services	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**
Percent of total	12	3	44	39	> 0	2	> 0	100

Note: FMTAAS = Funding Mechanism for Technical Assistance and Advisory Services. Cancelled projects not included.

A proposed geothermal power project in Djibouti, in which IFC was to act as codeveloper in a joint venture with a private company, was approved by the IRC with the condition to restructure the IFC Earth Fund investment to further align interests with other investors. The project was cancelled because negotiations with the government of Djibouti were unsuccessful.

Fund Investments

The Sub-Saharan Africa Climate Change Debt Fund described in the Earth Fund PIF was approved by the IRC, but 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 the IFC Earth Fund commitment nine times.

IFC is matching the IFC Earth Fund 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 Earth Fund II.

Advisory Services

The principal IFC Earth Fund advisory services contribution is just under $5 million ($4.96 million, of which $2.75 million is from the IFC Earth Fund and $2.21 million from the IFC's Funding Mechanism for Technical Assistance and Advisory Services) into the $11 million Global Cleaner Production Facility.[2] The purpose of the Global Cleaner

[2] The Funding Mechanism for Technical Assistance and Advisory Services (FMTAAS) is funded with IFC's net income and targeted at advisory services. The ultimate contribution of FMTAAS to this project was higher—$4.81 million—and that from the GEF

Production Facility is to support cleaner production audits of IFC's portfolio companies, enabling those companies to gain access to local financial markets with environmental protection incentives. Under this facility, the companies meet 50 percent of the cost of the audits, and the IFC Earth Fund covers the other half. For several Latin American countries, the private sector match appears to be higher, at 75:25. Cleaner Production audits by 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.[3]

Smaller advisory services grants made by the IFC Earth Fund total just over $1.2 million and are for capacity building in the realm of energy efficiency (Indonesia), developing a carbon index for tracking public companies' performance in reducing carbon dioxide 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.

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, as well as additional coinvestors at the project level.

The IFC Earth Fund–supported work on capital market indexes lays the foundation for eventual scale-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 (both the geothermal and solar projects), and unsuccessful negotiations with government (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: whether the 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 7.4 times the IFC Earth Fund commitment. This project also could develop a risk management policy and toolkit for Earth Fund–supported investments in the real sector. Multilateral Investment Guarantee Agency experience could be tapped to help devise risk management tools that can be priced below market rate.

lower—$0.15 million—to conserve Earth Fund monies for investment purposes (FMTAAS can only be used for advisory services).

[3] Source: IFC staff presentations in IRC minutes.

A.2 UNEP Lighting Platform

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 enough to have an impact on climate change, and 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 do the following:

- Conduct a 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

The 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 UNEP did in 2009. The project itself remained unchanged, although it was required to increase its cofinancing to the Earth Fund requirement of 3:1.

Although the lighting platform was approved by the GEF in September 2009, the platform did not begin implementation until February 2010.[4] UNEP and IFC (as the trustee of the Earth Fund) signed a legal agreement in November 2009.

[4] The task manager explained that the delay was occasioned by the need for the project to undergo an approval process within UNEP.

Management

Structured as a UNEP project with in-kind contributions from two manufacturers,[5] this platform has embarked on a well-defined program of multistakeholder policy dialogue and standard setting. A project manager has been contracted, based in UNEP's Division of Technology, Industry, and Economics.

The contributions of Osram and Philips to the UNEP lighting project are each valued at $6 million, to be spent over a period of four to five years, according to 2009 letters of intent. The Philips contribution will focus on

- policy framework development,
- quality standards,
- consumer education/awareness creation,
- electrical and off-grid lighting, and
- life-cycle management.

The Philips letter of intent 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 identification of carbon offset projects.

A project steering committee was created, and its inception meeting took place in Frankfurt, Germany, April 14–15, 2010. Participants agreed at that point on its membership, rules of procedure, and calendar.

[5] Cofinancing in this project is provided in kind.

Projects

The UNEP Lighting platform is structured as a project, and thus has components rather than projects as in the case of the IFC platform.

Since project start-up, project managers have focused on establishing a global network of expertise, creating a website (www.enlighten-initiative.org/), preparing a side event for the 16th Conference of the Parties, and establishing task forces. When complete, the task forces will be composed of representatives of governments (primarily large countries), private sector, civil society, and technical and academic organizations. The plan is to establish task forces in

- 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; and
- off-grid lighting.

As of August 2010, draft terms of reference had been prepared for each of the six UNEP Lighting project task forces, which are to meet on consecutive days in September 2010. The six task forces will begin to devise workplans in their respective area of expertise.

Work has begun on defining the country lighting assessments, which will be conducted in-house by the center of excellence (see below). The assessments will determine an index per country of carbon dioxide emissions. Those with higher indexes will be approached for piloting programs.

According to the UNEP PIF, the center 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 center would have support from government and the private sector; at present, the center is expected to be established within UNEP—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 three staff members and established as a partnership with different stakeholders.

Innovation, Replicability, and Scalability

This platform is meant to complement UNDP and UNEP national projects related to climate change. It thus stands a good chance of hosting an innovative public-private addition to the global policy dialogue and standard setting needed to transform lighting markets, which have a limited number of manufacturers, an environmentally challenging value chain (supply and disposal), and a diffuse and large set of buyers with varying requirements. It is not clear how flexible UNEP will be in redefining stakeholders as the project evolves. At present, UNEP is working primarily with policy makers and manufacturers; later on, it 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 a multistakeholder, public-private dialogue about the use and disposal of energy-efficient lighting products at the country level.

Lessons and Opportunities

It is evident that the GEF needs to be clear and consistent in its requirements for cofinancing, cost sharing, and coinvestment under the Earth Fund (as mentioned earlier, the cofinancing of this platform is in kind, rather than in cash). If the Earth Fund continues 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.

A.3 WB-CI Conservation Agreements Platform

Background

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

In November 2008, the GEF Secretariat asked 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 informed that it had to partner with a GEF Agency, since the Earth Fund could not give direct access to non-GEF Agencies. Six months of discussion ensured regarding which GEF entity conservation NGOs should partner with—the choices being the GEF Secretariat, Conservation International, and the World Bank. In the end, it was agreed that the platform would be implemented through the World Bank.

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

The purpose of the WB-CI Conservation Agreements platform is to replicate Conservation International's success in using such agreements to attract private investment in community protection and use of biodiversity by

- streamlining product sourcing agreements between companies and communities;
- developing "conservation partnerships" between private sector actors and communities that produce social and environmental results, to supply specialty ingredients and meet corporate social responsibility commitments by creating carbon offsets; and
- using Conservation International's Verde Ventures Fund to build the capacity of small and medium-size enterprises through technical assistance (supported by the GEF) and loan financing (a 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 Conservation Agreements platform is structured the most like a platform, in that it explicitly proposes to make subgrants, as well as a fund investment.

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

Further details on program and financial management were spelled out in the operating manual that 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; as of this writing, the memorandum has not yet been finalized.

Innovation, Replicablity, and Scalability

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

Lessons and Opportunities

Conservation International was not proposed or allowed to be an Earth Fund platform managing agency as a consequence of the Earth Fund documents not fully, clearly, and explicitly establishing the roles and responsibilities of all parties involved. Delegation of authority was not clarified as to who should initiate the process of accrediting a platform managing agency.

A.4 UNEP-RA Cocoa Platform

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. The project manager joined the Rainforest Alliance in early 2007 to make this project happen. After many months of discussion, UNEP submitted a PIF requesting support from the GEF for replication and deepening of its work in Côte d'Ivoire and Ghana (they are more established in South America) and in Indonesia, Madagascar, Nigeria, and Papua New Guinea. The design process resulted in a platform that is scaled as a full-size GEF project, but not financed as one.

Mars, Incorporated, Kraft Foods, and several cocoa trading and processing companies are the key private sector participants in this platform.[6] Mars already has a small line of organic chocolates and is committed to adding a line of sustainable chocolate and buying 100 percent of its chocolate from Rainforest Alliance–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 the 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 establishing a credible certification process and infrastructure, and pilot testing a payment for ecosystem services methodology in 10 countries.

Kraft is described in the PIF as offering expertise and interests that are similar to those of Mars. The review team did not interview Kraft representatives 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 memorandum of understanding. The platform recently submitted a package for CEO endorsement.

[6] Additional companies have joined the effort since the Council approved the platform; they and their proposed contributions are identified in the CEO endorsement package for the project, which was scheduled to be reviewed in October 2010.

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

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

Project Implementation Status

The Rainforest Alliance is in the process of narrowing the focus of the project to use GEF funds on smaller, more biologically diverse, areas of cocoa production that tend to receive less attention from the cocoa industry.[7] Plans for management of the rollout, which could be achieved through various subprojects, are described in the package submitted for CEO endorsement, which the evaluation team has not seen. Rainforest Alliance 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.[8] 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 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 predated the Earth Fund, having originally been submitted as a regular $3 million project. The GEF Secretariat repeatedly asked UNEP and the Rainforest Alliance to scale up the project to be considered under the Earth Fund to a level that may be overly ambitious, regardless of the considerable cofinancing and industry collaboration the Rainforest Alliance has attracted. Earth Fund financial resources should better match the GEF's programmatic ambitions, or vice versa.

A.5 IDB-TNC Water Funds Platform

Background

The IDB-TNC Water Funds platform will support the establishment of five water funds across Latin America and the Caribbean. These multistakeholder funds will be used to pay for natural 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 the Nature Conservancy to replicate water funds more quickly and by more than one at a time.

The Nature Conservancy was advised by the Earth Fund manager to approach a GEF Agency to facilitate platform approval. Since its proposal included a regional approach in Latin America, The Nature

[7] 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.

[8] 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 its pet food business).

Conservancy contacted the GEF liaison at IDB. Initially, IDB showed some reluctance, but finally agreed to partner in the effort. The partnership is now on firmer ground, with IDB proposing to actively lay the groundwork for the water funds to eventually be large enough to receive regular IDB 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. Without firm selection of the watersheds, the GEF Secretariat believed it could not fairly estimate global benefits and potential effects.

IDB had not been advised that it could take the platform through its approval process in parallel with the GEF process and instead embarked on a sequential process, adding several months to the process and delaying 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 IDB's project lending (AAA) department, governed by a grant agreement. A grant agreement and memorandum of understanding between the Nature Conservancy and IDB outlining roles and responsibilities for platform implementation—including cofinancing and M&E—was not expected to be ready until the end of 2010 (one year after the Nature Conservancy first approached the GEF with the platform idea).

Projects

The Nature Conservancy and IDB are working to identify the watersheds to be the focus of platform efforts. IDB has prepared an evaluation framework (the evaluation team has not seen it). As noted, IDB has been laying the financial and technical groundwork that will enable the water funds to be scaled up to project finance levels. As part of this effort, the GEF and IDB have recently modified financial administration policies to support the financial structure of the platform—in particular, the setting aside of local trust funds 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. 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 IDB-TNC Water Funds 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 financing at IDB. A client seeking access to GEF money has to meet all the GEF criteria before approaching IDB for financing. It costs money to do environmental impact assessments, and companies normally incorporate these studies into work covered by early-stage financing. To support environmental planning in projects, GEF money should be available to IDB at the beginning, not at the end, of the development of a project.

The IDB-TNC Water Funds platform's recent successful collaboration with the GEF Secretariat regarding cash management and treatment of investment earnings (discussed above and in chapter 3) highlights the value of ensuring that all GEF personnel, including lawyers and trust fund managers, are aware of the purposes of the Earth Fund.

Annex B. Interviewees

B.1 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

B.2 GEF Agencies

Pamela Crivelli, Trustee, World Bank

Edu Hassing, Task Manager, Department of Technology, Industries, and Economics, UNEP

Gustavo Manez, Project Manager, UNEP

Kristin Mclaughlin, GEF Liaison Officer, UNEP

Diana Mirzakarimova, Trustee, IFC

Joyita Mukherjee, GEF Liaison, Financial Mechanisms for Sustainability, IFC

Sylvia Ortiz, Private Sector Division, IDB

Lu Shen, Private Sector Division, IDB

Marta Simonetti-Whitford, Associate Manager, Office of Co-financing, European Bank for Reconstruction and Development

Stacy Swann, Program Manager, Financial Mechanisms for Sustainability, IFC

Siv Tokle, Program Manager, GEF Coordination Team, World Bank

Carla Tully, Private Sector Division, IDB

Steven R. Wilson, Multilateral Investment Fund, IDB

B.3 GEF Council

Deborah Fulton, Australia

Remy Rioux, France

Jan Scheltingha, Canada

Leander Teppel, Austria

Beth Urbanas, United States

Jocelyn Wheatley, United Kingdom

B.4 NGOs

Pilar Barrera, the Nature Conservancy

Julie Bourns, Conservation International

Edward Millard, Rainforest Alliance

Ed Nieston, Conservation International

Patricia Zurita, Conservation International

B.5 Private Sector

Goetz Schroth, Global Manager, Cocoa Agroforestry Science, Mars, Incorporated

Rik Kutsch, Executive Director, Union for Ethical BioTrade

Annex C. Management Response

This annex presents the management response to this report, which was presented to the GEF Council in November 2010 as GEF/ME/C.39/2. Minor editorial corrections have been made.

C.1 Introduction

This is the management response to document GEF/ME/C.39/2, "Review of the Global Environment Facility Earth Fund," undertaken by the GEF Evaluation Office. The GEF Secretariat has prepared this management response, with input received from the GEF Agencies. We have indicated issues where particular GEF Agencies have alternative views or disagree with the conclusions of the GEF Secretariat.

The review has highlighted many of the difficulties experienced in implementing the Earth Fund over the past three years. The GEF Secretariat agrees with the emphasis in the review on examining how the Earth Fund evolved from the initial proposal for a public-private partnership initiative presented to the GEF Council as part of the June 2007 work program. This is the critical point from which subsequent discussion of engagement with the private sector began in GEF-4. Seen against the expectations set out in this initial proposal, we agree that the Earth Fund's performance does not measure up well.

When first conceived in late 2006 and early 2007, the PPPI/Earth Fund was meant to be a transformative initiative that enabled a full partnership with the private sector at multiple levels—a central trust fund, platforms, and projects. It was meant to be much more than a pilot project. It was designed to give the private sector a lead role in governance.[1] This was seen as critical for interesting private sector investment in the PPPI Trust Fund. It was also designed to enable direct collaboration between the GEF as a whole, rather than through the traditional project-by-project relations intermediated by individual GEF Agencies.

The review of the PPPI/Earth Fund demonstrates the difficulties faced in attempting to undertake such a transformative initiative. Rather than the strong private sector–led board and platform steering committees that the Secretariat envisioned, after negotiations with Council members and GEF Agencies, a board was established with only an advisory function. Projects were to be approved under streamlined approval procedures, but, after objections from some Council members, a less streamlined approval procedure

[1] The PPPI was to be governed by a PPPI board whose membership was to be one-half from the private sector. The platform steering committees were to be composed of private sector investors at the platform level.

was adopted. Similarly, the GEF Secretariat had sought to establish a central trust fund for the PPPI with the GEF Trustee, but, after concerns expressed by Council members and the Trustee (due to the linkages with the private sector), the Secretariat made arrangements with the IFC to serve as the trustee.

Another evolution was that, although the Secretariat envisioned that NGOs or foundations could become Earth Fund platform managing agencies, IFC and the World Bank had a different understanding. We discuss these views below, but ultimately, two NGOs that were interested in serving as platform management agencies were required to partner with two GEF Agencies on platforms that they had developed. While the Secretariat saw the PPPI/Earth Fund as a transformative initiative, more akin to a corporate-wide program, Council members, the World Bank, and IFC believed it was approved as a pilot project. The Council should also recall that it took almost a year of negotiations to move from the point of Council approval of the PPPI Project Executive Summary (June 2007) to CEO endorsement of the initiative in May 2008. The end result is less a full partnership with the private sector than a mechanism to provide funding to individual private sector projects of the GEF Agencies.

While the GEF has not made sufficient progress toward a full partnership with the private sector, there are some achievements under the Earth Fund that can be recognized, particularly when measured against previous experience within the GEF. The Earth Fund represents the first GEF-wide initiative to focus on engaging the private sector. It was able to allocate the full $50 million in Earth Fund resources to platforms in a range of sectors, some of which were quite innovative. The Earth Fund Board represents the first time in the GEF's history that representatives of the private sector were given a role, although limited to an advisory function, in GEF programs and projects. To understand the challenges faced by the Earth Fund, the Council should also take into account the challenges created by the global financial crisis over the past two and a half years in working with the private sector.

C.2 Management Conclusions

Overall, the GEF Secretariat agrees with conclusions of the review that implementation of the Earth Fund did not achieve the full set of ambitious goals in terms of building a transformative partnership with the private sector.

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

The Secretariat agrees that the Earth Fund did not achieve important aspects of its initial purpose as originally proposed to the Council.[2] The GEF had to scale back its initial ambitions in terms of private sector involvement in the governance of the Earth Fund and involvement of entities beyond the 10 GEF Agencies as platform managing agencies. It also did not prove to be possible, at least in the time available, for the Earth Fund to attract private sector contributions or investments at the trust fund level. It is not likely, however, that pri-

[2] The World Bank and IFC note that the review would have benefited from a clear presentation of the purpose it refers to. As mentioned earlier, there were significant changes from the 2007 PPPI proposal to the actual shape and form of the Earth Fund that was approved by the Council in 2008, before CEO endorsement. These changes may have resulted in misperceptions or differing expectations that, had they been cleared up, could have enhanced the effectiveness of the Earth Fund. Given the review's finding that the Earth Fund's objectives were not clear, the World Bank and IFC believe that the conclusion that the Earth Fund did not achieve its purpose is somewhat overstated.

vate sector entities would be willing to contribute to the Earth Fund given the limitations of its board.

The initial reason the Secretariat proposed focusing on platforms was to promote direct collaboration with important private sector actors in a strategic manner that would allocate resources to particular themes or emerging technologies. The Secretariat wanted to move away from the project-by-project focus of the past. While some of the platforms focus on single industries or themes (e.g., the IDB water funds project and the UNEP cocoa industry project), they still largely resemble individual projects. The IFC platform was also more open-ended than the original platform concept.

The allocation of $50 million in Earth Fund resources to five platforms can be seen as an accomplishment, as should the engagement of the private sector as represented by the Earth Fund Board. We recognize that these do not measure up to the initial ambitions. That the GEF was not able to move further from its traditional Agency-focused engagement to full, more direct engagement with the private sector only demonstrates the institutional difficulties the GEF faces in this regard.

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

The GEF Secretariat largely agrees with this conclusion. Although there are differences in interpretation as to how one defines a fund, it is clear that the eventual outcome of the Earth Fund differed substantially from the initial vision, which entailed more direct partnership with the private sector and included a fund that would accept contributions from private sector entities and foundations and make investments largely using nongrant instruments. Clearly, the fund did not receive any private sector contributions.

The IFC platform accounts for almost all of the investments using nongrant instruments. This platform invests using direct equity and subordinated instruments, and in a clean technology venture capital fund. The World Bank–Conservation International platform also includes investments in a fund that will enable reflows. Other platforms, however, rely on grant financing. In total, grant financing makes up about one-half of the financing provided by the Earth Fund. More concerted effort will be needed to make greater use of nongrant instruments in the future.

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."

Given the significant delays encountered in negotiating aspects of the Earth Fund and the financial crisis, which reduced investment demand, we believe greater recognition should be given to the fact that the GEF was able to provide Earth Fund resources to five platforms. We also believe that some of the platforms are quite innovative. As noted in the review, the IFC portfolio invests in frontier markets and creates new risk assessment, mitigation, and management tools. The IDB–TNC platform combines conservation easements with public-private sector water funds in a new and innovative way, and is designed to be replicable throughout IDB's region of operation.

The review is correct that Earth Fund operations focused largely around the operations of the GEF Agencies. The GEF Secretariat saw the Earth Fund as an opportunity to forge more direct partnerships with private sector actors, including

NGOs and foundations. The Secretariat agrees with the paragraph of the review stating that such direct partnerships could have been created. The rules of procedure of the GEF Earth Fund Board, approved by the GEF Council in 2009, clearly defined a "platform managing agency" as a

> GEF Agency, NGO, or foundation with fiduciary standards that meet GEF requirements and has been identified in a Council-approved Platform as responsible for managing all investments within the Platform in accordance with Strategic Priorities, Governance, and Operational Procedures of the GEF Earth Fund.

The World Bank and IFC did not agree with the Secretariat on this issue.[3] Two NGOs that put forward platforms were required to partner with two GEF Agencies.

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

We agree that the Earth Fund primarily engaged the private sector through projects that it supported. The GEF Secretariat solicited input from a wide variety of private sector entities in formulating plans for the PPPI/Earth Fund. The Secretariat actively sought to engage the private sector at the level of trust fund and platform. Despite serious initial interest from private sector partners, given the delays in launching the Earth Fund (until mid-2008) and the changes to the Earth Fund structure requested by the Council and some GEF Agencies, the GEF came to adopt a more "business-as-usual" approach of engaging the private sector at the project level. Still, the GEF Secretariat was able to constitute the private sector Earth Fund Board, which represents a more direct engagement with the private sector.

Conclusion 5: Expectations regarding cofinancing and reflows were unrealistic.

We disagree with the conclusions regarding cofinancing. While it is true that the Earth Fund did not attract cofinancing at the Earth Fund level, it did attract cofinancing at the platform and project levels. As indicated at the time of CEO endorsement, such cofinancing could come from a variety of sources, including GEF Agencies and private sector entities. The review only seems to consider contributions from private companies as cofinancing.[4] It would have been clearer for the review to include a clear, consolidated table of cofinancing commitments, but, even using the review's definition, cofinancing exceeds the $150 million that would be required under the 3:1 ratio agreed to at the outset.

We believe that emphasis in the Earth Fund project document on reflows might have created what are seen as unrealistic expectations by the Evaluation Office. The truth is that the GEF never established a benchmark rate of return from the Earth Fund. The Secretariat understood that Earth Fund investments would be made on concessional terms and that expected reflows back to the Earth

[3] IFC, as the Earth Fund Trustee, and the World Bank did not agree that NGOs could serve as platform management agencies without explicit clearance by the Council and based on the GEF's fiduciary standards.

[4] The World Bank and IFC feel that implementation of projects funded by the GEF Earth Fund are ongoing, many still in very early stages. Therefore, the conclusions on effects, such as cofinancing, reflows, learning, etc., are premature and cannot be drawn. The reviewer also has misunderstood cofinancing as defined in the platform approvals, where each Agency's or entity's contributions (at the platform and project levels) also were counted as cofinancing. The review leaves these figures out, and the result is that cofinancing appears lower than it actually is.

Fund would be rather minimal. The intent of the Earth Fund was to experiment. In cases where a concessional loan or an equity investment could be made, this was seen as advantageous, since the reflow back to the Earth Fund could fund future investment and would lower the future recapitalization burden on the GEF Trust Fund.

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 others, or that of the GEF.

Given the delays encountered in getting the Earth Fund approved, the GEF Secretariat focused its attention on identifying viable project opportunities in which the Earth Fund could invest and demonstrate its value. The GEF did engage in outreach on the Earth Fund to a wide variety of private sector actors, to GEF Agencies, and to NGOs. The fact that three significant NGOs were able to put forward private sector–oriented platforms is evidence of this.

We agree that a clear communications plan and improved knowledge management plan will need to be developed as key cornerstones of a second phase of the Earth Fund, if undertaken.

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

If the Earth Fund is to be reconstituted for a second phase, we agree that it will need an improved governance and management structure. The GEF Secretariat pushed for an initiative that was transformative, that would lead to closer engagement between the private sector and the GEF as a whole—not just engagement at the Agency level. As set out in the 2007 documents, it was intended that the GEF Secretariat would manage the Earth Fund operationally. However, because it was approved as a project, the World Bank and IFC did not always see the undertaking in the same way as the Secretariat, which resulted in confusion over roles and responsibilities.

C.3 Management Recommendations

The GEF is at an important juncture in terms of its relations with the private sector. We believe that the Council faces an important decision. The Council can either commit itself to the type of partnership presented to the Council in June 2007—with a central trust fund involving the private sector in governance, capable of attracting private sector resources; streamlined approval procedures; and a focus on transformative, thematic platforms—or it can pare back ambitions for the GEF and adopt a more traditional, project-by-project approach.

The first approach would entail reconstituting the Earth Fund with a decision-making board that included private sector representatives in its governance. The Secretariat would have authority to manage the fund, serve as the Secretariat of the board, and solicit resources from willing private sector contributors.[5] The Secretariat would collaborate with the GEF Agencies and any new partners that might be accredited under the proposed rules in paragraph 28 of the Instrument on the creation and management of Earth Fund platforms.[6]

[5] In this case, the World Bank believes that the institutional and legal status issues that led to the current institutional set-up will have to be analyzed and reconsidered.

[6] See Document GEF/C.39/7 and Document GEF/C.39/8, which propose rules and a system for accrediting new partners as agencies in paragraph 28.

The alternative would be to not reconstitute the Earth Fund. The $80 million allocated by the GEF-5 replenishment for private sector engagement could be used as an incentive mechanism for leveraging other GEF resources, including countries' STAR allocations, to fund private sector projects. We discuss aspects of these approaches in the responses to the recommendations.

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

This is one of the two possible responses to the findings of the review, but the Secretariat believes that the Council should make a clear decision as to what it means to reconstitute the Earth Fund.[7] The Secretariat supports reconstituting the Earth Fund if the Council agrees that it will be part of a bold initiative to build a strong and more direct partnership with the private sector. This kind of partnership with the private sector means more than thinking about it as a single pilot project. It will need to have its own trust fund and a governing arrangement that includes the private sector, with streamlined approval procedures. We believe that potential private sector partners seek full engagement, a management team that listens frequently and carefully to private sector needs, and highly flexible and responsive implementation options.

If the Council does not support this approach, then it is not clear that a reconstituted Earth Fund will provide the strategic foundation that the GEF needs for furthering its engagement with the private sector. As an alternative, Agencies could propose private sector projects for funding, which would be approved by the Council following a rolling, one-stop approval process similar to that used currently for Earth Fund projects. The Secretariat would devise rules for the use of the $80 million private sector allocation as an incentive mechanism, aimed at leveraging indicative country allocations under the STAR.

Recommendation 2: Redefine Earth Fund objectives, niche(s), and market barriers.

If the Council approves a reconstituted Earth Fund along the lines of the first approach, the Secretariat would present a private sector strategy to the Council at its spring 2011 meeting that would include a comprehensive plan for the Earth Fund that clarifies its objectives, strategy, governance arrangements, and other rules. The Secretariat would systematically engage potential private sector partners during the development of the plan to solicit views and gauge commitment levels. If the Council decides that the second alternative approach should be taken, the Secretariat will present a plan for using the $80 million designated for private sector activities as an incentive mechanism.

Recommendation 3: Clarify access to the redefined Earth Fund.

Under either of the options above, the GEF Secretariat recommends that new entities accredited as GEF Partner Agencies under paragraph 28 of the Instrument be able to access GEF resources designated for private sector activities.

These documents propose calling these agencies "GEF Partner Agencies."

[7] The World Bank and IFC recommend that all of the options (the current arrangements, options proposed in the review and management response) should be fully considered by the GEF Council—especially with respect to practical constraints, capacities, costs, and the benefits of each option. The management and implementation arrangements should derive from the agreement on the new focus and niche.

If the Council decides to reconstitute the Earth Fund in the bold manner suggested in the first approach, the Secretariat would be favorably disposed to devising a system in which private sector entities could submit expressions of interest for creating GEF Earth Fund platforms. The GEF Secretariat would have to devise a way to match the platform proponents with GEF Agencies and/or Partner Agencies, which will be in charge of monitoring and supervising the use of Earth Fund resources. It is possible that consortia of private sector entities and GEF Partner Agencies would be required to apply for implementation of GEF platforms.

Recommendation 4: Strengthen the management of the Earth Fund.

The Secretariat agrees with the recommendation that the operational management of a second phase Earth Fund should remain with the GEF Secretariat and that management should be strengthened. Appropriate staff would have to be recruited; an adequate management budget allocated; and monitoring, evaluation, and knowledge management would have to be strengthened. The Secretariat, the World Bank/IFC, and the GEF Trustee will have to discuss and come to agreement on an appropriate financial management arrangement.

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