

Review of the GEF Earth Fund

GEF Evaluation Office

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Introduction/Background

1. The Policy paper for the GEF5 replenishment negotiations recommended an evaluation of the structure and operation of the Earth Fund, following which the Council should consider the proposal to further capitalize the Earth Fund with an infusion of additional resources during GEF5.¹ The GEF Evaluation Office has prepared the present note to describe how an independent review of the Earth Fund will be conducted. After a few 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 platforms that instead of an evaluation, the Office would conduct an independent review.
2. The GEF Council approved in June 2007 the Public-Private Partnership Initiative (PPPI) as the basis for a more effective approach to engage the private sector in GEF activities. According to this initiative's document², the overarching goal of the PPPI was to establish innovative partnerships with the private sector to generate global environmental benefits in a sustainable and cost-effective manner. The initiative would establish a system of governance and administration more conducive to private sector creativity, investment and participation and as an effective mechanism for private sector entities to access the GEF. After detailed negotiations with the IFC the PPPI concept was further developed as a pilot project, was renamed the GEF Earth Fund and was approved by Council in May 2008.³
3. The Council committed \$50 million for this initiative, from GEF4 resources, to be disbursed through "Platforms." These platforms are portfolios of individual activities that have to be aligned with the GEF focal areas strategies and be thematic or programmatic. They are prepared by GEF Agencies and approved on no-objection basis by GEF Council following recommendation by the GEF Earth Fund Board. The Agencies (along with the partners agencies, where relevant) then propose,

¹ GEF, 2010. Policy Recommendations for the Fifth Replenishment of the GEF Trust Fund (GEF/R.5/26; February 12, 2010).

² GEF, 2007. "The Public Private Partnership Initiative: Furthering the GEF Strategy to Enhance Engagement with the Private Sector, approved by Council in June 2007.

³ GEF, 2008. The GEF Earth Fund (formerly) The Public Private Partnership Initiative: furthering the GEF strategy to enhance engagement with the private sector (approved by circulation to Council in May 2008)

approve and implement projects/activities under their platforms, following their own processes and procedures.

4. The governance of the fund includes the Earth Fund Board and the GEF Council. The Board was established to provide strategic guidance to the Council, review and make recommendations on new platforms proposals, approve the annual report to the Council, provide business expertise, and to advocate for the Earth Fund in the community at large. The Board has met twice since the creation of the Fund and its membership includes representatives of the private sector while it is chaired by the GEF CEO.

5. A total of three platforms have been approved as of mid March, 2010 and two more have been reviewed and recommended by the Board. They are expected to be approved by Council in April 2010. These five platforms will basically commit the \$50 million allocated by Council. The following paragraphs briefly describe the 5 platforms, as of mid-March 2010.

6. **IFC Platform.** It was endorsed in September 2008 with an initial capital of \$30 million from the Earth Fund and \$10 million from IFC. The objective is to leverage GEF and other funding to transform markets in the climate change and biodiversity focal areas through: (1) testing, development and establishment of new technologies, financial structures and business models and (2) scale-up of successfully tested initiatives. So far (as of early May 2010), 8 projects have been approved under this platform:

- Equity investment in a fuel cell company in China to support the company's growth by expanding its production capacity and developing new product lines. Project has been dropped after approval. Sustainable energy efficiency/cleaner production finance program in Indonesia, through the provision of advisory services to financial institutions and technical service providers.
- Global cleaner production program to support and co-finance Cleaner Production (CP) audits encourage companies in developing countries to adopt clean production technologies and processes.

- Advisory services to support the Government of Jordan to design and implement a Public Private Partnership to develop the first light rail system in Jordan between the cities of Amman and Zarqa.
- Loan with a performance bonus to a commercial bank in Vietnam, to encourage -lending to energy efficiency/cleaner production projects.
- Development of an emerging markets carbon efficiency equities index to incentivize listed companies in emerging markets to disclose carbon emissions and improve their carbon efficiency.
- Development of a commercially sustainable information tool to enable institutional investors to increase their capital allocations to climate change sectors (clean-tech, renewable energy and energy efficiency)in emerging markets, specifically through investments in Private Equity and Venture Capital funds.
- Debt Fund to invest in sustainable energy projects in Sub-Saharan Africa

7. **UNEP Platform: “global market transformation for efficient lighting.”** It was approved by Council June 2009 and publically launched in September 2009 with an allocation of \$5 million from the Earth Fund and \$15 million committed private sector co-financing from Osram and Philips. The objective is to speed up the transformation of the market for efficient lighting technologies in developing countries through:

- Global policy dialogue for the phase-out of inefficient lighting and the widespread adoption of energy-efficient lighting products
- Establishing a center of excellence for certification and harmonization of quality and performance-based standards
- Support for country programs (policy toolkit, TA for program development)

8. **IBRD/CI Platform: “Conservation Agreement Private Partnership Program.”** It was approved by Council August 2009 for \$5 million from the Earth Fund, \$5 million from Conservation International and \$10 million from private sector co-financing. CI is the recipients of funding and IBRD manages

the Platform and has a supervisory role as GEF Agency. The objective is to catalyze private sector participation in conservation of biodiversity and provision of ecosystem services through:

- Streamlining product sourcing agreements between companies and communities
- Developing conservation partnerships at community level
- Loan finance to SMEs to ensure increased participation in product and service supply chains that benefit conservation and development.

9. **UNEP/Rainforest Alliance: “Greening the Cocoa industry.”** It was reviewed and endorsed by Earth Fund Board in mid March 2010, waiting for Council approval. The objective is to incentivize improved production and business practices in major cocoa producing countries and cocoa companies, such that they conserve biodiversity in cocoa production landscapes. It expects to bring 10% of the world’s cocoa supply into more sustainable production systems, with measurably improved biodiversity conservation. It requested \$5 million from the Earth Fund and will bring at least \$15 million in cofinancing from a variety of cocoa value chain participants including Mars and Kraft.

10. **IDB/TNC: “Public-Private Funding Mechanisms for Watershed Protection.”** It was reviewed and endorsed by Earth Fund Board in mid March 2010, waiting for Council approval. The objective is to deploy public-private funding mechanisms, *the Water Fund*, and their related institutional structures that will subsequently be operated as sustainable long-term instruments to promote private sector participation in the conservation of freshwater ecosystems and biodiversity of global importance. It requested \$5 million from the Earth Fund and will secure at least \$15 million in cofinancing from a variety of sources including large water users such as water utilities, bottling companies and other industries.

Objective and Key questions

11. The main objective of the review will be to respond to the request from the fifth GEF replenishment process. The review is expected to provide donors, Council members, GEF Secretariat and other key stakeholders with an assessment of the Earth Fund activities implemented so far as well as a report on the way the fund functions. There will be four areas in which the review will focus on:

12. Compliance with Council decisions. As mentioned above, the 2006 private sector strategy was endorsed by the GEF Council which included the establishment of a pilot public-private partnership (PPPI) initiative to enhance GEF engagement with the private sector. The PPPI concept was then approved by Council in June 2007 along with a funding allocation of \$50 million. The concept was further developed by GEFSEC and IFC, renamed as the Earth Fund and approved by Council in May 2008. The review will assess the extent to which the design, development and implementation of the Fund responded to the Council decisions.

13. Review of Earth Fund activities. The review will conduct an analysis of activities funded by the Earth Fund so far, platforms and projects, from the point of view of geographic, agency and focal areas distribution. In addition, there will be a desk review of the projects approved under each platform to analyze the relevance of these projects to their platforms, GEF mandate and focal areas strategies.

14. Engagement of the private sector. One of the main purposes of the Earth Fund was to establish a vehicle that would enhance the GEF engagement with the private sector. The review will explore and report to donors and Council the different types of engagement the fund has developed with the private sector from membership in the Fund's Board to different types of participation in platforms and projects such as attracting capital into the fund or leveraging private sector capital to projects. Furthermore, it seems that this objective of the fund has caused certain levels of confusion among stakeholders, with misunderstanding of what it means for different people.

15. Efficiency. The review will assess two aspects of efficiency of the Fund: (1) the Fund's "project cycle" and (2) the roles and responsibilities of different stakeholders. The fund is implemented through the approval of Platforms, which are managed by a GEF Agency in partnership with other organization and based on a portfolio approach. These agencies (along with the partners agencies, where relevant) then approve projects in support of the Platform objectives implementation. So far, 3 Platforms have been approved and two of them have started to approve projects. The review will assess the "project cycle" of the Earth Fund, from platform and projects development, approval and implementation as well as any issues related to transaction costs compared to projects developed and approved in the GEF. Regarding the roles and responsibilities, the Council has sole authority to approve platforms. The GEF CEO chairs the advisory Earth Fund Board, comprised of representatives of private sector and chair by the GEF CEO and provides strategic guidance and

support. Observers, such as representatives of GEF Agencies, are welcomed. The GEF Council approves the Platforms taking in to account advice from the Fund Board. The GEFSEC acts as the secretariat of the Fund while the IFC is the manager of the Earth Fund Trust Fund. The review will assess the different roles and responsibilities of different stakeholders in the process from development, approval and implementation of platforms and projects as well as in the governance of the fund.

Methods

16. The review will consist mainly in a series of interviews with key stakeholders and desk review of relevant documentations. The review will be conducted by a team of GEF EO staff and consultants following a series of tasks:

- Review of Council documents and its decisions as well as other key documents prepared by the GEF Secretariat and Agencies.
- Development of protocols for conducting interviews, reviewing documents and platforms/projects reviews.
- Interviews with key stakeholders in the GEF, in particular GEF Secretariat staff, including GEF CEO, representatives of the GEF Agencies, particularly those involved in the implementation of Platforms, representatives of the private sector, and members of the Earth Fund Board.
- Review of platforms and projects. All platforms and projects approved under them will be reviewed from three aspects:
 - o key characteristics: focal area, GEF Agency, executing agency, geographic location, etc. In addition, projects approved under platforms will be reviewed from the point of view of their links to the platforms, GEF mandate and focal areas strategies.
 - o types of engagement of the private sector
 - o key indicators of the project cycle: time and effort (human and financial resources) for their processing, from inception to approval and start up of implementation (when applicable).

Timeframe

February – March	Consultation with key stakeholders (GEFSEC, IFC, EBRD, World Bank, IDB)
April 5	Note on review
April - May	Selection and contract with consultant (end of May)
June – July	Review (i.e., interviews, review of platforms and projects, review of key documents, project cycle) and consolidation of evidence
August	Report writing and inputs to GEF discussion on Earth Fund next steps
September	Discussion with stakeholders
November	Council presentation

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