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NOTES

We welcome you to this second issue of the series of GEF Lessons Notes published by the Monitoring and Evaluation team in the GEF secretariat. These Notes are a dissemination vehicle for lessons emerging from evaluation studies, annual implementation reviews, and other material of broad relevance to the GEF. The present issue is largely built on the Study of GEF Project Lessons<sup>1</sup> and the 1997 Project Implementation Review<sup>2</sup>. The Study of GEF's Overall Performance also dealt with private sector issues, like the need to engage business and banking associations and mobilize financing from firms such as banks, insurance companies, and pension funds. It is recommended that GEF should use "incremental risk" methods as a way of determining the size of the GEF grant. However, there is scant evaluative experience with such methods or modalities at present in GEF. Neither is there currently much experience relating to cooperation with or engagement of government or parastatal enterprises, which represent a substantial part of the economy in a number of GEF member countries. It is our intention to revisit the topic of cooperation between GEF and the business sector when more experience is at hand.

We plan to publish between four and six GEF Lessons Notes per year. The series is aimed primarily at project designers, managers, and evaluators in GEF implementing and executing agencies. To make sure we are meeting your needs and providing the kind of information that is most useful to you, we invite your feedback on this and future editions of the Notes, and suggestions on how to improve them.

— Jarle Harstad

GEF Senior Monitoring and Evaluation Coordinator

## ENCOURAGING PRIVATE SECTOR INVOLVEMENT IN GEF PROJECTS

Private companies must be involved in finding and carrying out solutions to global environmental problems. Otherwise, the technologies and approaches piloted by GEF projects will not be widely applied or sustained. Private capital flows to developing countries are now five times greater than official development assistance. Private enterprises produce goods and provide services needed to address global environmental and development challenges. At the same time, private businesses are often the source of significant greenhouse gas emissions and ozone depleting substances, pollution of international waters, and threats to conservation and sustainable use of biological diversity. Effectively engaging them in finding lasting solutions to these problems is essential. The Overall Performance Study recommended that GEF take actions to expand private investment and the participation of the private sec-

Why is this important?

1 This study, conducted by Resource Futures International of Ottawa, Canada, was commissioned by GEF's Senior Monitoring and Evaluation Coordinator in April 1997. It synthesizes lessons learned to date from projects financed during GEF's Pilot Phase. A summary report of this study is available from the GEF secretariat (see contact information on page 4 of this *GEF Lessons Notes*).

2 Project Implementation Reviews (PIRs) are carried out annually by the GEF implementing agencies and secretariat. They have two purposes: (1) to examine the status of GEF projects, especially with regard to implementation progress and the prospects of achieving global environmental benefits, and (2) to identify lessons learned from GEF experience. See page 4 of this *GEF Lessons Notes* for information on how to obtain a copy of the 1997 PIR report.

tor in GEF projects. The first generation of GEF projects provides lessons that offer some insights on opportunities and things to watch out for in this area.

*Reduce barriers and provide specific benefits for private companies*

GEF projects can help remove barriers to greater private sector investment in, and/or market acceptance of, processes and products that provide global environmental benefits. This can be done by providing information on new opportunities, addressing perceived and/or real financial risks, and helping develop markets (e.g., by increasing consumer demand or helping firms reduce transactions costs) for technologies that generate global benefits. One example where providing information allowed firms to conduct their businesses more efficiently, as well as more soundly from a global environmental perspective, was the Patagonia Coastal Zone Management project in Argentina (see box).

### **Patagonia Coastal Zone Management Project**

Scientific research conducted by this project measured the human impacts on whale and fish populations in the Patagonia region. This information was then provided to local whale-watching and fishing industries, and led to a discussion among them and the project's administrators on how these firms could use available information to make their operations more efficient, without continuing to threaten coastal biodiversity. Whale-watching boat owners agreed to make trips only with full boats, reducing the number of trips and trip costs, while lowering the impact on rare whales. A new coastal zone management plan was designed that included zones reserved for inshore fishermen, easing competition from large offshore fishing fleets. In exchange, the fishermen agreed not to fish in sensitive areas.

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Through the Poland Efficient Lighting project (PELP), GEF helped develop markets and reduce costs for products that provided global environmental benefits. It offered competitively-awarded subsidies to technically qualified domestic manufacturers of compact fluorescent lamps (CFLs) who agreed to pass on the

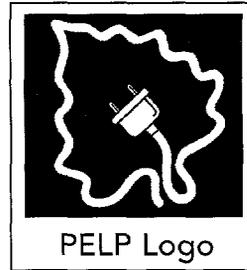
full value of the subsidies to retail customers. Distributors and retailers were prevented from pocketing the subsidies by incorporating printed product labeling with suggested retail prices for each CFL sold. Thus, manufacturers did not receive subsidies directly, but benefited indirectly by being able to sell a greater volume of products at lower prices. The effect of PELP subsidies was multiplied through lower wholesale prices based on the GEF subsidies combined with further manufacturer reductions leveraged by the GEF funds. Lower wholesale prices led to lower retail markups and value added taxes, further increasing the impact of the subsidies provided. The average subsidy was lower the second year because CFL prices in Poland had decreased and consumer demand had increased. In the third year, marketing and promotion activities were continued, but subsidies for manufacturers ceased in an effort to move the CFL market to fully commercial terms. At this writing, it is not yet known whether this transition was successful in sustaining earlier gains in CFL production and sales.

*Incentives provided to private investors must be designed to avoid lasting distortions to the market*

Care must be taken to balance the provision of incentives, on the one hand, with the ability of firms to operate sustainably under market conditions after a project ends. The Zimbabwe Photovoltaics project demonstrates what can happen if incentives are not carefully balanced. The project, which aimed to install 9,000 solar units in rural areas, stimulated the creation of hundreds of jobs and nearly 50 new companies to install and maintain such systems. However, it is unclear how much of these accomplishments will be sustained or replicated once the project is completed. Subsidized importation and warehousing by the project provided solar equipment to installers below market costs. A government bank provided loans for the purchase and installation of solar equipment, assuming the repayment risk. Without continued project funding and incentives, many of the installation companies are expected to close. Subsidies and other incentives to reduce risk and attract private companies into providing new products or serving new customers should not distort the marketplace in ways that will make continuation of these initiatives difficult following pro-

ject completion. Where such incentives are needed, there should be a specific strategy from the outset to move gradually to normal market conditions.

In addition to stimulating specific business activities, raising customer awareness of—and confidence in—new products and services, and helping industry associations and others set and enforce quality standards, can promote widespread adoption of environmentally sound practices. Some GEF projects have developed a label for use in marketing information or on the product itself. For example, the Zimbabwe Photovoltaics project designed T-shirts, caps, and stickers to promote solar energy. PELP developed a logo that appeared, along with the names and logos of several widely-respected non-industry organizations (including the Polish National Energy Conservation Agency, the Polish Consumer Federation, and the Polish Ecological Club) in generic advertising about energy efficient lighting. The project promoted the logo on posters, in professional publications, newspapers, magazines, public and press events, and television advertisements. As a result, energy efficient bulbs, at least temporarily, achieved a relatively high profile in Poland.



*Raise awareness among customers and assure product quality*

Quality and performance standards set and enforced by independent parties, including governments or industry associations, are important ingredients to consumer confidence (see box). This is especially true when continued participation in project activities depends on remaining in good standing with the association or other regulatory body. The PELP project used a set of minimum technical standards and independent laboratory test results to limit project support of sub-standard CFLs.

A key finding of the Project Lessons study is that successful projects created a vehicle for the private sector to participate as a partner in addressing global environmental issues. The simple existence of such a forum is not enough, however, and projects need to find ways to encourage and secure active participation by businesses. One approach that has been effective is providing a chance for private companies to be directly involved with government agencies in decision-making on issues that affect them.

*Provide a forum for public-private sector cooperation*

An example is the Batangas Bay demonstration site in the Philippines, part of the Prevention and Management of Marine Pollution in the East Asian Seas project. A council created through the project was delegated authority to oversee the formulation, adoption, implementation, and policy direction of a strategic environmental management plan for the bay region. The council includes representatives from the provincial government, municipal governments in the bay area, the Coast Guard, Ports Authority, and other government and non-governmental organizations. An association of private companies is also a member of the council. This has been a practical way for businesses to become involved as a

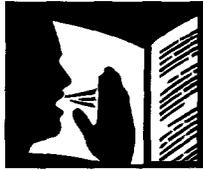
### Assuring Service Quality in Zimbabwe's Photovoltaics Project

The project worked closely with the Solar Energy Industries Association of Zimbabwe to institute and enforce standards and service quality. Companies that participated in the project were required to be members of the Association. The Association has set performance standards to which all members must adhere. It also has an ethics committee that handles complaints about poor service or exaggerated claims regarding solar energy system capabilities.

group, and to sit with other agencies to help shape government policies and actively address pollution problems in Batangas Bay. As a result, these companies have negotiated voluntary agreements with central and local governments on waste reduction and participate in marine pollution monitoring programs. Some firms have provided technical assistance to help others develop waste audits and management plans.

Such a forum can also help remove the “bad guy” image so often attributed to the private sector with regard to environmental issues. To be effective, this approach does require a willingness by national governments to delegate responsibilities to local governments and to groups or other consultative mechanisms on which private firms are represented.

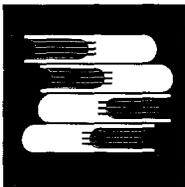
## FEEDBACK AND SUGGESTIONS



We hope this series will be a catalyst for an on-going dialogue on what is working, what is not, and how people involved in the GEF have found solutions to challenges that face all of us. A regular feature of the *Notes* in the future will be a summary of input and feedback we receive from our readers. Therefore, we would like your reactions to this edition of *GEF Lessons Notes*, and your reflections on the questions listed below. We would also like your suggestions of future topics that would be of interest to you in your work with the GEF. Please send us an email at [geflessons@gefweb.org](mailto:geflessons@gefweb.org)—or contact us at the coordinates listed below to let us know:

- Did you find this edition of *GEF Lessons Notes* helpful to you in your work? If not, what kind of information would have been more useful?
- What are the implications of this experience for your activities?
- What obstacles do you see in carrying them out?
- What additional experience or examples can you share related to these lessons?
- What else would you like to know about this or similar activities?
- How can we meet your needs better in future editions of *GEF Lessons Notes*?

## OTHER GEF MONITORING AND EVALUATION PUBLICATIONS OF INTEREST



*GEF Lessons Note No. 1*, which focuses on experience gained in building partnerships with communities in GEF projects, was published in March 1998. This and future editions of *GEF Lessons Notes* can be obtained from the GEF website ([www.gefweb.org](http://www.gefweb.org)). If you would like to be on the mailing list for regular receipt of *GEF Lessons Notes*, please contact our email address—[geflessons@gefweb.org](mailto:geflessons@gefweb.org), or the address below. Please let us know whether you wish to receive an electronic version or a hard copy, and which language (English, French, or Spanish) you would prefer.

In addition to the *Notes* series, the following publications of GEF’s Monitoring and Evaluation program may be of interest to you:

*Project Implementation Review 1997* (January 1998)

*Summary Report of the Study of GEF Project Lessons* (January 1998)

*Report of the Study of GEF’s Overall Performance* (February 1998)

These are available in Arabic, Chinese, English, French, Russian, and Spanish. English versions may be obtained from GEF’s website. For copies in all languages, contact our email address.

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