

## UK Working Paper:

# A project level approach to forecast and monitor private climate finance mobilised

Prepared for the OECD Climate Change Expert Group (CCXG) Global Forum on Leveraging and Mobilising Climate Finance

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## Introduction:

1. **The UNFCCC Copenhagen Accord and Cancun agreements included a commitment on the part of developed countries to mobilise finance to support mitigation and adaptation in developing countries, reaching a goal of \$100bn per year by 2020 in the context of meaningful mitigation action and transparency of implementation.**
2. There remains no agreed definition or composition of climate finance flows to deliver the \$100bn, nor agreed methodologies to account for finance flows. Whilst there is strong precedence for counting public ODA flows there are no agreed definitions or methodologies to account for private climate finance flows.
3. Given the need for developed countries to report on the public and private finance that they have mobilised and to facilitate transparent and comparable reporting there is a significant need for detailed consideration of accounting approaches for mobilised private climate finance flows. In particular there are definitional, methodological and operational considerations that need to be resolved;
  - **The definitional** - what sources/flows should count?
  - **The climate relevance of flows** – what is climate finance? (i.e. Green Definitions and Rio Climate Markers)
  - **The methodology** – how can flows be measured and counted?
    - **The attribution of flows** - is it mobilised/leveraged? by who?
    - **The additionality of flows** – are they new and additional?
  - **Cost effective and operational**- who reports? (country reporting vs. centralised)

4. We recognise that many of the definitional questions require policy discussion on what finance flows are counted towards the \$100bn goal – but there are many technical and methodological questions that need to be better understood and warrant further analysis in order to support an informed policy discussion.
5. **This document outlines the UK’s ‘working’ approach to forecast and monitor mobilised private climate finance at the project level, with the aim of opening the discussion on technical and methodological approaches and to take discussions forward.** Informed by projects under our International Climate Fund, the UK has come to the view that a project level approach is a credible and transparent approach to forecast and monitor a sub-set of mobilised private climate finance flows, and to crucially provide a basis to assess the effectiveness of public interventions.
6. We believe that there are a limited number of public intervention types and finance instruments that can seek to mobilise private climate finance (see box below) - and we have focused on developing technical definitions and methodologies to account for these private finance flows.
7. **Our technical definitions and methodological steps presented in this paper are ‘work in progress’.** There are many outstanding technological and methodological issues - but as a starting point we believe there is a case to trade-off rigour with simplicity to support our initial monitoring approach and preparations for country level reporting to the UNFCCC (starting in 2014). We believe this approach can be refined under a longer time frame, as we learn more from other approaches and as definitions are elaborated.

**Common types of financing instruments for mobilising private finance:-**

- i) Equity investments in clean tech or renewable energy/energy efficiency through Private equity or public funds or direct investments e.g. CDC, CP3, DEG or challenge fund equity.
- ii) Debt financing. This may be direct lending to businesses or lending via a fund which in turn lends to banks or to projects. Example – Donor A contributes to a low carbon fund which in turn lends to local banks in Africa. The local banks may on-lend to SMEs. The fund may provide financing at a lower than usual interest rate so that the local banks have an incentive
- iii) Guarantees. Example – energy efficiency fund is created to encourage lending by local banks in developing country or there is a guarantee for an insurance arrangement in adaptation.
- iv) Direct subsidies – Example - to renewable energy power plants, to entrepreneurs, to purchase equipment or to start ups through innovation challenge funds.
- v) Upfront purchase of carbon credits
- vi) Support to carbon credit projects (a form of TA)
- vii) Technical Assistance - Enabling environment support e.g. work to assist energy regulator or to draft regulations for geothermal energy or building standards or to do resource mapping. These are global public goods and it is hard to work out which particular private sector entrant you have mobilised but in practice this TA can have a huge impact on the entry of the private sector, so it will be important to capture its mobilisation.
- viii) Technical Assistance – Feasibility studies for a specific power plant e.g. for a hydro build or support for Environmental and Social Assessments.
- ix) Technical Assistance – grants or loans to fund managers to set up climate funds or assistance for specific entrepreneurs to get them to the next investable stage.

## Methodological approaches:

8. There are two main perspectives to account for private climate finance currently being discussed:
- **A 'top down' approach** – considering the totality of private finance flows tracked at the global level.
  - **A project level approach** – focusing on forecasting and monitoring finance flows directly mobilised by public interventions.
9. **We believe that the totality of flows is very important, and find top down data useful. We also feel that there are significant advantages in developing project level methodologies and project level monitoring and reporting to account for flows in the context of the UNFCCC \$100bn commitment, in particular:**
- a. Project level approaches can specifically focus on flows mobilised by public intervention, this is important for the credibility of private finance and relates to the UNFCCC commitment.
  - b. Project level monitoring directly allows a project's effectiveness to be assessed and supports lesson learning on project design, mobilisation and effectiveness.
  - c. Forecasting flows and establishing monitoring approaches will support reporting within the next two years based on anticipated levels of private climate finance mobilised (before actual flows are realised and MRV'd).
10. In practice we are likely to draw on both approaches – some finance flows may lend themselves to more top-down rather than project level reporting, i.e. carbon market flows and risk guarantees.
11. **We recognise the need to establish an approach that is operational, cost-effective and proportionate.** There will be a trade-off between precision and reporting. It may be unpractical/inoperable for all projects to report in this manner – in particular decentralised non-climate fund spend, spend that is not primarily focused on mobilising private finance or climate relevant. A programmatic or more standardised approach may be more practical in this instance – and empirical evidence to develop more standardised approaches going forward.

## 'Working' Approach for Project Level forecasting and monitoring

This section outlines the 'working' project level approach and methodology we have started to employ across the UK's International Climate Fund<sup>1</sup>. It takes multiple methodological steps and requires a series of technical definitions in order to consistently and robustly forecast expected private climate finance flows and identify actual finance flows to be monitored ex post. The exact nature of the methodology will differ by type of project – we've sought to illustrate three different applications of the approach in worked examples in Annex A.

1. **Identify donor support – being action, investment or measures.**
2. **Identify private climate finance contribution mobilised from various sources**
  - a. Using technical definitions to ensure consistency (see Annexes B&C )
    - i. What is *private* finance?
    - ii. What makes it *climate* finance? (assessing climate relevance)
  - b. Having a clear theory of change for how and what finance has been '*mobilised*'.

<sup>1</sup> The International Climate Fund is an ODA budget managed across UK Government departments – Department for International Development (DFID), Department of Energy and Climate Change, Department for Environment, Food and Rural Affairs (DEFRA). [www.decc.gov.uk/en/content/cms/tackling/international/icf](http://www.decc.gov.uk/en/content/cms/tackling/international/icf)

3. **Consider what level of private climate finance is additional:**

- a. It is important to consider and assess what funding to climate relevant investments would happen without donor support to then assess what is being additionally mobilised by donor actions – in order to ensure impact and Value for Money.
- b. Isolating additional impacts is difficult – we have not developed a fixed approach but consider additionality on a project by project basis.

4. **Isolate the level of private climate finance attributed to donor spend** to avoid double counting across multiple donors.

- a. Identify other public finance sources involved e.g. MDBs, other donors, and calculate your donor share based on an attribution rule, for example:

$$\text{Share to UK (\%)} = \frac{\text{UK funds (\pounds)}}{\text{Total Donor funds (\pounds)}}$$

(see in Annex B)

- b. Apply an attribution rule.

5. **Calculate the Leverage Ratio of public to private climate finance attributed to donor spend**

$$\begin{aligned} \text{Leverage Ratio} &= \frac{\text{Total Additional Private Finance Mobilised}}{\text{Total Donor Finance}} \\ &= \frac{\text{Attributable Additional Private Finance Mobilised}}{\text{Individual Donor Finance}} \end{aligned}$$

6. **Interpret** – levels of mobilised private climate finance and leverage ratios across projects and countries are not comparable – a ‘good’ leverage ratio is dependent on the context, in particular the expected project risk and reward. Evidence from similar projects and contexts can be used to interpret and benchmark results.

7. **Establish the monitoring framework** - the methodology above provides an approach to forecast mobilised climate finance flows. This provides targets and milestones for a project’s success with regard to the finance it mobilises. However, it is important to establish robust monitoring and reporting arrangements to track actual finance flows realised for future reporting. This can be done through identifying private finance mobilised as performance indicator to monitor in a projects ‘Logframe’ or results framework, and following a consistent methodology to that outlined above. Project management arrangements or the terms and conditions of the project with fund managers can then be used to source the reporting data. Monitoring is key to assess the success and effectiveness of a project, alongside more detailed evaluations to support lesson learning. Annex D provides a summary of the UK ICF’s Monitoring and Evaluation Approach, including the other non-finance Key Performance Indicators.

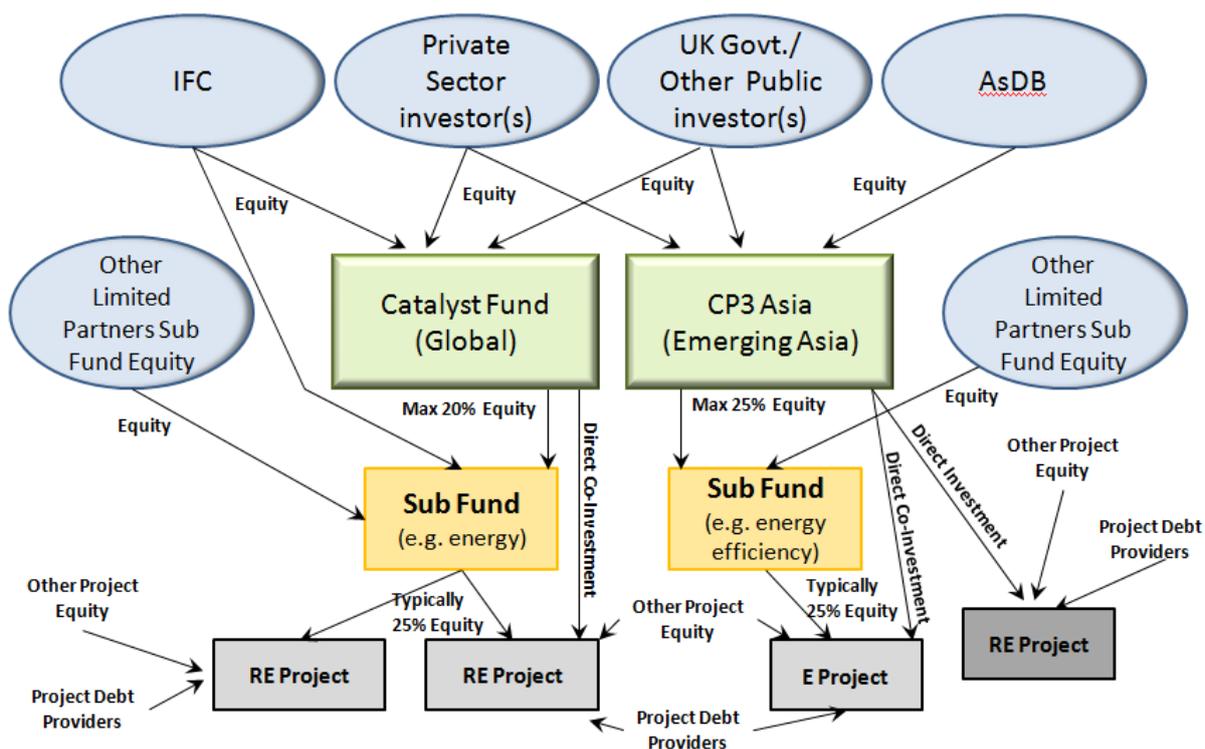
## Limitations & Areas for Future Development

12. This UK approach is a working level approach and there is undoubtedly significant scope for improvement and development. Much of this could come from the methodology being tested over a wider range of wider projects and learning from other approaches.
13. Future work to improve this approach, or develop methodologies could include:
- **Consolidating evidence** on project level forecasts of private finance mobilised, leverage ratios, and actual MRV'd finance flows
  - **Reviewing and scrutinising the different technical definitions and methodologies** employed across a range of donors/projects and **reviewing the robustness of existing approaches.**
  - **Developing guidance on core methodologies** across the range of key instruments to mobilise private finance
  - **Developing standardised / programmatic approaches** - for example standardised approaches: i.e. standardised leverage ratios to forecasts finance flows and discount factors to assess additionality based on project type/context. Empirical evidence and information on existing projects can serve to usefully inform this.
14. Going forward, to avoid double counting, key approaches on attribution (i.e. how much is recorded against each country) for multi-donor projects would need to be agreed. One approach for multi-donor projects could be that they are reported as a whole (rather than donor level reporting) and then a central institution such as the OECD to makes the apportionment. This would reduce risks of double counting across donors.
15. Future tracking methodologies need to also be flexible to changes in technical definitions to ensure that tracking and reporting moves in line with the policy discussions for future reporting against the \$100bn.

**Annex A: Worked Examples**

**The Climate Public-Private Partnership (CP3) Project**

The market for climate investments, particularly in developing countries is not growing at the speed and scale required to meet the 2 degree scenario. This is particularly the case in developing countries. The aim of CP3 is to mobilise new sources of finance, such as pension funds, in to low carbon, climate-friendly projects and to build a track record of successful investments. The UK will make an equity investment of £110 million in to two commercially run private equity funds, alongside with the IFC and Asian Development Bank. These funds will make investments into climate projects in developing countries – investing either directly or into sub-funds. UK investment in to CP3 will leverage considerable public and private investment; at the fund of funds level, at the sub-fund level, and in the projects that the sub-funds invest in (which will also attract debt finance). Across all of these levels every £1 of UK capital is expected to mobilise at least £30 of private capital. In addition, the UK has committed approximately £20 million for a technical assistance facility that will support lower income countries, new technologies and first-time fund managers.



**Applying the project level methodology to forecast flows:**

Methodological Step	Example Approach	Approach/Assumptions
<b>Identify donor contribution</b>		Equity investment of £110 million
<b>Identify private climate finance contribution mobilised from various sources</b> (debt, equity, etc).	i) Applying technical definitions on private finance and climate relevance	The climate definitions are written into the Terms and Conditions/Investment Criteria for the fund. <u>See Annex C</u>
	ii) Estimate the likely amount of \$ finance in the top level funds	This figure is confidential due to SEC rules and due to the uncertainty of what amount of \$ can be raised in the financial markets we assumed two scenarios (i) small fund and (ii) large fund.
	iii) Estimate the amount of equity finance in sub-funds and projects.	It was assumed that the CP3 Asia or IFC Catalyst fund share in sub-funds was 1/3 <sup>rd</sup> (conservative as in practice IFC and AsDB take a maximum 20% share)  The sub fund share of equity in projects was assumed to be 1:2. Again this is very conservative
	iv) Estimate what proportion of sub-fund investment and direct investment would be multilateral development banks or public sector	public sector investment in sub-funds – 40% direct investment -20% project equity – 20%
	v) Estimate the amount of <b>debt</b> in projects	a 1:1 ratio was used at the project level which is extremely conservative
	vi) Estimate what proportion of debt in projects is public sector	Public sector debt in projects 20%
	vii) Work out whether should be different weightings to different participants because they are taking different risks/staying in longer	Since most debt will be fairly short term e.g. 7 to 10 years and the equity investments are longer and higher risk, it was decided that equity investments i.e. UK contribution should have a 2:1 weighting against the debt investments.
<b>Identify what level of private climate finance is additional:</b>	Work out what proportion of funds and projects would have occurred anyway	It was forecast that in Asia 60% of sub-funds and 80% of the direct investments would have reached financial close without further support, whereas only 40% of the sub-funds in the IFC AMC fund would have got to financial close (because the IFC AMC Catalyst Fund will invest globally and will involve more first time funds). The impact of second round financing e.g. when one fund exits from/liquidates its investment in a project, it will invest in another

		project or sub-fund was ignored for the sake of simplicity This could have a major impact on private finance mobilised as in practice most finance exits after
<b>Isolate the level of private climate finance attributable to donor spend</b>	Only a portion of this can be attributed to the UK if there are other donors and MDB finance at the fund of funds, sub-fund and project level	In practice the model we used takes the estimate overall fund size.
<b>Calculate the Leverage Ratio</b>	= Mobilised Private Climate Finance Attributed to UK / UK Support	The leverage ratio is estimated to be very high – between 1 to 30 and 1 to 75, depending on the amount of private finance brought in at the top level. Due to the fact the two funds are still fund-raising and US SEC rules we are not able to reveal the details at this point but should be able to do so in about 24months time.  As other public sector investors may also join the UK, a portion of the private finance will also need to be attributed to those investors relative to their investments in the Fund of Funds.
<b>Interpret</b>	The leverage ratio is estimated to be very high - this is a feature of the instrument used (fund of funds) and is higher in Asia (where debt leverage is higher than for example Africa and where there is less need for public sector involvement). The investors we attract at the top level are key because without their money the finance at the lower levels is not catalysed. The UK is keen to bring in new types of money such as sovereign wealth funds.	
<b>Establish the monitoring framework</b>	We will assess of how much private finance is <u>actually</u> mobilised by requesting reports from each of the sub-funds and projects on the amount of equity and debt levied, as part of the Terms and Conditions imposed both on the two Fund managers and in turn which they impose on the investee funds and projects. The data will be collated in the reporting, so overcoming any confidentiality issues.	

Source: UK Government CP3 Business case is published at <http://projects.dfid.gov.uk/iati/Document/3567077> Due to US SEC rules around fund-raising the estimated fund sizes and details of the financial sums estimated to be leveraged are not published.

## **Solar Loan Guarantee Facility (Asian Development Bank)**

The UK's contribution will help to unlock India's huge solar energy potential by offsetting part of the financing cost of using ADB guarantees given to commercial banks for commercial loans for small-scale solar plants. In total this project is expected to stimulate an estimated \$429 million of private sector investment in clean energy generation, which should lead to around 130 MW of solar power capacity, avoiding 4.9 million tonnes of carbon dioxide going into the atmosphere over the next 25 years. By playing a critical role in the successful financing of the first wave of solar power projects in India, the facility will transform overall market risk perceptions and induce other banks to lend to the sector. Over the medium term this will help develop local capacity and enable long-term cost reductions for solar power, including for off-grid consumers who are often by-passed.

### **Applying the project level methodology to forecast and monitor flows:**

<b>Methodological Step</b>	<b>Example Approach</b>	<b>Approach/Assumptions</b>
<b>Identify donor contribution</b>		£6m from UK
<b>Identify private climate finance contribution mobilised from various sources</b>	Applying technical definitions on private finance and climate relevance	Investment is in small scale solar plants – these are considered climate change mitigation technologies as lead to significant expected GHG emission reductions from displacing fossil fuel generation.
	Estimate the likely amount of private finance mobilised	The facility has been conservatively sized at \$150 million to support 12–15 projects between 2011 and 2014, which would represent a reasonable sample of first projects to be financed (this is based on a pipeline of projects). The estimated total investment cost for projects to be supported under the facility is \$429 million - derived from assuming (i) a project debt–equity ratio of no greater than 70:30; and (ii) a guaranteed percentage of 50% on the total debt of the projects. ADB PCGs would therefore, cover up to \$300 million equivalent of commercial loans to projects from domestic and international commercial bank lenders. The remainder of funding will come from equity and subordinated debt (or like instruments). =\$429m This takes into account only first round financings.
<b>Identify what level of private climate finance is additional:</b>	Judge what proportion of funds and projects would have occurred in absence of intervention	It is assumed that all investments are 100% additional, as projects are brought to close by donor action – given close to no investment in this sector to date given high levelised cost. =\$429m <i>We recognise that this may over-estimate the true impact, and note this as an area where future analysis is needed to refine the approach.</i>
<b>Isolate the level of private climate finance attributable to donor spend</b>	Only a portion of this can be attributed to the UK as this is a multi-donor project.	UK is one donor to the Asian Development Bank, in total ADB will issue partial credit guarantees (PCGs) in an aggregate amount of up to \$150 million of principal In total the UK share = 6% 6% of \$429m = \$28m

		<p>This takes into account only the UK share of the additional £6m, not the UK shareholding in AsDB of the remainder of the \$150m.</p> <p><i>We recognise that this is a very conservative approach – and does not reflect that UK funds are higher risk than the remainder of the ADB money. Should more be attributed? We note this as an area where future analysis is needed to refine the approach.</i></p>
<b>Calculate the Leverage Ratio</b>	= Mobilised Private Climate Finance Attributed to UK / Support from UK	= \$28m / \$9.7m (£6m) = ratio of 1: 2.9
<b>Interpret</b>	Based on other similar programmes this private sector leverage ratio is considered appropriate.	
<b>Establish the monitoring framework</b>	Actual Private Finance Mobilised – calculated consistently with the methodology above – will be monitored and reported from the data collected by ADB on sub-projects that are financed.	

Source: ADB <http://www2.adb.org/Documents/RRPs/IND/44941-01-ind-rrp.pdf>

See also the UK Government Business Case published at [www.decc.gov.uk/.../decc/.../4781-business-case-for-india-solar-power-generation-gua.pdf](http://www.decc.gov.uk/.../decc/.../4781-business-case-for-india-solar-power-generation-gua.pdf)

## GET FiT

UK is considering a contribution through a phased grant to 'GET FiT', a multi-donor project between Germany, EU, Norway and UK, run by KfW. The project's objective is to get planned small-scale, private-sector, on-grid Renewable Energy (RE) projects in Uganda to financial completion.

The project consists of four complementary elements:

- A public sector facility (in the form of a direct grant paid to renewable energy developer calculated top-up to the Ugandan Government's existing Feed-in-Tariff which is regarded as being insufficient for the RE developers to have financially viable projects,
- a fast-track procedure for the RE developers to purchase World Bank guarantees);
- A Private sector facility (funded by private developers);
- Capacity building.

### Applying the project level methodology to forecast and monitor flows:

Methodological Step	Example Approach	Approach/Assumptions
<b>Identify donor contribution</b>		£20m from UK, Phased Grant
<b>Identify private climate finance contribution mobilised from various sources</b>	Applying technical definitions on private finance and climate relevance	The grant is to small scale renewable electricity generation projects – these are considered climate change mitigation technologies and to lead to significant expected GHG emission reductions from displacing fossil fuel generation. We assume 20% of investment in these projects is met through MDB financing.
	Estimate the likely amount of private finance mobilised	Finance mobilised is forecast through estimating the number of projects that will come to financial close as a result of the intervention and estimating the total investment costs for each. A portfolio of projects - targeted to achieve 125MW of new installed renewables capacity - is drawn on to estimate this result, based on an indicative pipeline of small-scale renewables projects, taken from Ugandan Energy Regulatory Authority's list of projects that received permits and narrowed to a shorter list of projects through research and stakeholder interactions. In total the forecast of the investment costs of this portfolio is estimated at \$372m, 20% of which is assumed to come from MDBs, such as IFC, hence private finance = \$298m This takes into account only first round financings.
<b>Identify what level of private climate finance is additional:</b>	Judge what proportion of funds and projects would have occurred in absence of intervention	It is assumed that all investments are 100% additional, as projects are brought to close by donor action. In particular no project has been able to get to close between 2007 and now without material concessional financing or special arrangements. =\$298m
<b>Isolate the level of private climate finance attributable to donor</b>	Only a portion of this can be attributed to the UK as this is a multi-donor project.	UK is one of many donors, donor share is estimated to be 34% (this may change once other contributions are firmed up). 34% of \$298m

<b>spend</b>		= \$100m
<b>Calculate the Leverage Ratio</b>	= Mobilised Private Climate Finance Attributed to UK / Support from UK	= \$100m / \$30m (£20m) = ratio of 1: 3.4
<b>Interpret</b>	Based on other similar programmes this private sector leverage ratio is considered appropriate to the instrument (top level subsidy) and country risk (Uganda is a poor country which ranks 123 <sup>rd</sup> out of 190 in the World Bank Doing Business survey).	
<b>Establish the monitoring framework</b>	Actual Private Finance Mobilised – calculated consistently with the methodology above – will be monitored and reported as part of the project. KfW will report regularly to the donors Steering Committee against the indicators in the LogFrame.	

Source: Modelling undertaken by Deutsche Bank working with KfW.

## **Annex B**

The section below outlines the **‘working assumptions’** we have started to employ as technical definitions and methodological assumptions in order to consistently assess projects across our International Climate Fund in advance of any international definitions being adopted.

### **Definition of Private Finance**

A working level definition of “private” finance which includes:

- Finance from non-public sources such as banks (but not multilateral or regional development banks- MDBs or RDBs), private companies, private or company pension funds, NGO money, CDM financing, voluntary carbon credit market, insurance companies, private savings, family money, entrepreneurs’ own capital and sovereign wealth funds. It includes all types such as equity, debt and guarantees.
- It does **not** include donor money, aid-agency government money, money from MDBs or RDBs.
- Private finance can be from both developing country institutions e.g. the local banks or entrepreneurs in the beneficiary country and developed country institutions such as international venture capital funds, international banks or multinational entities.

### **Definition of Climate Finance**

This “climate” definition is important for private finance flows to ensure a level of climate finance integrity. For public climate finance formal definitions are provided by the Rio marker methodology – for private finance similar definitions are required. These can be an integral part of a project’s design, and it is important to note that a restrictive definition placed on for initiatives and instruments that attempt to mobilise private finance will deter private investment –but a balance needs to be struck with the public policy point of view that it is important that climate investments are sufficiently ambitious and encourage “modal shift” in line with the ultimate goal of 2 degrees.

It is difficult to draft a comprehensive definition as to what counts as a “climate” investment, given the range of possible investments and advances in technology over time. We believe it is better to start with working definition that may differ across donors and have transparency on this in the interim -rather than start by trying to have a consistent definition.

As a working level assumption we’ve taken a practical approach to set out those areas that are ‘out of scope’ and then provide an indicative, but non-exhaustive list of investments that are ‘within scope’ (See Annex C).

Any part of a project which is easily severable and not related to climate change should be excluded, e.g. if the project is working with SMEs around improving their practices generally to achieve cost-savings - some of which includes energy efficiency - then only the part which relates to energy efficiency should be included.

### **Definition of Mobilised**

Mobilised is often also referred to as leverage. It is ‘the process which occurs when the use of specified resources for a given objective causes more financial resources to be applied for that objective than would otherwise have been the case’.

Mobilised resources could be (but note this is not an exhaustive list):

- Upfront co-financing i.e. resources committed to the project from the private sector at the time of project approval.

- Subsequent co-financing i.e. resources mobilised after the project has been operating e.g. commercial banks or venture capital funds finance a project part-designed or financed by UK.
- Non-financial actions and measures which can also mobilise financial resources.

How a project mobilises private climate finance will vary by project – for example – whether it is mobilised by direct investment, capacity building, concessional loans etc

### **Definition of Additionality**

It is important to assess the additional level of finance that would not have been brought into the climate change project (or another related climate change project) if donors had not taken action, funded or put in place measures to mobilise the finance. This is also referred to as “additionality”, and is key to ensuring impact and value for money from our actions.

In some cases an intervention may only be accelerating private markets and so some private climate finance would have happened in the absence of the intervention. This is often referred to as the baseline and this needs to be considered in order to calculate the additional finance to report. Estimating baselines and additionality can be difficult and we have not yet developed a fixed approach.

### **Attribution Rules**

In many instances one donor may be acting and co-financing alongside a group of other public donors. In this instance the individual donor should only claim mobilisation of that particular proportion of funding which can be strictly attributed to share of the project – otherwise there will be significant double counting when finance flows are aggregated.

A simple ‘pro rata’ attribution rule based on share of total project donor finance<sup>2</sup> is proposed in first instance, applied constantly overtime. This methodology prevents double-counting with other donors, so UK cannot attribute to itself all the benefits from a co-funded project.

$$\text{Share to UK (\%)} = \frac{\text{HMG funds (\pounds)}}{\text{Total Donor funds (\pounds)}}$$

### **Causation/other double counting issues**

There are particular problems with causation/double counting where donors/MDBs provide support at different stages of for example infrastructure development. For example donors who finance for example the drafting of regulations or the training of a country’s energy buyer to draft a standard geothermal Power Purchase Agreements and tariff regime, may argue that this was instrumental in mobilising the resulting geothermal power plants and the private sector investment. Other donors may however then support surface studies to ascertain the existence of potential geothermal. Yet more or different donors may finance a risk mitigation scheme for drilling or provide drilling rigs for the exploration drilling. At a later stage a power plant might be built, partly with some donor finance e.g. from the Climate Investment Funds and some private sector finance.

Clearly there is a lot of scope for double counting. In reality this private sector finance needs to be shared among all of these players.

This applies across technologies - it is common for one donor to support a feasibility study and another to help finance via concessional grants or loans.

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<sup>2</sup> This is in nominal terms, undiscounted. No carbon market interactions occur.

## **Annex C**

### **Climate Definitions**

**In scope (but note this is a non-exhaustive list):**

#### Renewable energy generation

- Wind power
- Solar energy (in all forms)
- Hydropower
- Sustainable biomass
- Sustainable biofuels
- Geothermal
- Hybrid Systems e.g. molten solar
- Includes the development, installation and operation of both off-grid and grid-connected systems

#### Energy efficiency

- Energy Service Companies (ESCOs)
- Efficiency improvement to existing systems, including:
  - Efficient lighting
  - Efficient heating and cooling
- Co-generation or combined heat and power (CHP) implementations
- Efficiency improvements to existing energy transmission and distribution systems
- Efficiency improvements to power generation in existing facilities where energy generation is not the facility's primary purpose
- Standards-based green buildings (new construction and renovations) and green building specialised property management companies
- Transportation improvements (limited to public transport, hybrid/electric vehicles, and existing fleet replacement)

*To note that there is some debate around setting specific energy efficiency improvement levels – i.e. that only improvements that yield, for example, 15 -20% savings should count. However, this may exclude projects to where the percentage saving may be low but the actual tonnes of carbon saved high because of the high energy usage (e.g. improving transmission losses).*

#### Renewable energy and energy/resource efficiency supply chains

- Wind turbine manufacturing and assembly
- PV and solar thermal manufacturing and assembly
- Manufacturing of specialised equipment and components for renewable energy and energy/resource efficiency products (including specialised software solutions)
- Manufacturing of energy/resource management, monitoring and control equipment
- Manufacturing and/or distribution of hybrid and electric vehicles and specialised components
- Manufacturing and/or distribution of the highest available energy and resource efficient products (e.g. micro-irrigation, low rolling resistance tires, lighting devices)
- New materials to improve energy and resource efficiency such as nontechnology, bio materials and biochemical
- Off grid products e.g. solar lanterns.

#### Sustainable agriculture and forestry

- Resource and land management technologies, companies and projects,, including agriculture and forestry, which sequester carbon

#### Water and wastewater

- Water conservation and efficiency
- Wastewater treatment

#### Environmental Services

- Recycling
- Greenhouse gas reducing waste management (including methane capture)

#### Others

- Fuel-cells
- Waste-to-energy
- Fuel switch to lower emission fuels at existing facilities
- Manufacturing and/or distribution of advanced energy storage solutions (excluding conventional batteries)
- Carbon Capture and Storage
- Biofuel/biomass or palm oil plantations on degraded land
- Adaptation projects (projects that identify climate change risks and go on to support and enable initiatives that address these risks)

#### **Exclusions:**

- Investments that then go on to apply for CDMs which would be sold elsewhere for emissions credits. This is because there would be no net emissions gain.
- Greenfield coal
- Nuclear
- Production of HFCs, N2O
- Biofuel/biomass or palm oil plantations in newly cut forest
- Projects that would lead to 'carbon leakage' (i.e. relocating/shifting production)
- Efficiency improvements to fossil fuel production/generation (this would include moving from one less efficient fossil fuel to a more efficient fossil fuel)
- Vehicle scrappage schemes
- Road projects e.g. bypasses or transport schemes. Although these may save emissions they are not regarded as directly climate.
- Gas projects

## **Annex D: The UK International Climate Fund's M&E Approach**

An overarching monitoring and evaluation (M&E) approach is being developed for the ICF, with a focus on accountability, making the case for climate finance and evidence generation.

The M&E approach consists of the following elements:

- **Results framework and consistent indicators**, to allow tracking and demonstration of ICF results (outputs, outcomes and impacts) at project, theme and fund level.
- **Agreed evaluation questions, priorities and standards**, to promote robust and consistent methods for project and programme evaluations (particularly important for multilateral programmes).
- **Centrally-coordinated strategic evaluations**, to address key questions and knowledge gaps using robust impact evaluation methods. In addition, a central evaluation of the performance of the ICF. Strategic evaluations will be funded via a central budget.

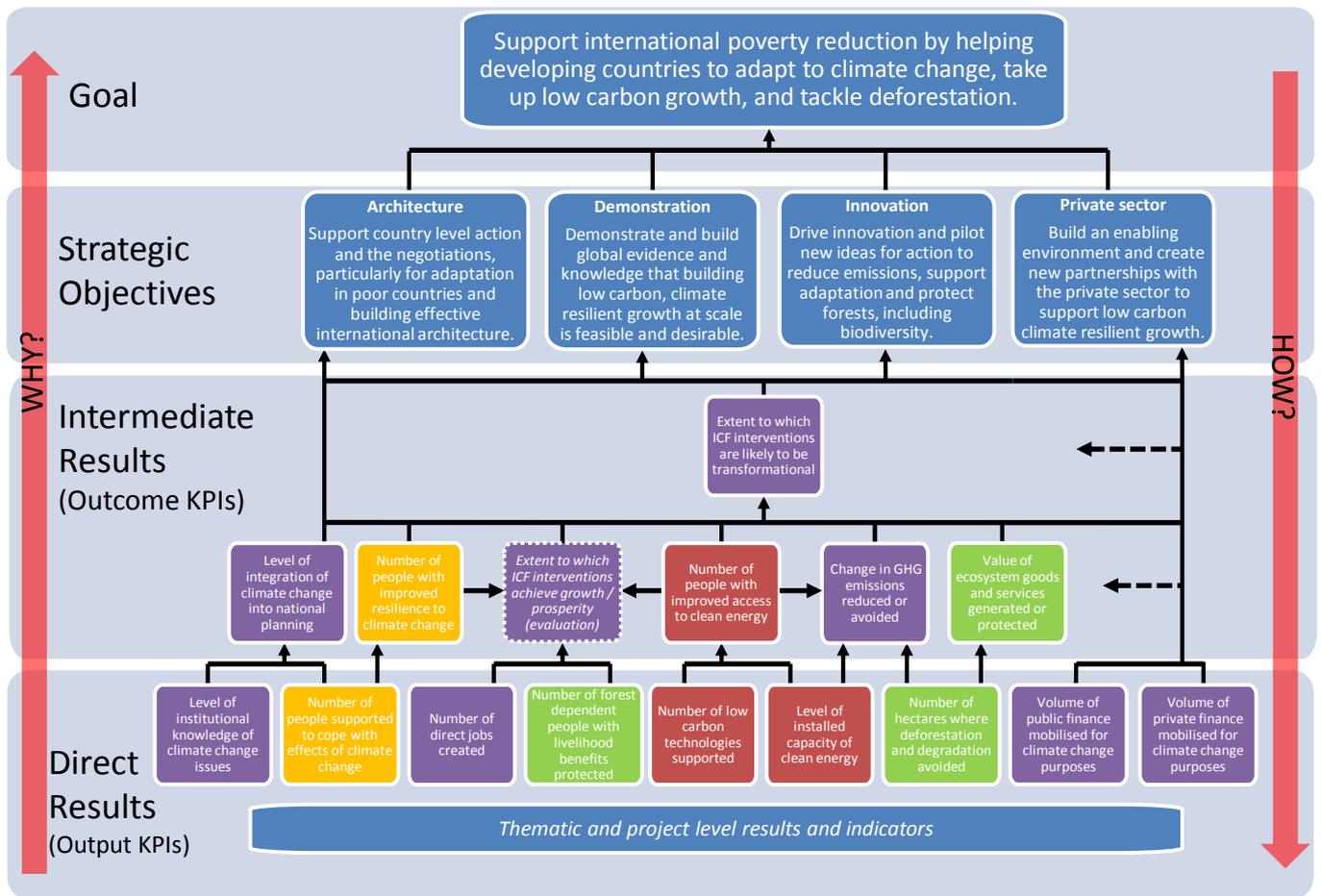
The M&E approach will enable progress towards key expected results to be tracked consistently across a fairly diverse range of projects, and to assess impact of the ICF across the entire portfolio. It will also ensure evaluation efforts are prioritised to build the evidence base around key knowledge gaps.

**The ICF's Key Performance Indicators are listed and presented in the table and diagram below.**

Many of these methodologies have been developed at working level and are currently being trialled and will be reviewed. A few methodologies for the more complicated indicators are still under development.

	<b>KPI</b>	<b>Level</b>	<b>Type</b>
<b>People</b>	1. Numbers of people supported by ICF programmes to cope with the effects of climate change	Output	Quantitative
	2. Number of people with improved access to clean energy as a result of ICF programmes	Outcome	Quantitative
	3. Number of forest dependent people with livelihoods benefits protected or improved as a result of ICF support	Output	Quantitative
	4. Number of people with improved resilience as a result of ICF support	Outcome	Quantitative
	5. Number of direct jobs created as a result of ICF support.	Output	Quantitative
<b>Environment</b>	6. Change in Greenhouse Gas (GHG) emissions as a result of ICF support	Outcome	Quantitative
	7. Level of installed capacity of clean energy as a result of ICF support	Output	Quantitative
	8. Number of hectares where deforestation and degradation have been avoided through ICF support	Output	Quantitative
	9. Number of low carbon technologies supported (units installed) through ICF support	Output	Quantitative
	10. Value of ecosystem services generated or protected as a result of ICF support	Outcome	Quantitative
<b>Influence and Leverage</b>	11. Volume of public finance mobilised for climate change purposes as a result of ICF funding	Output / outcome	Quantitative
	12. Volume of private finance mobilised for climate change purposes as a result of ICF funding	Output / outcome	Quantitative
	13. Level of integration of climate change in national planning as a result of ICF support	Outcome	Qualitative (scorecard)
	14. Level of institutional knowledge of climate change issues as a result of ICF support	Output	Qualitative (scorecard)
	15. Extent to which ICF intervention is likely to have a transformational impact	Outcome	Qualitative (scorecard)

### ICF Results Framework and Key Performance Indicators



KPIs:   adaptation   Forestry   LCD   Cross-cutting