Volume of private finance mobilised for climate change purposes as a result of ICF

KPI 12 Methodology Note
November 2018
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About Climate Change Compass
The UK government has committed to provide at least £5.8 billion of International Climate Finance between 2016 and 2020 to help developing countries respond to the challenges and opportunities of climate change.

Visit www.gov.uk/guidance/international-climate-finance to learn more about UK International Climate Finance, its results and read case studies. Visit www.climatechangecompass.org to learn more about how Climate Change Compass is supporting the UK Government to monitor, evaluate, and learn from the UK International Climate Finance portfolio.
**Acronyms**

<table>
<thead>
<tr>
<th>Acronym</th>
<th>Definition</th>
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<tbody>
<tr>
<td>BAU</td>
<td>Business as Usual</td>
</tr>
<tr>
<td>CIFs</td>
<td>Climate Investment Funds</td>
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<tr>
<td>CIV</td>
<td>Collective Investment Vehicle</td>
</tr>
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<td>CP3</td>
<td>Climate Public Private Partnership Programme</td>
</tr>
<tr>
<td>CRS</td>
<td>Creditor Reporting System</td>
</tr>
<tr>
<td>DAC</td>
<td>Development Assistance Committee</td>
</tr>
<tr>
<td>DFID</td>
<td>Department for International Development</td>
</tr>
<tr>
<td>GBP</td>
<td>British Pound Sterling</td>
</tr>
<tr>
<td>GHG</td>
<td>Greenhouse Gas</td>
</tr>
<tr>
<td>HMG</td>
<td>Her Majesty’s Government</td>
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<tr>
<td>HMRC</td>
<td>Her Majesty’s Revenue and Customs</td>
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<tr>
<td>ICF</td>
<td>International Climate Finance</td>
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<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organisation</td>
</tr>
<tr>
<td>ODA</td>
<td>Official Development Assistance</td>
</tr>
<tr>
<td>OECD</td>
<td>Organisation for Economic Cooperation and Development</td>
</tr>
<tr>
<td>RBF</td>
<td>Results Based Financing</td>
</tr>
<tr>
<td>UNFCCC</td>
<td>United Nations Framework Convention on Climate Change</td>
</tr>
<tr>
<td>USD</td>
<td>United States Dollar</td>
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</table>
Volume of private finance mobilised for climate change purposes as a result of ICF

Rationale

On its own, ICF/HMG public finance will be insufficient to meet climate change objectives; substantial amounts of public and private finance from other sources will also be required. This indicator seeks to measure the amount of ‘other’ (i.e. non ICF/HMG) private money mobilised or catalysed for climate change as a result of HMG funding.

In addition, high-income countries have committed under the UNFCCC to jointly mobilise $100 billion in public and private climate financing per year by 2020 for developing country climate change actions. HMG therefore wants to ensure that private sector money mobilised via its initiatives is monitored to facilitate reporting to the relevant body.

Note that mobilisation of public finance is assessed using a separate indicator, KPI 11.

Summary table

Table 1: KPI 12 summary table

<table>
<thead>
<tr>
<th>Units</th>
<th>£ legally committed</th>
</tr>
</thead>
<tbody>
<tr>
<td>Disaggregation summary (click for more details)</td>
<td>Mobilised private climate finance should be disaggregated by:</td>
</tr>
<tr>
<td></td>
<td>• Origin of finance (i.e. provider country / recipient country / third high-income/OECD country / third developing country)</td>
</tr>
<tr>
<td></td>
<td>• Climate theme supported by finance (i.e. adaptation / mitigation / both)</td>
</tr>
<tr>
<td>Headline data to be reported</td>
<td>Quantity of private finance mobilised (£), including disaggregated data, leverage ratio, and explanatory text justifying assessment of additionality and calculation of attribution.</td>
</tr>
<tr>
<td>Latest revision</td>
<td>August 2018.</td>
</tr>
<tr>
<td>The main revisions to this Methodology Note are:</td>
<td>The OECD DAC is currently testing, revising and finalising instrument-level guidance for measuring mobilised private finance, which is expected to be finalised by 2020. If applying OECD DAC instrument-level approaches, reporters should double check the latest OECD guidance.</td>
</tr>
<tr>
<td>Timing issues</td>
<td>When to report: ICF programmes are required to report ICF results once each year in March. Please bear in mind how much time is needed to collect data required to report ICF results and plan accordingly.</td>
</tr>
<tr>
<td>Reporting lag: Your programme may have produced results estimates earlier in the year, for example during your programme’s Annual Review. It is acceptable to provide these results as long as they were produced in the 12 months preceding the March results commission. In some cases, data required for producing results estimates will be available after the results were achieved – if because of this results estimates are only available more than a year away from when results are delivered, this should be noted in the results return.</td>
<td></td>
</tr>
</tbody>
</table>
**Links across KPI portfolio**

Data on ICF programmes that have reported against or forecast future reporting against any KPIs indicates programmes that report against KPI 12 also frequently report against the indicators for leverage of public climate finance (KPI 11), changes in greenhouse gas emissions (KPI 6), the extent to which ICF interventions are likely to have a transformational impact (KPI 15), the level of installed capacity of clean energy (KPI 7), the number of people with improved access to clean energy (KPI 2) and the number of people supported to cope with the effects of climate change (KPI 1).

**Technical Definition**

This indicator aims to measure the volume of private finance for climate change purposes mobilised by UK ICF investment.

‘Mobilised private climate finance’ is funding for climate change purposes that has been provided by private bodies, where this funding has been provided as a result of ICF’s prior actions or investment. Whether funding should be classified as ‘mobilised private climate finance’ should be based on the application of three definitional tests.

**Private finance test: Is the finance provided by a private organisation?**

- Finance should be classified as public or private based on the type of organisation providing the finance. In general, organisations should be defined as public if they are governments agencies, or if governments own more than 50% of equity/shares in an organisation with multiple shareholders (for example, a bank with both public and private shareholders). In all other cases, they should be classified as private organisations.
- In some cases, this ownership-based approach may not accurately reflect the character of financial transactions made by organisations that are publicly owned but operate according to market-oriented commercial or private principles. In these cases, programmes may classify reporting based on who exercises control of investment decisions or based on the principles used to make investment decisions.

**Climate finance test: Is the finance intended for climate change adaptation or mitigation purposes?**

- Finance should be categorised as climate finance if the purpose of the project/programme includes support to meet climate change mitigation and/or adaptation goals. Climate financing should not be determined based on whether the source of the finance is nominally drawn from a climate change fund/window/etc.
- If finance also provides support to other (non-climate) goals, only the portion of the funding directed towards climate goals should be counted as climate finance. Climate finance should exclude finance for coal-related power generation, except if related to Carbon Capture and Storage/Use.

**Mobilised finance test: Has the finance been mobilised by the ICF, i.e. is it additional and causally linked to ICF funding or support?**

- Mobilised finance is funding from another actor that has been directed to an objective, project or programme that would otherwise not have benefitted from these funds, and is a direct result of the original mobilising actor’s efforts. Mobilising is sometimes referred to as leveraging or catalysing of finance.
- This definition requires that funds are additional, in that they would not otherwise have been allocated to a climate objective or activity, and that the ICF programme can identify a causal link between its funding or actions and the mobilised finance.
For further guidance on applying these definitional tests see Annex 4.

**Methodological Summary**

To determine the volume of private finance mobilised for climate change purposes as a result of ICF, reporters should follow the approach set out in the graphic below.

*Figure 1: KPI 12 Methodological Summary*

1. Check finance against three definitional tests
   a) Is it private finance?
   b) Is it climate finance?
   c) Is it mobilised by ICF support?

2. Quantify mobilised finance

3. Convert finance to common currency (GBP / £)

4. Attribute finance across HMG and any mobilising partner investors

Details on applying the three definitional tests in step 1 above is provided in this section. Practical guidance on the calculation approach and the remaining steps 2-4 mentioned above is provided in the Methodology section.

It should also be noted that in-kind and monetised contributions from host national partners (e.g. sub-regional, municipal, village-level, foundations, CBOs, etc.) frequently form a significant portion of the overall resource envelope for the target programme, and are normally expected as prerequisites for donor assistance. As such, these contributions can play a pivotal role in successfully leveraging donor aid. However, these vital contributions can be difficult to quantify as there is currently no internationally accepted methodology for their quantitative accounting. Nonetheless, where in-kind resources have substantively contributed to the programme’s overall resource envelope, please briefly describe their significance/role in having strategically mobilised additional resources.

**Methodology**

To calculate the volume of private finance mobilised for climate change purposes as a result of ICF:

1. **Identify HMG’s financing contribution.**

   *See example.*

2. **Identify all public and private finance contributions from various sources (debt, equity, etc) and its origin, distinguishing between private and public finance.**

   This should include all up-front co-financing of projects, and any subsequent public finance provided after the initial financing (within appropriate time horizons). Convert all finance into common financial terms.

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1 Reporting teams should not include ‘in kind’ contributions from development partners or host countries in this assessment. While these contributions can form a significant portion of the overall resource envelope for
(GBP/£), see ‘Currency rate conversions’. If the finance supports a project/investment that relates to more than climate change, then apply appropriate deductions for non-climate change elements where they are severable.

**See example.**

3. Identify the ‘Business as Usual’ (BAU) baseline private co-finance that would have been provided in the absence of ICF spending/action.

**See example. See ‘Most recent baseline’ for guidance on determining the baseline.**

4. Determine the quantity of mobilised private finance.

This is the difference between the total finance mobilised in step 2 and the BAU baseline in step 3. This difference provides an estimate of mobilised private finance. This assessment will require a judgement of the additionality of this finance and of HMG’s causal role in mobilising this finance. Private finance should only be counted as ‘mobilised’ if it is truly additional or diverted to the specific climate change-related project or programme because of ICF spending/action.

**See example. See additional guidance on determining additionality.**

5. Attribute finance among all actors who have mobilised the additional finance.

Where HMG is the only actor supporting an investment, all mobilised finance can be attributed to HMG. Where HMG is one of multiple public actors supporting an investment, it must attribute the mobilised private finance results across all responsible parties.

**See example. See additional guidance on calculating attribution below.**

6. Report mobilised private finance and HMG’s ‘leverage ratio’.

Disaggregate between finance mobilised from DAC donor and developing countries (and in line with other disaggregation guidance below.

Reporters may also wish to refer to the OECD DAC’s specific guidance on measuring mobilised finance for specific instruments. The OECD has designed methodologies to measure and incorporate mobilised private finance into the OECD DAC Creditor Reporting System (CRS) for:

- Collective Investment Vehicles (CIVs, pooled investments from a number of investors into a portfolio of companies)
- syndicated loans (loans provided by a group of lenders – the ‘syndicate’ – to a single borrower)
- credit lines (a standing credit amount that can be accessed by financial institutions)
- guarantees (where guarantors agree to pay part or all of a payment due on a loan, equity or other credit in the event of non-payment by the supported party or loss of value in a company)
- direct investment in companies (on-balance sheet investments in corporate entities without any intermediary, for example equity or ‘senior loans’)

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some programmes, the causal role of these resources towards mobilising finance is difficult to quantify and there is currently no internationally agreed methodology for accounting for their role in mobilisation.

2 A number of these methodologies are still in development, with some still at design or piloting phases. Methodologies for all instruments are expected to be finalised by 2020. Reporters should therefore double-check the latest reporting guidelines available from the OECD DAC for these instruments. See: http://www.oecd.org/dac/stats/mobilisation.htm.
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- loans and grants\(^3\) (non-repayable or repayable grants at zero interest, and loans at commercial or concessional rate)
- project finance (financing through special purpose companies/vehicles, including a mixture of equity, ‘junior debt’ and ‘senior debt’)

Following these reporting guidelines can help ensure consistency with international reporting standards and also support HMG’s reporting of ODA flows to the OECD. However, not all methodologies are fully finalised, with some still at a piloting phase. Reporting programmes should align with these guidelines where finalised (as with CIVs, syndicated loans, credit lines, guarantees, and direct investment in companies) and may refer to draft methodologies for other instruments for guidance.

See example.

**Quantifying mobilised climate finance**

Reporting teams should quantify all finance provided, including funding from development partner countries, host country national, sub-national or local governments, international organisations or financiers, and other philanthropic financiers.

All mobilised private finance should be accounted for at cash face value\(^4\). For example, loans should be valued using the full cash value committed rather than their grant equivalent amount, as should equity investments, grants or other financial instruments. Any private guarantees mobilised by ICF investments should only be counted as mobilised finance if activated\(^5\), at which point they would be valued at the face value of the guarantee finance provided.

Reporters should exclude any part of the project/programme that is easily severable if it is not specifically related to climate change mitigation or adaptation actions. For example, if the project/programme is working with private sector enterprises around improving their practices generally to achieve cost-savings but some of that includes energy efficiency improvements to reduce GHG emissions, then only the part related to energy efficiency should be included. Likewise, if the ICF-supported project focusses on livelihood security activities in the context of building resilience to disasters, and some of the funds are invested in climate risk management practices to improve the climate resilience and adaptability of a vulnerable business cluster or at-risk community, then only the climate risk management components can be included.

Mobilised resources need to be estimated based on boundaries to define the scope and account for the total private finance that could be associated with different public interventions (Jachnik et al, 2015). Typically these are best established at project-level, according to different instruments:

- Use project-level boundaries for grants, loans and syndicated loans. In these cases, mobilised financing might include upfront project level financing (i.e. resources committed to the project

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\(^3\) Note that the OECD’s guidance on loans and grants suggests that only instruments that explicitly aim to leverage additional finance, for example by requiring supported organisations to provide co-financing, should be counted as mobilised. While this approach may be appropriate for international statistical reporting under the OECD DAC, it is likely to be too restrictive for HMG reporting, as there are likely to be cases where HMG action mobilises further financing absent from such contractual incentives. Additionally, only including mobilised finance in such cases may create perverse incentives for HMG to over-invest in programmes that require such contractual co-financing, relative to broader climate change mitigation or adaptation support programmes.


\(^5\) In line with the OECD’s approach to valuing instruments mobilising private sector climate finance set out in OECD (2017) “Private finance for climate action: Estimating the effects of public interventions”.

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from the private sector at the time of project approval) or subsequent financing following UK investment (i.e. resources mobilised after the project has been operating, such as when commercial banks or venture capital funds finance a project part-designed or financed by HMG).

- For other types of financial instruments, such as guarantees and Collective Investment Vehicles, the precise boundaries will vary according to the level and quality of available data, as well as causality considerations based on conservative approaches.
- The OECD DAC methodologies on reporting for specific instruments provide further guidance on setting appropriate boundaries at the instrument level.
- Where the private sector re-finances investments initially made by public actors, a conservative approach would exclude this finance as it replaces public finance rather than providing new funding.

Quantifying mobilised finance may be more challenging where HMG has invested in more complex programmes or paid into multilateral funds, for example payments into the Climate Investment Funds (CIFs) or the Climate Public Private Partnership Programme (CP3). In these cases, funds may finance a number of subsequent projects or programmes.

Reporters should ideally aim to calculate any mobilisation from the funds at the lowest feasible level – ideally at the project level, but if funds include multiple layers (for example under ‘fund of funds’ models) this may be at a fund level. Assessments at the project level should ideally include individual project-level additionality and causality assessments (though see discussion of attribution below).

If data is not available at the project level, reporters should only report fund-level mobilisation data if they are confident that the reporting from funds follows approaches to determining additionality and causality that align with ICF KPI standards.

In addition to reporting figures for mobilised finance, the amount of private sector money that can be mobilised versus the £1 of HMG money spent can be represented as a mobilisation or leverage ratio. For example, a leverage ratio of 1:3 means that for each £1 of HMG money spent or invested in a project, £3 of private money is mobilised. Reporters should provide leverage ratios alongside total mobilised finance figures.

**Time horizons for reporting**

Mobilised private finance should be reported to HMG based on the UK fiscal year in which the finance is legally committed by the organisation/actor, and only for the year it is contractually committed. However, note that for international reporting (to the UNFCCC, OECD DAC) calendar year data will be required. Reporters should therefore make a note of the date of commitments to enable subsequent central calculations for international reporting purposes.

HMG investments may continue to mobilise additional finance for multiple years after funding is committed, especially if ICF funds are disbursed over a number of years. In general, ICF-supported projects or programmes may consider mobilisation claims for the duration of the project or programme. However, in cases where substantial time has passed between HMG funding/support and the provision of mobilised public finance (and potentially beyond the ICF-financed project life cycle), reporters should consider whether HMG can justifiably claim to have causally mobilised this finance.

OECD DAC guidance for measuring mobilisation from individual instruments provide varying lengths of time to be used in determining additionality from specific instruments (for example, guarantees, direct investment in companies). Reporters should refer to these time frames when considering additionality claims for specific instruments within projects/programmes.
**Currency rate conversions**

Finance is to be reported in British Pounds Sterling (GBP/£) for this KPI. Where project financing plans and data sources report international finance flows in US Dollars (USD/$) or in another currency, values should be converted using an appropriate exchange rate. The appropriate exchange rate to apply depends on the information available. The following hierarchy should be adopted:

- Use the exchange rate for the specific transaction, converting the currency on the rate at the time the finance was committed, if formalised/known.
- Use the OECD DAC annual exchange rate. The basis of measurement in DAC statistics is the US dollar. Data reported to the OECD DAC in other currencies are converted to dollars by the Secretariat. The list of exchange rates is published annually and represents an average of the yearly exchange rates.
- Use the HMRC yearly average spot rate. OECD exchange rates are only for donor currencies, therefore, for other currencies use the HMRC yearly average spot rates for the transaction year.

Note that future reporting to the UNFCCC will be on a USD basis. Where original information is in USD, please also record these original values of finance flows. Where original values are in a different currency, conversions to USD will be applied centrally.

**Additionality and Causality**

“Additionality” refers to funding that would not otherwise have been used for climate change purposes. This may include cases where the activity (and additional funding) would not have taken place in the absence of the funding or intervention from development partners, or where funding would not have been provided at the same scale without HMG’s support.

“Causality” refers to the assessment that: HMG claims responsibility for mobilising the additional funding because of funding provided through the ICF, or from actions taken under an ICF-funded project/programme (or a portion of the causal responsibility, if there are other responsible co-funders). HMG must meet both additionality and causality criteria to claim that it has mobilised climate finance, as there may be cases where additional funding is allocated to projects or programmes as a result of another actor’s support or efforts.

There are a range of ways in which ICF funding or actions can causally mobilise additional climate finance, including:

- **Direct mobilisation**, where ICF financial support spurs others to invest in projects or programmes by improving the risk-reward profile of projects or convincing other funders to invest.
- **Intermediated mobilisation**, where financial instruments supported by ICF lead to further investment by providing upstream funding for, and improving the risk-return profile of investments, such as through credit lines or fund-level instruments.
- **Financial incentivisation**, where ICF actions lead to increased investment by improving financial incentives for investment, for example by supporting subsidy schemes or tax breaks or by reducing risks by acting as a guaranteed off-taken for an investment (by committing to purchase final assets or clean energy produced by renewable energy investments).

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An actor’s initial support could also accelerate other actors’ investments so that they happen sooner. However, it is difficult to justify that such finance is truly additionality if it was ultimately intended to be spent towards climate goals.

• **Indirect mobilisation**, where capacity building support (though grants, loans or technical assistance) or other climate support (for example, for climate targets or green labelling schemes) improve the readiness of partners to invest in climate projects.

• **Catalytic action**, where non-climate support improves the enabling environment, for example by reducing general constraints to investment by other actors (more likely to support private finance mobilisation than public sector mobilisation)\(^\text{10}\).

ICF funding or support could potentially mobilise additional support through any of these channels, though in practice making a convincing causal claim around indirect mobilisation and catalytic action may require more rationalization.

Additionality should be assessed at the investment or project/programme level. That is, reporters should assess whether the private climate finance provided to a programme or investment supported by HMG would have been provided to that programme/investment in the absence of HMG’s funding or support (or if the additional finance would have otherwise been spent on a less ambitious climate project).

Assessments of additionality and causality require the judgement of the project/programme officer. Real world considerations for determining Additionality include:

- Additionality and causality may be straightforward to assess for certain types of instruments. For example, investments that require recipients to provide or secure co-financing are likely to causally mobilise additional financing – though reporters should consider whether recipients’ co-financing would have been used for the investment even without the ICF intervention.

- HMG will be more likely to be able to claim additionality if it designed and led the project/programme.

- More complex programmes may wish to apply more sophisticated approaches to calculate additionality, including at the aggregate/fund level (rather than the project/programme level). The Climate Public Private Partnership (CP3) programme determined additionality of mobilised finance by using statistical analysis to determine the amount of investment that would have been expected in a country without the CP3 intervention. They then deducted this from the finance provided with the programme to determine how much finance was additional\(^\text{11}\).

- Assessments of additionality for mobilised finance may be different from those for results reported under other KPIs. For example, ICF-supported Results Based Financing programmes have assumed that 100% of results are additional, as the finance is structured to only pay for additional outcomes. However, this additionality assumption should not be applied to mobilised finance – while RBF programme design ensures project results are additional, this is not automatically true of co-funding arising due to the programme. Instead, Reporters need to assess the Additionality of mobilised finance separately, on its own merits.

- Note that mobilised funding should not include ‘replication projects’ where HMG funding has led to replication of approaches. These are too remote for HMG to claim to have mobilised the private finance. If projects have led to replication, this could be captured within an assessment of the transformational impact of the investment under KPI 15.

**Attribution**

If HMG is the **sole investor in a project or programme**, it should assume all responsibility for any results (where the results are assessed to be additional and where HMG has a causal role).

\(^{10}\) While ‘indirect mobilisation’ and ‘catalytic action’ may mobilise support in principle, methodologies for quantifying finance mobilised through these channels have not yet been internationally agreed (for example, by the OECD DAC).

\(^{11}\) For more details on a generalised version of this approach to determining additionality, see Escalante, D., D. Abramskiehn, K. Hallmeyer & J. Brown (2018) “Approaches to assess the additionality of climate investments: Findings from the evaluation of the Climate Public Private Partnership Programme (CP3)”.
In many instances HMG may be acting alongside one or more other development partners or multilateral bodies that also provide funding or support for projects or programmes — and where each partner has played a role towards the results. In these cases, HMG should only claim responsibility for the portion of results that can be attributed to its support.

If HMG is **only funding part of a project/programme**, reporters should calculate results as a pro-rata attributable share based on the face value of all public co-financing towards the project.

If HMG is **contributing to a fund**:

‘First best’ approach: use project/programme level attribution (as above)

In this approach, reporters calculate results attributable to the UK for each project/programme implemented by the fund using the project/programme level attribution approach, and then sum results across all projects/programmes in the fund to reach total UK attributable results.

This approach allows for recognition of other co-finance contributions at the project/programme level. However, this approach may be complicated or not always possible in practice as it relies on (i) full information about project/programme level inputs, (ii) additional work to calculate results at the project/programme level.

‘Second best’ approach: use fund-level attribution

Reporters apply fund-level attribution (i.e. at point of UK investment) for reporting results. I.e. results should be shared across all donors that contribute to a fund. All results are attributable to the relevant fund (e.g. CIFs, CP3, GAP) regardless of whether these funds blend with other sources of finance in implementing projects at levels below the point of UK investment. This approach assumes that any further finance towards the project is counted as leveraged. Where this is known to not be the case, a more conservative approach to attribution may be appropriate, please contact your central ICF teams on further guidance.

While this is the less preferred approach as it does not recognise additional contributions at the project/programme level, it may be more practical to implement where full data on project/programme level inputs is not available.

Note: The distinction between attribution at the project/programme level and at the fund level (or at point of UK investment) is only an issue where the UK is investing in funds where there are multiple investment levels.

In some cases, there may be **multiple rounds of mobilisation**, for example under ICF contribution to projects or programmes that mobilise further funding over time. In these cases, reporters should attribute mobilised finance iteratively. In the first round of mobilisation, finance should be attributed among all public actors that have mobilised additional finance.

However, in subsequent rounds, mobilised finance may also need to be attributed to the public funders that provided finance in the first round (if they have also played a causal role in mobilising further funding). This approach should also be taken in cases where HMG invests in funds, where there may be multiple rounds of mobilisation, as follows:

- Initial funders should share attribution claims for additional mobilised capitalisation of the fund itself
• All funders that capitalised the fund should share attribution claims for any additional mobilised investments in projects financed by the fund
• Both funders that capitalised the fund and project level-investors should share attribution claims for any further mobilised finance under specific projects during the project’s lifetime

In some cases, the use of different types of instruments or different levels of risk borne by different funders may require a more nuanced approach to attribution. For example, one investor may issue a longer-term loan compared to other investors, assume a ‘first loss’ position (where they bear financial losses first among all investors) or take an equity stake in a company, while others issue loans.

In determining attribution in these cases, reporters should follow the OECD DAC’s instrument-specific reporting guidelines (at present, this is available for collective investment vehicles, syndicated loans, credit lines, guarantees, direct investment in companies, loans and grants, and project finance).

In general, where some public funders take on a higher level of risk, the OECD guidance recommends attributing 50% of the mobilised finance (on face value pro-rata terms) to the actor(s) taking the highest level of risk and attributing the remaining 50% of the mobilised finance among all public-sector parties (on face value pro-rata terms).

If reporters wish to use this risk-adjusted approach, they should liaise with co-mobilising partners to agree which partners have borne a greater level of risk, to ensure common reporting and avoid the problem of double-counting. If it is not possible to easily assess or agree which partners have borne greater risk, reporters may wish to revert to the default face value pro-rata attribution approach.

In recording mobilised finance, reporters should provide data on:
1. Total mobilised private finance, and
2. Mobilised private finance attributable to HMG using the default face value pro-rata attribution approach, or
3. Mobilised private finance attributable to HMG using risk-adjusted pro-rata attribution approach, with a note on how the risk adjustment weighting was determined

Worked Example for KPI 12

Worked example 1

1. Identify HMG’s financing contribution
An ICF co-funded programme provides support for renewable electricity developments in a West African country by offering premium payments to developers per kWh produced by renewable energy installations (results-based finance). ICF provides £50 million in programme funding.

2. Identify all public and private finance contributions
Three co-investing development partners provide a combined €50 million in programme funding (all in non-returnable grant financing).

Renewable energy installations supported by the programme attract $500 million in project funding, of which $150 million comes from domestic (West African) and international private sector developers (who contribute $50 million and $100 million respectively), and $350 million comes from international development finance institutions.
3. **Identify the ‘Business as Usual’ (BAU) baseline**
Project developers report that none of the developments would have proceeded without the price incentive provided by the programme’s premium payments, and no additional financing would have been provided.

4. **Determine the quantity of mobilised private finance**
As none of the developments or finance would have taken place without the programme, all the finance can be determined to have been mobilised by the programme. Total mobilised private finance of $150 million is converted to GBP terms using the OECD DAC annual exchange rate, amounting to £116 million.

5. **Attribute finance among all actors who have mobilised the additional finance**
Mobilised finance is attributed to HMG based on ICF’s share of the initial contributions to the programme. The co-investing partners’ shares are equivalent to £44 million, with total contributions amounting to £94 million.

ICF’s share of total initial co-funding amounts to 53% of the total, so HMG can attribute 53% of mobilised finance to its support, amounting to £62 million.

6. **Report mobilised private finance and HMG’s ‘leverage ratio’**
Based on the ratio of shares of mobilised private finance from domestic and international actors, £20.7 million should be reported as coming from domestic actors in the West African country and £41.1 million from international actors. The programme should report the finance from the domestic private companies as being mobilised from ‘recipient country’ actors. The programme should disaggregate the reported international private finance as coming from ‘Provider county’, ‘Third high income/OECD country’ or ‘Third developing country’ actors, depending on the country in which the actor providing the funding is based. All finance should be reported as addressing the climate change mitigation theme.

<table>
<thead>
<tr>
<th>Programme funding contributions</th>
<th>Original currency</th>
<th>Exchange rate (GBP per LCU)</th>
<th>GBP terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMG</td>
<td>£50 million</td>
<td>1.000</td>
<td>£50 million</td>
</tr>
<tr>
<td>Bilateral development partner 1</td>
<td>£20 million</td>
<td>0.8754</td>
<td>£17.5 million</td>
</tr>
<tr>
<td>Bilateral development partner 2</td>
<td>£20 million</td>
<td>0.8754</td>
<td>£17.5 million</td>
</tr>
<tr>
<td>Bilateral development partner 3</td>
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<tr>
<td>Total</td>
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<td></td>
<td></td>
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</table>

<table>
<thead>
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<th>Mobilised private climate finance</th>
<th>Original currency</th>
<th>Exchange rate (GBP per LCU)</th>
<th>GBP terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>Domestic developer</td>
<td>$50 million</td>
<td>0.7766</td>
<td>£38.8 million</td>
</tr>
<tr>
<td>International developer</td>
<td>$100 million</td>
<td>0.7766</td>
<td>£77.7 million</td>
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<tr>
<td>Total</td>
<td></td>
<td></td>
<td>£116.5 million</td>
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<table>
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<th>Weighted pro rata attribution</th>
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</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>GBP</td>
</tr>
<tr>
<td>HMG</td>
<td>53%</td>
<td>£62.1 million</td>
</tr>
<tr>
<td>Bilateral development partner 1</td>
<td>19%</td>
<td>£21.7 million</td>
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<td>Bilateral development partner 2</td>
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</tr>
<tr>
<td>Bilateral development partner 3</td>
<td>9%</td>
<td>£10.9 million</td>
</tr>
</tbody>
</table>

| Total ICF mobilised private finance | £62.1 million |

See Annex 1 for further worked examples.
Data Management

Data sources
Private finance data may be available from the beneficiary or the implementer of the programme. Ideally, the duty to collect data should be the responsibility of recipients of aid or donor funding, or a third party auditing entity. Data on all public finance provided or mobilised is also needed for attribution calculations. Some data will be available directly from programme-related data e.g. other donor contributions to programmes.

Partner country expenditure can be sourced from government fiscal and reporting systems (e.g. Ministry of Finance, Ministry of Environment, etc.). Additionally, the International Aid Transparency Initiative (IATI)\(^\text{12}\) database may provide funding data for non-DAC donors, providers of South-South cooperation (SSC), NGOs, private foundations and private sector organisations\(^\text{13}\).

Most recent baseline
A counterfactual ‘Business as Usual’ (BAU) baseline should be used to calculate mobilised private climate finance, reflecting what would have happened in the absence of ICF funding or action. This BAU approach is needed to determine the Addtionality of any mobilised finance.

Calculating the baseline can be challenging and will likely involve some estimation and discussions with involved parties and stakeholders to determine whether ICF support influenced their funding decisions. For example, programmes could consider equivalent investment rates in similar projects that have not received ICF support. However, in this case, programmes will need to be sure that the ICF support has not affected investment in these other projects as well, for example by supporting the general investment or policy environment or by demonstrating commercial sustainability of investment in similar projects. If ICF support has affected investments in these ways, these investment levels will not reflect a true BAU case.

Where it is difficult to determine a counterfactual, historical data may also be useful in estimating the BAU case (for example, average annual levels of investment in a sector or typical project prior to ICF support).

If you are not able to estimate what the counterfactual is,\(^\text{14}\) it is suggested to use an ‘adjustment factor’, which should be high (e.g. 95%) if you are confident your results are additional, and your data quality is good. A lower ‘adjustment factor’ (e.g. 50%) should be used if you have a lot of uncertainty and there are other partners in the area undertaking similar activities. This ‘adjustment factor’ should be applied after all other steps in the calculation process are completed. For further advice on applying an ‘adjustment factor’ approach, please discuss with Departmental ICF advisors.

Data issues / Risks and challenges
Assessments of additionality and causality (i.e. the extent to which ICF money has encouraged others to contribute to the project or programme) will need to be done on a case-by-case basis, and will require the judgement of the project/programme reporting officer (and possibly the implementing agency/departments).

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\(^\text{12}\) The International Aid Transparency Initiative (IATI) provides a complementary role to the OECD-DAC Creditor Reporting System. See: https://iatistandard.org/documents/63/The-relationship-between-IATI-and-CRS.doc


\(^\text{14}\) For example, where ICF funding is channelled through MDBs and where HMG therefore relies on these institutions to conduct baseline assessments.
Attribution calculations may be challenging as will require details of partner organisation spending, and potentially an assessment of the level of risk associated with different investments, as discussed in the Methodology section above. Where possible, programmes should agree if any party(ies) bear a higher level of risk among all partners responsible for mobilisation, to ensure consistent attribution of mobilisation across different partners.

Programmes need to avoid double-counting. For example, the UK should not claim leveraged private finance that other actors also claim to have mobilised. This may be best done by liaison between donors and host government contributors. This becomes important if these indicators are to be aggregated at a global/international level – a particular concern given donor reporting on mobilised private finance to the OECD DAC. It is also important to check that two (or more) different HMG funded programmes are not claiming to have mobilised the same private finance. If in doubt about this, programme teams should let ICF analysts know during the results commission.

Note that as other donors may be reporting this data back to OECD/DAC and to the UNFCCC in due course, it is important to liaise with them when projects/programmes include multiple donors or involve multilateral organisations to align approaches to attribution and to avoid double counting.

Quality assurance
Programme officers are asked to report on definitions, sources of data and assumptions regarding additionality, to ensure that all centrally-conducted quality assurance reporting is consistent with the Methodology Note. Workings documents should list all other co-mobilising donors, and the methodology for BAU.

All results estimates should be quality assured before they are submitted during the annual ICF results return, ideally at each stage data is received or manipulated. For example, if data is provided by partners, this data should be interrogated by the ICF programme team for accuracy, or at the very least data should be sense checked for plausibility. When converting any provided data into KPI results data, quality assurance should be undertaken by someone suitable and not directly involved in the reporting programme. Suitable persons vary by department; this could be an analyst, a results / stats / climate and environment adviser / economist.

Central ICF analysts will quality assure results that are submitted, and this may lead to follow up requests during this stage.

To avoid inherent reporting biases, it is strongly recommended that, where possible, data collection is undertaken by a third party that is not directly involved with implementing the project. Where not possible, consider using independent evaluations or alternative means to periodically check the validity of results claims.

Any concerns about data quality or other concerns should be raised with your departmental ICF analysts and recorded in documentation related to your results return.

Data disaggregation
Mobilised private finance can be provided by both developing country institutions (for example, local banks or entrepreneurs in the beneficiary country or another developing country) and developed country institutions (such as international venture capital funds, international banks or multinational entities).
The UK Government takes the view that it is important to mobilise all types of private finance, reiterated by the donor Technical Working Group that data should track “both domestic and international private flows mobilized by a developed country public intervention”. However, it is important to understand the origin of mobilised finance, especially for tracking progress against the USD 100bn global goal. The OECD DAC reporting guidelines for instrument level mobilisation also requires reporters to provide information on sources of finance.

The Technical Working Group has stated that “[w]here possible, the group agreed to aim to indicate where flows originated, using international standard based on Foreign Direct Investment statistics definitions, which relies on the residence principle as defined by the balance of payments”. The residence principle is not based on nationality or legal criteria, but rather on whether an organisation engages in “a significant amount of production of goods and/or services there or when the enterprise owns land or buildings located there”.

For these reasons, data on mobilised private climate finance should be disaggregated according to the four classifications below, in line with the OECD DAC criteria for classifying private finance providers:

- Provider country = Private sector actor based in the UK.
- Recipient country = Private sector actor based in the same country receiving support from the ICF project or programme.
- Third high-income/OECD country = Private sector actor based in another high-income country (based on OECD DAC membership).
- Third developing country = Private sector actor based in a partner/developing country other than the recipient country (based on the OECD DAC list of ODA eligible countries).

Data should also be disaggregated by the climate change theme supported by the mobilised finance:

- Climate change adaptation,
- Climate change mitigation, or
- Both.

**Annex 1: Further worked examples**

**Worked example 2**

1. **Identify HMG’s financing contribution**

ICF provides £10 million in grant funding for an African government’s national climate change fund.

2. **Identify all public and private finance contributions**

A co-investing bilateral development partner also provides €10 million, and the African national government provides $5 million in grant co-funding to the national fund.

As a result of the initial fund capitalisation, the fund successfully accesses further funding from international climate funds and multilateral development partners totalling $40 million, the African national government provides a further $10 million in matching funding for specific projects, and the African country’s national development bank provides $4 million in matching funding for projects.

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17 OECD DAC members: http://www.oecd.org/dac/dacmembers.htm
18 OECD DAC ODA eligible international organisations: http://www.oecd.org/dac/stats/annex2.htm
3. **Identify the ‘Business as Usual’ (BAU) baseline**

The programme reporting officer assesses that national climate change fund would not have been able to access the international climate funding without the initial support from IFC, the co-investing bilateral partner, and the initial African government capitalisation. They also determine that that the additional matching funds from the national government and the national development bank would also not have been provided without the initial capitalisation.

4. **Determine the quantity of mobilised private finance**

The funding from international funders and the national government is public finance, but the $4 million from the national development bank is determined to be private finance as the bank operates according to commercial banking principles. This finance is converted to GBP terms using the OECD DAC annual exchange rate, amounting to £3.1 million.

5. **Attribute finance among all actors who have mobilised the additional finance**

Mobilised finance is attributed to HMG based on the ICF’s share of the initial capitalisation of the national climate change fund. All co-funding contributions converted are to GBP terms using OECD DAC annual exchange rates: the bilateral partner’s contribution amounts to £8.8 and the African government’s contribution amounts to £3.9 million. Based on total GBP-terms co-funding of £22.6 million, HMG’s share of the total amounting to 44%.

ICF can therefore attribute 44% of the resulting mobilised private finance to its support, representing £1.4 million.

6. **Report mobilised private finance and HMG’s ‘leverage ratio’**

This finance should be reported as originating from the ‘recipient country’, as the national development bank is based in the recipient African country. As the funding is used for climate change mitigation and adaptation projects, the finance is marked as relating to both themes in the programme reporting.

**Table 3: Figures relating to Worked Example 2**

<table>
<thead>
<tr>
<th>Programme funding contributions</th>
<th>Original currency</th>
<th>Exchange rate (GBP per LCU)</th>
<th>GBP terms</th>
</tr>
</thead>
<tbody>
<tr>
<td>HMG</td>
<td>£10 million</td>
<td>1.090</td>
<td>£10 million</td>
</tr>
<tr>
<td>Bilateral development partner</td>
<td>£10 million</td>
<td>0.8754</td>
<td>£8.8 million</td>
</tr>
<tr>
<td>Recipient country government</td>
<td>£5 million</td>
<td>0.7766</td>
<td>£3.9 million</td>
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<td><strong>Total</strong></td>
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</thead>
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<tr>
<td>National development bank</td>
<td>£4 million</td>
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<tr>
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<td>%</td>
<td>GBP</td>
<td>%</td>
</tr>
<tr>
<td>HMG</td>
<td>44%</td>
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</tr>
<tr>
<td>Bilateral development partner</td>
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<tr>
<td>Recipient country government</td>
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<tr>
<td><strong>Total ICF mobilised private finance</strong></td>
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</tbody>
</table>
Worked example 3

1. **Identify HMG’s financing contribution**
   ICF provides £10 million in funding for a challenge fund providing a mixture of loans and grants for small businesses in a South Asian country.

2. **Identify all public and private finance contributions**
   Businesses must bid for funding to develop climate change technologies and services, and must provide matched funding and submit business plans to be eligible for funding. The challenge fund provides support to 22 companies, which provide a total of $25 million in matched funding for their businesses.

3. **Identify the ‘Business as Usual’ (BAU) baseline**
   Through discussions with the businesses, the programme reporting officer determines that this funding would not have been invested in the companies’ climate goods and services without the ICF support, so the matched funding can be considered to have been mobilised by the ICF funding support. Note that the reporting officer needs to verify this additionality for each individual business and should not make overall assumptions at the programme level, and any money invested in the businesses prior to the challenge fund’s involvement cannot be counted as mobilised finance.

4. **Determine the quantity of mobilised private finance**
   Total mobilised private finance of $25 million is converted to GBP terms using the OECD DAC annual exchange rate, amounting to £19.4 million.

5. **Attribute finance among all actors who have mobilised the additional finance**
   This funding can all be attributed to HMG if no other funders provide co-mobilising funding to the businesses – while ICF is the only funder for the challenge fund, other organisations may have provided funding alongside the challenge fund. The programme officer determines that no other organisations have provided funding to the 22 businesses, so all mobilised finance can be attributed to ICF support. If other public organisations had provided support to businesses, the programme reporting office would need to assess whether that finance had been mobilised by ICF funding or whether it had a co-mobilising role on the private funding provided. If other organisations had co-mobilised the private finance from specific businesses, the reporting officer should attribute the mobilised finance separately for each business rather than at a programme level to allow for different attribution of outcomes across the different businesses supported.

6. **Report mobilised private finance and HMG’s ‘leverage ratio’**
   The £19.4 million in mobilised private finance should be reported as originating from the ‘recipient country’ as it comes from Kenya-based companies, and should be disaggregated across different climate change themes (climate change mitigation, climate change adaptation or both) based on the amount of matched funding provided by each individual business and whether their climate change goods or services target either or both climate change themes.
Table 4: Figures relating to Worked Example 3

<table>
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<tr>
<th>Programme funding contributions</th>
<th>Original currency</th>
<th>Exchange rate (GBP per LCU)</th>
<th>GBP terms</th>
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<tbody>
<tr>
<td>HMG</td>
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<td>£10 million</td>
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<tr>
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<th>GBP terms</th>
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</thead>
<tbody>
<tr>
<td>Recipient country companies</td>
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<tr>
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<td></td>
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</thead>
<tbody>
<tr>
<td>%</td>
<td>GBP</td>
<td>%</td>
</tr>
<tr>
<td>HMG</td>
<td>100%</td>
<td>£19.4 million</td>
</tr>
<tr>
<td>Total ICF mobilised private finance</td>
<td></td>
<td>£19.4 million</td>
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</tbody>
</table>

Worked example 4

1. **Identify HMG’s financing contribution.**
   An ICF programme provides a £5 million, 12-year subordinated loan to a £80 million renewable energy infrastructure project in a Southern African country.

2. **Identify all public and private finance contributions.**
   Alongside this funding, an international financial institution provides £10 million in equity financing while a regional development bank provides a £5 million, 6 year senior (i.e. priority) loan. The remainder of the £80 million in total financing is provided by a domestic commercial (private) bank in the Southern African country and the project developer, which provide £20 million in loans and £40 million in equity investment respectively.

3. **Identify the ‘Business as Usual’ (BAU) baseline.**
   The project developer confirms that their investment could not have occurred without the support of their public sector partners, and that they also would not have secured the additional domestic bank loans without the involvement of ICF and public partners.

4. **Determine the quantity of mobilised private finance.**
   All £60 million in private climate finance can be deemed to have been mobilised from the public support provided by ICF, the international financial institution and the regional development bank.

5. **Attribute finance among all actors who have mobilised the additional finance.**
   If all partners bore the same risk, the £60 million in mobilised private finance would be attributed among partners based on the face value of their co-mobilising financial contributions, so the ICF would attribute 25% of the financing to its support (based on contributing £5 million of £20 million total funding).

   However, as the international financial institution’s equity finance and the ICF’s longer term subordinated loan bear more risk than the regional development bank’s shorter priority loan, the programme reporting team adjusts attribution to take account of risk levels. They attribute 50% of mobilised finance to HMG and to the international financial institution based on the face value of their financial contributions, and attribute the remaining 50% of mobilised finance among all three mobilising partners based on the face value of their financial contributions. HMG can therefore attribute £17.5 million to the ICF’s support – 33% of £30 million attributed to the riskiest mobilising instruments (based on contributing £5 million of the £15 million in total funding from HMG and the international financial
institution), and 25% of £30 million attributed to all mobilising actors (based on contributing £5 million of the total £20 million in initial funding).

6. Report mobilised private finance and HMG’s ‘leverage ratio’.
This £17.5 million in mobilised private finance should be reported as originating from the ‘recipient country’ as it comes from domestic banks and the Southern African country-based company, and should be entirely reported against the climate mitigation theme as the project relates exclusively to emissions reductions.

Table 5: Figures relating to Worked Example 4

<table>
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<td>£5 million</td>
</tr>
<tr>
<td>International financial institution</td>
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<td>£10 million</td>
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<td>Regional development bank</td>
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<td>£5 million</td>
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<td>Total</td>
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</table>

<table>
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<th>Exchange rate (GBP per LCU)</th>
<th>GBP terms</th>
</tr>
</thead>
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<tr>
<td>Project developer</td>
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</thead>
<tbody>
<tr>
<td></td>
<td>%</td>
<td>GBP</td>
</tr>
<tr>
<td>HMG</td>
<td>25%</td>
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<td>International financial institution</td>
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<tr>
<td>Total ICF mobilised private finance</td>
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</tr>
</tbody>
</table>

Annex 2: Comparability and synergies with other indicators

There is good potential for synergies with other international indicators for mobilised finance as HMG will also report against mobilised private finance under several other reporting frameworks, and as several international organisations and development partners also attempt to identify private climate finance mobilised by their activities.

UNFCCC Biennial Reporting will require Parties to provide information on public finance provided directly and mobilised private finance. The international negotiations around reporting standards indicate that reported climate finance will need to:

- demonstrate that the finance has been used towards climate change mitigation and/or adaptation goals (in line with specific parameters), and provide details on how financing is linked towards the implementation of the Paris Agreement
- provide details on the geographical origin of finance
- provide details on the methodologies and assumptions used to calculate resources, including:
  - the calculation boundaries applied (e.g. time periods, levels within funds).
  - the approach used to determine causality in mobilising finance (with only causally-mobilised private finance to be included).
  - the approach taken for attribution, and to avoid double counting.

Note that as of August 2018 these negotiations are ongoing, and so may be subject to change.
the types of instruments used to mobilise finance.
- methodologies used for reporting the value of mobilised finance, such as: face value, net value, grant equivalent value, with current guidance noting that both face value and grant equivalent value should be reporting, but that only grant equivalent value should be counted in final reporting
  - be reported in USD and optionally in local currency, including details on the approach used for currency exchanges

There is therefore good potential for synergy between ICF reporting under KPI 12 and UNFCCC reporting, and clear documentation of the methodology used under KPI 12 will support the UK’s biennial reporting. However, for full alignment, HMG would need to expand on current methodologies under KPI 12 to include additional information on specific instruments responsible for mobilising private climate finance and may need to centrally adjust finance to grant equivalent terms, which would imply gathering information on the specific terms of the mobilised finance (including what instrument it is provided through, its concessionality and its duration).

**EU MMR** (Greenhouse Gas Monitoring Mechanism Regulation) annual reporting requires EU member states to provide information on the direct financial support provided to developing countries, including mobilised private finance. The EU MMR allows states flexibility in reporting, and in the past the UK has directly used data from KPI 12 within its reports. There are therefore clear synergies and value in supporting EU reporting, with no implications for methodologies for KPI 12 under current MMR reporting rules.

The **OECD DAC** requires members to report spending on development projects related to climate change goals as part of the ‘Rio Markers’, and has recently expanded it’s reporting to include mobilised private finance. As discussed above, OECD DAC reporting requires members to apply an instrument-based approach, with specific methodologies and guidance established for each instrument. The general methodology set out for KPI 12 is well-aligned with OECD DAC reporting guidelines, but specific adjustments would be needed for individual instruments. Reporting programmes would also need to apply instrument-specific approaches for each different type of instrument within individual programmes, including instrument-specific approaches to attribution.

Additionally, some finance recorded as mobilised private finance under KPI 12 would not be included under OECD DAC reporting.

- OECD DAC and ICF KPI 12 approaches differ in how they classify organisations and the finance they provide as ‘private’ or ‘public’, with the OECD applying a narrower definition for finance based on only public or private ownership of the organisation that provides the finance. It is possible that some finance classified as ‘private’ by HMG may be deemed ‘public’ by the OECD DAC, and should therefore not be reported to the DAC.
- The OECD’s approach to mobilisation from loans and grants suggests that only instruments that explicitly, contractually leverage additional finance, for example by requiring supported organisations to provide co-financing, should be included in calculations. As noted above, this is stricter than the approach taken in this KPI 12 methodology, and so some finance mobilised from these instruments would need to be excluded from reporting to the OECD DAC.

While there are complementarities between ICF KPI 12 reporting and OECD DAC reporting, full synergy in reporting that would allow ICF data to be directly applied in OECD DAC reporting would require programmes to gather additional data and to take alternative methodological choices in calculating mobilised private finance. However, clear documentation of the specific methodology used under KPI 12 would support UK reporting to the OECD DAC, and HMG may wish to encourage programmes to gather instrument-specific information to support this reporting where programmes either report large volumes of climate finance or use a range of instruments to mobilise private finance.
There are also potential synergies with annual reporting in the **MDB Joint Report** on climate finance and co-finance. This reporting includes all public and private finance provided alongside MDB-provided climate finance. In principle, programme-level co-finance data gathered by MDBs for Joint Reporting purposes could also be used to calculate ICF mobilised private finance, for those cases where the ICF has contributed funds to MDB programmes, investments or funds. In using MDB Joint Report data, reporters should be aware that while the MDB methodology covers a wide range of instruments and sources, it does not attempt to determine causality or additionality of co-finance. Reporters will therefore need to make an additional assessment of whether and how much co-finance has been mobilised.

There is also potential synergy with the specific **MDB private investment mobilization** reporting, which includes directly mobilised finance (where there is a clear and auditable role between MDB actions or support and mobilised private finance) and indirect mobilised finance (without the clear trails). This approach is well-aligned with the KPI 12 methodology on the range of instruments and types of finance included and the reporting periods used, allowing ICF programmes to use data calculated through this approach in ICF reporting in cases where the ICF has contributed to MDB programmes, investments or funds. However, adjustments may be needed for attribution in certain cases, where the MDBs attribute mobilised private finance among all involved MDBs based on the MDB’s share of all MDB commitments, in face value terms. This approach does not consider other co-mobilising public actors (such as bilateral development partners), and does not weight the value of mobilising instruments based on the levels of risk taken by different partners.

### Annex 3: Definitions of key methodological terms used across Methodology Notes

As different HMG departments may use the same terminology to refer to different concepts, this section sets out definitions for key terms used across Methodology Notes for ICF KPIs. The terms used in these notes refer to the concepts as defined below, rather than to alternative, department-specific usages of these terms.

**Counterfactual**: The situation one might expect to have prevailed at the point in time in which a programme is providing results, under different conditions. Commonly, this is used to refer to a ‘business as usual’ (BAU) counterfactual case that would have been observed if the ICF-supported intervention had not taken place.

**Additionality**: Impacts or results are additional if they are beyond the results that would have occurred in the absence of the ICF-supported intervention. That is, results are additional if they go beyond what would have been expected under a BAU counterfactual.

**Causality**: Causality refers to the assessment that one or more actors bear responsibility for additional results or impacts, as a result of funding provided though the ICF or actions taken under an ICF programme. Multiple development partners may be assessed to have played a causal role in delivering results.

**Attribution**: Attribution refers to allocating responsibility for impacts or results among all actors that have played a causal role in programmes that deliver additional results. Results are commonly attributed to causal actors based on their financial contributions to programmes (though there may be cases where greater nuance is needed, as with KPI 11 and KPI 12).
Annex 4: Definitional tests for mobilised private climate finance

Definition of private finance

Test: Is the finance provided by a private organisation?

For the purposes of tracking climate finance, financial flows and transactions can be classified as either ‘public’ or ‘private’. The distinction between public and private flows should primarily be based on whether the organisation providing the mobilised finance is a public or private actor, in line with the OECD DAC’s latest guidance on tracking finance\(^{20}\), as follows:

- “Official [i.e. public] transactions are those undertaken by central, state or local government agencies at their own risk and responsibility, regardless of whether these agencies have raised the funds through taxation or through borrowing from the private sector. This includes transactions by public corporations i.e. corporations over which the government secures control by owning more than half of the voting equity securities or otherwise controlling more than half of the equity holders’ voting power; or through special legislation empowering the government to determine corporate policy or to appoint directors.”
- “Private transactions are those undertaken by firms and individuals resident in the reporting country from their own private funds.”

Reporters should apply this public/private ownership-based approach to determine whether mobilised finance is public or private, and should report only on private finance under this KPI. Note that this could include private finance from UK sources, as well as international private sector organisations.

Private finance therefore includes transactions undertaken by organisations such as banks, private companies, private or company pension funds, non-governmental organisation (NGO) money,\(^{21}\) voluntary carbon credit developers, insurance companies, private savings, family money, and entrepreneurs’ own capital. It includes all types of investment, such as equity, debt and guarantees.

It does not include donor money, aid-agency government money, money from multilateral or regional development banks or funds from the CDC Group (as a UK public development finance organisation). Under this approach, finance mobilised from an organisation – for example, a bank – that is majority owned (greater that 50% of shares) by a national government would be considered as public finance under the standard OECD DAC guidance.

However, in some cases, this public/private ownership-based approach may not accurately reflect the character of financial transactions made by organisations that are publicly owned but operate according to market-oriented commercial or private principles. For example, (majority or wholly) state-owned financial institutions may invest along commercial lines with no public-sector direction of investments. This may be especially common in countries with more centralised planning systems, such as China, Cuba, Vietnam, Bhutan or former USSR socialist states.

In such cases, programmes may wish to report such finance as private finance rather than public finance, but should include a justification for this approach. A number of factors may help guide the classification of finance as ‘public’ or ‘private’ in cases where ownership status is ambiguous:

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\(^{21}\) As NGOs private actors, funding they provide should be regarded as private finance. However, if an NGO is acting as a delivery agent for a public actor, for example administering a publicly-capitalised fund or implementing a publicly-funded programme, this finance should be regarded as public.
• Does the public sector ‘control’ the investment decisions made by the organisation? If not, the finance could potentially be classified as ‘private’.

• Does the organisation operate according to market-oriented commercial investment principles? If so, the finance could potentially be classified as ‘private’, especially if the finance sector in which the institution originates is dominated by publicly-owned institutions. This would exclude cases where these actors invest explicitly in line with national development goals.

If Reporters wish to diverge from the default ‘ownership’ approach and report such mobilised finance as ‘private finance’ under this KPI, they should include a justification that the organisation is either not controlled by the public sector or acts as a non-state or market-oriented commercial entity, and note this clearly alongside reported mobilised finance numbers.

**Definition of climate finance**

**Test: Is the finance intended for climate change adaptation or mitigation purposes?**

Finance should be categorised as climate finance if the purpose of the project/programme includes support to meet *bona fide* climate change mitigation and/or adaptation goals. Climate financing should not be determined based on whether the source of the finance is nominally set aside for climate change purposes.

Finance should be defined as climate change-related based on the OECD DAC Rio Markers definitions for climate change adaptation and mitigation. All Official Development Assistance (ODA) spend is qualitatively assessed and ‘tagged’ under these definitions for ODA reporting, and these headline definitions are internationally recognised and used by numerous development organisations and climate change financing entities in their reporting on climate finance. The OECD DAC RIO Marker definitions are as follows:

- **Climate change mitigation:** “An activity that… contributes to the objective of stabilisation of greenhouse gas (GHG) concentrations in the atmosphere at a level that would prevent dangerous anthropogenic interference with the climate system by promoting efforts to reduce or limit GHG emissions or to enhance GHG sequestration.”

- **Climate change adaptation:** “An activity that… intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions.”

For further information on the OECD DAC definition and indicative classification guidance, please see the OECD’s Handbook on using the Rio Markers for climate change activities. Note that finance may

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23 Providing full calculations is important in these cases to ensure central calculations can re-adjust data to comply with international private finance reporting requirements, if needed.


25 Reporters may also wish to refer to the MDB’s examples or indicative eligible adaptation and mitigation activities for accessible summary lists of relevant activities – see Annex B and Annex C in Joint MDB (2016), “2015 Joint Report on Multilateral Development Banks’ Climate Finance”. Reporters should defer to OECD DAC guidance in the case of any discrepancies between approaches.
also provide support to other goals, but must include climate action among its supported areas – and the final calculation of mobilised finance should exclude any funding for non-climate purposes.

In addition, climate finance should exclude finance for coal-related power generation except if related to Carbon Capture and Storage/Use based on a formal agreement with by Technical Working Group on mobilised climate finance.26

**Definition of mobilised finance**

*Test: Has the finance been mobilised by the ICF, i.e. is it additional and causally linked to ICF funding or support?*

Mobilised finance is funding from another actor that has been directed to an objective/project/programme that would otherwise not have benefitted from these funds, and is a direct result of the original mobilising actor’s efforts. Mobilising is sometimes referred to as leveraging or catalysing of finance.

This definition requires that:

- Funds are **additional**, in that they would not otherwise have been allocated to a climate objective or activity; and,
- The ICF can identify a **causal link** between its funding or actions and the mobilised finance.

It is important to distinguish between financing that would have occurred regardless of the ICF’s involvement, and mobilised financing that is both additional and where the ICF can claim a causal link. Further guidance on determining additionality and identifying a causal link is provided in the Methodology section below.

Mobilised finance could include:

- Upfront financing, i.e. resources committed to the project/programme from other donors or partner governments at the time of project approval.
  - Note that upfront financing can only be claimed as mobilised if the private sector partner would not have allocated this funding to the project or programme in the absence of the ICF’s financing.
- Subsequent financing, i.e. resources mobilised after the project has been operating, for example where early success encourages others to contribute.

**Annex 5: Key references**


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OECD DAC (2018), “Methodologies to Measure Amounts Mobilised from the Private Sector”\(^{34}\)


\(^{33}\) https://www.oecd.org/dac/environment-development/Revised%20climate%20marker%20handbook_FINAL.pdf


\(^{36}\) https://www.newsdc.admin.ch/newsdc/message/attachments/40866.pdf


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