

The UK's International Climate Fund & Capital Markets Climate Initiative

Department of Energy & Climate Change, UK

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Purpose of the International Climate Fund



The International Climate Fund (ICF) **helps developing countries adapt to climate change, adopt low carbon growth, and tackle deforestation**

The UK is providing **£2.9 billion** of Official Development Assistance (ODA) from 2011-2015 from the Department of Energy & Climate Change (DECC, £1bn), Department for International Development (DFID, £1.8bn), Department for Environment, Food and Rural Affairs (DEFRA, £100m).

Priorities of the International Climate Fund



Ministers have agreed the 3 broad priorities for the ICF:

- i. Demonstrate that building low carbon climate resilient growth at scale is feasible and desirable
- ii. Support the international negotiations, particularly through providing support for adaptation in poor countries and building an effective international architecture.
- iii. **Drive innovation and new ideas for action, and create partnerships with the private sector**

An approximate **thematic split** has been agreed for ICF spend: 50% Adaptation; 30% Low Carbon Development, 20% Forestry

A methodology for **prioritising countries** for ICF spend has been developed, looking at low carbon potential (i.e. CO₂ emissions) and poverty reduction potential (e.g. access to electricity, Human Development Index) as well as factors such as UK Government's presence in countries and global competitiveness scores.

An Opportunity to Use Public Finance to Mobilise Private Finance



The objectives for the ICF on private finance are:

- i. To identify and implement financial instruments and solutions, that have transformative potential and have potential to be replicated at scale
- ii. To test new and innovative approaches to mobilising private climate finance to better inform future UK or other international initiatives and spending on key factors of success (or failure)
- iii. To mobilise private climate finance in ICF priority countries that would not otherwise flow to those countries so as to create a sustainable climate investment market
- iv. To mobilise private sector engagement and finance in specific sectors and/or technologies that experience difficulties in accessing private finance
- v. To create a better understanding of private finance within ICF priority country governments, HMG and internationally to inform future climate finance policy and projects.

Characteristics of ICF 'Private Finance' Interventions

- ICF interventions should be aimed at **'tipping the balance'** for private investors.
- This may include action to develop enabling environments, reduce costs/raise returns for investors, reduce risks of investment, or help build capacity of local financiers or project developers or projects which change the incentives for companies to engage in adaptation investments.
- Projects may target various parts of the investment supply chain; capital providers, capital facilitators and project developers.
- However, in all cases **intervention should be targeted at specific market failures and avoid over-subsidising or crowding out the market**. UK spend should also avoid duplicating what already exists and is working successfully. Overall, projects must offer **value for money** for the UK taxpayer
- Projects also need to **bring about sustainable change** such that public subsidy can be reduced and ultimately stopped over time.

Examples of existing ICF private sector projects



Asian Development Bank Solar Loan Guarantee Facility - £6 million

Contribution help to unlock India's huge solar energy potential by offsetting part of the financing cost of using ADB guarantees on commercial loans for small-scale solar plants. This is expected to stimulate an estimated £265 million of private sector investment in clean energy generation.

Partnership for Market Readiness (PMR) - £7 million

The PMR is a grant-based trust fund that helps middle-income countries develop and pilot market-based policies to reduce greenhouse gas emissions. The PMR brings together policy makers from governments with experts and stakeholders to provide a platform for piloting these market-based policies. The PMR is country led and builds on developing countries' own mitigation priorities. Recipient countries include Chile, Colombia, Costa Rica, Mexico, China, Indonesia, Thailand, Turkey and the Ukraine.

Climate Public Private Partnership (CP3) - £130 million

UK will be an anchor investor in two commercial private equity funds run on a strict commercial basis by professional fund managers which will aim to leverage private co-investment. The objective is to demonstrate that investment in climate projects in developing countries offers real opportunities and to build a successful track record. As well as an equity investment of £110m, the project will include technical assistance to support the development of the project pipeline and facilitate pioneering projects.

How ICF Projects Are Developed



1. Officials across Government are invited to develop project ideas consistent with the ICF implementation Plan. These include officials both based in developing countries (usually FCO and DFID) and in the UK (DECC, DFID & DEFRA).
 2. The ICF Secretariat provide feedback on ideas. Those that are considered a good fit with the ICF implementation plan and strategy are worked up by relevant officials into concept notes, setting out the strategic case for intervention, impact, expected results and feasible options.
 3. Decisions on whether concept notes are developed into full business cases, and subsequently whether business cases are approved, are taken by the ICF Board and delegated approval boards. Board members include senior officials from DECC, DFID, DEFRA, HM Treasury and Cabinet Office. All final spending decisions are taken by Ministers.
- In developing the concept note and business cases, officials will work closely with the developing country government and may advertise for consultants to develop projects that require specific expertise. Depending on the specific project, officials might work closely with other donor countries or multilateral institutions (such as the World Bank), or development banks (such as KfW) who might co-fund and/or implement the project.
 - **There is currently no route through which an organisation outside of UK Government can independently develop a project to be considered by the ICF Board. All projects must have a UK Government sponsor.**

Criteria with which ICF Projects must Comply

Criteria	Description & links to further guidance
ICF and UK Government spending objectives ¹	Align with ICF objectives, strategy and priorities. Must <u>deliver results</u> both in terms of poverty reduction and climate impact. Must demonstrate value for money for the taxpayer
Development Assistance ²	Must qualify as official development assistance ('ODA' – as defined by the OECD-DAC) with the main objective of the flows of resources to promote economic development in developing countries, be concessional in character, and <u>be provided through approved organisations and funds</u> . It must also comply with the International Development Act 2002 and assistance given <u>cannot be for the purpose of promoting UK trade</u> or other commercial or political reasons.
EU State Aid ³	Any flows of finance must <u>not distort competition or give an unfair advantage</u> that would affect trade in the European Union.
Open and fair competition ⁴	Any procurement procedures must comply with HMG & DECC guidance by following <u>open and transparent processes</u> that provide fair competition to all.

1. See ICF implementation plan and pamphlet <http://www.decc.gov.uk/en/content/cms/tackling/international/icf/icf.aspx>

2. See <http://www.legislation.gov.uk/ukpga/2002/1/part/1> and <http://www.oecd.org/dataoecd/21/21/34086975.pdf>. For lists of eligible countries and organisations see http://www.oecd.org/document/9/0,3746,en_2649_34447_43748297_1_1_1_1,00.html and <http://www.oecd.org/dataoecd/9/50/48858205.pdf>

3. EU State Aid law information available here http://ec.europa.eu/competition/state_aid/overview/index_en.html

4. DECC procurement guidance is available here <http://www.decc.gov.uk/en/content/cms/about/procurement/procurement.aspx>

CMCI Innovation Platform –

1. Challenge and Test ICF Proposals



The CMCI Innovation Platform will provide a forum whereby specific HMG proposals and ideas for using the UK's International Climate Fund (ICF) to mobilise private finance in to low carbon, climate friendly solutions can be 'tested' with CMCI participants. The objective is to:

- encourage constructive challenge and feedback that can be directly used to refine and strengthen ICF projects at the design stage, and
- enhance understanding amongst CMCI participants of the priorities, objectives and constraints associated with ICF funding.
- Updates will also be provided on HMG funding decisions and climate finance policy positions as part of an improved communications strategy.

Process:

- CMCI participants will be **notified** of opportunity to attend a roundtable discussion to test and challenge named concept note/business case.
- Prior to the roundtable discussion, non-confidential, non-sensitive **information on HMG projects** to be discussed will be made available.
- Those participating will be asked to **declare any conflicts of interest**. This will be helpful in ensuring that these interests can be taken into account when considering contributions or ideas put forward by CMCI participants.
- **Feedback** is given to project sponsor and if appropriate, fed in to next iteration of concept note/business case before it is submitted to the ICF Board through conventional ICF governance procedures. It is not incumbent on the project sponsor to accept all or any views presented at the Innovation Platform.

CMCI Innovation Platform –

2. Encouraging New Ideas on Scaling Up Private Finance

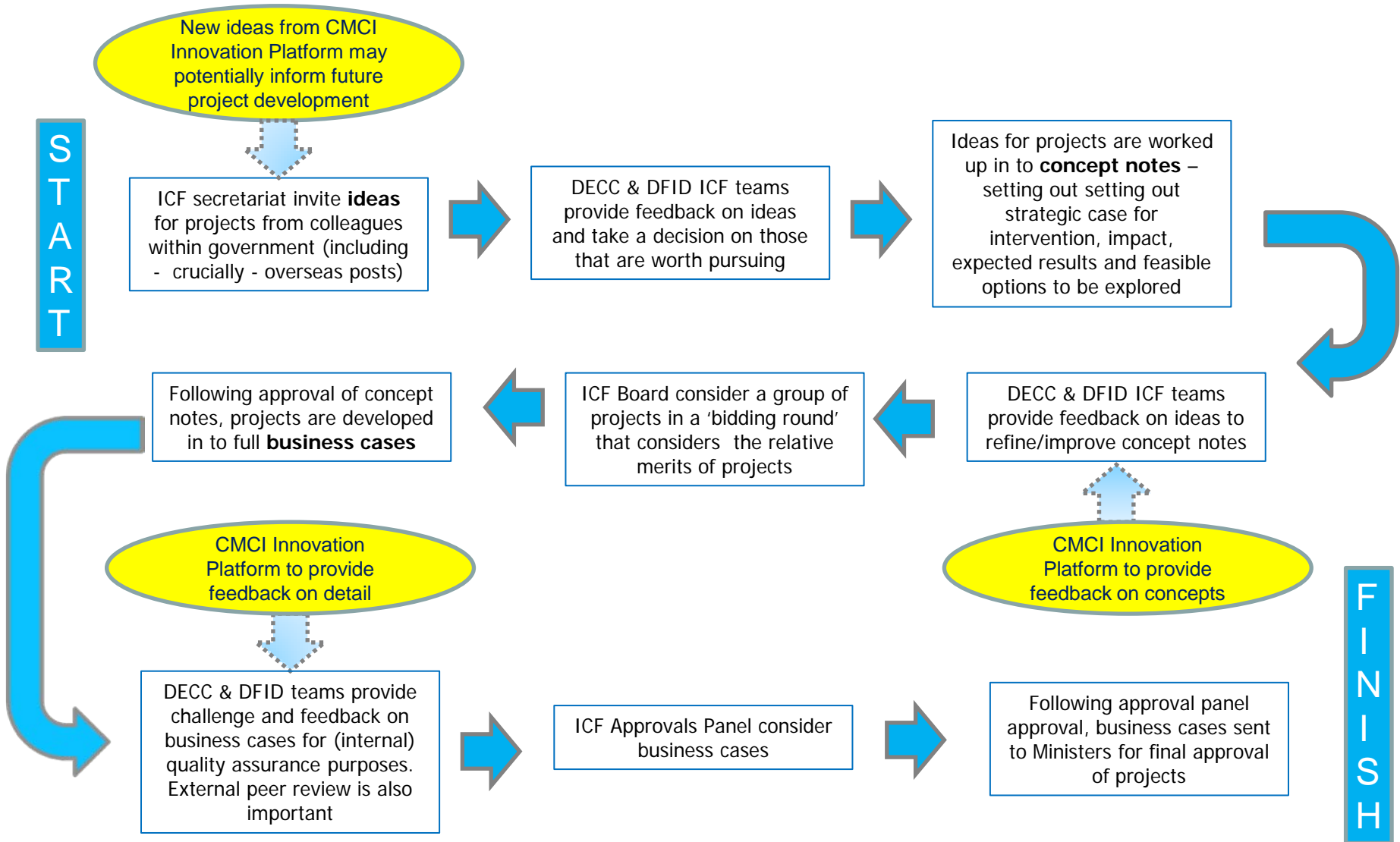


The Innovation Platform will also seek to encourage new ideas from participants on innovative ways in which public finance can leverage and scale up private finance - a forum in which ideas from outside organisations can be shared, discussed, and potentially inform future ICF projects developed by HMG:

Process:

- Ideas submitted by the private sector to the Innovation Platform for discussion and ‘testing’
- Ideas with potential, may be taken by Government officials to be developed within the ICF project process in to concept notes and business cases. This is outside of the parameters of CMCI Innovation Platform or individual CMCI participants
- The project may return to the CMCI Innovation Platform at concept or business case stage for further discussion and feedback
- If project is ultimately approved, it will be brought back to the CMCI Innovation Platform for review and identification for lessons learning.

ICF project development process with CMCI Input



CMCI Rules of Engagement

- Participation in CMCI is **broad, non-exclusive and open to all parties** with an interest. A list of participants will be freely and publicly available
- DECC will maintain a register of participants interests and will regularly ask participants to **declare any conflicts of interest.**
- The CMCI Innovation Platform will complement ICF project development for those bids concerned with mobilising private finance. It **in no way alters or interferes with normal ICF governance or decision-making processes.**
- Only **non-confidential, non-sensitive information is to be disclosed** at the CMCI Innovation Platform by HMG and by other CMCI participants. However, it is a requirement that enough information is released to ensure that an informed and useful discussion can take place.
- It is not incumbent on HMG to accept all or any views presented at the Innovation Platform and it is recognised that **CMCI is not a substitute for proper paid consultancy expertise.**
- Seeing and discussing concept notes/ business cases/ project ideas at the design stage does not in itself mean that those involved in the CMCI Innovation Platform may not bid for any related procurements. **Provided that all bidders in any future tender process are treated equally** (e.g. by making relevant information universally available) the process will be robust.