Intervention Summary

Title: Capital Markets Climate Initiative (CMCI)

What support will the UK provide?

The UK will provide up to £350,000 over 18 - 24 months to support the delivery of the Capital markets Climate Initiative. This will cover the period from August 2011 – December 2012 with up to £155,000 being allocated this calendar year and up to £195,000 being set aside for next year.

Why is UK support required?

A low carbon, climate resilient economy is essential if the world – and in particular developing countries – are going to be able to avoid the most dangerous effects of climate change and adapt to the impacts already locked-into the climate system. The level of investment required to make this transformation is considerable. The International Energy Agency (2009) estimates that by 2020 $197 billion of additional capital investments will be required in developing and emerging economies if we are to meet a 2˚C above pre-industrial levels climate change goal; and an additional $70-100 billion to enable developing countries to adapt to the impacts of climate change between now and 2050 (World Bank, 2009).

Much of the capital required to meet these challenges is expected to come from the private sector given the potential revenue streams associated with these investments. However, extensive government action is required to unlock this capital market potential by addressing the many barriers and constraints which inhibit the development of low carbon, climate resilient markets in developing countries at the speed and scale required for a 2˚C goal. A substantial body of analysis exists around these barriers and potential public policy and finance solutions. However, there has been limited take-up by national policymakers or donors of the recommendations from this work to date.

This is partly attributable to information failures including:

- Imperfect information, where climate change policymakers have a limited understanding as to why and how to leverage private capital in low carbon, climate resilient investments (e.g. given the complexity of the information, uncertainty over the costs and benefits of different actions from a public value perspective); and
- Asymmetric information, whereby the private sector has more information than governments as to the type and scale of public interventions required to incentivise their investment in low carbon, climate resilient activities; and governments have better knowledge than the private sector as to the strength of their political commitments to tackling climate change which provide the real economic signals that drive investment opportunities.

The Capital Markets Climate Initiative (CMCI) was set up to help scale up private capital flows in low carbon, climate resilient activities in developing countries. Specifically, CMCI is targeted at supporting governments in developing a stronger and common understanding and appreciation as to why and how to effectively and efficiently leverage private capital by helping to address these information barriers. In turn, this should contribute to the scaling up of private capital flows as better informed governments are more willing to put in place appropriate enabling environments and use scarce public climate finance to help address identified barriers and market failures.

CMCI is not a legal entity but rather a process through which to share the growing wealth of financial expertise and experience on this agenda (in particular from the City of London) with developed and developing country governments in order to build a common understanding of the rationale for and approaches to mobilising private capital for low carbon, climate resilient investments and, in the case of the country partnerships, help in identifying tailored approaches to mobilise this capital.

Specifically, through CMCI we are seeking to:

- Develop a set of principles and guidelines on 'best practice' approaches to leverage climate-friendly private finance and investment by collating and extracting the experiences and lessons of CMCI members and associates. This will be targeted to climate change policymakers and negotiators, helping to overcome the information barriers they face. These principles could further provide useful inputs to the design of the *Green Climate Fund*; and

- Support partner developing country governments in identifying potential options and solutions to leveraging private finance as they design their low carbon policy frameworks, and convening key stakeholders that could take forward financing of specific programmes and projects identified through this process. This will help to overcome information barriers (including problems of asymmetric information) around specific low carbon, climate resilient investments by facilitating wider stakeholder engagement and identification and exchange of options and solutions to leveraging private capital which deliver public value. This should also serve to demonstrate in practice how public action can help unlock climate-friendly private capital.

  With partner government support, these recommendations will be submitted to Minister of State, Gregory Barker, and may be considered in the context of support from the UK's International Climate Fund (ICF).

This initiative will support the ICF's objective to drive innovation and new ideas for action, and create new partnerships with the private sector to support low carbon climate resilient growth. It will also build global knowledge and evidence that low carbon climate resilient development supports growth and reduces poverty. In turn, by supporting both developing country governments and donors in understanding how to create long-term, self-sustaining low carbon and climate resilient markets by putting in place strong policy environments and frameworks, this should complement and strengthen the impact of other ICF investments in developing countries.

What are the expected results?

CMCI is focused on addressing the information barriers that act as a deterrent to government action at scale to mobilise private capital in low carbon, climate resilient investments in developing countries. It seeks to achieve this by creating a process to share financial sector expertise and experience and delivering a set of specific outputs that will help to both capture this knowledge and experience (through the best practice principles and evidence base) and tailor it for practical use by partner governments (through in-country support).

Given the scale of resources available to CMCI, the expected outputs and direct outcomes are relatively modest. However, CMCI has the opportunity to contribute to and facilitate far greater longer term impacts involving the significant scale up of private capital to low carbon, climate resilient investments in developing countries if, by addressing the identified information barriers, it can encourage and facilitate governments to put in place suitable enabling environments and use public climate finance efficiently and effectively to attract and leverage this capital.

Specific impacts and outcomes that CMCI is expected to contribute to and which, in turn, will facilitate the delivery of this longer term impact include:

a) Up to four developing country governments have a stronger awareness and understanding of the rationale for and potential (tailored) approaches for putting in good enabling environments (including the effective use of public climate finance) that can leverage private capital for priority low carbon, climate resilient programmes. Where appropriate, this may include commitments of UK/donor funding to facilitate implementation of one or more programmes or projects, if and where identified as necessary through the CMCI engagement process.

   This will be achieved through a process of extensive engagement in-country with key domestic stakeholders such as government, utility, industry and financial institutions. It will be vital to employ in-country teams with strong domestic networks.

   Over the medium term, the aim is that one or more of the collaboratively identified approaches is implemented by the partner governments. At this stage, additional support may be required outside of the CMCI process to encourage and facilitate implementation of these measures, particularly where there are established interests. This should form part of HMG's on-going, long-term engagement with the partner government on the low carbon, climate resilient agenda.

   Other developing country governments should also benefit from the demonstration effect of success in CMCI partner countries and through the use of the best practice principles and guidelines on why and how best to mobilise private capital for low carbon, climate resilient investments.

b) Developed country partners have an improved and (increasingly) common awareness and understanding as to the rationale for and effective and efficient approaches to mobilising private capital in low carbon, climate resilient investments in developing countries, including both policy measures and use of international climate finance contributions.

   In the medium term this should result in increased donor funding of instruments that mobilise private capital in the partner developing countries, as well as greater support and coordination in international discussions on the use of climate finance to mobilise private capital (e.g. common support for the inclusion of a private sector window in the Green Climate Fund, greater coordination of donor support and initiatives).

In addition, through these impacts CMCI is expected to help improve market confidence in low carbon, climate resilient investments in developing countries by domestic (within the partner developing countries) and international capital markets by facilitating: greater engagement with partner governments and donors, stronger signals from governments around creating good enabling environments (and ideally implementation over the medium term), and demonstration of the effective use of public climate finance to help overcome barriers to investment.

Over the medium term this should result in increased private capital flows in climate-friendly investments in partner developing countries, and, over the longer term, strengthened perception by capital markets of the investment opportunities in these markets.

CMCI will contribute to securing these outcomes through delivery of the following outputs:

- Convening of and enhanced dialogue between representatives of the public and private sector, and sharing of expertise, experience, understanding and evaluation of effective and efficient policy frameworks, regulations, public finance mechanisms and public-private partnerships. This will be delivered through a series of Working Group meetings and workshops (this may include a joint workshop with the OECD).
- Development of best practice principles on approaches for effectively and efficiently leveraging private finance and investment, including recommendations for the design of the *Green Climate*

Fund. These may be further developed into detailed guidelines and toolkits for climate change policymakers, depending on demand (to be determined by the CMCI Steering Group in January 2012). This will be informed and substantiated by a compilation of supporting research and analysis on leveraging private finance and investment that inform and substantiate the set of best practice principles.

- Partnership with up to 4 developing country governments seeking to mobilise private capital for delivery of their low carbon growth strategies and, as part of this, in-country stakeholder engagement, workshops and analytical reports supporting partner governments in identifying and/or testing potential options and solutions to attract and leverage private capital to support the delivery of the government's low carbon goals.

CMCI is not the only initiative in this space. A substantial body of analysis exists around both the barriers to scaling up private finance for low carbon investments and policy solutions to address these constraints. Equally, there is growing practical experience in leveraging private finance through the investments and support of Development Finance Institutions and donors (e.g. the Clean Technology Fund, the Global Climate Partnership Fund and CP3). Rather than duplicate this work CMCI will build on this knowledge and experience to develop an integrated approach that considers the links between policy frameworks, public finance mechanisms and private capital incentives and opportunities. This will be targeted for use by climate change policymakers and negotiators and therefore explicitly consider how to maximise the public value case for action.

Business Case for:

Strategic Case

1. Context and need for ICF intervention

A low carbon, climate resilient economy is essential if the world – and in particular developing countries – are going to be able to avoid the most dangerous effects of climate change and adapt to the impacts already locked-into the climate system. The level of investment required to make this transformation is considerable. The International Energy Agency (2009) estimates that by 2020 $197 billion of additional capital investments will be required in developing and emerging economies if we are to meet a 2˚C above pre-industrial levels climate change goal; and an additional $70-100 billion to enable developing countries to adapt to the impacts of climate change between now and 2050 (World Bank, 2009).

It is increasingly recognised that the private sector will be key to meeting this challenge, through both the financing of climate-compatible technologies and infrastructure and shifting away from high carbon and climate vulnerable investments. It is also recognised that there are many barriers and constraints which will inhibit the development of low carbon, climate resilient markets in these countries at the speed and scale required for a 2˚C goal.

A substantial body of analysis exists around these barriers and potential public policy and finance solutions. However, there has been limited take-up by national policymakers or donors of the recommendations from this work to date and, where progress has been made, it is not achieving the scale that is required. This is driven, in part, by information failures including:

(a) Limited awareness and lack of common understanding by climate change policymakers and negotiators as to why and how governments can efficiently and effectively mobilise private capital for low carbon, climate resilient investments. While there is a growing body of analysis on this agenda, it is neither sufficiently tailored nor prioritised to meet the needs of climate change policymakers and negotiators. There are also remaining gaps in knowledge such as the role of financial regulation in enabling the flow of international private capital at scale; and

(b) Imperfect information on specific government and market failures at the country, regional and/or sector level and tailored policy and finance solutions to leverage climate-friendly private capital. This includes problems of both insufficient attention and understanding at this specific level but also of asymmetric information between governments and private sector. This is in terms of the level of political commitment behind low carbon development strategies and therefore the long-term credibility of policy signals and support that drive low carbon investment opportunities for the private sector; and on the real level of public support required to incentivise private action and avoid provision of excessive rents.

There is increasing action in developing countries to establish policies and measures to attract low carbon climate resilience. However, the effectiveness of these policies and measures in successfully mobilising private sector finance is not fully understood.

CMCI seeks to build on and maximise the impact of the existing analysis and wealth of financial sector expertise and experience by addressing these constraints to the knowledge base and public-private dialogue. Through CMCI we are seeking to assist governments – and leverage their growing political will - in developing a shared and more granular understanding as to why, where and how they can most effectively and efficiently accelerate/encourage new markets in low carbon, climate resilient investment at scale. This includes both developed and developing countries.

CMCI is not a legal entity but rather a process through which to share the growing wealth of financial expertise and experience on this agenda (in particular from the City of London) with developed and developing country governments in order to build a common and more granular understanding of the rationale for and approaches to mobilising private capital for low carbon, climate resilient investments.

Specifically, through CMCI we are seeking to:

- Develop a set of principles and guidelines on ‘best practice’ approaches to leverage climate-friendly private finance and investment by collating and extracting the experiences and lessons of CMCI members and associates. This will be targeted to climate change policymakers and negotiators in developed and developing countries, helping to overcome the information barriers they face.

  These principles and guidelines should be developed in a manner that can be integrated into technical assistance provided by organisations such as CDKN and GGGI to support governments in designing and implementing their low carbon development strategies. These principles and supporting evidence could also provide useful inputs to the design of the *Green Climate Fund.*

- Support partner developing country governments in identifying potential options and solutions to leveraging private finance as they design their low carbon policy frameworks, and convening key stakeholders that could take forward financing of specific programmes and projects identified through this process. This will help to overcome information barriers (including problems of asymmetric information) around specific low carbon, climate resilient investments by facilitating wider stakeholder engagement and identification and exchange of options and solutions to leveraging private capital which deliver public value. Through this process and with partner government support, opportunities may be identified where the ICF can be effectively spent to support the partner government in leveraging private capital for the delivery of specific low carbon programmes or projects.

  The partner governments’ experience and process learnings from the in-country support will feed into and help inform the development of the best practice principles and guidelines (above).

Delivering these two strands of work will involve a combination of research, analysis and enhanced public-private dialogue. Both strands are mutually reinforcing and will need to work in tandem: the experiences and lessons learnt from CMCI members and associates will help inform the range of options and solutions developed with the partner governments, while the process and experience of identifying these options and solutions will help inform the set of 'best practice' principles and guidelines.

This initiative will support the ICF's objective to drive innovation and new ideas for action, and create new partnerships with the private sector to support low carbon climate resilient growth. It will also build global knowledge and evidence that low carbon climate resilient development supports growth and reduces poverty. In turn, by supporting both developing country governments and donors in understanding how to create long-term, self-sustaining low carbon and climate resilient markets by putting in place strong policy environments and frameworks, this should complement and strengthen the impact of other ICF investments in developing countries.

B. Impact and Outcome

It is recognised that CMCI alone will not be sufficient to deliver the proposed impacts and outcomes set out below. However, CMCI support is expected to *contribute* to these deliverables by helping to address one of several obstacles to mobilising private capital: information barriers.

The level of ambition and results that CMCI is targeting will vary according to the scale of support made available and the Steering Group's decision (January 2012) on extending CMCI engagement to the development of guidelines/toolkits and strengthening/increasing the number of partnerships with developing countries. There may also be scope for greater collaboration and coordination with other developed governments interested in this agenda. This will be explored in time for a decision by January 2012. The suggested impacts and outcome below are based on an ambitious 18 month programme of work.

Impact *(long-term ~ 5years)*: Governments (developing and developed) put in place good enabling environments and use international climate finance contributions to encourage and leverage private capital in low carbon, climate resilient investments in developing countries.

Outcome *(medium term ~ 2-3 years)*:

a) Up to four developing country governments have a stronger awareness and more granular understanding of the rationale for and (tailored) approaches to putting in place national policy measures and/or cost effective public climate finance that can leverage private capital for priority low carbon, climate resilient programmes. This is secured by having a deeper understanding through CMCI of:

   - where private capital can help deliver their low carbon, climate resilient goals and the positive domestic impacts of this e.g. faster delivery of national programmes, reduced fiscal costs through access to lower cost international debt, job and wealth creation etc;
   - where and why potential barriers may be faced in specific sectors (macro and micro);
   - where and how national policy frameworks and climate finance can address these specific barriers; and
   - the strengthening of local financial capacity to deliver and shape tailored support.

   This will be achieved through a process of extensive engagement in-country with key domestic stakeholders such as government, utility, industry and financial institutions. It will be vital to employ in-country teams with strong domestic networks.

Over the medium term, the goal is that one or more of the collaboratively identified approaches is implemented by the partner governments. At this stage, additional support may be required outside of the CMCI process to encourage and facilitate implementation of these measures, particularly where there are established interests. This should form part of HMG's on-going, long-term engagement with the partner government on the low carbon, climate resilient agenda.

Other developing country governments should also benefit from the demonstration effect of success in CMCI partner countries and through the use of the best practice principles and guidelines on why and how best to mobilise private capital for low carbon, climate resilient investments and their application by organisations providing technical assistance to governments in designing and implementing their low carbon development strategies.

b) Developed country partners have an improved and (increasingly) common awareness and understanding as to the rationale for and effective and efficient approaches to mobilising private capital in low carbon, climate resilient investments in developing countries, including both policy measures and use of international climate finance contributions. This is enabled by:

- Developing a stronger and collective awareness and understanding on effective and efficient approaches for using international climate finance contributions to leverage private capital, including implications for the design of the *Green Climate Fund*;
- Building awareness as to where and how financial regulation can impact the ability for scaling up capital market investments in long-term low carbon, climate resilient investments; and
- Enhanced dialogue between governments and the private sector.

In the medium term this should result in increased donor funding of instruments that mobilise private capital in the partner developing countries, as well as greater support and coordination in international discussions on the use of climate finance to mobilise private capital (e.g. common support for the inclusion of a private sector window in the Green Climate Fund, greater coordination of donor support and initiatives). Over the longer-term this may also result in the reform of financial regulation if and where identified as necessary.

In addition, through these expected impacts and outcomes, CMCI is expected to help improve market confidence in low carbon, climate resilient investments in developing countries by domestic (within the partner developing countries) and international capital markets by facilitating: greater engagement with partner governments and donors, stronger signals from governments around creating good enabling environments (and ideally implementation over the medium term), and demonstration of the effective use of public climate finance to help overcome barriers to investment.

Over the medium term this should result in increased private capital flows in climate-friendly investments in partner developing countries, and, over the longer term, strengthened perception by capital markets of the investment opportunities in these markets.

<u>Outputs</u>: CMCI will contribute to securing these outcomes through delivery of the following outputs:

- Convening of and enhanced dialogue between representatives of the public and private sector, and sharing of expertise, experience, understanding and evaluation of effective and efficient policy frameworks, regulations, public finance mechanisms and public-private partnerships. This will be delivered through a series of Working Group meetings and workshops (this may include a joint workshop with the OECD).
- Development of best practice principles on approaches for effectively and efficiently leveraging private finance and investment, including recommendations for the design of the *Green Climate Fund*. These may be further developed into detailed guidelines and toolkits for climate change policymakers, depending on demand (to be determined by the CMCI Steering Group in January

2012). This will be informed and substantiated by a compilation of supporting research, analysis and cross-country experiences on leveraging private finance and investment.

- Partnership with up to 4 ICF priority developing country governments seeking to mobilise private capital for delivery of their low carbon growth strategies (some of whom are low carbon development, adaptation and forestry compatible e.g. Kenya). Through this, in-country stakeholder engagement, workshops and analytical reports supporting partner governments in identifying and/or testing potential options and solutions to attract and leverage private capital to support the delivery of the government's low carbon goals.
- Where appropriate, commitments of UK funding to facilitate implementation of one or more programmes or projects, if and where identified as necessary through this process.

Appraisal Case

A. Determining Critical Success Criteria (CSC)

Each CSC is weighted 1 to 5, where 1 is least important and 5 is most important based on the relative importance of each criterion to the success of the intervention.

CSC	*Description*	*Weighting (1-5)*
1	*Strengthens and builds common awareness and understanding of governments (developing and developed) on the rationale for and approaches to scaling up climate-friendly private capital.* *Immediate impact.*	*5*
2	*Drives action by partner developing countries and donors who see positive incentives in creating good policy frameworks and opportunities for effectively and efficiently using climate finance to help mobilise and leverage climate-friendly private capital.* *Medium term impact (given the time lag as the improved knowledge and information translates into action).*	*3* *This is a critical criteria and medium term measure of CMCI success in addressing the information barrier. However, the scope for CMCI influence alone in driving action is limited as information is one of several barriers that need to be addressed.*
3	*Increased market confidence in low carbon, climate resilient investments in developing countries through greater engagement with and action by governments to create suitable enabling environments and use of public finance (including international climate contributions) to help address barriers to investment.* *Longer term impact (given the time lag as private investors wait to see action by governments)*	*3* *This is a critical and a long-term measure of CMCI success in driving action by governments by addressing information barriers. However, the scope for CMCI influence alone is limited as market confidence will also be driven by other factors e.g. the risk rating/ appetite for investing in developing countries, confidence in UNFCCC negotiations and long-term targets etc.*

B. Feasible options

Three possible options have been identified for supporting governments in developing a stronger awareness and common understanding on the rationale for and approaches to efficiently and effectively mobilising private capital for low carbon, climate resilient investments.

Option 1: Support delivery through CMCI

Scale up CMCI support through ICF funding to catalyse offers of in-kind contributions from CMCI members and develop a tangible set of outputs that can provide direct support to governments.

Given the Ministerial leadership of CMCI (Gregory Barker) and scope for potential ICF funding of priority low carbon, climate resilient programmes, CMCI members from across the private sector have flagged an interest and appetite to engage and contribute to the delivery of the above outputs. Their motivation for engagement is varied and likely ranges from the opportunity to feed into government thinking on an agenda which should create significant investment opportunities for them in the future, to corporate social responsibility concerns. Offers of in-kind support have been put forward (estimated to be upwards of £500,000).

Working Group 1

- *Information gaps.* In order to ensure a comprehensive evidence base to inform and substantiate the design of the best practice principles, several information and methodology gaps have been identified. This will be partly met by CMCI members but would benefit from a small amount of funding to support remaining key research gaps and collate useful but disparate inputs from members into a coherent set of findings and contributions.
- *Development and design of toolkit and guidelines.* Depending on demand (which will be determined by the Steering Group in Jan 2012) the best practice principles will be further developed into a more practical set of guidelines and toolkit to facilitate climate change policymakers in identifying approaches for mobilising private capital for low carbon investments. Given that this will be a tool to support policymakers and the use of public finance, it is important that it is not captured by the interests of the private sector. This will therefore require specific funding.

Working Group 2

- *In-country team*. While we can draw on inputs from CMCI members (from a project coordination role from WEF to country, sector, technology and/or instrument specific expertise from the members) it is important to have a team working in-country to build engagement with the government and local stakeholders and support the delivery of country-specific analytical inputs. CDKN have put in place a team in Kenya to work with CMCI and are exploring similar opportunities in Latin America. Further support is needed in India (this calendar year) and South Africa (next calendar year) which could be provided through the ICF.
- The in-country team will be led by local consultants with strong networks in government, utility, industry and financial instituitions. The in-country work will aim to draw on existing initiatives underway in-country and facilitate enhanced dialogue at an international level. This will need to be tendered for on a case by case basis.

Dissemination and communication

- A small amount of funding may be required to ensure the effective dissemination and communication of the CMCI outputs to other governments and the private sector.

Theory of Change – logical framework linking activities to outcomes:
Through the unique combination of financial sector interest, expertise and potential provision of capital and government leadership, CMCI presents an important opportunity to help strengthen governments' awareness and understanding of how to mobilise private capital for low carbon climate

resilient investments. This is essential in order to drive action by governments which in turn is needed in order to scale up private capital flows. The CMCI intervention is unique in its ability to coordinate the efforts of a range of financial sector institutions to strengthen and tailor the knowledge base in mobilising climate-friendly private capital. This has been evidenced by the engagement and offers of contributions from CMCI members. The strength of the institutions currently engaged with CMCI provides a strong lobbying power supporting the effectiveness of the intervention.

In terms of the CMCI approach and process, other similar initiatives such as the Prince of Wales Corporate Leaders Group for Climate Change which was set up to bring together business leaders from the UK to develop new and long term policies for tackling climate change, have proved successful in driving strategic, long-term, transformational change within the UK. Similarly, the Critical Mass Initiative by the World Economic Forum has demonstrated that a multi-stakeholder dialogue such as that provided by CMCI is useful in informing the provision of suitable investment and financial frameworks in developing countries.

The evidence available suggests that the CMCI intervention, supported by inputs from the ICF and private sector members, should prove successful in achieving its objectives in addressing information failures to help scale up private capital flows in low carbon climate resilient investments. The intervention is unique to HMG and is thus innovative in its space.

In order to deliver option 1, we have identified two distinct further options as follows:

<u>Option 1a: Support delivery of CMCI through expressions of interest/competitive tender</u>

Under this option, objectives on WG1 will be delivered through a combination of requests for expressions of interest for the research component (which will be delivered on a grant basis) and competitive tendering for the design of the proposed toolkit/guidelines. WG2 will be tendered for on a case by case basis.

<u>Option 1b: Support delivery of CMCI through single action and competitive tender</u>

Under this option, the research component of WG1 will be undertaken by a specifically identified group, Anglia Ruskin University, while competitive tendering will be undertaken for the design of the proposed toolkit/guidelines. WG2 will be tendered for on a case by case basis.

<u>Option 2: Do nothing</u>

CMCI continues as a Ministerial-led initiative (as per option 1) but without ICF support. As such, CMCI will be able to draw on the views and expertise of members and facilitate an enhanced dialogue with governments (principally the UK and other developed countries that are able to participate in discussions). However, there will not be the capacity to compile these inputs and results of this dialogue into specific outputs tailored to meet the needs of governments in developed and developing countries. There may be scope for in-country engagement through the contributions from WEF and CMCI members but this would not involve much local stakeholder engagement in the absence of a dedicated local team (as WEF do not have the required expertise or networks for extensive in-country engagement) and therefore would be expected to have limited impact. Work in Kenya and Latin America could still proceed given the contribution from CDKN.

<u>Theory of Change – logical framework linking activities to outcomes:</u>

As mentioned above, option 3 would be affected by a shortage of resources. Certain CMCI activities will proceed with Ministerial engagement, such as, the work in-country in Kenya and Latin America as these are funded by CDKN. However it will not be possible to deliver a comprehensive set of principles or supporting evidence base and coordination efforts in other countries such as India and South Africa. Evidence from previous initiatives such as Critical Mass suggest that in the absence of a multi-stakeholder dialogue and focused research, key in-country and international barriers and constraints are unlikely to be addressed. In the absence of these activities fully informing CMCI processes the impact of the initiative will be limited in scope.

Summary

- the quality of evidence for each option is rated as either Strong, Medium or Limited,
- the likely impact on climate change and environment is categorised as A, high potential risk / opportunity; B, medium / manageable potential risk / opportunity; C, low / no risk / opportunity; or D, core contribution to a multilateral organisation.

Option	*Evidence rating*	*Climate change and environment category (A, B, C, D)*
1a	Support delivery of CMC via open competition on Working Group 1: The intervention is seen as innovative in its space and the strength of research partnerships and network resources offered by CMCI members suggest a strong case for delivery	(A) High potential opportunity (with potential risks) The intervention would support a shared awareness and understanding between governments and the financial sector on why and how to leverage private capital and, in turn, greater and faster deployment of public and private capital. Risks are around the timing and quality of inputs received by members and the resulting outputs.
1b	Support delivery of CMCI direct grant to Anglia Ruskin University: The intervention is seen as innovative in its space and the strength of research partnerships and network resources offered by CMCI members suggest a strong case for delivery	(A) High potential opportunity (with potential risks) The intervention would support a shared awareness and understanding between governments and the financial sector on why and how to leverage private capital and, in turn, greater and faster deployment of public and private capital. Risks are around the timing and quality of inputs received by members and the resulting outputs.
2	Do nothing: Limited evidence that CMCI will be able to deliver the expected outputs in a way that will be of most use to climate change policymakers and negotiators.	(B) Medium opportunities/risk The intervention would support enhanced dialogue with the financial sector but with no ICF funding, the opportunities to capitalise on in-kind offers from CMCI members will be limited.

C. Appraisal of options

Resource costs of options

Option 1 will be delivered at a cost of *up to* £350,000 (with up to £155,000 in Yr 2011 and the exact budget for Yr 2012 to be agreed in early 2012). This will support delivery of CMCI objectives under working group 1 and in-country support for the delivery of two case studies under working group 2. There is potential to support additional partner countries depending on the final budget required for WG1 and amount of funding required per country which will vary from case to case This will catalyse offers of support from CMCI members of approximately £500,000. Option 1 entails significant DECC staffing costs (up to 25% of a G6 and FTE G7) who will need to undertake a strong programme management role given the complexity of the programme and level of coordination required between workstreams and stakeholders.

Option 2 will be delivered at no cost to the ICF. However this will result in significant losses by way of missed opportunities in drawing on the interest and contributions of CMCI members and thereby render CMCI significantly less effective in delivering the proposed impacts. Option 2 will still require DECC staff time in order to deliver the Ministerial initiative (up to 20% of a G6 and 40% of a G7).

Benefits of options

The variation in benefits between the proposed options lies in the ability to reach and influence both the public and private sector.

Option 1 provides the opportunity to deliver the maximum results at least financial cost given the scope for catalysing significant interest, offers of support from CMCI members. The intervention is delivered at a relatively low cost base for the scale of outputs it will deliver and outcomes it aims to contribute towards. The results achieved through this option are expected to be enhanced by its very approach as the active engagement and contributions from the private sector members should help secure their buy-in to the findings as well as partner government interest given the potential to engage and attract these potential capital providers. Other donors have already expressed an interest in engaging on CMCI.

Option 1a and 1b differ in terms of the approach for addressing the research gaps identified (where these are not being addressed by inputs from CMCI members). Requesting expressions of interest for the grant support would typically be the preferred approach as it would allow us to select the best fit. However, in the case of this specific (and limited) component of work there is a very limited pool of people with the required knowledge to address the research gaps with the speed required and within the limited budget that is available. Aled Jones of Anglia Ruskin University falls within this pool. In addition Mr Jones has the advantage of the specific expertise and networks to draw on and deliver this work given his previous role in setting up and delivering various work programmes and initiatives with corporate leaders, pension funds, banks and insurance companies. For these reasons, Mr Jones has been identified as a best fit partner for this grant support under option 1b.

Option 2 will be delivered at no cost to ICF but equally will deliver limited benefits in the absence of support to draw together the offers of inputs from members into a coherent set of outputs. Equally, the in-country engagement will be limited to Kenya and a Latin American country (in line with CDKN support) which have limited interest for the private sector members and therefore less scope to identify and demonstrate where and how private capital flows can be scaled up.

Risks

Option 1 provides a high ambition proposal that we are seeking to deliver with limited internal resources. As a result this carries a number of risks that would need to be managed:

- Insufficient staffing to provide effective programme management and coordination to ensure effective delivery. This could be managed by putting in place an experienced programme manager in DECC.

- Non-delivery and limited quality control over the inputs provided by CMCI members as these are offered on a cost-free basis. This could be managed by ensuring key elements of work are supported through a contracted team (e.g. in-country teams to ensure local stakeholder engagement and analytical work) and by establishing terms of reference with partners and clarifying key milestones for delivery.

Option 2 poses risks to achieving the project's intended scale:

- Without any additional resources the CMCI outputs will be limited and the opportunity to capitalise on the financial sector contributions and partner country interest to develop more tailored and specific solutions and guidance on why and how governments can leverage climate-friendly private capital will likely be lost.
- Potential reputational risk to DECC/Minister Barker around CMCI not having an impact, particularly where CMCI members have provided in-kind contributions to the process.

There are also a set of risks that are common to both approaches which will need to be managed:

- Legal liability for HMG. There is a risk that the principles and in-country recommendations are captured by private sector interests of risk and returns and therefore not in the public interest and/or of low quality. There is also a risk that the "*Development and design of toolkit and guidelines" (i.e. the outputs of Working Group 1 – "the Toolkit and Guidelines")* or in-country recommendations (i.e. the outputs of Working Group 2) will be relied on by third parties (i.e. CMCI members, other investors or host country governments) and that those third parties will seek redress from HMG in the event that they suffer financial or other loss as a result.

  Given the nature of the proposed Toolkit and Guidelines, the above risk is less likely to arise in relation to those. The risk is more likely to arise in relation to the proposed in-country recommendations than in relation to the Toolkit and Guidelines. In relation to the in-country recommendations, the risk is further increased by the fact that any such liability may be determined under the law of the host country. The risks in relation to both the Toolkit and Guidelines and in relation to the in-country recommendations can be mitigated to a reasonable extent by ensuring that steps are taken to mitigate any liability when they are shared with third parties. It should be possible to mitigate risks further by ensuring that they are designed in an open, transparent and collaborative manner, building some form of peer review process into the findings, and ensuring appropriate disclosure around the views of third parties. If possible, it would be sensible to consult on them (whether formally or informally) and, if appropriate and feasible, encourage consultation or some other form of peer review of the in-country recommendations within the host-country itself.
- There will be no increase in private capital flows at the end of the process, in particular in the partner developing countries. Investment decisions by the private sector are dependent on factors beyond the control or influence of CMCI (e.g. from government take-up of the recommendations to the asset allocation decisions of the investors and their risk committees). It will be important to manage expectations of all partners and build transparency and understanding around the full range of issues that will impact investment decisions.
- Competition law risks. There are potential concerns surrounding CMCI members being given competitive advantages on future projects resulting from the CMCI process. However, it should be possible to mitigate these risks to a reasonable extent by ensuring that participation in CMCI is open to all parties with an interest and by taking steps to publicise CMCI in order to ensure that parties with an interest are aware of the opportunity to participate. However, these risks will need to be monitored as the project progresses. The CMCI was launched by way of invitation to a large non-exclusive audience.
- State aids: in order to mitigate any state aids risks it will be important to ensure that the benefits

(i.e., outputs) of the CMCI process are available to all investors and other companies. Given that it is expected that this will happen, we have not identified material state aids risks at this stage. However, this will need to be monitored as the project progresses.

- Reputational risk for Minister Barker. There is a risk that the strong endorsement provided by Minister Barker to CMCI activities will result in reputational damage to the Minister in the event of delivery; legal and/or impact failures with CMCI activities as discussed in the above. This will be mitigated by the monitoring and evaluation plan to ensure that any possible adverse outcomes are identified and addressed on a timely basis.

D. Comparison of options

The same weighting is used as for CSC above. The score ranges from 1-5, where 1 is low contribution and 5 is high contribution, based on the relative contribution to the success of the intervention.

Analysis of options against Critical Success Criteria (CSC)							
		Option 1a: *support CMCI: open competition (WG1)*		Option 1b: *support CMCI: direct grant (WG1)*		Option 2: Do nothing	
CSC	Weight (1-5)	Score (1-5)	Weighted Score	Score	Weighted Score	Score	Weighted Score
1	5	5	25	5	25	2	10
2	3	5	15	5	15	2	6
3	3	5	15	5	15	2	6
Totals	11	15	55	15	55	6	22

The comparison of options against the CSC confirms the result of the appraisal – that providing additional financial support to CMCI (option1) is more effective for addressing the problem of information barriers, in particular given that the CMCI process and support is already underway. Within option 1, we propose supporting option 1b on the basis that the identified provider of the research and information gaps has the unique expertise and experience to undertake the work.

E. Measures to be used or developed to assess value for money

The objectives of CMCI are ambitious while the budget requested (up to £350,000) is in comparison a modest amount for the level of outputs and, in turn, outcomes and impacts that this is expected to support. It is important to acknowledge that CMCI outputs alone will not unlock large scale private capital flows but are expected to make an important contribution in overcoming some of the barriers to government support in leveraging this capital.

As a capacity building intervention value for money will be tracked and assessed against key activities driving the intervention and process indicators such as local engagement, evidence of political buy-in, production of knowledge tools etc to monitor if and how the expected longer term outcomes are realised. This could include:

- Number of governments (both developed and developing countries) and financial sector participants engaged in the CMCI process.
- Delivery of and governments' response to the best-practice principles. This could be measured qualitatively through a survey/feedback request.
- Delivery of and response to tailored and collaborative case study reports and recommendations in the partner developing countries This could be measured by spending proposals put forward to the ICF that have originated from the CMCI process (where partner government support is an important pre-requisite for ICF funding). Other measures include: partner government action in response to the recommendations (where the findings in the case study would provide the

baseline of the current enabling environment to compare against), support from other donors for the recommendations,(e.g. through increased donor funding), and private capital flows into the programmes identified through the CMCI process.

- Over the longer-term, CMCI impact could be measured by an increase in a) donor funding in measures that leverage private capital in low carbon, climate resilient investments in developing countries; and b) private capital flows into these investments. However, it will be a challenge to isolate the role of CMCI in delivering these changes. It will be important to draw on the experience in other sectors in appraising the impact of knowledge generation and capacity building in delivering tangible results. In the short term, it should be possible to conduct surveys of CMCI members and associates at the end of the Initiative to assess their level of interest in specific investment opportunities identified through the process (in the partner developing countries) and the low carbon, climate resilient agenda overall following the enhanced engagement with governments through CMCI.
- Surveys conducted in-country to assess level of understanding on and shift in local attitudes to their low carbon agenda and role of private capital.

Commercial Case

Direct procurement

A. Clearly state the procurement/commercial requirements for intervention

<u>Working Group 1</u>
Information gaps: It is proposed that the funding for research activities undertaken via Working Group 1 be awarded by way of an accountable grant as this is contributing towards research and development that will be made publicly available. A budget of up to £70,000 is proposed for this (for use in 2011).

Development and design of toolkit and guidelines: Development of the set of best practice principles into a practical set of guidelines and toolkit will be determined in January 2012 by the CMCI Steering Group. If this work proceeds, support will be required for both the design and development of the toolkit and overall management of Working Group1. A competitive tender process will be undertaken to identify the suitable service providers. The total budget for this work is expected to be in the order of £100,000. There may be scope for co-funding with other interested parties and/or opportunities for this work to be taken forward by other initiatives/organisations (e.g. OECD).

<u>Working Group 2</u>
In-country engagement: Contracts will be awarded on a tendering basis or, where a clear case be made, a single tender contract.

In the case of India, this will be managed by the FCO/DFID team in Delhi with a budget of £25,000-75,000 (Aug 2011-Dec 2012) to support in-country delivery. Arrangements for support to further countries (e.g. South Africa) will be confirmed as and when this work proceeds.

B. How does the intervention design use competition to drive commercial advantage for DFID?

Putting the contracts for Working Group 2 (in-country support) out to tender will help ensure competition between different service providers. A single tender contract will only be offered under exceptional circumstances. This has been identified in the case of the in-country support in India where PWC has been identified as the appropriate partner for a small initial piece of support. The support provided by PwC is strongly leveraged by other initiatives the consultancy is involved with such as similar scope of work being undertaken by PwC with Climateworks. The strong synergies available with the consultancy mean that PwC is able to provide its services at significantly lower costs than what would have been otherwise anticipated.

C. How do we expect the market place will respond to this opportunity?

UK Embassy in Delhi has identified PwC as a potential local partner in India that would be interested in tendering for this work and/or may be suitable for a single tender bid. The key constraint will be finding partners with both the expertise and capacity and ability to respond ASAP in order to get the work programme up and running.

PwC has strong networks within the Renewable Energy sector and is currently engaged in similar work for initiatives by other CMCI partners such as Climateworks and are able to deliver the programme of work at a significantly lower cost than anticipated. The strong synergies that CMCI is able to draw from ongoing work carried out by PwC provide a strong case for procuring this partner on a single tender bid.

A similar process will be undertaken in other partner countries if this work proceeds next year.

D. What are the key underlying cost drivers? How is value added and how will we measure and improve this?

Working Group 1

Anglia Ruskin University have put forward a proposed work plan that sets out the following cost drivers (this has been identified through their role in leading Working Group 1 and includes a request for part grant funding to enable them to deliver additional research to address some of the information gaps they have identified):

Information gaps (for calendar year 2011):

- Research on current investment practice £15,000
- Research on identification of investment grade policy £15,000
- Research on impact of/ effective approaches to the design of principles/toolkits £30-40,000

Dissemination and communication of principles and supporting evidence ~£5-10,000

Development and design of toolkit and guidelines (for calendar year 2012):

- Development of toolkit £60,000
- Dissemination and communication £15,000
- Management of Working Group 1 process £20,000

Total (year 1): £65-80,000
Total (year 2): £95,000

Total: £160 - 175,000

Funding for this calendar year (up to £80,000) is required for calendar year 2011. Up to £60,000 of support will be issued through a grant letter (please see below for further details). Funding for next calendar year (up to £95,000) will depend on the views and feedback of the CMCI Steering Group and confirmed by January 2012. This will include exploring whether there are other processes that CMCI should support (e.g. OECD) rather than leading this work directly.

Working Group 2

Funding is required for in-country teams to work with the partner developing countries. The key role of the teams include local stakeholder engagement, analytical support and facilitation in delivery and write-up of the country findings and recommendations. This includes:

- India (calendar year 2011) £25-75,000
- South Africa (calendar year 2012) £50-75,000
- Possible other countries (tbc in calendar year 2011)

Support in Kenya and one of the Latin American countries is being provided through CDKN.

Total (year 1): £25-75,000
Total (year 2): £50-75,000+

Total: £75,000 – 150,000

The proposed budget schedule provides up to £25,000 flexibility in funding. Spend in calendar Year 2 will be determined in January 2012 based on Minister Barker's decision on how to proceed with CMCI. This will be informed by advice from the CMCI Steering Group and the progress and success made by CMCI.

ICF support will be capped at up to £350,000 for CMCI. There may be some flexibility with the available funding for Working Group1 budget in 2012 which could be allocated to deliver further country engagement. This will be discussed and decided by January 2012 by the Steering Group. There may also be opportunities to mobilise additional funding, if and where required, for further in-country work (e.g. through other developed governments wishing to partner on CMCI, CDKN if/where developing countries request their support, Foundations etc). If further support is identified, this will be mapped out in a work plan developed by January 2012 and part of the wider discussions between Minister Barker, CMCI members and, potentially, other governments over the strategic direction of CMCI in 2012.

E. What is the intended Procurement Process to support contract award?

A tendering process will be used to award the contracts for Working Group 2 (in-country support) unless an exceptional case can be made for a single tender award.

F. How will contract & supplier performance be managed through the life of the intervention?

The in-country contract will be led by the British Embassy in Delhi with activity management support from the Working Group 2 lead (World Economic Forum) and DECC. The process for support in other potential partner countries (e.g. South Africa) will be determined in 2012 but a similar model may be appropriate.

Indirect procurement

A. Why is the proposed funding mechanism/form of arrangement the right one for this intervention, with this development partner?

It is proposed that the funding to address information gaps identified in Working Group 1 be awarded as a grant offer. This work consists of research and the collation of other research that will be made publicly available and expand knowledge generally and is also within an area in which DECC has previously offered grants.

DECC has been approached by Anglia Ruskin University for funding to address these information gaps and deliver a set of research reports that would contribute to informing the design and development of the set of principles. This is budgeted at up to £70,000 (or £85,000 if the value of the existing single tender action with Anglia Ruskin is factored in). Given the focus of the proposed work by Anglia Ruskin University, it is likely to be eligible to fall within the research and development exemption and/or beneath the procurement thresholds under the Public Contracts Regulations 2006.

The award of the grant has not been competed and therefore there is a degree of risk (under procurement and public law) in not competing the opportunity. DECC should only proceed to an un-competed award if we can be satisfied that we are in genuine "single tender action" territory e.g. that we have a demonstratable case that only Anglia Ruskin University has the expertise to provide the service, or undertake the work, concerned.

We believe that Aled Jones (Anglia Ruskin University) has the specific knowledge and unique expertise and networks to undertake this work given his extensive engagement with setting up and delivering other private sector initiatives with the pension funds, banks and insurance companies. Through his work on these initiatives, Aled has developed both a thorough understanding and knowledge of the existing state of research, shortfalls, and networks to draw on in order to address the research gaps in a cost effective and timely manner.

B. Value for money through procurement

Anglia Ruskin University has indicated that they will use a tendering process to subcontract any third parties to enable delivery of their proposal. ARU select potential research partners through a combination of searching for relevant expertise, invitation, open call and peer-review. The procurement procedures undertaken by ARU follow standard EU procurement regulations and are provided at http://procurement.anglia.ac.uk/index.asp .

Financial Case

A. How much it will cost

The total cost of delivering Option 1 (through additional support to CMCI) is estimated at up to £1,000,000. This includes the estimated £500,000 of in-kind support offered by CMCI members, up to £350,000 of ICF funding and approximately £150,000 of support provided by CDKN in Working Groups 1 and 2.

The costs to HMG (via the ICF) are estimated as:

<u>Year 1</u>	
Working Group 1	£65-80,000
Working Group 2	£25-75,000
Total	**£90-155,000**
<u>Year 2</u>	
Working Group 1	£95,000
Working Group 2	£50-75,000+
Total	**£145-170,000+**
Total CMCI funding	**£235-325,000**

The proposed budget schedule provides up to £25,000 flexibility in funding. Spend in calendar Year 2 will be determined in January 2012 based on Minister Barker's decision on how to proceed with CMCI. This will be informed by advice from the CMCI Steering Group and the progress and success made by CMCI. ICF support will be capped at up to £350,000 for CMCI. However, there may be opportunities to mobilise additional funding if and where required for further in-country work (e.g. through other developed governments wishing to partner on CMCI, CDKN if/where developing countries request their support, Foundations etc).

B. How it will be funded: capital/programme/admin

The funding will be drawn from the ICF programme resource allocation.

C. How funds will be paid out

<u>Working Group 1</u>

- *Work to address information gaps:* Accountable Grant to Anglia Ruskin University following receipt of a proposition of support to the CMCI process. It is anticipated that the funds will be paid in instalments in arrears on receipt of key deliverables (research reports).
- *Development and design of toolkit and guidelines (for calendar year 2012):* The contract will be issued through a tendering process and the receipt of the funds will be paid in arrears, as specified by the contract.

<u>Working Group 2</u>

- *In-country team support:* The contract will be issued through a tendering process (or single tender if exceptional circumstances are identified) and the receipt of the funds will be paid in arrears, as specified by the contract.

D. How expenditure will be monitored, reported, and accounted for

Working Group 1

- Funding and deliverables agreed through the accountable grant (Working Group 1) will be monitored, reported and accounted for according to the arrangements set out in the standard DECC accountable grant letter. Anglia Ruskin University will liaise with the G7 CMCI programme officer/manager and report to the relevant DECC finance officer. The finance officer will provide a monthly statement of expenditure to the leads and enable the programme managers to track costs against budget.
- Funding and deliverables agreed through contracts (design of toolkit) will be monitored, reported and accounted for according to the arrangements set out in the standard DECC contract. The finance officer will provide a monthly statement of expenditure to the leads and enable the programme managers to track costs against budget.

Working Group 2

- Staff in the British Embassy in Delhi will provide this function for the contracting of the in-country team. Arrangements will be agreed in the context of other potential partner countries (e.g. South Africa) once the programme of work has been identified but a similar model may be appropriate.

The CMCI leads will meet fortnightly to discuss the project performance against objectives and financial management.

Management Case

A. Oversight

The major stakeholders in this project are DECC, WEF, and Anglia Ruskin University. In addition the partner developing countries will be key stakeholders, as are CMCI members who are contributing their time and inputs.

A Steering Group has been established to help steer and oversee (i.e. review, challenge, advise) the implementation of CMCI. The Steering Committee will meet quarterly. The Steering committee is comprised of Minister of State Greg Barker, Department of Energy and Climate Change, Her Majesty's Treasury, the Department for International Development and representatives from a range of private and multilateral institutions including London Stock Exchange, Prince of Wales Trust, KPMG, Deutsche Bank, HSBC, World Bank, Swiss Re, BTPS, Yell, and InfraCo.

The Steering Group will review progress and part of the Steering Group's function will involve evaluating the progress made by CMCI and setting the direction moving forward. This will include consideration as to if, where and how CMCI work should proceed in 2012 based on the success and progress achieved in 2011. In turn this will help identify whether ICF funding should be used in 2012 to support further work under CMCI.

B. Management

The DECC contract manager is the G7 Policy Adviser. They will manage and coordinate the overall Ministerial initiative as well as specific funding streams. They will be supported by the G6 Team Leader.

CMCI work streams will be led and managed by Aled Jones at Anglia Ruskin University (working group 1), and Dominic Waughray at the World Economic Forum (working group 2). They will be supported through a combination of inputs from CMCI members and contracted services. This includes provision of two Programme Managers (seconded from consulting firms PwC and Accenture as part of their in-kind support), who have experience in running projects and are involved in providing support during the project lifecycle. They will report directly to CMCI leads.

CMCI leads are responsible for:

- Overall coordination and delivery of the agreed work programmes.
    I. In the case of Working Group 1 this includes the development of a set of best practice principles supported by a robust evidence base. This may be extended to include the development of a set of toolkits and guidelines to support practical implementation by climate change policymakers.
    II. In the case of Working Group 2 this includes country-specific reports that set out both the private capital opportunities to support partner governments low carbon ambitions and a set of potential enabling options to help unlock this capital, identified through a collaborative process with the partner government and key stakeholders. This will also include capturing process learnings from the in-country support which will be used to inform and shape the principles and toolkit/guidelines developed in Working Group 1.
- Regular engagement with CMCI members to draw on their inputs and contributions
- Chairing of Working Group meetings including interim reports, briefings and progress reports to inform these meetings.
- Development of reports to the Steering Committee and participation in meetings

DECC has three personnel resources committed to the CMCI intervention including up to 75% of Grade 7 Policy Adviser (CMCI programme lead); up to 25% of Grade 6 support; up to 25% of Grade

7 ICF Project Manager and inputs from FCO and DFID officials in the partner CMCI developing countries. This resourcing will be kept under review.

C. Conditionality

Not applicable.

D. Monitoring and Evaluation

Monitoring

Working Group 1

Anglia Ruskin has submitted a work plan for delivery of Working Group 1, as part of their role as overall lead and coordinator. This has a set of milestones that will be monitored.

Working Group2

Work plans will be developed for delivery of the in-country support, setting out milestones and roles and responsibilities. This is being led by WEF with support from DECC.

These work plans will set out effective project management arrangements and related monitoring frameworks to help track performance. This should include approaches and timing for monitoring the quality and value of outputs delivered and the management performance (e.g. reflecting the rate of work plan implementation).

The Steering Committee will review technical progress through reports; and the indicators will be tracked by the CMCI Programme Lead.

Evaluation

The Evaluation plan should describe the proposed evaluation approach (e.g. purpose, key users, design and method, communication strategy), how it fits with the existing evidence base and the monitoring strategy, and identify the data requirements, potential data sources and how the data will be obtained/monitored at the start of the project (baseline), at various stages during the project (milestones) and at the end of the project (target) to help assess the trajectory of Outputs through to Outcome (Purpose) and Impact (Goal).

The Monitoring and Evaluation plan will track the intervention against key activities driving the intervention and process indicators such as local engagement, evidence of political buy-in, production of knowledge tools etc to monitor if and how the expected longer term outcomes are realised. This could include:

- Number of governments (both developed and developing countries) and financial sector participants engaged in the CMCI process.
- Delivery of and governments' response to the best-practice principles. This could be measured qualitatively through a survey/feedback request.
- Delivery of and response to tailored and collaborative case study reports and recommendations in the partner developing countries. This could be measured by spending proposals put forward to the ICF that have originated from the CMCI process (where partner government support is an important pre-requisite for ICF funding). Other measures include: partner government action in response to the recommendations (where the findings in the case study would provide the baseline of the current enabling environment to compare against), support from other donors for the recommendations,(e.g. through increased donor funding), and private capital flows into the programmes identified through the CMCI process.
- Reference to the role of private capital in supporting the delivery of partner governments' low carbon, climate resilient development goals (e.g. referenced in countries' NAMAs and NAPAs)

- Over the longer-term, CMCI impact could be measured by an increase in a) donor funding in measures that leverage private capital in low carbon, climate resilient investments in developing countries; and b) private capital flows into these investments. However, it will be a challenge to isolate the role of CMCI in delivering these changes. It will be important to draw on the experience in other sectors in appraising the impact of knowledge generation and capacity building in delivering tangible results. In the short term, it should be possible to conduct surveys of CMCI members and associates at the end of the Initiative to assess their level of interest in specific investment opportunities identified through the process (in the partner developing countries) and the low carbon, climate resilient agenda overall following the enhanced engagement with governments through CMCI.
- Surveys conducted in-country to assess level of understanding on and shift in local attitudes to their low carbon agenda and role of private capital.

The majority of the proposed indicators are of a qualitative nature, in line with the knowledge/capacity building support provided through CMCI. It is unlikely to be cost-effective to build the required data base with which to measure these indicators for CMCI alone. A preferred approach will be to ensure the M&E framework is broadly consistent with the type of data required for other ICF support such as CP3 and the Asian Development Bank risk guarantee mechanism. This will be considered as part of the wider ICF M&E approach.

E. Risk Assessment

The following risks have been identified and proposed mitigating approaches:

- <u>Insufficient staffing to provide effective programme management</u> and coordination to ensure effective delivery. This could be managed by putting in place an experienced programme manager in DECC.

- <u>Non-delivery and limited quality control over the inputs provided by CMCI members</u> as these are offered on a cost-free basis. This will be managed by:

  - Ensuring key elements of work are supported through a contracted team/individual (e.g. in-country teams to ensure local stakeholder engagement and robust analytical work; contracting Aled Jones to lead on management and delivery of WG1);
  - Agreeing partnerships with suitable organisations. This includes e.g. the World Economic Forum, partner developing countries and relevant IFIs.
  - Drawing on a larger number of potential resources to help ensure the minimum level of delivery required (e.g. from financial sector representative, OECD, WRI etc).
  - Ensuring regular engagement of Minister Barker with CMCI members (via working group and steering group meetings) to maintain momentum of support and contributions and clarify key milestones for delivery, and ensuring regular review of project milestones and research initiatives to ensure delivery.

<u>Legal Liability for HMG.</u> There is a risk that the principles and in-country recommendations are captured by private sector interests of risk and returns and therefore not in the public interest and/or of low quality. There is also a risk that the "*Development and design of toolkit and guidelines" (i.e. the outputs of Working Group 1 – "the Toolkit and Guidelines")* or in-country recommendations (i.e. the outputs of Working Group 2) will be relied on by third parties (i.e. CMCI members, other investors or host country governments) and that those third parties will seek redress from HMG in the event that they suffer financial or other loss as a result.

Given the nature of the proposed Toolkit and Guidelines, the above risk is less likely to arise in relation to those. The risk is more likely to arise in relation to the proposed in-country recommendations. This risk is further increased by the fact that any such liability may be determined under the law of the host country. Approaches to manage these risks to a reasonable extent include:

- Taking steps to mitigate any liability when the recommendations are shared with third parties.
- Ensuring the recommendations are designed in an open, transparent and collaborative manner, building some form of peer review process into the findings, and ensuring appropriate disclosure around the views of third parties.
- Consulting on the recommendations (whether formally or informally) and, if appropriate and feasible, encourage consultation or some other form of peer review of the in-country recommendations within the host-country itself.
- Focusing on delivering recommendations in relation to potential *financial instruments* and approaches which will require a more extensive design and due diligence process to develop these (which would be undertaken by those who are interested in funding and delivering these instruments e.g. the IFIs). Where CMCI identifies policy recommendations this will feed into a wider body of work being led by other groups (principally the US Government led Low Emissions Development Strategies which will also be operating in India and Kenya and where plans for collaboration with CMCI are underway).

- <u>No increase in private capital flow at the end of the process</u>, in particular to the partner developing countries. Investment decisions by the private sector are dependent on factors beyond the control or influence of CMCI (e.g. due to the asset allocation decisions of the investors and their risk committees). It will be important to manage expectations of all partners and build transparency around the full range of issues that will impact investment decisions. It may also result from a lack of confidence by the financial community that the barriers to capital flows have not been adequately addressed, specifically in light of financial regulations that are restrictive to providing incentives for climate friendly private capital. On-going engagement and support to the government will be important to facilitate this (delivered through HMG rather than CMCI) but our impact will be limited if there is insufficient political will to act.

  In some cases the intervention may be successful in delivering pilot case studies of isolated worked examples (e.g. providing a solar plant in India) but this will not reflect the realities and workings of establishing the low carbon policies and finance at scale required. This may be managed by ensuring a strong feedback and process learning between Working Groups 1 and 2 to ensure the toolkit and guidelines are designed in a way to support the scaling up of these activities.

- <u>Competition law risks</u>. There are potential concerns surrounding CMCI members being given competitive advantages on future projects resulting from the CMCI process. However, it should be possible to mitigate these to risks to a reasonable extent by ensuring that participation in CMCI is open to all parties with an interest and by taking steps to ensure to publicise CMCI in order to ensure that parties with an interest are aware of the opportunity to participate. However, these risks will need to be monitored as the project progresses. The CMCI was launched by way of invitation to a large non-exclusive audience.

- <u>State aids:</u> in order to mitigate any state aids risks it will be important to ensure that the benefits (i.e., outputs) of the CMCI process are available to all investors and other companies. Given that it is expected that this will happen, we have not identified material state aids risks at this stage. However, this will need to be monitored as the project progresses.

- <u>Reputational risk for Minister Barker.</u> There is a risk that the strong endorsement provided by

Minister Barker to CMCI activities will result in reputational damage to the Minister in the event of delivery; legal and/or impact failures with CMCI activities as discussed in the above. This will be mitigated by the monitoring and evaluation plan to ensure that any possible adverse outcomes are identified and addressed on a timely basis.

F. Results and Benefits Management

A logframe has been developed which sets out the expected achievements over the next 18 months of the CMCI project. This relates to expected outputs, outcomes and impacts that are beyond the specific ICF funding. In addition, a work plan is being developed that sets out:

- The timeframe for each of the main activities and specific sub-activities (focusing on Aug-Dec 2011)
- A breakdown in budget for each three month period; and
- Interim targets and how these will be managed if they go off-track