

ICF DECC Annual Review

Project Title: Capital Markets Climate Initiative

Review date: August 2014

Project Location:	London
Project Timescale:	2010 - ongoing
Current Reporting Period:	August 2013 – August 2014
Funding: (ICF Funding and possibly other sources)	ICF Funding £570,000
Project website (if available):	https://www.gov.uk/capital-markets-climate-initiative http://www.ClimateFinanceLab.org

Review Summary:

What are the key messages from this Review?
<p>A</p> <p>CMCI continues to perform strongly. The CMCI Innovation Platform has become well-established; meeting regularly to ensure private sector input into UK climate finance proposals and retaining strong interest and participation. The CMCI-funded Policy Risk Study contributes to the evidence base on how to effectively leverage private investment into low-carbon development. CMCI has also contributed significantly to internationally improved dialogues between the public and private sectors; especially through a UK-convened roundtable discussion on Clean Energy Finance in New York; the high-profile UK Clean Energy Finance Summit in London, and by supporting the development of the Global Innovation Lab for Climate Finance – a new public-private partnership to develop the next generation of climate finance instruments that builds directly on the model and lessons learned through CMCI.</p> <p>There have also been challenges to the effective delivery of CMCI, and this has provided valuable learning to inform the effective deployment of climate finance. Whilst the CMCI Innovation Platform has considered and tested UK climate finance proposals put forward by HMG, the role to facilitate HMG testing of proposals from CMCI participants has not resulted in proposals being taken forward for ICF funding because a) there were fewer proposals than expected that merited testing and b) the proposals that were tested proved to be unsuitable for ICF funding. The Global Innovation Lab has been developed partly in response to this to help develop ideas from the private sector into robust, implementable climate finance proposals.</p> <p>CMCI is a cost-effective (the intervention is largely cost-neutral as relies on pro-bono participation, with the budget being spent on research and analysis), efficient model of public-private engagement that is responsive to participants' interests and needs and has gained recognition nationally and</p>

globally. We therefore recommend continuing to support the initiative in its current form (Innovation Platform, international outreach), with a new output developed to reflect the growing significance and potential impact of the Global Innovation Lab. There are some improvements we can make to improve communication of the initiative. We should also remain open to ideas from CMCI participants to use the remaining CMCI budget to fund for future studies to inform the deployment of climate finance.

Legend on scoring

Description	Scale
Outputs substantially exceeded expectation	A++
Outputs moderately exceeded expectation	A+
Outputs met expectation	A
Outputs moderately did not meet expectation	B
Outputs substantially did not meet expectation	C

Introduction and Context

What support is the UK providing?

The UK is providing a total of £570,000 from the International Climate Fund.

This includes the initial allocation in 2011 of £350,000 and a further £220,000 approved in 2014 to support the Global Innovation Lab for Climate Finance (see below) between the period May 2014 and October 2014.

What is the context in which UK support is provided and why is UK support required?

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.

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. The CMCI Innovation Platform focusses CMCI expertise on proposals for climate finance projects that seek to mobilise private sector finance, specifically those funded by the UK’s International Climate Fund. This ensures the private sector knowledge and expertise of CMCI participants informs the development, design and delivery of ICF projects.

CMCI supports 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 governments to understand how to create long-term, self-

sustaining low carbon and climate resilient markets by putting in place strong policy environments and frameworks, and supporting interventions to catalyse private investment, 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 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 to identify and address barriers to investment and by delivering a set of specific outputs that will help to both capture this knowledge and experience and by creating new public/private partnerships and ideas for low carbon development action.

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 the 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.

Developed country partners will 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, albeit there is still nervousness on how innovative such a window should be, and greater coordination of donor support and initiatives).

In addition, CMCI is expected to help improve market confidence in low carbon, climate resilient investments in developing countries by capital markets by facilitating: greater engagement with partner governments and donors, stronger signals from governments around creating good enabling environments, 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 developing countries, and, over the longer term, strengthened perception by capital markets of the investment opportunities in these markets.

It was originally envisaged that, as well as establishing a dialogue with the private sector and government in the UK, CMCI would establish direct engagement with developing country governments on why and how best to mobilise private capital for low carbon, climate resilient investments. It was concluded at the 2013 CMCI Annual Review that the in-country work should be wound down. However, the learning and increased awareness as a result of the CMCI initiative to improve the delivery of climate finance through specific projects and by sharing learning will indirectly influence developing countries governments.

Specific outputs (as established in the 2013 Annual Review):
It is expected that:

- the Innovation Platform will consider 10 potential UK climate finance projects, using the private sector knowledge and expertise of CMCI participants to inform their development, design and delivery.

a study on 'policy risk' would be delivered and disseminated to stakeholders by Spring 2013 : CMCI engagement and model contributes to internationally improved levels of dialogue between public and private sectors.

Theory of Change – logical framework linking activities to outcomes

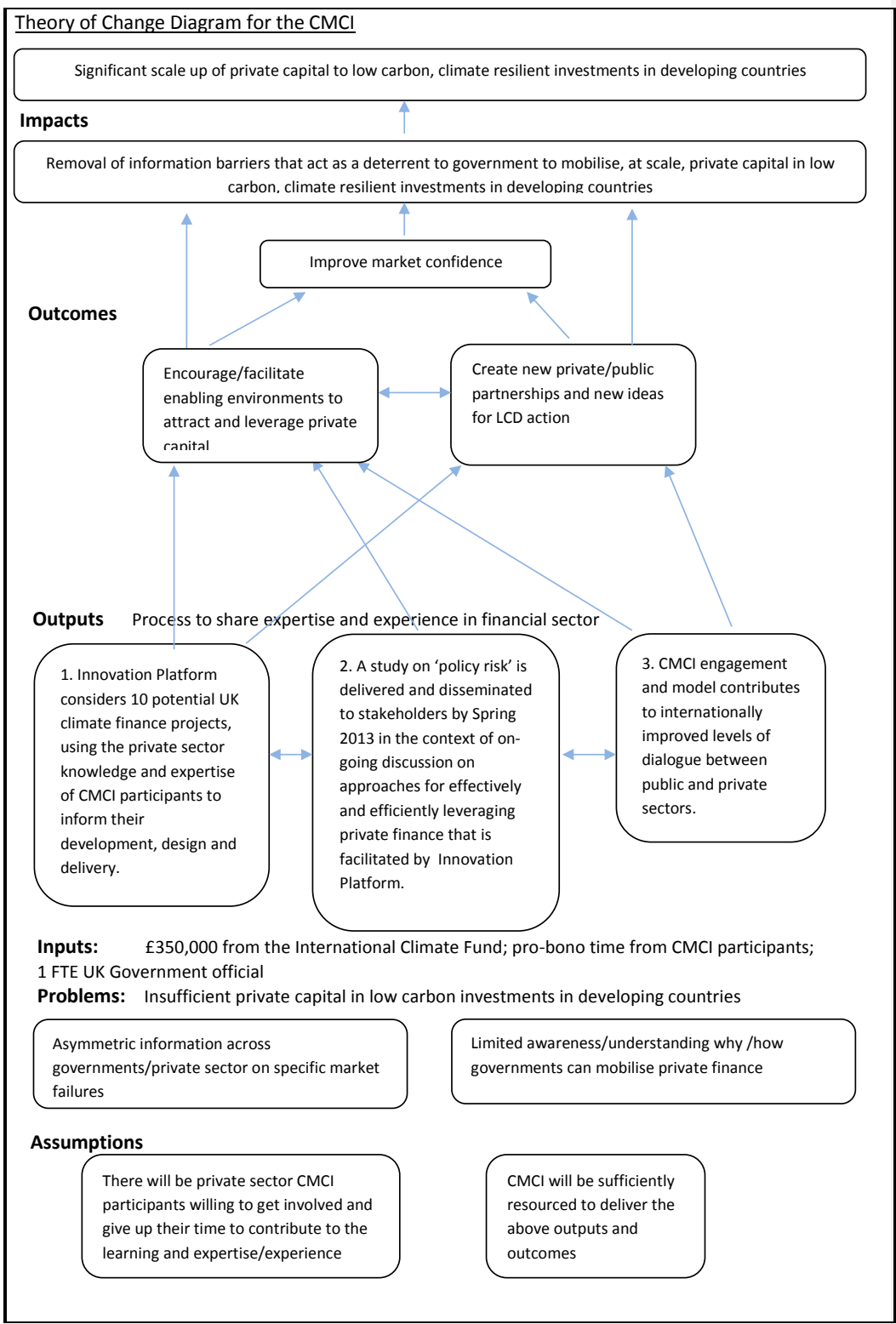
Through the unique combination of financial sector interest, expertise and potential provision of capital and government leadership, CMCI presents an important opportunity to help strengthen governments' awareness and understanding of how to mobilise private capital for low carbon climate resilient investments. 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.

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.

The Theory of Change below has been updated in light of the 2013 Annual Review, including the removal of the outcome: 'strengthen government awareness of how to attract private capital in up to 4 developing countries', as this was linked to specific outputs relating to in-country engagement work that have now been removed. The indirect impact of CMCI on developing country governments is captured by outcome 1: 'encourage/facilitate enabling environments to attract and leverage private capital'.

As a result of this Annual Review, further amendments are proposed – see proposed new theory of change Annex 1.

The updates to the Theory of Change reflect the fact that the initiative has evolved over time, responding to the interests and needs of participants and government, and the growing body of evidence on effective climate finance interventions; also the fact that a number of workstreams have completed and new work begun.



Section A: Detailed Output Scoring

Output 1: Innovation Platform considers 10 potential UK climate finance projects, using the private sector knowledge and expertise of CMCI participants to inform their development, design and delivery.

Output 1 score and performance description: A

The Innovation Platform has met regularly since it was established in 2012 and participation and interest remains strong. The Innovation Platform has so far considered in detail 9 proposals for UK climate finance projects.

The Innovation Platform is designed to enable 'two-way learning': both facilitating market testing of ICF proposals and government testing of proposals from CMCI members with potential for ICF funding. However, the focus has been on the former, with 7 of the proposals being put forward by government officials. Furthermore, the proposals from CMCI participants have not been taken forward, as the testing has revealed they are not appropriate for ICF funding. This experience has provided valuable learning by highlighting a disconnect between the level of detail in proposals submitted by the private sector and the level of detail required by DECC to complete a convincing business case for ICF spend, especially in assessing broader impacts (such as development), compatibility with ODA requirements and providing a sufficient evidence base. Through the project manager, this learning is being fed into the broader ICF team (such as through team meeting discussions) and has provided a rationale for CMCI support of the Global Innovation Lab for Climate Finance and informed its development (see below).

Furthermore, it is challenging to assess the extent to which these CMCI discussions have informed the design, delivery and development of the projects. It is therefore important to ensure a focused and active debate and to allow adequate space for discussion during CMCI meetings; and to continue to ensure that ICF project developers are aware of the need to consult CMCI at the design stage.

Surveys of HMG and private sector participants were conducted as part of this review to assess progress against this output.

Progress against expected results:

The CMCI Innovation Platform is an ongoing initiative. So far there has been detailed consideration of the following potential UK climate finance projects in the ICF project pipeline:

- NAMA Facility
- Climatescope
- Carbon Market Facility Africa
- Green Climate Fund
- Climate Investment Funds – private sector programme
- The Global Innovation Lab for Climate Finance
- The Renewable Energy Performance Platform (REPP)

As well as discussions on the following proposals from participants:

- Bond financing vehicles - use of debt capital markets to finance / refinance a portfolio of solar projects in targeted emerging markets (Alexandre Chaverot, Clean Infra Partners LLP)
- Mono-line insurance vehicle to support secondary bond market (Nick Silver, Climate Bonds Initiative)

There have also been updates (but less detailed consideration) on: CP3, India Solar, Green Africa Power and overviews of concepts from the bidding rounds (2012 and 2014).

The relevant ICF project leads and Deputy Director attended to ensure CMCI comments were taken into account for the design and delivery of the projects.

The two proposals by CMCI participants were not taken forward for funding. Furthermore, the proposal for an India Solar project that was developed by Working Group 1 was subsequently dropped. The proposal was for DECC to fund £50 million for a combination of a Guarantee Facility for solar Renewable Energy Certificates (RECs) and Technical Assistance (up to £3million) to support the Indian Government to evolve and implement the Renewable Purchase Obligation (RPO) mechanism. Despite getting (conditional) approval from the DECC Approvals Panel, a decision was made not to take the project forward as the analysis and stakeholder consultations (testing with Indian policymakers and project developers) by implementing partners (including the International Finance Corporation) showed that there are too many uncertainties about the future role and shape of Renewable Energy Certificate (REC) mechanism amongst policy makers. It also concluded that a guarantee instrument would not solve the critical REC demand side barriers, and it was doubtful that the facility would support better enforcement of the Renewable Purchase Obligation, which would be vital for the REC to be taken seriously and for the Guarantee instrument to have an impact and in transforming the solar market. Participants were informed of this decision not proceed with the investment, but would instead work with the new Indian Government to explore alternative options for scaling up private sector investment in solar in India.

However, it is worth recalling that the Get FIT Uganda project was originally presented to CMCI by a participant and that this project has received £35 million ICF money to date and a study is currently being carried out to scope a possible extension to other African countries

In addition, the CMCI Innovation Platform has considered and informed the development of 2 CMCI funded studies: policy risk and options for the delivery of UK climate finance, which in turn will help inform the design and delivery of UK climate finance proposals.

It is challenging to assess the extent to which these CMCI discussions have informed the design, delivery and development of the projects. As part of this review two surveys were carried out: a survey of private sector participants (see results and annex 2) and a survey of HMG staff (project developers in DECC and DFID and also the ICC engagement team – annex 3). There was a good response although there is still relatively small sample size so although these surveys can give an indication, we should be careful not to over-rely on the results. The survey of private sector participants found that, overall, participants felt that CMCI was a forum where they could put forward ideas for discussion (confirming our conclusion that the issue is a lack of robust ideas rather than lack of avenue for discussion) but that they did not know whether government took action as a result of CMCI input. HMG staff also felt that CMCI was a forum where they could put forward ideas for discussion, and that they knew when in the project development life cycle to consult CMCI. However, the majority did not think that CMCI input had informed their project development. On closer examination, including of the explanatory comments, it seems that only a minority for whom the question was relevant (i.e. ICF project developers who had been in the team long enough to use

CMCI) felt this way. The sample size is too small to draw conclusions; but the responses are helpful in confirming our belief that this aspect is more challenging; and that care should be taken to communicate how and when government takes action as a result of CMCI; but also to stress the importance of taking their views into account to CMCI participants.

It has also been observed that some participants are policy / government relations advisors rather than investors (involved in making deals); which will affect the type of expertise and experience we access through CMCI.

Overall, a strong performance against this output is ensuring private sector consideration of UK climate finance proposals, providing the opportunity to input to inform their design and delivery and providing valuable learning on the challenges of taking forward ideas from the private sector.

Recommendations:

The Innovation Platform is performing strongly and effectively ensures private sector consideration of and potential input into UK Climate Finance proposals. The Innovation Platform is open-ended and has already considered 9 proposals, so it is recommended that we increase the target. Given the envisaged continuation of the Innovation Platform we recommend the consideration of **at least 4 ICF proposals per year (to note the UK general election in May 2015 might impact on the ability to deliver this next year)**.

In order to harness CMCI expertise effectively, there should be active chairing to guide the discussion towards specifics and away from generalities; and presenters should be encouraged to focus on key questions they wish to discuss in the forum, rather than a generic presentation of the project.

The Global Innovation Lab for Climate Finance seeks to address the challenge of developing ideas from the private sector; CMCI support for this initiative should continue and this should be reflected in the Theory of Change (see below).

DECC should highlight how and when action has been taken as a result of CMCI input (at meetings and via email correspondence). The DECC project manager should also ensure colleagues are reminded of the need to consult CMCI during their project development; especially highlighting the initiative to new starters.

Impact Weighting (%): 40%

NB weightings amended due to proposed new output on Global Innovation Lab, see Output 3 below.

Revised since last Review? No

Risk: Low

Revised since last Review? No

Output 2: A study on 'policy risk' is delivered and disseminated to stakeholders by Spring 2013 in the

context of on-going discussion on approaches for effectively and efficiently leveraging private finance that is facilitated by Innovation Platform.

Output 2 score and performance description: B

DECC ran a competitive tender process to recruit external consultants to conduct the study. There was a detailed discussion of the interim report at a CMCI Innovation Platform and written comments were also invited. CMCI participants with particular interest / expertise were consulted for views throughout the study (interviews, commenting on drafts). However, [REDACTED], [REDACTED], the timing of the study has slipped and it is now envisaged that the study will be published in October 2014.

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Progress against expected results:

Good progress in that a detailed study is being finalised and has already generated significant learning for DECC. For example, the study was originally envisaged to produce an insurance model to insure against policy risk. However, the evidence gathered suggests that this option is not viable and a number of meetings had to be held to 'reorientate' the study to focus on recommendations for improving existing mechanisms. This is incredibly valuable; not only in suggesting improvements for international institutions to more effectively cover policy risk, but in providing a deeper understanding of the issue that has ultimately ensured UK climate finance was not spent in an ineffective manner.

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the timing has slipped, which prevents this output receiving a higher score

Although it has already generated learning for HMG, the impact of the study is dependent on how it is used. Therefore, efforts should now turn to sharing the study and ensuring key messages are disseminated to inform the debate on policy risk and appropriate mitigation actions, to ensure climate finance is deployed in an effective manner.

Recommendations:

Making the study available and communication of its key findings with stakeholders and partners.

Once the study is published, this output should be amended. Discussions on policy risk and other barriers to private investment in low carbon development will continue in the CMCI Innovation Platform. However, as above we should work to ensure the study influences climate finance spend and policy in the UK and beyond, as we continue to disseminate the Principles for Investment grade Policy and Projects, and should seek to use remaining CMCI budget on studies that inform the effective deployment of UK climate finance. Therefore, it is recommended that, on completion of the Policy Risk Study, this output be amended to read:

Output:

CMCI produces studies that are disseminated to inform the discussion of approaches for effectively and efficiently leveraging private finance, in the UK and internationally, in particular to address evidence gaps.

Impact Weighting (%): 20%

NB weightings amended due to proposed new output on Global Innovation Lab, see Output 3 below.

Revised since last Review? *N*

Risk: Low

Revised since last Review? *N*

Output 3: CMCI engagement and model contributes to internationally improved levels of dialogue between public and private sectors

Output 3 score and performance description: A+

The UK has been driving an international public-private dialogue on climate finance, in particular mobilising private finance, building on the CMCI model. This has included:

UK-UAE Clean Energy Finance Roundtable

A UK-UAE Clean Energy Finance Roundtable in New York in September 2013. This brought together global private investors, development banks and governments to discuss issues relating to mobilising private finance. Hosting the meeting in partnership with the UAE helped secure high-level representation, especially from non-European countries, hosting the meetings in the margins of the UN General Assembly ensured the participation of developing country ministers and the New York venue ensured a broader investor base, building on the CMCI City of London model. Meeting note attached at Annex 4.

UK Clean Energy Finance Summit

The UK hosted a Clean Energy Finance Summit in June 2014, with strong involvement of CMCI participants to steer and develop the agenda and participate in panel and conference discussions throughout the day. This was a major event, jointly hosted by HMG and the Prince of Wales' Sustainability Unit, which convened over 140 delegates from across the clean energy investment chain – including project developers, financiers and ministers from Botswana, Ghana, Malaysia, Nicaragua and Uganda - to stimulate action in clean energy investment. The Summit provided an opportunity to go beyond typical discussions of 'barriers' to investment, to propose innovative solutions, to showcase success stories, and to offer some ideas for the UNSG Leaders' Summit in September. The Summit reinforced the UK's reputation as world leading on climate finance and efforts to engage the private sector in particular. See meeting note at Annex 5.

Global Innovation Lab for Climate Finance

Given the experience of CMCI, as part of broader donor coordination efforts, the US asked the UK to help develop a global public-private partnership; the Global Innovation Lab for Climate Finance. Together with Germany, the UK and US have designed and developed an initiative that brings together a small number of senior private and public sector actors to design, stress test and pilot instruments and approaches targeted at catalysing private investment in to climate friendly, low carbon projects and infrastructure in developing countries. This works in a similar way to the CMCI innovation platform; but the membership is smaller and more senior, the workplan is focussed on developing 1 or 2 proposals, and there is a Secretariat and analytical resource to support the development of the proposals.

We have been successful in securing senior participation by public and private actors: MDBs such as the World Bank and the African Development Bank, major pension funds such as Pension Danmark, major private investors such as Blackrock, a project developer (ACWA Power) and other major climate finance donors: France, the Netherlands, Denmark, Norway and Japan. In May there was a call for ideas, which received over 80 proposals. The UK hosted the first meeting as part of the UK Clean Energy Finance Summit in June in London which selected 7 for further development and analysis. These ideas are designed to boost private investment in low carbon through aggregation platforms, risk mitigation instruments, early stage project development and leverage private investment in adaptation. The best 2 or 3 ideas will be selected by the Lab in early 2014.

The UK and Germany are jointly funding the first phase of the Lab's work. An extension to the CMCI budget of £220,000 was secured in the March ICF bidding round to fund this work, with the Germans providing an equal share. The UK ran the competitive EU-wide tender process to recruit the analytical resource and secretariat (won by Climate Policy Initiative in collaboration with Bloomberg New Energy Finance), and is currently managing the contract. The UK is also steering the work of the Lab alongside Germany and the US in the Lab's 'Project Management Group'.

The Lab has developed into a successful, high profile, global initiative. It builds on the CMCI model of public-private engagement on climate finance, establishing the first global partnership specifically focused on designing climate finance instruments. The focus on developing and designing specific climate finance proposals builds on the methods of the CMCI Innovation Platform, and addresses the challenge of developing the ideas of private sector representatives into robust climate finance proposals by providing expertise and analytical resource.

Further information on this initiative, including a note of the first meeting, is available here: www.ClimateFinanceLab.org

CMCI Steering Group

The CMCI Steering Group is a smaller subset of CMCI senior participants who meet with the Minister to discuss climate finance on an ad hoc basis. This is the opportunity for more strategic discussions; to test UK position ahead of climate finance negotiations in the UNFCCC or positions on issues such as the Green Climate Fund. The CMCI steering Group thereby informs government positions, strategy and interactions in international climate fora.

Progress against expected results:

Excellent progress that has seen the establishment of a strong dialogue between the public and private sectors through the UK-UAE roundtables and the UK Clean Energy Finance Summit. The formation of the Global Innovation Lab, in which the UK takes a leading role, has established a global public-private partnership to develop robust, implementable climate finance proposals.

The CMCI survey showed that private sector participants felt that CMCI was a recognised initiative, but largely in the UK only. Whereas most HMG respondents felt it was recognised internationally as well as in the UK.

Recommendations:

We should maintain efforts to engage in and improve public-private dialogue on climate finance at an international level. In particular, given the successful establishment of the Global Innovation Lab and the positive response from external stakeholders, we should retain CMCI support and ensure CMCI continues to inform the development of the Lab's proposals. Given the significant time and resources from CMCI budget devoted to the Lab, and its potential impact, **it is recommended that the Lab becomes a specific output of CMCI and progress measured against it (20%).**

Proposed new output: *The Global Innovation Lab identifies the most promising (1-2) climate finance instruments by Q2 2015.*

The following **assumptions** are made in relation to the Lab:

- There are high quality ideas for innovative climate finance instruments for the Lab to develop
- The Lab membership and Secretariat has sufficient expertise to overcome barriers to action and develop implementable proposals.

DECC should ensure that HMG international climate finance activities reference CMCI, use the opportunity to promote the initiative, and that this is then communicated to CMCI participants.

Impact Weighting (%): 20%

Revised since last Review? N

Risk: Low

Revised since last Review? N

Section B: Results and Value for Money.

1. Progress and results

1.1 Has the logframe been updated since last review? No logframe was created for the CMCI at the time the original business case was written as this was before it was a requirement. However, it was concluded as part of this Annual Review process that a logframe should be developed to help track progress against outputs.

1.2 Overall Output Score and Description: A

Effective delivery of Innovation Platform, Policy Risk Study, international public-private events and Global Innovation Lab.

1.3 Direct feedback from beneficiaries

As part of this annual review, two beneficiary surveys were carried out. One for HMG, i.e. circulated to ICF project developers in DECC and DFID, as well as the broader ICC team (including engagement team). There was a relatively good response to both surveys; however the sample size is inevitably limited. However, the responses and comments provide helpful feedback on CMCI.

Overall, there was positive feedback on CMCI. Both HMG and private sector participants agreed that the meetings were the right frequency and length, and that the agenda and focus was relevant although more private sector participants felt that it was 'somewhat relevant'; perhaps reflecting the challenge of ensuring relevance to a disparate group. Both groups also largely felt that CMCI was a forum where they could put forward ideas for discussion; implying that the intention of using CMCI as a place where the private sector felt they could raise issues, and where HMG officials felt they could test ideas, was being achieved. A majority of HMG officials commented that the benefit of CMCI was to draw on private sector expertise and advice, to test ICF proposals. Both groups also felt that CMCI offered good networking opportunities; all HMG officials agreed compared to slightly less (72%) of private participants, with some suggestions for more time being allowed for networking, such as a coffee break or refreshments before or after the meeting. The survey also found that participants felt that the initiative was now recognised; although fewer private sector participants felt it had gained international recognition (only 27%). Private sector participants also felt that CMCI innovation platforms kept them up to date on government policy on climate finance; achieving our objective to improve information flows between the public and the private sector.

However, the feedback also showed that the impact of CMCI on both government policy and projects and on CMCI participants' investments was more limited. Although HMG officials felt they knew when in the project cycle to consult CMCI, only 29% agreed that CMCI had informed the development of their projects; although from analysing the comments it is clear that a number of those who did not agree were actually not project developers or were new to the role; leaving an equal number who agreed and disagreed. Private sector participants were uncertain whether government took action as a result of CMCI, and agreed overwhelmingly that their investment policies had not been altered as a result of CMCI. Whilst it is difficult to draw conclusions from a small sample size, and the question cannot account for subconscious influence; this response does reinforce our uncertainty about whether CMCI is having a tangible impact on projects and investments. The limited resources of CMCI

means that we are unlikely to get more than anecdotal evidence on this; however, there are actions we can take to maximise the impact, within the limited resources of CMCI (see below).

Only about half of participants were aware of the CMCI 'Rules of Engagement' so these should be recirculated.

The surveys also asked for more general feedback on CMCI. Some (2) private sector participants questioned whether CMCI should also consider domestic policy (although to note the majority feel that the current focus is relevant). Another pointed out that CMCI focuses on projects rather than broader 'systemic' issues. One HMG official suggested better engagement across government raise the profile of CMCI and encourage more UK investors (not just the 'traditionally green' ones), but maybe smaller firms less aquanited with the low carbon agenda to get on board. There was also a suggestion for a rotating chairmanship or break-out discussions to vary meetings and involve participants.

Actions as a result of feedback:

- Maintain length and frequency of Innovation Platform meetings, although consider ways to encourage active participation: strong Chairing, guest Chairs, break-out discussions
- Consider including space for networking e.g. a coffee break or make clear that refreshments will be provided before or after the meeting.
- DECC should highlight how and when action has been taken as a result of CMCI input (at meetings and via email correspondence).
- The DECC project manager should also ensure colleagues are reminded of the need to consult CMCI during their project development; especially highlighting the initiative to new starters, and encourage them to act on their input.
- DECC project manager to seek opportunities to promote CMCI more widely within HMG
- CMCI Rules of Engagement to be recirculated to HMG and external CMCI participants.
- Consider discussing broader climate finance issues more frequently, as well as specific projects; this could also help indirectly influence investment policies.

1.4 Summary of overall progress

CMCI is delivering outputs effectively but is also directly contributing to the desired outcomes. In particular, the Global Innovation Lab is a new international public-private platform that is generating new ideas for low carbon development; a key outcome for CMCI.

However, given the scale and resources of CMCI, it is difficult to assess its contributions to the outcomes to encourage/facilitate enabling environments to attract and leverage private capital and to increase awareness of ways to effectively leverage private finance; this will be dependent on broader work to assess private finance flows.

Nevertheless, the initiative offers high value for money as is largely dependent on pro-bono work of participants. The budget of CMCI is spent on research and consultancy to improve evidence on the effective delivery of climate finance; which has the potential to make an impact depending on the effective dissemination of the studies. Competitive tender exercises have ensured good value for money for the policy risk study and work related to the Global Innovation Lab. The partnership with

other climate finance donors on the Global Innovation Lab also maximises the impact of CMCI spend.

The risk of CMCI is low, and mainly related to potential reputational risk, for which mitigating actions are in place. Indeed, CMCI can help mitigate risks for other ICF projects by acting as a source of financial and development expertise to better inform the effective design of ICF projects.

CMCI continues to evolve and develop according to the interests of participants and needs of ICF Ministers and officials. It has proven to be a flexible and nimble resource. Efforts will need to be maintained to ensure continuing engagement and participation.

1.5 Key challenges

The key challenges in the CMCI model have been:

- Maintaining engagement and interest of CMCI participants (participating in CMCI without the expectation of direct benefits), appropriate level of attendance (policy advisors rather than investors, seniority) and ensuring that the CMCI agenda is relevant to their work/interests and to broader UK Government aims and objectives;
- Defining what CMCI is, specifically realistic expectation of what it can and cannot achieve or deliver and what it contributes to the mobilisation of private climate finance.
- Ability to deliver given the limited resource available within DECC and the reliance on other stakeholders –the UK Clean Energy Finance Summit was a major event that took up a lot of DECC resource, and the establishment of the Global Innovation Lab and accompanying tender process also consumed a great deal of officials' time;
- Issues are often more complex than CMCI participants anticipate, for example the policy risk study showed a more nuanced, complex landscape that meant the envisaged 'solution' was not viable. Furthermore, time taken to resolve issues and develop projects is often longer than anticipated because of these inherent complexities.

1.6 Annual Outcome Assessment

Outcome: 'Create new private /public partnerships and new ideas for LCD action'

Progress:

The Innovation Platform has become an established public-private partnership that considers new ideas for low carbon development action (proposal for ICF projects). However, as above, it has not resulted in ideas put forward by the private sector being taken forward for funding and implementation, or in itself generating 'new ideas' for LCD action (the India Solar project was not pursued). Its value has rather been in testing proposals put forward by HMG. The exception to this is Get Fit which was presented by a CMCI participant and then received ICF funding.

The Global Innovation Lab is a new international public-private partnership that was set up with CMCI funding that is generating innovative ideas for climate finance instruments. It responds to the

challenge of developing new ideas into robust, implementable proposals, by providing expertise and analytical resource.

Outcome: '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'.

Progress:

The Innovation Platform provides a forum for discussion of ICF projects, although it is harder to assess the extent to which this discussion informs their design, delivery and implementation; and therefore how CMCI is affecting the leverage of private capital. The Innovation Platform has also discussed the UK funded study into effective 'delivery vehicles' for UK climate finance.

The Global Innovation Lab is generating analysis on efficacy of certain instruments, and involving other donors, delivery partners and investors in the process; thereby ensuring the learnings are disseminated to key stakeholders. However, it is too early to assess the results and its contribution to this outcome.

The CMCI-funded studies, the Principals for Investment Grade Policy and Policy Risk Study, will contribute to this outcome. We should ensure they are disseminated widely amongst contacts and look for further ideas to use the CMCI budget to fund studies to ensure evidence base continues to grow.

Outcome: Encourage/facilitate enabling environments to attract and leverage private capital

Progress: CMCI will contribute to this outcome indirectly by influencing the effective design of climate finance projects that leverage private capital (Innovation Platform and Global Innovation Lab), and by disseminating learning on effectively leveraging private finance from the CMCI studies. However, given the scale and resources devoted to CMCI, progress against this outcome will not be assessed.

It is also important to note that given the limited resources of CMCI and the nature of the initiative (light-touch, responsive) an outcome evaluation would be disproportionate. Progress against outcomes is therefore reliant on broader work to track private finance flows, and on the assessments in this annual review process.

2. Costs and timescale

2.1 Is the project on-track against financial forecasts: N

No. The CMCI was originally a time-bound project to end in December 2012. However, it has been extended beyond its original timeframe due to the enthusiasm of the Minister and participants to continue engaging on, and contributing to, the agenda of encouraging and promoting greater private sector investment in climate friendly projects in developing countries. As such, the project is on-going and has not spent the full amount originally assigned.

The CMCI Innovation Platform is largely cost neutral; the meetings are hosted either in government buildings or in the offices of CMCI participants free of charge. From the £350,000 budget, [REDACTED] was spent in 2012 on the Principles for Investment grade Policy and Projects, and a further [REDACTED] was assigned to the Policy Risk Study in 2013 (final 50% instalment outstanding pending completion of the study). The remaining funds [REDACTED] are envisaged to be spent on specialist reports by consultants and researchers which can provide the evidence base for pursuing transformational projects through the UK's International Climate Fund and/or other multilateral/bilateral Climate Funds.

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The budget was extended in 2014 (£220,000) specifically to support the Global Innovation Lab for Climate Finance, which builds on the CMCI model at a global level and addresses the challenges of developing private sector ideas for climate finance instruments.

2.2 Key cost drivers

Specialist reports by consultants and researchers.

Analytical and administrative support for the Global Innovation Lab for Climate Finance.

2.3 Is the project on-track against original timescale: N

It was originally expected that CMCI would last for 2 years. However, given the nature of the CMCI as a forum for stakeholder engagement and ideas generation and the enthusiasm of the Minister and participants to continue engaging with one another on this agenda – the timeframe of the CMCI has been extended and the Initiative has been refocused based on lessons learned. CMCI is an effective platform through which this engagement can take place and will continue in so far as Ministers and participants continue to find it a useful way to engage in this agenda. The Global Innovation Lab for Climate Finance has seen CMCI influence and model expand internationally.

This will not cause increase costs. The CMCI has not yet spent the entirety of its original allocation and as mentioned above, the way that CMCI is run as a public-private platform does not, for the most part, require a specific budget as it delivers its outcomes through participation of its participants and partners.

3. Evidence, Monitoring and Evaluation

3.1 Assess any changes in evidence and implications for the project

Validity of Underlying Assumptions – Theory of Change

The internal review of CMCI conducted in April 2012 and the 2013 Annual Review highlighted that some of the assumptions behind the original CMCI concept theory of change proved to be invalid.

Specifically:

- There will be partner country governments willing to meaningfully interact with CMCI.
- CMCI will be sufficiently resourced to deliver the envisaged outputs and outcomes

These reviews also explained the rationale for the introduction of the Innovation Platform. As described above, the Innovation Platform has successfully ensured private sector input into ICF project development. However, the Innovation Platform has also demonstrated that it is challenging to take forward ideas from private sector participants to develop into ICF-funded projects. However, this should be seen as a valuable learning rather than a failure, as the Innovation Platform has fulfilled its remit of *HMG Testing of Proposals from CMCI participants*.

The Global Innovation Lab will seek to build on this experience of the CMCI Innovation Platform, as it recognises that private sector needs support (analytical, expert resource) in order to develop them into robust, worked-up proposals with sufficient evidence on their likely effectiveness and implementability to enable public donors to commit finance. Therefore, the Global Innovation Lab is a logical development of the CMCI model and will help address this issue which has come to light. The success of the Global Innovation Lab relies on the following assumptions that should be incorporated into the Theory of Change:

- There are high quality ideas for innovative climate finance instruments for the Lab to develop
- The Lab membership and Secretariat has sufficient expertise to overcome barriers to action and develop implementable proposals.

Updated Theory of Change at Annex 1.

Policy risk study

The Policy Risk Study has generated evidence on how to address policy risk that has countered assumptions and expectations held when the study was commissioned. CMCI funding for this study was in response to views expressed by some CMCI participants and held by some others more broadly that a bespoke policy risk insurance product might incentivise greater investment in low-carbon development and help create a sustainable market for investment. The evidence being generated by the study however, points to the fact that such an instrument is neither sustainable nor feasible to design given the time it would take to be set up, the need to address “moral hazard”¹ and because it would not be sustainable without public funds. The study points to improvements that could be made to existing mechanisms (policy risk insurance and partial risk guarantees) to more effectively address policy risk. It also puts policy risk in the context of other barriers that put off investors and finds that it is not a primary concern.

This has meant that DECC is unlikely to support a policy risk insurance mechanism through the ICF (unless counter-evidence comes to light) and the study has therefore been valuable in directing ICF resources in the most effective way.

As above, given the impending conclusion of the Policy Risk Study, the importance of disseminating the findings of it and the early CMCI Principles study, and the wish to use the remaining budget to further

¹ Moral hazard involves different entities undertaking inappropriate actions that they would not otherwise do in the absence of the insurance provision.

build the evidence base, the output will be updated as below:

CMCI produces studies that are disseminated to inform the discussion of approaches for effectively and efficiently leveraging private finance, in the UK and internationally, in particular to address evidence gaps.

Which is dependent on the following assumption: *Donor countries, delivery partners and private sector stakeholders will be receptive to CMCI-funded studies and take action based on their recommendations*

Updated Theory of Change at Annex 1.

3.2 Quality of monitoring and reporting

N/A.

3.3 Where an evaluation is planned what progress has been made?

N/A

4. Risk

4.1 Output/Outcome Risk Rating: Low

CMCI is low risk and does not exceed the ICF risk appetite. Given that the CMCI budget funds studies, analysis, and a Secretariat function, the main risk is reputational: the risk that CMCI Innovation Platform, the studies it funds, or the Global Innovation Lab attract criticism that can harm the UK's reputation as world-leading on climate finance, particularly private finance.

Furthermore, **CMCI can help mitigate risks in relation to other ICF projects**, particularly investment, operational and information risks, by acting as a source of financial and development expertise to better inform the effective design of ICF projects.

Specifically, the **reputational risks** of CMCI are:

- Endorsement provided by the Minister and DECC to CMCI activities will result in reputational damage in the event of delivery/legal/impact failures with CMCI activities
- The studies funded by CMCI lack credibility and attract criticism
- The Global Innovation Lab fails to deliver its objective of 1-2 high-quality climate finance proposals within an appropriate timeframe
- Disengagement by CMCI participants or Global Innovation Lab members leads to lack of quality outputs or the termination of the initiative.

The above reputational risks are being **mitigated** in the following ways:

- The CMCI **Rules of Engagement** were drawn up in consultation with DECC legal advisors, presented to participants at the first Innovation Platform and published on the DECC .gov.uk website. The Rules clearly explain that the Innovation Platform complements ICF project development and in no way alters or interferes with normal ICF governance or decision-making processes. Also that 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. The rules thereby mitigate the **legal risk** of CMCI.
- The Principles for Investment grade Policy and Projects have not attracted criticism. There has been a robust consultation process to ensure the Policy Risk Study takes the views of CMCI participants and other experts into account. However, the study has attracted some criticism so we will have to ensure careful communication of the key findings. Furthermore, the studies are designed to contribute to a global debate, rather than ‘solve’ issues; if they prompt response or challenge, this in itself achieves the objective of contributing to the global debate. To ensure a high quality report, DECC should continue to ensure it receives regular drafts to review, and pays only on the completion of a quality product.
- DECC is managing the contract with the provider of the analytical and administrative support for the Global Innovation Lab and has established a tight timeline for delivery of outputs. In addition, DECC has joined the Lab’s ‘Project Management Group’ alongside the US and Germany, to ensure the projects stays on track and delivers its strategic objectives. There is a risk that when the UK and German funding ceases in October, other donors will fail to provide the funds necessary to complete the project; we are working to ensure other donors fulfil their promises and will escalate this issue as necessary.
- Participation in the Innovation Platform remains strong. We should continue to seek feedback and be responsive to participants’ interests and ideas; in particular to take action in response to the feedback survey that is being conducted as part of this Annual Review. The Global Innovation Lab is also providing a new focus and potential avenue for CMCI participants’ proposals to be taken forward (those that require further development than the DECC ICF team can resource – the call for evidence was circulated to CMCI network).

In summary, the CMCI Innovation Platform has been successfully established with clear Rules of Engagement and retains strong participations. The actions described above should be continued to ensure the reputational risk for DECC is minimised from CMCI activities, especially the specific outputs of the Innovation Platform, the Global Innovation Lab and the Policy Risk Study. CMCI can help mitigate risks associated with ICF proposals by ensuring financial expertise informs their design.

4.2 Assessment of the risk level

Low

4.3 Risk of funds not being used as intended

Low: direct contract management of consultants and Lab secretariat; payments linked to delivery of

outputs.

5. Value for Money

5.1 Performance on VfM measures

1) **Economy** (*Are we or our agents buying inputs of the appropriate quality at the right price?*)

Both the Policy Risk Study and the administrative and analytical work for the Global Innovation Lab were put out to competitive tender (the latter an EU-wide tender process) with cost included in the assessment criteria to ensure value for money.

The consultants who won the Policy Risk Study were considered value for money given that the project team had considerable experience of renewable energy projects, international development and report writing. They also had an experienced insurance practitioner included in the project team to serve in an advisory capacity. The top 3 bids that made it to interview were all a relatively similar cost [REDACTED]

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The Global Innovation Lab role was put out to competitive tender across the EU. The winning bid [REDACTED] considered value for money given the quality of the personnel (who have a wealth of relevant climate finance and development experience), their proposed clear and efficient methodology, and their clear understanding of the requirement. The quality of work has been very high so far; they have delivered the outputs outlined in the specification (and contract) including the key milestone of the inaugural meeting of the Lab. The daily rates of the personnel were considered VfM assessed against the rates of relevant consultants and experts costs in the field.

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In addition, the Global Innovation Lab represents good value for money because the UK's contribution helped secure an equal contribution from the German government (despite the fact that DECC ran the recruitment process and manage the contract so have more influence over the strategic direction of the initiative). We hope that in future other donors will fund the Lab and are working to ensure this outcome.

2) **Efficiency** (*How well do we or our agents convert inputs into outputs?*)

The CMCI Innovation Platform is largely cost neutral. It requires DECC staff input but the meetings are either hosted by participants free of charge, or held on DECC premises. The CMCI Steering Group is held in the Ministers' office. Participants contribute and give their time for free. DECC pays no travel costs or expenses but has managed to secure presentations on relevant initiatives, including from experts based overseas.

The Policy Risk Study has required higher than envisaged input from DECC staff and other stakeholders [REDACTED]. To ensure VfM would be achieved, an informal review was conducted by the project lead mid-way through the study to decide whether to continue, and the consultants produced an updated proposal for the completion of the study. It was concluded that, despite the increased draw on DECC time, it was worth completing the study because it was generating valuable learning. The finished product (soon to be published) is a valuable contribution to the debate about policy risk, and has ensured UK climate finance is not spent in an ineffective manner (given that there is insufficient evidence to support UK funding for a bespoke policy risk insurance mechanism; which DECC had been previously encouraged to support). When procuring the Policy Risk Study, DECC was careful to ensure the quality of personnel was the most important criteria (70%) when considering bids. The challenges faced during the delivery of this project have reinforced the importance of ensuring relevant financial expertise and in-depth knowledge in the project team (especially where DECC is relatively inexperienced). In future, it may be beneficial to have an external expert on the panel to provide additional scrutiny of bids.

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The Global Innovation Lab provider is performing well against agreed milestones and effectively delivering timely outputs, with a reasonable and expected input from DECC. In particular, they have successfully completed a 'call for ideas', which generated over 80 proposals from across the world, delivered a successful inaugural meeting and established working groups to analyse and develop proposals.

For both the Policy Risk Study and the Global Innovation Lab, payments are made only once key outputs are delivered.

3) **Effectiveness** (*How well are the outputs from an intervention achieving the desired outcome on low carbon development?*)

At this stage, there is limited information to support this section of the review, and it is considered disproportionate to conduct an outcome evaluation. However, as above, outputs are being delivered which will contribute towards the intended outcomes.

CMCI is already contributing to the outcome:

- 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.

through:

- the CMCI Innovation Platform (cost neutral) is facilitating private sector input into ICF project development.

- The CMCI funded studies are being disseminated to UK policy makers, the CMCI network and more broadly to international contacts to help inform policy measures and climate finance contributions

To ensure VFM we should work to disseminate the policy risk study to relevant policy makers and investors in the UK and internationally, and continue to promote the findings of the CMCI Guidelines for Investment Grade Policy Making.

CMCI is also delivering the outcome:

- Create new private/public partnerships and new ideas for LCD action

Through:

- the formation of the Global Innovation Lab for Climate Finance – a tangible new public/private partnership that has also secured financial backing from Germany, human resource from 5 other governments, pro bono input from participants and the promise of financial resource from the US in the future - therefore a high value for money for this outcome.

It is too early to tell whether CMCI is contributing to the following outcome: Encourage/facilitate enabling environments to attract and leverage private capital. Furthermore given the scale and resources of CMCI, progress against this outcome will not be assessed.

5.2 Commercial Improvement and Value for Money

Competitive tender for the policy risk study and Lab support ensured good value for money.

5.4 Does the project still represent Value for Money : Y/N

Y

5.5 If not, what action will you take?

6. Project partnerships, sustainability and transformation

6.1 Partnerships

CMCI is a public-private partnership that has proven to be an effective model for engagement that has now been replicated at a global level.

Despite the synergies between public and private sectors in wishing to foster greater investment in low-carbon development, the incentives are not always aligned (profit vs climate change and development impacts) and there is a lack of synergy between the level of information and evidence required by the public sector and the level of detail the private sector is able to provide.

The Global Innovation Lab is an extension of the CMCI public-private model at a global level, and responds to this challenge by providing expertise and analytical resource to develop private sector

proposals.

We should explore opportunities to host CMCI meetings jointly with partners to maintain interest and vary the meetings and reach a broader audience; for example the Institutional Investors Group on Climate Change (IIGCC).

6.2 Transformation

As explained above, **the scale of resources available to CMCI, the expected outputs and direct outcomes are relatively modest.** However, CMCI has the opportunity to effect broader transformation by contributing to the 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.

Through these impacts CMCI is expected to help improve market confidence in low carbon, climate resilient investments in developing countries, by informing and promoting projects that demonstrate a successful track record of investment, to ultimately build a sustainable market for low carbon investment.

Furthermore, CMCI should also influence other donors and multilateral funds to increase funding of instruments that mobilise (leverage) private capital at scale. It will do so through a demonstration effect (informing the effective deployment of climate finance to address barriers to private investment) and by disseminating findings from studies into how to effectively remove barriers to investment (e.g. to other donors to influence their bilateral spend, delivery partners and by informing the UK position regarding the Climate Investment Funds and the Green Climate Fund.

It is worth noting that given there is no specific evaluation of CMCI (detailed monitoring and evaluation would be neither effective nor proportionate given the scale and nature of the initiative) so evidence of effectiveness will continue to be assessed through the annual review process and will also be reliant on broader international monitoring and evaluation of private finance flows.

CMCI performance against ICF transformation Key Performance Indicator

Sub criteria:

- ***Political will and local ownership - Fostering political will to act on climate change***

As described in the 2013 Annual Review, the objective of engaging directly with developing country governments to influence policies was too challenging and incommensurate with the resource allocated to CMCI. Therefore, CMCI will only have an indirect impact on political will to act on climate change, through the demonstration effect of successful climate finance projects, international engagement and the impact of the Global Innovation Lab.

Achieved:

- International engagement – the UK-UAE Clean Energy Finance roundtable in New York and the UK Clean Energy Finance Summit brought together developing country Ministers with major international investors to highlight the opportunities of the low carbon transition.
- We have secured representatives from the African Development Bank (AfDB), the Moroccan

Solar Agency (MASEAN) and the Inter-American Development Bank (IADB) as Principals on the Global Innovation Lab.

Planned:

- The Global Innovation Lab will develop evidence on the impact of climate finance instruments. DECC and the Lab Secretariat will work to engage with developing country representatives in the work of the Lab. Also to look for opportunities to secure a developing country government representative on the Lab.
- Use further opportunities in international fora to engage with developing country governments on the benefits of attracting private investment into low carbon (e.g. UN Secretary General's Leaders' Summit, Global Innovation Lab side event at Lima, Green Climate Fund meetings).

2. Capacity and capability increased - ICF-supported activities enhance local capacity to act on climate change

As described in the 2013 Annual Review, the objective of engaging directly with developing country governments to influence policies was too challenging and incommensurate with the resource allocated to CMCI. Therefore CMCI funded activities will contribute to enhanced local capacity indirectly.

Achieved:

- the CMCI Principals for Investment Grade Policies and Projects encourage and provide guidance on creating enabling environments to attract private investment. These have been shared to CMCI and highlighted at conferences where developing country ministers have attended, including the 2014 UK Clean Energy Finance Summit.

Planned:

- The Policy Risk study provides guidance on creating enabling environments to attract investment in renewables projects (clear policy framework, contracts with state-owned utilities enforceable through law etc), highlights the importance of providing risk mitigation (insurance and guarantees), makes recommendations for enhanced regional development bank activities (provision of guarantees) and to expand the capacity of Africa Trade Insurance. This will be published and promoted in international fora and with relevant stakeholders and delivery partners.
- The Global Innovation Lab will develop proposals for climate finance instruments. The Lab secretariat is already engaging with local partners to develop the instruments. Pilots will further enhance local capacity.

3. Innovative - HMG-supported activities are encouraging innovation and testing new approaches.

The aim of the CMCI Innovation Platform is to test new ideas for climate finance proposals and encourage ideas from the private sector.

The Global Innovation Lab addresses the challenge of developing innovative ideas from the private sector into worked up proposals that can be tested and implemented. The UK has been driving the

development of the Lab alongside other major donors, and has influenced the agreed role of the Lab:

*selecting **innovative** instruments and evaluating and promoting those proposals that hold the most promise for achieving **transformational impact** in spurring low-carbon investment and **channelling private capital at scale**.*

The UK has also influenced the agreed selection criteria for Lab instruments requires that proposals must

*Be **innovative**, demonstrating ability to address risk, cost and liquidity gaps between low-carbon, climate-resilient investments and the high-carbon alternatives in new ways*

Achieved:

- The CMCI Innovation Platform has considered 9 proposals for new climate finance projects and instruments
- The GET FIT project was an idea presented by a CMCI participant and is now being funded through the ICF, with a scoping study being carried out to extend the project
- The CMCI India Solar project was developed from the ideas of the original CMCI working group and was subsequently developed into an ICF business case. However, although the idea was well developed, the project was not deemed implementable and was dropped
- The call for ideas for the Global Innovation Lab resulted in over 80 proposals for new or expanded climate finance instruments being submitted (by the private sector, donors and delivery partners)
- The Lab Secretariat are currently working with Lab advisors to test these ideas to ensure implementability and transformational potential

Planned:

- The Global Innovation Lab will produce detailed analysis on 7 innovative climate finance instruments
- The Global Innovation Lab will produce further detail on the top 2-3 instruments, ultimately recommending 1-2 instruments that **leverage private finance at scale for implementation**.

Project specific indicators:

- Number of new climate finance proposals considered by the CMCI Innovation Platform
- Number of proposals developed by the Global Innovation Lab instruments that are piloted and tested

4. Evidence of effectiveness - Ideas and lessons shared widely.

The CMCI Innovation platform is a forum where officials and private sector participants can share ideas and lessons learned on the effective deployment of climate finance.

The CMCI funded studies are generating lessons on how to effectively leverage private finance and tackle barriers to investment and are being shared widely. CMCI international engagement and events are a forum to share these ideas and learning.

The Global Innovation Lab is producing analysis and evidence on the effective design and potential

impact of climate finance instruments. The Lab membership was designed to include key climate finance donors and delivery partners to influence their spend and activities beyond the work of the Lab by exposing them to evidence on the effective deployment of climate finance. The Lab's reports and recommendations will be shared at high-level events. The Lab Secretariat have developed a website and engagement plan to promote the Lab's activities and share learning.

Achieved:

- The CMCI Innovation Platform has met 6 times to discuss climate finance proposals and studies on the effective delivery of UK climate finance and options to address policy risk in renewable energy projects in developing countries.
- the CMCI Principals for Investment Grade Policies and Projects have been shared to CMCI, published on the decc.gov.uk website and highlighted at the 2014 UK Clean Energy Finance Summit.
- The UK-UAE Clean Energy Finance roundtable in New York and the UK Clean Energy Finance Summit brought together financial practitioners, policy makers, government representatives, delivery partners and project developers to share learning and ideas about how to tackle the barriers to low carbon investment and catalyse private investment.
- The Global Innovation Lab membership includes key climate finance donors, MDBs, DFIs, government representatives, private investors and a project developer (invitations issued by UK minister). The aim is to harness the experience and expertise of actors along the investment chain to share lessons learned on effective instruments and develop proposals that will work

Planned:

- The CMCI Innovation Platform will continue to meet regularly to share learning.
- We will continue to promote the **Principles** for Investment grade policies and projects through international engagement
- The Policy Risk study has generated learning on effectively mitigating risks and will be published and promoted in international fora and with relevant stakeholders and delivery partners.
- The Global Innovation Lab will meet in the autumn (advisors) and early 2015 (principals) to share learning, especially analysis on the shortlist of instruments. Regular advisor level calls are ongoing. The recommendations of the Lab will be disseminated.

Project specific indicators:

- Number of Innovation Platform meetings
- Number of meetings / fora where CMCI funded studies are highlighted and disseminated
- Number of Global Innovation Lab meetings

5. Leverage / create incentives for others to act - HMG-supported activities are creating the incentives for others to act on climate change.

By engaging major investors in HMG policy on climate finance, and international climate policy (through the Innovation Platform and Steering group), CMCI aims to highlight the risks and opportunities of climate change to influence their investment in favour of low carbon. The Innovation

Platform also influences the design of projects that aim to catalyse private investment. The CMCI-funded studies provide evidence on effectively incentivising private investment.

Internationally, the UK has been driving the development of the Global Innovation Lab. The Lab will develop proposals that will spur *low-carbon investment and **channelling private capital at scale***. A key criterion for Lab proposals is that they are: ***catalytic terms of private sector engagement and ability to mobilize private capital at scale***.

These proposals may be appropriate for ICF funding, funding by other donors through bilateral channels, or through the multilateral funds. As well as designing instruments to catalyse private investment, the Lab will therefore influence international deployment of climate finance.

Achieved:

- CMCI Steering group meetings, Innovation Platforms and events (UK-UAE roundtable and Clean Energy Finance Summit) have highlighted to opportunities and benefits of low carbon development.
- The CMCI Innovation Platform has considered 9 proposals aimed at catalysing private investment.
- The Lab has incentivised over 80 submissions for innovative ideas.
- The Lab has a membership of 22 key climate finance stakeholders, who are now engaged in designing innovative instrument to leverage private finance at scale.

Planned:

- Continue to highlight opportunities and benefits of low carbon investment through regular meetings of the CMCI Innovation Platform.
- Continue to hold CMCI Innovation Platform meetings to gain input into the effective design of climate finance projects to catalyse private investment.
- The Global Innovation Lab will produce further detail on the top 2-3 instruments, ultimately recommending 1-2 instruments that **leverage private finance at scale for implementation**

Project specific indicators:

- £ investment by other donors / MDBs/ DFIs / private investors invest in Global Innovation Lab proposals

6. Replicable - HMG-supported activities are being replicated by others.

The CMCI model has gained recognition globally and the public-private partnership model is being **replicated at an international level** in the Global Innovation Lab

Achieved:

- 7 major donors have supported the establishment of the Global Innovation Lab – a public-private partnership based on the CMCI model

Planned:

- Aim is for other donors to fund the Global Innovation Lab from October onwards

7. At Scale

The CMCI Innovation Platform and CMCI international outreach aims to engage major investment to discuss how to achieve private investment in low-carbon at scale.

The CMCI funded studies aim to provide guidance on enabling environments and derisking investment so that scale can be achieved.

The UK has been driving the development of the Global Innovation Lab. The Lab will develop proposals that will spur *low-carbon investment and channelling private capital at scale*. A key criterion for Lab proposals is that they are: - *actionable, with scalability and replicability potential and catalytic terms of private sector engagement and ability to mobilize private capital at scale*. Through its membership, the Lab aims to harness the experience and expertise of major investors (pension funds, major banks, MDBs, DFIs, other major climate finance donors) to design instruments that will leverage private investment at scale.

Achieved:

- The GET FIT project was originally proposed by a CMCI participant, has now received x ICF and the UK is also funding a scoping study to expand the project to achieve scale

Planned:

- The Global Innovation Lab will develop 1-2 instruments designed to leverage private finance at scale.

Project specific indicators:

- £ public finance invested in Global Innovation Lab proposals
- £ private finance invested in Global Innovation Lab proposals

Other ICF projects (that were considered by CMCI) will measure public and private finance leverage so that will not be replicated here.

8. Sustainable - Activities are likely to be sustained once HMG funding ends.

It is unlikely that the CMCI Innovation Platform would be sustainable without human and financial resources from DECC.

The Global Innovation Lab should be **sustainable** once UK financial support has been withdrawn (October); the US have agreed to support the Global Innovation Lab once UK funding ceases; other donor countries have also joined the initiative which might provide an avenue for future funding; there is already interest in the work of the Lab continuing beyond this initial 'cycle'

Indicators:

- Other donors fund Global Innovation Lab secretariat from October 2014 (£ committed)
- £ investment by other donors / MDBs/ DFIs / private investors invest in Global Innovation Lab

proposals

Fostering political will to act on climate change	2
ICF-supported activities are enhancing local capacities to act on climate change	2
HMG-supported activities are encouraging innovation and testing new approaches and ideas	3
HMG-supported activities are creating the incentives for others to act on climate change	1
HMG-supported activities are being replicated by others	3
Activities are likely to be sustained once HMG funding ends.	1

Overall rating on Transformational Key Performance Indicator: 3

1	No evidence yet available - too soon to revise assessment in business case
2	Transformation judged unlikely
3	Tentative evidence points to likely change
4	Clear indication of change - transformation judged likely

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6. Conditionality
<p>6.1 Update on specific conditions</p> <p>N/A</p>

7. Lessons learned, conclusions and actions
<p>Earlier lessons learned on the ability of CMCI to engage directly with national governments, and the subsequent development of the Innovation Platform, are described in 2013 Annual Review.</p> <p>The experience of the Innovation Platform has provided valuable lessons and learning.</p> <ul style="list-style-type: none"> - The CMCI Innovation Platform has proven a successful public-private forum, resulted in constructive discussion and input into UK climate finance proposals presented by HMG, and retained strong participation. - CMCI has remained flexible and responsive to the interests of CMCI participants and the needs of government officials; supporting studies of interest to participants to provide an evidence base for government action and to inform ICF spend, and supporting the Global Innovation Lab to help get private sector proposals 'off the ground' (see below) - Once established, the CMCI Innovation Platform has required less DECC resource than previously envisaged - The remit of the Innovation Platform to ensure <i>HMG Testing of Proposals from CMCI participants</i> has revealed that there are few, well-developed ideas for climate finance instruments that originate in the private sector and that fulfil the criteria for ICF funding (evidence base, broader impact, compatibility with ODA requirements, sustainability without public subsidy). - The exception to this was Get FiT which was presented at a CMCI meeting and subsequently funded through the ICF with a scoping study for an extension also underway - The one other idea that did get taken forward for further development (India Solar CMCI) had inherent issues that could not be resolved - Policy Risk is a complex and contentious issue. The proposal for a bespoke insurance mechanism to address policy risk could result in moral hazard and would take a great deal of time and be costly to set up. Existing mechanisms could be improved (political risk insurance and partial risk guarantees). The extent to which policy risk is putting off investors in developing countries has been over-perceived. - There is appetite globally for public private discussions, as proven by the strong, high-level attendance at UK-UAE Clean Energy Finance Roundtable and at the UK Clean Energy Finance

Summit and the successful establishment of the Global Innovation Lab.

Actions:

- Maintain Innovation Platform model to engage with the private sector.
- Ensure HMG officials use this resource to test ICF proposals and communicate government action as a result of CMCI to participants.
- Ensure Innovation Platform remains responsive to participants' interests by regularly seeking feedback and acting on requests.
- Meetings:
 - o Ensure active chairing to guide the discussion towards specifics and away from generalities
 - o Encourage presenters to focus on key questions, rather than a generic presentation of the project.
 - o Explore opportunities to host CMCI meetings jointly with partners for example an event jointly with the Institutional Investors Group on Climate Change (IIGCC) reach a broader audience
 - o Explore the option of guest Chairs and break-out groups to maintain interest and engagement vary the meetings.
 - o Allow sufficient time for networking
 - o Consider discussing broader climate finance issues more frequently, as well as specific projects; this could also help indirectly influence investment policies (although to note this already takes place in CMCI steering group).
- Circulate CMCI Rules of Engagement to be circulated to HMG and CMCI participants.
- Use opportunities to promote CMCI in the UK and internationally, and within government.
- Continue to ensure CMCI feeds into its work and work to support the Global Innovation Lab and maintain strong UK role to ensure alignment with ICF objectives
- Ensure findings of the Principles for Investment Grade Policy and Projects and the policy risk study are disseminated to other donors and delivery partners
- Remain open and responsive to using CMCI resources to support further studies to inform the effective delivery of UK Climate Finance

8. Review Process

Conducted by: Julia Ellis

Cleared by SRO:

Reviewed by: Maya Freedman

Sources used:

CMCI survey (internal and external)

Policy risk study

CMCI 2013 Annual Review

Annexes:

Annex 1: CMCI Theory of Change updated in light of this review

Annex 2: CMCI Survey results – private sector participants

Annex 3: CMCI Survey results – HMG officials

Annex 4: UK-UAE Clean Energy Finance New York roundtable meeting note

Annex 5: UK Clean Energy Finance meeting note