<table>
<tr><td>Short title</td><td>ICF KPI 12: Volume of private finance mobilised for climate change purposes as a result of ICF funding

Please note that this methodology had some minor changes made to it in August 2016. These are largely clarification points around definitions in line with the Technical Working Group (2015) common understanding of the scope of mobilised climate finance and developments at the OECD DAC and other international organisationsattribution rules.</td></tr>
<tr><td>Type of indicator</td><td>Cumulative (individual years summed to total): report annual in-year totals only i.e. the amount legally committed in that year, summed at the end of the results template (logframe) to give a cumulative total for the current spending review period, the life of the programme and where results will occur outside the life of the programme for total programme benefits.</td></tr>
<tr><td>Key reporting requirements</td><td>Below is a list of key reporting requirements to keep in mind when making your returns. Further details are available in the text below:

<table>
<tr><th>Requirement</th><th>Summary</th></tr>
<tr><td>Is this a DRF indicator?</td><td>No</td></tr>
<tr><td>Available for reporting?</td><td>Yes</td></tr>
<tr><td>Methodology changes?</td><td>Yes</td></tr>
<tr><td>Units</td><td>£ legally committed in the 12 month period
(Note for future reporting to the UNFCCC, the unit will also be USD, this conversion will be done centrally).</td></tr>
<tr><td>Attribution</td><td>Pro-rata share of public funding, (with some nuances in the event finance is taking a higher or lower risk than others – see below)</td></tr>
<tr><td>Disaggregation to be reported in results templates</td><td>• Origin of finance (i.e. domestic vs international private finance in recipeint country)
• Theme finance is supporting (adaptation, mitigation, or both)</td></tr>
</table>

This KPI also provides a measure of the UK’s contribution to the UNFCCC commitment made by developed countries to jointly mobilise $100 billion of public and private finance per year by 2020, to help developing countries respond to climate change.
Future UNFCCC accounting modalities and reporting requirements for mobilise private finance are still under negotiation, however the methodology of this note reflects our best understanding to date of the likely accounting and reporting requirement.</td></tr>
<tr><td>Technical Definition / Methodological summary</td><td><u>Definition of private finance?</u>

Private finance transactions are defined as those from non-public sources such as banks (but not multilateral or regional development banks- MDBs), private companies, private or company pension funds, NGO money, CDM financing, voluntary carbon credit market, insurance companies, private savings, family money, entrepreneurs’ own capital and sovereign wealth funds. It includes all types such as equity, debt and guarantees.

It does not include donor money, aid-agency government money, money from MDBs or RDBs or funds from CDC.

The exact classification of actors - and their finance - as private should be exclusive of finance reported as public, in line with the OECD DAC definition for official transactions: Official transactions are those undertaken by central, state or local government agencies at their own risk and responsibility, regardless of whether these agencies have raised</td></tr>
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the funds through taxation or through borrowing from the private sector. This includes transactions by public corporations i.e. corporations over which the government secures control by owning more than half of the voting equity securities or otherwise controlling more than half of the equity holders' voting power; or through special legislation empowering the government to determine corporate policy or to appoint directors. Private transactions are those undertaken by firms and individuals resident in the reporting country from their own private funds[1].

<u>Origin of private climate finance?</u>

Private finance can be from both developing country institutions e.g. the local banks or entrepreneurs in the beneficiary country and developed country institutions such as international venture capital funds, international banks or multinational entities.

The UK Government takes the view that it is important to mobilise all types of private finance, reiterated by the donor Technical Working Group (2015b) that data should track "*both domestic and international private flows mobilized by a developed country public intervention".* However for the purpose of tracking the USD 100bn goal, *"Where possible, the group agreed to aim to indicate where flows originated, using international standard based on Foreign Direct Investment statistics definitions, which relies on the residence principle as defined by the balance of payments[2]".*

For this reason, for reporting on this KPI it is requested that project leads disaggregate the two types (domestic and international) as much as possible.

<u>Recipients of private climate finance?</u>

Developing country recipients of public fiannce are definied as ODA eligible countries (based on the OECD DAC list, which is periodically reviewed). [3]

<u>Climate definition: What do we mean by 'for climate change purposes'?</u>

Finance is defined as climate change-related based on the OECD DAC Rio Markers definitions for climate change adaptation and mitigation. All ODA spend is qualitatively assessed and 'tagged' under these definitions for ODA reporting, and these headline definitions are internationally recognised and drawn on by many other organisations and parties in their reporting on climate finance.

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

[1] OECD DAC (2013), "Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire", OECD. Paragraph 13. www.oecd.org/dac/stats/documentupload/DCD-DAC(2013)15-FINAL-ENG.pdf

[2] See for example http://www.imf.org/external/np/sta/bop/BOPman.pdf

[3] Note – whilst the classification of "developed" and "developing" countries is unclear in the context of the UNFCCC 100bn goal, however most donors, including the UK to date have for the prupose of their individual reporting to UNFCCC defined developing countries as ODA eligible countries.

	that… intends to reduce the vulnerability of human or natural systems to the impacts of climate change and climate-related risks, by maintaining or increasing adaptive capacity and resilience. This encompasses a range of activities from information and knowledge generation, to capacity development, planning and the implementation of climate change adaptation actions. For further information on the OECD DAC definition, eligibility criteria and indicative guidance please see the references noted below. Definitions and eligibility criteria from other relevant international organisations (e.g. Joint MDB Typology of Mitigation Activities, and the Intergovernmental Panel on Climate Change (IPCC), may also be appropriate to apply. In addition, climate finance should exclude finance for coal-related power generation, except if related to Carbon Capture and Storage and/or Carbon Capture and Use (based on TWG, 2015). **<u>Quantification: How should private finance be quantified?</u>** All financial instruments are accounted for at cash face value, i.e. the full cash value of a loan committed (based on TWG, 2015). In terms of the amount of finance reported you should exclude any part of the project which is easy severable and not related to climate change e.g. if the project is working with SMEs around improving their practices generally to achieve cost-savings but some of that includes energy efficiency then you should only include that part which relates to energy efficiency. In addition other finance from individual countries and organisation's may have their own approaches to quantifying the climate-specific volume of an activity, i.e. in line with individual party reporting to the UNFCCC and the joint MDBs' climate component approach, which should be followed. **<u>Definition of mobilised?</u>** Mobilised is often also referred to as leverage. It is 'the process which occurs when the use of specified resources for a given objective causes more financial resources to be applied for that objective than would otherwise have been the case'. These are additional funds mobilised by HMG public finance or public policy intervention, including technical assistance to enable policy and regulatory reform. In accounting for mobilized private climate finance, the amount of private finance mobilized <u>should be assessed on an activity-by-activity basis</u> and to report on private finance associated with activities where there is a <u>clear causal link between a public intervention and private finance</u> and where the activity would not have moved forward, or moved forward at scale, in the absence of the UK Governments' intervention (TWG, 2015). Mobilised resources need to be estimated based on boundaries in order to define the scope and account for the total private finance that could be associated with different public interventions (Jachnik *et al*, 2015). Typically this are best established at project-level, according to different

	instruments. For example: • Project-level boundaries for grants, loans and syndicated loans. For example, upfront project level financing i.e. resources committed to the project from the private sector at the time of project approval. Or subsequent financing below the point of UK investment i.e. resources mobilised after the project has been operating e.g. commercial banks or venture capital funds finance a project part-designed or financed by HMG. • For other types of financial instruments, such as guarantees and collective investment vehicles, the precise boundaries will vary according to the level and quality of available data, as well as causality considerations based on conservative approaches. • Private finance mobilized by policy support should be included, to the extent that data exists and that a causality link can be demonstrated, and fairly taking into account public finance and policy support provided by developing countries themselves. **Causality/additionality: What do we mean by "as a result of DFID/HMG funding"?** This means that the finance would not have been brought into the climate change project (or another related climate change project) if HMG had not contributed or participated. This is also referred to as "additionality". In some cases HMG is accelerating or supporting the private markets and some private finance of climate change would have happened anyway. This is often referred to as the "Business as Usual" (BAU) case or baseline which needs to be developed in order to calculate the additional finance to report. Working out this BAU case can be difficult (see below in the Calculation Method section). If a project receives both ICF funding and other funding in UK Government e.g. PSD, country office then all the amounts mobilised should be reported. **Attribution: What if there are several donors, can HMG claim all the private finance mobilised in the project?** In many instances HMG may be acting alongside a group of other public donors or multilaterals who are also putting money in. In this instance HMG should only claim mobilisation of that particular proportion of funding which can be strictly attributed to its pro rata public financial share of the project. This issue is sometimes referred to as the problem of "attribution". See the example below where HMG is working with multi-laterals. It is however relevant/key to note the total sum of money that is mobilised and for this reason the total and the attributed amounts should both be reported. **What about projects which HMG has indirectly influenced e.g. replication projects?** These are too remote for HMG to claim to have mobilised the private finance. They will be captured via other indicators/evaluations.

	<u>Which currency exchange rate to use?</u> Most project financing plans and data sources currently report international finance flows in USD ($). Finance is to be reported in GBP (£) for this KPI. The appropriate exchange rate to apply depends on the information available. As such, we propose the following hierarchy: 1) Use the exchange rate for the specific transaction, converting the currency on the rate at the time the finance was committed, if formalised/known; or, 2) Use the OECD exchange rate: The basis of measurement in DAC statistics is the US dollar. Data reported to the OECD DAC in other currencies are converted to dollars by the Secretariat. The list of exchange rates is published[4] annually and represents an average of the yearly exchange rates. These are however only for donor currencies, therefore, for other currencies; 3) Use the HMRC Average Annual spot rates for the year[5]. Note that future reporting to the UNFCCC will be on a USD basis. Where original information is in USD please report these finance flows also, else conversions to USD will be applied centrally.
Rationale	The UK Government needs to ensure that it uses taxpayer money effectively and does not over-subsidise a project or crowd out private finance. Therefore for each £1 it spends it wants to ensure it mobilises the maximum amount of private sector money. This is something that we should report. In addition developing countries committed in the UNFCCC to jointly mobilise a private and public sector money ($100bn per year) for developing country climate change. HMG therefore wants to be able to ensure that private sector money that it has mobilised via its initiatives is reported where appropriate to the relevant body and attributed to it. The amount of private sector money that can be mobilised versus the £1 of HMG money spent can be represented as a **<u>mobilisation</u>** or **<u>leverage ratio</u>** e.g. 1: 3 means that for each £1 of DFID money spent or invested in a project £ 3 of private money is mobilised. See below under "Good Performance" for more information on leverage ratios.
Country office role	This will need to be done by country offices and other central departments e.g. PSD department and Regional Department programmes.
Data sources	Data may be available from the beneficiary or the implementer of the programme. Ideally the duty to collect data should be imposed in contracts on the recipients of aid or donor subsidy/funding.

[4] http://www.oecd.org/dac/stats/data.htm (under Data Tables)

[5] https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/518917/average_spot_rates_310316.csv/preview

	Data on private sector mobilisation is not stored on Aries.
Reporting organisation	DFID, and future UNFCCC reporting requirements. Also relevant to OECD DAC who are currently surveying and trialling the reporting of private finance
Formula/Data calculation (including attribution rule)	1. Identify HMG finance contribution 2. Identify private finance contribution from various sources (debt, equity, etc). Exclude MDB and public finance 3. Distinguish between Developed Country and Developing Country private finance so far as possible. 4. Identify what would be the “Business as Usual” (BAU) case i.e. what funding would occur without HMG’s intervention. This can be difficult to do and will likely involve some estimation. See examples below – such as example 3. Where appropriate, as the programme progresses the estimated BAU should be revised via the actual amount of activity outside of HMG initiative. This will not always be possible if HMG’s initiative has a demonstrating or influencing effect. For example if the effect of HMG part-financing and doing the regulations for a new solar plant is that other solar plants follow, these plants might not be BAU and therefore should not be counted as BAU. 5. Subtract the BAU from the private finance contribution to identify the private finance attributed to HMG. Report the two amounts separately. 6. Where there are other public finance sources involved e.g. MDBs, other donors, make sure that HMG is only attributing private finance pro-rated to its funding contribution (with adjustments where appropriate for the risk/duration of HMG funding – see example 4 below) . Report the HMG amount separate to the other public sector/MDB finance sources. See the Worked Example below for attribution examples. 7. If the project relates to more than climate change then apply appropriate deductions to non-climate change elements where they are severable. **Fund-level attribution** (i.e. at point of UK investment) should be applied for reporting expected and actual results and headline results/figures used in Business Cases (to ensure all projects can report on a consistent basis). This method involves sharing results across all donors that contribute to a fund. All results are attributable to the relevant fund (e.g. CIFs, CP3, GAP) regardless of whether these funds blend with other sources of finance in implementing projects at levels below the point of UK investment. For example, if the UK invests £25m into a fund that totals £100m of public money, the UK would claim 25% of the results from that investment. This applies to all results. The long term ambition is to develop the data availability to enable all projects to use the lowest/most direct level of attribution possible in the future (i.e. project level). Therefore, advisers should be working to develop sufficient data to calculate project level results reports, and where

	possible, provide this information now alongside headline Fund level results. To note, the distinction between attribution at the project level and at the Fund level (or at point of UK investment) is only an issue where the UK is investing in funds where there are multiple investment levels.
Worked example	1. DFID provides funding to an NGO towards the cost of a cookstove supply programme. The NGO uses private cookstove suppliers and has signed an arrangement with a micro-finance institute to provide loans for the end-purchasers. Private finance exists from: <u>Supply side</u> a) NGO subsidy if it has supplied cookstoves at less than cost – total amount charged less than cookstove cost. Note that this NGO subsidy can only be counted as private finance if the source of its funding is private (as opposed to Government or donor contributions). If the NGO is just acting as a contractor of HMG without putting in any of its own money then no private finance is leveraged from the HMG itself. b) Local bank that provides finance as a business loan to the cookstove suppliers – value of loan. Cookstove supplier's own cash flow financing for the project (this may be hard to estimate and you should be careful not to double count any cash flow from the <u>Purchasers</u> Loans by the local micro-finance institute for purchasers. If the loans provided by the micro-finance institute were partly using a facility or a subsidy or guarantee from a third party donor e.g. KFW, then these should not be counted as KFW would want to attribute this as their mobilised finance. 2. DFID provides a challenge fund for small businesses to bid for grant funding. The businesses must provide matched funding for the grant and submit the business plan. If the matched funding would not have been available without the DFID funding or would not have been invested in climate change then we can count it as finance mobilised. If on the other hand it is internal finance that was already in the company for investment and that investment would have been in the climate change area and would have occurred anyway, it should not be counted. It will be necessary to review the amount disbursed and the amount claimed in the recipients' business plans as additional funding. For example DFID gives a German based solar battery producer a £200,000 grant. The solar battery producer also has been promised a grant from another prize/challenge fund of £100,000 .The solar battery producer has been operating for 1 year. To date the two owners of the company have put in £100,000 and intend to put in another £150,000 over the next 2 years plus they will not take any salaries for a further 1 year (representing another £80,000 total of

	contribution). If their business plan is successful in 3 years time they hope to get a seed capital company to invest up to £1m. The owners initial £100,000 cannot be counted as this is arguably BAU. The additional £150,000 can be counted if the business owners show that they otherwise might have shut down the company or not bothered to make further investment. If the foregone salaries are realistic and are all on this project we believe that this can be counted as in practice this amounts to the same as taking a salary from the company and investing. So the total private finance leveraged is £280,000– all attributed as developed country finance. However the other challenge fund could also be taken to have mobilised 1/3 of this money so DFID should only attribute £75,900 for this particular grant distribution. When the project is first designed, predicting the private finance mobilised will need to be done on the basis of estimates and any requirements in the challenge fund terms and conditions. 3. DFID underwrites a micro-finance institute programme for £5m of loans by providing a facility to underwrite 50% of a loan default capital. Although the private funding mobilised is £5m with a leverage of 1:1 on first glance, it should also be taken into account that at least some of the loans might have been disbursed without the facility. An estimate should be made of this BAU by reference to other programmes and the nature of the loans. For example many micro-finance houses are already lending on cookstoves etc indirectly Let's suppose that 30% of loans are the BAU, then the DFID mobilised capital is 70% or £3.5m in this example and the ratio is 1:0.7 The amount mobilised may be more if the guarantee is revolving fund where the guarantee can cover new loans when old loans are repaid. For example if the loans are 2 year loans and the guarantee fund lasts 4 years then the leverage ratio is 1:1.14. The report should show whether the microfinance institution is a purely local developing country one or developing country e.g. owned by for example a multinational e.g. FINCA, ProCredit etc 4. DFID provides a £5m 12 year subordinated loan to a £80m energy infrastructure project via PIDG and International Finance Corporation (an MDB) is providing a £10m equity (for estimated 12 years). African Development Bank, also an MDB provides a £5m 6 year senior (priority) loan. The total public finance is £20m, so DFID can only claim a portion of the private finance mobilised as the MDBs have also mobilised a proportion. The question is whether the private finance mobilisation claim should be shared out equally among all the public bodies. It may make logical sense to weight the longer period of the equity (especially as it is higher risk) and loan as being worth 2x the African Development Bank's 6 year loan period. This would give DFID a 28.6% share of the private finance mobilised (the total of which is which is £60m) so DFID can claim it has mobilised £17.14m. The leverage ratio of public to private generally is 1.3. DFID's ratio is also 1:3 whereas African Development Bank has a lower ratio (as it has put in a less risky, shorter public finance element) The report (plus workings) could be as follows:

Public finance			**Private finance mobilisation**		
		invested £	**weight**	**adjusted**	**%age**
IFC	equity	10	2	20	57.14
ADB	7.5 year loan	5	1	5	14.29
DFID	12 year loan	5	2	10	28.57
Total		**20**		35	100.00
Private finance					
bank loans	developing country bank	20			
project owner equity		40			
		60			

More information. See the document produced for the OECD on the LCD Teamsite (under Private Finance) authored by Ockenden, Warrander, Eales and Streatfield for more concrete examples of private sector leverage calculations from actual ICF projects.

Most recent baseline	The baseline should reflect the situation prior to ICF funding being provided. For long running programmes i.e. programmes running prior to 2010 the baseline should be taken as 2010, unless otherwise stated.
Good performance	The amount of private finance mobilised compared with the HMG investment or the leverage ratio will vary depending on the project and context and to some degree on the financial instrument. Leverage ratios are a direct corollary of risk and return for the private sector. With projects and countries which the private sector regard as more reliable such as tried and tested infrastructure in Mexico, China or South Africa a leverage ratio of 1:8 may be possible. Where the project targets directly supply to the poor who can provide less financial return or the project is in a high risk country such as a fragile state or supporting higher risk early stage start-ups, then leverage ratios of 1:1 or less are common and in effect DFID's subsidy is greater. Some instruments such as guarantees or "Fund of Fund" equity may result in higher leverage ratios because of the way they work to mobilise large amounts of capital. It would however be inappropriate to just use these kinds of facilities. Each piece of finance in a chain and each instrument has an important role to play and DFID should not focus on any one instrument but needs to be complementary to other funders and to recognise their strengths and constraints. For these reasons leverage ratios should not be used as a policy steer. We are using them purely to be able to track and report on the level of private climate finance mobilised, and to compare projects and policy options which are quite similar and to get a general guide for different project types, as appropriate.
Return format	Quantity of public finance mobilised (£), with explanatory text justifying assessment of additionality. For further disaggregation information see below.

Data dis-aggregation	<u>Data to be disaggregated and reported in the ICF results template:</u> - Origin of finance i.e. domestic or international finance in recipient country - Theme finance is supporting i.e. adaptation, mitigation or both. - Reported in GBP but also in USD, if original information is in USD and readily available. <u>Data to be disaggregated as part of workings and Quest number provided:</u> Disaggregation of the following variables will <u>not</u> be collected as part of the ICF results template. Please include disaggregated data in your working documents and record the Quest number for these documents in the ICF results template. - Origin of finance, detailed breakdown of origin above i.e. which donor/partner government finance came from - Type of finance e.g. non-concessional debt, debt financed through grant funds, equity and guarantees, donor financed climate funds etc..
Data availability	Ideally mobilisation reported when first “legally committed” by the private sector e.g. if the private sector signs a loan agreement or investment agreement (as opposed to when the private sector disburses the amount) . Any reports for the same project should only be of new finance mobilised or indicated as corrections (with references back to previous years). Be careful of-reporting the same private finance twice. The template document should show finance committed in the year to date and then there is a cumulative total. Implementers and beneficiaries of projects should be required to report this data in their contracts and the indicator should be included in the logframe.
Time period/ lag	See immediately above Most private finance takes time to be raised or contributed e.g. a power plant may take time to befinanced. The initial estimates in the business case which are reported should show predicted and then for corrections/actuals see above.
Quality assurance measures	Sufficient background data in the Return should assist with Quality Assurance. Note that as other donors may be reporting this data back to OECD/DAC or IFCC in due course (as yet no reporting procedures are in place) so it is a good idea to liaise with them when you are on a multi-donor project or working with multi-laterals. Your workings document with Quest number should show other donors and your methodology for BAU. If reporting officers have any concerns about the quality of data or any points that they think CED should be made aware of, then please note this in the ICF (and DRF) results templates. Any comments can usually be added into the free text columns on the far right of each template. Further guidance should be available in the commissioning note.
Data issues	Inevitably the assessment of BAU and mobilisation involve some

	subjectivity.
Additional comments	Key references: Technical Working Group (2015b), "Joint Statement on Tracking Progress Towards the $100 billion Goal". Paris, France, 6 September 2015[6]. Technical Working Group (2015b), "Accounting for mobilized private climate finance: input to the OECD-CPI Report", September 2015[7]. Jachnik *et al* (2015), Estimating mobilised private climate finance: Methodological approaches, options and trade-offs, OECD Environment Working Paper No. 83[8]. UK HMG Working Paper (2012): A project level approach to forecasts and monitor private climate finance mobilised[9]. Attached with methodology notes. OECD DAC (2013c), "Converged Statistical Reporting Directives for the Creditor Reporting System (CRS) and the Annual DAC Questionnaire – Addendum 2"[10], Annex 18 Rio markers. [NOTE THERE IS EXPECTED TO BE AN UPDATE.. – FOR DFID TO UPDATE] OECD DAC (2016), "Indicative table to guide rio marking by sector/sub-sector: Climate change adaptation and climate change mitigation"[11]. Joint-MDB (2015a), "Common Principles for Climate Mitigation Finance Tracking"[12] Joint-MDB (2015b), "Common Principles for Climate Change Adaptation Finance Tracking"[13]
Leads	Statistical advisor: Alex Feuchtwanger (DFID) a-feuchtwanger@dfid.gsx.gov.uk Subject matter lead: Seb Meaney (DFID) S-Meaney@DFID.gov.uk

[6] https://www.newsd.admin.ch/newsd/message/attachments/40866.pdf
[7] http://www.bafu.admin.ch/dokumentation/medieninformation/00962/index.html?lang=en&msg-id=58589
[8] http://www.oecd-ilibrary.org/environment/estimating-mobilised-private-climate-finance_5js4x001rqf8-en
[9] https://www.oecd.org/env/cc/2012_UK_Approach_paper.pdf

[10] www.oecd.org/dac/stats/documentupload/DCD-DAC(2013)15-ADD2-FINAL-ENG.pdf
[11] http://www.oecd.org/dac/environment-development/Indicative%20table%20to%20guide%20Rio%20marking%20by%20sector.pdf
[12]http://www.worldbank.org/content/dam/Worldbank/document/Climate/common-principles-forclimate-mitigation-finance-tracking.pdf
[13] http://www.eib.org/attachments/documents/mdb_idfc_adaptation_common_principles_en.pdf