Management Response & Recommendations Action Plan

Evaluation Report Title:

Climate Public Private Partnership (CP3) Monitoring and Evaluation

Mid-term evaluation

Response to Evaluation Report (overarching narrative)

HMG welcomes the findings of the Mid-Term Evaluation of the Climate Public Private Partnership (CP3) which started in 2010 and runs to March 2026. Through working with two private equity funds and a technical assistance facility, the programme aims to increase low carbon investment in renewable energy, water, energy efficiency and forestry in developing countries. It seeks to demonstrate to private investors that investing in Low Carbon and Climate Resilient (LCCR) companies in developing countries is not only ethically right but can deliver commercially viable returns as well. Through this demonstration effect CP3 also seeks to catalyse new sources of finance, such as pension and sovereign wealth funds, to flow into climate mitigation and adaptation. CP3-supported funds are expected to increase clean energy generating capacity, reduce greenhouse gas (GHG) emissions, increase resource efficiency and support jobs.

As a learning programme, evaluation was central to its design as set out in the business case. This mid-term evaluation is an opportunity to:

1. **Assess the success of the CP3 programme** in driving low-carbon, climate resilient growth in developing countries.
2. **Test whether CP3 delivers transformational effects**. Transformational effects take place when CP3 activities demonstrate to the private sector that climate investment is commercially attractive and when CP3 activities build mechanisms and enabling frameworks that help sustain a transformation over the long term.
3. **Test the theory of change model** and its underlying assumptions. Due to the innovative nature of CP3, the monitoring and evaluation agents will pay particular attention to learning about the effectiveness of utilizing PE to catalyse private investment and through it, deliver development and environmental benefits.
4. **Capture the results of the programme** through on-going monitoring as set out in the logframe and, if required, make changes to the logframe to ensure that performance and results of the programme are captured and recorded appropriately.

This evaluation concluded that CP3 had demonstrated how private equity can be an effective vehicle for delivering climate finance at scale. The learnings from CP3 have been significant and can help other organizations design more effective programmes and provide new types of instruments to mobilise LCCR investment whilst achieving a balance of additionality and leverage. CP3 is recognised as a very innovative programme and HMG's role is seen as critical to the establishment of the PE funds, where it helped shape their strategies and was also important in bringing in other public investors to the funds.

However, the evaluation also highlighted the weakness of broad mandates in increasing investment in specific, and oftentimes more challenging sectors. This was particularly evident when seeking to achieve specific objectives e.g. in adaptation which required specialist knowledge not available using the generalist climate funds, and where there was a pronounced imbalance in the flow of investment. It also noted that there is a need for complementary investment vehicles for the gaps that CP3 does not fill (for example

very early stage finance in addition to SCAF, specialist programmes to target financial and non-financial needs and programmes which are more reactive). Furthermore, while the evaluation notes that there are signs that CP3 is having transformational effects, it is too early to understand or assess its long-term outcomes.

The key findings from the report are summarised below:

1. Overall, CP3 investments have generated the outputs, outcomes and impacts expected in the CP3 Theory of Change (ToC). ACP and CF portfolio funds have made 77 investments in companies and projects to date. The portfolio is much more skewed towards mitigation than originally anticipated, with adaptation making up only 2% of the portfolio, significantly less than the 15-30% expected. CP3 investments have produced development impacts that exceeded expectations, deploying a total of 3,989 MW of RE capacity, creating 8,758 jobs, and avoiding 4.5m tons of CO_2 emissions. Further, CP3 helped leverage US$9,164m of public and private investment, with 73% coming from the private sector[1]. Overall, the CP3 investment portfolio shows a definitive shift from business-as-usual (BAU) investment trends with a much stronger focus on lower-income countries compared to global averages, demonstrating additionality. Nonetheless, there is still a large portion of investments occurring in countries already receiving significant amounts of private investment.

2. CP3 is likely to contribute to solving key investment barriers in least developed countries and lower middle-income countries in which it invested. At inception, the CP3 programme and its theory of change sought to address key barriers to low carbon development that had been identified at that time. Since the programme started, some markets have rapidly advanced – particularly renewable energy in China and India, which means CP3 is providing less value there. CP3 adds more value to investments in least developed and lower middle-income countries in which it often provides majority shares of the equity capital. To remain relevant and additional, the fund managers should continue expanding to regions where there is less private sector interest and presence.

3. Investments have mostly occurred within the sectors outlined in the investment mandate of the business case and have applied the level of control envisioned. The majority are in the sectors and countries outlined in the business case, albeit with some receiving a lesser share than expected. The need to demonstrate success has influenced the overall risk profile of the portfolio and has generated a balanced portfolio. The level of control applied has been aligned with business case expectations, for example investments have been fully compliant with ESG standards. There is limited evidence that HMG encouraged further development of ESG safeguards because the main funds – CF and ACP - were subject to the strict standards from IFC and ADB. However, the funds themselves have contributed significantly to the dissemination of ESG standards, and the creation of new policies and capacities to support their implementation.

4. CP3 played a cornerstone role in the establishment of ACP and CF, generating structures that brought together an "ecosystem" of institutions supporting LCCR investments in emerging markets. HMG was a critical player and first mover in the establishment of the two main funds and provided the impetus to experiment with a new

[1] *It should be noted that these are gross results on a non-additional and non-attributed basis and are different than what is used for the UK's ICF results reporting.*

way of delivering ODA together with the private sector to support LCCR development in emerging countries. The evaluation found that the ecosystem had participation from more than 90 public investors, 12 PE funds, more than 140 private investors and 77 different companies and projects which collectively generated more than US$9bn in investment to-date.

5. CP3 delivered Value for Money for HMG. Inputs such as the management fees and administration costs are in line with other programmes and represented value in terms of the outputs achieved for the KPIs. CP3 has relied on the implementation of effective and robust governance and management systems to generate results as anticipated. While these have been important, implementation of appropriate systems may have contributed to delays in deployment of capital. Monitoring and management systems have been effective in capturing a comprehensive view of the portfolio results, which is challenging given the diverse nature of the investments and the experience and incentives of CP3 stakeholders to generate reporting. However, there remain challenges around the quality and availability of data.

6. Evidence of CP3's contribution to improving fund managers' capacity to undertake LCCR investments is very limited. Through SCAF, CP3 has supported development companies focused on LCCR in emerging markets which provides pipeline to support further climate investment. However, the impact of SCAF is limited by its size. At this stage, no fund managers supported by the CF are fundraising for direct follow-on funds, which would be a clear indicator of success. The IFC is in the market testing stage for a potential follow-on fund, albeit with a broader mandate than climate change. We also heard from two funds that they are seeking to move away from the LCCR investment space.

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Recommendations	Accepted or Rejected	If "Accepted", Action plan for Implementation or if "Rejected", Reason for Rejection
How HMG could leverage the learnings from CP3 to produce wider impacts in the market and support transformational change		
1. **Communicate and share the lessons of CP3 widely to increase demonstration effects and impacts.** A key barrier identified in the CP3 business case is the lack of information on clean investment in CP3 target markets. There is a wealth of information emerging from the CP3 evaluation which could address this barrier.	Accept	As per HMG's commitment to aid transparency, this evaluation has been published on DevTracker and is, therefore, accessible to any interested parties. CP3 was intended to be a learning programme and, over the next 6 months the UK will consider ways to share the lessons to a wider section of interested parties through, for example, cascading the findings through partners.
2. **Continue to monitor and evaluate CP3 to support lesson learning.** CP3 M&E has created valuable insights into the impacts and effectiveness of private equity programmes. Continue carrying out monitoring and evaluation and work towards understanding longer-term, transformational changes in the next phase of the evaluation.	Accept	The programme design envisaged continuing monitoring and evaluation throughout the life of the programme, including a further mid-term evaluation and a final evaluation, designed to capture longer term, transformational changes. We will ensure that this is followed through. In addition, we will continue to commission case studies on particular areas of interest. Lesson learning from the programme has already been incorporated into further HMG interventions.
3. **Consider opportunities to replicate or scale SCAF.** SCAF's focus on early stage financing and technical assistance addresses an important gap that private equity funds are not able to fulfil. HMG could support the establishment of SCAF Phase III, further supporting SCAF partners which is a vital part of building pipeline	Accept	As has been recognised in the evaluation CP3 was not meant to, and cannot, address all investment gaps in the market. However, HMG recognise the need to fill the gaps in the market where possible to do so. For this reason, we are currently engaging with SCAF with a view to providing more funding down the line to assist in scaling this element of the programme.

for private investors. There continues to be a significant lack of “investment ready” projects in the market.		
4. Support high quality reporting on climate finance and climate and development outcomes. The UK, as a major climate finance provider with a strong reputation for monitoring and reporting has the opportunity to help improve global standards. There are also opportunities to support knowledge and understanding of contributions to sustainable development goals and climate mitigation scenarios	Accept	The UK has set the highest standards internationally in reporting on climate finance, and we would wish to see this leading to a change in practice by others. We have played a key role in enhancing climate finance reporting requirements under the UNFCCC through negotiations on the Paris Agreement Rulebook, which will for the first time see reporting to the UNFCCC on private finance. As these requirements are implemented, the UK will continue to be an advocate of enhanced climate finance transparency globally. The UK has contributed to developing cutting edge methodologies for accounting for mobilised private finance which incorporates concepts such as additionality, including through programmes like CP3 and initiatives like the OECD Research Collaborative on Tracking Private Climate Finance. It aims for transparency for its reporting for International Climate Finance, and through the CP3 programme has published cutting edge methodologies for incorporating concepts such as additionality. It will continue to look for opportunities to influence global standards to ensure both rigour and cross-comparability. The UK’s ICF monitoring and evaluation framework includes programme and portfolio results reporting frameworks, internal annual reviews of all programmes, and several independent evaluations at both programme and portfolio level. The UK’s ICF is subject to scrutiny from the Independent Commission for Aid Impact (ICAI) that review our ODA spending and its development impact. Our approach has received praise from ICAI, which stated in the 2019 review that ‘The UK has made an important contribution to promoting better results measurement across the international climate finance architecture’ and that ‘The UK has been a consistent champion of results measurement… encouraging its multilateral partners to develop results frameworks and strengthen their monitoring and evaluation processes’. Annually HMG publishes results for a set of key performance indicators used to monitor core benefits from its International Climate Finance (ICF) programmes. Indicator

		methodologies are also published and shared proactively with partners. The UK also has worked closely with the Climate Investment Funds to help shape their approach to monitoring and evaluation, and more recently has been working with the Green Climate Fund to share learning from its own approach to monitoring climate finance.
How HMG could work to increase the ambition of green investment communities and programmes:		
5. HMG can leverage its leadership role by bringing together CP3 stakeholders to share lessons, discover opportunities and create a green investment community. HMG is a trusted intermediary linking a wide range of institutions that shape a major part of the global clean energy and climate economy. Creating a forum that can help connect some of these stakeholders could help catalyse new initiatives, and investments and support lesson learning from CP3.	Accept	The UK recognises its key leadership role in this area and will explore options to create a forum or other appropriate vehicle to help connect stakeholders and catalyse new initiatives.
6. Show leadership and vision for how climate investments could develop in the future in a way that increases ambition. Leadership and detailed guidance on the types of investments HMG is seeking and the impacts it hopes to achieve within the larger ICF portfolio of programmes can help guide the market. Clear investment criteria and transparent investment processes are essential.	Accept	The UK continues to be a world leader in climate investments and is well placed to take a leading role in mobilising climate private finance. We are currently working on ways that the UK can develop toolkits, guidance and investment vehicles to leverage large scale resources from large scale investors and give clear signals to the market about HMG's intentions.
How HMG could improve the design and governance of future programmes:		
7. Timelines, Milestones, and Objectives for a market-based mechanism should consider the complexity and long-term nature of market development. Sufficient	Accept	The CP3 programme was one of the first of its kind and we agree that it is important for future comparable programmes to learn from the CP3 experience. We agree that future programmes should examine carefully the issue of timescales, milestones and objectives

buffers in timelines and milestones should be incorporated with new programmes. There should also be flexibility in the design to allow for adjustments if market conditions change. Finally, it should be recognized that technical assistance and private equity funds operate on different timescales. Private equity fund managers need to invest and realize returns within a very limited period. Thus, there is little time for private equity to provide TA if returns are long-term and uncertain. This is where different types of programmes may be more appropriate.		and should, so far as possible, seek to build these findings into their programme designs. Indeed, DFID's Smart Rules recognise that logframes are living documents which can be updated regularly. However, flexibility in programme design should be balanced with the need to ensure a clear and observable framework within a timeframe for monitoring and assessment. To this end, the programme team have run a learning session with colleagues in the DFID's Climate Hub Team. This session included the issue of timelines, milestones and objectives. We will continue to consider opportunities to share this learning within DFID and BEIS to educate future programming.
8. A future programme should target adaptation investments more purposefully. Future programmes could define climate vulnerabilities that they want to address and invest in funds that target these vulnerabilities. Another opportunity is to provide seed-financing to first time adaptation fund managers, or to support mainstreaming of adaptation by requiring adaptation assessments supported by technical assistance.	Partially Accept	The UK notes a shortfall in funding for adaptation-related activities and agrees with the need to target adaptation activities[2]. HMG's International Climate Finance aims for an equal split in the amount of funding going to adaptation and mitigation, recognising that there is a significant financing gap for adaptation. Climate finance can help to overcome this macro-level market failure by providing targeted financial support to de-risk innovative investments and build capacity and capabilities in developing countries. However, the specific market barriers will vary depending on the country and the context and any future programming should build in flexible investment criteria and should reflect the need for various different types of funding vehicle.
9. Management and governance of future programmes could be streamlined by: a) **Standardizing impact reporting**. While funds comply with ICF reporting, the development and environment KPI results reported by CF and ACP are	Partially accept	We recognise the reporting challenge within the CP3 programme and the difficulties that this has, at times, posed to ensuring that impact can be consistently measured and compared. As noted, the funds do currently comply with ICF reporting. However, the UK will continue to develop its approach to impact reporting going forward, sharing the methodologies used in the CP3 impact reporting. Furthermore, if DFID fund further

[2] DFID + BEIS (December 2018) 'Climate Finance – Investment Needs in the 2020s' Jonathan Beynon, Steve Jones auth

not comparable due to differences in reporting methodologies used. A solution to this could be a standardized questionnaire or a methodology that HMG requires the funds to follow. b) **Consistent centralised reporting.** There are inconsistencies in the current reporting system within CP3 which are further compounded by the lack of centralisation, which makes assurance of reporting challenging. Having a consistent reporting format with a centralised depository could minimise this challenge.		programmes like this in the future, programme teams should ensure that they address such questions at the programme design stage. HMG has developed a set of key performance indicators along with detailed methodologies to monitor results from its International Climate Finance (ICF). All programmes spending ICF are asked to monitor results against at least one, and ideally all relevant ICF KPIs. The KPIs have comprehensive methodologies in place that programmes can use to guide how they measure and define results. HMG is also working to align the process of reporting private climate finance mobilised in the cases of KPI 12 and OECD-DAC reporting requirements. This should reduce the burden on programmes to provide data once a year in a more consistent format.
10. With ESG reaching mainstream status, HMG should seek opportunities to drive climate investment standards further. With the European Commission's Action Plan on pushing forward sustainable investment released earlier this year and the increasingly widespread acceptance of ESG as an investment standard, the foundation has been well laid for the next stage of sustainable climate investment standards to be developed. HMG could play a leading role in this development, pushing the companies and fund managers within the CP3 ecosystem to adopt higher standards than just ESG.	Partially Accept	The UK is keen to seek any opportunities to ensure the promotion and mainstreaming of ESG standards wherever possible. However, we do not consider that ESG has reached 'mainstream status' yet and many private fund and asset managers are still developing their approach to the matter. The UK has supported the existing frameworks for best practice in the ESG space with initiatives such as TCFD and the Impact Management Project being increasingly recognised as key reference points for investors to follow along a spectrum of do no harm (ESG compliance) to benefiting stakeholders and proactively developing positive solutions for people and planet). While the UK would be keen to push for higher standards on ESG, we would need further clarity on what improvements are required over and above these existing frameworks.
11. There is a need for more technical assistance to build climate expertise. To target climate mitigation and adaptation investments, more climate and technology expertise must be built in funds and other investment	Accept	CP3 has provided valuable learning on the need for increased technical assistance targeting mitigation and adaptation investments. The programme team are engaging with SCAF with a view to more funding coming down the line to assist in scaling this element of the programme.

institutions such as banks. In a programme such as CP3, this could happen via technical assistance to enable building climate mitigation and adaptation assessment expertise in fund managers.		
12. HMG should consider options to scale up SCAF for Phase III or implement alternative TA facilities. With SCAF Phase III likely on the horizon, HMG could take the opportunity to commit a greater investment of funds to SCAF to allow them to take on more implementing partners, perhaps widening their criteria and focusing further on DevCos rather than fund managers. A SCAF alternative TA facility, focused specifically on providing the type of targeted capacity building support needed for these investments, could be established under CP3 with a mandate not to invest in its own projects or partners but to support the investments of the existing CP3 funds. Such a TA facility could help local banks work with and understand project financing, support the brokering of additional investments, collaborate with governments on improving market processes, or provide direct capacity building support to project developers – all tasks which CP3 fund managers have been required to do.	Partially accept	As mentioned above, the UK recognises the need for increased technical assistance and the success of SCAF II as part of the CP3 programme and is actively engaging with SCAF on the potential for further funding. The UK will consider the most effective modality for such technical assistance in its future programming but wishes to avoid over-subsidising particular companies or investments. .